

**Finance Commission
Meeting Minutes
June 12, 2018**

Roll Call/Announcements

The Finance Commission (FC) meeting was called to order at 6:30 p.m. Chair Schroeder called the roll.

Commissioners Present: Robin Schroeder, John Bachhuber, Jack Reif, John Murray, Edwin Hodder, and Matt Harold

Commissioners Absent: Malcolm McRoberts

Staff Present: Finance Director Chris Miller

Finance Director Miller stated at the June 4th Council meeting, the Council received the audit reports and package before the Finance Commission (FC) tonight. The auditor provided a clean opinion. The Council also received an update on the 2017 year-end cash reserves, so they received the same memo and packaged the FC received at its March meeting.

Receive Public Comments

There being no one present wishing to speak to the Commission on an item not on the agenda, the Chair moved to the next agenda item.

Approval of Meeting Minutes

Commissioner Murray noted the following changes:

- Line 59, “fund” should be changed to: “funds.”
- Line 74, should read “Commissioner McRoberts asked”
- Line 98, “include” rather than “includes”
- Line 126, “money has been” should be “money that has been”
- Line 274, “software” should be “software program”
- Line 295, for clarity, it should be reworded to say “there will be time to figure out”

Commissioner Reif noted the following changes:

- Line 87, “need” should be struck
- Line 204, “of” should be struck

Commissioner Murray moved, seconded by Commissioner Reif, to approve the May 8, 2018 meeting minutes as amended. **The motion carried unanimously.**

Receive Finance Commission Recommendations Tracking Report

Commissioner Harold reported there are no updates for this month.

Receive 2017 Audit Reports

Finance Director Miller stated the transition to the new auditor, Redpath and Company, went exceptionally well. The firm was in tune with governmental accounting and they were an experienced team. The City of Roseville is under contract with the firm for the next couple of years as well, and staff is encouraged by the process.

Chair Schroeder congratulated staff on the clean opinion issued by Redpath.

Commissioner Murray asked about audit page 18, which listed long-term liabilities of approximately \$44 million in 2017; in 2016, it is listed at \$63 million. He asked for about the difference between those two figures.

Finance Director Miller responded he does not have a specific answer. It might be a part of the reconciliation of deferred pension liabilities, but he is not sure.

Commissioner Murray asked about audit page 23, which listed improvements of \$8.17 million, and the balance sheet shows a \$3 million increase. He asked if the difference is the depreciation.

Finance Director Miller responded he is not sure.

Commissioner Murray asked about easements, and whether the figure is the City's cost of acquisition.

Finance Director Miller responded it is probably related to a partial acquisition of a piece of land.

Commissioner Murray asked if there is a depreciation schedule on an easement that expires.

Finance Director Miller responded probably not.

Commissioner Murray asked about page 30, "assigned" vs. "committed."

Finance Director Miller responded that "assigned" is when management has decided to segregate the funds for purposes of accounting controls. It is a management decision to create that fund and to reserve those fund revenues for specific activities. In contrast, "committed" is when the Council has designated the use of these revenues for these specific purposes. The next highest up is "restricted," which is there is an outside legal restriction placed upon those funds and its activities.

Commissioner Murray asked about "matrix pricing model" on page 31.

Finance Director Miller responded he is not sure what the auditors meant by that.

Commissioner Murray asked about General Obligations bonds of \$25.5 million on page 60. He noted that the bond premium is not included in the obligation bonds.

Finance Director Miller explained the General Obligation bonds is principal only.

Commissioner Murray asked about the meaning of certificate of indebtedness.

Finance Director Miller explained it is a 10-year borrowing period, which is a less expensive way to issue debt.

Commissioner Murray asked about the return rate on page 72, of about 4.5%. His argument is with the State Investment Board which claims a 7.5% return when the City actually gets 4 or 5%.

Finance Director Miller noted they are looking at a historic return over the last 25-30 years.

Commissioner Hodder pointed out he was present at the Pension Reform bill signing, and there was discussion there about this same issue. 7.5% is still too robust and those assumptions will have to be revisited in this low-interest rate environment. It should be 3 – 4.5% as opposed to 7%.

Commissioner Murray asked about page 83 and following, there are “original” and also “final” budgeted amounts.

Finance Director Miller explained that under State law, for funds with separate financial statements, staff has to demonstrate that all expenditures have budgetary approval. When more has been expended than originally budgeted for, it has to be shown in order to demonstrate budgetary compliance.

Commissioner Murray asked about the Islamic Cemetery.

Finance Director Miller responded it is an active cemetery, but he does not remember its location.

Commissioner Reif noted that page 20 includes a one-time return on the \$2.6 million. He asked if that is returned to the State.

Finance Director Miller responded it is returned to Ramsey County, which returns it to the appropriate jurisdictions according to their share.

Commissioner Reif pointed out several typographical errors.

Commissioner Hodder asked about page 137, and the Police traffic citations. Generally, they were between 8,000 to 10,000. In 2015, they dropped to 6,100 and 4,200, and now in 2017 they are at 2,400.

Finance Director Miller indicated he is unsure, but staff can ask the police chief.

Commissioner Bachhuber joined the meeting at approximately 7:08 p.m.

Chair Schroeder asked about transfer between the funds and who determines those transfer.

Finance Director Miller responded most of those are budgeted transfers. There could be other reasons throughout the year where the Council has asked staff to repurpose some monies for one reason or another. But usually it is budgeted transfers.

Chair Schroeder asked about page 137, which indicates that the annual water pump decreased by 20% from 2013. She knows there was discussion about water conservation. Obviously there has been a decrease in consumption of some sort. She asked about the decrease.

Commissioner Murray responded it is due to low-flow toilets.

Finance Director Miller noted that the few manufacturers who remain in Roseville are getting more efficient in water use of their tools. Also, there is a steady decline in single family household use, down to about 13,000 gallons per quarter. Also, the amount of rainfall plays a huge role in this. In really wet years, summertime water usage decreases significantly. Over the past ten years, there has been a decline in overall water usage.

Commissioner Hodder commented on the technological changes with washing machines, which now use a lot less water. Low-flow shower heads also make a difference.

Chair Schroeder commented that the rounds of golf decreased by 28%.

Commissioner Reif asked about the cash flow from operating activities in the golf course, as shown on page 38.

Finance Director Miller responded he is not sure but will find out.

Continue Reviewing the 2019-2038 Capital Improvement Plan (CIP)

Finance Director Miller noted everything in the packet is the same as at the May 8th meeting; the only differences arise in Attachment A. There was a calculation error in the formula. The current document cleans up the figures. He noted that there was also a typo of \$335,000 in the prior version rather than the accurate figure of \$355,000. This is the amount expiring for the arena in 2019. He also pointed out the park improvement program. He pointed out the FC's recommendation that brought the PIP up to \$8 million 20 years ago. Staff is recommending to the City Manager that rather than the \$650,000 of additional levy in 2020, only \$375,000 is used. That still accomplishes a park improvement program. In the long-term, that \$375,000 gets the

City to financial sustainability pretty quickly. So that the full amount the FC recommended a year ago is not needed.

Finance Director Miller also pointed out the pavement management program fund. There was a strong sense of maintaining the endowment program feature. That is why FC was strongly in favor of getting it back to the level it had historically enjoyed. He is recommending a lower amount to the City manager of \$365,000, because the City can still cash-flow this for the next 20 years at this level. There will be some course correction needed. The day-to-day operating budget has more urgent needs, so his recommendation will be different than the FC's.

Finance Director Miller stated the Pathways and Parking Lots fund is on the radar now, since the City Hall parking lot repair and redo that has to be done next year. It was supposed to be a resurfacing project, but it was not properly done 15 years ago, so it will require a total rebuild. This fund does not have that much money, so there will be an internal transfer of \$350,000 to give this fund a boost so it can sustain itself through the big purchase in 2019.

Commissioner Bachhuber asked about the failure point in the City Hall parking lot, since it seems to be in good condition.

Finance Director Miller responded he will get the information from the Public Works Director.

Commissioner Bachhuber stated that as a citizen, his opinion is to wait until the parking lot starts to fail before doing a total rebuild.

Chair Schroeder noted the staff recommendations on the CIP along with the original FC recommendations. The FC needs to change or reconfirm its recommendations. She pointed out that there is agreement on the General Facilities fund. The Park Improvement plan and the Pavement Management are the two big funds to revisit.

Commissioner Bachhuber asked about earnings assumption, which is 2%. Ten-year T Bill rates are hovering around 3%. That may be something to reconsider, that there is a bottom end of the curve rebound, and hopefully the City will start to benefit from that.

Commissioner Harold noted there is \$300,000 additional money in this fund as a "starting bank." That is probably why it looks a lot better this year than last year.

Finance Director Miller noted there is a \$600,000 drop in total planned expenditures.

Chair Schroeder asked for the Commissioners' recommendations. In the past, if FC was comfortable aligning with staff, the FC went that direction.

Finance Director Miller noted these are 2020 recommendations.

Commissioner Harold stated he would be comfortable to update FC's recommendation to align with staff.

Commissioner Harold moved, seconded by Commissioner Murray, to up the Finance Commission's recommendation to align with what staff has done for the \$375,000 from the \$650,000. **The motion passed unanimously.**

Chair Schroeder brought up the Pavement Management Fund. She recalled the many hours the FC has spent on whether to keep the fund as an endowment fund. The group unanimously decided to recommend that it remain an endowment fund. The thought was that small amounts of increase each year would be easier for the taxpayer rather than one large amount. It looks like the City is doing well in terms of projected revenue.

Commissioner Bachhuber stated he does not see a need to collect more revenue than expenditures between the combination of levy and earnings.

Finance Director Miller stated there will be challenges in 2019 with getting an operating budget funded without spending down reserves at a pretty rapid clip. That was behind staff's recommendation.

Commissioner Bachhuber noted there was some discussion around what caused the reserve level to drop by over \$2 million from original projections.

Finance Director Miller noted he worked with the Engineering Department. What had been programmed for 2017/2018 and what was expended were two different numbers. Considerably more was spent than had been planned on. In effect, the City ended up spending this down by a couple million dollars more than what was projected.

Commissioner Bachhuber asked how that happened.

Finance Director Miller responded there are conversations happening around that right now. Part of the situation is that the assumption that has always been in place is that this fund would generate so much in interest earnings, but that has been cut back by a half-million dollars. The pace of the street replacement program has not been adjusted yet.

Commissioner Bachhuber responded that has nothing to do with overspending by three times.

Finance Director Miller responded it does get to the beginning balances. If there was supposed to be \$700,000 of interest earnings, and there was only \$200,000, that has a significant impact.

Commissioner Hodder cautioned it is very difficult to rebuild a fund once it is lost.

Chair Schroeder stated many hours have been spent on this issue, and the FC decided the City owes it to the people who were overtaxed to keep the endowment fund going.

Finance Director Miller indicated there is an ongoing dialogue with the Public Works staff to ensure everyone is on the same page with what this fund can deliver. Those conversations will continue. The City is slowly increasing the tax levy to get the funding back to where the

engineering staff feels the City needs to be in order to maintain a reasonable standard of road replacement.

Commissioner Bachhuber asked about the pavement projects in the 2018 budget.

Finance Director Miller responded the \$1.1 million is budgeted. When the bidding happens, if it comes in at \$1.2 or \$1.3 million, he does not know if the lane miles will be adjusted or if the extra money is just spent. He noted that bids are coming in high across the board, not just specific to Roseville.

The Commission discussed the budgeting process for the pavement management fund and whether to treat it as an endowment.

Commissioner Harold noted that the budget numbers seemed very round and seem to be estimated, rather than more specific figures for specific projects, like the other funds do. Overspending by triple in a year is significant. At the State level, there are people whose job it is to plan these projects out for the next 10 years. At a City level, the project should mostly be designed a year in advance, and there should be a realistic budget number.

Commissioner Hodder stated there may be critical failure across the systems. Going forward, the formula is wrong, and streets are failing at an accelerated rate. Public Works should be projecting what it looks like in 1, 2, 5 years out on the roads system.

Public Comment

Cynthia White, 2489 Churchill Street, Roseville

Ms. White asked if staff can look at 2018 spend to date, to see if it will have the same kind of overspending as happened in 2017. She would ask for a breakdown of every project on a detailed level. There ought to be red flags going up for management and staff before arriving at this point. This does not seem right at all. If it is a matter that management does not have time to review these things, that is a different kind of an issue.

Commissioner Murray stated the engineering department should be able to come up with some type of a formula.

Commissioner Bachhuber stated he would like to find out from the Public Works department why they expected what they did and why they spent what they did in 2017. HE will send out a memo to that effect.

Chair Schroeder summarized it is hard to make a recommendation on that until answers are received.

Commissioner Bachhuber stated that a minimum, there should be an assumption to increase the tax levy in the years past 2020 to help move this program towards sustainability.

Chair Schroeder clarified the FC is unable to change recommendations by a certain amount until more information is received.

Commissioner Bachhuber concurred.

Chair Schroeder suggested this be tabled until next month.

Finance Director Miller stated he will continue digging in to program fund for the last five years. It is very tedious trying to connect the dots, but he still needs to have more conversations with the Public Works staff.

Update on CIP Categorization/Definitions Process

Commissioner Harold summarized that he, Commissioner McRoberts, and Finance Director Miller came up with 3 categories for CIP:

1. routine items that the could be incorporated into a replacement policy, e.g., vehicles
2. capital expenses that are not routine but can be incorporated into a broader strategic plan, e.g., pavement management plan
3. non-routine items that come up and are not part of an ongoing initiative of the City.

Commissioner Harold explained the three categories in more detail.

Finance Director Miller noted that pushback is to be expected from the Council, because it is different from the existing policy. This new policy does rely heavily on replacement policies and strategic plans, and the City does not have a lot of those. Some will have to be created, and the existing ones may lack the level of desired detail. This gives the Council something to react to.

Commissioner Bachhuber commented he likes raising the expenditure level without Council review to \$20,000.

Commissioner Hodder stated he likes the stated criteria, as it improves transparency for the public.

Commissioner Murray likes it, but there will be pushback from the Council, especially as they oversee all purchases \$5,000 and above currently.

Commissioner Harold suggested there may need to be additional discussion about the 4 priority rankings and how these categories fit into this.

Commissioner Bachhuber suggested taking this before the Council before proceeding any further.

Finance Director Miller indicated he will talk with the City Manager about getting a joint meeting on the schedule, and it will probably be an August meeting.

Identify Discussion Items for the Future Meeting

Commissioner Murray asked if Finance Director Miller can talk about upcoming financial challenges.

Finance Director Miller recalled that there are a number of funds that are currently deficit spending, including the License Center and the General Fund. In 2018, staff expects to draw down the General Fund reserve by \$681,000.

Adjourn

Commissioner Bachhuber made a motion, seconded by Commissioner Murray to adjourn. **The motion passed unanimously.**

Meeting adjourned at 8:25 p.m.