

Finance Commission Meeting Minutes September 11, 2018

Roll Call/Announcements

The Finance Commission (FC) meeting was called to order at 6:30 p.m. Vice-Chair McRoberts requested staff call the roll.

Commissioners Present: Malcolm McRoberts, John Murray, Jack Reif, and Edwin Hodder

Commissioners Absent: Robin Schroeder, John Bachhuber, and Matt Harold

Staff Present: Finance Director Chris Miller

Approve Agenda

There was no motion to approve the agenda.

Receive Public Comments

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

Approval of Meeting Minutes

Vice Chair McRoberts asked if any Commissioners had changes to the minutes.

Commissioner Reif stated line 20 should be changed to: “meeting were.” And scratch “~~was~~”. Line 71 should be changed to “...from ~~members within that organization they belong to~~ firms with that expertise”. Line 184 should be changed to “...what is the expected...”. Line 229 the amount should be eight million dollars rather than eight hundred dollars.

Commissioner Murrays asked if Commissioner Reif seconded the motion on line 232.

Commissioner Reif indicated he could not remember.

Mr. Miller stated he would review the tape for the seconder.

Commissioner Reif stated line 360 delete the last word “they”. Line 361 delete “swept everything to”. Line 432 change the first word to “excess”.

Commissioner Hodder stated line 260, “Commissioner Hodder stated ~~another~~ what if we do ~~would be if~~ get the funding then the graphs would change dramatically, ~~and they then~~ we could look at reductions”. Line 417 should be changed to “Commissioner Hodder stated that his concern is that we have been spending down the reserves since he has been on the Finance Commission. He stated that they have been dipping down into the reserves and some Councils may not be enlightened and could spend down more and create a situation where they destabilize the City funding streams”. Line 421 should be changed to “Right now, they have sustainability, if they get into a sweep situation or some new initiatives we could destabilize their funding mechanisms.

Commissioner Hodder moved, seconded by Commissioner Reif to approve the August 16, 2018 meeting minutes as amended. **The motion carried unanimously.**

Receive Finance Commission Recommendations Tracking Report

Finance Director Miller reviewed the Finance Commissions recent recommendations submitted to the City Council. He noted there were not any changes since the last review.

Discussion on Establishing A Cash Reserve Fund

Vice-Chair McRoberts thought the Commission was comfortable with all of the wording that was going to be used at the Joint Council Work Session.

Finance Director Miller indicated that was correct. He reviewed the additional piece of information with the Commission.

Vice-Chair McRoberts stated on page 5, the reason why the Commission was concerned with the Communications fund was because it dipped below \$50,000.

Mr. Miller indicated that was correct. The fund stayed positive but became tight.

Vice-Chair McRoberts asked regarding the General Funds on page 3, it fell to 11% in 2017 and this year it fell to a low of 6% without the Commission making any changes to it.

Mr. Miller stated at the last meeting the Commission left the General Fund alone, but it is getting close. He reviewed the fund with the Commission and stated the fund stayed in the black, but it was getting close to going red. He thought the discussion last month was 35-45% was still good at this point.

Vice-Chair McRoberts asked if at the end of 2017 the General Fund budget was 35% then in May 2018 the fund would have been at 3%.

Mr. Miller stated that was correct.

Commissioner Hodder thought 2019 might be tight.

Mr. Miller stated at the end of 2018 the General Fund will be close to the floor of 35%. What staff suggested to the Finance Commission and City Council is staff may have to consider, when closing the books, if it looks like the General Fund will be below 35% to move some money in the fund to make sure the fund does not drop below that. He noted that is something that can be done quickly before staff closes the books for the year.

Commissioner Hodder wondered if the Finance Commission needed to provide a policy recommendation for what happens if this happened a certain way.

Vice-Chair McRoberts asked if the Finance Commission needed a recommendation such as “In the event that, here is how the sweep happens, and in the event that one of them is short it can deduct from the sweep fund”.

Commissioner Hodder thought there should be some contingencies. What happens in a situation where the fund comes in below target?

Mr. Miller stated this was discussed at the last meeting as well. The question was if the fund falls below the floor how would funds get transferred back into the fund to bring it back up. The obvious answer would be to take some cash out of a fund that has excess reserve and shore that up.

Vice-Chair McRoberts stated the theory being if the money is being swept up into the General Fund, because the Finance Commission did not feel there was a value in creating a separate sweep fund, what would the process be to get the funds put back into the fund that was below the floor of that fund. He assumed the transfer would require the City Council’s approval based on a recommendation from City Management.

Mr. Miller stated that was correct and staff would try to memorialize something like that in the form of a Resolution where it is deliberate and documented.

Commissioner Murray asked if a resolution would be needed for every instance of a transfer of money or would staff have a standing authority to move money if a fund fell below the selected percentage.

Mr. Miller stated he did not expect this to come into play very often, so he would suggest to the City Council to approve based on a resolution and staff can see if that tends to be more of an overkill. He stated it needs to show on the books that the funds have the cash that needs to be in there.

Commissioner Hodder stated the City does not want reserve levels to go below targets because of the impact on the Standard and Poor’s and Moody’s bond rating.

Commissioner Murray stated he read through the Standard and Poor's report on the ratings and it appears Standard and Poor's look at all of the cash the City has, not just one fund. He did not think that is an issue.

Vice-Chair McRoberts asked if the Finance Commission would need a policy to sweep the funds.

Mr. Miller thought at this point what the Council is looking for is a recommendation from the Finance Commission. Some of the mechanics can get worked out. What the City Council is looking for and what the Finance Commission should get settled is does the Commission want to recommend the creation of this fund and to be able to show the Council a report explaining the process of sweeping the funds to the General Fund for future initiatives, future purposes, future tax relief, whatever the Council may want to decide later on down the road.

Vice-Chair McRoberts stated the excess money would be stored in the General Fund and if the General Fund was over there would never be a sweep from the General Fund.

Mr. Miller stated what staff would do is the excess funds would be earmarked for some future initiative and does not need to be specific. He noted if a fund is lower than what the target amount is designated at the funds can be swept from the General Fund back into the specific fund needing money.

Vice-Chair McRoberts wondered if a written example should be created to show the City Council.

Mr. Miller stated an example could be created. Staff could create a decision tree in the staff report given to Council. He thought the chart in the Finance Commission packet would be adequate to explain to the City Council how money would be swept out of the funds.

Vice-Chair McRoberts liked the idea of a decision tree to provide clarity.

Commissioner Reif asked what is currently done if one of the funds is short.

Mr. Miller stated the City Council would make a decision to move money from one fund to another if that happened. The Council has always had that discretion.

Commissioner Reif thought the Finance Commission would be formalizing the action in more definitive guidelines as to when funds are considered to be excess.

Mr. Miller stated the Finance Commission is trying to make the process more formula driven.

Commissioner Hodder moved, seconded by Commissioner Murray to recommend the City Council Consider Establishing a Cash Reserve Fund held within the General Fund using the mechanism defined in the September 11, 2018, Attachment A based on the revised levels defined in the Excess Cash Reserve Calculation table. **The motion carried unanimously.**

Discussion on Establishing CIP Categories

Vice-Chair McRoberts stated the next agenda would include discussions on CIP Categorization and Definitions.

Mr. Miller reviewed the information in the September 11, 2018 packet.

Vice-Chair McRoberts stated the Finance Commission has confirmed there is \$20,000 City Manager limit, because it is so low, does that essentially negate what the Finance Commission is trying to do. He stated the Finance Commission is trying to take things off the Council's plate that don't necessarily add any value but the \$20,000 will put the decision back onto the Council.

Mr. Miller stated that could happen and would leave more on the Council's plate than what the Finance Commission was envisioning but that is on the Council's plate right now and then some. Right now, the City Council is approving everything over \$5,000 of the CIP. That is what the Statutory permissions are. He was not sure there is a good way around that at this point.

Commissioner Murray thought the City Council looks at all of the expenditures which would not change.

Mr. Miller indicated that was correct and the Council will still have to review all of the expenditures going forward. It can be after the fact.

Vice-Chair McRoberts noted most of his changes were in regard to the Objective for Review/Change. What problem is the Commission trying to solve and why is the Commission trying to do this. This is where the \$20,000 becomes relevant. He stated the first bullet point is to "Adopt the current process such that it allows the Council to focus their time and involvement where it adds most value by extending the management process around CIP approvals". He thought this could be implied that it would mean proactively as opposed to reactively.

Vice-Chair McRoberts stated there was discussion about bullet point two: Consistency of process and documentation across different CIP projects" so when there are decisions made, the residents or anyone else can have greater visibility as to what is going on. Also, recognize the fact, at least in this model, that there are going to be variations within that process and those should be codified which is essentially what Mr. Miller has done on the earlier document. He did not think any other changes needed to be made. He thought the examples in the proposed framework were the best ones that the Finance Commission could come up with to show the difference between them. He was not sure if there was any more the Commission can or want to do. He noted the Commission already talked about the next steps. He wondered if any of the Commissioners had anything else that should be changed or amended.

Commissioner Murray stated what the Commission is trying to do is focus the Council's attention on the things that count.

Mr. Miller stated the Finance Commission wants to make sure the Council has a full discussion on some of the non-routine items, especially the larger items and he thought this sent that message.

The Commission agreed.

Commissioner McRoberts moved, seconded by Commissioner Hodder to recommend the City Council Consider accepting the changes to the policy held within Attachment A, highlighted in yellow and the presentation (Attachment B). **The motion carried unanimously.**

Discuss Topics & Recommendations for the Joint City Council-Finance Commission Meeting

Finance Director Miller noted the joint meeting is scheduled for Monday. He reviewed the staff report with the Commission.

Vice-Chair McRoberts wondered if any of the Commissioners need to make a presentation of the items on the joint agenda.

Mr. Miller stated Commissioner Harold will make a presentation on the CIP items and funding strategy. He noted Commissioner Bachhuber will make a presentation on Establishing a Cash Reserve Fund. He noted Vice-Chair McRoberts will make a presentation on the Capital Improvement Plan (CIP) Categorizations & Revised Process. He stated the Council is hoping to get any guidance, comments the Commission has on the 2019 City Manager Recommended Budget and Tax Levy.

Vice-Chair McRoberts asked the Commission if there were any comments or concerns regarding the items that will be at the Joint Council/Commission Work Shop. There were no concerns.

Mr. Miller stated the 2019 City Manager Recommended Budget and Tax Levy is preliminary and he thought it would be ok if the Commission wanted to give a general comment or two that would be fine. He thought all five Councilmember's were concerned about what is an acceptable burden.

Commissioner Murray stated he was wincing at the 3.7% increase and also with the School District and Fire Department proposals and budgets, it all keeps building. He stated he did not have a specific comment.

Vice-Chair McRoberts thought 3.7% in the current climate does seem kind of high. He would like to see what would not happen if the percentage was kept at 2.5 or 3. That would give them a chance to understand what those incremental elements are, but he did not think that was possible.

Mr. Miller stated staff could make different recommendations based on the different percentage levels.

Vice-Chair McRoberts stated he would like an analysis like that.

Commissioner Hodder asked what the inflation, health care and union steps will be.

Mr. Miller stated staff is expecting health care costs to go up about six percent. Historically the City picks up some of the costs and the employee pays some of the cost. How that will be distributed for 2019 has not been determined yet. The Council will talk more about that on September 24th. Union contracts, most of the unions have not settled for 2019 yet but many of the other peer committees the City typically compare themselves to, the ones that have settled are around three percent. What City Staff has programmed into the budget is a three percent cost of living adjustment for the union and non-union employees which is based on CPI that has been coming in around 3.1% the last twelve months.

Commissioner Murray asked if that percentage was in addition to going up in steps.

Mr. Miller stated it was. He stated the compensation plan the Council has adopted is that employees are hired in at one range, then there is a cost of living adjustment to offset the cost of living and as the employee progresses through training and knowledge then the employee is eligible for step increases, typically every year, up to a maximum.

Commissioner Murray asked what the steps would typically be.

Mr. Miller stated it is about four percent in between steps. Some employees could get seven percent next year. Part of it would be to offset inflationary costs and part of it would be to reflect the added experience, institutional knowledge and value the employee creates for the organization.

Commissioner Murray asked if the steps stop.

Mr. Miller indicated the steps do stop, after about five years the steps max out for the non-union employees. Some of the employees, Police in particular, have longevity pay as well and they can keep going. Once an employee is maxed out on steps the employee then receives COLA.

Commissioner Murray asked what could be done to reduce spending. Public Works could probably stretch out the street resurfacing or pipe lining. Maintenance could possibly be deferred. There are down sides to that.

Commissioner Reif stated one of the things not included are holiday lights for the Roseville Oval. Is there some attempt to get a business to sponsor that?

Mr. Miller stated it used to be sponsored by The Roseville Visitors Association and the Association used to pay for that, but he thought that organization concluded that they, as a Board

Association, that this was not within their core mission which is to attract people to Roseville. The City Administrator has looked at this and recommended to not light the oval with City funds but if someone steps forward to help that out the City will take the contribution.

Mr. Miller suspected the Commissioners might have some individual thoughts on this item which the Commission members are encouraged and welcome to share with the Council. As a group, if there is nothing the Commission would like to recommend then maybe that part is left aside for the time being.

Vice-Chair McRoberts stated his only question would be what the City would not get if the percentage was two or three percent because otherwise how would the Council judge 3.7% being correct other than staff saying it should be that percentage.

Mr. Miller stated that would be hard to answer on the fly because the recommended spending plan is accompanied by the 3.7%. If the Council tells Staff that percent is too high and to go back to the drawing board to let the Council know what they could get for two or three percent, then Staff would do that and revalue what is in the budget and what is not. The idea behind the preliminary budget being set at the end of September is to do just that. The 3.7% is a maximum and the Council can always come down from there between now and December. The Council is essentially setting a not to exceed budget tax levy.

Mr. Miller stated thirty percent of this levy increase is to also reduce the City reliance on the use of cash reserves to fund the budget, otherwise it would be closer to 2.5%. He stated structurally, even if more money was swept into the General Fund to shore up its reserves, there is still the structural problem of spending it down because there is not a sustainable budget going forward.

Commissioner Murray asked if the Commission could make a statement that they, as a Commission, feel some sensitivity to the budget increases. That is not very specific, but the water and sewer rates are going up as well. It all impacts the residents.

Vice-Chair McRoberts stated the Commission could state there are a number of increases which are rising in excess of likely wages increases, etc. to make the point more than anything else.

Commissioner Hodder stated there are a lot of external items that are increasing such as the Schools, which is a large impact on the residents. Also, the Capital Maintenance over time and the water and sewer rates will also be increasing along with the 3.7% increase to the budget tax levy.

Commissioner Murray stated the impact of all of budgets is increasing the financial stress on City residents. He thought the Commission could urge the Council to be sensitive to that.

Commissioner Hodder thought the follow up question from the Council would be asking what they, as a Council, would do.

Vice-Chair McRoberts asked if the Commission should make a statement regarding the increase or should each Commissioner make a statement as individuals.

Commissioner Murray thought if the Commission agreed on that then the statement should be made as a Commission. He thought the statement could be worded as follows:

Due to the total impact of all Governmental units; City, School Districts, County and the increasing budgets, the Finance Commission is sensitive to the increased financial stress on the residents of Roseville.

Commissioner Murray made a motion, seconded by Commissioner McRoberts to make a Finance Commission Statement as follows: Due to the total impact of all Governmental units; City, School Districts, County and the increasing budgets, the Finance Commission is sensitive to the increased financial stress on the residents of Roseville. **The Motion passed unanimously.**

Identify Discussion Items for Future Meetings

1. Debrief the September Joint Council/Commission meeting.
2. Review the preliminary budget and levy the Council adopts at their September 24, 2018 meeting.
3. Initial review of the 2019 proposed utility rates

Commissioner Murray indicated he would be absent.
Commissioner Hodder noted he would not be at the meeting as well.

Adjourn

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

Meeting adjourned at 7:34 p.m.