

**Finance Commission
Meeting Minutes
October 9, 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, Edwin Hodder, Matt Harold and Malcolm McRoberts

Commissioners Absent: John Murray

Staff Present: Finance Director Chris Miller

Finance Director Miller provided an update on recent Council action:

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

Chair Schroeder asked if there were any changes.

Commissioner Reif stated line 135 should be changed to: “Moody’s.” Line 211 should read “to adopt the current process, such that it is-allow”. Line 317, third word in is Bored and he did not think it should be that word but was unsure what it should be.

Mr. Miller stated the word should be “Board”, the Board was being referenced as not paying for the holiday lights for the Roseville Oval any longer.

Commissioner Reif stated line 334 the sentence should read “preliminary budget being set at the end of September is to do just that”. Line 347 “Vice-Chair McRoberts stated the Commission could state there is-are a number...”. Line 352, the last word should be tax.

Commissioner Hodder stated line 134, the sentence should read “Commissioner Hodder stated that the City does not want the to-go reserve levels to go below the target because when-the there could be negative consequences on the City did-the bond rating from Standard and Poor and

Moody's, it was important the City kept the levels in the funds where the City needed them to be or else there could be consequences."

Commissioner McRoberts stated line 348, the word "points" should be "point".

Commissioner Reif moved, seconded by Commissioner McRoberts to approve the September 11, 2018 meeting minutes as amended. **The motion carried unanimously.**

Chair Schroeder indicated the Commission decided agenda item 7 (Financial Review of City Campus Solar Proposals) will be moved up to the next agenda item due to a guest in the audience.

Financial Review of City Campus Solar Proposals

Finance Director Miller stated at the September 17, 2018 City Council meeting, the Council received a report detailing the proposals received for the installation of a city campus solar energy array. At the conclusion of the presentation and subsequent discussion, the Council directed the Finance Commission to conduct a financial review of the proposals.

Public Work Director Mark Culver reviewed the Campus Solar Proposal presented to the City Council in September.

Commissioner Bachhuber asked for the City to access those types of incentives is it necessary to work through a solar provider for that.

Mr. Culver stated for the solar rewards program the City could apply for that themselves. The City would have to put money up front and finance internally, but the City would not be able to take advantage of the tax incentives because the City does not pay taxes. The City would not get the extra tax incentive which is why the third party is necessary because the third party is realizing those tax incentives. He noted that would be for both systems.

Mr. Culver continued with his review of the Campus Solar Proposals with the Commission.

Chair Schroeder asked what interest rates are used to calculate out over time because obviously the City will pay more to the third party over time than the cost of the system.

Mr. Culver indicated he did not know the details of their tax credits. The only thing the City has is the details of what the City will be paying the third party and what the City is responsible for. He stated the City does not know what the margin is.

Commissioner Reif stated when reviewing the fine print in the contracts the cost of the 40-kilowatt system is \$130,000, does the City have any idea what it would cost if the City went out and put that same system in themselves.

Mr. Culver stated theoretically it would be \$130,000.

Commissioner Reif stated the reason he asked that is because it appears the third party gets a thirty percent tax credit which can be used to offset actual tax dollars. The question is, is the \$130,000 a realistic price. He would not want to see the City get caught in a situation where somebody alleges that the price the City is paying would be too much just to maximize the tax credit.

Mr. Culver stated he could confirm that with some actual pricing from some other developers as far as what a 40-Kilowatt system would cost installed. He stated his church, which actually installed a 20-kilowatt system a couple years ago was approximately \$70,000-\$80,000. A lot of those costs are duplicate but the \$130,000 seemed reasonable to him.

Mr. Culver stated the \$130,000 would be the value the City would claim for insurance purposes, so the City would need an actual reasonable dollar amount for that.

Commissioner Hodder stated he also did some research on the cost, he noted he used to work for CenterPoint Energy, and a 10-kilowatt system on average is between \$29,000-\$33,000 which is just the panel cost. He stated if that is multiplied by four the total cost would be approximately \$130,000, excluding all of the other things that have to get done to get the panels set up. He thought this was a pretty good deal.

Commissioner McRoberts asked once installed what is the life expectancy of a system like what is being proposed.

Mr. Culver stated the panels themselves are warrantied for twenty-five years. The developer is expecting the panels to produce energy in the seventy-eighty percent range for up through forty years.

Commissioner Reif asked regarding the warranty, is the warranty one hundred percent for twenty-five years or is that pro-rated.

Mr. Culver stated he would have to get specifics from the manufacturer, but he believed the City would have to pay for the labor to install but would need to check on the pro-rated part. He thought it would make sense there would be a break point in the warranty such as after ten years the percentage is reduced, amortized value versus replacement value. He thought the first five to ten years it should be full value replacement.

Chair Schroeder asked for an explanation regarding the seven to eight percent on soiling. She wondered how that effects this.

Mr. Culver stated he has not heard of the soiling factor before. He indicated there is a pretty consistent discussion about an average degradation of the panels themselves producing less energy over time but that is somewhere between .2% to .5% annually.

Chair Schroeder was not sure if soiling factors was an issue or not.

Mr. Culver stated particularly for the PD Demand Credit the City is only paying for the energy produced. He thought the soiling factor would have been taken into account.

Chair Schroeder asked if the Xcel Energy cost increase of four percent for the City is standard.

Mr. Culver stated every year the cost will not go up four percent, but it might fluctuate from year to year. On average over the past nineteen years it has been between 3.5-4% average increase on the Xcel rates. He stated that is probably the one risk the City has with this, in his opinion, is the City cannot predict what the rates are for Xcel but as far as what the City is saving, in all of the charts in the packet, it is showing a nominal savings on the systems. The PD Demand credit is a little higher just because of the size of the system but the City is looking at some really nominal savings and that is assuming what the City is paying the third party is less than what the City would have been paying Xcel in the same year for the same amount of energy.

Commissioner Bachhuber stated as a follow-up on the warranty, it looks like it is a power output guarantee that will decline over time. The first year would not be more than 2.5% degradation and will grade down overtime to something like eighty percent minimum at twenty-five years, if the panels are not providing that but it appears the panels will be replaced with testing.

Mr. Culver stated that was something the developer did talk more about in the City Public Works Commission meeting. The monitoring software the developer has shows the energy production for each panel, so the developer can actually see the energy production. There are also automatic alerts set up if it gets below a certain threshold for each panel.

Chair Schroeder asked if staff has had legal look at the paperwork.

Mr. Culver stated the City Attorney has looked through the contracts and caught some inconsistencies between a couple of the contracts. He noted the agreements the Commission have in the packet are what the City Council received at their meeting but since then staff has received new agreements which will be presented to the City Council on October 22nd.

Commissioner Hodder asked who would maintain the system after year 13. He asked if there would be a third party hired to monitor the system to make sure it is working to peak efficiency.

Mr. Culver stated the City would likely enter into a maintenance agreement with a third party to monitor the system and do preventative maintenance on the system as well as respond to any actual issues with the system going forward. The City has been told the average price for the actual maintenance contract is approximately \$300-\$600 annually per system.

Mr. Culver noted the City will still need to pay for insurance and Mr. Miller did talk to the League of Minnesota Cities and the City is looking at approximately \$100 or less per rooftop for additional insurance costs.

Mr. Culver stated the City was talking about doing a ground mount system, but the league wanted a much higher premium for a ground mount system because it would be more accessible and a higher risk.

Mr. Culver continued with his review. He noted the additional options the City has under the Solar by Demand Credit System is the agreement has three call opportunities for the tenant and for the City. He reviewed the graph of different put and call options with the Commission.

Chair Schroeder asked Mr. Culver if he had any reservations on the system at all.

Mr. Culver stated he did not. He thought there has been a lot of interest from many members in the community to promote, encourage and use green energy. He thought this was a fantastic way to do it, finance it, where the City is not putting any money up and the City has a small amount of risk.

Commissioner McRoberts asked what would cause this to be a bad idea.

Mr. Culver stated the doomsday view on it is if something were to happen to the solar panels where it was not covered under warranty and the way the City insurance works is the City is self-insured up to a certain dollar amount, if something were to happen where only the solar panels were hit and nothing else so the \$100,000 insurance threshold is not hit, he thought that was the worst case scenario. He thought the City would eventually come out ahead even after fully paid for.

Commissioner Bachhuber asked how resistant the solar panels are to hail events.

Mr. Culver stated he has not heard about a specific hail size, but Falcon Heights has had their solar panels on their roof for a number of years and to his knowledge Falcon Heights did not have any panels that needed replacement with hail events in the past. He stated staff can ask for more input on that, but the solar panels are pretty resilient. These are not typical glass, it is a harder product. He stated there is no guarantee that something like that would not happen.

Commissioner Bachhuber stated he did not have any concerns with the puts and the calls. It seems to be set up well enough. He liked the fact that this is a way to provide solar at essentially no down stroke to the City. He thought that was a great solution. He thanked Mr. Culver for researching this and for all of the work that was put into this item.

Commissioner McRoberts stated he had found that a three-inch piece of hail could damage the panels.

Chair Schroeder confirmed there was no upfront cost to the City of any kind. She understood there was a small cost for the IT group to put up some stuff, but she thought it was approximately \$350.

Mr. Culver thought some networking cables may need to be run to some areas to provide the internet connection for monitoring but all of the other costs to install the system, both internally and externally, are included in the price of the system.

Chair Schroeder asked if the City needed to hire any additional staff to monitor or verify anything.

Mr. Culver stated there would not be any additional staff needed. Permits would need to be pulled for the installation on the rooftops and City inspection staff would deal with that and the City would probably eat the cost of those permits. Otherwise, he expected less staff time in the future than what staff has already spent on researching this. He stated once the system becomes the City's then staff will have to manage the maintenance agreement with whatever vendor the City has chosen to use for that.

The Commission was comfortable with the presentation and thought the City should move forward.

Receive Finance Commission Recommendations Tracking Report

No updates

Review September 17, 2018 Joint Meeting with the City Council

Finance Director Miller reviewed with the Commission the September 17th Joint meeting with the City Council. He thought it was a good discussion.

Chair Schroeder thought the meeting went well compared to the previous meeting.

Mr. Miller stated there are some things he is going to want to do at the staff level to refine some of the mechanics and the process of doing what the Commission advocated for and the Council seems to be comfortable with before bringing the items back to the City Council for final review and approval.

Chair Schroeder stated her discussion with Mr. Miller included stripping the capital out of the operating funds and staff would take a look at if the Council needed to take formal action on that.

Mr. Miller thought the City Council would do some sort of formal action, even memorialize it in a resolution to indicate the change in process. That helps it to become more of a procedural step that future Council's can refer back to.

Chair Schroeder wondered if that would need to be put on the tracking report because it is kind of an outstanding item, it is a sub of the cash reserve but is one of those pieces not get lost along the way.

Commissioner Harold wondered if some of these don't warrant breaking up.

Commissioner Bachhuber asked Mr. Miller if there was anything that would get in the way of this not being completed in 2018.

Mr. Miller asked if it was the Commission's thought this would be a first measurement period after the 2018 books are closed.

Commissioner Bachhuber stated that would be his hope, and if this is not completed in 2018 then there is an entire year the City will need to wait before the policy can be used.

Mr. Miller stated staff would move sooner than later on this item so when the 2018 books are closed in late March/April, staff would go to the Council and present the report and ask for approval to transfer funds. Staff would look at doing this in January due to one meeting in December.

Mr. Miller continued his recap with the Commission regarding the Joint Council meeting.

Commissioner McRoberts stated a few things he noted during the meeting was the threshold of \$20,000 has to go through the Council anyway. He thought that changed the nature of what the Commission was trying to do, the idea of delegating the approval for categories one and three and given the fact that essentially a police car purchase needs to go to the Council for approval. To him, it was becoming less about an approval process and more about certain information flow process and what should the Council expect to see because there seemed to be a few questions around that.

Commissioner Harold thought at least one Councilmember was apprehensive about increasing the threshold from the \$5,000 to the \$20,000. If the City remains at the \$5,000 limit, then everything will go in front of the City Council for approval.

Chair Schroeder thought the Council wanted information so that the Council can see it but not so much have to approve everything. She got the idea that if the item did not go through the approval then somehow it would be forgotten about. She wondered if the Council mixed up receiving information and approval.

Commissioner McRoberts thought the chart may have been confusing to the Council. He understood the Council needed to approve everything over a set amount but instead of individual approvals, there could be an approval at the end of each meeting with information listed in the Council packet. He stated the Commission went through this process but did not see how the City can ever operationalize it if every \$5,001 item needs the Council's approval unless it is approval in bulk.

Mr. Miller stated that is what is happening now. Every Council meeting the City Council is getting a handful of items and everything over \$5,000, unless approved as part of a bigger project or a contract or something like that. His take away was similar and felt it was more than just one Councilmember that was uncomfortable with changing the dollar amount. He stated in regard to

the fourth item in the joint meeting he did not hear any Council consensus. He heard a number of the Council express curiosity and fascination but felt the item still needed work on the policies, procedures, and mechanics. He stated he was not sure if an abstract process is making a connection with the Council. He thought the Council needed some real time examples.

Chair Schroeder stated she got the impression that the Council felt they were going to lose all visibility to it and would never see the actual dollars and numbers.

Commissioner McRoberts thought the Council was concerned also how a big investment would get flagged. He thought the process the Commission recommended would flag the item more than the current process in place.

Commissioner Bachhuber stated as the Commission thinks about the next steps regarding this, he thought it was important to reflect on why the Commission originally dug into this item. His recollection was the Commission was concerned the Council did not have a way of prioritizing spending and making decisions when the Council did not have enough money to do everything as noted by the CIP and trying to get the Council the tools to make a decision that might look like something other than raising the levy because of a current demand. He thought as the Commission goes through the next round, the Commission needs to keep in mind that the Commission is creating a tool that helps the Council make decisions to not spend money.

Commissioner McRoberts agreed and thought another one for him was the lack of visibility on decisions such as the golf course and license center and for whatever reason that was not being managed through a formal process.

Chair Schroeder stated in the notes it talks about the Commission going back and reviewing the entire policy and incorporating what the Commission originally did and some of the other pieces and know the Council wants the Commission to look at the whole policy and what all the different components are of it.

Commissioner Bachhuber thought the Commission was on the right track and that the Council was open and receptive. He thought the Commission should continue to work through this to see how the Commission can help the Council find a mechanism on how to decide on what not to spend money on.

Chair Schroeder thought at the next Commission meeting one of the items to review is the actual Capital Investment Policy as part of this whole process.

Chair Schroeder thought the Commission had some work to do on the cash reserve piece and the Capital Investment piece.

Review the Adopted 2019 Preliminary Budget & Tax Levy

Finance Director Miller stated at the September 24, 2018 City Council meeting, the Council adopted the preliminary 2019 Budget and Tax Levy. The adopted budget was the same as what

was reviewed by the Commission at the August 16, 2018 meeting. He noted the Council made the decision that weening the City off the use of Cash Reserves to fund the General Fund Budget which the City Manager suggested a three-year plan and the majority of the Council voted to do that over two years instead.

Chair Schroeder stated the Council voted on that, but she thought a couple of the Council still wanted to do that over three years, but this was not to exceed so those Councilmembers felt that they could vote for this one knowing the tax levy could still go down.

Mr. Miller stated that was correct. He stated the Council essentially added another \$113,000 to the City property tax levy at this junction and will review it again on December 3, 2018. He stated the EDA levy the working number was approximately \$623,000 which the EDA Commission cut down to \$473,000, which lowers the impact on the tax payers.

Chair Schroeder asked where the thirty-five percent reserve for the EDA came from.

Mr. Miller stated that is based on the percentage of their operating budget. The funding source for the EDA is the property tax and is their only funding source for the EDA normal operations.

Commissioner Bachhuber did not know if there was anything else for the Commission to do on this item.

Chair Schroeder personally thought the City Manager's budget going three years to get off reserves was a comfortable level considering how much reserves the City has. She believed it was only two of the City Councilmembers that were really pushing on it. She stated she would personally be comfortable going back to the original three years that the City Manager had proposed.

Commissioner McRoberts asked if there was a particular reason for wanting to accelerate this.

Mr. Miller stated the concern was where staff thinks the City might end up at the end of 2018. The City is going to be really close to the thirty-five percent targeted minimum cash reserve level for the General Fund which puts the City in a challenging situation if the City continues to have expected budget deficits in the next two years. The thought was the faster the City can get off the situation where the City is continually spending down the reserve levels the better off the City will be.

Commissioner Bachhuber personally thought the two years was wise as long as the City is deficit spending and in a non-sustainable place and the City Council would like the City to get to a sustainable place as quickly as possible. He stated he did not have a great concern about the amount of levy increase. He thought the schooling piece was something to be concerned about, but the Commission should remember that the citizens of Roseville voted for that seventy-five percent to twenty-five percent, so the citizens have said they were okay with that increase and this is not an abnormal City increase that the residents are looking at. He stated he would rather the levy not be six percent but when he saw the spending underneath it, to him it is very

constrained. He thought this was a very sober budget that also, unfortunately, has to pay for some of the deficit spending the City has done in the past.

Commissioner Hodder stated he would rather do it on the front end than on the back end. He would prefer to get it over with sooner. He stated he was actually comfortable with the tax levy.

Review Proposed 2019 Utility Rates

Finance Director Miller stated over the past several months, City Staff has been reviewing the City's utility operations to determine whether customers rate adjustments are necessary for 2019. The analysis included a review of the City's water, sanitary sewer, storm drainage, and curbside recycling operations. Unlike many city services that are supported by property taxes, our utility or enterprise operations are funded primarily by user fees and are operated as separate, stand-alone functions.

Mr. Miller reviewed the 2018 Water & Sewer Comparison chart with the Commission.

Commissioner Bachhuber asked if there was a way of staff to factor assessments in when thinking about what citizens pay over time.

Mr. Miller stated he has thought about that, but the challenge is does staff annualize the impact of an assessment over ten years, fifteen or twenty years and that becomes challenge because some people will never get hit with an assessment and other people might get hit multiple times if the resident lives in the same City but move around.

Commissioner Bachhuber thought it was fair to say that the Roseville bar on the chart did not include assessments and some of the citizens might be bearing more cost than what is illustrated.

Mr. Miller stated that was correct. The chart is not designed to perfectly compare cities to one another, it is just trying to give a bigger picture and staff knows because of their methodology that the City's water and sewer rates are higher than most and that has been the case for a very long time.

Commissioner Hodder thought what might be helpful with some of that comparison is what would an assessment be for a water replacement or a sewer. He thought an example could be provided for each of those categories to give an idea of what people would have to pay if assessed at the time of repair, so people can understand why the City does what it does.

Mr. Miller thought that would be easy enough for the City Engineers to calculate because staff knows what is being replaced and there is a cost to that.

Chair Schroeder asked the Commission what their thought was about the rates for the water and sewer.

Commissioner McRoberts stated he worried that the City can say people voted for this or voted for that, but everything is going to be higher than the wage increase that the average resident is going to get. He stated it is frustrating that the City is always spending more than the residents are getting.

Commissioner Hodder thought a lot of the issue is the variable cost, the increase at least in the example in the utility rate structure.

Commissioner Bachhuber stated he would look at it not so much of the increase but the last chart to him is the most impactful. He thought the City has been under investing in infrastructure for decades and unfortunately the City needs to make up for it. But at the same time when comparing to comparable cities, and he was also looking at median home values of St. Louis Park, Richfield, and Golden Valley, those cities on the chart are all significantly higher home values than Roseville. So, if that is put into the equation, Roseville actually has the lowest overall taxes and water and sewer combination of any of the comparable cities. He thought the City was in excellent shape but it was painful when taxes need to increase.

Chair Schroeder stated when looking at the community comment cards there is a lot of citizens saying taxes are going up higher and higher. The unfortunate part of that whole thing is now a lot of those people are retired or on social security. The City might not have been investing and now needs to make up for it but the residents still do not have the means to pay for it. That is the hard side of that equation. She stated she was not disagreeing that there needs to be investment, but she does understand that people are feeling the pain.

Commissioner Hodder thought the school investment is significant and that it showed up on the tax bill. He stated people can theoretically say they want to do something but at the end of the day when the bill comes and residents see that significant increase from years past and will be for a number of years, the resident will not be as agreeable but it was an investment that the residents agreed upon. He stated the County also has a share of the tax increase and Mr. Miller did say the City is in the middle of an investment cycle but the City is at least moving forward, and investments are being done that need to be done.

The Commission felt the water and sewer increase was in line and were comfortable with the new rates for 2019.

Identify Discussion Items for the Future Meeting

Finance Director Miller stated the next agenda would include discussions on the Capital Investment Policy review, continued discussion on the CIP process.

Chair Schroeder stated the Commission should look at the Cash Reserve Fund and work with Commissioner Harold on getting the capital taken out of the operating funds, so the Commission does not lose track of that and it comes back.

Commissioner McRoberts thought on the Capital Investments, it would make sense for staff to review it to give recommendations on how staff would change the information because he did not think it made much sense for the Commission to come up with examples when staff is the ones who know all the information and what needs to go on the report.

Mr. Miller was not sure how much was left for the Commission to discuss. The Commission has spent a lot of time on this subject and still not there. He thought the Council needed to see some real-world examples and that is not something he could go back to his desk to put together. That is a collective City-wide staff initiative that will take time. He stated there will be nothing to report at the next meeting in regard to that. He stated this is a lot of work and he was not sure how to navigate through it to get to the next step at this time.

Adjourn

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

Meeting adjourned at 8:39 p.m.