Finance Commission Agenda

Tuesday, April 11, 2023
6:30 PM
City Council Chambers

(Times are Approximate – please note that items may be earlier or later than listed on the agenda)

1. **Roll Call - Barclay, Bester, Dahir, Davies, Sagisser**
2. **Receive Public Comment**
3. **Approval of Meeting Minutes**
   a. Minutes approval - March
4. **Business Items**
   a. Receive Finance Commission Recommendations Tracking Report
   b. Review 2022 Year End Cash Reserve Levels
5. **Other Business**
   a. Staff Update
   b. Future meeting topics and work plan
6. **Adjourn**

Roseville Finance Commission
Agenda Item

DATE: April 11, 2023 **ITEM:** 3.a.

ITEM DESCRIPTION: Minutes approval - March

Background
As an advisory commission to the City Council, the Finance Commission's discussions and recommendations play an important role in setting City policies and influencing decisions on programs and services.

To ensure an accurate historical account of the Finance Commission's activities are preserved, the City maintains a practice of keeping meeting minutes. The attached file contains the draft minutes from the March 14, 2023 meeting. The Commission is asked to review the minutes and identify any typos, errors or inaccuracies of the discussion that took place.

Where applicable, Commission members are asked to identify any necessary corrections at the meeting. The Commission should subsequently vote to approve the amended (if necessary) minutes. Once the minutes are approved, they become part of the City's permanent records.

Recommendation
Review and approve the draft minutes.

Attachments
1. Minutes - March 14, 2023

Finance Commission
Meeting Minutes
DRAFT – March 14, 2023 - DRAFT

Roll Call/Announcements

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

Commissioners Present: Siafa Barclay, Bruce Bester, Wanda Davies, John Murray, and Dan Sagisser

Commissioners Absent: Sandra Klein-Hegge and Sadiq Dahir

Staff Present: Finance Director Michelle Pietrick

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 Bester stated line 51 the following words should be deleted: "of each month". He thought that would help the sentence make sense.

Commissioner Bester moved, seconded by Commissioner Murray to approve the January 10, 2023 meeting minutes as amended. **The motion carried unanimously.**

Receive Finance Commission Recommendations Tracking Report

Commissioner Bester reviewed the Finance Commission's Tracking report.

Update Regarding Repayment of Internal Loan Between PMP and Shopping Center Funds

Finance Director Pietrick stated that in preparing the report for City Council approval on the repayment of the internal loan, staff found the original resolution and City Council minutes from January 28, 2019 and February 11, 2019 meetings. The resolution stated that the Council pledged proceeds from the sale of the Fairview Fire Station property and future surplus monies from the License Center to repay the internal loan. The discussion at the January 28, 2019 meeting indicated that the $120,000 in annual rent the License Center would have been paying in rent would go towards repayment of the internal loan. The License Center has paid $495,000 into the Lexington Shopping Center Fund from 2019 through 2022. These funds will be used to repay the internal loan to the PMP fund. Therefore, no alternative sources are needed to repay the loan, as previously recommended by the Finance Commission.

Commissioner Bester asked how this should be closed out on the tracking report.

Ms. Pietrick explained he could use the wording "resolved, found different information".

Review 2022 Investment Portfolio Performance

Finance Director Michelle Pietrick reviewed the 2022 Investment Portfolio performance with the Commission.

Chair Davies indicated she had a question regarding the yields for the treasuries, on December 31st if the City were to buy a ten year treasury would it yield a 3.88 or is it based on having a ten year treasury on January 1st and selling it on December 31st.

Ms. Pietrick indicated it was not based on the later. These were the yields as of December 31st. It is shown as a point in time. She indicated the City has always measured this as of December 31st. She noted next year she may be able to provide the average yield for the year.

Commissioner Bester explained the City Council approved the use of limited investment in equities and if one considered an S&P five hundred index, investing in US equities of large corporate entities, and if done over a period of forty years, the average annual change would be over ten percent. He indicated each individual year can vary a lot. He thought if ever there was a year to give it further consideration this would be exactly the year, or not the year. When he took a look at this he has seen the years that have gone down, nine of them in the forty-one year period, what follows, almost always, is big ups. What that would mean to the City is he assumed that fifteen percent or 1.5 million dollars might be potentially eligible for that kind of investment depending on using an assumption of ten million dollars of unrestricted funds and if compared to an interest rate growth of two percent, versus ten percent, this would have to be done over a period of years, it would result in something around 1.2 million dollars additional to the City budget. There is the potential for a fair amount of additional growth for the City.

Ms. Pietrick indicated it is in the policy and as the City is refining its laddering of the portfolio, it is still an option for the City. If the City does choose to do that staff does need to come back to the Council for formal approval. She noted the market is down and volatile and she would like it to be less volatile before doing this. She explained it is a tool in their toolkit that she appreciates.

The Commission discussed the ups and downs of investing and the investment portfolio of the City.

Ms. Pietrick indicated the City may be investing in equities through the State Investment Board this coming year.

Chair Davies explained she would like to see regular updates as to where that is. She noted the Commission is in favor of increasing yields through that method so she thought the Commission would like to see updates on how that is progressing.

The Commission concurred.

Consider Selecting a Commission Chair, Vice-Chair and Ethics Commission Representative

Finance Director Michelle Pietrick explained the City Code requires the Finance Commission to annually select a Chair, Vice-Chair to perform on-going duties; and a representative to serve on the City's Ethics Commission as needed.

Chair Davies indicated she was willing to be Chair again but indicated she would be willing to relinquish it if someone else wanted to be Chair.

Commissioner Sagisser explained he was also willing to be Vice-Chair again but would relinquish it if someone else wanted the position.

Commissioner Murray moved, seconded by Commissioner Barclay to appoint Commissioner Davies as Chair of the Finance Commission and to appoint Commissioner Sagisser as Vice-Chair of the Finance Commission and to appoint Commissioner Bester as representative to the Ethics Commission. **The motion carried unanimously.**

Rosefest Parade – Commission Participation

Chair Davies explained she received an email from HRIEC Commissioner Amanda Becker inviting the Finance Commission to walk in the Rosefest parade. She indicated the HRIEC needs to know how many Commissioners would like to be included in the parade. She thought the Commissioners could let Ms. Becker know if they wanted to participate in the parade.

Identify Discussion Items for the Future Meeting

Finance Director Michelle Pietrick indicated Commissioners Bester and Barclay were reappointed to the Finance Commission. She explained there is an open position for the Finance Commission and applications were extended through March 31st.

Adjourn

Commissioner Murray made a motion, seconded by Commissioner Sagisser to adjourn. The m**otion passed unanimously.**

Meeting adjourned at 7:16 p.m.

Roseville Finance Commission
Agenda Item

DATE: April 11, 2023 **ITEM:** 4.a.

ITEM DESCRIPTION: Receive Finance Commission Recommendations Tracking Report

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Background

A summary of the Finance Commission's recent recommendations submitted to the City Council is included in *Attachment A* for review. The report has been updated to reflect items that have been closed or added per Commissioner Bester.

Recommendation

For review and discussion purposes only. No formal Commission action is necessary.

Attachments

1. Tracking Report

Roseville Finance Commission
Recommendation Tracking Report
Report Date - March 14, 2023

No.	Recommendation	Description	Date Recommended	Date Presented	Status	Discussion and Next Steps
2022-02	1. Transfer funds from Excess Cash to PMP 2. Transfer funds from Genl Fund to PMP 3. Increase taxes to pay loan. 4 Keep receivable until PMP needs cash **5. License Center has paid $495,000 into Shopping Center Fund. This is the source of funds that will be used to repay the internal loan.**	How to handle remaining $266,829 interfund receivable/payable with respect to PMP funds used for purchase of Shopping Center at 2917 Lexington.	5/10/2022	5/10/2022	Implemented	First discussion at Finance Commission meeting 5/10/22. Tentative consensus to keep the receivable/payable for now, and revisit before end of year. Next discussion 11/15/22, where it was agreed to transfer funds from Excess Cash to PMP to close this item. To Council March 2023. **See the notes and attachments to the March 14, 2023 Finance Commission meeting for details and background.**
2023-01	Finance Commission recomends that steps be taken to begin to act on incorporating limited equities in the City's investment portfolio.	Option to permit limited investment in equity investments	3/14/2023	3/14/2023	Pending	On 4/25/22 the City Council approved expanded Investment Policy language to permit limited use of equity investments.

Roseville Finance Commission
Recommendation Tracking Report - Definitions

Status	Definition
Pending	Recommendation has not yet been presented to the City Council
Received	Recommendation has been received by the City Council but has not received a formal reply or action
Accepted	Recommendation has been accepted by the City Council but action has not yet been taken
Rejected	Recommendation has been rejected by the City Council and will not move further
Implemented	Recommendation has been accepted by the City Council and action has been implemented
Rescinded	Recommendation has been rescinded by the Finance Commission
Received - Closed	Recommendation has been received by the City Council but has not received a formal reply or action and will be considered closed from future updates tracking.
Received - Further Development	Recommendation has been received by the City Council and returned to the Commission for modifications or further development.

Roseville Finance Commission
Agenda Item

DATE: April 11, 2023 **ITEM:** 4.b.

ITEM DESCRIPTION: Review 2022 Year End Cash Reserve Levels

Background
At the March 13, 2023 City Council meeting the preliminary 2022 year-end cash reserves report was presented which showed 1 fund above the high target level and 1 fund below the minimum target level. The City's Operating Fund Reserve Policy states that excess reserves above the maximum reserve level for that specific fund (less funds needed for capital expenditures and funds received as donations) shall be placed into the Cash Reserve Fund.

Identifying Excess Cash Reserves
Attachment B shows the cash reserve levels along with the targets for each fund. In accordance with the cash reserve policy, the Council approved the follows transfers to and from the cash reserve fund.

From Parks & Recreation	$ 20,317
To Communications	$(31,436)
Net Transfers from the Cash Reserve Fund	$(11,119)

The Cash Reserve Fund had a balance of $636,193 after these transfers were approved. The 2023 budget will use $200,000 of this balance to provide additional funding to the Park & Rec Vehicle & Equipment fund and up to $126,500 for increased motor fuel costs.

Parks and Recreation fund achieved higher than anticipated reserves as a result of higher participation in various programs than were anticipated during the budget preparation.

License Center fund ended the year with a reserve level of 11% which is within the reserve levels for this fund of 10%-15%.

General Fund, exclusive of the cash reserve fund ended the year at a 36% cash reserve level which is a good financial sign. When the City's Comprehensive Annual Financial Report is prepared, the Cash Reserve Fund is rolled up with this fund, so the audit report will show a higher reserve level.

Communications fund ended the year with a 5% cash reserve level which is less than the minimum reserve of 10%. The fund experienced unanticipated unemployment expenses which caused the expenditures to exceed the budget. In keeping with past practice, the amount of $31,436 should be transferred from the excess cash reserve fund to achieve the minimum reserve level.

Information Technology fund ended the year with a .39% cash reserve level, which is below the minimum of 10%. This is a result of the change in market value adjustment at year end which was a negative impact of $101,916 to this fund. The information technology function has changed, it is now a contractual service. This fund will be closed out during the 2024 budget process into the Administration Division of the General Fund. As a result of this change, we do not recommend a transfer from the excess cash reserve fund.

Information about the other city fund balances will be included as part of the audit presentation in June.

Recommendation
For information purposes only

Attachments
1. 2022 Preliminary Cash Reserves
2. Operating Reserve Policy

City of Roseville

Cash Reserve Levels: Unrestricted Operating Funds

12/31/22 Cash Reserves Updated 1/27/23

Cash Reserve Levels: *Unrestricted* Operating Funds

	Operating Fund	12/31/2022 Cash Reserves	Less From Donations	12/31/2022 *Available* Cash Reserves	12/31/2022 Reserve Level	2023 Operating Budget	Target Low	Target High	12/31/2021 **Low** Target Reserve Level	12/31/2021 **High** Target Reserve Level	Variance from Low Target	Variance from High Target
	General: Primary	$ 7,579,560	$ (80,708)	$7,498,852	36%	$20,713,235	35%	50%	$ 7,249,632	$10,356,618	$ 249,220	$(2,857,766)
(1)	General: Cash Reserve Fund	647,312	-	647,312								
	Parks & Recreation	2,042,694	(328,085)	1,714,609	30%	5,647,640	20%	30%	1,129,528	1,694,292	585,082	20,317
	Communications	26,103	-	26,103	5%	575,390	10%	30%	57,539	172,617	(31,436)	(146,514)
(2)	Information Technology	3,375	-	3,375	0.39%	857,141	10%	15%	85,714	128,571	(82,339)	(125,196)
	License Center	248,211	-	248,211	11%	2,194,830	10%	15%	219,483	329,225	28,728	(81,014)

(1) See analysis below

(2) This fund will be folded into the Administration department within the General Fund so no transfer from the cash reserve fund is recommended at this time.

Cash Reserve Fund 105	
2018 Approved Transfers:	
From Parks & Rec	635,000
From IT	170,000
From License Center	81,000
To General Fund	0
12/31/2018 Balance	886,000
2019 Approved Transfers:	
From Parks & Rec	169,985
From Communications	124,947
From IT	234,924
From License Center	249,140
To General Fund	(918,583)
2019 Interest Revenue	10,084
12/31/2019 Balance	756,497
2020 Interest Revenue	6,323
Authorized use: Equity Consultant	(100,000)
2020 Approved Transfers:	
To License Center-minimum balance	(354,958)
To Parks & Rec	(235,798)
From IT	193,990
12/31/2020 Balance	266,054
2021 Interest Revenue	1,070
2021 Approved Transfers:	
From Parks & Rec	79,662
From IT	360,160
12/31/2021 Balance	706,946
2022 Interest Revenue	(59,634)
2022 Transfers:	
From Parks & Rec	20,317
To Communications	(31,436)
	636,193

Operating Fund Reserve Policy

Revised September 20, 2021

Purpose

- To provide a cushion against unexpected revenue and income interruptions
- To provide working capital by ensuring sufficient cash flow to meet the City's needs throughout the year
- To provide funds to address unexpected or unplanned events

Policy

- The City will maintain a general fund reserve of 35-50% of the general fund's total annual operating budget. This ensures that the City has adequate funds on hand to provide for operations between bi-annual property tax collection periods. Any surplus beyond the required general fund reserve may be transferred to another reserve fund with a funding shortfall.

- The City will strive to create a reserve in the Recreation Fund of 20-30% of the annual recreation budget. This reserve will provide a cash flow cushion to cover operations between bi-annual property tax collections and the fluctuation in charges for services revenues during the year. Because of more frequent cash inflows during the year, a 20-30% reserve will be adequate to support the daily cash needs of the fund.

- The Community Development Fund is supported solely by building permit fees and charges. Because the economic environment has a major effect on this Fund, a fund balance of 25-50 % of the annual budget is a reasonable target. It is expected that as economic downturns take place, this reserve will provide for a transition period during which the Council will be able to assess and to better match operations with the economic need.

- City enterprise funds shall have operating cash reserves sufficient to provide for monthly cash flow, and for a reasonable level of equipment and infrastructure replacement. Major reconstruction or system upgrades, may need to be funded from enterprise revenue bonds. Annual utility rate reviews will be made in regard to projected operating expenses and capital improvements. The Council will, on an annual basis, establish rates in accordance to operating cost recovery and the projected capital improvements. Based on consulting other cities, a minimum cash reserve level of 25% of the operating budget is a target that the City of Roseville will strive to maintain, though major capital projects may cause periodic deviations from this reserve level.

- The Communications Fund had greater cash flow variability in prior years and now receives a small amount of property tax levy support It is expected to operate with reserve balances of 10-30% of the annual operating budget.

- The License Center fund has consistently demonstrated strong cash flows which allowed for a lower overall reserve level. Based on the experiences of 2020, these fund reserves may need to be increased in the future. At this time the License Center fund will operate with balances of 10-15%of the annual operating budget.

- The Information Technology fund will operate with positive reserve balances of 10-15% which will eventually be eliminated once Metro Inet is fully established at which time, the IT function will simply be a division of the General Fund.

- Capital Project funds are identified in the Capital investment policy. Annual property tax levies supply funding for the various projects and fund balances increase over time to pay for equipment and infrastructure projects, the balances then drop and rebuild over time to cover the next projects.

- For the EDA, its General Operating Fund should maintain a reserve level of 35% of the annual budget to ensure that it has sufficient funds to provide for operations in-between property tax collection periods.

- In the event the minimum fund balance drops below prescribed levels, the City shall dedicate new incoming property tax or program revenues (where applicable) in an amount sufficient to bring fund balance levels back into compliance within three fiscal years.

- Unless otherwise directed by the City Council, monies held in individual Funds shall be expended first from restricted fund balances, second from committed fund balances, then from assigned fund balances, before using unassigned fund balance.

<u>Implementation</u>
All fund reserves shall be reviewed each year at the time of the annual budget preparation and at the annual audit for the purpose of complying with this policy. Budgets shall be prepared on an "All Resources" basis, so that the City Council and Community can readily discern the current and projected management of all reserves.

If aggregate unrestricted reserves in the tax-supported operating funds are outside of targeted goals, the Council is advised to create a plan to get reserves into targeted goal ranges by committing reserve funds, using aggregate excess reserves to reduce the levy, or making appropriate budget or tax levy adjustments. With the creation of the Cash Reserve Fund, certain funds will have their reserves swept if they exceed the high target range, see the next section.

<u>Cash Reserve Fund</u>
The City has established a Cash Reserve Fund that will take the excess cash reserves from selected funds that are over the maximum reserve levels as defined under this policy, less funds needed for capital expenditures or funds donated to the City. The following funds are subject to the Cash Reserve Fund policy:

- General Fund (unrestricted portion)
- Parks and Recreation Fund
- Communication Fund
- Information Technology Fund
- License Center

Operating Fund Reserve Policy

Revised September 20, 2021

As part of the annual audit, the excess funds above the maximum reserve level at December 31 of the previous year (less funds needed for capital expenditures and funds donated to these accounts) shall be transferred to the Cash Reserve Fund before the books are closed for that particular year. The funds transferred to the Cash Reserve Fund shall be tracked on an annual basis and reported to the Finance Commission and approved by the City Council by April of the subsequent year.

Any expenditures from the Cash Reserve Fund must be authorized by the City Council.

Roseville Finance Commission

2023 Meeting Topics & Calendar

Month	Discussion Topic (Tentative)
January 10	▪ Review Government Budget Practices and Accounting Standards to try and inform how Government Financial Processes Work
February 14 CANCELLED	▪
March 14	▪ Select Chair, Vice-Chair, and Ethics Commission Representative ▪ Review 2022 Investment Portfolio performance ▪
April 11	▪ Review 2022 preliminary year-end cash reserve levels ▪
May 9	▪ Discuss items for Joint City Council-Finance Commission meeting ▪
June 13	▪ Review 2022 Audit Reports ▪ 2024-2043 Capital Improvement Plan review #1
July 11	▪ 2024-2043 Capital Improvement Plan review #2
August 23 * Wednesday	▪ Discuss the 2024 City Manager Recommended Budget & Tax Levy
September 12	▪ Establish Recommendation on 2023 City Manager Recommended Budget & Tax Levy ▪ Establish Recommendation on 2024-2043 Capital Improvement Plan ▪
September 18	▪ Present Budget Recommendation to City Council
October 10	▪ Update on the Council-adopted 2024 preliminary Budget & Tax Levy ▪ Review and adopt a recommendation on the 2024 proposed utility rates
November 14	▪ Adopt 2024 Meeting Calendar ▪ Adopt 2024 Work Plan