

Mayor:
Dan Roe



Address:
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Councilmembers:
Jason Etten
Wayne Groff
Lisa Laliberte
Robert Willmus

**City Council Agenda
Monday, September 16, 2019
City Council Chambers**

Phone:
651-792-7000

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1. 6:00 P.M. Roll Call
Voting & Seating Order: Willmus, Laliberte, Groff, Etten, and Roe
2. 6:01 P.M. Pledge of Allegiance
3. 6:03 P.M. Public Comment
4. 6:02 P.M. Approve Agenda
5. 6:05 P.M. Recognitions and Donations
- 5.A. Constitution Week Proclamation

Documents:

[PROCLAMATION.PDF](#)

6. Items Removed from Consent Agenda
7. 6:10 P.M. Business Items
- 7.A. Joint Meeting with Finance Commission

Documents:

[REQUEST FOR COUNCIL ACTION AND ATTACHMENTS.PDF](#)

8. Approve Minutes
9. Approve Consent Agenda
10. 6:55 P.M. Future Agenda Review, Communications, Reports, and Announcements - Council and City Manager
11. 7:00 P.M. Adjourn



Constitution Week

September 17-23, 2019

Whereas: September 17, 2019, marks the 232nd anniversary of the drafting of the Constitution of the United States of America by the Constitutional Convention; and

Whereas: It is fitting and proper to accord official recognition to this magnificent document and its memorable anniversary and to the patriotic celebrations which will commemorate the occasion; and

Whereas: Public Law 915 guarantees the issuing of a proclamation each year by the President of the United States of America designating September 17 through 23 as Constitution Week.

Now, Therefore Be It Resolved, that the City Council hereby declare September 17-23 to be Constitution Week in the City of Roseville and urges all citizens to reaffirm the ideals of the Framers of the constitution had in 1787 by vigilantly protecting the freedoms guaranteed to us through this guardian of our liberties, remembering that lost rights may never be regained.

In the City of Roseville, County of Ramsey, State of Minnesota, U.S.A

In Witness Whereof, I have hereunto set my hand and caused the Seal of the City of Roseville to be affixed this sixteenth day of September 2019.

Mayor Daniel J. Roe

ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: September 16, 2019
Item No.: 7.a

Department Approval

City Manager Approval



Item Description: Joint Meeting with the Finance Commission to Receive New Recommendations

BACKGROUND

Since the last City Council-Finance Commission joint meeting in March, the Finance Commission has been working to develop recommendations on the following:

- 1) The 2020 City Manager recommended budget & tax levy
- 2) Changes in funding strategies for the 2020-2039 CIP
- 3) Whether to establish a policy for the use of monies held in the Cash Reserve Fund (*per 3/18/19 Council directive*)
- 4) Whether to modify the cash reserve target levels for the Parks & Recreation Operating Fund (*per 3/18/19 Council directive*)
- 5) The use of alternative options for the city's investment portfolio
- 6) Whether to use the newly-established Cash Reserve Fund to provide monies for the EAB Program (*per 6/17/19 Council directive*)

The Commission's findings and recommendations are highlighted separately below.

2020 City Manager Recommended Budget & Tax Levy

A final discussion on this topic was held at the Commission's September 10, 2019 meeting. The Finance Commission unanimously approved a motion that supports the 2020 City Manager Budget and Levy. The Commission will provide additional information about its discussion on the 2020 City Manager Budget and Levy at the Joint Meeting.

A copy of the excerpted minutes from the Commission's 8/13/19 (draft) discussion is included in *Attachment A*.

Changes in Funding Strategies for the 2020-2039 CIP

A final discussion on this topic was held at the Commission's September 10, 2019 meeting. The Finance Commission unanimously approved a motion that recommended CIP funding strategies as shown in Attachment B-1. The Commission will provide additional information about its 2020-2039 CIP funding recommendations at the Joint Meeting.

A copy of the excerpted minutes from the Commission's 5/14/19 and 6/11/19 (draft) discussions are included in *Attachment B*.

36 **Establishing a Policy to Guide the Use of the Cash Reserve Fund**

37 Per the City Council’s directive on 3/18/19, the Finance Commission held a discussion on establishing a
38 policy to guide the use of the Cash Reserve Fund at its May 14, 2019 meeting. The following points of
39 emphasis were noted during the discussion:

- 40
- 41 ▪ Whether the Finance Commission was in a better position than the Council to know what the
- 42 City’s spending priorities were.
- 43 ▪ Whether the implementation section of the Operating Fund Cash Reserve Policy was sufficient to
- 44 provide general guidance.
- 45

46 With regard to the second bulleted point, the Implementation Section reads as follows:

47

48 *If aggregate unrestricted reserves in the tax-supported operating funds are outside of*
49 *targeted goals, the Council is advised to create a plan to get reserves into targeted goal*
50 *ranges by committing reserve funds, using aggregate excess reserves to reduce the levy, or*
51 *making appropriate budget or tax levy adjustments.*

52

53 At the conclusion of the discussion, the Commission determined that the language in the
54 implementation section provided sufficient guidance. However, it was noted that it might be appropriate
55 to revisit the discussion further if the Council was looking for something more specific.

56

57 A copy of the excerpted minutes from the 5/14/19 discussion is included in *Attachment C*.

58

59 **Modifying Cash Reserve Target Levels for the Parks & Recreation Operating Fund**

60 Per the City Council’s directive on 3/18/19, the Finance Commission held a discussion on revising the
61 cash reserve target levels for the Parks & Recreation Operating Fund at its May 14, 2019 meeting. The
62 following points of emphasis were noted during the discussion:

- 63
- 64 ▪ The Fund’s month-to-month cash flows for the past five years including a composite average that
- 65 showed a range of cash levels from 12% to 27%.
- 66 ▪ The identification of non-property tax revenues.
- 67 ▪ The types of personnel and other fixed costs that are prevalent throughout the calendar year.
- 68

69 At the conclusion of the discussion, the Commission recommended that the City Council revise the cash
70 reserve target level for the Parks & Recreation Operating Fund from a fixed 25% to a range of 15-25%.
71 The range would make it more consistent with the city’s other key operating funds.

72

73 A copy of the excerpted minutes from the 5/14/19 discussion is included in *Attachment D*.

74

75 **Consider Alternative Investment Options**

76 The Finance Commission held a discussion on alternative investment options for available cash reserves
77 at its May 14 and June 11, 2019 meetings. The new options were available for selected cities (which
78 currently includes Roseville). The following points of emphasis were noted during the discussions:

- 79
- 80 ▪ The City historically has had a significant amount of investments that are not necessarily needed
- 81 for day-to-day operations
- 82 ▪ Interest rates remain near historic lows and are likely to continue for the foreseeable future;
- 83 resulting in lower rates of returns as a result.

- 84 ▪ A recent law change allows the City of Roseville to invest a portion of its available cash into
85 equity (stock market) investments.
86 ▪ These investment opportunities may produce greater non-tax revenues than the City's current
87 investment strategy.
88

89 At the conclusion of the discussion, the Commission recommended that the City Council consider
90 investing a portion of its investment portfolio with the State Board of Investment or a separate Index
91 Fund.
92

93 A copy of the excerpted minutes from the Commission's 5/14/19 and June 11, 2019 discussions, along
94 with the discussion materials from the meetings are included in *Attachment E*.
95

96 **Use of Cash Reserve Fund to provide monies for the EAB Program**

97 A final discussion on this topic was held at the Commission's September 10, 2019 meeting. The Finance
98 Commission unanimously approved a motion that funding for the EAB program should come through
99 the normal budget process and not from the Cash Reserve Fund. The Commission will provide additional
100 information about its EAB funding recommendation at the Joint Meeting.
101

102 A copy of the excerpted minutes from the Commission's 8/13/19 (draft) discussion is included in
103 *Attachment F*.
104

105 Members of the Finance Commission will be in attendance at the meeting to present their findings and
106 recommendations.

107 **POLICY OBJECTIVE**

108 See above.

109 **FINANCIAL IMPACTS**

110 Not applicable.

111 **STAFF RECOMMENDATION**

112 Not applicable.

113 **REQUESTED COUNCIL ACTION**

114 The Council is asked to receive the findings and recommendations from the Finance Commission and
115 determine the appropriate next steps.
116

Prepared by: Patrick Trudgeon, City Manager (651)792-7021

- Attachments:
- A: Selected Minutes from the 8/13/19 Finance Commission meeting regarding the discussion on the 2020 City Manager Recommended Budget.
 - B: Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting regarding the discussion on the 2020-2039 CIP.
 - B-1 Finance Commission CIP Funding Recommendations
 - C: Selected Minutes from the 5/14/19 Finance Commission meeting regarding the discussion on establishing a Cash Reserve Fund Policy.
 - D: Selected Minutes from the 5/14/19 Finance Commission meeting regarding the discussion on cash reserve target levels for the Parks & Recreation Operating Fund.
 - E: Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting regarding the discussion on alternative investment options.
 - F: Selected Minutes from the 8/13/19 Finance Commission meeting regarding the discussion on the EAB Program funding.

224 Mr. Brokke indicated there is a \$78,000 annual budget for disease and hazardous tree for that
225 program and is not all full tree replacement. The city does as much as it can in house but some
226 of the bigger stuff is hired out.

227

228 Commissioner Sagisser asked if the State Grant money does show up would the plan be to
229 accelerate this or to reduce need.

230

231 Mr. Brokke thought that would depend on the proposals that the city would get and would
232 replace some of the monies the Parks and Recreation would get.

233

234 Commissioner Lee thought the Commission has exhausted all possible questions for the Parks
235 and Recreation Commission and should take some time to ponder this and move onto other items
236 on the agenda.

237

238 Chair Hodder agreed and suggested this matter be discussed in September with some
239 recommendations that the Commission sees fit.

240

241

242 **Receive An Historical Review of the City's Property Tax Levy & Budget**

243

244 Finance Director Miller reviewed the city's property tax levy & budget history with the
245 Commission. He indicated tax rates have been going up and have outpaced inflation. What has
246 been driving that has been some of the city's capital investments and other operations-based
247 decisions the city has had to make as well.

248

249 Chair Hodder thought this was a great overview and does help frame and tee off the discussion
250 for the City Manager's recommended budget item.

251

252

253 **Discuss Recommendations on the 2020 City Manager Recommended Budget and Tax Levy**

254

255 Finance Director Miller reviewed the 2020 City Manager recommended Budget and Tax Levy
256 with the Commission.

257

258 Chair Hodder asked if there are police incident numbers for 2018.

259

260 Mr. Miller thought it was around this time that the stats do come out but have not heard from the
261 Police Department if those numbers have been published.

262

263 Commissioner Harold noted regarding the stopping of the use of General Fund reserves to
264 balance the budget, he thought this Commission had been making that recommendation for
265 awhile but he thought two or three years ago the Finance Commission recommended a more
266 gradual approach and he thought this recommended budget illustrates the benefit of doing a
267 gradual approach. The city is looking at a substantial increase in the levy while at the same time
268 coming off of a reliance of Cash Reserves and based on the most recent numbers seen he

269 wondered if there was an opportunity to soften the blow and do one final transition and use some
270 of the existing funds to offset the levy a little bit. He asked if the \$285,000 number the
271 Commission was looking at in the EAB current or is there a number that staff projects the fund to
272 be at in December 2019.

273

274 Mr. Miller explained that is the number at the end of 2018 and he indicated he did not have a
275 projection for 2019. For the first six months the city is trending as expected and the expectation
276 is in 2019 the Cash Reserves would be drawn down by \$340,000 because that is what was
277 programmed into the 2019 budget.

278

279 Commissioner Harold noted at the end of 2019 the city would be at a deficit below the minimum
280 target of the General Fund by approximately \$60,000.

281

282 Mr. Miller indicated that is true with the caveat that there are a lot of moving pieces to a very
283 complex General Fund budget and that is only through the first six months.

284

285 Commissioner Harold thought if the city is farther along in the process and staff felt there might
286 be some other reserves then he thought to use it to soften the blow, so to speak, on the levy might
287 be appropriate.

288

289 Commissioner Murray indicated looking at the 12.8 percent increase he was chocking on that
290 number and is not reasonable. He was also aware that Ramsey County is going up by ten
291 percent. He noted taxes are paid out of current income and current income is not going up that
292 much so if the city could hold it down to somewhere close to inflation that would be more
293 palatable to him.

294

295 Chair Hodder remembered that discussion about doing things more gradually, particularly with
296 restoring funds. There was talk about the pavement management fund specifically, which was
297 putting a little bit aside, so the fund does not completely bottom out. He thought in this case that
298 Commissioner Harold's point is well taken. He wondered if there was a way to soften that blow
299 so the city is not seeing the increase all at once.

300

301 Commissioner Murray thought a three percent increase would be more reasonable.

302

303 Commissioner Harold thought there was somewhere in the packet where it outlined the new
304 initiatives and had separate dollar amounts for those as well as the cost of living increases and
305 another existing program increases. He thought unless there was talk about removal of the new
306 programs or budget cuts the city is pretty much stuck at the \$600,000. If the General Fund does
307 not have any cash reserves at the end of the year the city is stuck at the \$340,000. He thought for
308 the median homeowner the increase would be close to five percent.

309

310 Mr. Miller stated the Commission can be as specific as it wants in a recommendation to the city
311 Council or the Commission could be more policy driven.

312

313 Commissioner Sagisser thought if this were to go above inflation, he thought the question that
314 should be able to be answered easily is what the residents are getting from the increase and
315 nothing jumps out at him.

316

317 Commissioner Harold noted the city will be getting four new Police Officers and three new Fire
318 Fighters.

319

320 Commissioner Sagisser explained for the general population that will not be as evident as if a
321 new school building were the reason for the increase.

322

323 Chair Hodder felt the five to six percent increase was reasonable given inflation. He suggested
324 the Commission review the information in the packet and revisit this again at the September
325 meeting.

326

327

328 **Identify Topics & Recommendations for the Joint City Council-Finance Commission**
329 **Meeting**

330

331 Finance Director Chris Miller explained he identified six different areas where recommendations
332 have been already generated by the Finance Commission or still in play waiting for the
333 Commission to come up with a recommendation. He reviewed the six items with the
334 Commission.

335

336 Mr. Miller noted an item that the Commission discussed at the May meeting was an item
337 Commissioner Murray brought up which was to look at alternative investment options that are
338 now available to the city. The Commission did make a recommendation to the Council that the
339 city should take a look at taking advantage of that and to look to partner with the State Board of
340 Investment to enter into that opportunity or get involved in some other separate index fund which
341 can take advantage of some of the gains the stock market has been producing over the last couple
342 of years.

343

344 Mr. Miller explained the City Manager has suggested the city break off \$200,000 of the money
345 that was suggested going to the Pavement Improvement program. It is now suggested instead of
346 390,000 going to that program that \$190,000 go to the program and \$200,000 of that would be
347 directed to the General Operations Fund to help shoulder some of the tax levy burden. The
348 Finance Commission has not formulated any recommendations on the CIP funding strategies.

349

350 Chair Hodder asked if there was a way to revise the scenarios the Finance Commission would
351 utilize to reflect where the funds are currently. He knew when the Finance Commission talked
352 about the Pavement Management program there was much more in there then what is in there
353 now.

354

355 Commissioner Harold indicated he could take the latest numbers from the CIP that Mr. Miller
356 provided and update the scenarios for the Finance Commission.

357

Mr. Miller stated that would be fine. The next scheduled joint meeting with the City Council is in September but have other items to work on so the Commission could leave it for the time being.

Review the DRAFT 2020-2039 Capital Improvement Plan

Finance Director Miller stated the Finance Commission is asked to review the Draft 2020-2039 Capital Improvement Plan.

Mr. Miller reviewed the 2020-2039 CIP for the new Commissioners.

Mr. Miller reviewed with the Commission the analysis of Asset Replacement Funds; Property tax supported.

Commissioner Sagisser asked if there were extra maintenance costs that come into play if the OVAL repairs do not get approved for three years.

Mr. Miller stated if the City is not successful with the State, he imagined the City would try again and if still not successful the City would defer some of the capital maintenance, maybe doing some sort of a band-aid type of approach. If it looks like the City will never get State funding for the OVAL for whatever reason, then the Council will have to have a conversation on what the City wants to do whether it be finding the money locally or envision something different.

Mr. Miller continued with the analysis or property tax supported funds.

Commissioner McRoberts stated in the report there is a comment stating the golf course is never going to make any money and it needs to be put into the Parks and Rec. Department. He wondered if that is just delaying the inevitable by putting the golf course into a bigger pot where the costs will get covered.

Mr. Miller stated the brand-new club house the City just built has been moved into the general facilities fund account. He stated because it is a new building, there are not a lot of replacement needs for it. The one thing in the analysis is the maintenance shed.

Commissioner McRoberts stated if the trend seems to be that the attendance is dropping and therefore finding someone private to run it, is it something that should be looked at while there are still assets that do not require maintenance.

Mr. Miller stated the Council entertained conversations along those lines before the decision was made to replace the club house. The City made a 3.2 million investment in a brand new club house and prior to doing that the City entertained discussion on where the golf industry was going and are there alternatives the City might want to use with that site and in the end the City did not want to envision or consider something other than a Municipal Golf Course and the

Council was prepared to use property tax dollars when the decision was made to support it if the need be. He noted that will not be needed in 2020 but starting in 2021 in some level it will be needed. The golf course will survive on its cash reserves for 2019 and probably 2020 but after that it will need some infusion of tax dollars.

Mr. Miller reviewed the analysis of Asset Replacement Funds, fee-supported

Commissioner McRoberts stated when the funding for the strip mall purchase was determined, wasn't it determined it would degrade the License Center funds such that it would be below one hundred percent.

Mr. Miller stated what staff did was give the Council a number to say this is what the City needs to leave behind to sustain the License Center for about ten years and that was a couple of years ago so there is approximately eight years left and then the City needs to start helping fund the License Center. He noted the City used some of the License Center funds to acquire the strip mall, nine hundred thousand dollars cash was used for other purposes not related to the License Center which still left some money to get the License Center by for the next few years until the Council decides what the future of the License Center and the strip mall is.

Mr. Miller reviewed the Funding Strategies and Impacts on Homeowners with the Commission. He noted the following strategies have not been discussed with the City Council yet.

Funding Strategy #1: PIP & PMP Programs

For 2020, re-purpose the expiring \$765,000 City Hall/Maintenance Facility bond Levy to the Park Improvement & Pavement Management Programs.

Funding Strategy #2: Golf Course

For 2020, combine the Golf Course capital needs into the broader General Facilities and Park & Recreation Vehicle & Equipment Funds. Over time, this measure will require additional tax levy dollars, but not until 2021 or later.

Funding Strategy #3: Utility Rate Adjustments

For 2020, adjust the base rates for the water, sanitary sewer, and storm sewer as needed to accommodate planned capital replacement. A more specific recommendation will be forthcoming after the annual utility rate analysis is complete in the fall.

Funding Strategy #4: Information Technology

For 2020, re-purpose \$50,000 in annual tax levy from the IT Capital fund to operations. This is due to the diminished reliance on city-purchased hardware in favor of third-party managed solutions that have proven to be effective at a lower cost.

Funding Strategy #5: Communications & License Center Review

To ensure that the Communications and License Center's capital needs are adequately funded, a strategic review should be made to ensure dedicated revenues are sufficient to meet both capital and operational needs.

Commissioner Reif asked if the City has gotten any monies or has the City asked for any monies from the State for the debacle on the MNLars System.

Mr. Miller stated the City has as have all the other deputy registrars and license centers in the State of Minnesota. There is a bill moving through the Legislature to reimburse with the MNLars debacle and there is broad support on both the Democrats and Republicans in the House and Senate to do that. The City feels pretty good that the money will come back to the City. He stated the figure he saw for Roseville was somewhere in the neighborhood of \$300,000.

Mr. Miller continued with his presentation and showed the Commissioners the funding strategies and impact on homeowners.

Commissioner McRoberts stated he thought the golf course needed to be added into the strategic discussion.

Mr. Miller thought there will be a Council discussion later this year because there are some things the Council will be asked to do to actually roll some of the golf course operation into these other funds.

Commissioner Sagisser asked if there are any cell tower fees that the City gets from the providers.

Mr. Miller stated the City gets about \$450,000 a year and have five towers in the City and right now all of those revenues are dedicated to the City's information technology function. The Staff and some of the supplies needed to support all of the Roseville networks are funded out of that.

Receive Investment Options Presentation from Commissioner Murray

Finance Director Miller stated at the March 12, 2019 Finance Commission meeting; Commissioner Murray indicated a desire to share recent research he had compiled regarding potential new investment options available to the City.

Commissioner Murray presented the Investment Options to the Commission for review and discussion.

Commissioner Lee thought the presentation was very good. He stated he also did something like this with his personal finances. One thing he included in the profile was an increase in the amount he has saved for a critical loss fund in the event there is another recession. He was not sure if that would be something that could be considered to make sure the City has that investment available in case of a large loss due to a recession.

Commissioner Murray stated if running a pension or investment fund or endowment fund it is looked at a little differently that as an individual. It would be looked at longer term. He stated

47 other sources of...”, Line 184 the sentence should read “Commissioner Lee asked if those
48 programs are scalable...”. Line 274 the sentence should be amended to read “Mr. Miller stated
49 the Parks Commission has not taken an action on it but have started discussion.”. Line 507 the
50 sentence should be changed to “Mr. Miller stated the Commission probably would ~~to~~ give to the
51 Council...”. Line 516 the word “do” should be replaced with “get”. Line 525 “Commissioner”
52 should be replaced with “Mr.”

53
54 Commissioner Reif moved, seconded by Commissioner Sagisser to approve the May 14, 2019
55 meeting minutes as amended. **The motion carried unanimously.**

56
57

58 **Receive Finance Commission Recommendations Tracking Report**

59
60 Finance Director Miller reviewed the Finance Commission changes made since the last meeting.

61
62

63 **Select a Commission Chair**

64

65 Finance Director Miller stated the Finance Commission needs to select a Chair based on City
66 Code Chapter 201.06. He asked the Commission to discuss and elect a Chair of the
67 Commission.

68

69 Commissioner Murray nominated Commissioner Hodder as Chair of the Finance Commission.

70

71 Commissioner Murray moved, seconded by Commissioner Reif to appoint Commissioner
72 Hodder as Chair of the Finance Commission. **The motion carried unanimously.**

73

74

75 **Review the DRAFT 2020-2039 Capital Improvement Plan**

76

77 Finance Director Miller stated the Draft 2020-2039 Capital Improvement Plan information has
78 been prepared to assist the Finance Commission in assessing the magnitude and financial impact
79 of the City’s DRAFT 20-Year Capital Improvement Plan (CIP). The City Manager
80 Recommended CIP is expected to be presented to the City Council on August 12, 2019.

81

82 Chair Hodder noted he listened to the conversation from the last meeting and asked Mr. Miller to
83 review the information for the Commission.

84

85 Mr. Miller presented the Roseville Draft 2020-2039 Capital Improvement Plan to the Finance
86 Commission. He reviewed Strategy one, PIP & PMP Programs with the Commission.

87

88 Mr. Miller reviewed Strategy two, Golf Course with the Commission.

89

90 Commissioner Hodder asked if staff will be collecting data on usage as far as how the new golf
91 course center is operating at this time.

92

93 Mr. Miller indicated staff is and has always tracked revenue and expenditures and the number of
94 green fees sold, league participants it has. With some of new community meeting spaces the
95 City has created over the last few years, usage levels are also being tracked.

96

97 Mr. Miller reviewed the third funding strategy, Utility Rate Adjustments. He also reviewed
98 Strategy four, Information Technology, and the fifth funding strategy, Communications &
99 License Center Review with the Commission.

100

101 Mr. Miller noted the utility rate impacts will be determined in November and the Commission
102 will review the recommended staff utility rates that goes to the City Council.

103

104 Commissioner Murray asked if there was any option of splitting the golf course off from the golf
105 course building because the golf course building is another rental space that the City operates
106 which is more like other places the City rents out.

107

108 Mr. Miller stated the City does internally track those costs separately. It may not be a perfect
109 split, but the City has actually been doing that all along, whether it is the golf course clubhouse
110 building related costs or the course operational costs. Those are being tracked separately. He
111 noted staff's intention is to keep tracking all expenses separately moving forward.

112

113 Commissioner Sagisser asked what the thought process behind renovating the club house for the
114 golf center. Was there expectation of more revenue coming in.

115

116 Mr. Miller stated the Council had deliberations on that off and on for a number of years. The
117 City Council underscored a couple of things; the golf course industry was trending in a direction
118 where the expectation of less golfers and less rounds of golf, at the same time the City had a golf
119 course clubhouse that was old and dilapidated and needed significant investment. The Council
120 reviewed the information to determine if it should be kept as a golf course and looked at a lot of
121 different architectural designs on what the building might be used for. What was determined was
122 to build something that would serve the needs of the golfer along with providing some
123 community meeting space for local groups and also has a commercial kitchen built into it. The
124 thought behind it is to have it used as primarily a golf course clubhouse but also have it available
125 for all citizens.

126

127 Commissioner Reif asked in regard to the utility rates, with these big senior developments
128 coming in, has that had much effect on utility rates.

129

130 Mr. Miller explained it has not affected the rates yet. He noted this is a revenue source but there
131 are also added expenses. Typically, these developments will pay for connecting to the sewer and
132 water mains in the streets. There is enough capacity to handle all of the additional flow and is a
133 matter of setting the rate structure enough to sufficiently recover the costs to provide it to those
134 buildings.

135

136 Chair Hodder noted Roseville gets the water supply from the City of St. Paul, what has been the
137 average annual increase on water.

138

139 Mr. Miller explained the City water supply has been declining and is about 1.2 billion gallons but
140 within the last decade the City has been as high as 1.5 billion gallons. Even though the City has
141 been expanding the average household usage has regularly been declining over the last ten years.

142

143 Commissioner Sagisser stated he was curious about the strategies for the equipment in the
144 Council Chambers. He asked if there is a requirement to record everything.

145

146 Mr. Miller stated it was not, it is a level of service that the Roseville City Council decided on a
147 couple of decades ago. He stated the majority of cities that are the size of Roseville does televise
148 and record. It is a value-based decision the Council has made years ago and continues to make
149 even though there is a cost to it. He did not imagine the City ever going back to not televising
150 them. He thought once there was this kind of transparency with televising and recording for
151 continuity purposes, it seems unlikely that Roseville would go back to the way it was to save
152 money. The Council feels that the transparency the City gets with having it televised and
153 recorded is to valuable.

154

155 Commissioner Sagisser thought once the cable fees disappear the cost will need to be moved
156 elsewhere.

157

158 Mr. Miller agreed.

159

160 Commissioner Murray stated as a side note, apparently people do watch because he talked to
161 someone and that individual commented on what he said and also what he was wearing at the
162 meeting.

163

164 Chair Hodder asked if there are other strategies involved in looking at some of the new
165 technology and are any cities looking at another source of potential revenue stream from of these
166 newer technologies.

167

168 Mr. Miller thought it was fair to say that cities are always looking at alternative funding sources.
169 He stated staff has explored some things and he thought staff has done a pretty good job of
170 capitalizing on some non-tax revenues that are out there and raising monies from non-local
171 funding sources as well. He explained the City has lease agreements with all of the wireless
172 service carriers and as those carriers switch over from 4G to 5G some of the main tower leases
173 are long term so them switching technology does not necessarily change the revenue streams,
174 when those entities start to take up more real estate then it does change. He noted all of the
175 leases the City has does have inflators in them, anywhere from three to five percent. Those do
176 go up every year.

177

178 Mr. Miller indicated there has been a Legislation at the Federal Level that is going to pre-empt
179 the City from getting a whole lot of revenue with the 5G technology. The City can charge the

180 wireless service companies but there is a limit as to what the City can charge. There is a cap on
181 the small cell deployments.

182

183 Chair Hodder asked in regard to Strategy One, will the repurposed 390k be adequate to address
184 the long-time operation of the PMP (Pavement Management Permit) fund.

185

186 Mr. Miller explained that based on the current CIP the cash is still spent down but it is enough to
187 cash flow for the next twenty years. There still needs to be some course correction at some
188 point. It is not fully sustainable yet but getting very close in that fund.

189

190 Chair Hodder asked going forward if the City needed to improve that position beyond the \$390
191 positioning.

192

193 Mr. Miller noted the Commission could make a recommendation but staff has recommended to
194 the Council that this is sufficient for the short term and maybe even the intermediate term but
195 what is in the urgent needs is on the operational side.

196

197 Chair Hodder thought the concern was if the fund gets depleted then the City would have to look
198 at individual assessments as a potential remedy to close those gaps.

199

200 Commissioner Reif noted in the annual report regarding the License Center that the tenants in the
201 strip mall leases expire at various times throughout 2021 and wondered if the Council has
202 thought beyond that as to what their desire is with respect to the strip mall.

203

204 Mr. Miller stated the Council has and needs to revisit that. As part of the License Center review
205 staff is suggesting it will need to invoke the entire strip mall.

206

207 Commissioner Sagisser asked if commercial taxes included in this.

208

209 Mr. Miller noted even though the City owns the building, it is the underlying use that determines
210 whether property taxes are going to be paid. The City is tax exempt and does not pay any
211 property taxes but the other businesses that are private and for profit will still pay property taxes
212 on their portion. About half of the mall is paying property taxes.

213

214 Commissioner Sagisser asked if the projections of those taxes bringing in more or less revenue
215 long term.

216

217 Mr. Miller reviewed how the property tax works with tax levies and how Roseville collects
218 property taxes.

219

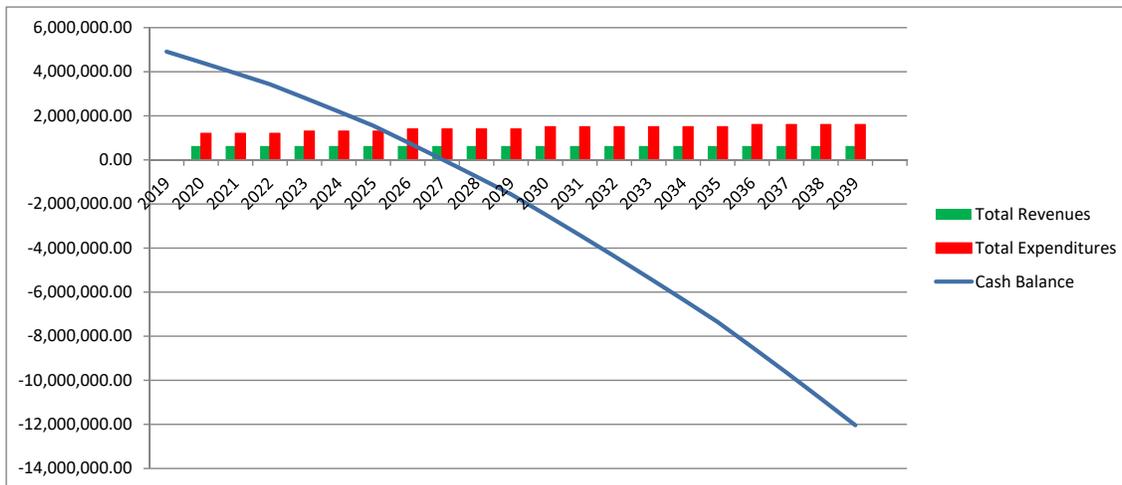
220 Commissioner Murray asked on the strip center if the vacant properties taxable.

221

222 Mr. Miller indicated the pieces being used that are for profit are taxable, the rest is owned and
223 used by the City so no property taxes are being generated. Half the mall does not generate
224 property taxes.

Pavement Management Program
Scenario 0 - No action

Year	Add'l Tax Levy	Total Levy	Total Revenues	Total Expenditures	Use of (Add'n to) Reserves	Earnings	Cash Balance	% Funded by Tax Levy
2019							\$ 4,910,715	
2020	\$ -	\$ 630,000	\$ 630,000	1,200,000.00	\$ 570,000	\$ 86,814	\$ 4,427,529	52.5%
2021	\$ -	\$ 630,000	\$ 630,000	1,200,000.00	\$ 570,000	\$ 77,151	\$ 3,934,680	52.5%
2022	\$ -	\$ 630,000	\$ 630,000	1,200,000.00	\$ 570,000	\$ 67,294	\$ 3,431,973	52.5%
2023	\$ -	\$ 630,000	\$ 630,000	1,300,000.00	\$ 670,000	\$ 55,239	\$ 2,817,213	48.5%
2024	\$ -	\$ 630,000	\$ 630,000	1,300,000.00	\$ 670,000	\$ 42,944	\$ 2,190,157	48.5%
2025	\$ -	\$ 630,000	\$ 630,000	1,300,000.00	\$ 670,000	\$ 30,403	\$ 1,550,560	48.5%
2026	\$ -	\$ 630,000	\$ 630,000	1,400,000.00	\$ 770,000	\$ 15,611	\$ 796,172	45.0%
2027	\$ -	\$ 630,000	\$ 630,000	1,400,000.00	\$ 770,000	\$ 523	\$ 26,695	45.0%
2028	\$ -	\$ 630,000	\$ 630,000	1,400,000.00	\$ 770,000	\$ (14,866)	\$ (758,171)	45.0%
2029	\$ -	\$ 630,000	\$ 630,000	1,400,000.00	\$ 770,000	\$ (30,563)	\$ (1,558,735)	45.0%
2030	\$ -	\$ 630,000	\$ 630,000	1,500,000.00	\$ 870,000	\$ (48,575)	\$ (2,477,309)	42.0%
2031	\$ -	\$ 630,000	\$ 630,000	1,500,000.00	\$ 870,000	\$ (66,946)	\$ (3,414,255)	42.0%
2032	\$ -	\$ 630,000	\$ 630,000	1,500,000.00	\$ 870,000	\$ (85,685)	\$ (4,369,941)	42.0%
2033	\$ -	\$ 630,000	\$ 630,000	1,500,000.00	\$ 870,000	\$ (104,799)	\$ (5,344,739)	42.0%
2034	\$ -	\$ 630,000	\$ 630,000	1,500,000.00	\$ 870,000	\$ (124,295)	\$ (6,339,034)	42.0%
2035	\$ -	\$ 630,000	\$ 630,000	1,500,000.00	\$ 870,000	\$ (144,181)	\$ (7,353,215)	42.0%
2036	\$ -	\$ 630,000	\$ 630,000	1,600,000.00	\$ 970,000	\$ (166,464)	\$ (8,489,679)	39.4%
2037	\$ -	\$ 630,000	\$ 630,000	1,600,000.00	\$ 970,000	\$ (189,194)	\$ (9,648,873)	39.4%
2038	\$ -	\$ 630,000	\$ 630,000	1,600,000.00	\$ 970,000	\$ (212,377)	\$ (10,831,250)	39.4%
2039	\$ -	\$ 630,000	\$ 630,000	1,600,000.00	\$ 970,000	\$ (236,025)	\$ (12,037,275)	39.4%



Assumptions:

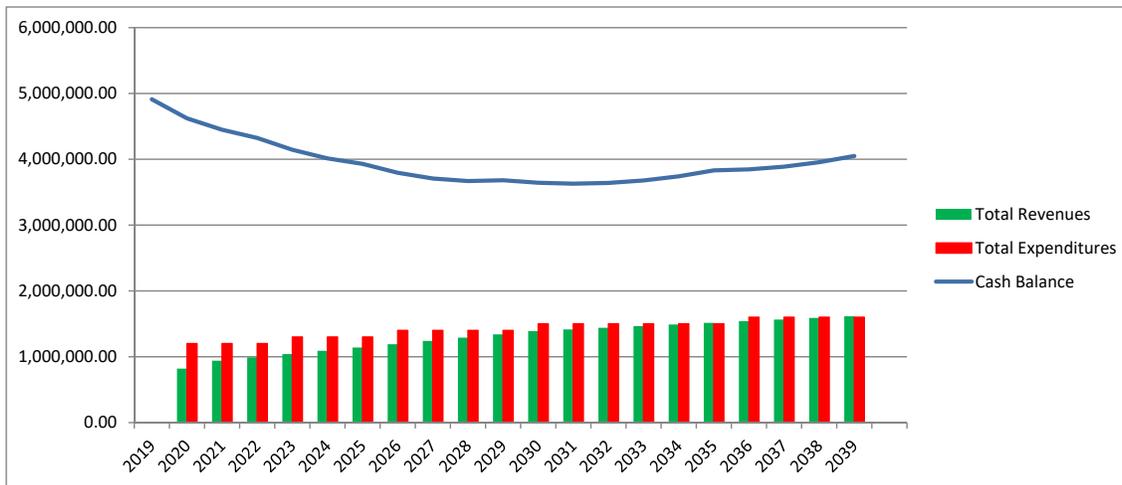
- MSA Street improvements have been moved to a separate asset category funded 100% by State-aid dollars
- Expenditures per Capital Improvement Plan Spreadsheet for Finance Commission Review
- Reserve Earnings of 2%
- No additional tax levy

Results: Will need a 970,000.00 levy increase plus inflation starting in 2036 to continue Pavement Mgmt Program
20 year interest earnings of: (1,047,990.12)

Pavement Management Program

Recommendation - Tax levy increases to continue funding-by-endowment approach

Year	Add'l Tax Levy	Total Levy	Total Revenues	Total Expenditures	Use of (Add'n to) Reserves	Earnings	Cash Balance	% Funded by Tax Levy
2019							\$ 4,910,715	
2020	\$ 190,000	\$ 820,000	\$ 820,000	1,200,000.00	\$ 380,000	\$ 90,614	\$ 4,621,329	68.3%
2021	\$ 120,000	\$ 940,000	\$ 940,000	1,200,000.00	\$ 260,000	\$ 87,227	\$ 4,448,556	78.3%
2022	\$ 50,000	\$ 990,000	\$ 990,000	1,200,000.00	\$ 210,000	\$ 84,771	\$ 4,323,327	82.5%
2023	\$ 50,000	\$ 1,040,000	\$ 1,040,000	1,300,000.00	\$ 260,000	\$ 81,267	\$ 4,144,594	80.0%
2024	\$ 50,000	\$ 1,090,000	\$ 1,090,000	1,300,000.00	\$ 210,000	\$ 78,692	\$ 4,013,285	83.8%
2025	\$ 50,000	\$ 1,140,000	\$ 1,140,000	1,300,000.00	\$ 160,000	\$ 77,066	\$ 3,930,351	87.7%
2026	\$ 50,000	\$ 1,190,000	\$ 1,190,000	1,400,000.00	\$ 210,000	\$ 74,407	\$ 3,794,758	85.0%
2027	\$ 50,000	\$ 1,240,000	\$ 1,240,000	1,400,000.00	\$ 160,000	\$ 72,695	\$ 3,707,453	88.6%
2028	\$ 50,000	\$ 1,290,000	\$ 1,290,000	1,400,000.00	\$ 110,000	\$ 71,949	\$ 3,669,402	92.1%
2029	\$ 50,000	\$ 1,340,000	\$ 1,340,000	1,400,000.00	\$ 60,000	\$ 72,188	\$ 3,681,590	95.7%
2030	\$ 50,000	\$ 1,390,000	\$ 1,390,000	1,500,000.00	\$ 110,000	\$ 71,432	\$ 3,643,022	92.7%
2031	\$ 25,000	\$ 1,415,000	\$ 1,415,000	1,500,000.00	\$ 85,000	\$ 71,160	\$ 3,629,183	94.3%
2032	\$ 25,000	\$ 1,440,000	\$ 1,440,000	1,500,000.00	\$ 60,000	\$ 71,384	\$ 3,640,566	96.0%
2033	\$ 25,000	\$ 1,465,000	\$ 1,465,000	1,500,000.00	\$ 35,000	\$ 72,111	\$ 3,677,678	97.7%
2034	\$ 25,000	\$ 1,490,000	\$ 1,490,000	1,500,000.00	\$ 10,000	\$ 73,354	\$ 3,741,031	99.3%
2035	\$ 25,000	\$ 1,515,000	\$ 1,515,000	1,500,000.00	\$ (15,000)	\$ 75,121	\$ 3,831,152	101.0%
2036	\$ 25,000	\$ 1,540,000	\$ 1,540,000	1,600,000.00	\$ 60,000	\$ 75,423	\$ 3,846,575	96.3%
2037	\$ 25,000	\$ 1,565,000	\$ 1,565,000	1,600,000.00	\$ 35,000	\$ 76,231	\$ 3,887,806	97.8%
2038	\$ 25,000	\$ 1,590,000	\$ 1,590,000	1,600,000.00	\$ 10,000	\$ 77,556	\$ 3,955,362	99.4%
2039	\$ 25,000	\$ 1,615,000	\$ 1,615,000	1,600,000.00	\$ (15,000)	\$ 79,407	\$ 4,049,770	100.9%



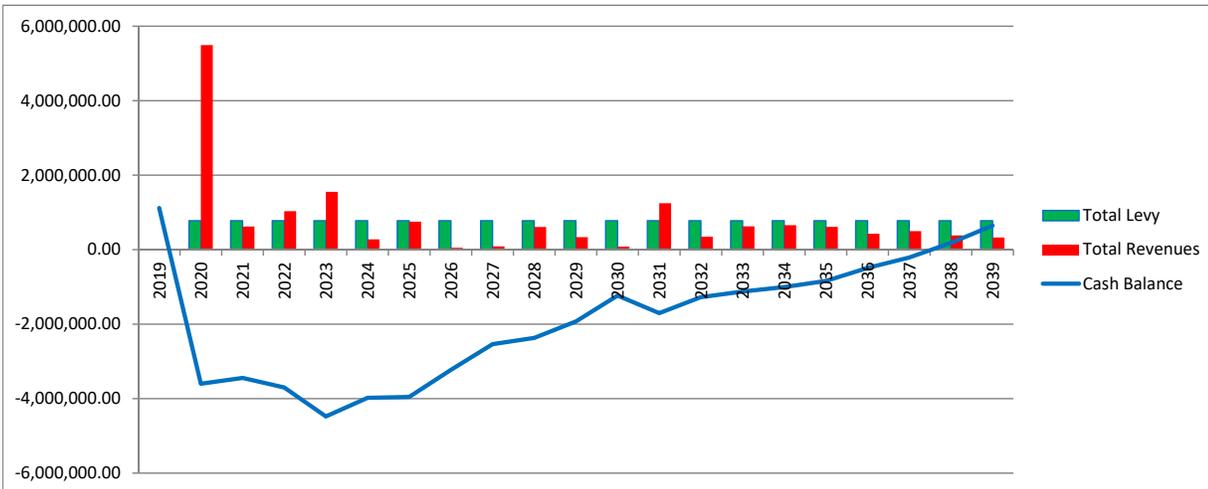
Assumptions:

- MSA Street improvements have been moved to a separate asset category funded 100% by State-aid dollars
- Expenditures per Capital Improvement Plan Spreadsheet for Finance Commission Review
- Reserve Earnings of 2%
- Additional Tax Levy increases to continue funding-by-endowment approach

Results: Will need a 10,000.00 levy increase plus inflation starting in 2036 to continue Pavement Mgmt Program
 20 year interest earnings of: 1,534,054.74

General Facilities Fund
Scenario 0 - No Action Taken

Year	Add'l Tax Levy	Total Levy	Total Revenues	Total Expenditures	Use of (Add'n to) Reserves	Earnings	Cash Balance	% Funded by Tax Levy
2019							\$ 1,117,781	
2020	\$ -	\$ 776,000	776,000	\$ 5,493,400	4,717,400.00	\$ -	\$ (3,599,619)	14.1%
2021	\$ -	\$ 776,000	776,000	\$ 620,500	(155,500.00)	\$ -	\$ (3,444,119)	125.1%
2022	\$ -	\$ 776,000	776,000	\$ 1,032,500	256,500.00	\$ -	\$ (3,700,619)	75.2%
2023	\$ -	\$ 776,000	776,000	\$ 1,553,400	777,400.00	\$ -	\$ (4,478,019)	50.0%
2024	\$ -	\$ 776,000	776,000	\$ 276,500	(499,500.00)	\$ -	\$ (3,978,519)	280.7%
2025	\$ -	\$ 776,000	776,000	\$ 751,500	(24,500.00)	\$ -	\$ (3,954,019)	103.3%
2026	\$ -	\$ 776,000	776,000	\$ 49,500	(726,500.00)	\$ -	\$ (3,227,519)	1567.7%
2027	\$ -	\$ 776,000	776,000	\$ 86,500	(689,500.00)	\$ -	\$ (2,538,019)	897.1%
2028	\$ -	\$ 776,000	776,000	\$ 608,000	(168,000.00)	\$ -	\$ (2,370,019)	127.6%
2029	\$ -	\$ 776,000	776,000	\$ 334,500	(441,500.00)	\$ -	\$ (1,928,519)	232.0%
2030	\$ -	\$ 776,000	776,000	\$ 80,500	(695,500.00)	\$ -	\$ (1,233,019)	964.0%
2031	\$ -	\$ 776,000	776,000	\$ 1,247,000	471,000.00	\$ -	\$ (1,704,019)	62.2%
2032	\$ -	\$ 776,000	776,000	\$ 347,500	(428,500.00)	\$ -	\$ (1,275,519)	223.3%
2033	\$ -	\$ 776,000	776,000	\$ 625,300	(150,700.00)	\$ -	\$ (1,124,819)	124.1%
2034	\$ -	\$ 776,000	776,000	\$ 656,500	(119,500.00)	\$ -	\$ (1,005,319)	118.2%
2035	\$ -	\$ 776,000	776,000	\$ 611,500	(164,500.00)	\$ -	\$ (840,819)	126.9%
2036	\$ -	\$ 776,000	776,000	\$ 425,500	(350,500.00)	\$ -	\$ (490,319)	182.4%
2037	\$ -	\$ 776,000	776,000	\$ 496,500	(279,500.00)	\$ -	\$ (210,819)	156.3%
2038	\$ -	\$ 776,000	776,000	\$ 382,500	(393,500.00)	\$ -	\$ 182,681	202.9%
2039	\$ -	\$ 776,000	776,000	\$ 326,000	(450,000.00)	\$ 12,654	\$ 645,335	238.0%

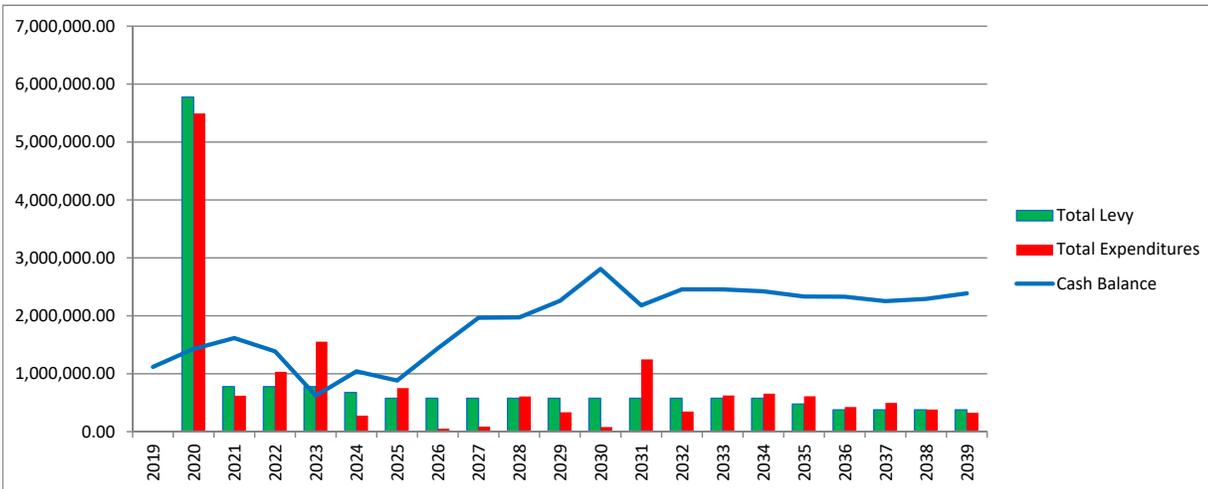


Assumptions:
Reserve Earnings of 2%
No Levy increase

General Facilities Fund

Recommendation - Seek Bond Funding for OVAL Expenditures

Year	Add'l Tax Levy*	Total Levy	Total Revenues	Total Expenditures	Use of (Add'n to) Reserves	Earnings	Cash Balance	% Funded by Tax Levy
2019							\$ 1,117,781	
2020	\$ 5,000,000	\$ 5,776,000	5,776,000	\$ 5,493,400	(282,600.00)	\$ 28,008	\$ 1,428,389	105.1%
2021	\$ (5,000,000)	\$ 776,000	776,000	\$ 620,500	(155,500.00)	\$ 31,678	\$ 1,615,566	125.1%
2022	\$ -	\$ 776,000	776,000	\$ 1,032,500	256,500.00	\$ 27,181	\$ 1,386,248	75.2%
2023	\$ -	\$ 776,000	776,000	\$ 1,553,400	777,400.00	\$ 12,177	\$ 621,025	50.0%
2024	\$ (100,000)	\$ 676,000	676,000	\$ 276,500	(399,500.00)	\$ 20,410	\$ 1,040,935	244.5%
2025	\$ (100,000)	\$ 576,000	576,000	\$ 751,500	175,500.00	\$ 17,309	\$ 882,744	76.6%
2026	\$ -	\$ 576,000	576,000	\$ 49,500	(526,500.00)	\$ 28,185	\$ 1,437,429	1163.6%
2027	\$ -	\$ 576,000	576,000	\$ 86,500	(489,500.00)	\$ 38,539	\$ 1,965,467	665.9%
2028	\$ -	\$ 576,000	576,000	\$ 608,000	32,000.00	\$ 38,669	\$ 1,972,137	94.7%
2029	\$ -	\$ 576,000	576,000	\$ 334,500	(241,500.00)	\$ 44,273	\$ 2,257,909	172.2%
2030	\$ -	\$ 576,000	576,000	\$ 80,500	(495,500.00)	\$ 55,068	\$ 2,808,478	715.5%
2031	\$ -	\$ 576,000	576,000	\$ 1,247,000	671,000.00	\$ 42,750	\$ 2,180,227	46.2%
2032	\$ -	\$ 576,000	576,000	\$ 347,500	(228,500.00)	\$ 48,175	\$ 2,456,902	165.8%
2033	\$ -	\$ 576,000	576,000	\$ 625,300	49,300.00	\$ 48,152	\$ 2,455,754	92.1%
2034	\$ -	\$ 576,000	576,000	\$ 656,500	80,500.00	\$ 47,505	\$ 2,422,759	87.7%
2035	\$ (100,000)	\$ 476,000	476,000	\$ 611,500	135,500.00	\$ 45,745	\$ 2,333,004	77.8%
2036	\$ (100,000)	\$ 376,000	376,000	\$ 425,500	49,500.00	\$ 45,670	\$ 2,329,174	88.4%
2037	\$ -	\$ 376,000	376,000	\$ 496,500	120,500.00	\$ 44,173	\$ 2,252,848	75.7%
2038	\$ -	\$ 376,000	376,000	\$ 382,500	6,500.00	\$ 44,927	\$ 2,291,274	98.3%
2039	\$ -	\$ 376,000	376,000	\$ 326,000	(50,000.00)	\$ 46,825	\$ 2,388,100	115.3%

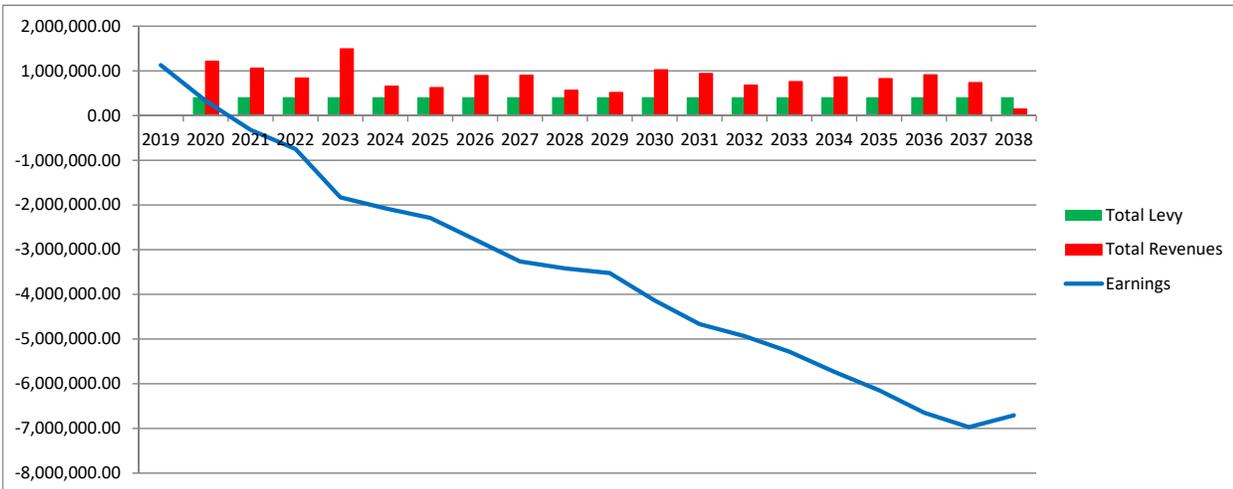


Assumptions:

- Reserve Earnings of 2%
- *\$5MM in bonding for OVAL expenditures, NOT Levy increase
- Redirect money in future years as fund stabilizes

Parks Improvement Program
Scenario 0 - No action taken

Year	Add'l Tax Levy	Total Levy	Total Revenues	Total Expenditures	Use of (Add'n to) Reserves	Earnings	Cash Balance	% Funded by Tax Levy
2019	\$ -						\$ 1,128,137	
2020	\$ -	\$ 410,000	\$ 410,000	\$ 1,215,000	805,000.00	\$ 6,463	\$ 329,600	33.7%
2021	\$ -	\$ 410,000	\$ 410,000	\$ 1,060,000	650,000.00	\$ -	\$ (320,400)	38.7%
2022	\$ -	\$ 410,000	\$ 410,000	\$ 837,970	427,970.00	\$ -	\$ (748,370)	48.9%
2023	\$ -	\$ 410,000	\$ 410,000	\$ 1,491,500	1,081,500.00	\$ -	\$ (1,829,870)	27.5%
2024	\$ -	\$ 410,000	\$ 410,000	\$ 655,000	245,000.00	\$ -	\$ (2,074,870)	62.6%
2025	\$ -	\$ 410,000	\$ 410,000	\$ 624,070	214,070.00	\$ -	\$ (2,288,940)	65.7%
2026	\$ -	\$ 410,000	\$ 410,000	\$ 895,000	485,000.00	\$ -	\$ (2,773,940)	45.8%
2027	\$ -	\$ 410,000	\$ 410,000	\$ 900,000	490,000.00	\$ -	\$ (3,263,940)	45.6%
2028	\$ -	\$ 410,000	\$ 410,000	\$ 565,000	155,000.00	\$ -	\$ (3,418,940)	72.6%
2029	\$ -	\$ 410,000	\$ 410,000	\$ 515,000	105,000.00	\$ -	\$ (3,523,940)	79.6%
2030	\$ -	\$ 410,000	\$ 410,000	\$ 1,022,500	612,500.00	\$ -	\$ (4,136,440)	40.1%
2031	\$ -	\$ 410,000	\$ 410,000	\$ 940,000	530,000.00	\$ -	\$ (4,666,440)	43.6%
2032	\$ -	\$ 410,000	\$ 410,000	\$ 678,000	268,000.00	\$ -	\$ (4,934,440)	60.5%
2033	\$ -	\$ 410,000	\$ 410,000	\$ 757,500	347,500.00	\$ -	\$ (5,281,940)	54.1%
2034	\$ -	\$ 410,000	\$ 410,000	\$ 860,000	450,000.00	\$ -	\$ (5,731,940)	47.7%
2035	\$ -	\$ 410,000	\$ 410,000	\$ 825,000	415,000.00	\$ -	\$ (6,146,940)	49.7%
2036	\$ -	\$ 410,000	\$ 410,000	\$ 910,000	500,000.00	\$ -	\$ (6,646,940)	45.1%
2037	\$ -	\$ 410,000	\$ 410,000	\$ 735,000	325,000.00	\$ -	\$ (6,971,940)	55.8%
2038	\$ -	\$ 410,000	\$ 410,000	\$ 145,000	-	\$ -	\$ (6,706,940)	282.8%
2039	\$ -	\$ 410,000	\$ 410,000	\$ 525,000	115,000.00	\$ -	\$ (6,821,940)	78.1%

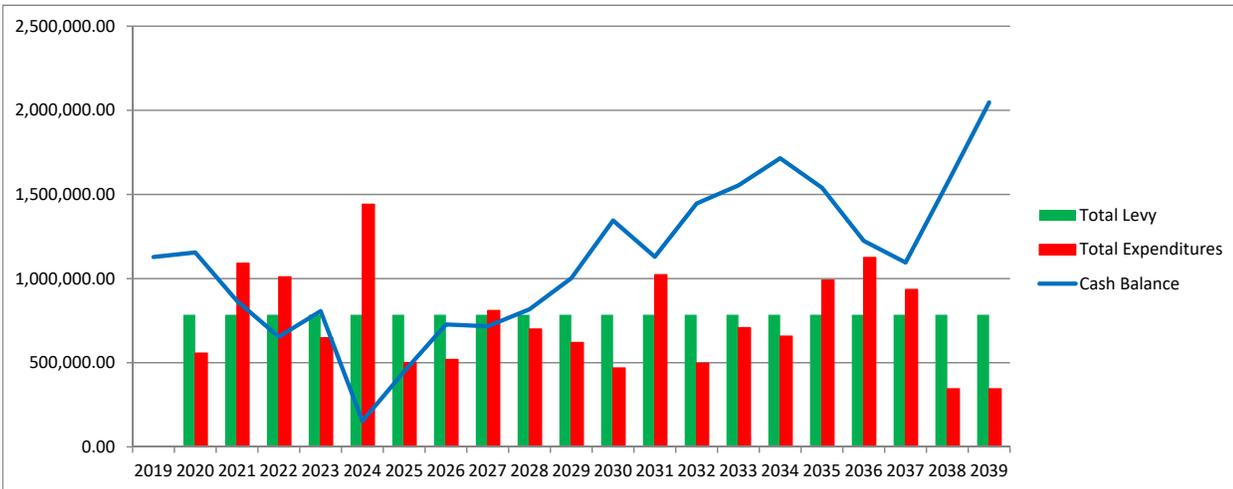


Assumptions:
Reserve Earnings of 2%
No Levy increase

Parks Improvement Program

Recommendation - Repurpose debt in 2020

Year	Add'l Tax Levy	Total Levy	Total Revenues	Total Expenditures	Use of (Add'n to) Reserves	Earnings	Cash Balance	% Funded by Tax Levy
2019							\$ 1,128,137	
2020	\$ 375,000	\$ 785,000	\$ 785,000	\$ 556,500	-	\$ 27,133	\$ 1,155,270	141.1%
2021	-	\$ 785,000	\$ 785,000	\$ 1,090,880	305,880.00	\$ 16,988	\$ 866,378	72.0%
2022	-	\$ 785,000	\$ 785,000	\$ 1,010,000	225,000.00	\$ 12,828	\$ 654,205	77.7%
2023	-	\$ 785,000	\$ 785,000	\$ 648,000	-	\$ 15,824	\$ 807,029	121.1%
2024	-	\$ 785,000	\$ 785,000	\$ 1,441,500	656,500.00	\$ 3,011	\$ 153,540	54.5%
2025	-	\$ 785,000	\$ 785,000	\$ 500,000	-	\$ 8,771	\$ 447,311	157.0%
2026	-	\$ 785,000	\$ 785,000	\$ 519,070	-	\$ 14,265	\$ 727,505	151.2%
2027	-	\$ 785,000	\$ 785,000	\$ 810,000	25,000.00	\$ 14,050	\$ 716,555	96.9%
2028	-	\$ 785,000	\$ 785,000	\$ 700,000	-	\$ 16,031	\$ 817,587	112.1%
2029	-	\$ 785,000	\$ 785,000	\$ 620,000	-	\$ 19,652	\$ 1,002,238	126.6%
2030	-	\$ 785,000	\$ 785,000	\$ 468,500	-	\$ 26,375	\$ 1,345,113	167.6%
2031	-	\$ 785,000	\$ 785,000	\$ 1,022,500	237,500.00	\$ 22,152	\$ 1,129,765	76.8%
2032	-	\$ 785,000	\$ 785,000	\$ 496,670	-	\$ 28,362	\$ 1,446,457	158.1%
2033	-	\$ 785,000	\$ 785,000	\$ 708,000	-	\$ 30,469	\$ 1,553,926	110.9%
2034	-	\$ 785,000	\$ 785,000	\$ 657,500	-	\$ 33,629	\$ 1,715,055	119.4%
2035	-	\$ 785,000	\$ 785,000	\$ 990,000	205,000.00	\$ 30,201	\$ 1,540,256	79.3%
2036	-	\$ 785,000	\$ 785,000	\$ 1,125,000	340,000.00	\$ 24,005	\$ 1,224,261	69.8%
2037	-	\$ 785,000	\$ 785,000	\$ 935,000	150,000.00	\$ 21,485	\$ 1,095,746	84.0%
2038	-	\$ 785,000	\$ 785,000	\$ 345,000	-	\$ 30,715	\$ 1,566,461	227.5%
2039	-	\$ 785,000	\$ 785,000	\$ 345,000	-	\$ 40,129	\$ 2,046,591	227.5%



Assumptions:

- Reserve Earnings of 2%
- 2020 levy increase is a repurpose of bond issuance #27

Commissioner Murray moved, seconded by Commissioner McRoberts to revise the Cash Reserve Target Level for the Parks & Recreation Fund to a range of fifteen to twenty-five percent. **The motion carried unanimously.**

Commissioner Murray asked if the Parks Commission had a chance to review this and make a recommendation.

Mr. Miller stated the Parks Commission has not taken an action on it but has started discussion.

Consider Establishing a Policy for the Cash Reserve (Carry-Forward) Fund

Finance Director Miller stated at the March 18, 2019 City Council meeting; the Council chose to transfer excess cash reserves in selected funds to a separate Cash Reserve Fund as recommended by the Finance Commission. The total amount transferred to the Reserve Fund was \$885,000, however \$456,000 is needed to meet minimum cash reserve target levels in the General Fund at this time. After taking this action, the Council subsequently directed the Finance Commission to consider whether the City should establish a Cash Reserve Fund Policy to provide guidance on future contributions as well as how monies being held in the Reserve Fund would be used.

Commissioner McRoberts stated the last time the Finance Commission talked about what to do with this, the guidance given by the Council was that it was their prerogative and essentially the Finance Commission should stay out of it. He did not know if anything changed but that is one of the reasons why the Commission deliberately left it be.

Commissioner Murray stated it occurred to him that the Council could, in addition to reducing the levy and making appropriate budget or tax adjustments, reduce their internal borrowing and pay things back.

Commissioner McRoberts reviewed from his recollection the previous discussion between the City Council and Commission regarding this.

Commissioner Murray stated he did not see, at this time, a lot wrong with the paragraph in the Policy Implementation section.

Commissioner Reif agreed but going back and looking at the minutes from the March 18th City Council meeting, Mayor Roe did suggest that the Council discuss creating a cash carry forward policy to match some of the other policies and might be a task to revert back to the Finance Commission. The Mayor did suggest that but to Commissioner McRoberts point the Council is the final decider.

Commissioner McRoberts asked Mr. Miller if the Commission should provide guidance as to how the funds should be spent or was the question that wording in this policy does not really give any indication as to prioritization or anything like that.

Mr. Miller stated when the City Council gave this direction to the Finance Commission at the March 18th meeting, this policy was not in front of the Council and is possible the Council knew about it, but this was not necessarily in front of the Council to prompt them. He was not sure the Council was reacting to the highlighted paragraph in the implementation section of the policy.

Commissioner McRoberts stated from his point of view he would turn it back and state it did not seem inadequate given the review of the Finance Commission. If the Council wants the Commission to try to put specific prioritization or other things on there that is fine but not traditionally something the Finance Commission has been involved in.

Commissioner McRoberts thought this item should go back to the City Council asking for clarification.

Mr. Miller stated the City is kind of in new territory since this is the first time the City has had this cash reserve fund and the first time there has been money in the cash reserve fund. He thought the Council was trying to see if the Finance Commission had something else in mind when the recommendation was made to create the fund. Was there anything else the Finance Commission wanted to give to the City Council in terms of guidance or was it just the mechanism of creating this transparent pot of money, so everyone knows what is available.

Commissioner McRoberts thought it was also, at the time, making sure that because each individual fund used to traditionally hold its own access or deficit, there was no way for the City Council to see overall how much was available there fore by at least putting into one swept pot the decision would be able to be made should it go down to pay off some debt or reducing some levy and that was at least publicly available information. That decision would be held in the aggregate rather than by fund. That is where the whole conversation really started.

Commissioner Lee asked if there are any other advantages to the fund. Is it used for any short-term investments or is it held together as a numerical total fund.

Mr. Miller stated all of the money is invested one way or another. Funds are pooled for investment purposes but on paper the money is designated into separate funds. For management purposes the City creates a lot of different pots of money which is a foreign concept to a lot of people.

Commissioner Sagisser asked if this is an accounting practice to track how things are done and adjust for transparency or is there an issue around restricted funds that leads to this.

Mr. Miller showed a chart showing the funds being discussed and stated the Commission is only talking about unrestricted funds so if there are any funds that are legally restricted then those funds are not in play.

Commissioner Murray asked if it would be appropriate to go back to the Council asking if there was anything that needed to be added to the paragraph or something else the City Council wants from the Finance Commission.

Mr. Miller stated that would be fine. The next scheduled joint meeting with the City Council is in September but have other items to work on so the Commission could leave it for the time being.

Review the DRAFT 2020-2039 Capital Improvement Plan

Finance Director Miller stated the Finance Commission is asked to review the Draft 2020-2039 Capital Improvement Plan.

Mr. Miller reviewed the 2020-2039 CIP for the new Commissioners.

Mr. Miller reviewed with the Commission the analysis of Asset Replacement Funds; Property tax supported.

Commissioner Sagisser asked if there were extra maintenance costs that come into play if the OVAL repairs do not get approved for three years.

Mr. Miller stated if the City is not successful with the State, he imagined the City would try again and if still not successful the City would defer some of the capital maintenance, maybe doing some sort of a band-aid type of approach. If it looks like the City will never get State funding for the OVAL for whatever reason, then the Council will have to have a conversation on what the City wants to do whether it be finding the money locally or envision something different.

Mr. Miller continued with the analysis or property tax supported funds.

Commissioner McRoberts stated in the report there is a comment stating the golf course is never going to make any money and it needs to be put into the Parks and Rec. Department. He wondered if that is just delaying the inevitable by putting the golf course into a bigger pot where the costs will get covered.

Mr. Miller stated the brand-new club house the City just built has been moved into the general facilities fund account. He stated because it is a new building, there are not a lot of replacement needs for it. The one thing in the analysis is the maintenance shed.

Commissioner McRoberts stated if the trend seems to be that the attendance is dropping and therefore finding someone private to run it, is it something that should be looked at while there are still assets that do not require maintenance.

Mr. Miller stated the Council entertained conversations along those lines before the decision was made to replace the club house. The City made a 3.2 million investment in a brand new club house and prior to doing that the City entertained discussion on where the golf industry was going and are there alternatives the City might want to use with that site and in the end the City did not want to envision or consider something other than a Municipal Golf Course and the

Mr. Miller stated Commissioner McRoberts has been a wonderful contributor for the last three years to the group and a unique perspective on some things with some unique qualities brought to the Finance Commission and will be missed.

Mr. Miller reviewed his role with the Finance Commission and City and his Governmental work history.

Consider Revising the Cash Reserve Target Levels for the Parks & Recreation Fund

Finance Director Miller stated at the March 18, 2019 City Council meeting, the Council directed the Finance Commission (and Parks Commission) to review the cash reserve target levels identified in the City's Operating Fund Cash Reserve Policy for the Parks & Recreation Fund. The Finance Commission briefly discussed this at the April meeting but was held over for continued discussion along with a request for more historical cash-flow analysis on the Fund.

Mr. Miller noted Commissioner Hodder suggested a range of ten to twenty-five percent based on the historical performance was appropriate.

Commissioner McRoberts indicated that when looking at the sheet with each year on there, 2018 was materially more favorable than the others, was that because expenditure was less, or income was higher.

Mr. Miller stated in 2018 the overall cash flow started out higher and stayed higher. This fund has actually been performing pretty well the last couple of years, taking in more revenues than expenses. This fund started off in a better cash position than previous years and that's why it finished in November in a much higher spot than other funds.

Commissioner McRoberts thought if the composite only applied to 2017 and 2018, he thought a different answer would be shown than if the comp. was applied to all five years. He wondered if 2017 and 2018 being better was sustainable because if it is it drives a slightly different view in percentages then it would if going back to 2014 or 2015.

Mr. Miller thought in 2017 and 2018 the City is in pretty good economic times with regard to the participation levels in the Parks and Recreation programs and certainly helped bring a lot of stability in the 2017 and 2018 fiscal years. During an economic downturn it might be a little less.

Commissioner Sagisser asked if there were other sources of income property taxes, like registration fees.

Mr. Miller stated the City calls them program fees and is where participants are coming forward wanting to be in different programs that the Parks and Recreation system offers in the City.

Commissioner Sagisser asked if Mr. Miller had to ballpark the numbers what percentage comes from the program fees and what percentages come from property taxes.

Mr. Miller stated it is pretty close for the Parks and Recreation fund. He noted it is about fifty-five percent property taxes and forty-five percent program fees. He stated there are some interest earnings in there as well but those are minimal.

Commissioner Lee asked if those programs scalable based off of the revenues coming in on a quick basis or does it take quite a while to turn around those programs that are fee funded as opposed to property tax funded. He stated he did not have a good understanding of this but are these optional expenditures that could be cut.

Mr. Miller stated there are some fixed costs. There are some full-time staff and those costs are incorporated in that. Maintaining the fields and amenities in the parks and recreation system are needed as well and a fixed cost. He noted there are some active and passive areas. Long term there is the opportunity to adjust the expenses but a lot of it is variable costs. The department hires a lot of temporary, seasonal employees in the summer and a few in the Winter. As those program participation levels fluctuate there is the opportunity to adjust some of the cash outflows as well.

Commissioner Reif asked if the golf course is a part of the recreation fund.

Mr. Miller stated the golf course is a separate fund and have historically tracked that separately. This is more related the parks programs.

Commissioner Sagisser asked if the golf course was self-funding.

Mr. Miller stated the golf course is not self-funded, there was a point in time that it was but changes in the golf industry over the last ten to fifteen years is affecting everyone out there. It is still self-funded to the standpoint where it is relying on its cash reserves to provide for operations. There were some discussions about moving the golf operations into the broader Parks and Recreation fund operation because at some point it will not be able to sustain itself.

Commissioner Murray stated if the year ends on an average of twenty-seven percent and it drops to twelve percent by May, wouldn't it indicate not to go below fifteen percent floor.

Mr. Miller stated that is his takeaway from this and thought that was referenced in the staff report. He noted that notation is only if the City wants to stay in the black with this fund each month. If the Commission is not bothered with running in the red for a month and borrowing internally it could be lower. From a financial planning standpoint and creating a sustainable operation he would advocate for staying in the black every month.

Commissioner Sagisser stated he would be interested to see the graphs for 2002 and 2008 because that would be helpful for him to understand where it wanders when there is a recession because if the goal is to stop it from going too much in the red he thought that would be helpful to see.

Commissioner Reif stated his thoughts were on the same line as Commissioner Murray to follow the staff recommendation of fifteen percent and seemed like a good number to him as the floor.

Commissioner Murray stated looking at the recreation fund, it tends to be fairly consistent year to year.

Mr. Miller stated what the Commission will see is the cash holdings in general were lower. Coming out of the recession this fund has performed pretty well relatively speaking and will probably look a little different during some of the recession years.

Commissioner McRoberts stated 2016, 2017 and 2018 had revenue primarily in June and November and has obviously changed from prior to that which was July and bounced around a bit. He wondered if June and November were still the primary sources of revenue.

Mr. Miller stated there have been some fluctuation when cash is actually collected from the property tax element. The County gives the City some money in May and some in June and sometimes a variation of which months the money is received and the same thing with November and December.

Commissioner McRoberts stated if the expenditure is not available, as it cannot be deferred a month, then going below fifteen percent starts to look a bit iffy because he thought the chart was getting skewed too much by 2018. He thought if the best years and worst years were taken out of the equation the lowest the City would want to go would be fifteen percent. Unless staff feels 2018 is going to be the new norm.

Commissioner Murray asked if the County is turning money over to the City and June and November some sort of legal requirement or is it policy.

Mr. Miller stated that is a legal requirement. He stated the County needs to balance out the property tax money received. Sometimes the County will give the City an advance on the property tax in order to tie out the numbers with the difference being given in June. He stated recent history is a little more reliable indicator of how things are going now.

Commissioner Murray thought a lot of the expenditures from this fund is for personnel and hard to ask people to wait for a paycheck.

Mr. Miller agreed.

Commissioner McRoberts asked if the Commission was suggesting fifteen and twenty-five percent because he thought there was concern that ten percent was too low.

The Commission concurred.

Commissioner Murray moved, seconded by Commissioner McRoberts to revise the Cash Reserve Target Level for the Parks & Recreation Fund to a range of fifteen to twenty-five percent. **The motion carried unanimously.**

Commissioner Murray asked if the Parks Commission had a chance to review this and make a recommendation.

Mr. Miller stated the Parks Commission has not taken an action on it but has started discussion.

Consider Establishing a Policy for the Cash Reserve (Carry-Forward) Fund

Finance Director Miller stated at the March 18, 2019 City Council meeting; the Council chose to transfer excess cash reserves in selected funds to a separate Cash Reserve Fund as recommended by the Finance Commission. The total amount transferred to the Reserve Fund was \$885,000, however \$456,000 is needed to meet minimum cash reserve target levels in the General Fund at this time. After taking this action, the Council subsequently directed the Finance Commission to consider whether the City should establish a Cash Reserve Fund Policy to provide guidance on future contributions as well as how monies being held in the Reserve Fund would be used.

Commissioner McRoberts stated the last time the Finance Commission talked about what to do with this, the guidance given by the Council was that it was their prerogative and essentially the Finance Commission should stay out of it. He did not know if anything changed but that is one of the reasons why the Commission deliberately left it be.

Commissioner Murray stated it occurred to him that the Council could, in addition to reducing the levy and making appropriate budget or tax adjustments, reduce their internal borrowing and pay things back.

Commissioner McRoberts reviewed from his recollection the previous discussion between the City Council and Commission regarding this.

Commissioner Murray stated he did not see, at this time, a lot wrong with the paragraph in the Policy Implementation section.

Commissioner Reif agreed but going back and looking at the minutes from the March 18th City Council meeting, Mayor Roe did suggest that the Council discuss creating a cash carry forward policy to match some of the other policies and might be a task to revert back to the Finance Commission. The Mayor did suggest that but to Commissioner McRoberts point the Council is the final decider.

Commissioner McRoberts asked Mr. Miller if the Commission should provide guidance as to how the funds should be spent or was the question that wording in this policy does not really give any indication as to prioritization or anything like that.

Commissioner Reif asked if the City has gotten any monies or has the City asked for any monies from the State for the debacle on the MNLars System.

Mr. Miller stated the City has as have all the other deputy registrars and license centers in the State of Minnesota. There is a bill moving through the Legislature to reimburse with the MNLars debacle and there is broad support on both the Democrats and Republicans in the House and Senate to do that. The City feels pretty good that the money will come back to the City. He stated the figure he saw for Roseville was somewhere in the neighborhood of \$300,000.

Mr. Miller continued with his presentation and showed the Commissioners the funding strategies and impact on homeowners.

Commissioner McRoberts stated he thought the golf course needed to be added into the strategic discussion.

Mr. Miller thought there will be a Council discussion later this year because there are some things the Council will be asked to do to actually roll some of the golf course operation into these other funds.

Commissioner Sagisser asked if there are any cell tower fees that the City gets from the providers.

Mr. Miller stated the City gets about \$450,000 a year and have five towers in the City and right now all of those revenues are dedicated to the City's information technology function. The Staff and some of the supplies needed to support all of the Roseville networks are funded out of that.

Receive Investment Options Presentation from Commissioner Murray

Finance Director Miller stated at the March 12, 2019 Finance Commission meeting; Commissioner Murray indicated a desire to share recent research he had compiled regarding potential new investment options available to the City.

Commissioner Murray presented the Investment Options to the Commission for review and discussion.

Commissioner Lee thought the presentation was very good. He stated he also did something like this with his personal finances. One thing he included in the profile was an increase in the amount he has saved for a critical loss fund in the event there is another recession. He was not sure if that would be something that could be considered to make sure the City has that investment available in case of a large loss due to a recession.

Commissioner Murray stated if running a pension or investment fund or endowment fund it is looked at a little differently that as an individual. It would be looked at longer term. He stated

that even with investments in treasuries and if interest rates go up, which it looks like they will, money can be lost there as well. That is not totally safe.

Commissioner Reif stated because of the recent law change the City probably has not looked at anything like this in the past.

Mr. Miller stated the City has not because it was not available to them.

Commissioner Murray stated he did call the City of Woodbury and the League of Minnesota Cities at Commissioner Hodder's suggestion to see how those entities are coming out, but he has not received a call back. He thought it was a little too early for them to get any valuable feedback on that and have only done it for a year. He thought if the Council was comfortable with this, he would suggest this is a reasonable thing to do for cash management.

Commissioner McRoberts thought if the Council was given three to four scenarios so the Council can gauge what the risk is.

Mr. Miller stated the Commission probably would give to the Council a worst case scenario so the Council can understand what a future Council are going to have to stomach because a bad year is going to happen and will fall on someone's watch and the elected officials will need to be prepared to take the heat for that.

Commissioner Murray stated the City needs the money. He stated he went back, and inflation adjusted what the per capita income is according to the audit report and what it shows on the chart is going from \$53,515 in 2008 to \$49,785 in 2017 household income. Property taxes, which is where the City gets most of the money comes out of income and it gets increasingly hard to get it out of people who are effectively having less and less income.

Commissioner Lee asked if the inflation adjustment that was done a State trend or is it Roseville.

Commissioner Murray thought it was based on County information, the audit report.

Mr. Miller stated this is household income and there has been very little growth of single-family homes but has been an explosion on multi-family.

Mr. Miller stated the trend is slightly down and the City needs to do something and thought it was an acceptable risk.

Mr. Miller asked if the Commission wanted this item to come back to the next meeting to continue the conversation and refine some of this. He stated Commissioner Murray's point is this is a policy and strategy that should transcend election and is something the City has to determine if it is the best thing to do long term.

Identify Discussion Items for the Future Meeting

314 Commissioner Murray indicated he was disappointed that the City Council did not ask any
315 questions and he noticed the auditors did not come up with any recommendations for the City.
316

317 Mr. Miller explained the City Council normally does not ask questions. The auditors did bring
318 some things to the Council's attention, the golf course was one of them, but the scope of the
319 audit is pretty limited to auditing the financial statements as opposed to giving recommendations
320 on making the City fiscally stronger.

321
322 Commissioner Reif indicated on page 44 of the report where the footnote is authorized as far as
323 investments and he did not think it included the recent change about additional investment
324 options. He thought that footnote should be changed for next year.

325
326 Mr. Miller stated Commissioner Reif was correct but may be the City's investment policy and
327 not the State Statutes. He would double check that.

328
329 Chair Hodder asked when Standard and Poor's and Moody's do their review.

330
331 Mr. Miller explained right now the City has a AAA rating from both Moody's and Standard and
332 Poor for the bond rating, which is the highest a City can get. Anytime that debt is issued where
333 the City is asking for a credit rating then those are reviewed, and a new report is issued. He
334 noted usually the City does not go to both agencies, usually it is one or the other but if one of the
335 agencies hasn't been asked to issue an opinion on a new debt issue, the companies will do an
336 update. Every two to three years it is looked at regardless of whether the City is issuing debt.

337

338

339 **Receive Investment Options Presentation From Commissioner Murray**

340

341 Finance Director Miller stated at the March 12, 2019 Finance Commission meeting;
342 Commissioner Murray indicated a desire to share recent research he had compiled regarding
343 potential new investment options available to the City. The initial information was presented to
344 the Commission at the May 14, 2019 meeting and at the request of the Commission,
345 Commissioner Murray has prepared some supplemental information to present.

346

347 Commissioner Murray reviewed the supplemental information with the Commission. He would
348 recommend to the City Council that the City go ahead and do this.

349

350 Commissioner Sagisser confirmed he was interested in how the amount of investible money
351 works.

352

353 Commissioner Murray noted there is money invested for long term and the State will allow the
354 City to invest up to twenty-five percent of that long-term money into an index fund or with the
355 public investment board.

356

357 Commissioner Sagisser thought that was worthy of considering and looked like a decent higher
358 rate of return.

359
360 Commissioner Murray indicated the rate of return is good. His cautionary note is if the City
361 were to do this to phase it in a little at a time.
362

363 Mr. Miller indicated the City's investment portfolio today is primarily in safer investments, it is
364 not in equities or stocks. There is less risk but also less return on the investment. He noted some
365 cities are taking a look at this and would take a pretty disciplined Council to be very comfortable
366 with losses in one or more years, knowing that longer term this might get the City greater gains.
367 This would have to be an approach that subsequent Council's follow.
368

369 Commissioner Sagisser explained his only thought of trying a smaller percentage would be an
370 increased comfort level for the City Council.
371

372 Chair Hodder indicated that was his thinking as far as a pilot program to recommend starting out
373 with five percent to figure out where that is going. People would need to understand the risk as
374 well.
375

376 Commissioner Murray expressed he would leave it open for the City Council to pick the
377 percentage based on their comfort with risk. As a policy matter, he would recommend going
378 forward with this.
379

380 Commissioner Sagisser agreed.
381

382 Commissioner Reif agreed and thought the Council should consider it. He tended to be
383 conservative and would start out with a rather modest percentage and give it a couple of years to
384 see what it looks like and let the Council get comfortable with it and assess where it is at to make
385 a decision going forward.
386

387 Chair Hodder indicated that was his thinking as well because he was more conservative by
388 nature and lived through the shocks of 2008. Over time investment returns have been more
389 robust.
390

391 Commissioner Murray indicated there will be bad years.
392

393 Commissioner Sagisser thought it sounds like it might be a great thing to have the finance staff
394 start to look into and something to implement when things are lower.
395

396 Commissioner Murray stated the City would not throw the money all in one chunk, it would
397 need to be put in phases.
398

399 Commissioner Sagisser made a motion, seconded by Commissioner Murray to recommend the
400 City Council look at this policy and avail themselves of the option of investing City Funds either
401 with the State Investment Board or an Index Fund at a percentage the City Council is
402 comfortable with. **The motion passed unanimously.**
403

Assumed results for investment in S and P 500

If \$5,250,000 had been invested in the Standard & Poor's 500 for the last 40 years, there would have been 30 gain years and 10 loss years. The net gain would have been \$20 million with an average of about 500,000 per year.

Some things to note:

index funds do not exactly reflect the S&P averages. There are some fees built in, but there are also some dividends.

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

Assumed Investment			S & P YE Closing	S & P % Gain (Loss)		Gain Years 30	Loss Years 10	
35,000,000	x 15%	5,250,000	2019	2,850.96	13.73%	720,656	720,656	-
			2018	2,506.85	-6.24%	(327,456)	-	(327,456)
			2017	2,673.61	19.42%	1,019,548	1,019,548	-
			2016	2,238.83	9.54%	500,588	500,588	-
			2015	2,043.94	-0.73%	(38,147)	-	(38,147)
			2014	2,058.90	11.39%	598,009	598,009	-
			2013	1,848.36	29.60%	1,554,065	1,554,065	-
			2012	1,426.19	13.41%	703,799	703,799	-
			2011	1,257.60	0.00%	(167)	-	(167)
			2010	1,257.64	12.78%	671,092	671,092	-
			2009	1,115.10	23.45%	1,231,345	1,231,345	-
			2008	903.25	-38.49%	(2,020,504)	-	(2,020,504)
			2007	1,468.36	3.53%	185,303	185,303	-
			2006	1,418.30	13.62%	715,020	715,020	-
			2005	1,248.29	3.00%	157,554	157,554	-
			2004	1,211.92	8.99%	472,156	472,156	-

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

2003	1,111.92	26.38%	1,384,971	1,384,971	-
2002	879.82	-23.37%	(1,226,713)	-	(1,226,713)
2001	1,148.08	-13.04%	(684,741)	-	(684,741)
2000	1,320.28	-10.12%	(531,504)	-	(531,504)
1999	1,469.00	19.51%	1,024,050	1,024,050	-
1998	1,229.23	26.67%	1,400,101	1,400,101	-
1997	970.43	31.01%	1,627,930	1,627,930	-
1996	740.74	20.26%	1,063,842	1,063,842	-
1995	615.93	34.11%	1,790,809	1,790,809	-
1994	459.27	-1.54%	(80,813)	-	(80,813)
1993	466.45	7.06%	370,395	370,395	-
1992	435.71	4.46%	234,374	234,374	-
1991	417.09	26.31%	1,381,102	1,381,102	-
1990	330.22	-6.56%	(344,355)	-	(344,355)
1989	353.40	27.25%	1,430,650	1,430,650	-
1988	277.72	12.40%	651,044	651,044	-
1987	247.08	2.03%	106,444	106,444	-
1986	242.17	14.62%	767,571	767,571	-
1985	211.28	26.33%	1,382,504	1,382,504	-
1984	167.24	1.40%	73,531	73,531	-

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

1983	164.93	17.27%	906,730	906,730	-
1982	140.64	14.76%	774,969	774,969	-
1981	122.55	-9.73%	(510,846)	-	(510,846)
1980	135.76	25.77%	1,352,925	1,352,925	-
	40.00				
Totals for 40 years			<u><u>20,487,832</u></u>	<u><u>26,253,079</u></u>	<u><u>(5,765,246)</u></u>
Average			<u><u>512,196</u></u>	<u><u>656,327</u></u>	<u><u>(144,131)</u></u>

Investment policy city of Roseville Minnesota

Background

Traditionally state law restricted municipalities to invest only in agencies and treasuries. Historically those investments yielded about 5%. In recent years interest rates have been much lower in the 2-3% range and probably will be for the foreseeable future. The Minnesota legislature in 2017 changed the law and now allows units of government to invest in equities either an account with the state investment board or with index funds. See attachment A of Minnesota session laws 2017 Chapter 4 article 2 attached.

Current developments

The city of Woodbury and the Minnesota league of Municipalities have both used the new authority granted them by the legislature to invest in equities. Reports of their actions are attached B & C. The new authority granted by the legislature allows Roseville to invest up to 25% of its investable funds in the equity markets provided the city meets the criteria.

Analysis

Roseville currently invests in treasuries and agencies. In the last few years yields have been in the 2-3% range. It is probable they will edge up but not return to the historical 5% range in the foreseeable future.

GRS Retirement consulting has studied PERA. Their actuarial determination is that PERAs investments should yield somewhere in the 6.85% to 7.68% range. That parallels PERA's historical results.

Expected returns in an average year with the S&P 500 would be between 8% and 9%, see attachment D. Looking at a five-year return using weekly rolling averages since 1939, out of approximately 4000 periods about 20% were loss periods, and 80% gain periods. Using year-end results since 1928, 63 years have been up and 24 years have been down, many of the down years were back in the 1930s. See example 5.

Using the historical results of the equity markets as a benchmark, an average return on an index fund investing 15% of \$35 million of city investable funds would yield Roseville about \$250,000 or so per year more income, than an average year investing in treasuries and agencies. The assumptions here have been very conservative. Returns could be greater.

Recommendation

Pension funds, endowments funds, insurance pools and other large pots of money are charged with acting as a fiduciary or to act as a "prudent man" would. There is risk in investing in the equity markets there is also risk in investing in treasuries and agencies, Roseville has had some loss years on their investments. The upside potential of an average year, and this is statistically provable, yields better performance by investing in an index fund rather than staying completely in treasuries and agencies.

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

If we look at very long-term averages over 10 or 20 years, risk is even lower. In other words, over the long-term, equity markets eventually recover after a serious market correction. The city of Roseville is going to be in business for a long period of time, therefore taking a more aggressive approach to investments when the percentages are on our side makes sense.

Finance commission should recommend to the Council that we take a portion of our investable funds and put them in either an index fund or invest with the state investment board as state law allows.

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

Assumed Return on investments current				3.000%
35,000,000 x 3%				1,050,000

Example 1

Assume same return as PERA benchmark of 7%

35,000,000 x 15%	5,250,000	7.0000%	367,500
35,000,000 x 85%	29,750,000	3.000%	892,500
	Total		1,260,000

Net increase (decrease) over current investment				210,000
--	--	--	--	----------------

Example 2

Assume investment in S & P 500 average return

35,000,000 x 15%	5,250,000	8.3200%	436,800
35,000,000 x 85%	29,750,000	3.000%	892,500
	Total		1,329,300

Net increase (decrease) over current investment				279,300
--	--	--	--	----------------

Example 3

Assume investment in S & P 500 average return

35,000,000 x 25%	8,750,000	8.3200%	728,000
35,000,000 x 75%	26,250,000	3.000%	787,500
	Total		1,515,500

Net increase (decrease) over current investment				465,500
--	--	--	--	----------------

Example 5

Returns 1928-2014 S & P 500

Assume 15% of \$35M

Years up	63	21.50%	5,250,000	71,111,250
Years down	24	-13.60%	5,250,000	(17,136,000)
			Total	53,975,250
			Avg	620,405

Treasuries	87	5.10%	5,250,000	23,294,250
(Average rate 1928-2018)			avg	267,750

Avg net gain				352,655
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Minnesota Session Laws
2017 1st Special Session;
Chapter 4
Article 2

A

Sec. 27.

[118A.09] ADDITIONAL LONG-TERM EQUITY INVESTMENT AUTHORITY.

Subdivision 1.

Definition; qualifying government.

"Qualifying government" means:

(1) a county or statutory or home rule charter city with a population of more than 100,000;

(2) a county or statutory or home rule charter city which had its most recently issued general obligation bonds rated in the highest category by a national bond rating agency; or

(3) a self-insurance pool listed in section 471.982, subdivision 3.

A county or statutory or home rule charter city with a population of 100,000 or less that is a qualifying government, but is subsequently rated less than the highest category by a national bond rating agency on a general obligation bond issue, may not invest additional funds under this section but may continue to manage funds previously invested under subdivision 2.

Subd. 2.

Additional investment authority.

Qualifying governments may invest the amount described in subdivision 3:

(1) in index mutual funds based in the United States and indexed to a broad market United States equity index; or

(2) with the Minnesota State Board of Investment subject to such terms and minimum amounts as may be adopted by the board. Index mutual fund investments must be made directly with the main sales office of the fund.

Subd. 3.

Funds.

(a) Qualifying governments may only invest under subdivision 2 according to the limitations in this subdivision. A qualifying government under subdivision 1, clause (1) or (2), may only invest its funds that are held for long-term capital plans authorized by the city council or county board, or long-term obligations of the qualifying government. Long-term obligations of the qualifying government include long-term capital plan reserves, funds held

to offset long-term environmental exposure, other postemployment benefit liabilities, compensated absences, and other long-term obligations established by applicable accounting standards.

(b) Qualifying governments under subdivision 1, clause (1) or (2), may invest up to 15 percent of the sum of:

(1) unassigned cash;

(2) cash equivalents;

(3) deposits; and

(4) investments.

This calculation must be based on the qualifying government's most recent audited statement of net position, which must be compliant and audited pursuant to governmental accounting and auditing standards. Once the amount invested reaches 15 percent of the sum of unassigned cash, cash equivalents, deposits, and investments, no further funds may be invested under this section; however, a qualifying government may continue to manage the funds previously invested under this section even if the total amount subsequently exceeds 15 percent of the sum of unassigned cash, cash equivalents, deposits, and investments.

(c) A qualified government under subdivision 1, clause (3), may invest up to the lesser of:

(1) 15 percent of the sum of its cash, cash equivalents, deposits, and investments; or

(2) 25 percent of its net assets as reported on the pool's most recent audited statement of net position, which must be compliant and audited pursuant to governmental accounting and auditing standards.

Subd. 4.

Approval.

Before investing pursuant to this section, the governing body of the qualifying government must adopt a resolution that includes the following statements:

(1) the governing body understands that investments under subdivision 2 have a risk of loss;

(2) the governing body understands the type of funds that are being invested and the specific investment itself; and

(3) the governing body certifies that all funds designated for investment through the State Board of Investment meet the requirements of this section and the policies and procedures established by the State Board of Investment.

Subd. 5.

Public Employees Retirement Association to act as account administrator.

A qualifying government exercising authority under this section to invest amounts with the State Board of Investment shall establish an account with the Public Employees Retirement Association (PERA), which shall act as the account administrator.

Subd. 6.

Purpose of account.

The account established under subdivision 5 may only be used for the purposes provided under subdivision 3. PERA may rely on representations made by the qualifying government in exercising its duties as account administrator and has no duty to further verify qualifications, use, or intended use of the funds that are invested or withdrawn.

Subd. 7.

Account maintenance.

(a) A qualifying government may establish an account to be held under the supervision of PERA for the purposes of investing funds with the State Board of Investment under subdivision 2. PERA shall establish a separate account for each qualifying government. PERA may charge participating qualifying governments a fee for reasonable administrative costs. The amount of any fee charged by PERA is annually appropriated to the association from the account. PERA may establish other reasonable terms and conditions for creation and maintenance of these accounts.

(b) PERA must report to the qualifying government on the investment returns of invested funds and on all investment fees or costs incurred by the account.

Subd. 8.

Investment.

(a) The assets of an account shall be invested and held as required by this subdivision.

(b) PERA must certify all money in the accounts for which it is account administrator to the State Board of Investment for investment under section 11A.14, subject to the policies and procedures established by the State Board of Investment. Investment earnings must be credited to the account of the individual qualifying government.

(c) For accounts invested by the State Board of Investment, the investment restrictions shall be the same as those generally applicable to the State Board of Investment.

(d) A qualifying government may provide investment direction to PERA, subject to the policies and procedures established by the State Board of Investment.

Subd. 9.

Withdrawal of funds and termination of account.

(a) A government may withdraw some or all of its money or terminate the account.

(b) A government requesting withdrawal of money from an account created under this section must do so at a time and in the manner required by the executive director of PERA, subject to the policies and procedures established by the State Board of Investment.

Bill Expands Investment Options for Certain Cities

Permissible investments include index mutual funds based on S&P 500, the Dow Jones U.S. Total Stock Market Index, and investments with the State Board of Investment.

(Published Mar 13, 2017)

Minnesota law limits the investment of public funds to a defined list of instruments such as U.S. government securities, highly rated state and local municipal securities, and short-term commercial paper issued by U.S. corporations and Canadian subsidiaries, but a bill that would expand that list is making progress in both the House and Senate.

HF 409 (*Link to: <https://www.revisor.mn.gov/bills/bill.php?b=House&f=HF409&ssn=0&y=2017>*) (Rep. Tony Albright (*Link to: http://www.house.leg.state.mn.us/members/members.asp?leg_id=15390*), R-Prior Lake) and SF 480 (*Link to: <https://www.revisor.mn.gov/bills/bill.php?f=SF480&y=2017&ssn=0&b=senate>*) (Sen. Dave Senjem (*Link to: http://www.senate.leg.state.mn.us/members/member_bio.php?leg_id=10806*), R-Rochester) would add a limited use of index mutual funds to the list of permissible investments for cities and counties with populations over 100,000, as well as for other cities and counties with the highest bond rating by a national rating agency for the most recent general obligation bond issue.

HF 409 has been approved by the House Government Operations and Elections Policy Committee (*Link to: <http://www.house.leg.state.mn.us/comm/committee.asp?comm=90011>*) and is awaiting action in the House State Government Finance Committee (*Link to: <http://www.house.leg.state.mn.us/comm/committee.asp?comm=90021>*). SF 480 has been approved by the Senate Local Government Committee (*Link to: http://www.senate.leg.state.mn.us/committees/committee_bio.php?cmte_id=3100&ls=90*) and the Senate State Government Finance and Policy and Elections Committee (*Link to: http://www.senate.leg.state.mn.us/committees/committee_bio.php?cmte_id=3101&ls=90*) and awaits action in the Senate Taxes Committee (*Link to: http://www.senate.leg.state.mn.us/committees/committee_bio.php?cmte_id=1019&ls=90*).

The legislation was originally initiated by the Minnesota Inter-County Association (*Link to: <http://www.mica.org/>*) in 2016. The League's Fiscal Futures Policy Committee (*Link to: <http://www.lmc.org/page/1/improving-fiscal-futures.jsp>*) adopted a policy supporting the limited extension of investment authority during last year's policy development process.

Based on the bill's criteria, the list of currently qualifying cities includes Minneapolis, St. Paul, Rochester, Bloomington, Plymouth, Eagan, Eden Prairie, Burnsville, Minnetonka, Edina, Apple Valley, Roseville, Golden Valley, Orono, and Wayzata.

Limits included in the bill

The bill limits investment in index mutual funds to cash and investments that are held for long-term capital plans or long-term obligations. The amount invested cannot exceed 15 percent of the sum of unassigned cash, cash equivalents, deposits, and investments.

Investments are limited to mutual funds indexed to the S&P 500, the Dow Jones U.S. Total Stock Market Index, or investments with the State Board of Investment. Before investing in the expanded list of investments, the bill requires the governing body of the municipality to adopt a resolution acknowledging the risks.

Local government insurance trusts included

The legislation also extends this investment authority to the League of Minnesota Cities Insurance Trust, the Minnesota School Boards Association Insurance Trust, the Minnesota Association of Townships Insurance and Bond Trust, and the Minnesota Counties Intergovernmental Trust.

Read the current issue of the Cities Bulletin (*Link to: <http://www.lmc.org/page/1/cities-bulletin-newsletter.jsp>*)

* By posting you are agreeing to the LMC Comment Policy (*Link to: <http://www.lmc.org/page/1/comment-policy.jsp>*).

(B)

City of Woodbury, Minnesota
Finance Department

September 26, 2017

Audit & Investment Commission Memorandum No. 17-02

Commission Members:

The next meeting of the Commission will be on Wednesday, October 25, 2017 at 7:30 a.m. The meeting will be held at City Hall in the **Birch Conference Room**. An agenda for this meeting is attached.

Approval of Audit & Investment Commission Minutes – June 22, 2017

Minutes from the June 22, 2017 meeting are attached for your review.

BerganKDV Audit Services Contract Extension Proposal

A proposal from BerganKDV dated June 30, 2017 is attached for the Commission's review. The proposal calls for a two year extension of the current five year agreement. The third year option for year ending December 31, 2017 was exercised by City. The year ending 2017 engagement letter will be an agenda item for Commission consideration at our next meeting.

The two year extension proposal covers years ending 2018 and 2019. The proposed cost increase is two percent each year – the same increase as the previous three years in the current agreement. Staff recommends acceptance of the extension proposal.

Proposed Investment Policy Changes

The investment policy with the proposed changes is attached for the Commission's review. The investment policy was last reviewed by the Commission in 2015 with no changes recommended and last updated with changes in 2012. The 2017 proposed changes were a result of a policy review performed by Wells Fargo Securities and city staff. Staff recommends the Commission discuss and review the proposed changes. If approved by the Commission, staff will forward the investment policy changes to the city council for consideration.

Expansion of Investment Options

During its last session, the Minnesota Legislature added two types of investments to the list approved options available to the City, including index mutual funds and investing through the State Board of Investment (SBI). These options are significantly different

Audit & Investment Commission Memorandum No. 17-01

October 25, 2017

Page 2 of 3

than the investments the City has historically been limited to. The statutory language and an article from the League of MN Cities is attached for the Commission's review.

As of July 1, 2017, the City may invest funds in:

- (1) Index mutual funds based in the United States and indexed to a broad market United States **equity** index, as long as those investments are made directly with the main sales office of the fund; or
- (2) With the Minnesota State Board of Investment subject to such terms and minimum amounts as may be adopted by the board.

Our investments under this authority must be preceded by formal acknowledgement of our risks, compliance with certain other procedural requirements, and that our investments in index mutual funds are limited to funds held for long-term capital plans or long-term obligations. After a determination of the long-term investment amount, there is maximum amount limitation of 15% of our cash, cash equivalents, deposits and investments. For sake of the current discussion, the maximum amount based on the June 30, 2017 investment report is \$25.5M.

Staff recommends the Commission discuss this new statute and identify what additional information the Commission needs or wants before being asked to make a recommendation to the City Council for consideration.

Investment Policy Parameters

At the new councilmember orientation, Councilmember Date requested the staff to evaluate the current limitations in the investment policy with the Commission. Specifically, discuss the current maturity limitation of ten years and evaluate the benefits/risks of extending the maturity limitation beyond ten years.

For sake of the current discussion, there was a 30 basis point spread between ten-year agency bullets compared to fifteen-year agency bullets on September 22, 2017. If the 30 basis point spread was applied to 10% of the portfolio, interest income would increase approximately \$50,000 per year.

This policy discussion is intended to introduce this question from a councilmember. It is not meant to make a recommendation as to whether the policy should be changed or to provide a detailed analysis of the potential risks and benefits of doing so.

Staff recommends the Commission discuss this request and identify what additional information the Commission needs or wants before being asked to make a recommendation to the City Council for consideration.

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

Audit & Investment Commission Memorandum No. 17-01

October 25, 2017

Page 3 of 3

Investment Portfolio Reports

The June 30, 2017 Investment Portfolio Report is attached for the Commission's review.

If you have any questions or cannot attend the meeting please contact me at (651) 714-3502.

Respectfully submitted,

Tim Johnson
Finance Director



CONNECTING & INNOVATING
SINCE 1913

March 28, 2018

Agenda Item 3A

To: LMCIT Board of Trustees

From: Dan Greensweig and Liam Bieber

Re: **Equity Investments**

Recommendation

Pursue steps to move \$10 million of the LMCIT investment portfolio into an indexed mutual fund or to the State Board of Investment (SBI).

Summary

Staff's recommendation is to pursue steps to move \$5 million of invested assets to equities for both programs for a total of \$10 million. For context, \$5 million would represent 3.5 to 4.0 percent of the property/casualty program's investment portfolio and 1.5 to 2.0 percent of the workers' compensation program's.

This is a conservative approach relative to what's allowed by law and more conservative than commercial carriers and some of our pooling peers, but it would allow us to set up the infrastructure for any future equity fund investments and reevaluate the approach before committing more substantial resources to it.

Staff's evaluation is that there is some risk involved with the move, but it is relatively small considering the programs' fund balance levels and total investment portfolio values.

If we move forward, we would recommend revising the fund balance stress test parameters slightly.

In the long term, we would expect the returns from the equity investments to be higher, but also more volatile, than the fixed income portfolio returns. It does, however, provide diversification benefits relative to the fixed income securities we are currently invested in.

Given the proportionately small component that equities would play under the recommendation, we would not expect any noticeable impact on rate setting.

If the Board provides direction to pursue the recommendation, there are still several procedural items to figure out.

Discussion

Previous discussions

Staff initially introduced the newly expanded investment authority to the Trustees at the August 2017 meeting, and we conducted general risk tolerance discussions at the 2018 LMCIT Board Retreat in February of 2018.

LMCIT equity investment authority parameters

The Minnesota statute regulating LMCIT's investment authority was amended last year to permit investments in certain United States mutual funds and with the SBI pursuant to terms adopted by the board.¹ To qualify as a permissible investment vehicle under the new Minnesota law, a fund must be "indexed to a broad market United States equity index." In other words, the fund must own a collection of stocks that mirror those contained in an index like the S&P 500, Russell 3000, or one of the other indices that include a broad cross-section of domestic company stocks.

There are any number of different mutual fund companies that offer these types of funds, but they share common characteristics, in that they rely on the passive investment strategy of tracking an existing market index rather than analyzing and trading in individual stocks, they have relatively low fees, and they are diversified in their holdings. Different funds might contain higher or lower percentages of individual stocks in their portfolios in their efforts to weight the various stocks to best mimic the index, but in general, funds that track the same index will perform similarly.

The SBI has also now adopted terms governing the investments it will accept under this statute. Its option is an S&P 500 Index that will be managed by Mellon Capital Management.

The statutes permit LMCIT² to invest up to the lesser of:

1. 15 percent of the sum of its cash, cash equivalents, deposits, and investments; or
2. 25 percent of its net assets as reported on the pool's most recent audited statement of net position, which must be compliant and audited pursuant to governmental accounting and auditing standards.

The most recent audited statements of net position were as of May 31, 2017 and December 31, 2016 for the property/casualty and workers' compensation programs respectively. Based on these statements, adjacent are the maximum amounts that would be available for reallocation.

Program	Cash, deposits, investments	15%	Net position (fund balance)	25%
12/31/16 WC	\$282 M	\$42 M	\$61 M	\$15 M
5/31/17 P/C	\$142 M	\$21 M	\$93 M	\$23 M

The work comp program has significantly more in investment assets because work comp claim liabilities have a much longer tail than do property, liability or auto claims. As a result, we need to hold significantly more in assets to pay those work comp claim obligations when they become due.

¹ Link to statute: [118A.09 ADDITIONAL LONG-TERM EQUITY INVESTMENT AUTHORITY.](#)

² Other eligible entities include any city or county with population greater than 100,000, any city or county which had its most recently issued general obligation bonds rated in the highest category by a national bond rating agency, and county, township, and school board self-insurance pools.

The difference in fund balance levels are functions of the fund balance stress test policy, but also LMCIT's conservative approach of not discounting claim liabilities to present value on in the balance sheets. If we were to discount claim liabilities to present value in our financial statements, the work comp program's fund balance level would actually be higher than the property/casualty program's.

Other organizations

LMCIT is not the first pool to confront this issue. A survey of other state league affiliated pools determined that out of 16 respondents, 12 invest in equities to some extent. Those that do allocate a range of 10-41 percent of their portfolios to equities, with a cluster around the 20 percent mark.³

Commercial carriers also face the question of how to invest their assets. According to a recent report by the National Association of Insurance Commissioners, property/casualty carriers (including those with workers' compensation lines of business) allocated their investments as follows:

Asset Class	Percentage of investments
Bonds (corporate and governmental)	55%
Common stock	29%
Other long-term assets (e.g. oil and gas)	8%
Cash and short-term investments	5%
Mortgages	1%
Real estate	1%
Preferred stock	1%
Other	1%

While there does not appear to be much publicly available information regarding stand-alone workers' compensation carriers, the SBI does manage investments for Minnesota's Assigned Risk Plan, which provides workers' compensation coverage to companies that cannot obtain it in the private market. As of June 30, 2017, its roughly \$315 million in investments were allocated 80 percent to fixed income and 20 percent to equities.

With respect to other public entities in MN that are eligible for the expanded investment authority, we conducted a quick email survey of about 18 cities, and received ten responses. Here are a few notes:

- One city is actively pursuing utilization of the expanded authority. The council is considering moving 1-2 percent of its portfolio to the SBI.
- A few have not firmed up a position because they want to do more research.
- A couple indicated they will be exploring the option in the future.
- A couple indicated they're not inclined to pursue the option. A couple reasons noted included liquidity concerns and public perception.
- One city included a comment about market timing and the potential for a stock market correction.

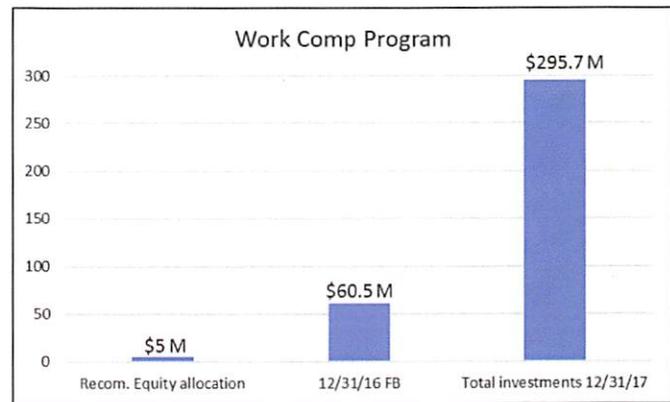
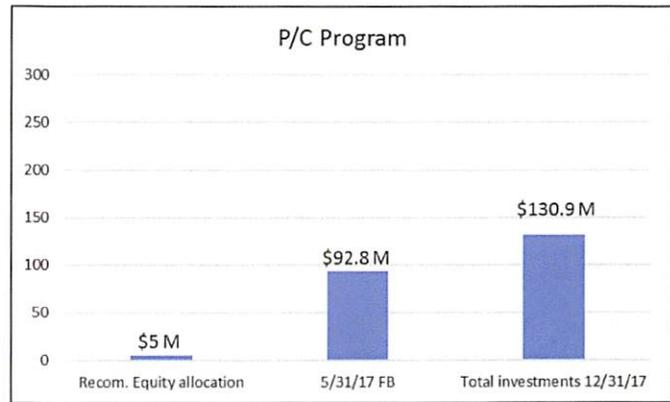
³ See Appendix I.

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

Staff's recommendation

The staff recommendation is to move gradually into the expanded investment authority by reallocating only a portion of the amount allowed under the revised statute. Specifically, we're recommending investing \$5 million of invested assets from each program in the newly permitted equity funds. That would represent 3.5 to 4.0 percent of the property/casualty program's investment portfolio and 1.5 to 2.0 percent of the workers' compensation program's.

This is a more conservative approach than allowed by law and more conservative than commercial carriers and many of our pooling peers, but by taking an incremental approach, we will have an opportunity to establish a process that will allow us to invest additional funds this way in the future if appropriate, evaluate whether this approach works as projected, and test the risk appetite of affected parties in a real-world setting, all while avoiding undue risk during this initial period.

*Evaluation of risk*

The following bullets contain comments on staff evaluation of the risk associated with the recommendation:

- As illustrated in the preceding charts, the recommended equity allocations are relatively small compared to the programs' fund balance and total investment portfolio values, so the changes are unlikely to have a substantial impact on the solvency of the programs or the ability to make payment on claim obligations.
- Bear markets can and do happen. Historical examples include the 2007-2009 global financial crisis (50 percent drawdown "peak to trough"), fourth quarter 1987 (23 percent drawdown), and dot com bubble (44 percent drawdown) Pointing to these historical events as data points can be used to approximate a plausible, acute worst-case loss in value. Regardless, at the recommended equity allocations, it is hard to imagine a scenario where we would be forced to liquidate the equity investments to pay claim liabilities at the same time the market has bottomed out.
- With respect to member or public scrutiny, if LMCIT suffers a substantial loss in indexed mutual funds or the SBI, this would be in an environment where most indexed fund investors are dealing with similar shocks. For many of these investors, their losses would be quite a bit larger because their portfolios are more heavily weighted in stocks. Indeed,

some of the other state pools have investment portfolios with equity allocations as high as 20 or 40 percent.

In short, staff's evaluation is that there is some risk involved with the move, but it is relatively small, all things considered.

Expected long-term financial implications

As it stands, the LMCIT investment policy follows a conservative and intentionally low-risk investment strategy designed to produce a consistent and reliable flow of interest income and in general to produce "market rate" returns. As a result, our investments earn about 3 percent in interest income annually under current conditions.

For illustrative purposes, if we assume equity investments on average over the long-term outperform fixed income instruments by 3 to 6 percent a year, the recommended \$5 million in reallocation would translate to an additional \$150,000 - \$300,000 in revenue annually for each program. There would of course be some years when the value of the equity investments would decrease significantly and other years when the value would increase by more than the assumed net additional 3 to 6 percent over fixed income returns. Allocating a small component of the investment portfolios to equities, however, provides diversification benefits relative to the fixed income securities we are currently invested in.

Relation to fund balance stress test

The fund balance stress test policy, which is outlined in the LMCIT Board of Trustees Policy Manual, is a tool we use to provide guidance for how large the program's fund balances should be.⁴ One of the four "stressor" components to the formula is "asset risk," which represents the risk that our investments could lose value. This stressor assumes the value of the program's fixed income investments could decline 20 percent. (The most plausible cause would be a sharp rise in market interest rates.) Here are a few notes with respect to the stress test:

- Staff would suggest the stress test be revised to recognize the idea that the value of equity investments could plausibly decline by more than 20 percent. Staff's suggestion is to assume a 20 percent decline for fixed income investments and a 50 percent decline for equity investments. We would take this recommendation to the Board at a later meeting.
- The asset risk stressor has historically been a non-relevant-factor for the property/casualty program, as the reinsurance risk and premium risk stressor values have far outweighed the asset risk stressor value. Allocating a relatively small component of

PC 5/31/17 stress test	
Stressors	Value
Liability risk (1)	\$8 M
Premium risk (2)	\$42 M
Reinsurance risk (3)	\$41 M
Asset risk (4)	\$28M
WC 6/30/17 stress test	
Stressors	Value
Liability risk (1)	\$32 M
Premium risk (2)	\$10 M
Reinsurance risk (3)	N/A
Asset risk (4)	\$58M
(1) 20% reserve development	
(2) 20 retention losses	
(3) Largest reinsurance partner unable to pay in a \$100M property loss occurrence	
(4) 20% decline in investments valule	

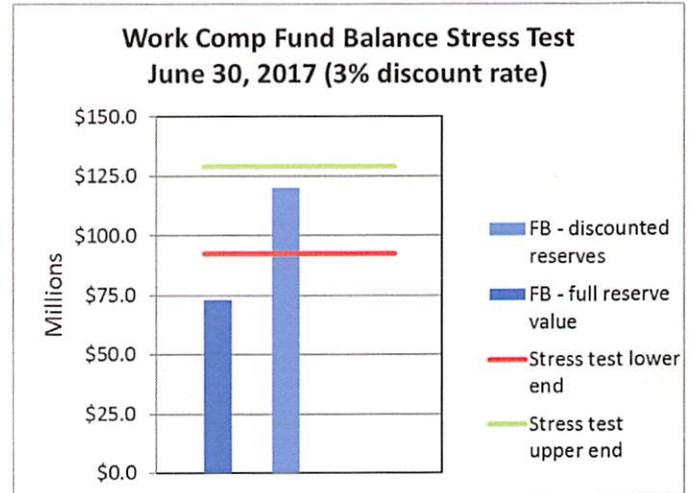
⁴ The basic concept of stress test approach is to consider a variety of ways in which LMCIT could incur a significant financial loss, and to calculate how much fund balance is needed so as to be able to withstand that loss and still have sufficient funds to be able to continue to operate.

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

the investment portfolio to equities would therefore have no effect on the stress test target range for this program.

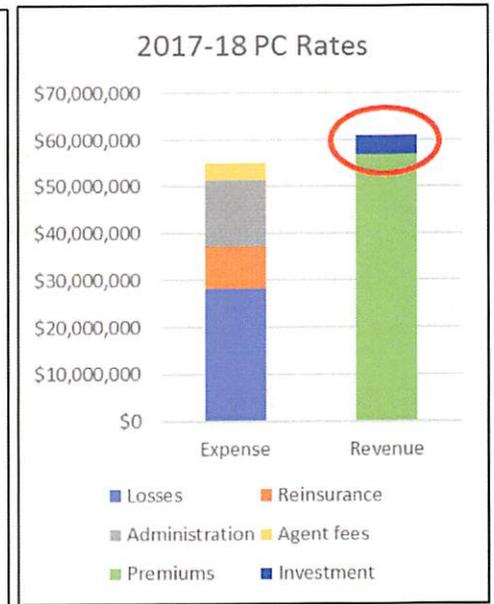
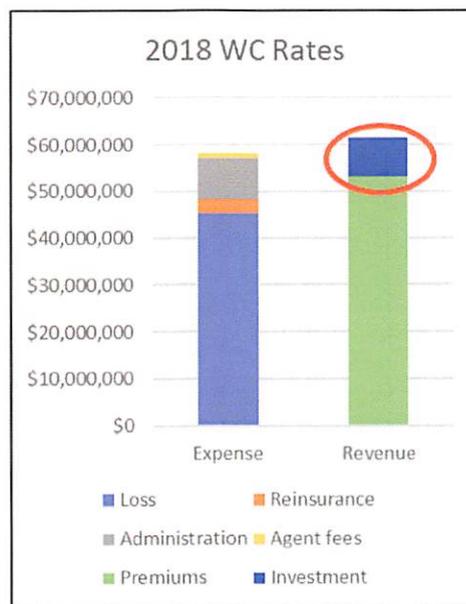
- On the other hand, the asset risk stressor has historically been the relevant stressor for the workers' compensation program every year since the stress test was adopted in 2008. If we were to revise the asset risk stressor in the stress test formula *and* reallocate some of the workers' compensation investments into equities, we would expect the stress test target range to increase nominally.

If we make a revision to the stress test that assumes a 50 percent decline in equity values, the bottom end of the stress test would increase by \$300,000 for every \$1 million in equity investments. And the top end of the target range would increase by \$420,000 for each \$1 million reallocated to equities. Looking retroactively at the stress test results from last year, reallocating \$5 million to equities would increase the bottom end (red line) by \$1.5 million and the top end (green line) by \$2.1 million.



Relation to rate setting

Investment income is critical to LMCIT operations and rate development, as investment income is used to subsidize premiums for both programs⁵. Rates for the current underwriting year assumed \$8.5 million in investment income for the workers' compensation program, which represents about 14 percent of projected revenue. For the property/casualty program, rates for the current underwriting year assumed \$4.2 million in investment income, which represents about 7 percent of projected revenue.



To the extent that one of LMCIT's core values is to provide rate stability for our members it is essential that our investments produce a steady, reliable and reasonably predictable stream of revenue for us.

⁵ For either program 1 percent of premium rate translates to about \$500,000 – \$600,000 in revenue. In other words, for every \$500,00 - \$600,000 in additional investment income, we could charge the members about 1 percent less in rate and end up with the same projected income (margin) for the year.

If we were to use a much different and entirely more aggressive approach - such as investing most of our assets in equities – we would need to use a different approach to set rate levels. Our premium levels would need to be higher to ensure we are generating enough funds to cover the losses and expenses we expect to incur. A more aggressive approach might generate better investment returns in the long run, but those returns would be much more variable from year to year. And we would be unable to assume a specified amount of investment income when setting rates because we could not predict when we would enter a period when this higher-risk, higher-reward strategy would result in a loss.

Given the proportionately small component that equities would play under the staff recommendation, we would not expect a noticeable impact on rate setting next fall. With the recommended \$5 million in allocation to equities for each program, staff's evaluation is that we could continue to rely on our fixed income portfolio returns for the purposes of rate setting. We would recommend that we either: 1) not count on any equity investment returns for rate setting purposes; or 2) if we do assume equity returns in the rate setting model, consider building a larger margin into the rates to account for the fact that the prospective equity returns will be less-steady, less-reliable, and less-predictable.⁶

Procedural items to figure out

Staff's recommendation, again, is the pursue steps to move \$10 million of the LMCIT investment portfolio into an indexed mutual fund or to the State Board of Investment (SBI). We have not yet fleshed out the specific steps needed, but the procedural items we would need to figure out include:

1. Revising the LMCIT Investment Policies and Practices in the LMCIT Board of Trustees Policy Manual, including the sections on investment strategy and policy, investment guidelines and restrictions, and staff and other stakeholder responsibilities.
2. Determine whether it would make more sense to utilize an indexed mutual fund or to the State Board of Investment (SBI). We would want to compare the two options: weigh the pros and cons, and compare fee structures.⁷
3. Determine the timing of the transaction(s). We would need to determine if we reallocate funds all at once or incrementally, and if there is a particular time to commence the strategy.

⁶ It would also be possible to treat the equity investments as completely separate pool of money. In other words, we could maintain the existing amount of fixed-income investments and continue to use it as we currently do for operations and premium support. We would then retain an additional amount of money (\$10 million or any other amount that makes sense), invest that in equities, and use any earnings on that to pay for one-time initiatives or additional dividends that do not require a stable, long-term source of revenue. That would require establishing criteria about when and how those earnings could be cashed out and what to do if the initial investment decreased because of investment losses.

⁷ For example, the Vanguard 500 Index Fund annual fee is .04%. The SBI plan fee is slightly more than .05%. But, there may be other factors, such as accessibility and responsiveness of the fund managers, better understanding of Minnesota public investment rules, and public perception that warrant paying a higher fee to SBI.

4. With respect to the workers' compensation program's investments, we would need to determine how the reallocation of assets would work in relation to the two fixed-income managers. That is, if we are reallocating existing funds, would we move them away from the two fixed income portfolios on a pro rata basis or take another approach?

Alternatives

There are other alternatives for the Board to consider. Here are a few variations.

- Just one program. Decide to employ equities as an investment vehicle for either the workers' compensation or property/casualty program only. The workers' compensation program portfolio is significantly larger than the property/casualty program. On the other hand, the property/casualty program's fund balance (net position) is typically larger.
- \$10 million for both programs. A more aggressive approach would be to decide to move a total of \$20 million of LMCIT investments into equities.
- The equity allocations could be defined in terms of percentage of investment assets for either program, rather than a dollar amount. For example, if it's 2 percent, that'd translate to about \$2.6 million for the property and casualty program and about \$5.9 million for the work comp program.
- Full authority. The most aggressive approach would be to pursue the maximum amounts allowed under the statute.
- Other. There are any number of other variations.

Staff's recommendation, however, is to start with a relatively small (relative to full authority) portion of assets for each program. We would suggest starting relatively small and make sure we are setting up the appropriate policies and infrastructure. And we would feel more comfortably spreading the equities across the two balance sheets.

APPENDIX 1

Survey Results – Other Pools’ Use of Equities

Pool	Option under state law?			Using it?		Comments
	Yes	No	Unregulated	Yes	No	
Alaska			x	x		Alaska is completely unregulated. Equities comprise almost 41% of our portfolio.
British Columbia			x	x		We have no statutory investment restrictions, our investment policy does permit us to invest in index funds, which we do for about half of our equity portfolio. Overall our experience has been quite positive. The biggest negative has been dealing with regulators, who simply aren't up to speed with the workings of ETFs. They tend to treat them as they would any other mutual fund, which has created some unnecessary compliance complications.
Florida			x	x		Florida - not regulated. 75% Bonds 20% Equities 5% Cash We are very diversified on both sides with large cap, small/mid cap, growth and value and international equity portfolios. On the bond side we have 1-3 year, intermediate, broad market, core plus and high yield portfolios. We are also about to add core real estate and emerging markets.
Georgia	x			x		In Georgia, we are regulated by the state insurance department and can invest in any equities just as a domestic insurer can do so. Our target allocation to equities is 10% with a range of 5%-15%. We currently invest in a Russell 3000 Index Fund and S&P High Dividend Index Fund.
Iowa		x			x	
Kentucky	x			x		Kentucky also is allowed to invest in equities up to a maximum of 20% of surplus, per statute.
Maryland			x	x		Not regulated.
Michigan	x			x		Michigan regulations allow our workers' compensation fund to invest up to 20.25% of our portfolio in equities. There is no specific limit on equities applicable to our liability pool - we are currently at 37%.
Mississippi			x	x		We have no regulations. We invest in equities on a 25% (equity) to 75% (fixed income) ratio for the W/C Group and Liability Plan.
Oregon			x	x		Oregon statutes are silent on our investments. We've just completed our first year of investment in equities. The Board's investment policy limits

Selected Minutes from the 5/14/19 and 6/11/19 Finance Commission meeting

						equities to our "expanded asset class" portfolio, which is itself limited to 20% of CIS' net position. Equities represent about 60% of that \$27 million expanded asset class portfolio, and about 9% of our total invested assets.
Rhode Island			x	x		No regulation in Rhode Island, but we are bound by our investment policy which caps our equities for the Property/Casualty Pool at 25% (the target is 20%). It is much lower for the Health and Dental Pool, and we have just recently started into equities there.
South Carolina		x			x	
South Dakota			x		x	In South Dakota, governmental risk sharing pools' investments are unregulated, but the SDPAA's Investment Policy does not allow for investment in equities.
Texas		x			x	Our investments are governed by the public funds investment act here in Texas, thereby prohibiting our investment in equities.
Vermont	x				x	
Washington	x				x	Washington State legislature recently broadened investment opportunities for public entity risk pools to include equities. This action was taken in 2016 and we immediately underwent a search for an investment advisor and RFP for new investment consultant to help manage the portfolio. Board ratified new investment policy earlier this year. For the health care pool prior to self-insurance in 2014, the investments were not regulated other than by the Board of Trustees investment policy, which included equities. That Rate Stabilization Reserve continues to hold the lion's share of funds for the Health Care Trust at the broader investment policy level; the newly formed (1-1-14) self-insured segment of that program is subject to Washington State law as noted above, necessitating a 2 nd , more conservative investment policy.

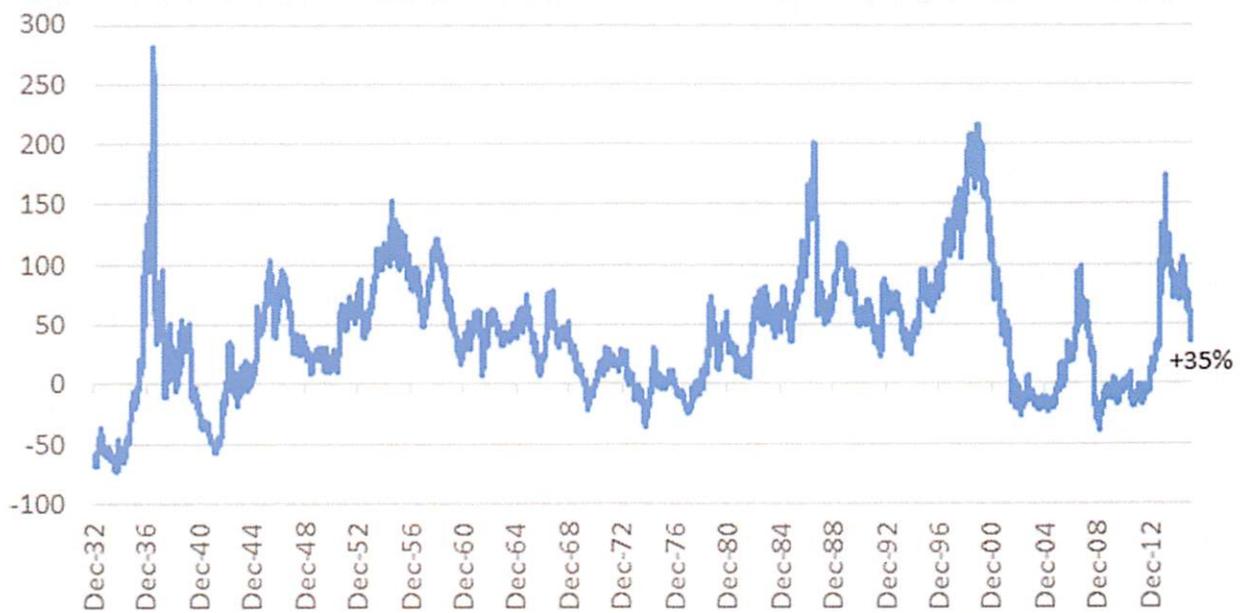


	S&P 500 1 year Return	S&P 500 5 year Return	S&P 500 10 year Return	S&P 500 20 year Return
Average	8.921%	8.656%	8.320%	8.469%
Median	11.585%	9.922%	8.929%	8.399%

<http://tradingninvestment.com>

if you inspect the weekly rolling 5-year average of the S&P 500 from 1927, you can find multiple periods of 1-year or more in length where the rolling 5-year average declined. Some were steep and some were mild. Some were short and some were long. if you inspect the weekly rolling 5-year average of the S&P 500 from 1927, you can find multiple periods of 1-year or more in length where the rolling 5-year average declined. Some were steep and some were mild. Some were short and some were long.

S&P 500 Rolling 5-Year % Change: 1932-Present



47 Commissioner Reif stated on line 207, after the word taxes he would insert the word “are”. Line
48 220, instead of “on” replace with “regarding” and “are” before taxable. Line 233, after
49 Commissioner Murray insert “noted that”. Line 322, “Commissioner Reif indicated on page 44
50 of the report where the footnote is deals with authorized as ~~far~~-as investments...”.

51
52 Commissioner Reif noted for clarification purposes on line 348 remove the two words at the end
53 of the sentence “do this” and insert “put some money into an index fund or with the State
54 Investment Board” to clarify what was intended there.

55
56 Commissioner Harold noted he was listed as a Commissioner present and absent and he was
57 absent at that meeting.

58
59 Chair Hodder noted on line 90, “Commissioner” should be changed to “Chair”.

60
61 Commissioner Harold moved, seconded by Commissioner Sagisser to approve the June 11, 2019
62 meeting minutes as amended. **The motion carried unanimously.**

63
64
65 **Receive Finance Commission Recommendations Tracking Report**

66
67 Finance Director Miller reviewed the tracking report with the Commission. Noting one new
68 addition per the Finance Commission request, item no. 2019-4, Alternative Investment Options.
69 He indicated this is scheduled to be presented to the city Council at their September 16th meeting.

70
71
72 **Consider Establishing a Recommendation on the Use of the Cash Reserve Fund for the**
73 **Emerald Ash Borer Program**

74
75 Finance Director Miller explained the Commission is asked to consider establishing a
76 recommendation on the use of the Cash Reserve Fund for the Emerald Ash Borer (EAB)
77 program.

78
79 Parks and Recreation Director Lonnie Brokke, Parks and Recreation Commissioners Jerry Stoner
80 and Mr. Greg Hoag made a presentation to the Finance Commission on the Emerald Ash Borer
81 program.

82
83 Commissioner Lee asked what the Emerald Ash trees are being replaced with.

84
85 Parks Commissioner Hoag indicated the trees are being replaced with a large variety of trees. He
86 noted the city has a replacement master plan that has a larger list of trees.

87
88 Commissioner Reif asked if there was a legal requirement that states cities have to deal with
89 Emerald Ash Borer diseased trees.

90

91 Mr. Brokke explained there is a State law that says it is up to the municipality. The city has an
92 ordinance that does have that requirement.

93
94 Commissioner Reif asked what the St. Paul Campus of the University of Minnesota is doing
95 about this.

96
97 Parks Commissioner Hoag indicated every city is taking a different approach to this disease. St.
98 Paul and Minneapolis, for the most part have started to decimate their trees canopy by taking
99 down all of the Emerald Ash trees at once.

100
101 Chair Hodder asked if the cities are looking at more climate resilient trees as dealing with
102 climate change and zonal changes in the area.

103
104 Mr. Brokke indicated there are weather tolerant trees that grow in the area and continual research
105 on those kinds of things and the City of Roseville is working with tree contractors and growers to
106 make sure the trees being planted are weather tolerant.

107
108 Parks Commissioner Stoner indicated if the Parks Commission decided to move forward with
109 this it would be a multi-year program and at that point contracts would start to be locked in and
110 better rates would entail.

111
112 Mr. Brokke explained the city would pursue this on a proposal process and would ideally like to
113 work with one contractor that works with subs and growers with parameters for this.

114
115 Commissioner Harold asked if the Parks Commission considered an IDIQ (Indefinite Delivery
116 Indefinite Quantity) contract for work like this. This is not a complete multi-year contract, but a
117 duration is set with the indication that a set number of trees would be replaced in year one and
118 then based on the results of year one there would be a pre-negotiated price to move forward with
119 different work packages.

120
121 Mr. Brokke indicated he would like to talk to Commissioner Harold more about this. He thought
122 it is similar to what the City of Roseville has done with the Natural Resource Program.

123
124 Commissioner Harold asked if there is a similar long-term layout if no changes were made at this
125 time and what would the plan look like moving forward.

126
127 Mr. Brokke indicated if nothing was done the annual budget allocation would remain at \$50,000
128 a year and would be more of a removal program rather than a replacement program. He did not
129 think that would keep up with the necessary removals because of hazards.

130
131 Commissioner Lee indicated he loved the canopies in the parks but from a hard numbers
132 perspective he did not see any options for recommendations based on what has been presented.

133
134 Commissioner Murray explained when the Cash Reserve Fund was set up, it was more easily
135 understood by the city Council what financial resources would be available to use for new

136 programs. He thought it was the Council's prerogative to decide between various competing
137 needs of the city and not up to the Finance Commission. If the city Council wants to use the
138 money for the Emerald Ash Borer program, then the city Council could do that.

139

140 Commissioner Reif thought the Council sent this back to the Finance Commission for thoughts
141 on this program.

142

143 Commissioner Sagisser wondered if the thought was if this program fit under the budget.

144

145 Commissioner Murray indicated this is a worthy program and one of many.

146

147 Chair Hodder asked if staff has taken a look at the proposal as proposed.

148

149 Mr. Miller indicated he has not and was not sure if the City Manager has given Mr. Brokke any
150 feedback on it.

151

152 Mr. Brokke indicated he has not gotten any negative feedback and the proposed program has
153 actually received positive feedback and is a program that the monies could be used for. He
154 indicated the Parks Commission and staff would be looking for a cost-effective program over
155 time and from his perspective it would be more cost effective to do this as one program.

156

157 Commissioner Stoner asked the Finance Commission if this program is an appropriate use of the
158 Cash Reserves.

159

160 Commissioner Lee felt this could be a long-term drawn-out program that could be funded as
161 opposed to funding an emergency that came up overnight. He thought this was an admirable
162 program which needs funding but was not sure if the Cash Reserves was meant for something
163 that is ten years in the future.

164

165 Commissioner Sagisser thought it would make more sense to use Cash Reserves if the plan was
166 to remove all of the trees in one year.

167

168 Commissioner Murray indicated right now the city has a Cash Reserve but in the future the city
169 may not have those funds.

170

171 Chair Hodder noted one of the issues that will come up during the budget discussion is looking at
172 that 2020 budget and there are a lot of needs in that document and the percentage increases were
173 significant from 2019 to 2020 and something the Commission will need to review and will weigh
174 heavy on them when there is the County and School District, also with large Capital needs and
175 something he will be asking is to look at all three of those entities and looking at the impact to
176 the average residential household.

177

178 Commissioner Harold thought he would envision this, if sitting on the Council, that any given
179 year of this program the city could potentially use the excess cash reserves to fund on an annual
180 basis but it is such a volatile number that he would be hard pressed to authorize the use of cash

181 reserves every year to pay for \$150,000 of that program. If that was going to be a plan, he
182 thought that should come through the Parks and Recreation budget and be a planned
183 implementation through their budget and not just planning on taking cash reserves out every year
184 for that purpose.

185

186 Mr. Brokke noted that if the Finance Commission authorized the use of the Cash Reserve fund
187 for this program the funds would be set aside in for EAB and would be placed back in the Parks
188 and Recreation budget to be used over time for this program.

189

190 Commissioner Harold wondered if the Finance Commission was ready to recommend taking
191 \$634,000 from the Cash Reserves and moving it to the Parks and Recreation budget. He could
192 not see recommending taking money in excess of the minimum in the General Fund.

193

194 Chair Hodder thought the Finance Commission is going to have to make a lot of decisions
195 regarding the 2020 budget. He asked if comments could be taken from the public.

196

197 Ms. Cynthia White, explained this spring she was house sitting for a friend of hers and a very
198 large branch came off of her Ash tree into the boulevard and the house across the street also had
199 a branch come off his Ash tree a few hours later. It completely blocked the street and was
200 unexpected. Everyone was very lucky that a car was not passing through at the time or that a
201 child or adult was not walking when the branch fell off. She was not sure if the city would be
202 liable in that circumstance or not. She suspects that a lot of these trees are accidents waiting to
203 happen. She noted the city responded extremely fast and she suspected it was more expensive to
204 get someone out to clear the tree on that kind of a notice then it would be in a planned kind of
205 way. She did not think a price could be put on being able to have no one hurt, not car or house
206 destruction, etc. She would think this plan sounds very sensible to her and was not sure why the
207 Council sent this back to the Finance Commission to review but thought the Commission want to
208 provide some reasoned logic to Mr. Brokke's approach. It seemed to her that the city just cannot
209 let it go. She also wondered if a resident did not want a replacement tree in the boulevard would
210 that be an option.

211

212 Mr. Miller indicated in regard to liability, if it is a tree on private property and it happens to fall it
213 would not necessarily create a liability for the city. The city's liability would come in when the
214 city would demonstrate some sort of negligence. If through nature a tree or limb were to fall and
215 nothing to suggest to a reasonable eye that it was in danger of falling, he was not sure it would
216 create any liability.

217

218 Park Commissioner Hoag stated it depends on where the tree is located and if a tree should be
219 there in the first place.

220

221 Commissioner Lee asked how this would compare to trees the die from old age and what is the
222 budget for that.

223

224 Mr. Brokke indicated there is a \$78,000 annual budget for disease and hazardous tree for that
225 program and is not all full tree replacement. The city does as much as it can in house but some
226 of the bigger stuff is hired out.

227

228 Commissioner Sagisser asked if the State Grant money does show up would the plan be to
229 accelerate this or to reduce need.

230

231 Mr. Brokke thought that would depend on the proposals that the city would get and would
232 replace some of the monies the Parks and Recreation would get.

233

234 Commissioner Lee thought the Commission has exhausted all possible questions for the Parks
235 and Recreation Commission and should take some time to ponder this and move onto other items
236 on the agenda.

237

238 Chair Hodder agreed and suggested this matter be discussed in September with some
239 recommendations that the Commission sees fit.

240

241

242 **Receive An Historical Review of the City's Property Tax Levy & Budget**

243

244 Finance Director Miller reviewed the city's property tax levy & budget history with the
245 Commission. He indicated tax rates have been going up and have outpaced inflation. What has
246 been driving that has been some of the city's capital investments and other operations-based
247 decisions the city has had to make as well.

248

249 Chair Hodder thought this was a great overview and does help frame and tee off the discussion
250 for the City Manager's recommended budget item.

251

252

253 **Discuss Recommendations on the 2020 City Manager Recommended Budget and Tax Levy**

254

255 Finance Director Miller reviewed the 2020 City Manager recommended Budget and Tax Levy
256 with the Commission.

257

258 Chair Hodder asked if there are police incident numbers for 2018.

259

260 Mr. Miller thought it was around this time that the stats do come out but have not heard from the
261 Police Department if those numbers have been published.

262

263 Commissioner Harold noted regarding the stopping of the use of General Fund reserves to
264 balance the budget, he thought this Commission had been making that recommendation for
265 awhile but he thought two or three years ago the Finance Commission recommended a more
266 gradual approach and he thought this recommended budget illustrates the benefit of doing a
267 gradual approach. The city is looking at a substantial increase in the levy while at the same time
268 coming off of a reliance of Cash Reserves and based on the most recent numbers seen he