

**MANAGEMENT AND FINANCE POLICY COMMITTEE
WEBEX**

Members Present: Council Member Gardner – Chair, Council Member Johnston – Vice Chair,
Council Member Gruber – Member

Others Present: CM Marcano, R. Venegas, T. Velasquez, G. Hays, T. Vaughn, W. Sommer, T. Sedmak, M. Westerberg, W. Sommer, J. Giddings, S. Newman, H. Hernandez, D. Daufeldt, C. Birley, B. Kelly, B. Fillinger, D. Brotzman, A. Jamison, D. Hudson, M. Franks, J. Ehmann, J. Stewart and T. Hoyle

INTRODUCTIONS AND MINUTES

January 26, 2021 minutes were approved.

CONSENT ITEMS

January of 2021 was 12.2 percent higher than January of 2020. G. Hays stated this month had some crazy good numbers for a couple reasons. This January was COVID related compared to a non COVID related prior year. There was about a one-million-dollar effect from Market Place Facilitator and 1.4 million-dollar increase from all other taxpayers, that including onetime technology companies. It has continued to be good news.

Committee Discussion

Council Member (CM) Gardner: Just for clarification, when you say COVID related is some of that pent-up demand?

G. Hays: I think that we had some pent-up demand over time. So, when I'm talking about COVID related if you think about January of 2020, we were not in COVID. It started affecting us in April timeframe in terms of sales tax because it was around March. The other big thing about January is that it's the single largest month of our year and that's our Christmas sales month. Its a big harbinger on how the year is going to go.

CM Gruber: First off, I'm very encouraged by the numbers as they continue to go up. This is a very pleasant surprise. My only concern as Castle Rock opens up that people will begin to go more to Castle Rock and Park Meadows and other malls and shops in other areas. People then will spend less time online and we'll see a reduction. I personally believe that a lot of people have gotten very used to ordering things online which will remain good news for us. But it will be difficult to predict as the economy opens up again.

G. Hays: I absolutely agree with you 100%. We talked about that in the winter workshop over the weekend. It was good news in 2020 and this month has been good news, but I can't say whether that's going to become permanent ongoing good news yet in 2021. I want to get a couple months under my belt.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

CITIZENS' ADVISORY BUDGET COMMITTEE (CABC) BYLAW CHANGES

Summary of Issue and Discussion

The Aurora CABC seeks to clarify ambiguous language throughout the rules and bylaws and make said clarifying language consistent throughout the document. The CABC also desires to make three substantive changes to the rules and bylaws including: (1) moving the election of officers to January of every year, instead of December, so the entirety of the new membership can select their officers for the year term; (2) choosing to define quorum as a calculation at the beginning of each meeting that shall not change until the meeting is adjourned; and (3) adding language to allow all CABC functions to take place via electronic means.

Does the M&F Committee approve this to go forward to full Council?

Committee Discussion

CM Gardner: I don't have any question just a comment. Thank you for going back and clarifying all the changes. I know there were questions last time you presented so I appreciate you doing that. I'm okay with the changes. Like I said last time especially voting in the officers has always been sort of silly with it happening in November during the transition period, so this makes it a bit more sense.

CM Gruber: I'm good with it also.

CM Johnston: I'm good too. I think it makes it updated and especially the electronic meetings. Thank you for putting that together and presenting this information.

Outcome

The Committee recommended the item move forward to Council meeting.

Follow-up Action

Staff will forward the item to Council meeting.

CITY OF AURORA DEBT POLICY

Summary of Issue and Discussion

Teresa Sedmak, City Treasurer presented a brief summary of the debt policy. The existing debt policy was last updated and approved in 2012. This action brings forward a proposed comprehensive debt policy, inclusive of sections on swaps, disclosure and post-issuance compliance. The recommended policy is current with existing laws, rules and regulations of the U.S. Internal Revenue Service and the Securities and Exchange Commission and has been reviewed by Bond Counsel.

Does the Committee support advancement to Study Session?

Committee Discussion

CM Gardner: Just a couple quick comments to follow up. Because most everything that I had questions on you actually answered in your summary. One was did we have outside legal counsel review. It sounds like we did. The other piece I was going to ask was when the last time it was reviewed. It seems

like we're going to push up the timeframe because it's been 8 or 9 years ago which is good. My last question/comment to just clarify. Do you feel like the policy is specific enough? Then also has staff flexibility to do the job to get done what needs to get done? Because I don't want a policy so prescriptive that it doesn't allow you to do what you need to do.

T. Sedmak: I think it sets out the requirements and also allows for flexibility. There's also the opportunity to come back to Council, if there needs to be a change for some reason. It's definitely not etched in stone. It does allow some flexibility for making decisions around structuring, sizing, method of sale. All those things.

CM Gruber: I think it's a very good job as well. One of the issues I would like to cover and to review it. We're talking about General Obligation (GO bonds) and Certificates of Participation (COPs) which is permitted debt and there's a few other bonds. Could you give a quick overview of the difference between GO bonds and COPs?

T. Sedmak: GO bonds require a vote of the people and that means they are backed by the full taxing ability of the city itself. They have to be approved by the voters according to TABOR, which is good public policy. COPs are not considered debt under Colorado law. They don't have to go to the vote of the people. They're a different credit than GO bonds, which are paid before anything else. COPs are an appropriation credit. The principal and interest are allocated every year as part of the budget process. Because of that they're a bit lower on the credit rating scale. They're usually one notch below the ratings of GO bonds, but still very high-grade credit in Aurora's case. So that's really the difference between GO bonds and COPs. COPs might be used for rolling stock purposes or things that need to be replaced, COPs can be issued in cases where you do not want to go to the public every time, you're going to do a fleet purchase or something like that. They typically act more as leases than bonds, but they share most of the characteristics other than the credit characteristics of a bond.

CM Gruber: Okay again, the COP bond rate are specifically tied to our credit ratings by the three different credit issuer companies, correct?

T. Sedmak: The better off we are the higher the credit rating and the lower the cost of the credit. But obviously from its ratings, Aurora is a very well managed and very well regarded by the rating agencies and the investing public. The City has done a lot of work to get there and should be commended for very strong credit ratings for the City.

CM Johnston: Thank you Teresa for the great policy and great presentation. Kudos to staff for all you do to make us look good.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will forward the item to Study Session.

PROPOSED FINANCING ORDINANCE SERIES 2021 FIRST-LIEN SEWER REVENUE BONDS**Summary of Issue and Discussion**

Teresa Sedmak, City Treasurer provided a summary. The proposed financing ordinance provides for the issuance of Series 2021 First-Lien Sewer Revenue bonds, in an amount not to exceed \$65 million to finance the acquisition and construction of improvements to the sewer system, including the acquisition and construction of a portion of the Southeast Area Maintenance Facility (the SEAM Project).

The Southeast Area Maintenance Facility (SEAM) was a future project identified in a facility master plan in 1999 based on City growth projections. In 2016-2017, a study was completed of current facilities. The study identified the current facilities as being over-crowded and additional space needed especially for operations functions. Based on the findings of the study, the recommendation was a new facility in Southeast Aurora, where existing facilities are limited for Water, Public Works, Fleet and Parks, Recreation and Open Space employees. The SEAM facility will be located in Southeast Aurora off Quincy Road. The initial phase of the project will house Aurora Water employees, with long-term growth opportunities to expand to include other City departments such as Public Works, Fleet and Parks, Recreation and Open Space.

This ordinance will be accompanied by a draft preliminary official statement (POS) prior to the March 22nd council meeting. The POS is the primary disclosure document referenced by investors and includes comprehensive information on the bonds, which is vital to investors in making their investment decisions. Assisting the City in the preparation of the POS will be Kutak Rock, the City's bond/disclosure counsel and Hilltop Securities, the City's financial advisor.

The issuance of the Series 2021 Sewer Bonds will increase the debt service burden of the sewer system in an amount dependent upon the final interest rate and structure of the financing. At this time, assuming a \$65 million borrowing, current interest rates, a level debt service structure and a 30-year final maturity date, it is estimated that annual debt service will be approximately \$3.1 million until the bonds are fully repaid. It is important to note that final debt service numbers will be dependent upon, among other things, market conditions on the date of issuance. It is expected that the bonds will be sold in May of this year.

Does the Committee support moving the proposed financing ordinance forward to Study Session?

Committee Discussion

CM Gruber: So, as a point of reference the City just issued the COPs for Southeast Aurora recreation center and it came close to 2% and something. So, I guess from where we are now with the debt that we already have, it should be relatively straightforward to hit the City policy and make these go through. Is that your feeling?

T. Sedmak: Yes. I don't anticipate a lot of change in interest rates. Interest rates have been trending up a little bit, but I don't see them moving significantly between now and the time we go to market. I would imagine to be mid to high two's or maybe less.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will forward the item to Study Session.

PROPOSED FINANCING ORDINANCE SERIES 2021 FIRST-LIEN WATER REVENUE BONDSSummary of Issue and Discussion

The proposed financing ordinance provides for the issuance of Series 2021 First-Lien Water Revenue Bonds for the purposes of (1) providing a portion of the costs of additions and improvements to the Water System, primarily related to the City's Southeast Area Maintenance Facility (the SEAM Project); and (2) to allow for the refunding of all or a portion of the City's outstanding Series 2016 First-Lien Water Revenue Bonds in order to realize economic savings.

The Southeast Area Maintenance Facility (SEAM) was a future project identified in a facility master plan in 1999 based on City growth projections. In 2016-2017, a study was completed of current facilities. The study identified the current facilities as being over-crowded and additional space needed especially for operations functions. Based on the findings of the study, the recommendation was a new facility in Southeast Aurora, where existing facilities are limited for Water, Public Works, Fleet and Parks, Recreation and Open Space employees. The SEAM facility will be located in Southeast Aurora off Quincy Road. The initial phase of the project will house Aurora Water employees, with long-term growth opportunities to expand to include other City departments such as Public Works, Fleet and Parks, Recreation and Open Space.

This ordinance will be accompanied by a draft preliminary official statement (POS) prior to the March 22nd council meeting. The POS is the primary disclosure document referenced by investors and includes comprehensive information on the bonds, which is vital to investors in making their investment decisions. Assisting the City in the preparation of the POS will be Kutak Rock, the City's bond/disclosure counsel and Hilltop Securities, the City's financial advisor.

The ordinance provides for a maximum issue size of \$539 million, which includes: (1) \$120 million in new money; and (2) up to \$419 million in refunding dollars for the redemption of the previously issued 2016 Water bonds. It is anticipated that the bonds will be sold in May of this year.

The issuance of the "new money" portion of the Series 2021 Water Bonds will increase the debt service burden of the water system in an amount dependent upon the structure, interest rate and final maturity of the financing. At this time, assuming a \$120 million borrowing, current interest rates, a level debt service structure and a 30-year final maturity date, it is estimated that annual debt service will be approximately \$5.7 million until the bonds are fully repaid.

Potential refunding of Series 2016 bonds: The refunding of \$400 million of the Series 2016 Water bonds (assuming all callable bonds are refunded) could provide an economic savings of approximately \$21.14 million (a 6.35% savings on a present value basis), which would equate to a \$1.1 million annual savings. The actual size of the refunding will be determined at a later date, as the effect of market rates on savings are established. In accordance with City of Aurora policies, the refunding will not be consummated if savings are less than three (3) percent as compared to the interest costs of the 2016 transaction.

Does the Committee support moving the proposed financing ordinance forward to Study Session?

Committee Discussion

There were no questions from the Committee.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will forward the item to Study Session.

POLICE HYBRID PENSION PLAN UPDATESummary of Issue and Discussion

Previously, on February 8, 2020, at the Winter Workshop, an update was provided on the progress of the development of a hybrid defined benefit option. City Council directed staff to draft the plan document and to continue the 12% employee and 12% employer contribution in an ongoing manner. This was incorporated into the 2021 budget.

At the July 28, 2020 Management and Finance Policy Committee meeting, Cindy Birley, Esq. Partner, Davis Graham Stubbs, LLP presented the draft Police Hybrid Pension Plan document in detail to the Committee and provided an update regarding the timeline for implementation of the plan.

In 2020, \$290,000 was appropriated to fund the Police Hybrid plan design. As of December 21, 2020, approximately \$64,800 is remaining of the 2020 funds. It is anticipated that \$368,500 additional funds will be required to complete the implementation process of the Police Hybrid option as outlined in the timeline. Since the forfeiture funds of the Aurora Police Money Purchase Pension Plan (AP-MPPP) reduce the employer contribution from the City, we estimate that \$154,000 of the forfeiture money is indirectly available to help offset these costs. These costs will be part of a future 2021 supplemental appropriation. In addition, seed money for the defined benefit option is estimated at \$6 million and may be funded over multiple years starting in 2022 and may be included in future budgets.

Cindy Birley, Davis Graham Stubbs, LLP presented an update to the Committee regarding the Police Hybrid timeline. Does the Committee have any questions on the timeline? \

Committee Discussion

CM Gardner: CM Gruber or CM Johnston any questions?

CM Johnston: No, I'm good. It's exciting to see this as far as it is. During the time when Council Member Gruber and I first started. I remember it being in some of the beginning stages so thanks for all your work on it.

CM Gruber: I just wanted to congratulate the team for how much progress you've made. Terri, especially you and leading us forward. When we first started discussing this with the AP-MPPP folks. I know that we talked about incurring significant cost. You see that cost and the amount of organizations we're going to have to hire in order to keep this running. But, at the same time I think that it gives a substantial increase in confidence in our police force in the ability for them to have a retirement when

they leave. I know that this has been a pretty good year so far as investments go as opposed to two years ago when things were much more volatile. I suspect we may be heading into a recession again it's about that time. So, I'm glad to see this as being set up. If you don't mind CM Gardner, I like to ask if we have a MPPP representative from here to give us their thoughts.

T. Velasquez: Brian or Doug did you want to add anything?

B. Kelly: Yes, this is Brian Kelly. Thank you. CM Gruber for those words. It has been a lot of work. I'm going to say that Terri and Attorney Cindy Burley have shouldered a lot of it. Joel is on as well from Milliman. They actually have done a lot of work. It takes a long time, but I do think it's going to be a great benefit to our officers.

T. Velasquez: I just wanted to point out in the commentary that there are some financial impacts for 2021. We did appropriate some funds to help with the plan design starting in 2020. We anticipate additional need for funds as you heard. Cindy outlined some of the activities and efforts that will be made this year. So, we do anticipate coming back with a supplemental appropriation and right now we're anticipating an additional \$368,500 of funds needed to finish off the process to complete the implementation. Then I didn't want anyone to forget that there would be a need for seed money, and we are still estimating that to be at least \$6,000,000. So, I just wanted to point those things out, and also thank Cindy. She really has been keeping us on track and moving forward, as well as Brian and Doug and the whole team. Hans has been a part of that and Jason Batchelor, so it really has been a team effort. Thank you.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

INTERNAL AUDIT SCOPE IN RELATION TO CITY COUNCIL ACTIVITIES

Summary of Issue and Discussion

The Office of the Internal Auditor has been granted specific powers under the Charter and Ordinances of the City. These powers are not limiting but in order for the department to audit any activity outside of the scope of their current legal authority it would require a specific approval from council. Activities of the City Council are not currently within the scope of the Office's specific powers. At a recent Management and Finance Policy Committee meeting, the Internal Audit Manager stated that the reason Council purchasing card transactions had been passed over in a recent engagement was that it was his understanding that Internal Audit did not have the authority to audit City Council activities.

The Management and Finance Policy Committee, acting as the audit committee, has asked to revisit this issue.

What next steps does the Committee wish to recommend?

Committee Discussion

CM Johnston: I just want to ask Wayne, if there's a best practice for this and what do other cities do on this type of internal audit?

W. Sommer: That's a good question and one of the answers I would give is that it depends upon the structure of the office of the internal auditor. We've talked about three possible structures in the past. One is an elected internal auditor which you have in Denver. They have the ability to essentially roam wherever they like. The second is a Council-appointed auditor such as in Colorado Springs; they tend to do engagements not only based on their own risk assessment, but also at the direction of Council. The third form is what you have here in the City of Aurora. The Internal Auditor reports to the City Manager which has its own set of dynamics when you start asking the auditor to audit the City Manager's bosses. So, there really aren't specific best practices; it all depends on the structure. In this case, I would say it's really up to Council and what they would like us to look at.

CM Gruber: Wayne, I guess what I'm looking at and it's not so much a punitive audit or trying to find something wrong per se, but almost a friendly audit. Each of the Council Members are given a travel allowance that they are allowed to use in accordance to their best feel and fit. In other words, it is to be used to go on trips to visit other cities that are doing something Council may be considering. It could be a national convention or things like that. So, each of us are responsible either through using a p-card or such as Council Member Johnson said to use a personal credit card. Then filing travel vouchers with the City and usually that's with the help of the Council staff. What I would be interested in is simply a review of travel vouchers prior to the end of the calendar year. So, working for the audit committee as opposed to working for the City Manager. In other words, come up with an ordinance or however we decide to do this. You would be empowered under the Committee to do a review of Council, and since the audit committee is City Council Members, you would be in fact working for City Council at the time of that audit. But the idea is to go through and make sure vouchers are filed appropriately and claims are in accordance with policy. Therefore, did Council follow the same travel policies as the rest of the City employees, such as meals and hotels and flights, and things like that. And the reason why to do it by the end of the calendar year is so that if you do find a discrepancy with something that was charged or not charged, this would give the Council Member enough time to either use their own funds, or repair any of the vouchers that they've submitted prior to the end of the calendar year.

W. Sommer: Speaking for Internal Audit, I would tell you that we do neither friendly nor unfriendly audits. Our audits are always based on seeking to add value, not penalize. Second, if you're talking about auditing expenditures that are specifically related to Council conducting its business, we're fine with that. I'll leave it to Hans in the City Attorney's Office to throw in any of the caveats that Legal might like to add.

CM Gardner: Hans do you have anything to add there?

H. Hernandez: So, thank you so much for the question Wayne. You know that this isn't defined in our charter or ordinances, but the way I see it is that our City Attorney has the last word on this. My caveat is that our City charter has responsibilities for the auditor and even though it's not well-defined, you can still give the City Auditor tasks, but you will be the one limiting that particular task. You will decide where they will go. I don't think it will contradict the charter or any ordinances that we have so long as the City Council agrees to it. The audit committee is this committee, the Management and Finance Committee, and you have that particular power if for whatever reason a Council Member may have a question. Perhaps we would have to stop the process to see what's the will of the entire City Council considering the duties and responsibilities of Wayne. I know specifically we could give some guidelines that says "yes, he could do this and these other things." So, with that little parentheses, that would be

totally up to you what you decide. They would go ahead, and you put the limits on what you want. I don't think you will be violating anything, and Mr. Brotzman would have the last word for anything I say.

CM Gardner: Let me ask you this Wayne, if this timeline or plan or whatever will work please speak up. But what about if over the next week or two or up to three weeks, you, and I can work together on kind of a plan and then present it at the March Management and Finance Committee for final approval by the audit Committee? Then, would that give you and your group enough time to meet the timeline that Council Member Gruber laid out? Because I do agree that having it done by the end of the year is wise in terms of allowing a council member the opportunity to cure any issues. So, if we were to do that timeline would that work for your group?

W. Sommer: Absolutely, we would be happy to work with you on developing what that scope would look like and the set of objectives. Essentially, that's what would go in our engagement letter that we would address to you so that you could agree to that scope and set of objectives. The Committee could look at that and approve that and then we would be happy to work that into the audit schedule at the end of the year.

CM Gardner: Does that work for you CM Gruber?

CM Gruber: Yes.

CM Gardner: Okay, CM Johnston does that sound all right with you?

CM Johnston: Yes, if I may CM Gardner, I just have a comment. You might already be doing this, but I just know that during the Council orientation, in the big binder, there was a section on use of p-card travel and all of that, so just to save a little time referring to that for the language it will go from there.

CM Gardner: I think that's a good suggestion. I do want to point out and I understand, that more than likely we're not talking about a material amount as it relates to our total budget. But I do think it's appropriate to do from a transparency standpoint making sure the council members are complying what those policies and rules are. It sounds like we're all on the same page, so let's go ahead and proceed with that. Then I guess we can decide later on in the year when this portion of the engagement is done. We can either present it to the audit committee or we can maybe do an information-only presentation with a Study Session if the full Council is interested in it. But either way, I think doing this type of review would be prudent so let's go ahead and move forward that way. Wayne, is that enough direction for right now and we can revisit next month?

W. Sommer: Yes, that just fine. I can get the materials from Susan Barkman that are provided to Council around the use of p-cards and travel and use that to draft a set of objectives and scope for your review.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

MISCELLANEOUS MATTERS FOR CONSIDERATION

Summary of Issue and Discussion

Scheduled for March meeting.

- ❖ Spring Supplemental
- ❖ Update on City Council Purchases

- The next meeting is on Tuesday, March 23, 2021 at 1:00 PM (WebEx)

THESE MINUTES WERE APPROVED AS SUBMITTED

Curtis Gardner

Curtis Gardner, Chair of the Management & Finance (M&F) Committee

3/30/2021

Date