

**MANAGEMENT AND FINANCE POLICY COMMITTEE
WEBEX**

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

Absent: Council Member Gruber

Others Present: J. Marcano, R. Venegas, N. Freed, T. Velasquez, G. Hays, K. Claspell, N. Wishmeyer, W. Sommer, T. Sedmak, S. Newman, H. Hernandez, R. Allen, D. Brotzman, D. Wilson, F. Gray, M. Brown, J. Hancock, J. Giddings, G. Thrasher, J. Ehmann, D. Giordano, J. Schneebeck, J. Patterson, M. Wasserburger, B. Bell, B. Fillinger, G. Hansen, A. Jamison, D. Hudson, M. Redding, J. Prosser, E. Watson, M. Franks, W. Levine, B. Boswell, L. Dalton, M. Donovan, S. Barkman, and T. Hoyle

INTRODUCTIONS AND MINUTES

February 23, 2021 minutes were approved.

CONSENT ITEMS

February of 2021 was 0.2 percent lower than February of 2020. Market Place Facilitator was at around \$740,000. G. Hays noted that if it wasn't for the increase from the Market Place Facilitator. It would have been down almost 5%, since the worst times of COVID in May.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

2021 SPRING SUPPLEMENTAL

Summary of Issue and Discussion

Kerstin Claspell, Lead Budget Analyst gave a brief overview. The 2021 Spring Supplemental Ordinance appropriates amounts for a number of operating expenditures and capital projects that require appropriations and inter-fund transfers in the funds listed in the attachment. This ordinance impacts the 2020 and 2021 budget years. Items for 2020 represent financial activities that have already occurred.

One of the first steps of the annual budget process is to prepare an updated projection of current year requirements. Some requirements that had been identified in the 2020 projection prepared for the 2021 Adopted Budget were reviewed and appropriated as part of the 2020 Fall Supplemental process. Others were deferred, as departments are often able to offset the impact, either partially or entirely. Most of the requests included for 2020 in this 2021 Spring Supplemental request were identified and included in the 2020 projection in the 2021 budget document.

Many of the requests included in this supplemental process are technical. Technical items are typically budget lapses (reductions) or reallocations, zero-dollar amendments with appropriation offset by revenue, or accounting and other adjustments. These items are indicated by including "technical" in the

title and may or may not have been reviewed by Council. Most items have been previously reviewed by Council or Council Committee. Council review includes items included in the 2020 projection and reviewed as part of the 2021 Adopted Budget process, as well as items reviewed at either a Council Committee meeting or City Council meeting. Council review details are included in the narrative for the supplemental request.

The attachments included for this agenda item reflect summary and detail information regarding the requested appropriation changes for each fund and department. Transfers result in a move of funding from one fund to another. The details of these appropriation amendments are found in:

- Attachment A: 2020 Appropriation Summaries by Fund;
- Attachment B: 2021 Appropriation Summaries by Fund;
- Attachment C: 2020 Appropriation Detail by Fund; and
- Attachment D: 2021 Appropriation Detail by Fund.

As noted, the spring process covers two budget years. The following discussion will identify and focus on significant changes included for each budget year by fund, rather than the list in its entirety. Please see attachments C and D for the details on each request.

2020 Supplemental Amendments

Significant one-time supplemental items in all funds include:

- The appropriation of **\$33.9 million** in CARES funds and **\$591,000** for the purchase of land to create additional buffer near Buckley AFB in the Gifts and Grants Fund. CARES Act funding was included in the 2020 projection whereas the Buckley buffer grant was not due to the timing of the project.
- The appropriation of **\$29.8 million** for water rights acquisitions in the Water Fund. This item was included in the 2020 projection, although the actual amount needed was higher.
- Appropriations totaling **\$1.7 million** for costs incurred to respond to an increased workload surrounding development activity in the Development Review Fund. This item was included in the 2020 projection.
- The appropriation of **\$596,900** for the Homelessness Program in the Marijuana Tax Revenue Fund to align the 2020 appropriation with final 2020 collections of the 2.0% marijuana sales tax set aside. This supplemental was included in the 2020 projection, although revenues came in higher than anticipated.
- The appropriation of **\$596,200** in federal funding for the design phase of the Nine Mile Bike and Pedestrian Bridge Project in the Capital Projects Fund. This item was not included in the 2020 projection due to the timing of the project.

2021 Supplemental Amendment Requests

Significant supplemental items include the addition of a net 11.0 FTE across various departments:

- 1.0 FTE Youth Violence Prevention Manager and 5.0 FTE Youth Violence Prevention Outreach Specialists to initiate the Youth Violence Prevention Program in Housing and Community Services.

- 1.0 FTE Business Solutions Architect to support remote work and 1.0 FTE Project Coordinator contingent conversion to address increased project demands in Information Technology.
- 1.0 FTE Water Conservation Specialist to continue to provide low-water-use landscapes at no cost to income-qualified homeowners, 1.0 FTE Water Resources Specialist to address the growing need for water acquisitions, and 2.0 FTE Treatment Technicians to address the need for entry-level operators in Aurora Water.
- The net elimination of 1.0 FTE associated with a reorganization in Communications.

Other significant supplemental items in all funds include:

- The appropriation of **\$1.8 million** for the developer-funded final design of Montview Boulevard within the Fitzsimons Campus in the Capital Projects Fund.
- The appropriation of **\$1.1 million** for the Youth Violence Prevention Program in the Marijuana Tax Revenue Fund, including 6.0 FTE.
- The re-appropriation of **\$1.0 million** for affordable housing seed funding that was budgeted but not spent in 2020 and the appropriation of **\$4.4 million** in CARES funds not spent in 2020 in the General Fund.
- The appropriation of **\$565,400** for the activation of 4.0 FTE in the Development Review Fund to meet the workload demands in the Engineering Development Review division.

Detail behind all supplemental items can be found in Attachments C and D.

Does the Committee recommend sending this item forward to Study Session?

Committee Discussion

There were no questions.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will forward the item to Study Session.

2020 EXTERNAL PRE-AUDIT LETTER

Summary of Issue and Discussion

Nancy Wishmeyer, Controller provided an overview. BKD, LLP, the city's external auditors, provide a pre-audit letter to communicate various matters related to the scope and timing of the 2020 financial statement audit, and compliance with requirements applicable to federal grant programs. BKD, LLP also provided an engagement letter dated September 21, 2020 that was presented at the October 27, 2020 Management & Finance Policy Committee meeting. The engagement letter is the contract for the upcoming audit and defines auditor and city management responsibilities as well as fees. The pre-audit letter communicates audit matters that are more appropriately communicated as the engagement begins.

The pre-audit letter is required auditor communication to the city's audit committee at the beginning of the engagement. The letter outlines audit risk areas and the corresponding audit approach to address

those risks. The pre-audit letter also outlines areas that governance should be particularly aware of as it oversees the financial reporting process. Finally, the pre-audit letter discusses how the auditors address the risk of fraud.

Does the Committee have any specific questions concerning the pre audit letter?

Committee Discussion

CM Gardner: I have one question and actually what you mentioned about the not previously discussed item on the purchasing card transactions. Is that separate than the engagement that we asked for related to Council's p-card transactions?

N. Wishmeyer: Yes, that's correct. So, this is something the auditors will still look at. Different things that could be high risk. Things that they don't discuss with us ahead of time, because they don't want us to prepare. They want us to give them whatever data we have. But yes, it will be completely separate from any other audits or engagements that we may do either with them or separately with others.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

GFOA END THE ACRONYM POLICY STATEMENT

Summary of Issue and Discussion

Nancy Wishmeyer, Controller communicated that effective immediately, the Government Finance Officers Association (GFOA) is asking all industry affiliates to stop using the four-letter acronym commonly associated with the Comprehensive Annual Financial Report. This recommendation is the result of increasing professional awareness that the acronym, when pronounced out loud, sounds the same as a derogatory term historically used in other parts of the world. Most concerningly in South Africa, this term has ties to Apartheid and was used as a racial slur towards Black South Africans. GFOA takes its commitment to diversity, equity, and inclusion seriously. GFOA serves diverse communities across the county and supports strategic partners around the world and has determined that the continued use of this acronym conflicts with the organization's core professional values.

As members of GFOA, city staff agree with this policy and will begin the process to remove the four-letter acronym from the city website, internal share point, published documents, etc., and in day to day discussion. The term "Annual Report" will be used in its place going forward.

Committee Discussion

CM Johnston: I really appreciate you and staff supporting that request, so thank you.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

INVESTMENT PORTFOLIO AND INVESTMENT POLICY

Summary of Issue and Discussion

At the suggestion of the Investment Advisory Committee, Mary Donovan, Insight Investments and Teresa Sedmak, City Treasurer, provided a high-level overview of the City's investment portfolio. In addition to a review of the general characteristics of the portfolio, the Committee was presented with a report on the credit quality of the holdings within the portfolio. The report summarized securities held as of February 28, 2021.

Committee Discussion

CM Gardner: So, I had maybe not as much of a question, but just something I would like to talk about for purposes of the minutes. At the last Investment Advisory Committee meeting, we had a pretty robust conversation about how we might go about making a decision to move out of an investment position. Mary can you talk a little bit about that and maybe Teresa too, on how our policy addresses it, obviously it's somewhat of an art and somewhat a science. But can you both talk a little bit more about this and how the decision-making process would go.

M. Donavan: Sure, how about I kick it off and then hand it over to Teresa. First, I would say that the investment policy has a couple of tidbits that are important to keep in mind. One, the City is described as an investor with primarily a buy and hold strategy. So, we are not trading the portfolio per se. We're typically buying securities that we want to hold to maturity, and are comfortable holding to maturity, from a credit perspective. Kind of reinforcing the buy and hold approach, is the fact that the investment policy also states that credit ratings and diversification guidelines are to be evaluated at the time of purchase. So that recognizes that in the event of a credit rating downgrade the city is not a forced seller. And that's a really important thing to keep in mind because being a forced seller in a marketplace where a whole bunch of people are sellers can lead to some pretty negative financial results. So, the investment policy has some guidelines that are very important and helpful with respect to this particular issue. As far as the decision to potentially sell a security, it requires us to keep the City informed of changes in rate outlooks and ratings. I'm going to use the General Electric (GE) phenomenon as an example. The City did own, and Insight recommended the purchase of GE bonds some years ago, and GE went through a number of rating downgrades. We looked at strategies, at various points in time while we held the security, to see what the impact would be from selling the bonds. And, in this case, it would have been a loss that would have been realized. We came up with strategies that would have allowed us to repay the loss within the period of time when the security would have matured. So, we worked to develop alternatives to holding the security and we presented those ideas to Finance staff. Ours is ultimately a non-discretionary relationship, so the ultimate decision for anything that goes in or out of the portfolio is made by City staff. But we presented alternatives and gave our recommendation, fundamentally from a credit perspective with the GE investment. We were very comfortable holding it but recognizing that some of our clients don't want to hold something that doesn't meet policy guidelines. We do work to develop strategies to exit a position that has been downgraded. So that opportunity is available to the client.

T. Sedmak: I'd like to chime in a little bit. The investment policy of the City of Aurora is fairly robust. It also has more credit exposure more than certain other investment policies do. We're comfortable with that and that we have an investment advisor that has a credit staff evaluating those credits all the time. So, I would not necessarily be as comfortable with the credit exposure that we have in the portfolio, if we were managing internally, because we don't have the staff to do that credit analysis. Sometimes, if

you're paying a lot of attention to the rating agencies, and that's all you're paying attention to, it's not enough. I feel very confident that Insight is looking at those investments. They're keeping us aware of any changes in credit profiles of the corporates that we own. And again, we're in compliance with the policy at this point. If there's something that we are particularly concerned with, we will discuss that and bring it forward to the Investment Advisory Committee which, ultimately, could direct us to either sell or hold the security. That decision is really based on several factors. One being the credit, another being how long we have to hold that security until it matures, and what the market conditions are. So, it's not always cut and dry as to whether you're going to hold something or to hold that position. If we're in a position where we are concerned about it and we aren't quite sure what to do about the situation, we would bring it forward to the committee. But I think we're always letting the committee know about the current exposure and the portfolio. So, I don't know if that answers your question. But the policy definitely does not tell us when we need to exit a security. It does tell us when we could buy. It doesn't tell us that if certain parameters are broken that we have to sell that security. That's a decision that's made either at this level, or if it needs to be elevated, it will be brought forward to the Committee to discuss.

CM Gardner: I appreciate that explanation and like I said. I thought it was a good conversation and would be good for this group. Also, for the minutes if anybody in the public that reviews to know what that process is like. I don't have any other questions so thank you very much for the presentation.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

2021 ACLC HEAVY FLEET FINANCING ORDINANCE

Summary of Issue and Discussion

Andrew Jamison, Senior Debt Analyst provided a presentation. This is the continuation of a fleet financing program begun in 2012 through the use of the Aurora Capital Leasing Corporation. Due to COVID-related production delays and other issues, no financing was completed in 2020. The 2019 fleet financing closed with terms of \$3.9 million for 6.3 years at a rate of 1.97 %. In 2018, ACLC completed a 7.5-year fleet financing for \$1.75 million at a rate of 3.13%. In 2017, ACLC completed a 7.5-year fleet financing for \$1.22 million at a rate of 1.98%. In 2016, ACLC completed a 7.5-year fleet financing for \$2.0 million at a rate of 1.46%. In 2015 ACLC completed a seven-year fleet financing for \$3.2 million at a rate of 1.68%. Staff seeks to replicate this program in 2021.

Beginning in 2012, staff solicited third party financing for annual fleet acquisitions. The results were quite favorable to the City. Given this success and the continued interest among local banks to provide such financing, staff will again solicit financing proposals for 2021 fleet needs. The first step is to seek Council approval of a Lease Purchase and Financing Ordinance followed by a request for financing proposals later this year.

In the approved 2021 budget, Public Works will acquire up to seven vehicles (six Dump Trucks and an asphalt machine) and Fire will acquire eight vehicles (four Pumpers, Ladder, two Brush Trucks, & Tender) for a total cost not to exceed \$10,000,000, financed for a term not to exceed 130 months at a rate not to exceed 5.00%.

Staff recommends approval.

Does the Management & Finance Committee support soliciting third party financing for the 2021 fleet acquisition and moving this item forward to Study Session?

Committee Discussion

CM Gardner: The 2 Dump Trucks and the 2 Pumper & Equipment for Fire department. Have those been delivered just out of curiosity. I ask because they show delivery dates January 21 and then March 21.

A. Jamison: So, the 3 Dump Trucks listed have been delivered. Part of this ordinance and with most of the financing we do. We have a reimbursement parameter in there. We create a reimbursement memorandum so that effectively it doesn't handcuff us as far as when we exactly execute the transaction. Because these kinds of orders sort of span over two years so we didn't want to do it too early. But the dump trucks did end up arriving. The pumpers I would actually have to check with our folks in Fleet. They haven't sent me the invoice to actually pay the bill. But I believe those are on scheduled to be delivered here fairly soon. There is an acceptance and approval process they go through before they okay the money going out the door. But the best of my knowledge those are on schedule. Possibly maybe not paying the bills in March but are still on schedule for springtime.

CM Gardner: I didn't write it down, but I think you said a rate of up to 5%. It seemed a little high in the context of what you said about the City being very low risk and the banks wanting this type of deal. So, what type of rate would you actually expect to get on something like this?

A. Jamison: Well that's always a tricky matter. Because of the approval process we probably will be completing this transaction by June or July at the rate of the ordinance approval process goes. But let's say I would go to the bank tomorrow looking at the interest rate environment. I would guess we would get a rate probably around 2% and maybe a bit below 2%. But that can all depend because it all scales off the market interest rates and what the Treasury interest rates are doing. And as we seen this year actually rates at 5-years and farther out the curve. So, 5, 10, 30 years have actually increased substantially. Although, they're still at record lows that were seeing that long interest rate curve increase. Smarter folks than I can explain it better, but it's usually a good outlook for the economy that things maybe are coming around the curve here. The only reason I'm pointing that out is the 5% it sounds like high parameter, but the problem is that you could ask 10 economists what interest rates will be in 6-months and you'll get 9 incorrect responses. So, we always like to pad it probably more than we ever would need. But we wouldn't like to be in a situation where interest rates increase substantially, and we're now locked out of going to the market based on the parameters and the resolution.

CM Gardner: Well, that's actually why I asked. Just because Treasury rates have gone up a little bit, therefore I was just curious. Can we lock in a rate now? Even though we'll have to go through the approval process for the ordinance or it doesn't work like that?

A. Jamison: We usually do this as a private placement versus for example the SEAM transaction that we're doing which will be a public debt issuance. So, sometimes the banks will give us the rate indication and it's good for 30-days or depending on when we get the RFP. We can pay certain amounts to lock in the rate and that's kind of a game time decision. Yet this far out, I don't think we would get a

rate locked for roughly 2 ½ months until this ordinance is effective. But we definitely will be jumping on this after the SEAM transaction prices are in, therefore early May or so.

CM Gardner: Okay, I appreciate you answering those questions. I'm okay with moving this forward. CM Johnston?

CM Johnston: Yes, I'm good with moving it forward.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will forward the item to Council meeting.

PROPOSED AUDIT OF MAYOR AND COUNCIL OPERATING EXPENSES

Summary of Issue and Discussion

Wayne Sommer, Internal Audit Manager provided a brief overview. The Management and Finance Committee functions as the City's Audit Committee. The Audit Committee specifically requested this engagement. The Internal Audit is being asked to conduct an audit of Mayor and City Council operating expenses to ensure they comply with Council Rules and Procedures and City policies.

Committee Discussion

CM Gardner: CM Johnston any questions or comments.

CM Johnston: Just comments. Thank you, CM Gardner, for initially bringing this up. I love the format the process the extent of that, so when we're moving forward, we're even more clear and more transparent for the public so thank you.

CM Gardner: Yes. My only comment is just thanks to Wayne and his team for working with us on this. I just want to state that I think it's just important from a transparency standpoint that we are looking at these transactions. So glad that we have a process in place going forward. So, thanks again, Wayne. I'm okay with moving this forward and I assume you are as well CM Johnston.

CM Johnston: Yes sir.

Outcome

The Committee thanked staff. Information only.

Follow-up Action

No follow-up needed.

MISCELLANEOUS MATTERS FOR CONSIDERATION

Summary of Issue and Discussion

- The next meeting is on Tuesday, April 27, 2021 at 1:00 PM (WebEx)
(Please note, this meeting has been cancelled.)

THESE MINUTES WERE APPROVED AS SUBMITTED



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

6/2/2021
Date