

MF POLICY COMMITTEE MEETING

January 24, 2023

Members Present: Council Member Zvonek – Chair, Council Member Bergan – Vice Chair, Council Member Jurinsky

Others present: R. Venegas, T. Velasquez, B. Levine, C. Dancy, M. Crawford, G. Hays, N. Wishmeyer, J. Stewart, D. Hudson, M. Bryant, T. Hoyle, C. Haight, R. Lantz, R. Allen, C. Waldron, H. Hernandez, M. Stamp, A. Jamison, S. Van Buren, K. Claspell, S. Newman, D. Sisneros, T. Sedmak, T. Vaughn, L. Saqib, D. McConico, R. Goggins, A. Morris, D. Krzyzanowski, C. Dancy, L. Steege, S. Sandstom, M. Murphy, A. Johnson, M. Reding

INTRODUCTIONS AND MINUTES

December 20, 2022 Minutes were approved.

2022 SALES TAX CHART**Summary of Issue and Discussion**

Bill Levine presented the 2022 Sales Tax Chart. The sales tax in December 2022 had a growth of 1.5%, a misleadingly low growth number. In December 2020, Aurora City earned about \$17.4 million in sales tax. In contrast, the City earned \$21 million in December 2021 and \$21.3 million in December 2022.

A variable sales payment tax typically comes from a company that has little to no sales tax returns for a couple of months and then all of a sudden, a huge payment was made from that company. Variable sales taxes are considered one-time and are usually business-to-business sales. This happened during the month of December 2021, when the City received the single largest sales tax payment from an I.T. company, which is \$1.8 million, making it very hard to grow this year. If you removed the \$1.8 million from December 2021 sales tax collections, the 1.5% growth in December 2022 would have actually been 11.1%.

Each year the Budget Office tracks the sales tax collections from the roughly 200 top taxpayers. Bill Levine presented a chart showing the collections from these top taxpayers in 2022 by industrial sector. The sectors of taxpayers were divided according to how the companies describe themselves using a specific code in GenTax. The Utilities sector had the largest growth of sales tax of 17.4% with an energy inflation of approximately 15.6%. Auto dealers were the second highest sector and Tesla and Carvana were added as two new large taxpayers for 2022. The Other Top Taxpayers category showed strong growth as well and this sector included Amazon and eBay, which have shown growing sales tax collections as online sales have been booming over the longer term.

However, not every sector experienced the same level of growth through the economy. In 2022, consumers bought more services and less goods. This trend caused clothing stores and furniture

stores to decline in terms of sales tax revenue as opposed to other sectors of the economy that showed strong growth.

Committee Discussion:

CM Bergan: Just on the building materials, because I can't see the little numbers. What was the dollar amount versus, utilities or auto dealers?

B. Levine: So building materials, and I put this in the middle column, and again, I may try to send you this because this was not in e-scribe. So my apologies, but I'm happy to get this to people if it's of interest. Building Materials dealers generated \$21.7 million last year, and their growth rate was 12% over the prior year in terms of sales tax collections.

CM Bergan: Great. Thank you.

CM Zvonek: Other questions, Council Member Jurinsky?

CM Jurinsky: Yes. I know you said that in 2021, we got the large I.T. payments. Is that separate from the marketplace facilitator payment that we received in 2020 and '21?

B. Levine: It was. So, I didn't talk about it but the red on the chart represents marketplace facilitator and that was, again, it's something different. So the I.T. payment really didn't come from an online retailer, not someone facilitating a marketplace. It was an I.T. company selling I.T. hardware type of things.

CM Jurinsky: So really, if we were to back out the past from 2020, if we were to back out the marketplace facilitator payments and the large one-time I.T. payment, then our growth in the last year really actually would be a lot larger in comparison. Right? If we were to back those things out and compare apples to apples.

B. Levine: In some ways it would. So, when you see the growth on this chart that I have up now in August, September, and November, specifically, all double-digit growth, they also had really large one-time payments in it. Well, in the last four months, not counting December, we had double-digit growth, and three out of those four, we had really high one-time variable payments come in. So those to me were artificially high. Unlike December, which I'm describing as artificially low. So it can work both ways. Sometimes it makes things appear stronger than they are, other times it makes things seem weaker than they are.

CM Jurinsky: Okay. Thank you.

CM Zvonek: So, correct me if I'm wrong, but the marketplace facilitator now is built into our base, that's where the red stops, and at that point its built into our base because we accounted for it from the year before when it was a surprise payment. And so, after 12 months now it's in there so it's reflected in the growth.

B. Levine: That's exactly right.

Outcome

Information only.

GERP DC Option Actuarial Study
Summary of Issue and Discussion

Nancy Wishmeyer, City Controller, presented this item. The City contracted with Milliman to prepare an Actuarial Study to determine the financial feasibility of allowing new city employees the choice between entering the General Employee Retirement Plan (GERP), a Defined Benefit Plan (DB), or a new Defined Contribution (DC) Plan option.

Employees would only have the choice of going into either GERP or the DC Plan when hired, whereas current employees would be required to stay in GERP. The contribution percentages for the new DC option would be the same as GERP: 7% employee and 7% for the city. Employees that chose the DC Plan would have 100% of their corresponding Employer Contributions go into the DC Plan and nothing would go into the GERP. Two future enrollment assumptions were considered: new employees would enroll at a rate of 90% into GERP and 10% into the DC Plan or new employees would enroll at a rate of 70% into GERP and 30% into the DC Plan.

Results of the study showed two charts: the funded percentage which is the ratio of the market value of assets to the plan liabilities, and the unfunded liability which is the total plan liabilities compared to the market value of the assets. The funded percentage chart shows that the current DB program has a higher funded percentage than the DC enrollment assumptions for GERP. At the assumed 7% rate of return, the funded status of the current program, the 10% and 30% DC assumptions all slowly increase over time. But at year 29, the 30% DC assumption would still not be 100% funded. On the unfunded liability chart, at the assumed 7% rate of return, after 29 years, the current program would have a surplus of \$76.5 million. At 30% DC assumption, after 29 years, would still be at an unfunded liability of \$30 million.

Joel Stewart, from Milliman, added that during 2022, assets returned about -10%, which put the plan at an underfunded position.

Committee Discussion:

CM Bergan: Thank you for that. Fascinating. Two things. Does it account for population growth of employees in that scenario? So you could possibly have more people joining GERP even though you have the percentage difference.

J. Stewart: It assumes a static population. We base this on our most recent valuation, as of January 2022, we assume that group remains stable, and the overall payroll is projected to grow at 3.25%.

CM Bergan: Okay. And the second question is when you say after 29 years, we'd have the surplus versus the 30% Defined Contribution, we would be unfunded \$30 million. What's the implication of that for the city? For example, in the \$76 million, what do you do with that versus when you're in a deficit?

J. Stewart: Once the money is in the plan, it would stay in the plan and go towards paying plan benefits or perhaps other changes to benefit policy, things such as de-risking things of that nature.

CM Bergan: But we wouldn't increase any contributions or anything?

J. Stewart: No, in fact, after the plan has hit 110% funding for three years in a row, contributions to the group actually tier down to five and a half percent. They're currently at 7%. The city would phase down to five and a half percent if the plan were overfunded by 10%.

CM Bergan: So, then that is a benefit to the employee? They pay less? And the city?

J. Stewart: Yeah. Both the city and the employee. Right now, under city code, the employee and the city pay the same amount.

CM Bergan: Gotcha. Okay. Thank you.

CM Zvonek: Any other questions? Okay, I have a couple. So, what is the average annual rate of return? I know we're assuming seven and six and eight in these assumptions, but what about the last, say, five or ten years? Is there a running average that we have to tell us that? I remember at the State they've reduced it from PERA, which is a much bigger fund because obviously it can make the numbers look more funded if you're assuming a higher rate of return.

J. Stewart: I don't have this data with 2022 reflected unfortunately, but as of the beginning of 2022, our last full evaluation over the last 20 years, the return was about 6.6% and over 24 years it was 7.2%.

CM Zvonek: Got it. Okay. And then, so this year should probably be lower because just given the way that the markets went through this past year. So then, it makes sense to me, right? This is always the challenge when you have a Defined Benefit Plan and you try to convert it to a Defined Contribution, is that, essentially, you have to have people paying into the system to keep it afloat, which is typically, why these types of pensions over time will go bankrupt, if you have a number of bad years. Rate of return will just get crushed. And that's one of my concerns, is that as we look forward and we continue on this type of a Defined Benefit Plan, if we have more years for example 2022, that unfunded liability grows. And the more people we can start to pull out of that system and into a Defined Contribution plan, I think it'll be overall better for taxpayers, better for the city, because there won't be an unfunded liability, because there will in fact not be a liability. It's just that this is their individual retirement plan, whereas right now we create an unfunded liability by having a plan that's guaranteeing a set amount of payout and assuming that over time that rate of return will be there. What is the current unfunded liability?

J. Stewart: The estimated amount is \$61 million at the beginning of 2023.

CM Zvonek: Okay. So, Nancy, is there any action item on this or was this just the study? Because I know we have another conversation about the difference between the executive version versus the non-executive version of the GERP plan, too.

N. Wishmeyer: I don't know if we had that discussion. I know that this question came up because we had changed the code for the ERP plan and for GERP to actually reduce or to limit the choice for people going from one to the other. But that had been settled and that code change had happened. I think it just came up that do we want to have this choice for the general employees?

CM Zvonek: Right. Okay. So, is there an action item in terms of, are we deciding whether or not we want to move forward with creating some sort of a Defined Contribution choice or not?

N. Wishmeyer: Well, I think that because there are some other considerations that need to be looked into. If this is something that we would do, we need to look at funding and how it would affect GERP. That decision, to start doing work and creating a new plan will take a number of years to do. That needs to go to Council and that's why I put this down as the item which would go to Study Session to see if Council then wanted to move forward one way or the other.

CM Zvonek: Okay. I think it would be worthwhile. I do think it would be helpful to have the '22 data and some different assumed rate of returns just to give some different scenarios. But yeah, I think it would be worthwhile to have a broader conversation with Council at a Study Session at some point about introducing this type of option.

N. Wishmeyer: Okay. So, we should do a bit more work and then come back to the Study Session.

CM Zvonek: Yeah, I think so. Yeah, I think it would be helpful to have the '22 data too.

N. Wishmeyer: Okay.

CM Zvonek: Because we've had some very good years in the market prior to '22 and that's the last bit of data we have. So, it'd be helpful to see when you have a little correction.

N. Wishmeyer: Okay. All right.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will move the item forward to Study Session when 2022 data is available, estimated mid-2023.

METROPOLITAN DISTRICTS MAY 2023**Summary of Issue and Discussion**

Cesarina Dancy, Senior Project Manager of the Office of Development Assistance, presented items 4.b.1 and 4.b.2. The two items are new Metro District Proposal Service Plans. 4.b.1 is Cielo Colorado and 4.b.2 is Harvest Mile.

Cielo Colorado would serve the future transport development and Harvest Mile would support the harvest development, which is currently in process. Both of these are strictly industrial/light industrial, so no residential proposed and both comply with the model service plan.

Outcome:

The Committee agreed to move the items to the February 6th Study Session.

Follow-up Action:

Staff will move forward the item to February 6th Study Session.

BUSINESS IMPROVEMENT DISTRICTS**Summary of Issue and Discussion**

Cesarina Dancy presented items 4.c.1, 4.c.2, 4.c.3, and 4.c.4. 4.c.1 and 4.c.2. are both Board of Directors Appointments for Painted Prairie Business Improvement Districts (BID) No.1 and No. 2.

4.c.1 and 4.c.2 are items to get the Council the ability to appoint members to the Boards.

4.c.3 and 4.c.4 are both BIDs asking for both an exclusion and inclusion of property for their BIDs. Since the original approval of those BIDs, development plans have changed. Property that was previously going to be residential is now going to be commercial. So BIDs have to exclude any residential property from the boundaries of their BID and then in turn include that property into their BID.

Outcome

The Committee agreed to move the items to the Study Session.

Follow-up Action

Staff will move forward the items to Study Session.

INTERNAL AUDIT 2022 ANNUAL REPORT**Summary of Issue and Discussion**

Michelle Crawford, Interim City Auditor presented this item. The Internal Audit is a department of four, where the Police Auditor is dedicated to police engagements and the other two auditors are dedicated to engagements citywide. They follow the professional standards of the Institute of Internal Auditors, and we use a risk-based approach.

Engagements completed on the citywide side in 2022 include Police Property and Evidence, Visit Aurora, Police Narcotics Change of Command, Citywide Culture Survey, Mayor and City Council Expenses 2021 and 2022 Q1, Q2, and Q3, and the Youth Violence Prevention Program Expense Review. On the Police Auditor side, Records Division Culture Survey was completed, Crisis Response Team, and Body-Worn Camera Follow-Up Part 1. Currently active engagements are Mayor and City Council Expenses Q4, I.T. Operational Assessment, and the Unified Metropolitan Forensic Crime Lab (UMFCL) Firearm Evidence Process Review.

Outstanding recommendations as of year-end include the following:

- 2015 Payroll and Human Resources Audit, 1 of 17 recommendations remain outstanding due to a pending technology solution.
- 2016 Physical Security Audit, 6 of 23 recommendations remain. The delays are due to challenges in hiring a Security Manager.
- 2016 Core 4 Culture Impact recommendation for Recognition will be tracked going forward as part of the 2022 Citywide Culture Survey Recommendations.
- 2016 Aurora Fire Rescue, 1 of 23 recommendations pending, and that is waiting on the strategic planning process.
- 2016 Disaster Preparedness, 1 of 11 recommendations remain.
- 2018 Follow-Up, 4 of 7 still outstanding. OEM continues to make progress.
- 2017 Aurora Police Weapons Inventory, 2 of 19 recommendations remained. Pending a technology solution.
- 2018 Fleet Management Review, 1 of 36 remains. It is expected to be completed this quarter.
- 2018 Purchasing Operations Review, 2 of 6 remain. Purchasing will begin training new staff in Q1 of 2023 and is on schedule to transition to Workday this year.
- 2019 Planning Culture Survey, 2 of 14 remain. It is expected to be completed this quarter.
- 2020 Body-Worn Cameras, 3 of 11 remain. This is due to system implementation delays with Axon performance. It is expected to be completed this quarter.
- 2020 Economic Development Rebates tracking, 7 of 8 recommendations remain due to various reasons.
- 2020 Versadex Management, 2 of 6 remain and implementation dates are in this quarter.
- 2021 Property and Evidence, 1 of 6 remains and there are plans for that one in progress.
- 2021 Colorado Criminal Justice Records Act, 8 of 15 remain.
- 2021 Records Culture Survey, 10 of 19. The Internal Audit meets with the Records Unit monthly to keep apprised of their progress.
- 2021 Crisis Response Team, 6 of 10 remain.
- 2022 Visit Aurora, 3 of 6 remain.
- 2022 Body-Worn Camera Follow-Up Part 1, 6 of 6 remain.
- Citywide Culture Survey, 15 of 15 remain.

For Q4 of 2022, Mayor and City Council Expenses Q2 and Q3 were completed. Minor compliance issues were seen. Majority of the issues relate more to processes and training. Youth Violence Prevention Program was requested from CM Lawson. The scope of the program began

through September 30th of 2022. There were 173 recorded transactions for around \$129,000. The Audit reviewed approximately \$115,000 of the expenses and identified one exception. Audit issued a memo to Housing and Community Services and CM Lawson regarding that. Lastly, Police Body-Worn Camera Follow-Up Part 1 was presented to Public Safety back in November. The Audit identified compliance in some areas, but not all. APD is currently working on the Axon Performance Module to allow them to better monitor compliance.

Committee Discussion:

CM Jurinsky: For the Crime Lab Process Review, when do you expect that one will be completed?

M. Crawford: I am meeting with the Crime Lab Board tomorrow in executive session at their board meeting to review the draft report to go over that with them. My hope would be to get the responses from them tomorrow and to have that completed by the end of February to finish out the review process. Once that is completed, I'll be bringing that back to Public Safety, once it's been finalized for presentation.

CM Jurinsky: So, do you think that you'll have the review completed by the end of February and be able to come back with recommendations by then or will there need to be additional time for your recommendations?

M. Crawford: The report's drafted and the recommendations are made, and so I'm going to discuss those draft recommendations tomorrow with the Board at the Crime Lab to present it to them so they're aware and to give me their responses. So that's the last step in the process. So once that's done, then I can finalize and sign off on the report and then it'll be ready for publication.

CM Jurinsky: Okay. Thank you.

CM Zvonek: Michelle, one question I had is that in all of the areas where there are still outstanding recommendations going back, is there somebody that owns each piece of it, in other words, is it being tracked beside you? I'm happy you're doing it, but is there somebody who owns it within each department saying, "Yep, we're making progress?"

M. Crawford: So, we've assigned an owner and which is what we call it in our system, from each department, and a final approver. And so, they get the notifications telling them you have a recommendation that's due, a recommendation that's overdue. Additionally, we've been trying to send the Directors and Deputy City Managers lists on a quarterly basis to tell them these are the recommendations you still have outstanding. If we run into a situation where we don't see enough progress, we start to escalate that up the chain of the hierarchy of the organization. So, for those concerns.

CM Zvonek: Okay, okay. I just want to make sure that there was somebody that was paying attention to that beside you. I'm happy you're doing it, but somebody who's going in those

departments and making progress, hopefully. Anything else for Michelle? Okay. Next up is the Draft Work Plan. Terri?

Outcome

Information only.

Follow-up Action

No follow-up needed.

2023 DRAFT WORK PLAN

Summary of Issue and Discussion

Terri Velasquez, Director of Finance, presented the 2023 Draft Work Plan. The Work Plan included items relating to the Committee service and the Audit Committee.

Committee Discussion:

CM Zvonek: Terri, the only three that I know in the short-term to come and they're drafted. One of them is the 360-Review Process for Council Appointees. I have something drafted and I'm going to try to put it on the next agenda. I said that we'll need Human Resource to be involved with that. The other one is obviously you're familiar with is the Old Hire Retirement Board and what we're going to do or how we're going to move forward. The third one I'll flush out a little bit at the Winter Workshop, but it's at the creation of a debt maintenance fund that would help us with long-term capital projects. So those are the three that I want to make sure we are focused on. Two of them in the more short-term, but then the third being probably over the course of the next six months or so.

T. Velasquez: We will duly note those. And I do believe we have something as a placeholder for the February meeting for the Old Hire Police and Fire, as well as your 360 item.

CM Zvonek: Great. Thank you. By the way, Dan sent over a draft, and it should be going through. If not, I can ping him and let him know that I have approved the most recent draft.

T. Velasquez: I believe we have received some of the paperwork. I know part of it was that they were waiting for some internal review.

Outcome

The Committee recommended the 360-Review Process for Council Appointees, Old Hire Retirement Boards, and Winter Workshop items be added to the Committee work plan for 2023.

Follow-up Action

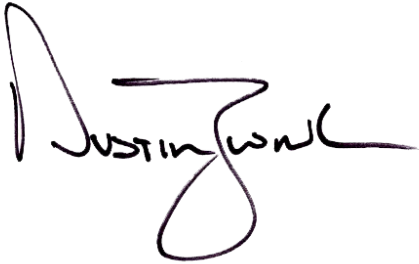
Staff will add these items to the 2023 Committee work plan.

MISCELLANEOUS MATTERS FOR CONSIDERATION

Summary of Issue and Discussion

The next meeting is tentatively scheduled for February 28, 2023 at 1:00 PM (WebEx)

THESE MINUTES WERE APPROVED AS SUBMITTED

A handwritten signature in black ink, appearing to read "Justin Jones". The signature is stylized with a large initial "J" and a long horizontal stroke.

Date: March 3, 2023