

MANAGEMENT AND FINANCE POLICY COMMITTEE

July 25, 2023

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

Absent: None

Others present: B. Levine, N. Wishmeyer, K. Rodriguez, T. Sedmak, M. Crawford, T. Velasquez, D. Sisneros, T. Hoyle, C. Toth, S. Newman, T. Smith, M. Prodanovic, A. Wood, L. Saquib, M. Trimble, G. Hays, L. Center, K. Pong, H. Hernandez, S. Van Buren, R. Venegas, J. Simmons, D. Hudson, K. Jefferies, M. Ardan, E. Cadiz, A. Jamison, R. Lantz

CALL TO ORDER

Council Member Zvonek called the meeting to order.

INTRODUCTIONS AND MINUTES

June 27, 2023 Minutes were approved.

JUNE 2023 SALES TAX CHART

Summary of Issue and Discussion

June of 2023 was 4.5 percent higher than June of 2022.

Committee Discussion

None

GENERAL BUSINESS

4.a - 2022 Annual Comprehensive Financial Report and Audit Results

Summary of Issue and Discussion

Nancy Wishmeyer, Controller, stated the 2022 audited financial statements and single audit report were completed and ready. She said the report in their packet summarized the financial audit and single audit results and identified any issues encountered during the audit. She said the schedule of audit adjustments, the management representation letter, and the single audio report were also included in the packet. Ms. Wishmeyer stated the financial audit received a clean audit opinion on the 2022 financial statements and the single audit. She announced the City received the Certificate of Achievement for Excellence and Financial Reporting for 2021.

Marcie Ardan, Managing Director with FORVIS, stated they did get a clean, unmodified opinion, which is the best level of opinion.

Karmen Jefferies, FORVIS Director, went over the required communications from the audit. She stated they conducted their audit over the financial statements as of the year ending December 31, 2022, in accordance with their contract. She described the scope of their auditing process. She said they reviewed management's significant areas of estimates and financial statement disclosures. Ms. Jefferies talked about the GASB 87 implementation and the effect it had on the audit process. She said there were two unrecorded misstatements that were immaterial. She discussed the future accounting standards which city staff must implement. Ms. Jefferies discussed the programs that were audited under the single audit, including the CDBG Entitlement Grant Cluster, Home Investment Partnerships Program, Emergency Rental Assistance Program, Coronavirus State and Local Fiscal Recovery Funds, and the High Intensity Drug Trafficking Areas Program. She stated total expenditures of federal grant funds were 25 million dollars for the course of the year. She added there were two findings from 2021 that were related to the Emergency Rental Assistance Program, and both were implemented in 2022.

Committee Discussion:

CM Bergan asked if there were findings on the Police Retirement Plan.

Marcie Ardan stated the city adopted the Police Retirement Plan and was effective January 01, 2022, so the discussion was whether it met the definition of a pension trust fund that had to be reported.

Outcome

Information only

Follow-up Action

No follow-up needed.

4.b, 4.c, and 4.d - Intergovernmental Agreements for the 2023 Coordinated Election

Kadee Rodriguez, City Clerk, stated the items were for the IGAs with each county to coordinate with for the regular municipal election. She said there were no changes from previous years and the next step would be for them to go to Study Session and then a regular Council Meeting.

Committee Discussion:

CM Bergan asked if all the issues they had in 2019 had been resolved with the counties.

Ms. Rodriguez stated yes. She said the City is working with the counties to ensure they have the words correct due to the recent ward redistricting.

Outcome:

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will move forward the item to Study Session.

4.e - Review of Moral Obligations Policy and Existing Moral ObligationsSummary of Issue and Discussion

Teresa Sedmak, City Treasurer stated the city had a Moral Obligation Policy that was originally adopted in 2011 and modified in 2022. She said the Moral Obligation Policy defines a moral obligation and outlines criteria the city needed to utilize when considering new moral obligations. She said they currently had two outstanding moral obligations, the Hyatt Convention Center and parking facility and BioScience 3 building. Ms. Sedmak said the Hyatt Convention Center loan was refinanced last October and net revenues were pledged solely to the loan along with tax increment revenues. She said the city had been subsidizing the project with total subsidies from 2020 to 2022 about \$1.1 million. The Bioscience 3 building on the Fitzsimmons campus is an 18,000 square feet, three-story building for wet and dry labs, offices suites, warehousing, distribution. She said the city's moral obligation on the Bioscience 3 building was tied to a debt service reserve of \$2.5 million. Ms. Sedmak stated a recent default of the one the building's tenants put financial pressure on that project and financial modifications were required for Bioscience 3 to remain in compliance with its loan terms. She added Fitzsimmons Redevelopment Authority had proposed that the building be refinanced. Ms. Sedmak said they principal amount of the borrowing they suggested was \$53.17 million.

Terri Velasquez said the City of Aurora provided a letter to the FRA and indicated they would only consider one moral obligation at a time. She also added that the City owned and operated the Hyatt Convention Center and parking structure, so they had an ownership interest and other resources to back them up but did not have ownership in Bioscience 3 and did not receive any revenues.

Committee Discussion:

CM Zvonek said he did see the Fitzsimmons Campus as potentially adding enormous value to the city, but wanted to make sure they knew what it meant to extend a new moral obligation bond. He talked about the additional \$17 million and asked if that money would go towards other things on campus that had benefit to the city.

CM Bergan asked what their liability was on the moral obligation. She asked how a default on the loan affect the City's credit and what that liability would be. She also asked why they financed with the balloon payment.

Terri Velasquez said it would have a significant impact to the City's credit if a default occurred and the City was asked to replenish and did not. She also mentioned they had the proposal but had not had enough time to get into the details of it.

Melissa Buck, FRA advisor, stated the moral obligation request they made to the City was very valuable to the FRA and would allow them to get an investment grade rating. She stated the funds would be spent with \$35 million being used to refund the existing Commerce Bank loan and \$16 million used to fund the buildout of additional lab space. She said she was not sure why it was structured with the balloon but that was common structure for a lot of bank loans.

CM Bergan asked if there was any way to craft the moral obligation so they would own an asset if it defaulted.

Terri Velasquez said they would have to go back and have a discussion and have a negotiated process on what they could get in return for the value.

CM Zvonek added that the campus held a ton of potential and could be a major driver of revenue for the City but in some ways, there is little bit of blind faith there. He said if they did that, he would want to make sure dollars are going towards things that were beneficial and offset what they would otherwise have to put forward.

CM Bergan noted it was referenced that one tenant defaulted and asked about the terms of the tenant in having to pay them back.

Thomas Smith said they were one of the very first tenants that signed up and got a way below market rate rent. He said they were now actively marketing that space and had a number of potential tenants. He said they former tenant was going through liquidation so they were going through the process to get a piece of what they could, but there would not be much there.

Melissa Buck added that they had not included any additional growth, so it was a very conservative projection.

Teresa Sedmak asked if they wanted them to analyze the refinancing portion of the proposal or the total transaction, including the new money.

CM Zvonek stated to do both to know what both would look like.

Outcome

Staff will request further information from UMB and come back to the committee with a recommendation after staff and advisors complete the analysis of the proposed transaction.

Follow-up Action

Staff will bring this back to the Management and Finance Committee at a later date.

4.f - Internal Audit Charter and Second Quarter Update

Internal Audit Charter

Summary of Issue and Discussion:

Michelle Crawford, City Auditor, said they were currently preparing for a first peer review. She said one of the requirements was to have an internal audit charter that formally documented their purpose, authority, and responsibilities for the Organization of Internal Audit. She stated the standards required presenting the charter to Senior Management and the Audit Committee for their approval.

Committee Discussion:

CM Bergan asked about her request to do an audit on their different homeless services and wanted to know where that was left off.

Ms. Crawford said she could follow up with her separately on that.

CM Bergan said she made a request last year to have the nonprofits audited and was told they had to hire an outside firm, and no one ever got back to her on that.

Nancy Wishmeyer stated she believed she was talking about the agreed upon procedures they did with the nonprofits and their auditors did perform those procedures and were still in the process but almost done.

CM Bergan said she was told they could not do the financial audit she asked for.

Ms. Wishmeyer said they did a particular set of procedures that included looking at a sample set of nonprofits and looked at the financials of the nonprofits along with other procedures.

Michelle Crawford asked for approval of the Internal Audit Charter. The Committee approved.

Second Quarter Update

Summary of Issue and Discussion

Michelle Crawford stated the annual risk assessment process was underway. She said the police auditor was hired and would be starting the next week. She stated the engagement completed were Public Works Scrap Recycling. She said the IT Operational Assessment, Governance Practices, and Calls for Service Response engagements were all in the reporting stages. She stated they were removing the culture survey from the annual audit plan. Ms. Crawford presented a graphic showing all the engagements that still had outstanding recommendations. She discussed the Public Works Scrap Recycling Engagement, stating Internal Audit received concerns about the engagement, including regularly recycling broken and out of date materials. She said the audit objective was to determine if adequate control existed and the conclusion was that adequate controls did not exist, and funds could not be accounted for. Ms. Crawford noted their recommendation was to file a police report and filed it on June 15th. She said they recommended that cash no longer be received, staff initialed receipts from vendors, and the financial support technician log payments to be able to track it throughout the process.

Committee Discussions:

CM Zvonek thanked the employee that brought it forward and hoped there was a onetime bonus for them because they identified something and added additional value to the city.

CM Bergan thanked them for the work and recommendations they put forth.

Outcome

Information only.

Follow-up Action

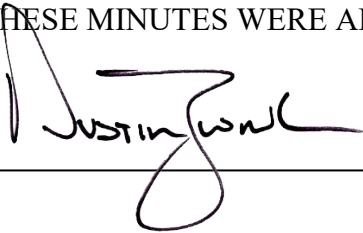
No follow-up needed.

MISCELLANEOUS MATTERS FOR CONSIDERATION

The next meeting is tentatively scheduled for August 22, 2023 at 1:00 PM (WebEx)

ADJOURNMENT

THESE MINUTES WERE APPROVED AS SUBMITTED



A handwritten signature in black ink, appearing to read "Justin Zvonek". The signature is written over a horizontal line that spans the width of the signature area.

08/23/2023

Date