

FINANCE COMMITTEE
October 17, 2023

FIN20231017-1
UNAPPROVED

A regular meeting of the Finance Committee of the City of Cedarburg, Wisconsin, was held online on Tuesday, October 17, 2023, utilizing the Zoom app.

The meeting was called to order by Chairperson Jack Arnett at 1:02 p.m.

Roll Call: Present - Council Member Jim Fitzpatrick, Jack Arnett, Michael Bradburn, Robert Loomis, Tim Voeller, Mary Kay Bourboulas, Allan Lorge

Also Present- City Administrator Mikko Hilvo, Deputy Finance Director Maureen Hartjes, Ms. Tami Olszewski of Ehlers Investments

Excused- Finance Director Kelly Livingston

STATEMENT OF PUBLIC NOTICE

Deputy Finance Director Hartjes confirmed proper legal notice of the meeting had been given.

COMMENTS & SUGGESTIONS FROM CITIZENS

APPROVAL OF MINUTES

A motion was made by Mr. Bradburn to approve the minutes of the September 19, 2023. The motion was seconded by Mr. Voeller. Motion carried without a negative vote.

REPORTS

Review Ehlers September Investments Report

The Members were asked if there were any questions regarding the Ehlers September investment report before starting the presentation by Tami Olszewski. There were no questions and the presentation followed.

UNFINISHED BUSINESS - None

NEW BUSINESS

Discussion of Ehlers Investments – Tami Olszewski; and Action Thereon

Ms. Olszewski reviewed the City's investments at Ehlers and briefly discussed market conditions. Mr. Arnett mentioned the Finance Committee previously had questions regarding the current yield calculation shown in the Portfolio Overview Summary. Ms. Olszewski explained that the portfolio is designed for predictability of income, with a significant amount of liquidity expected to come due in the next 6-12 months, allowing for a potential increase in short-term yields. Ms. Olszewski cautioned against making drastic changes, as losses in the portfolio would not be advisable unless they could be recovered in the

same audit year. Ms. Olszewski emphasized the importance of maintaining the maturity ladder of investments and staying the course while monitoring for opportunities to book gains and losses. A discussion ensued regarding yield calculations. Ms. Olszewski discussed the current market situation, emphasizing the anticipation of short-term rates rising and the importance of building a long-term plan. Mr. Lorge questioned the correlation between average duration and yield, to which Ms. Olszewski clarified that while they can be close, they are not always identical due to duration being a sensitivity marker for interest rate fluctuations. Ms. Olszewski also elaborated on how the average yield is affected by the multiple accounts across different maturity levels. Mr. Fitzpatrick added that the average yield is calculated using the coupon over the price of the bonds, a method Ms. Olszewski confirmed as correct. Mr. Fitzpatrick and Mr. Lorge discussed the limitations of the average yield statistic used in the portfolio, stating it does not account for the inevitable price appreciation of bonds as they move towards maturity. Mr. Fitzpatrick suggested that using yield to maturity or SEC yield would provide users with more useful information. Ms. Olszewski explained that while the portfolio is marked to market, it is typically not liquidated ahead of maturity, and the average coupon income was a more reliable representation of budgeting for the future. Mr. Fitzpatrick stated that yield to maturity would give a better estimate of what the General Fund could look like in a year, absent interest rate volatility or flows in and out of it.

Mr. Fitzpatrick inquired about the amount of discretion the City and Ehler's has in choosing investments. Ms. Olszewski stated the State Statutes and the City's Investment policy are the guiding principles for investing and following these leads to portfolios with high quality, low risk investments. Mr. Lorge asked if the portfolio summaries can be customized. Ms. Olszewski said the portfolio summaries can be customized to include specific items the Finance Committee would like to see. Mr. Arnett asked if Ehlers could include the yield to maturity in future reports. Ms. Olszewski stated she would add that to the monthly portfolio summary.

Mr. Lorge requested the Finance Committee review the City's Investment Policy every December. The Finance Committee agreed to add it to the next agenda with a potential focus on adjusting the investment durations, due to the current high interest rate environment. There was clarification that while Ehlers provides advice, the City still has the final decision-making power on investments. Ms. Hartjes stated she would email a copy of the Investment Policy to Mr. Fitzpatrick.

Mr. Arnett asked if the City budgets for large sick-time payouts for employees who retire unexpectedly. Administer Hilvo said the City does not do that. Mr. Arnett expressed concern about the large sick pay payouts upon employee retirement, which can sometimes reach up to \$20,000 - \$30,000, and questioned if the City should be accruing for this over time. Mr. Lorge confirmed that they do not have an accrual for sick pay and suggested that it would be prudent to investigate this. Administrator Hilvo stated that the City does struggle to find funds for these payouts every year and suggested that they could commit a portion of the City's Fund Balance annually towards future retirements. Administrator Hilvo went on to state that in the budget process, any leftover funds are usually allocated to a contingency reserve, which, if unused, goes into the Fund Balance and he proposed that these funds could alternatively be allocated to future payouts. Mr. Arnett agreed that this could be a viable solution, albeit a small one in the context of the City's \$10-11 million budget.

Mr. Arnett suggested revisiting the City's Debt Policy since it was last reviewed over a decade ago. Mr. Fitzpatrick agreed and suggested this to be added on next month's agenda.

Mr. Arnett asked if the City had any additional projects to use the unallocated ARPA funds. Mr. Arnett suggested using any leftover ARPA money for small, ready-to-implement projects. Mr. Arnett suggested getting bids on LED lighting in the Council chambers as well as a new sound system in the Council chambers.

Ms. Bourbulas asked Administrator Hilvo about TID #4's impact on the City's Bund Balance. Administrator Hilvo stated that TID #4 has about a \$1,000,000 deficit and that the City is working with Ehlers, Baker Tilly and the Developer to gather more information before making any decisions. Mr. Bradburn asked if it is possible to refinance TID #4 if an agreeable developer could be found. Administrator Hilvo stated the City would need to check on the legal considerations.

Mr. Lorge requested the Finance Committee periodically discuss shared services as budgets tighten. Mr. Lorge confirmed that a referendum for fire and emergency services would take place April 2024. Ms. Bourbulas expressed concerns about the City's ability to take on additional debt without losing its AA rating, emphasizing the need for careful planning and financial management. Administrator Hilvo agreed, stressing the importance of planning for projects that may only be considered in the next five to ten years.

Identify Future Agenda Items, and Action Thereon

Review Investment Policy
Review Debt Policy

Confirm Next Meeting Date

The next Finance Committee meeting will be held on November 21, 2023, at 1:00 p.m.

ADJOURNMENT

Motion made by Ms. Bourbulas, seconded by Mr. Lorge, to adjourn the meeting at 1:52 p.m. Motion carried without a negative vote.

Maureen Hartjes
Deputy Finance Director

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