

CITY OF MILFORD FINANCE COMMITTEE
MEETING MINUTES
November 8, 2021

The City of Milford Finance Committee met on Monday, November 8, 2021, in the Joseph Ronnie Rogers Council Chambers at Milford City Hall, 201 South Walnut Street, Milford, Delaware.

PRESIDING: Chairman Jason James

IN ATTENDANCE: Mayor Arthur Campbell

Committee/Councilmembers Daniel Marabello and Brian Baer (virtual)

STAFF: City Manager Mark Whitfield

Per the Declaration of a Public Health Emergency issued by Governor Carney on July 13, 2021, and the virtual meeting provisions as provided in Senate Bill 94, Milford City Council met in a hybrid format.

CALL TO ORDER

Chairman James called the Committee Meeting to order at 6:32 p.m.

Finance Director Lou Vitola was in attendance.

Mr. Vitola shared the last update to the investment policy was in 2012. The requirement is to review the policy annually and make changes if necessary. The results of his first annual review were shared with the Finance Committee on September 13th.

As part of the review, most of the changes involved housekeeping or provided clarification as was discussed during that meeting. The most notable related to flexibility to react to changing market conditions if necessary, and expansion of eligible investments. No additional feedback was received from the Finance Committee in advance of tonight's meeting.

There were some additional revisions Director Vitola thought were necessary, and those involved the scope of the investment policy or the refinement of the scope in the investment policy. The two reasons to do that are first, they act as a control measure against the broadening that was done in that first round of changes. The second is that they were designed so that the investment policy could work hand in hand with the reserve policies.

Based on the scope as written, all permissible investments were applicable to all the City's funds. That can work, but the scoping was done here to prevent certain buckets of cash and investments from being invested in the wrong investment vehicle or for too long a duration. This will protect what we need in the form of equipment replacement funds that service capital items from being put at risk or from being invested too long.

At the same time, we provide for we need to operate upcoming debt service and capital and get additional yields without taking on additional risks.

One of the things he heard at the first meeting was that Council seemed to have an interest in not being too complacent and seeking additional yield with the volume of dollars we have here. But it would be irresponsible to do things like expanding the scope to include riskier investments with extended maturity dates.

While maturities were extended and credit ratings eligibility were broadened to include some of those lower tranches of investment grades, there really shouldn't be anything in the way of derivatives, equities, and that sort of thing. Additional risks should not be taken to get yield, but what can be done is properly segment the investments, based on what the cash is needed for. The reserve fund policies should state that.

That is why the first or second page related to scope, liquidity is identified. Intermediate and growth. Things like equipment replacement reserves, debt service, and the next year of capital is all very close to operating cash requirements and should be invested in ultra-high quality, very short duration vehicles so that some yield is acquired so that the money is there as needed. Otherwise, we'll have an intermediate bucket that's inside of one to three years and then a longer bucket after counting all those restricted projects. Getting to the non-operating cash component of the minimum cash reserve balance from the fund reserve policy, that amount is what we don't immediately need and that can be invested longer to increase yields. That will be the plan going forward.

This can be accomplished without the changes in the investment policy but am more comfortable having them in the investment policy to future proof against future administrations or investment advisors working on behalf of the City that may not have that level of detail or insight as to what we need the cash for. Based on that, Director Vitola recommends the Committee recommend this change to the full Council during the meeting later tonight.

It was confirmed that the Finance Director is considering the state investment pools as a possible investment in the future. However, the Director does not believe the State of Delaware has the investment pool live and up and running now. But in a call about ARPA with State Treasurer, she indicated she would like to bring that back and the reason for it to be kept in the policy.

When asked about the possibility of an advisory group, Director Vitola said it is still on the table. He could have done the two concurrently, but he wanted to focus on the adoption of the policy.

Councilman Marabello expressed concern about the internal control and custody and asked if there are enough people, with the newly hired person, to have a separation of duties to have the proper internal control of the staff for monitoring purposes. Director Vitola responded yes.

Director Vitola explained it is customary and common to hire an investment advisor to undertake the trading activities in an investment portfolio. That firm or individual would be required to report on trades basically as they happen. At a minimum, they would report monthly to show maturities, sales, purchases, and confirmation that each purchase conforms to the policy. Also, whether any existing securities after purchase, have fallen out of compliance with the policy.

There are several ways the investment advisor can prove they are meeting our internal controls. One important internal controlling their involves delivery versus payment with a custodian. If we decide to go with an investment advisor, we will have a custodian involved to ensure when an investment is bought, the funds are going into escrow and the securities must be delivered, received, and confirmed in the City's name before the seller receives the settlement. That is one of the most important internal controls in there and that's independent, not only of whether we have an advisor, but it's also independent of our staff if we are overseeing the delivery verse payment relationship.

Chairman James stated that between the outside advisor, city staff, and council, the internal controls can be satisfied.

Councilman Baer referred to the three categories—liquidity, intermediate, and growth, and asked why checking and savings are included in all three. Director Vitola stated that there is a need to make sure any funds where liquidity is of utmost priority and not put too much at risk or invested too long. Based on the market, there may be a reason why even the cash for which there is no immediate need, may have to be parked in a checking or savings account. It will flow, at times, between investment accounts, for example from growth to checking or savings and then into intermediate. Even the long items need to be allowed in the shortest, ultra-safe and liquid accounts as well.

Finance Report Update

Director Vitola does not have a lot of information on the monthly report. Overall, metrics look good through the first quarter. There are very minor additions to the report and some colored arrow indicators that are generally green/up is positive and yellow/sideways is neutral and red/down is negative.

On the P&L pages, an arrow signifies a substantial move away from any of comparable or last year's first quarter to date. Fiscal 21 through September versus Fiscal 22 through September, depending on the degree of movement will have an arrow indicator and is a key part of the report.

The goal is to condense six or seven pages of the report into those two pages and make it even easier to glean the important items. Ultimately, Director Vitola would like to move to a dashboard-type of introduction to the report. That would show graphically some of the most important things occurring the past month/year to date. Als it would replace or supplement their narrative so there is less writing, less commentary. and more pictures.

The Director expressed that the finances look strong everywhere except the electric utility seemed somewhat light. Again, it rebounded from the timing issue with the line losses in August. But in September, it was two-pronged with revenue shorter than the same quarter last year, while the cost of goods sold was higher. Typically, they do not move against each other in that direction, but it wasn't large enough of a variance to raise a flag or merit any additional commentary. Overall, it looks good through the first quarter and there are more changes to come with the format of the report.

The Director talked about the expected contributions and interest that were first added to the report early in his tenure here but only for municipal street aid and realty transfer taxes. It was unrealistic to show such a low balance there if we knew we had this MSA award we knew that RTT was continuing to be collected every month. That prompted Chairman James to suggest we do that for all the reserve accounts. In that manner, we do know there will be some deposits into those reserve accounts once we reconcile Fiscal 21.

When asked about below normal income in billing and the graph that referenced late billing of \$920,000, Director Vitola explained they attempted to adjust for that in the financials by capturing that segment of September revenue that wasn't billed out until early October. But it is imperfect and still may be understated so part of the revenue problem may be related to the billing.

When asked about the new property purchases, the Fry property will be paid from a loan from water reserves. The Sharp property will be paid from an advance from electric reserves.

Director Vitola will follow up to determine if they are listed in citywide projects.

Councilman Baer asked if the same report that Councilman Marabello was referring to under parking enhancements, if the parking lots were prioritized and which ones were planned first. Chairman James said they had a previous conversation when the CIP was being reviewed. His comment it is not a financial decision on the priority and is the decision of the City Engineer and Public Works Director.

If this committee wants to reconsider that, that will need to be revisited with the City Engineer and much longer than a short discussion.

Chairman James suggests that City Engineer Puddicombe attend the next Finance Committee meeting to discuss the project priorities in the CIP.

When asked about the \$200,000, Director Vitola said it is earmarked because he has not seen an invoice though that does not mean the work has started. To his knowledge, the Boys and Girls Club lot was being funded with CTF money and the lots will be done later this year.

City Engineer James Puddicombe was in attendance and agreed and stated he is aware of the prioritization preferences that Councilman Baer requested and is viable.

Chairman James stated that in full disclosure on page two restricted cash that has been referenced several times, he asked that the expected contributions be added in the other funds. But that was at the request of Councilman Marabello who wanted to see more of a cash flow that showed both the ins and outs.

The additional page 10, for the spending of the ARPA funds, shows the full amount that will be received in both years (half this year and the other half next year). He asked to show the balance or unspent amount which will be shown in the next finance report.

Director Vitola was asked to add the subtotals for the three months as well.

Councilman Baer stated that electric department vehicles, equipment, lighting, and system improvements are shown in the electric funds/capital reserves and asked if that can be more defined. Director Vitola will do that as a footnote in future reports.

There being no further business, Chairman James adjourned the Finance Committee meeting at 6:59 p.m.

Respectfully submitted,

Terri K. Hudson, MMC
City Clerk/Recorder