DUBLIN CITY COUNCIL
FINANCE COMMITTEE
Thursday, June 23, 2022 – 4:00 p.m.
5555 Perimeter Drive
Council Chamber

Meeting Minutes

Mr. Keeler called the Finance Committee meeting of June 23, 2022 to order at 4:00 p.m.

Committee members present: Ms. Alutto (Virtual), Mr. Keeler (Chair), Ms. Amorose Groomes

Staff members present: Matthew Stiffler, Meghan Murray, Jaime Hoffman, Melody Kennedy

Also present: Jim McCourt, Meeder Investment Management

APPROVAL OF MINUTES

Ms. Amorose Groomes moved to approve the minutes of the May 10, 2022 Finance Committee meeting.
Ms. Alutto seconded the motion.
The motion passed by the following vote: Mr. Keeler, yes; Ms. Alutto, yes; Ms. Amorose Groomes.

DISCUSSION ITEMS

Bed Tax Grant Review

Mr. Stiffler provided a short update. In 2021, City Council did not award all of the Bed Tax grant funds because of uneven impact of Covid-19 on special events; some were canceled and some saw higher costs. The Finance Committee withheld some funds and re-appropriated funding in June 2021. In November of 2021, the Finance Committee and City Council awarded all funding but stipulated that grants would be re-evaluated in 2022. No impact has been seen as far as cancellations of special events. The full funding has been appropriated and all scheduled events have taken place. The Finance Department will notify all events that no additional funding will be awarded in 2022. If something does occur, staff will bring back any changes to Committee but the expectation is that the second half of 2022 will be much like the first half of 2022.

TIF District Review

Ms. Murray shared a report on the Tax Increment Financing (TIF) Districts. The report was presented to and found to be in compliance by the Tax Increment Review Council (TIRC). The information shared this evening is similar to what was presented at TIRC meeting. A map was displayed of the 40 current TIF districts in the City of Dublin. She explained that TIF public infrastructure improvement can include the following: roadways, parking, water/sewer, environmental/health, utilities, stormwater, demolition, parks, and streetscape/landscape. All projects tie into one of these areas. A report was

shared highlighting that $221.1 million of public improvements have been made with service payment revenues that have been received or through the City advancing funds with the expectation that they will be repaid from future service payments. Those improvements have leveraged $925.3 million in private improvements. Just over 18,000 jobs have been created or retained. Current TIF fund balance and utilization was shared with the Committee. TIF revenues are a significant portion of 2022 the capital budget revenue. Ms. Murray shared a list of projects whose debt is supported by income tax revenue and the year the debt will be retired. An additional list was shared that included projects supported by TIF revenue and the year that debt will be retired. In 2022, the City is anticipated to pay $10.5 million in debt service. This expense would have been paid by income tax. This payment of the debt service from other revenues like TIF funds was able to free up about $7.4 million of income tax revenues in 2022. TIFs allow resiliency and diversification to the revenues available for the CIP.
Information specific to each

Ms. Alutto thanked staff for the presentation and the work that went into gathering the information.

Ms. Amorose Groomes asked for information that would include encumbrances to identify positive unencumbered TIF revenue that could possibly be utilized for additional investment.
Mr. Stiffler stated that as part of the CIP process, the second step is to go through TIFs and program every available TIF dollar before assigning income tax revenue. He then considers projects that are able to be funded through TIFs and scours those to find projects appropriate for funding through TIFs. If there are still TIF funds available after that, then the City will pre-pay fund balances. Any remaining funds are usually there because there is nothing appropriate to spend them on. He gave an example of the Thomas Koehler TIF balance for the Tuttle project that was pulled. That funding is being reserved for when that project returns.
Ms. Amorose Groomes stated that if Council had an idea of some unencumbered balances in TIF funds leading into CIP budgeting, they might have different ideas for projects that might be appropriate and have benefit to the community. Mr. Stiffler stated that staff will have GIS put together a map with those available fund balances.

Investment Policy
Mr. Stiffler shared the objectives and timeline for this evening's discussion. He will review the Committee's prior discussion on an investment policy. Staff's goal is to have an adopted investment policy in place by 2023. He would like to get direction on language the Committee would like to see on an investment policy.

Mr. Stiffler provided a review of the Committee's previous discussions regarding treasury management. Staff has worked with Three Plus One (treasury management consultant) to insure they are managing the treasury responsibly. It is the responsibility of the Finance Director to manage the City's liquidity on a daily basis. The Investment Policy being discussed for amendment was adopted in 2013. The investment objectives under the policy are not being amended. Staff is seeking to update terms and process to be more consistent with today's market. The goal is to provide additional flexibility on certain types of investment assets.

Mr. Stiffler shared GFOA best practices on Investment Policy. The GFOA best practices shows a successful investment policy. An entity's investment policy describes parameters for the investment of government funds from scope to reporting and disclosure standards. Dublin's policy from 2013 is compliant with GFOA best practices. The category staff is seeking to amend and improve is the risk and performance standards category, specifically Sections 5 and 7. In order to improve that component centered on risk, he shared GFOA best practices on developing a risk tolerance portfolio. There are a number of risk exposures when considering risk tolerance. Maturity limitations is one. Most of Dublin's investments have a 5-year maximum. Investment policy review is a point of consideration. Is there an annual review? Is Dublin's policy keeping up with changes to legislation? The types and performance of investments are part of the diversification strategy. The duration of investments is another component of development a successful risk tolerance portfolio.
Mr. Stiffler explained that diversifying an investment portfolio helps to manage risk allowing an entity to take on assets to increase yield while not increasing risk in a corresponding amount. There are steps for diversifying a portfolio including clearly defining objectives, cash flow projections, risk tolerance of various stakeholders, liquidity portfolio, and establishing limits as part of the risk portfolio. Limiting structures and defining parameters helps identify a diverse portfolio. He posed the following questions for the Committee to consider:
Is the risk tolerance portfolio, including modifications made at the last Committee meeting, acceptable? What policy/process changes are necessary regarding the Investment Advisory Committee? How and by whom should the performance of the portfolio be discussed? Staff recommends the portfolio performance be discussed annually by the Finance Committee or Council as a whole so there is a regular, more formalized process.
Mr. Stiffler shared a chart that idenitfies the City's investments, current maturity, credit quality, and exposure as well as proposed maturity, credit quality and exposure. It also shows the Ohio Revised Code (ORC). The City of Dublin is not limited by the ORC as a home rule city but it is a good point of reference. The proposed items reflect the discussion the Committee had in September. Most changes were to allow for additional investments that the current policy may not allow.

Mr. Stiffler stated that there had been discussion regarding some new categories of debt like foreign sovereign debt and international mortgage backed securities. Those are good investment categories but he wonders if the exposure of 30% is a little high and if that should that be taken down to 10-15%. Plenty can be done in those markets with that amount and it can be increased or decreased as soon as next year. He would propose more restrictions for exposure in those new categories. Ms. Alutto agreed and stated that those changes can be made later desired.

Mr. Stiffler stated that the current policy has an express prohibition on the category of collateralized mortgage obligations. The proposed policy reverses that prohibition and sets it up with a less than 5 years and AAA rating. He wanted to make sure more the learned investors were comfortable with that.

Ms. Amorose Groomes stated the foreign issuances give her pause more now than when the changes were discussed previously. If past performance is the best indicator of future activity, it would be wise to consider that that a housing crisis may be possible. Regarding mortgage obligations, she is not sure that now is the time to put 20% into something that may be headed for instability.

Ms. Alutto stated that she is fairly risk averse. Though a prohibition may not be necessary, things are too volatile for collateralized mortgage obligations (CMOs) right now. There may need to be some settling in that needs to happen. She would approach foreign investments with caution.

Mr. Keeler echoed Ms. Amorose Groomes comments on the CMOs. He would pull that percentage back to 5 or 10%. Dublin is relying on investment advisors that manage their respective portions of the portfolio to steer us away from those investments. Now is not the time to make foreign investments. He would take that exposure of 30% down to 10% and would not recommend ever going higher than that. He does have some general thoughts and comments on the investment policy.

Mr. Stiffler stated a discussion about the policy and how it is being implemented is a good conversation to have annually. Ms. Amorose Groomes suggested setting these limits as maximums rather than proposed to separate ceiling and intent. Mr. Stiffler stated that another differentiator could be a target range and a maximum.

Mr. McCourt stated that he does not disagree with any of the comments. Those two asset classes are more aggressive that anything anyone in Ohio is allowed to do. The clients they work with have largely scaled back out of those. When working with amortizing asset classes the cash flows are more difficult to predict. Some operational processes of the securities are difficult to deal with in addition to associated risk. They have no public entity clients doing foreign debt. He would not be opposed to pulling back foreign debt completely.

Mr. Stiffler referenced Section 35.101 and stated that the investment advisory committee has not met or been constituted. There are several problems with this section. The title of the section specifies that the Finance Director is to do something but it is not clear. Part A should specify who should call the investment committee to order. Benchmarking is a section that could be cleaned up. He found several policies that had benchmarking. They were generally public foundations that had larger equities. Staff did dot find any benchmarking sections in any political subdivisions. He did find some benchmarking for Ohio Bureau of Workers' Compensation. He asked the Committee to consider pursuing the creation of a benchmarking section or wait until a review process is developed. Mr. Stiffler stated that there are middle steps between where we are now and creating a benchmarking section. Staff could work with advisors to show if Dublin's blended portfolio is performing well against other fixed investments. If that approach is not satisfactory, then a benchmarking section could be explored. Ms. Alutto wondered if we should consider meeting more frequently with investment advisors. She asked how an investment advisory committee would work. Mr. Stiffler stated that he will recommend that the Finance Committee take control of managing investments instead of an advisory committee and to seek the experts required to make a decision. The next first step may not be the creation of an investment advisory committee. Mr. Stiffler stated that staff is trying to get this policy in the right place for next year. It can then be reviewed again. Ms. Alutto stated that she likes the idea of doing work towards potential benchmarking.

Ms. Amorose Groomes stated that she would think that there would be some benchmarking in the industry. Rather than the City benchmark what the world is doing, maybe some of those professional organizations do that. That is why some of those organizations exist.
Mr. McCourt stated that this type of short-term, fixed-income portfolio benchmarking would be measured against a 1-3 year government bond index. Official benchmarking would be look at a total return investment and would require active management. For the most part, public entities are buy and hold investors so they typically compare trends of yields over a number of years versus comparable alternatives. Global investment performance standards only look at performance on a total return basis. In order to benchmark against a defined index, the portfolio would need to be actively managed against that index.
Mr. Keeler stated that the liquid or risk-free portion of the City's portfolio is small compared to the whole portfolio. We have a third party consultant that benchmarks the constituents of that portfolio. He would argue that if we are doing that for the smaller liquid portion, then we should be doing it for larger, higher risk portion. We should be benchmarking. Since there is risk, you have to know what the return is of that risk. Inflation is often missed as a risk. The risk of losing principal is the primary focus and if that were the only risk, an entity would put all money in cash because no money would be lost. It is important to benchmark. He suggested that for the structure of benchmarking, the City should hire a consultant to help and they would concoct the index. There is nuance. The service that Three+One provides is valuable. They not only benchmark but they provide a time horizon for cash.

Mr. Stiffler shared a graph of an investment report from Palo Alto. He stated that rather than true benchmarking, maybe staff provides a graph like the one provided identifying the universe of potential investment products and their returns. This is a non-actively managed portfolio. The policy does give permission for the reinvestment of securities though Dublin has never done that. We do not take a principal loss. Mr. Keeler stated that one bullet point in the provided materials was to not try to beat the market. Palo Alto has had some success but what this does is provide a reference point. Right now Dublin does not have a comparison tool. Mr. McCourt stated that Meeder Investment Management can definitely provide that. This would be compared to Star and the 3-year treasury over time. Over time, average yield will be very close to the total return. Over a long enough time period this is a relevant graph. Ms. Alutto stated that she really likes this graph and would love to see it moving forward. It is interesting to see over time if the right assumptions were made with regard to liquidity bounds. Mr. Keeler stated that it would be nice to see both portfolios together.

Mr. Stiffler spoke to advisor contract termination. He did not find any termination sections similar to private foundation section for political subdivisions. Investment advisors are considered professional services contract so they fall under the same language as all other City professional services contracts. They do not require Council authorization nor are they subject to competitive bidding. Typically the Director of Finance is responsible for selecting the investment advisor and determining their allocation of funds. The City of Dublin currently has two. Staff did find a termination section in the investment policy for a private foundation. Mr. Stiffler suggests the four goals from this be included into Dublin's policy. They are: achieve performance and risk objectives, comply with investment guidelines and reporting requirements, and make sure there has been a stable staff. With regard to the investment portfolio process, he would recommend that there be at least annual meetings with elected leaders (Finance Committee) where the following is evaluated and discussed:

- Investment policy compliance;
- Reporting compliance;
- Internal control compliance;
- Any sale of securities prior to maturity; and
- Any liquidity concerns.

The Finance Committee should be able to seek assistance to review investment advisors. Mr. Stiffler listed a scope of services from an investment consultant. The cost of those services were estimated to be between $10,000 to $15,000 annually.

Mr. Stiffler provided his recommendations as follows:
Amend section 35.101 as follows:

- Remove Investment Advisory Committee;
- Maintain a review by Finance Committee (at least annually);
- State that the Director of Finance may contract with a consultant to evaluate investment advisors and support the Finance Committee review process;
- Outline the criteria for the review;
- Clearly stated that the Director of Finance may initiate/terminate/modify investment advisory services at any time;
- Consider mentioning a Request for Proposals (RFP) process.

He is happy to take notes, include those in the policy, and bring it back to the Committee.

Ms. Alutto stated that she likes the idea of having an investment consultant and the scope of services seems reasonable. The cost also seems reasonable. Including termination information as outlined is fine. We may want to include RFP language. In the public sector, an FRP is usually done every 3-5 years. It helps to keep vendors and consultants focused the goals of the organization. She likes the idea of the investment portfolio review process.

Ms. Amorose Groomes stated that she does not disagree with Ms. Alutto's comments. She does like having an RFP process. That might provide fresh ideas and a good sense of what the industry is doing. RFPs that she is accustomed to responding to always ask how the consultant would design the RFP criteria differently. That is valuable information. The cost for the advisory services is so inexpensive that she questions the value added. She is not sure it is worth it to give the Finance Director another contract to manage.

Mr. Keeler agreed that the RFP process makes sense. He is a proponent of the termination or modification of advisory service. Most fiduciary committees have that in a contract. Wording is very important. He suggested editing "we will" to state "we can." Part of the RFP process will invite suggestions from these professionals to review our investment policy. Some may not feel comfortable operating under our policy. As far as cost, if this professional consultant is meeting with the City one time/year, they may have 2 hours preparation time and 2 hours presentation time. We do not want to have someone that charges back five of the ten basis point return they provide. He would prefer it to be fixed. The City will find out what the amount is when the RFPs are received.

Mr. Stiffler stated that staff will come back to the Finance Committee with an updated policy including language that outlines the RFP process to find third party advisors in September or October.

There being no further business to come before the Committee, the meeting adjourned at 5:16 p.m.

_*Christina Alutto*___________
Chair

_*Jayme Maxwell*____________
Deputy Clerk of Council