

FINANCIAL ADVISORY BOARD
Approved Minutes
August 8, 2016 Meeting

The August 8, 2016 meeting of the Financial Advisory Board was held at the City of Naperville Municipal Center in the NEU Conference Room located at 400 South Eagle Street, Naperville, IL 60540.

Roll Call:

Board Members Present

Ron Davidson, Chairman

Michael Isaac

Charles Millington

Susan Wade

Michael Wik

John Krummen – Council Ex-Officio

Sarvasva Raghuvans, Student Member

Also Present

Rachel Mayer, Finance Director

Lynn Lockwood, Assistant Finance Director

Erik Hallgren, Financial Services Supervisor

Tim Fallon, Marquette Associate

Board Members Absent

Patrick Gannon

Nimish Bhatt

Public Forum – No Speakers

I. Introduction

Ron Davidson began the meeting at 6:00 p.m.

II. Approval of Minutes

The minutes of the May 9, 2016 meeting were approved with no modifications.

III. Bond Sale Update – Rachel Mayer

In June the city conducted a bond sale with Speer Financial in the amount of \$62.3 million; \$15.8 million was new money. The balance was used for refunding 2008 and 2009 Bonds, which will save the city \$5 million over the life of the bonds.

Speer Financial used proprietary on-line bidding tool, which allowed many members of the city to watch the sale in real time. There were 33 bids from 9 firms with the winning bid by Morgan Stanley at an interest rate of 2.02%. Speer Financial was a great partner in the bond sale and very helpful with the materials required and participating in the rating agencies interviews. The City of Naperville achieved AAA Bond Rating Status after the review process.

**IV. Quarterly Review of Investments – 2nd Quarter Ended June 30, 2016 –
Tim Fallon, Marquette Associates**

Tim Fallon noted that the economy is growing below par at 1.2% versus a typical average of around 3%. Interest rates are low globally and the Federal Reserve is trying to increase US rates, as unemployment is at 4.9% and inflation is low.

The portfolio market value at June 30th was \$76.6 million with bond assets evenly split between BMO and JP Morgan. Rachel mentioned that the higher level to cash, at 56.9%, was a function of timing of the money's receipt.

Year-to-date the portfolio returned 2.2% versus 3.0% for the Policy benchmark. Both managers outperformed the index, but cash was the main drag on overall results.

Looking forward, both bond managers have short maturities and if the securities were held to maturity the portfolio return would be around 1%. This is a good reason that the FAB is looking at the portfolio structure and how to make the assets earn more.

In response to Ron's question – the yield advantage of non-government securities is in-line with recent averages, but there is not much extra yield overall

JP Morgan continues to be on Notice due to organizational turnover. Our research group recently met with Barb Miller (group leader) to discuss the team changes. The RFP that staff is conducting will certainly address these issues.

Fees for both managers are extremely competitive at 0.15% of assets. In response to Ron's question – we have a good relationship with both managers even though the fees are low. Rachel agreed with that assessment and mentioned the RFP will further evaluate both firms.

V. Review RFP for Investment Banker – Lynn Lockwood

The current contract with both JP Morgan and TCH expire as of September 30th. On July 9th, the city advertised an RFP for investment services, all bids are due back on August 9th. The city invited 15 different firms to participate, and another 20 firms have reviewed the RFP. Over the next several weeks' staff will begin the process of reviewing the bids and short-listing the firms, for the next step of interviews. Staff will keep Board advised of progress and outcome.

VI. Review and Discussion of Debt Policy – Rachel Mayer

Rachel Mayer requested a volunteer from the Board with a special interest in debt policy management to work with staff one-on-one to review and update the City's current debt policy. Staff is looking for different view-points, benchmarks from other cities, as well as best practices outlined by GOFA to update the current policy. Once this policy has been revised it will be presented to the Board for final review and comments.

Both Charles Millington and Ron Davidson volunteered to work on the policy.

VII. Quarterly Review of Financial Performance – 2nd Quarter Ended June 30, 2016

Rachel Mayer stated overall the City is collecting more in revenues than spending,

- General Fund revenues through June totaled \$48.78 million, which is 48.9% of the CY2016 budget and \$4.1 million higher than the CY2015 year-to-date actuals.
- General Fund Operating expenses through June total \$53.4 million which is 44.5% of the CY2016 Budget and \$3.9 million lower than the CY2015 year-to-date actuals.
- Electric Utility Fund revenues through June totaled \$74.5 million, representing 8.9% increase over the prior year. The overall increase is reflective of the 8.3% rate increase implemented on February 1st.
- Electric Utility Fund expenses in CY2016 are down \$1.3 million compared to CY2015 year-to-date. The decrease is associated with a \$1.2 million reduction in overhead charges, which is due to the direct allocation of salaries and benefits from the General Fund.

- Water Utility Fund revenues through June totaled \$24.8 million, revenues are down 6.2% from CY2015 year-to-date.
- Water Utility Fund expenses in CY2016 are down \$3.9 million from CY2015 year-to-date and are at 35.8% of projections for the CY2016 budgeted. Similar to Electric there is a decrease in the internal services line for personnel overhead which is now a direct charge.

VIII. Review 2017 Budget Calendar – Erik Hallgren

Erik Hallgren reviewed the budget calendar with board. The official kick-off meeting with staff was held on August 1st. Staff was provided with historical information on revenues, expenses and payroll items. Departments will be working over the next several weeks determining budget requests for 2017. There will be several reviews of the budget process with staff and City Manager's Office. This year staff will be providing a comprehensive document to City Council before the three workshops begin. Staff is looking for the budget to be approved by December 6th with the property tax levy approval at the following council meeting.

IX. Old Business

Review and Discussion on Investment Policy, Michael Wik updated the Board that he and Mike Piotrowski are still currently reviewing the policy. Based on Illinois State Statute constraints on the policy will include baby steps and will not gain a lot of return. Looking to place layers and/or trigger points within the new policy so that the investment firms have some flexibility. There will be a policy for the Board to review by the November meeting.

X. New Business

The October 31st meeting has been rescheduled to November 7th.

Rachel Mayer mentioned that staff is currently working with Council on two initiatives:

- Revising the Ambulance Billing to match revenue with expenses, but also provide Naperville residents relief from any balance that is not covered thru their insurance.
- Meeting with the SECA commission for discussion around the SECA program and Food and Beverage dollars in general.

Rachel Mayer will provide an update to the board at the November meeting.

Board had a discussion around the number of meeting that are currently scheduled, and the consensus is that four meetings a year is not enough to be impactful. Recommendation of moving to six meeting a year to provide more added value to staff. Board has requested that staff create calendar of dates for 2017 to review at November meeting.

Susan Wade inquired on how the City uses and manages procurement cards, as many of her large municipalities are using them for all major purchases for rebate benefits. Rachel Mayer explained that the City does use procurement cards, however in working with many of the vendors they do not view procurement cards as positive payment option due to the fees associated with the cards. Many vendors have indicated that service costs would increase with this type of payment method.

Rachel Mayer mentioned that Kim Schmidt is working on a presentation for the November meeting to the Board on Local Vendor Market, which would be more impactful than procurement card payment options.

Nimish Bhatt has resigned from the Board due to relocation. Mayor Chirico will be appointing a new member in the near future.

Student Member Sarvasva Raghuvans thanked the Board for the opportunity to serve with them, as this will be his last meeting as a member, he will be going to college to study Finance at Harvard this fall. The Board thanked Sarvasva for his time on the Board and wished him well in his future endeavors.

XI. Adjournment - 7:30 p.m.