

CITY OF MILFORD
FINANCE & AUDIT COMMITTEE MINUTES
January 22, 2024

The Finance and Audit Committee of the Milford City Council met on Monday, January 22, 2024 in the Joseph Ronnie Rogers Council Chambers at Milford City Hall, 201 South Walnut Street, Milford, Delaware.

PRESIDING: Chairman Jason James Sr.

IN ATTENDANCE: Committee Members:
Councilpersons Daniel Marabello and Nirmala Samaroo

STAFF: City Manager Mark Whitfield and City Clerk Terri Hudson

ABSENT: Committee Member Andrew Fulton

Public Comment Period Prior to Official Meeting

No one was signed up to speak and the floor was closed to public comments.

Call to Order

Chairman James called the Committee Meeting to order at 5:01 p.m., then deferred to Finance Director Lou Vitola.

Public Financial Management (PFM) Asset Management LLC/City of Milford Portfolio Presentation

Finance Director Lou Vitola noted that representatives from PFM Investments are present to talk about the city's investment program. Over a year ago it was agreed to hire PFM to handle our investments pursuant to our existing policy. The first order of business by PFM was to revise and update the investment policy which was approved by City Council. Since then, they have been investing a portion of the city's investable funds.

PFM Senior Managing Consultant Marty Hammond, Director Zach O'Grady, and Ally Cassia is joining remotely.

In addition, more than \$30 million is segregated into a custody account with a custody relationship with US Bank. With the additional \$2.5 million dollars that was recently added due to additional cash flows from end of year permits and positive cash flows from the city's property tax collections.

We are paying less than the 15-basis point fee of \$50,000 a year, which is a standard rate with cities our size.

There is a distinction between our ordinary investments, so to speak, and those investments related to the 2016 general obligation liabilities, related to our electric and sewer projects that are that are that are set aside with different investments and longer-term cash flows, longer term maturities to meet certain cash flow needs on the liability stream.

Director O'Grady provided an update on the investment portfolio and talked about what the investment policy is geared for and how they are moving forward.

He then provided a high level of both investment portfolios totaling \$30 million. They moved funds from the primary and cash flow account over to a governmental money market account in September as they were figuring out the investment strategy getting the city's customized investment policy program into our compliance rule library.

The goal of funding the city's custody account in an institutional money market fund to generate earnings in excess of what the city's receiving at the at the bank. The cash vehicle within the portfolio is invested in an institutional governmental money market fund that provides daily liquidity should be and is yielding over 5% in in today's rate environment. Both portfolios were invested in in November.

The primary account of \$24.7 million dollars was invested. The aggregate purchase yield of all the individual securities in the primary account is 5.39% and the cash flow account, funded at \$4.8 million, initial yield of cost at 4.93%. The variation is because the cash flow account has longer liabilities and there is some inversion in the yield curve right now and shorter-term securities are yielding a bit in excess of longer-term security and the deviation in the initial purchase yield. A combined balance of \$30.89 million dollars is shown through the end of December or almost \$890,000 in portfolio appreciation.

They expect the total return performance to be about 2.96% for the first full quarter. For the short term, fixed income portfolio, to return, almost 3% in a quarter is really strong. Annualizing that out four quarters is about 12%.

The \$2.5 million is invested in cash that will be tailored specific fixed income investments in that primary account.

Mr. O'Grady then talked about the investment policy, adding that they are really investing in fixed income securities. When any interest payments or coupon payments come in from securities, the funds would be invested in a money market fund until that cash is redeployed into fixed income securities within the portfolio.

He discussed the different components and different types of investments permitted via the state code. Different sectors of the fixed income market such as treasuries, agencies, corporate notes, commercial paper can be accessed.

They try to have a high overall credit quality for the for the portfolio that's in alignment with regulations from the Delaware State Cash Management Policy Board and different sector limits and issuer limits within the policy. All to promote diversification and reduce risk within the overall investment program.

He reiterated that PFM Asset Management LLC is an investment adviser registered with the U.S. Securities and Exchange Commission and US Bank is providing third party custodian services for the city.

This will be an iterative process between Mr. O'Grady and the City's Finance Director to always make sure that the investment portfolio is aligned with the city's unique cash flow and risk profile.

They will do the annual Investment policy review though he doesn't expect any significant changes. Performance reports will be done quarterly, and monthly statements are available.

The back of the book includes some market data which he also spoke about the Fed's Updated Dot Plot which can be found in the packet. It is an anonymous survey that every single voting member of the Federal Reserve Board of Governors completes at the end of every voting meeting with the last in December, by indicating where they think appropriate monetary policy will be at various points in time. Their expectations for rate cuts in 2024 have significantly sped up from their last meeting due to its progress or path towards normalizing inflation.

When in an environment where rates have risen so significantly over the past couple of years, he anticipates the city implementing a longer-term investment strategy will be good moving forward.

Going outwards, in 25 and 26, as more time goes on, there is more variation. Longer term fed thinks the equilibrium rate is something like 2.5%.

Usually, the market generally agrees with the fed's path forward on rates, and there is not a significant deviation. The market pricing is almost six rate cuts in 2024.

They are somewhere in the middle on that, though there will be a lot of data coming out in the next several months, because six rate cuts would be very aggressive, but it will all be data dependent over the next several months.

Mr. Vitola referred to the following memo:

The last Request for Proposals for independent audit services was issued early in 2021 for fiscal years 2021, 2022 and 2023. The RFP for audit services for the next three years – FY24, FY25 and FY26 – was issued on January 12, 2024. Proposals are due March 1, 2024.

All proposals will be maintained by the City Clerk, so members of the Finance and Audit Committee/Council have the ability to review the proposals at their leisure. Staff will evaluate and score the proposals to form a recommendation to the Finance and Audit Committee, which will in turn make a recommendation to Mayor and Council to retain the services of the City's existing auditors or to engage one of the responding firms. Staff expects to make the recommendation to Council by April 22, 2024.

The RFP and related addenda are available on the City's website.

A round of questions have already been received from one of the prospective bidders and a question and answers summary will be provided and added to the RFP link.

He is planning to turn around the recommendations quickly and hopefully prior to that meeting as he would like to have Council really make the decision, which may create the need for rescheduling and an additional meeting in early April.

When asked for the criteria used to decide who the RFP was being issued to. Director Vitola advised it was issued publicly so that no individual firms have directly received the packet or a separate one-off invitation to bid. Sandra Peck, the new accountant and Director Vitola have had relationships with multiple accountants throughout their careers. There may be 15 or 16 that were sent a direct invitation.

Three years ago, they looked at every Delaware firm that does that work, as well as anyone they had worked with in the past and sent that link or invite requesting proposals.

Chairman James recommended meeting with this committee just to review the scoring criteria that will be used in the proposals. He has certain scoring criteria he uses and would like to ensure it marries up because it flushes out some good information needed and competency.

Director Vitola added that the one used is rubric driven, and very formulaic. It is slightly different than the one used three years ago and went from five categories down to four and put more weight into references. He offered to circulate that page with that information.

It was agreed to meet in March for another review.

There being no further business, Chairman James adjourned the Finance Committee Meeting at 5:45 p.m.

Respectfully submitted,

Terri K. Hudson, MMC
City Clerk/Recorder