

City of Woodbury
Audit and Investment Commission Minutes
February 24, 2022

Pursuant to due call and notice thereof, a meeting of the Audit and Investment Commission was held at Woodbury City Hall, 8301 Valley Creek Road, on the 24th day of February 2022.

Item 1: Call to Order / Roll Call

Vice Chair John Lehman called the meeting to order at 7:30 a.m.

Upon roll call, the following members of the Audit and Investment Commission were present: Acting Chair John Lehman, Frank Gilbertson, Cody Groth, Jeanine Kuwik, Alec Sonstebly and Annmarie Weiser.

Absent: Chair Blake Darsow and Andrew Naylor.

Others present: Jody Brown, Human Resources Manager, Angela Gorall, Assistant City Administrator; Clint Gridley, City Administrator; Ryan Miles, Ehlers Financial Advisors; Kyle Sawyer, Interim Controller; Roxy Nowicki, Recording Secretary; Kim Wilson, Council Member.

Item 1A: Welcome New Members / Introduction

Acting Chair Lehman welcomed new members and then asked commission members and others to introduce themselves.

Item 2: Approval of Minutes – November 4, 2021

Moved by member Kuwik, seconded by member Gilbertson to approve the November 4, 2021 minutes.

Voting in favor:
All present

Voting Against:
None

Absent:
Blake Darsow and Andrew Naylor

Item 3: Review of Mayor and City Council Compensation

Ms. Brown stated that it is time for the Commission to review the Mayor and City Council wages. A process was set up in 2016 (Council Directive was included in the packet). Changes the Commission recommends to the Council (and Council approves), would take effect January 1, 2023.

Ms. Brown continued by stating that a market study was done for the Mayor and City Council wages using nine cities that are comparable to Woodbury in wage and budget structure. Minneapolis, St. Paul and the other primary cities are excluded. The Mayor and Council Members' wages are currently at 99 percent of the market comparables.

A question was asked what a first class city is. Ms. Brown stated that by statute, cities are organized in different tiers. Cities with population of 100,000 plus are considered first class; i.e., Minneapolis, St. Paul, Duluth and Rochester.

Ms. Brown stated the market averages would indicate that we could apply the cost of living adjustments that were provided to City staff last year and this year, which would be a 5.5 percent adjustment. Staff is recommending that the Commission review and forward that recommendation on to Council for approval. Staff feels it is important to keep Woodbury's Mayor and Council wages comparable with the other market cities.

Ms. Brown also stated that there are two cities in our comparables (Eagan and Burnsville) that provide

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medical insurance to their Mayor and City Council, similarly as if they were employees. We did not include that as part of our wage comparison. If the Commission would like that added, staff would need to know what amount should be used. If that is added as part of the comparison, that would bring Woodbury's place in the market down a little bit.

Ms. Brown continued by stating staff is also recommending to change the policy to increase the population amount so we are able to include the city of Brooklyn Park, which staff feels is an important comparable.

Member Weiser asked if there was any insight on what other cities are planning to do for the next fiscal year. Ms. Brown stated that it is a little more challenging with Mayor and Council salaries and we don't have information on when other cities plan to look at those salaries. Plymouth is eligible for an increase in 2023. In terms of other staff information, in municipal government, the unions are very prevalent in determining cost of living adjustments. Woodbury's unions are settled through 2024; it was 2.5 percent in 2022 and will be 3 percent in both 2023 and 2024.

Member Lehman asked if the City ever ran a per capita statistic or chart – if that would show anything different. Ms. Brown stated that they have not, but could certainly do any other type of analysis the Commission feels would be helpful.

Mr. Gridley stated that the Commission should consider the following:

- Is the comparative group correct?
- Is the range correct?
- Are the inputs correct?
- Do we want to look at this in a per capita, population rank?

The policy was created to help organize the process and was delegated to the Audit and Investment Commission to be an objective, neutral body.

Member Kuwik stated it seems that using the benchmark that is used for the employees is a safe ground as it would only be a cost of \$3,200.

After a short discussion, the following was decided:

1. Change the Council Directive to change the population limit up to 95,000
2. Apply a 5.5 percent increase to the Mayor's and Council's salaries effective January 1, 2023
3. Change the policy to increase the range from 95 percent to not more than 110 percent.

Member Sonstebly made a motion to change Council Directive to change the population limit up to 95,000, apply a 5.5 percent increase to the Mayor's and Council's salaries effective January 1, 2023, and change the policy to increase the range from 95 percent to not more than 110 percent. Member Groth seconded the motion.

Voting in favor:
All present

Voting Against:
None

Absent:
Blake Darsow and Andrew Naylor

A question was asked about health insurance benefits. Ms. Brown stated that Eagan and Burnsville provide medical insurance to Mayor and Council as if they were employees, providing the City contribution. Woodbury's policy allows for Mayor and Council to access the benefits at 100 percent of their own cost. Mr. Gridley stated that if the Commission does want to provide this benefit, it would be brought back to the Commission in two years and staff would provide an assumed employer

contribution as part of the calculation.

After discussion, Vice Chair Lehman suggested that a month prior to when this is brought back to the Commission in a couple of years, that staff provide the Commission with the items that will be looked at to determine if there are other pieces of analysis that they would like to see.

Item 4: Quarterly Investment Results Review with Ehlers (Ryan Miles)

Mr. Miles started his presentation by giving a brief background of the Ehlers investment team. A question was asked on how the fee mechanism works. Mr. Miles stated that it's a fee-based advisory relationship – a percentage of the fee is based on the assets that are managed – there is an annual fee and then it's assessed monthly on the interest rate. In managing a portfolio, best practices under the GFOA guidelines, there are three things:

1. Safety – Since these are public funds, these are very safe investments
2. Liquidity – Making sure they are interfacing weekly with the Finance staff to understand the liquidity of the overall cash flow for staff to make sure the investment portfolio is providing the liquidity necessary.
3. Yield – Creating a reliable and reasonable rate of return.

Mr. Miles stated that the first step that was taken the past year was to update the Investment Policy. Finances have gotten extremely complex for City government, so the Investment Policy was updated to meet MN State Statute 118A guidelines.

Vice Chair Lehman stated that GFOA stands for Government Finance Officer's Association. GFOA does have a list of best practices for governments. If a city wants to be GFOA sanctioned, you must have financial policies. If Commission members want more information regarding GFOA, their website is GFOA.org.

Member Weiser asked if prior to Ehlers coming on board, if there was another company the City used for investment advice. Ms. Gorall stated that the former Finance Director did this in house. When he retired, the City reassessed keeping this in-house. The City did not have any staff that had that level of expertise. Member Weiser asked if the presentation included a comparison of the performance from when the Finance Director handled it to now? Mr. Miles said it does not include that, but that was provided in the past and he can do the comparison next time he presents to the Commission. He stated it is pretty significant since they adjusted the different investment types and selections, within the bounds of still maintaining safety. Looking at the portfolio composition, they have now invested in municipal bonds, which historically wasn't done a lot prior to Ehlers coming on board. Municipal bonds are part of allowable securities and they do provide a decent rate of return.

A question was asked if the Finance Director's position was replaced. Ms. Gorall stated that the Finance Department and Administration Department has been restructured into one department - the Administration and Finance Department. Angela Gorall now oversees the merged department. Some positions were restructured after the Finance Director retired and the Controller moved out of state. The vacancy the City is trying to fill is a Chief Financial Officer/Controller. That position will then report to Ms. Gorall.

Mr. Miles continued by stating that the policies and level of expertise in Woodbury are the reason Woodbury is AAA rated and does things very well. Woodbury is a great, well-run City.

Mr. Miles continued with his presentation by stating that current market conditions change so quickly and some of the material becomes outdated. He then proceeded with his presentation talking about economic indicators. A key economic indicator is the manufacturing index. During Covid,

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manufacturing took a big pause and things were really starting to ramp up this past year. Supply chain has been putting a cramp on manufacturing, there is some slowing in the manufacturing index. This is considered a leading indicator in the economy.

Retail sales took a big drop during Covid, and spiked when everyone received their stimulus checks. Now since the stimulus checks have been spent, things are slowing again.

A question was asked if this is brick and mortar only or if it includes online. Mr. Miles stated this is brick and mortar – online sales have been doing well.

Mr. Miles continued by stating that another indicator is inflation. Month over month inflation has been rising at about seven percent. This is what the Feds watch to see if they are going to adjust interest rates. The Feds were looking to raise rates potentially four times over the next year. If there is actually a war in Europe, that could slow down their projections of raising rates. This affects how they structure the portfolio.

Mr. Miles then continued by reviewing the portfolio composition for all the various funds that are being managed. He stated that what has changed is 24 percent of the portfolio is in highly rated municipal bonds. Historically the portfolio was much more weighted towards US Treasuries and Agencies, and Ehlers has been adding in additional investment selections along the way.

Mr. Ehlers continued by stating that safety is paramount. The overall portfolio on average is AA rated (AAA being the highest). Even adding municipal bonds, the rating is still very high and very safe.

Mr. Miles continued with his presentation talking about safety and fixed income securities. When you buy a fixed income security, the payment to the City every six months is fixed. However, the price of the security is going to fluctuate in the open market on a daily basis. As rates rise, that payment is less valuable in the marketplace – that security will be less valuable on a day to day basis. As interest rates rise, some of the bonds in the portfolio will be worth less to the investor in the open market and, therefore, your market value of your portfolio is going to be less. It will be an unrealized loss. It's important to understand that the value of the portfolio is going to fluctuate, but in the end you're going to get the principal and interest back guaranteed. If the Feds were to lower interest rates, the bonds would be worth even more money.

Mr. Gridley asked what this means for the audit. Mr. Sawyer stated that whatever the market value is on December 31 is what gets reported at year end. That directly impacts the interest income numbers. On the financials, you're not going to see a separate line that shows interest income and separate line that shows unrealized gain and loss. It is one number lumped together and is called interest income.

After a short discussion, Mr. Miles continued with his presentation talking about yield curve. Two months ago, a one year U.S. Treasury was trading at 0.4 percent. Two months later, it more than doubled – it is over one percent for a one year U.S. Treasury.

Mr. Miles continued with his presentation talking about liquidity and income. He stated that on a true dollar perspective, month over month they've been able to increase the interest income that is being earned. The market value is going to fluctuate, so it will impact the financials.

Mr. Miles stated that as the City's investment advisor, they are not an exclusively discretionary advisor. They are not buying and selling without interfacing with Woodbury staff of what their plan is.

Mr. Miles stated that his recommendation for the next quarter is much of the same. This is the time to talk about upcoming summer projects and the cash flow needs, as well as looking to reduce duration and monitoring the unrealized gain and loss.

Mr. Miles also stated that another way to take advantage of rising interest rates is to buy mortgage backed securities. They are guaranteed by the full faith and credit of the U.S. Government and they return principal on a monthly basis. Ehler's credit team helps with the analysis of determining which security to be involved in.

Mr. Miles asked if there were any other types of reports or other items the Commission would like to see for the next report.

Mr. Gridley requested that Mr. Miles report on some of the equities for his next report. Woodbury is a unique city that is very modestly invested in equities. By State Statute, AAA rated cities are allowed to be in equities. Woodbury is the first city in the State of Minnesota to do that.

Mr. Miles stated that the equities are under the State Board of Investment guidance - they are making the decisions on that portfolio.

Vice Chair Lehman thanked Mr. Miles for his presentation.

Mr. Gorall stated the next meeting is scheduled for Friday, June 24.

ITEM 5: Adjournment

The meeting adjourned at 8:55 a.m.