

**CITY OF SUNSET HILLS
FINANCE COMMITTEE
AGENDA
September 7, 2021
5:30 P.M.**

A meeting of the Sunset Hills Finance Committee will be held in the Robert C. Jones Auditorium at City Hall, 3939 S. Lindbergh Blvd., on September 7, 2021 at 5:30 P.M.

You can join the meeting via Zoom.com or by using the following link:

**[https://us02web.zoom.us/j/89907843027?
pwd=cXNheGYrbE41WkE0ZlIpc0p2SXkydz09](https://us02web.zoom.us/j/89907843027?pwd=cXNheGYrbE41WkE0ZlIpc0p2SXkydz09)**

Or you can dial in at 312-626-6799

**Meeting ID: 899 0784 3027
Passcode: 437817**

1. ROLL CALL

2. APPROVAL OF THE MINUTES

Approval of the minutes of the July 12, 2021 Finance Committee meeting

Documents:

[7.12.21 FINANCE MEETING MINUTES - DRAFT.PDF](#)

3. INVESTMENT POLICY DISCUSSION WITH GUEST BRAD LUKENS OF ARBITRAGE MANAGEMENT

Documents:

[REVIEW OF INVESTMENT POLICY.PDF](#)

4. FUND BALANCE POLICY REVIEW AND DISCUSSION

Documents:

[FUND BALANCE POLICY PROPOSALS.PDF](#)

5. BUDGET SCENARIOS FOR NEW PROP P FUND

Documents:

[COPY OF PUBLIC SAFETY FUND BUDGET SCENARIOS.PDF](#)
[CREVE COEUR PUBLIC SAFETY FUND GUIDELINES.PDF](#)

6. OTHER MATTERS

7. ADJOURNMENT

MINUTES OF THE REGULAR MEETING OF FINANCE COMMITTEE OF THE CITY OF SUNSET HILLS, MISSOURI HELD ON MONDAY July 12, 2021

Meeting convened at 5:31 p.m.

Place of meeting: City Hall Public Works conference room.

The Finance Committee of the City of Sunset Hills, Missouri met in open session. Chairman, Alderman Joe Stewart, Alderman Fred Daues, Member Mike Fitzgerald, Member Jeff Camilleri, Member Mike Sawicki, Finance Director, Susanna Messmer, City Administrator, Brittany Gillett, were personally in attendance. Absent: Member Mark Colombo.

Approval of Minutes

Member Fitzgerald made a motion to approve the minutes from the June 14, 2021 Finance Committee meeting. Alderman Daues seconded the motion and it was unanimously passed.

Proposed additional of restricted fund for Proposition P revenues

Member Camilleri asked how much the overall revenue from Proposition P was. Alderman Stewart replied about \$450,000 a year. Member Camilleri then asked how it compared to the expenses tied to it. Ms. Messmer stated the operating expenses, excluding employee benefits, were 2.8 million. Member Fitzgerald asked what the City debt obligations were. Ms. Messmer replied approximately one million a year. Member Fitzgerald stated he did not see a purpose for designating the funds. Alderman Daues stated Member Fitzgerald's point was well taken and that the proposed ordinance was being considered in order to ensure the funds were used on public safety items specifically, as explained to the voters, going forward. He stated the ordinance would ensure the funds would remain in place, when, in the future, committees and elected officials change. He stated this bill did not put additional hardship on staff because it would apply beginning January 1, 2022, not be retroactive to the existing money in the general fund.

Alderman Stewart explained it was a chance to earmark the funds for what the Board believed the intended purpose of Proposition P.

Member Camilleri asked if this would affect the budgeting process. Ms. Messmer answered yes, it would require the Board to designate what type of Public Safety expenditures would go into the fund.

Alderman Daues gave examples of items that would qualify for the Prop P funds and explained the purpose of the legislation was to make sure the Prop P funds were protected going forward.

Member Camilleri asked if the City would be increasing the expenditures by 450K to provide additional public safety items. Ms. Gillett explained the budget would not be increased by 450k annually, rather the funds would be used for existing budgeted expenditures.

Member Fitzgerald asked who would be doing the qualifying of expenditures. Ms. Messmer replied it would be the Board of Aldermen. Member Fitzgerald stated he agreed with that.

Member Sawicki asked how the funds would be allocated this year and what they were spent on. Ms. Messmer stated the funds are comingled in the general fund. Alderman Stewart stated that they wanted to separate the funds so that tracking expenditures was clear.

Member Sawicki asked how County Road funds were currently allocated. Ms. Messmer stated the revenue was a distinct source with expenditures based on budget, which has to relate to streets, maintenance and improvements.

She explained she allocated funds based on the percentage of time public works employees spent on streets. She stated it was a standard allocation applied to County Road using the percentages given to her by Public Works Director Bryson Baker. Member Sawicki asked if they were doing the same thing with the Proposition P funds. Ms. Messmer stated it would be the same thing if salaries were used.

Member Camilleri asked what account the first 450k of PD expenses would be pulled from. Ms. Messmer explained that the expenditures would be pro-rated over 12 months, there would not be extra money that was not approved by the budget. Ms. Messmer explained that the expenditures come from the Board of Aldermen, as well as the decision of what the fund balance should look like going forward, and what the fund policy was. Ms. Messmer explained the fund policy in place for the general fund. Member Sawicki asked if there was a policy for the County Road Fund. Ms. Messmer answered no and explained there was not a policy for any of the three restricted funds. Ms. Messmer stated she recommended having a policy for each fund.

Member Fitzgerald asked if there would be a separate budget for the Prop P funds, and stated he felt there should be. Member Camilleri stated the eligible expenses had to be defined.

Ms. Messmer gave examples of expenditures from the County Road fund and how eligible expenses were paid.

Alderman Stewart stated the committee only makes recommendations to the Board, and they could recommend approval of the bill with the stipulation of creating a separate budget for the Prop P funds.

Member Fitzgerald asked if Chief Dodge was aware of the requirement to define qualifying expenditures and oversight by the Finance Committee. Ms. Gillett confirmed, yes, he was aware.

There was lengthy discussion on the qualifying expenditures for Prop P and how other municipalities were spending their funds.

Member Sawicki re-read the statement that all income and expenditures from the Proposition P fund shall be separately stated and all budget material prepared and disseminated by the City.

Alderman Stewart stated this was the third version of this bill and it had numerous changes and inspections by the City Attorney to minimize any audit risk. He stated they felt this was a workable version to be presented to the Board of Alderman.

Member Fitzgerald asked for a description of qualifying expenditures. Alderman Daues cited examples of salaries, capital expenditures, cars, body cameras, firearms, and uniforms. Ms. Gillett stated the expenditures were specific to the Sunset Hills Police Department.

There was additional discussion in reference to how the funds would be allocated each year. Member Sawicki asked Ms. Messmer if the Finance department would provide recommendations for County Road and Prop P funds.

Ms. Messmer replied that she could comment on the appropriateness of the types of expenditures going in the funds, and she could make recommendations. She stated the point was to make sure the expenditures represent what the revenue was intended to purchase. Alderman Stewart stated he felt the intent of the Prop P fund was well defined. Ms. Gillett added they would come back with a fund balance policy for clarification.

Member Sawicki made a motion to recommend the Prop P fund segregation. Member Fitzgerald approved the motion and it was unanimously approved.

Medical Insurance forecasted costs for October 1, 2021 through September 30, 2022

Ms. Messmer reviewed the quotes provided by the existing insurance carrier, Anthem Blue Cross Blue Shield. She stated they came back with a 5.1% increase. Ms. Messmer's recommendation was to stay with them for at least one more year. She stated this allowed the city to look at additional brokers next year and have more data to compare.

Alderman Daues asked about the premiums paid by members who were smokers versus non-smokers. Alderman Stewart stated we should look at other providers after this year to see if the City could get discounted rates.

Member Camilleri asked how these plans compared to other Cities. Ms. Gillett stated there was a survey with SLACMA that was being compiled and that she would share that information as soon as she had it.

Alderman Daues asked if it was legal to charge smokers more than non-smokers, even though the carrier is not charging the City the additional amount. He asked how the \$31 a month was calculated since it was not assessed by Anthem.

Ms. Messmer stated she would have to look into it since it was set up prior to her employment.

Member Sawicki made a motion to recommend Anthem Blue Cross Blue Shield for the City Health Insurance, Member Fitzgerald seconded the motion and it was unanimously approved.

Member Sawicki asked Ms. Messmer to find out how the \$31 fee was calculated for smoking employees.

General Discussion

Ms. Messmer distributed information on the proposed budget policy. Ms. Gillett stated it was good to have something in writing and that she was proposing a mid-year budget review that would include the Board of Aldermen and the Finance Committee. Ms. Gillett stated this was formalizing what is already generally practiced each year. The members reviewed the policy.

Alderman Daues asked Ms. Gillett to bring the committee up to date on the change in how the city moved funds from Parks/Storm and County Road to general fund, going back to 2017 through the current year.

Ms. Gillett stated maintenance and equipment were previously taken from the funds and that the City had shifted to paying salaries because of the stability of the expenses incurred. Member Fitzgerald asked if the salaries were qualifying expenditures. Ms. Gillett replied, yes, they were.

Alderman Daues reviewed previous eligible expenses from 2017-2019 and noted the difference in the qualifying expenditures. He asked for verification that one million dollars of salaries in the current budget was being pulled out of Parks and Storms and were personnel expenses. Ms. Messmer verified that was correct.

Ms. Messmer explained how the salaries were paid and the logic used to qualify the expenditures. She re-iterated the expenditures come from the Board of Aldermen and are all reviewed by our audit firm annually.

Adjournment

Member Sawicki made a motion to adjourn the meeting. Member Fitzgerald seconded the motion and it was unanimously approved. Meeting adjourned at 6:40 p.m.

Deputy City Clerk- Lori Stone



CITY OF SUNSET HILLS

Investment Policy Review (Dated 6/1/12)

Conducted on 9/2/2021

VIII. Investment Restrictions

To provide for the safety and liquidity of the City's funds, the investment portfolio will be subject to the following restrictions in addition to those listed elsewhere in this policy:

1. Borrowing for investment purposes is prohibited.
2. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.
3. No more than 5% of the total market value of the portfolio may be invested in bankers' acceptance issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

DEFINITION: **Commercial Paper**: Short term debt (9mo or less) of large corporations.

QUESTION: What "portfolio"? Entirety of City funds in all accounts? 5% threshold in each account?

Consider either:

- a) Eliminating the 5% threshold completely.
- b) Clarifying which "portfolio" the threshold governs.
 - a. 1 portfolio or multiple?
 - i. If multiple, CP will largely go unused in most but a 5% restriction in the General Fund account will reduce income, possibly unnecessarily.

"of any one issuer" – This policy requires the rating of a Commercial Paper Issuer to be "the highest rating". Currently, there are only two "highest rated" CP issuers domiciled in the U.S. and one is rarely open. Therefore, it is currently not possible to invest 5% of "the portfolio" into more than two CP issuers in order to increase the amount invested in this manner. Commercial Paper yields typically provides the highest yield of any other permissible investment more than double its maximum duration. *Example*: A 9mo CP yield will usually be higher than up to a 2yr U.S. Treasury, Agency or CD yield. This enables you to receive a higher yield and shorten average duration of the portfolio.

2. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be limited to the following maximum percentages **of the total portfolio**:

Investment Type	Not more than:	Maturity
a. U.S. Treasury Bills, Notes and Bonds (incl. zero coupon)	100%	≤ 10 years
b. U.S. Government Agency and Instrumentality Obligations*	75%	≤ 3 years
c. Collateralized Repurchase	50%	≤ 90 days
d. Certificates of Deposit	50%	≤ 5 years
e. Commercial Paper	10%	≤ 5 years
f. Bankers' Acceptances	10%	≤ 180 days

Contrasting “Portfolio” language from VIII (see previous page). – This language clarifies “total portfolio”. For proactive investment and audit purposes, it would be good to clarify the policy restrictions are based on the entirety of City funds, no matter the location or purpose or individual accounts.

All permissible investments are extremely safe and of the highest credit rating. It is uncommon to see our municipal clients add percentage restrictions to what is already considered safe. U.S. Treasuries are “direct obligations of the U.S. Gov’t”, U.S. Gov’t Agencies are “implied obligations of the U.S. Gov’t”, CD’s are FDIC insured and Commercial Paper are large, household name corporate issuers with the highest credit rating. If there are solvency concerns with any of the above, we can discuss more and if concerns persist, the city may wish to remove the security completely.

“Maturity” (shown in chart above) – The Finance Director typically has a strong and current grasp on future expenditure needs. In some cases, a security may come available that exceeds the pre-determined maximum duration of that security type and although it is a responsible investment, would not be permitted. It would be recommended to remove the maturity restrictions or at least allow up to 10yrs for each type. Additionally, Commercial Paper is not available beyond 270 days; thus the “≤ 5yrs” could create confusion.

*** Instruments in any single issuer of U.S. Agency Securities will be limited to 40% of the total amount in the U.S. Agency Securities category. All such securities must be AAA rated.**

- Consider removal of the above additional limitation on the ability to invest in U.S. Government Agency Bonds.

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100 South 4th Street; Ste 550, St. Louis, MO 63102

Fund Balance Policy Discussion

For Finance Committee Meeting on Sept 7, 2021

The purpose of this memo is to 1) inform Finance Committee members of the funds, their attributes and related policies, and 2) propose concepts on which to base rationale for future fund balance policy.

General Fund:

- accounts for financial resources not reported in other funds
- most operating activities are accounted for in this fund
- accounts for major city operating functions such as police, parks, public works and administration.
- may include grant revenues, donor restricted revenues, and related expenditures
- majority of the fund balance is “unassigned”
- the city has non-codified practice of “balancing” the unassigned portion of the general fund; that is unassigned revenues minus operating expenditures should be around zero each year.

Current fund balance policy: (Section 2-10, b (3)): Note: this isn't formally defined as a fund balance policy per se; as it's part of the investment policy, but it has been used in practice with fund balance management:

“Reserves shall be maintained that are within a range of 30 to 50% of the city's prior year operating expenses or revenue, which ever is greater, exclusive of grant revenues, to be kept in the city's general fund cash and investment reserves.”

The issue I see with the above policy is that it implies an upper limit. Historically the city has been in the 90% range. It also addresses reserve as Cash and Investments, which is not the same as fund balance.

If we are to revise the policy, I think the first decision is how much to have in fund balance to cover operating expenses in the unlikely event revenue is substantially decreased. In this scenario, operating expenditures would need to continue for some time. Determine the length of time first, for example, 6 months to a year. If for 6 months, fund reserve should be at 50% of operating expenditures. I think using prior year expenditures as a proxy would be sufficient, or use the current budget.

The more likely the scenario is that revenues have a short-term decline and the city continues to operate as normal during this period of decline. Reducing the rate from 6 months to 4 months (50% to 33%) offers more flexibility to pay expenditures during the decline.

In general, I believe the city should continue its practice of balancing the General Fund unassigned portions of the budget, and therefore continue to have a fund balance that is almost a year's worth of expenditures. The fund balance lower limit comes into play only in situations of financial hardship and would prevent us from going too “low” with our ability to pay our obligations.

Capital Projects Fund:

- Accounts for resources that are restricted, committed or assigned for capital outlays
- Funded by local .5 % sales tax
- Expenditures in this fund must be for Capital Outlays only

Current fund balance policy: none.

If we are to create a policy, in my opinion it should reflect the outcome of long-term forecasting, for example 5 – 8 years.

With Capital, the forecast could reveal that a major, expensive project is needed 3 years in the future. If a savings mentality is adopted, that would mean Capital spending is curtailed for 2 years prior to the project to build up the fund balance to cover the project in year 3. Of course, the fund balance at year 1, 2 and 3 would look different and it's unlikely a General Fund type policy with a ratio would work. I would recommend a policy that addresses the need for long-term forecasting rather than fund balance. In current practice, we do prepare a long-term capital forecast, but don't forecast that out in a financial statement format. That would be the next step in the process.

Special Revenue Funds:

Special revenue funds exist to provide an extra level of accountability and transparency that tax dollars will go toward an intended purpose. The fund balance policy should therefore follow determination of that intended purpose. Unless there is a reason to "save" for future expenditures under the intended purpose definition, I would argue that the fund balance should be managed like the general fund. That is, have a lower limit ratio to cover a certain period of expenses.

The following are the city's special purpose funds:

County Road Fund:

- This is special revenue fund that accounts for revenues that are restricted or committed to expenditures for specific purposes.
- Funded by property taxes collected for road projects
- Expenditures in this fund must be for road improvement and/or maintenance.
- Current practice is to charge this fund with salaries of Public Works employees who work on roads. This is a percentage allocation of their salary based on time worked.

Storm Water / Parks Fund:

- This is special revenue fund that accounts for revenues that are restricted or committed to expenditures for specific purposes.
- Funded by .5% local sales tax.
- Expenditures in this fund must be for Storm Water and Parks operations and capital outlays.

- Current practice is to charge this fund with Community Center and Aquatics Facility wages (both part-time and full-time), COP debt service and engineering costs for contemplated parks projects.

Public Safety Fund (new in 2022)

- This is special revenue fund that accounts for revenues that are restricted or committed to expenditures for specific purposes.
- Funded by .5% sales tax collected by St. Louis County and then 5/8ths of which is remitted to the city based on population.

Conclusion

Fund balance is the amount of net assets available for the city to meet future obligations. It is essentially a financial cushion. Because of the importance of understanding how much cushion may be needed, long-term forecasting should be done for all funds.

General Fund is for all resources and related expenditures which don't need to be legally reported in another fund. For the City, any grants and donor restricted activity needs to be parsed out to understand routine unassigned revenue and expenditures.

Capital Fund is only for capital items. Grant revenues, donor restricted revenue and interest income from investments may be recorded here, but expenditures must be used for capital purposes. Because capital needs vary from year to year, no specific policy is recommended at this time.

Special revenue funds are established to show that restricted revenues are used for their intended purpose. Grant revenues, donor restricted revenue and interest income from investments may be recorded here, but expenditures must be used for the intended purpose. In the City's case, unless there is a need to "save" for capital items which fall under that purpose, I recommended a fund balance policy similar to the general fund; that is create a reserve for a set period of future expenditures.

Submitted by Susanna Messmer
Finance Director
Sep 2, 2021

Finance Committee Meeting - Sep 7, 2021

Agenda Item # XX - Budget Scenarios for New Public Safety Fund

This is a special revenue fund that is restricted or committed to expenditures for Public Safety.
The revenue is to provide funding for improving public safety in St. Louis County.

		<u>Explanation</u>
Approximate annual revenues	450,000	
Police Operating Expenditures		
Personnel		
Full Time Commissioned Salaries	264,000	Salary increase resulting from Prop P
Full Time Commissioned 2021 Matix Pay Increase	44,000	
Salary Increase Impact of Holiday Pay	4,480	Salary increase resulting from Prop P
Salary increase Impact on Overtime Pay	9,520	Salary increase resulting from Prop P
Full Time Non-Commissioned Salaries	20,000	Salary increase resulting from Prop P
Employer FICA Expense on above	26,163	.0765 Rate
Employer Pension Expense on above - Commissioned	18,788	.061 Rate for 2021
Employer Pension Expense on above - Non- Commissioned	1,360	.068 Rate for 2021
Personnel Total	388,311	
Other		
Seminars and Training	17,000	100% of expense
Community Relations	1,000	100% of expense
Uniforms	3,125	25% of expense
Police Supplies	2,500	25% of expense
Maint/Repair on Equipment, Computers, Vehicles	4,975	25% of expense
Other Total	28,600	
Capital		
TBD	30,000	
Surplus / (Deficit)	3,089	



PUBLIC SAFETY SALES TAX FUND

Fund Description

In April of 2017, St. Louis County voters approved a .5 cent Public Safety Sales Tax. This tax is to provide funding for improving policing in St. Louis County. Five-eighths (5/8th) of the revenues are distributed to municipalities based on population, which was passed by voters to be used for police and public safety. The City of Creve Coeur share is estimated to generate approximately \$850,000 per year.

Missouri statutes require revenues from the law enforcement sales tax to be used for police and public safety purposes.

The city policy on the use of funds will be as follows, subject to annual review by the City Council:

- Police Operating Expenditures – 45%-55%
 - Future police compensation increases as may be needed to maintain competitive salaries and benefits.
 - Training.
 - Contractual and other expenditures to maintain police service levels.
- Public Safety Capital Expenditures – 15%-25%
 - Police equipment and capital improvements, including technology and communication upgrades, enhanced in-car cameras.
 - Public safety improvements such as security enhancements at city facilities or parks; or future improvements to the new police station.
- Police Building Maintenance and Operating Expenditures - 10%-20%
- Reserve for Police Pension Liability – 15%-25%

The police department intends to enter into a lease with Utility Associates to supply body worn and in-car camera systems equipped with the latest technology capable of accurately capturing everything from routine tasks to critical moments from the officer's perspective. The body worn camera units have several built-in officer safety features such as: holster sensors, officer down alerts, officer locator maps, auto foot pursuit activation, gunshot detection, and more. The software integration allows for efficient redaction and sharing capabilities with unlimited cloud storage.

Implementation of a new body-worn camera system will be worn by all patrol officers and includes updating seventeen (17) outdated in-car video camera systems with new high-tech systems for integration purposes.

Budget Highlights

- Acct. 5241 – Contribution toward police pension plan (\$131,250).
- Acct. 6250 – Electricity expenses anticipated for new Police Building (\$54,000).
- Acct. 6252 – Natural Gas expenses anticipated for new Police Building (\$1,200).
- Acct. 6254 – Water and Sewer expenses anticipated for new Police Building in FY 2021 (\$12,900).
- Acct. 6261 – UAV-drone pilot training (\$400).
- Acct. 6265 – Decrease due to cancellation of out-of-state conference training in FY 2021.
- Acct. 6265 – One (1) Police officer attendance at St. Louis University ME School (\$3,700).
- Acct. 7313 – Practice ammunition (\$10,000).
- Acct. 9503 – Bomb dog (\$30,000).
- Acct. 9503 – Fixed Mobile License Plate Recognition System (\$5,000).
- Acct. 9503 – Reconstruction Equipment and Software (\$17,000).

Fund: 19
Dept: 21-11