**Minutes of the Meeting of the Finance Committee of Council**
**Held in the Council Chambers of the Municipal Building**
**On Monday, April 12, 2021**

The Chairman, Ward 1 Councilman Bob Butkowski, called the meeting to order at 6:00 P.M.

Committee Members Present:
Chairman, Ward 1 Councilman Bob Butkowski
Councilwoman-at-Large Tammy Holtzmeier

Others in Attendance:
Law Director John Gasior; Council President Brian Fischer; Mayor Bryan Jensen; Ward 3 Councilman Tony Moore; Ward 4 Councilman Scott Radcliffe; Councilman-at-Large Craig Witherspoon; Dylan Reynolds, Chronicle; Kevin Martin, Morning Journal; Finance Director Bill Logan; Safety Director Duane Streator; Clerk of Council Barb Brooks

**YMCA Lease Agreement**

Mr. Logan stated that he sent out a memo to the Finance Committee in the middle of February describing where we are with the YMCA. We are 10 years in with the YMCA and officially the agreement is known as an operating agreement. Back in 2008/09 when we started construction on the YMCA, that operating agreement was all predicated on the actual cost of the facility and the debt service, the borrowing that we did to build. It was around a $13-$14 million dollar building and we issued two sets of bonds back at that time. One which we are calling City debt which was issued along with the City debt for the stadium and the infrastructure over at the Rt. 611 recreation complex. When the YMCA was completed in early to mid 2010, we issued a second series of debt now known as the Series 2011 YMCA Bonds and the original agreement stated that the YMCA (this is the greater Cleveland YMCA), would pay for 40.75% of the total debt service and the City would pay 59.25%. So when we issued those YMCA bonds, that represented the 40.75%. The way that the operating agreement is currently, (and again we are 10 years in out of a 20-year agreement in the life of the original bonds), the YMCA pays the City's debt service. It is not rent; it is not a lease so to speak. It truly is called debt service and that is all it goes for. They pay us monthly and there has never been any problem; they have not missed a payment. However, when we refunded the bonds in 2020, we did the advance refunding in September for the 2011 YMCA Bonds, along with some of the other City debt at that time. That generated a little over $500,000 of savings on the Series 2011 YMCA Bonds and over $6 million dollars savings in total.

Mr. Logan said, so that new debt service actually kicked in with the interest payment that was made in December of 2020 and now for the remaining roughly 10 years on that debt service, there is $500,000 of savings. In talking with our financial underwriters and eventually with the Y, he and the Mayor thought it might be a good idea to front load the savings, meaning with that Series 2011 YMCA Bonds, the bulk of that $500,000 savings over the original debt service is in 2021 and 2022. Then in 2023, the debt service climbs back up to not quite where it was under the original debt service so there is a little bit of savings each year, but 95% of the savings is baked into 2021 and 2022. The thought was that, with COVID going on, with the Y shut down and the uncertainty going forward, we would put those savings up front, see if we could help them out, and see if we could work out a way to restructure those debt service payments and so that is where we are now. If we did nothing, the YMCA will continue to pay us their monthly debt service based on the new debt service amortization schedule. At the time we issued the bonds, the bond counsel read through everything in the YMCA agreement and looked at all the different issues involved.

And remember, when we did that refunding, it was a taxable refunding and that is really key in this whole situation because being a taxable refunding, those investors that invested in these bonds will have taxable income but they will also have a little higher income than they would have had had it been an exempt issue. By being a taxable issue, the YMCA, which operates the facility and is a non-profit, is not paying income tax or property tax. That allows them the flexibility of doing things in that building. For example, they could have a third party vendor come in which is a for-profit type entity, such as a Starbucks kiosk in the lobby or something to that effect and that would have no bearing on these bonds or the interest rates or the use of the funds or anything like that because of the taxable issue.

Mr. Logan said that we discussed all this back in the fall with the CEO of the Y, their Chief Financial Officer, and Director of Operations and Mr. Logan has had a few conversations since then with their CFO and they are interested in extending that agreement, amending that agreement so that they would pay the debt service as it is but we would stretch it out over, instead of the 10 year period that remains, we would stretch it out over 15 or even 20 years. They prefer to go 20 years paying all the debt service that they owe now but they would pay it evenly over that 20 years. Secondly, it would not be called debt service; it would be called rent and they would become somewhat of a tenant at that point. We would still be responsible for the debt. If the Y folded today and did not pay us another dime, that is still City general obligation debt service. It is backed by municipal income tax pledges but in any event, it is our debt service and the Y is just paying it per the agreement. So that kind of brought us to where we are now. In light of that, there are some other things that we should really look at in the agreement and that would be primarily, in Section 6, "Maintenance, Repairs, Replacements and Alterations" because the City does share in all the maintenance. We pay everything over $1,000 and we also pay annually for the pool check out, the pool filters, etc. Mr. Logan said that he did send out a schedule to the Finance Committee of the repairs over the last 5 years and projecting out over the next 5 – 10 years what those costs might be. This is a 10-year old building so things are going to start needing replacements and then you have to consider any true new capital-type outlays. If the Y were to expand or want to make some alterations, how would that affect our relationship and who would be responsible for what. So different things like that that we have an opportunity to rework in an amended agreement and Mr. Logan said he would like to see that get done sometime this year. That way we could get into 2022 with a whole new start; we could retroactively make the rent be back to January 1st of this year and then they would start paying those even amounts over the course of the new agreement.

Mr. Logan said that he had talked with Mr. Gasior about this whole situation and that Mr. Gasior suggested that we have an appraiser or a commercial real estate person take a look at the building, the rent that we are currently projecting which is basically just that debt service, the square footage, etc. and take a look at the fair market value and see what a fair rent might be.

Mr. Gasior stated that we have to try to determine a fair market value of rent. What we have been doing up to this point is just simply using that debt service figure and with this advance refunding, that debt service figure has dropped almost in half if you project it out. Mr. Logan said, yes, about half for what remains. Mr. Gasior said that is a big gap in terms of what a fair market value of the lease is and he did not want to get into too much of it right now because it would involve negotiations over a lease which is a matter that has to be handled a little more privately until we actually come up with that number. After the meetings between the Administration and the Y, we will probably share information with Council in Executive Session because a lease is an interest in real estate. But the documentation that we already have that Mr. Logan shared is public record. The Y is so unique as a facility goes and the uses that can be put to the building, so we have to analyze it through a professional appraiser and then come back to Council. But as Mr. Logan points out, the impetus for all of this was the advance refunding which not only saved the City money but it saved the Y money because the rental payment in the original lease was just simply tied to the bond payment.

Mr. Butkowski said that he just wanted to clarify something. So we refinanced and that debt is going to be paid off at the same time frame of 2031 and with that refinancing, we saved about a half a million dollars. Mr. Logan said, yes, and Mr. Gasior was right. If we go out 10 extra years with the term, out to 2040, the annual rent is a little less than half what that debt service would have been under the original debt service. Mr. Butkowski said, but the cost savings for the Y is about $203,000 as they were responsible for 40.75%. Mr. Logan said the original debt service is the 40.75%; in other words, this issue of bonds, the Series 2011 YMCA, $5.6 million in its original principal, is the 40.75%. This is all debt on their side. We have our own debt in a whole other series. Mr. Butkowski said he guessed the question is, what is the overall savings to the Y by that refinancing? Mr. Logan answered, roughly $505,000. Mr. Butkowski noted, so that is about $50,000 a year savings to them over the next 10 years or $25,000 if they double that. Mr. Logan said, right, but again the way that the debt service was structured, the savings was front loaded so that the bulk of it is in this year and next year. Mr. Butkowski said that he was just trying to amortize it out over the period and if they want to extend it, then we have to look at the cost savings over that time period, and the annual spend on that building for maintenance has crept up over the last couple years pretty significantly. He asked Mr. Logan if, in his preliminary discussions with the Y, they were open to picking up more of the maintenance costs. Mr. Logan said that it sounds like they are; we have asked them and they need to come back to us with something in writing. We know that they would like to go out an extra 10 years and pay either this debt service equally or pay some sort of reasonable rent amount. But he thought that they also would like to talk about capital outlay and certain improvements to the facility where possibly the City shares some of that cost.

Mrs. Holtzmeier asked Mr. Logan if he was just giving the Committee this information tonight and looking for some feedback from them and Mr. Logan said, yes, he was looking to see what their thoughts were. If Service Director Mike Farmer had been here tonight, he could have spoken more to what is really going on at the Y from a mechanical standpoint and what is going to need to be done in the next few years. He has talked about different things with the pool and the HVAC and electrical systems over there but again, we do not know anything as far as expenses for expansion or for any kind of remodeling.

Mayor Jensen stated that Mr. Farmer had a death in the family so he is out of town but the Mayor thought that the one thing that we are asking for tonight is to make sure that Council is for moving forward so we do not waste time. If Council is willing to keep moving forward and keep talking, we will have to get all those figures together for you.

Mr. Gasior said, right, he thought that is what they were looking for. They wanted to advise the Committee/Council of what happened thus far that was the impetus for why there is a discussion about extending the lease, what we are looking at, and then go from there. If there is anybody on Council who feels that we should not even consider an extension, please bring it up. Mr. Logan added, again, in amending this operating agreement, it really becomes a lease. One of the things he wants to see is to just pull the debt service out of that operating agreement and have them pay rent. That way, if something changes down the road, they are locked into rent. We are going pay the debt service but by it being rent it gives both sides a little more flexibility. Mr. Gasior said that it still is an obligation on the part of the YMCA under the terms of the lease, but to Mr. Logan’s point, we need to come up with a rent figure and just say it is now going to be rent as opposed to what it says in the agreement now that their obligation is to pay their portion of the debt service. Also, you are talking about the capital outlays and then some of the ordinary wear and tear items that they would take responsibility for and he thought that we can have a better lease in that regard moving forward.

Mr. Logan said he thought that the next steps are getting that analysis of true fair market value and what a comparable commercial rent amount might look like and then secondly what we would propose from a maintenance type standpoint vs. a capital outlay.

Mr. Gasior stated that he should not have said a “better” lease, he should just say that with the building being older now and the opportunity to extend the lease, the capital outlays become much more important as are some of the wear and tear items. We are not dealing with a brand new building anymore and we are going to extend that lease out. It is going to be important to take into consideration what that current lease does say about capital outlays and wear and tear items and maybe we can button up a few of those loose ends. That is really what it comes down to. Mr. Logan pointed out on page 5 of the operating agreement, section 6B, is the section that talks briefly about what the City is responsible for with regard to maintenance, repairs, replacements, and alterations, and the Committee could read this at their convenience.

Mr. Logan summarized that what they wanted tonight was just to see if anybody on Council objects to this idea of extending the agreement, reworking the rent payments, and also reworking some of those routine maintenance-type costs and just to get some feedback. At some point, after we get our fair market value numbers, etc. we would have another Committee meeting and bring in the YMCA people.

Mrs. Holtzmeier stated that the YMCA has been a good partner and a good tenant for the City and to continue that and keep our relationship strong is something that she would encourage. Our residents certainly appreciate that amenity from a recreation standpoint and she knows that they use it. She said that in looking at it as debt service vs a tenant, she asked herself if that affects how a bond rating company would look at our overall debt. She did not think it would affect it and she asked Mr. Logan if he agreed. Mr. Logan answered that he did not think that they would look at us any differently if the Y was paying rent to us as opposed to debt service. It is still an obligation on their part. If anything, when the bond rating companies look at us the next time, they are going to see that we did this refunding and generated all these savings. They can look at each of these Series individually but this one in particular had some very good savings to it.

Mr. Butkowski said that he did not have any problem with us continuing the discussion with the YMCA. Again, he was just trying to understand what their overall ask is and what their commitment back to us is, and how the commercial rate comes in regarding that rate vs what our debt service would be. It would be interesting to see what those numbers look like so he would encourage that we continue the discussion with the Y and see where their asks are and what our needs are as well.

**The City Investment Policy**

Mr. Logan stated that each year we should take some time at a Finance Committee meeting just to talk about our investment policy and what our investments are, etc. With or without the memo that he sent out a week ago regarding the idea of going to an investment advisory-type firm, we still should review the investment policy each year. We are governed by Ohio Revised Code Section 135. As a Charter City, we have our own investment policy and safety, liquidity and yield are the three main factors when we make investments. When he started working here almost 13 years ago, the only thing the City really invested in was Star Ohio and at that time, he thought that they may have been paying 6-1/2%. But there were really no other investments involved but over time we have gotten in with federal agency notes and bonds, Ohio municipal notes, and other government agencies with an underlying rating of AA2 or better, and CDs. We have about 14 or 15 CDs right now in our portfolio. When we purchase a CD we generally keep them just under $250,000 which is that federal deposit insured amount. Whereas the other investments, the federal agencies are all covered with the federal government; municipal bonds and notes are backed by income tax pledges and property taxes of each municipality. So we do not invest in any sort of risky-type of investments. With our current level of investments we have an average maturity of just under a year and a half. We can invest in instruments that go out 5 years, so we can invest in the short ends of new bond issues and things like that. Usually the federal agencies are generally under 5 years but we can go out further. Again, our current investment level has an average maturity of about one and a half years, meaning the bulk of what we have, the CDs and municipal notes, have an average maturity of a year and a half out.

Mr. Logan said that the yield, or the interest that we are earning on all those investments right now, is about .89%, which taken as a whole on such a short maturity, is not that bad because he just looked again today and the 5-year Treasury note is at .89%, so we are earning .89% on our short term investments. We would like to get into some investments that stretch out a little further. And this is where it has changed so much. The City has grown, our revenues have been growing despite COVID last year. We were down a little on income tax revenue last year but not much, our TIF revenues continue to grow, and we have more and more cash building up. So when you talk about our investment portfolio, it is with Fifth Third Securities, Key Capital, and basically with Star Ohio. But we also have a couple money market accounts: one with First Federal of Lakewood and one with First National Bank here in Avon and both are paying interest rates will above what Star Ohio is paying. And all Star Ohio is, is an Ohio treasury-backed money market fund so we do not have much money in that, but the First Federal of Lakewood account, which has about $11 million dollars in it, we have been depositing credit card money into there for about 10 years now: online credit card payments and walk-up credit card transactions and we have not taken money out. We have just let that money ride because that money market now is paying much better than the Star Ohio money market and there is just really nothing else readily available at the moment to invest in.

Mr. Logan stated that the other thing to keep in mind with our investment policy is that we cannot invest more than one-third of our total investment portfolio into a single instrument, so we have to watch those parameters that are in our investment policy. Nor would you want to concentrate a lot of funds into a single instrument like that. From a liquidity standpoint, we are really in very good shape. Yes, we have some debt service coming up. We have possibly some other projects coming up but for the normal sort of expenditures which includes those capital expenditures, we are in fairly good shape with respect to the funds we have available. He had some conversations last week with different people in the banking and municipal finance realm and we do think that rates are going to start to creep up a little more and he thinks by the end of the year, Treasury rates will be up a little. There could be some new investments coming down the path that we can get into, maybe 2-year or 3-year types, and we do have a couple CDs right now that are 4-year CDs that we purchased over a year ago so those CDs are going to earn well over 2% when they come due.

Mr. Logan said he just wanted the Finance Committee/Council to understand that we do have options, with Council's approval, to go out to a municipal advisor. Year after year they work with a lot of entities throughout Ohio government and they charge a fee of 10 basis points up to $25 million dollars. After the $25 million, they charge 8 basis points. Their claim is that they can get us into some longer maturity type investments, thereby yielding more and offsetting their fees. But if we do go with them, any investment we invested in, 10 basis points is basically going to go to them. Another nice feature of the investment advisor is that they would concentrate all of our investments into a third-party custodial type account. In a way, we are doing that now. It is just that we are doing it with each firm that we are investing through. So if we invest through Fifth Third Securities, they use National Financial Services and that is that third party. Key Capital Markets uses somebody else and that is the third party. But there is no reason that we cannot take any investments we have or take some of the money in our money market accounts and invest it in CDs or municipal notes or bonds of federal agencies. We can deposit those into a third party custodial account, whether it be with Fifth Third Securities or US Bank or whoever they would be with. And we could still manage it. Mr. Logan stated that all he was trying to say is that we have our investments laid out pretty well and we have our liquidity needs easily manageable. If we needed to pull $5 million dollars tomorrow from First Federal of Lakewood, it would be easy enough to do. But we do not need to because our operating accounts which are at Huntington Bank are very liquid and we have plenty of cash there. But he would like to look at the idea of that third party custodial account, getting some longer-term investments into the portfolio as we can, as rates maybe start to creep up, keeping in mind the idea of this investment advisory type firm. He stated that he would like to see what specifically the Finance Committee thinks of it and certainly anybody on Council.

Mr. Butkowski stated that, with regard to the investment advisor, they would keep us with the similar investments that we currently have and at a 10 basis point fee. So he was struggling with what the advantage was to pay somebody if we have been doing very well and actually beating what the average is today. He agreed that he would like to take some of that money that we have set aside and diversify that investment maybe in 2 to 5-year extended higher interest rates, or ladder that out over time so as they mature they can roll over into another 2-year, or 3-year or 5-years so that we have a laddered future where our investments could come in so if we need the money we know the in the next 6 – 12 months, that money is going to be available to us at a higher return than what we can get in a money market account.

Mr. Logan said that he thought, too, that working with the people that we have worked with (Fifth Third Securities and Key Capital Markets), he did not think that they understood that we have the ability to invest not just in these one-year notes from the different municipalities but in bond issuances. Again, we cannot go out more than 5 years but we could invest in the larger cities' issuances out to that 5-year maturity. Again, we have to stay within the parameters of our investment policy. We cannot invest in an entity that has less than an AA2 underlying credit rating, meaning not the rating on the actual issue, but the underlying rating. For instance, we are an AA2; that is our underlying credit rating for the City. But now that he has had some conversations with those people, they understand that if something comes along, we can take some of those money market funds and invest in 3-year or 4-year bonds or something like that if it meets all those other parameters and if it is going to pay us more than what we are earning in the money market accounts.

Mrs. Holtzmeier stated that the thing that strikes her the most is that we have close to $15 million dollars in money markets. If she would recommend anything, she would like to see a change to our investment policy that caps the amount of money that we can have in a money market. So there is dual control about it and we have to do something with it so it does not get that high. Although that being said, the rates that we are receiving on the money market are really good right now so even though it is very liquid, it is not under-performing, so that is a good thing.

Mrs. Holtzmeier said that the other point that she saw, whether it is the account at Huntington or even in these relationships with this liquid money, she was wondering if we were in a cash management account type of situation where our accounts are swept. Mr. Longan answered, no. Our Treasury arrangement with Huntington, which is where our general operating account or our main account is, we have very reduced service fees and that all happened in January, 2020. We were paying 10 basis points of interest until COVID hit and some things happened and we are still paying a small amount of interest on those funds but it is not swept; it stays in there until we decide to move it somewhere, or transfer it to one of the other accounts or buy an investment with it, but our service fees were reduced tremendously and they locked us in for a few years on those fees.

Mrs. Holtzmeier said that it might be good to talk about cash management services with them and having several sweep accounts to be able to maximize on a daily basis what we are earning on that liquid money. But all of that being said, the recommendation is to change the investment policy so we have a cap on the amount that is in money market. Mr. Logan stated that is a good recommendation. Mrs. Holtzmeier added that, at this point, she as well did not see a need for a third party advisor at that 10 basis points for up to $25 million dollars of assets under management; however, she absolutely agreed with the point of needing to ladder our investments as she saw that we are mostly investing in 2, 3 and 4-year vehicles.

Mr. Logan stated that he thought that we will see more availability as the months go by as those Treasury rates start to creep up which everything is kind of pointing toward. Mrs. Holtzmeier noted that a good policy is one where you have an investment vehicle that is maturing at least once every quarter or a quarter to half. Insured, of course, but it provides us with some opportunity to pull that and put it somewhere else.

Mr. Logan stated that he would inquire about the sweep cash management system. We were in one of those a few years ago with Huntington and there were restrictions that they had with accounts like that. Now maybe it has changed and we can certainly inquire about it. With regard to the investment policy, he liked the idea of setting some kind of a cap on money market funds. He would like to insert the word “underlying” with regard to not being able to invest in a government entity with a credit rating less than AA2. We need to say the word “underlying” there just so it makes it clear and he would like to ask the Finance Committee again if they would consider taking that AA2 down to an AA3, only because that does open the window for some additional investments. Again, if it is a municipality in the State of Ohio, and it would only be the State of Ohio in government agencies, they are all backed with a property tax pledge but many of the debt instruments like ours are additionally backed with an income tax pledge.

Mrs. Holtzmeier said, to that point, when we last spoke about it, we asked Mr. Logan to provide us with a list of municipalities that were at those ratings and he did and it was good confirmation as well as some new information. Mr. Logan said that he could get an updated list and Mrs. Holtzmeier said that she would like that considering we have just been through an interesting financial year.

Mr. Logan stated that the other thing that he would like to mention is in regard to our Codified Ordinance Chapter 238, which is called “Deposits and Investments”. We have depository agreements with all these banks that he mentioned and basically every bank in the City of Avon even where we do not have accounts. Those all were on 5-year depository agreement terms and they all expire at the end of this year. So probably sometime in the next few months he is going to come to Council after he talks with all the banks to get into new 5-year depository agreements beginning January 1, 2022. You have to have a depository agreement with a bank where we hold any kind of funds at all, but it does not hurt to have those agreements with all the other banks that are here in Avon where conceivably if we did open an account, we would have a depository agreement in place.

Mr. Butkowski said that he would agree with that because you never know what might happen and having that agreement already in place would allow that transition to be that much smoother and quicker.

Mrs. Holtzmeier said to Mr. Logan that he always did a good job in presenting this and she likes that we speak about it at least once a year because things continue to evolve and we can always continue to make things better.

**Overview of the Ten-Year Financial Forecast**

Mr. Butkowski noted that it was 6:47 P.M. and there was a Council meeting starting at 7:00 P.M. so he did not think that there was enough time to discuss this item.   Mr. Logan stated that all he was going to do was just touch on this and just ask Council to read over the final two pages of his memo where it begins with "Items for Consideration."  We do not have to discuss it but he would like them to read through that and we could talk about those things in the future.  There are a few other things on there that he would like Council to at least be aware of, knowing that some things are coming down the pike.

**Adjourn**

Mr. Butkowski adjourned the meeting of the Finance Committee at 6:48 P.M.

Transcribed by Gail Hayden, Assistant Clerk of Council