

**MINUTES OF THE  
CITY OF FRONTENAC  
WAYS AND MEANS COMMITTEE  
TUESDAY, NOVEMBER 8, 2005 7:00 P.M.**

**A. CALL TO ORDER**

The November 8, 2005 meeting of the Ways and Means Committee of the City of Frontenac was called to order at 7:00 P.M.

**B. ROLL CALL**

The following Committee members were present: Chairman Warren Winer, Treasurer Ronald Tennenbaum, Henry Dubinsky, Mark Kiehl, Alderman Keith Krieg, Becky Brown, John Jordan, Jeanne Pfister and City Administrator Bob Shelton.

Finance Officer Michael Hilburg noted that there was a quorum.

**C. APPROVAL OF AGENDA:**

**MOTION:** Mr. Kiehl motioned and Mr. Dubinsky seconded approval of the agenda without revision. All members present voted in the affirmative. **MOTION PASSED.**

**D. APPROVAL OF MINUTES:**

Mr. Kiehl motioned that the phrase, "May need outside consulting help to make the optimal decision" be added to his comments regarding the purchase of new accounting software.

Alderman Krieg seconded Mr. Kiehl's amendment. All members present voted in the affirmative. **MOTION PASSED.**

**MOTION:** Ms. Brown motioned and Alderman Krieg seconded approval of the minutes of the October 11, 2005 Meeting of the Ways & Means Committee with Mr. Kiehl's amendment. All members present voted in the affirmative. **MOTION PASSED.**

**E. PUBLIC FORUM (PRESENTATION OF REMARKS AND/OR PETITIONS)**

No comments were made.

**F. COMMENTS BY COMMITTEE MEMBERS:**

Ms. Pfister reiterated her suggestion that the monthly financial statements be presented on an accrual basis, because without a great deal of explanation the monthly financials are not comparative to the budget and audit.

Chairman Winer replied that this topic could be further discussed at next month's meeting.

**G. CHAIRMAN'S COMMENTS:**

None.

**H. OLD BUSINESS:**

*1. Discussion on Reserve and Investments Policies*

Chairman Winer reminded the Committee that he met with City Administrator Shelton and Finance Officer Hilburg on the prior Thursday to create a reserve policy recommendation. Chairman Winer

stated that discussion during the meeting revolved around three topics: a determination of future General Fund requirements, an optimal reserve level, and a prudent investment strategy.

Finance Officer Hilburg reviewed the outcomes from the prior Thursday's meeting with the Committee, including the recommendation of setting a 25% absolute minimum reserve level and a 50% target reserve level. The absolute minimum reserve level, Finance Officer Hilburg explained, should only be spent when absolutely necessary and then only with Board of Aldermen approval; while future Ways and Means Committees should not budget end of fiscal year reserve levels below the target minimum reserve. Finance Officer Hilburg continued that the seasonality of cash flows causes an annual swing in funds levels of approximately \$1.3 million and the difference between the absolute minimum level and the target reserve level is about \$1.2 million, or enough to cover the seasonality changes. Finance Officer Hilburg furthered that these reserve level are conceptualized so that when the City has lean years, it will have the funds necessary to still provide high quality services while weighing future revenue and expenditure options. Finance Officer Hilburg mentioned that he would attach his memo concerning the reserve levels as a further explanation to the reserve levels.

Mr. Dubinsky replied that the City should consider taking steps to mitigate the large seasonality swings. Mr. Dubinsky added that while on the City Council in Creve Coeur they lowered their real estate and property tax levels and raised their utility tax gross receipts rates to reduce the effect of seasonality.

Mr. Jordan stated that while attempting to limit seasonality, the City must maintain its taxes and fees at competitive levels to ensure that local business do not relocate outside the City limits.

The Committee discussed potential methods to reduce seasonality; it was determined that Mr. Dubinsky and Finance Officer Hilburg would meet to determine possible solution and report to the Committee next month.

Chairman Winer stated that with the Committee's agreement on reserve levels, the Committee should develop an investment strategy. Chairman Winer asked Mr. Kiehl, given his in-depth and topical background, to work with Finance Officer Hilburg to develop options and report back to the Committee.

## *2. Update on Comprehensive Pay and Benefit Survey*

Chairman Winer asked City Administrator Shelton to update the Board on the planned survey.

City Administrator Shelton stated that in the past Finance Officer Hilburg spent days contacting comparable municipalities to obtain accurate pay rate information; however on the upcoming Thursday, the City will join the newly updated St. Louis City Managers Association (SLACMA) survey and this will elevate its collection problem. City Administrator Shelton also asked the Committee for further guidance on what kind of information should be included in the survey.

The Committee discussed that several of the ideas they would like compared, including: Health, Dental, Life, AD&D and Long-term Disability insurances and their respective employee contributions; retirement percentage payout; and sick and vacation policies. Chairman Winer mentioned that he would like to convene a subcommittee to work with City Administrator Shelton and Finance Officer Hilburg on determining desired comparison categories.

Ms. Pfister and Mr. Kiehl volunteered to work with Chairman Winer, City Administrator Shelton and Finance Officer Hilburg.

**J. SCHEDULE DATES FOR NEXT MEETING:** *December 13, 2005, 7:00PM*

**K. ADJOURNMENT**

**MOTION:** Alderman Krieg motioned and Ms. Pfister seconded that the meeting be adjourned. All members present voted in the affirmative. **MOTION PASSED.**

Meeting adjourned 8:23 P.M.

The Ways and Means Committee approved these minutes at their meeting held on December 13, 2005. I hereby certify that these are the original minutes of the regular meeting of the Ways and Means Committee held on November 8, 2005.

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Leesa Ross, City Clerk

## ATTACHMENT A

### INVESTMENT STRATEGY AND RESERVE POLICY RECOMMENDATIONS FOR THE GENERAL AND ROAD FUNDS

I recommend a two-tiered reserve strategy with an Absolute Minimum Reserve Level of 25% of budgeted expenses and a Target Minimum Reserve Level of 50% of budgeted expenses. Below and attached to this handout are the decisions making processes used to arrive at this recommendation.

In the process of creating the City's investment strategy and reserve policy the following major factors were considered:

1. Current Operating Expenses
2. Future Spending
3. Possible Economic Downturn
  - a. Recession / Sales Tax Stagnation
  - b. Decline in Real Estate / Personal Property Taxes
  - c. Cash Flow Seasonality

#### **Current Operating Expenses:**

A primary issue in setting a reserve policy is to insure that our current estimated spending growth rates approximately match our current estimated revenue growth rates. For discussion purposes General Fund and Road Fund expenditures and revenues are combined.

During the budget process we estimated that revenues grow at approximately 2.5% and estimated that expense growth can be targeted at 2%. While I still believe 2.5% is an attainable revenue growth factor, with personnel costs approximately 75% of the General/Road funds I believe expenditures will grow at approximately 3% - 3.5%. In the conversation with Warren and Bob, we did not see this as a situation necessary to resolve, as a 1% differential is not so large as to significantly change our thinking about reserve levels (unless it persists over a long period of time). Therefore, absent a major change in operating expenditures, current, routine expenditures should not notably impact the formation of a reserve policy.

#### **Future Spending:**

The formulation of an investment policy is also highly dependent on anticipated future expenses. During the October Ways and Means meeting we identified the following four costly projects: the Municipal Complex, Spoede and Conway Roads repaving, Highway 40 related expenses and costs associated with the implementation of the Police and Fire Consultant reports.

With only \$3.5 million in Capital Improvement Fund reserves as of June 30, 2005, the expenditure of General Fund monies is likely; therefore it is important that we create a policy to protect the reserves to help the City exist through lean years without overly restricting future administrations; spending decisions.

#### **Possible Economic Downturn:**

With over 40% of the City's General/Road Fund revenues derived from sales taxes, a decline or stagnation in the demand for high-end goods could have a damaging long-term effect on the

City's operations. Imagining a scenario where sales tax declined by 25% over a year, it would most likely take the City 6-9 months to realize the immensity of the situation and hopefully 6-12 months to take decisive action (whether significantly cutting costs or increasing revenue sources). Over that decline/reaction period the City could lose revenues of approximately \$500,000 - \$750,000 versus current levels.

Aside from a dramatic sales tax decline, the City in recent history was plagued with a decline in real estate and personal property. Currently, real estate and personal property taxes in General and Road Funds are approximately 22% of revenues, or \$1,216,750 for FY05-06. Although this revenue represents a sizable income source for the City, it is unlikely given the Hancock Amendment and the long-term upward trend in real estate prices that any decline will not affect the City's financials in the long-term.

The final major consideration in the City's reserve policy is the large seasonality of cash flows. Attached is a chart showing the end of month bank balances from September 2003 – October 2005. The largest cash flow swing is \$1.3 million over six months from March 2004 (\$5,254,003) to September 2004 (\$4,316,298). A large swing is expected in municipal government, as the City receives a vast majority of its property tax revenue and holiday sales taxes during the winter months. What varies from city to city and what is important for calculating reserve levels is the scope of swing, approximately 25% of Frontenac's annual budget.

**Analyzing the Information:**

In addition to the above information Bob, Warren and I concluded that the Ways and Means Committee should recommend a two-tiered reserve policy: and Absolute Minimum reserve level that can only be tapped by the Board of Aldermen Ordinance; and a Target Minimum where the Board of Aldermen and the Ways and Means Committee should ideally never budget to use, but can if needed in the short-term.

Heavily considering cash flow seasonality, the possible effect of a recession and an amount that seems logical versus our desire not to excessively restrict future administrations, we determined that an ideal **Absolute Minimum Reserve level is 25% of budgeted expenses** (approx. \$1,200,000) and an ideal **Target Minimum Reserve Level is 50% of budgeted expenses** (approx. \$2,400,000). The utilization of the two-tiered system at these percentage levels should allow for the difference between the Target and Absolute Minimums to absorb seasonality declines, while maintaining reserves to ensure stability through lean times.

After determining these levels, I compared our recommendations to the policies of neighboring municipalities:

City	Reserve Policy Level	Annual GF Exp	GF Reserves	Act GF Reserve Level
Clayton	25% of Exp	\$1,724,9391	\$5,529,773	32.06%
Creve Coeur	4 months-based on monthly exp over past 2 yrs	\$1,190,0000		Within Compliance
Des Peres	No Reserve Policy	\$6,933,375	\$2,581,050	37.23%
Kirkwood	No Reserve Policy	\$15,945,880	\$2,762,564	17.32%
Town & Country	25% of Exp	\$10,500,000		100+%
Frontenac	No Reserve Policy	\$4,795,492	\$5,660,577	118.04%

**Investment Strategy:**

- ✦ Currently the City earns 3.75% interest in its overnight repurchase account (the City’s checking accounts). This rate loosely follows interest rates.
- ✦ The interest rate yield curve for long-term investments is relatively flat.

Therefore upon approval of the reserve policy, I would suggest investing \$2,700,000, the Target Minimum Reserve Level, in an investment of one year in length with the hope as rates increase we can capture higher rates of return.

For the remaining excess General funds, as well as excess Capital Improvement, I would suggest a laddered portfolio with terms not extending past a year.

