

**MINUTES
FINANCE COMMITTEE MEETING
CITY OF DOUGLAS
COUNCIL CHAMBERS
425 TENTH STREET
DOUGLAS, AZ 85607**

THURSDAY, FEBRUARY 5, 2015

7:00 am

1. CALL TO ORDER/ROLL CALL

Meeting was called to order at 7:03 a.m.

Members Present:

Margaret Morales
Sandi Thomas
Mike Nava
Victor Varela (Phone) Disconnected at 7:55 am
Ana Bernal
Luis Greer, Liaison

Also Present:

Carlos De La Torre, City Manager
Luis Pedroza, Finance Director / City Treasurer
Lorenza M. Gonzales, Committee Secretary

**2. PERSONS WISHING TO ADDRESS THE COMMITTEE IN WRITING OR
VERBALLY ON ANY ITEM NOT ON THE AGENDA**

Mr. Mike Nava commented that the Finance Committee recommended to Mayor and Council that money be spent to reroof the YMCA. He continued by saying that whatever happens to that building will probably incur some cost, probably a minimal or even a greater amount. He would like to receive specific facts and information on the recommendation to Mayor and Council and what has been done with that.

Mr. Carlos De La Torre explained that when he looked at that building in order to reallocate it and be put to good use it would take 5 to 7 years to reactivate. The notion is that the City has always been viewed as progressive and the interest is to focus on the future and not give too much interest in the past. With that in mind, folks have experienced what the Y was and we want to provide the new generations with a new version of the Y. A City investment into that building will probably not be the best use of City dollars and it's also the perspective that in order to operate that facility since it is three different levels the cost would be significantly higher than building a brand new facility. That has been the recommendation to Mayor and

Council but they have not made a decision in terms of that. Their focus is to show progress and focus on what is the best use of City money. To reinvest in that facility will take a lot of money. It is limited by parking and is hard to get to, yes it is a historic building but at the same time it has a lot of limitations. That is his take in a financial perspective and a management perspective. And it comes at a time when Chase has closed, Bank of America has closed and a lot of businesses are closing.

He feels that the City can do things totally different than what has been done in the past. If we continue doing the same thing that we have been doing in the past then we are not going to move forward, we are not going to be progressive. Those are the things that he came up with so obviously no decision has been made. There are other ways that are being considered to see if anybody is interested in taking over and investing in that facility. Again he doesn't think that will happen because a significant amount of money is needed. The last time that anybody tried to raise funds for the Y was in 1967. From 1967 to 2015 nothing has been done, because of that he asked what the chances would be that the City will be able to get enough funds to invest in that building. We are not looking for the past but to be realistic we need to focus on the future.

3. APPROVAL OF MINUTES FOR OCTOBER 22, 2014

Mr. Mike Nava made a motion to approve minutes as presented. Ms. Sandi Thomas seconded the motion. Motion passed unanimously.

4. PRESENTATION / DISCUSSION OF 2ND QUARTER FINANCIAL UPDATE FOR FY 2014/2015

Mr. Luis Pedroza began by explaining he would be presenting the status of the 2014-2015 Financial Status. He began by explaining that cash position for General Government Fund is at \$3,954,128 in the General Fund. The Restricted Funds for HURF are \$102,478, Capital Project is at \$889,339, RICO is at \$472,250, JCEF for Court is at \$52,948 and Debt Service is at \$384,114 for a total Restricted Funds of \$1,901,129. Overall cash position is at \$5,855,257 as of January 29. He is very happy to report that the City has made some strides since the last report.

Sales Tax is the greatest revenue source. The year started off lagging from the previous year. For the past 4 months we have met last year amounts for last month revenue or exceeded that. We are happy to see that but there is some concern with that. The Christmas sales tax was not ready by the time the presentation was done but in looking at the figures, the City did come above the numbers from last year by about 1.7% or \$10,000. Comparing the figures from last year, overall the increase is of \$30,928 or at a 1.2% increase. In looking at the different taxable categories within the tax base, it is important to look at how it compares to last year. He pointed the member's attention to Contracting, which is the Construction Contracting Sales Tax, it is up by \$70,149 compared to last year. There has been more construction this year than last year. The retail side which is the main revenue source is actually lagging by about \$12,160. That is somewhat concerning because Retail is a more

stable more predictable revenue source and Construction Contracting is a very variable source. Some projects may be happening within town and at times we may have none. We are lucky to have that so that is why we are ahead of the game. Restaurant is also lagging by \$22,369. Retail and Restaurant are our most stable revenue sources categorically speaking and we are lagging behind.

He continued by explaining how the projected numbers in the budget compare to the actual numbers. He explained that within the funds there is a lag in some areas; in the General Fund it is \$980,847. He doesn't feel it is too concerning but some of them can be. Sewer Fund has some Grant Funds that are budgeted but it is not concerning that it's behind by \$495,320 since the fees have been coming in according to budget. There is a grant that was budgeted but has not been received yet. In the Underperforming Revenues, the 6% Local Taxes are not meeting the projected amount by \$143,608 but it is better than this time last year. Grant reimbursement is also contingent upon using grant funds. A maximum amount was budgeted and as long as those funds are used the money will be received. This consists of Stonegarden Police overtime and the Transit Grant. Staff is not concerned because as it is being used it will get reimbursed. State Shared Revenue is also down a little. That is seasonal at this point. There is a lag in the way that the State pays those funds. Fines are down by \$30,201 both on the Court side and on the Library side by 35% less according to the budget. The Surplus Property Sale is the sale of the Douglas Apartments that was placed in the budget. Obviously it has not materialized so there will be a lag in the budget. Intergovernmental Revenues is mainly comprised of the schools reimbursing for the use of the Aquatic Center which comes in around March or April so those funds are expected to come in soon.

On the expenditure side according to the budget we are a lot better than the revenue side. About 1.3 million less expended than what was projected. It is based on 50% of the budget. Obviously there are seasonal things on the expenditure side but numbers wise we use a 50% mark. We seem to be on the positive except on the Golf Course. General Fund is in a decent position at \$318,242 above. Expenditures have been managed better this fiscal year by about \$400,000 less than last year at this same point in time. HURF is up \$114,613. Capital Projects is not too concerning because Fund Balance will be used to complete those Capital Projects that Council approved. Being in the red \$93,822 just means that the Fund Balance is being used. Water, Sewer and Sanitation are in very solid positions at this point. Airport and Golf Course are showing a negative \$1,952 and \$58,533 for each of those funds; however it does include a Transfer Subsidy. On the deficit at the Golf Course, the amount to transfer right now is \$71,033 that is the actual subsidy. At the Airport it's about \$11,332 that is being provided in subsidy.

Mr. Mike Nava commented that the position of the Water, Sewer and Sanitation is very good compared to where it was a few years ago and part of that is due to good management.

Mr. Pedroza continued by explaining that although the City is in the black and we have \$400,000 in the Sewer Fund, the cost of depreciation for those particular funds

ranges between \$400,000 and \$500,000 a year. That money is what should be set aside to build the future infrastructure so that we don't have to go out for debt all the time. We have those funds readily available and are setting those aside for future investment. He does not consider that money to be left over but considers it a depreciation cost.

Mr. Carlos De La Torre explained that the sale of the Golf Course and the apartments did not materialize. A couple of offers were looked at but it still did not materialize. The last offer was tabled by Council and they directed staff to look at other ways of managing the Golf Course and figure out the value of the Golf Course and see what other options are available. What is being done now is to look for a non-profit corporation who will take away the Golf Course from the City books and into a Municipal Property Corporation to manage the Golf Course as a business. What that will do is give that entity the flexibility to set rates and come up with programs to run it as a business not as City Government. Initially the thought was to combine the Golf Course and the apartments but it was decided to keep it separate. Staff is in the process of creating the Municipal Property Corporation. It will be brought to council and the hope is that it can be done by March 1st or April 1st at the latest. So by the end of the fiscal year the Golf Course will no longer be part of the City but part of that Corporation. A Board of Directors needs to be set up. The suggestion is that the Board of Directors be people who are very active golfers from the community who have the best interest in ensuring that the Golf Course is sustainable. Still like it's done with the apartments the City Attorney and Finance Director will play a role within the Board of Directors to provide support to that Corporation and manage it using a Golf Course Manager. It will not be a new employee but a manager who will be paid on commission. The commission will be based on the number of rounds and 50% of the profit of the bar sales, that is how he will be compensated. It creates a mechanism that allows for a person to be very aggressive with the users to establish a user fee to ensure that we bring it from a losing asset to a break even asset within a 3 year period. The benefit to the General Fund is that the subsidy will be capped. The intention is to reduce the subsidy from \$130,000 to \$140,000 and bring it down to \$100,000 to \$120,000. That will be a benefit to the General Fund. The Council will most likely consider it in the February meeting if not within a couple of weeks later.

Mr. Nava asked if the Golf Course were to be under the same Corporation as the apartments, do the apartments make money.

Mr. De La Torre answered yes the apartments make money but it's the same thing as with the Sewer Fund where they have to put it in their reserves to be able to set the fund to be able to make future repairs. It's not a profitable venture, it breaks even, puts money aside into reserves but it's not a profit making opportunity. Most of that is governed by the existing loans and it caps the amount that can be charged for rent. It caps the road to potential in the apartments.

5. PRESENTATION / DISCUSSION ON FY 2013/2014 AUDIT OR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Mr. Luis Pedroza began by explaining that the City continues to make positive strides in getting cleaner audits, not that audits are bad but every single city has findings and every year staff strives to eliminate those. He continued by explaining that the summary presented was shown to the Members before. The General Fund ended in a positive balance of \$374,593, HURF did use its reserves in the amount of \$67,535. There is \$1,033,237 of Capital Projects money that will be used this Fiscal Year as discussed earlier. Airport was in the red. Enterprise Funds in the black, Golf Course had a \$174,681 subsidy required as expected. Overall position as far as Revenues and Expenditures is concerned it is \$1,790,108 in the black from the City's stand point.

Mr. Mike Nava asked if there were any findings.

Mr. Pedroza answered yes there were some findings but they are not included in this document. If the Members wish he can send those findings. The City had 5 or 6 findings but considering the magnitude of the Financial Statements it is not bad and the types of findings are not concerning. They test about 30 samples. They found either a signature missing in 1 out of the 30 samples or a procedure that may have not been followed. It also lists the previous year findings and how those were corrected.

He continued by explaining that there was \$252,278 in unexpected revenue received. Also some Revenue Projections were exceeded; for example Property Taxes, Building Permits, Cemetery Fees, Ambulance Fees, Aquatic and Recreation Fees and Rental Payments at a total of \$109,761 for a grand total of \$362,039 which is the total that we are in the black for Fiscal Year 2015.

Mr. Nava asked on the Property Tax there is a certain amount that is delinquent. Some of that delinquency is paid in the following year. He is sure that staff is aware of the drastic increase in the School District Property Tax. He asked if staff forecasts that it will increase the percentage in delinquency or how will they handle that potential.

Mr. Pedroza thinks that Property Taxes are a little bit more collectable since it is attached to the property. It is not like the honor system in Sales Tax where you are waiting for the owner to report those taxes. There is a little bit more force to collecting property taxes when it's attached to the property or living space. There is more enforcement that way. He does feel that delinquencies will go up but he is not sure how it will affect. For many it is attached to the mortgage and for many it's not but it's a payment that we are obligated to make or you get a lien on the house or get severe penalty and interest if you don't pay on time. There are drastic repercussions for not paying on time. But still we will see those folks who will not be able to make those payments for financial reasons. It's very hard to forecast how much leakage we will have. They will go to delinquencies. We see the tax rolls and

we are still collecting taxes from 2008. Being attached to the property, chances of collecting are much higher than a sales tax.

Mr. Nava expressed he has two concerns. It's prudent given the drastic increase in the school taxes to project a higher delinquency rate and less of the forecasted money coming in. He feels for the people who can't afford to pay that huge increase. Some people can't and they are in a bad position. Next year the projection from the school is that there will be an even higher tax rate. Because the total projected to be paid to an entity and why has not been explained, it will be 8.6 plus on the school tax. It will be even more of a problem next year. He knows that the City Officials are as concerned about that but his suggestion is to plan on more delinquencies than what we have at the current rate.

Mr. Carlos De La Torre feels the effects won't be as noticeable. There will be some delinquencies but they won't be as noticeable because as Mr. Pedroza explained those are taxes that if not paid are subject to a tax lien. Once that tax lien takes effect that property is sold for what is owed on the taxes and the City gets its share. We may see an effect in the first 5 or so years but once that property is foreclosed on for the taxes owed and the property is sold then the cycle starts again and whoever bought the property will have to start paying property taxes. There is some concern but he doesn't feel that we should be too concerned about that.

Mr. Nava asked if when a tax lien is bought if the full amount is paid.

Mr. De La Torre answered yes plus whatever has been accumulated for interest depending on the location.

Mr. Nava commented that another fact to consider, unfortunately, is that with the added amount being paid in taxes that means that amount is not available for Retail Sales and there may be an effect there. This year we are talking about \$1.5 million and next year it will be \$1.9 million. He is quoting figures from the School Administration. He does not know this of his own research.

Mr. De La Torre explained that the other thing to consider is that the valuation from the County is dropping too. It does not mean that it will offset the increase but there is a little bit of reduction on the value so it will compensate. It may not break even but it will be significant.

Mr. Pedroza continued by explaining the change in Fund Balance from one year to the next. This shows whether the City is improving or not improving. General Fund Fund Balance changed to a positive of \$563,836. As Members know the Fund Balance is the difference between Assets and Liabilities. Assets can be in the form of cash, "I'm owed money". Liability is "I owe money". The differences between those 2 are what compose the Fund Balance. It represents the position of the City at the end of Fiscal Year 2014. As members can see an improvement was made on all Funds. General Fund does include the Airport and Golf. Regardless of the subsidy the General Fund was able to move forward in a positive position. The Nonmajor

Government Funds is HURF, RICO, everything else is consolidated there at \$1,173,030 and \$1,000,000 is from the sale of the Government Center. And Water, Sewer and Sanitation Funds are very much a mirror of the Revenue vs. Expenditures. He is very happy to report \$2,309,954 change in Fund Balance is for the positive. Another thing to mention is why the Water, Sewer and Sanitation Funds are so high compared to General Fund and that is because of the method of accounting for the business types funds. Enterprise Funds get accounted for differently. They include the book value of the infrastructure, the assets. That is what is included within those funds. That is why they see Sewer at \$11 million. That includes all infrastructure on the ground, the Wastewater Treatment Plant, vehicles, everything is included there less any depreciable amounts.

Mr. Nava asked how the total Fund Balance increase relates to the \$4.7 million increase in the City Net Position.

Mr. Pedroza explained that is due to selling the Government Center building. There were \$7 million in assets in the books and when it was sold the City took that loss of the \$7 million. The value of the assets is not represented in the General and Nonmajor Government Funds. That is just the way that Government Accounting works but it is mentioned in the Financial Statements. It is not represented as part of Fund Balance.

Mr. Nava asked on page 22 of the audit, the Economic Factors, he agrees with the bulleted item but asked if next year when the Budget Recommendations are being built that Revenue Projections might be more conservative specially with the lag on the Sales Tax.

He asked, on page 24, the second short category, Deferred Outflows of Resources, what is Deferred Amount on Refunding.

Mr. Pedroza answered he will have to get back to him on that question. (On an email sent by Mr. Pedroza on February 11, 2015 he answered this question by explaining the following: Also, there was a question on page 24 of the CAFR, regarding the amount of \$12,843 under the "Deferred Amount on Refunding" category. This number represents an amortized amount that the City amortizes every year for the past 10 years. When the City refinanced the HURF Bond and Facilities bond into one, now known as the 2004 MPC Bond, the City gained an amount of \$282,623. By "gain" we mean that the price that the City purchased the bonds at was less than the amount of the old debt. In other words the City gained this amount by paying less interest (which is the reason we decided to refinance). The way that this "gain" is depicted in the books is by calling it a deferred outflow, which is recognized through an amortized amount each year all through the maturity of the bond. Overall, this represents a good position for us in our books and again it represents the gain in interest savings over the life of the bond.)

Mr. Nava asked on page 46, if it would be proper in describing the procedures in building the budget that the Finance Committee's role be listed because it is a Charter Committee.

Mr. Pedroza explained it could be but the auditors intention is to note that the City is in compliance with A.R.S Statues as far as procedures is concerned.

Mr. Nava answered he is satisfied too but he wondered about the completeness.

He asked what it means by "The City has Cash on Deposit with the County Attorney".

Mr. Pedroza explained that it is the RICO County Attorney Fund.

He also explained the CAFR is a very complicated document. He does not intend to know everything that is in it but he knows how it works and what is being reported. He also informed the Members that if anyone has any questions he can explain how the book works, what the intention is, what is being reported, what each section represents, what Fund Balance represents, all the different components.

Mr. Nava asked about the difference in the numbers of full time employees on page 111. It does not say full time so that may be the reason. On Page 111 it says 188 then it says 193.

Mr. Pedroza explained that those figures come from the Cochise College Center for Economic Research and the other figure comes from the Finance Department. There could be a difference in the part time employees who should be counted as 0.5 if they work less than 30 hours.

Mr. Nava asked on page 116, the number of fire hydrants, in 2012 the statistics show 545 and in 2013 it shows 458. He asked if we not counted correctly.

Mr. De La Torre explained that one of the things that was recently done was an overall inventory of the water systems, including the mapping and added a GPS locator of all the hydrants that are actually working. The difference between what is in the books and what we actually have may be the cause of a physical inventory rather than what is actually working.

Mr. Nava asked if the figure of 560 is pretty accurate.

Mr. De La Torre answered yes.

6. PRESENTATION/DISCUSSION ON CEMETERY COST ANALYSIS

Mr. Carlos De La Torre explained that back in 2008 Council approved Cemetery increases that would go all the way to 2012 then those fees were postponed or delayed but as part of that there was a clause in the Ordinance that those fees

would need to be adjusted January 1, 2015. So January 1, when staff followed what Council had passed and instituted a new fee increase in the middle of the holiday season it created a commotion because Council and the public was not informed but staff was under the impression that the rules could not be followed on the Ordinance that was already passed. Mayor and Council asked if it could be tabled and be looked at to maybe keep the same rates that were in place in 2014 and that way the programmed increases could be done away with. As part of that, the Veterans said that they believe the discount that is being provided to them is not fair and they would like to get a reduction in those fees. What are the real rates in terms of the City Cemetery fees and what percentage can the City provide to Veterans. The goal was to figure out what the real cost would be for the City to be in the Cemetery business. Just to give the Members some statistics, the average is roughly 90 funerals per year at 2014 rates. What is charged is for opening and closing the graves. In looking at the overall cost just to be able to have the doors open and be on standby based on 90 funerals a year the cost is roughly \$1,067 per funeral. That includes salaries, pest control, utilities, auto repairs, maintenance of the building and some depreciation. At the end of the day to be in the Cemetery business the cost is \$96,024 divided by 90 funerals it costs about \$1,067 per funeral; which is looking at some of the variable costs that are incurred to perform the opening and closing. Burial service is at \$238 so some people may think that is all that is needed to perform the service but at the end of the day the variable cost is approximately \$396. We know it's about \$1,067 per burial plus on top of that anywhere from \$396 to \$515 needs to be added to be able to perform that service. At the end of the day when looking at all the costs it varies anywhere from \$1,380 to \$1,582. That tells us that we are not very efficient in the Cemetery business but that is our cost to be able to perform that service. When we look at what we are charging today as compared to the cost. The City subsidizes anywhere from \$26 to \$1,126 to perform the service depending on whether it's a dirt lot or grass lot. On top of that when we look at the typical rate and the 30% discount offered to Veterans they end up paying \$557 instead of \$795. When looking at it the City subsidy for a Veteran plot is almost \$1,000 for a dirt lot and \$700 for a grass lot. When looking at the City subsidy compared to the revenue, we are subsidizing anywhere from 34% to 64% at a 30% discount. The question is whether we can increase that but the more we increase it the higher the subsidy will be. This becomes a decision of the Council about whether they want to continue to subsidize that or leave it at the same rate. Our recommendation is for Council to leave it at 30% and continue subsidizing that 34% to 64%. On average, when performing a Veteran funeral the subsidy is about \$900 or 57%. In looking overall, the Cemetery is costing the City about \$69,000.

Mr. Mike Nava asked if that was for the whole operation and for anybody.

Mr. De La Torre answered yes.

Mr. Luis Greer asked how long this Ordinance has been in effect.

Mr. De La Torre explained that in terms of the increases these fees were enacted from 2008 to 2012 and in 2012 Council decided to postpone them but allow for them

to become effective January 1, 2015. This year they asked if we could continue with the same approach to a) either continue with the new fees or b) keeping the fees and continue with the subsidy. Staff wants to make council aware that this activity is costing us based on the cost of service. It has been done that way for a long time, maybe we are not being efficient in doing that but it's the nature of the service.

Mr. Nava commented that because of the nature of the service he feels that \$69,000 is very acceptable to show how the City honors the residents who have died. He can't help but to compare this subsidy with the Golf Course subsidy this being by far less.

Ms. Sandi Thomas asked how many years has this averaged at 57% or if it goes up every year.

Mr. De La Torre answered that the subsidy was enacted about 4 years ago because the veterans were not given a discount prior.

Ms. Thomas asked if the average has been the same for the last 4 years.

Mr. De La Torre answered the average has not changed drastically so it has been somewhat stable.

Ms. Ana Bernal asked if staff has looked into how the City compares to other cities.

Mr. De La Torre answered yes but those numbers float significantly because some of the other cemeteries are subsidized by the Federal Government so their rates are somewhat or a lot lower than what we are. When we look at city government we are the only city outside of Buckeye who runs a cemetery. Everybody else is private cemeteries. In terms of comparing ourselves to other entities it's Buckeye but we are very comparable with them but when we look at other cemeteries, specially Sierra Vista, their plots are very cheap but the whole operation is not subsidized by the City it's subsidized by the State or the Federal Government.

He asked what the consensus is from the members so that he can tell Council for them to either leave it like it is or continue with the fee increases.

Ms. Margaret Morales said the consensus is for the rates to stay as they are and to leave the veteran's discount at 30%.

7. PRESENTATION OF FITCH RATINGS PUBLICATION AFFIRMING CITY'S BOND RATING AT 'A' FOR MPC BOND

Mr. Luis Pedroza began by explaining that every 2 years, Fitch, which is a nationally recognized Bond Rating Agency, look into our financial statements and look into analyzing a grade for a bond. What they do is look at past performance, the types of revenues that are received, how the cities fare financially overall, the steps that the City is taking to mitigate risks and many variables. Every 2 years we go through this.

For the past 2 ratings we have been at an A rating. According to the tables for a city our size is a fairly decent rating. He is very happy to report the City has obtained that rating. This is for the MPC bond that we were issued in 1994 and refinanced in 2004. It encompassed some street repairs, Library and City Hall repairs and the Golf Course. That bond is analyzed through the financial statements and they issue a grade. That is important because it's almost like a credit score for the City. This is how the City presents itself when we go out for bonds or leases. Being that it's Fitch and it's very recognized by most financial agencies we are very happy that they are able to give us this rating. It's a stable outlook that they give us. Some notables are that they based it on our Financial Policies. He was most happy about that because the Finance Committee, Mayor and Council, and staff put in a lot of work in writing up those policies and not just putting those policies forward but also taking the steps to adhere to those policies as well. And as Fitch mentioned, the City has been able to maintain the Fund Balances required in the policy which is 30% of the budgeted amount. The City has been able to stay at that level according to the policy and actually exceed it to 31%. One thing that is concerning and it's in every city is that we are very reliant on a particular source of revenue and that is Sales Tax. That is something that most Arizona cities face and it's a volatile revenue but they did make that note that we have to diversify our revenue sources a little bit. He feels we have, he doesn't think we can leave sales tax all together and not be our main revenue source. But again it's how they look at things and they take those things into account. Some of the things that are concerning is that they also look at Mayor and Council, the decisions that they make, how the organization is being run and he thinks that being able to present the last 2 balanced budgets and the last 2 audits in the black has also solidified our grade in Fitch's eye. He is overall happy with the grade given.

Mr. Mike Nava asked if the rating is strictly related to interest percentage.

Mr. Pedroza answered yes. It is like your credit score, the better the rating the better you qualify for a better rate.

Mr. Nava asked if the A rating is in the middle of the A category. That is there is A+, A++, A-, A--, and so on.

Mr. Pedroza answered yes that is correct. What he is told is that a city our size and the way our financials are we will never reach an A++. Maybe an A+ is obtainable but he thinks an A is a very good grade for the City.

8. DISCUSSION ON THE POSSIBILITY OF PROVIDING EMPLOYEE RAISES

Mr. Luis Pedroza explained that they want feedback from the Members regarding this item. They want to know what areas they want to discuss. General ideas can be discussed but he is not sure what the Members want to discuss.

Ms. Margaret Morales explained that she wanted to know if there was any money in the General Fund or in any other fund to be able to provide at least a 2% raise to the

employees. She asked what the possibility would be and how much it would cost the City.

Mr. Carlos De La Torre explained that like Mr. Pedroza explained the City is moving away from relying on Reserves and relying on having a somewhat sustainable budget. He does see some impacts coming in that would play a big role in providing for some COLA. As they know, the public safety retirement system, the council will have to make a decision whether to split that liability over a 2 year period or to pay it up front. The impact from that is \$598,000 for this fiscal year coming up. That is not a one-time liability. The city will continue to carry that liability so the city will have to find a way of funding that liability over a 22 year period. Our cost will be \$509,000. That is really going to inhibit the ability to program some COLAs unless we begin to look at what services or what lines of businesses we need to walk away from and find the savings in terms of Public Safety Retirement into the mix so that we can at least break even. And then if we want to program some COLAs we are able to do that. Even though the picture looks ok he is worried about not the one-time expenditure but as we move on down the road but it doesn't mean that we can't meet those requirements. The short and unfortunate answer is that he doesn't think the City will be in a position to be able to program the COLA increases. Staff is trying to do everything possible to maintain a balance budget and every employee has done a tremendous job but the City got hit by this retirement stuff, it's out of our control and there is nothing that we can do about it. We have been in the system for 20 to 30 years. There has to be some sort of reform that needs to take place. Recent law officers are saying that it doesn't matter where you are financially. When you hired an officer or a fireman back 20 or 25 years ago it was under the understanding that they would participate in the Public State Retirement System, he would work 20 years and he would get his pension as soon as he retired whether he lived for 20 years, 25 years or 40 years, that is your commitment. That is what is happening to that now. Probably the same amount of officers that we have on duty, we have retired. You only contribute 20 years into the system but you can outlive the system by 5, 10, 15, 20, 25 years. He thinks the reduction in force that the state saw is that you have less employees participating into the system but you have the same liability. The same thing happens in the regular retirement system but it's less notable because you have a lot more employees contributing and you have a longer life span in terms of their career since most of them work up to 30 years. That is really a benefit; when you compare 20 years to 30 years that is significant. The reason why we are in this position is because we are trying to help the employees out. His goal is to end the year in a positive note with some cash balance to be able to give employees a good size one-time bonus around the Christmas-time period. He wants to see how the City does this year and hopefully don't end up in the red and once all the books are done and taken care of he will see if a bonus can be given around the Christmas season. Again not relying on the future but relying on past performance and past conditions then Council will have some discretion with the Finance Committee input on doing that. He thinks that everything that can be done has been done. Expenditures have been reduced and revenues have been increased, the City has walked away from lines of businesses that are not needed. There are some things that staff has no control over which continues to impact us.

The other concern is that the State budget is not looking good. They have to come up with a shortfall this year of \$500,000,000 and their shortfall for next year is at \$1,500,000,000. He was at a meeting at the Capital and they are saying that they might have the cities budgets balanced to about 20 to 25%. It is still not clear they are still working on the budget. But if that is going to be the hit this year he can imagine what it will look like when they have 3 times the shortfall the following year. He thinks the City needs to be conservative. Those are the issues that create more concern than the Property Taxes that really can come in and impact everybody. His recommendation at this time is to try and build it in there but be realistic in what is incoming because it will limit the ability to be able to do that. He believes that a sacrifice can be made and staff can look into a one-time distribution that would be a reflection of what has been received in the past and not rely on the future. There are other things that are being done that may not mean as much as cash but staff is trying to work on doing something to give back to the employees. Council is looking into giving the employees their birthday holiday. It is almost like a ½% COLA just by having that day off. That is an additional holiday that in the past we didn't have now we will have it. The other possibility is looking into a flex schedule. That means working a 9 hour day so that every other week you have a day off. The employee will choose what day they want to be off and obviously we need to make sure that it doesn't affect the day to day operation of the unit. But virtually every other week you will have a day off during the week. Employees are being empowered to do what they need. It may not be much in terms of pay raises but they have a lot of freedom. It is very notable in all the Capital Projects that are being done, in the Auctions. The employees have really taken charge of that. They are maximizing that. They are happier in terms of the difference that they are making. He believes that employees need to be given something back but COLAs are not sustainable and that is something that staff does not control but is something that is controlled by an outside entity.

Mr. Pedroza explained that the impact to the General Fund would be of \$156,000 and adding more figures to that, the \$598,000 that we are scheduled to be impacted by the Public Safety Retirement. That is adding about 4 to 5% in expenditures to the General fund. That is very significant and it is not something that is a one-time expense. The 4-5% will continue to follow year after year and the \$598,000 will probably increase the year after that a little bit more but it is the nature of the retirement system. It is not sustainable. It needs to be reformed to make it feasible. At this rate we are not making any headway even though our contributions go up, our unfunded liability continues to go down. The way it is structured it is not sustainable. All cities are concerned because the unfunded liability is currently at about 30% between Police and Fire. When considering what is a good percentage to be at we should be at 68% to be at a safe amount. Every year it seems like the unfunded liability is less and less. Cities are trying to see what they can do to mitigate the rising cost and at the same time running parallel can actually reform the system is at all possible while still giving the police officers and fire fighters who put their life's on the line their proper pension. It's a huge balancing act. It's a huge task ahead for different groups between the League, the city groups, the Legislature. It's

an issue at the forefront and everybody seems to want to do something right now. If we don't we won't be able to sustain it for very long.

Mr. Mike Nava commented that he appreciates the very honest assessment of where we are. He believes it. It is too bad. The cost of living according to social security went up 1.7% which would eat up a 2% even if it would be able to be sustained. The next best thing I guess would be as the City Manager suggested a one-time bonus although as an employee advocate it is so much less than what it should be but it might be the maximum that is possible.

9. PRESENTATION ON PROCEDURES FOR VOUCHERS, INVOICES BACKUP DOCUMENTATION AND PROVIDING EXAMPLES

Mr. Luis Pedroza explained that documentation was provided to the Members to try to explaining what it all means. It is a very simple form of procedures as to how payment is issued within the City. The first section is how do we issue a check payment? How do we pay our bills? There are internal policies and procedures that are followed. Anything that is above \$500 on a purchase needs a Purchase Order. In order to obtain a Purchase Order a Requisition needs to be submitted and several different levels of employees need to approve that requisition before it becomes a purchase order. It needs to be approved by the Supervisor, Department Head, Finance Director, City Manager, if it's over \$1,000, and the Purchasing Agent. There is quite a bit of checks and balances when having to issue a Purchase Order before we can make that \$500 purchase. In order to pay that \$500 bill, we need the Purchase Order, the invoice, and also if there were any goods mailed we need the packing slip to confirm that the content was received and it was what we ordered. Also an Accounts Payable mechanism, if we pay a vendor over \$600 we require a W-9 form which is a requirement from the Feds in order for us to issue a 1099 at the end of the year. That is the procedure for above \$500. For below \$500, we don't need a Purchase Order, we do need an invoice and the supervisor or Department Head needs to sign off on that invoice making sure that the goods or services were received and a packing slip if applicable.

Now with the P-Card, that P-card was assigned to allow more flexibility within the system and to make small purchases. Again if you are making above \$500 purchase with the P-Card, which is very rare, we still need the same components as with the check payments. You still need the Purchase Order, the approval from the Supervisor, Department Head, Finance Director, City Manager, if it's over \$1,000, and the Purchasing Agent, the invoice, packing slip. The other thing is the approval of the P-Card statement and to present a reconciliation statement as well. The P-Card statement is signed by the employee and the supervisor to reflect that it was reviewed. The next page is the reconciliation spreadsheet which shows what was purchased, what account to charge it to and who is the beneficiary of the items or goods being received and in what particular category they belong in and who is the vendor. This should reconcile to the actual statement coming from Bank of America. Attached to that are the actual receipts or invoices for all those purchases. On a monthly basis that has to be presented to the supervisor and given to the Accounting

Department to be entered into the General Ledger. Those are the basic procedures for making payments within the City. If those procedures were not followed due to an emergency or not following proper procedure, still we do not pay a bill without authorization from the particular employee or department who authorized it. A written memo is required for that so that those payments can be authorized.

An example of what the check looks like is also given to the Members. Included is a copy of the check, the Purchase Order and invoices also the slips that show that those vehicles were received.

Mr. Mike Nava explained that the reason why he asked for this agenda item is because of the article in the Arizona Daily Star which questioned the lack of documentation by the City of Douglas about purchases. He followed up by writing to the writers of the original article twice and has not received an answer from them but he is satisfied that our procedure is what it should be and the newspaper should have followed up better in asking for information. He feels the writers didn't do enough of a job. He is happy with what we have and the procedure.

10. PRESENTATION ON PROCEDURES USED BY MAYOR AND COUNCIL FOR APPROVAL OF MONTHLY EXPENDITURES

Mr. Carlos De La Torre began by explaining that his take of this is what are the procedures used by the Council or by staff in terms of the approval of expenditures. It is a full circle deal, we start by staff developing the budget in March, Finance Committee is brought in for policy direction in terms of establishing the budget; then, it's presented to the Council. Council sets direction in what is being done that particular year and approves the budget. Then we move forward in implementing the budget itself. There are no statutory requirements in saying what procedures need to be in place for cities in terms of the expenditures. He did come across a clause in the Charter, Article 3, Section 7.H.: Expenditure Control and Purchasing. It shall be the duty of the Manager to see that no indebtedness is incurred or expenditure made in violation of the State laws applicable to cities or applicable provisions of this Charter. What we do in that procedurally and we put it in consent agenda is our opportunity to tell the Council that this is what we spent this particular month. I'm giving you a general idea of what those expenditures were and that is the opportunity for him or Luis, as the Finance Director/City Treasurer to bring up issues that are not consistent with the budget about overspending or not normal. The other purpose is for Council to be aware of where the expenditures are at that particular month. He checked with Mr. Ortega in terms of how that came about. He said you reference what is in the Charter so he looked it up. He talked to the City Clerk about the Municipal Code and looked at other provisions by Statute and there is nothing else out there. It is just a matter of informing Council and approving something that already happened. The mechanisms to show that they are up to par are the Purchasing procedures, the audit, and the process to approve the budget. He believes we are to a point where we are trying to be as effective and efficient as possible. In the past Finance Committee used to get a stack of invoices that they would go through and review then sign and submit them for payment. The intent is

not to go back to that. We have a lot of mechanisms in place that protect the City's moneys. If we go back to that a lot of the vendors will be affected in getting paid on time. Checks are issued every Thursday. It is very efficient, very effective. Now we are walking away from processing checks, we are paying with credit cards, which is more trackable and easy. There is a concern about what council is doing and whether they can pull the agendas or the invoices to review that. Council and anybody in the city can come and look at all invoices and expenditures. Everything is transparent.

Mr. Mike Nava thinks that the procedures provide a lot of in-house scrutiny of expenditures. His question, which prompted this agenda item, was if Council actually does anything in reviewing individual invoices.

Mr. De La Torre answered that they don't. He feels that is why they hire professionals who are accountable and bonded so that if anything happens they are protected. Their take is to show what expenditures were before and what are expenditures are today. They are trying to do everything they can to reduce those expenditures. Even in the dollar limit where they don't have to get a Purchase Order. By centralizing the purchasing ability the intent is to buy a lot for everybody. It is a fine line because we don't want to restrict the work that takes place and the flexibility that they have to purchase the things that they need but at the same time we want to make sure that those purchases are made in the most effective and efficient way to get the best investment for the dollar. Staff will have better control of expenditures.

Mr. Nava commented he has no question about the integrity of the process and the City people who administer it. The review of the invoice was because originally there was a question about City Personnel spending money; which goes back to the 1970s. He has no question that anything like that exists today. He does appreciate the information for the Finance Committee.

Mr. De La Torre explained that all Councilmembers, members of the Finance Committee and all citizens of the world can request information and staff will be very happy to provide that.

Mr. Luis Greer commented he has had some questions pertaining to some expenses and staff has been very helpful in answering his questions.

Mr. Pedroza commented that the process is very rigorous and it's not the department's favorite thing to do but streamline processes have been established online. The approvals come online. Carlos can approve a Requisition and Purchase Order by the click of a mouse. There are different streamlines of the whole process and we are modernizing the process but keeping the integrity that the controls still exist. The component as Carlos mentioned is buying in bulk. That is important because it creates savings. Instead of cutting 5 checks during the year we only cut 1. He thinks an improvement has been done over the last few years.

11. ADJOURNMENT

Mr. Mike Nava made a motion to adjourn at 8:45 am. Ms. Sandi Thomas seconded the motion. Motion passed unanimously.

Respectfully submitted by

Lorenza M. Gonzales, Committee Secretary