

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

**THURSDAY, OCTOBER 29, 2015**

**5:30 PM**

**1. CALL TO ORDER/ROLL CALL**

Meeting was called to order at 5:31 p.m.

**Members Present:**

Margaret Morales  
Sandi Thomas  
Mike Nava  
Araceli Quinonez  
Ana Bernal  
Luis Greer, Liaison

**Also Present:**

Luis Pedroza, Finance Director / City Treasurer  
Lorenza Gonzales, Committee Secretary

**Not Present:**

Carlos De La Torre, City Manager (Excused)

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

None.

**3. APPROVAL OF MINUTES FOR MAY 21, 2015**

Mr. Mike Nava made a motion to approve the minutes for May 21, 2015 as presented. Ms. Sandi Thomas seconded the motion. Motion passed unanimously.

**4. APPROVAL OF MINUTES FOR JUNE 8, 2015**

Mr. Mike Nava made a motion to approve the minutes for June 8, 2015 as presented. Ms. Ana Bernal seconded the motion. Motion passed unanimously.

**5. PRESENTATION / DISCUSSION OF 1<sup>ST</sup> QUARTER FINANCIAL UPDATE FOR FY 2015-2016**

Mr. Luis Pedroza began by welcoming Ms. Araceli Quinonez.

He continued by explaining that General Fund is at \$4,626,114. HURF is \$379,220, Capital Projects is \$841,613, RICO is \$351,637, JCEF or Court Funds is \$47,380, Debt Service is \$31,256, and Police Auction is \$49,658 for a Total of \$1,700,764 in Restricted Funds. Total General Government is \$6,326,878.

He informed the Members that the following reports show totals for the 1st Quarter which is from July 2015 to September 2015.

Mr. Nava asked in Capital Projects if that includes the \$600,000 from the Government Center.

Mr. Pedroza explained that \$300,000 was included in the previous fiscal year budget and whatever was left was transferred to the current fiscal year budget. He explained that the previous year there was money from the Special Sales Tax, the transfer from the Call Center and the \$300,000 from the Government Center sale that was included in Capital Projects. The other \$300,000 will be used this fiscal year.

He continued by explaining that Sales Tax is the largest revenue source for the City. It's a very good indicator of the local economy. The 1<sup>st</sup> Quarter is above the last three months of last year. Revenue is at 3.2% above from last year. There is a 1.4% increase in Retail which is something that had been of some concern the previous fiscal year. But other industries are down which might be a seasonal adjustment. Contracting is one of the items that is seasonal and not very reliable because it depends on what is being built. He did caution the members that Sales Tax Revenue may go down because of the devaluation of the Peso.

Mr. Nava asked if the new emergency room will be adding a lot to the Contracting portion of the Sales Tax.

Mr. Pedroza answered it depends on the value of that project.

Mr. Nava asked if most of the Sales Tax payments will be made in the current fiscal year.

Ms. Margaret Morales answered that hopefully it will since the plan is to have the construction finished by July or August of 2016.

Mr. Luis Greer asked if the construction on Pan American Avenue will create some revenue as well.

Mr. Pedroza answered that hopefully with the construction of the new CVS and Circle K we will be seeing some Construction Sales Tax Revenue coming in as well as Retail.

Mr. Nava asked if CVS will be helping with the traffic light that they are requiring be placed on the intersection.

Mr. Pedroza answered that they will be paying for the traffic light.

Mr. Nava asked how much money maintaining that stretch of road will cost the City. He knows that the figure was given at \$13,000 a year as regular maintenance but what about big maintenance. The \$13,000 a year couldn't cover everything that needs to be done to that stretch for the next 10 to 15 years.

Mr. Pedroza explained that Carlos was trying to negotiate with ADOT to use their CIP funds since they have a 10 or 20 year plan for the infrastructure and whatever they had allocated as future funds can be possibly used since they were already assigned to that particular street.

He continued by explaining that the next slide shows the Budget versus Actual. Overall the City is behind by \$877,091 but the revenue for the Douglas Apartments was taken into consideration and we don't know if it will happen.

He continued by explaining the Accruals which are Revenues that are for the 1<sup>st</sup> Quarter but the money has not come in yet. Property Taxes is \$120,184, Franchise Fees for the 1<sup>st</sup> Quarter is \$80,451, Police Operations Reimbursements is \$13,410, State Shared Sales Tax which is lagging one month is \$129,745, County Humane IGA is \$3,133, the Aquatic Center IGA with the schools is \$16,597, Ambulance Fees is \$98,093, the Ambulance Fees lag is because the City went into a contract with a new company and the billing took about two and a half months to go out but bigger cash distributions will be seen in the coming months, Call Center Lease is \$55,772, and the E-Rate Grant is \$8,606 for a Total of \$525,992 that is not in the books but needs to be considered.

Mr. Nava said that in May Mr. Pedroza had projected a \$1.1 million revenue for EMS and asked if he is still comfortable with that figure.

Mr. Pedroza answered he is and even more so because in August and September the transfers started to Bisbee. People are scared and would rather be transported by ambulance to Bisbee and the mileage is being charged. For August, \$250,000 was billed for Ambulance transports. About 60% of that will be collected. It is expected that the City will collect \$91,000 a month but 60% of \$250,000 is about \$150,000 which is almost \$60,000 more than what was expected per month.

Mr. Nava asked if the City makes money on the transports.

Mr. Pedroza answered we bring in money but it does not break even yet. It brings in \$1.1 million but the expenses are still higher than that. Since they are so short staffed also the overtime has increased as well as other expenses. In revenue the private insurances have started paying but Medicare is lagging and is the biggest provider. Also the new billing company had to do a lot of paperwork. It took a lot of trial and error because if they didn't like a code they sent it back and it takes a couple of weeks to rebill.

Mr. Nava asked if Mr. Pedroza felt comfortable that the City will get the amount projected for Property Tax.

Mr. Pedroza explained that he does feel comfortable because when it's tied to the property there are a lot of mechanisms to get that revenue. If it is not paid it goes into the delinquency state and either a lien is placed on the property or it is foreclosed on and the bank will pay the taxes on that property but the mechanisms with the property tax are more sound and collectable. It is the most predictable revenue source.

He continued by explaining that the accrual applies to the expenses as well. The expense side needs to accrue the payroll as it transfers. There are 26 payrolls in a year so 2 times out of the year we get paid 3 times in the month. There is a formula to accrue a portion of that third payroll at this time of the year. On September 30 there was an expense accrual of \$314,374.

He continued by explaining that on the Expenditure side of the Budget versus Actual we are under spending.

He explained that in comparing Revenue versus Expenditure, General Fund is in the red by \$112,039. He feels the Ambulance factor must be considered and also the fact that it is only very predictable that the 1<sup>st</sup> Quarter the expenditures are heavier than other quarters and we also start receiving bills from other sources so the tendency is to spend a little bit more but mostly the deficit has to do with Ambulance. But it will recover as long as sales tax doesn't go drastically down. The other funds seem to be doing well. HURF, Capital Projects, the Airport typically is low, the 3 Enterprise Funds are well in the black.

He continued by explaining that the hospital closure is causing more overtime expenses for Fire. EMS revenue is lagging close to \$150,000 this quarter and the expenses are heavy because of the closure.

LTAF was the Lottery Fund that was restricted for transportation purposes. We don't get those anymore but we transferred the Transit money there to create its own fund. The City of Douglas now contracts with the City of Bisbee to run their transit system. It made sense to segregate those funds to record the revenue and expenses in separate line items. Transit is in the red by \$3,800 which is better than

what was projected. The projection was at \$60,000 in subsidy for the year. Once the revenue from Bisbee begins coming in the numbers will be better.

The Capital Projects fund has a projected sales tax collection of 2 months then it will become part of operations. Now all sales tax gets collected into General Fund. The Fund Balance right now is at \$810,777. There are some projects that still need to be finished. He also mentioned that it includes the \$300,000 from the sale of the Government Center. No more revenue is expected to be received in this fund.

Mr. Nava commented that in May it was mentioned that some of the projects would probably cost less than what was estimated but in June it was the opposite story.

Mr. Pedroza explained that some projects go over and some go under so in the end they balance each other out. One of the things is that some projects have not been started for example the lighting at the Airport Park or the buildings at the Airport.

Mr. Nava asked if all the projects that were accepted by the Council will be finished this fiscal year.

Mr. Pedroza answered it is expected as long as nothing gets in the way.

Mr. Nava asked if there won't be any financial problems if they are not completed this fiscal year because the funds are already there.

Mr. Pedroza answered there should be no problems because the funds have been earmarked for Capital Projects.

He continued to explain that Water, Sewer, and Sanitation are doing well and gearing for Debt Service.

On the Golf side, the transition to the MPC, which is the Municipal Property Corporation created to manage the Golf Course, was completed. The first 3 months were filled with a lot of startup costs and getting the facility up to par, getting them ready to run their own payroll and their own expenses. There are some things that we are still helping them out with but for the most part it has been completed.

Mr. Nava asked on the expenditures, under budget he thought the City had budgeted \$120,000 as a subsidy.

Mr. Pedroza answered that is correct and it is kind of complicated because the \$120,000 is being budgeted as a transfer as opposed to the Golf fund. The Golf fund is now empty and it is transferred into General Government to transfer to the MPC.

Mr. Nava commented that the expense is already at almost \$120,000.

Mr. Pedroza explained that it is concerning since \$77,000 has already been spent in the first 3 months but October is looking a lot better.

Mr. Nava asked where he is getting \$77,000 from when the report shows \$108,000.

Mr. Pedroza explained that the City has collected \$30,000 from their revenue. So the net amount is \$77,000. The City had to give them \$15,000 in Capital for them to start paying bills, payroll and have some sort of cash flow. It is not a self-sustaining enterprise either.

Mr. Nava asked if there is anything out there on it being sold.

Mr. Pedroza answered not at this time and not until it can be made into a sellable asset.

Mr. Nava asked if there are any prospects on the Douglas Apartments and the Perrilla Apartments.

Mr. Pedroza answered that bids are in for the Douglas Apartments and there are some interested parties. The bid closes in November and a decision will be brought to Council in the November meeting. And there is nothing on the Perrilla Apartments. And the bid does call for development on the Douglas Apartments in a certain amount of time.

Mr. Nava asked about the cash flow problem created by the Arizona Department of Revenue. He asked if there is enough money to offset not getting revenue through the State.

Mr. Pedroza answered that there is a very solid cash reserve. From the Finance Director perspective he would prefer not to use that to fund operations ever. If it is temporary so that we can catch up with the Department Of Revenue then we will use that. But we are getting news that we will still be collecting sales taxes through July 31<sup>st</sup>. It was scheduled to be turned over to ADOR in January 2016, now they are admitting that they are not ready yet so they have not come up with a solid date but are looking at June or July 2016.

Mr. Nava commented that sounds so much better. He asked if the IGA was with the Department of Revenue or the League of Cities.

Mr. Pedroza answered that the City signed several IGAs with the Department of Revenue. One is to make sure that they report to us, that they are responsible, that they have enough manpower handling our money. The other is for us to temporarily handle our own licenses until they are ready. And the other is an overall IGA to take over collections. He thinks the one Mr. Nava is talking about is the one to keep tabs on them to give us reports and statistics in order for us to know and if we are not

satisfied with the service that we can go to them and tell them that we are not satisfied.

Mr. Nava asked if there has been any discussion on the City level on bonds for streets and other Capital Projects.

Mr. Pedroza answered that not on the City level but if that is something that Council is interested in pursuing, it needs to be talked about now because the next election will be in November of 2016. Although it is more than a year when it comes to bonds there is a lot of preparation that needs to be taken care of now to be able to market that to the public.

Mr. Nava asked about the status of Municipal Court.

Mr. Pedroza answered that nothing has been heard from the County and no bills have been received. It seems like everything is at a standstill.

Ms. Sandi Thomas asked if the City is done paying or collecting payments for Golf and if all that is being handled by them.

Mr. Pedroza answered yes that they can set their own rates, give a free pass, do their own marketing. They still need the City because we are still paying some of the existing City contracts. Like the utilities, the internet, the lease payment on the carts are all still under our name. We decided to keep those and make it part of the \$120,000 subsidy but other than that whatever they buy, whatever money that is brought in, whatever fees they want to charge is totally up to them and their Board.

Mr. Nava asked if there is any oversight as far as judicious spending as opposed to just spending.

Mr. Pedroza answered that is what the Board is doing. They are meeting very regularly, sometimes 3 meetings in a month.

## **6. ADJOURNMENT**

Mr. Mike Nava entertained a motion to adjourn at 6:15 p.m. Ms. Sandi Thomas seconded the motion. Motion passed unanimously.

Respectfully submitted by

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Lorenza M. Gonzales, Committee Secretary