

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

THURSDAY, FEBRUARY 18, 2016

5:30 PM

1. CALL TO ORDER/ROLL CALL

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

Members Present:

Chairperson, Ms. Margaret Morales

Member, Ms. Sandi Thomas

Member, Mr. Mike Nava

Member, Ms. Araceli Quiñonez

Member, Ms. Ana Bernal

Also Present:

Liaison, Mr. Luis Greer

City Manager, Mr. Carlos De La Torre

Finance Director/City Treasurer, Mr. Luis Pedroza

Committee Secretary, Ms. Lorenza Gonzales

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

None – no action taken.

3. APPROVAL OF MINUTES FOR OCTOBER 29, 2015

Mr. Mike Nava entertained a motion to APPROVE the minutes for October 29, 2015, as presented. Ms. Sandi Thomas seconded the motion. Motion passed unanimously.

4. PRESENTATION / DISCUSSION OF 2ND QUARTER FINANCIAL UPDATE FOR FY 2015/2016

Mr. Luis Pedroza began by presenting the 2nd Quarter Fiscal Report for the Fiscal Year 2015-2016. He began by presenting the Cash Balance as of February 9, 2016. The General Fund unrestricted cash was \$5,074,964. The restricted cash was \$2,067,931. One line was added for the Alex Black Fund, Mr. Black donated some

funds to be used for firefighters who are injured or die in the line of duty. The total cash in unrestricted and restricted cash is \$7,142,894.

Sales tax started off well. For the past 2 months staff has seen a decrease in sales tax collections and you won't see it here but January Sales Tax has also seen a decrease. It may be the Peso devaluation that is starting to affect. The December collection was \$57,567 less than what was collected the previous year. January collections which is December sales is also below the mark. Construction Contracting is below last year numbers as well as Retail Sales.

Budget vs. Actual, shows that about \$900,000 of that is Grant Funds that have been allocated there and have not been used. The sewer fund is at a negative because the City has not been reimbursed for some of the loan proceeds waiting to be received. Revenue that has been earned but not collected is Franchise Fees, Police, State Shared Sales Tax are lagging at 50% of the year. It is almost \$400,000 in revenue that has not been collected. Where accruals is concerned, in December there were three payrolls because it was going to land on the 1st of January, holiday, so we decided to pay December 31st. We are ahead of our expenditures because we had more payrolls than what we are supposed to have at 50% of the year. We should have incurred \$128,000 less in Payroll. The Expenditures Budget vs Actual has some capacity to use some grant funding mostly on the Police Operations Fund, some of the Transit Funds have not been utilized completely. In Revenues vs. Expenditures we are in the black by \$220,000 in General Fund. All Special Revenue funds are in the black except the Airport which is pending a grant reimbursement for the fencing project which will give us a reimbursement of \$45,000. In Sewer we have the solar project which the city will get reimbursed for from the loan proceeds. Close to \$300,000 will be reimbursed from the design and the Wastewater Treatment Plant loan. It will be close to \$1 million. Golf is no longer with the City but with the Corporation. The City is still subsidizing that operation. The City is still providing for some of the contracts that are still with the City but \$117,000 have been subsidized so far. Staff had projected \$120,000 for the entire year. Overall the City is \$180,000 in the black.

Mr. Mike Nava asked if he anticipates a greater dollar amount for the second half of the year.

Mr. Pedroza answered that now that things have more or less stabilized the average is about \$10,000 a month.

He continued by mentioning that EMS operations is incurring higher costs because of the fact that patients are being taken to Bisbee. Overtime is 80% greater than the average. The mileage that is being billed to patients is offsetting the cost. The revenue is coming in. It is above by 1% from the projected which is about \$5,500. LTAF is established strictly for Transit. There are 2 separate operations coming out of that fund, Douglas Transit and Bisbee Transit. There are several revenue sources coming in. The projection was \$154,000 subsidy. At 50% the subsidy has only been at \$7,000 that is mainly due to the Bisbee operation. Capital Projects has \$132,000

of projects that were budgeted and still pending. Fund Balance is \$833,000 that is earmarked for certain projects and has not been used yet. The Water and Sanitation Funds are doing ok and the Sewer Fund is waiting for reimbursements as mentioned before.

He continued by explaining what is known for the budget. PSPRS is going to increase by \$100,000 for next fiscal year. He explained that the pension fund is on the verge of bankruptcy. A new bill has been passed that all new hires in 2017 will enter into a new tier where they will have to contribute 50% to 50% employee and employer. At the moment the employee only contributes 8% or 9% and the employer contributes 50%. It will be capped at \$110,000 pension. There will be some language change that will be brought to the voters to alleviate the debt.

Mr. Carlos De La Torre explained this is a 25 or 30 year solution that they are starting on today.

Mr. Luis Greer asked if they are still on the 20 year retirement plan.

Mr. De La Torre explained there are still a few that are on the 20 year retirement but most are on the 25 year retirement plan.

Mr. Pedroza explained that the State Shared Revenue has not changed. He also explained that Sales Tax bills are still in the works of being changed which will impact the revenue that the City will receive.

5. PRESENTATION/DISCUSSION ON FY 2014/2015 AUDIT OR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Mr. Pedroza began by explaining that the Audit was received in mid-December. There were 6 findings; however, the position fiscally was very well. The fund balance increased by almost \$1 million. Overall about \$1.6 million was added to fund balance over all. As the members can see the Capital Projects was in the red but that was because revenue from the previous fiscal year was being used. He also included the management letter which explains the recommendations and findings. A lot of the findings were because the City is small and short staffed and there were a few mistakes as well.

Mr. Nava made an observation on the wording used and asked if the audit should be more comprehensive.

Mr. De La Torre explained the wording that is used is mainly to protect the auditing firm because of the amount of money and the amount of time they have they don't check every single item that is received or paid; therefore, they need that protection in case someone finds something wrong with an item that was not physically checked by them.

Mr. Nava asked if there are any parts of the City audit that staff would rather have them look at.

Mr. De La Torre answered that every single part of the City audit should be looked at. Staff should not treat one system different than the other.

Mr. Pedroza explained that they have a software that will alert them if there are any significant changes from the previous years and the program will select random samples for them to look at.

Mr. Nava asked on the management letter, some of the recommendations, for example where it says deposit cash receipts on a timely basis. Has the city approached this so that deposits are made on a timely basis.

Mr. Pedroza explained this was one particular case where a \$20,000 check was not deposited. It got stuck in paperwork and deposited later.

Mr. De La Torre explained that all checks need to go to Finance so that they get deposited as soon as they get received. Sometimes when a check comes in with someone else's name then it can sit on a desk for a few days and not get deposited right away.

Mr. Nava asked about the sequential numbering on the journal entries.

Mr. Pedroza explained that this is something that will need to be brought to the software programmer's attention. The auditors found a glitch where the numeration was not sequential. That process is automated. It was skipping a few numbers.

Mr. Nava asked if there was a problem with not reconciling year end account balance on page 7.

Mr. Pedroza answered that this is the one finding that is due to us being small. We should be reconciling all of the accounts but we don't have the capacity to do that. We reconcile the bank account and all the cash accounts but we don't reconcile all the liability accounts. This finding has been following us since day 1.

Mr. De La Torre explained that this is from not having another person there reviewing the reconciliation that was done by the first person.

Mr. Nava asked if that is done for major accounts.

Mr. Pedroza explained that at the moment one person enters and the other reviews or one reviews and the other enters.

Mr. Nava asked if the person entering is knowledgeable enough to spot an error.

Mr. Pedroza explained that is the issue. Anybody can look at what is being done but they may not be capable of knowing if there is an error or not. Mr. Nava asked about the total budget and the amount that is left unexpended. The audit seems to say that it is because positions are being kept vacant.

Mr. De La Torre explained that a few years ago positions that had not been filled for a while were eliminated. One of the things that is being done is that if a position is vacated then it is not filled right away. The idea is to create salary savings and assign those duties to another employee who is already here. The idea is that Police and Fire positions are filled immediately but other positions are being evaluated closely. With Public Safety Retirement increasing something needs to be done so that the City has the flexibility of helping the employees out in some way. If vacant positions can be absorbed by current employees then the City will not be put in a position to lay off or force furloughs on employees.

8. DISCUSSION/PRESENTATION ON FY 2016/2017 PROPERTY TAX LEVY

Mr. Luis Pedroza began by explaining that the City received the assessed valuation. The City valuation went down. It is currently at \$49,978,958, the year before it was at \$49,837,879 which is an increase of \$133,000; however, the number for this year includes \$914,000 of new construction. If that new construction had not happened the valuation would have been \$781,000 less. For the past three years, staff has seen a decrease in the valuation. A memo was drafted to give three options as to how to go about adopting the next property tax levy. Option 1, which is what is being recommended, is to accept the Truth in Taxation rate which will increase the tax levy amount from 1.1762% to 1.1949%. That would increase it in line to the loss in order to not lose revenue. By doing that, the increase in revenue will be about \$11,000. The Second option will be to leave it the same. An increase will be seen of \$1,600 because of the new construction. The third option will be to raise it to the maximum amount allowed by law which is 1.4255% which will require a Truth in Taxation process, a public hearing and public notice process which will levy an amount of \$712,000 or \$126,000 more than last year.

Mr. Mike Nava commented that he agrees with Option 1 which will bring in some revenue but won't increase the tax significantly for tax payers.

Ms. Margaret Morales asked how much approximately tax payers would be paying.

Mr. Pedroza answered that on a \$100,000 property valuation the tax payment would increase about \$18.00. He also explained that some property gets devalued so tax payers would be paying less if their property devalues.

7. ADJOURNMENT

Mr. Mike Nava made a motion to ADJOURN the meeting at 6:50 p.m. Ms. Ana Bernal seconded the motion. Motion passed unanimously.

Finance Committee Minutes 02/18/2016

Respectfully submitted by

Lorenza M. Gonzales, Committee Secretary