

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

WEDNESDAY, OCTOBER 22, 2014

4:30 pm

1. CALL TO ORDER/ROLL CALL

Meeting was called to order at 4:35 p.m.

Members Present:

Margaret Morales

Sandi Thomas (Phone)

Mike Nava

Victor Varela (Phone)

Ana Bernal

Luis Greer, Liaison

Also Present:

Carlos De La Torre, City Manager

Luis Pedroza, Finance Director / City Treasurer

Not Present (Excused):

Lorenza M. Gonzales, Committee Secretary

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 29, 2014

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

4. PRESENTATION / DISCUSSION OF 1ST QUARTER FINANCIAL UPDATE FOR FY 2014/2015

Mr. Luis Pedroza began by explaining that the presentation is on the 1st quarter of the Fiscal Year 2014-2015. The cash position at the end of the 20th of October is at \$3.5 million. The restricted funds include HURF, Capital Projects, RICO, JCEF

(Court), and Debt Service for a Total Restricted cash of \$2 million. Total cash from a General Government cash position is at \$5.6 million. Next he explained that the Sales Tax collection for the first three months has been sluggish. The blue line represents the previous Fiscal Year and the green dots show the current Fiscal Year. They were under the first 2 months. It picked up this last month which was a good sign because we don't want to be under the first three months of collection.

Mr. Mike Nava asked when the State will be taking over or if the State has already taken over the collection.

Mr. Pedroza explained that there is a delay in the implementation of that law. What happened is that the Cities kept pushing the Department of Revenue for testing of the new system to be able to get all the cities into their system to collect the taxes. They were not ready. Their system was not capable of handling the additional flow. With that the Department of Revenue decided to extend it to January of 2016. The cities have an additional year to do the implementation right and to make sure that it goes smoothly. What they were planning to do was to do everything manually. They were not going to do it through their system because it was not programmed that way. The cities were not happy with that because it was prone to many errors and everyone came to an agreement to delay it.

Mr. Nava asked what entity was anxious for the State to take that over, if it was the Department of Revenue.

Mr. Pedroza answered that not even the Department of Revenue because of the amount of workflow that it involved. He explained it was really meant to be a simplification bill for the tax payers to file all their taxes in one location. Currently a taxpayer here in Douglas pays their taxes here at City Hall and pays the State and County taxes to the Department of Revenue. The simplification of it was to have just one place to file taxes. Everyone was in favor of that so long as it was done in a way that it made sense. Finally the cities agreed that the system in place was not capable of handling that.

Mr. Nava asked if the Department of Revenue had said they could do the work.

Mr. Pedroza answered that on paper they said they could do the work.

Mr. Nava asked if later the cities found out that it was a year and a half late and commented that it did not sound too efficient.

Mr. Pedroza explained that on paper and politically they said yes they could get it done but realistically looking at it, it was far from where it needed to be. It's good news to the City because of the control but still look forward to the simplification for the taxpayers but the right way.

He continued by showing that for the first three months sales tax collection is behind \$23,258 compared to last year. That equates about 1.7% down.

He continued by showing the different categories and where it is the City is lacking. The biggest difference of \$22,685 is in the Restaurant side. The City dug further and found that taxpayers are not remitting on time and slow sales as well. What is surprising is Contracting, there have been construction projects and the City has been exceeding that by \$10,000. The Retail sector, our biggest contributor, has been slow as well. It's at \$8,000 less than last year.

He continued by comparing projected and budgeted projections on the Revenue side. On General Fund the variance is at \$581,152. At the first quarter, revenue should be at 25%, obviously because of variances as to when revenue comes in we don't always hit that mark. According to the projections we are at 21% which is 4% less than our mark. The other number that sticks out is the Capital Projects which is at a positive of \$325,204. One portion is new revenue from the 3/10th cent that we have been collecting and the other portion is to use fund balance which is money collected from previous years to fund Capital Projects this year. That is why we see money sitting there which is waiting to be used.

Mr. Nava asked if he could explain the Golf revenue.

Mr. Pedroza explained that in the Golf line, as members are aware, only \$100,000 was approved, a whole year budget was not approved because at that time staff was anticipating that the Golf Course would be sold. The \$100,000 was lease revenue from the sale of the Golf Course and no other revenue was anticipated. The \$51,000 that has been received is from the actual operation of the Golf Course.

Mr. Nava asked if that revenue was not the City subsidy.

Mr. Pedroza answered no it is not the City subsidy. This is just a comparison between budget and actual. He continued by explaining that these are only major funds which are showing to be at \$510,842 behind. The variance is coming mostly from General Fund.

Ms. Margaret Morales noted that Sewer is down as well.

Mr. Pedroza explained that is because of lease proceeds that are supposed to be received from the solar project. Since that has not been received yet revenue will show as being down. Also some grants that have not been received where calculated. At this time there is no concern being that it is a seasonal fluctuation. The revenues that are under performing in the General Fund are as follows: Local Taxes are down by 7% which is \$93,711; grant reimbursement is one of the line items that don't cause too much concern because it's money that is spent and then the City gets it back, a set amount is projected but only spend what is received. State Shared Revenue is down a little. This could be seasonal because of the Vehicle License

Tax. Vehicle License Tax fluctuates a little bit more than the other revenues, the other revenues being State Shared Tax and State Shared income tax. The City only gets one to two payments a month. Court fines are also down by 36% or \$15,000. Sales Surplus Property, as the members recall, staff budgeted half a million dollars for the sale of the Douglas Apartments. That project has not been done and if that is done then a one lump sum will be received so this becomes a seasonal revenue fluctuation. The Intergovernmental Revenue can be attributed to a lag in payments. These are agreements between agencies. It includes Housing when they are invoiced for payroll, the intergovernmental agreement with the County for the invoicing of animal control. All these differences are seasonal fluctuations with the exception of sales tax that is really down. According to the budget, expenditures are doing really well. General Fund is at \$600,000 less than what we should be at 25%. Most of the expenditures are in the black with the exception of Golf. It's \$100,000 that was budgeted in expenses. The City has spent \$92,000 in Operation Costs, which means that instead of being at 25% we are at 92%.

Mr. Nava asked if the \$92,000 was being offset by the \$52,000.

Mr. Pedroza answered no that this is only comparing it to the budgeted expenses.

He continued by explaining that when comparing revenues and expenditures the City is not in a bad position. General Fund is in the black by \$19,000 in the first quarter. HURF is in the black, Capital Projects is in the black but that money will be spent very soon. Airport and Golf are the only funds that are currently operating in the red. The subsidy from General Fund to Golf is at \$41,000 in the first quarter.

Mr. Nava asked if there is any hope in the horizon for selling the Golf Course.

Mr. Carlos De La Torre answered that staff is in the process of looking at that again.

Mr. Nava asked if there is any information that he can share with the Committee.

Mr. De La Torre explained that the purchase agreement has been drafted, it has been submitted to the City for review, it has been reviewed, but it has not been executed by the buyer or by the City Council. A schedule still needs to be set up to come up with that execution.

Mr. Nava asked if by what he has said if there is a buyer.

Mr. De La Torre answered yes and explained it is the same buyer, the same agreement, but it has not been vetted to the Mayor and Council nor has Mayor and Council voted to accept or to move on and do something else. From the original agreement there was some concern from the buyer about buying an asset that was a non-performing asset and he didn't want to be buying a non-performing asset along with a performing asset, which are the apartments. He wanted to make sure that the purchase of the Golf Course was contingent upon the closing or the

purchase of the apartments. Since then the agreements have been drafted around that. The intention is to buy those two projects simultaneously but make the purchase of those two properties contingent upon the closing of the apartments. In other words, the City wants to make sure that they have control of the performing asset first and while doing that take control of the nonperforming asset as well. Then once those two are together they will make their business plan move forward. Those changes have been vetted between the buyer and City staff but have not been conveyed to Mayor and Council for their consideration and approval.

Mr. Nava asked if the City will still carry the papers.

Mr. De La Torre answered yes. He explained it is almost the identical deal with the exception of making the purchase of the Golf Course contingent upon the closing of the apartments. But the way it's structured is to do those things in parallel as to close on the apartments and within 30 days close on the Golf Course.

Mr. Nava asked if the buyer at any point in time can walk away.

Mr. De La Torre explained that once it enters into escrow there is a security deposit of \$25,000 and like in any other real estate transaction if they decide to pull out then they can do that.

Mr. Nava asked how long the agreement was for.

Mr. De La Torre explained that he has an opportunity to pull out before the agreement is executed. He can do that between opening escrow and closing escrow. Once the agreement is executed he can walk out of that if he doesn't make the payment and the City would have to go through the foreclosure proceedings to regain control of the Golf Course.

Ms. Margaret Morales asked if he would be losing the security deposit.

Mr. De La Torre answered yes he would be losing it if he doesn't do the things that are going to be agreed on and the City ends up doing all that then he will lose the security deposit. He explained that the longer the City waits the more money it will lose. That is also a concern for the investor.

Ms. Morales asked about advertising in case this deal doesn't come through.

Mr. De La Torre explained that is something for Mayor and Council to decide. There is no set time limit before they can say that it's time to advertise. If they decide that the time lapse of between three to six months has passed then they can make the decision to either accept the purchase as presented or to not accept and try to sell to somebody else. He believes that this is a good agreement and the City should proceed with that but again Council will decide whether to do it or not.

Mr. Pedroza continued by explaining that he thought it would be good to show the Members where the City had ended the previous fiscal year. He didn't want to go into too much detail since the audit is being wrapped up and some changes will be made and the numbers will change a little bit. The actual audit will be presented to the members as soon as it is completed. But as far as the books are concerned he feels the City ended very well. General Fund ended with a positive balance of \$374,593. The HURF fund had to use \$67,000 from fund balance. Capital Projects had some money left over that was transferred to the new fiscal year. The Airport is always in the red, Enterprise Funds are steady, almost funding the entire depreciation cost. Golf is at \$174,000 in subsidy. He also explained that the City had some unexpected revenue from Fuel Excise Tax in the amount of \$25,824, this is something that the City had not done in the past and it's to get reimbursed for the Federal Excise Tax. The 17 cents that the Feds charge for fuel, government agencies have a right to request a refund on that. The City went back three years and got \$35,000 from there. E-rate, the City was battling the Feds about this also. The City thought that it had lost some money from 2012 and 2013 but were able to recuperate \$22,000. As mentioned before the Lehman Brothers bankruptcy is still coming in slowly. This year the City received \$7,351. The city wide auction as talked about, we sold junk from all city departments and raised \$105,000 in revenue. There was a reconfiguration with the population estimates by the State, the City was being shorted because the population numbers were not correct. Once those numbers were corrected we received \$37,000 in Urban Revenue Sharing and \$44,000 in State Shared Sales Tax, about \$252,000 in extra revenue. The Property Taxes collection was higher than expected by \$48,000. Building Permits were \$26,000 higher than projected. Cemetery fees is \$12,000, Ambulance Fees hit the \$1,000,400 mark. Aquatic Center and Recreation Fees were \$11,000 more than what was projected. On rental payments the City entered into a few new lease agreements during the fiscal year and it brought that up by \$8,000. So when we sum up those two figures it comes up to \$362,000. This is almost the \$374,000, the difference is from savings and expenditures. Most of these are one time revenues and the rest we are hoping to continue in the future years. That concludes the first quarter financial presentation.

Mr. Luis Greer asked where the \$1 million left over money in Capital Projects is going to.

Mr. Pedroza explained that \$600,000 is from the Government Center Sale. He reminded the members that the Government Center was sold for \$900,000. He said \$300,000 was assigned to Fiscal Year 2014's budget and the rest was deferred into future fiscal years. The other \$400,000 is made up of the 3/10th sales tax that was collected and not used so it's being carried forward into the current fiscal year. In this budget the City had about \$1.7 million for Capital Improvements. One million is being carried over from previous fiscal year.

Mr. Greer asked if that was \$2 million total.

Mr. De La Torre answered no, he explained that \$1 million was left over from last year which was from the sale of the Government Center, the 3/10th of a percentage and what was left from the Call Center so it added up to \$1 million and what is combined from this fiscal year it equates \$1.7 million. This money will be used by using \$400,000 for Council Directed Projects, then almost \$200,000 in fleet replacement, almost \$150,000 for facilities upgrades, and over \$700,000 in street improvements.

Mr. Pedroza explained that it is good that the budget is in the black by \$374,000. It is a positive note. The City did have to rely on one time revenue which is not ideal but if the sale of the Government Center had not happened we would only be showing \$74,000 in the black. It is one-time revenue that is being used but it does put us in a good position.

5. PRESENTATION / DISCUSSION ON 2013 TAX CODE AMENDMENTS

Mr. Luis Pedroza began by explaining that the State Legislature passed certain amendments to the Model City Tax code so the City is adopting those changes within our City Tax Code. Most of these changes have minor financial impact as far as the City is concerned. Most of them are exceptions that are being granted by the State for certain business activities. Most are language changes. The first one is on definition, they added that transfer of solar generated electricity to general system is not considered a business therefore it's exempt. On the definition of prosthetics, they added orthodontic devices as well. Currently anything prosthetic includes anything prescribed by a doctor including eyeglasses, contact lenses, wheelchairs and other types of things like that. Nuclear fuel, this is something that we will never see here, the sale of nuclear fuel. Postage, he doesn't think there is any job printing here in Douglas but if they were to itemize their charges postage would be exempt. The State decided not to tax the devices that the people with DUI's use to blow on before they start their vehicles. Gift cards are listed as exempt when purchased and the tax will be charged when it's redeemed. Number seven is something that needs to be communicated to the food vendors. Food for home consumption was being classified under retail. What they did was change it to its own classification. There is really no other change except that it's now under its own classification. Food stamps exemption was eliminated from tax code because it was redundant. State law already covered that. Food sales to schools are already exempt so they decided to exempt charter schools and parochial schools. The following are other exemptions that were added: Transfers of renewable energy tax credits, sales of published magazines to promote tourism, paper machine cloth to paper manufacture does not affect us, overhead materials used in a contract within the Federal Government whenever there is a construction project with the Feds they are allowed to deduct overhead costs, fuel and material sold to a qualified environmental technology manufacturer. The biggest one is the approval of the taxation of sewer. What the City is doing at this point is adopting it but not taxing at this moment. If Council decides to tax at a later date it's already been adopted. This is just a language change at this point.

Mr. Mike Nava asked about item 11 meaning that he can be taxed for what he pays for sewer.

Mr. Pedroza answered that is correct.

Mr. Nava asked if it would be a regular sales tax.

Mr. Pedroza answered yes but only on the City portion which is 2.8% but he wanted to clarify that the City is not imposing a tax at this time.

Mr. Carlos De Torre explained that if the City were to start taxing the sewer it would be generating anywhere from \$28,000 to \$35,000 a year. That would be the additional revenue that would be coming in if Council decides to tax sewer.

Mr. Pedroza clarified it would not be the Sewer Enterprise Fund who would generate the revenue but the General Fund.

6. DISCUSSION / DECISION ON REPORT BY CITY MANAGEMENT REGARDING THE REDUCTION OF VEHICLES IN THE CITY'S FLEET

Mr. Carlos De La Torre explained that per the Members' request staff generated an inventory list to show what was in inventory in 2013 and what could be auctioned in 2014. The fleet consisted of 143 vehicles. As of today it consists of 117 vehicles which equates to the reduction of fleet of 18.2%. In addition, ten vehicles were purchased in an effort to replace some of the vehicles that were reaching or actually exceeding their useful life. Those ten vehicles are already part of the 117 vehicles that are already here. As part of this effort, vehicles have already been downsized, upgraded, and reassigned. Staff was asked what it is that they need in terms of vehicles. Then they reassigned vehicles. As a result, the City ended with 117 vehicles and saw the need to replace some vehicles. There is still a list of over 21 vehicles that will need to be replaced in the future but by doing this the fleet was reduced and replaced the ones that were really aging. There are no actual numbers yet to show what the impact is as a result of these changes. But he wanted to make sure Members had a list of current vehicles in inventory and vehicles that were auctioned and vehicles that were recently purchased. The vehicles that were purchased were either really good used vehicles or if that could not be accomplished then went ahead and bought new vehicles. The City did not want to go into a leasing program because the money used was one-time revenue and wanted to remain within the allowed budget. The intent is to bring uniformity to the fleet, bring the fleet to some sort of a standard and replace the vehicles. He also took the opportunity to commend all the staff in Finance, Purchasing, Public Works because as the Members saw, out of trash, staff was able to generate over \$100,000. That was significant and with those funds as well as what had been allocated for that the City was able to purchase those vehicles. The fleet is being modernized and it not only boosts morale but it also sets a better image. It also

saves in O&M costs and puts the City in a good position to begin the fleet replacement program.

Mr. Nava commented that this speaks of efficiency. He said this has been a long time in coming over a number of administrations and his administration has accomplished it. And he is appreciative of that.

Mr. De La Torre thanked him and continued by explaining that what he has given them is what the vehicle list looks like. It's a list of the 2013 vehicle list, this is a list of all the vehicles and where they were assigned to. Then it's the 2014 list and where they are assigned and the list of 25 vehicles that need to be replaced and are ready for auction and the list of vehicles that were purchased. Some of them are ½ ton trucks, some are ¾ ton trucks, some are brand new, some are used with low mileage, some with high mileage but the quality of the vehicle and where it was going to be used and the cost helped staff think that it was a good purchase for the City to proceed.

7. DISCUSSION OF FINANCE COMMITTEE RECOMMENDATIONS REGARDING THE 2014-2015 BUDGET RECOMMENDATION TO MAYOR AND COUNCIL

Mr. Mike Nava explained that he asked for this item to be added on the agenda but Mayor and Council held a session several weeks ago and talked about what they would like to do in so far as to cost related items. He is satisfied that Mayor and Council are informed on the Finance Committee's recommendations and they are on the list.

8. ADJOURNMENT

Mr. Mike Nava made a motion to adjourn at 5:25 p.m. Ms. Ana Bernal seconded the motion. Motion passed unanimously.

Respectfully submitted by

Lorenza M. Gonzales, Committee Secretary