

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

WEDNESDAY, OCTOBER 30, 2013

7:00 am

1. CALL TO ORDER/ROLL CALL

Meeting was called to order at 7:00 a.m.

Members Present:

Mitch Lindemann
Sandi Thomas
Mike Nava
Ana Bernal

Also Present:

Margaret Morales, Liaison Member
Carlos De La Torre, City Manager
Luis Pedroza, Finance Director / City Treasurer

Not Present:

Victor Varela (excused)
Lorenza Rascon (unexcused)

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 6, 2013; MAY 28, 2013; MAY 31, 2013

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

4. PRESENTATION/DISCUSSION OF FINANCIAL REPORT FOR FY 2013 AND 1ST QUARTER OF FY 2014

Mr. Luis Pedroza began by explaining that cash position up to date is stable from the last report given at \$2.3 million after subtracting the committed amounts and adding the General Fund CD.

He showed the members a slide that compares the cash position from FY 2012 to FY 2013 where it shows what cash position did on a weekly basis. He explained that the blue line showed FY 2013. The way the line dipped towards the middle of the year was cause for concern since the amounts received were less than the previous fiscal year but towards the end of the year it picked up and the end result was very close to FY 2012. The percentage shows that the increase was of 27% in FY 2013 and 87% from FY 2012 to FY 2013. It didn't grow as fast but it is stable.

He continued by explaining the comparison in revenue from budgeted to actual amounts. General Fund was \$871,068 less than what was budgeted due to the sales tax not meeting what was projected. HURF and the other funds were a little short also from what was projected but the biggest difference was within General Fund.

In looking at expenditures there is a substantial savings compared to budget. General Fund has a variance of \$1.1 million. About half a million was due to the City budgeting the purchase of two transit buses which were supposed to be grant funded. The City was able to lease those buses from Yuma so the purchase was not made. Also when the City took over Transit an estimate was made as to how much it would cost to operate. The estimate was very close and the difference is of \$129,000 from the original projection.

Mr. Carlos De La Torre explained that the amount consists of money that was set up to use as Grant Match; since it was not needed as Grant Match there was some money left that was not utilized.

Mr. Pedroza explained that he likes to compare revenue versus expenditures and then compare revenue versus actuals and expenditures versus actuals because that gives a better idea of how projections did against how the numbers ended. Also to see if enough revenue was brought in to cover expenditures.

He continued by explaining General Fund Expenditures by category. Salaries and Benefits actual was a little higher than what was projected. It is due to reimbursed salary amounts through the Stonegarden Grant of the Police Department. Staff tries to budget as close as possible to what is expected but sometimes it goes over. The reimbursement from the Government is at 100%. There were pretty good savings on Capital and O&M. The savings on Capital was for the Transit buses. On transfers, \$165,000 savings is due to the transfer to HURF to cover the expenditures was not needed this year. The General Funds budgets about \$120,000 to transfer to HURF to cover all expenditures needed but it was not needed. On Revenues vs. Expenditures, General Fund is in the black by \$73,404 which is a very good thing. Most funds are in the black except for Airport being a little on the negative. Even Water and Sewer are over by a few dollars. Wastewater and Water still have some projects pending even though two big projects were completed. Well #17 coming

into production and the two water tanks being rehabbed. Overall revenue vs. expenditures was \$1.6 million above.

Mr. Mitch Lindemann asked where the street sweeper is reflected at.

Mr. Pedroza explained the street sweeper will be reflected in this budget within a couple of weeks.

Mr. De La Torre explained that it will be funded within the Sanitation budget.

Mr. Pedroza explained that the whole amount will not be budgeted. Part of that will be under Debt Service over five years and that interest rates on small leases are at 2.5%.

He continued by explaining that Fund Balance is the difference between assets and liabilities on the balance sheet. It is very important to see where the City is at compared to FY2012. Fund Balance depicts the health of each fund. It's different than Revenue vs. Expenditures because it's talking about assets. It is cash, accounts receivables; liabilities are accounts payable and bills that are owed. From one year to the next there was an increase in Fund Balance, increasing assets over a liability across the fiscal year. One thing to know is that General Fund and Enterprise Funds get accounted differently. The Enterprise Funds go through a modified accrual basis. The Sewer Fund is \$10 million because all Capital Assets are accounted for there. What it means is that all infrastructure, all pipe, everything has a value and gets accounted there minus the accumulated depreciation of that asset. That is how government financial statements are reported for those Enterprise Funds. Asset value within the fund balance is supposed to be reported that is why it's recorded this way. This makes for a \$1.4 million increase in Fund Balance.

He continued by explaining how the City did on Sales Tax compared to last year. The information is depicted in different categories. In FY 2013 less was collected on most categories with the exception of 4 of them. The most notable ones are Restaurant / Bar and Retail. There was an increase on those 2 particular categories. This information was correlated by statistics provided by the customs office. They said border crossing went up by 3% from 2012 to 2013. Border crossers do most of the shopping on retail and by visiting the restaurants as well. But the utility usage went down from the previous year. Maybe residents have less money or are cutting back on the usage of their utilities. Telecommunication is cell phone usage and it is going down also. It is very interesting to see that retail and restaurant are going up because of the border crossers but yet the City seems to still be struggling economically. The biggest concern was Construction Contracting. Compared to last year the City made about half a million dollars and this year only \$140,000. The increase last year was because of the border fence project that was going on. That has been completed and new construction has remained stable.

He continued by summarizing the most important notes for FY2013. He talked about the \$73,000 figure and explained the reason that the City is in the black is because of the land being sold to Copper Queen for \$356,000. This was not budgeted, it was an opportunity that came up and if the City had not sold that asset the City would have been about \$280,000 in the red. It is very important to note that.

Mr. De La Torre explained that this year the same thing will be done with the possible sale of the Government Center to the County. That is how some of the Capital costs will be offset. That route had to be taken to balance the budget. The City is not totally out of the bind since the same thing is being done this year again. These kind of opportunities will not present themselves all the time so staff needs to start to fall back a little so that the City doesn't rely on Capital Assets to balance Capital Improvements.

Mr. Nava asked how many yearly installments the County agreed to pay.

Mr. De La Torre answered he believes it is 3 years.

Mr. Lindemann asked if there were any other Water and Sewer increases.

Mr. De La Torre answered no, there are no increases scheduled, they are covered. Staff would need to reassess some of the projects out there. The new Master Plan update has not been started. That will be another year to 2 years before it's started.

Mr. Pedroza continued by explaining that revenues exceeded expenditures overall by \$1.5 million which is due largely to Enterprise Funds having a good year. Fund balance increased by 3% in General Government Funds and 6% in Enterprise Funds. That is really good. It shows funds are in better health but staff needs to analyze that and see where the growth is coming from. Is it from cash, or from people owing money on Accounts Receivable or that bills are being paid on time and Accounts Payable is decreasing. At the moment cash is stable, it's growing a little bit but not all that great. Accounts Receivable is growing as well.

Mr. Nava asked if it would be a good idea to have a press release about the health of the Enterprise Funds and communicate that to the residents paying a little bit more for the services. The objective is to show people that what they are sacrificing in greater cost is helping have a positive outcome.

Mr. Pedroza said yes that it is important for people to know that. Just the Sanitation Fund itself has enough money that the trucks don't have to be leased, they can be bought and the City can save on interest. Every year the City has been able to buy a new sanitation truck. That is a great example of what the rate increase has done.

Mr. Nava commented that the fact that the City will have a new street sweeper is another example.

Mr. De La Torre explained that a grant proposal will be submitted to the Border Environment Cooperative Commission. They are really interested in doing a sanitation project within the border. Council is somewhat split, they have a different perspective into moving into an automated system. They really see that as a good way for them to fund most of the capital improvements for the implementation of that system. The benefit for the City will be the reduction on O&M cost and provide a better level of service so that we walk away from maintaining the alleys and all the trash that is in them. Trash pickup will be on the curbside and a recycling program will be started as well. If the City feels it's good it will give an opportunity to revisit the fees and maybe do a reduction in fee structure. Also the concern is that the fees with the County are increasing. So even if there is a savings within the City there is still that question of how to strike a balance and identify what are the cash requirements to ensure that Sanitation Fund is self-sustainable and we can project for the future but at the same time we don't want to overtax the users with a fee that may be a little bit excessive. The idea is to do a decrease instead of an increase.

Mr. Nava asked if there are no changes as this time.

Mr. De La Torre answered no, not at this time but that is what staff is working for. The hope is that some of these funds will give an opportunity to do things a little different. But the policy will be whether to move forward with that or not and the way it will be valuable for the City will be the upfront capital cost, the implementation and then roll out a different type of service and ultimately the net gain will be whether a reduction in fees will be able to be done. It will move the sanitation system from being an old system to being a modern, state of the art type of sanitation service out there in the City. It will reduce the amount of time spent in the alleys picking up garbage. The intent is for the City not to be blamed for the garbage in the alleys.

Mr. Pedroza gave a list of critical revenues that show where the City is at. As explained before Sales Taxes are down by \$848,000 or 15%, Ambulance Fees are down by \$104,000 or 10%, HURF was down by \$74,000, Water by \$78,000. There was decrease in the usage in June and July because of the rain. This is the first year that he has seen usage go down when compared to other years. Golf fees went down overall in usage and also because the bar was closed down midyear so food and beverage sales went down. As far as revenues exceeding the budget, property taxes went up by 7%, this was caused by the collection of delinquent property taxes; Sale of property increased by 3,000% because of the unexpected sale to Copper Queen; Investment Earning went up by \$17,000 because of the payback from the Lehman Brothers bankruptcy. As the members recall that during the recession some of the investments were lost due to the Lehman Brothers bankruptcy and that money is slowly coming back. They will be paying within the next 3 to 5 years. Some small distributions are coming in.

Mr. Nava asked if he has a total amount of what was lost.

Mr. Pedroza answered that not at the moment but that it wasn't too high. It was around the lines of \$150,000.

He continued by explaining that Recreation fees increased including the Aquatic Center usage. And Rental Revenue increased also and may be because of the lease with Southern Arizona Auto which was not expected.

He continued by going over a list of Capital Projects that were completed in FY2013. The 20th Street Paving & Curbing project was completed towards the end of the fiscal year for a total cost of \$364,000 funded by \$268,000 through CDBG. The Call Center Road Improvement was also finalized with \$347,000 in improvements funded by \$202,000 through a state grant. The 3rd Street Extension was also finalized with \$544,000 from private funds.

Mr. Nava asked if they are still doing work on that street and what are they doing now.

Mr. De la Torre explained that some portions of that road were built on top of an old dump area. Staff is having to go back and compact those areas and repair what has been damaged.

Mr. Nava asked if the County did that work initially.

Mr. De La Torre answered yes. He explained that the layer that was put in was fully compacted. The issue is what was underneath that layer that is causing the problem. That was the tail end of the landfill and there are some tires that were underneath that have been settling and is causing the problem on the road.

Mr. Nava asked if there is any way that it could be the County's responsibility.

Mr. De La Torre answered no because when the City did the land study it was determined that this portion was not part of the landfill being that there is no specific line that ended the landfill area. This was just a leg that came up that extended further than what was anticipated.

Mr. Nava asked how much the anticipated cost will be to repair this.

Mr. De La Torre answered it will be somewhere around \$20,000 to \$25,000.

Mr. Pedroza continued by explaining that a backhoe was purchased through a lease. The Sanitation Truck was purchased outright without a lease. The Vacuum Sewer Truck was also purchased through a lease. The Fire Ladder Truck can't be forgotten even though it seems like it was obtained a while back is also on a lease. The rehabilitation of the water reservoirs at the 15th Street Park, which was at a total cost of \$638,000 from which half was funded through a CDBG grant and the rest was paid for through the Water Fund. Well 17 was funded through the WIFA loan and

Water Fund. Some Miscellaneous Street Infrastructure was done which included regular maintenance and the replacement of street signs through a grant totaled about \$207,000 for the year. The Small Equipment which included overall capital improvements above \$5,000 totaled purchased, most of it was ballistic vests, tasers, a few equipment for Police, generators, overall accumulated \$223,000, of that \$38,000 was funded through different grants. Building improvements was very small about \$54,000 which entailed the replacement of the boiler at City Hall and a replacement of the AC system at the Police Department. Small sewer Infrastructure of \$52,000, which was for small equipment and some small repairs to the system as well. Overall about \$5.2 million in Capital Projects and Capital Acquisitions. He explained not all of it was expended in the same fiscal year some of these projects crossed 2 fiscal years but this is the total that was paid. Some are leases also that are being paid over 5 or 8 years.

He continued by explaining some of the projects and initiatives on FY2013. The afterschool program and the recreation program is now on the road and is in 5 different schools. It has been very successful. Up to this point there are over 3,000 participants.

Mr. Nava commented he appreciates what the City has done in that respect. Some residents are going to push DUSD to bring back the PE program to the elementary level. Because of the obvious benefits in long term health for the students who are in elementary right now. When the district dropped that, they dropped that service to about 1,800 students. He appreciates what the County did and what the City is doing to try to replace a portion of that.

Mr. Pedroza continued by talking about the development & planning of the new commercial port. There was a study conducted by ADOT that declared that the current port will be inadequate to service the amount of volume expected within a 5 year period. This is an Independent Party conducting that study in saying that this Port will be obsolete to service the people crossing. As members know, the Federal Government has been contacted and there is no federal funding for the construction of a new commercial port. What is being done is establishing a public/private partnership in order to fund that. There are two sites that have been selected. It has been narrowed down from 5 or 6 sites. The 2 selected are Kings Highway or James Ranch Road. A very good win is that the Mexican land owner from the Mexican side has already made the commitment to donate the land in these 2 locations for the construction of the port.

Mr. Nava asked if Highway 191 would have a curve to meet one of these 2 sites.

Mr. De La Torre explained that he met with ADOT and they are going to be helping in terms of developing what other road alternatives to connect the port to Hwy 80 so the way it's seen it will be a direct South extension from Hwy 80 directly to the Port. It doesn't seem like they will be realigning Hwy 191 to connect to the Port. The traffic will either go Westbound to Bisbee or will have to come back all the way to the

inspection station on Hwy 80 and 191 so then they can proceed going West, going North or going East.

Mr. Nava asked if it won't be advantageous to have it connect to Hwy 191.

Mr. De La Torre explained the cost will be significant to do that. Down the road once the traffic picks up they might consider doing that but at the moment they are not looking at doing that.

Mr. Pedroza continued by explaining that at this point staff is pretty much on schedule to submit the Presidential Permit by Spring of 2014 and it's about the \$30-40 million investment on the Commercial Port. The City is trying to see different methods of funding since there will be no federal funding.

Mr. Nava asked if when the new Port is built if the City will realize some revenue from it.

Mr. De La Torre answered yes that one of the things that will present itself in using James Ranch Road is that the City owns 120 acres and only 80 acres are needed to build the Port. Ideally the City will be in a position to lease some land for whatever facilities will be needed in the area. A toll would be another component even though the toll itself would not be enough to cover the total cost. Ultimately the City will have to issue some sort of bond, the City will be the owner of the Port and it will have to be annexed into the City and any properties and business that are before that area will be annexed as well and will generate some revenue. The whole intent is the creation of jobs related to the trade industry and the opportunity that Mexico represents to the U.S. It has not been planned or studied. Those are the things that will be looked at. There will be a Toll and Revenue Study, a Feasibility Study and Economic Study but first the permit needs to be submitted. Those studies will be a key component to ensure that the City is not just spending \$30 million and getting \$5 million in return.

Mr. Nava asked if there will be some additional infrastructure expense to extend to that area.

Mr. De La Torre answered no that he thinks that is the total price as a package. It can either be a stand-alone facility like the Border Patrol Station, it can be tied to allow the use of their facilities, or it may be more feasible to extend some of the City services out there. Those are the things that will be looked at.

Mr. Pedroza continued by explaining that some improvements were made to the current Port situation and some of those was the Pan American Signal & Traffic Improvements going South bound. This is supposed to ease the traffic that is all the way to Chino Road. The SENTRI lane is operational. This is used for lower risk travelers who would like to cross the border in an expedited fashion. They would need to sign up for this service and go through a very thorough background check.

The office is in the Government Center and is being manned by Customs personnel using a City facility. The City lent out that space for that particular purpose. The lane is very fast and the crossing is very quick but they need to go through that process. The other component is the 1st Street Parking Lot. The City ended the operations of a Parking Lot for pay since it was not bringing in more money than what was expended so it is being leased to the Federal Government and they are using it for their employee parking so they can get all the parking that was being done at the Commercial Port out of there and ease the traffic flow in and out of the Commercial Port. Positive feedback has been heard from the users in the sense that it is much easier for them to maneuver their trucks out of that space.

He continued by talking about some of the assets that the City has utilized during the fiscal year, the 7th Street building, the old health department building, is now the Recreation Center and part of that is being leased to the AZ Workforce and so it is generating some revenue. The old Recreation building on 3rd Street is being leased to CAS and generating some revenue as well. The pad on 12th Street and Pan American is being leased to Southern AZ Auto for them to display some of their vehicles that are for sale. The land sold to Copper Queen and the 1st Street Parking Lot which is being leased to CBP are also some of the assets that were used this fiscal year. As discussed, the Transit Bus route is well on its way. It was started in October 2012 and approximately 34,251 riders have used the service from October to June 30, 2013. It has been very successful. We had the College route and the Bisbee connection now been established as well. It stops at the College goes to Bisbee, picks up there and comes back to the College then back to Douglas. The City had budgeted \$70,000 to \$80,000 in Grant Match for this grant and used \$50,000 only. As members already know the 2% COLA was issued to employees in January 2013. The Departmental Reorganization is currently going on with the elimination of 3 City departments, 24.5 vacant positions and reclassifying 11 existing positions and giving them additional responsibilities. He finished by explaining this wraps up the FY2013 financials and reporting for the year.

He explained that in the current fiscal year from July to September 2013, the General Fund is exceeding expenditures by \$284,000. These are expenditures which have been accounted for but have not received revenues yet otherwise the shortage would be of \$861,000. Some revenues are yet to be developed so it is hoped that the City will be in a better financial position. All other funds are pretty much stable with the exception of the Sewer Fund which normally does this at the beginning of the fiscal year because of the Bond that is paid of \$450,000 for the WIFA loan which cuts the cash flow for the first part of the fiscal year. This is being seen since the loan started 2 years ago. At the moment the shortage is of \$423,000. As was mentioned before the sale of the Government Center is anticipated and the \$300,000 that were budgeted are received will help to ease the burden.

Mr. Lindemann asked how much longer the City has to pay the WIFA loans.

Mr. Pedroza answered it is a 20 year loan and have about 16 more years to go.

Mr. Nava had some question from what was discussed on the May 31st meeting. He asked what the status is on the vehicle inventory and the reduction there.

Mr. De La Torre explained staff is going over that list. One of the things that they are working on since the Council approved the 3/10th of a percent Sales Tax and one of the intents is to use a small portion of that to be able to fund some of the fleet replacement. That is in the works.

Mr. Nava asked about the item about developing low income housing and asked if they could fill them in on that.

Mr. De La Torre explained that is the TPC Holdings. He explained that at first they thought they were not going to be selected or be funded, later on they found out they were going to be funded and are scheduled to turn dirt on that particular project before Christmas so the groundbreaking will be before the end of the year.

Ms. Ana Bernal asked if that is the one on 15th Street.

Mr. De La Torre answered yes it's on 15th Street and Van Buren behind the Sonora Vista.

Mr. Nava asked if the City will be providing any funding for the hospital.

Mr. De La Torre answered not at this time.

Mr. Nava asked about the subsidy to the Golf Course and how that is coming along. He asked if the City is providing more or less.

Mr. De La Torre explained the subsidy is staying the same being that the subsidy was of \$125,000 this year. O&M expenses have been reduced and some services have been cut back. It's pretty much in line with what was projected. It's not any better, it's not any worst. We have been getting some complaints about not providing the services that we were providing before. Maybe the inventory is not as great as it was before but the whole intent is how to bring more control to that operation. If in the past we had bottles of liquor then it's very difficult to quantify and monitor the amount of drinks that you can serve. We are working to see how we can get a better handle on that. Also on draft beer so we are moving into bottles since those can be quantified and there is more control there. The response is that we no longer offer the services that we offered before but we are having to move forward with doing a lot of improvements and significant changes because we still see the interest of some local folks to take over the operation of the Golf Course. We see another 2 people out there who are interested in really taking over and purchasing the Golf Course down the road or entering into some sort of long term lease agreement and they will essentially take over the operation. That hasn't materialized. Discussions have been going on for almost 3 to 4 months. There is a lot of information they have

requested, they have gone out there, they have performed inventory, they visited the sights and the interest is not only the golf course but also the apartments and the development and the RV Park. They are trying to look at it as a group investment instead of focusing only on the Golf Course. They do believe that they can make the investment and make it work if they combine all the activities under one umbrella. One of the interested parties has submitted an offer to purchase the RV Park from the FDIC. They entered into a contract and it is contingent upon them entering into a lease/purchase agreement with the City so they have a way out. At least they have secured the purchase of that RV Park.

4. ADJOURNMENT

Mr. Mike Nava entertained a motion to adjourn at 8:15 a.m.

Ms. Sandi Thomas seconded the motion.

Motion passed unanimously.

Respectfully submitted by

Lorenza M. Rascon, Committee Secretary