



THE CITY OF DOUGLAS

425 10TH STREET, DOUGLAS, ARIZONA 85607
TELEPHONE (520) 417-7302 FAX (520) 417-7143

Brenda Aguilar
City Clerk

MINUTES

**DOUGLAS MAYOR AND COUNCIL
AND
DOUGLAS FINANCE COMMITTEE
JOINT SPECIAL MEETING
MAY 28, 2013, AT 6:00 P.M.
CITY HALL - COUNCIL CHAMBER
425 10TH STREET
DOUGLAS, AZ 85607**

- 1. CALL TO ORDER – MAYOR, DANNY ORTEGA JR.
CALL TO ORDER – CHAIR, MITCHEL LINDEMANN.**

Meeting was called to order by Chairman Mitch Lindemann at 6:00 p.m.

- 2. PLEDGE OF ALLEGIANCE.**

Recited by all present.

- 3. INVOCATION.**

Invocation by Council Member Ray Shelton.

- 4. ROLL CALL – MAYOR, DANNY ORTEGA JR.
ROLL CALL – CHAIR, MITCHEL LINDEMANN.**

Finance Committee Members Present:

Mitch Lindemann
Sandi Thomas
Mike Nava
Victor Varela
Ana Bernal

Also Present:

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

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

None

6. PRESENTATION/DISCUSSION CONCERNING THE FISCAL YEAR 2013/2014 CITY OF DOUGLAS PROPOSED OPERATING BUDGET.

City Manager Carlos De La Torre began by explaining the City's cash position. Current balance is at \$2,555,268 plus an investment amount of \$554,839 minus JCEF or court money, money set aside for the MOU (Memorandum Of Understanding) with Douglas Regional Economic Development Center, money from Police Auction, and the debt service which is due at the end of this fiscal year so at the end of the day the City has \$2,269,421. The City needs to have roughly \$1.5 million in the bank at all times. Cash position as it stands today is not as substantial as last year and it did not grow as it did last year either. Cash position only increased by 12% compared to a 52% increase last year. Cash is not coming as originally anticipated.

Committee Member Mike Nava asked if the difference at this point in time is about \$569,000 between last year and this year, does staff anticipate more of a reduction between now and the end of the year.

Mr. De La Torre answered no.

He continued by explaining some key points. Some changes in operations are being proposed at the golf course that reduces the subsidy from \$252,300 to \$126,880. This proposal includes a reduction in force and the option of getting a concessionaire or for the City to continue running it. In either Option A or B the subsidy will be the same.

He continued by explaining that staff is considering a reorganization that reflects how the City operates based on today's revenues. This consolidates a lot of the positions and eliminates the out of class assignments. The estimated savings based on the reorganization is \$120,707. Some key positions will not be filled such as IT Director, Chief Building Inspector, and Library Director. The intention is to do a City-wide analysis of all positions to see where those positions are at. Once that analysis is made then a report will be brought to Finance Committee for approval and recommendation. At that point in time a determination will be made in City-wide salaries and adjusted appropriately.

The other component of this budget is the reliability of the 3/10th sales tax extension for Capital Improvements.

Mr. Nava asked if there is a difference between Capital Improvement and Capital Outlay.

Mr. De La Torre answered there is because Capital Outlay is things that are purchased to continue to operate, Capital Improvements are physical improvements that are being done like street repairs, sidewalk repairs and things like that that will make a capital investment, a capital improvement.

Mr. Nava commented that there seems to be quiet a backlog in Capital Outlay requests. How critical a point is the City at in relation to any of the things that various departments have

requested and would it make more sense to spend the 3/10th of a cent on Capital Outlay rather than Capital Improvements.

Mr. De La Torre explained that some of the things that are listed are new pieces of equipment which would involve new facilities to house those pieces of equipment or will increase O&M cost. There is a backlog of that but there is also a backlog of physical improvements which have not been done in ten to twelve years.

Mayor Danny Ortega commented that most of the complaints that himself and council are approached about are of the conditions of the streets and sidewalks.

Councilmember Ben LaForge commented that there are some other areas like the cemetery and golf course that are practical and important and are part of what is being looked at for improvements.

Mr. De La Torre explained that the capital improvements program has not been developed yet. He explained that if the City obtains \$550,000 out of the 3/10th of a cent sales tax then 60% or \$300,000 can be used for street repairs, curbing, sidewalk, and chip sealing. Then an additional \$150,000 can be used to make some repairs to the 8th Street Park such as repairing the restrooms or upgrading the softball field. And the remainder can be used to replace fleet so that it provides a better image for the City.

He continued by explaining that the other component is the sale of the Government Center building to the County. When Council approved the agreement there was an option for them to buy it. They want to exercise that option and a payment plan is being established. This revenue will be used to fund Capital Improvements and for Grant Match as well.

Mr. Nava asked if the City owes anything for the Government Center building.

Mr. De La Torre answered yes.

Finance Director Luis Pedroza explained the GADA Loan is \$3,000,000 with an outstanding balance of \$2,700,000.

Mr. Nava asked if staff has an idea of how much the County will pay in total.

Mr. De La Torre explained that at the end of the agreement with the option to buy at year 10 was at \$1.1 million. A cash flow calculation was made to calculate net present value which brought that down to \$950,000. The County needs to see if there is value for them so the negotiation was started at \$850,000 which will be paid over a 2 to 3 year period. It is programmed on a 2 year program at the moment.

Mr. LaForge asked if that building was purchased at less than \$1 million.

Mr. De La Torre answered the initial property itself was purchased at \$800,000.

Mr. LaForge asked where the other \$2million debt was incurred at.

Mr. De La Torre explained money was put into the building to renovate the building. The City paid for the project development cost. The idea was that a project needed to be brought downtown to infuse the need for downtown redevelopment. At that point in time Council felt it

was not going to be a money-making deal but they felt it was an opportunity to bring downtown redevelopment.

Mr. LaForge asked if the City will be getting their money back.

Mr. De La Torre answered that in all honesty no. The City will be getting money just until the County turns it over and sells it to someone else.

He continued by explaining that the other expense is to continue to invest money in the cost for the Port of Entry expansion. Money has also been set aside in case Mayor and Council would like to enter into an IGA with the hospital. The amount of \$70,000 has been allocated into the budget.

Mayor Ortega asked when a decision will be made on the golf course as to whether to continue operating it or to use a concessionaire.

Mr. De La Torre explained they are still talking to some of the entities who are interested. The major concern is to mitigate the risk of the liquor license and the insurance. An agreement needs to be drawn so that the concessionaire obtains the liquor license within a certain amount of time and if they don't do that the proposal is not going to be brought to Council and the City will continue to operate it. The biggest issue in the past with other concessionaires were violations to the liquor license. That liability needs to be on the concessionaire.

Mr. LaForge asked if it would be part of the city inventory to liquidate if it came to that.

Mr. De La Torre explained he has a meeting with a gentleman who is interested and has a proposal to present and it will be brought to Mayor and Council for their consideration.

He continued by explaining some of the major hits that the City will be seeing. He began by explaining that the City had to absorb the 2% COLA which is \$79,005, Public Safety Retirement for \$117,152, AZ State Retirement for \$12,011, Workers Compensation Insurance for \$28,299, Debt Service \$182,330, the Hospital IGA \$75,000, the Port of Entry for \$120,000 and the increase in Grant Match for \$93,810 for a total increase in expenditures of \$707,607.

He explained that the major decreases in revenue were the reduction in City Sales Tax of \$474,998, Transient Occupancy Tax of \$7,000 and Franchise Fees decrease of \$24,000 for a total projected decrease in revenue of \$505,998.

Combining both of them the net decrease is of \$1,213,605.

He continued by explaining how that is compensated. One of the initial strategies was that the closure of the parking lot generated \$15,218. He is recommending that there will be no transfer to HURF which will generate \$175,477. Overall department reductions of \$72,019, Golf Course Subsidy reduction of \$126,880, Airport transfer reduction of \$13,620, the reduction to DREDC for Economic Development of \$25,000, a reduction in Capital of \$11,000, a reduction in the General Government 4th of July line item of \$9,000 and the sick/vacation payout reduction of \$50,000 which is a bank that was set aside for when someone left. What is going to happen now is that if someone leaves a certain position that position will not be filled until that sick/vacation payout bank is offset. The sale of the Government Center of \$300,000, the charge of fleet maintenance to the Enterprise Funds of \$50,121, an increase in State Shared Revenue of \$215,213, rental payments out of the 7th Street building to the Cochise Workforce and the

building on 3rd and B Avenue of \$70,900, and the Housing investor for a local project of \$30,000. Overall in terms of Revenue and Expenditures it comes to \$1,164,448.

Looking at the overall summary, the City is tapping into reserve funds but those reserve funds are from court funds in the amount of \$8,072 and Sanitation for \$43,648. After making the transfer the Sanitation fund will still have a cash balance of about \$850,000, the Water fund will have a fund balance of \$2.4 million and Sewer fund of \$900,000. No money is projected to be used from General Fund Reserves.

He continued by explaining that General Fund is balanced keeping in mind that a few positions will not be filled but there will be no furloughs, no reduction in force or salary decreases projected. The other component in balancing the budget is to move Transit operations to the Visitor Center and use one of the ladies from there for Transit and therefore reducing a portion of her salary which is \$12,000 in salary savings. The other component is in O & M savings of \$8,933 by removing the Museum costs and providing some of those services at the Library instead. The other component is to postpone the hiring of the Tax Collector/Finance Manager which will create a savings of \$68,688. In Information Technology there are some operational cost savings of \$44,026. The City will need to invest in IT infrastructure. The current system has no warranty anymore so it has become obsolete and is more expensive to service. This will create a debt of \$1,034,256 which includes the phone system, servers, wiring and software that staff uses on a daily basis. This will be an annual debt service of \$236,346 from which \$70,904 annually will be coming from Enterprise funds.

He continued by explaining that in General Government the increase in Transfers Out is of \$72,124. Also a reduction in 4th of July expenses by \$9,000 which includes \$5,000 in fireworks which in terms of time instead of it being a 20 minute show it will be a 15 to 16 minute show and \$4,000 in the event expenses itself which will be hosted either in the downtown area or at the 8th Street Park.

He continued by explaining that the Special Event requests are basically the requests received by the Douglas Rotary Club who did a Fly-In & Pancake Breakfast the previous year and are now requesting \$2,000 for that. The Douglas Art Association is requesting \$1,812 to replace some ceiling tiles, lighting and displays. DARC is requesting \$13,000 for gasoline expenses for their Meals on Wheels program. The total requests is \$16,812, the recommended amount is \$16,000. The difference is from the Douglas Art Association since this amount was requested for displays which is not actually part of the facility and that is how staff came up with this amount.

Mayor Ortega asked for clarification on the Sick and Vacation payout. He asked if there was a cap on the number of hours that can be accumulated.

Mr. De La Torre answered that sick is capped at 480 hours and vacation at 240 hours.

He then continued to explain that the increase in salary cost in Cemetery of \$48,575 was actually moved from Parks. This only puts the expense where it belongs rather than all salary coming out of Parks. Staff also eliminated a Limited Status Office Clerk position that has been vacant.

On Parks since there are 2 employees now working at the Cemetery this created a decrease in salary of \$54,339. Staff did see an increase in operating costs of \$27,650 which includes electricity, gas, building maintenance and operating supplies. A reduction can be made in these areas but every year there are more and more requests for special events.

On Public Works Administration the plan is not to fund the Account Clerk I which creates a savings of \$29,216. The Fleet Maintenance line item had all the money for fleet maintenance and now each department has been assigned its own line item to keep track of how much each department spends.

Council Member Luis Greer asked if Staff has looked into reducing the fleet since the City has more vehicles than employees.

Mr. De La Torre answered it is part of the ongoing process, it is not part of the budget but it is something that will be done.

He continued by explaining that one of the things that Mr. Pedroza is doing is to request the reimbursement from IRS of the federal taxes that are paid at Border Mart for gasoline. That will represent a savings of \$18,000. Staff hopes to collect an additional \$40,000 from the previous 2 years as well.

He continued by explaining that in Fire/EMS the overall operating cost increased by \$132,659. Almost half of that was for the increase in Public Safety Retirement. The other half is attributed to the addition of a new ladder truck which requires gasoline, parts, and maintenance. And there is a need to have more sophisticated drugs in the ambulances so an inventory has to be created.

In Police the increase is of \$123,464, \$92,980 is for Public Safety Retirement. There is a savings of \$63,998 for the vacant position of the Police Chief which will remain vacant for half of the year.

In Capital Outlay \$60,000 has been allocated for a couple of used ambulances. They are used but are in better shape than what the department currently has. Some fire hoses need to be replaced being that they did not pass inspection which is about \$5,000. One of the mowers for the parks needs to be replaced as well for a cost of \$10,000. The roof at the Aquatic Center Office needs to be repaired which will cost \$7,000. The roof at the Police Department needs to be repaired as well which will cost about \$18,000 and \$17,000 for a new AC/Heater Unit that needs to be replaced. Overall the decrease in capital projects is of \$11,000 from last year. Also \$120,000 in Capital will be used from Police Auction for vehicles, \$18,000 from RICO for ballistic carriers and \$160,000 for 2 Transit buses which are funded by Federal grants.

Mr. Nava asked if he could explain what he meant by ballistic carriers.

Mr. De La Torre explained that they are bullet proof vests. And continued by explaining that looking at revenues, transfers in, expenditures, transfers out it shows a negative \$8,072 which is where the JCEF money will be used at.

In terms of Special Revenue Funds, HURF State Shared Revenue increased by \$16,697. This year there will be no transfer from General Fund, the transfer last year was of \$175,477 and the Construction Materials decreased by \$47,101. Staff is relying on the 3/10th of a percent to offset and give the fiscal capacity to do some improvements. The recommendation is to use \$550,000 from the 3/10th sales tax for capital improvements and continue with the Port of Entry investment of \$120,000 from General Fund.

Mr. LaForge suggested that the 3/10th be increased to 5/10th instead. He feels that it would be more beneficial for the City.

Mr. De La Torre explained that it is a Council policy decision and direction for consideration. He continued by saying that given the budget it would infuse additional cash but it would not be substantial to make it a big improvement on where it is today. He feels it would be better to keep it at the 3/10th and show the public what can be done in terms of capital improvements.

Committee Chair / Council Member Mitch Lindemann asked if the Grant Match line item of \$250,000 meant that the City would be providing that grant match for Wastewater services in Bay Acres.

Mr. De La Torre answered that as the members recall about 3 or 4 years ago Council approved a resolution to enter into an agreement with the Border Environmental Cooperative Commission to look at the possibility of extending sewer services to Bay Acres. The project was developed and the possibility of providing service to Bay Acres and to expand the collection capacity of the existing wastewater treatment plan was contemplated. At the moment the City is producing Class C effluent, if the City does enter into an agreement with EPA, NADBank, and USDA that effluent will move to a Class A effluent. By doing this it will create a placeholder because after the budget is adopted it cannot be increased, it can be decreased but not increased. Eventually Bay Acres will get to a point when they can no longer use their septic tanks or install another one. There are 500 lots that will need to be tapped into the city sewer.

Mr. Lindemann suggested that the City get the County involved.

Mr. De La Torre explained that the County does not want to get involved because they will not benefit from it. The City will get an upgraded facility and will get the revenue created. This is a policy decision that Council will have to look at in the future.

Mr. LaForge asked if the City makes those improvements, the \$4 million from WIFA are earmarked for wastewater improvements to go from a Class C to a Class B.

Mr. De La Torre answered yes.

Mr. LaForge continued by asking why taxpayers money should be used for improvements in the County if the County is not participating in the matching share.

Mr. De La Torre explained the City has the resources available and thought has to be given on what will be better not just for today but 20 or 30 years from now. He feels it makes technical, financial sense to move forward on that down the road.

Mr. LaForge asked if the improvements are made the capacity would not only accommodate Bay Acres but how much more.

Mr. De La Torre explained the expansion would go from a 2 million gallon to a 3.1 million gallon facility. A typical family uses on average 400 gallons a day. That is almost 3,000 connections that the City would gain.

He continued by explaining that the City will be retiring the Call Center IT debt and the IT Phase I debt service this year and the IT Phase II debt service next year but will be incurring an IT Equipment debt for software and licensing. The increase in debt service is of \$312,597 with the new debt service being of \$1,034,256 at an annual payment of \$236,346 for the next 5 years. The debt service also includes \$88,312 in proceeds from Enterprise Funds.

Council Member Shelton asked if the City absolutely needs the IT Equipment and what it is for.

Mr. De La Torre explained it includes servers, wiring, software and phones. The City can no longer rely in CISCO to give support. Everything is at the end of its useful life. They will not maintain the equipment the City currently has.

Mr. Greer asked if the City gets E-Rate funding for this.

Mr. De La Torre answered yes and staff hopes to get roughly \$240,000 out of the \$1 million from E-Rate.

He continued by explaining that the expected grant match is of \$188,525. The majority of this money will go to the Chino Road project which is scheduled to begin Spring of 2014 in the amount of \$155,000. The other component is the Federal Grant for Transit in the amount of \$428,284. It requires a match in the amount of \$203,669. Staff was able to get a grant from Freeport in the amount of \$65,000. SEAGO thru their Dial-A-Ride program will provide \$49,553. And rent as an in-kind service will recoup \$24,500. At the end the City will still be responsible to pay a cash matching fund of \$64,216.

Committee Liaison / Council Member Margaret Morales asked what the Fountain Grant is.

Mr. De La Torre explained it's a grant to be able to restore the 2 fountains that are by the Visitor Center and the Police Department. The Sign Grant is a grant to replace a lot of the street signs around town. And the AFG Fire Grant is a placeholder being that the Chief is applying for a grant that will need to be matched by \$525.

He continued by explaining that in order for Housing not to impact General Fund the suggestion is to use \$33,000 from reserves which will still leave \$100,000 in their fund balance. Some modifications were made to the operating expenses in Casas & Pioneer and staff was able to decrease it by 2%. He had previously explained that the City was notified that major cuts would take place and only 8 out of the 12 months would be funded. Later staff was notified that if the City was able to reduce their operating expenses by 2% the funding would still be available. That is what is reflected here.

He continued by explaining that on the Enterprise Funds revenue totals \$5,685,113, expenses total \$5,728,762. Which means \$43,648 will be used out of reserves. It is not to fund O&M expenses but to fund Capital Improvements and offset the cost of the new Sanitation truck.

He continued to explain that the transfer from General Fund to Airport was reduced by \$13,620. Also the fuel cost was decreased by \$33,000 due to less sales. He continued by explaining that in Golf Course scenario 1 the City will continue to operate and reduce operating costs by a reduction in force of the Golf Manager and Bar Supervisor. The City will achieve some savings from the closing of the restaurant and reduce its subsidy from \$150,000 to \$125,420.

Mr. Lindemann asked why under Lounge there is \$600 in the Uniform line item and \$2,000 in Advertising and Printing. He doesn't feel that the advertising done is worth \$2,000, also the \$600 for Office Supplies.

Mr. De La Torre explained that in terms of shirts most of the time the City relies on Temporary Staff for those positions. They are not required to wear a certain type of uniform but staff feels that they need at least a couple of shirts to provide some sort of a uniform for them. In terms of

Office Supplies it's not just office supplies it's also the toilet paper, paper towels, soap and all that other stuff needed in the Lounge.

He continued to explain that in scenario 2 a Concessionaire still calls for a reduction in force of Golf Manager and Bar Supervisor. The Concessionaire will also be paying \$1,500 a month in order to offset some of that. In doing the math \$1,500 times 12 months is roughly \$18,000 a year and the City needs to offset some of the cost that the City will be incurring. In order for that to pan out the Concessionaire will need to pay at least \$13 to \$14 per round of golf to the City to make sure that the subsidy is at that level. He explained that at the moment there is someone interested in running the Golf Course but the only pending concern is how the liquor license will be handled.

He continued by explaining that in Sanitation \$260,000 will be the cost of a new sanitation truck, staff is also looking into either leasing or purchasing a street sweeper at \$45,000 per year for 5 years. Staff will use \$43,648 from reserves for the new truck.

In Water and Water CIP the City still has the WIFA loan payment of \$99,098 per year which was used for Well 17, \$200,000 has been set aside for the Geronimo Trail Main Replacement which is 21 inch line, \$100,000 has been set aside for the roof repair at the Rehab Reservoir and staff is also looking into Automated Meter Reading.

Mr. LaForge asked if the \$260,000 is a conservative figure. He also asked about the line at Geronimo Trail. He wants to know if it will be a parallel line.

Mr. De La Torre explained that ideally staff would like to have a parallel line because if something happens then there is no way of getting water from the Reservoir. The City also needs to acquire a new dump truck to transfer the sludge to Whetstone at a cost of \$18,000 per year for 5 years. The WIFA loan debt is \$500,000 per year, and \$120,000 for the Wastewater Treatment Plant Phase II which is ongoing. It's also estimated that \$50,121 will be spent between Water, Sewer and Sanitation in mechanics costs to compensate to the General Fund.

He ended by explaining that the budget is balanced. Staff does not anticipate additional reduction in force with the exception of what he talked about, no programmed furloughs, and no reduction in pay.

Ms. Morales asked on the grants there are \$17,000 for the heater and \$18,000 for the roof repair. The Police Department has been successful in the past in getting grant money for other things. Is there a possibility that they can look into obtaining a grants for this.

Mr. De La Torre answered that is something that can be looked into.

Ms. Morales continued by asking on the payouts for sick and vacation, he explained that sick accumulation is at 240 hours and vacation at 480. She wants to know why it is allowed to accumulate so much.

Mr. De La Torre explained that it is what is provided on the Personnel Rules and Regulations. It can be looked at and maybe amended in the future. He also explained that the liability was at \$1.1 million.

Ms. Morales would like to know how much DARC spends in fuel a month and hopes staff can provide her with the figure.

Dr. Michael Gomez commented on the 3/10th of a cent tax that is being proposed. He feels that it will be hard for the small businesses to reprogram their cash registers again to accommodate the new tax rate but at the same time he feels if the tax rate will be raised it will be better to keep it at an even 3%. He also asked if the revenue generated will be used only for Capital Improvements or if it will be used in the General Fund.

Mayor Ortega explained it will be discussed at a later date but more than likely it will be for Capital Improvement.

Dr. Gomez asked if the increased tax rate will have a sunset date or if it will continue forever.

Mr. Ortega explained it has not passed yet so it will be up to the discretion of Council.

Dr. Gomez also asked as far as the sale of the PD building (Government Center) does the City keep the parking lot area or does that go with the sale.

Mayor Ortega answered that goes with the sale.

7. ADJOURNMENT – MAYOR, DANNY ORTEGA JR.

Council Member Ray Shelton entertained a motion to adjourn the Mayor and Council Meeting at 7:25 p.m.

Council Member Margaret Morales seconded the motion.

Motion passed unanimously.

8. DOUGLAS FINANCE COMMITTEE MEETING IMMEDIATELY FOLLOWING THE JOINT SPECIAL MEETING AT CITY HALL – COUNCIL CHAMBER 425 10TH STREET, DOUGLAS, AZ 85607.

Finance Committee took a 5 minute break before calling meeting to order.

9. CALL TO ORDER.

Meeting was called to order at 7:30 p.m.

10. ROLL CALL.

Members Present:

Mitch Lindemann

Sandi Thomas

Mike Nava

Victor Varela

Ana Bernal

Also Present:

Liaison Member, Margaret Morales

Carlos De La Torre, City Manager

Luis Pedroza, Finance Director / City Treasurer

Lorenza Rascon, Committee Secretary
Juan Pablo Flores, City Attorney

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

None

12. DISCUSSION/DECISION ON APPROVAL OF MEETING MINUTES FOR MAY 6, 2013.

Mr. Mike Nava entertained a motion to approve the minutes as presented.

Ms. Ana Bernal seconded the motion.

Motion passed unanimously.

13. DISCUSSION/DECISION BY THE FINANCE COMMITTEE ON APPROVAL OF INVESTMENT OF PUBLIC FUNDS WITH MULTIBANK SECURITIES INC. AND THE OPENING OF A CASH ACCOUNT WITH PERSHING LLC.

Mr. Luis Pedroza began by explaining that the City intends to diversity its investments and go with MultiBank Securities known as MBS and utilize their resources to invest some of the City's funds mostly in the CD market. At the moment the City invests with a company called Webbush. Rates are low and staff would like to use someone else to use as comparison, to shop around, have them available to see what kind of rates they are offering, to use their online tools to help us manage our funds easily, invest quickly and take advantage of opportunities really fast. One of the questions that was brought up at a prior meeting was whether there is a \$250,000 FDIC Insurance with MBS. The answer is yes, there is a guaranteed statement that MBS does participate in FDIC up to a \$250,000 limit. Also Pershing is the cash account that holds funds after they mature and before they are reinvested. When it's sitting in that Pershing account it does not carry the FDIC Insurance so it's in the best interest of the City to reinvest those funds as soon as possible.

Mr. Mitch Lindemann asked since this new company charges a fee, if the charges will be offset by the returns that the City will get by moving the money into this investments.

Mr. Pedroza answered that whenever staff asks what the rate is at the moment, the quote usually includes the fees they charge.

Ms. Ana Bernal made a motion to proceed to use MBS for investments.

Mr. Mike Nava seconded the motion.

Motion passed unanimously.

14. DISCUSSION/DECISION BY THE FINANCE COMMITTEE ON APPROVAL OF THE IMPLEMENTATION OF FINANCIAL POLICIES FOR THE CITY OF DOUGLAS.

Mr. Luis Pedroza began by explaining that this is in an effort to set forth some Financial Policies and guidance when dealing with any fiscal matters or dealing with public funds whether it's budgeting, investments, fund balance policies. Those types of issues have been put in writing and set a guidance as to how staff wishes to manage public funds. Some of the concerns were discussed. Mr. Nava suggested some changes which were implemented. A lot of the changes were mostly in wording, a little more passive in the areas where the City is not there yet and a little more aggressive in the areas where the City is at to be able to maintain and strive to meet those goals. Also just to bring uniformity to the document.

Mr. Mitch Lindemann asked as he reads thru this when he comes to the wording "Shall strive to....."

Mr. Pedroza explained that in the areas where that wording was used the City is not at that point yet and will make financial decisions to get to that point. He suggested maybe Juan Flores, City Attorney, has other terms that can be used but staff does not want to commit the City to say "Shall do this...." but it's not being done and be in violation of policy.

Mr. Carlos De La Torre explained that he feels those are the best practices to try to adopt and strive to get these policies going. Later as the City gets more in line with the policies then those rules can be amended. They can be more forcefully implemented either by Charter provisions or by codifying into an ordinance that will become law at that point.

Mr. Juan Flores explained that in reference to that he can see where more forceful language is expected but for the sake of understanding that it's an initial working document a lot of the language that can be critiqued would reference to how direct it is. He feels there is plenty of language that points that the Managers have certain fiduciary duty.

Mr. Mike Nava made a motion that the Finance Committee approve the implementation of Financial Policies as presented.

Mr. Victor Varela seconded the motion.

Motion passed unanimously.

15. CITY TREASURER'S REPORT.

- **Update concerning Arizona House Bill 2111, Transaction Privilege Sales Tax Reform.**

Mr. Luis Pedroza updated the Members on the Sales Tax Bill. It started at House Bill 2111 which has been amended to House Bill 2657. There are a lot of bad provisions that the Cities are fighting against that would definitely put the City in revenue shortfall if the State passes this amendment to the way that Cities can charge their sales tax. It's called a Tax Simplification Bill. The Cities are all for simplification but the provisions that the State is recommending are only benefiting certain groups and not necessarily focusing on the simplification aspect. As far as collections, the cities are recommending to go on a portal to collect sales tax on an online database where a multijurisdictional business can go to the portal and file sales tax for all entities, all cities in Arizona. The cities are all for that but the State wants to take it further and eliminate that the cities oversee that collection and make it overseen at the Arizona Department of Revenue and have it be under their control. As the members recall, the City left the Arizona Department of Revenue to collect our own taxes because they were not doing a very good job of overseeing our moneys. They are thinking about taking that back. The same goes for the audit function. They want to eliminate cities to have the ability to perform their own audits. The cities feel they are the ones who see who should be audited and the Arizona Department of Revenue does not have sufficient staff to pay attention to a city the size of Douglas or come here to audit the mom-and-pop shops but the State wishes to simplify and not to provide that burden to this shops to be audited by the city then the state but it's the lack of attention from the State that is not there. Thru this bill they are not proposing additional funding to provide additional auditors that would assist the cities. The other tail is the contractor trades. They want to eliminate those that are trades not necessarily construction contractors to pay taxes. To some extent the cities are in favor of narrowing the construction sales tax phase and getting all those repairman out of there and just focusing on the construction site. It does mean revenue reductions but cities in the spirit of simplification and trying to concede something to the State. The cities are proposing that the State share the Use Tax that is collected by them to compensate for the loss from construction trade taxes. The proposal is that 40% of the Use Tax be distributed to the cities. This bill has not been voted on yet.

Ms. Sandi Thomas asked if they were to go back to the way they were before, what the time length is for the State to send the City its money.

Mr. Pedroza explained that since they are not addressing the issues they have right now being that all the big cities are self-collecting, without them adding any additional personnel it could compound the issue that the cities had before which delayed the city funds by about 2 months.

Mr. Lindemann asked if the City is not going to hire a new Finance Manager who will be doing that work.

Mr. Pedroza explained that it falls under his department.

Mr. Victor Varela asked under the capacity within his department, if he has the capacity to be as efficient as someone who would specifically be doing the tax collection and not the other tasks behind that position.

Mr. Pedroza explained that when he moved from that position, he only gained half a position being that he is sharing a clerk with Municipal Court. There are a lot of administration parts in the fact that late notices have to be sent, reports for the State have to be run, do audits. Finance is conducting desk audits and setting up payment plans for those that are delinquent. Keeping up with all those tasks has definitely increased the work load. He has been able to spread it out throughout the department.

Mr. Varela asked given that the work is being spread out thru his department, at what point does he feel that his efficiency ratio may drop and he may lose some of the income generated by the collection.

Mr. Pedroza explained that it is something that he worries about because at times staff feels that they are not going after these delinquent businesses as fast as he would like to. If he were to be faster then there is a bigger probability of recuperating this money. Part of the reorganization is to bring the Clerk that is at Court full time into Finance. That would be excellent help because right now she is handling 2 different jobs. She needs to remember what she does at Court then it's time to come to Finance and get caught up with what she was doing at Sales Tax; whereas if she was doing Sales Tax everyday then perhaps things will get done quicker.

Mr. Varela asked what the projected income based on collections is for this coming year.

Mr. Mike Nava moved that the Finance Committee go back to Item 6.

Mr. Victor Varela seconded the motion.

Mr. Pedroza gave Mr. Varela an idea of how much revenue is collected on the audits that are conducted internally. He explained that revenue is not collected on all of them but there is about \$400,000 to \$500,000 due in audits and about \$100,000 in other debt owed such as utilities. Judging by other cities it's a typical amount among all cities. The City has developed a lot weapons to collect this bad debt. Council recently passed the Bad Debt Setoff where the City is able to garnish their income tax refunds. The other tools being used is to go out to the businesses and make payment plans that are more suitable for them and be able to manage. They also may get sent to another collection agency who sends them letters, calls them and hounds them.

After further discussion it was agreed to have the next meeting on Friday, May 31 at 7:00 a.m.

16. ADJOURNMENT.

Mr. Mike Nava made a motion to adjourn the Finance Committee meeting at 8:00 p.m.

Ms. Sandi Thomas seconded the motion.

Motion passed unanimously.

Respectfully submitted by

Lorenza M. Rascon, Finance Committee Secretary