

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

MONDAY, JANUARY 7, 2013

7:00 am

1. CALL TO ORDER/ROLL CALL

Meeting was called to order at 7:11 a.m.

Members Present:

Mitch Lindemann

Sandi Thomas

Mike Nava

Ana Bernal

Members Not Present:

Victor Varela (Excused)

Also Present:

Margaret Morales, Liaison

Carlos De La Torre, City Manager

Luis Pedroza, Finance Director / City Treasurer

Lorenza Rascon, 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 DECEMBER 10, 2012

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

Ms. Sandi Thomas seconded the motion.

Motion passed unanimously.

4. DISCUSSION ON COMPREHENSIVE ANNUAL FINANCIAL REPORT (AUDIT) FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Mr. Luis Pedroza began by explaining to the Members that a few weeks ago the Financial Audit for Fiscal Year 2012 was finalized. He explained that the audit report is the financial activity of the City finances audited by a third party perspective. The City is required by law to get an annual audit by a third party and submit reports by January 31. The reports were submitted for an award which is something that has been done for the last 3 years. The City got an Unqualified Opinion as the auditors call it. It sounds like a negative connotation but it's the best opinion that the City can get. This means that statements are presented fairly and give a good view of the City's financials.

He continued by explaining that he put together a document highlighting the important points of the audit. The first point is revenue and expenses for the fiscal year. At the end of it all a change in fund balance which is assets minus liabilities when offsetting those 2 the positive total is \$18,670 for the fiscal year. When considering the other funds. Government accounting has 15 other funds to take care of. That is why it's said that government accounting is so much more complicated than private sector. There is a lot more compliance and keeping certain money separate and such. That is why different funds are created to keep different pots of money separate. The smaller funds, such as HURF, LTAF, Capital Projects, Grants and JCEF, are combined together. The total revenue for these funds is \$3.2 million with expenditures at \$5.5 million, in the end the change in fund balance is a negative \$1.1 million. This is nothing to be alarmed about because what was in this pot of money was the GADA Loan proceeds which were used last fiscal year to finish the government center project. This was being carried in the books until last year when they were fully expended. As far as enterprise funds are concerned, that is in a very good position, revenue is at \$5.6 million and expenses at \$3.7 million and net use of financing sources which brings a total change in fund balance of \$1.6 million. Keeping In mind that some capital projects were deferred such as the well, the water tanks, and the purchase of a sanitation truck which will incur during the current fiscal year. He continued by explaining the balance sheet which shows the cash position of the City. He explained he made an analysis between the current audit and the previous year audit. The total assets which are cash, accounts receivable for General Fund were at \$5,428,711 and Liabilities were at \$667,570. Keep in mind that assets are not necessarily liquid assets such as cash. There is also equipment and buildings. Fund balance is at \$4,761,141. The previous year fund balance was at \$5,709,466 so that is a negative \$948,325. He pointed out the cash for this year at \$3.2 million and \$2.9 million for the previous year which gives a positive total of \$303,359. Under Other Governmental funds fund balance is at \$1 million, the previous year it was at \$2.1 million for a negative balance of \$1 million. Cash was at \$580,790 this year and \$2 million last year. The Enterprise Funds fund balance is at \$19 million which is the value of liquid assets and equipment as well and \$18 million last year. Cash is at \$3.8 million this year and \$2.1 million last year which is a \$1.7 million difference. He explained that other notable pages are noted in case Members

want to look further. On page 47 are the Capital Assets which are separated by enterprise and general government. Members can see how much assets are being depreciated and the current value. Another good page to look at is page 53 which is Debt components which shows how many outstanding loans are there. Page 57 is the actuarial reports for public safety retirement. This is quiet concerning because at FY 2011 the City is 49% funded as far as liability is concerned.

Mr. Mike Nava asked this is for the entire system or if it's a local figure.

Mr. Pedroza answered they are local figures and explained that for the next year there will be a 3% increase in Public Safety Retirement contribution with an approximate expense of \$90,000. Fire is at 45% for Fiscal Year 2011 so there is quite a bit that needs to be made up which is one concerning aspect with the retirement.

Mr. Nava asked how it can get caught up and when it's due.

Mr. Pedroza answered that part of it is for the City to fund a little bit more and also life expectancy is increasing.

Mr. Nava asked if the state fund allows entities to underfund.

Mr. Carlos De La Torre explained that this is a liability and the City is funding the liability. He explained that the reason why it's allowed is because not everybody retires at the same time. Somewhere down the line it's something that will need to be addressed when the State starts looking at how much each City is funding.

Mr. Mitch Lindemann asked if that is the system that the State has.

Mr. De La Torre answered yes and that is why some entities such as Bisbee have decided to move into a district and do away with the Public Safety Retirement System.

Mr. Lindemann asked if the best position for the City would be to catch up as best as possible until such time as they change the policies in the system.

Mr. De La Torre answered yes that is pretty much the idea.

Mr. Nava commented that part of the problem is that the hole keeps getting larger.

Mr. De La Torre explained that it's going to take a massive reform to Arizona Public Safety Retirement System to try to catch up. He explained it's obviously a sensitive issue and he understands what their job entails but at the same time the liability associated with that is very high.

Mr. Nava questioned whether the legislature had passed the bill to change the retirement length from 20 to 25 years.

Mr. De La Torre answered yes that it was approved.

Mr. Lindemann asked if there is any way to have a number that doesn't fluctuate year to year in order to satisfy the State Retirement System.

Mr. De La Torre answered that can be done the only problem is the fiscal cost that it will create with the liability that is involved. The City does not have the funds to be able to do that.

Mr. Nava noted on page 8 there is a statement that there is not an audit of the various housing projects and asked if that is something that is normal throughout the State or if it's something that should be done but it's not.

Mr. Pedroza answered that all that is saying is that CliftonLarsonAllen did not perform an audit because they were audited by another company. Those audit statements are included in the financials. The City gets them from their auditing firm.

Mr. Nava inquired about the statement on the same page "...total operating revenues and a negative 160% and 84%..." and asked if that could be explained to him.

Mr. Pedroza answered that it's a ratio of the assets. The auditors use a ratio to calculate the revenues compared to the value of their assets. It's a measuring tool on the financial statements.

Mr. Nava asked if from what he just said, if the financial statements are very unhealthy.

Mr. De La Torre explained that when looking at the physical building and the physical operation of it, a lot of these programs are funded through federal grants. So when looking at it through a business perspective in terms of how much rent is being charged versus how much money we are spending then that is when the negative balance comes in. The expenses don't match the revenue because of the government funding. Another thing to consider is that those assets are not being invested into to make them not depreciate.

Mr. Nava asked if the City is losing money on this.

Mr. De La Torre answered yes.

Mr. Nava asked if Federal funds don't offset the loss. And inquired about the physical condition of the buildings and if they are not being maintained as they should be.

Mr. De La Torre answered that is correct.

Mr. Nava inquired about a statement on page 9, "... We do not express an opinion or provide any assurance on the ..." and asked if that is a problem.

Mr. Pedroza answered no because the auditors use a testing process. There is no way they can test every single transaction that occurs.

Mr. Nava explained he understands the general assurance but that these are specific statements that they don't express an opinion or provide any assurance on them.

Mr. De La Torre explained that it's just a disclaimer saying that they only test certain transactions and in doing so they don't see anything out of the ordinary.

Mr. Nava asked if the third bulleted statement on page 15 is now looking back.

Mr. De La Torre answered yes that this is looking from July 1, 2011 to June 30, 2012.

Mr. Nava commented that comparing it to the adopted budget this is an optimistic estimate of sales tax revenue.

Mr. Pedroza explained that the trend at the end of the fiscal year is what makes staff see some good things and see that revenue is starting to come back. A large part comes from contracting and it's not as good as it had been in previous years.

Mr. De La Torre commented that in reference to Sales Tax Revenue and in looking at where the City is at today, staff was being optimistic but we are not seeing that so staff needs to look very closely from today to the end of the fiscal year to match expenses to revenue. That is something that needs to be looked at to pair these two up. If the current trend continues then revenue and expenditures will have a shortfall at the end of the fiscal year. To be able to match these two things then it will take some major drastic changes from what is being done today to match those two.

Mr. Nava commented that he thought health insurance rates had gone down.

Mr. Pedroza explained the City went into a self-funded plan. That will be interesting to see how it looks at the end of the fiscal year. He explained so far it has been equal to if not less than what was being paid before. It's hard to know what the outcome will be because with self-funded plans the claims are paid as they come in. The first half of the year the claims have been low. This has never been done before and it will be interesting to see what the end of the fiscal year figure will be.

Mr. Nava asked on page 44, Deposits and Investments, why only \$1.2 million was insured and if that was of concern.

Mr. De La Torre explained that the bank will only insure a certain amount. That the only way to secure everything would be to have several checking accounts and it would be very hard to keep track of each and every one of those accounts.

Mr. Nava commented that it seems like some funds that are not federally insured are backed up by bank assets.

Mr. De La Torre explained that ultimately it comes down to the amount of money deposited and the threshold for being federally insured. If it exceeds that threshold and the bank goes bankrupt then the bank has the option to give the customer a certain percentage following the bankruptcy laws.

Mr. Pedroza explained that by law they are supposed to have more on reserve to avoid the problems that happened a few years ago. The City actually saw some losses from the Lehman Brothers bankruptcy case.

Mr. Nava inquired about page 45 regarding the note that the City does not have formal policies regarding three different kinds of risks and asked if Mayor and Council should consider that.

Mr. De La Torre answered that yes it is something that Mayor and Council can consider doing but the important thing is for staff to follow certain procedures to avoid any conflict and put it in writing for Mayor and Council to consider adopting.

Mr. Nava asked about some pages that were not numbered.

Mr. De La Torre explained that those pages are not part of the audit findings they are definitions of certain terms used.

Mr. Nava asked on page 93, in seeing a reduction in sales tax year to year, is there any way that the City can key in on certain categories to encourage the increase of revenue.

Mr. Lindemann commented that everyone is encouraged to shop local.

Ms. Ana Bernal commented that most of the clientele comes from Mexico and a big factor to what they buy is in what they can cross back to Mexico and what they cannot.

Mr. Nava commented that a major difference is in construction.

Mr. De La Torre said that it's out of the City's control. The only thing that can be done is facilitate the process for contractors to develop within the city limits. He explained that if a contractor wants to develop and create a light-changing-flashing sign they would have to go through the Planning and Zoning Board because the

current zoning will not allow that type of signs. This is an example of what the City can do to facilitate the process for contractors. The regulations can be changed so that they won't have such a long process.

Mr. Nava asked if the process is as smooth as it could be or if there are some changes that could be made.

Mr. De La Torre answered he thinks that there are some changes that could be made to make things less complicated.

He continued by commenting that in terms of shoppers coming from Mexico to shop here there is not much the City can do. The Mexican Government wants people to shop in Mexico just like we want people to shop in Douglas but the reality is that people from Mexico want to come to Douglas, people from Douglas go to Sierra Vista, people from Sierra Vista go to Tucson and so forth. It's something that can't be avoided.

Mr. Nava asked if the regulations on what can be taken into Mexico come from local government or if they are Federal restrictions.

Mr. De La Torre explained those are Federal restrictions. It's the same thing as when we are bringing cheese, vegetables or fruits from Mexico. We are not supposed to cross them to the United States. A lot of people do take that risk and don't declare what they are bringing. This works both ways. Mexican government has had their restrictions on what can be taken into Mexico in place for a very long time.

5. DISCUSSION ON FINANCIAL FIGURES AS OF THE END OF NOVEMBER 2012

Mr. Luis Pedroza began by explaining the financial position through November 30. He began by explaining that the current cash position as of December 27 is at \$2.5 million. The last time that it was presented it was at \$2.9 million. The budget balance or the reserve has been decreasing. It had leveled off but it has started to decrease and is now at \$2.3 million.

Mr. Mike Nava commented that it is still greater than last year at this time.

Mr. Pedroza answered yes but that at this rate he does not see the reserve ending at the same amount as last year.

He continued by explaining the adjusted revenue, budgeted versus actual is at a negative \$542,425. On the expense side the total is at a positive \$363,434 compared to budget. At this point it should be at 42% at 5 months into the fiscal year. On the expenses by categories they are all doing great, contracts are a little bit ahead but nothing to be concerned about. All these categories are in a positive compared to the budget. The number noted under Revenue versus Expenditure is

the number that Members need to look at. General Fund is at a negative \$276,926 now. The last meeting showed a negative \$144,000. On the budget the projection is to be behind by \$230,000 by the end of the fiscal year. At this point that mark has been exceeded. Given that sales tax will be coming in for Christmas sales and will be received this month in January, not counting November which is a good month which was received in December. Then January is also a slow month and it will offset what was received for December. As a final thought, cash position increased 3% while last year the increase was of 30% during this time. Sales tax is down 6.6% or \$371,335 from what they should be. The Sales Tax Comparison shows the different sales tax categories from July to November this year and last year. The large difference is in contracting \$119,000. The biggest one, Retail has increased by \$7,500 but not to the point where it should be increasing. That increase should be larger due to growth from year to year.

Mr. Nava asked what the significance of the number under the number column meant.

Mr. Pedroza answered it's the number of businesses or returns being filed per category.

Mr. Nava asked in terms of expenditures that Mayor and Council approve at the Council Meetings, if any of the elected officials ever look over at those expenditures page by page.

Mr. Carlos De La Torre answered that since he has been here only once or twice has anyone asked about certain expenditure.

Mr. Nava suggested that all that information be placed on the website.

Mr. De La Torre said it could be done if that is what Mayor and Council would like.

Mr. Mitch Lindemann commented that Mr. Shook used to include a synopsis of expenses in his Manager's report.

Mr. Nava said it would be more open and effective for an individual to take advantage of it. It would be more transparent.

Ms. Ana Bernal commented that it is public record and anyone who wants to examine that can come and review them.

Mr. De La Torre explained that it can certainly be done but the staff time and amount of flexibility to do that is not something that he is sure about. That information is available and can be given to anyone who comes and asks for it. It's not something that is requested on a regular basis. If anyone is interested in a detailed list of expenditures, staff is readily available to provide it to them.

6. CHAIRMAN'S REPORT

None

7. FINANCE COMMITTEE MEMBER'S REPORT

None

8. CITY MANAGER'S REPORT

Mr. Carlos De La Torre informed the members about a couple of recommendations that they did in terms of the budget, staff has been working on the service chain for the Government Center to bring in a franchise. Also the liquor license for the Visitor Center, a Type 5 license needs to be obtained and staff is looking into what needs to be done to obtain that. The hospital has expressed an interest in using the Therapy Pool but in order for them to do that the Aquatic Center will need to dedicate specific hours for their use. He does not want to invest any money in providing separate bathrooms and separate facilities. He reiterated what Mr. Pedroza said about being under budget by about \$700,000 at the end of the fiscal year. There are some things that will be looked at; the liability for the retirement system which is \$140,000, COLA which is \$160,000, the court consolidation which is \$175,000, and the talk with the County for the help that will be provided to the hospital. Staff is working on ideas to reduce some of the expenditures this year and next year. He doesn't think there are a lot of options out there and something needs to be done now.

9. CITY TREASURER'S REPORT

None

10. ADJOURNMENT

Mr. Mike Nava entertained a motion to adjourn the meeting at 8:11 a.m.

Ms. Sandi Thomas seconded the motion.

Motion passed unanimously.

Respectfully submitted by

Lorenza M. Rascon,
Finance Committee Secretary