

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

MONDAY, MAY 6, 2013

5:30 pm

1. CALL TO ORDER/ROLL CALL

Meeting was called to order at 5:34 p.m.

Members Present:

Mitch Lindemann

Sandi Thomas

Mike Nava

Ana Bernal

Members Not Present:

Victor Varela (Excused)

Liaison Member, Margaret Morales Not Present (Excused)

Also Present:

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 JANUARY 7, 2013

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

Ms. Sandi Thomas seconded the motion.

Motion passed unanimously.

4. DISCUSSION / DECISION ON CD INVESTMENTS IN MULTI BANK SECURITIES AND OPENING A PERSHING LLC CASH ACCOUNT

Mr. Luis Pedroza began by explaining that before he explains the item for the member's consideration he wants to explain that the City is looking into an investment possibility with this company, Multi-Bank Securities which offers CD certificates of deposit. He explained that what attracted staff to this particular company was not just that they offer better rates but also their service. They are able to connect the City to an online system where the City can actually do our own shopping and have a little bit more control and have the option to also use a financial advisor to help in buying CDs or investments that are safe and to be able to get the most return out of them. Multi-Bank also specializes in government investments, they know how governments work. They know the investments that they should be into. They know how to analyze municipal financial policies and be able to tell you what should be invested in public funds. The City currently invests with WebBush. What staff would like to do is not necessarily leave them but to have a basis of comparison and to shop investments around and see what the best yield with this company and the other company at a particular time to be able to have options. Rates are very low at the moment. Investments are not yielding very much.

Mr. Mitch Lindemann asked if there are fees associated with these investments.

Mr. Pedroza answered yes. All investment companies have fees associated. The fees with MBS are standard as all other companies.

Ms. Ana Bernal asked if this bank is not Federally Insured. She explained she was looking at the paperwork provided and could not see where it says it is.

Mr. Pedroza answered that they are FDIC insured and explained that staff makes sure that all investments have the FDIC protection of \$250,000. He explained that if an investment is done that is over the \$250,000 then it is divided into separate investments to be able to insure the whole amount.

Ms. Bernal asked if this money is going into securities or into government bank.

Mr. Pedroza explained that Pershing is the NOW cash account for whenever the City invests with MBS and the CDs mature then the cash goes into this Pershing account. It's a clearinghouse account. Pershing may not have the FDIC coverage that is why the investments are set to automatically reinvest but he knows for a fact that the CDs are FDIC insured. He explained this is also the practice for the current account at WebBush.

Ms. Bernal asked if additional information regarding FDIC coverage by MBS can be provided.

Mr. Mike Nava commented that he was sure it is part of the policies of the City.

Mr. Pedroza explained that staff does different things in reference to the investments. Funds are invested in different pots. The City has a Utilities CD, an Insurance CD, CDs that are for specific purposes which are staggered in two to three month investments. One of them will mature one month and another on a different month but they are segregated by use of funds and staff makes sure they are available when they are needed.

Mr. Lindemann asked if MBS offers the same investments time wise.

Mr. Pedroza answered yes. They offer a 3-month, 6-month, a year, 2 year CDs which the City will not invest in because of the current cash position. The most that anything has been invested is a year.

Mr. Mike Nava moved that the Finance Committee accept the Finance Department recommendation regarding CD investments with Multi-Bank Securities and opening a Pershing LLC cash account.

Ms. Bernal asked if the Members can have the additional information requested before a recommendation is made.

After further discussion Mr. Mike Nava withdrew the motion presented.

Mr. Mike Nava moved to table the item until the next Finance Committee Meeting.

Ms. Sandi Thomas seconded the motion.

Motion passed unanimously.

5. DISCUSSION / DECISION ON IMPLEMENTING FINANCIAL POLICIES FOR THE CITY OF DOUGLAS

Mr. Luis Pedroza asked the Chairman and Members of the Committee to refrain from making a recommendation on this item as well being that there is so much information and being that Mr. Mike Nava has pointed out some recommendations as well. He suggested this item be brought as a discussion item and more information along with some corrections will be presented to the Members at the next meeting.

Mr. Mike Nava explained that he has some questions that he brought to Mr. Pedroza and most of his recommendations were more housekeeping that anything else.

Mr. Pedroza continued by explaining that staff has been working on these policies for some time now. He explained that the last 5 years have not been the best of times financially and the City has not established a guide as to how to move forward and handle investments and monies. One of the things discussed is that some of the

policies ask for the City to be at a certain point in its financial position and the City is not there yet but he hopes that the City can move that way and gain a better financial position.

He continued by pinpointing some of the main points. He explained that one of the goals is to have cash solvency, budgetary solvency, long run solvency, service level solvency, and adhering to the highest accounting standards. The City also wants to maintain the best bond rating, currently the City has an A rating which is a pretty good rating given the size of the city; also to have the ability to withstand local and regional economic fluctuations which is what the city has been experiencing and to push through them; to deliver quality service in an affordable, efficient, and cost-effective basis. Those four points outline the whole goals of these policies.

He explained staff wants to establish certain Fund Balance policies. What other cities have been doing is establishing at least a fund balance of 30% of revenues. Fund balance is the difference between Revenues and Expenditures and having 30% of that in the bank will put the City at a safe position to be able to operate. Currently fund balance is being met. The City is at 35% according to the 2012 Audited Financials.

Mr. Mitch Lindemann asked when he says 35% how does that translate into actual revenue and how long will the City have before it runs out.

Mr. Pedroza explained the City would like to also establish a 45-day rainy day fund which equates to about \$1.5 million. That is what it takes to run the City in 45 days. It would be good to have \$1.5 million in addition to the 35% reserves just in case something was to happen.

Mr. Nava commented that he can see that these policies were brought up because of the economic conditions and that he can recall when the audit was being discussed that the auditors make a recommendation on implementing some policies.

Mr. Pedroza said that there are several reasons why these policies are being implemented and that is one of them. He explained that the auditors have pursued the City about not having something in place that a city government should to make decisions based on something in writing; also to be good custodians of public funds as well. That is a brief overview of the Fund Balance policy. There are several funds in government accounting. HURF is strictly for streets and highway purposes. This fund is accounted for separately and that is the way the policy says staff should dictate and according to ARS the City is bound to manage it that way. Debt service fund is established for repayment of debt. Revenues are derived from property tax levy, pledged excise tax, municipal property lease payments, franchise fees and shared revenue. The City also has the Capital Projects Fund which is dedicated to construction acquisition of capital projects which are projects that are over \$5,000.

Mr. Lindemann asked if there is a possibility that LTAF funds will be distributed to the cities in the future.

Mr. Pedroza explained there is a bill currently in the Legislature that looks very promising. There is great support from the Legislature to get those funds back to the cities. The League is in full support as well as the cities and everyone hopes that it will go through. The amounts that will get distributed are not known yet but at this point the cities will take what they can.

Mr. Lindemann asked if cities have any word on the bill on sales tax.

Mr. Pedroza explained that the cities had a conference call with the League the previous week. There were three components to that bill: the elimination of cities being able to collect their own taxes, the elimination for cities to do their own audit and the elimination of the construction sales tax. Those three components would greatly affect the cities. It seems that the state has been able to conceive that the auditing should remain with the cities and sales tax collection should also remain with the cities. There has not been a formal agreement on that. The big question is construction sales tax. Nobody knows what is going to happen there. The last the cities heard was that the Governor was in a meeting the previous week and they were supposed to come up with a recommendation. Normally the cities have a conference call on Monday but no conference call was scheduled this week. He doesn't know if that is good news or bad news. That is where the cities stand at this point.

Mr. Pedroza continued by explaining the Financial Planning policy. The biggest financial planner is the budget and staff hopes that current expenditures will be funded by current revenues and that the budget is balanced and the city is not at the mercy of reserves. The goal is to maintain a balanced budget every year and taking responsible steps to address the projected deficits.

He continued by explaining that under Revenues and Collections, the City wants to strive for diversified and stable revenue base since the City is at the mercy of sales tax. About 70% of the revenue comes from local sales tax or state shared sales tax. Those 2 sources are not as diverse as staff would like it to be. The City is always looking for other revenue sources that can supplement those funds and allow to weather shortages that may come.

He explained that fees and charges for services should be based on the benefits and the cost of service given to try to recoup as much of the cost as possible.

He continued by explaining that under Debt policy, the main point is to keep preservation and enhancement of the City's bond ratings; also maintain adequate debt service reserves, compliance with debt covenants and bond consul. The goal is to maintain 10% of General Fund for "pay-as-you-go" capital improvements.

He finished by explaining that the last section of the policies is the Investment Policy. The philosophy is preservation of principal, which consist of safety, liquidity and then return. That is also the philosophy that the State follows. Public funds need to be kept safe but the City needs to be able to make use of them when needed and have a good return as well when invested. All eligible investments are listed and explained in greater detail within the policy. As mentioned, FDIC insured certificates of deposit, savings accounts, LGIP, US obligations and other government obligations. All investments are required to be collateralized and insured. The investment maturity should not exceed 2 years and in the policy it says the average maturity date should average 9 months.

He asked the Members please provide feedback and if more time is needed to please let him know so that more time is given for them to recommend approval of policies.

Mr. Lindemann asked how FDIC covers an investment that is over the \$250,000 limit.

Mr. Pedroza explained that when an investment is initialized it automatically gets deposited with different investors so that the full amount is insured by FDIC. The companies know that it needs to be parceled out and it's very easy to invest with them.

Mr. Carlos De La Torre explained that before investing the City has to make sure that all investors have FDIC insurance.

Mr. Pedroza also explained that all investments are required to be backed up by collateral provided by the banks and staff will ask for certification before investing.

Mr. Mike Nava moved to table Item #5 Discussion/decision on implementing Financial Policies for the City of Douglas until the next Finance Committee meeting.

Ms. Ana Bernal seconded the motion.

Motion passed unanimously.

6. PRESENTATION AND DISCUSSION ON 2013-2014 OPERATING BUDGET FOR THE CITY OF DOUGLAS

Mr. Luis Pedroza began by explaining to the Committee Members that cash position is not where staff would like it to be in General Fund. The current balance in General Fund is at \$2,335,170, CD is \$554,839 minus the restricted funds which are \$70,547 for JCEF, \$91,753 for DREDC MOU, \$41,431 for Police from auction funds, and \$637,841 for Debt service which is coming up June 30th. After netting that the total is \$2,048,437. He presented a graph which shows the cash position from last year and this year. He explained that this year's numbers are below what they were last year.

This trend of starting slow and picking up later has always been expected but this year it's concerning because it has not picked up as it did last year.

He continued by pointing out that projected revenue for the budget is at \$14,559,187 with \$177,660 of transfers for a total sources of \$14,736,847. Expenses are at \$13,189,550 with transfers out of \$2,299,626 for a total uses of \$15,489,176. This makes for a deficit of \$752,329.

Mr. Mike Nava asked what the City has done to decrease the deficit based on the last Finance Committee recommendations.

Mr. Carlos De La Torre explained that changes will be made in the way the Golf Course is operating. At the moment nothing has been implemented yet.

Mr. Nava commented that the concern has always been that some drastic recommendation would be brought to Mayor and Council.

Mr. Pedroza continued by explaining the major changes between this current budget and the projected budget. In the expenditures the 2% COLA will now be funded the full year which is a change of \$79,005, the Public Safety Retirement as always has gone up by \$117,152, AZ State Retirement went up by \$12,011, Workers Compensation Insurance went up by \$28,299, there is a difference in debt service as well of \$181,731, it is being projected that the City will have to contribute \$75,000 to the hospital, the Port of Entry is also an ongoing effort and the projected contribution is \$110,000 in investment, gathering grants together it seems like grant match will be at \$136,310, the parking lot closure yielded \$15,218 in the positive due to losing the expenses on the whole operation as well as the revenue, and the transfers to HURF decreased significantly, he believes the transfer is of only \$50,000 bringing a net gain of \$125,477. This brings the net total change in expenditures to a negative \$598,813.

He continued by explaining the change in revenue. City Sales Tax has not been performing the way it had been projected. The projections for the new fiscal year are being lowered by \$474,998; State shared revenue increased by \$215,213; there will be a few new leases for next fiscal year for a total of \$70,900 increase in the rental payments line item; as Mayor and Council passed the resolution to approve TPC Holdings Investments and for the City to pledge about \$100,000, the City is set to receive about \$130,000 in impact fees for a gain of \$30,000. Total decrease in revenue is \$158,885 which is only on the major sources since there is little fluctuation within the smaller line items. This brings a total change between revenues and expenditures of negative \$757,698 which is almost at the deficit number explained before.

He continued by explaining that the actual letters for outside funding will be provided for their consideration as well. He explained that the Douglas Rotary Club is requesting \$2,000 for their 2nd Annual Fly-in and Pancake Breakfast. The Douglas

Art Association is asking for the replacement of some ceiling tiles, lighting and some of their displays which comes to a total request of \$1,812. And DARC is asking for their yearly \$13,000 for their Meals on Wheels program to fund their gasoline funds.

Mr. Nava asked if this money has to come from the General Fund instead of LTAF.

Mr. Pedroza explained that the previous year the funding came from General Fund and explained that if the City receives LTAF money then it can be funded there but since there is no LTAF money available then it has to come from General Fund.

He explained the total requests come to \$16,812.

Mr. Lindemann suggested that when dealing with the budget if they will take into consideration the closing of the Aquatic Center and asked how much was saved in the previous years.

Mr. De La Torre explained that is something being considered and the savings came to about \$21,000.

Mr. Pedroza explained it was almost \$30,000 in the 3 months that it was closed which included utilities and salaries.

Mr. Pedroza finished by explaining major items that staff is still looking over to try and save money. Within Housing, the sequestration impact has been high. Casas de Esperanza will take a hit of \$111,506, Pioneer Village of \$44,786, and PHA of \$26,000 which comes out to almost \$180,000 to the Housing department. Currently as they have been looking at numbers to try to save on some expenses, they are at a deficit of \$149,408.

He continued with Golf Course which is another area that will have to be looked at. Staff will bring some scenarios for the Members to consider. He did explain a reduction in operations will bring some savings and have come up with 2 scenarios. Scenario 1 will bring a subsidy of \$219,284 out of a \$250,000 budget and scenario 2 will bring a subsidy of \$122,147. There is also talk of bringing in a concessionaire so the City can receive some rent revenue from that. The City will still incur some costs, some subsidy, but a deal is being negotiated to reduce that as much as possible.

He continued by explaining that the departments are in great need of Capital. The current request is at \$2,646,461 in capital and would be very difficult to fund all of it. Some decisions need to be made to prioritize their requests. There are other items that need to be looked at but these 3 are the major ones to look at.

7. CHAIRMAN'S REPORT

None

8. FINANCE COMMITTEE MEMBER'S REPORT

None

9. CITY MANAGER'S REPORT

Mr. Carlos De La Torre reported to the Members that this is a very difficult time. That unfortunately the City may be looking into reduction of hours or even furloughs if need be. That would be a last resort but it may just come to that if the budget cannot be balanced.

10. CITY TREASURER'S REPORT

None

11. ADJOURNMENT

Mr. Mike Nava made a motion to adjourn at 6:29 p.m.

Ms. Ana Bernal seconded the motion.

Motion passed unanimously.

Respectfully submitted by:

Lorenza M. Rascon, Committee Secretary