

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

**THURSDAY, NOVEMBER 8, 2012**

**7:00 am**

**1. CALL TO ORDER/ROLL CALL**

Meeting was called to order at 7:06 a.m.

Members Present:

Mitch Lindemann

Sandi Thomas

Mike Nava

Victor Varela

Members Not Present:

Ana Bernal

Also Present:

Margaret Morales, Liaison

Carlos De La Torre, City Manager

Luis Pedroza, Finance Director/City Treasurer

Danny Ortega, Mayor

Lorenza Rascon, Committee Secretary

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

Mr. Mike Nava protested the time of the meeting. He feels it's not an appropriate time for the public.

Mr. Mitch Lindemann said it might be something to talk about with staff and see if anything has changed to see if there is a more convenient time for the meetings.

**3. WELCOME NEW MEMBER - SANDYI THOMAS**

Mr. Lindemann welcomed Ms. Thomas. He thanked her for joining them and expressed his appreciation for her civic duty.

#### **4. APPROVAL OF MINUTES FOR MAY 17, 2012 AND MAY 23, 2012**

Mr. Mike Nava made a motion to approve the minutes as presented. Mr. Victor Varela seconded the motion.

Mr. Luis Pedroza informed the Committee members that the meeting of May 22, 2012 was an informal meeting because there was no quorum. The minutes are included in the packet but are not included for approval. He also informed them that staff will try to present minutes to the Members within ten (10) working days.

Motion passed unanimously.

#### **5. PRESENTATION ON FY 2013, 1<sup>ST</sup> QUARTER FINANCIAL REPORT.**

Mr. Pedroza thanked everyone for being there. He began by presenting the first quarter numbers for the fiscal year. Numbers from July 1<sup>st</sup> to September 30<sup>th</sup>. These numbers will show where the City stands when comparing against the Budget, Revenue and Expenditures, and where cash position is at this time.

He continued by explaining that the current cash balance is at \$2.7 million as of October 25<sup>th</sup>. He explained that there are some encumbered costs and some other investments that belong in the General Fund. He explained that the \$507,449 is an investment that the City has so it has to be added to the \$2.7 million. The encumbered costs are \$74,024 for JCEF which is restricted for Court. As Members are aware Council passed a motion to segregate \$130,000 for the DREDC for the Port of Entry. That money has been set aside already and the cost encumbered on General Fund already. There is debt service that needs to be paid by December 31<sup>st</sup> of \$82,841 also. Those are interest only payments for MPC and GADA. Once those variables are taken into play the balance is \$2.9 million. He clarified that this is just a snapshot, this changes on an everyday basis. Staff tracks it on a weekly basis to see the patterns of where the City is headed. But this is just a snapshot of that particular day to see where we stand in reference to cash position.

He continued by explaining that in the chart given to them, the yellow line is for the previous year. Every dot represents a week. The blue line is the current year. Cash position is at an incline which is good. The thing that is concerning in looking at the percentages is that the previous year comparing from week 1 to week 17 or 18 there was an increase of 32% in cash. In FY 13 the increase is of 18%. The City is ahead compared to last year but the increase is not as fast. One thing to consider is the dip in the blue bar, he predicts that cash will stay at that amount and not increase as the pattern would show.

He continued by comparing Revenue from Budget to Actual. Each fund is accounted separately by Budgeted, Actual and percent expended in the first quarter. Revenue should be at 25% for this first quarter. Finances don't necessarily work this way. Revenue sometimes is heavy in some months and not in others. Because of that the

seasonal amount was calculated. The variance is the difference between the 25% and the actual percentage. For General Fund the difference between the 25% and the 19.3% is \$854,751. But when considering seasonality, when considering that some revenue does not come in in the first quarter and it gets spread out throughout the whole year, some of those numbers are grant money that was expended and it takes a while to get reimbursed for that. Also property tax revenue distributions are bigger in April and November. Now considering the seasonal revenue of \$607,470 the adjusted variance is short by \$247,282 from budget to actual revenue. Looking at each individual fund the variance is not as extensive as the General Fund. For Golf Course, the fund is actually over where it needs to be including the General Fund transfer that is done every month but being \$9,861 over means that the General Fund transfer does not need to be done.

He continued by explaining Expenditures from budget to actual. Numbers are adjusted to seasonal factors also. When looking at adjusted variance instead of \$246,000 the City is \$161,000 in savings in the General Fund.

Mr. Nava asked what the savings is attributed to.

Mr. Pedroza answered that it's attributed to salaries savings and some O&M and capital purchases.

He continued explaining that most funds are savings against the budget. The Airport and the Sewer fund are the ones that are a little bit behind. The reason Airport is behind is because the City had to match the Taxiway Road Overlay Grant that had to be paid up front which was about \$30,000. The Sewer is the bond payment that needs to be made on July 1. It's expected that the Sewer Fund will recover. In looking at all these major funds the City is actually saving \$246,000 at this point.

He continued by explaining that the expenditures in General Fund have been broken down into categories to show what the savings consist of. It was broken down by Salaries & Benefits, Contracts, O&M, Capital, and Transfers to other funds. The transfers include transfers to Golf, HURF and Debt Service. The adjusted variance column shows that most categories have experienced savings. A large portion is in Operations costs. Capital costs are high at \$636,050 budgeted. That is for a couple of Transit buses that will be grant funded but since they were acquired from another City the Capital Expense won't be made anymore. He explained that the pie chart on the slide shown is the breakdown of where most of the money is being spent on. Salaries & Benefits take the biggest portion at 66%.

Mr. Nava asked if the Librarian position was being budget as of January if that has been advertised already.

Mr. Carlos De La Torre explained that it has not been advertised yet. That it is something that will be looked at very closely because the City is behind on Revenues and Expenditures and that will be brought back to the Committee to make

a decision later on. The other thing is the Cost Of Living Adjustment that was projected. The idea is to make it a onetime distribution instead of an addition to the salary base of the employee. Those things will be brought back to the Committee for their feedback as to make a recommendation to Mayor and Council.

Mr. Pedroza continued to explain the Revenue versus Expenditures. He explained that it's important to know the ratio between revenue coming in and expenditures going out. General Fund is short by \$144,902. Sales Tax not coming in how expected is one of the reasons for the shortage in revenue.

Mr. De La Torre explained that one thing to consider is not how often we receive sales tax but the ability of people from Agua Prieta to come here to shop. But just like the USDA has regulated what kinds of foods are being brought into the United States, Mexico is starting to enforce that as well. Those rules have always been in place but they were very rarely enforced until now. People are very hesitant to buy certain products that might be taken away when they cross back to Mexico.

Mr. Nava asked if anything can be negotiated with the Mexican government.

Mr. De La Torre explained that he didn't think so but that it was certainly something that will be looked into. That it is something that if they want to be good neighbors then it's something that is reciprocal, if the U.S. wants Mexico to allow certain products to enter into Mexico then the U.S. will have to allow those same products to enter the United States from Mexico. That is a very complicated issue but that is one of the things that is affecting the City along with the time that is spent coming into the United States and going back out.

Mr. Pedroza continued by summarizing that General Fund is \$144,902 short. Airport is \$33,215 short due to the grant match for ADOT grant. Sewer is behind \$197,694 due to the Bond payment recorded July 1 of \$448,709 but he is not concerned about this amount because it will be made up in the months coming up. Overall in all fund \$178,000 behind in the 1<sup>st</sup> Quarter as far as Revenue and Expenditures is concerned.

Mr. Nava commented that the Committee had talked about going to the public for a Bond for the streets; he asked if that is still being thought about.

Mr. De La Torre answered yes and that there are a couple more options. There are other mechanisms involved that other border cities have used for street improvements not so much for the revenue to be generated thru the enterprise funds but for it to be generated thru sales tax which is different. In the past whenever money was borrowed, it was borrowed from the asset. This time they don't look at assets but at the revenue stream and they don't care what you use it for. Whether it's used for street repair, chip sealing, or to reconstruct a whole road, they don't care as long as the revenue stream is there. The City's financial position won't allow this to be done yet but there is a loan that will be repaid within the next year or so but in

the meantime staff is looking into how much of that money could be used for a street improvement program and not actually increase the sales tax but come up with a way to fund that program in the long term.

Mr. Pedroza continued by emphasizing that cash position is not growing at the rate it did last year. This year's increase was of 18% compared to the 25% last year. He does expect it to level off and not go on an incline like projected. The 1<sup>st</sup> Quarter numbers is attributed to Sales Tax being down \$168,000, 3%. Also Ambulance is down by \$30,000 or 3%. He was told that there was glitch in the billing system but he hopes that this revenue will be made up as the months go along.

Ms. Sandi Thomas asked if the same number of transports is still being done as the previous years or if it has gone down.

Mr. Pedroza said that it's still the same number and if anything they are increasing a little bit.

He continued by saying that the 1<sup>st</sup> quarter numbers don't dictate what the whole year will bring. Staff can see that revenue is behind and it's hard to make it up, they would rather be ahead and have that luxury but it's not that decisions need to be made and some of the recommendations that Finance Committee made will be taken into consideration and revised.

Mr. Nava asked if there will be differences because staff is trying to project that the City is in a good position because of cash.

Mr. Pedroza said that cash is in a good position but he doesn't expect an increase anymore especially now that it's behind. Cash flow has gotten a lot better and the biggest reason is Sales Tax. When the City started collecting here instead of the State collecting it was taking about 6 weeks for the State to distribute cash to the City. Now cash is in the bank the next day. We don't have to make as many transfers from the savings account because the money is readily available most of the time. That factor is going to be diminishing because that cash is not coming in as expenditures are going out. One thing to go over, as he was doing some comparison figures from last year, contracting figures are down. Contracting has always been a wild card. Sometimes there is a job that contributes to that sector sometimes there is nothing. At this point there is \$14,500 less in contracting. This is why it's a wild card, where the City is expanding, building more commercial zones, the Federal Government is building a new fence that is also contributing to sales tax. That is always a wild card because Douglas is not like Phoenix that has all this home constructions and things like that. We sometimes get lucky when a contractor comes and builds something. That is very variable here in this community.

Mr. Nava commented that it would be good to balance, to have as much revenues as expenditures but his point is he really doesn't have to worry to take \$150,000 away from the cash balance.

Mr. Pedroza said that the thing to consider there is that this is only the first quarter that the City is short \$150,000 and if it keeps going like that and in the second quarter the City is behind again then that is another \$150,000 that is without any adjustments. That can be an issue.

Mr. De La Torre explained that is where the City is at today. Staff is optimistic that the \$150,000 will be made up but the City can't continue in that trend. The City will have to make some minor adjustments throughout the months so that we don't end up with a \$600,000 shortfall at the end of the fiscal year. That is what staff is trying to do. What is it that needs to be done? What adjustments need to be done from when the Committee reviewed the budget and recommended it to Council? Where are we today? What adjustments do we need to do today, minor ones or drastic ones? At this point it's hard to decide but it is things that will be reviewed and brought back for their decision and approval.

Mr. Pedroza continued by saying that the General Fund is what staff is worried about at the moment. The other funds seem to be on the right track. The Sales Tax Revenue for October seems to be low also. October Sales Tax is about \$15,000 short compared to last year. The City needs to either meet or exceed last year amount. At this point the Sales Tax would need to be exceeding that in order to make up the \$150,000.

Mr. Lindemann commented that we should keep our fingers crossed for the Christmas season.

Mr. Pedroza said that it's always good when Sales Tax is collected for December and also for November because that is when customers start shopping for Christmas.

Mr. De La Torre reiterated that when looking at the budget some adjustments will need to be made in terms of expenditures to get as close as possible to those \$150,000. At this point it seems the expenditures will have to be reduced by 5 to 6%. The proposed COLA will have to be refigured and maybe even look at a one-time distribution. Sometime down the road numbers will be looked at again and maybe decide if more drastic measures will need to be taken.

Mr. Lindemann commented that he hopes that employees will be able to get the raise that was talked about before.

Mr. De La Torre explained that it's one of the things that they will have to be considered at a later date. In looking at the figures right now, to add an additional \$60,000 will be digging a little deeper. Is it better for the City to do that and in the beginning of next fiscal year say yes you got an increase but we are not going to offer certain services that we used to offer before. He explained that he doesn't like that approach but it will be better for the City in the long run.

## **6. CHAIRMAN'S REPORT**

None.

## **7. FINANCE COMMITTEE MEMBER'S REPORT**

None.

## **8. CITY MANAGER'S REPORT**

- Hospital Update

Mr. De La Torre explained to the Members that when the Mayor took office back in June, he was approached by the hospital to ask for the City's help. They explained that the hospital is in a very tough financial position. They came back and talked to Mayor and Council in September and explained that there is a fund available thru the Federal Government that is called Safety Care. It has to be a tax liability, the City would contribute an amount and the Federal Government would match it. The idea was for the City to provide them help depending on what figures they can come up with. They came up with a total of \$100,000 that they would be able to get. What this means is that they come up with \$100,000 and the match will be for \$100,000. They talked to Mayor and Council but didn't make a specific request. Council had some questions and they decided they would talk about this again in May when Staff is working on next year budget. Council in turn approached the County to try to get together and come up with an amount that both would be able to help out with. The County is ok with providing an amount as long as the City provides the same amount. It will be a one to one ratio. The County is in a much better financial position than the City. They are willing to provide the initial \$300,000 with the understanding that the City will pay the County back within one or two years. Council is concerned about doing this but there is other issues concerning this because otherwise the City would end up without an emergency room facility. What the Mayor has recommended is to schedule a work session between the City and the hospital to get a feel for what they need and get a feel for what they will be doing differently moving forward from what they have done in the past. One of the main concerns is the number of AHCCCS patients that the hospital sees on a day to day basis. Every time the hospital provides a service they only get 58 cents for every dollar that they charge. No matter what they do they are always losing money. What they have to do is not rely on AHCCCs patients for their primary source of income, but rely on other patients to offset the cost. Those are the things that Council has asked the Board and the new leadership to see what they are doing and will be doing differently. After they meet then himself or Luis will be bringing to the Committee for them to make a recommendation as to how to move forward with participating into the program. The other component to this will be to create some sort of a taxing district to offset the cost. It's not just a city government decision but a community decision. More than likely the City will enter into an intergovernmental agreement with the County

explaining that they will provide the money up front and the City will pay them back over a period of time. But it will also include some things that the City will want them to do to make sure that the hospital is using the money provided to them adequately.

Mr. Nava asked if the City were to enter in an agreement with the County, what would be the length of the agreement? Would it be a two year agreement that the County would have with the AHCCCS program or would be less?

Mr. De La Torre answered he believes that the Legislature's agreement ends in January 31, 2014. The hospital would have the option to still collect money from the previous year. That is where the \$300,000 from the City and \$300,000 from the County comes in. The City is not in a position to offer that amount of money this fiscal year. But if the County can provide that amount then the City will be acquiring a liability for the following fiscal year to pay the County back. His hope is that City can pay the money back within two to three years but he is aiming more for two years.

## **9. CITY TREASURER'S REPORT**

- Proposition 204 Impact

Mr. Luis Pedroza explained that on the recent election on the Tuesday before there was a crucial item on the ballot for schools to keep the current sales tax which is set to expire on May 31, 2013. He explained the perspective from the City stand point because it's was important to the schools because this fund was strictly allocated towards school programs, 80% was for education and 20% was for Human Services and Transportation projects. From the City standpoint, 16 mayors voiced opposition for it, 5 were for it, the League of Cities and Towns was against it. He believes that they were against it not because they don't care about education but because they are always looking for the best interest for the cities. What they projected to be was possibly a loss of \$80 million that is now calculated into a State Shared Revenue formula which translates to being approximately \$275,000 to cities and towns. The City would be losing out on that increase. Since it didn't pass, with the experience from the past, when the State is short on funds it has some very creative ways of grabbing some funds. Last year they grabbed HURF funds from cities and towns to fund their DPS program. So that is a concern that the City has with this proposition not passing, as to what action will the schools take, what actions will the State have to bridge this gap that they will be experiencing. Obviously right now the City doesn't know specifics or what could happen but it's another consideration going into next fiscal year, another concern if the State is going to scale back on State Shared Revenue, another reason to consider scaling back right now and making adjustments right now so that the City doesn't have more difficult decisions to make next budget year if it comes down to that if all of a sudden the City gets more State Shared Revenue cuts. He also wanted to take the opportunity to go over a report that was issued the night before in reference to bond elections that were going on through school districts and cities and towns and just to give a feel of the

environments on cities wishing to go out for bonds and raise taxes on citizens. Cities actually came up with 7 bond elections this past election period and all of them passed. This includes water and sewer, maintenance, facilities, water projects, public safety, parks and other infrastructure projects.

Mr. Nava asked about the Tucson one.

Mr. Pedroza answered that the Tucson one was not included in that report. That it might have been too close to call at the time of the report. He said that the report included Flagstaff, Mesa and Tempe, 3 from Tempe. School bond elections for the counties, 8 out of 9 passed. As far as school overrides for Maintenance and Operations Cost that one was at 47% ratio, 23 out of the 49 passed only.

He continued by explaining that the City's concern is that Proposition 204 didn't pass. For cities it was not a direct benefit obviously we care about the school district but as far as the City is concerned we were not going to get any increase in terms of revenue. The worry is what will happen in the future. He explained that the League feels that if this tax is kept permanently it might make it a little bit more difficult for cities to raise their taxes on their own because they might feel that the taxes are way too high, above the 10% mark. Right now our City is at 9.9%. The League is looking out for the interest of the cities and making this recommendations based on our best interest.

Mr. Nava asked about the 1/3 of a cent tax that will expire.

Mr. Pedroza said it will expire in September of 2013 or October 2013.

Mr. Nava asked since we are used to paying that if the City will ask to have it extended or if it will create an additional burden.

Mr. Pedroza said it is very important to tell the tax payers that the funds are being appropriately used and is benefitting the citizens of Douglas. Obviously the taxes were raised in order to start the Call Center which now has over 600 jobs in Douglas. They are one of the top employers in Douglas. Now what the City has to show is why we need to keep it. Where is it going towards? Will it benefit everyone and if the tax payers are willing to make that decision.

Ms. Sandi Thomas commented that as a business owner with high ticket items a person who is going to buy a \$2,000 item and they weigh our sales tax and they weigh the sales tax in Tucson, the City is losing that revenue and sales tax is already down.

Mr. Nava said it was the voter decision.

Ms. Thomas said yes the voter can raise the tax but then that same voter will go out and purchase their big ticket item somewhere else.

Mr. Pedroza explained he would need to check if it is voter decision to extend the sales tax because he thinks that according to City Charter it doesn't have to go out to the voters.

**10. ADJOURNMENT**

Mr. Mike Nava made a motion to adjourn the meeting at 8:05 a.m. Ms. Thomas seconded the motion. Motion passed unanimously.

**Respectfully submitted by**

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**Lorenza M. Rascon**  
**Finance Committee Secretary**