

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

Tuesday, April 17, 2012

7:00 am

1. CALL TO ORDER/ROLL CALL

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

Members Present:

Mitch Lindemann

David Caveny

Mike Nava

Victor Varela

Members Not Present:

Ana Bernal (excused)

Margaret Morales (excused)

Also Present:

Curtis Shook, City Manager

Luis Pedroza, Finance Director/City Treasurer

Ana Urquijo, HR Director

Lorenza Rascon, Committee Secretary

2. APPROVAL OF MINUTES FOR OCTOBER 18, 2011

Mr. David Caveny noted corrections to be made on page 3. Paragraph that says "Mr. Nava answered that he understands that but that if Mayor and Council which..." "which" should be "wish". Also the last sentence on that paragraph, the last word, "stamina" should be "standing".

Mr. Mike Nava entertained a motion to accept the corrections noted. Mr. David Caveny seconded the motion. Motion passed 4-0. Liaison did not vote.

Mr. David Caveny entertained a motion to approve the minutes with corrections above noted. Mr. Victor Varela seconded the motion. Motion passed 4-0. Liaison did not vote.

3. PRESENTATION 2011-2012 9-MONTH BUDGET OVERVIEW

Mr. Luis Pedroza began by explaining that the budget overview is up to March 31, 2012 for fiscal year 2012. He began by explaining the Cash Reserve Balance. He explained that there are some variables that he would like to point out. The City has a CD investment in the amount of \$506,566 that is generating a little bit more interest.

Mr. Mike Nava asked where that is reserved.

Mr. Pedroza answered that it is with Alliance Bank.

He continued by explaining that there is a pending GADA Loan reimbursement. This money was spent on the Government Center and it needs to be reimbursed to the City out of the GADA Loan Proceeds. Also some restricted amounts need to be taken into account. First \$6,500 from LTAF which can only be used for transportation purposes and is for Catholic Community Services as allocated in the budget and will be expended by the end of the fiscal year. JCEF has \$74,528 which can only be used for court related improvements. Police Auction is money collected from vehicles that have been seized and sold at auction. The total there is \$86,780 and is used for police vehicles.

Mr. Curtis Shook explained that this money is not necessarily restricted but the City has decided to freeze this money because over the last couple of years there have been no capital improvements made other than what has been received through grants, loans and bonds. Management made the decision to freeze this money to replace police vehicles so that we make sure that the fleet is in reasonable shape. He wants to make sure that it is clear that it is not restricted, management has restricted this money.

Mr. Nava asked how much a police vehicle costs.

Mr. Shook answered that fully equipped it will cost about \$38,000. He explained that last year the City was able to get 5 SUV's out of Homeland Security. Over the last 3 ½ years the City has received over \$12 million in grants. Stonegarden is about \$2 million.

Mr. Pedroza continued by explaining that \$626,416 is segregated for Debt Service due on June 30th to make the MPC and GADA Loan Bond payment.

Mr. Shook explained that as the Members look at this funds that are put in reserve, for them to keep in mind that even though the bond payments are not due yet, the City has already set that money aside to make the payment. Specially, when staff starts talking about the Call Center Loan, the City is a year ahead in terms of being

able to make the bond payment. It is important to understand that the money is already sitting there for when it is time to make the payments.

Mr. David Caveny commented that it seems like there are more vehicles at the Call Center now.

Mr. Shook explained that they are employing over 600 people at the time. The original plan was 3 to 5 years to get between 600 and 700 people. It's been 3 years and 3 months and they are already at 600 people. They are at a point where they are using the parking lot across the street on 9th street. Their turnover has gotten better also.

Mr. Pedroza continued by informing the Members that the net balance is \$2,973,974 after taking into consideration all the variables. He made a distinction between what is cash flow and what is revenues and expenditures. He noted that even though the cash flow is at \$2.9 million, expenditures will differ. He will explain that as he starts to talk about the debt service portion of the expense.

He continued by explaining that in General Fund the balance is in the black but members need to keep in mind that there is a bond payment at the end of June. The City needs to rev up more cash by the end of April and by the end of May as to not end up with a negative balance. HURF is also in the black at \$109,226 but cash needs to be revved up to be able to make their bond payment of \$147,000 on June 30th and not end up in the negative. Debt Service is also \$366,469 in the black. Airport is sitting at \$13,544 in the red. He explained that fuel sales are down. The City's main customers are Border Patrol and some from Mexico but they have not been coming in as often to fuel.

Mr. Nava asked what the relationship is between the Debt Service line on Revenue vs. Expense and the Debt Service on the Cash Flow.

Mr. Pedroza explained that the revenue being showed is the 3/10th of a cent that was allocated for the Call Center. As Mr. Shook noted the account is ahead over expenditures.

Mr. Nava expressed that he still did not understand why the two numbers don't match.

Mr. Shook explained that it would be impossible to match them because this number changes constantly.

Mr. Nava asked what relationship the \$626,416 which is restricted has to the \$366,469 on the Revenue vs. Expense.

Mr. Pedroza explained that the \$626,416 has not been accounted for in the Revenue and Expense yet. It's restricted in cash because it cannot be spent until June 30.

Mr. Nava asked if at the end of June 30th the actual Debt Service number would be at \$1.1 million.

Mr. Pedroza answered yes and it will include additional debt which he will explain later. He continued by explaining that the 3/10th collection is higher than the debt that has been met up to this point this year.

Mr. Shook explained that it also included the lease payment which is \$57,774 which is paid on the 7th of every month. Between the 3/10th which is right on target which is worth about \$50,000 per month. Now the reason why it's so far ahead is that the City takes in about \$1.3 million in revenue from the Call Center and expenditures are about \$1.15 million. The reason why there is that surplus is because the business plan shows an interest calculation on a real estate tax of 7% but privately placed the debt and sent out debt package to 31 or 33 different institutions to bid it out. The packets were so strong that 7 firm bids were received. The interest calculation rewarded to Bank of America and the taxable interest calculation for that private placement was 5.51%. The interest savings alone from the business plan is about \$1.4 million. He continued by saying that just as a reminder as this money is accumulating it can be used to refurbish the building or at some point in time after their 15 to 20 year term expires then the Manager or Mayor and Council at that time will have the ability to request to use that money for streets or other improvements.

Mr. Pedroza continued by explaining that water fund is also in the black by \$369,946, sewer is \$709,576 and sanitation is \$186,823 in the black. Golf is at \$18,431 in the red which includes the General Fund transfer. What is being done is that a conservative transfer is being done every month. Generally at the end of the fiscal year the account is reconciled and a transfer is done to balance the account.

Mr. Nava asked if the revenue of \$466,773 included any subsidies.

Mr. Pedroza answered yes that the subsidy consists of \$191,000. A fixed amount is transferred per month and is less than what was budgeted. The budgeted amount was \$337,000 for the Golf transfer. At this point the subsidy required is \$62,052 less than projected.

He continued by noting that General Fund revenue is down by \$383,654 from what was expected up to this point and part of the reason is because sales tax revenues are down by \$302,243. On the other hand ambulance revenue is up by \$26,370 and permits and licensing which consists of business licenses and building permits are up by \$28,539 than originally projected.

Mr. Nava asked if this is due to the fact that the city is policing better as far as businesses.

Mr. Pedroza explained that that may be one reason but that there have been some good construction projects within the city this fiscal year.

He continued by explaining that approximately \$187,000 is affecting the deficit because this revenue will be coming towards the end of the fiscal year from seasonal revenue. HURF revenue is also down by \$85,708 compared to budget.

Mr. David Caveny asked if the Legislature has made a decision on HURF revenue.

Mr. Shook explained that the legislature is for it but that it's an item in the budget. He doesn't think that changes will be made on HURF revenue. If changes don't occur to the current budget then there will be a slight increase in HURF revenue. General Revenue Sharing will increase because of income tax and state sales tax. It is projected that the City will receive close to \$400,000.

Mr. Pedroza continued by explaining that on June 30th the overall debt service payment will be at \$1,510,805. General fund will pay \$849,785, HURF will pay \$148,961 and Debt Service fund from the 3/10th of a cent will pay \$512,059. The reason why \$626,416 is being segregated is because the rest is being segregated in the Call Center account. And finally Golf Course is \$62,052 less than projected at this point.

He continued by noting that in Enterprise Funds all accounts, water, sewer, and sanitation are in the black by \$369,946, \$709,576, and \$186,823 respectively. The upcoming expenditures for the water account is the bid awarded for Well 17 Equipping that was awarded last month to SQP for approximately \$504,794 and a bond payment of \$75,000. In sewer there is a bond payment for the WIFA Loan of approximately \$500,000 and the Wastewater Treatment Plant Phase II project that the City is still working on. In Sanitation, there is a truck that will be bought for \$175,000.

Mr. Shook pointed out that after the work that has been done over the last 3 to 4 years with the Enterprise Funds they are finally self-sustaining and instead of the General Fund transferring money to Enterprise Funds now it's the Enterprise Funds that are transferring to General Fund.

Mr. Caveny asked how much longer the Enterprise Fund has to be able to finish paying the General Fund.

Mr. Shook answered that Sanitation will finish at the end of this fiscal year and will be able to pay for its own capital.

Mr. Pedroza continued by explaining that Enterprise Funds will start depreciating at least \$300,000 for replacement of that infrastructure. Money will be able to be set aside at the end of the fiscal year to fund anything that needs to be replaced.

Mr. Nava asked where the money that is being set aside is being saved at.

Mr. Pedroza answered that the Enterprise Funds is segregated from the General Government reserve. It's in LGIP, in a Bank of America account and in CDAR.

Mr. Shook explained that the LGIP is the Local Government Investment Pool thru the State Treasurer's office which the City got out of about 2 years ago when they were paying about 30 basis points and it changed to 15. That is when the City went to CDARS which was paying 57 basis points. The pool is now secured and is paying about 19 basis points.

Mr. Nava asked if any other local banks were receiving business from the City.

Mr. Pedroza answered yes that Chase and Bank of America are.

4. GOALS AND OBJECTIVES ON 2012-2013 OPERATING BUDGET FOR THE CITY OF DOUGLAS

Mr. Curtis Shook began by saying that he has enjoyed working with the Finance Committee over the years and a lot has been accomplished by everyone. He explained that from his perspective he thinks that everything is a year behind from where he thought the City would be. He has never seen a downturn this long and the State be so unprepared.

He continued by saying that the State of Arizona's revenue mix is dependent on sales tax and not on property tax. Property tax is always there but sales tax, when there is an economic downturn then sales are down. That in addition to tax cuts and waivers of property tax from the different industries has put the State in this situation. If all waivers were closed they could raise billions but that is not going to happen. The only reason he mentions it is because it has to do with taxes. The State has been looking at having a balanced budget this year but in 2014 and 2015 it's going to start going out of budget again.

He is hopeful that income tax and sales tax will increase again being that this year there was a 25% increase. The City is at about \$1.5 million on the revenue sharing loss and this number doesn't include HURF. This year the City is behind on the collection of sales tax. The revenue collection will be at about \$300,000 to \$400,000 less than expected by the end of the fiscal year. A way was found to cut expenditures to work around this number. By June 30th it is expected that the ending budget will be in the black. Reports are being produced weekly to track the critical indicators of the accounts as to end with a positive budget. The major expense going into next year will be retirement contributions. The actual amounts came back and the City will have to pay \$188,000 more next year from this year.

Mr. Nava asked if this includes the 3% that employees will have to pay.

Mr. Shook asked if he meant if the employees will have to pay an additional 3%. He explained that it was not going to happen anymore. The amounts were set back to 50/50.

Ms. Ana Urquijo explained that the percentages of contributions are just being set back.

Mr. Nava asked about the distribution of liability and why the City has to pay more.

Mr. Pedroza answered that Public Safety is the large portion of this but it's not 50/50 it's 40/60.

Ms. Urquijo explained that the City is paying 40% and it goes up a point every year for the next 2 years.

Mr. Shook explained that the state pensions are earning 8% interest a year. When investments aren't paying then the actuarial is used to cover that. Increasing pension requirements will be seen for the next several years until the market is steady enough.

Ms. Urquijo explained that the numbers were calculated before the City was notified that the contributions would change back to 50/50. The new numbers have been placed on the budget.

Mr. Shook continued by explaining that he promised employees that there will be no layoffs and no furloughs. The last 4 years staff has found ways to be able to do this, creative ways that were financially sound. He hopes to make the same commitment for employees. He continued by saying that there was 198 positions and now there are 161 employees. At some point some of the positions will have to be replaced. At the moment there are half of the department heads than what there were 3 years ago. They all have taken additional duties and nobody has complained but there is a limit to how much a person can take.

Mr. Lindeman commented that it would be nice to offer the 1% increase to employees the way it had been done before.

Mr. Shook agreed and he explained that the same procedures and schedules are being followed as in previous years. The legislature is still in session and the legislature and the governor are still fighting over revenue projections and what they want to spend them on.

He finished by saying that staff has done what needed to be done. He explained that approximately \$20 million in capital improvement have been done over the last 4 years in a recession economy. The City has also received \$12 million in grants. The City took advantage of this recession and did the things that needed to be done at low interest rates whereas others will be paying high interest rates when they are

ready to do the improvements that they need to be done. He feels that the City has placed itself in a position that when the economy starts coming back we will come back faster than other cities. He explained that Ross has a discount store named DD's and they are getting ready to remodel the store between Fallas and Stage. Border Taco is now going to open in the Carl's Jr. plaza along with a couple other stores. The new commercial office spaces on 16th and J, the old Circle K, will be an insurance office, a healthcare office, and they are looking into opening the convenience store up again at some point in time. A cardiac office will be open by Pima in the old National Bank building. Copper Queen is getting ready to start their expansion to bring imaging into their offices. Also Dairy Queen made their decision to move and it looks like it's paying off. Some things are happening that makes him believe that everything is payoff fairly well. He also believes that the new Government Center will generate a lot of traffic in the downtown area between 200 to 300 people per hour. The City has also seen the improvement that some of the businesses have done. B&D lumber and Bee Healthy have spent between \$20,000 and \$30,000 each doing some improvements on their stores. The key priority will be the revitalization of the downtown area. The Government Center has a lot of assets. It has a lot of land for such things as postsecondary education, perhaps other governmental units locating within the government center. In the next 3 to 5 years the likely hood of having drawn the UofA South. The City also has the L-shaped piece of land on 11th and Pan American which is being cleared up. The City owns the Rivera building and there are no restrictions on that building. The upstairs used to be apartments, it can be turned to apartments again. The City has control over that. He is meeting with people who build apartments and use tax credits for that. This will show other people what they can do with the upstairs of their buildings. Once the Government Center is at play the City will have the ability to control that. When the County moves, the IGA calls for the City to become the owner of the 7th Street building and to become the owner of the 10th Street building across the Post Office. Those are the 2 assets and will have no restrictions at all because the City will own them.

5. FINANCE COMMITTEE MEMBER'S REPORT

Mr. Mike Nava expressed that there are some things that concern him. At this point he passed out a report and gave an overview. He is concerned about the ability for the public to attend the meetings at 7:00 in the morning. He also mentioned that there are a number of instances when he has asked for information and it has not been provided to him. He feels such information would be helpful to the members when making deliberations and recommendations. He also has a series of questions that he would like to ask Mr. Lindemann as the Chairperson of the Committee.

6. MANAGER'S REPORT

Mr. Curtis Shook explained that he has not had a chance to read what Mr. Nava has just passed out but he wants to note that he has received the equivalent of an average of 2 letters a week from Mr. Nava. While he respects Mr. Nava and the

questions he asks, the time element that Staff can give to put together information on all of this things is inordinate for the number of people that we have and the job that we are trying to do. It's not disrespect but he would respectfully suggest that asking Mr. Lindemann or holding Mr. Lindemann responsible for the detailed questions that he is asking there is far outside his Chairmanship of the Committee and that what he is asking is staff doing an inordinate amount of work to answer questions that can be fairly easily answered during the course of the budget.

7. CITY TREASURER'S REPORT

None

8. ADJOURNMENT

Mr. Mike Nava entertained a motion to adjourn at 8:15 a.m. Mr. Victor Varela seconded the motion. Motion passed 4 – 0. Liaison member did not vote.

Respectfully submitted by

Lorenza M. Rascon
Finance Committee Secretary