

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

Wednesday, April 20, 2011

5:00 pm

1. CALL TO ORDER/ROLL CALL

Meeting was called to order at 5:05 p.m.

Members present:

Mitch Lindemann
David Caveny
Mike Nava
Victor Varela
Margaret Morales

Members not present:

Raul Montano
Ana Bernal

Also present:

Jorge Treviño, Finance Director
Curtis A. Shook, City Manager
Luis Pedroza, Finance Manager
Ana Urquijo, HR Director
Rocio Garcia, HR Analyst
Lorenza M. Rascon, Committee Secretary

**2. APPROVAL OF MINUTES FOR APRIL 28, 2009, SEPTEMBER 16, 2009,
JANUARY 26, 2010, AND MARCH 11, 2010**

Ms. Margaret Morales made a motion to approve the minutes as presented. Mr. Victor Varela seconded the motion. All members voted yes with the exception of Mr. Mike Nava who is not voting because he was not present during those meetings.

Mr. Mike Nava had a question about why the minutes are not being presented on a timely manner.

Mr. Mitch Lindemann explained that since the committee does not meet regularly the committee needs to catch up on the minutes.

Mr. Jorge Treviño explained that the minutes have been delayed partly because new responsibilities have been given to staff. He explained that minutes will be presented on April 28th to catch up with past meetings then the rest should be presented in a timely manner.

3. PRESENTATION AND DISCUSSION ON 2011-2012 OPERATING BUDGET FOR THE CITY OF DOUGLAS

Mr. Curtis Shook began by explaining that a particular format has been followed for the last 4 years and has been very successful. What the Finance Committee does as an advisory committee to the Council is that they listen to the City Manager's presentation of the City budget and work with the Manager and Staff to present a recommendation to Council sometime during the month of May. The budget philosophy will be presented to the Members and then to the Council at their May meeting. The subsequent meetings will be to present the Members with the budget and discussions therein. Under the Members reports is the time to speak about those concerns and set the dates for the following meetings.

He continued by saying that he will be talking about where the City has been, where it is and where it needs to go. Also a comprehensive look will be given, lots of charts, graphs, numbers that come straight from city reports, and some of the actual reports will be included. As usual the Members will see the same information that staff sees. Also over the last couple of years, as management controls, some weekly reports were created to follow weekly cash flow so that a trend can be followed to see if it is inconsistent with the philosophy of the budget. Also some refining has been done to the reports shown in the past.

He continued by explaining that he wants to start by talking about where the City has been. He began by explaining point one which is the loss of State Shared Revenue since FY 2008/2009. He also explained that the focus at the moment is General Fund since it is the one that is facing the most challenges. HURF, Highway Users Revenue Fund, which is funded by gas tax, by formula population by miles of road, has been cut in the last three years to pay for DPS. In this particular year, HURF was cut into even deeper for the State General Fund. In 2008, Sales Tax was \$1.585 million, this year the estimate is \$1.314 million. Cuts in Sales Tax are of almost \$300,000. URS or the distribution from income tax which is distributed at 15% of the gross collected by the State which is divided by formula of population, in 2008 the distribution to the City was \$2.575 million and now it is less than \$1.5 million. This year the State decided to use Vehicle License Tax to pay for DPS which will be a loss of approximately \$40,000. Over the last 3 years the decrease in revenue has been of \$1.263 million in General Fund alone. HURF as was explained earlier is a separate fund to be used for streets and roads only. By law those funds can only be used for streets and roads wages, benefits, operations, maintenance, debt and capital. The City has lost almost 25% of the HURF budget which is approximately \$1.1 million.

He continued by explaining that even though the City did not lose any people, it only grew by 183 people compared to about a dozen other cities in the valley area. They got all the money and the rest suffered. The City sustained \$200,000 in additional cost based on the census.

In addendum 3, the City staff has 33 less full time employees than in October of 2008. In 2007 there were 191 full time employees and currently there are 163. Personnel costs have declined from \$12,662,705 to \$11,702,224. Any vacancies are being filled with temporary employees. Last year Limited employees were made permanent and temporary employees understand that they are only temporary but it gives them an opportunity to be hired permanently if the City starts hiring again.

Addendum 4 is payroll. Payroll savings are of almost \$2.4 million since October of 2008. Essentially it is about the time that positions were frozen. Average payroll is biweekly and is about \$307,000, the average in 2008 was \$350,000 and the average savings is of almost \$43,000.

The City received a total of \$6,699,099 in Grant money in the last 3 years. Police grants received have been of \$1,068,000 in the last 3 years of which \$956,500 has been received in 2010 and 2011. In the last 2 years the Police Department has received over \$2,024,000 in Grants. Housing over the last 2 years has received \$1.754 million, Fire \$620,000 and streets \$2.3 million about \$1.7 million is pending for the Chino Road project.

Mr. Mike Nava asked if any of this money creates a permanent liability for the City to be able to continue using it.

Mr. Shook answered no, that this are grants that have no strings. The City applied for Add-A-Cop Grants but where not received. Some grants have grant matches that will be noted in the budget. Generally the highest amount is 10% but it is something that a decision is made year by year as to whether it is critical, essential, desirable or acceptable. One scale that staff uses to make their recommendations is by classifying it as lowest being desirable, the next highest being acceptable, then essential and the highest being critical. Based on this sliding scale is how they make their recommendations.

In the last 2 years, 2009/2010 all departments were reorganized with Cemetery becoming part of the Parks Division with a savings of \$120,000 per year. Housing became Housing, Neighborhoods and Grants Department replacing Community Development, they received over \$1.8 million in Grants since 2008, also took over the management of Casas and Pioneer, instituting expenditure and revenue control to create a positive cash flow of \$240,000 per year.

The water, sewer, garbage collection and sales tax collection last year, the efficiencies in those areas gave us a cash flow of over \$400,000. The City took over

sales tax collection last year and because of that the City is collecting the sales tax each month by the merchants instead of 4 to 6 weeks later like it was when the State was collecting.

Sales tax auditing was done in 2010. A total of 31 sales tax audits were done since the City hired the Auditor for a total collection of \$127,551.

Mr. Nava asked in the sales tax audit the City is collecting taxes that have not been paid and asked if there was any way of collection penalties from the taxes that were not paid.

Mr. Shook answered yes and that it includes penalty and interest.

Mr. Nava asked what the interest rate is.

Mr. Luis Pedroza answered that the interest rate is at a maximum of 25% of the liability for penalties and the interest rate is variable according to the Department of Revenue and it is currently at 4%.

Mr. Jorge Trevino also mentioned that the \$127,551 is money that otherwise the City would not have collected if the Auditor had not been hired.

Mr. Shook continued by explaining that the Library was combined with Recreation and Golf Course to create a savings of \$60,000 in salaries.

All departments are being cross trained and finally the City has working supervisors in just about every department. As the City has lost employees, supervisors who went from one place to another and oversaw employees are now out in the field and doing actual work.

Vectors and challenges that the City is facing are the effects of job losses on City services. Parks in 2008 had 12 fulltime employees and is now down to 9. They maintain a total of 34 areas including parks and the linear park La Amistad, on Pan American with no money for capital. The sad thing is that if you go to the 15th Street park and look at the playground equipment, they will need to be removed very soon before somebody gets injured because there is no money to replace them.

Secondly, is the effect of job losses on morale. There have been no pay raises since 2008 and employees are paying more for reduced health benefits. Employees also have more responsibilities and more hours. Also, the City has lost some top performers who have been recruited by other agencies. Another concern is the continued State financial woes and what appears to be a State move to start making their departments profit centers. The City just found out that it will have to pay \$24,843 to the Arizona Department of Water Resources. They are now going to start charging for that department's services. The City has already lost \$120,000 in the last couple of years in sweeps to DPS. The sweeps of gas tax to DPS is at 25%

since 2008 and there are sweeps of state revenue sharing to balance the state budget.

Mr. Shook wants to make a point about having a lot of resources, the City's resources are good employees and all we have to do is see what happened when we had the freeze to see just how good they are and how much they care. The City has a strong HR Department, Finance Department and IT Department. The Public Safety Departments are unmatched. He wants to make sure that the Finance Committee members understand how deeply proud he is of all these people and what they have been able to accomplish over the last couple of years.

He continued to explain where we are now. He explained that public sector employment will never ever be what it was prior to this recession. A lot of people are calling it the new normal. He explained that street repairs/capital/road improvements can no longer be paid for by HURF. What this means is that when you see people out on the streets they will have shovels in their hands. The basic service will have to be looked at, because there is no money for major or minor street improvements. Staff will be patching potholes. The work program can be reoriented and employees can start looking at heaved sidewalks, corners, signs and right-of-ways and spend the next year focusing on those things and making them better until something can be decided on the general condition of the roads in the old townsite. The only way to repair roads with any consistency is to go to Council this fall and ask for them to put in the March 2012 ballot a roads program to adopt secondary property taxes for the sole purpose of redoing the streets and roads in a 3 to 5 year period and repaying it with the next 20 years. At this time there is no other way. The General Fund does not have money to lend to HURF. And HURF will never be the same. Unless a reversal can be done on what is a philosophy by the State to take local moneys to fund state programs.

User fees and utility fees will continue to rise. Ambulance fees were raised last year since a long time. Police services, impound fees, impound administration fee, and fees for suspension were implemented. One of the packages that will be looked at is some basic changes and reorganization. A look at recreation charges and services will have to be looked at. To this point, there have been no cuts to services to the community. This year some decision will have to be made. City services will experience cut backs and possible elimination of desirable and acceptable services in parks, recreation and library. Funding priority will be given to critical and essential services such as Police, Fire, Public Works, Public Health, Welfare and Safety. Those things will be funded first.

Sunken costs are personnel costs that have gone up from 71% 3 years ago to about 80% because of the losses of revenues over the years. Retirement costs keep increasing, the actuarial in Arizona State Retirement System keep going up. The State has made some changes in the retirement system that will take effect within the next couple of years that will ease this a little bit. But while it eases the amount of money that the employer pays it will add to the amount of money the employee

pays. Liability insurance has gone up, health insurance has gone up and at this point over the last several years, we have not been able to recommend that the City take more over what it has been paying since 2007. While healthcare costs are going up and while Ana Urquijo and Rocio Garcia have done a great job negotiating with the insurance companies each year, benefits have gone down and costs have gone up. Utility costs are continuing to go up, gas prices are going up. Local economy is starting to come back. We are about 2% ahead from last year. The State will continue to lag and we expect more tax cuts in City revenue. Capital expenditures will be minimal or non-existent and any that is done will be in the 2nd half of Fiscal Year 2012 except for contractual IT licensing requirement to renew software that will be unlawful not to. Enterprise Funds are fully balanced, Water, Sewer, Sanitation, and Call Center.

Mr. Nava asked if this includes projected capital costs.

Mr. Shook answered yes. He explained that all expenditures are put in 4 different types of expenditures. First is Wages and Benefits, second is O&M, third is Debt and fourth is Capital Depreciation. If the rate can fund all those things then the fund is balanced. The surplus has been increased over the years by weekly management oversight and cash flow management. All bond funds are strong. By July 1 there will be \$700,000 worth of bond payments, the money is already in the bank it's not part of the cash flow.

He continued by explaining that management generates weekly reports. The first report is the Reserve Cash Position, this is done on a weekly basis. Staff gets the information from the State Treasurer's report. The current balance as of April 18 in the General Fund was \$1.410 million, add in the Government CD in the amount of \$504,000, then the GADA Loan owes the General Fund \$517,000. Then subtract things that are earmarked. The first is cash for street projects from Walmart for the 3rd Street Project of \$308,000, LTAF II restricted cash that can only be used for transportation, RICO restricted cash that can only be used for Police capital, JCEF which can only be used for court related capital equipment; Police Auction is when we take over cars the Police Department takes care of all the processing and that money can only be used for Police cars. Debt service on June 30th is \$624,000 and will be paid on July 1st, interest payments are paid on July 1st and principal and interest are paid on January 1st. So adding and subtracting gives a net available balance of \$1,251,567.

Mr. Nava asked if this amount varies daily.

Mr. Treviño answered that it does vary significantly.

Mr. Shook reiterated that it could vary from \$1.5 to \$1.3 million. The statement of accounts shows what goes in to the account on a monthly basis. Payroll, biweekly, is averaging \$307,000, it also varies because police and fire overtime are paid on the second payroll of each month. A cash analysis is done on a weekly manner. Daily

deposits for the week of April 11 to April 15th give a total of approximately \$255,000 at the windows with the Revenue Clerks, the City received HURF money in the amount of \$109,000 from the State Treasurer's.

He continued by explaining where the City is going. First, under where we are, there have been no raises for 3 years, there are 33 less positions, people are doing more with less. The one thing that will be accomplished is that there will be no layoffs or furloughs. This year the Fund Reserves will be budgeted to fill one time Capital Improvements. Capital Improvements short falls will be covered in the 2nd half of the year. Using reserve funds out of General Fund, Call Center will be used to provide the City match of \$116,193 to the State's \$250,000 Economic Strengths Grant to widen 10th Street from Florida to Cochise and install sidewalks.

Also, if needed, budget packages on desirable and acceptable City services will be presented in the future as possible areas for additional cuts to the Operating Budget. This will be the area that Mr. Shook would most like to concentrate on. He explained that an Employee Budget Committee was established in December of 2009 to make city employees fully aware of the cash position. Any savings from using the reserves will come from program and service cuts. Staff came up with different schemes for savings during the reorganization. He asked the Committee to consider the following. The City runs a parking lot operation that makes and spends about \$35,000 to break even, but the liability of having cars broken into and having police officers out there taking reports, is labor intensive. Staff needs to find a way to make better use of the Parking Lot or to look at automation and find out whether the technology can survive.

Mr. Lindemann asked if the City goes to automation, does that relieve the City of any liability or would it still have liability.

Mr. Shook explained that the City would still have limited liability but the City would place signs and the vehicle owners would be liable for anything lost or stolen. The City is not losing a lot of money so it's time to think and talk about it. He continued by talking about parking enforcement in the downtown area, nobody wants the enforcement, nobody likes it. It doesn't pay anything and the enforcement is down to 20 hours a week. The City is making more in impound fees. The thought is to move the Parking Enforcement Officer to work impound enforcement to be able to put another Sworn Officer back on the streets on patrol.

Mr. Lindemann explained that he has been approached about the parking enforcement by business owners saying that they would rather not have the enforcement. Specially if there will be a museum in the downtown area, customers need to be able to park there and enjoy themselves without rushing out to move their vehicles.

Mr. Shook continues by talking about the 8th Street Pool hours. He explained that 2 years ago there had been talk about closing the 8th Street Pool but instead

operations were cut back because nobody wanted to close it. Last year the Aquatic Center was closed with the understanding that the \$35,000 in savings would be used for repairs to the Center itself. This year, consideration needs to be made for one or the other or both.

Mr. Lindemann explained that something needs to be done but asked if a study has been done to see how much the fees can be raised before considering closing down.

Mr. Shook explained that a good day at the pool brings \$250. Jennifer Smith has done a good job and has doubled the revenue from what it was in the last couple of years. We are talking about something that loses \$280,000 to \$300,000 a year. Second, closing the 8th Street Pool saves \$35,000 and closing the Aquatic Center for 3 months saves \$35,000 but another thing to consider is the School contribution which hasn't changed in 3 years.

Mr. Caveny asked if any preliminary talks have been done with the school district about this.

Mr. Shook explained that he has told them that it will have to be discussed but it will be very hard to get anything done. He continued by talking about Recreation as it is now, there will be no more 3 day fiestas or \$1,500 for candy for Halloween. The City will have to think about what it will be doing. A commitment was made for 4th of July and the Christmas Lights Parade. Recreation has cut down about half of what it is doing. The philosophy for recreation programs will be lifetime sports such as tennis, golf, swimming. Also Library services and hours will need to be looked at as well. Also, charges to organized sports leagues for costs of operations.

He continued by explaining that funding for outside agencies have been cut back. The only 2 organizations that are being funded are DARC and CCS and the amount given will not be as much as they want and it may be more than what they will get in the future years.

Mr. Nava asked how much is anticipated to be cut from the General Fund.

Mr. Shook explained that the City is about \$174,000 under and staff has already cut a lot. A meeting was held with all Department Heads and a decision was made as to how and what each department would give up to come up with the \$174,000.

Mr. Nava asked how much of that is anticipated to be contributed by all departments.

Mr. Shook explained that it will not be possible to get all of it but hopes to get half. He will come up with numbers and present them to the Members on a balanced budget. He will also explain to them how staff got to a balanced budget. He ended by introducing the Budget Team composed of Ana Urquijo and Jorge Treviño

leading the team, Rocio Garcia, Luis Pedroza and Mario Novoa. Ana and Mario are the Senior Management team who help him.

Mr. Treviño made a comment about the Enterprise Funds taking care of General Fund. He explained that in previous years General Fund was taking care of Enterprise Funds thru transfers. He also explained that the economy events in the last 3 years make the matters worst. A structural change is also being experienced on the budget.

Mr. Pedroza began by explaining the key points in the philosophy for this year's budget. There is a net decrease of \$129,373 from State Shared revenue impacting the General Fund. Transfer from Enterprise Fund to pay back the General Fund by an additional \$107,000 for a total of \$487,000 contribution. For next budget year, the one time revenue of \$300,000 for Sales Tax will not be available. For next year's budget a projected increase of \$150,000 in local sales tax is considered, also the revenue from the audits being done. Ambulance revenue is projected at an increase of \$100,000 as well. On the expense side, the General Fund did see a 14% increase in contractual services across most departments, computer systems require services in order to keep investments that were made in capital projects. Also E-rate is funding \$45,000 to pay partially the computer and phone system, those are Federal funds that are to be used partially in Information Systems.

Mayor Michael Gomez asked what percentage of sales tax revenue is the increase of \$150,000.

Mr. Pedroza answered that it is 3.7%.

Mr. Lindemann explained that next meeting the Members will get the numbers and books. After further discussion, it was agreed that the next meeting will take place on April 28, 2011 and the following meeting date will be discussed at that meeting.

4. FINANCE COMMITTEE MEMBER'S REPORT NONE

5. MANAGER'S REPORT NONE

6. CITY TREASURER'S REPORT NONE

7. ADJOURNMENT

Mr. Lindemann entertained a motion to adjourn at 6:23 pm. Motion seconded by Ms. Morales. Motion passed unanimously.

Respectfully submitted by

Lorenza M. Rascon, Finance Committee Secretary