City of Glendale

5850 West Glendale Avenue
Glendale, AZ 85301

Meeting Minutes - Final

Tuesday, February 7, 2017

9:00 AM

Budget Workshop

Council Chambers

City Council Workshop

Mayor Jerry Weiers
Vice Mayor Ian Hugh
Councilmember Jamie Aldama
Councilmember Joyce Clark
Councilmember Ray Malnar
Councilmember Lauren Tolmachoff
Councilmember Bart Turner

CALL TO ORDER

ROLL CALL

Present 7 - Mayor Jerry Weiers, Vice Mayor Ian Hugh, Councilmember Jamie Aldama, Councilmember Joyce Clark, Councilmember Ray Malnar, Councilmember Lauren Tolmachoff, and Councilmember Bart Turner

Also present were Kevin Phelps, City Manager; Michael Bailey, City Attorney; and Julie K. Bower, City Clerk.

WORKSHOP SESSION

1. 17-027 FY15-16 COMPREHENSIVE ANNUAL FINANCIAL REPORT AND ANNUAL AUDIT UPDATE
Staff Contact and Presenter: Vicki Rios, Director, Budget and Finance
Staff Presenter: Lisette Camacho, Assistant Director, Budget and Finance
Guest Presenter: Dennis J. Osuch, Principal, CliftonLarsonAllen, LLP

Ms. Rios introduced Lisette Camacho, Assistant Budget and Finance Director, and Dennis Osuch, Principal and Audit Manager, CliftonLarsonAllen, LLP.

Mr. Osuch explained the audit was a risk-based approach that applied risk factors to account balances and programs through inquiry, prior experience by reviewing internal controls and other factors. He said the presentation was to provide audit communication with governance and management and to provide the results of the audit as well as recommendations. The package included the communications to governance, an opinion on the Comprehensive Annual Financial Report (CAFR), a Single Audit Report which included a report on internal controls and a report on HURF funds. He said the reporting package included the Annual Expenditure Limitation Report, Landfill Assurance Agreed-Upon Procedures and a Management Letter.

Mr. Osuch said his responsibility regarding the CAFR included providing an opinion based on basic financial statements, providing an in-relation-to opinion on the combining and individual fund financial statements and schedules, providing an in-relation-to opinion on the federal data schedule, and an opinion on the required supplementary information, introductory and statistical sections. An unmodified, clean opinion had been rendered on the financial statements.

Mr. Osuch explained there were a couple of new governmental accounting board statements that were implemented, including GASB 75, which was a new reporting model for post-employment benefits. The single audit report would provide an independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards. It would also provide an independent auditor's report on compliance for each major federal program, report on internal control over compliance, and report on the schedule of expenditures of federal awards required by the uniform guidance.

Mr. Osuch said a clean opinion was issued for the uniform grant guidance and the federal programs reviewed were in accordance with guidelines. He reported on the internal controls in the government auditing standards report and did report a material weakness that was related to the level of material audit adjustments.

Ms. Rios explained the material weakness occurred during implementation of the GASB standards. The entries were prepared on post-employment benefits and reviewed as part of the process. She said there was an error and it was not caught during the review process. Staff was taking a look at the review processes and would be improving those internal controls in the future.

Mr. Osuch said it was not uncommon to have audit adjustments in a city the size of Glendale. The financial statements were in good order and that was the only significant adjustment that had to be made as part of the audit. Other reports issued, included the Independent Accountants' Report for the use of HURF, the Annual Expenditure Limitation Report, and the Landfill Assurance Agreed-Upon Procedures.

Councilmember Aldama asked if a clean opinion would do anything for the City's bond rating.

Ms. Rios said receiving a clean opinion did not upgrade the City's bond rating, but not getting a clean opinion could affect the bond rating.

Councilmember Clark asked what the material weakness was that was not caught by the review.

Ms. Camacho said one was related to pension obligations and one of the entries was posted incorrectly and the other was under post-employment benefit when the City early implemented GASB 75. All adjustments were made during the audit.

Councilmember Clark asked if one item was over-reported and the other was under-reported.

Ms. Camacho said both items were over-reported.

Councilmember Clark asked if the over-reporting was based on an actuarial report and wanted to know about the actuary's performance.

Ms. Rios said the actuarial report was received and the City posted its adjustments based on that report and a prior GASB pronouncement. It caused an anomaly in the report. After discussion with Mr. Osuch and his team, the City requested the actuary revise her report so staff could early-implement the next GASB pronouncement. Ms. Rios said it was a weird anomaly, but it had been corrected and staff was able to book the entries correctly.

Councilmember Malnar asked for an explanation of the Independent Accountants' Report on expenditure limitation.

Mr. Osuch said the Annual Expenditure Limitation Report was through statute and cities and towns were subject to expenditure limit. He said cities and towns had the option to have a voter-approved expenditure limit or one that was based on population. He said some expenditures were excludable, such as debt payments and spent federal grant monies. He said the report brought all of the financial statements from an accrual and a modified accrual basis to a cash basis. This determined whether the City was above or below the expenditure amount and the City was well below its expenditure limitation amount.

Councilmember Aldama asked if the audit ended June 30, 2016, what date was the material weakness noted.

Ms. Rios said that was discovered in November as part of the audit process. It resulted in a bit of a delay as the financial statements were usually issued in early December.

Councilmember Aldama asked if it the weaknesses were usually reported to the Council.

Ms. Rios said these were reported to management.

Mr. Osuch said it was not uncommon to have audit adjustments or material audit adjustments. It would have been brought to Council if management had disagreed and chose not to implement or make the changes, as this would have had a significant effect on the financial statements. He explained it was more of an accounting item and management agreed that an adjustment was necessary and the financial statements were correctly stated. The items that would immediately come to governance would be any type of disagreements with management that could not be resolved or any acts of fraud.

Councilmember Aldama said that management agreed with the deficiency error and that was why the information was not provided to Council.

Mr. Osuch said that was correct. Staff did their due diligence and ultimately came to an agreement.

Councilmember Aldama questioned the level of deficiency that triggered a report to Council and said staff might want to come up with a standard of when to notify Council.

Councilmember Clark asked what was and was not included in the expenditure limitation amounts.

Mr. Osuch said all expenditures of the City were included, including all government funds, all enterprise funds and all internal service funds.

Councilmember Clark asked if that included general funds and enterprise funds.

Mr. Osuch said it included general funds, special revenue funds, debt service, capital projects, and the permanent fund.

Councilmember Clark said Mr. Osuch had previously said debt service was not included.

Mr. Osuch said there were exclusions that were allowed through statute with regard to the annual expenditure limitation. Those exclusions included debt service payments for bonds, notes, loans, capital leases and some principle and interest expense on those payments. Excludable expenditures included those related to federal grants, some HURF funds, state grants and certain state funds, as well as quasi-external transactions such as payments to the general fund for health benefits.

Councilmember Clark said eventually all of those items got reconciled back into the total picture of expenditures.

Mr. Osuch said that was correct.

Ms. Rios said staff would send Council a copy of the report as well as the prior year's report.

2. 17-029 FY16-17 MID-YEAR FINANCIAL REVIEW

Staff Contact and Presenter: Vicki Rios, Director, Budget and Finance

Staff Presenter: Lisette Camacho, Assistant Director, Budget and Finance

Ms. Camacho said the general fund in the major operating fund of the City, and included revenues that were not designated for a specific purpose and expenditures to support general government, including public safety, parks and recreation and the court. She said general fund revenues were on target. Revenues increased 3% over last year and City sales tax increased 3% over last year and was slightly below target. She said revenues did not include sales tax during the holiday season. State shared revenues were on target. State shared sales tax revenues were based on current year statewide collections with a two-month lag, and the figures presented represent sales tax through October.

Ms. Rios said state shared sales tax was coming in slightly below what was anticipated and staff was watching it closely. Staff had predicted state shared sales tax would come in around 6% higher than it was the prior year and had based its budget estimate on that, but through the mid-year it was only coming in at about 3.7%. She said this did not include November or December collections.

Councilmember Clark asked if the state took into account that more people were making purchases online, which might not be subject to sales tax.

Ms. Rios said the state looked at statewide revenues as part of its budget process. She said the state economist was very aware of that issue and was monitoring it closely but was not sure of the specific detail about how that was factored in.

Ms. Camacho said other revenues were slightly below target, and revenues did decrease 4% over last year. This was primarily due to a one-time settlement revenue received in FY2015 of $1 million. She said other revenues increased after adjusting for that $1 million, but were still slightly below target. Expenditures had increased and were 16% over budget over last year. She explained the increase was due to a budgeted one-time payment of $5 million to the NHL and also included the $3 million payment for the parking settlement agreement. She said the appropriation for that payment was transferred from the general fund contingency. It also included $6 million in budgeted public safety salaries, overtime and retirement expense. Transfers out were on target.

Councilmember Clark asked if the City was in deficit by $10 million at the time of the report.

Ms. Rios said that was a correct interpretation.

Councilmember Clark asked where the $10 million was coming to pay the expenses.

Ms. Rios said the report was a point-in-time through the mid-year and revenues did not come in evenly throughout the year. By the end of the year, staff expected to be at an excess and not a deficiency. The City did have an excess in reserves cash flow and had sufficient reserves to wait the period of time for those revenues to come in.

Councilmember Clark asked if the state was giving the City all it was entitled to under the new system.

Ms. Rios said the first reporting period was January and the City was seeing the receipts starting to come in now, but the due date wasn't until February 20th. The City was already seeing a decrease in its TPT license fees. It was not a significant number but it was coming in slightly below target. She said there had been an issue in getting all of the taxpayers matched up with the state's database. It was being closely monitored.

Councilmember Clark asked if staff would know sometime in February how the state performed for January tax collection.

Ms. Rios said that was correct.

Councilmember Clark asked if staff would be reporting back to Council after February about how the new state process was working. She asked if the City would consider sending a letter of record to the state expressing concern if there were deficiencies in the state's new process.

Mr. Phelps said staff would have a discussion once the figures were in to determine what further actions might be needed. He also said staff would report back to Council about how the process was working.

Councilmember Clark had a feeling the letter would be needed and hoped the City would make its concerns known for the record.

Mr. Phelps said staff had been working closely with the state and the most appropriate action right now was to work through all the technical issues. He said the state had indicated a desire to get it right.

Councilmember Tolmachoff said the $5 million was the final payment of the $50 million owed to the NHL and that had been budgeted. She asked for clarification of the figures presented.

Ms. Rios said the expenditure line that said 52%, was higher because of the one-time payments that were made earlier in the year. She said as time passed, that number should correct itself.

Ms. Camacho said the HURF revenues were on target and revenues increased 1% over last year. She said expenditures were below target at only 16% and this was primarily due to budgeted capital expenditures which were spent unevenly throughout the year. She said the deficiency was a planned draw down of fund balance.

Ms. Camacho said transportation sales tax revenues were on target and expenditures were significantly below target. She said budgeted capital expenditures were only at 18%.

Ms. Camacho said revenues in the police special revenue fund were slightly below target and revenues increased just over 4% over last year. Due to a change in the accounting method for enhanced police services, there were no expenditures in the fund and all uses were considered transfers to the general fund. She said transfers out were on target at 50%.

Councilmember Clark was requesting a meeting to follow up on the issue for both the police and fire funds.

Ms. Camacho said the deficiency was a planned draw down of the fund balance.

Ms. Camacho said revenues in the fire special revenue fund were below target and there were no expenditures in the fund. All uses were considered transfers out to the general fund, and those transfers out were on target. She said the deficiency was also a planned draw down of the fund balance.

Ms. Camacho said the first enterprise fund was water and sewer and combined revenues in this fund were on target. Water revenues were significantly above target at 60%. Revenues increased over last year due to an increase in water consumption and water sales as a result of the dryer first half of the fiscal year. Sewer revenues were the same as last year and were on target, with an increase of 1% over last year. Other revenues were significantly below target due to budgeted revenues for improvements to the Pyramid Peak plant, which was still in the planning stage. Expenditures were below target and there were budgeted capital expense projects but only 11% had been expended at the mid-year point.

Ms. Camacho said combined revenues in the sanitation fund was on target and revenues were the same as last year. Other sanitation revenue was significantly above target due to proceeds from auction of obsolete assets. Expenditures were on target due to purchase of replacement capital assets.

Ms. Camacho said landfill revenues were slightly below target. Revenues decreased 11% over last year. The decrease was due to a decrease in recycling revenues due to a continually unfavorable commodities market. She said tipping fees were billed in December, but they were not paid until January and were not included in the report. Expenditures were below target due to capital projects budgeted.

Ms. Camacho said overall revenues showed consistent financial results when compared to the budget. Expenditures were at 50% and staff would continue to monitor fund performance throughout the year.

3. 17-025

FY17-18 BUDGET WORKSHOP

Staff Contact and Presenter: Vicki Rios, Director, Budget and Finance
Staff Presenter: Terri Canada, Budget Administrator, Budget and Finance
Staff Presenter: Tom Duensing, Assistant City Manager

Ms. Rios said the legal process required only two funds, the general fund and the HURF fund. She said the City had multiple funds. She said there was a state-imposed expenditure limitation and staff kept an eye on it throughout the year.

Mr. Duensing said state law required the City have enough resources appropriated to cover the appropriated expenditures. He said the goal was to get the fund balance up to $50 million. Having an adequate fund balance protected the City against any unforeseen costs.

Councilmember Aldama asked if the City had a written policy about when it was appropriate to draw from the fund balance.

Ms. Rios said the City did have a policy which had been adopted by Council. She said it was provided at the back of the budget book. She explained the policy stated, if the fund was drawn down, it would be restored within five years.

Councilmember Aldama asked if it was appropriate to use those funds for settlement of litigation.

Ms. Rios said it was appropriate to use that fund balance for any type of one-time payment. She said the policy was not restrictive on what the funds could be used for, but it did try and follow best practice when using the funds.

Mr. Duensing said use of the fund balance was watched by the rating agencies and use of the City's fund balance had a direct impact on the City's rating. He cautioned the Council in their use for that reason.

Councilmember Aldama asked if there was a dollar amount threshold that would impact the bond rating.

Mr. Duensing said there was no threshold and there were many factors that went into a bond rating. He said the rating agencies were looking at the City favorably because it was doing exactly what it told the bond rating agencies it would do.

Councilmember Tolmachoff asked if staff had discussed how to balance the budget with the possible delay in receiving sales tax revenue from the state.

Mr. Duensing said this was a concern for all cities in the valley. He said it would be several months before staff could get into the data to determine if there were any issues. He said any revenue received after the end of the fiscal year would be accrued back so the financial statements would be correct. He said the fund balance should not be affected.

Councilmember Tolmachoff asked if there was a time period to use the method if tax revenues took longer than anticipated.

Ms. Rios said generally speaking, the rule of thumb was 60 days. However, if substantial sums were received after the 60-day time period, those would be accrued back to the fund. She explained any substantial funds would be accrued back up until the financial statements were issued during the annual audit. She said there were systems in place to get noncompliant taxpayers to properly report and staff was tracking the top 200 taxpayers in Glendale who paid a large portion of the City's revenue. It might be the smaller businesses that would need additional help. Staff had a plan in place to reach out to those taxpayers to assist them and get them into the system.

Councilmember Clark asked what the current fund balance was today.

Ms. Rios said as of the year end, it was approximately $35 million.

Mr. Duensing explained the $50 million fund balance was unassigned, or reserve amount.

Councilmember Clark clarified that the reserve amount was the same thing as the fund balance.

Mr. Duensing said for their discussions that was correct. He explained in a technical discussion, there were several reserves that cities set up and there were several reserves, but for this discussion, they were referring to the fund balance.

Councilmember Clark said in years past, the City drew down the fund balance to pay debt to the NHL. This was viewed unfavorably by the bond rating agencies. She asked if the rating agencies would view the City unfavorable if the fund balance was used one time to pay a portion of a capital improvement project.

Mr. Duensing said it would depend on the degree. He said a $10 million payment might be viewed unfavorably, but a $1 million payment might not be viewed unfavorably. He said the big question was, did the City have a plan to get to the $50 million fund balance.

Ms. Rios said City sales tax was about 44% of the revenue. Other revenue sources came from property tax, state shared funds, transfers in and other sources.

Councilmember Clark asked what other sources of revenue might be.

Ms. Rios said other revenue might be permit or license fees, development fees, or parks and recreation fees.

Ms. Rios said transfers in were transfers from police and fire public safety sales tax. She said police and fire operations were the biggest expenditures from the general fund. She said transfers out and MPC debt was about 14% of general fund expenditures.

Mr. Duensing said Camelback Ranch, arena debt and parking garage debt, represented about $25 million in debt while other cities might only have about $2 million in that type of debt. He explained the debt would eventually grow to about $36 million and then would flatten and stop.

Ms. Rios said other debt included the one-time payment to the NHL, payment to the arena and the parking settlement. She said there were also a couple of large sales tax rebates and membership with the League of Arizona Cities.

Councilmember Tolmachoff asked if payments to the enterprise fund were included in the other category regarding payments to the NHL.

Ms. Rios said those funds were included in the transfers out. She said the payment to the Department of Revenue to administer the TPT was also included.

Councilmember Clark asked how much the City was paying in debt service on the arena each year.

Mr. Duensing said it averaged about $13 million a year through 2033.

Councilmember Clark asked about payments on Camelback Ranch.

Mr. Duensing did not know and would provide that information separately.

Councilmember Clark asked about the debt service on the parking garage.

Mr. Duensing said he would provide a schedule on that as well.

Ms. Rios provided a general fund forecast. Included in that forecast were increased debt costs following in FY17-18, revised arena management fee, the purchase of three fire trucks, stadium settlement agreement, vehicle replacement and general fund capital needs. The capital needs included building maintenance reserve, capital repair at Camelback Ranch, replacement of Fire Department air packs, and an ERP solution.

Councilmember Clark asked how the funds would be disbursed if the ERP solution came in higher than expected.

Ms. Rios said that would be discussed as part of the overall budget process. The overall needs would be identified and decisions would be made.

Councilmember Clark asked if the cost for the ERP was higher than expected, would funds be taken from the other debt items or would additional funds be taken from the general fund, increasing the cost from $6.4 million to $7.4 million.

Ms. Rios said staff would look for some type of funding solution. If there was available reserve, they might just increase the cost or look for Council direction. She said staff would never reduce something that was promised. She said in the case of the ERP system, the bids were in and the short-term cost of that system looked to be lower than expected. Ms. Rios said staff would look to the Council for priorities during the budget workshops.

Ms. Rios said some items not included in the general fund for FY17-18 were retirement contribution rates, sales tax rate assessment, transition to ADOR sales tax collections, potential rates and fee increases, capital needs funding, and opportunities to see or repurpose assets.

ADJOURNMENT

The City Council adjourned at 10:33 a.m.