

LAW AND FINANCE MEETING

Tuesday, November 23, 2009

1:30 P.M.

The Law and Finance Committee scheduled to meet on Tuesday, November 23, 2009, at 1:00 P.M., in the Council Chambers at City Hall was delayed until 1:30 P.M. because a quorum was not present. Mayor Cornelia Olive called the meeting to order at 1:30 P.M. when a quorum was reached. The following people were present:

Law and Finance Committee:

Mayor Cornelia P. Olive	Council Member Mike Stone
Council Member Walter McNeil, Jr. (Arrived at 1:30 P.M.)	Council Member Linwood Mann (Arrived at 1:50)
Council Member James Williams	Council Member Charles Taylor
City Manager Hal Hegwer	Deputy City Clerk Janice Cox
City Attorney Susan Patterson	City Staff

Absent:

Council Member Steve Brewer
Mayor Pro Tem Joe Martin
City Clerk Bonnie White

Consider Presentation of June 30, 2009 Financial Statements – (Exhibit A)

Finance Director Melissa Cardinali and Philip King of McGladrey & Pullen Certified Public Accountants delivered a three-part, power-point presentation to Council: City of Sanford, North Carolina, Report to the City Council; City of Sanford, NC, Results of 2009 Financial Statement Audits; and Fiscal Results Summary for Fiscal Year End June 30, 2009. Points that were emphasized include:

- General Fund Revenue—Revenue came in only 0.5 percent or \$61,778 over budget and \$516,006 less than last year.
- Sales Tax—Came in less than budget by \$310,221—almost \$500,000 less than last year. The sales tax is heavily dependent on local and state economy.
- Utility Franchise Tax—Continues to weaken —extremely volatile revenue source; strong reflection of extreme weather and consumer habits.

Council Member Taylor asked how such a significant increase was budgeted for 2009 compared to budgeting at flat line which would have put us right on line. Mrs. Cardinali said the graph wasn't clear then because the actual for 2008 was \$1.5 million and we budgeted \$1.65 million. What happens with this revenue is when we start to do budget, we have only one distribution and by the time we have sent something to Council, we have had two distributions. Mrs. Cardinali stated that two of the four is not much of a trend, so we rely on the League of Municipalities. They give us a letter every year stating what they expect to happen across the state and in our area. We budgeted \$140,000 more than we got in 2008 and it actually came in at \$1.46 Million. Because of the weather it is very hard to target.

- Investment Income—Dramatically reduced investment income at \$52,271 over budget. Investment income is influenced by interest rates and dependent on strong fund balance.
- Ad valorem Tax—Consistent with total collections; came in \$411,737 or 3.6 percent over budget.
- General Fund Revenue—2009 Actual: Ad valorem, 50 percent; Other Taxes, 22 percent; Licenses/Permits, 1 percent; Intergovernmental, 16 percent; Investment Income 1 percent; Sales/Service, 7 percent; and Miscellaneous, 3 percent.
- General Fund Expenditures—Compared with budget, expenditures were significantly less than anticipated, coming in at \$2,528,871 (9.8 percent) below budget. The primary savings were: the fire pumper final payment of \$246,994 was made July 9; police/fire salaries were under by \$301,589; street operating savings of \$484,562; incomplete paving, \$227,876; street lighting enhancements still in process, \$104,745; and shop savings of \$316,662—fuel prices less than anticipated.
- Fund Balance—Total \$13,880,861 with \$10,956,925 available for appropriation; \$924,777 designated for use in FY 09-10; unreserved fund balance is \$10,032,148 after designation.

Mrs. Cardinali emphasized that Fund Balance is not used for recurring expenses, but for one-time expenses. Mayor Olive asked what Fund Balance level should be maintained in order to be classified as a strong fund balance for our bond rating. Mrs. Cardinali explained that this is one component of the bond rating and there is no magic number. It would be looked at in conjunction with the prospects for the city—how we manage things financially; there are a lot of different variables, but this would be one of them; not the only one. Mayor Olive explained that she wondered if we would be in the same shape if we had \$8 million rather than \$10 million. Mrs. Cardinali said that they would probably look at comparatives with other cities of similar size and nature. Mayor Olive asked if we should do a comparative study of what other cities are doing, so we would know how we would rank. Mrs. Cardinali responded yes, and we could work with the financial advisors City hired to look at that. Council Member Stone said he would be interested in seeing how Sanford rates in the comparison.

- Purpose of Strong Fund Balance—cash flow provides the ability to pay vendors and meet payroll; requires a minimum of \$3 million monthly and provides interest income; covers emergencies such as natural disasters, potential loss of revenues (ex. state shared); leads to favorable credit rating from ratings agencies/banks—important for issuance of bonds for WWTP expansion. This revenue is not available for recurring expenses.
- Utility Fund Expenses -- \$2,422,333 or 15.5 percent less than budget. Primary Savings—engineering – vacancies; water C&M—position vacancy and supplies; capital improvements—water/sewer line adjustments 421 Bypass project not underway at year end, \$800,000; improvements at WWTP not complete at year end, \$149,000.
- Central Business Tax District Fund –Revenue came in over budget by \$4,362 or 7.8 percent, primarily due to ad valorem tax collection and the tax collection rate increasing slightly from 96.82 percent in 2008 to 97.56 percent; expenditures were under budget \$10,854 or 9.0 percent; Fund Balance increased by \$585.

Mr. Phillip King of McGladrey & Pullen thanked the Council for the opportunity to serve the City of Sanford, to make this presentation of the results of their audit findings, and to show the

scope of the work they do. He stated that the City had applied for the Certificate of Achievement for Excellence in Financial Reporting since 1981, and had received it twenty-seven consecutive years. He congratulated the City on this achievement. His presentation included:

Overall Audit Results

- Unqualified opinions on the basic financial statements as of and for the year ended June 30, 2009
- Unqualified opinions as required under *Government Auditing Standards* as of and for the year ended June 30, 2009
- Unqualified opinions as required under OMB Circular A-133 as of and for the year ended June 30, 2009
- Unqualified opinions as required under State Single Audit Implementation Act as of and for the year ended June 30, 2009
- Special reports to be issued: Data Collection Form (related to Single Audit)

Key Audit and Accounting Issues

- Current Year—Other Post Employment Benefits (OPEB) Trust Fund—First year implementation; Reliance on Other Auditors—Other auditors audit and report on the City of Sanford ABC Board
- Anticipated for Next Year—American Recovery and Reinvestment ACT (ARRA)—White House Transparency agenda increased the number of requirements for receiving federal grants.

Results of Single Audit

- Unqualified opinions issued for reports required under Office of Management Budget (OMB) Circular A-133
- Unqualified opinions issued for reports required under NC State Single Audit Implementation Act
- No identified current year findings or questioned costs
- Prior year finding was corrected
- Programs tested as Major-- Wyeth-Lederle, NC Department of Transportation, NC Rural Economic Development Center, 11.300, Powell Bill, Harkey Road Water Tank
- Special reports to be issued—
- Data Collection Form (related to Single Audit)

Required Communications and McGladrey & Pullen's Responses

- Material changes in the process used by management in formulating sensitive accounting estimates and basis for conclusions regarding the reasonableness of those estimates—There were no material changes noted in management's process during the review procedures.
- Audit adjustments—No adjustments were proposed by McGladrey & Pullen, LLP.
- Uncorrected misstatements—No uncorrected misstatements were noted during the review procedures.
- The initial selection of, or changes in, significant accounting policies or their application during the current period—The City adopted GASB Statement 45, Accounting and

Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. This statement establishes standards for the measurement, recognition, and display of expenses/expenditures and related liabilities (assets); note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers for post employment benefits (“OPEB”). There were no other significant new accounting policies nor have there been any changes in existing significant accounting policies during the year.

- Methods used to account for significant unusual transactions for which there is a lack of authoritative guidance or consensus—The engagement team has not noted any methods used to account for significant unusual transactions for which there is a lack of authoritative guidance or consensus.
- Alternative treatments within GAAP for accounting policies and practices related to material items—No alternative treatments within GAAP were noted relative to material items.
- Disagreements with management – There were no disagreements with management during the review procedures.
- Consultation with other accountants—Not aware of consultations with other accountants.
- Difficulties encountered in performing the engagement—No difficulties were encountered in performing the audit.
- Significant deficiencies and material weaknesses in internal control—There were no significant deficiencies or material weaknesses identified during our audit of the financial statements or of the Internal Control Over Compliance in Accordance with OMB Circular A-133 and the state Single Audit Implementation Act.

Consider Recommendation of Financing Terms for City Hall Renovations-- (Exhibit B)

City Manager Hal Hegwer explained that earlier when looking at the budget and gaging the local economy, borrowing \$350,000 had been recommended to Council for the City Hall renovations which included the area around the Human Resources Department. Mr. Hegwer stated that some areas had been cleaned up in terms of some plumbing, and aesthetically improved, and based upon the prices they have received in the contracts they have engaged in, Mr. Hegwer stated the he does not feel they will need the entire amount. He said he hoped to come back to Council as more of these projects progress, with perhaps a reduced amount.

Council Member Stone asked if we had done anything else on the remodeling project other than architectural and engineering. Mr. Hegwer said that bids had been received and one of the break rooms has been renovated, and they have another project in the West End Conference Room and in the Police Department plus some general cleaning, painting, etc. in the bathrooms, locker rooms, and exercise room. Mayor Olive stated that City Hall, for its age, is in fantastic condition. She stated that that is because the maintenance has been routine and methodical.

Finance Director Melissa Cardinali explained that they need a directive from Council because if they are going to borrow the money, they have to get permission from the State Treasurer’s Office and Local Government Commission, and we are on a tight time table to make that happen at their first meeting in January. We would need to let the bank and the LGC know

we are not going to borrow the money. If Council wants to go ahead with the loan, it would need to be brought before Council Tuesday night as planned. Mr. Hegwer stated that he could bring an updated schedule of what has been done and what we anticipate for the next Council meeting.

Council Member Stone asked for clarification that either we would take a loan out for the money or put it in this year's General Fund. Mrs. Cardinali said it had been presented to Council as an installment purchase alone in the budget. Because the numbers are not what they thought they would be eight months ago, the alternative would be to take it out of the General Fund, Fund Balance versus putting a lien on City Hall property for such a small project. Mr. Stone said he thought it was a great idea, but he would like to know the list of items we were willing to cut because it would still be around \$200,000. Mr. Hegwer stated that we were not cutting anything. Mrs. Cardinali said it was the same amount of work and the same projects; they were just getting more "bang for their buck." Mr. Hegwer said instead of one massive project, it has been broken down into smaller projects, and the major part has come in at about half of what they had expected.

- Resolution Approving Financing Terms for City Hall Improvements-- (Exhibit C)
This item was put on hold based on new information presented above.
- Resolution Authorizing the filing of an Application for Approval of a Financing Agreement Authorized by North Carolina General Statute 160A-20—(Exhibit D)
This item was put on hold based on new information presented above.

Consider Report on CVS Caremark Prescription Discount Card – (Exhibit E)

Community Development Manager Karen Kennedy reported that the City began this program January 21, 2009, and she has received monthly reports. She stated that in the first several months, she had been swamped with people interested in the card, and she still gets phone calls. Information about the program is available on our local television channel, the city's website, and at locations around town. Mrs. Kennedy shared a report from the National League of Cities which showed that Sanford is in the number two spot in North Carolina for savings. She now has the cards in Spanish, and has not had any phone calls that people have had problems at the pharmacy. She believes the program has been successful. The report shows that the city has had 1,085 participants as of the end of October 2009.

Council Member Taylor asked if the City tracked the source from which the requests came. Mrs. Kennedy said she kept a record of those through her office, but could not track those who picked up the cards at different locations. Mr. Taylor asked how awareness of the program could be increased. Mrs. Kennedy said the newspaper helped some, but had printed some incorrect information. Mr. Taylor was interested in having the information available at places such as the Employment Security Commission. Mrs. Kennedy said she would deliver the cards to them tomorrow. Council Member Williams noted that the information had been available at some of the churches. Mrs. Kennedy stated that the cards are also available at the Helping Hands Clinic.

Consider Acceptance and Approval of CDBG-R Grant Agreement and Funding Approval Documents—(Exhibit F)

Community Development Manager Karen Kennedy explained that the Community Development Department has received its first ARRA stimulus funding grant within their section. The grant agreement, Code of Conduct and Conflict of Interest Policy, and funding document need to be approved by Council. Attorney Patterson has recommended changes in the Code of Conduct and Conflict of Interest Policy. Those changes will appear in the document for Tuesday's council meeting. The project budget ordinance sets up the budget amount of \$506,413. She noted that this project is to work with Haven to build a new shelter and office building. There are other levels of funding in addition from the CDBG project to make up the entire funding. The total cost of the project is \$1.7 million.

Kate Rumely, Director of CDBG, explained that the funding for the Haven project is coming from the Housing Finance Agency --\$0.5 million, from the Federal Home Loan Bank of Atlanta--\$350,000, from the American Recovery Act--\$503,413, and from Deferred Development Fee from Brick Capital Development Corporation--\$50,000. Haven is raising a total of \$150,000. This is going to be a totally new project that is "green" built.

- Authorization for Mayor to Execute Documents—(Exhibit G)
- Resolution Concerning Community Development Code of Conduct and Conflict of Interest Provisions—(Exhibit H)
- Project Budget Ordinance—(Exhibit I)

Council Member Williams asked if there was any stimulus money available for housing rehabilitation projects. There was not.

Consider Authorization for the Mayor To Sign Contract Documents for the East Sanford Survey for the Nomination to the National Register of Historic Places—(Exhibit J)

Historic Preservation Planner II Liz Whitmore explained that the City has received a grant to conduct a survey of East Sanford Historic District for nomination to the Register of Historic Places. This is the contract that came from the state. Attorney Patterson has reviewed the document. Council Member Stone asked what concerns they had had with the contract. Mrs. Whitmore explained that the federal documents say that a minimum of three to five meetings must be held at the beginning. The state document states that we will have one meeting at the beginning of the process. Also, it appeared that in the payout, a lot of money went out early, but Mrs. Whitmore explained that is because that is when the bulk of the work is done.

Consider Resolution Authorizing Use of GOVDEALS Electronic Auction To Dispose of Certain Personal Property of the City of Sanford — (Exhibit K)

Fleet Maintenance Supervisor Randy Paschal said the property involved is a 2000 International truck with a jet vacuum body; the new jet vac truck has been received. As soon as everything gets switched over to the new truck, Mr. Paschal stated they would like to sell the old one online through GOVDEALS.

Council Member Taylor asked if there was an assessed value for the old truck. Mr. Paschal responded that they have been looking at what they are now selling for on GOVDEALS

and the market is flooded with them and they range from \$25,000 to \$60,000, depending on what type of truck it is and whether it is a single axle or tandem axle. The tandem axle will bring in the most money; ours is a single axle. The new truck is a tandem axle. The GVW on the old truck is 41,000 and the GVW on the new truck is 66,000.

City Manager Hegwer asked Mr. Paschal to talk about our process with the electronic auction. Mr. Paschal explained that we have sold several items on GOVDEALS website. We had a rodder machine and a backhoe on our auction last September that did not meet reserve and we moved them over to GOVDEALS. The rodder machine did not receive any bids at our auction, but it sold on GOVDEALS for \$2,000—which was our reserve amount. The backhoe brought a bid of \$11,600 at the auction, but went for almost \$14,000 on GOVDEALS. We've compared cost of holding an annual auction and with GOVDEALS charging 7.5 percent on each item we sell, it comes out about even. When we surplus something out now, we sell it on GOVDEALS immediately, and Mr. Paschal says that is when we will get the most money.

For example, Mr. Paschal stated that if we keep the old jetvac for the public auction, it won't be sold until September 2010, giving time for the battery to go dead, fuel pumps to go out, and tires to become flat. It is the same for the police cars and pickups. It is more cost effective to sell them as soon as they become surplus.

City Manager Hegwer stated that one advantage of using GOVDEALS is that the cars don't sit around, but sell quickly. Also, you pick up a tremendous number of bidders. Local bidders can buy on GOVDEALS. It gives us a nationwide audience, but is available to local bidders, too. Currently, Mr. Hegwer explained, a resolution must come before Council to put items on auction. City Attorney Patterson explained that currently the law allows City to dispose of up to \$30,000 of personal property. Council can delegate that to the city manager, his designee, or whomever you choose to dispose of those items on an electronic auction, if Council chooses. They would then report once a year or more often about what was sold and how much it brought. Currently, the manager has the authority of \$5,000. If Council chooses, we will bring a resolution to allow you to modify that. Mr. Paschal said they would still advertise on the local television channel and the City's website. Mr. Hegwer thought it was a more efficient method and could bring in more money.

Council Member McNeil noted the advantage of selling surplus items right away by not having to wait for a yearly auction. Mr. Paschal said the account could be set up so that the bidder pays GOVDEALS and GOVDEALS pays the City. Auctioneers bid for the position each year at City Hall.

Council Member Stone stated he was excited about going to GOVDEALS; he said he would like the auction list to be devised four times a year instead of once a year and bring it before Council so that people in the community will be sure to have a chance to bid. Mr. Paschal stated it was something they could try and see how it works.

Council Member Stone asked about getting someone from the state in to talk to council about sales tax revenue from the state so that we can look at this year and start planning for next year.

Other Business

Council Member Taylor thanked Law Enforcement Officers for their work on the prostitution problem, noting that there had been ten arrests. He stated that he was glad to see Code Enforcement out this past weekend working on the itinerant merchant situation. He mentioned issues with banners and signs which may be attributed to new businesses and promotions. He thought Council should look at how to get the message out about what is allowed and what is not allowed. He thanked the staff and people who serve the community and wished everyone a happy Thanksgiving.

Mayor Olive mentioned that the Bread Basket had been having a shortage of turkeys this year; she has learned today that they have plenty of turkeys, but they don't have as many hams as they would like to have. She wished everyone a happy and safe Thanksgiving and encouraged people to shop locally on "Black Friday."

Council Member McNeil asked if anyone knew who the man is who goes down Horner Boulevard with a bucket picking up trash. Mr. Williams thought he lived in the Wilrik Building. Mr. McNeil thought it might be good to recognize him for his work. Mayor Olive suggested to Historic Preservation Planner II Liz Whitmore that that might be something to go before the Appearance Commission. Mayor Olive noted Lespie Smith who has done the same thing in the Forest Hills community for years. Mayor Olive noted that people doing things like this need to be acknowledged, and asked that their names be submitted to Mrs. Whitmore. She mentioned that when we lost the last industry, one of the comments made was that they thought there was a lot of trash on our streets. Mayor Olive stated that our Public Works Department does a great job, but there is no way to stay abreast of trash that is thrown out everyday from cars. Mayor Olive stated that this is an economic development issue, not exclusively an aesthetics issue.

Council Member Taylor stated that a member of our community, Noelle Marsh, is in the final portion of the "So You Think You Can Dance" competition, and he thought it would be nice to honor her for putting Sanford on the map in a whole different regard. He said he hoped people would support her in the voting, too.

Adjournment

Having no further business to come before the Law and Finance Committee, the meeting was adjourned upon motion of Council Member James Williams and seconded by Council Member Mike Stone.

Respectfully submitted,

CORNELIA P. OLIVE, MAYOR

ATTEST:

Janice Cox, Deputy City Clerk

