

**City of McMinnville
City Council Audit Committee
Meeting Minutes**

Date: September 28, 2011, 7:30 a.m.

Audit Committee: Kellie Menke, City Councilor
Scott Hill, City Councilor
Travis Parker, Budget Committee member

Staff: Kent Taylor, City Manager
Marcia Baragary, Finance Director
Ronda Gretzon, Senior Accountant
Murray Paolo, I.S Department Director

Handouts: Fund Balance Policy memo
Fund Balance Policy for the General Fund
I.S. Strategic Plan - Draft

Update from Kent

The City sold refunding bonds to refinance the 2001 Park System Improvement Bonds yesterday. The refinancing will result in a savings of nearly \$1,000,000 over the remaining life of the bonds. The true interest cost is 1.6%.

There was discussion at the City Council meeting last night regarding the sewer rates. The increased rates will help the city fund future projects without needing to issue new debt.

Fiscal Policy

Marcia handed out the draft Fund Balance Policy for the General Fund and explained that Bob Wells had participated in creating the policy. Marcia reviewed other entities' fiscal policies and found that they varied widely. To develop the policy, the City's cash flow, trends, probability of emergencies, and fiscal forecast were all taken into consideration.

The policy recommends that the General Fund balance be maintained at 25% of annual budgeted expenditures. This ensures adequate cash flow to cover operating expenditures from July through October, until current property tax revenues are received in November. The 25% calculation would include any balance that has not been restricted. For example, the Library endowment is restricted and would not be included in the calculation. The fire truck reserve is not restricted and would be included in the 25% calculation.

Bob explained that he feels the City is in a great position. When the City developed the three year fiscal forecast in 2009, it became obvious that the City was spending down the reserves that had been accumulated at a rate that was not sustainable. The City responded by slowing the rate of the reserve spend down. Bob explained that when creating a fund balance policy there is no defined formula; the policy should be based on community need. Bob also recommended review of the fund balance policy during the budget process. Best practice is to review the policy at that point and determine if the policy is still appropriate.

Marcia mentioned the recent discussion with Moody's Investors Services regarding the City's credit rating for the 2011 Refunding Bonds. Moody's cited the City's sound financial operations and ample reserves in their decision to maintain the City's favorable Aa3 rating.

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Kent said this policy helps him to explain to the community and to employees why we maintain the reserves at a certain level. Kent also explained that this policy does not bind the hands of the Council or the Budget Committee. The Council can decide to step outside the policy.

The next step will be for Kellie and Scott to recommend the policy to the full Council on October 11th.

Fiscal Forecast

Marcia indicated that last June we expected the General Fund ending balance to be \$6.4 million, but when we closed fiscal year 2010-11, the actual ending balance was \$6.9 million. She explained that part of the increase is due to budgeting 8% uncollectible property taxes, but 95% were actually collected. She thinks foreclosures are increasing collection of delinquent taxes. Also, franchise fee revenue from McMinnville Water and Light came in higher than expected and all departments had savings at the end of the year.

When Marcia updated the fiscal forecast with the actual 2011-12 General Fund beginning fund balance, the ending fund balance for 2013-14 was above the 25% goal identified in the Fund Balance Policy. However, she stated that the Yamhill County Tax Assessor is cautionary regarding property tax revenues. Also, 2013-14 PERS rates are unknown. Finance will continue to update the fiscal forecast as we move forward. Marcia will send Assessed Value and Real Market Value numbers for 2011-12 to Audit Committee members when they are available.

A change that occurred this year is that the volunteer firefighters' Length of Service Award Program (LOSAP) funds have been recorded in the General Fund. The auditors, as well as representatives from the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA), indicated that LOSAP funds should be recorded as an asset in the General Fund, as we are not required by the Plan Document to continue the Plan. The funds are not legally restricted, but we have recorded the \$400,000 in Plan assets as a designated balance in the General Fund and will track the funds separately. Scott asked if the program was funded and at what percent. Marcia indicated that there is an actuarial valuation completed each year. Marcia also explained that Chief Leipfert has been reviewing the effectiveness of the LOSAP. He feels that the Plan is not as appealing to the younger volunteers and there may be other incentives that would be more attractive to them. Scott and Kellie felt there should be additional discussion regarding LOSAP assets in the future.

Audit

The goal for Finance is to have the financial statements drafted and notes completed before the auditors come in mid-November. Marcia feels that we are on track to meet that goal.

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Finance Staff Changes

We are currently recruiting for a new Technical Services Accountant. The recruitment is scheduled to close on October 10th, with the goal of having someone hired by the end of November. The position requires a CPA with governmental accounting experience preferred. In the meantime, we have a temporary accountant coming in to help prepare for the audit. He is experienced in audit workpaper preparation and is expected to be here from October through November. Marcia said she feels that Finance has an excellent system and strong internal controls in place that are not dependent on one person.

I.S. Strategic Plan

Murray distributed the draft of the I.S. Strategic Plan and Kent began the discussion by indicating that Murray would present a brief overview. He asked the Audit Committee members to review the Plan and provide comments to Kent by October 15th. Kent will distribute everyone's comments to the Committee.

Murray explained that there had been several drafts of the Plan with input received from I.S. Department staff and department heads. He feels it was a positive process, although keeping it a strategic plan and not a tactical plan was a challenge.

Murray outlined the Plan by explaining that page 3 provides a background of the I.S. Department and states the purpose of the Plan. Page 4 includes a Mission Statement and describes how the Plan is intertwined with City Council goals and objectives. Page 6 includes the strategic pillars, with the following pages including the vision, goals, and objectives to reach those pillars. The last page explains how and when this plan will be kept updated.

There being no further business to come before the Committee, the meeting was adjourned.