MURRAY
CITY COUNCIL

MURRAY CITY MUNICIPAL COUNCIL
COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, January 3, 2012, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

Members in Attendance:

Jim Brass	Council Chair
Dave Nicponski	Council Member
Darren V. Stam	Council Member
Jared A. Shaver	Council Member
Brett A. Hales	Council Member

Others in Attendance:

Michael D. Wagstaff	Council Executive Director
Dan Snarr	Mayor
Jan Wells	Mayor's Chief of Staff
Frank Nakamura	City Attorney
Janet M. Lopez	Council Office
Peri Kinder	Valley Journals
Joe Canepari	Finance
Pat Wilson	Finance Director
Ed Erickson	Auditor
Robert Wood	Auditor
Brenda Moore	Finance
Blaine Haacke	Power General Manager
Sally Hoffelmeyer Katz	Citizen
Jennifer Brass	Citizen
Mallory Rogers	Citizen, Miss Murray
Doug Hill	Public Services Director
Tim Tingey	ADS Director

Chairman Brass called the Committee of the Whole meeting to order at 5:30 p.m. and welcomed those in attendance.

Minutes

Mr. Brass asked for corrections or action on the lengthy minutes from the Strategic Plan Retreat held on November 28 and 29, 2011. Mr. Shaver moved approval as written. Mr. Stam seconded and the motion was approved 5-0.

Business Item #1: **Fiscal Year 2010-2011 Financial Statement Audit Review – Pat Wilson**

Ms. Wilson introduced the finance staff of Joe Canepari and Brenda Moore. The City's outside auditor is the firm Hansen, Bradshaw, Malmrose & Erickson with Ed Erickson and his associate Robert Wood working directly with Murray. Ms. Wilson asked the Council Members to introduce themselves.

Mr. Erickson mentioned that Murray had been a client for several years and stated his appreciation for the relationship with the city officials and staff. His intent was to touch on a few of the highlights of the Financial Statements and then allow Mr. Wood to talk about internal controls, matters and findings that were found as a result of the audit, as he was the manager on the audit.

The document is about 120 pages and he welcomed questions through the presentation. The City has received a Certificate of Excellence (page 7) for 2010 and the last 30 years. A small percentage of cities actually receive this award. The staff should be commended for meeting all the requirements. The City continues to implement suggestions and comments. The Auditor's Opinion is contained on page 9 on the Financial Statements of the City. He pointed out that the Financial Statements are presented fairly in all material respects in accordance with accounting principles generally accepted in the United States. It is a clean opinion with all reporting done as it should be.

A management discussion analysis is found on pages 11 to 22. This is the only place in the document to view a two-year comparison at a very high level. This allows one to see any trends and direction for the City. Page 14 has a high level balance sheet showing assets and liabilities in two categories. There are Governmental Activities: General Fund, Capital Projects, RDA, etc. and the Business-Type Activities: enterprise funds. The Total Assets of the City grew just slightly, from $206 million to $207 million and the debt (Total Liabilities) dropped from $66.5 million to $60 million. The bottom line, City's equity in assets, went from $139.7 million to $146.8 million.

Mr. Erickson pointed out that the schedule on the next page explains how that happened by showing the revenue and expenses during the year. At the top of the page is revenue detailing that the Governmental Activities grew from $38.9 million in 2010 to $41.5 million in 2011. Business-Type Activity revenue grew from $45 million to $53 million. Total Revenues went up from $84 million in 2010 to $94.5 million in 2011. The real positive, on a full accrual basis including depreciation, assets, debt and long term debt, the expenses went from $44.6 million to $43.3 million in Governmental Activities. This shows that the city has been aware of the tight economy and has been careful on expenditures.

Mr. Erickson indicated that this has put Murray in a situation with too much money in its General Fund balance under state law. The state will send a letter; however, fortunately it will not impose a penalty. There was some discussion regarding legislation on this matter.

Mr. Shaver asked about the increase and decrease before transfers. Mr. Erickson stated that due to efforts to reduce spending the Governmental Activities went from a loss of $5.7

million before transfers to a loss of $1.7 million amounting to a $4 million improvement. This is a positive statement to make. It is very common for cities to transfer money from the enterprise funds, which are profit oriented, for the cost of operating the government. The transfer from the enterprise funds of $3.6 million for their share of administrative costs put the City is a positive position for the year. This is where the General Fund Balance grew and the state requires the auditor to make a formal finding of that.

The Business-Type activities show before transfers a loss of $146 thousand in 2010 and a profit of $8.8 million in 2011. This amounts to a $7.1 million increase in net income citywide for the year. This is the full accrual basis, which does include infrastructure built by developers Mr. Wood pointed out. It is an asset but not additional money in the bank.

Ms. Wilson suggested looking at some of the key elements that contributed to these increases. Bullet points on page 14 show that the management decided to pay off some leases, using sales tax bond proceeds, which are allowed to repay the General Fund. That helped with some payments that then did not have to be paid. The ambulance leases have also been paid off; however, that occurred in the next fiscal year. Now there are no leases remaining in the Governmental Fund. Another item was the Water Fund that purchased land from the General Fund. Additionally, Ms. Wilson explained that there was more revenue from sales tax because the “floor” amount does vary somewhat amounting to $400,000 more than budgeted.

Mr. Nicponski asked where the revenue used to pay off the ambulances came from. Ms. Wilson responded that the RDA sales tax bond from 2009 had some proceeds remaining and these funds were used to reimburse the General Fund for some expenses it incurred on behalf of the RDA. That money in turn paid off the ambulance lease reducing liabilities in the General Fund.

Ms. Wilson noted that on the top of page 17, are the highlights of why the enterprise funds did so well in the fiscal year. Fiscal year past all the funds ate into their reserves; however, this fiscal year all built reserves with the exception of the golf fund. The Power Department refunded the Series 2001 bonds with Series 2011 reducing the interest and lowering the payments. The Storm Water Fund received ownership of two water retention ponds contributing land worth $2.3 million. Transfers of payment in lieu of taxes (ILOT) and cost reimbursement amounted to $3.3 million. Due to completion of construction renovations at Fashion Place Mall the power department was able to have deposits of $617,000 released to them.

On page 16, Ms. Wilson commented that the graph shows the City’s revenue sources. You can see that the majority of revenue does come from sales and energy tax. The previous year’s graph was 29% showing a drop to 28.3% in this audit year. Property tax contributes 21.7% down from 23% the previous year. Revenues have shifted some. Charges from services were 20% previously and now it is at 21.5%. The bottom bar graph shows program revenues in comparison to expenses. The expenses are greater than all the program revenues, which is expected and supplemented with property and sales taxes.

Page 17 indicates that the Business-Type Activities draw the majority of revenues from fees for services. Grants and interest income make up the remainder of revenues in the business funds, Ms. Wilson explained. The bar graph on that page shows that the revenue is higher than the expenses, which is what you hope for.

Mr. Erickson suggested that the group look at the schedule on page 24, which is the numerical information that was contained in the graphs Ms. Wilson just discussed.

Page 25 is the Balance Sheet for the Governmental Funds, Mr. Erickson remarked. It is divided into the General Fund, Capital Projects Fund and Other Governmental Funds. Ms. Wilson said the other funds included there are: the Municipal Building Authority, Library, RDA, Community Development and the Cemetery. The detail for those funds can be found on page 65.

Most interest is in the General Fund with $25 million in assets and $12 million in cash. Receivables include property taxes that were assessed the first of the year; but do not come in until the end of the year. Notes Receivable is from the Sports Mall of $1.4 million and the restricted cash of $407,000 is the amount left in the UTOPIA reserve and is not in City control. In capital projects the $1.4 million is the bond proceeds remaining. The bond funds are also restricted to be used for property in the downtown area and a small amount of capital projects is carry over for road projects.

The General Fund has $12 million in liabilities leaving a fund balance of $12.7 million. Some new terminology has been required such as the “nonspendable” amount of $20,000. That is money that is in land. Restricted money is an external reservation. Another new term is “assigned” that is not restricted legally, but it is assigned to be used for a specific purpose. The only unassigned is $10.5 million in the General Fund. It is a healthy number at about 24.9%. This is above the legal limit of 18% in reserves. A letter from the State Auditor will arrive asking the City to appropriate those funds that are over the legal limit. Mr. Brass stated that it is a moving target based on revenue that varies up and down. It is an educated guess.

Ms. Wilson clarified that page 42 explains how the state would like these terms to be used. Mr. Erickson referred to “committed” fund balance that are funds committed by the City Council for a specific purpose through formal action by ordinance or resolution.

Looking at the enterprise funds the total assets are on page 31 of $106 million. The non-major funds are the golf and solid waste. Page 32 and 33 show the net assets. Total net assets are almost $73 million. Mr. Erickson expressed that of the $73 million, $55 million are invested in capital assets, of which enterprise funds are capital intensive. This is equity that cannot be spent because it is tied up in assets.

Mr. Shaver asked everyone to turn to page 59 and he addressed the Risk Management fund and the desire of elected officials to fund that in a way to get out of the insurance business and become self insured. He asked what this is saying on page 59. Ms. Wilson and Mr. Erickson confirmed that this is an internal service fund on page 73. It has been funded with $1.4 million of cash and an estimate of liabilities accrued is estimated at $250,000, which may be low and need increasing in the coming year. This money has been set aside to pay those claims.

Mr. Shaver asked how much is recommended to be in reserve for this purpose. Mr. Nakamura stated that it is worth looking at. The insurance deductible is $250,000. Mr. Shaver said that during the budgeting process the council will consider what level that fund should be. Ms. Wilson stated that the enterprise funds have not been run through the retained risk fund and it may be something the City wants to do. If so, then some of the funding should come from the enterprise funds. What has been accumulated thus far is from the General Fund and enterprise funds pay their own right now. Mr. Nakamura said it really makes sense.

Mr. Shaver wants to discover what that scenario creates, if the Council were to do that. If the entire City were included, what should be saved, how would it be done and what number would need to be met to feel comfortable with it. Mr. Nakamura added that we could look at property insurance to become self insured in that area, as well. Mr. Brass confirmed that it should be discussed at mid-year budget time.

Mr. Nicponski asked if the OPEB would ever decrease or continue to increase. Mr. Erickson responded that there have been some changes on what the City offers its retirees, so that will affect the future numbers. Ms. Wilson said that the post retirement benefits were changed after the early retirees left. Who is able to stay on the insurance was adjusted so that after this year there will be lots of changes. An actuarial study will be done every two years.

Mr. Wood addressed additional reports. The internal control and compliance on financial statements is found on page 102. The auditors note states "certain deficiencies in internal controls over financial reporting, described in the accompanying Schedule of Finding and Responses as item 11-1 that we consider to be significant deficiencies in internal control over financial reporting." Also noted was the fund balance and items 11-3, 11-4 and 11-5. Another item is 11-2. He planned to explain these further.

On page 103 is the report on the State of Utah Legal Compliance Audit Guide, which must be completed on every governmental agency in the state. This covers how debt is managed, cash management, publishing budget, amending the budget, contributions to the Utah Retirement System and many other areas listed on that page. Page 104 notes other instances of non-compliance based on the auditor's work in covering those different sections.

Page 106 details item 11-3 regarding "unclaimed property." This refers to a governmental entity that holds unclaimed property for more than one year. If a check has not been cashed then information must be submitted to the State Division of Finance. They will publish that information. November 1 is the deadline for filing this report, which had not been done in a timely manner. Ms. Moore will be responsible for this filing in the future and she commented that the amount was about $12,000.

Item 11-4 relates to the Fund Balance. This is calculated by taking the assigned and unassigned balance and comparing it to the next fiscal year's revenues. The calculated percentage was 24.9%. The state law indicates a minimum of 5% and maximum of 18% is allowed. It has previously been discussed and is not a bad situation to be in.

Ms. Wilson read her response to this finding, "Uncertainty of the impact of economic conditions on the revenues of the City prompted very conservative fiscal year 2011 budgeting. Management did not expect to have such favorable general fund balances at year end. Certainly this gives the City an opportunity to amend the FY2012 budget using resources toward projects that are currently being identified in a strategic planning process which has been undertaken within the City."

Mr. Nicponski asked how much money makes up the difference. Ms. Wilson stated that 18% would be a little over $7 million, and the current fund balance is about $10.4 million. That leaves a difference of $3 to $4 million.

The final comment on State Legal Compliance is item 11-5 on the Justice Court. The State requires that the CORIS system be reconciled with the City's General Ledger account. This involves funds for court bails, restitutions, and unidentified receipts. The court does not disperse, that is done by the City finance department. That reconciliation had not been completed in a timely basis, additionally; the court had not updated its system making a difference of $57,000 outstanding. The finance department cuts the check based on a judicial order so this finding is to give the court head's up to clear these items. The court has been working to get this cleaned up.

Financial statement findings on page 105, item 11-1 refers to certain accounts that had not been reported yet when the auditors received the trial balance to start it audit. The review of the journal entries showed too many entries and adjustments to accounts. This may have occurred because of staff turnover; however, Mr. Wood felt it should be brought to management's attention. All corrections have been made and the financial statement is a fair representation of activities.

Number 11-2 is in reference to some Park and Recreation accounts. Donations have been recorded into an asset account. This money should go into a revenue account and when expenses are paid they should be recorded as such. Another finding was noted in the CLASS system that is used for memberships. Reconciliation was not being done between that accounting system and the General Ledger account to update the deferred revenue. All of this is corrected and Ms. Moore will make sure that it does not occur next year.

Ms. Wilson asked the Council to turn to page 85 and pointed out that upon her retirement she was leaving the City in good shape. This schedule shows that the fund balance in the General Fund is the highest it has ever been for the past ten years.

Mr. Wood also mentioned that he prepared a separate three page report of standard language that tells what was done, what the City does and representations made. The only non-standard item is where adjustments were made.

Mr. Brass thanked Mr. Erickson, Mr. Wood and Ms. Wilson and adjourned the meeting at 6:30 p.m.

Janet M. Lopez
Council Office Administrator