

FINANCE COMMISSION MINUTES
Monday, February 8, 2016 - 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairman, Peter Gorry; Vice Chairman, Glen Brovont; Members: Kathryn Barton, John Smith, Alternate Member #1, Daniel Stump and Alternate Member #2, Victor DeMattia
Also Present: City Manager, James O'Connor; Finance Director, Cindy Lawson and Deputy City Clerk, Sherri Philo

Excused Absence: Nathan Polackwich

1. CALL TO ORDER

Today's meeting was called to order at 2:04 p.m.

Mr. Gorry welcomed their new member, Mr. John Smith to the Commission.

Mr. Smith gave a brief background on his experience.

2. ELECTION OF OFFICERS

A) Chairman

Mr. Brovont nominated Mr. Peter Gorry for Chairman of the Finance Commission. There were no other nominations. Mr. Peter Gorry was unanimously appointed Chairman of the Finance Commission.

B) Vice Chairman

Mr. Gorry nominated Mr. Glen Brovont for Vice Chairman of the Finance Commission. There were no other nominations. Mr. Glen Brovont was unanimously appointed Vice Chairman of the Finance Commission.

3. APPROVAL OF MINUTES

A) November 12, 2015

The minutes of the November 12, 2015 Finance Commission meeting were unanimously approved.

4. PUBLIC COMMENT

None

5. FINANCE DIRECTOR'S MATTERS

A) Discussion Regarding Potential Elimination of Electric Utility Impact Fees

Ms. Cindy Lawson, Finance Director, briefly went over staff's report on the potential elimination of the Electric Utility impact fees with the Commission members (attached to the original minutes). Staff is requesting the Finance Commission's recommendation to eliminate the fees. She reported that the Utilities Commission voted unanimously to support staff's recommendation to eliminate these fees.

Mr. Smith asked how large are these fees relative to the total of impact fees that a developer would pay.

Ms. Lawson said there is one development currently in the works and the impact fees would be about \$20,000 per unit as compared to the \$4,000 in additional fees for service charges, deposits, etc. She said it could be very high on a large commercial development.

Mr. Brovont said this is a minor part of the City's budget.

Mr. Brovont made a motion to approve (to recommend to the City Council that they accept staff's recommendation to eliminate the electric utility impact fees). Mr. Stump seconded the motion and it passed unanimously.

B) Recommendation of Bid Award – Series 2016 Capital Improvement Revenue Bond

Ms. Lawson went over staff's report on the Series 2016 Capital Improvement Revenue Bond with the Commission members (attached to the original minutes). She reported that the City's Financial Advisor, Mr. Craig Dunlap of Dunlap and Associates, issued a Request for Proposal (RFP) for the bank loan to 21 banking institutions and they only received one (1) proposal, which was from BB&T. Dunlap and Associates reviewed the proposal and are recommending that the City accept it. It has provided a fixed interest rate of 2.47% that is valid until March 20, 2016.

Mr. Gorry asked what would be the interest in principle payments for 15 years.

Ms. Lawson said the payments would run about \$114,000 - \$115,000 a year, which would be funded entirely out of the one-cent sales tax. She said this is a simple bank qualified loan and the most they would go on a dollar amount like this is 15 years. She said it is a little higher than the budgeted amount, but nothing that they cannot handle through the one-cent sales tax money.

Mr. Stump said it sounds to him like the State is paying about 75% of the total cost through a grant, which means that grant is money the City does not have to pay back.

Ms. Lawson said that is correct.

Mr. Brovont made a motion to approve (to recommend to the City Council that they approve the Bid Award to BB&T). Mr. Stump seconded the motion and it passed unanimously.

C) Continue Discussion of Draft General Fund "Fund Balance" Policy (From 11/21/15)

Ms. Lawson explained that they would be discussing the Fund Balance in the General Fund only. She said the Fund Balance the City generates within the General Fund is not a recurring revenue source. Therefore, a central feature of the policy that she proposed is that it can only be used for one time expenditures. She then gave a brief overview of staff's report and the proposed Fund Balance Policy – General Fund with the Commission members (attached to the original minutes). She explained that the Fund Balance Policy being proposed calls for sort of a layered approach to the Fund Balance of three (3) expenditures, which were: 1) specifically for emergency expenditures, such as hurricanes; 2) budget stabilization, which is the money the City can dip into if something unexpected occurs after the City adopted a budget and millage rate (other than an emergency); and 3) working capital equal to three (3) months for simple cash flow needs for the three months of the year before the City begins to receive taxes, etc. The last piece of the policy is that there are specific targets for restoring these Fund Balances if they are used. She said the City is probably a month or so away from needing to do a budget amendment in the capital programs for the current year, particularly for stormwater projects. She said the City has stormwater infrastructure that is failing and therefore they are going to have to do a budget amendment to address this. She said a fund balance policy might help the City free up some money for the one-time capital expenditures. Secondly, staff would like to see this Policy in place before the City heads into the budgeting activities for 2016/2017 because it was a topic of discussion during the budget process last year in that there wasn't a policy in place on what to do.

Mr. Gorry reported that the Commission members received a copy of the Preliminary Report on the Stormwater Utility Study (on file in the City Clerk's office). He suggested that the Commission members have a discussion on the concept later in today's meeting.

Mr. Brovont said that he was very supportive of this concept. The only issue he had was that this was just a policy statement and it doesn't tie anyone's hands going forward.

Ms. Lawson said it depends. She said part of the Commission's recommendation would be to adopt it as a Resolution or as an Ordinance.

Mr. Brovont said the way he reads this is that it is a policy statement and it doesn't bind anyone.

Mr. James O'Connor, City Manager, explained that if the City Council sets a policy and sends staff off to formulate a budget, staff is going to do it within the confines of those policies. He noted that if it is as an Ordinance, it is law.

Ms. Lawson explained that it has to be adopted one way or the other in order for her to be able to show in the CAFR that these restricted balances are committed and assigned balances. She said it is required that it be formally adopted by the highest level of decision making authority within the City (City Council).

Mr. Brovont asked what is the difference between adopting this as an Ordinance or a Resolution.

Ms. Lawson explained that an Ordinance is essentially a local law and a Resolution is an expression that they feel very strongly about, but it doesn't have the force of local law.

Mr. Brovont said the way he reads this is that it suggests that the City Council could invade the 10% and then repay it back over four (4) years. He asked is that correct.

Ms. Lawson answered yes, through a budget amendment.

Mr. Brovont said then the City Council could spend up to \$2 million dollars, plus or minus, for a specific project. Then they would have to rebuild that fund over the next four (4) years. He said it appears that the City Council can make a decision to invade that 10% for anything they like other than operating expenditures. He said that he was not arguing with that, but he wanted to make sure that is what they were saying.

Ms. Lawson said the City Council could adopt a budget amendment mid-year that dips into the budget stabilization knowing that they have four (4) years to replenish it.

Mr. Brovont said in this policy, the City Council has the discretion to spend \$2 million dollars if they choose.

Ms. Lawson said that is correct, which they always have. She said there is nothing they could construct that would remove the City Council's discretionary power to amend a budget within a current year, which is by Florida Statute. She explained that currently, without this policy, the City Council could amend the budget in 2015/2016 and add \$1 million dollars worth of expenses as long as they have the money to cover it and it is a legitimate budget amendment. She said that is something they cannot do away with in a local Ordinance because it is in the Florida Statutes.

Mr. Brovont said in reading this carefully, the City Council can spend \$2 million dollars and all they have to do is budget over the next four (4) years to pay it back. Whereas, if they invade the working capital by \$3 million dollars above the \$2 million dollars by taking \$2 million dollars from the 10% and \$1 million dollars from the 25%, the way it reads is the \$2 million dollars would have to be paid back in four (4) years and the \$1 million dollars would have to be paid back in two (2) years.

Ms. Lawson said that is correct.

Mr. Brovont said there is nothing in this policy that binds the City Council from spending \$3 million dollars this next year.

Ms. Lawson said they could spend \$7 million dollars or \$8 million dollars. She said no matter how this is adopted, they cannot eliminate the right of the City Council to spend all of the available funds if they so desire because that is in the Florida Statutes.

Mr. Brovont said even if they had an Ordinance, they would be in the same situation. The reality is that they are not binding anyone's hands.

Mr. Stump said that he did not see it that way. The way he is looking at it is they are asking to approve an Ordinance that adopts this type of Fund Policy that is sponsored by the Government Finance Officers' Association (GFOA). He said if they pass the Ordinance, then a future City Council would be inhibited from going into the Fund unless they vote out the Ordinance. He agreed that the City Council can do what they want as long as they have three (3) votes. He said if they don't have the votes they would be bound by this Fund Balance. He said in looking at Figure 3, *Sample Calculation Based on FY 15-16 Adopted Budget*, it is really a small amount they could dip into from a Fund Balance of just under \$10 million dollars. Under that example,

if it was a non-recurring expense that is all they could use out of the Fund Balance. He asked if he was correct. He said that is the reason he doesn't like it.

Ms. Lawson said the point Mr. Brovont is making is well taken. She referred to Section 8 of the Policy where it states, *in no circumstances shall the unassigned fund balance be budgeted or appropriated to dip below 25%. However, if the City's fund balance drops below 25% due to unforeseen circumstances it is the intent of the Council that the fund balance be replenished within two (2) years.* She said by Florida law, they cannot limit the City Council from its ability to amend a budget if something unexpected happens. If something happens mid-year and the Council has to appropriate all of its Fund Balance in order to continue the operations of the government, they have that right regardless of any fund balance policy under Florida Statute.

Mr. Stump said that is his point. He asked in view of the Florida Statute, what is the purpose of this Fund Balance Policy.

Ms. Lawson said there are several purposes. One is it establishes an intent with regard to planned expenditures. If something unexpected happens you can't tie the City Council's hands in solving that problem. But, it makes it very clear that they cannot plan for a budget that completely depletes that fund balance on recurring expenses. The other huge difference is that without an adopted formal policy they cannot show their reserves as part of their CAFR. She felt that Section 5 and Section 6 were important. She said this determines how much "extra" there is and every year when entering into the budget workshops they are going to determine a certain amount they consider extra and will budget that only for certain types of expenses. What Mr. Brovont is discussing is the unforeseen circumstance where it is necessary to go deeper than that, which is something they cannot limit through a policy.

Mr. Brovont said that he was not sure he would agree with that. The way he reads the Policy is that the City Council cannot make a planned decision to invade the 10%. What Ms. Lawson is suggesting is only the unplanned, but he doesn't think that is the case. If the City Council makes a decision to spend \$1 million dollars for something like upgrading a building they can invade it, but they do have to repay it over four (4) years. It is not just unplanned.

Ms. Lawson said that is not the way it was intended. She said that she would take another look at it. She noted that Section 5 determines how much they have to spend in any given year.

Mr. Brovont suggested that they look at the verbiage because the way he reads it is that any City Council could work around it. It is not specifically stating "unplanned." He felt it was possible that this was sort of authorizing use of the 10%.

Ms. Lawson said that she could tighten up the wording. She noted that Section 4 defines the budget stabilization reserves stating that it is a buffer for unexpected impacts to provide stability. She concurred with Mr. Brovont in that there is no way they can write and adopt this Policy that would make it so that the City Council does not have the authority or ability to spend the Fund Balance as they see fit to run this government.

Mr. O'Connor said the bottom line is that it takes two meetings to make the Ordinance go away if the City Council chooses. He explained that what they were doing was setting a policy and if asked who it really applies to it would be him and Ms. Lawson. They would be presenting a

budget within the guidelines, whether in a Resolution or an Ordinance. He felt the good thing about a reserve policy is it tells staff what the reserves in the budget can be used for.

Mrs. Barton felt that the payback provision makes it where it would not be abused.

Ms. Lawson said that she modeled the Policy after the GFOA offered as what they consider best practices and the mere adoption of a Fund Balance policy is considered best practice. It is something that bond rating agencies like to see. She said it is a good thing to have.

Mr. Brovont agreed.

Mr. Smith said there are three (3) different proposals. One is for an emergency fund, which they need and he felt the general population would understand it. The second is for cash flow, which is a business practice. They have to make sure they have enough cash on hand to cover expenses. To him all staff is asking for is to have enough cash on hand to handle the variation in cash flow, which is a reasonable policy for business practice. The third is working capital. He said that his experience in organizations is that they don't like a surplus balance. He said what they were trying to do was describe a slush fund. He felt it would be clearer if they state the amount.

Ms. Lawson asked Mr. Smith if he was stating that rather than having a percentage that they have a flat amount.

Mr. Smith answered yes. He said it would be their goal to have a certain amount, not to dip into, but to have in order to handle fluctuations in the budget.

Ms. Lawson said they could do that.

Mrs. Barton felt that having a set dollar amount might be appropriate, but having it as a percentage was good because it allows it to grow as the size of the government grows.

Mr. Randy Old, Vice Mayor, explained that some of the reasons the City Council was pushing for a policy was because during last year's budget process, one idea was to spend some of the \$9 million dollars on recurring expenses and the debate was whether or not that was a wise decision to do questioning if they would end up with an unbalanced budget for the year. What they are trying to do is clarify what they could spend it for. That was the debate and that is why the City Council is asking for clarification on this. They would like a policy on how to use that money and what the level should be. He said the City Council can get around it, but it is better if they have guidelines and have a policy that allows them to bounce their ideas against these policies.

Mr. Stump asked Mr. Old if he agreed with the principle of the GFOA regarding fund balance policies and the best practices where it states, "*it is not advisable to use a nonrecurring revenue source to support a recurring expenditure.*"

Mr. Old answered yes.

Mr. Stump asked Mr. Old if he knew of any current member of the City Council who didn't believe in it.

Mr. Old said the City Council had a debate last year about the accounting terms.

Mr. Stump asked when the budget was finalized they didn't get into the Fund Balance.

Mr. Old said that was correct.

Mr. Stump asked doesn't that prove that they don't need an Ordinance codifying this. He said there was a movement underway to raise the mileage and there were several people who opposed it. The City Council ended up with a modified mileage increase and rather than go into their Fund Balance some of the spending was put off. He said the City Council came to the best decision that they could have made, which proves that they don't need an Ordinance codifying this principle.

Ms. Lawson said the City Council directed staff during last year's budget process to prepare and take to the Finance Commission a Policy before the next budget season.

Mr. Stump said the way he sees it is if they put this in an Ordinance, they would be laying the groundwork to make it easier for future Councils to raise the mileage.

Mr. Old looked at it differently in that there are good reasons in keeping a balance for cash flow, emergencies, etc.

Mr. Stump said they do not need an Ordinance to protect the Fund Balance. Every year the City Council makes the decision on how much they should spend.

Mr. Old said they could say that they don't need a policy because the City Council has the power, but having a policy helps a lot in guiding new Councilmembers.

Mr. Brovont agreed.

Mr. Gorry said that he endorses this Policy.

Mr. DeMattia said it seemed to be the consensus that a policy is a good thing. He asked why isn't an Ordinance better. He asked procedurally, how does that bind the City Council. He asked what is the advantage or disadvantage of having it as an Ordinance.

Ms. Lawson said an Ordinance has more power than a Resolution because it is law, but an Ordinance can be amended or eliminated with two readings of the City Council.

Mr. Jay Kramer, Mayor, explained that one reason they want to do this is because a lot of times staff would prepare a budget and get neck deep into it and then the City Council wants to see a policy in another way. He said one of the frustrations they had during the last budget season was the budget was put together and then it was given to the City Council who had to go through it to find cuts, additions, and fine tune it with only a few weeks to get it done. He said they want to give staff a policy to make sure when the budget is put together that they are not just sticking money into reserves. From his perspective the whole purpose was that when it comes to setting mileage that they don't set the mileage to put a lot of money into the reserves that they don't need to put there in the first place. He did not want to see budgeting for a surplus that they don't need. His purpose is to see a stop to collecting money that they don't need. The message that

they want to send staff is that they have a policy or an Ordinance in place so when the budget comes around they don't end up in that situation again.

Mr. Stump said if they codify this, it will make it easier for a mileage increase to be passed.

Mr. Brovont disagreed. He said it might put more pressure on them to look at expenses carefully. He said the reality is that the City Council already has a wall against them in raising taxes.

Mr. Stump said that he didn't look at it that way. He does not have any problems with having a good frank discussion on the budget. He said last year the City Council made the decision that they were not going to go into reserves and they did it without a policy becoming part of an Ordinance.

Mayor Kramer said the point was that they added to the reserves, so really they collected too much in taxes. The point is to have a balanced budget and not add or subtract from reserves.

Ms. Lawson said they didn't budget to increase the reserves. Occasionally the reserves go up at the end of the year because estimated revenues and estimated expenditures were different than what was estimated. In the last few years Fund Balances have increased. The intent of this Policy is to keep the Fund Balances the same all the time.

Mr. O'Connor said they need to remember that they are never going to be right on target with the budget. In being conservative, his theory is that he always wants to be on the short end of the stick as opposed to the long end of spending the money. Therefore, they made great effort in training Department Directors that if they absolutely don't need it then don't do it. He felt the Policy should be an Ordinance because if the City Council was going to get outside of this perspective it would take two meetings to change the direction.

Mr. Brovont made a motion that the Finance Commission approves adopting the Fund Balance Policy as an Ordinance with clarification made on some of the language.

Ms. Lawson said that she has some verbiage that could be added to Section 6 and Section 8 that would help clarify it. She said that she could make the changes and bring it back before the Commission.

Mr. Gorry seconded the motion pending that the rewritten language is brought back before the Commission. Mr. Brovont added that stipulation to his motion.

Mr. Smith concurred with some clarification, for example, the maintaining of a certain balance as a goal in the budget stabilization. He felt that they should agree on 10% or a certain amount that could be used. They don't want to be able to use the entire amount. He explained that if they said it was going to be 10% - \$2 million dollars and they end up with a surplus of \$3 million dollars, they would only make appropriations for the extra \$1 million dollars.

Ms. Lawson briefly went over each Section of the Fund Balance Policy with the Commission members. She said under Section 4, the suggestion that she heard today was that they take the 10% in the Budget Stabilization Reserves and make it a flat number. She asked the Commission

members if they felt it was clearer and easier if they make that number a flat amount as opposed to a percentage.

Mr. Brovont felt it should stay as a percentage. He explained that if everything works right hopefully in years ahead they would pay off debt and the cash flow would be different and they need more flexibility.

Mr. Smith said that he didn't have a problem with the percentage. He was using the dollar amount as an example.

Mr. Brovont suggested that under Section 8, that the second paragraph somehow be included in the first paragraph.

Ms. Lawson said that she would make some changes and bring it back before the Commission.

Mr. Gorry questioned the motion that was made.

The Deputy City Clerk said the motion was to adopt the Policy as an Ordinance with some of the language clarified, which would be brought back before the Commission with the changes discussed.

The motion passed 4-1 with Mr. Stump voting no, Mr. Smith yes, Mrs. Barton yes, Mr. Brovont yes, and Mr. Gorry yes.

D) Discussion Regarding Customer Service Technology Upgrades

Ms. Lawson went over staff's report on the Customer Service technology upgrades with the Commission members (attached to the original minutes). She asked for the Finance Commission's recommendation to implement the Ebox and Lockbox. She reported that the Utilities Commission voted in favor of this.

Mr. Smith made a motion to recommend proceeding with the Ebox and Lockbox. Mr. Brovont seconded the motion and it passed unanimously.

E) Quarterly Financial Report & Variance Analysis – 1st Quarter FY 15-16

Ms. Lawson briefly went over the Variance Analysis with the Commission members (attached to the original minutes).

Mr. Gorry referred to the Preliminary Report on Stormwater that the Commission members received (on file in the City Clerk's office).

Mr. O'Connor reported that a joint Finance Commission/Utilities Commission meeting is scheduled for Monday, February 22, 2016, at 9:00 a.m., to go over the report.

At this time, Ms. Lawson gave a brief overview on the Quarterly Financial Report with the Commission members (on file in the City Clerk's office).

F) Update on Electric Utility

Mr. O'Connor reported that they are still in Phase I of taking personnel out of the Power Plant. They have reduced personnel by almost half and will be reducing further within the next few months. They are in the process of getting bids to remove the oil and clean the lines from the tanks. From there they would be putting out a Request for Proposal (RFP) to sell the tanks and the cooling towers. He said there is a storage building on the north side of the Plant that they are hoping to have removed at the same time they take down the oil tanks. He said this would depend on what kind of equipment they might need to keep on site. He briefly explained how the outage occurred last week. He noted that the part that blew was inspected about three or four weeks prior to this occurring. They are currently doing heat ratings around the poles and substations to see if there is heat buildup in the resistors. He reported that in one month there were 39 outages with 11 of them being caused by animals. They are currently in the process of putting out squirrel protectors. The City's tree trimming has not changed as the City is designated a Tree City U.S.A. He said they are working to make sure that reliability is an important part of their system. He reported that they still have some major expenses, such as litigation with Indian River County and with Indian River Shores.

Mr. Stump questioned FPL's proposed purchase of Indian River Shores.

Mr. O'Connor clarified that FPL made one offer and it was not a negotiable offer.

Mr. Stump said there was supposed to be a meeting set up in Tallahassee.

Mr. O'Connor said the meeting did take place, which FPL was not a part of. The meeting was between the Consultants from Indian River Shores, the City's Rate Consultant and Mr. Schef Wright, Attorney.

Mr. Stump asked when will this be made available to the public.

Mr. O'Connor said the City did receive a report from Mr. Wright on what took place at the meeting. He said the City Council received a copy and he would have it sent to the Finance Commission members.

6. NEW BUSINESS

A) Annual Report

It was noted that the Commission members did not see a copy of the Annual report in their backup.

The Deputy City Clerk suggested that they take a break so she could make copies of the Report for each member.

The Commission took a break at 4:35 p.m. so copies could be made and the Commission members could read the report.

The meeting was called back to order at 4:44 p.m.

Mr. Brovont made a motion to approve the Finance Commission's Annual Report to be submitted to the City Council. Mrs. Barton seconded the motion and it passed unanimously.

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Gorry reported that he is in the process of reviewing the tourist tax that the County collects, noting that part of the money is for dune replacement in which none is being used for beaches within the City of Vero Beach.

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 4:56 p.m.

/sp