COMMITTEE ON ACCOUNTS, ENROLLMENT AND REVENUE ADMINISTRATION

April 1, 2008 **5:00 P.M.**
Aldermen Sullivan, Lopez, **Aldermanic Chambers**
DeVries, M. Roy, Ouellette **City Hall (3rd Floor)**

Chairman Sullivan called the meeting to order.

The Clerk called the roll.

Present: Aldermen Sullivan, Lopez, DeVries, M. Roy, Ouellette

Messrs.: W. Sanders, S. Bassett

Chairman Sullivan addressed item 3 of the agenda:

3. Department travel/conference summary report submitted as follows:

Fred McNeill, (EPD) NEWEA Annual Conference in Boston, MA.
(January 27 – January 30, 2008)
Teresa Avampato, (Airport) Airport Finance & Admin., Melbourne, FL.
(January 27 – January 30, 2008)
Alan Partington, (Airport) Airport Security, Alexandria, VA.
(February 18 – 21, 2008)
Thomas Malafronte, (Airport) Air Service Development, San Antonio, TX.
(February 24 – 27, 2008)
Thomas Malafronte, (Airport) Public Safety & Security, Las Vegas, NV.
(March 2 – 5, 2008)
Paul Mueller, (Airport) Public Safety & Security, Las Vegas, NV.
(March 2 – 5, 2008)
Michael Legere, (Airport) Wildlife Hazard Management, Dallas, TX.
(March 5 – March 7, 2008)
Mark Brewer, (Airport) FAA Aviation Forecast, Washington, DC.
(March 10 – 11, 2008)
Mark Brewer, (Airport) AAAE/ACI-NA, Washington, DC
(March 12 – 14, 2008)

On motion of Alderman Lopez, duly seconded by Alderman DeVries, it was voted to approve this summary report.

Chairman Sullivan addressed item 4 of the agenda:

4. Review of FY2008 Annual Financial Report.
(*Note: Representatives from the Independent Auditor (McGladrey-Pullen) will be present to answer questions. A copy of the report has been sent under separate cover by the Finance Department.*)

On motion of Alderman Lopez, duly seconded by Alderman M. Roy, it was voted to discuss this item.

Mr. William Sanders, Chief Finance Officer, stated Scott Bassett of the auditing firm is here this evening. We sent out on Friday the Comprehensive Annual Financial Report (CAFR) for the fiscal year 2007, along with the comment reports that the auditing firm issued and our responses. Hopefully you all received them in sufficient time. Scott is here this evening to briefly review the report and answer any of your questions. He will also review the comments and any other issues that you want to discuss with him.

Mr. Scott Bassett, McGladrey-Pullen partner, stated my firm was engaged to audit the financial statements of the City of Manchester, New Hampshire, for the year ending June 30, 2007. What I typically do at this meeting is go through the financial highlights of the major funds within the City. I will talk about our responsibilities as the auditor and your responsibilities, acting as the audit committee for the City, and then I will open it up for questions. I will talk about the observations that we made during the course of our audit and then hopefully we will get through the important things that stand out. As you can see, the booklet is about 145 pages, so going page by page would take us quite a bit of time. What I'm going to try to do is talk about the opinion, talk about our responsibilities, and then kind of direct you where I think the important information is in the body of those financial statements. As I stated, we were hired to do an audit under the Generally Accepted Auditing Standards, and to give an opinion in accordance with Generally Accepted Accounting Principles. We were able to do our audit under GAAS, under those standards, and to give an opinion on the financial statements. As in prior years, our opinion was qualified, due to the recognition of the asset and the liability related to the Civic Center transaction that took place four or five years ago. Embedded into the financial statements are many estimates: actuarial accruals, allowances for doubtful accounts, and things of that nature. So they are estimates; not all numbers are concretes. The financial statements are the City's. What I own in that document

is my opinion. All the other items in the document are the City of Manchester's assertions. Our responsibilities were to audit those. During the course of our audit, we did make some adjusting entries to the trial balances, but nothing material. There are no significant or unusual transactions in the current year. We have no disagreements with management. There are no uncorrected misstatements that were noted during the audit, and with that I think I'll get into the financial highlights.

Chairman Sullivan asked as you go through this, could you reference the page that you're working off of?

Mr. Bassett responded absolutely. I'm going to direct you first to page eleven. Page 11 through page 22 really is the financial highlights of the City. Everything recorded in those 11 pages is really the things that I would typically talk about during the course of the audit or during the course of this presentation. Rather than going through that page by page, I think I'm going to take you into the body of the report and the things that I touch on really is the narrative in this management and discussion analysis and what I say to boards when they look at these statements. If a taxpayer wanted to look at what happened in the City of Manchester, New Hampshire, I would direct them to these first 11 pages because the 120 pages that I'm going to talk about, really everything that they need to know is in that 11 pages. So trying to keep it concise and put it in a narrative format is a great presentation. With that said, I'm going to turn to page 23 and talk about the balance sheet and the income statements for the City. Page 23 presents the balance sheet for the City and all its component units as of June 30, 2007. This is really a snapshot of your assets and liabilities on the long term basis as of that date. As you can see there, in the Governmental Activities, we had $583 million of financial statement assets, offset by $440 million of liabilities, leaving total net assets on the full accrual basis of accounting for the Governmental Activities in that first column of $129 million. Those are the Non-business type activities. Those exclude the Airport, EPD, Water Works, Recreation, and new this year, the Parking Fund. For your Business-type Activities, you can see there we had total assets of $740 million, offset by $368 million worth of liability, leaving total net assets in the Business-type Activities of $372 million. Pages 24 and 25 present the results of operations under the full accrual basis of accounting. When I say full accrual, I just want to modify that by saying the non-budgetary basis of accounting. This is measured once a year and is not really impacted when you go through your budget deliberations during the winter and spring of each year, so this is measurement basis on once a year. Going to the bottom of page 25 in that first column, you can see the net assets increased by $16 million in the current year, which is quite different from what the assets have increased on the governmental modified accrual basis of accounting. The basis for that is, if you look under one item you can see that the City has taken in capital grants in the

current year of approximately $27 million. Capital grants come in when you purchase assets which are capitalized, and there is no expenditure related against them. So we're taking the revenue and we don't have an expenditure related against it, so that's the big reason for the increase in the current year. Page 26 presents more of your budgetary balance sheet – your short term assets and your short term liabilities under the modified accrual basis of accounting. The key column on pages 26 and 27 is the General Fund. The General Fund for the year had a small increase in its fund balance of $567,000. You can see that on page 27. On a short term basis, the General Fund had $116 million of assets, offset by $90 million of liabilities, leaving a total fund balance of $25 million. Of that $25 million fund balance, $300,000 is unreserved and undesignated. You have approximately $17 million which is designated and unreserved, and the balance being restricted or reserved fund balance by external parties. So as I go through those three components, the reserve fund balance is someone outside the Board of Mayor and Aldermen restricting the assets; there's an external restriction on there. The designated fund balance is an internal restriction on the use of your net assets, and the unreserved is where there is no intended use for them. So the designated…I always define that as tentative plans because you direct what they can and cannot do. The overall fund balance of the unreserved, undesignated Rainy Day fund increased by $900,000. A measurement that is often asked is what is the unreserved, undesignated fund balance as it relates to expenditures? What is the percentage there? That percentage this year is 16.3% of your General Fund expenditures. That was a lot of information, so if you want me to slow down I'd be more than happy to. Going to page 27, the General Fund had $116 million worth of revenues, offset by $115 million worth of expenditures, resulting in a positive increase of $567,000. Page 29 is the budget as adopted and revised by the City for the year ending June 30, 2007. You can see there in the actual column we have a positive variance of $2.3 million. Revenues pretty much came in as planned. The major component of revenue that didn't come in as close to budget as estimated is the Manchester School District chargebacks for about $440,000. On the expenditure side is where we really made up the shortfall of the revenues, with the expenditures coming in $4 million less than expected. We had intended to use $500,000 of fund balance in 2007; we actually increased fund balance by $2.3 million, giving us a surplus of $2.8 million. Page 31 presents the operations of your Business-type Activities. Water Works had a positive change in net assets of $3.4 million; EPD had a positive variance of $3.5 million; and the Aviation Fund had a positive variance of $17 million. Those are all changes in net assets. If you go up to the top third of the page, this a more key benchmark. You look at the net operating income and loss, and there you see Water Works at $2.5 million. EPD had $1.3 million. Aviation had a small loss of $900,000 and the Non-major Funds had an increase on the operating basis of $1.1 million. There are a couple of things there that I would talk about. The Non-major Funds are made up of the Recreation Fund and the Parking Fund. The Parking Fund is a new fund this year

which had positive results. With the Recreation Fund, the major transaction there was a transfer out of the Gill Stadium of about $5.7 million. And the operations of that were transferred out, and that's in more detail in the back. There are two new items in the Business-type Activities for the City in the current year.

Alderman Lopez asked, the Recreational Fund on page 95, is that a deficit? Am I reading it right?

Mr. Bassett responded yes it is. It's a deficit.

Alderman Lopez stated of $495,000. Is that correct?

Mr. Bassett responded correct.

Alderman Lopez asked in your report, you wouldn't show the total, would you? Is this just for 2007?

Mr. Bassett responded no, this is a cumulative total for the Recreation Fund from the time of its inception as an Enterprise Fund and going forward.

Alderman Lopez stated Mr. Sanders, I thought we had more than that.

Mr. Sanders stated I want to make two comments about the numbers on the bottom of page 95. If you look at the very bottom of the page, the net is a $495,000 deficit, the number in brackets. Then above that you can see there is a $2,436,129 deficit from unrestricted activity, and then the investment capital assets is $1.9 million positive. The focus on what the operating deficit is at the Recreation Fund should be on the deficit of $2.4 million because the $1.9 million Capital Asset is really investment in Fixed Assets, net of debt. That's important but the important thing is, I think, from an operating point of view for the Parks & Recreation, the deficit at the end of June 2007. From an operating point of view it is a $2.4 million deficit.

Alderman M. Roy stated to follow up on that same page, oddly, I think a lot like Alderman Lopez. What was the end of year 2006? Do you have that number?

Mr. Bassett stated if you turn to page 96, there are a couple of things with the Recreation Fund that impacted that net asset or that deficit in the current year. There was an operating loss in the current year of approximately $1 million. That would be the $1,075,858 under operating loss in income. There are some miscellaneous items that took place that gave us a net loss of $1.2 million. Now what's different when you compare from 2006 to 2007 is the next number on page 96. A transfer of an asset of $5.7 million that you alluded to in the first two

numbers that you talked to was included in the 2006 numbers as a net asset. In that case the fund was not in a deficit balance. We took a $5.7 million asset and transferred that back over to the operating of the General Fund and the general capital assets of the City. I think the key number, if I was looking at this, I'd be looking at the operating income or loss number, because that's the number that's going to accumulate over the years, the fee structure, compared to the expenditure structure. If that continues at a loss there won't be a whole lot of change in the investment in capital assets, the $1.9 million, but the $2.4 million back on page 95 will absorb the impact of the operating losses as you go forward.

Alderman Lopez stated either you're talking too fast for me or I just don't understand. The $1,075,858 is an operating loss, in relationship to the $2.4 million included in there. That's included in the $1 million?

Mr. Bassett stated that's included in the $2.4 million.

Alderman Lopez stated so we have to make up $2.4 million. That's what I'm interested in.

Mr. Sanders stated Alderman, I don't actually have the balance for the prior year but I think it would be safe to say it was about $1.2 million. We had an additional operating loss this year of $1.2 million, and that would make the $2.4 million.

Alderman M. Roy stated so for people who are following along, basically that loss in the Recreation Fund was made up with taxpayer dollars. Is that a fair statement?

Mr. Sanders responded because it's an Enterprise Fund, it's not actually in the tax rate. We are advancing money from the General Fund to fund the deficit at the Recreation Fund, but it is not being charged to the tax rate at the present time. The anticipation is and the plan is that over time the Recreation Fund will be self-sustaining, like all Enterprise Funds have to be over time. It has not been self-sustaining for a couple of years. Right now taxpayer money has been advanced as a loan to the Recreation Fund. It has not been permanently invested.

Alderman Lopez stated you didn't make any comments in reference to the Recreational Fund like we've had in past years that we've got to get rid of it.

Mr. Bassett stated you raise a good point. The fund that was here in the past, with aggregation, where it was accumulating money got to a point where we had to appropriate money to close the fund. The Recreation Fund right now, if we look at it from an auditor's standpoint, and if you turn to page 95, owes the General Fund $1.4 million. It has cash on hand of $1.8 million. At this point it's in a

position if it had to it could pay back the General Fund and a decision could be made. If the cash was $0, and it owed the General Fund $1.4 million, we would be reserving a portion of Fund balance in the General Fund to say, this Fund owes us money and it doesn't have the ability to repay us on a short term basis. I know what you're alluding to, so from a pure auditor's standpoint, as a snapshot of 2007, we're not suggesting a reservation of fund balance on the General Fund as of yet.

Alderman Lopez stated so the money for Gill Stadium put us in a better position in the Recreation Fund, because we have the $1.4 million cash on hand.

Mr. Bassett stated it's all based on the operating budget and the cost of Gill Stadium and what that did to the impact of your fees. All we did with the transaction of Gill Stadium this year is we transferred the asset out and the upkeep and the maintenance of it out of the Recreation Fund. The Recreation Fund is set up on a fee basis now, so as you look at the operating cost of the Recreation Fund and the total cost of the activities, the fee structure now should be made up such that it supports the expenditures.

Alderman Lopez stated because we took Gill Stadium out of there.

Mr. Bassett stated right. One of the items I was going to talk about is looking at the budget of the Recreation Fund and the estimated fees, as you do with taxes, against the expenditures to see what the operating income or loss will be in the 2008-2009 year.

Alderman M. Roy asked under the liabilities on page 95, Recreation Fund, the item Due To Other Funds, as a listed liability, does that appear anywhere else in the CAFR?

Mr. Bassett responded that's in a footnote and it's also on the asset side under General Fund.

Alderman M. Roy stated but just in relationship to the Recreation Fund, there are no other funds that have…

Mr. Bassett interjected referring to page 58, Note 7, there is fuller detail of the funds that owe the General Fund monies as of June 30, 2007. If you read the paragraph below the $5,792,937, we talk a little bit about the advance to the Recreation Fund of $1.4 million, and the balance of the fund has to do with lag time between how you cut checks and reimburse. It's just the operational-type transactions. The $1.4 million is actually an advance to them. It's not operational, where the money comes in and then is immediately repaid within a couple of days.

That is actually an advance that has not been repaid over the typical operating cycle of the other funds.

Alderman M. Roy asked the first line under the Payable Fund, Agency, the $1,441,296, could you explain that a little bit further?

Mr. Bassett responded sure. That would be an advance to an Agency fund. We have an Agency fund set up in which receivables are due, and until the receivables come in, the General Fund advances the payables for them. If you go to page 34, this page presents your Agency Fund, in which we have a receivable of $1.4 million, and we owe to the General Fund $1.4 million. That money is short term in nature, and we'll collect it and the General Fund will be repaid.

Alderman M. Roy stated I won't belabor that but I would like a further explanation from Finance what the fiduciary funds…basically a breakdown of the definitions on page 34 would be appreciated.

Alderman DeVries stated backing us up to a part that you've already covered, the revenue balances, you talked quickly about the chargebacks from the School Department, and I'm trying to remember…that number was $500,000 shy last year. There was a $900,000 Other number on page 29 where you cover the revenues. We show Licenses and Permits there is about $600,000 shy. Does the chargeback number fall within the $978,586?

Mr. Bassett responded the chargeback is in the $978,586, and if you turn to page 84 it breaks down that $984,000 in much greater detail. I'll just touch on a couple more things here. Pension trust funds ended with a balance of $151 million during the current year, with a return on investments of approximately 16 to 17 percent. That is on page 35. While we're on the pension trust fund I'm going to go through that footnote now so we can put the two together. If you turn to page 68, which is Note 11, you can see on pages 68 and 69 the contributions and the expenditures for both the old system and the new pension trust fund, and the fund balances that relate to them. The item I turned you back to is on page 71. We talked about benchmarks and what things are looked at. Looking at the Schedule of Funding Progress on page 71, you can see from 2001 through 2006 that has declined from the…the liability is growing quicker than what the assets are growing, if you take a look at those components. That's a key measurement that is used by the rating agencies and people who look at different parts of your reports. They not only look at your fund balance that we talked about, your $25 million. They'll look at your revenue collection; they'll look at your risk in relation to insurance and litigation; and they'll also look at the funding progress of pension plans. I would tell you to take a look at that and watch that. The actuaries come up with the required contribution each year, and we've been pretty close to it in the past years,

but you might want to take a look at that as you go forward. The components of it…we look at with the actuary, how they compute it, but we don't compute those liabilities, so for further discussion your actuaries could help you out with that. That's all I really want to talk about with the financial statements as far as the numbers go. We did have several comments regarding internal control. We do not give an opinion on internal control, but we did pull samples in order to get an understanding of how transaction cycles work, and as we go through there, if there are items that warrant observation or comment, we do make those and present those to you. The first two I'll talk about are in the federal compliance report. Page eight presents a control deficiency due to a new procedure that was applied in the current year. In past years if we made audit adjustments we would tell you about them but we didn't have to put it in this much detail. So what we're saying here is that when we got to trial balances in early September, there were some adjustments that had to be made to those trial balances during the course of the audit. It mainly had to do with a couple of accounts payable and capital assets. We are required to report that to you. And the second one is commonplace in a lot of municipalities and has to do with capital assets. We are now responsible for not only recording the capital assets but depreciating those and having a system in place to properly depreciate those. The City has imputed correct action for both findings which I believe will be implemented, and these will not be repeated in the current year, in the '08 year. And we did have some observations on a management letter. I know the Finance Department did put their response to it, so a couple of them are repeated and a lot happened within the City, within the Finance Department this year. So, the ones that are repeated are getting another look at by the new Finance Director. I talked to Kevin Buckley a little bit, and I guess one of the things Kevin is talking about for each department is putting in a policy procedure as it relates to financial activity within each department and developing those for each of the separate departments. If that is implemented I think a lot of these will go away, because there will be something in writing that shows you the full transactions and how they should work. I would be a strong supporter of that, to get a few of those done and then let the other departments look at those and model their procedures after some of those larger departments.

Alderman DeVries stated back to observation number one, and the recommendation from you regarding the use of cash registers. You describe two systems: registers integrated into the City's financial reporting system or cash receipt modules linked to computers. I'm not familiar with that and I'm hoping you can briefly explain this. Why two systems?

Mr. Bassett explained a cash register would be like in some of the heavier departments, an actual cash register that would link into your system. It would be a machine that actually, as you ring it up, is going directly in there. A module would be more of a manual input. You'd summarize your receipts and

disbursements at the end of the year, through that cash receipt module within the department, then we record that directly to the general ledger. It's just the mechanics of the two, one being a little bit more cumbersome than the other. They're not cheap either. I know that.

Alderman DeVries asked the cash receipt module is more cumbersome?

Mr. Bassett responded no, it's less cumbersome than the typical cash register going to the general ledger.

Alderman M. Roy asked staying with that same observation, where money is tight in this budget for improving things, and to take care of that, is there any place within the City, department-wise, that you would focus first? I know we have a number of places where we have non-tax revenue.

Mr. Bassett responded obviously where the material transactions are coming in, you would think…Recreation has a lot of small amounts coming in and going out, so that's one I would take a look at. The Tax Department has the controls. They collect so much of your money that they're okay. And as I say, they're non-tax revenues. The Building Department may be another one that you want to take a look at. I think where there's high volume…I think there are two or three that I'd take a look at first, making sure that the staff is in place to make sure that we can implement it properly. A lot of times you don't have the staff. We talk about segregation of duties. We could have a very complex system, but if everybody's doing the same thing and has access, you really have bought a complex system and not strengthened your controls. It's not always spending money. It's just a matter of looking at who's doing what and putting controls over those preventions and protections, to make sure that we have adequate segregation of duties and things of that nature.

Alderman M. Roy stated I'd ask the Finance Director for a prioritized list of who is bringing in the most receipts, and just a notation. Most of those, we'll know exactly where they are. But if you want to focus on two lists: inside of City Hall and outside of City Hall.

Mr. Sanders stated absolutely. I noted in our response, if you saw it, that we were initially going to focus on Ordinance Violation, which is a high volume activity.

Alderman Lopez asked on page three, in reference to the Civic Center, could you enlighten me a little bit about what you're saying there?

Mr. Bassett responded I talked a little bit about that, about our report and the qualification of our report regarding the Civic Center transaction that occurred

back in 2002. It's very complex. The Civic Center was built through the redevelopment agency, MHRA, I believe. During the time of the construction of the asset, the payments and everything were being handled by MHRA, and at the time when the asset was transferred over to the City, full title was transferred over to the City, the City did not record a liability associated with the asset that came over under government-wide statements. We went through this with the folks in the Finance Department back in 2002 and 2003, and there are some technical GAAP criteria as you go through the receipt of an asset, and if you have any obligation associated with that asset. The flow of the transaction with the Civic Center is that the monies go through the Civic Center and some trustees. The debt is paid, some reserves are kept, and any residuals are operating income or unrestricted assets used for the City. During the conversations we had back in 2002 and 2003, at that time no one had recorded the debt associated with the Civic Center. MHRA hadn't recorded the debt, and the City hadn't recorded the debt. Then there's legal criteria that you go through; there's transfer of title that you go through; and then there's a clause in the GAAP literature that has…financial benefit is one that you take a look at; if you have a financial benefit, if you're responsible for the upkeep, and if there possibly could be a moral obligation to pay that debt, the debt should be recorded as you bring in the asset. We're a very large firm; we're the fifth largest firm in the world. We discussed that with Randy Sherman and Kevin Clougherty at the time, and presented our argument, and we stand by that argument that we still believe that a debt associated with that asset should be recorded on the government-wide statements.

Alderman Lopez stated you didn't report this in your other reports. I didn't see anything in reference to this. Is that correct?

Mr. Bassett responded it was recorded in 2002 or 2003. It hasn't been recorded. I've talked to Bill Sanders a little bit about it, about what would happen…I can tell you exactly what would happen in these statements if you were to record that debt. Turn to page 23. Now we'll just estimate the debt now to be $50 million. I'm not quite sure what it is. On page 23 you have total liabilities; you have $462 million there. That number would increase by $50 million, if that's the debt number. And dropping down to the next number, you have the investment in capital assets of $137 million. That would decrease by the same amount of monies. And that would be the balance sheet impact on this statement.

Alderman Lopez asked what about the guaranteed insurance? That has nothing to do with it?

Mr. Bassett responded well, it's guaranteed but it's still…although you have insurance…all your bonds have insurance on them, actually, but you still record the debt.

Alderman Lopez stated but weren't not in trouble though. I don't want to leave that impression.

Mr. Bassett responded no. It's just an accounting entry which I think should be made.

Mr. Sanders stated I just wanted to briefly say that obviously the financial statements have been prepared this year as they've been prepared since 2000, with not reflecting the debt, and the financial statements are the responsibility of the City of Manchester, so it remains the position of the City of Manchester that the debt should not be recorded on the City of Manchester's books. Scott and I have talked, and we may have discussions about that as we go through this next year about it, but there is no legal requirement for the City; we are not guaranteeing those bonds. I want to be very careful in deciding whether to put that debt on our books. We're not in trouble or anything. It has always been disclosed appropriately.

Alderman DeVries asked if we were to record that debt on the City side, would that have an impact on our bonding thresholds?

Mr. Sanders responded the presentations that have been made to the rating agencies over the years…they're obviously very smart. They know how to read these financial statements. They recognize this issue. But, the debt payments and the amortization of this debt has not been included in the City's bond information since 2000. That would be one of the issues that would need to be addressed.

Alderman DeVries stated I just want to verify the Rainy Day fund, and I know you stated the number and I think it was 16.3% or something.

Mr. Bassett stated the Rainy Day fund is $10.9 million.

Alderman DeVries asked didn't you give a percent of the General Fund?

Mr. Bassett responded I did not, but I could do it quickly.

Alderman DeVries stated that's okay. I thought I heard…

Mr. Bassett stated the unreserved, designated fund balance is 16.3% of your General Fund expenditures, which includes the Rainy Day fund and some other items.

Alderman DeVries stated and the ratio that we should be looking at for the Rainy Day fund…just the figures out there…are we on target with the recommendations of the bonding agencies?

Mr. Sanders responded actually, I have some material that we will review next month on this whole issue, but a number of cities that would be comparable to us range between 15% and 25%, so we're within the range of reasonable, but we're not at the high end of that. I think the balance in the Rainy Day fund could still go higher and Finance would encourage that.

Alderman DeVries stated I'm back in the green book on page 19. The graph at the bottom of the page talking about expenditures is only a two year trending. If I'm reading that correctly, it's telling us that we have had from 2006 to 2007 a 1.9% reduction in General government expenditures; Highway and Streets was a 7.27% reduction. Am I reading that correctly?

Mr. Bassett responded right.

Alderman DeVries stated I found that to be rather striking. I knew that we had been passing many a lean budget, but I don't think I realized that we had decreased in those lines or funds as much as we had, particularly Highway.

Mr. Sanders stated I would also mention that this is on what's called the GAAP basis, as opposed to the budgetary basis, so there could be some differences between GAAP and budgetary, but I think it is fair to say, if you look at the expenditures over the last three years or so they've been…

Alderman DeVries interjected would you care…because you mentioned the GAAP…is that a short conversation? What would be the difference?

Mr. Bassett responded there's not a whole lot of difference as presented here. The only thing that could change it would be if you had encumbrances from one year to the next, it would kind of swing over and be counted here. From an accrual basis of accounting, that's a good measurement, which is very close to budget.

Alderman DeVries stated on the observations there was a mention in there about compliance with Davis-Bacon, and it seemed to me that the response said there was no issue with compliance, that the records are maintained, or the certified payrolls are maintained.

Mr. Bassett stated I think that was a corrective action from the prior year. We mentioned that in 2006 and it was corrected in 2007.

Alderman DeVries stated so that is not continuing to be a problem. Thank you.

Mr. Bassett stated that's on page 13; that's a summary of the prior year finding, and it is not repeated this year because that corrective action was implemented.

Alderman M. Roy asked the General Fund expenditures on the bottom of page 19…could we have something done in more…possibly a ten year instead of just the two years so we can see a year-to-year trending, and maybe a cumulative?

Mr. Sanders responded I would think at least five years. I don't know about ten years.

Alderman M. Roy stated I don't want to overburden you, but as Alderman DeVries brought up, it's a very nice bit of information as we sit and discuss our budget.

Mr. Bassett stated I think if you turn to page 110 and 111 of your booklet, it's already there. I think this is in Excel, so I think they can get that pretty quickly for you.

Alderman M. Roy stated pages 110 and 111 are great. The Finance Department has actually forwarded this to me electronically, which I use, but seeing the percentages and letting the public see the actual percentages is very informative. Scott, while we have you here, I was going to save it for later but regarding the bonding capacity, we discuss it a little bit in the debt service on page 19, but a trend in bonding…

Mr. Bassett interjected as far as increases and decreases in your ability to pay the debt, as Bill mentioned, the rating agencies really took a hard look at that. And the first sign of any trouble with the City's ability to pay debt or any questions about the City's ability to pay debt would be right in that second paragraph on page 21 on the long-term debt. If there was a downgrade of your bond rating…and I believe your bond ratings have stayed pretty consistent over the past several years, that is a better indicator. If there was any forecasted trouble, these ratings would be impacted by that. If there is a decrease, that is the time to ask the question. If the rating agencies were to decrease you, there would be a financial analysis that they would do and share with everybody which kind of would go into the reasons why from an economic standpoint. What they're going to look at is your tax collections, a lot of things that impact that capacity.

Chairman Sullivan stated at this point I'm going to ask that any further discussion be held off until we go through this all again at the full Board level.

On motion of Alderman Lopez, duly seconded by Alderman M. Roy, it was voted to send this report to the full Board.

Chairman Sullivan addressed item 5 of the agenda:

5. Review of the Independent Auditor's audit comments and management responses.
(*Note: Copies of the comments and responses have been sent under separate cover by the Finance Department.*)

On motion of Alderman M. Roy, duly seconded by Alderman DeVries, it was voted to refer this item to the full Board.

Chairman Sullivan addressed item 6 of the agenda:

6. Communication from William Sanders, Finance Officer, submitting the City's Monthly Financial Report (unaudited) for the eight months ended February 29, 2008.

Alderman M. Roy stated Mr. Chairman, I don't know how quickly you wanted to go through things. I do know I had quite a bit of inquiry to item 8 on our agenda. Do we need to just receive these and send them to the full Board or do we want to get into what we talked about in the past regarding some of the collection efforts?

Chairman Sullivan stated I think getting into a full-blown discussion on collection efforts is not going to happen now in the span of ten or twelve minutes.

Alderman Lopez stated the only major thing that I can foresee in reference to this is an update of the budget coming up, 2008, for an example. Some of the things that we're getting are not telling us the savings we have done on the $2.4 million. You know, your weekly report. I think I've heard some comments from some Aldermen that we'd like to know where we stand on that, so that we can take a good look at the eight month budget and where we stand, and knowing that we've got to make up the $2.4 million as to where we stand. So I just bring that to your attention and I'm sure that you'll correct it.

Mr. Sanders stated we are going to be updating in the next week the department heads' forecasts of where they stand compared with what they gave me a month ago. I'm going to be getting something next Friday and I'll be in a position to report that at the next Board meeting in two weeks' time.

Alderman Lopez stated I think we had the impression that we were going to get a weekly update. Do you recall that?

Mr. Sanders responded you do get a weekly update of what I've approved or passed on to the Mayor. To have the ability for me to forecast how we're doing against that $2.4 million, I really need department heads to be telling me what's changing.

Alderman Lopez asked can you or can you not give a weekly report?

Mr. Sanders responded I can give a weekly report if the department heads want to give me a weekly report.

Alderman Lopez stated we can tell them to give you a weekly report. Anyway, I'm sure you'll work it out some way.

Alderman M. Roy stated I was just going to offer the Chairman of the Board a motion to that effect, to take it off of Mr. Sanders looking to department heads to perform, but if we give the directive as policy makers…I know he's not thrilled about another report coming out of his office per week, but as our budget ends and as our budget is tight for next year, we are looking at every revenue and those forecasts are crucial, so the more information we receive the better.

Alderman M. Roy moved that City department heads, every week, by Friday at noon, report to the Finance Director their revenues and expenditures, beginning Friday, April 4, 2008.

Chairman Sullivan asked is that feasible? We don't want to drop a bomb on the department heads.

Mr. Sanders stated to be honest, the two week reporting methodology would…I don't think their numbers are going to change tremendously week to week. There's been some improvement since a month ago. It's not $2.4 million; maybe $2.1 million. So I was thinking that if every two weeks I got an update from them, that would not be onerous and it would only take into account significant changes. We don't want to know if it's $5,000 better or worse. That's not worth counting.

Alderman M. Roy stated a lot of what I'm seeing is we hear $2.4 million at a meeting and then the following Friday we hear a different number. It's up and it's down. So as we forecast and try to do our jobs, we don't have the information.

On motion of Alderman M. Roy, duly seconded by Alderman DeVries, it was voted to refer this item, the City's Monthly Financial Report (unaudited) for the eight months ended February 29, 2008, to the full Board.

Chairman Sullivan addressed item 7 of the agenda:

7. Communication from Sharon Wickens, Assistant Director of Treasury, submitting Finance Department reports as follows:

   a) Department Legend;
   b) Open invoice report - over 90 days by fund;
   c) Open invoice report - all invoices for interdepartmental billings only;
   d) Open invoice report - all invoices due from the School Department only;
   e) Listing of invoices submitted to City Solicitor for Legal Determination; and
   f) Accounts Receivable summary.

On motion of Alderman Lopez, duly seconded by Alderman M. Roy, it was voted to discuss these reports.

Ms. Sharon Wickens stated I would like to make a comment on a question that was asked of me at the last Committee meeting by Alderman DeVries. She was wondering if we had seen more people going to collections and payments not being made. It's starting. Remember, these reports are 90 days in arrears. But it is starting. I've noticed a lot more intercept checks, and I had a slew of accounts for collections just this past month. So, the economy is definitely starting to show.

Alderman DeVries asked did you indicate where you're seeing them? I just couldn't quite hear your full answer.

Ms. Wickens responded the intercept payments, it's pretty much our parking violations. That's where we're seeing them really high. But it has increased pretty much all over. And again, for the collections, I would say Highway, Traffic, which would be Parking. That's where it's probably the heaviest.

Alderman M. Roy asked is it possible, Sharon, for our next meeting, possibly to have a one-page summary of anywhere you think that we can start avoiding those, whether it's on-line payments or cash payments or just your thoughts on where you're seeing them and what possibly the departments' collective ideas are to help, not only the City but the taxpayer?

Ms. Wickens responded yes, certainly.

On motion of Alderman M. Roy, duly seconded by Alderman DeVries, it was voted to approve these reports.

Chairman Sullivan addressed item 8 of the agenda:

8. Communication from Sharon Wickens, Assistant Director of Treasury, regarding the possibility of accepting credit cards for payment of real estate taxes.

Alderman M. Roy stated I know this has come up a number of times. Is this a 15 minute discussion or something that we can refer to the full Board? Sharon, I know Alderman Gatsas has been very concerned. I have been, as well. I know Joan Porter is here. Is that something that is appropriate to send immediately to the full Board?

Ms. Wickens stated if we could table it and come back to this Committee. This is being submitted through me, but it's actually jointly with Joan Porter. She's had numerous requests to have taxes paid by credit cards, so we've been exploring it. We do have some information, but I would ask that Joan be involved in that. It would probably be a fifteen minute discussion.

On motion of Alderman Lopez, duly seconded by Alderman M. Roy, it was voted to table this item.

Alderman Lopez stated just one administrative item: a letter for Bill Sanders to talk about the special accounts that are not in the packet, so the City Clerk will make note of that; it's supposed to be tabled till then.

TABLED ITEMS

9. Communication from Kevin Buckley, Independent City Auditor, submitting an audit of the VISTA program and updating the committee on the status of pending and future audits.
(Note: Tabled 2/4/08 Copies of the audit and supporting documentation previously sent to the BMA and Committee members; Remained tabled 3/4/08; Updated communication between Kevin Buckley, Internal Auditor, and Janice Lopilato, State Program Specialist of the Corporation for National & Community Services attach; Tabled 3/11/08; Internal Auditor to present the attached Business Expense Policy as amended.)

   This item remained on the table.

10. Communication from Kevin Buckley, Independent City Auditor, listing audit observations and recommendations from all internal audits since FY2000.
(*Tabled 3/11/08*)

This item remained on the table.

There being no further business, on motion of Alderman Ouellette, duly seconded by Alderman DeVries, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee