

MEMORANDUM

TO: Finance and Administration Committee of City Council

FROM: Jeremy Craig, Director of Finance and Administration

DATE: March 10, 2004

SUBJECT: FINANCE AND ADMINISTRATION COMMITTEE MEETING

The Finance and Administration Committee met Wednesday, March 10, 2004. Those in attendance included: Chairperson Jane Durrell, Ward I, Councilmember Bruce Geiger, Ward II, Councilmember Dan Hurt, Ward III, Councilmember Connie Fults, Ward IV, Mayor John Nations, and Director of Finance and Administration Jeremy Craig. Also in attendance were Councilmember Mike Casey, Ward III, Michelle Bock, Piper Jaffray, and Mr. Brian Calderwood. The meeting was called to order by Chairperson Durrell at 5:30 p.m.

1. Approval of Minutes – February 26, 2004

Councilmember Geiger made a motion to approve the minutes from February 26, 2004 and Councilmember Fults seconded the motion. The motion was approved 4-0.

2. Review of City Hall Refunding

Mr. Craig explained to the Committee the different refunding scenarios listed below:

Exhibit A – The debt is extended for four additional years and the savings from refinancing would be placed at the front of the issue. The result is a large cash flow savings in the first five years and a smaller cash flow savings in the following years with four years of additional payments.

Exhibit B – The first five years savings are reduced to approximately \$250,000 per year with two years of additional payments.

Exhibit C – The first five years savings are reduced to \$100,000 per year with one additional year of payments.

Exhibit D – The cost savings of the refunding would be spread out over the remaining term of the debt reducing each year's payment.

Exhibit E – This scenario would add no additional years to the debt but push all the savings to the first five years of the debt. The result would be the first five years savings of approximately \$80,000 per year.

Mr. Craig stated that Staff had been asked to identify ways to reduce operating costs and the drain on the City's fund reserves. He further stated that the recommendation of Staff was for Exhibit A. He cautioned the Committee that the current rate environment is subject to change so a decision was needed as expeditiously as possible.

Mayor Nations thanked Mr. Craig for addressing his and Council's request to find opportunities to reduce operating expenditures and the drain on the fund reserves. He thanked Michelle Bock for attending the meeting and her work in formulating the different refunding options. He stated that this was the first time in the City's history when expenditures are greater than revenues and fund reserves were being used to cover the deficit. He stated that over the last three years, Council and Staff had cut operating expenditures, but revenues had remained flat. He stated that Exhibit A would provide the City with cash flow savings for the next five years allowing time to address a new revenue vehicle, such as a ½ cents sales tax for Parks. He challenged the Finance and Administration Committee to review the different options and send a recommendation to Council so that this problem could be addressed expeditiously.

Councilmember Geiger stated that he was also wanted to reduce expenditures and to slow the drain on fund reserves; however, he was concerned that by choosing Exhibit A and moving the savings to the first five years that Council would choose to spend the savings on additional projects and fund reserves would still be used for the deficit. In addition, the debt payment would have been extended for another four years.

Councilmember Hurt stated that he agreed with the debt refunding. He also agreed that Exhibit A would reduce the cash flow drain, but believes it would be a temporary fix to a larger problem. He stated that when Council decided to develop the Parks program, after the defeat of the ½ cent sales tax increase for Parks, it committed to financing the Parks program from the general fund. He stated that the Parks budget of \$1.7 million was a financial drain on the general fund of approximately \$1.3 million per year. He stated that a ½ cent sales tax for Parks would solve the operating expenditures problem and the drain to the fund reserves. He provided the Committee with a chart which mapped out the future gap in revenues and expenditures. He also stated concern that Exhibit A would commit the City to an additional four years of debt that in the final years would place the city in a larger deficit situation.

Councilmember Fults stated that operating expenditures had been cut for the last three years and fears that services may be affected if other revenue/savings cannot be found. She stated that Exhibit A would reduce operation costs and provide Council with time to find a revenue source for Parks.

Councilmember Casey suggested using the cost savings from Exhibit A to pay off the debt on the Public Works Facility for savings of \$250,000 annually.

Chairperson Durrell asked each committee member to state their refunding option choice. The choices are as follows: Chairperson Durrell – A, Councilmember Geiger - B/C, Councilmember Hurt – C/B, Councilmember Fults – A/B.

Councilmember Hurt asked Michelle Bock about a scenario of NPV at 0 and no extension of debt term. She stated that the analysts were unable to generate a NPV analysis that showed a NPV of 0 and no increase in debt term because the present value of saving dollars in the first five years is so great you cannot create NPV of 0 without having losses in the remaining ten years.

Chairperson Durrell asked the committee for a motion.

Councilmember Geiger made a motion to recommend to Council Exhibit B. Councilmember Hurt seconded the motion. The vote was 2-2.

Councilmember Fults made a motion to recommend to Council Exhibit A. Councilmember Durrell seconded the motion. The vote was 2-2.

Due to the Committee being unable to agree on an option, Chairperson Durrell will forward the individual Committee members votes to Council and the staff recommendation of option A will be presented.

3. **Adjournment**

Chairperson Durrell adjourned the meeting at 6:40 pm.