



Memorandum

To: City Council
From: Ben Cowan
Date: 11/12/2015
Re: Semiannual Finance Department Report

I've only just completed my ninth month with the City and I appreciate the opportunity to learn and implement some changes I feel are helpful to the financial management of the City.

Below are some highlights of some projects we've undertaken in Finance over the last six months:

Bond Refinancing:

Likely one of the most significant projects Finance has undertaken in the last six months was the refinancing of the 2007 recreation bonds that funded the construction of the rink and the pool. We closed on the forward refunding deal on October 15, locking at a historically low 2.75% rate. An estimate of savings over the next 17 years is over \$1.4 million. That will help to allow for more projects that are listed in the Parks and Recreation Master Plan. In anticipation of these savings, we have added \$37,000 and \$13,000 transfers to the pool and rink to help support ongoing operations of those facilities. This use was contemplated in the Master Plan. We set up a new debt service reserve with UMB Bank that will be held until the old bonds are paid off at their 2017 call date.

Date	NEW GROSS D/S	OLD GROSS D/S	SAVINGS
12/01/2015	-	-	-
12/01/2016	-	-	-
12/01/2017	437,615.63	545,652.50	108,036.87
12/01/2018	489,825.00	544,252.50	54,427.50
12/01/2019	490,612.50	542,452.50	51,840.00
12/01/2020	491,125.00	545,252.50	54,127.50
12/01/2021	486,362.50	542,452.50	56,090.00
12/01/2022	491,462.50	544,087.50	52,625.00
12/01/2023	491,150.00	545,115.00	53,965.00
12/01/2024	490,562.50	545,355.00	54,792.50
12/01/2025	489,700.00	544,980.00	55,280.00
12/01/2026	488,562.50	543,600.00	55,037.50
12/01/2027	487,150.00	541,590.00	54,440.00
12/01/2028	490,462.50	543,950.00	53,487.50
12/01/2029	493,362.50	545,030.00	51,667.50
12/01/2030	490,850.00	545,250.00	54,400.00
12/01/2031	488,062.50	544,370.00	56,307.50
12/01/2032	-	542,620.00	542,620.00
Total	\$7,296,865.63	\$8,706,010.00	\$1,409,144.37

Budgeting:

Another huge undertaking during the second half of the year is the budget process. The process begins with the establishment of the five-year capital plan, which is informed by public input gleaned from the annual City Fest. Finance spearheaded some changes in the budget process to move to a best practice "target based budget". The budget process documented all changes from the 2015 budget to 2016 and included a prioritization that helped link requests for new resources to projects identified in your strategic plan. The budget process includes evaluating all full-time employee wages related to comparable communities, matching beginning fund balances to the ending fund balances as determined by the audit, projecting year end revenues and expenditures, and estimating resources and costs for next year. The budget process is nearing a close as we prepare to adopt the

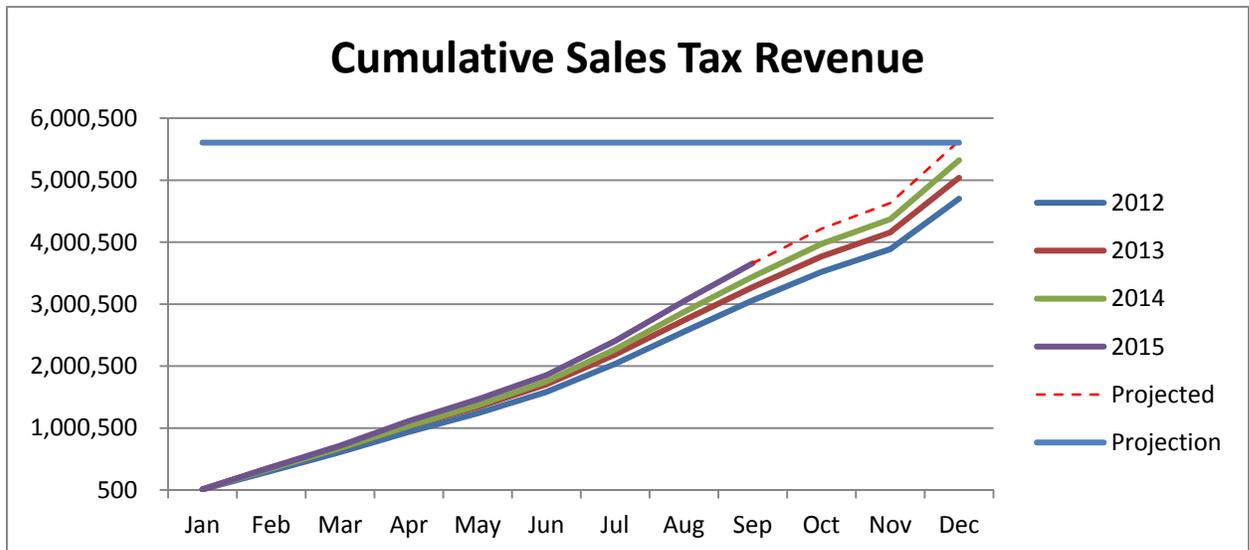
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appropriating ordinances to grant the City the legal authority to spend in 2016. Thank you, again, for your diligence in listening and learning about the components within the proposed budget. I hope the process has been acceptable to you as well.

Sales Taxes:

Since Sales Taxes encompass 34% of the City's total revenue and nearly 60% of General Fund revenues, it is important to ensure this revenue stream continues to support the costs of the City's various services. The 2015 budget contemplated a 2.5% increase, but the trend through September indicates revenues are closer to 5.38% over the prior year. This allows those unanticipated revenues to be utilized in the implementation of the 2016 budget. Lodging has seen a large increase over last year at 10.61%. Grocery sales, which represent 29% of the total tax revenue, are also showing strong growth of nearly 6.81%.

The below chart depicts cumulative sales tax receipts through September (please note this is based on cash remitted by vendors and does not correlate to the filing period in which the sale took place). Even if the last quarter is identical to the last quarter of 2014, we will nearly reach our projected amount in the budget of \$5,606,568. The 2016 budget includes a modest 2.5% again for a total of \$5,746,732.



Finance also created a new sales tax return that accommodates the new special marijuana taxes and worked to implement a reduced vendor fee to fund the visitor center according to Council's direction.

Over the next month, Finance will be modifying the sales tax return for the upcoming change in the vendor fee and notifying the State to change their form DR 1002 to allow for the change that will fund the visitor center.

Due to some inaccuracies found in the legacy version of a sales tax database, a new database was developed a custom Access database to track sales tax returns and the new marijuana sales tax.

Below are some screen shots from this new database.

Main Menu:



SALES TAX MAIN MENU

-  Enter New Sales Tax Return
-  Edit a Sales Tax Return
-  Edit a Sales Tax Return-Datasheet

-  Add New Business
-  Edit Book of Business

-  Manage Batches
-  Manage Duplicate Payments
-  Ignore Legitimate Duplicates

-  EXIT

Reports

-  Monthly Sic Code Totals
-  Master Sales Tax Returns
or Specific Return:
-  Mailing Labels
-  Audit Testing

-  Batch Report by Batch
-  Batch Report by Date Deposited
-  Batch Report by Date Entered
-  Batch Report by Filing Period

-  Penalties and Interest Report
-  Marijuana Report
-  Geo Report

System Queries

-  Delinquent Query
-  Batches without Associated Returns
-  Unbalanced Batches

Return Entry Form:

Return Entry Form

Pmt	Filing Period	Date Entered	Date Deposited
(New)		06/04/15	
License	Company Name	Frequency	
Batch	Sic Description		

Gross Retail	
Bad Debts Collected	
Adj Gross	
Non Taxable	
Sales for Resale	
Sales shipped out	
Sales/Exempt	
Gas/Ciggs	
Bad Debts	
Returned Goods	
Discounts	
Trade-Ins	
Drug Sales	
Total Deductions	

Taxable Sales	
Sales Tax	
Computed Tax	
MJ Gross Sales	
MJ Exempt Sales	
Marijuana Sales Tax	
MJ Excise Sales	
Marijuana Excise Tax	
Excess	
Adjusted Sales Tax	
Vendors Fee	
Computed Vendors Fee	
Tot Sales Tax	
Use Tax	
Total Tax Due	
Penalty	
Computed Penalty	
Interest	
Total Due	

 Delete Return

Batch	<input type="text"/>	Total of Returns	<input type="text"/>
Date Deposited	<input type="text"/>	Batch Variance	<input type="text"/>
Batch Amount	<input type="text"/>		

Total Entered




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The new database allows for better tracking, better queries to reconcile the reporting to bank deposits/revenue account and better mathematical checking of returns.

Committees:

The **Computer Working Group** met several times, with Michelle representing our department. Michelle worked closely with the group to recommend updates to hardware and software and prepare a detailed inventory of equipment to allow for the creation of a complete replacement plan.

The **Investment Advisory Board** met in June to help guide future investment decisions. The Board elected to take five poorly performing certificates of deposits and reinvest them in U.S. Government Agency bonds to help meet our investment goals. However, we discovered some prohibitive early withdrawal penalties had been added to the CDs that prevented implementation of this strategy. We are continuing with a laddered approach to diversify funds and provide a continuous income that avoids speculating on economic changes (see the banking discussion below for more detail).

The **Gunnison/Hinsdale Combined Emergency Telephone Service Authority Board (E911 Authority)** meets on a quarterly basis. Fund balance consisting of \$61,195 was used in 2014, but there were one-time capital expenditures of \$109,019. The capital expenditures were \$25,366 for repeater installation, \$68,197 for 911 electronics, and \$15,455 for dispatch expansion. The 2015 actuals are tracking along well with the budget. While there has been much talk of reduced surcharges, they remain strong since the State has been collecting surcharges on prepaid cell phones. The Board worked to implement texting capabilities to 911 and the use of emergency medical dispatching.

The **Firemen's Pension Board** meets semi-annually and held its meeting August 27. A quick synopsis of actions includes a bylaws amendment to remove the bonding provision similar to the provision in the City Charter that was removed during the 2015 election. The meeting dates were amended to accommodate the reporting requests from Wells Fargo for the investment update, as well as the required updates to Council. Paul Barker, with the Actuarial Consulting Group, presented the actuarial report. Pensions are either contribution driven or asset driven where benefits are supported by funds in pension fund. Gunnison's plan is driven by both sources and Mr. Barker believes the plan is very healthy. The cash contributions and balance is more than enough to support the current \$350 benefit level and the Board will begin looking ahead to the next benefit level next year. New requirements make the actuarial report necessary every year rather than every other year. The Board agreed to maintain the current pension levels at \$350 per month, \$175 for a surviving spouse, and \$1,000 for the death benefit. Finally, Dan Buffington's retirement was accepted after having attained 20 years of service and the age of 50.

Banking:

As a result of the refinancing discussed above and the purchase of the Lazy K property, as well as various calls on the City's bond investments, the investment portfolio has seen a great deal of shift. Transfers have been made to keep approximately 25% in liquid assets and reinvest excess funds in U.S. Government Agency bonds and Certificate of Deposits to maximize the weighted average yield while maintaining the City's ability to cash flow its ongoing operations. Additionally, the City received a notice that its bank fees would be increasing from \$650 to \$1,200 monthly. We worked to negotiate lower per unit costs and removal of unneeded services like overnight investment sweeps and automatic withdrawals to cover cleared checks in order to maintain the current cost of banking.

Grant Tracking:

City Hall Remodel:

The final report for the City Hall Remodel was submitted to the Department of Local Affairs. The project was budgeted at \$511,000, with \$200,000 from DOLA. The actual was \$508,585.34 with

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\$199,773.82 from DOLA. We hear many positive comments from customers and users of the building regarding the increased functionality.

Senior Addition:

The new addition to the Community Center is complete. While the project is slightly over budget due to the increased costs of insulation and the need for a fire alarm system, the DOLA grant has some excess capacity and for each dollar spent, only 57 cents will be paid by the City for this worthwhile project. \$5,500 additional funds were raised by the Young at Heart senior group to support the completion. The total cost is likely to be \$342,066, with \$144,315 coming from the Department of Local Affairs, \$50,895 from Boomers and Beyond, \$38,100 from the Daniels Foundation, \$30,000 from the Gates Foundation, \$20,000 from the Boettcher Family Foundation, \$10,000 from El Pomar and \$1,000 from the Community Foundation of the Gunnison Valley.

Professional Development:

I attended an all-day Disaster Financing training in August, paid for by Gunnison County Emergency Management. The class focused on required documentation in the event of an emergency or disaster that would be required to receive federal reimbursement at the maximum level. Getting procurement policies, cooperative agreements, disaster plans, and declaration processes in place in advance of an emergency helps a great deal in reducing the City's exposure to massive losses. Many municipalities only receive 70% reimbursement from FEMA and the State, which can be huge when some responses can spend over \$1,000,000 per day. It is sobering reminder of the need to maintain healthy reserves. The TABOR emergency reserve can't really be counted toward response because the law requires it to be repaid the same year – it is the emergency reserve that you can't use.

Tammy and I attended a free training hosted by the Colorado Workforce Center and staffed by Unemployment Insurance Auditors with the State of Colorado Department of Labor and Employment. The training focused on compliance with law, what activities trigger audits, and proper classification of employees versus independent contractors.

Michelle attended an intermediate governmental accounting training on Montrose. She learned a great deal and came back with many updates on new legislation and changes in accounting principles.

I travelled to Glenwood Springs in July to discuss current influences on compensation as a result of economic conditions as well as strategies to ensure we are comparing employee pay to their relevant labor market. As unemployment rates drop (lowest point since 2008), we are finding it more difficult to attract and retain quality employees. Although the tourism heavy economies in the western region of the state have returned to a healthy level, along with increases in home values, housing permits, etc., the region overall has remained flat in employment growth largely due to a slowing of regional natural gas production and the struggling coal mining communities. Even so, most communities in our region have reported smaller hiring pools and fewer qualified candidates.

Thank you for your ongoing support of professional development in our department.

Rink Opening:

Finance assisting in creating an Access database that tracks membership payments and logs member visits to the rink so that an employee can look at the number of people on the rink during public skate and reconcile the logged member visits to the daily drop-ins to get a sense of whether there are skaters that did not pay. Finance also helped to establish sound internal controls, with the assistance of the rink staff, that will help prevent further thefts such as those experienced during last season.

Human Resources:

The Health Insurance Committee met with Jim Hermann, with CEBT, on September 25. Due to significant claim payments, premiums are increasing 16.5% beginning in 2016. The Committee

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elected to discontinue the PPO II low deductible plan for 2016. All employees that are currently enrolled in that plan have been met with individually to discuss the benefits of moving to another plan. In its place, the PPO V plan has been added as an option for 2016. It includes a \$2,500 deductible and \$45 for office visit co-pay.

The Hospital Reimbursement Plan (HRP) provides up to \$1,000 per day for otherwise unreimbursed eligible medical expenses while staying in the hospital. This plan is required for any benefit eligible employee that is not participating in one of the PPO plans. For 2016, the City will pay 100% of the premium for employees enrolled in the HRP since employees participating in this plan actually save on overall costs because they have eligible coverage elsewhere such as through their spouse's employer.

We also met with representatives from various organizations such as American Fidelity, Colorado County Officials & Employees Retirement Association to ensure the plans were updated and ready for the open enrollment process in anticipation for the new year.

Utility Billing:

Shannon does a fantastic job managing the utility billing. Shannon has been busily processing hundreds of work orders to prorate monthly utility bills and refund deposits, which is especially demanding when students are moving into rentals.

Ken and I worked with Kathy Fogo to develop a better approach to the process used to lien property for delinquent utility accounts. The new process is currently in action and preliminary results indicate it is helping us with fewer uncollectable balances.

Audit RFP:

We received two proposals from audit firms by the October 30 deadline. The audit committee, made up of Richard Hagan, Michelle Arnett, and myself, met this week to make a determination. The committee felt comfortable that both firms were well qualified to conduct the audit, but we found that the price and the number of hours to be performed by a firm partner resulted in the contract award to a new audit firm by unanimous decision: McMahan and Associates out of Avon, CO. A contract will be developed for the 2015 audit with optional extensions for a total of five years. The total cost will be within the 2016 budgeted costs.

Daily work continues with accounts payable, payroll, utility billing, and financial reporting for the City, the Firemen's Pension Fund and the Gunnison/Hinsdale Combined Emergency Telephone Service Authority. College students are moving around and into Gunnison with the start of another school year, which means a significant volume of work orders and collecting on delinquent accounts.

Please let me know if you have further questions concerning these items or other activities in the Finance Department.