

MEMORANDUM

TO: Michael G. Herring, City Administrator
FROM: Lori Helle, Director of Finance and Administration
DATE: August 26, 2008
SUBJECT: Finance and Administration Committee Meeting

The Finance and Administration Committee met on Monday, August 25, 2008. Those in attendance included: Chairperson Lee Erickson, Ward II; Councilmember Gene Schenberg, Ward I; Councilmember Connie Fults, Ward IV; Councilmember Dan Hurt, Ward III; City Administrator Mike Herring; Director of Finance and Administration Lori Helle; Asst. City Administrator for Economic/Community Development Libbey Malberg; and, Asst. Director of Finance and Administration Kelly Vaughn. Also in attendance were: Councilmember Bruce Geiger, Ward II; Councilmember Mike Casey, Ward III, Councilmember Bob Nation, Ward IV, and Public Works Director Brian McGownd. There was one visitor in attendance.

The meeting was called to order by Chairperson Erickson at 5:35 p.m.

1. Approval of Minutes—August 14, 2008

Councilmember Schenberg motioned to approve the minutes from the August 14, 2008 meeting of this committee. Councilmember Fults seconded the motion. A voice vote was taken, with a unanimous result, and the motion was approved.

2. Discussion Regarding the Residential Street Tree Program

Public Works Director Brian McGownd discussed the details of the proposed Residential Street Tree Program. He explained that the City has had to remove a large number of trees this year mainly due to the age of the trees and the impact from previous weather conditions. Residents have expressed a desire for the City to assist in the replacement of these trees.

The Residential Street Tree Program is a cooperative program. The property owner would be required to submit \$100 for each tree applied for, with the City contributing the remaining amount needed to remove the existing tree and plant a new one. Mr. McGownd explained that by having to contribute to the cost of the tree, the owner will be more inclined to properly care for the tree.

Mr. McGownd anticipates receiving applications to plant 200 to 300 trees per year, and removing an existing tree and planting a new one is expected to cost between \$150 to \$250. Based on these numbers, this would equate to a maximum amount of \$75,000.

After factoring in the fees received from the property owners, the net budget impact would be \$45,000.

City Administrator Herring noted that this program had already been endorsed by the Planning/Public Works Committee and that Committee had voted to forward it to the F&A Committee, for a discussion of the fiscal impact. If the F&A Committee were to also endorse this program, that endorsement/recommendation will be forwarded directly to City Council.

Chairperson Erickson requested more detail concerning those who would be eligible to participate in the program. Mr. McGownd stated the program provides for the planting of trees within the City public rights-of-way, within residential areas. The program is not intended for commercial, office, institutional or retail properties/

Councilmember Fults expressed concern that there will be applicants in excess of the anticipated numbers. Councilmember Geiger agreed that there will most likely be more applicants in the initial implementation of the program, but that could then be considered when preparing future budgets. He also suggested using funds from the Contingency Account, for any expenses incurred in FY2008.

A motion was made by Councilmember Schenberg to recommend that City Council allocate \$25,000 from the Contingency Account, for FY2008 expenses and to recommend budgeting \$75,000, within the Public Works budget, for FY2009. That would be off-set by \$30,000 in estimated revenues, during FY2009. Councilmember Fults seconded the motion. A voice vote was taken, with a unanimous result, and the motion.

3. Discussion Regarding 2ND Quarter Financial Report

Director of Finance and Administration Lori Helle next discussed her memo which updated the Committee regarding the performance of the FY2008 Budget, as of June 30, 2008. Ms. Helle stated that in general, one would expect revenues and expenditures to reflect approximately 50% of the budgeted amounts at the midpoint during the fiscal year. However, she noted that revenues and expenditures were both below 50% of the budgeted amounts. She explained that revenues are typically cyclical with more revenue being earned in the latter part of the year. She further explained that expenditures, like revenues, do not occur uniformly throughout the year. Therefore, being above or below the 50% level is not a clear indicator of financial condition. Ms. Helle stated all indications are that the FY2008 Budget is performing at or above expectations.

Ms. Helle reported that utility tax was higher than last year mainly due to the wireless settlements received. However, receipts from Laclede Gas were also up due to a colder winter this year.

City Administrator Herring made note that while we had a colder-than-normal winter, we have had a very mild summer. Utility tax revenues need to be viewed on an annual basis, not during any particular season of the year. He reminded the Committee that, several years ago, Creve Coeur had rebated some utility tax revenues resulting from a colder-than-normal winter, only to experience budgetary problems because the following summer was very mild, thus reducing total revenues.

Ms. Helle pointed out that expenditures are in line with all projections, with the exception of fuel costs. We budgeted \$3.00 per gallon, and the average, for the first six months, is \$3.11 per gallon. Fuel will probably be over budget, but only by a small amount. Also keeping in mind that while fuel may be over budget, there will be other expenses under budget which will help to offset the additional fuel expense.

City Administrator Herring stated that we are excluded from some State and Federal taxes which means we pay approximately \$.50 less than pump price, for fuel delivered to our Public Works Maintenance Facility. Currently, that means that regular non-leaded fuel is costing us approximately \$2.78/gallon.

Councilmember Hurt was interested in seeing a breakdown of the types of sales tax revenue received. He observed that many people are deferring large, capital expenditures and are probably shopping more at discount retail stores, like Wal-Mart.

City Administrator Herring stated that since we are not a point of sale city, we are dramatically less affected by a downturn in the economy and less concerned with where people spend their money. Because we participate in the pool, we don't experience the highs, but we also don't experience the lows.

There was a brief discussion concerning the details of the City's participation in the pool. The Committee requested that Finance provide a report listing all "Pool" cities, in St. Louis County and, if possible, a chart showing how much each city contributes to the "Pool", versus how much each City receives from the "Pool", on a per capita basis.

Councilmember Hurt requested a report detailing the actual rates charged by both AmerenUE and Laclede Gas. He suggested that much of the City's increase in revenue, from this source, was not due to increased consumption but, rather an increase to the actual utility rates, charged by these companies. Mr. Herring commented that that information may be difficult to obtain, but Staff would certainly attempt to find it.

Chairperson Erickson noted that no action by the Committee was needed and simply indicated that Ms. Helle's memo would be accepted as information.

4. Discussion of General Fund Five-Year Forecast

City Administrator Herring noted that, while his name was on the Agenda to explain/discuss the updated "Five-Year Forecast", Ms. Helle had done much of the work,

including updating all assumptions and then preparing the spread sheets. He explained that the "Forecast" is a planning tool to allow the Council and City Staff to understand the impact of current financial trends on the City's long-term financial stability. The forecast is put together using the most recently completed fiscal year, which in this instance is FY2007 and the current fiscal year's budget (FY2008). This information, in conjunction with the assumptions, is used to project ahead for the next four years.

City Administrator Herring stated that, as indicated throughout the "Forecast", the City is in good shape. The fund balance is growing each year, as revenues are projected to exceed expenditures, on an annual basis. The picture being painted is very positive. He credits the Department heads for doing a fine job of managing their budgets each year.

City Administrator Herring stated that Staff is requesting that the Committee vote to recommend approval of the "Five-Year Forecast", as submitted, and that it be forwarded to City Council, for final review/approval.

There was a brief discussion concerning the "bottom line" regarding total Fund Reserves, within the General Fund. Mr. Herring distributed a worksheet, which details numerous commitments already made by City Council, which actually reduce the total Fund Reserves. He noted that the total, unencumbered amount of Fund Reserves, above and beyond City Council's 40% policy, was \$3,655,144.

Councilmember Geiger requested that an explanation be added to the bottom of the report, that clarifies the total "available" amount. Mr. Herring responded that Staff would add that explanation. Councilmember Casey noted that, while the report includes the "actual" revenue and expenditure totals, for FY2007, he would like to also see the original budgeted amounts, for FY2007. Mr. Herring again indicated that information would be added to the report. Councilmember Schenberg asked for the percentages to also be included if possible.

Mr. Herring pointed out that one of the items for which Fund Reserve dollars had been committed, was an additional generator, for City Hall, which the F&A Committee had voted to recommend, several meetings ago. He asked the Committee if he could forward this to City Council for action, at the September 3 City Council meeting. The Committee agreed.

Councilmember Fults made a motion to forward the "Five-Year Forecast" to City Council for their approval. Councilmember Schenberg seconded the motion. A voice vote was taken and passed with a unanimous decision.

5. Discussion Regarding Recommendation from Pension Board of Trustees

City Administrator Herring stated that as Chairperson of the Pension Board of Trustees, he is pleased to bring forth a recommendation from the board. The City Administrator and the Director of Finance and Administration are permanent members of the pension

board by ordinance, as well as the chair of the Finance and Administration Committee or his designee. Also by ordinance, there is a person who represents the Police Department, which currently is Lieutenant Steve Lewis, and a member, representing all other employees, which is currently Mark Wilson, Engineering Inspector for the Department of Public Works.

City Administrator Herring explained that for every full time employee that leaves employment with the City, prior to becoming vested, the money that the City had paid into the retirement plan on his/her behalf is captured. Those dollars have added up over time and we currently have approximately \$200,000, in what is called the “forfeiture account”. The City had previously used a portion of these funds to hire a company to provide financial management seminars. Retirement Plan Advisors, which the City selected to provide financial advice to all employees, now provides these seminars to the employees at no cost. Therefore, we no longer have a need to purchase these types of services.

City Administrator Herring pointed out there are very limited options in which the forfeiture dollars can be used. For example, these funds could be used to off-set or reduce future payments, by the City, into the retirement accounts of all current, eligible employees. However, the Pension Board of Trustees has voted to recommend that, during FY2009, the City make a ONE TIME, one percent contribution to everyone eligible for participation in the retirement plan. The committee also recommends that, for employees with ten years or more of service with the City, that contribution would be two percent. The total cost of doing this is approximately \$165,000. Again, the entire cost of this benefit would be covered by funds contained within the “forfeiture account”, noted above.

City Administrator Herring stated a key component of the plan is that there is a matching requirement. Employees would be required to contribute to their deferred compensation plan, an amount equal to that contributed by the City, in order to receive the City’s contribution. The goal is to encourage employees to initiate and/or maintain a savings plan of their own, using the pre-tax option provided by the City’s deferred compensation program. Councilmember Geiger also noted that the differential proposed for those employees with 10 or more years of service, was designed to recognize the value of long-term employees. Councilmember Geiger reiterated the fact that this benefit was being proposed for ONE YEAR only. He noted that, for the past two years, a similar benefit was provided to all employees eligible for participation in the retirement plan, using General Fund revenues and this proposal would preclude the need for City Council to make those funds available.

There was a brief discussion concerning the length of time required to become vested in the plan. Councilmember Geiger noted that the City has a “5-year cliff vesting” requirement. City Administrator Herring stressed that this vesting requirement was established as a way to encourage employees to continue working with the employees.

There was additional discussion related to the details of when the actual contributions will be made and for what length of time. Mr. Herring noted that an employee would need to continue to withhold savings, for a year, in order to receive a year's worth of contributions from the City, under this program.

Councilmember Hurt commented that this was a good plan and commended the Pension Board of Trustees for working to develop this proposal.

Chairperson Erickson made a motion to recommend that City Council adopt this proposal, coming from the Pension Board of Trustees. Councilmember Schenberg seconded the motion. A voice vote was taken and passed unanimously.

6. Discussion Regarding Municipal Taxation on Pure Power (AmerenUE) Revenues

Chairperson Erickson explained that he had asked that this item be placed on the AGENDA, at the request of the Citizens Committee for the Environment (CCE) Committee, who want to exclude all revenues received by AmerenUE, resulting from those who voluntarily participate in the "PURE POWER" program, from municipal taxation. City Administrator Herring stated that he was approached by AmerenUE wanting the City to participate in the "Pure Power" program and, as a result, pay more for the City's electricity. He commented that, while the goals of "PURE POWER" program were admirable, his first obligation was to make sure expenditures do not exceed budgeted amounts and, as a result, he could not recommend participation in this program. Chairperson Erickson explained that the "PURE POWER" program was designed to encourage AmerenUE to research, develop and utilize alternative energy sources.

Mr. Herring next informed the Committee that AmerenUE had contacted cities across the metro area, informing them that revenues from the "PURE POWER" program were exempt from municipal taxation. Chesterfield and all other cities responded back, with the support of the local Municipal League, to indicate that those revenues were, in fact, taxable. Since then, AmerenUE has not asserted itself regarding this issue; deciding, rather, to pursue a voluntary approach.

Mr. Herring further commented that he has surveyed cities, across the metro area, and has yet to find one city that has agreed to exempt revenues from the "PURE POWER" program from taxation. In fact, City Attorney Heggie has even recommended against taking such action. This is due, primarily, to his recent involvement with the settlement of litigation involving the wireless industry. Wireless companies argued UNSUCCESSFULLY that much of the revenue generated by cell phones was not taxable (ring tones; music/video downloads, text messaging, etc.). Mr. Herring urged caution since, in his opinion, to offer an "exemption" to AmerenUE would open the door for all other utilities to seek the exemption of various portions of their revenues. All of this could have significant negative consequences for Chesterfield, since utility tax is one of the City's two largest revenue sources.

Councilmember Hurt requested that this be tabled until the next meeting of the Committee, to enable him to do additional research. While he is supportive of the development and use of alternative energy, he is very much committed to the continued fiscal health of the City. Chairperson Erickson asked Mr. Herring to place this item on the next F&A Committee AGENDA, for further discussion.

7. Adjournment

Following a brief discussion, the Committee tentatively agreed to schedule its next meeting for Thursday, October 2, at 5:30pm. City Administrator Herring was directed to contact all members of the Committee, via e-mail, to confirm this date/time.

Councilmember Fults next mentioned that she would not be able to attend the F&A Committee-of-the-whole meeting, to discuss the proposed FY2009 budget, which is currently scheduled for Saturday, November 15, 2008, from 9am until 12noon. The Committee members directed City Administrator Herring to contact Mayor Nations and all members of City Council regarding alternative dates, with the goal being to find a date/time when the Mayor and all members of City Council can attend.

There being no further business to discuss, Chairperson Erickson adjourned the meeting at 7:10pm.