

**CITY COUNCIL WORK SESSION MINUTES
CITY HALL COUNCIL CHAMBERS
FRIDAY, JUNE 29, 2007, 3:00 P.M.**

ATTENDANCE: City Council: Bruce Agrella, Mark MacDonald, Tom Jones, Mike Lies, Tom Corse, Fred Funke. Mayor Jules Clavadetscher presiding. City Attorney James Raymond and City Manager Jay Henry present. Others Present: Karen Sargeant, Roger Wallace, Joyce Weaver, Tony Porrazzo, Robert Denning, Paige Hileman, Marilyn Trosper, Nadine Clayton, John Fairchild, Pat Nowlen.

CITY COUNCIL WORK SESSION

Pledge of allegiance and meeting brought to order at 3:00 p.m.

FISCAL YEAR 2005-2006 AUDIT REPORT PRESENTATION: Paige Hileman began by presenting the first findings on treasurer's checks and purchase investment withdrawals, which only require one signature. She recommended that they require two signatures. The next thing she mentioned was the utility billing had an inadequate check and balance system in place due to there being only one clerk responsible for billing customers, receipting cash, inputting cash into the accounts and posting adjustments. She recommended the City disperse the responsibility of cash handling and access to the accounting records as much as possible. She then moved on to receivables and deferred revenues. She noted that subsidiary ledgers were not available to view. She expressed that they'd like to see a list of all who the SID's will apply and what amount they will pay. She pointed out that the differed portion of special investments was not reported for all SID's and that differed revenue was reported as a due from other government rather than revenue as it should be. She explained that SID's were estimated to be overstated by 2,700 dollars, differed assessments receivable and related differed revenues were understated by an undetermined amount, and differed revenues were overstated by 30,878 dollars. She recommended the City implement internal controls that would allow for them to agree the current assessments receivable to the detail ledgers. She added that other governments should be defined as revenue and not differed revenue. The next item she discussed was the City Court system, which she explained had an inadequate segregation of duties. She pointed out that not all deposits could be traced from bank statements to accounting records. She explained the cash receipting was weakening the internal controls of the government. She moved onto restricted cash, explaining that restricted cash had been overstated by 655,000 dollars in the Water Fund and 1.4 million dollars in the Sewer Fund. She recommended the City review the bond requirements at the end of each year. The last reporting issue she brought up included the three trust funds managed by the Library Board. She noted these investments and activities were not reported as component units and recommended they be reported as component units. She explained GASB 39 described how they should be reported on financial statements. She brought up a compliance issue with exceeding budget authority. She noted that several funds exceeded their revenues. She recommended to review expenditures for the year to ensure that budgets are limited to not exceed revenue.

Mayor Clavadetscher asked Paige Hileman how she suggested the City identify the Library trust funds, and how those should be incorporated into the City's general fund.

Robert Denning replied that according to the new regulations of GASB 39 foundations closely related to the City should be reported in a separate column on the income statement and balance sheet. He suggested a heading to identify the trust fund. He also added they'd like some kind of disclosure to explain the true relationship to the City.

Nadine Clayton asked if rather than including that with the statement, if it would be appropriate to footnote it on the statement and then include a separate report.

Robert Denning replied that both should be done. He pointed out the primary factors the Library Board should consider are one, if the library foundation normally supports city functions and two, how substantial is the fund? He noted that the Library's trust funds added up to 1/3 of all the City's money.

Mayor Clavadetscher said that he anticipated no problems with the Library Board. He also clarified that this did not mean the Library's funds were under the same requirements as the trust funds dealt with by the City Treasurer.

Robert Denning explained the State's stance on that was a sort of grey area. He explained that some disclosure on all investments was required.

Bonnie Manicke brought attention to page 38, which stated a condition of the Treasurer's checks since the late 1980's was to have two signatures. She noted that what they had cited was a wire transfer signed by her and a bank teller, and that was not done internally. She added that process had since been rectified. She requested the auditors' reported to be corrected and include that all Treasurer's checks do require double signatures.

Robert Denning agreed that they would alter the statement and revisions would be sent out.

Bonnie Manicke expressed surprise that the auditors had been off 30,000 dollars on the SID when they left. She informed the Council that she had provided all possible information in her possession in regards to the SID and explained that she had a ledger of everyone involved in the SID, which included who had paid how much. She noted that there could be payments up front or during components that would make the receivables off.

FISCAL YEAR 2007-2008 BUDGET DISCUSSION: Mayor Clavadetscher established a time frame for the hearing for the 07'-08' budget approval. He explained that the hearing must be concluded, approved and adopted by resolution by the latter date of the second Monday in August or 45 calendar days of receiving certified taxable values from the Department of Revenue. He mentioned the

Department of Revenue Currently had nothing. He next brought up that at the time of budget approval he would also be requesting the Council approve the Capitol Facilities Impact Fee Plan. He informed the Council that the City was obligated by the Impact Fees to provide a five-year plan. He explained that the plan was not committing any money and there were no expenditures, it was simply a plan. He added that in the event that the City does not receive the Impact Fees projected, the Capitol Facilities Plan would be revised. He also pointed out that Impact Fees receipt could be stretched out for up to ten years, making the amount per year undetermined. He explained the sources of money and the general idea of each department's projects listed within the Capitol Facilities Plan. He pointed out there were not General expenditures within the Water/Sewer projects. He anticipated that some major infrastructure improvements would be money accrued over time. He emphasized that the Fire Department had Notes indicated. He explained that John Fairchild had identified needs within the Fire Department that would require borrowing money, and when the Council approved those plans they would not be approving borrowing any money. He noted that the Parks Department had no general fund expenditures this year. He informed that the Streets Department had no capitol expenditures this year with the exception of a used Dura-Patcher to help repair the City's streets and added the Water Department would be paying for 1/3 of the cost. He explained the Planning Department was obligated by law to update the Polson Development Code in the following fiscal year, and in this year the Polson Building Regulations must be updated which would be general fund expenditures. He articulated that the Building Department was in an interesting situation that was similar to an enterprise fund. Councilman Corse inquired if the city had the software to track Impact Fees. Aggi Loeser replied that the City was currently using Black Mountain Cash Receipting and Accounting Software. She explained that Ron Melvin identifies the cost and account and when they were made. She anticipated it would easy to track. Councilman Corse asked how the interest on Impact Fees that accrues would be spent. Bonnie Manicke replied that interest earnings would have to go back to impact fee payers all the way down the line. Mayor Clavadetscher anticipated Impact Fees to be very complicated and expressed confidence in the staff keeping accurate track of them. He also noted that the Impact Fee Review board wished to have some input and updates on how the Impact Fees are spent. He explained the Council would need to decide on what manner this board would be reformed and what role it would have.

Mayor Clavadetscher discussed the four accounts involved in allocating the City Manager's salary which included the general fund, water, sewer, planning and inspection. He explained golf was not included because the Golf bond prevented increasing transfers to the general fund. He explained the revenue he had forecasted, which was accurate as far as the administrative staff could tell, to project a budget for the coming year. He explained there was a difference in the budget summary for the Streets Department due to the Dura-Patcher they were purchasing. He noted that engineering services would be a pass through saving the city 8,000 dollars. He explained there would be a savings of 9,000 dollars seen in education, travel, and dues. He pointed out the cost of living increase was based on

the County which was currently 3.4%. He explained the division of the 3.4% among the employees salaries could be done two ways, a flat 3.4% increase for everyone or the percentage given out at the Department heads' discretion. The latter, he pointed out, was rife with problems and had extreme legal ramifications without detailed proper documentation. Councilman Agrella mentioned the County had given raises at different percentages and had encountered many problems. Mayor Clavadetscher presented the 07-08 education and travel approval forms. He presented the department head annual salaries, he expressed that individuals need more money, but stated that departments were woefully understaffed. He felt that due to the short staffing the City would be crippled should circumstance cause critical employees to cease employment. Karen Sargeant informed the Council that she had worked for other government entities that had merit raises. She explained that in most situations there was unavoidable subjectivity. She expressed that she would prefer to give the employees under her a higher percentage raise than she herself received. Mayor Clavadetscher presented a two-year contract for the City Attorney as required by the new Charter. He explained that he had done a great deal of research on other cities and found the salary increase for James Raymond of 12,000 dollars annually was modest in comparison. He added that the City Attorney, under the new Charter, would be required to work more hours for the City. He expressed that the contract was detailed and thorough and clearly defined what would be required of the City Attorney. Mayor Clavadetscher informed the council that the final budget would be completed after the revenues were received and could be compared with the estimated budget. He pointed out that the Streets Department ran almost entirely off of gas tax revenue, explaining that the tax has not changed despite the sharply increased price of asphalt. He did, however, expect the revenues for the Streets Department to increase due to the fact that revenue was received in reference to the amount of paved streets within the city, and the map on record had been outdated and did not include some of Polson's paved streets. Mayor Clavadetscher noted that the City Clerk and City Treasurer considered this year's budget sound and expected to make no budget amendments.

Meeting adjourned at 4:12 p.m.

Jules Clavadetscher, Mayor

ATTEST: _____
Kala Parker, Assistant City Clerk