



AUDIT, FINANCE & ENTERPRISE COMMITTEE

August 25, 2011

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on August 25, 2011 at 9:45 a.m.

COMMITTEE PRESENT

Alex Finter, Chairperson
Dina Higgins
Scott Somers
Christopher Brady, Ex Officio

COMMITTEE ABSENT

None

STAFF PRESENT

Patricia Sorensen
Debbie Spinner

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and provide direction on the following audit:

1. Citywide Audit of Petty Cash and Change Funds

City Auditor Jennifer Ruttman reported that the above-referenced audit, which is conducted Citywide every few years, was performed to verify that the City's petty cash and change funds are adequately safeguarded and managed. She stated that staff also follows up on prior findings and implements controls.

Ms. Ruttman explained that the findings revealed no balance-related discrepancies in the funds examined, but said there were areas of opportunity for improving controls. She noted that a few departments eliminated their petty cash and change funds and added that the Auditor's Office encouraged the use of procurement cards to make small purchases as opposed to using cash.

Responding to a series of questions from Chairman Finter, Ms. Ruttman clarified that although the Auditor's Office suggested that certain departments consider adjusting the petty cash fund balance to more appropriately meet their operational needs, such decisions to increase or decrease a fund is a management decision. She said that the Auditor's Office did not take issue with those individuals who chose not to adjust their fund balances at this time. Ms. Ruttman added that overall, the audit went quite well.

City Manager Christopher Brady stated that it was brought to his attention that certain departments were “repeat offenders” with regard to noncompliance of City policies. He stressed the importance of the fund custodians and managers receiving the necessary training to ensure that further recurrences of noncompliance do not take place.

Chairman Finter thanked Ms. Ruttman for the presentation.

2-b. Hear a presentation and discuss the City’s Investment Portfolio for FY 10/11.

City Controller Doug Yeskey introduced Manager of Technology & Innovation Alex Deshuk and Assistant Controller Susan Christensen, who is charged with managing and recording the City’s investment portfolio.

Mr. Yeskey reported that earlier this year, the Committee directed staff to transfer City funds from the State Treasurer’s Office Local Government Investment Pool (LGIP) to PFM Asset Management (PFM). He stated that Ms. Christensen was prepared to provide a brief update relative to the status of those investments.

Ms. Christensen displayed a PowerPoint presentation (**See Attachment 1**) and discussed the City of Mesa’s investment policy objectives. (See Page 2 of Attachment 1) She also reviewed the City’s investment portfolio. (See Page 3 of Attachment 1) Ms. Christensen explained that the LGIP portfolio investment mix (Pool 7) consists of short-term, usually overnight, low-risk investments and noted that LGIP’s June earnings rate was 0.05% (net of 6 basis point fees). She said that as of June 30th, the City’s LGIP investment was \$232 million or 68% of its total investment.

Ms. Christensen remarked that PFM’s portfolio investment mix includes U.S. Treasury Notes, Federal Agency Bonds and low-risk investments with maturity dates ranging from less than 6 months, 6 to 12 months, 1 to 2 years and 2 to 3 years. She advised that PFM’s June earnings rate was 0.49% (net of 6 basis point fees) and commented that fiscal year earnings were \$395,341 (net of fees and reflects the initial year of increased investments with PFM) with an average investment of \$70 million. Ms. Christensen also noted that as of June 30th, the City’s PFM investment is \$100 million or 29% of its total investment. She added that had the City invested \$100 million with PFM for the entire previous fiscal year, Mesa would have earned an additional \$780,000.

City Manager Christopher Brady commented that with the manner in which monies come into the City, it behooves staff to be “good stewards” of taxpayer dollars and make sound investments that can earn a better return.

Ms. Christensen continued with her presentation and reported that since June 30th, the City has increased its investment with PFM for a total of \$140 million. She said that if the City had initially invested \$200 million with PFM upfront, its projected earnings for the last fiscal year would have been \$1.5 million.

Responding to a question from Chairman Finter, Mr. Yeskey clarified that the City currently transfers approximately \$20 million per month from LGIP to PFM in order to reach a total investment of \$200 million with the private investment management company.

Discussion ensued relative to the fact that earlier this year, staff met with the State Treasurer to discuss the LGIP Pool 700; that Pool 700 consists of medium-term, U.S. Treasury Notes, Federal Deposit Insurance Corporation (FDIC) paper, GNMA (Government National Mortgage Association – Ginnie Mae) mortgages, and low-risk investments with maturity from 1 to 4 years; that Pool 700 offers limited liquidity, with only one withdrawal per month; that such investments conform with the City's investment policy objectives; that Pool 700's June earnings rate was 1.35% (net of 6 basis point fees); that the fiscal year earnings were \$22,761, with an average investment of \$10 million; and that as of June 30th, the City's Pool 700 investment totaled \$10 million or 3% of its total investment.

Committeewoman Higgins commented that the GNMA mortgages "caused the downfall of our economy" and questioned the safety of mortgage-backed securities as part of the City's Pool 700 portfolio investment mix.

Mr. Yeskey responded that the City of Mesa relies on the State's LGIP Pool 700 internal managers who evaluate all of their securities on a daily basis to determine whether such securities should or should not be maintained.

In response to a question from Committeewoman Higgins, Mr. Brady clarified that staff was interested in transferring a portion of the City's investment from the LGIP and said that PFM came to their attention as a company that provided investment advice/portfolio management to other local municipalities.

Ms. Christensen further remarked that staff determined that it was necessary to leave \$40 million in the LGIP in order to meet the City's day-to-day operational requirements (i.e., payroll) and also to coordinate with PFM with respect to the City's debt payments that occur in January and July.

Committeemember Somers inquired why the City could not take a portion of its LGIP dollars that it intends to transfer to Pool 700, which had a June earnings rate of 1.35%, and pay off General Obligation (G.O.) Bond debt service that has a 5% annual interest rate.

Mr. Brady explained that the City's total LGIP portfolio represents all of the funds that will be needed throughout the year to meet payroll, pay for capital projects and make debt service payments. He stated that if such funds were used to pay G.O. Bond debt, there would be insufficient dollars to pay for other items.

Mr. Yeskey indicated that some of the dollars are in restricted funds (i.e., health benefits fund) and cannot be used to pay debt service. He also stated that as staff transfers additional dollars out of the LGIP, it would be necessary to coordinate the "big dollar" debt service payments with PFM.

Committeemember Somers expressed support for staff continuing to transfer City funds from the LGIP to PFM. He noted that any opportunity the City has to pay off debt service early might be a better alternative than "trying to earn a fraction" of what the debt service interest rate might be.

Ms. Christensen further highlighted the City's ongoing investment strategy as follows: continue to coordinate with PFM on debt service payments by laddering out investments; consider more

short-term investments with PFM for certain bond proceeds; continue to move another \$20 million from the LGIP Pool 7 to PFM next month; monitor earnings on each portfolio to achieve investment objectives; and after the implementation of CityEdge, review investment/banking service opportunities.

In response to a question from Chairman Finter, Mr. Yeskey clarified that staff has met with several banks to discuss banking service opportunities and said that the City was in the process of entering into a contract with Chase for such services. He noted that the City has also entered into a contract with PFM with respect to investment opportunities. Mr. Yeskey explained that once CityEdge was implemented, staff anticipates issuing a Request for Proposals (RFP) for investment and banking services. He further advised that staff met with representatives of Northern Trust concerning investment services and said that the company proposed certain investments that are riskier than what the City currently has. He added that at a later date, staff would make a presentation to the Committee with regard to those investments.

Chairman Finter inquired whether staff proposes to move forward with a two-year contract extension with Chase until the CityEdge project is completed.

Mr. Deshuk responded that in September 2010, the City's contract with Chase expired and said that it was necessary for the City to have a contract in place in order to continue its business relationship with the bank. He explained that Tempe, Chandler and Scottsdale issued an RFP for similar banking services and stated that the contract was awarded to Chase. Mr. Deshuk noted that City staff had the option to co-op/extend Mesa's contract, which not only "mirrors" the other communities' terms and conditions, but also includes an additional discount based on the City's volume. He added that the City can cancel the contract with a 30-days written notice which, in his estimation, would basically be a month-to-month contract going forward.

Mr. Deshuk further remarked that since the City has not developed an RFP for banking services for a number of years, staff intends to seek professional assistance in that regard. He stated that staff would also review GFOA (Government Finance Officers Association) best practices regarding certain standards that would apply to the City's banking contracts and have already contacted firms to assist with the drafting of this type of RFP.

Chairman Finter commented that although there has been much discussion "behind the scenes" regarding this issue, he has not had the opportunity to discuss it with his fellow Councilmembers. He reported that a year and a half ago, members of the local banking community approached him requesting that they be given the opportunity to participate in an RFP for the City's banking services. Chairman Finter stated that he subsequently met with Mr. Yeskey, who indicated that staff was challenged with the CityEdge project and suggested that the City's banking services not change at this time. He further explained that he suggested to the local banks that they work with Mr. Deshuk concerning this matter and assured them that they would have a fair opportunity to bid for the City's banking services.

Chairman Finter expressed concern that if the City proceeds with the option as outlined by Mr. Deshuk, especially since Chase "has been operating for more than a year without a contract and is now able to lock this thing in for another couple years," it would send "a wrong message" to the local banks. He stated that he would propose that the City continue with its current banking services until CityEdge is implemented, after which time the City would issue an RFP for banking services.

Mr. Brady responded that Chase would remain the City's banker during the same period of time, regardless of which arrangement the City operates under. He stated that the City would save money if it opted for the Tempe contract, as opposed to the fees that it currently incurs.

Chairman Finter further commented that just a few days ago, he learned that the City could cancel the contract with Chase on 30-days written notice. He reiterated that it sends the wrong message to local banks to participate in the RFP process and yet the City is "locking Chase back into a two-year contract."

Mr. Brady clarified that the City was not locking Chase into a contract and said that under either arrangement, the City would be required to give 30-days written notice to cancel the contract. He explained that initially, the City would probably issue a Request for Qualifications (RFQ) to determine which banks were qualified to handle Mesa's \$2 billion budget and process all of its transactions.

City Attorney Debbie Spinner stated that staff could bring back this topic on a separate agenda, but commented that she was unsure whether it falls within the City's investment portfolio.

Chairman Finter indicated that this topic would fall under the third bullet point on Page 5 of Attachment 1 as follows: "After CityEdge, review investment and banking service opportunities."

Ms. Spinner suggested that the discussion may be going too far beyond that topic and reiterated that staff could bring back this matter as a separate agenda item if Chairman Finter preferred.

Committeewoman Higgins clarified that even if the City proceeded with the new Tempe contract, which includes the 30-days written cancellation notice, the City could issue an RFP, as suggested by Chairman Finter, for the same banking services at the same time as it gives Chase 30-days written notice.

Mr. Brady confirmed Committeewoman Higgins' statement.

Chairman Finter stated that the problem with the community's perception is that Chase has had the City's banking services contract "locked up for years and was now going to be able to lock it up for a couple more years." He said that even with the 30-days written notice to cancel the contract, in his opinion, it "sends the wrong message."

Mr. Brady acknowledged Chairman Finter for bringing up this matter and suggested that staff be given the opportunity to understand what resources are available to proceed through the RFQ/RFP process; that perhaps the consultant could make a presentation to the Council regarding the City's banking services and how the selection process would occur; and that the consultants could establish a timeline with respect to outreach efforts, how much time to respond to the RFQ/RFP, and how it coincides with the CityEdge deadline. He added that this was a very complex issue and said he was not willing to put the City's money at risk.

Chairman Finter suggested that staff keep in mind that the local banks began their outreach efforts with the City more than a year and a half ago and also the fact that Chase has had a ten-year contract with the City to provide banking services.

Chairman Finter thanked everyone for the comprehensive discussion.

2-c. Hear a presentation, discuss and make a recommendation on licensing Off Track Betting facilities and recommend fees as proposed by Business Services.

Business License Revenue Collection Administrator Tim Meyer displayed a PowerPoint presentation (**See Attachment 2**) and reported that as a result of the July 7, 2011 adoption of the Zoning Code Update, Off Track Betting (OTB) facilities will become a permitted use in the City of Mesa on September 3, 2011. He explained that the Arizona Gaming Commission regulates OTB and conducts background checks on the establishment owners and managers and also performs fingerprint checks

Mr. Meyer advised that OTB licenses are issued to a track where dogs, horses or mules are permitted to race. He stated that currently, Turf Paradise is the only track within the State that is operational and noted that three other tracks in Arizona are not presently running on-site races, but conduct pari-mutuel betting within their facilities. Mr. Meyer indicated that the racetrack enters into an agreement with eating/drinking facilities in the State to place their pari-mutuel gaming machines and windows in those establishments and added that one track is currently interested in conducting operations within Mesa.

Mr. Meyer further remarked that in addition to the State license, staff recommends that Mesa issue a City OTB license, which would allow the City to retain control of every license that is granted should the need arise to suspend or revoke such a license. He stated that if the Council elected not to issue a City OTB license, any issues would be reported to the State Gaming Commission for possible investigation and action. Mr. Meyer noted that for 20 days, the City is required to post the application at the location where the applicant is requesting to operate an OTB site. He added that citizens may file comments for or against the proposed licensing within the 20-day period to be considered by the Council.

Mr. Meyer also reported that the Council has the authority to either approve or deny an OTB application. He said that if the Council denied an application, the licensing process would not proceed to the Arizona Gaming Commission for consideration.

Committeemember Somers summarized the two issues for the Committee's consideration as follows: 1.) Whether to recommend a City OTB license to the Council; and 2.) What fees, if any, would be appropriate.

Committeewoman Higgins referenced a document titled "Off Track Betting" (See Page 9 of Attachment 2) and questioned why Mesa's proposed fees are not comparable to those of Scottsdale. She inquired why staff would undercut the City's OTB fees.

Committeemember Somers commented that he had the opposite viewpoint of Committeewoman Higgins and inquired what costs staff was attempting to recover by implementing additional fees beyond the application fee.

Mr. Meyer responded that most of staff's time was related to the application process, which includes posting the notice; working with the track with respect to issues other City departments may have; and presenting the application for Council approval. He said that regarding the proposed fees, staff was attempting to be sensitive with other cities that license OTB facilities to ensure that Mesa's fees were "not out of line one way or another."

Committeemember Somers remarked that even “a questionable” establishment could probably raise \$1900 to apply for an OTB license and said that the additional fees that staff proposes would not deter an undesirable business from locating to Mesa. He noted that a key element in this process is the fact that the Council would have the ultimate authority to approve or deny an application for an OTB license.

Responding to comments from Committeemember Somers, City Attorney Debbie Spinner clarified that staff has begun to develop guidelines and options that would assist the Council in determining whether to approve or deny an application for an OTB license.

Committeemember Somers expressed concern with respect to the proposed OTB fees and said that he would prefer that staff justify the reason for implementing such fees. He added that he would not be in support of imposing certain fees just because other communities have done so.

Mr. Meyer noted that if problems or issues arose at an OTB establishment, it may require the services of the Police or Licensing Departments, for instance, to conduct investigations, which would result in certain costs. He acknowledged that most of the other cities have had few, if any, issues with OTB facilities, but said that problems, such as illegal activity occurring at those sites, do occur.

Committeewoman Higgins commented that the OTB establishments generate sales tax revenues and suggested that it would be important for the Committee to review such data from other communities in addition to their OTB fees.

Committeemember Somers stated that it was his assumption that Mesa would have approximately four to six OTB establishments, which would generate an estimated \$6,000 in annual fees. He noted that with such a limited number of establishments, he was confident that the Mesa Police Department would be able to monitor their activity. Committeemember Somers also remarked that he would be interested in knowing the costs of investigating such sites that have been incurred by police departments in other communities. He added that he was supportive of the proposed application fee and was amenable to increasing it, if necessary, but requested that staff justify the reason for imposing the additional fees.

Committeewoman Higgins reiterated that she did not understand why Mesa would not charge the same OTB fees, if not more, as some of the other communities identified on Page 9 of Attachment 2.

In response to a question from Committeewoman Higgins, Mr. Meyer clarified that the application currently does not include a provision that the OTB establishment be inspected on a yearly basis. He said that the Zoning Code, as written, is based on assumptions and added that when staff receives direction from the Committee and Council, they will finalize the Code.

Ms. Spinner explained that the OTB fees must be reasonably related to costs. She said that when staff presents an application for an OTB license to the Council for approval, they would explain the process and justify the costs.

Mr. Meyer indicated that with respect to OTB establishments, there would be increased calls for Police service, whether justified or not. He said it would be at the discretion of the Council whether to impose certain fees to subsidize those investigative costs.

Responding to a question from Committeewoman Higgins, Zoning/Hearing Administrator Gordon Sheffield reported that when staff presented the OTB issue to the Council during the Zoning Code Update presentations, they indicated that there was no difference in the number of Police calls for service at such establishments as compared to a typical bar/restaurant.

Chairman Finter stated that he was neutral with respect to this issue and suggested that staff develop multiple options to forward on to the Council for consideration.

It was moved by Committeemember Somers, seconded by Committeewoman Higgins, that the Committee forward on to the Council a City OTB licensing process with options for various fees.

Carried unanimously.

Chairman Finter thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:44 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 25th day of August 2011. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

pag
(attachments – 2)



City of Mesa Investment Portfolio Review

Audit, Finance and Enterprise Committee
August 25, 2011



City of Mesa Investment Portfolio Review

- City of Mesa Investment Policy Objectives
 - Safety of principal
 - Sufficient liquidity to meet operating requirements
 - Maximize rate of return
 - Types of investments



City of Mesa Investment Portfolio Review

LGIP Portfolio Investment Mix – Pool 7

- Short term, usually over-night, low risk investments
- June earnings rate 0.05% (net of 6 basis point fees)
- Fiscal year earnings \$295,016 with an average investment of \$255 million
- June 30, 2011, investment is \$232 million or 68% of total investment

• **PFM Portfolio Investment Mix**

- US Treasury Notes, Federal Agency Bonds, low risk investments with maturity from under 6 months, 6 – 12 months, 1 -2 years and 2 – 3 years.
- June earnings rate 0.49% (net of 6 basis point fees)
- Fiscal year earnings \$395,341 (**net of fees and reflects initial year of increased investments**) with an average investment of \$70 million
- June 30, 2011, investment is \$100 million or 29% investment
- Projected earnings for a full year at \$100 million approximately \$780 thousand

• **LGIP Portfolio Investment Mix – Pool 700**

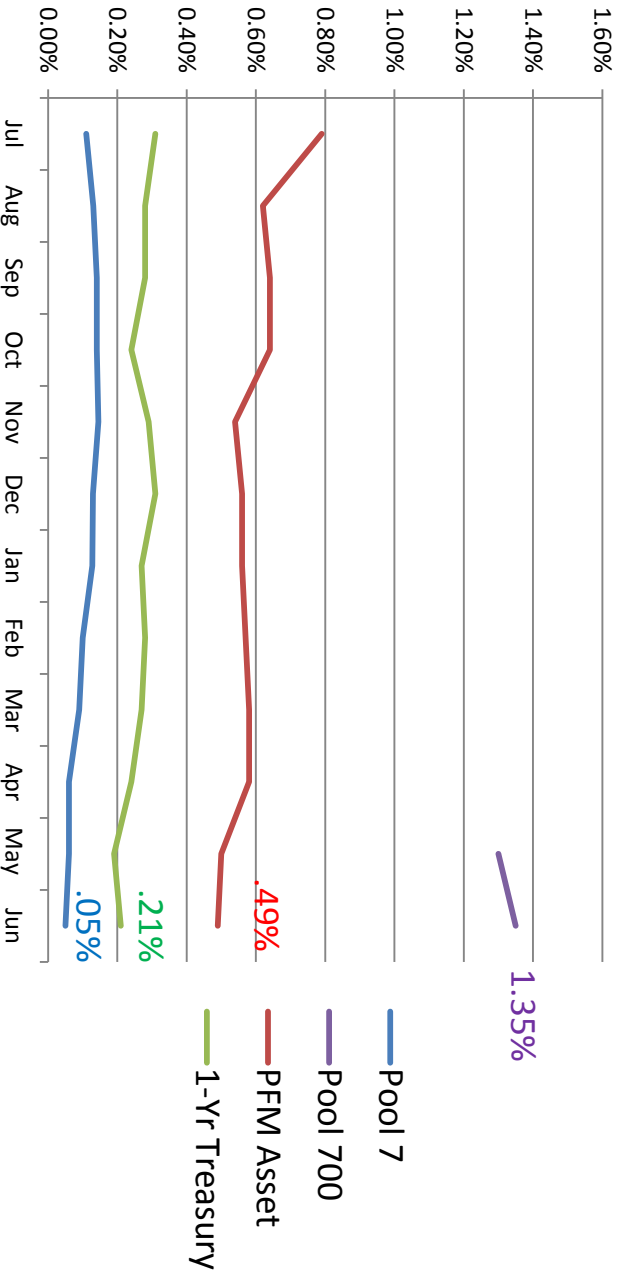
- Medium term, Treasuries, FDIC paper, GNMA mortgages, low risk investments maturity from 1 to 4 years
- June earnings rate 1.35% (net of 6 basis point fees)
- Fiscal year earnings \$22,761 with an average investment of \$10 million
- June 30, 2011, investment is \$10 million or 3% of total investment
- Limited liquidity, only 1 withdrawal per month and interest rate sensitive



City of Mesa Investment Portfolio Review

Portfolio Comparisons

Pool 7, PFM, 1-Yr. Treasury Yields





City of Mesa Investment Portfolio Review

- **Cash Flow Operating Requirements**
 - Day to Day Requirements \$ 40,000,000
 - Coordinate with PFM on Debt Service Payment January & July
- **Strategy**
 - Continue Movement from Pool 7 to PFM portfolio
 - Monitor earnings on each portfolio to achieve investment objectives
 - After CityEdge, review investment and banking service opportunities



City of Mesa

Audit, Finance & Enterprise Committee

Presentation

Off Track Betting (OTB)

August 25, 2011



Off Track Betting

- **Off Track Betting has been around for 15 years in AZ**
- **Five major cities in AZ currently license OTB establishments**
- **There are approximately 80 OTB establishments in AZ, 42 of the 80 are located in the Phoenix metro area.**



Off Track Betting

- **Mesa Zoning Code was changed on July 7, 2011 to allow OTB establishments**
- **OTB establishments will become a permitted use in Mesa on Sept. 3, 2011**
- **OTB is regulated by the AZ Gaming Commission**



Off Track Betting

- **Council has authority to approve or deny an application. If Council denies an application, the licensing process stops and will not proceed to the State Gaming Commission for consideration.**



Off Track Betting

Who may acquire an OTB License?

- A horse, dog or mule track licensed in the State of Arizona is the only entity who may apply for an OTB license.
- Any establishment that houses an OTB entity may not profit from any of the wagering. The establishment may benefit from increased sales and any lease they may negotiate with the OTB licensee.



Off Track Betting

Licensing process

- The OTB licensing process begins by submitting an application at the City.
- The Licensing Office must post the application at the proposed establishment site for 20 days.
Anyone within a one mile radius may provide comments that the Council may consider when reviewing an application.



Off Track Betting

Licensing process

- Once the 20 days has elapsed, the Licensing Office places the item on the agenda for Council consideration.
- Once the Council approves or denies the application, the Licensing Office forwards the decision to the Gaming Commission.
- If the application is denied, the Licensing Office must prepare a verbatim record of the council meeting and forward the transcribed document to the Gaming Commission along with the required paperwork.



Off Track Betting

Issuing a City OTB license is up to each city.

- **Benefit of a City license:**
 - **Allows the City to retain control of every license that is granted should the need to suspend or revoke arise.**
 - **If Council chooses not to issue a City license, any issues that arise will be reported to the State Gaming Commission for possible investigation and action. Once the Council approves the application, any action taken against the licensee will be up to the State.**



Off Track Betting

Valley Comparisons

Fee	*Mesa	Scottsdale	Tempe	Peoria	Chandler	Avondale
Application	\$500	\$500	\$200	\$200	\$200	\$100
Issuance Fee	\$1000	\$1200	\$1200	\$0	\$1200	\$500
Annual Fee	\$1000	\$1200	\$1200	\$0	\$1200	\$500
Late Fee	\$200	\$0	\$100	\$0	\$100	\$0
Per Window Fee 5+ Windows	\$400	\$500	\$400	\$0	\$400	\$100

*** Proposed fees**

- Phoenix and Glendale have a city license but do not charge a fee.
- Scottsdale charges a fee to license the establishment and a fee to license the track.



Off Track Betting

Questions?