



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

October 30, 2014

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 October 30, 2014, at 8:01 a.m.

### COMMITTEE PRESENT

Dave Richins, Chairman  
Alex Finter  
Scott Somers

### COMMITTEE ABSENT

Christopher Brady, Ex Officio

### STAFF PRESENT

Debbie Spinner  
Dee Ann Mickelsen  
Alex Deshuk

#### 1. Items from citizens present.

There were no items from citizens present.

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

##### 1. Fire Prevention

City Auditor Jennifer Ruttman stated that the Fire Prevention audit was conducted to ensure that internal controls are in place to make certain that revenues for fee based services are applied, managed, and tracked reliably and accurately.

Ms. Ruttman reported that recommendations were made regarding four audit findings. She remarked that the first finding involved scheduling of inspections and whether the proper resources were available to conduct inspections. She stated that the Fire Prevention division was downsized several years ago and as a result, there was a shift in the business model. She added that due to reduced staffing, the department decreased inspections on high risk occupancies to every two years, and medium risk occupancies to every three years.

Ms. Ruttman explained that the audit revealed that the new business model was not a realistic expectation of what could be accomplished. She stated that the audit recommended the Fire Department first review their resources and then make an assessment of what could be completed with those resources. She indicated that this would give the Council an accurate picture of what services were being provided.

In response to a question from Committeemember Finter with regard to outsourcing fire inspection services to the private sector, Assistant Fire Chief Mike Dunn reported that the department was trying to develop the fire inspection program and has not looked at involving the private sector. He explained that due to personnel reassignments and illnesses, productivity was further reduced. He added that he is open to reviewing a plan that would move inspection services to the private sector, but said that ultimately it was the departments desire to retain this service in-house.

Committeemember Somers voiced concern that one of the challenges in moving fire inspection services to the private sector is that there are no providers available and that the City would be creating a market for privatized fire services. He remarked that this could be addressed on a regional level as the City of Mesa may be too small an entity for such an endeavor. He added that certification teams could be utilized to provide disaster response and lower level fire inspections, thus allowing the opportunity for community engagement.

Deputy City Manager John Pombier explained that a few years ago the department reached out to the business community to discuss possible opportunities related to fire inspection services, but were unsuccessful in obtaining outside interest. He stated that future efforts in outsourcing this service would need to be on a regional level in order to be profitable to the private sector.

In response to a question from Chairman Richins, Ms. Ruttman clarified that this audit indicates that services may not be accomplished with the current resources. She remarked that several things can happen to address this issue: resources may need to be adjusted, expectations may need to be adjusted, or seek an alternative to balance the equation. She reiterated that the audit's purpose was to identify an imbalance that the Audit and Finance or Public Safety Committee may want to review.

Chairman Richins said that he appreciated Ms. Ruttman's comments, as this is an important system check relevant to budgetary issues.

Ms. Ruttman stated that it is also important to discuss the risks and benefits, what level of service is necessary to identify the best use of resources, and how the benefits can be obtained. She suggested that a risk assessment be performed to determine what the program should entail. She added that the audit's role was to determine if the goal was being reached.

Responding to a question from Chairman Richins, Ms. Ruttman reported that risk assessments could be performed using resources within the City. She stated that the Fire Department has analysis expertise, that the City also has a performance excellence team in the Budget office, and that her Audit staff can assist as well.

In response to a question from Chairman Richins regarding a risk assessment, City Attorney Debbie Spinner advised that the Committee could request a risk assessment specifying the appropriate level of fire inspections. She said that the committee would give direction to the Manager of Technology and Innovation Alex Deshuk that this issue be brought to the City Manager and that this discussion move forward. She explained that it would then be brought back to the Public Safety Committee and/or the Audit, Finance and Enterprise Committee for review.

Ms. Ruttman highlighted two additional Fire Prevention audit findings and said that processes were not documented and followed according to management expectations, and code violations within City buildings were not followed up on and remedied. She stated that the recommendation included improved communications and plan implementation.

In response to a request from Committeemember Finter, Facilities Maintenance Department Director Dennis Ray stated that he had a number of meetings with Battalion Chief Richard Kochanski and his staff. He said that Chief Kochanski provided him with a list of maintenance repairs, but due to maintenance schedules, the work was delayed. He explained that the items on the original list have been resolved and that he will continue to meet with Chief Kochanski on a regular basis.

Ms. Ruttman reported that the final audit finding is related to discrepancies involving Fire Prevention services revenues that were not being accurately reflected in the City's financial database. She added that the matter has been resolved by making changes to the interface between databases.

Ms. Ruttman noted that her staff will follow-up with all findings and resolutions within the next year.

Chairman Richins thanked staff for the presentation.

2-b. Hear a presentation, discuss and provide direction on a proposed ordinance to amend the Mesa Tax Code and Tax Licensing Fees and Charges for Uniform Municipal Tax Licensing.

Business Services Department Director Ed Quedens introduced Audit and Tax Collections Administrator Mickey Tait.

Mr. Quedens stated that in 2012, a statewide initiative began to simplify tax transaction privilege tax processing for businesses in the State. He explained that it began with the concept of a portal, one place where businesses could obtain licenses, as well as submit their tax returns. He added that in 2013, the Governor pushed for additional reform where cities would refer much of their tax activity to the Department of Revenue. He said that part of the implementation had been deferred until 2016 due to its complexity, however, he believed that the combined audit processes would begin in January 2015. He added that there are other phases of the project that would begin in 2015, followed by the centralized licensing and tax processing through the Department of Revenue in January 2016.

Mr. Quedens explained that municipalities throughout the State are included in this process in order to make certain that tax codes are consistent. He reported that over the next year, staff expects to address the Committee several times with regard to different phases of this initiative.

Ms. Tait announced that in 2013, House Bill (HB) 2111 was passed to create a single port of administration through the Arizona Department of Revenue (DOR) for state, county, and municipal taxes. She added that in 2014, HB 2389 made a number of changes to the transaction privilege tax statutes. She said that in 2016, the DOR will begin issuing the City's tax licenses and will not have the capability to address city specific changes. She indicated that as a result, the DOR would apply standardized licensing fees equally throughout the State.

Ms. Tait indicated that changes to the Mesa Tax Code will include changing the current City "application fee" to a "standard license fee" of \$20 per license. She explained that Mesa currently charges \$30 per license for the first year, with each annual renewal being \$20, however, since the DOR does not have the capability to incorporate multiple fees, a standardized fee of \$20 will be implemented regardless of the length the business has been in operation. She reported that the estimated fiscal impact would be approximately \$58,000 annually.

Chairman Richins remarked that these changes would align the Model City Tax Code and the Mesa Municipal Tax Code.

It was moved by Committeemember Somers, seconded by Committeemember Finter that the proposed ordinance to amend the Mesa Tax Code and Tax Licensing Fees and Charges for Uniform Municipal Tax Licensing be forwarded on to the full Council for discussion and consideration.

Carried unanimously.

Chairman Richins thanked staff for the presentation.

2-c. Hear a presentation and discuss Cash Management Investment Options.

Chief Financial Officer Mike Kennington introduced Finance Director Irma Ashworth.

Ms. Ashworth stated that the City has a repurchase agreement with the City's General Services Bank, JP Morgan Chase, and each night as part of the repurchase agreement, the bank sweeps excess funds into the repurchase agreement account where it earns higher interest rates. **(See Attachment 1)** She said that soon the interest rate in this account will decrease from 10 basis points (bps) to 2 bps. She noted that as a point of reference, 100 bps is equal to 1%, so anything less than 100 is a fraction of 1%.

Ms. Ashworth explained that JP Morgan Chase offered the City an interest rate credit of 45 bps for any cash remaining in the operating account. She indicated that currently, the average amount swept nightly ranges from \$50 to \$60 million. She said that should the City elect not to renew the repurchase agreement and instead elects to use the 45 bps credit, the City would need to maintain approximately \$32 million in the operating account to offset the estimated banking fees with the proposed rate credit. (See Page 3 of Attachment 1)

Chairman Richins indicated that if \$60 million remained in the operating account, the City would not earn any interest once the banking fees were applied, and anything remaining in the operating account would be equal to letting the bank use the City's money for free.

Ms. Ashworth noted that staff is seeking a defined alternative for the excess \$28 million which would provide a higher return while maintaining the goals of safety and liquidity.

Ms. Ashworth noted that staff's recommendation is to retain approximately \$32 million in the operating account and to select the Insured Cash Sweep (ICS) network to invest the excess operating cash as it is fairly liquid. She indicated that funds can be obtained by the next business day and that withdrawals are limited to six per month. She said that this option would

provide 15 bps in addition to the \$100,000 credit received from JP Morgan Chase Bank, which would result in the City earning an additional \$42,000. She added that this option would earn the highest return and also maintain the safety and liquidity of the funds.

In response to a question from Chairman Richins, Mr. Kennington stated that ensuring the safety of City funds is the top priority.

Ms. Ashworth explained that the City would open an account in an ICS network, and then a bank in that network would submit deposits to other banks. She added that the amount the City decides to invest will determine the number of banks that the monies are distributed to and added that these deposits would fall under \$250,000, in order to maintain FDIC insurance.

Ms. Ashworth noted that the next step in this process is for the City to prepare and issue a Request for Qualification (RFQ) in order to develop a qualified vendor list. She added that once the list is established, a vendor would be selected. She stated that staff would monitor the vendor lists and interest rates on a quarterly basis.

Responding to a question from Chairman Richins, Mr. Kennington explained that the qualified vendor list would be reviewed quarterly to ensure the City was receiving the best possible interest rate and that the RFQ vendors could be reviewed annually to modify the list of vendors.

In response to a request from Chairman Richins, Mr. Kennington explained that the City makes two debt service payments annually, so as funds are accumulated in the ICS account, staff has the opportunity to withdraw from the account to make those payments. He added that the account allows for six withdrawals per month.

Chairman Richins remarked that the excess \$28 million would not be required for frequent use as the choice of the ICS investment option is to maintain the safety and liquidity of the funds.

Ms. Ashworth explained that staff provided a seven-month forecast review, and in those seven months, the cash collections exceeded the cash disbursements. She stated that for this reason, there would not likely be an immediate need to use the excess \$28 million in the ICS account.

Chairman Richins was pleased that the City would receive a credit of \$100,000 in banking fees, thus profiting \$42,000 annually using the ICS program.

It was moved by Committeemember Somers, seconded by Committeemember Finter, that the Cash Management Investment Options be forwarded on to the full Council for discussion and consideration.

Carried unanimously.

Chairman Richins thanked staff for the presentation.

2-d. Hear a presentation and discuss an update on Additional Utility Bill Payment Options.

Business License and Revenue Collection Administrator Tim Meyer displayed a PowerPoint presentation (**See Attachment 2**) and briefly discussed an alternative utility bill payment option that staff is in the process of finalizing.

Mr. Meyer reported that currently, utility customers can make payments and manage their utility bills via the City's Interactive Voice Response (IVR) system, in person at the City's business office, and also access the City's Call Center during regular business hours.

Mr. Meyer explained that in 2013, staff made a presentation to the Council regarding the possibility of the City utilizing kiosks to make it easier for utility customers to pay their bills. He stated that staff issued a Request for Proposal (RFP) in this regard and ultimately selected TIO Networks Corporation (TIO). He pointed out that TIO has a contract with the Circle K network, which is accessible not only in Arizona, but throughout the United States.

Mr. Meyer briefly highlighted various features of TIO as follows:

- 304 retail self-serve kiosks in Arizona, including 30 in Mesa
- 763 retail over-the-counter (OTC) pay stations in the state, 80 in Mesa
- MobilePay (TIO-branded mobile for Apple IOS and Google Android)
- Convenience fee is paid by the customer

Mr. Meyer noted that the City of Mesa would incur no cost with such an option, other than the time it would take Information Technology Department (ITD) staff to access the TIO network.

Mr. Meyer further indicated that since the kiosks would be an optional means by which utility customers could pay their bills, TIO would propose to charge a \$3 convenience fee. He said that staff was still in the process of negotiating with TIO to determine if the fee could be a lesser amount.

Mr. Meyer displayed a map titled "TIO-powered locations," which includes a significant portion of the country. (See page 4 of Attachment 2) He also referenced a map illustrating the location of Circle K stores in the Phoenix metropolitan area. (See Page 5 of Attachment 2)

Mr. Meyer, in addition, highlighted a screen shot of what customers would view when they pay their utility bill using the TIO network. (See Page 6 of Attachment 2) He pointed out that such an option would allow a customer to pay with cash or a credit card. He also said that TIO would collect the funds, which would then be remitted to the City on a daily basis. He added that the TIO system would recognize the payment in real time.

Chairman Richins commented that staff's proposal achieves the goals of making it easy for utility customers to pay their bills and also avoiding disruptions in service.

Committeemember Finter acknowledged the Business Services Department's innovation and creativity with respect to this proposal. He stated that he would hope that at some point in the future, kiosks could be located within City facilities to enhance customer availability.

Mr. Meyer responded that the City has included such an option in the contract with TIO Networks. He noted that it would be necessary for staff to seek funding approval from the full Council in order to purchase the kiosks and pay other servicing costs.

Chairman Richins remarked that if staff can demonstrate that locating kiosks in City facilities would decrease the amount of money that the City writes off in bad collections, then it might be appropriate to move forward in that direction.

In response to a question from Committeemember Somers, Mr. Meyer clarified that TIO Networks currently has similar infrastructure in place with Salt River Project (SRP) and Arizona Public Service (APS). He explained that if the City purchased its own kiosks, it would be possible to partner with SRP and APS and collect utility payments from their respective customers. He added that in such a scenario, Mesa would receive a credit on such transactions, which would offset the cost of the kiosks.

Mr. Meyer displayed a drawing of the type of kiosk that the City could purchase if the Council directed staff to proceed in that direction. (See Page 9 of Attachment 2)

Responding to a question from Chairman Richins, Business Services Department Director Ed Quedens explained that in speaking with Library Director Heather Wolf, she indicated that once the kiosk program is operational, she would be interested in placing utility payment kiosks in the City libraries. He also indicated that staff could consider utilizing the machines for other types of payments, such as library fines and court fees.

Chairman Richins thanked staff for the presentation.

2-e. Hear a presentation and discuss an update on the eBill/ePay Incentive Program.

Business Services Department Director Ed Quedens introduced Customer Information System (CIS) Administrator Priscilla Bertling, who was prepared to address the Committee.

Ms. Bertling displayed a PowerPoint presentation (**See Attachment 3**) and reported that initially, the purpose of the eBill/ePay Incentive Program was to provide a monetary incentive for customers to sign up for the SurePay Automatic Bank Draft Payment and Electronic Billing process. She explained that the goal was to reduce credit card fees and the cost of paper bills.

Ms. Bertling stated that when customers signed up for both programs consecutively and stayed on the program for 12 months, they would receive a \$20 incentive on their utility account at the end of 12 months. She noted that staff determined that if customers paid electronically on a monthly basis via a bank draft, the City would save costs with respect to bill printing, paper and envelopes, postage and credit card fees.

Ms. Bertling provided a brief historical overview of the program, which began May 6, 2014 and will continue through the end of the year. (See Page 4 of Attachment 3) She cited, for example, that at the beginning of the program, 6,093 customers were using eBill and Bank Draft SurePay and noted that since that time, another 4,415 individuals have signed up for the program. She added that in the last month, there was a 26.3% increase in customers who transitioned from paper bills to ebills.

Mr. Quedens commented that the City was “in a good place” as it relates to the above-referenced percentage rate of billable accounts. He assured the Committee that staff will continue to streamline the bill-paying process.

Ms. Bertling offered a short synopsis of the cost of the incentive program credits, as well as the potential first-year savings. (See Page 5 of Attachment 3) She pointed out that with the current

customers and the new customers signing up for both programs, staff anticipates that the savings to the City will continue to increase.

In response to a question from Chairman Richins, Ms. Bertling clarified that she would estimate that the maximum utilization rate for the program could reach 33%.

Responding to a series of questions from Committeemember Somers, Ms. Bertling explained that if a non-sufficient funds (NSF) fee occurred, it would automatically cancel the customer from the program. She noted that only 20 to 30 customers have been cancelled due to NSF charges. She added that the City has a cost-tracking system in place as it relates to bank fees and NSF charges.

Chairman Richins thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 8:56 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 30<sup>th</sup> day of October, 2014. I further certify that the meeting was duly called and held and that a quorum was present.

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DEE ANN MICKELSEN, CITY CLERK

vf/pag  
(attachments – 3)



# Cash Management Investment Options

October 30, 2014

# Cash Management



- The City currently has a repurchase agreement with our general services bank (JP Morgan Chase) that automatically sweeps most of the cash out of our operating account on a nightly basis.
- Soon the interest rate on this sweep account will drop from 0.10% (10 basis points) to 0.02% (2 bps).
- JP Morgan Chase has offered us an interest rate credit of 0.45% (45 bps) for the cash left in the operating account. Once we cover our annual bank fees, we would not earn anything else.

# Cash Management



- We currently average between \$50 – 60 Million in our operating and repurchase agreement accounts.
- If we elect not to renew the repurchase agreement we would need to maintain approximately \$32 Million in our operating account to offset our estimated bank fees with the proposed rate credit.
- We need to find an investment alternative for the remaining \$28 Million that maintains the safety and liquidity of the repurchase agreement but maximizes the return.

# Investment Options



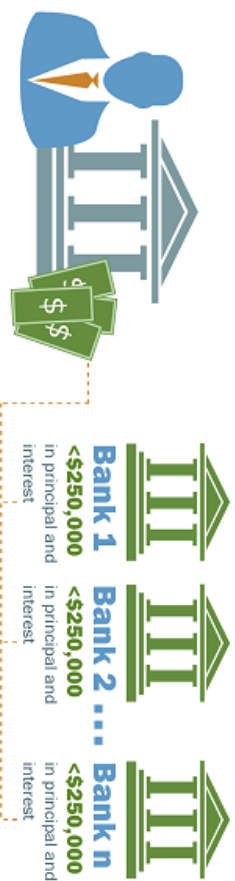
Objectives listed in Order of Priority →

Investment Options	Safety	Liquidity	Return (bps)	Return (\$'s)
Leave all in Operating Account	Collateralized	Highly Liquid	0 bp (over initial \$32 M)	Credit of \$100k
Renew Repurchase Agreement	Collateralized	Highly Liquid	2 bp	\$12k
Excess in PFM Prime	Government and Corporate Securities	Overnight Liquidity	7 bp	Credit of \$100k and \$20k
Excess in LGIP - Pool 5	Government and Corporate Securities	Overnight Liquidity	9 bp	Credit of \$100k and \$25k
Excess in LGIP - Pool 7	Government Securities	Overnight Liquidity	6 bp	Credit of \$100k and \$17k
<b>Excess in Insured Cash Sweep (ICS)</b>	<b>FDIC Insured</b>	<b>Fairly Liquid - 6 Withdrawals a Month</b>	<b>15 bp</b>	<b>Credit of \$100k and \$42k</b>
Excess in City's Managed Investment Portfolio	Government Securities	Longer Term Liquidity	50 bp	Credit of \$100k and \$140k

# Staff Recommendation



- In order to maintain the safety and balance the liquidity and return, staff is recommending we keep approximately \$32M in our operating account and use the ICS network to invest the excess operating cash.
- To use the ICS network, the City would open up a transaction account at an ICS network bank and make a deposit. The deposit would then get sent to accounts at other member institutions under the standard FDIC insurance maximum of \$250,000.





# Next Steps



- The City is preparing to issue a request for qualification (RFQ) to develop a qualified vendor list that we can access on a periodic basis.
- From the vendor list, the City would select the ICS network bank to deposit the excess liquidity but monitor the market ICS rates on a quarterly basis.





# **City of Mesa**

## **Audit, Finance & Enterprise Committee Alternative Payment Option**

**October 30, 2014**





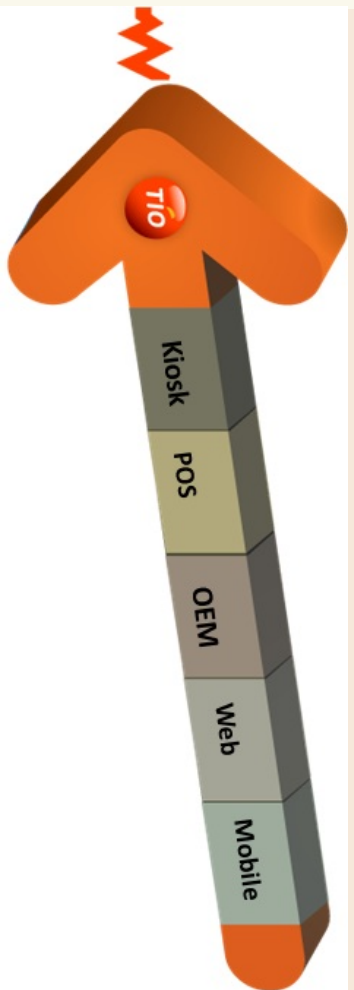
# Program Goal

- Provide expanded options to allow for 24x7 payment and management of utility bills**
- **Currently available through IVR and Web**
  - **Came to Committee late 2013 to discuss Kiosks and other 3<sup>rd</sup> party solutions**
  - **Went out for RFP**



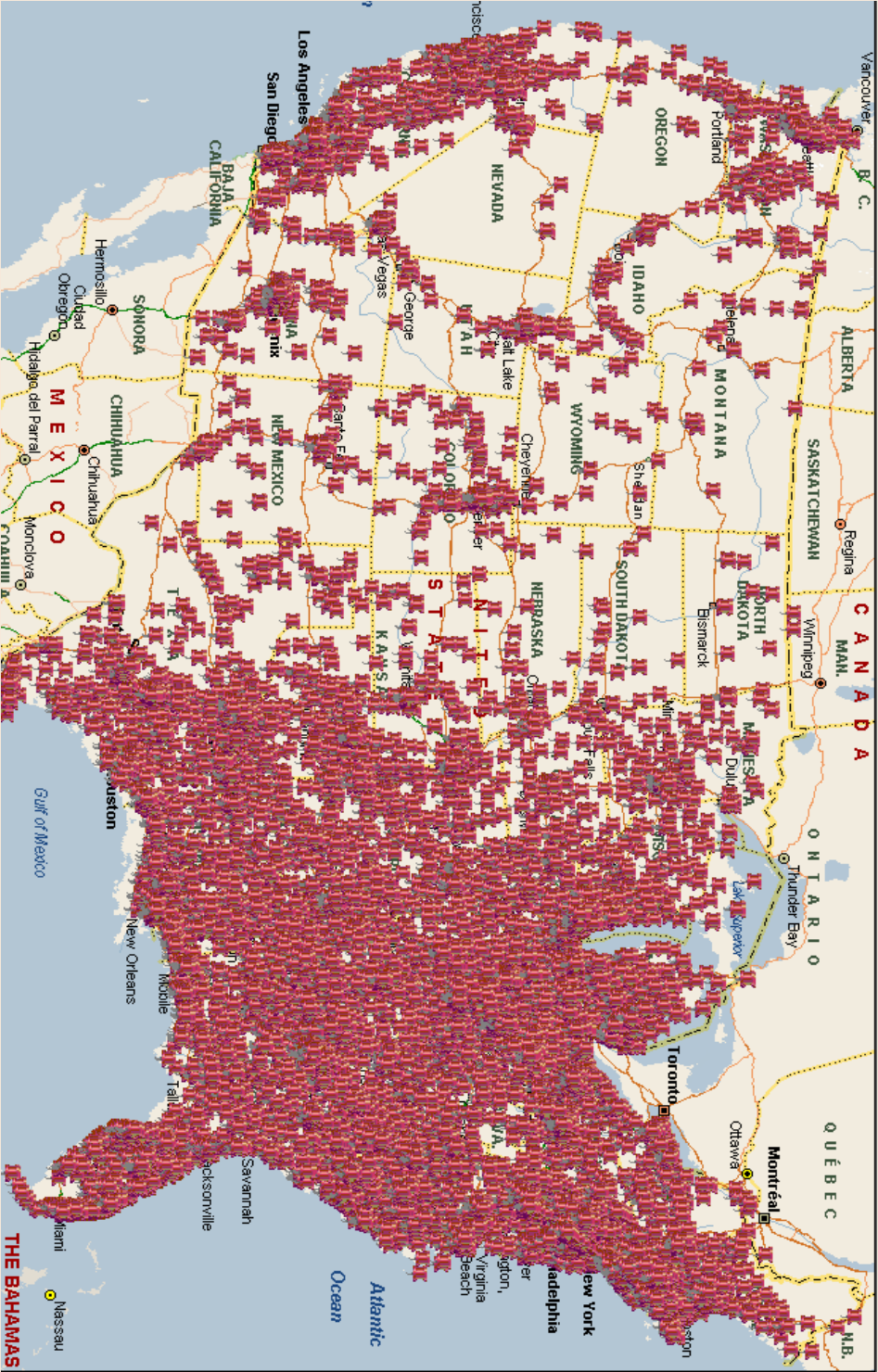
# RFP Results

- Recommended Award to TIO Networks Corp
  - Retail self-serve kiosks (304 kiosks in Arizona, 30 in Mesa)
  - Retail over-the-counter (OTC) paystations (763 OTC in Arizona, 80 in Mesa)
  - MobilePay (TIO branded mobile for Apple IOS and Google Android)
  - No Cost to the City – Convenience Fee Payable by the Customer





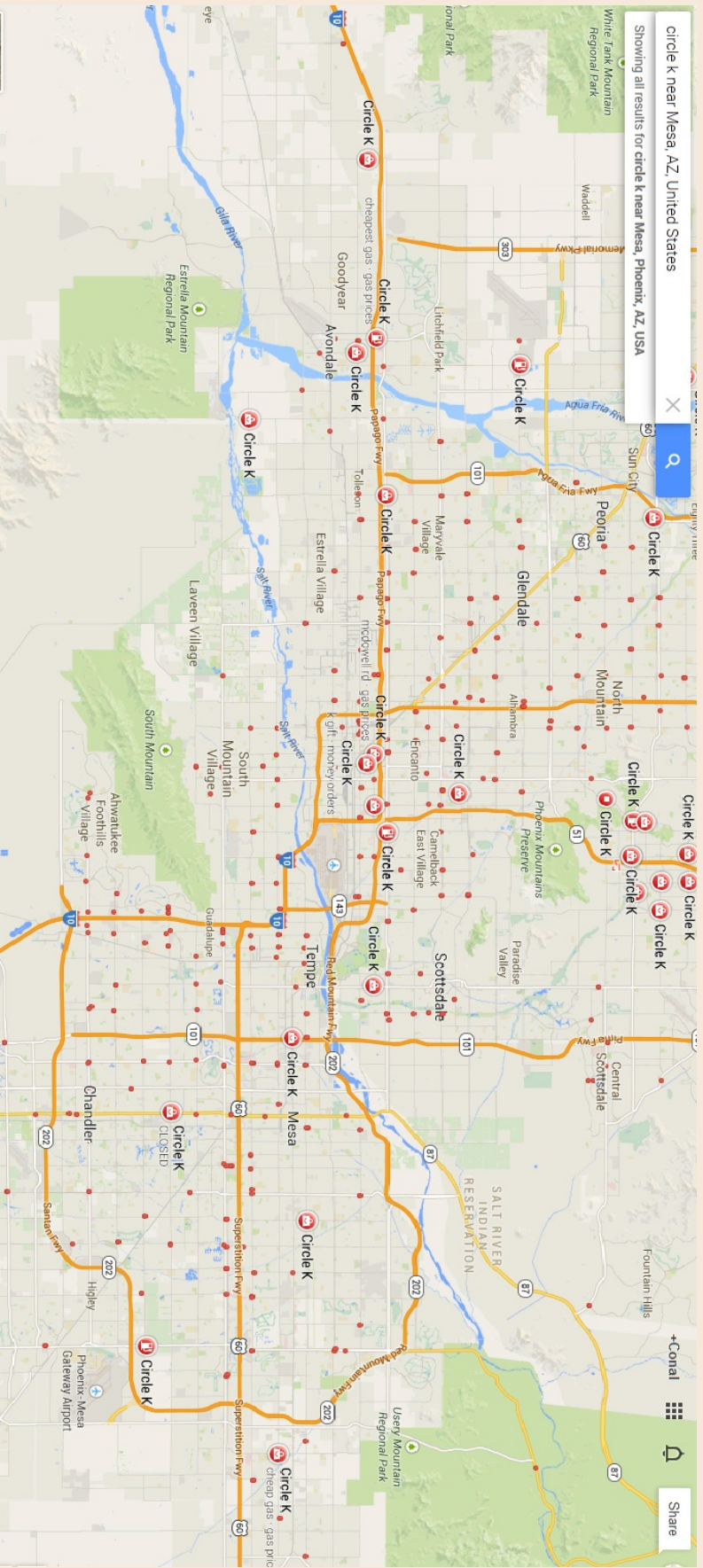
# TIO-powered locations





# CircleK footprint

- CircleK is just one of TIO's retail partners in Arizona
  - 1,067 locations in all of Arizona, 110 in Mesa







# Presentment

## → CURRENT AMOUNT DUE

Account Balance Due:	\$137.75
Past Amount Due:	\$0.00
Total Account Balance Due:	\$137.75

Convenience Fee:	\$3.00
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<b>TOTAL AMOUNT DUE:</b>	<b>\$140.75</b>
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Please select a payment method

cancel

pay with  
cash

pay by  
credit card

pay by  
cheque



# Hardware: 3rd party kiosks





# Hardware: mobile

- Engage customers on-the-go with TIO's own branded TIO MobilePay
- Pay via debit, credit, and bank account directly on the phone
- Native Apple IOS and Google Android apps
- For customers to pay whenever, wherever





# Hardware: corporate kiosks







# Summary

- **Mesa Business Day-Hours In-Person Business Office and Phone Services**
- **24x7x365 Services through IVR and Website**
- **24x7x365 Kiosk/Retail Transactions through TIO**
- **Future Options for Kiosk placements in City Facilities**
- **Continue to explore other options**



# QUESTIONS?



# **eBill/ePay Incentive Program Update**

**Audit, Finance & Enterprise Committee  
October 30, 2014**



# The Purpose

- Council Approved the Program in April, 2014
- Provide a monetary incentive to customers who sign up for SurePay Automatic Bank Draft Payment and Electronic Billing
- Reduce credit card fees and cost of paper bills



# The Program

- Sign up for Electronic Bill Notification and Automatic Bank Draft Payment
- Stay on Both for 12 Consecutive Months
- Receive \$20 Credit on the Utility Account
- Savings to the City on Bill Printing, Paper and Envelopes (2), Postage



# Results to Date

- Program Period May 6 through December 31, 2014
- 6,093 Customers on eBill & Bank Draft SurePay at Program Start
- 4,415 Customers have been added on through the Incentive Program
- 25.9% Total eBill customers (3% increase)



# Results to Date

- Cost of Incentive Program Credits  
\$88,300 at \$20 per Account
- Potential 1-Year Savings  
\$25,077 Costs to Produce and Mail the Bills  
\$65,000 Credit Card Costs  
**\$90,077**
- Savings to the City Really Begin After the Incentive Program



# Questions?