



CITY COUNCIL

Finance Committee

**Tuesday, September 5, 2007
Meeting Report**

Committee Members in Attendance: M. Goodman-Hinnershitz, Chair, S. Fuhs, J. Waltman

Others Attending: V. Spencer, L. Churchill, D. Cituk, D. Cieniewicz, R. Hottenstein, L. Kelleher

Ms. Goodman-Hinnershitz, Chair called the meeting to order at 5:02p.m.

I. Budget Committee

Ms. Kelleher explained, that when last discussed, the Committee decided to have the Budget Committee review 2-3 budget areas in-depth rather than take a general look at all the submissions.

Mr. Churchill suggested that this year the Committee focus on Public Works. Although the Police and Fire Departments use the majority of the general fund budget approximately 90% of those total costs are personnel related. He noted, for example, Police, although they have a \$25 million budget only \$1 million is dedicated to programs. He noted that this is reversed in the Public Works area as a larger portion of the Public Works budget is dedicated to programs. He also suggested the Budget Committee focus on Community Development and Codes as additional personnel will be requested in these departments.

After a brief discussion, the Committee agreed to focus on the Public Works, CD, and Codes areas and begin meeting in late September.

II. Purchasing Policies

Mr. Hottenstein explained that currently the threshold for Council approval on contracts is \$50,000. Council approval is not required for expenditures that fall under the State contract. Expenditures between \$10,000 and \$49,000 are advertised for bid and purchases below \$10,000 can be accomplished through telephonic quotes.

Mr. Spencer noted his difficulty living with this \$50,000 threshold as this higher threshold gives the Administration a great deal of maneuverability, citing the example of contracting out for the Special Events Coordinator. He reminded Council that in the 2007 budget Council removed the Special Events Coordinator position from the budget after which the Administration contracted at a price set to avoid the need for Council's approval.

Mr. Churchill countered that the contract was negotiated for a specific number of events.

Ms. Goodman-Hinnershitz noted that currently the Pagoda is only open three days per week.

Mr. Waltman questioned the integration of the Special Events Coordinator with other agencies such as the Sovereign Center Authority, the Visitor's Bureau, the Chamber of Commerce, etc.

Mr. Spencer reminded Council that, at one time, the salaries of all City employee positions were approved by Council. Council gave up this practice on request of Managing Director Steve Bonczak in the late 90's. Mr. Cituk also noted that City Council increased the purchasing threshold from \$25,000 to \$50,000 during this same time period also on request of Managing Director Bonczak.

Mr. Churchill asked that Council keep the threshold as is and asked the Committee if they would like to receive procurement reports. He again asked Council to keep the policy as is as this change is not policy-related and would also reduce Council's exposure to influences exerted by certain contractors.

After brief discussion, the Committee decided to keep the bid threshold at \$50,000.

III. Trust Fund Ordinance

Ms. Goodman-Hinnershitz explained that this ordinance was drafted after the Legislative Aide Committee researched the issue to find out if any State legislation prohibits the City from creating a trust or endowment fund and found there were no restrictions or prohibitions.

Mr. Waltman noted his agreement with the concept but he noted the need to define the initial deposit and to include language that would only allow annual spending of the interest earned rather than a combination of interest and principle.

Mr. Spencer agreed and noted the need to develop some trust fund guidelines.

Ms. Cieniewicz noted that the City has the ability to create several different types of trusts such as reserve funds.

Mr. Churchill stated that, should Council enact the ordinance, they should undertake programs in addition to that already provided, not to supplant current operations using trust fund revenue.

Mr. Waltman inquired when the Antietam revenue is expected in. Mr. Churchill replied that conversations with Commissioner Schwank leave the City to believe the revenue should be coming by the end of 2007. He noted that the Mayor is currently having such discussions with Ms. Schwank. However, some Earl Estate issues have crossed over into Antietam discussions.

Mr. Spencer noted the need for a fair market assessment of the Antietam property prior to its sale. Mr. Cituk agreed as it is believed that the fair market value of Antietam is much higher than \$4 million.

Ms. Goodman-Hinnershitz noted the need for the Administration to clarify the steps left in the Antietam process. Mr. Waltman agreed and added that Council will also need to review the draft agreement before it is deemed final by the Mayor or Commissioner Schwank.

The Committee next discussed the need for overall definition of upcoming projects and issues and the longevity of the current fund balance.

Mr. Fuhs agreed with the need to safeguard the financial gift received from the transfer of Antietam and the need to use it to preserve and improve all City parks and playgrounds.

Ms. Cieniewicz stated that interest income from \$2 million would generate approximately \$200,000 per year. There was next a discussion on the deposit of ½ or all of the proceeds from the Antietam transfer into the trust or endowment fund. The Committee questioned the Administration's need to have these proceeds to cover expenditures in 2008. Mr. Churchill replied that the Administration does not intend to use Antietam proceeds in 2008.

There was next a discussion on the different investment venues currently used by the Administration.

IV. Interaction of Finance Department and City Auditor with City Authorities

Mr. Spencer noted that the Reading Redevelopment Authority still questions the accounting processes used by the City.

Ms. Cieniewicz explained the differences in fund accounting versus that used in the business community. She also explained the "due to, due from" process used in fund accounting.

Mr. Churchill noted the ongoing discussion between those serving on the Reading Redevelopment Authority and Accounting staff.

Mr. Spencer noted that two of the five serving on the Redevelopment Authority are very familiar with governmental practices and procedures. Mr. Churchill replied that there is still a difference of opinion on the City's accounting applications and reporting.

Mr. Spencer inquired how long it would take the Accounting Department to correct the findings identified by the external auditor.

Mr. Cituk and Ms. Cieniewicz explained the Reading Redevelopment Authority receives \$1,500 in monthly revenue. However, their income is insufficient to handle costs to manage the physical assets they currently own. Ms. Cieniewicz expressed the belief that the Redevelopment Authority should start a trust to handle their assets and expenses.

Mr. Waltman suggested getting the parties to define the outstanding issues so they can be settled.

V. Redevelopment Authority Audit

Mr. Cituk explained that currently the City receives approximately \$30,000 in revenue annually from CNA. He explained that the financial deal struck in the 1980's requires CNA to make interest only payments over a 45 year period. The principal amount of \$3 million is due at the end of the term of the loan.

Ms. Cieniewicz stated that this revenue is placed in an agency fund. Agency funds are also used to hold grant funding, etc. She explained that grant funding is not intermingled with general fund dollars.

Mr. Spencer noted that most cities recycle UDAG repayment funds for other economic and community development projects. Currently the City uses these UDAG funds to pay for an economic development consultant; Bill Lowenstein from CDIC. Mr. Cituk stated that CDIC receives \$52,000 a year. There is \$339,000 in the UDAG portion of the agency fund and \$4,700 per month is paid out to CDIC. Mr. Cituk noted his disagreement with the Administration's use of some CD administrative funds. He explained that the City often spends the money thinking reimbursement will be forthcoming from the CD budget. However, there are times when the expenses are ineligible and the reimbursement is not approved.

Mr. Spencer questioned the eligibility of paying a lobbyist out of Community Development funds. Mr. Churchill explained that the lobbyist was paid out of funding left over from prior CDBG budgets. He further explained that the administrative portion of the CD budget is part of the three pillar program.

VI. Management Salaries

Mr. Spencer noted the need for Council to have some understanding of the rationale behind certain management increases. He noted that there have been some rather significant increases over the past two years.

Mr. Cituk offered to prepare a list showing the increase and the percentage of the increase.

The Finance Committee meeting adjourned.