

FINANCE

Tuesday, January 15, 2019 6:10 p.m.

Police Training Room – Olean Municipal Building

Present: Members: Chairman Witte, Vice Chairman Crawford, Alderman Andreano, Alderman Gonzalez, Alderman Dougherty, Alderman Smith, and Alderman George. Others: Mayor William Aiello; Nicholas DiCerbo, Jr., City Attorney; Fred Saradin, City Auditor; Bob Ring, Director of Public Works; Bob Bell, Fire Chief, Jeff Rowley Police Chief, Tiffany Taylor, Managerial Confidential Administrative Secretary; Ron DePalito, Audit Committee, and Ernest Kallenbach, Audit Committee.

1. Roll Call

Alderman Witte called the meeting to order at 6:10 p.m. and asked that the record show that all committee members were present.

2. Approval of the Minutes of the Previous Committee Meetings (Tuesday, December 4, 2018)

A motion to approve the minutes of the December 4, 2018 meeting was made by Alderman Smith, seconded by Alderman George. Voice vote, ayes all. Motion carried.

3. Monthly Finance & Bills Review

Alderman Witte asked about a bill for fence replacement, and Mr. Ring replied that this is for the fence replacement project at the airport. Alderman Witte asked about an East Pine Street water line replacement, and Mr. Ring explained that one water line fed into two separate properties, and as one property is being demolished, a line had to be run to the main line for the second property.

Alderman Dougherty asked if the City has always used Paychex for its payroll, and Mr. Saradin replied that the City just switched payroll companies at the beginning of the year.

4. Unfinished Business

None

5. New Referrals for Consideration

- a. PL #02-19: (Crawford) To amend the City of Olean Code of Ordinances Chapter 2, Article VI. Division 3, Audit and Compliance Committee Reporting Policy.

Alderman Crawford explained that he would like to close out the deliverables for the policy weaknesses from last year's audit. He explained that he has presented the Committee with draft policies from Mr. Saradin for capital projects, and Mr. Ring for project financing and change orders.

Alderman Dougherty asked if the Audit Committee should have a part in these policies, and if they should be notified about capital projects and change orders if certain limits are met. Mr. DiCerbo noted that the creation of an Audit Committee was not mentioned in the auditor's report.

Alderman Crawford explained that the purpose of an audit committee is to create and review policies.

Mr. Saradin explained that what he has presented is a collaboration of thoughts, and that he tried to encompass Mr. Ring's portion as well into it.

Mr. Kallenbach explained that there needs to be a distinction between change orders and cost overrun. He explained that a change order encompasses funding that is already committed for a project, while a cost overrun requires additional funding to be acquired for the project, whether through the current City budget, additional grants, or borrowing. He explained that the entire project needs to be done within the stated amount, or the City needs to come back to the Council prior to proceeding for additional funding.

Mr. Saradin asked how the draft policy should be amended, and Mr. Kallenbach recommended that the word "if" in the last paragraph should be replaced with "when", and this paragraph should lead the policy. He also feels that the amount for administrative fees may seem too high for some projects, as a \$100,000 cost overrun could cost the City \$220,000 as presented in this draft.

Alderman Dougherty asked if \$100,000 is the cost of administrative fees when taking out a bond, and Mr. Saradin replied that the cost is closer to \$25,000 to \$30,000. Alderman Smith asked if this should be amended to reflect a percentage of the overrun, and Mr. Kallenbach replied that in his experience bonding has about the same cost regardless of the amount borrowed.

Mr. Kallenbach recommended setting a threshold where the City needs to bond, rather than taking the money from the current budget or surplus. Then, administrative fees can be set for when a bond is necessary for additional funding.

Alderman Crawford explained that he is hesitant to set a precedent for a future Council that they can only bond if it is over a certain amount.

Alderman Smith asked if the point of the policy is to prevent cost overrun, or deal with it when it occurs. Alderman Crawford replied that he feels that the policy is to aid future Councils and City Officials deal with them appropriately.

Alderman Andreano explained that she feels that the Council is doing what BWB wanted. She wants to see numbers, but she does not want to say how much Mr. Ring should have in contingency for a project. The committee needs to look at where they want to go with this.

Mr. Kallenbach explained that if everything went according to budget, a \$10 million budget would have \$500,000 unused. It is not the case that every project will go over the budgeted amount. It is important that we are addressing shortfalls, not minor changes in scope.

Mr. Saradin explained that the Council has already begun monthly financial meetings, so project status could be added to the discussion. Mr. Ring added that a monthly or quarterly report can be presented. He added that historically, the City has gone to the Council when contingency needs to be spent. Alderman Witte added that this was recently done for both the Recreation Center Project and Wastewater Treatment Plant Project.

Mr. Kallenbach explained that reporting goes a long way. He added that when there is a cost overrun, it does not necessarily mean that the Council needs to find more funding. They could also cut back on other areas of the project.

Mr. Ring noted that the 15% contingency and 5% field change payments are out of New York State's manual, and it is a best practice at the planning level.

Alderman Crawford asked if the Council should have the power to approve any change orders, contingency spending over a certain amount, and cost overruns. Mr. Kallenbach replied that the Council should not have to approve change orders, and if a cost overrun is covered by the project contingency, that is why the contingency is there. He explained the real issue is what happens when there is a funding shortfall.

Alderman Crawford asked why the auditors recommended that the Council put into place a change order policy, and Mr. Ring replied that he would not feel comfortable approving a large change order himself. Mr. Kallenbach explained that he feels that approvals required for a major change in scope would be appropriate.

Mr. Ring explained that some change orders need to be approved on the same day, so there is not time to come to the Council for approval. Alderman Dougherty recommended possibly reporting to the Council change orders that have occurred, rather than coming to the Council for approval. He explained that these reporting methods would aid the City and Council to know when they are getting close to a cost overrun.

Alderman Crawford stated that he thinks that we have had time to brainstorm this policy, so we need to sit down and take some time to clean it up. Mayor Aiello explained that he does not want to hinder a project. For example, if the City needed to wait for Council action on certain change orders at the Recreation Center, there could have been lost cost savings. Alderman Crawford explained that he just wants to capture all of this and put it in a policy.

A motion to postpone PL #02-19 to the next Finance Committee meeting was made by Alderman Crawford, seconded by Alderman Witte. Voice vote, ayes all. Motion carried.

b. Fund Balance Policy Discussion

Alderman Crawford explained that a Fund Balance Policy was brought up some time ago, but nothing came of it. He presented a draft policy to the committee and explained that this item is not ready to go, but that he wanted to bring it to the table. The committee needs to establish the amount or threshold that needs to be kept in the Fund Balance. He explained that the popular opinion is to keep 15% in the Fund Balance, and the committee needs to determine if this is appropriate, and what the City needs to do to maintain this amount.

Mayor Aiello responded that he believes that 15% is appropriate, and that Council approval should be required to go below that amount.

Mr. Saradin explained that the current General Fund Balance is at approximately 14%, while the Water and Sewer Fund Balances are well above the 15%.

Alderman Crawford recommended that if the amount falls below 15%, that the Council should work with the Mayor's administration to build the amount back up.

Mayor Aiello explained that the Comptroller's Office will not give a set amount for the Fund Balance, but he has heard 3 months of operating expenses or 15%.

Mr. Saradin explained that there have been resolutions in the past to take money out of Fund Balance.

Mr. Kallenbach asked how 15% is determined, and Mr. Saradin replied that it is 15% of the budget as approved by the Council. Alderman Crawford explained that this gives the City a moving target from year to year.

Alderman Crawford asked if the policy draft presented is boilerplate language from another municipality, and Mr. Saradin replied that he used Hornell as an example.

Alderman Crawford explained that the Fund Balance Policy will be upcoming for adoption by the Council.

6. Executive Session

A motion to enter into executive session to discuss the potential sale or acquisition of real estate was made by Alderman Gonzalez, seconded by Alderman Crawford. Voice vote, ayes all. Motion carried. Executive session began at approximately 6:55 p.m.

A motion to adjourn from executive session was made by Alderman Crawford, seconded by Alderman Witte. Voice vote, ayes all. Motion carried. Executive session adjourned at approximately 7:25 p.m.

7. Committee Reports

None

8. Adjournment

A motion to adjourn was made by Alderman Crawford, seconded by Alderman Witte. Voice vote, ayes all. Motion carried. Meeting adjourned at approximately 7:25 p.m.