

JOHNSTOWN CITY COUNCIL
WORKSHOP MINUTES
Tuesday, July 16, 2019

City Council met in a stated session for the general transaction of business.
Mayor Frank Janakovic called the workshop to order at 5:00 p.m.

The following members of Council were present:

Mayor Janakovic, Mrs. Mock, Reverend King, Mr. Vitovich, Mr. Williams (5).

Absent: Mrs. Stanton, Mr. Britt (4).

George Hayfield, City Manager; Joel Valentine, Chief Executive Officer; Kathleen Valentine, Manager; Robert Eyer, Shareholder Emeritus, Wessel and Company; Deborah Grass, Act 47 Coordinator; Robert Ritter, City of Johnstown Finance Director; and Joseph Muscatello, Managing Director, Public Finance, Boenning and Scattergood, were also present.

Joel Valentine, Chief Executive Officer, Wessel and Company, presented an Executive Summary of the results of the audit of December 31, 2018. He introduced Kathleen Valentine, Manager, who referred members to the agenda for discussion of the Audit Report Opinion. She stated, once the report is received from Mockenhaupt Benefits Group, Wessel would be issuing the unmodified opinion. Mr. Williams commented that per the Home Rule Charter there was a deadline for the audit to be submitted.

Ms. Valentine referred to the Government Wide Financial Statements for further discussion of accruals, debts, pensions, liabilities and fixed assets, as well as total assets. She noted the pension liability for 2018 to be \$25.7 million.

She discussed the sewer fund debt, which included the PennVEST loans, and noted grants were received to help the fund. Mr. Williams filed a Right to Know Request earlier this year to find out what the nine line items totaling \$9 million in the budget covered in the way of expenditures. He noted a front loader was purchased without approval from Council. Mr. Hayfield responded by stating a John Deere bulldozer was purchased for approximately \$170,000 two years prior to his arrival and had been paid off.

Mr. Valentine noted that budget transfers occur, particularly with the sewage fund, due to grants and PennVEST loans, that it is an area that does need tightened up. He noted there is recourse the City can take going forward.

Mr. Williams referred to a purchase order for the bulldozer, noting it was bought on August 13, 2018, for \$81,210. Mr. Valentine stated the matter could be addressed in the corrective action plan.

Ms. Valentine referred to the Statement of Activities for discussion of governmental activities, and noted that revenue was down approximately \$1.1 million, expenses were also down, with a net loss of \$1.3 million.

With regard to business-type activities, she indicated the sewer grants helped the net income, \$9.2 million compared to \$12.3 million last year excess revenue over expenses.

Ms. Valentine referred to Note 9, Long-Term Debt, for further discussion of beginning balances, payments, ending balances and amortization schedules.

She indicated that Notes 13 and 14 were pending and would be updated when the Mockenhaupt report is received. She stated, once there is a date for the financial statement, the management representation letter will be sent out. The Corrective Action Plan was also pending.

Ms. Valentine explained that the Communication With Those Charged With Governance letter reviews Wessel's general principles and responsibilities in relation to the audit. She noted that the Significant Financial Statement Disclosures had been discussed previously regarding the OPEB and pension plan.

Ms. Valentine stated no significant difficulties were encountered during the audit. She explained the Adjusting Journal Entries that were needed to make the financial statement materially correct. She noted improvements in the audit compared to the previous year. Ms. Valentine thanked staff for all their help.

Mr. Williams questioned whether the operating transfer of \$593,000 was from the sewer fund. Mr. Valentine explained that as an accumulation of all the funds, but a big part was from the sewer fund. There was further discussion regarding that matter.

Mr. Valentine referred Council to the charts and graphs for further discussion of core service funds, a breakdown of the cost of general government, pension costs, and core service fund operation. He noted that the City was running in the black for the last three years 2016, 2017 and 2018.

Additional charts referred to for discussion included those that reflected a comparison of fund balance and unrestricted net assets for the core service fund, those that demonstrated a growth in the fund balance over a five-year period and general fund components of revenue. The chart reviewing real estate taxes indicated a spike in the general fund due to items with dedicated millage still coming in from prior years. There was further discussion regarding that matter.

Mr. Valentine referred to a chart indicating real estate taxes collected. He stated roughly \$70,000 equates to one percent. There was further discussion regarding the collection of delinquent taxes.

He discussed the revenue from Earned Income Tax and the additional resident earned income tax, the Local Municipal Services Tax. Ms. Grass indicated the City would lose two-thirds of that amount when it exits Act 47 status. She further indicated that Scranton was permitted to keep that tax money, which would be used for pension purposes.

Mr. Valentine noted the Mercantile and Business Privileges Chart consists of money collected from all small businesses within the City except manufacturers and nonprofits.

Mrs. Mock requested a quarterly copy of the real estate transfer tax amounts.

Mr. Valentine referred Council members to the pension chart, which indicated the annual required contribution of \$3.3 million for 2018 increasing to \$3.8 million for 2019. Council requested copies of investment management reports. Retirees' Hospitalization expenses were \$1.2 million.

He discussed the Clean Water State revolving fund, which is the PennVEST funding for sewage construction and the material year-end entries. Mr. Valentine explained the Financial Statement Preparation had to be attached to show that his firm assisted with the financial statement preparation. Segregation of Duty issues were noted, and Mr. Valentine indicated that having a finance director in place would take care of issues regarding that.

It was noted that checking balances prior to approving purchase orders was being enforced. Mr. Valentine noted, due to not having a finance director in place, there were invoices that lacked the appropriate signature and approval of management with regard to the sewage fund, which he noted improved during the second half of the year. He recommended that the procurement policy be updated to comply with the new Uniform Grant Guidance.

Mr. Ritter was now reconciling the cash account on a monthly basis, which had not occurred for the last couple of years. Mr. Valentine reviewed some additional safeguards that were put in place, including limiting credit card usage and making sure of dual signatures on certain checks. Mr. Ritter indicated that open purchase orders were also being addressed.

Mr. Valentine noted that in his opinion things were moving in the right direction in the City's Finance Department.

Mr. Ritter indicated that he and Ms. Grass worked with Mr. Muscatello to come up with a plan for the expected \$250,000 debt spike in 2020.

Mr. Valentine stated a letter listing operational recommendations would be issued in the future.

Ms. Grass stated a projection for 2019 reviewed in May was pretty close to even, but it was too early to tell for sure.

Joseph Muscatello of Boenning and Scattergood introduced himself to Council and provided a brief summary of his professional background. He previously worked with the City in 2006 and 2009.

Mr. Muscatello referred Council to the General Obligation Bonds Report for further discussion of the outstanding balance and noted reasons why interest rates had dropped dramatically in the last six months. He did note that the way the City's financials have looked in the last couple of years, that it may be upgraded to a BBB+ bond rating.

Mr. Muscatello discussed the Comparison of Debt Service Report, which calculates the value of old bonds versus new bonds. He reviewed the Combined Debt Service Report and offered recommendations with regard to the Sources and Uses of Funds Report.

Mr. Muscatello stated his two biggest requests with regard to obtaining a better rating would include information concerning the City's ten largest taxpayers and five years' worth of the City's tax collection history, after which he would assemble a package to send to Standard and Poor's.

Council will have further discussion on this matter.

There being no further business, the workshop adjourned at 6:45 p.m.