



CITY COUNCIL AGENDA STAFF REPORT
MEETING DATE: November 13, 2012

Title: Consideration and Possible Approval of a Recommendation to Solicit Bids for Temporary Employees to Assist with Maintaining City Infrastructure such as Streets and Parks and Approve a Plan to Make the Necessary Financial Adjustments to Correct Inter-Fund Maintenance Services Provided During Fiscal Years 2008 Through 2013.

Petitioners: Neil C. Krutz, P.E., Deputy City Manager for Community Services and Jeff Cronk, CPA, Director of Financial Services

Presenters: same

Recommendation: Staff recommends that the City Council allow staff to proceed with bidding for up to \$200,000 of temporary employee services to supplement existing City staff. Staff also recommends that the City Council approve the necessary financial adjustments to correct inter-fund maintenance services provided during fiscal years 2008 through 2013.

Financial Impact: The fiscal impact is essentially two-fold. First, in fiscal year 2013 the impact to the General Fund will be up to \$200,000 for the use of temporary staff to maintain City infrastructure. Second, is to correct fiscal inequities that occurred previous to today's date within various Funds maintained by the City resulting from inter-fund services provided that were not properly recorded beginning in fiscal year 2008 through the first four months of fiscal year 2013. The cumulative result of these corrections would include a reduction of resources in the General Fund by \$1,441,435; and in the Road Fund by \$150,314. These reductions would be offset by increasing the resources in the Sewer Utility Enterprise Funds by \$1,475,562; the Development Services Enterprise Fund by \$69,053; and in the Equipment Internal Service Fund by \$47,134.

Business Impact (Per NRS 237)

- A Business Impact Statement is attached.
- A Business Impact Statement is not required because this is not a rule.
- A Business Impact Statement is not required. This is a rule but does not impose a direct and significant economic burden on a business, or directly restrict the formation, operation or exemption of a business.
- A Business Impact Statement is not required. Thus is a rule but emergency action is necessary to protect the public health and safety (requires a unanimous vote of the City Council and cannot be in effect for more than six months).

Agenda Item Brief: This agenda item seeks approval in two parts. First, approval to bid for temporary labor services to supplement existing City staff in the maintenance of streets, parks and facilities. Approval of the request will allow for employees funded through the Sewer Utility Enterprise Funds to focus their efforts solely on appropriate work such as sanitary sewer, storm drain and effluent maintenance while maintaining existing resource levels for the maintenance of City streets, parks and facilities.

The second part of the requested approval relates to correcting the fiscal inequities which arose from inter-fund services provided that were not properly recorded beginning in fiscal year 2008 through the first four months of fiscal year 2013.

BACKGROUND:

The City's Sewer Utility Fund, an enterprise fund, was first established by Resolution Number 792 in 1970. The enabling resolution clearly sets forth the fact that the Fund was established under the authority granted by NRS Chapter 354. The sources of revenues within the fund are sewer service charges, reimbursement from Reno for joint sewer plant operations, sales and rentals, interest, miscellaneous and other revenues relating to sewer operations and not otherwise categorized in the resolution, and transfers of property from the sewer improvement fund or sewer bond proceeds.

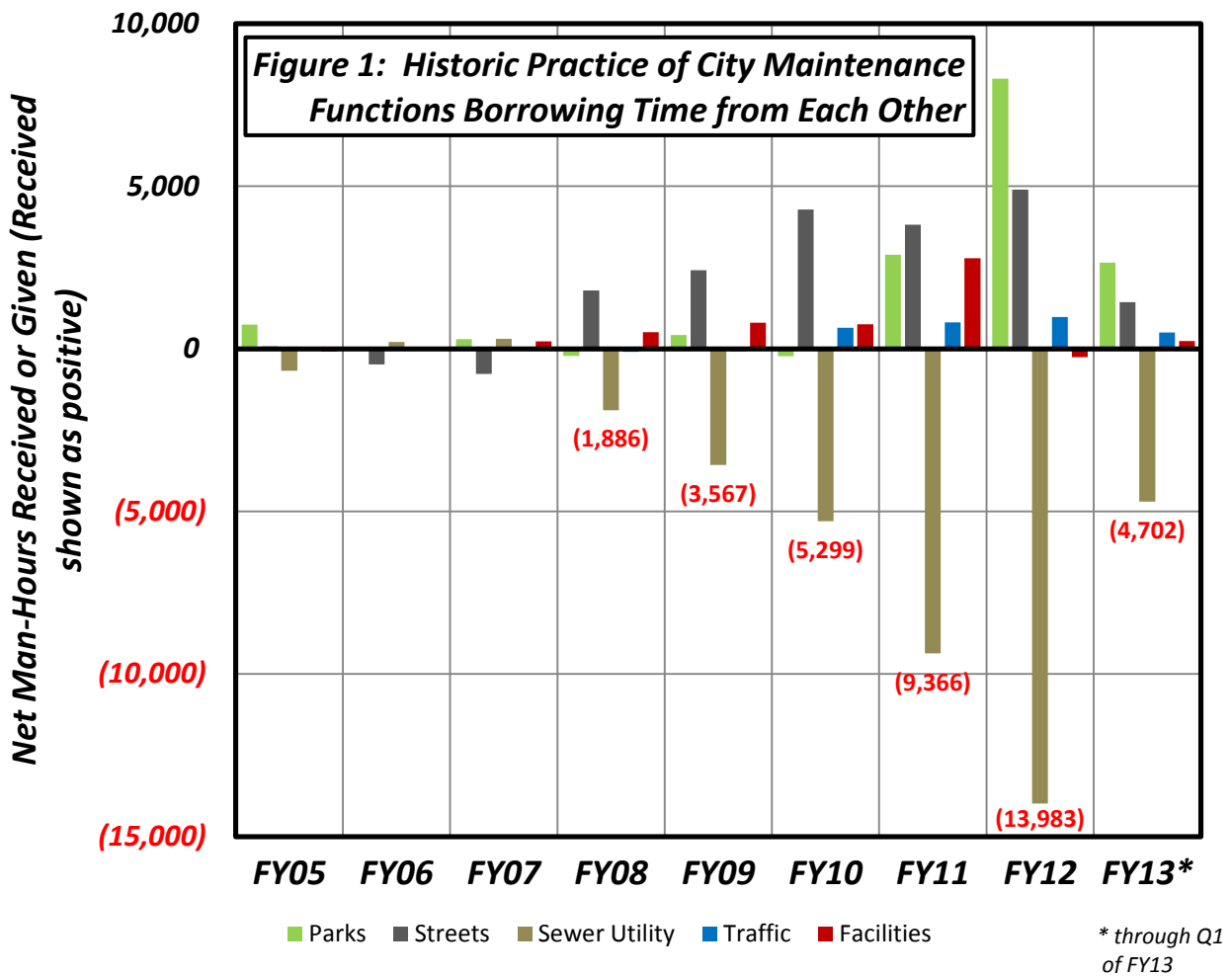
As far as the use of money within the Sewer Utility Fund is concerned, the enabling resolution explains that expenditures may be incurred only to perform the foundational objects and purposes of the fund. Moreover, NRS 354.612(5) requires that all charges credited against an enterprise fund be accounted for, and that the charges be "properly related to the purpose" of the fund. Resolution Number 792 states the object or purpose of the fund is to:

- a. Reflect operations of the sewer collection system and disposal plants.
- b. Finance annual sewer improvement debt service requirements for capital expansion, either previously created or to be constructed in the future.
- c. Common services required to operate the fund.

A review of historic use of man-hours to maintain the City's infrastructure, conducted by the Community Services Department management team over the spring and summer of 2012, indicated the City has relied on Sewer Utility Fund resources for the routine maintenance of Streets and Parks and its building facilities since fiscal year 2008. This is demonstrated graphically in Figure 1, shown below. The figure shows an increasing reliance on the sewer fund between FY08 and FY12. Timing of the practice coincides with the implementation of layoffs within City staff, beginning with temporary employees within the former Public Works Department.

In late fiscal year 2011 the City went through a reorganization and staff consolidation effort in response to continued decreasing revenues. Two outcomes of that effort were the creation of the Community Services Department (CSD) and the implementation of pooled staffing for infrastructure maintenance. The CSD combines the functions of the former Public Works Department, the Community Development Department and the Parks Maintenance portion of the Parks and Recreation Department.

Pooled staffing for infrastructure maintenance was intended to combine employees that formerly maintained a specific portion of City infrastructure into one large pool of employees who would provide all maintenance services. After about seven months of pooled efforts the Community Services Management Team realized that the demands of the pool were such that some areas were being prioritized over others, largely to the detriment of the Sewer Utility Fund.



Prior to the layoffs necessitated by the Great Recession, the City used temporary employees to provide street and parks maintenance in a cost effective manner. As temporary employees were separated from the organization, services provided by those employees began to be back-filled with full time regular employees assigned to the Sewer Utility Fund. In FY08 4 percent of available sewer fund time was spent on work outside of the fund’s scope. This practice increased to 6 percent in FY09, 9 percent in FY10, 21 percent in FY11 and 32 percent in FY12.

In July 2012, City staff completed the conversion to a new HR/Payroll system within Agresso (the City’s new financial system). Up until the time of the conversion to the new HR/Payroll module, the City was unable to process employee timecards in such a way to capture the hours spent by employees with a home cost center in one Fund (such as the Sewer Fund) providing services on activities that should have been funded in another Fund (such as the General Fund). However, the new HR/Payroll module will now allow City employees to code their time on their timecard allowing the transaction to be recorded correctly. New time-keeping procedures have been implemented beginning with the first payroll period in November.

These new time keeping procedures plus the approval to hire additional temporary employees that is being sought today is expected to correct this problem going forward.

ANALYSIS:

With procedures in place to correct the problem going forward, staff is recommending correcting the fiscal inequities which have resulted from these errors beginning in fiscal year 2008 through the first four months of fiscal year 2013. To do so, the following is recommended:

1. Make a prior period adjustment to the beginning fund balance that will show on the face of the City's financial statements for the affected Funds. This prior period adjustment will be booked as a correction of an error for fiscal years 2008 through 2011, and adjust the beginning fund balance of fiscal year 2012. This will result in a reduction of the General Fund beginning fund balance by \$1,053,947.
2. Make a second journal entry to correct fiscal year 2012 books (which have yet to be closed) such that inter-fund services provided will be expensed to the Funds receiving the services (primarily expensed to the General Fund), and credited (revenue earned) to Funds providing the services (primarily to the Sewer Utility Enterprise Funds). Items #1 & #2 are necessary to close the fiscal year 2012 books. This will result in a reduction of fiscal year 2012 ending fund balance by an additional \$302,480.
3. Finally, a third journal entry will be entered to record inter-fund services provided during the first four months of fiscal year 2013. This will result in an increase of expenditures within the General Fund equal to \$85,008 to cover the first four months of fiscal year 2013. These three levels of corrections will have the cumulative fiscal impact to the General Fund of a decrease of resources totaling roughly \$1.4 million.

Attached to this staff report is a worksheet titled "Maintenance Cost Allocation: FY 2008 through October 2013" which shows the fiscal impacts to each affected Fund (both resource increases and decreases) for each applicable fiscal year.

Also attached to this staff report is a second worksheet showing the cumulative fiscal impact through fiscal year 2012 (which is the most recently completed fiscal year, and in the process of being closed and audited). This worksheet shows the "before & after" view for fiscal year 2012 - i.e., both before the correcting entries (results that were recently presented during the City Manager quarterly employee update meetings), and after the correcting entries.

The final fiscal year 2012 outcome for the General Fund is that the ending fund balance will decrease by a cumulative amount equal to \$1,356,427. This will leave an ending fund balance of approximately \$6.4 million, down from approximately \$7.8 million. The resulting fiscal year 2012 General Fund ending fund balance will be approximately 12.1% of expenditures (still higher than the Council policy of having a minimum ending fund balance of 8.3%), down from 14.8% as previously reported. Although changes to these results are not expected to change, please note that these numbers are still preliminary until the audit for fiscal year 2012 is completed by the end of November and presented at the first scheduled Council meeting in December.

Also note that the resulting fiscal year 2012 ending fund balance of \$6.4 million is still slightly higher than the budgeted beginning fund balance for fiscal year 2013 equaling \$6.2 million as approved by Council for the fiscal year 2013 final budget that was filed with the State in June 2012.

It is worth pointing out that the recommendation to allow staff to seek up to \$200,000 in temporary labor services would create a practice that should be continued in future years. Otherwise said, the anticipated long term impact to the General Fund is estimated at \$400,000 per fiscal year, starting in fiscal year 2014.

ALTERNATIVES

Council may choose to not approve these recommendations to correct the fiscal inequities resulting from pooled maintenance staffing to maintain the City's infrastructure. However, failure to correct these errors may lead to materially misstated financial statements and negative audit results.

RECOMMENDED MOTION:

I move to approve the fiscal corrections for fiscal years 2008 through the first four months of fiscal year 2013 as outlined by staff, and allow staff to spend up to an additional \$200,000 during fiscal year 2013 to utilize temporary staffing to maintain the City's infrastructure.