



# FISCAL REVIEW COMMITTEE

## MINUTES

Thursday, April 26, 2018  
1:00 p.m.  
House Committee Room 3  
State Capitol Building

### **I. CALL TO ORDER**

Mr. Daryl Purpera, chairman of the Fiscal Review Committee (Committee), called the meeting to order at 1:04 p.m. and a quorum was present with the following members in attendance:

#### MEMBERS PRESENT:

Mr. Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor (LLA)

Mr. Ron J. Henson, First Assistant State Treasurer  
Designee for The Honorable John M. Schroder, State Treasurer

Mr. Carey "Tom" Jones, Deputy Director, Civil Division  
Designee for The Honorable Jeff Landry, Attorney General

### **II. APPROVAL OF MINUTES**

Mr. Henson made a motion to approve the minutes of the January 25, 2018, meeting. Mr. Jones seconded the motion, and with no objections, the minutes were approved.

### **III. TOWN OF MELVILLE**

Mr. Purpera commented that the Town of Melville (Town) has been before the Committee several times previously.

Mr. Bradley Cryer, Director of Local Government Services for the LLA, stated that at the previous Committee meeting a recap of LLA's activities in the Town since 2014 was presented. He noted that Mayor Erana Mayes inherited a difficult situation when elected in 2014, and the turnover in staff has made that situation even more difficult. During the last Committee meeting, Mayor Mayes testified that the clerk had been trained to perform reconciliations and had been with the Town for a couple of years, thereby providing stability. However, that clerk resigned last month. This is the fourth turnover in that position since the mayor took office, and because the mayor is part-time, that clerk position is important to Town operations and finances.

State law provides for three criteria under which the Committee may seek appointment of a Fiscal Administrator. The Committee need only find one of the three criteria is met, but must be unanimous in its determination in order to proceed with seeking that appointment. He believes that two of the criteria have been met by the Town.

The three criteria are as follows:

1. The political subdivision is reasonably certain to fail to make a debt service payment;
2. The political subdivision has failed to provide an audit as required by Revised Statute (R.S.) 24:513 for three consecutive fiscal years;
3. The political subdivision is reasonably certain to not have sufficient revenue to pay current expenditures, excluding civil judgements.

The Town has been making its debt service payments. The Town has not provided an audit for a period of more than three consecutive years. The Town was unable to prepare financial reports for fiscal years 2014 and 2015, received a full disclaimer on its audit report for fiscal year 2016, and received a disclaimer on its results of operations for fiscal year 2017, which was issued yesterday. The Town's auditor Mr. Jonald Walker was present for questions. The LLA does not consider a disclaimer to meet the requirement for an audit. As a result of the disclaimer on operations, the information in yesterday's report relative to current operations or comparisons between years cannot be relied upon as accurate. So if you have looked at that report yesterday or today, I would caution you to "take it with a grain of salt."

Mr. Cryer explained that the LLA interprets a "current expenditure" to mean a payment for something that is currently due. That means you cannot avoid a current expenditure by simply not paying your bills on time. Because the Town's revenue and expenditures are included in the disclaimer for last year, we do not have audited numbers to share. We received unaudited information from the Town for month ending March 31, 2018. As per the Town's bank statements, the current available cash totaled approximately \$20,000. Current obligations totaled approximately \$200,000 (excluding the major of bond principal). The U.S. Department of Agriculture (USDA) Bond Reserve and Depreciation Fund bank accounts are underfunded by approximately \$119,000. Total payables in the accounting system for the general fund, payroll, and utility fund totaled roughly \$60,000 with 99% greater than 30 days past due. Notable payable include Cenla Environmental Science (Cenla) water sampling of \$32,198 and IRS payroll taxes of \$16,410 (late payroll taxes were also noted in the audit report). Customer Meter Deposit bank account is underfunded by approximately \$20,000. Bank account shows balance of \$51,591, while the meter deposit liability as of 9/30/17 was \$72,054 (per audit report).

In addition, the Louisiana Rural Water Association, in a 2015 assessment, noted several issues, one of which was that the Town's main water well has exceeded its average life expectancy of 40 years and could fail at any time. The Rural Water representative noted that "the old water tower is in deplorable conditions and probably beyond repair and needs to be taken out of service." These conditions still exist today. The assessment noted that the Town produces an estimated 15 million gallons per month but only 3 million are sold, which is about an 80% water loss through water main loss or amounts that are not being billed. The Town also does not have water meters for its customers. The Town does not have funds set aside to address its critical water system infrastructure problems. At the last Committee meeting, the mayor had reported that a state representative had called her about tying into the Krotz Springs water system, and she noted that the Town's board voted unanimously against joining the Krotz Springs water system. In summary, we do believe that the Town does meet two criteria for fiscal administration.

Mr. Purpera asked about the greater than 30 days obligations, if any are beyond 60 or 90 days. Mr. Stuart Dickey, LLA Advisory Services Auditor, provided the accounts payable aging. The general fund owed 30 days or less was about \$4,000; 31-60 days was \$5,000; 61-90 days was \$32,000. Their payroll fund owed about \$16,000 for accrued expenses to the IRS for past-due payroll taxes we assume to be from the previous

year. Also, the audit showed that all of 2017 payroll taxes were not remitted, which is about \$40,000 and does not include penalties and interest.

Mr. Purpera asked about the water loss from leakage and lack of meters which may imply that citizens are receiving water service without being billed. Mr. Cryer explained that the current system is very old, and there was also another older water system in the ground that the Town is trying to completely shut down. We understand there are other customers tied in on the same line with other customers, so cutting off water for unpaid customers would cut off everyone on that particular line.

Mr. Purpera asked if there are any customers who are not paying their bills. Mr. Cryer responded that the billing system showed an unreconciled total amount due to the Town of \$152,000, including \$134,000 that was past due.

Mr. Purpera said if a governmental entity allows individuals to receive a service that is normally billed for and it is not paid for then it would be considered a donation of public funds, which is a violation of the Louisiana Constitution Article VII, Section 14. Mr. Cryer agreed but explained that due to the age of some of the receivables it is difficult to determine if all are legitimate because this account has never been balanced.

Mr. Henson asked if the IRS could put a lien on the revenues of the Town for nonpayment of payroll taxes, not to mention it is a criminal offense. Mr. Cryer said he does not know of any correspondence from the IRS but the mayor could respond.

Mr. Henson asked about the indebtedness that requires periodic deposits into a sinking fund for the purpose of servicing that debt, which the Town is not making any deposits. Mr. Cryer said to his knowledge the Town has not set up a bank account for that and, based on the bond schedule, we are estimating about \$119,000 in arrears on those reserve funds. Mr. Henson said that is a serious issue because the bond holder could file for relief. Mr. Cryer explained that the USDA has been patient about the bonds, and from discussions over the past year, the USDA is trying to allow the Town to catch up but not seeing progress in that regard.

Mr. Dickey said that the USDA sent letters to the Town and emailed him directly about the reserve and depreciation. The bond loan payment is funded monthly by an automatic ACH withdrawal. However the \$119,000 reserve fund has not been funded. Mr. Henson commented that the reserve fund is a requirement of the bond indenture so technically they could be declared in violation of the agreement. He asked if the water system is hazardous or has any health hazards. Mr. Cryer answered that he knows of no reports of contamination, but there are issues about the age of the system. The billing system is flat rate and not based on usage.

Mr. Henson asked about the cash flow situation which appears to be inadequate for the obligations. Mr. Cryer quoted from the audit report, which because of the disclaimer does not give confidence to the accuracy of the data, but saw a net change in position for last year of negative \$45,000. The proprietary cash flow statement with all the utility accounts shows a decrease in cash of \$172,000. The Town has paid off some of the outstanding obligations including audit fees.

Mr. Henson asked for all the sources of revenue besides water utilities. Mr. Dickey said there are two special revenue sales taxes, the utility fund and whatever general fees they collect. Mr. Cryer read the sources of income from their FYE September 30, 2017 audit including taxes, franchise fees, and state and parish sources.

Mr. Henson remarked that there are significant issues and does not appear to be light at the end of the tunnel, but would like to hear from the mayor and other residents. He believes the Town needs the Committee's help and wants to help them.

Mr. Jones asked for the source of the bond payments. Mr. Cryer responded that the utility revenues pay the bond payments but the Town does not have enough income for the reserve funds. The Town moves funds between the governmental accounts and proprietary accounts. Mr. Jones asked for an explanation of a disclaimer. Mr. Cryer explained that an audit means that the auditor has looked at all the financial information – all balances and activities – and can assure with a certain dollar amount or percentage that the financial data is accurate. A qualified opinion means that we think the numbers are correct except for some missing data. A disclaimer means that the auditor cannot provide any assurance that these numbers are correct because of the several factors. In this case, because of the disclaimer from the previous year and questions about the beginning balances which roll forward into the current year, the auditor was not comfortable providing them assurance on those activities. That may or may not mean that the revenue number seen in the audit report is a good number, but the auditor did not feel comfortable saying that the overall income statement was accurate. For purpose of a disclaimer we do not believe it to be an audit because an audit report means the funds were fully audited. We have been consistent with that in regard to all operations of our office and regarding compliance with the audit law.

Mr. Henson commented that the mayor was eager to get the Committee's assistance at the last meeting, and the Town's cash flow and payable situation has not improved very much and he is concerned for the Town.

Mayor Mayes testified that when she went into office in 2015 it was a big mess with lots of bills owed. She has caught up on the large amount of bills owed with the incoming funds. The Town still owes Cenla but on a payment plan with them and meeting the terms of that every month and hopes to finish paying them by the end of the year. Cenla is over the Town's water and waste water and tests all the water as well. She has been working with USDA, who should be providing the Town's engineers with a \$30,000 search grant in the next two months to see how much it would cost to put in a new water infrastructure system, meters, and a new water well.

Mayor Mayes said that Congressman Abraham's office has also contacted the USDA to move the funds quicker to the rural communities including Melville. She has also worked with the USDA to redo the sewer pond in early 2015 and also going to work with the Delta Regional Authority (DRA) and Congressman Abraham to try to get emergency funding for their current well. The Town's engineers are working to get a well up and running instead of connecting to Krotz Springs. The cost for repairing the well is \$87,000 and so far the Town has collected \$44,000, so that was the reason she contacted Congressman Abraham's office.

Mr. Henson commended Mayor Mayes for her actions and asked if any issues with Louisiana Department of Health (LDH) and water quality. Mayor Mayes said that their drinking water is fine and the waste water pond was rebuilt in 2015 so it is working well.

Mr. Henson asked about the inability to make deposits into the bond sinking fund and if the USDA would consider an additional loan for the water system. Mayor Mayes spoke with Callie Francois at the USDA and because no payments have been missed at all, they are willing to help the Town. The reserve fund is something that they need to start funding because in 2015 when the bank closed in Melville, the prior mayor moved the funds into one bank account in a neighboring town instead of three separate accounts. Mayor Mayes spoke about two years ago with Callie who said that the USDA was fine with both payments coming out of one account as long as they do not miss any payments.

Mr. Henson said based on the auditor's comments on receivables, payables, and finances in general, he cannot discern a way that she would have available cash to deposit into the sinking fund. He wants to help the Town any way possible.

Mayor Mayes assured the Committee that the Town is working very hard to generate more revenues and funding including writing grants. She spoke with Congressman Abraham's office regarding a new bill he wrote for all the rural communities to get broadband internet into their communities. That would bring more funding to the Town. In St. Landry Parish, they are working on a trail from Fort Berry into Melville in the next year or two, which will bring more revenue into Melville. Currently, she has a collection agency and works with Louisiana Municipal Advisory and Technical Services Bureau (LaMATS) to collect any bills outstanding from people who have moved out of Town.

Mayor Mayes said previously the Town paid Cenla to visit twice a month to check on the water system. She hired a part-time superintendent who oversees water, waste water, and gas including supervising the men and handling all water cut offs and pulling meters. The superintendent does not live in Melville, which is actually an advantage.

Mr. Henson asked about the antiquated system limitations. Mayor Mayes explained that most of the water lines have been separated and giving everyone their own line to cut them off. Previously, family members were all sharing off one meter but now each home has their own cut-off valves.

Mr. Henson said individual metering will help in that regard too. He asked if the information from the study on the Town's water system and replacement would also look at a rate structure that can be individualized for billings based on volume usage. Mayor Mayes responded that is correct.

Mr. Henson asked how the natural gas is billed to the residents. Mayor Mayes explained that the Louisiana Gas Municipal Association sends a bill to the Town which is divided based on their individual usage shown on their meters.

Mr. Henson asked about the grant from the USDA. Mayor Mayes explained that the USDA provided the grant funds for the Town's engineers to look at all their infrastructure and installing a new well, and the results will be sent to the USDA. The best way for the Town to receive constant income and make a profit will be installing individual meters to bill based on usage.

Mr. Henson asked about the police services for the safety of the citizens. Mayor Mayes said the Town has its own chief of police as well as one full-time and one part-time officer. The St. Landry Parish Sheriff also provides services for their Town.

Mr. Henson asked if Mayor Mayes saw a way out any time in the near future without assistance to help the structure and solutions to the problems that she inherited. Mayor Mayes said she does see a light at the end of the tunnel. She is very grateful to her auditor Jonald Walker, who has previously served as a fiscal administrator, and helps her immensely with any questions. She used to call Mr. Cryer and Mr. Dickey a lot but now she can call Mr. Walker any time. Pursuing grants and anything to help with water and infrastructure has been fruitful. The police chief has been diligently looking for donated police vehicles so now they have newer police vehicles and utility trucks to help the Town.

Mr. Henson said there is typically a cost for a fiscal administrator, but Mr. Purpera has been working to find a viable solution for the payment of one. He asked if she would still be amenable to the appointment of a

fiscal administrator who could help in dissuading the USDA, IRS, and other creditors from requiring payments that the Town is fiscally unable to do.

Mayor Mayes said she would prefer to continue working to get the funds in for the Town and believes they can do it. Mr. Henson explained that he is not suggesting that the mayor not be a part of this. Mayor Mayes said she believes with the help from the auditor that the Town can make it.

Mr. Purpera asked if the Town needs more infrastructure for the water system than just new meters. Mayor Mayes responded that they need new lines and a new well and meters going to each home, but the filtration system is working fine.

Mr. Purpera mentioned that the water system was just redone in the Town of St. Joseph, including their pumping and filtering system, at the cost of approximately \$8M. He asked if the Town borrows from the USDA or Drinking Water Revolving Loan Fund for a new water system, would the Town be able to repay it. Mayor Mayes said that once the individual meters are installed they expect to see a profit and be able to repay the USDA. Mr. Purpera asked about the 80% water loss. Mayor Mayes believes the new lines will handle the water loss issue. Mr. Purpera expressed his concerns about their current debts and situation as well as the loss of a city clerk. Mayor Mayes said they have an assistant clerk as well as a contracted person to help keep up while advertising to hire a new clerk with experience. She has spoken with her council about raising the salary to hire a better qualified and experienced clerk because what they are paying for the contracted person would pay the clerk.

Mr. Jones asked what the Town would do if the water well went out. Mayor Mayes said in that situation the Town would qualify for emergency funding because the current situation of having only one well is not an emergency situation. She is trying to get funding to prevent the well from going out. The DRA would step in with emergency funds if the well goes out because then under an emergency situation. She explained that each town must have at least two wells, but one of their wells is not operational. One remedy was to hook on to Krotz Springs and put a master meter on it, so they could use it only if the well goes down or needs to be serviced. But they chose to try repairing the small backup well.

Mr. Jones asked the age of the current well. Mayor Mayes said the current well is around 54 years old and would become the backup well after a new well is installed. They currently have approximately 540 customers with about eight to ten being businesses. Mr. Jones asked if any limitations on utility funds to put into the general fund. Mayor Mayes said the utility revenue is transferred to the general fund to pay bills or any obligations.

Mr. Purpera read from the Town's financial statements that operating revenue for water, gas, and sewer totaled \$459,619 and the total expenses are \$516,752, which nets out a loss of \$57,133. Mayor Mayes said that gas is not usually a loss but the water and sewer operate at a loss.

Ms. Velma Hendricks testified that she serves as Mayor Pro-Tem on the Town Council and would like to know what can be done to help Melville. She heard that the state would send someone to manage the Town for them but does not believe they have the funds to pay anyone. She feels they are dedicated enough to work with their payroll and workers to be able to run the Town efficiently.

Mr. Purpera referred to the previous Committee meeting when the members discussed that if the Town meets the definition for fiscal administration it still does not have the funds to pay a fiscal administrator. Mr. Purpera said they have been watching the Town for improvements since the last meeting. He reached out to locate someone to step in as fiscal administrator and not cost the Town, which would be the way to

help them. If the Committee were to ask the Attorney General's office to petition the court to appoint a fiscal administrator, that person would step in the role of both the mayor and council. The current mayor and council would serve as advisors to the fiscal administrator, but the fiscal administrator would make the decisions for the Town. The legislature put this into law to assist local governments, such as Melville, in difficult situations because sometimes the town's structure does not work to make a turn around. This Committee has seen it work in the Town of St. Joseph, the Town of Gibsland and the Town of Richwood, as well as Madison Parish Hospital.

Ms. Hendrix thanked him kindly for that but believes the Town council working with the mayor will be able to get a solution to their problems. She would appreciate one more chance.

Mr. Henson asked if the individual offering assistance was there. Mr. Purpera said the person was notified but not required to attend.

Mr. Henson thanked Ms. Hendrix and Mayor Mayes for all they have done and working so hard, but he is still very concerned that they will not be able to address all the issues. If the Committee asks the Attorney General to go to court to appoint a fiscal administrator, it is not punishment but simply to give a helping hand in this situation, and as quickly as possible, working with you. We know that you are trying and know that their citizens appreciate all as well, but the Committee only wants to help the Town avoid situations that could have significant consequences.

Mr. Purpera asked for any public comments. Ms. Hendrix asked if the Committee has someone in mind to send as fiscal administrator. Mr. Purpera said he has been speaking with Mr. Mark Majors. Ms. Hendrix said that Mr. Majors has had two bankruptcies, so she does not see how he can run a town when he cannot run his own two businesses.

Mayor Mayes appreciates that the Committee realizes how much the Town has been trying and would appreciate the opportunity to continue to try even harder and dig in a little more. She reached out to many organizations for funding. Mr. Purpera explained that she would continue being the mayor and be working with the fiscal administrator. Mayor Mayes said she knows that the power would be taken out of her hands to run the Town.

Mr. Purpera asked if connecting the Krotz Springs water system would be a good idea. Mayor Mayes responded that it would be a good idea but it still takes a lot of funding to connect to Krotz Springs. She has also been talking to the three Council members who voted against connecting. Mr. Purpera said that a fiscal administrator is able to sit in the shoes of both the mayor and council to make good decisions to move the Town forward.

Mr. Henson said they appreciate the mayor and mayor pro-tem's testimony and hard work. He suggested to the Committee that they allow 45 more days for the Town to show what progress they can make and to report back. He would love to see them be successful and wish them the best of luck but sometimes once dominoes start falling it cannot be stopped.

Mr. Purpera reiterated that the Committee will look for positive movement for real plans that show the Town can pay their bills and catch up on past-due bills and start funding the sinking fund for their bonds, and not have payments in arrears or donating water to individuals. He recommended that the Town council meet as soon as they can and look for a positive plan for the future.

Mr. Henson explained that they do not expect all problems to be solved in 45 days, but to solve the ones that they can and put together a real, defensible plan that will show a clear path forward toward potential solutions.

#### **IV. OTHER BUSINESS**

No other business was discussed.

#### **V. ADJOURNMENT**

Mr. Henson made a motion to adjourn, and with no objection, the meeting of the Fiscal Review Committee adjourned at 2:10 p.m.

**Approved by the Fiscal Review Committee at their meeting on: October 17, 2018**

The video archive of this meeting can be found in the House of Representatives Video Archives:  
[http://house.louisiana.gov/H\\_Video/VideoArchivePlayer.aspx?v=house/2018/apr/0426\\_18\\_FiscalReview](http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2018/apr/0426_18_FiscalReview)