



FISCAL REVIEW COMMITTEE MINUTES

Monday, February 18, 2019
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 1:00 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. Wilbur "Bill" Stiles III, Chief Deputy Attorney General
Designee for The Honorable Jeff Landry, Attorney General

II. APPROVAL OF MINUTES

Mr. Henson made a motion to approve the minutes of the January 7, 2019 meeting. Mr. Stiles seconded the motion and with no objections the minutes were approved.

III. TOWN OF STERLINGTON

Mr. Bradley Cryer, Director of Local Government Services, stated that at the January 7, 2019 Committee meeting we had introduced the broad issues concerning the Town of Sterlington (Town) and discussed last year's audit report. We now have more financial information and a better picture of exactly what is happening and the outstanding debts.

As noted at the last meeting, the Town failed to make a \$174,000 debt service payment to Texas Capital Bank and two payments totaling \$44,000 to Homeland Federal Savings Bank on December 1, 2018. The Town sent a notice to the State Bond Commission (SBC) on December 5, 2018 noting that it intended to make a \$74,000 interest only payment and enter into a \$100,000 principal forbearance. That \$100,000 as of today has not been paid. The Town notified the SBC that it intended to pay off the \$44,000 due to Homeland Bank and it was paid off as of last week.

We have also received calendar year 2018 unaudited financial information from the Town's contract accountant. At December 31, 2018, the Town had \$165,000 in cash available to pay obligations, which included \$74,000 in bonds sinking funds which are restricted funds. Unpaid obligations at December 31, 2018, total roughly \$403,000 in unpaid bills. Of which \$154,000 is more than 90 days late. \$144,000 still included in the liquid bond payment. So that \$44,000 that was paid last week comes off the top of that and underfunded bond reserve account of about \$5,000. In addition, the 2019 revenue and expenditure projections provided indicate expenditures including debt service payments will exceed \$744,000, but takes into account the \$144,000

delinquent debt service, but not taking into account the cash available and other unpaid obligations. We estimated \$849,000 would be needed to fill that gap in 2019.

Chairman Purpera asked if that is the difference between the cash available and what they are planning on having available and their obligations - \$849,000. Mr. Cryer responded that is correct.

Mr. Cryer said that the mayor's letter dated February 6, 2019, notes the Town was able to increase its estimated 2019 revenue by \$54,000 and reduce its payroll by \$360,000. The accountant has provided us \$196,000 and that is included in the expenditure projection but still leaves a deficit roughly of \$631,000. So after all the monies are received based on the current projections, and after all the bills are paid, they are still short \$631,000 to meet all the debt service payments and other bills for 2019.

Chairman Purpera asked Mr. Cryer for the Town's total revenues. Mr. Cryer responded that total governmental fund revenues are \$2.3 million. Chairman Purpera asked for more information about line item sports complex \$511,000 on the financials. Mr. Cryer stated the sport complex has been operating to some degree but unsure how much revenue they are generating from that, but the complex was finished during 2018. Chairman Purpera stated that it is labeled intergovernmental so is that actually a source of revenue or a transfer. Mr. Cryer did not have a break down for it.

Mr. Cryer explained that because the Town has defaulted on a debt payment in December and because they do not have sufficient revenues projected to cover their expenses throughout the rest of this year to the tune of about \$631,000, we believe that the Town of Sterlington does in fact meet the criteria for fiscal administration. The calendar year 2017 audit report issued in September resulted in a disclaimer of opinion based on the fact that the auditors could not come up with hard numbers to issue an opinion on the financial statements. The 2016 audit report includes a finding regarding improper use of bond proceeds, those proceeds were used for purposes outside of the bond indenture requirements.

The 2017 audit report including a going concern disclosure and that going concern means the same thing that we are here to talk about with fiscal administration. The auditors had substantial doubt about the Town's ability to continue operating. The 2017 financial statements deal with a disclaimer and the numbers may or may not be accurate. The debt schedule shows a breakdown by the lender of the outstanding debt. The Town has roughly \$20 million in debt. When we looked at other towns consistent with the size of Sterlington that is plus or minus 10% of the population, the average debt for those towns was \$1.7 million. So Sterlington has a much larger debt load and obviously the debt service reflects that as well.

Chairman Purpera asked Mr. Cryer to explain what a disclaimer of opinion meant. Mr. Cryer explained that we are not able to attain or corroborate sufficient audit evidence from management. Additionally, they have high potential compliance issues which could have a direct impact on the termination of material amounts and disclosures. Such issues are currently under investigation by the LLA. A disclaimer is not an audit. That means the auditors went and they tried to perform an audit but because of problems with the numbers, because of concerns about the way that funds were used in the past, because of those compliance issues, they did not feel comfortable saying that the information in this report is accurate.

Mr. Cryer said that the mayor sent a letter about a week and a half ago asking for an extension. The mayor testified before this Committee in January that he was planning to turn in a 30 day plan of action. We did not have the ability to grant an extension to that. The mayor is here today to provide what they have done so far and also outline their plans for the future.

Chairman Purpera asked if the Texas Capital loan was roughly \$175,000 and did they still owe \$100,000 of that. Mr. Cryer replied yes. Chairman Purpera asked if the Homeland Federal Savings loan was paid off. Mr. Cryer replied yes that was paid off January 12, 2019.

Chairman Purpera asked for information about the bonds. Mr. Cryer replied the last numbers as of December 31, 2018 were a schedule obtained from the contract accountant. The schedule is broken down by lender and these are estimated numbers, but the actual numbers show \$20 million in outstanding balances and estimated \$1.6 million in debt service for the upcoming year. Chairman Purpera asked if they are in default on three of these bonds. Mr. Cryer stated that two on the schedule showed default for Homeland Federal that was the \$44,000 combined and that one has been paid. So they are no longer in default on those bond issues. Chairman Purpera asked if that 2016 A and B are completely paid off. Mr. Cryer replied yes, the debt service was roughly \$22,000 for each of those series and are paid off but not the bond. The Texas Capital bank, they still owe \$100,000 for principal payment from December. So there is still an outstanding balance because they're fairly large balances.

Chairman Purpera stated that 2016 A, B, and C and 2017 are all series sales tax revenue bonds so does that mean the sales tax revenues are pledged against all four of these. Mr. Cryer responded that is my understanding. Chairman Purpera asked if the sales tax sufficient enough to pay the debt service on these. Mr. Cryer responded that the sales tax coming off of the sports complex has not been providing enough for debt service. The fact that the debt service payments were missed for both of the 2016 A and B as of December 2017 show that they did not have sufficient revenue to cover those debt service costs.

Chairman Purpera restated that the Town has \$254,000 in unpaid bills with \$154,000 greater than 90 days. He asked if the \$44,000 is not part of the \$154,000. Mr. Cryer responded no. Chairman Purpera asked what kind of debt shows as greater than 90 days. Mr. Cryer responded part of it is for the audit for last year and due for the contract accountant that has been preparing all the information for us to review.

Chairman Purpera asked about the deficit projection of \$631,000 because expenses are greater than the revenue of \$744,000. He asked what portion of that belongs to the ball field. Mr. Cryer responded these were aggregated in total and we put in all of the bills that had not been paid, so that includes the \$254,000 unpaid bills. We also looked at what the available cash was and reduced the outstanding bills by the available cash. Then we added all the debt service payments that are upcoming throughout 2019 which is \$849,000. If you factor in the corrective action that the mayor has proposed in the letter that he sent to us, we picked up an extra \$196,000 to offset that and have come up with a net figure of \$631,000 deficit for 2019 after the corrective action. We do not have any information about what the current status is on additional revenues or reductions of expenditures, but as of last week that was what we estimated if his projections are accurate. Mr. Henson asked about the \$631,000 shortfall that you are now projecting with the latest information if it includes the anticipation of having made and met all debt service payments. Mr. Cryer responded it includes all the ones that are due in 2019. Mr. Henson asked about \$175,000 outstanding debt with Texas Capital and you indicated about \$75,000 of that was paid and that they were going to get a forbearance agreement with Texas Capital has that forbearance agreement been reached. Mr. Cryer responded we have not received information on the status of that forbearance agreement. Mr. Henson asked if they paid \$75,000 of the \$175,000 but do not know if forbearance has been agreed upon. Mr. Cryer responded that is his understanding. The \$75,000 was the interest payment that was made in December but do not know the status of the forbearance. Mr. Henson asked when the next payment is due. Mr. Cryer responded he does not have the schedule but we can ask the mayor both those questions.

Mr. Stiles asked have you seen or has anything been produced to you as evidence of potential estimated revenues of this sports complex. Mr. Cryer responded the bonds that were issued and the service agreements including provisions that indicated that they would have revenues to match the outstanding debt service. But

we have been provided nothing from a financial standpoint that shows the projected revenues versus the expenses or what has come in so far. We do not have a detailed breakdown that shows that kind of analysis. Mr. Stiles asked if he has anything to compare like a monthly to monthly review stream. Mr. Cryer responded no.

Chairman Purpera asked if that is provided in the financial statements for last year but was not the correct picture for next year. Mr. Cryer responded the revenue estimates for this upcoming year of \$810,000, estimated expenditures of \$608,000 for a net income of \$201,000 but that is before packing all the note payments of \$597,000, so the net for the sports complex projected going for this next year is roughly \$400,000. Chairman Purpera asked what portion of the \$800,000 is tax revenue. Mr. Cryer responded we are not showing anything here that shows the breakouts. We have alcohol sales, concession sales, field rental fees, typical things you would see with a sports park and the numbers that are rolling up here, these make up the \$744,000 that we talked about previously and we added on the additional offsets. So all of these are tied back to the total difference, but that is assuming they will bring in these projected revenues throughout the rest of this year.

Mr. Stiles asked in consideration of what was brought in last year, is there a comparison year to year or month to month that projects expectations within a certain period of time. Mr. Cryer responded they cannot really tell because last year a lot of the sports complex was not completed. We are looking at calendar year 2017 and a lot of the bonds that were issued were actually in 2018. So the bond instruments had their own projections that those would service the debt, but we do not have anything that shows the breakout, revenues versus expenses and how that is compared to the operations.

Chairman Purpera asked have you been given a kind of a proforma look in the future that shows that it can survive or it can pay for itself. Mr. Cryer responded these were numbers that were put together by the Town and provided to us. So the \$744,000 shortfall was the numbers that were based on their projections from operations throughout 2019. We included the additional cash shortfall to pay off the existing bills, which was the \$400,000 bills and then reduce that by the amount that the mayor had projected based on his corrective action plan for his first 30 days. But these are all Town projection numbers because we do not have a real baseline to understand exactly what is going to happen with the sports park operation. We have no way to say that these are numbers are inaccurate, but even if they are accurate, they are still projecting a deficit in the sports complex of roughly \$400,000 for 2019.

Chairman Purpera asked for the term on the bonds. Mr. Cryer explained that on the bond schedule each one of the outstanding bonds has a maturity date. So the ones with the 2016 A series through 2026, 2016 B series through 2026, 2016 C series through 2026, 2017 series through 2036, sports complex concessions bonds through 2043 and then there is a shorter term for the sports lights which is through 2027.

Chairman Purpera asked if the utility fund covers its cost. Mr. Cryer stated the utility fund operations that we are looking at for this upcoming year 2019, as provided by the Town are showing a shortfall of roughly \$500,000. The utility system has been operating at a loss for a number of years. The debt service added on the utility system is the cause of that shortfall. That is roughly \$544,000 in outstanding debt service for the upcoming period.

Chairman Purpera asked if the town borrowed \$4 million. Mr. Cryer responded the Town was issued \$1.8 million in refunding bonds indebtedness in 2018 for the utility fund. The Town also has capstone government capital lease purchase which is a \$2.064 million debt instrument. There were several new things that were happening in 2018, 2017, 2016, the existing bonds go back to 2013, 2014 and even some 2011 bonds that were based on the existing upgrades to the utility system at that time. In the audit report from 2016, some of those proceeds were used for other purposes and not used for their intended purpose and that was one of the findings in that report.

Mayor Caesar Velasquez explained that he has been mayor for only 46 days. He and his council talked about the agreement and we have signed a forbearance agreement and entered into the collection agreement, which is going to take over those debt services that are tied to the taxes that was not going to be covered for this year 2019 with this agreement that we signed. We have looked at overcoming some salary items and were able to pick up \$335,354. The projected payroll for the year is going to be \$512, 546. Part of that comes from a death with one of my sewer personnel, so I had to hire someone who is not certified but I do have a certified person that was working part time temporary. So we are going to have a little bit extra expense on that, but it will be temporary because he is leaving in June once I get this new employee certified and up to date.

Mayor Velasquez said that we do have some plans and several items that we are looking at to try to improve some cash flow. This year we are looking at some of our old binds, tickets and warrants. We created an amnesty program to work with all these folks and try to clean up all the old records and get them up to date. It can bring some funds to the Town. We have 3.28 acres that the Town owns that we have been trying to sell for about a year and it is valued at approximately \$113,920. We have some surplus vehicles that we are looking at getting rid valued at approximately \$1,000. We have some cinderblocks bricks that we are trying to get rid of valued at approximately \$300 to \$400. It's not big dollars, but it is some dollars for stuff that we are not using anymore.

We have a project to complete our water system. Basing off the minimum usage, which is 4,000 gallons a month per household and at our current rate, we have projected that we are going to use that system. We are looking at the village, which is the oldest part of the Town where we own the infrastructure approximately \$14,875 a month which comes out to about \$1,785,000 for the year. We also have a couple areas in Town that have already received their go ahead to build, approximately 600 homes. Some of this was a hold up on water that would approximately bring in \$25,500 per month, looking at approximately \$306,000 per year. Between the two the potential income is about \$484,500.

The council and I are looking at having to raise the rates on our sewer system because we are not completely operating where we need to be and trying to covering our debt. The worst case scenario is going to be double, but we are hoping it will be less than that.

We received a grant from the Convention and Visitors Bureau for \$360,000. We were allowed to realign those funds to build a concession stand on our softball fields. If we can get that done by June, I am projecting approximately \$70,000 in revenues this year just from the concession stand. The gate admissions are expected to be about \$8,500 and then an additional \$8,500 for the concession revenues from last year. Mayor Velasquez explained that last year the sports complex only operated for four months and we had the concession stand for approximately three months. This year we will have a fully functional concession stand for 12 months and fully functional ballparks for the entire 12 months. The ballpark is completely booked up with 49 tournaments. Last week we had a college team come out and play because their fields were flooded. From there we picked up field rentals and gates. We do have two more projects that are similar to that which will help us this year. They are working on bringing in more concessions and gate.

Mayor Velasquez said the biggest thing I would like to make note is that now I have a new council. Our new council has been responsive to making sure that we can come up with some good ideas to overcome these issues. We have been able to trim about a million dollars off of what we owed on our debt service. We owe about \$637,000 that we need to come up with an answer for. While we still have a deficit, I think we have come a long way and we are trying to fulfill our needs to make sure that we're doing what we're supposed to be.

Chairman Purpera asked about the change in the terms on the forbearance and how much is savings or how much help are you getting by the forbearance. Mayor Velasquez stated we are not going to have to pay an elevated interest rate which was projected because we had that one debt service payment that was \$174,000.

We paid the principle which was \$74,000 and we owe \$100,000, which we are projecting to pay it March 1st as part of the forbearance agreement. The other part is the collection agreement. It is going to bring in and take our sales tax revenues and split it up amongst the four different bonds and start bringing in that payment so that it will be there too to make the future payments for this year.

Mr. Purpera asked if the fines and warrants is a significant amount of reoccurring revenue. Mayor Velasquez stated it is a significant amount of revenue, approximately a million dollars in outstanding warrants. Chairman Purpera asked is that because of bad collection policies in the past? Mayor Velasquez answered I am going to assume so. We weren't as proactive as we should have been with these items. This year we are going to go after that just so that we can clear some of the records up and then collect that surplus revenue.

Chairman Purpera questioned if the mentioned water revenue of \$178,000 is new. Mayor Velasquez answered yes, because the Town does not own the water system. We do have a part of the system set up and there was some litigation going on. We have our appeal going and if everything works in our favor, we will be able to get going with the rest of the water system and start being able to supply our own water to our citizens. Chairman Purpera asked if that ties into the 600 homes and if the holdup is because of the lawsuit. Mayor Velasquez answered no, one of the developers told us that they we're only going to be allowed to provide water for up to 25 of the 400 homes. The developer has not really pushed it because he's got enough land for the 400 homes that he's projected and will only be able to build 25 in order to meet the needs or the requirements of what Greater Ouachita Water is going to be able to provide them for water.

Chairman Purpera asked the average revenue expected to receive from a tournament. Mayor Velasquez answered approximately \$10,000 with gate and concessions around \$490,000. Chairman Purpera commented that amount still does not make your debt service. Mayor Velasquez agreed.

Mr. Henson stated the ballpark was an issue last year since you were not able to utilize it fully. Assuming you get the \$490,000, would your ballpark break even? Mayor Velasquez responded yes. The projections show we should break even and be able to make our debt service payments. We will have it operating the full 12 months.

Mr. Henson questioned if the Town was to monetize some of your assets that are vital and everything you mentioned were implemented right now, would that offset all of your projected shortfall of some \$630,000. Mayor Velasquez responded no but with projected sewer revenues that we did not have before based on the new homes and if we can get the water system up and running, that is all revenue that we did not have at all period prior. Mr. Henson asked if the new homes are built and occupied. Mayor Velasquez responded no but the developers do have everything ready to start.

Mr. Henson stated you have a new council and they a show indication that they are willing to work with you and take some necessary action and make difficult decisions in order to straighten this out. I have looked at your financials and debt service. You inherited a mess. I don't know if you have time to do enough to correct it and I'm afraid you're going to get really in trouble to the point that I don't know that there is a workout. From the treasury standpoint we take no joy in assigning a fiscal administrator to a town but in some cases it is necessary to provide some assistance. You're new at your job and I want to give you ever opportunity in the world but we don't want the situation to slide further into a state that perhaps is not recoverable. There are a lot of things that need to be done and they need to be done now. Mayor Velasquez responded I've been fortunate to have a good group of councilman working with me. We do have some banks that we haven't been able to communicate with yet and the reason for my request for an additional 30 days. We were able to get a forbearance agreement and want to work out an amicable way of repaying these debts and not have any more delinquent notes.

Mr. Stiles questioned the Town's population. Mayor Velasquez estimated approximately 1,700 in the Town limits. Mr. Stiles commented that the Town has 1,700 people carrying a \$21 million debt load. The way this is structured it appears to me that everything has to go just right to break even. So I'm concerned because I haven't heard where we get ahead of this thing and what we do as a Town that puts ourselves in a financial position in three or four years from now were we're able to consistently make all these debt payments. Mayor Velasquez stated I can't give you a definitive method of how we're going to overcome the shortfall and that we are doing what we can. We do have some ideas that we're looking at with sports park - how we can make it make more money and generate what it needs to make sure it's covering his debt. We inherited this problem and we're all determined to fix it and get over this hump.

Chairman Purpera stated you were a council member and you borrowed funds from 5 different institutions for the sports complex. You must have put together some pro forma type financial statements to provide to these five lenders saying that if you borrowed \$8.8 million that you could pay it back. Do you recall what those proformas looked like and what were the revenue projections? Mayor Velasquez stated we were shown the performance which showed what our future revenues were going to be, how it was going to pay for all this. However we had full time jobs other than being an alderman and we were doing our best to try to read through all the documentation. We did have a financial advisor saying this is what we're going to bring in and this is how it's going to pay off for this debt.

Chairman Purpera asked if it was the Town's idea, the previous mayor's idea, or the council's idea to put the Town in a lot of debt. Mayor Velasquez stated it started with the mayor and one councilman. We were looking for grants and then we made it a reality by getting bond money.

Chairman Purpera asked what was the objective and if the Town has any hotels. Mayor Velasquez responded not yet. Chairman Purpera noted that Monroe will get revenue from the ball fields. Do you recall if the proformas actually showed that the ball field could operate in a positive fashion? Mayor Velasquez responded what was shown and given verbally, yes. Chairman Purpera asked if the financial advisor was experienced with ball fields and done this before and understood how they work. Mayor Velasquez responded I do not believe that he did have any experience with ball fields. We did have many discussions with several ball fields that are in southern and northern Louisiana.

Chairman Purpera said he understands the mayor does not want us to appoint a fiscal administrator but then I look at the list of money owed that you're not able to pay. For example, you're not able to pay the CPA, the accountant doing the accounting records, Mr. Maxwell or the banks. They're looking for the process to work to provide that level of security that they're going to get paid.

Chairman Purpera asked if the Town get it's water from Greater Ouachita Water. Mayor Velasquez responded yes. Chairman Purpera asked was about the \$4 million that was borrowed for the water system. Mayor Velasquez responded that was for drilling of wells, new meters and the infrastructure that is going to be needed for our own water system. Chairman Purpera asked if a well was drilled and they have a production system. Mayor Velasquez responded we drilled two wells and the production system is not complete. We're waiting on a filtration unit which can't be ordered because we're not able to get into our own infrastructure because of the litigation.

Chairman Purpera asked if they already purchased the water meters. The Town spent \$2 million on water meters and drilling wells. Are these water meters on new homes or existing homes? Mayor Velasquez responded the water meters were purchased and installed on existing homes in the village, the oldest part of Town that we own the infrastructure and water lines. Chairman Purpera asked if they have the money or need to borrow more money to build a filtration system. Mayor Velasquez responded they do not have all of it. We have some money that's leftover in an escrow account that would go towards the system.

Mr. Stiles asked what percentage of the 1,700 population is the older village. Mayor Velasquez responded about 350 units and it's about a third of the Town. Mr. Stiles asked where does the other two thirds of the Town get its water. Mayor Velasquez responded Greater Ouachita Water. Mr. Stiles asked if the litigation is about getting control back of that infrastructure. Mayor Velazquez responded yes.

Mr. Jeff Max introduced himself as the CPA working with Sterlington for a couple of years. He has been working with Mayor Velasquez and stressing the need to focus on not defaulting in June when the next payments are due. We have hired financial advisors out of New Orleans because the complexity of these bonds being all commingled. We are going to try to work out every way possible to make sure that we do not default on these upcoming notes.

Chairman Purpera said he appreciates everyone being here. The process of fiscal administration is there to help not hurt. There is a lot of work to be done and the fiscal administration process provides for one individual that can make decisions without having everybody agree. It gives you that ability to operate in a kind of emergency capacity.

Mr. Henson commented that the per person debt load is significant. He asked Mr. Cryer if he sees anything from evaluations and discussions that show they have a plan to get out of this situation. Mr. Cryer answered bonds issued for the utility system assumed that the Town would expropriate property currently held by the Greater Ouachita Water system and have additional customer base but that did not happen. The Town has to pay those loans back based on additional water sells. It was appealed and the Town has lost that appeal. Those revenues that were intended to pay those loans back has not happened and may not ever happen based on the current status of those suits. On the utility side the concern is that the revenues will never materialize because the underlying assumptions were never met. With the ball fields we have seen nothing to show what the actual revenues are going to be and whether they can support themselves completely. There is no way to get out of debt without raising significantly more revenues either through ball field operations, utilities, raising taxes or through heavy cuts to the existing services. We do not see a reasonable way to move forward.

Mr. Henson stated the outcome does not look good for the citizens of Sterlington because they are either going to have live with reduced service levels or increased revenue in the form of taxes and fees to survive. He told the mayor that is not on you because you are new.

Mr. Stiles moved to place the Town of Sterlington under fiscal administration because of the following four reasons:

- 1. We have a disclaimer of opinion. We do not have auditable books to look at the actual financials.**
- 2. The debt of about \$21 million is an extraordinary amount of debt.**
- 3. We are hiring people from New Orleans because of complex bond issues.**
- 4. The projections of both the water and the ballpark are not ever going to come to fruition to pay for these bond services.**

Mr. Henson seconded the motion. Chairman Purpera also voted in favor and stated that the law requires a unanimous vote which we have.

Chairman Purpera said we do not take pleasure in this because we know what the process is. The attorney general's office will petition the court to appoint a fiscal administrator over the Town of Sterlington. There will be an opportunity for a hearing before court. If the court does appoint a fiscal administrator that person becomes the individual who can make the decisions and the council and the mayor become more of an advisor to the fiscal administrator. It streamlines the process to give it an emergency situation and gives you the resources to right the Town.

Mayor Velasquez responded he was hoping to be able to get enough time to work on the Town and get a team together to accomplish it.

Chairman Purpera encouraged him to not stop those efforts. The best way to proceed is to cooperate with the fiscal administrator to fix the problems. We do not like to see an administration decide to be an opposition to the fiscal administrator because that causes a lot of problems. The fiscal administrator will use you as much as possible because you know your Town. It is better be a part of the solution than being pushed aside. The cost of fiscal administration is borne by the entity, so the more you cooperate will reduce the cost overall.

IV. CITY OF BOGALUSA

Mr. Cryer stated that the LLA has been monitoring the City of Bogalusa (City) since 2013. We were following up on financial audit findings for the 2012 audit report including inadequate pension system funding, improper general fund borrowing and bond reserves not funded. By July 2018 when the City's 2017 audit report was completed, the financial related findings from the 2012 still had not been resolved. Based on that December 31, 2017 audit report, the City had a negative unrestricted net position in its governmental activities of \$27.8 million dollars and that is after roughly a million dollars in transfers from the business type activities or the utility system. Two significant factors that make up that negative unrestricted balance is the City's own pension system, which is called COBERS that has a net liability of \$22.4 million as of 2017. The system has a 17% funded ratio and approximately a \$2 million liability for landfill operations. To provide some context the state system such as Louisiana State Employees' Retirement System and Teachers' Retirement System, they are closer to 70% funded.

Because of continuing concerns about the City's financial stability, we address the City Council in July of 2018 and discussed the possibility of fiscal administration. I told them they had the second most number of financial related findings in the State of Louisiana. They also had one of the worst funded pension systems in Louisiana and let them know what fiscal administration meant, that they had to do something to try to resolve these issues. The City Council did place three tax propositions on the ballot in December. Two of those were rededications and two of the three passed. \$272,000 was rededicated from the general fund operations to the pension system.

On December 21, 2018, because only two of those three propositions passed, we sent a letter to the City asking for a formal written response to eight outstanding concerns including a timeframe and corrective action for each issue and the City responded at the end of January. The vote approving the rededication does not address approximately \$95,000 of an estimated shortfall on the pension system funding. The fact that those taxes did not pass at this point, there does not appear to be a backup plan for addressing that shortfall. The City responded it is currently researching various options to increase revenue and decrease expenditures. We should have a more realistic, detailed plan in the next few weeks.

Chairman Purpera asked if the funded ration has gone down or up during the time that the LLA has been monitoring the City since 2012. Mr. Cryer responded it has consistently gone down each year. The funded ratio was in the 60 percentile range back in 2001 every year that number has decreased. The reason for that is called the actuarial required contributions. The actuary comes up with a number saying here's what you need not just to pay your current benefits but also to run off this outstanding debt over a 30 year period. The City has been paying less than 50% of that actually required contribution for a number of years.

Chairman Purpera stated the actuary comes up with actuarial required contribution. That is the amount that if this system is going to be actuarially sound then that amount is supposed to be placed into the funds to be invested, to defer or reduce the amount of contributions in the future. If that amount is not in there, the actuary will look into the future and say we will eventually go negative cash meaning there will be individuals who are retired that are due benefits, but the City will be unable to pay their benefits. Has the actuary concluded that

that will actually happen? Mr. Cryer responded yes. The last actuary report was prepared as of June 30, 2017 and they were looking at a projection based on the funding stream and that would go out about three to four years before the system completely ran out of all assets. With the City's pension system, because they are not putting in that actuarially require contribution, the assets drop, the ability to pay those benefits out drop and what the City has been paying in contributions is not even sufficient to pay the current benefits.

Chairman Purpera asked for the total actuarially required contribution. Mr. Cryer responded roughly \$1.1 million a year and Bogalusa has been contributing a little less than \$500,000 a year.

Mr. Cryer referred to the rededication of those taxes and he is looking at roughly \$540,000 coming in from those increased revenues to the pension system. That may create a short fall for \$272,000 in the general fund where those fronts were rededicated. The actuary has not prepared numbers for 2018, we do not know whether or not that is \$95,000 short, which was on the proposition or that number may change between this next evaluation period.

Mr. Henson asked if the current contribution level they are making sufficient to cover the actuarially determined contribution to pay the benefits and future benefits of the active employees. Mr. Cryer responded what they have been paying out is not sufficient to cover the current benefit payments. As the investment pool has declined, they are generating less return on the investments and it is requiring additional higher contributions each year to make up that shortfall.

Mr. Henson asked who administers that retirement system. Mr. Cryer responded there is a separate board, but reported as part of the City's financials. Mr. Henson asked if the City is responsible for investment decisions and allocations of investments to help support the contributions. Mr. Cryer responded the board members that are appointed are responsible, but not sure who appoints those board members.

Mr. Henson asked in the year 2023 there would be insufficient funds. Mr. Cryer responded that was the projection before the rededication of those taxes. We do not have numbers yet from the actuary that shows how far out that is going to carry it. Mr. Henson asked once they go negative in the retirement system and if a retiree is due a check then the City will have to pay from the general funds of the City to pay that retirement benefit. He asked if the City has that money. Mr. Cryer responded no, the City does not have the money to pay retirement benefits from the general funds. Part of the issue is that the general fund itself is being subsidized by the utility funds. The City had roughly a net million dollar transfer from the utility funds into the governmental funds last year.

Mr. Henson asked when the actuary would have the next actuarial study complete. Mr. Cryer responded we do not have a real date but are estimating April or May based on last year's report. The December rededication of those taxes have estimates that were made were based on historical collections. Those may or may not result in the same future tax collections. Mr. Henson commented that this retirement system really concerns me, since you are telling me the funded liability is 17% and has been going down.

Chairman Purpera asked if the taxes that were rededicated being collected during the time that the retirement system went from 60% funded to 17% funded. Mr. Cryer responded the taxes existed but they were going to other places within the City's budget. One of the taxes was going into an economic development fund and the other tax went into the general fund. So those taxes were already being used for other purposes, they were not being used for pension funding. After the discussion with the council at the council meeting in July, the council decided to take action. They put three propositions on the ballot to create a funding source for the pension system based on existing revenue streams and are the two that passed. The third tax that did not pass in December is called by some to be a renewal of tax, others would call that a new tax. Chairman Purpera stated if the City had the revenue source before it could have directed the funds to the retirement system but it did not.

So by rededicating we are saying it has to go there. But the City all this time has had this tax, these funds, and they did not build up a big reserve somewhere else. Mr. Cryer stated the economic development fund was one area that the taxes were going into that is outside of the normal government operations and that part is not impacting the general fund.

Mr. Cryer further explained that the other tax rededication will impact the general fund by about \$270,000 a year. They have taken part of the general fund revenue stream and dedicated it to the pension system, which will leave a shortfall for that same amount within the general fund. Chairman Purpera asked is there any plan on how they are going to replenish that. Mr. Cryer responded that was part of the responses back on the pension system funding issues. We talked about the pension system funding itself. The general fund deficit, what the mayor had responded and was based on the June 30, 2018 financial statements. There was roughly a \$2 million deficit showing in those interim financials which was going to be further increased by the rededication of approximately \$272,000 from the sales taxes for the retirement system. The mayor responded the November 30th financial statements did not reflect the ad valorem taxes booked in December, so they are not an accurate representation of City's financial position for the end of the year. Unaudited financial statements as of December 31, 2018 currently show a 2018 surplus of \$283,000 but they are working on closing out the year and that is expected to change. The City will still have a surplus for the year but that surplus is because they are moving certain utility fund revenues from the utility fund into the general fund to plug that hole, which includes not just the \$272,000 but that holes been plugged for a number of years with transfers from the business type activities into the governmental activities.

Mr. Stiles asked has there been movement on changing the actuarially numbers by changing what they a're paying out in future benefit or what they are requiring people to put into the system. Mr. Cryer responded we have had several discussions with town officials in the last three to four years and I have been involved for about two years discussing different options. None of those options have been exercised. The City has never moved to make a change to its benefit structure or the current benefits being offered to active employees. Until we had a meeting in July, we did not see any kind of action being taken in regard to funding or any types of adjustments to that pension system until we talking about fiscal administration and needing a firm deadline on getting those issues resolved. It was not until then that we saw a rededication of taxes but we have not had any further discussion about changes in benefits structure or plan funding since that time.

Mr. Stiles asked since the City is rededicating some of these taxes and those taxes were being used for services the City was providing, what services are not going to be provided now. Mr. Cryer responded he did not know specifically what services those funds were providing. Mr. Stiles stated looking at the cash flow I am seeing that on average where the City's borrowing around \$800,000 a year to operate. Mr. Cryer responded yes, it was roughly \$950,000 in 2018. The City every year depends upon their ad valorem taxes coming in December and January and throughout the year they have a cash shortage, so they borrow through the SBC. They borrowed this year \$950,000 to make up that short term deficit until those ad valorem taxes come in at the end of the year. The mayor responded that number used to be significantly larger. This is the mayor's second administration and when she took over that deficit was roughly \$2 million a year as opposed to \$1 million a year now but it is still a short term borrowing need they have every year.

Mr. Henson asked if that budgetary cash flow borrowing helps them smooth out the differential between the expenditures and revenue. Mr. Cryer answered it is called a tax anticipation note. Some towns have sufficient cash flow throughout the year so they collect their tax they can actually level that out. The City of Bogalusa is behind the ball on that. Mr. Henson asked if they ever missed a repayment. Mr. Cryer responded not to my knowledge. Mr. Henson asked how many active employees are currently in the retirement system and how many retirees. Mr. Cryer answered they have 54 active and 85 retirees.

Mr. Cryer explained that the landfill obligation has been a highly contested between the parish and the City and the City owes roughly \$2 million. There is a tax dedicated to payment of landfill obligations based on a cooperative endeavor but that tax is not generating enough money to pay the City's portion of that cooperative endeavor. It is possible that may end up in litigation in the future. The mayor responded that the City cannot provide addition details in this letter; however, the City is hopeful that the issues with the landfill will be fairly resolved within the next couple of months.

The general fund deficit is being propped up in part by the utility operations. The general fund liability for the City's unaudited June 30 financial statement showed a \$313,000 general fund obligation to the sinking fund, the City responded that the number should be \$130,000 but that obligation is still owed at this time.

Mr. Cryer next discussed the City's underfunded Sinking Funds Accounts. Based on information obtained from City accounting staff, 2009 Water Revenue and 2012 Revenue Refunding Bonds were underfunded by \$145,000 collectively. The mayor responded that as of December 31, 2018 all sinking funds have been fully funded and they are maintaining current operations. This has been an outstanding issue for a number of years, so this has been caught up. We have not verified that but there is no reason for us to believe those have not been filled.

The City's unaudited June 30, 2018 financial statements disclosed the City improperly transferred \$1.6 million from the utility funds to the general falling between January and November, 2018 in spite of bond covenant terms that prohibits such transfers until sinking fund requirements are met. So as of December 31, 2018, the mayor noted that the all sinking funds were fully funded and the City plans to remain current by making monthly deposits. There is not a legal obligation to avoid those transfers but we have concerns because what they are diverting monies that could be put back into those utility systems for repairs, for maintenance, or capital improvements but instead it is being used for other operations and the general fund. Another concern is that either your rates are too high in the utility accounts or you are generating excess money that you are using to fund other operations.

Mr. Cryer noted that there had been some disputes with FEMA about amounts that may be owed back to FEMA. The number back in 2017 was roughly \$250,000 but unsure of the correct amount. The City is working through trying to resolve that issue with FEMA.

Chairman Purpera asked for the cause of the general fund deficit. Mr. Cryer responded that a transfer is what makes the general fund solvent each year. Chairman Purpera asked if there is a reserve fund to be set aside for the rebuilding of the water plant. Mr. Cryer responded they have reserve funds for the bonds and the sinking bonds. The general operations of the City is that as something breaks they are fixing those breaks, or replacing a line as it breaks but there is not a pool of money set aside for large capital improvements.

Mr. Cryer noted the 2012 audit report findings that dealt with pension system funding, improper borrowing of restricted funds, pension investment policy, and reserve funds for bonds and those items are there in the 2017 report. There are 16 findings in the 2017 audit report. Most of those findings were identified by the auditor as repeat findings which mean they have been going for more than one year. The ones on the pension system funding go back more than 10 years. When we met with the council in July, we were trying to encourage them to move quickly to resolve these problems because it had reached a critical mass, particularly with the pension system funding. We have seen the City take action to fund those reserve funds, to put propositions on the ballot but they could have done that at any point in the past. The actions have taking place just in the last few months.

Chairman Purpera stated the City has a finding on underfunded retirement system, a finding on improper use of restricted funds and interfund loans, a finding on bond covenants, a finding on sinking fund for the 2012 bonds had not been established but now that has been resolved, a violation of local government budget act, a negative

fund balance and noncompliance with the retirement systems investment policy which they invested some of the funds of the retirement system in some foreign stocks that was not allowed. There is the Choctaw road landfill deficit, incorrect calculation of termination of pay. A utility accounts receivable per general ledger are not being reconciled to the subsidiary billing ledgers on an ongoing basis which you cannot tell what is owned if you do not reconcile those accounts. The City has a finance problem but also a severe record keeping problem. The City's internal and monthly financial reporting process did not allow for sufficient monitoring and decision making by the mayor and the council which is a repeat finding. Mr. Cryer further explained the issue is the administration was not providing detailed financial information to the council members to inform them of what is happening with the City operations so that they can make intelligent decisions when they vote for a budget or for a contract or other top financial agreement.

Chairman Purpera continued to the finding on lease revenues not being collected and airport grant projects not being billed timely and collected, which says the City recorded a total receivable as of December 31, 2017 on the airport projects at \$536,000 representing \$351,000 due from the federal government and \$185,000 due from the state government. So we've got another issue that deals with the City's ability to collect revenues and have sufficient revenues to pay its bills and that is a repeat finding. A finding on timely reconciliation of cash balances, the City's bank reconciliations for the general fund and utility fund for December 31, 2017, were not reconciled correctly until May of 2018. Also noted utility fund was not reconciled for the months of February through August. Mr. Cryer added that without doing the bank reconciliation, the mayor cannot provide timely information to the council.

Chairman Purpera explained that his office does agreed-upon procedures (AUP) engagements. The purpose of that is to make sure in government that the accounting controls are solid, that there's an accounting infrastructure. These AUP agreements are designed to see if there is that type of accountability. The auditors are asked to look at policies and procedures. The City's auditor is saying they have no written policies over how vendors are added to the vendor lists, preparation approval process for purchase requisitions and purchase orders, documentation required to be maintained for all bids and price quotes. There are no written policies related to types of services requiring written contracts or what the standard terms and conditions should be. No written policies related to how credit cards are to be controlled, what's allowable business use, what documentation is required, who can approve it, how it's to be monitored. Regarding travel, it says no written policies relating to allowable expenses, dollar thresholds, documentation required. No written policies regarding debt service approval, how they're reporting their debt service. Under finance committee, the minutes show that the City discussed a budget to actual comparison on the general fund and other major funds, the auditors noted 10 of 12 months had exceptions. Chairman Purpera asked Mr. Cryer his interpretation of all these findings. Mr. Cryer responded the exceptions relates to the procedure itself which asks whether or not the minutes referenced are including monthly budget to actual comparisons. There are no discussions about the budget to actual results, nor discussions about whether they were operating in a surplus or deficit. When the budget to actual was discussed in October, the City was operating at a surplus. Chairman Purpera explained that he was bringing this to the Committee's attention because we are looking at the City's ability to pay its obligations and there were no discussions about the budget to actual results in the council meetings which is part of the problem.

Mr. Cryer said that bank reconciliations were not prepared for 12 of the 144 reconciliations tested. Evidence of review was not present with 38 of 144 bank reconciliation which means nobody is reviewing the bank reconciliations once they're prepared by a member of management. No written policies outlining the procedures that are used to process cash collections. Seven collections had no documentation of the date when the money was received. 12 of 25 disbursements tested were not initiated using a requisition to purchase order, which is a standard process in government. 12 of 25 disbursements were not approved by a person other than the initiator of the purchase. 12 of 25 disbursements tested did not have a receiving report or an approved invoice. Any written policies and procedures are out of date and not applicable to the current operating environment.

Discussions with the accounts payable clerk reveal that they are able to and have created clients as vendors in the past. So the person that has the ability to make a payment can also create someone who they make the payment to in the system. The check stock is kept in an unlocked cabinet. 10 of 10 credit card statements did not have evidence of managerial review. Five of 32 expenses did not have original itemized receipts. 30 of 32 expenses did not have a documented business purpose for the transaction. One of three reimbursements for travel did not have supporting documentation for the per diem, the parking and the mileage. From the auditor's perspective we are seeing the City has poor accounting controls and lack of good management capability. Even though they have been able to make some significant achievements in the short term there is a long term problem that exists.

Mayor Wendy Perrette stated the City of Bogalusa went for a tax to fully fund our retirement system as of April of last year. I asked the legislative auditors to stress the importance to our City Council members of a tax because we do not fund several of our services that we provide to our citizens. We do not fund our police department and only 2.73 mils for \$2.5 million fire budget. We are trying to educate the public on why we are not paying for these services. So, we went for a full mileage in April that was left out, not just a tax in the past fall election. Mayor Perez said that Mr. Cryer stated that tax was on the ballot in April but that tax was not promoted and only received roughly 25% of the vote during that period. That is why we came back after the resolution of the audit for that year to bring to the council an action request to take real action to try and get these issues resolved

Mayor Perez said we are going to have to reduce payroll by approximately \$730,000 per year to make full payments for our retirement system. To pay for this we are going to have layoffs. We are going to have to make some cuts and cut our services to the citizens because we don't pay for the services that we get now through the City of Bogalusa. Mr. Purpera asked how many employees the City has today. Mayor Perez responded we have 162 employees include police and fire with 54 contributing and 85 drawing from the retirement system which is funded through the general fund as of last year. The next year's actuary report as of June, the tax that did pass in December allows it to go to 2026.

Chairman Purpera asked how many employees would be affected when reducing your payroll by \$700,000. Mayor Perez answered 16 employees which we have already cut. We are going up on fines, increase other types of services, increase of revenues in bond phase and report phase, fingerprints and police escorts. We are reducing overtime by 50% that totals \$257,000 a year in addition to the \$700,000. The airport gas sales are going to be available for the City to fund the airport which are in the works and projected for April.

Chairman Purpera stated that's about a million dollars of savings, asking if that makes the City meet all its obligations. Mayor Perez responded we will not be able to 100% fund the retirement system on the taxes that we receive at this time but it will keep it sound and afloat. Chairman Purpera asked if it will take \$500,000 of that to get to the actuarially required contribution. Mayor Perez responded about \$750,000. They took a sales tax that was dedicated from 1955, that 1% and it leaves us a hole in our general fund for about \$270,000.

Chairman Purpera asked if these numbers have been provided to his staff and been reviewed. Mr. Cryer responded the only thing I have was the response letter back from the end of January. Mayor Perez stated she has the unadjusted and unaudited work product for this past month's account summary.

Chairman Purpera asked how does the City correct itself going forward and if these are the answers then why haven't you done it? Mayor Perez responded some of these things we talked about have started and some of the policies have been fixed and addressed. There were no policies when I got here in 2015 and we had to start developing them. There was also no computer programming. Chairman Purpera stated these are repeat findings and why didn't policy and procedures get done all these years? Mayor Perez responded there was no accountability but things have been put in place where there wasn't any before.

Chairman Purpera told Mayor Perez that as of 2015 you are the accountability. Why you didn't respond to your auditor and say, I'm going to accomplish that within the next six months and get something done? Why did the auditor have to continuously write these findings?

Ms. Stacy Smith, Director of Administration for the City, explained the repeat findings came down to sometimes you just are trying to make payroll, but as of the end of December everything has been funded. She asked if those are the repeat findings that you're concerned about. Chairman Purpera stated those and all the others dealing with not having control, not having processes and procedures and controls and reconciliations are not being done or not being approved. Ms. Smith stated those were the AUPs and last year was the first year done and there were some of those that we disagreed with like the bank reconciliations are done. We do them on paper because it's just the way it's always been done. They were always done in a timely fashion. We only have two people that work in accounting - myself and a bookkeeper - so you get behind on things because there's only two of us. The bank reconciliations were prepared, they weren't actually done in the computer system until I could sit down and do them but they were doing the old fashioned way every month on time. We disagree with the auditor because they were done on paper and just took time to do it all in the system.

Chairman Purpera asked about the general processes and no written personnel policies related to travel. Ms. Smith stated her goal last year was to try to come up with new policies. Chairman Purpera stated the Legislative Auditor's website has model policies and procedures. Ms. Smith stated she started working on actually implementing updated policies and procedures to reflect the new accounting system but I never had the time.

Chairman Purpera asked does it concern you as the administrator that if a credit card statement comes in and you don't have detailed receipts? Ms. Smith stated she disagrees with that finding because the lady that works in accounts payable, she'll chase you down for the receipt. We have to get purchase requisitions and each department has specific people that can go into our computer system and do a purchase requisition. It is not a written policy, it's just the way we do it and by 2018 I wanted to have all these policies and procedures updated. Chairman Purpera restated it's not a written policy just a practice of what you do. It's possible that when the auditor pulled transactions and 12 out of 25 were not approved by a person other than the initiator that was right? Ms. Smith stated I wouldn't think so because everything goes through our computer system. Each department has specific individuals within that department that can do a requisition then the requisition has to go to the department head for approval. Once the department head approves it, it goes to our purchasing agent who actually issues the purchase order number. So our computer system doesn't allow it to be done without the proper approval.

Chairman Purpera asked if she provides a budget to actual to the council every month. Mr. Smith responded I tried to. I will say there are months it doesn't get done because we are behind. I like to know everything's accurate and all the accruals have been made. Mayor Perez stated when she was on the council they didn't receive them at all. Ms. Smith stated in 2015 when we came in, we had a whole new computer system and it was a mess and we were trying to learn how to use the system. So as they become available, I will give them to the council once I feel comfortable with them.

Ms. Smith stated the page we provided gives a history of the fund balance of the general fund. The last time it was positive was in 2006 and then it became positive in 2015 when this administration came in. I think that's a significant improvement on our part being that it operated at a deficit every year since 2006 to 2015 and I just want it to have that history on there so you could see the improvements that have been made. Mayor Perez stated its baby steps, we used to ask on the budgetary anticipation loan for \$1.99 million and now we only asked for \$950,000 or \$750,000. We only draw what we need and it's paid off in a timely basis. It's already paid off this year. We don't ask for the max that was in the past and that's why we continue to have a deficit now. It's not favorable because services and things aren't provided and streets aren't paved. Our tax dollars for the City was based off of 25,000 people and our population as of 2010 was 12,232 people. So you had a city that was

25,000 people whenever it first started and it's never been that in our lifetime. Everybody says Bogalusa *used to* - that's the number one word *used to*. The tax base has dwindled, the taxpayers are uneducated on the matter, they're tax weary and tax leery. We have tried to educate them and tell them and show them how we are not going to be able to continue these services like a police department or fire department if we do not pay for those things. It's not just about retirement and that's what the citizens took it as - we are not paying somebody else's retirement. They don't think of it as an obligation.

Mr. Stiles asked if they have updated the process and are now reconciling the ledger for utilities collections. Ms. Smith stated the accounts receivable for utilities was reconciled last year, I'm hoping that finding will be gone for 2018. The problem is we have two separate systems. We have our utility system which is where it does the bills and the collections and then our financials where we do a journal entry to post the revenue. Mr. Stiles asked what utilities they are collecting for. Ms. Smith responded water and sewer but garbage is a pass through. Mr. Stiles asked is the water metered and do you think you've squared this up in 2018. Mayor Perez responded yes to both.

Mayor Perez said that the FEMA finding has been there since Katrina for overpayments. It was \$936,000, we got them down to about \$236,000 and now in good faith we are paying GOHSEP \$1,000 a month to get upright with FEMA. We had two floods, one in 2016 and 2017, and our City paid out of pocket. We have a lot of past mistakes that were made that we are trying to correct.

Mr. Stile asked if she was going to make 16 employee layoffs. Mayor Perez responded some of them have already been done but because we are a marginal city, you got people who are going to have to relocate. It hurts our economy, so we have done it in phases. Mr. Stiles asked for the size of the police department and fire department. Mayor Perez responded I have 29 in the police department and 31 in the fire department.

Chairman Purpera asked what right size government looks like for your City and have you studied with the Louisiana Municipal Association's (LMA) help what it should look like. Your police department has 29 employees but is that common for a population of \$12,000. Mayor Perez responded we have as many streets as the City of Metairie. Despite the dwindling population, the city size and the footprint has not shrunk. Chairman Purpera asked if the fire department in the same situation. Mayor Perez responded it's the same. Because our fire departments are used as voter booths and the state's arguing with us on whether or not we can close one because there's three and we could downsize to two.

Chairman Purpera asked if she has looked at any other alternatives. Mayor Perez responded with the new council, I believe that the public today is now more educated on this matter. I think the citizens know that you won't have a dog catcher or you won't have these things that are considered a luxury. If you put stuff out on the side of the road the City can't just come pick it up, you're going to be charged for it. We're not paying for our services. The cuts aren't favorable but they have to be done and we've made those hard decisions. The streets aren't going to be improved because we're not paying for that either. When the tax failed in December, we started the cuts in January.

Chairman Purpera stated this is not a new situation and it has existed for quite some time, changes needed to be made 10 years ago. Mayor Perez responded yes sir.

Ms. Smith stated when this mayor came into office in 2017, she had a meeting with the retirees and the current people in the retirement system and addressed the problem. We were originally concerned with getting the general fund out of the deficit. It had been in a deficit since 2007. That was one of the big things we wanted to fix and we have managed even with the flood in 2016 to stay positive. Chairman Purpera stated I don't doubt you have a problem that has existed for quite some time. It sounds like you need help.

Ms. Gloria Williams-Kates introduced herself as council person for District A and formerly president of the Council and served on the finance committee for 2018. She thanked Mr. Cryer and Mr. Cole for working with the finance committee. Ms. Kates said she is elated of the APU's going on across the state because of its checks and balances. I did corrective action plans on the findings. In January of 2018 our finance committee reached out to the LLA to see exactly what is the role of the council because these issues has been part of problem for Bogalusa for over 20 years. The corrective action plans indicated that the council members were responsible parties, so something had to be done to clear up these deficits within our City. As a result, we reached out to see what our role would be provided we could get the accurate reports to make decisions. Some of the ideas range from looking at the occupational licenses within Bogalusa, we discovered people had not paid their occupational licenses. We looked at employees being paid overtime but we did discover there was a decision based upon FEMA paying them. We pulled taxes from 2000 to current to see which taxes would be more susceptible for dedicated funds. We discovered that it was three taxes which were the 3 mils in our general fund, the 1955 tax and the industrial park. These were the idea taxes. Two of the taxes passed but one tax was voted down which was missed by 28 votes. You understand exactly where we are and my plea today is that whatever you decide for the betterment of our citizens, I'm good with it because we need help.

Chairman Purpera asked Ms. Kates if during her tenure on the council did she regularly receive budget-to-actual financial statements at the monthly meetings. Ms. Kates responded not regularly but Ms. Smith attempted to get them to us but we received them every 2 or 3 months. Chairman Purpera commented that the Council did not have the information available to make informed decisions. Mr. Kates shared that there were times that she did a public request for expenditures and revenues when the finance committee tried to check the balances. Chairman Purpera asked what do you mean you made a public request. Ms. Kates responded there's a public request form that we have at the City of Bogalusa. Chairman Purpera stated but you're a council member on the finance committee and you don't have the data that you need to make good decisions. Ms. Kates responded yes, my first term I used to pay for them, but our City attorney indicated that we were council members and doing council research.

Mr. Henson asked do you recall when the council was first notified that there was a funding issue with the retirement system. Ms. Kates answered that in the CPA's report, the findings indicated there was a funding issue with the retirement system and within the corrective action plans and monitoring documents. Mr. Henson asked if she had discussions with the actuary. Ms. Kates responded no, but I did a public request for actuarial reports. Mr. Henson asked did you have it summarized for you so you could understand the significance of a 17% funded system. Ms. Kates responded not by an actuary, I just received the reports. She asked what is the average for funded systems. Mr. Henson responded 100% is desirable that means your system is fully funded and you don't have any unfunded accrued liabilities and you're paying all your current benefits and you have sufficient assets to pay future benefits. State systems are between 60 and 70% but the most important thing is that you're funding percentage is on the increase not on the decrease. Bogalusa is 17% and it's falling every year. The testimony we heard earlier by perhaps 2023 there's not going to be sufficient assets in the retirement system to write checks to the people who have retired and there's not money in the general fund to pay those benefits either. So I am concerned about the retirement system. Ms. Kates responded I agree with you. Whatever decision you make that will help us, our City, our mayor and our citizens more importantly, because it is a moral issue and they deserve their retirement. Mr. Henson stated this situation is going to require difficult decisions and some service reduction and additional revenues to solve Bogalusa's problem, but the sooner we get started the better off the citizens will be. Mr. Henson thanked Ms. Kates for her service.

Ms. Oneida Graham introduced herself as City Council Member for District C, saying she took office in January and Chairman of the Finance Committee. We are willing to work with a mayor and with you if you appoint an administrator. We just want to see something done with our City to get better and not keep putting it off. I got a list of employees that were hired and terminated since 2017, 2018 and 2019. It looks like we're working with 34 more employees than we were in 2016. The council can't work if we don't have financial

information. We tabled the budget for 2019 because we just came in and we had the election for the revenues the month before, so we asked the administration could we get those tax results included in the budget so we didn't have to come right back and amended it again. As of now, we still don't have it. I was told that nothing was going to be done till the hearing today on that budget. We have no written financial information at all for the committee to do anything. We want to work with this committee, the mayor and the administration. We just need something done in our City regardless of who does it. And sometimes I wonder if we've really got the backbone to do it ourselves.

Mr. Stiles stated we really do not like to appoint a fiscal administrator because I feel like taking ourselves away from the democratic process because you all have been elected to operate the City. But we're looking at a pension fund problem and it's beyond dire straits at 17% funded. If we would choose to do so, it's not really a reflection on the current council or what you are doing or what you're trying to accomplish.

Chairman Purpera asked if the City is operating with 34 more employees today then in 2016. Ms. Graham responded I took the number of employees that came on board in 2017 and 18, I took off all those that were no longer with the City from 2018 and 2019 until the second week of February this year and it comes up to be 34 people in that time we hired that we didn't let go. Chairman Purpera asked if Mr. Cryer had any data on that. Mr. Cryer responded no, I don't have a trend for those figures.

Chairman Purpera asked Ms. Graham as a council member if she felt that she has not received the proper financial information to make informed decisions. Ms. Graham responded yes if the information is there they can't do their job if they don't provide it and we can't do anything if we don't know it. I'm not putting down on them because I understand that they're working short-handed and they're working hard and I've had a lot of things to do all in a short period of time. But it is the end of February and we still don't have anything.

Chairman Purpera asked Mr. Freddy Smith with Postlethwaite and Netterville if he was the auditor of the City now?. Mr. Smith stated we compile the City's financial statement and provided some assistance to Mr. Nielsen in performing his audit. Chairman Purpera asked from your perspective from doing the compilation is there anything you could add. Mr. Smith responded you asked when the pension system issue came to light. We began assisting the City with their year-end financial reporting process around 2010. The underfunded status of the pension plan was reported by a local CPA and it's been a finding ever since. The action that periodic band aids have been placed upon the situation but there's been no significant effort to right the ship. I'm glad to see that that issue is coming to the forefront and really being addressed. I will echo what Ms. Smith said in that there have been efforts made to improve the financial condition of the City. The general fund which they operate out of had a negative fund balance and they have since remedied that to a positive fund balance. They have made some efforts to make some strides but still have some ways to improve their financial condition.

Senator Beth Mizell for District 12 expressed her appreciation for the oversight that has been provided because a lot of these problems have been there for a long time. We've been making promises to people who've worked for the City of Bogalusa and the citizens of Bogalusa that there was going to be a retirement waiting for them at the end of their career and we've got to ensure that promise is kept by the municipality that they've worked for.

Representative Malinda White stated she lives in Bogalusa and is invested in the area. She's concerned with the issues that are not new. We appreciate any efforts to get us in the direction that we need to go with the assistance of an administrator. Or with helping our mayor and her team to understand what they need to do to right the ship. We're supportive of whatever you decide and we're going to work with them. We want to bring our City back to a stable place where we can assure that they do have retirement and that we settle a lot of the issues that we've had.

Chairman Purpera asked for any public comment. Mr. Thomas Kates, a former city councilman from 2002 to 2006, said that this issue was brought to me when I first got elected, however the policy of Bogalusa is keep your mouth shut. They don't give you information. I did not follow the policy and I wasn't reelected. My wife was elected in 2014 to the same seat. She approached the policy in a different manner than I did. She does a lot of research and had facts to back up her stories. She pleaded to the current mayor during her first term. The current mayor was on the finance committee for two terms. My wife is being persecuted because she's trying to help the City come out of debt and get stable and get these people their retirement. Ms. Gloria Kates is a good person and they're trying to blackball her. The current mayor beat down those taxes because it was Gloria Kates' idea who was chairman of the finance committee.

Chairman Purpera stated the auditor's office has worked with the City since 2013. We have worked with the current mayor, the previous mayor, the current council, the previous council. We've attempted to mentor them through these issues over the years, including all the more systemic issues of the underlying governance problems. Is there a legal obligation that's been defaulted on? Retirement is a legal obligation that's not being met. We have these systemic issues and the appointment of a fiscal administrator would only serve to assist the City in accomplishing what it needs to accomplish. Chairman Purpera made a motion to appoint a fiscal administrator but I'll wait if the committee wants to hear the actuary report from the current actuary.

Mr. Stiles commented that he did not know that the actuarial tables are going to tell us anything that we don't already know unless Mr. Cryer has some believe that it may say something different. Mr. Cryer responded the one factor that we know that will be changing is those rededicated taxes will be added to the revenue stream that would be supporting the system and that part of that gap that was missing before will be filled with those rededicated taxes but we're not sure how much. Mr. Stiles asked does that get us just to the current employees or does that cover the future payments? Mr. Cryer responded when the taxes were rededicated to reach the gap the actuarially required contribution was roughly \$95,000. When the actuary comes out with their new report this year that number may change depending on what assumptions they're using. They are about \$100,000 from starting to go positive based on those original projections from the tax propositions. Mr. Stiles stated I feel like there're looking for help and Ms. Graham said you want something to be a certain way and everybody wants it but somehow it just never gets there. I think it would be beneficial to help them get there and I don't think that's a reflection on anybody that's currently in office. The auditor said it's been since 2010 and maybe even before that we first knew about these issues and it's not moving in the direction that we needed to move fast enough. Mr. Stiles said he hopes this could be one of these fiscal appointments that we make that goes in and can occur in a rapid movement because you're just looking at this retirement fund and I think you already have made a whole bunch of improvements and movements in the right direction. I think that a vote yes here is going to help move that along and get that done in a more rapid and efficient fashion. Mr. Stiles said I will support your motion.

Mr. Henson also voted yes for the motion. Chairman Purpera stated that the law calls for a unanimous vote, then this committee will ask the Attorney General's office to ask the courts to appoint a fiscal administrator.

Mr. Henson stated I'm in full recognition that improvements had been made in Bogalusa and additional things are being proposed to further improve the situation but in my judgment the retirement system can't wait. I reiterate, we take no great joy in appointing fiscal administrators but I believe it's justified here. Bogalusa needs some help that why I voted yes. I would like to request that we invite the actuary to come before us to get some idea from him about the effect of the rededications, to see exactly where we are with the retirement system, what needs to be done and if he can suggest a path going forward that we can resolve this situation with the retirement system before becomes insolvent.

Chairman Purpera stated the Committee will ask the Attorney General's office to ask the courts to appoint a fiscal administrator for the City of Bogalusa. Mayor and council you have the opportunity for due process in

the courts. If the courts do appoint a fiscal administrator, we strongly encourage you to cooperate as much as possible with that individual, it'll save you money in the long run, it keeps you involved in the process, you have institutional knowledge that that individual would need and it'll help the citizens in the long run.

Ms. Gloria Kates said she would like to make a correction that she did not alone attempt to make a resolution and it was the council, entire finance committee, myself, Ms. Tamari Smith, Sheri Fortenberry and Doug Ritchie. We met with the auditors.

IV. TOWN OF CLINTON

Mr. Cryer said the LLA has only been involved with the Town of Clinton (Town) very recently based on concerns with the water system. As of February 13, 2019, we have not received an estimate of the cost to repair the water system. We have also not received a rate study to assess the rates necessary to sustain utility operations, although we have advised the mayor to request such a study. We do not have an estimate of the cost of the corrective actions that would be required by the Office of Public Health (OPH) under LDH. The information does not include some of the major issues dealing with the water system.

The corrective actions that are taking place with LDH, looking at what needs to be done with engineers, looking at the cost of repairing or replacing equipment, looking at the long-term viability of the water system those assessments are being made right now. The picture that we're going to provide here today does not include what the cost of this water system repairs, replacement or upgrade are going to be because we just don't have a baseline yet whether that'd be \$100,000 or something much larger. I want to talk about where the normal town operations are outside of the water system issues.

Chairman Purpera asked about the cost of the water system repairs. A new system costs maybe \$10 million and after operating it for 10 years, it's going to deteriorate during that time if you don't continue to keep it up. There are numerous current issues dealing with the Town's water system. Is there some reserve funds set aside to pay for those necessary repairs? Mr. Cryer responded nothing has been disclosed to us. The rate structure for Clinton is \$13 per the first 2,000 gallons. It's very low compared to other municipalities. The Town is not covering its cost of operation which includes that depreciation costs on the backend. So once the engineers come up with the estimate of what it's going to take to fix it, the Town does not have money set aside to replace or repair that equipment itself. They would either have to fund that out of their current budget or bond it out or go to the state for some type of grant or other types of funding source to try to fix those problems.

Chairman Purpera asked if the Town is currently paying all of its obligations, or has it defaulted on any obligation or will the Town in the future not be able to pay its obligations? One obligation it does have is to continue to maintain the water system that can present clean potable water for its citizens.

Mr. Cryer stated utility rates in Clinton have not been increased since 2012 and the unaudited utility fund figures as of December 31, 2018 reflected about a \$48,000 loss not including depreciation. It's a cash flow loss and depreciation is on top of that. The Town's not covering its actual utility cost. Base rates begin at \$13 for each residential water and sewer connection. The utility funds adopted budget for 2018 reflects revenues equal to 2018. They're looking at this year's projection being the same as last year for the revenues but the expenses have been decreased in the budget by roughly \$65,000. This does not reflect a water operator that was hired for \$84,000 a year or the cost of repair and replacement of the water system. A budget was passed with a reduction in expenditures and a few days later because of actions taken by OPH and requiring a certified operator to run that equipment, they added on another \$84,000 per year cost to fund that operator.

The general fund unaudited figures as of December 31, 2018 reflect revenues and expenditures approximately \$1.1 million each for a net income of \$43,000. These figures are coming from the contract accountant that's

doing work for the town. The general fund adopted budget for 2019 reflects revenues consistent with 2018 but with expenditures decreasing by approximately \$225,000, so they are cutting back on general fund expenditures for this year. The budget does not include the repayment of funds improperly borrowed from restricted sales tax funds by the general fund or utility fund in the past year which totaled \$112,000 and \$31,000 respectively. It also does not include the repayment of \$125,000 borrowed by the utility fund from the general fund. There are some outstanding obligations between these different funds that are not factored into this year's cash flow or operations.

Although the Town has experienced some cash flow problems from past years there was an increase in ad valorem taxes this year. For the last two to three years, talking with the contract accountant, the Town has managed to get by with its cash flow, they've squeezed by, they've paid their bills. This December when the Town received its ad valorem taxes, they found out they had received more than twice as much as they had in prior years because there were four large companies that moved into the parish and are now paying ad valorem taxes. As of December 31, 2018 a lot of bills that had been accruing for number of years, a lot of those cash flow problems have been resolved because these companies have relocated to the parish and started paying taxes in 2018. During 2018, the Town has been able to repay outstanding payables including IRS taxes. On January 24, 2019, the Town represented that it had approximately \$240,000 in cash. The outstanding payables four days later had been reduced to approximately \$37,000. The Town has been very fortunate that they received a windfall on ad valorem taxes that more than doubled the tax base. They've been able to catch up with outstanding payables and pretty close to zero on the amounts owed.

Cash flow projections, not including the water system, provided by the contract accountant show positive cash flow of \$35,000 for 2019. Our figures show a slight deficit during the year based on the \$84,000 water operator contract and some differences in bills that we have with the contract accountant. Cash flow for the year is going to be fairly stable and will not go negative. This is all without any consideration of what has to be done to fix the water system.

Additional details about the water system and corrective actions from OPH include that the Town has only one operational well. OPH issued a letter on January 9, 2019 reporting the results from its January 7, 2019 enforcement survey and gave the town of deadline of January 17, 2019 to fix the water problems including 18 unresolved efficiencies from August 31, 2018, as well as four new deficiencies. On January 17, 2019, OPH ordered an administrative order based on a data audit conducted for the period January 1, 2017 through January 7, 2019 looking for any noncompliance with state primary drinking water regulations. The order provides that if the town fails to comply with any provision of the order the state health officer can assess a penalty up to \$847 per day for each day the system's not compliant. Further the order states the matter could be referred for civil action to a court and the court may impose on the town a civil penalty not to exceed \$3,000 per day for each violation or each act of violation.

The deadlines that have been laid out in that administrative order:

Within 30 days of receipt, the town should take seven specific remedial actions, one of which is to hire a certified operator. The town has now hired a certified operator, which is Thornton, Musso, Bellemin, Inc. at a cost of \$7,000 per month. That's the \$84,000 that was not in the budget that's now being paid by the town.

Within 90 days of receipt, the town has to take fives specific remedial actions, which includes having a professional engineer conduct an evaluation of the system to determine corrections and repairs needed to bring the water system into compliance with state and federal regulations and to return it to operating as designed and permitted. That's been happening within this past week.

We don't have numbers to know what that costs to replace is going to be but depending on how fast they can do that assessment we could have them at any time.

Within 90 days of receipt of approval of a cross-connection plan that ensures the system is protected against potential contamination backflow, the town is to take action and submit documentation to show the water system is now complying with the timeframe specified.

As of July 31, 2019, the town is to complete construction and repairs to return the water system to operating as designed and permitted.

No later than August 10, 2019, the town is to submit documentation proving such.

The Town is looking at what that cost is going to be. The engineers are looking at it because the rates have not been adjusted for the utility system since 2012. We have asked the mayor to reach out to the Louisiana Rural Water Association (LRWA) to have them look at a rate study to determine not just what the Town needs to pay for its water system operations going forward, but also the amounts that need to be set aside to cover the depreciation, to cover the replacement cost on equipment and what is viable to keep that system operating long-term. So because we are replacing equipment at the same time that you're trying to do a rate survey based on the existing operations we are in that gap where we just don't have a good picture of what that cost is going to be for this upcoming year.

Chairman Purpera asked if currently any debt such as bonds or any other establish legal obligation that the town is currently in default on. Mr. Cryer responded no, they have met all of their payments for all debts and our projections show they will continue to do so throughout this year. Chairman Purpera asked based upon the cash flow projections there is not an immediate threat that a debtor is not going to get paid. Mr. Cryer responded that's correct.

Chairman Purpera noted the Town has severe water issues and asked if they have sufficient reserves to make repairs. Mr. Cryer responded that when we looked at the projections being provided by the contract accountant, they had used the figure of \$150,000 as just a number from the air and put that into the estimates. At that level, \$150,000 a day will cause cash flow problems in a couple of months. The margin that they're operating on does not include that large of a margin to pay bills. They would cease being able to pay their bills mid-year because of the cash flow problem.

Chairman Purpera asked for the Town's current water rate. Mr. Cryer responded \$13 for the first 2000 gallons. Chairman Purpera asked in his experience with water systems around the state is that considerably lower than most water systems. Mr. Cryer responded is lower than most that we had been involved with. There was only one that we've approved that I can remember that's been lower than that. Chairman Purpera asked if needed then there is some ability to raise water rates to cover some costs without going above what would be a reasonable amount of cost per thousand gallons of water. Mr. Cryer responded that is correct. Chairman Purpera restated that the Town's water system had a \$48,000 loss in 2018 and the projected loss for 2019 would be \$84,000. Their budget is a zero budget, revenues equal expenditures but then you have an \$84,000 water operator that's not in the budget. Mr. Cryer responded the utility fund adopted budget 2019 reflected the same revenues as 2018 but expenses decreasing by \$65,000, so they're expecting less expense. So with the \$84,000 being added on to that gives a net difference of negative \$19,000 assuming the budget is not amended before then. Chairman Purpera asked for the population of the town. Mr. Cryer responded 1,653 is the current population.

Mr. Stiles asked for the outstanding bond obligations for the Town. Mr. Cryer responded according to the statement of net position they have bonds payable due within one year of \$84,000. We have a long-term

portion of \$367,000, so roughly \$450,000 outstanding. Mr. Stiles asked what are the total annual debt liabilities of the Town. Mr. Cryer responded total liabilities are \$1.2 million, total assets are \$3.1 million but part of that's restricted capital assets. The unrestricted portion in the net position was roughly \$636,000 but that also includes a pension fund liability for one of the statewide pension systems of \$524,000, so nearly the entire amount of the unrestricted net negative position is due to that pension fund liability. Mr. Stiles asked if the infrastructure is entirely owned by the Town or any of it lease or any of it owned by a different group or different political subdivision. Someone in the audience responded it is owned by the Town. Mr. Cryer stated there have been no large capital assets added to the financial statements at least for 17 years.

Chairman Purpera asked Dr. Jimmy Guidry and Ms. Amanda Ames to give some insight regarding the water system. Dr. Jimmy Guidry, State Health Officer, stated attention has been around the operation of the system and the ability to have backup. It got my attention when I saw that we weren't paying attention to the amount of disinfectant nor did we have a backup well that was operational, so if they lost the only well that was operating they would be without water. That to me was a public health emergency waiting to happen. We actually did a survey and did an administrative order to get the attention we needed to get this addressed. The administrative order gave the town 30 days to comply. It's an ongoing process and there are unknown costs but it does seem workable.

Mr. Amanda Ames, Chief Engineer for LDH, stated there were seven items in our administrative order that were due on Saturday and I did receive a response from the Town on our administrative order for the first 30 day items. We have to confirm a couple of those items in the field but it looks like they have complied with the majority of those items. They did hire a certified operator so their chlorine residuals are being maintained in the system. We have a state minimum level of 0.5 milligrams per liter disinfectant and they are in compliance. Their operator also has the correct certifications for that system. They have on their agenda at the council meeting to adopt an ordinance that would give them a cross connection control program which if the water system doesn't have that plan in place they may not have the right backflow prevention items on customers that might pose contamination to the system. They are moving forward with compliance and they have responded to us on those items. Until we get the evaluation from a professional engineer, we won't know the extent of what the repairs might need to be in the infrastructure.

They currently are only operating with one drinking water well, but they do have two other wells in the system. A well driller is scheduled to come out and let us know if there are repairs that can be made to the Taylor Street well and how much that would cost. They also have the Town Hall well that is functioning but the Town inactivated that well a long time ago. We are going to take samples from that well this week and see if it meets all the standards. If it does then they might actually have a second source without having to drill another one.

Mr. Henson asked if the certification of one of these two other wells is given that would be a sufficient backup resource that could service the entire 1632 citizens. Ms. Ames responded depending on the flows in the system it would count as their secondary source. They may be able to alternate their use which will give more life out of the wells, so that would work.

Mr. Henson asked how many of the 22 deficiencies have been corrected as per the Town's response Ms. Ames responded the actual administrative order had 15 remedial action items. Out of the 15 in the order there were seven that needed to be complied with in 30 days and they responded on all of those seven. However, we still have to verify that, so we'll have a completed report sometime this week. Mr. Henson asked if eight have not been addressed to yet. Dr. Guidry replied there's more time for those because they're phased in. Ms. Ames commented that the Town is actively moving forward toward compliance with some items outside the 30 day timeframe, for example, a flow meter has been ordered and their well driller is schedule to look the Taylor Street well.

Mr. Henson asked if the Town is timely addressing Dr. Guidry's concerns in your correspondence and findings. Dr. Guidry responded I'm feeling comfortable that we're getting movement that we want to see. The rates are too low to maintain the system but there're enough customers if they charged an adequate rate, they could maintain the system going into the future. Cities are not maintaining or using funds for the system, they're using them for other needs. I would like to see what it's going to cost once there's an engineering evaluation and see if they're going to be able to afford those costs. There's some room to get some more funding, either through a low interest loan or an increase in rates but if you're not paying for the cost of maintaining a system, it's going to fail. I want to reserve a judgment based on what the engineers find that need to be fixed, whether these wells are going to need major improvements because that could be quite costly.

Mr. Henson asked Mr. Cryer if there were sufficient reserves if the repair costs are significant. Mr. Cryer responded if they are significant there's no money available right now. Mr. Henson stated you also cited the possibility of a rate structure adjustment. Mr. Cryer responded that's correct. The LWRA will look at how many customers you have, what the volume of use is, the costs that are outstanding and try to come up with a structure that's going to work not just to cover your operational costs but also the flexibility to work within a certain margin based on things that come up as well as the replacement cost of equipment. They build into those rate structures a reserve of assets to have ability to replace equipment over time. We have recommended to the mayor to make an official request of the LWRA to get all the pieces in place to do that rate study.

Mr. Henson asked Ms. Ames when will the engineer do the assessment of the equipment. Ms. Ames responded she was not sure if they've hired a professional engineer yet. The well driller is going to evaluate the existing well tomorrow. Mr. Henson asked if the quality of water at an acceptable level currently. Ms. Ames responded yes based on our current sample results, they meet the regulations on water quality. We began taking monthly samples a few months ago. Also, they are required to record their chlorine residuals every day. The data shows that they meet compliance.

Mr. Henson asked Dr. Guidry assuming there are issues that must be fixed, are there financial assistant programs available that the town can apply for that would help them take care of this in a timely fashion. Dr. Guidry responded there are low interest loans with USDA and with the state through the EPA program but they have to qualify. They are very few grants that they just give you the money so you have to be able to pay back the loan. It's a possibly you can get a low interest loan if you can assure a rate increase will pay for that loan.

Mr. Stiles asked Mr. Cryer for his opinion if the town increases its rates, since they are below market average, would they qualify for a bond or a loan to repair the system. Mr. Cryer responded based on the history with other towns, for example, Melville qualified for a \$1.2 million dollar loan through USDA which only cost an extra \$14 per connection based on their population. So whatever the magnitude in Clinton, which we don't know yet, those loans have certainly been available to other towns and I don't know why they would not be available to Clinton in this same situation.

Mr. Henson asked Mr. Cryer if the 2017 internal control findings concerning general ledger utility accounts, the receivables and the billings not matching up and an internal control finding on inner fund receivables and payables not being reconciled has been corrected. Mr. Cryer responded they had not gotten into that during their financial assessments and he was not sure if they had been corrected.

Mayor Lori Bell thanked the committee for trying to help the Town.

Attorney Niles Haymer said he represented Mayor Bell in an individual capacity and he is not the Town's attorney. Mr. Haymer said that Mayor Bell has been arrested and is facing prosecution on charges of malfeasance in office but we believe that there has been no criminal violation. Because the mayor is facing

prosecution, she is unable to answer questions. I'm instructing her to give a statement based on the report that we've heard. She is proud of the fact that the Town has made progress and she is a fighter for the Town.

Mayor Bell testified that on the administrative order the seven deficiencies that had to be addressed within 30 days have been addressed. We have contacted the LRWA to get a rate study done to increase the rates on the water system. I spoke to the engineers about getting funding from the Office of Community Development in the amount of \$19,000 to help us when we get the diagnosis of the well and what it's going to take to have it repaired. I think we are moving forward to make sure that the residents have safe drinking water.

Chairman Purpera asked Mr. Tim Butler, the Town's accountant, if he was aware of any current obligations that the town is in default on and did he perceive that the town would not be able to pay for any of its obligations in the next 120 days. Mr. Butler answered no to both questions.

Chairman Purpera stated the mayor has contacted the LRWA and there is some room for rate increases to meet any potential additional obligations that might exist in the future that we should be considering.

Chairman Purpera asked about the Town's AUP engagement if there are any material issues that you know of, policies, procedures, internal controls, basic governance that's not being accomplished properly. Mr. Butler answer the only one that I can think of is the collection of money for the utilities but it a small group. Chairman Purpera asked if there are written policies and procedures concerning collection of utility revenues. Mr. Butler answered not that I'm aware of. Mr. Cryer stated they do have written policies and procedures for all those areas. Chairman Purpera asked are there cutoff procedures if someone doesn't pay their bill. Mr. Butler answered at 45 days.

Chairman Purpera said that the Town's board minutes did not reference monthly budget to actual comparison and the Town's funds did not show a fund balance deficit for any of the funds. He asked if the board is receiving budget to actual comparisons currently. Mr. Butler responded the budget to actual is not on a monthly basis but upon request maybe twice a year that was produced. The financial balance sheet and profit loss statement was given each month. Chairman Purpera asked is it something that's hard to produce or is it because of the accrual nature. Mr. Butler responded it's because of the accrual nature.

Ms. Kim Young, Alderman and Finance Chairman, commented that they can get any information needed upon request. Chairman Purpera asked if she felt like the town council and the finance committee is fully aware of the current financial situation now that you have a potential budgetary loss of \$84,000 plus in the water system. He asked if she was aware that the Town will have expenditures for the water system that will require additional revenues to meet those expenses because of the current loss. Chairman Purpera asked if she believes that the administration is favorable towards making the rates where you need them to be in order to accomplish what you may have to accomplish. Alderman Young answered yes to all the questions.

Mr. Stiles asked Mr. Butler who reconciles the utility books and looks at the usage invoice payment. Mr. Butler responded Ms. Sharon handles that up front. Mr. Stiles asked Mr. Butler and Ms. Young if they know of any policy that the Town has to produce a reconciliation of usage, invoice and payment. They responded not that they were aware. Mr. Stiles asked if any independent person goes back and reviews that system, outside of Ms. Sharon, to make sure that we have controls on that process. Mr. Cryer commented that the auditor noted in the AUPS that there is a formal process to reconcile those collections done by someone who is not responsible for the cash collections. There's an independent person involved but not sure which person.

Mr. Henson stated that the Town of Clinton provides water, sewer and gas. Electricity is provided by Demco and Entergy. There are not sufficient reserve funds available for any capital needs in the water system, what about sewer and gas? Mr. Butler responded there are none. Mr. Henson asked about the conditions of the

sewer and gas distribution systems. Mr. Butler responded it's 70 plus years old, the Town definitely has a need for infrastructure. Mr. Henson asked about leaks and outages. Mr. Butler responded the Town's maintenance foreman gives a report at each monthly meeting and it about 20 to 30 leaks a month that need to be repaired between the gas and the water systems and we are able to handle that with our available resources. Mayor Bell stated the Town is in the second phase of a sewer rehab project because some years ago we received around \$1 million and we are moving forward.

Ms. Mary Dunaway, Town Alderman, shared her concerns about the budgetary status of the Town. We passed the budget being given information that we can always amend the budget which is imminent now. We have hired TMB to work on our water system for \$7,000 a month. The budget does not include any expenditures or any money set aside for capital gains or any other expenses or maintenance and we have no extra cash flow available for those situations. In our budget shown as income is money that we talked about collecting from past due warrants on tickets and other fines and we've been trying to work on a contract with this AMS to help us collect these past due warrants but it is not working out. I feel that the budget is skewed because it has \$203,000 proposed dollars that are not coming in. We owe our sales tax fund \$125,000 that was dipped into the last year several times in order to pay bills and has not been included in the budget. Mr. Butler explained it is \$143,000 between the utility fund and the sales tax fund. Mr. Cryer said that was owed by the general fund utility to the restricted funds.

Alderman Dunaway said that the Town had two CDs that were cashed out and those are the only CDs we had. We have no other cash on reserve to handle any other problems. As of this morning, the telephones are off at town hall, not sure if that has anything to do with whether or not we could pay the bill. At least since September we've had many months, if not every month, of bills that we could not pay. I ask for a list of current past due bills last week and I was told that we don't have any past due bills right now. My thought is that maybe the monies that came in from the ad valorem taxes at the end of the year were used to finish paying up all of the past due bills, so a lot of the money that looks like it's going to be coming into our budget has been spent already. The electric bill has been passed due on the well on several occasions. So a concern of mine is that we are having trouble meeting our monthly bills and now we're finally caught up- where did that money come from? I want to make sure that we move forward with a real budget with real numbers and I'm not sure that we are there. I agree with increasing the rates for our utilities; however you have to assume that all of your customers will pay their bills. It's hard to base what you think is going to come in when you have many customers who do not pay. I just want things to move forward with the Town, whether it's with a fiscal administrator or not, but with true numbers, a true budget.

Mr. Mark Kemp, Town Alderman, testified that the Town does have some policies and procedures but they do not adhere to them. Customers should be cutoff for lack of utility payments but they're not. I don't know the dollar amount of what is past due but that is an area that needs to be addressed. For us to give services and to keep our utility systems up and running, we need to address and collect payments from past due accounts. I received a call last week concerning insurance. The Town pays 100% of the medical health insurance, our employees can elect to pay dental coverage or spousal coverage and one employee has received a letter from the dental that are being canceled because of lack of payment. It has happened several times. If they're withholding premiums from someone's check then they need to remit those premiums. Only recently have we been able to get information from Town Hall. Before, I would have to file a public records request and pay for it. We should be given the information that we request to help us run the government. I made a motion and it passed that the council be given check registers written throughout the month and last month is the first time that we received a list of checks that were written. We should know where the monies are being spent. We need to be sure we know about all the checks written. The finance committee only has two people and is not very active.

Mr. Henson asked if the council has approval authority and responsibility over the budget. Alderman Kemp responded yes. Mr. Henson said so you're telling us that you're asking questions about the budget and

expenditures and revenues over which you have oversight and approval authority and you're getting no response. Alderman Kemp responded yes. We just approved the 2019 budget in January. We should have amended the 2018 budget. We asked for some meetings to be called but didn't get them. Then we were told there was no reason to amend the 2018 budget and only needed to approve the 2019 budget because until it was approved we were operating on 50% of our 2018 budget. Maybe that's why some of the bills did not get paid. When the discussion for the 2019 budget came along it passed but I abstained because I don't think we discussed the budget fully.

Mr. Henson asked who was the head of the council. Alderman Kemp responded there is no head but Mr. Darren Matthews is the mayor pro tempore. Mr. Henson asked have you had a conversation with the administration to ask them why they refuse to answer the council's questions. Alderman Kemp responded that he may talk to the accountant but he can't answer for the mayor and if we addressed a question to the mayor, she may not answer at all. Mr. Henson stated I don't understand how the council is able to conduct its business as required under law without having the fiscal information. Alderman Kemp responded the head of LMA, Mr. Gallagher, came to the meeting and gave us instructions on what our duties were and basically what he said was to pass ordinances and manage taxes.

Alderman Dunaway explained that the budget was never approved last year from July forward when we had some problems that were brought to our attention by our auditor. It was approved at the beginning of the year but there were many times that we needed to amend the budget, from July to December it never happened. We had some special meetings that got canceled because of lack of advertisement time.

Mr. Henson asked what authority were the funds expended if the council did not approve the amended budget. Ms. Dunaway responded that has been our complaint all along is that nothing came across our desk financially for us to approve, to pay anything. Starting this year there's more cooperation. We did get a phone call to ask for a vote on how to pay for Mr. Thornton's services to deal with the water situation and that's the first time I voted on anything financial. Expenditures that were going out of the office, we did not ever see them. The public would ask how do you have money going out of here that you don't know about. I don't know how to answer that other than I don't get to see it. When 2019 started we never amended the 2018 budget because you can't fix what's already passed, so we just start with 2019. I believe that some of that money that we collected for 2019 was used to pay off 2018 to make that look a little better and I think that puts us starting off in a hole, in addition to things that are in the budget that aren't accurate. Mr. Henson thanked Alderman Dunaway for her candor.

Chairman Purpera commented that the 2016 audit had a finding that the Local Government Budget Act was not followed from the perspective of amending the budget whenever it exceeded revenues or expenditures or different by more than 5%. It also appears in the 2017 audit, so two years in a row and that happens because the council is not getting the proper information. There's a right system of government and the LLA always recommends that the councils/boards get budget to actual statements every month. So that's what you should be trying to achieve. Alderman Kemp responded we did move our meetings from the second Tuesday of the month to the third Tuesday of the month to give the accountant time to reconcile and to prepare his reports.

Chairman Purpera asked Mr. Butler for his position. Mr. Butler responded that he is contracted month to month with the Town to prepare a financial statement at the end of the month. I help out the town clerk when she's overwhelmed with payroll compliance issues. Chairman Purpera asked if he could develop a package to recommend to the administration that they provide to the council on a monthly basis that would give them the information they need. Mr. Butler responded absolutely.

Chairman Purpera asked if there are cash flow issues. Mr. Butler responded the ad valorem tax gets the Town through the summer months. The issue that the Town got into was two-fold: the flood of 2016 cost about a half

a million dollars which about 85% of that was refunded by FEMA and then one of our large railroad company that domiciled in the Town out of Chicago went bankrupt in 2017. They were giving us about \$180,000 in ad valorem tax and that went to zero, so that was our short fall in 2017. We were on that same path when a couple of extra companies came in and domiciled back in Clinton in 2018 which we had made a recovery for and that was in December of 2018. With those companies that will allow the Town when you look at the full year to make its bills. Depending on the water situation, we could have a money crunch come the summer.

Mr. Purpera asked if he has seen situations where things as important as the energy bill not being paid. Mr. Butler responded we did hit that point in October, November of 2018 where we got behind on employee taxes. We got behind on all of our bills basically but with the influx of money we were able to recover from that. Then the council did not pass a 2019 budget, so in January I advised the Town they can't spend over the 50% and that did cause another issue. Mr. Purpera asked if they have a 2018 budget. Mr. Butler responded we had a 2018 budget and last amended it in July but we didn't have a 2019 budget. Chairman Purpera concluded that the Town's financial condition is not secure and if the Town has significant expenditures for the water system they're going to have to find new revenue or decrease expenditures.

Mr. Henson asked if the council approved the 2018 budget amendment. Mr. Butler responded yes. Mr. Butler commented that the Town has a bond against the fire station but that \$84,000 obligation is actually reimbursed by parish wide fire each year to cover that bond.

Mr. Henson questioned if the new level of ad valorem tax revenues sustainable for 2019 and going forward. Mr. Butler responded yes because East Feliciana Parish has a small footprint on the Mississippi River and shipping companies can domicile in the parish and we're hoping they stay.

Mr. Purpera asked if the Town defaulted on debts. Mr. Butler responded no and did not see any defaults occurring in the near future. But we know that we've got a water system that is likely going to need some significant repairs. We're waiting on an engineer valuation of those repairs, so we don't know whether that number is \$10,000 or \$3 million. Also OPH still needs to go out and do their review for compliance.

Mr. Purpera recommended meeting back again in about 30 days. Hopefully we have these engineering reports and compliance reports and we know what we're dealing with at that time. I think encouragement to the Town would be that you have an opportunity now to begin to change your rate structure to the appropriate rate structure so that you can afford to be putting money away for these kinds of repairs which it appears you haven't done.

Mr. Stiles said he echoed Chairman Purpera's comments and unsure how we can make a decision when we don't know what the engineering costs are going to be associated with any project that may be necessary for the Town of Clinton. Governing is not all that pleasant sometimes but we have to govern in a manner where we have an open process. I'm hearing a lot of dysfunction in the Town's processes. It would be nice for you to come back in a month or two and demonstrate to us that you have maybe changed some of these processes and put things into place that can assure us that there won't be a default because there's going to be processes that are going to protect payments, that money's going to go to the right funds. Also, any infrastructure changes that you need will be managed and properly paid.

Mr. Henson stated he would like to hear back from Dr. Guidry to obtain as much assurance about the quality of water being maintained and/or improved and a report from the driller on that second well.

Chairman Purpera stated he would caution and encourage the Town to do what it should have done in the past and put money in reserve for their water system. But they will wait for the report from the engineer on the costs. I think we're going to hear from other individuals that it would reasonably be expected that you may not be able

to make those obligations. So you have an opportunity to make some changes and we would encourage you to make those changes now rather than later.

VI. OTHER BUSINESS

No other business was discussed.

VII. ADJOURNMENT

Chairman Purpera made a motion to adjourn, and with no objection, the meeting of the Fiscal Review Committee adjourned at 5:04 p.m.

Approved by the Fiscal Review Committee at their meeting on: January 29, 2020

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/2019/feb/0218_19_FiscalReview