Audit/Finance/Facilities Committee

Meeting Notes
February 21, 2019

Members Attending:

George Spagna, Treasurer/Chair
Nolan Blackwood
Kim Gray
Jim Holland
Pat O'Bannon
Canova Peterson

Staff Attending:

Martha Shickle
Julie Fry
Diane Fusco

Others Attending:

Jill Swinger, Warren Whitney

Chairman Spagna called the meeting to order at approximately 1:40 p.m. and thanked everyone for their time and attendance. He said during this afternoon's meeting, members will review monthly financials, revisions to the Personnel Policy, and the fund balance proposals. He asked Ms. Shickle to begin the discussions.

Ms. Shickle said she'd first like to provide a quick debrief on the February RRPDC Board meeting. During the meeting, members directed staff to provide, going forward, both summary and detail versions of the monthly financial report and fiscal year budget reports. She said she would still like for the committee to review a detailed report of the financials. Members of the Board also asked for more information on vendor contracts and passthrough funding. She asked the committee how staff should prepare the contractor listing.

Mr. Peterson indicated he would like to see a summary listing of contractors with total contract amounts and amounts spent to date. Ms. Shickle said details on any of the vendor contracts can be discussed with the committee if needed.

Ms. Shickle introduced Mr. Nolan Blackwood, who is the Alternate Voting member from the City of Richmond. She said during the February Executive Committee meeting, members said given Mr. Blackwood's expertise in commercial real estate, they asked for Mr. Blackwood to serve on the Audit, Finance, and Facilities Committee. Ms. Shickle welcomed Mr. Blackwood and thanked him for agreeing to serve on the committee.

Ms. Swinger began her review of the monthly financial report, which will be included in the March Board packet. She said prior to the packet distribution, she will update the column labels to show percentages for variance and year-to-date budget. She reminded members of the committee that she shows budgeted expenditures at one-twelfth of the total budget and that we are now using the Revised Budget approved at the February board meeting. Ms. Swinger pointed out that due to new transportation staff starting in

January and February, some of the billing for those programs was still slightly behind budget.

Ms. Swinger noted that on line 4130 – VDEM Passthrough Funds – the amount is high due to efforts to spend down the grant prior to the end of the grant period in March.

The amount on line 4410 – Restricted Contributions – will be moved to line 4360 – FOLAR Grant. She said the amounts should be on line 4360 and not on line 4410.

Ms. Swinger said that while Total Income shows $21.8 thousand over budget, this is a result of spending down the VDEM grant.

Under Salary and Wages Expenses, the budgeted amounts shown are in one lump sum. She said the amounts for salary, benefits, etc., will be broken out prior to the Board meeting.

There is an additional amount of $5 thousand added to Legal Fees to cover sponsorship of a new H1B Visa employee.

Mr. Peterson asked if the large grant amounts could be spread out over the grant period if the total amount of the grant was known. Ms. Swinger said it was difficult to judge when grant funds would be spent. Ms. Shickle added that grant funds are released at different times during the year. She said staff may be able to budget funds by showing one-twelfth of the amount for each month. Another option may be to show amounts as spent and paid. Ms. Shickle also said that staff can use a narrative or footnote to provide a reason for anomalies.

Other suggestions included:

- show amounts as grants are drawn down
- use footnotes to explain passthrough fund expenditures
- highlight passthrough funds so they are not seen as a direct expense
- summary notes and footnotes can be used to explain entries when needed

Ms. Swinger noted that on the year-to-date Profit and Loss sheets, there is a small surplus shown for the month of January. She said she'd like to move on to review the Profit and Loss by Month report. She reported that beginning in FY20, staff will be able to provide a month-to-month comparison of FY19 to FY20. Because last fiscal year's financials were shown on a cash basis, the comparison is not possible now that an accrual basis is being used. Ms. Shickle pointed out that the deficit amount is being reduced, and the agency has been operating in the black since October. She pointed out that operating expenses have not been contributing to the deficit.

Mr. Peterson said this needs to be pointed out to the Board during the next meeting.

Ms. Shickle asked if there was consensus among committee members to recommend that the Board accept the January financial report. Members so agreed.

Ms. Shickle said she'd like to move on to discuss the fund balance. During the last committee meeting, members asked staff to develop a model that showed a hybrid approach to close the gap – combining a special assessment to the localities with improved financial performance by the agency. She said staff has developed a model that shows a two-year path to return the fund balance to the $1 million level. She said she circulated the model to the CAOs/Managers for feedback. They indicated that they believed there was enough time for the localities to add a special assessment to their budgets if that was the recommended path forward. Some of the CAOs/Managers said they've been pleased with the progress being made to recover from the deficit. Other feedback from the CAOs/Managers was the concern that a special assessment could set a precedent for other organizations to approach the localities for additional funds. They all seemed open to other strategies.

Ms. Shickle said staff researched agency records to see if there was an indication of how the $1 million limit was set. While the actual spreadsheets were not available, it seems that staff did complete an analysis of operating expenses over a specific timeframe and determined that the least amount of surplus to have on hand should the agency need to shut down was just over $700 thousand; the best case scenario was to have on hand about $1.4 million. The Board at the time determined to settle on the $1 designated fund balance to hold in reserve. Ms. Shickle asked if the committee felt there was a need to complete a new analysis and set a new policy.

Ms. O'Bannon said when the $1 million amount was set, there was discussion in the General Assembly about possibly shutting down all PDCs. She said this is what precipitated the discussion to set a reserve fund.

Ms. Shickle suggested that a new reserve fund policy be adopted that would shift from a fixed amount to a floor/ceiling calculation based on the prior two closed years, the current year, and the upcoming fiscal year (FY17 – FY20). She said staff is recommending that a minimum of three years' operating funds be set at the floor and six months' of expenses be set at the ceiling. The initial target would be to regain the $1 million level. The secondary target would be to build on that amount to the ceiling. This approach assumes no special assessment and improved financial performance over the next four to five years.

Ms. O'Bannon asked if the $1 million should be set and then the policy addressed if the agency begins to fall below that amount.

Mr. Holland said the suggested approach would force staff to be more attentive to expenses and to better manage costs.

Ms. Shickle said staff does recognize that the largest expense for the agency is the rent. Mr. Blackwood added that the agency is paying a higher rate that some of the other tenants in the building. He said the current lease does not leave a lot of room for negotiations. Ms. Shickle said that the agency would not need as much space as it has if it was configured differently.

Mr. Peterson said he would like to see the agency reach the $1 million level in less than five years. He noted the goal this year is to get back to the $780 thousand level. He said he'd like to see progress made to build to the $1.4 million level over the next two years and then work to maintain the $1 million amount.

Ms. Shickle said while she will do whatever the Board asks, she felt she could not commit to more than adding $50 thousand a year without compromising agency operations. Ms. Swinger added that working over the next four to five years will also allow time to address the rent question.

Mr. Peterson said again that he felt four to five years was too long and might send a wrong message. He would prefer to see the agency recover within two to three years. Mr. Holland suggested there may be the need for a small dues increase in addition to staff working toward cutting expenses. He said he would be agreeable to a one-time increase.

Mr. Peterson said he could also endorse a one-time assessment as long as policies that impact expenses are also reviewed.

Ms. O'Bannon said another consideration is that when the 2020 census is completed, the dues rate will be impacted as populations will increase. She said she would not want to raise the dues rate as the increase in population and the planned rent reduction/space relocation will help with cutting expenses. She said she could back a one-time special assessment.

Ms. Shickle said again that the agency's office space is too large with its current configuration. Mr. Blackwood added that the current landlords have no incentive to lower the per square foot rate. Ms. Shickle said if the agency remains in its current location, funds would need to be expended to reconfigure the space.

Ms. Shickle asked committee members if they were ready to make a recommendation on a proposed strategy.

Ms. O'Bannon asked for clarification on passthrough funds. Ms. Shickle said these are funds awarded to the agency which in turns acts as a fiduciary agency to pay these funds to other agencies or consultants for work being done on the agency's behalf. Mr. Holland suggested that the agency should charge an administrative fee to handle passthrough funds.

Ms. Shickle said that the Profit and Loss statement shows about $3.14 million annual budget. If the program expenses of $753 thousand are subtracted, that leaves a budget of $2.44 million. Twenty-five percent of that amount would set a floor of $614 thousand. She said she felt this was too low to set as a floor amount.

Mr. Peterson said he felt a review of the agency's mission and purpose should be made. He said he wonders if the agency is taking on work that it really should not be doing in order to create income. He said if the agency adopts a three-year plan to get back to the $1 million level, the plan can be reviewed after two years if the agency is not on target to meet that goal.

Dr. Spagna said he's heard there is a consensus for a one-time special assessment. He said he's also heard that the agency can work over the next two to five years to rebuild the $1 million without a special assessment. To try to do this over two years would be difficult for staff. He said a three-year plan could be suggested with an option to review a special assessment. Dr. Spagna said he's also heard that the $1 million reserve fund should be maintained and that a floor/ceiling approach should be taken.
Ms. Gray said she would recommend a floor/ceiling approach with a goal of recovering the reserve fund in three years.

Ms. Shickle added that if the agency relocates, these expenses will be applied in FY23, which is not in the three-year timeframe. She said she will work toward whatever the committee and Board adopt, but she wanted to reiterate that she did not think the agency could recoup $100 thousand without impacting agency operations.

Mr. Holland reminded members that there are other costs to consider such as staff salary adjustments and other variable expenses.

Ms. Shickle said there have been some savings with new employees, as these staff members can be hired at a lower salary range. She said the current retiree healthcare coverage policy over the course of the time until these retirees reach 65 years of age is $152 thousand, so this is not a drastic impact.

Mr. Peterson said he would like to make a motion that a special assessment be considered over a two-year time period in order to regain the $1 million reserve fund. Ms. O'Bannon seconded the motion. There was no additional discussion and the motion carried unanimously.

Ms. Shickle said she would like to briefly review the proposed Personnel Policy regarding retiree healthcare coverage. She said the agency's contribution to the cost of the coverage is based on length of service. For those employees with 20 or more years of service, the agency covers their healthcare costs at 100 percent. For each year less than 20 years, the amount paid by the agency is reduced by five percent. She said beginning in March, there will be three retirees that are eligible for this benefit; two at the 100 percent level and one at about 85 percent. She said she did look at what the other jurisdictions offer, and found that most do offer some type of assistance. None offer contributions as the same level as RRPDC.

Ms. Shickle said she would like to propose that this benefit be eliminated from the RRPDC Personnel Policy with authorization to grandfather the three current retirees. She said there are no current employees who would, in the short term, be in jeopardy of losing the benefit if it was eliminated. Members agreed by consensus that this recommendation should be proposed to the Executive Committee for review.

A question was asked if the agency healthcare plan could be accessed as a Medicare Supplemental policy. Ms. Shickle said she would research this and provide a report to the Executive Committee.

Ms. Shickle said she'd like to suggest that the committee meet again in April. Dates will be identified and then sent to members. She said in April, she'd like for the committee to review the FY20 budget before it is presented to the full Board for adoption.

Dr. Spagna asked if there were any other items to discuss. None were identified. He thanked members for their time and adjourned the meeting at approximately 3:15 p.m.