

**CUMBERLAND COUNTY
FINANCE COMMITTEE MEETING
THURSDAY, JUNE 3, 1999, 8:30 AM**

Present: H. Mac Tyson II, Chairman
Billy R. King, Commissioner
Ed G. Melvin, Commissioner
Cliff Strassenburg, County Manager
James Martin, Deputy County Manager
Juanita Pilgrim, Assistant County Manager
Amy H. Cannon, Finance Director
Howard Abner, Finance
Neil Yarborough, County Attorney
Rhonda C. Raynor, Deputy Clerk to the Board

Others: Press

INVOCATION: Cliff Strassenburg

1. Approval of Minutes: May 6, 1999

MOTION: Commissioner King offered a motion to approve the May 6, 1999 Finance Committee meeting minutes.
SECOND: Commissioner Melvin
VOTE: UNANIMOUS

2. Discuss the Continued use of the County's Financial Advisory (BB&T Capital Markets). Referred by the Board of Commissioners on May 17, 1999.

BACKGROUND: On May 17, 1999 the Board of County Commissioners referred to the County Finance Committee the matter of whether to continue the services of BB&T Capital Markets (formerly Craigie Incorporated) as the county's Financial Advisor. The Finance Committee was asked to present its report and recommendation at the June 7th Board meeting.

The matter before the Finance Committee involves answering two questions. First, does the county need a Financial Advisor? Second, should BB&T Capital Markets continue as the county's Financial Advisor?

Does the County Need a Financial Advisor?

In 1996, upon the recommendation of the county Finance Committee following a competitive selection process, the Board of County Commissioners retained Craigie Incorporated (now BB&T Capital Markets) as the county's Financial Advisor. The decision to retain the services of a Financial Advisor came at a time when the county was about to issue major debt to finance a series of capital improvements including branch libraries, schools, Coliseum refinancing, new DSS Building, Community Corrections Building, hospital projects and the new jail. It was anticipated that this series of major financings would require a high level of planning and coordination and that county staff would benefit from the assistance from experts in municipal

finance that have no financial state in the individual financings. Negotiated offerings such as certificates of participation and revenue bonds are very complex and require sophisticated analysis backed by a thorough knowledge of municipal capital markets. The services provided by the Financial Advisor are outlined in the Financial Advisor Agreement. (This Agreement is attached hereto and incorporated in these minutes.) To further amplify the services provided by the Financial Advisor, I asked David Fischer of BB&T Capital Markets to provide a list of the specific services provided by his firm for the recent hospital revenue bond issue. Not only do the services of a Financial Advisor assist management in making informed decisions on complex financings, the services of the Financial Advisor helps the county reduce the cost of financings. This point is illustrated by the chart comparing six hospital revenue bond issues to the recent CFVHS revenue bond issue that were done within the past year, were of similar size and had similar maturities. Only the CFVHS issue had the services of a Financial Advisor. In spite of the fact that all the other issuers had higher bond ratings than CFVHS and three of the issues were insured, the CFVHS issue had the lowest management fee (including the Financial Advisor's fee), lowest takedown and lowest total cost of issuance. The county clearly benefits from the services of a Financial Advisor. The answer to the question does the county need the services of a Financial Advisor is yes.

Should BB&T Capital Markets Continue as the County's Financial Advisor?

In 1996 when the agreement with the Financial Advisor was approved it was the intent of the county to utilize the same Financing Team (Underwriters, Bond Counsel and Financial Advisor) for the entire series of financings contemplated by the county to assure continuity, consistency in financing and legal philosophy and the economies to be realized as a result of the familiarity with the county and its special needs gained over time by the Financing Team members. The jail financing is the last in the series of financings contemplated in 1996. Considerable work has already been accomplished on the jail financing including the preparation of draft documents and the initial documents review with the Local Government Commission. To change Financial Advisors at this time would interrupt the continuity of the jail financing and may well result in delays and even additional cost. BB&T Capital Markets has provided the county competent financial advice, objective recommendations, reduced the burden on county staff and in the end saved the county money. I would be inappropriate and not cost effective to terminate the services of BB&T Capital Markets at this time. The answer to the question should BB&T Capital Markets continue as the county's Financial Advisor is yes.

RECOMMENDATION: Management recommends the following:

1. Continue to use the services of BB&T Capital Markets through the conclusion of the jail financing and at that time terminate the agreement as no other major financings are contemplated at this time.
2. Prior to undertaking the next major financing, select an entire new Financing Team including Underwriters, Bond Counsel, and Financial Advisor, through a competitive selection process.

County Finance Committee
June 3, 1999
Page 3

Commissioner King stated this matter has come up because of the Local Government Commission (LGC) advising the County that it needed more underwriters than were originally on board in the hospital re-financing.

Mr. Strassenburg advised the LGC felt the additional underwriters were necessary because of the other hospital financing that had been done. The felt the hospital did not have enough underwriters to sell during the initial selling.

Commissioner King asked why BB&T Capital Markets did not advise the county to do this before the LGC did?

Mr. Strassenburg stated he could not answer that question. He does know the LGC went to BB&T Capital Markets first with their recommendation and concerns over the number of underwriters. When the LGC told us what our weaknesses were in this sale, the Financial Advisor helped straighten the problem out.

Commissioner King also stated he was advised some of the players did not get a fair deal in the hospital financing.

Mr. Strassenburg explained the process by which it is decided how much the Senior Underwriters and the Co-Underwriters get in the process. He noted Robinson-Humphreys gets the largest percentage as the Sr. Underwriter. There was some conflict and discussions about how much the Senior and the Co's would get and the LGC was involved in that decision as well. It was eventually resolved. He noted the LGC could have stopped the sale if they did not feel comfortable with how the percentages were proposed.

Commissioner King asked how much the Financial Advisor is paid.

Mr. Strassenburg advised BB&T Capital Markets is paid a retainer fee if a deal doesn't go through. They also provide general assistance to the Finance Director.

Amy Cannon, Finance Director advised the County paid BB&T Capital Markets in FY98 \$41,536. In FY97 no financing was done and they were paid their base fee. In FY99 the County has to date paid the Financial Advisor \$23,725. The Financial Advisor will be paid by the Hospital for the work done on the hospital financing project.

Mr. Strassenburg noted between the Financial Advisor, Senior Underwriter and Bond Counsel, the Financial Advisor is the least costly to the County. All three are good companies and have and are working hard for Cumberland County. The County depends on the Financial Advisor to give good advice in these matters. With regard to the hospital financing, one of the big concerns

was the hospital's rating. It was thought the rating would fall below the A's and our Financial Advisor helped keep the rating up.

Commissioner Melvin stated he had heard our Financial Advisor had "dropped the ball" and was the reason the rating was in jeopardy and that the Senior Underwriter saved the rating.

Mr. Strassenburg stated he was unaware of that information. Commissioners Baggett and Bacote were involved in the financing and know the circumstances involving the hospital bond rating. He also advised BB&T Capital Markets helped with the bridge financing. He then further reviewed the "Cost of Issuance Comparison for North Carolina Hospitals".

Chairman Tyson asked if all the hospitals listed had the same Senior Underwriter.

Mr. Strassenburg advised all the hospitals on the comparison list had the same Senior Underwriter which was Robinson-Humphreys.

Chairman Tyson asked if the County no longer has a Financial Advisor can they assume the Senior Underwriter's fee will go up. And if the fee goes up, will it be more than what the County is paying BB&T Capital Markets?

Mr. Strassenburg stated the Senior Underwriter's fee will go up of the Financial Advisor is done away with and the fee will be significantly higher than what the County is paying BB&T Capital Markets based on the other hospital sales. He feels a Financial Advisor is beneficial to the County and can save money.

MOTION: Commissioner Melvin offered a motion that upon the conclusion of the jail financing, the County terminate the agreement with BB&T Capital Markets and prior to undertaking the next major financing, select an entirely new Financing Team including Underwriters, Bond Counsel, and Financial Advisor through a competitive selection process.

SECOND: Commissioner King

DISCUSSION: Chairman Tyson asked Mr. Strassenburg what would be the projected date the jail financing would be completed.

Mr. Strassenburg noted it would be sometime in late September. He noted BB&T Capital Markets does not have a problem in the termination of the contract after the jail financing is complete as they would like to have the opportunity to be an underwriter.

Chairman Tyson asked Mrs. Cannon if she concurred in the County Manager's recommendation.

Mrs. Cannon stated she does concur with the recommendation.

VOTE: UNANIMOUS

3. Consideration of Establishing a Procurement Card Program and Certain Related Amendments to the Purchasing Policy.

BACKGROUND: A Procurement card is a payment mechanism used by organizations to obtain small dollar, high volume goods and services. The procurement card differs from a regular credit card in that many different levels of control exist with the procurement card. In addition, the full amount of the procurement card bill is due each month.

There are many advantages in utilizing a procurement card program. In most organizations, 80% of the purchases account for less than 20% of the total purchasing dollars. In essence, all departments are spending a tremendous amount of time processing paperwork for high volume, low dollar items. A procurement card program will reduce transaction costs, check writing volume, streamline the purchasing process, and free staff time for other functions. Vendors also enjoy the advantages of payment within 2 to 3 days as opposed to 30 to 60 days.

There are many different levels and types of controls that may be established with a procurement card program; such as spending limits that could be daily or monthly, transaction limits, and merchant category code blocking. Such merchants to be blocked could include convenience stores, ABC stores and the like. The Finance Director recommends that the per transaction limit mirror the purchasing policy guidelines established for purchasing without a purchase order. Currently, all purchases over \$250 must have a purchase order. This purchase order limit of \$250 is very low for a county of our size. Due to the volume of our spending, the Finance Director recommends that both the procurement card transaction limit and the purchase order limit be \$1,000. Other counties have been contacted to determine their transaction and purchase order limits. Counties such as Durham and New Hanover have a \$1,000 limit.

The Finance Department received proposals from three financial institutions. Each bank waived card fees for annual spending of \$2,000,000 or more. First Union and Bank of America proposed per card fees for programs under \$2,000,000. Wachovia proposed a \$3 maintenance fee regardless of the volume. Each bank also has monitoring software as a part of the procurement program. The Finance Department was able to view both Wachovia's and Bank of America's software in use at other organizations. Currently, First Union does not have an active site using their software. The Wachovia software appears to be the most user friendly.

Wachovia has been very responsive to Cumberland County during this process. Therefore, the Finance Director recommends that Cumberland County enter into a contract with Wachovia Bank and begin implementing a pilot procurement card program effective July 1, 1999. The pilot program would only involve 5-6 departments and would be for 4 months. The employees would be trained and would sign a statement indicating they are aware of the responsibilities and accountability associated with use of the procurement cards.

Commissioner King asked for more information about how this process would actually work in departments.

Mrs. Cannon noted Department Heads could also use the procurement cards for travel. The card would be given to whoever does the procurement for the office. That person would be responsible for keeping the receipts and doing the reconciliation and forwarding it to the Finance Department for review. Wachovia would then draft the County's account.

Commissioner Melvin expressed concern in being able to keep up with the items purchased. He does not want to see items such as printers, chairs and the like going home with employees.

Mrs. Cannon stated items such as chairs and other small items do not have property tags affixed to them. If the county goes to the procurement card program, the accounting for these items would be no different than it is now.

RECOMMENDATION:

1. Authorize the Finance Director to enter into a contract with Wachovia Bank for Procurement Card Services.
2. Approve the associated changes to the Purchasing Policy.

MOTION: Commissioner Melvin offered a motion to authorize the Finance Director to enter into a contract with Wachovia Bank for Procurement Card Services and that the program be implemented under a pilot program for a period of four (4) months with a report back to the Finance Committee after that period. That the associated changes to the Purchasing Policy be approved.

SECOND: Commissioner King

DISCUSSION: Chairman Tyson suggested that two people be required to sign the end-of-month reconciliation and that one of those people be the Department Head. He would also like to ensure the Department Head certifies the items purchased with the procurement card are in the department and accounted for.

Mrs. Cannon stated that procedure is in place now. All invoices are currently signed by the Department Head or their designee.

Chairman Tyson again stated he would like to see two signatures required on the reconciliation.

Mrs. Cannon advised the person who does the procurement is not the same person that will sign the monthly statement.

Chairman Tyson asked Mr. Strassenburg if he concurred with the recommendation of the Finance Director.

Mr. Strassenburg advised he concurred in the recommendation.

VOTE: UNANIMOUS

4. Consideration of Amendments to the Fixed Asset Policy.

BACKGROUND: The current fixed asset policy requires that all equipment with a useful life that extends beyond one year and has an original unit cost of \$500 or more, must be identified

and included in the fixed asset accounting system. Equipment includes movable property such as mobile equipment, office equipment, data processing equipment, machines, tools, and office furniture. In addition, improvements to real and personal property of \$1,000 or greater are also capitalized.

Accounting for fixed assets of small dollar value is a very labor intensive process for the Finance Department. Due to the loss of a vacant Buyer position in the Purchasing Division, it is necessary to make several operational and personnel adjustments to deal effectively with this reduction. The Finance Director recommends that the cost criteria for fixed asset capitalization be increased from \$500 to \$2,500 per unit cost, and that the capitalizing of improvements also be raised from \$1,000 to \$5,000.

The total value of the County's fixed assets is \$99,997,158. Increasing the capitalization limit for equipment from \$500 to \$2,500 will eliminate 8,100 items which account for only 7.9% of the total fixed asset value. The elimination of high volume, low dollar value items will greatly reduce the time associated with maintaining the fixed asset accounting system. Personnel currently assigned full time to fixed assets will then assist the Purchasing Division.

Departments will continue to be responsible for establishing and maintaining accountability procedures for equipment which is not capitalized. These changes would not relieve departments from safeguarding all assets. These changes only eliminate the inclusion of these items in the fixed asset accounting system and the audited financial statements.

RECOMMENDATION: The Finance Director recommends that the proposed fixed asset capitalization limits be increased from \$500 to \$2,500 per unit cost and that the capitalizing of improvements also be raised from \$1,000 to \$5,000.

Mrs. Cannon noted most printers, chairs and the like are not in the fixed asset accounting system. This change will greatly reduce the work load in her office.

Mr. Strassenburg noted the County's Internal Auditors will continue to inspect offices at any time and request an accounting of items.

Chairman Tyson asked Mr. Strassenburg if he concurred in the recommendation of the Finance Director.

Mr. Strassenburg advised he concurred in the recommendation.

MOTION: Commissioner King offered a motion to follow the recommendation of the Finance Director regarding the proposed fixed asset capitalization limits increase and proposed changes to the Fixed Assets Procedure.
SECOND: Commissioner Melvin
VOTE: UNANIMOUS

5. Other Committee Concerns.

MOTION: Commissioner King offered a motion to ask his fellow Commissioners in putting together the next budget that the County have three (3) full time attorneys in the County Legal Office and a non-renewal on any partial attorney contracts.

SECOND: Commissioner Tyson

VOTE: UNANIMOUS

Meeting adjourned at 9:35 AM.