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PASCAGOULA CITY COUNCIL
RECESSED REGULAR MEETING
Tuesday, July 24, 2018

FY 2019 BUDGET WORKSHOP

MEMBERS PRESENT:

- COUNCILWOMAN JENNIFER COLMER - AT LARGE
- COUNCILMAN REV. DR. WILLIE C. JONES - WARD 1
- COUNCILMAN STEPHEN BURROW - WARD 3
- MAYOR DANE MAXWELL
- COUNCILMAN MATT PARKER - WARD 4
- COUNCILMAN GEORGE WOLVERTON - WARD 2
- COUNCILMAN SCOTT TIPTON - WARD 3

REPORTED BY:

MONICA SCHROEDER, RPR, CRR, CSR
COURT REPORTER & NOTARY PUBLIC

1 MAYOR MAXWELL:

2 Okay. Thank you all for coming tonight.
3 I appreciate having such a lively crowd. And
4 we're going to get right into it, so I'm going to
5 call City Manager, Ryan Frederic up, who is also
6 the City Attorney, to begin this process.

7 MR. FREDERIC:

8 Mr. Mayor, Council. As you all are
9 aware, we are here tonight for a budget workshop
10 for the Fiscal Year 2019. What I would like to do
11 is kind of give you -- or give you a map of what
12 we anticipate you hearing tonight. And what
13 evidence or proof -- I guess that's the lawyer in
14 me -- that we intend for you to see this evening.

15 But before I do that, I think it's
16 important for all of us here to understand
17 exactly, at least since July of 2017, how we got
18 here.

19 As each one of you all are well aware, in
20 July of last year, with the exception of
21 Mr. Tipton, or Councilman Tipton, this is a new
22 group. Within two months or thereabouts of you
23 being appointed or sworn in, the law required that
24 you pass a budget, which you did.

25 Now, it's my recollection that at that

1 time, when I was just City Attorney, of course,
2 but it's my recollection and it's Mr. Corder's
3 recollection that we were advised at that time by
4 people in the Council or prior Council or
5 administration, that this City was operating at a
6 surplus. You will learn tonight, as you already
7 have, that that is not the case.

8 So where does that leave us? After the
9 budget was adopted, during the fall of last year,
10 somewhat under the direction of the former City
11 Manager, we started to kind of do our due
12 diligence the best we could. The phrase has been
13 used, at least by the Mayor over the last year,
14 that we take this as a business-like approach. I
15 have gone as far to say that previously,
16 governmental entities have been ran as a charity,
17 and it's time for that to change.

18 So with that approach, there were some
19 things that kind of drew our concern, but really
20 didn't hit light until early January of this year.

21 Because of those concerns, in the middle
22 of January of this year, what we had learned over
23 the past six months led us to making the decision
24 to letting the comptroller go. The comptroller
25 was let go, and Frank could probably give me that

1 date, but it was the middle of January, right
2 after I was appointed as interim City Manager.

3 So from that point, in looking at it and
4 realizing what the situation potentially was in
5 the comptroller's office, where there was
6 potentially over 100,000 unread emails, we tasked
7 Ms. Trosclair, who is here, who was not the
8 comptroller at that time, to begin to take a good,
9 hard look as to what exactly was there.

10 Based off of her due diligence and taking
11 that same business-like approach, as well as
12 Ms. Frazier, who is sitting right there, the
13 concerns were kind of confirmed.

14 So at that point in time, we recommended
15 to you all to hire a third party to conduct an
16 independent audit. That individual is here
17 tonight. It's Mr. Barr over there, smiling away
18 at everybody, Mr. Barr. But Mr. Barr did that.
19 He did that in early spring of this year. And
20 what -- and I'm not going to speak for Mr. Barr
21 because that's why he's here. You will hear from
22 him tonight. But what Mr. Barr is going to do, or
23 at least I anticipate what Mr. Barr is going to do
24 is he's going to provide you a summary of his
25 report, which he gave and you all received last

1 week. And he's also going to be here because we
2 want him to be able to answer any questions that
3 you may have. This is Mr. Barr's report. He was
4 an independent, disinterested third party who
5 actually happened to be from Madison. Is that
6 right?

7 MR. BARR:

8 Yes, from Madison.

9 MR. FREDERIC:

10 So that's why he's here. You'll hear
11 from him. Okay. And what it appears to me, based
12 off the review of Mr. Barr's report is, is it
13 appears to be the prior administration's
14 historical practice of imprudent and financially
15 -- imprudent and financially unsound business
16 practices. Those are my words, but Mr. Barr can
17 tell you what he believes, based off what he
18 reviewed.

19 Now, after I sit down, Ms. Trosclair, our
20 comptroller, is going to stand up and give you a
21 brief overview of where we are right now, as of
22 today, looking forward to next fiscal year. It's
23 going to be very brief at that point, because she
24 and I and Frank, or Mr. Corder, are going to talk
25 to you all after Mr. Barr's presentation or his

1 question/answer summary about the recommendations
2 that we have to fix the situation that we're in.
3 I think now that you all have got a chance to know
4 me and Frank over the last year, we don't like to
5 sugarcoat things. I don't know if it's part of
6 being a Frederic or what, but, look, you are going
7 to hear a lot of bad stuff tonight. I'm not going
8 to sugarcoat it for you.

9 However, what I will urge you all to do
10 is this for us. Let's take it as an opportunity.
11 Let's take it as an opportunity to right the
12 wrongs, and get the ship straight and get the city
13 healthy. That was hard for me to do initially,
14 whenever we started to have this information
15 disclosed to us, but it's the only choice we have.
16 I ask you all to consider that. And at that time,
17 when we get done, we really feel, at this point,
18 if you all will take our recommendations in place,
19 we think that within two years, we can be back to
20 being financially healthy. Okay.

21 Now, you all are going to hear enough of
22 me tonight, so with that being said, I'm going to
23 hand it over to Ms. Trosclair.

24 COUNCILMAN BURROW:

25 Ryan, let me ask you one quick question

1 before you step away. With regard to Mr. Barr, he
2 was not the only CPA, I understand interviewed, in
3 order to get this job. I think -- I know of at
4 least one other firm that was questioned. What
5 I'm trying to establish, he wasn't cherry picked
6 to do this, but there was a process that was done
7 internally to --

8 MR. FREDERIC:

9 No. And I don't recall the other firm's
10 name to which we inquired as to whether or not
11 they would be willing or interested in doing this
12 independent financial audit, but it came back that
13 they were not. And we can find that name for you.

14 COUNCILMAN BURROW:

15 All right. I wanted to make sure
16 everybody understood --

17 MR. FREDERIC:

18 No. No.

19 COUNCILMAN BURROW:

20 -- that this guy wasn't cherry picked.
21 That this was -- you know, an effort was made to
22 find among multiple people --

23 MR. FREDERIC:

24 No. And I can say this, if I may, part
25 of the reason we picked Mr. Barr is because, as

1 best we can recall, he's never done any work for
2 the City of Pascagoula. We wanted someone
3 completely disinterested.

4 Sherria.

5 MS. TROSCLAIR:

6 When I stepped into this position earlier
7 this year, one of the first conversations that we
8 had was concerning the revamping of the budget
9 process. Can you hear me?

10 MAYOR MAXWELL:

11 Yes.

12 MS. TROSCLAIR:

13 To ensure that we were following state
14 statutes and best practices. One of the first
15 steps we did was create a tentative budget
16 calendar, which called for starting the process
17 earlier in the year, and also called for providing
18 preliminary revenue estimates earlier in the
19 process. In April, we began the process with
20 department heads, asking them to help us to right
21 the municipal budget due to our concerns of the
22 City's financial conditions.

23 In May, we had our preliminary revenue
24 forecasted and our first expenditure requests for
25 each department. That first look revealed a

1 budget shortfall of \$6 million in the general
2 fund. Work sessions with department heads ensued
3 and cuts to budget requests began in earnest.

4 In June, we continued to review and
5 adjust the budget -- the department budget
6 requests and make headway toward the narrowing of
7 the shortfall. During this time, there were
8 simultaneous financial statement and forensic
9 audits, as Mr. Frederic said, ongoing. As we
10 began to get some verification of our financial
11 situation, department heads were directed to
12 immediately halt discretionary spending and focus
13 on looking for cuts in the current budget here, as
14 well.

15 Of course, last week, Council was
16 presented with a draft proposed budget, and today,
17 we start our Council workshops. Also, at the end
18 of this month, a budget amendment will be
19 presented to reduce the projected revenue
20 expenditures for the current fiscal year.

21 We will continue moving forward into
22 August and September with required advertisements,
23 public hearings and official budget adoption. The
24 budget before you is not complete. More
25 reductions are necessary to expenditures, and new

1 and/or increased revenues are needed. With a
2 general fund deficit of \$14 million, we do not
3 have the luxury of balancing the budget by tacking
4 into beginning fund balances. We must leave old
5 mindsets and old budgeting practices behind and
6 move forward with a new approach, questioning the
7 cost versus benefit of many programs, and ask
8 everyone with a stake in the City of Pascagoula to
9 make some sacrifices.

10 It is my position, as well as
11 Mr. Frederic has already said, that if the Council
12 takes our recommendations and approaches this
13 challenge with the aggressiveness warranted, we
14 will recover financially.

15 MAYOR MAXWELL:

16 So today, we're \$14 million in the red.

17 MS. TROSCLAIR:

18 Yes, that's of our audited financials.

19 MAYOR MAXWELL:

20 Okay. So, I guess if you can explain
21 that to me. Let me ask you a question. And,
22 look, I've worked with you all. I appreciate all
23 of hard the work you all have done. I agree with
24 Ryan, it's an opportunity for all of us to right
25 this ship which is something we took on and agreed

1 on early on. You know, that's why we're here to
2 do this. But, wow, I don't know. That's fine.
3 I'll come back. I get -- let me wrap my head
4 around this real quick.

5 MR. FREDERIC:

6 All right. Now, there were two other
7 individuals that are here that I failed to
8 identify to you tonight who you may or may not
9 hear from. One of those -- and I'll go because
10 he's had a longer relationship with us -- is Troy
11 Johnson. Troy is our bond attorney, has been for
12 some time. The other individual that is sitting
13 right here behind me is Mr. Jason Thomas. He is
14 the financial advisor that you all authorized us
15 to enter a Professional Services Agreement with
16 last Tuesday night, and we have thrown as much at
17 him as we have been able to in about a week. So
18 you may hear from those two guys tonight. Like I
19 said, this is really more of an open flow, what
20 you all want to hear.

21 There will be opportunities at the end of
22 the presentation that myself and Frank and Sherria
23 have put together where we'll have opportunities
24 for you all to talk to them.

25 With that being said, I'll turn it over

1 to Mr. Barr, who is right here.

2 MR. BARR:

3 Thank you, Mr. Frederic. Thank you
4 Mr. Mayor, Council. I do appreciate the
5 opportunity to be here tonight. We did our report
6 and we issued that report probably a couple weeks
7 ago, but there's a lot of technical language in
8 there, there's a lot of issues flowing around, and
9 just to release that report without the
10 opportunity to give you a chance to ask questions,
11 I wouldn't have been happy about. But I am
12 pleased to be here tonight. I'm not pleased with
13 what I necessarily have to address with you, but
14 I'm glad to be able to try to be more informative.

15 I'm going to basically give just a little
16 short summary of what I believe are the highest
17 points. And, you know, there's a lot of detail in
18 there, so we won't go through every single page
19 and every little line, but I will address any
20 questions that anybody has to the extent they'll
21 allow me to.

22 But just I'll lead off first with what I
23 have to say and then I'll, I guess, turn it back
24 to you guys to see what you have.

25 So, as you know, we were -- we were

1 engaged to provide forensic audit and accounting
2 services. Well, I mean, that's a term that could
3 reach from one end of the City to the other. You
4 know, you can -- with a financial statement audit,
5 you've got a set objective. You are coming in to
6 express an opinion on the financial statements.
7 But in a forensic audit, I mean, you can look at
8 any number of issues. You can see rabbits, chase
9 those. You can just address all kind of things.

10 So what we basically did, and it says in
11 here in the first paragraph, we focused our work
12 on the financial position of the City, where you
13 guys stood, any kind of the trends or how did you
14 get there. And so we went back to the Fiscal Year
15 2012, which would have started in October of 2011,
16 and worked through all the way to kind of the most
17 recent information we have available, even some
18 unaudited information, at that point.

19 So if you see at the end of the Overview
20 paragraph there -- and I'm going to work off a few
21 of these pages here, but right now, I'm on the
22 letterhead page there. But under the overview
23 section, you'll see that -- and you've heard that.
24 What we found, basically, is just that the general
25 fund -- and when I talk about the general fund,

1 I'll say general fund balance.

2 But what I'm referring to is the
3 unrestricted portion of the general fund, because
4 there are restricted monies in there, and they are
5 what they are, and they've got to go where they've
6 got to go. But we're dealing with day-to-day
7 unrestricted monies that are available for
8 operating expenses and those things.

9 So that fund balance, that general fund
10 balance has decreased each year. And we'll look
11 at an exhibit in a minute that kind of shows those
12 amounts, but it has gone down by a significant
13 amount each year from 2012 through 2017. And it
14 even says there, based on what I saw in the
15 unaudited 2018 numbers, you know -- and this was
16 back at that point, prior to any addressing of the
17 issue, I felt like 2018 was going to have another
18 deficit year.

19 So basically, you know, at the end of the
20 day -- let's jump over -- yeah, let's go to the
21 next page, Page 3. The biggest thing was what
22 Ms. Trosclair talked about. Based on different
23 issues and things that I'll talk about in just a
24 second, I mean, at the end of the day, we estimate
25 that the City had accumulated in the general fund

1 an unrestricted monies in the deficit fund balance
2 of about \$14 million. We estimated that's about
3 what it would be. You see there, it's a big
4 number because it exceeds 50 percent of what you
5 guys spend on an annual basis in your general
6 fund. So it's not something that you can just --
7 as Mr. Frederic mentioned, you can't just turn it
8 around in the next three or four months. So it's
9 things that will have to be measured and things
10 that will have to be debated and talked about and
11 dealt with.

12 But, you will see there, we have, like,
13 two primary factors that pretty much contributed
14 to this. And the first was something he kind of
15 made mention of. The accounting statements that
16 have been published and used by the City really
17 have kind of -- I mean, the numbers -- let me
18 think how to say this. The numbers are there
19 behind the scenes, but there are restricted funds
20 that have been shown as unrestricted over the
21 years that have distorted the picture that the
22 financial statements are issued each year painted.

23 And so, if you just look at the number
24 there on the fund balance that's been shown, then
25 there are years when we showed a fund balance when

1 it didn't really decrease. We might show it had
2 increased and it would be because of a special
3 revenue fund or a bond fund.

4 And so, basically, the City wasn't making
5 appropriate use of fund accounting. And when I
6 talk about a fund, that's going to be an
7 accounting term. An account would be an account
8 at the bank. Okay. So you may have a cash
9 account, but you've got a fund for your general
10 fund. You've got a fund for all these other
11 funds. They're their own little self-balancing
12 set of accounts. So, the general fund has
13 whatever cash it's got, it's got whatever
14 liabilities it's got, and it comes down to fund
15 balances.

16 The same thing could be said of any of
17 your debt service fund, your utilities fund or
18 anything like that. So if I say fund, I'm talking
19 about that. A fund on the books, on the
20 accounting records. If I say an account, like a
21 bank account or a cash account, I'm going to be
22 talking about the actual checking account at the
23 bank.

24 So I'm going to go into a little bit of
25 detail about what took place. But there were two

1 primary reasons why those general fund statements
2 were misleading and kind of disguised the fact
3 that you guys were decreasing steadily over those
4 years.

5 The first one was in the earlier years,
6 back in '12, '13. And, at some point, they came
7 out, but I don't remember the exact year. But
8 there were some special revenue funds showing up
9 in there, or things that were subsequently
10 determined to be special revenue funds, and they
11 were reclassified out of there. They were put
12 into their own separate funds. So they were moved
13 out of the general fund.

14 Well, when that happened, it took a hit,
15 but it didn't show up as like a current year
16 deficit spending. It just -- we moved it out of
17 one column and stuck it in another column. So
18 right there, several million dollars just came out
19 of the general fund. So it went down in that way.

20 But during those years that it was in
21 there, if we got a big bunch of special revenue
22 money, it would show like it was coming in as
23 general fund money.

24 Let's just go ahead and look at Exhibit 1
25 -- no, exhibit -- let's see. Exhibit 2. Let's

1 look at Exhibit 2.

2 COUNCILMAN BURROW:

3 Is that available on the overhead,
4 anyone?

5 MR. CORDER:

6 No. We didn't put it on there.

7 MR. BARR:

8 All right. That top line there, the
9 \$11.2 million and across there, that's what you'd
10 read off your audit report. If you went back and
11 pulled up all your audit reports from '12 through
12 '16, you are going to see that -- I'm sorry.
13 Exhibit 1. I'm sorry. That's where I really want
14 to be. Because that's talking about the actual
15 annual increase or decrease that was shown. Okay?
16 And so you'll see, like, some years, \$3.3 million
17 deficit. Well, the next year, only \$300,000
18 deficit. And then you come back over there and
19 you are back to \$3 million. But then the next
20 year balanced up to \$6 million. Well, there are
21 transactions in there that don't belong in the
22 general fund.

23 So what I've done in that middle section
24 is basically adjusted those transactions out. So
25 if you got down to the things that really should

1 be recorded in the general fund, you are looking
2 at that bottom line. And if you look down there,
3 I mean, it's fairly smooth. You are anywhere from
4 a \$3 million deficit each year, to as high as
5 \$4.8 million in 2016. And, really, the only
6 reason 2015 is not as high as the other years, is
7 that year, you guys got, like, a BP settlement of
8 about a million-and-a-half dollars. That went in
9 to kind of boost up the general fund that year,
10 which I understand you wanted to try to earmark
11 for some special purposes, but that's just been
12 absorbed into this whole issue we're talking about
13 tonight. So if that million-and-a-half hadn't
14 come in, that year would have shown a \$3.5
15 million, \$3.7 million.

16 So each year, what really belonged in the
17 general fund was recording \$3 to \$4.5 million
18 deficits, exclusive of that BP settlement money.
19 That's what I'm talking about.

20 So there's three things you see there.
21 And it's really related to two subjects. One is a
22 special revenue activity which stayed in there all
23 the way up to 2015, apparently. And then the
24 second thing is in your bond money. Bond monies
25 have been coming into the general fund when bonds

1 were issued. They've been shown as proceeds, as
2 general fund proceeds. And then they've been
3 carried in the general fund fund balances as an
4 unrestricted monies and an appropriate
5 restriction, what I reported on those. So it made
6 it look like it was available to spend on salaries
7 and utilities, you know, just the operating
8 expenses, supplies and contractual things. But
9 that's not the case.

10 So, what I've done in the schedule is
11 I've eliminated out the activity from, like, 2015,
12 part of the bond issue that year, half of it went
13 to the general fund, I think, or about half.
14 About half of it went to the water and sewer fund.
15 So I've adjusted that out.

16 After adjustment, the bottom line down
17 there is what should have been shown in the audit
18 reports each year as, you know, in the general
19 fund.

20 So in the 2017 audit report that you guys
21 have published, all that's been moved around and
22 reflected properly. So you will see a much
23 different picture painted in your audit report
24 this year.

25 In the prior year, the audit report said

1 that the general fund balance was, say, a \$700,000
2 or \$800,000 deficit. Well, this year, it says
3 it's a \$14 million deficit. So, I mean, you know
4 you didn't lose \$14 million this past year. It's
5 because they've reclassified those things over and
6 shown them appropriately. The bond funds have
7 been carved out of there. The special revenue
8 funds were all where they belong. And when all of
9 that was pulled away, your general fund is now at
10 a \$14 million deficit, which basically means that
11 there's not any funding available in the general
12 fund to pay any bills with.

13 And so, what's happened -- and we'll go
14 back to Page 3, I think it is -- well, I'm not
15 sure if I say it on 3, but this is what I want to
16 say. The bond funds that are still on hand from
17 this last bond issue, and maybe a little bit --
18 there may be a million or two million or so in '17
19 of the '15 bond issue. Those proceeds have
20 provided liquidity to the City to be able to pay
21 their bills. And had you not issued those bonds,
22 you wouldn't have -- the current cash balance of
23 the City is less than the unspent bond proceeds.
24 And I don't know if that makes sense. But
25 whatever is in the bank right now entirely belongs

1 to bond projects. Every dime that's in the bank
2 belongs to a bond project. And there's not even
3 enough in the bank to complete all the bond
4 projects that should be funded by the bond
5 proceeds.

6 So you will see in the report that I say
7 that there's a problem with liquidity. Well,
8 there is -- that's the only thing actually
9 providing it currently.

10 Now, I know there are things that are
11 being done, and I'll let these other folks address
12 that. But when I came in, when I sat down, when I
13 did what I did, the only thing that was making you
14 guys able to pay your bills currently is because
15 you have bond proceeds in the bank.

16 MAYOR MAXWELL:

17 Let me interrupt you. We get audited
18 every year, so why is that audit not showing us
19 this? Every year, the Council has an independent
20 audit performed.

21 MR. BARR:

22 Well, and that kind of leads into another
23 issue. Those bond proceeds have been in your
24 general fund in your audit, so when your audit
25 says you have \$7 or \$8 million, whatever the

1 number is of general fund balance, it includes
2 those bond proceeds. They should have been
3 segregated out and shown as restricted. That
4 would have dropped that number out into a deficit
5 and it would have been more clear.

6 So it is accounted for in the audit.
7 It's just not presented out there as restricted
8 money. It's shown as unrestricted money.

9 The bond documents, themselves, for both
10 bond issues, actually called for a separate fund,
11 which I mean by that, those should have been
12 recorded outside the general fund. They should
13 have been put in their own fund, the proceeds
14 should have gone in, as you spent them, they
15 should have come out of that fund. You should
16 have known at all times --

17 When I tried to ascertain what the bond
18 -- unspent bond proceeds were, I mean, it took
19 some effort to go over there, and you know, run
20 some tapes, and do some adding and clicking
21 around. I mean, so it didn't jump out like it
22 should have. They should have been in their own
23 fund. They should have been segregated from
24 everything else, and it's called for in the bond
25 documents. So I don't want to say it in front of

1 the bond attorney, but, you know, the bond -- you
2 didn't follow the bond provisions.

3 MAYOR MAXWELL:

4 Well, it is what it is. He's here. His
5 advisor is there. You are here. Everybody is
6 here. I mean, we are going to put it out there
7 and it falls where it falls.

8 MR. BARR:

9 They're commingled in as cash in the same
10 cash account.

11 MAYOR MAXWELL:

12 I get that. What I don't -- we have a --
13 we have an auditor, a company that audits
14 municipalities. Why did they not catch this?
15 This is what I want to know. Why are we
16 \$14 million in the hole in the first year we're
17 here? Because this is obviously a problem that
18 started way back.

19 MR. BARR:

20 Yeah. I didn't really address that.

21 MAYOR MAXWELL:

22 And then you have a City Manager,
23 comptroller, and a City Attorney, they hire this
24 audit firm, and I want to know your opinion, as an
25 auditor, how come -- why did this auditing, who

1 their job is to audit municipalities, so they know
2 what bond proceeds are, why did they not catch
3 this?

4 MR. BARR:

5 Yeah, I would be speculating. I don't
6 know the answer for that.

7 MAYOR MAXWELL:

8 That's what I --

9 MR. BARR:

10 I can address it with them, and if I came
11 up with something, I'd --

12 MAYOR MAXWELL:

13 Oh, you can believe we're going to
14 address it with them. There's no doubt about
15 that. That's going to happen.

16 COUNCILMAN JONES:

17 I do have a question.

18 MR. BARR:

19 Yes, sir.

20 COUNCILMAN JONES:

21 I'm looking where it says on Page 3, two
22 primary factors have contributed to the current
23 financial crisis. First, the City has not
24 followed best practices in the use of funds
25 accounting.

1 And then you said second, the City has
2 not complied with the state statutes related to
3 budgeting.

4 MR. BARR:

5 Right.

6 COUNCILMAN JONES:

7 Are you referring to prior
8 administrations or does it include this
9 administration?

10 MR. BARR:

11 No, sir. That would primarily include
12 the prior.

13 COUNCILMAN JONES:

14 So is this -- (inaudible.)

15 MR. BARR:

16 There's some problem with 2018's budget,
17 but I think it was probably adopted by --

18 COUNCILMAN BURROW:

19 It was adopted by this Council.

20 MR. BARR:

21 Yeah, by this Council, but prepared by
22 the prior folks in house?

23 COUNCILMAN BURROW:

24 No.

25 COUNCILWOMAN COLMER:

1 No.

2 COUNCILMAN BURROW:

3 No, this Council.

4 MR. BARR:

5 But not with these people here or
6 anything.

7 COUNCILWOMAN COLMER:

8 In our first two months of office.

9 COUNCILMAN BURROW:

10 Yes, I know what you are saying. Yes,
11 Bobby Parker. You are talking about a prior
12 comptroller and City Manager.

13 MR. BARR:

14 Right. All of the problems I have with
15 the budget -- I'll get into those. I'm going to
16 address those in a little bit.

17 COUNCILMAN BURROW:

18 Just to clarify, I mean, the people you
19 referred to were employees, but were they --

20 MR. BARR:

21 Exactly, yeah. The problems I had with
22 the budget don't involve anybody this evening.

23 COUNCILMAN BURROW:

24 -- the City Comptroller, City Attorney,
25 City Manager?

1 MAYOR MAXWELL:

2 Well, I think what you are -- the
3 comptroller, let's just be real, the comptroller
4 who has been here -- how long has that comptroller
5 been here?

6 MR. FREDERIC:

7 Eight, nine years.

8 MAYOR MAXWELL:

9 Eight, nine years. The comptroller would
10 have provided us with fraudulent numbers?

11 COUNCILWOMAN COLMER:

12 Whoa, that's a big allegation to make out
13 loud.

14 MAYOR MAXWELL:

15 No, I'm asking the question.

16 COUNCILWOMAN COLMER:

17 It sounded like a statement.

18 MAYOR MAXWELL:

19 Then let's back up, if you don't want to
20 use the word fraud, because I'm just an old cop,
21 and if you don't give us the truth, then that's
22 fraud.

23 All right. So let's say, the numbers
24 that we dealt with when we came in here were not
25 correct numbers?

1 MR. BARR:

2 That's correct.

3 MAYOR MAXWELL:

4 And that's what I mean --

5 MR. BARR:

6 I didn't talk to him about them. They
7 could have come from -- he could have -- he could
8 have -- I don't know what he did. He could have
9 made a mistake.

10 MAYOR MAXWELL:

11 Well, it doesn't matter. What I'm trying
12 to clarify is the numbers that we based -- we
13 based -- when we set down and did a budget the
14 first two months that we were here, all of us
15 green --

16 MR. BARR:

17 That budget didn't make sense.

18 MAYOR MAXWELL:

19 Okay.

20 MR. BARR:

21 And I'll get into that --

22 COUNCILMAN BURROW:

23 Could I make a suggestion -- well, I was
24 going to say, let's let the auditor finish the
25 presentation, and then my suggestion is that we go

1 with the questions after the presentation. I
2 don't want to interrupt you, Scott.

3 COUNCILMAN TIPTON:

4 I was going to say, it's more than just
5 last year because even the former administration
6 thought that we were getting real numbers. And as
7 Mayor Maxwell said, these were audited numbers,
8 and, you know, and there wasn't anything that was
9 glaring. It was the same numbers within a few
10 percentage points year after year. So I don't
11 know -- you know, the way it was presented to the
12 people that pass the budget was not correct.

13 MR. BARR:

14 Let me just address the budget and what I
15 think about the budget, because that's the second
16 issue. Like you said, two primary factors. One
17 is, you had special revenue funds and you had
18 capital project funds, bond funds intermixed in
19 one fund when they should have been segregated
20 into separate funds, and each one should have had
21 its own fund balance. That way, the general fund
22 balance, you could have seen it deteriorating year
23 after year.

24 The second thing was the budget. Well,
25 if you look at the budget, if you go back over the

1 past several years, each year, there's unfavorable
2 variances in the revenue and other financing
3 sources section of the budget. And that's back on
4 Exhibit -- let's see, Exhibit 7. So, over there
5 in the far, right-hand corner, every year, the
6 revenues, and every year, the expenditures -- or
7 not the expenditures, every year, the other
8 financing sources, which is just other things that
9 aren't operating revenues, but it's an input of
10 resources. So it's some money that's going to be
11 coming in. That first and third line in each year
12 are going to be your monies that were coming in.

13 Well, every year, whatever we budgeted,
14 we didn't get that amount of money by a
15 substantial amount. But we would come back the
16 next year and budget, you know, close to the same
17 amount, as if it was going to come in the next
18 year. And then it didn't come in the next year,
19 so we just did it again and again and again.

20 And those numbers were set high enough to
21 make the budget appear balanced so that if you
22 were just looking at a budget, you would say,
23 we've got a balanced budget. But the balancing of
24 budget was based on numbers that there was no
25 basis for the numbers. There was no reason to be

1 budgeting numbers that big. They've never come in
2 that big. There's no worksheets in the files to
3 support them. They're just numbers.

4 And I don't know why they're there. I
5 didn't call him and ask him why they are what they
6 are, but I know there's not any documentation of
7 them in the file, and I know they don't make any
8 sense because the City's never collected that much
9 money.

10 So if I keep telling you, year after
11 year, you are going to collect \$30 million, and
12 you keep collecting \$24 million, at some point, I
13 mean, I've got to say, well, I'm not going to put
14 \$30 million on there again because we've never
15 gotten that. But that wasn't done.

16 MAYOR MAXWELL:

17 Well, maybe that was an auditing mistake
18 and not fraud.

19 MR. BARR:

20 I don't know. I can't tell you what it
21 was without interrogation.

22 So, if you look on the expenditures,
23 though, by setting the revenue so high, it allowed
24 the expenditure budgets to be pushed up so high
25 that you guys were never spending more than you

1 budgeted, but you were budgeting up to a number
2 that was never going to be attained. And so, even
3 though you never had any overspending, you were
4 spending based on a -- just a number that you knew
5 you couldn't get. Or not you guys, but the City
6 knew they could never receive that much money.

7 So they would say, well, we're going to
8 bring in \$30 million, we're going to spend
9 \$26 million. But they would really bring in 24 or
10 22 and spend 25, and that would be a \$3 million
11 deficit, you know. So there would be -- but they
12 hadn't overspent their budget. But that's not
13 proper.

14 I mean, the law says if you determine
15 that your beginning fund balance plus what you
16 want to receive in the current, or what you
17 anticipate that you will receive in the current
18 year, that's all you can expend. That's all you
19 can set as your budget. But you can't just make a
20 number up, which it appears that those numbers --
21 well, that even says something was wrong. But
22 they were either made up or they were errors. But
23 if they were errors, they were the same error
24 year, after year, after year, after year. Is that
25 fair?

1 MAYOR MAXWELL:

2 Well, hey. You know me. I just speak
3 like it is, so I'm just going to not comment and
4 just let this roll, because I think it's -- I
5 think you've said exactly what it is. It's either
6 an accounting error that happened year after year
7 and he knew it was a mistake, but he kept doing it
8 year after year after year after year after year.
9 And that goes back, I don't know how many
10 Councils. Who knows. But we do know that that
11 process or, you know --

12 MR. BARR:

13 Well, look, just what I said, if you ask
14 me, what's the revenue been the last five years,
15 and I give you a number around \$24 million or \$25
16 million, you are not going to go in your office
17 and budget 30. I mean, why would you do that? So
18 that's what's happened. For whatever reason,
19 that's what's happened. We've budgeted more than
20 we ever --

21 MAYOR MAXWELL:

22 Well, I'm a little emotional about it.
23 I'm angry. Because I know, sitting in this chair
24 right here, everybody out there in that land is
25 going to come back and pounce on us. And we don't

1 have, you know -- we called this. We found out,
2 you know. Even the last Council -- how does a
3 Council member know? You know, these people were
4 dependent upon to find those numbers and to do the
5 right thing. You don't know, unless you do what
6 we did and say, you know, this don't -- this is
7 not jiving right. We need to look at this.

8 So -- but you have no idea that it's
9 going to be that deep a hole. And now, all of the
10 great things that we talked about doing, we are
11 going to have to put on hold, you know. And so,
12 we've got to try to -- we've got to try to work
13 that out.

14 COUNCILMAN BURROW:

15 Mr. Mayor, not -- if he's finished, I've
16 got some questions I'd like to ask --

17 MAYOR MAXWELL:

18 I keep jumping in.

19 COUNCILMAN BURROW:

20 I would like to know if Mr. Barr's
21 finished.

22 MR. BARR:

23 That practice of doing the budget that
24 way, when you've got a slip of paper with your
25 budget on it, it's going to appear to be balanced

1 to a Council member.

2 MAYOR MAXWELL:

3 Sure.

4 Mr. BARR:

5 And it's going to say it's balanced, and
6 it's going to give you this great feeling every
7 year that let's just keep going like we're going
8 because we're balancing the budget every year and
9 we're doing great. The numbers on there can't be
10 traced back and documented. There's nothing to
11 justify those numbers that are on there.

12 Now, the second thing, you look at your
13 audit reports over the last several years, the
14 fact that we're losing money doesn't jump out at
15 you because you are mixing in -- you are mixing in
16 your restricted money with your unrestricted. I
17 mean, that's as plain as it can be right there.
18 Your restricted money is going up and down, but
19 it's masking the fact that every single year,
20 there's an operating -- so the City was
21 consistently spending more every year than they
22 were bringing in. But it was -- I mean, you just
23 couldn't pull that out of the reports because you
24 would have had to -- you would have done all kind
25 of work to do that. I had to do a bunch of work

1 to do that. The documents, though, that were
2 provided gave the appearance that, yeah,
3 everything is fine.

4 MAYOR MAXWELL:

5 Well, we appreciate you digging down in
6 and finding the truth.

7 COUNCILMAN BURROW:

8 Mr. Mayor, if I may, I've got some
9 questions. Just to be clear, I know you said it,
10 but I just want to make sure that every one
11 understands. There's a single account I'm aware
12 of at the First Bank that's the City's main
13 operating account. And when you say account,
14 we're talking about this checking account. It may
15 have money from bond proceeds, it may have money
16 from general fund, it may have money from ad
17 valorem tax receipts, and, however they're
18 accounted for, they're sitting in this one
19 account; is that correct?

20 MR. BARR:

21 That's correct.

22 MR. BURROW:

23 But within that account, we may have
24 different buckets or pools of money. There's the
25 general fund, there's a bond fund, there's another

1 bond fund. There may be money that's allocated
2 for special accounts, I think you called it.
3 There may be money that's a reserve for
4 self-insured expenses, and so forth. Is that
5 basically accurate?

6 MR. BARR:

7 That's right.

8 COUNCILMAN BURROW:

9 Okay. So, what we're talking about is,
10 while it's not a mere accounting error, what we're
11 talking about is it's not that money has
12 disappeared from an account. It's there. It's
13 how it's been allocated and how it's been
14 accounted for. Is that correct?

15 MR. BARR:

16 That's right.

17 COUNCILMAN BURROW:

18 Okay. And on Page 3 or Page 2 of your
19 report, you said, and I quote, "The City's general
20 fund balance has decreased significantly in each
21 of the fiscal years from 2012 to 2017."

22 Now, putting aside, for the moment, what
23 you said were the use of the bond proceeds to
24 essentially mask the deficits, during that period
25 of time, where are the deficits to the general

1 fund coming from? Is it a lower revenue, is it
2 higher expenses, a combination of the two? What
3 did your research find?

4 MR. BARR:

5 The expenditures for each year exceeded
6 the revenues each year. There weren't any unusual
7 spikes or trends or anything. They were basically
8 stable levels, but they were consistently out of
9 whack. So the revenues were always consistently
10 being under an expenditure amount by
11 \$3 to \$4 million.

12 COUNCILMAN BURROW:

13 So the bottom line is, during that period
14 of time, the City was spending beyond its means?

15 MR. BARR:

16 Exactly, yes.

17 COUNCILMAN BURROW:

18 And I guess what I'm driving at is, can
19 you attribute it to a decline in sales tax
20 revenues? Was there a decline in ad valorem tax
21 revenues? Or was this simply an issue of, we knew
22 what those numbers were, but the budget number was
23 set at a higher amount?

24 MR. BARR:

25 That's what it was, because the revenue

1 base was not significantly deteriorating in any
2 way. It was pretty much stable.

3 COUNCILMAN BURROW:

4 Okay. And that's what I'm trying to
5 understand here. When you say there was a
6 deficit, the deficit is not the result of, we had
7 a substantial loss in the valuation of property in
8 Pascagoula so our tax collections went down. It
9 was the fact that our budget was overinflating the
10 revenues, so at the end of the year, when you've
11 got to add it all up, it looks like a deficit.
12 And, is, in fact, a deficit.

13 MR. BARR:

14 It would be like me making a salary of
15 \$40,000 a year for the last eight years, but I've
16 been spending \$60,000.

17 COUNCILMAN BURROW:

18 And in the next paragraph on that same
19 page, you said that, "The current financial crisis
20 cannot be readily ascertained from the City's
21 financial reports because the City has recorded
22 general obligation bond proceeds in the general
23 fund." Again, we're talking about the fund. Not
24 the account, but the funds, themselves.

25 And when you say "financial reports,"

1 what reports are you referring to? Are these like
2 the internal records?

3 MR. BARR:

4 Auditor reports.

5 COUNCILMAN BURROW:

6 And what internal records of the City did
7 you review as part of preparing your audit?

8 MR. BARR:

9 Trial balances and general ledger
10 printouts of some accounts, but primarily trial
11 balances. But the focus of the general ledger
12 accounting that's done by the City is not quite
13 the same as it is in the audit report, which is
14 ultimately what's released to the public. And so
15 there are anticipated adjustments in those numbers
16 each year. So I went to those reports to get
17 modified actual numbers versus budget --

18 The general ledger is maintained on a
19 budget basis. The financials that you look at are
20 a modified accrual basis. So that's --

21 COUNCILMAN BURROW:

22 And, just so there's no misunderstanding
23 later, was there any document or information you
24 requested from the staff which you were not
25 provided?

1 MR. BARR:

2 No, none at all. Matter of fact, the
3 staff would get me things before I could get back
4 to my desk good. I mean, I was very impressed
5 with the cooperation I had.

6 COUNCILMAN BURROW:

7 Was there anything you asked for which
8 could not be found or was not available for your
9 review?

10 MR. BARR:

11 Where those budget numbers came from.

12 COUNCILMAN BURROW:

13 The inflated budget numbers?

14 MR. BARR:

15 We never found that.

16 COUNCILMAN BURROW:

17 You are referring to the inflated budget
18 numbers?

19 MR. BARR:

20 We never found the documentation for
21 those numbers.

22 COUNCILMAN BURROW:

23 Now, the Mayor talked about the prior
24 audits that were done for the years 2012 to 2017.
25 And excluding '17, I saw in the audit -- that

1 audit for the first time, that it actually now
2 segregated the general -- I'm sorry, the bond
3 funds.

4 MR. BARR:

5 Correct, yes.

6 COUNCILMAN BURROW:

7 As sort of its own separate fund with its
8 own separate accounting. Should that have been
9 done in prior years, in your experience and career
10 as an accountant and an auditor?

11 MR. BARR:

12 Yes. If you look at generally accepted
13 accounting principles for governmental units,
14 which are issued by the GASB Standards Board, they
15 call for you to restrict those monies. And, like,
16 bond proceeds would be restricted for capital
17 projects, but they were shown as unrestricted.

18 COUNCILMAN BURROW:

19 And I noticed in the 2017 audit that --
20 when I say 2017, I'm talking about for the Fiscal
21 Year 2017 that ended September 30th, 2017. It
22 does account now for the \$14 million deficit that
23 you said exists in the unrestricted cash proceeds
24 of the general fund. Is the City obligated, at
25 this point, in your mind, to go back and correct

1 the prior audits, or has that accounting
2 adjustment, is that sufficient going forward?

3 MR. BARR:

4 Yeah, I wouldn't suggest restating those
5 prior ones. What they've done is they've
6 corrected through a prior period adjustment, which
7 is disclosed in that most recent audit report, so
8 that stands as the most recent and best
9 information, and, as you mentioned, it's been
10 corrected in there.

11 So I think, you know, trying to go back
12 and individually restate each individual year, it
13 would be expensive and a really tough job.

14 COUNCILMAN BURROW:

15 And when we talk about general fund
16 obligations, and I know that's an accounting term,
17 but what we're talking about, as I understand the
18 term, is we're talking about the salaries of City
19 employees, paying for their benefits, like health
20 insurance, paying for the maintenance of the
21 buildings, the work that's being done to provide
22 City services, those type expenditures that I call
23 day-to-day expenses. Is that a fair statement?

24 MR. BARR:

25 Yes.

1 COUNCILMAN BURROW:

2 Okay. And if I understand you correctly,
3 I have here the bank account statement at the
4 First Bank for the City of Pascagoula operating
5 account, dated June 29, 2018, showing a cash
6 balance on that day of \$5,217,359.91. And is it
7 my understanding, from what you said earlier that,
8 if you properly account for the diversion of the
9 bond proceeds that, essentially, the City of
10 Pascagoula has zero cash to pay those general fund
11 expenses?

12 MR. BARR:

13 Yes. That's what I'm saying.

14 COUNCILMAN BURROW:

15 All right. Now, you mentioned in the
16 audit that there was a manual system of
17 recordkeeping that you found difficult. You are
18 going to have to describe that for me, because I'm
19 not sure exactly what you mean. Are we talking
20 about numbers on a piece of scratch paper or what
21 do you mean by a manual system of recordkeeping?

22 MR. BARR:

23 Well, you've got a trial balance -- you
24 know, the bond proceeds went into the general
25 fund. And you've got a trial balance for the

1 general fund that's just line after line, several
2 lines long. And you can't just glance down there
3 and say, oh, that account is bond fund money, that
4 account is bond fund money. My understanding is
5 that people have been keeping -- they have
6 recently begun to use, like, on this new
7 \$12.5 million, they're using project codes, so
8 it's a lot easier on the new one than it was on
9 the old one. But even there, you've got to go in
10 there and, you know, you've got to run a tape and
11 add them all up.

12 If they were in a separate fund, which I
13 think they are now. You know, I think they've
14 been reclassified on the internal books to a
15 separate fund. But if they had always been in a
16 separate fund, you would be able to just go over
17 there and click that fund, and look at its
18 expenditures, and add them up, and that's what's
19 been spent. But now -- or not now, but prior, you
20 would have had to have gone in, and pulled the
21 right line items, and made sure there wasn't
22 anything in those lines that really wasn't bond
23 money. And it's just a lot -- a lot more manual
24 process than would have been normal.

25 COUNCILMAN BURROW:

1 So the City -- and we get a report every
2 month of expenditures that are incurred by the
3 City, and that's printed out on a financial -- a
4 governmental financial system software known as
5 Munis. Are you generally familiar with Munis?

6 MR. BARR:

7 Yes.

8 COUNCILMAN BURROW:

9 Okay. And it's my understanding, I don't
10 have any personal knowledge, but I've been told
11 that that's a system that can cost anywhere from
12 \$25,000 to \$150,000 to do.

13 MR. BARR:

14 Yes.

15 COUNCILMAN BURROW:

16 And it's my understanding, or am I
17 correct in saying that the expenses that we're
18 talking about that were -- these expenses that are
19 not accounted for properly, they are actually
20 recorded in Munis, but they're recorded under the
21 general fund. They're not recorded in such a way
22 as they would show up on a report in a segregated
23 bond fund?

24 MR. BARR:

25 That's right. I mean, they're

1 intermingled in there with the things you talked
2 about earlier, the police salaries, fire salaries,
3 buying supplies, whatever. And you've got to go
4 in there and pull them out.

5 And now they've -- or in the
6 \$12.5 million bond issue, when I was there, they
7 were marking those accounts with project numbers,
8 which made them much easier to identify. With the
9 old portion of the \$15 million that went in there,
10 you had to kind of just, you know, look and feel
11 around.

12 COUNCILMAN BURROW:

13 Given the electronic software that the
14 City has, and, presumably the money that was
15 invested in it, and the fact that the
16 expenditures, themselves, were at least recorded
17 in the system, do you know of any reason why there
18 would be a need for anyone to keep a manual system
19 of recordkeeping when it came to bond proceeds and
20 how they were expended on bond projects?

21 MR. BARR:

22 If they went into the general fund,
23 that's -- the expenditures have to follow. I
24 mean, the cash is in the general fund. The
25 expenditures have got to follow it. And so the

1 best way to do that would have been those project
2 numbers they were trying to use.

3 COUNCILMAN BURROW:

4 I guess I'm just trying to --

5 MR. BARR:

6 The best answer would have been to have
7 them in a separate fund, but they weren't in
8 there.

9 COUNCILMAN BURROW:

10 I'm trying to understand, what would be
11 the mindset that you would keep a manual system
12 when you've got a financial software that this
13 City has spent somewhere north of \$50,000, and you
14 are keeping a manual record-keeping system in
15 order to know where the -- how the bond proceeds
16 have been spent.

17 MR. BARR:

18 Yeah. I didn't really --

19 COUNCILMAN BURROW:

20 Okay. But that created a problem for
21 you, didn't it, in trying to understand and
22 calculate, okay, how much of the general fund --
23 you know, how much of those expenditures were, in
24 fact, spent using bond proceeds or should have
25 been spent using bond proceeds?

1 MR. BARR:

2 It created -- yeah. I mean, it wasn't a
3 problem because we overcame it, but, I mean, yeah,
4 I guess -- it depends on the --

5 COUNCILMAN BURROW:

6 You understand my confusion --

7 MR. BARR:

8 What exactly do you mean? Yeah, I do
9 understand. I mean, the best way to do it would
10 be to have it segregated. It wasn't segregated,
11 but I don't really know --

12 COUNCILMAN BURROW:

13 Well, Mr. Barr, my confusion is that we
14 have what I was represented, when I became a
15 Councilman, was an extremely robust, you know,
16 financial software system geared specifically for
17 cities, and, yet, one or more individuals are
18 keeping a manual system of tracking, you know,
19 expenditures of bond funds on basically a piece of
20 scratch paper.

21 MR. BARR:

22 A spreadsheet.

23 COUNCILMAN BURROW:

24 Well, you said manual.

25 MR. BARR:

1 Well, spreadsheets are manual.

2 COUNCILMAN BURROW:

3 What do you mean by "manual"?

4 MR. BARR:

5 Well, "manual" means --

6 MAYOR MAXWELL:

7 They have a way of pulling it out.

8 MR. BARR:

9 Yeah. The system is not keeping up with
10 it for you. You are having to go in there and dig
11 it out, put it in the spreadsheet. That's the
12 manual part. The spreadsheet is not just making
13 itself. You've got to go over there and build it
14 yourself.

15 COUNCILMAN BURROW:

16 Okay. So manual, it's all electronic.

17 MR. BARR:

18 Yeah. I didn't mean it was on, like,
19 chicken scratch.

20 COUNCILMAN BURROW:

21 So, it's on an Excel spreadsheet?

22 MR. BARR:

23 Yes, sir.

24 COUNCILMAN BURROW:

25 Okay. All right.

1 MR. BARR:

2 Yeah, I'm sorry about that.

3 COUNCILMAN BURROW:

4 Now, you mentioned before special revenue
5 funds, and you also talked about that in the
6 audit. What is -- just so everybody understands,
7 what are these special revenue funds where you
8 said that some of the funds were diverted, I
9 guess, or accounted for under the general fund?

10 MR. BARR:

11 Yeah. That would be things that have
12 some type of legal or contractual restriction on
13 them when they were received. So, I think you
14 have a special ad valorem tax that has a
15 restricted purpose. You could have grant
16 proceeds, if they were received ahead of being
17 spent, if they were on hand, they would be
18 restricted in the special revenue. Like, some
19 grants, you can draw down and advance money to
20 yourself, that would be some of the special
21 revenue.

22 Then you have things, any kind of
23 statutory -- any restriction that's legal or
24 contractual versus like an ad valorem tax, your
25 general fund ad valorem tax millage can come in,

1 you can spend that on anything you want, as long
2 as it -- it's, you know, a normal budgeted
3 expenditure.

4 COUNCILMAN BURROW:

5 If you would --

6 MR. BARR:

7 They have -- I'm sorry. They have
8 specific purposes that they're received for.

9 COUNCILMAN BURROW:

10 Okay. If you would, look at Exhibit
11 Number 4. And that's where you list the prior
12 period adjustments. And I'm just trying to wrap
13 my head around this because I'm not exactly sure
14 what they are, what they mean. For example, you
15 know, there are a number of adjustments, and I'm
16 going to pick one out at random. Just -- and it's
17 not really at random, because it's the largest one
18 and it jumped out at me. There's an adjustment
19 for 2013 for Hurricane Katrina of \$5.2 million.
20 And the note there, I assume this was a -- I don't
21 know where the note came from, if it's yours or
22 from the software, it says, adjustment to prior
23 year accounts receivable and accounts payable.

24 Now, do you know -- what impact did this
25 \$5.2 million adjustment have on our general fund

1 balance back in 2013?

2 MR. BARR:

3 It reduced it. And, basically, what it
4 meant, prior period adjustments are things that
5 are discovered in the course of maybe completing
6 an audit for the current year that relate to a
7 prior year, and so they're going to be corrected
8 through just adjusting of the beginning fund
9 balance.

10 So, if you thought you had a million
11 dollars in fund balance, you get in there, and you
12 are working on the current year audit, and you
13 figure out, oh, hey, that prior year fund balance
14 should have really been \$900,000, not \$1 million.
15 You would adjust that \$1 million down to \$900,000.
16 So it's just one little line there on the P&L
17 statements or the revenue and expenditure
18 statement.

19 COUNCILMAN BURROW:

20 Well, again, I'm not an accountant. I've
21 never taken the first accounting course in my
22 life, and I can certainly understand adjustments
23 of, you know, hundreds or maybe even \$1,000. But
24 do you know of any explanation, or reason, or
25 legitimate cause for why you would make a

1 \$5.2 million adjustment?

2 MR. BARR:

3 No. They in -- like, a prior period
4 adjustment is going to indicate an error. So it's
5 the correction of an error.

6 COUNCILMAN BURROW:

7 It would be an error, though, that
8 predates 2013?

9 MR. BARR:

10 Correct. So it's not -- it's not
11 something that you just decided. Yeah, it means
12 you determined there was an error in the numbers
13 before that have already been given out.

14 COUNCILMAN BURROW:

15 But, bottom line, looking at Exhibit
16 Number 4, the accumulative total of these errors,
17 as you called them, the prior period adjustments
18 is negative \$2.4 million?

19 MR. BARR:

20 No, sir. That's just that one year. So
21 it's really, like, almost \$7 million, probably.

22 COUNCILMAN BURROW:

23 Okay.

24 MR. BARR:

25 If you take each one of those double

1 underlined numbers and add them together, so you
2 got 4.7 -- over all the years collectively.

3 COUNCILMAN BURROW:

4 Okay. There's no total on here, so I'm
5 ball parking it at it --

6 MR. BARR:

7 Yeah. Well, the only totals are those
8 double underlined numbers, and they're annual
9 totals. I didn't total up all the years.

10 COUNCILMAN BURROW:

11 I can look at it. It's somewhere about
12 \$7.5 million?

13 MR. BARR:

14 Right. Yes, sir.

15 COUNCILMAN BURROW:

16 And are those things that are typically
17 done by the Council, itself, or is that something
18 that's done internally, either by the auditor or
19 the comptroller that makes the adjustments?

20 MR. BARR:

21 It could be done -- it's done internally
22 by either the comptroller or the auditor,
23 depending on who found it. I mean, if you came in
24 and issued -- like, right now, today, if they
25 discovered an error in the 2017 audit report, it

1 would require a prior period adjustment in next
2 year's audit report. I mean, in lieu of restating
3 and reissuing an audit report, that's what's
4 happened. Does that make sense?

5 COUNCILMAN BURROW:

6 Well, I guess I'm just trying to
7 understand, you know, when there's an adjustment
8 that big, who's going to know about it?

9 MR. BARR:

10 Oh, yeah.

11 COUNCILMAN TIPTON:

12 I would think that almost definitely the
13 Council would have to approve a budget
14 amendment --

15 COUNCILMAN BURROW:

16 This isn't a budget amendment. This is
17 an internal auditing -- or an internal accounting
18 adjustment that was made on the books.

19 MR. BARR:

20 Yeah, I think a receivable balance was
21 written down, \$5 million, is what happened on that
22 one.

23 COUNCILMAN BURROW:

24 And that's my point. I mean, those are
25 adjustments that can occur -- like I said, can

1 occur -- and I'm not saying anybody is trying to
2 pull the wool over the Council's eyes, but, you
3 know, those are adjustments that occurred without
4 the knowledge of the governing authority, which
5 would be us.

6 MR. BARR:

7 Yes, that's right. Well, they're in the
8 audit report. I mean, you would have to dig them
9 out, but they're down there on one little line,
10 you know. You would have to be fairly familiar
11 with what you are looking at.

12 COUNCILMAN TIPTON:

13 A quick question. You had mentioned
14 earlier that the revenues had pretty much stayed
15 steady, but when we passed the GO bonds and the
16 revenue bonds in 2014, we did tax increases, just
17 a regular tax increase and then we raised utility
18 rates to pay for those bonds. So, basically,
19 there was additional revenue to pay for the bonds.
20 It just actually went into the general fund that
21 made it show that we were continuing to have the
22 same amount of revenue, correct?

23 MR. BARR:

24 Yes. I think there's going to be -- you
25 are saying when the ad valorem tax was increased,

1 there would have been more revenue there in that
2 particular line item?

3 COUNCILMAN TIPTON:

4 Correct, particularly paying for the bond
5 issues that passed.

6 MR. BARR:

7 I didn't mean they were exactly the same.
8 Yeah, I mean, I was kind of being general. Like,
9 you are talking about probably maybe \$1 million
10 out of \$25 million and something else. I mean,
11 what I really meant was revenue hadn't gone from
12 being \$28 million, four or five years ago, to
13 \$22 million now. I mean, it has fluctuated, but
14 it hasn't fluctuated outside of some reasonable
15 range, in my opinion.

16 Yeah, but you are right. I mean, there
17 were changes. There were. But that additional
18 money, you see, would have been just a small
19 percentage of overall budget, if that makes any
20 sense. Like, it wouldn't have been -- it wouldn't
21 have increased your overall budget by more than
22 just a few percent. Less than five.

23 COUNCILMAN TIPTON:

24 Well, I mean, I think of things in simple
25 terms, but basically, we were led to believe that

1 it was project monies.

2 MR. BARR:

3 Oh, yeah.

4 COUNCILMAN TIPTON:

5 And, basically, we borrowed money to pay
6 off the credit cards, and then we put money back
7 on the credit card again.

8 MR. BARR:

9 Yes. I see what you --

10 COUNCILMAN TIPTON:

11 And I say "we." It's the former
12 administration that --

13 COUNCILMAN BURROW:

14 Mr. Barr, on the budget, I know you
15 explained this in some detail, but just -- do I
16 have it right that you could not determine, from
17 looking at the work papers and all the information
18 which you provided, and you -- nothing was
19 withheld from you, that you could not determine,
20 for any of the prior years, how the -- I guess the
21 total budgeted number for revenues and
22 expenditures were determined.

23 In other words, you said that, you know,
24 there was a number that did not have any basis, as
25 far as either history or some explanation of how

1 that additional revenue was going to be --

2 MR. BARR:

3 Yeah. Look, let me clarify that, too.
4 There would be, like, buildup on all the
5 legitimate revenue sources, and it would come up
6 to whatever it was going to come up to. And if it
7 was \$18 million, and he needed to get 25, that
8 other number was going to be \$7 million or
9 \$7.5 million, or something.

10 COUNCILMAN BURROW:

11 On any of the records that you saw, was
12 there any explanation as to why that was done?

13 MR. BARR:

14 No, there was not. There would be --
15 there was buildup for -- like, this is how much ad
16 valorem I think we are going to get, this is how
17 much sales tax, this how much, you know, all these
18 other -- municipal aid. All these things would be
19 on there, and then there would be a total, and it
20 wouldn't be enough to cover everything they wanted
21 to budget. And so, there would be this other
22 number on there called Other Financing Sources,
23 and it would just be, conveniently, always enough
24 to get you up to where you need to be.

25 COUNCILMAN BURROW:

1 And I think I'm just about done. I'm
2 sure the rest of the members are tired of hearing
3 me. But the utility fund, you mentioned -- this
4 goes back on Page 11 to the utility receivables,
5 and there's some other reference to internal
6 service funds and so forth. The utility fund, I
7 think you said, was running a deficit; is that
8 correct? It may not be on Page 11, but it's
9 somewhere in here.

10 MR. BARR:

11 It had a -- yeah, it had operating
12 losses, is what I think I said somewhere up there.
13 It was probably up there on the third page. I
14 just said one of the things that was causing the
15 City's financial position to not be great, and
16 really overall, was the fact that the utility fund
17 was having an operating (inaudible). It was not
18 nearly the issue, though, that this general fund
19 thing is.

20 COUNCILMAN BURROW:

21 I understand. But it's -- it's my
22 understanding that even though it was running a
23 deficit, were transfers out of the utility fund
24 still being made to the general fund during this
25 time?

1 MR. BARR:

2 They weren't made on a predictable basis.
3 They were made, like, periodically. Like, some
4 years, they made them; some years, they didn't.
5 And I couldn't really determine how that was being
6 come about either.

7 COUNCILMAN TIPTON:

8 I'm not aware of any year that we didn't
9 do a utility fund transfer to balance.

10 MR. BARR:

11 Yeah, because some years they would be
12 done because I made a comment here on Page 11
13 where you are talking about that, you know, there
14 are restrictions on this. You can reimburse the
15 general fund for administrative costs, and
16 overhead, and that kind of stuff, but you can't
17 just make it an arbitrary number that you want to
18 shift over to the general fund.

19 COUNCILMAN BURROW:

20 I guess what I want to understand, again,
21 the accounting term, utility fund. In the utility
22 fund, there is a positive cash balance, even
23 though it is running a deficit, meaning that the
24 amount of cash available is declining over time,
25 but yet transfers are still being booked, even

1 though the amount of cash is declining over time,
2 transfers from the utility fund to the general
3 fund.

4 MR. BARR:

5 Yes. That's right.

6 COUNCILWOMAN COLMER:

7 I'm going to stay right there because I
8 have a question on that.

9 MR. BARR:

10 Page 11?

11 COUNCILWOMAN COLMER:

12 Yeah, on the utility fund. It says in
13 your report that in the absence of proper
14 documentation, documentation operating transfers
15 from the utilities fund to the general fund can be
16 construed to be an unauthorized tax. What
17 constitutes proper documentation?

18 MR. BARR:

19 That you are reimbursing for a shared
20 cost that the general fund may have paid, like
21 part of the accounting costs of the City, part of
22 -- anything the general fund would have paid all
23 of that would have benefited the entire city. It
24 can be, like, overhead type stuff, you know, the
25 building. I mean, if the general fund paid some

1 payment to cover the whole building and the
2 utility fund took a part of that building, they
3 could reimburse them. But you can't just make a
4 number up and send it over there. It's got to be
5 substantiated with it, because, otherwise, you are
6 creating -- like I said, it can be construed to be
7 creating a tax, and there are limits on tax, you
8 know, ten percent increase and that kind of stuff.
9 So you can't just go over there and say, well,
10 fine, we'll add -- you know, we'll add ten percent
11 to ad valorem, but then we'll go over there and
12 double the water rates, and we'll just shift the
13 money over to the general fund. That's what I was
14 talking about.

15 COUNCILWOMAN COLMER:

16 Okay. And then I'm going to go back all
17 the way to -- we keep talking about audit reports,
18 audit reports, each year's audit report. And I'm
19 going to be quite honest with you, and tell you
20 that the first audit report I looked at that I was
21 given, I pulled from the State Auditor's website.
22 I've never been given an audit report while I've
23 been a Councilman. I actually called or emailed
24 last Friday and asked for the 2017 audit. But
25 during the budget process last year, I wasn't -- I

1 wasn't given one.

2 MR. BARR:

3 Does the Board accept it? Do you know if
4 the Board accept it?

5 COUNCILMAN BURROW:

6 I don't know if it was available or not
7 during that time.

8 MR. FREDERIC:

9 Yes.

10 MR. BARR:

11 So if it's been brought to the Board to
12 be accepted, you are -- I mean, it should be given
13 to the Council for sure.

14 COUNCILWOMAN COLMER:

15 Well, I've gone on -- since, I've gone on
16 to the State Auditor's website and pulled every
17 one that I could.

18 MR. BARR:

19 I mean, basically, the Council -- well,
20 the Council is the body that engages the auditor.
21 It's nobody else.

22 COUNCILWOMAN COLMER:

23 Well, you made the statement that Council
24 -- that the Council probably couldn't see a lot of
25 these things, but a CPA could see these things, if

1 you were -- if you knew what you were looking for.

2 So if you were a CPA --

3 MR. BARR:

4 Right. That's right. Yes.

5 COUNCILWOMAN COLMER:

6 When you start looking at these things,

7 you are going to pick up on this looks -- this

8 looks wrong, that looks wrong, okay, wait a

9 minute. So --

10 MR. BARR:

11 Yeah, because, I mean, if you know -- if

12 you know there's X dollars of bond proceeds on

13 hand, and without those, you'd be below zero, yes.

14 COUNCILWOMAN COLMER:

15 And so if the numbers were not exactly

16 what they should have been, if I were a CPA, I

17 would probably have known that? I would probably

18 have picked up on that? By "other things" --

19 MR. BARR:

20 Yeah, really -- I mean, if you look back

21 at 2016's audit report, the unrestricted general

22 fund balance that year was reported as a deficit

23 fund balance of, I think I said

24 eight-hundred-and-something thousand. Yeah, well,

25 that, right there, is not proper. I mean, you are

1 not supposed -- cities are not authorized to go
2 into a deficit, by statute.

3 COUNCILWOMAN COLMER:

4 All right. General question. And, going
5 back, looking back, because, like I said, I pulled
6 every audit report I could on the State Auditor's
7 website. Who, on the City staff, in general,
8 would be responsible for the Council making
9 decisions based on false information?

10 MR. BARR:

11 Wait --

12 COUNCILWOMAN COLMER:

13 Based on those numbers that were given
14 them. So who would that responsibility lie on?

15 MR. BARR:

16 I would say whoever the authority to
17 oversight that had been delegated to.

18 If you read the statute, it's going to be
19 the -- probably the City Clerk, but I don't think
20 you all utilize the position that way. So, you
21 know, I don't want to say something that doesn't
22 make sense. She doesn't want me to say it.

23 COUNCILWOMAN COLMER:

24 Well, at that time, the City Clerk was a
25 different person.

1 MR. BARR:

2 Well, that too, but the statute says --

3 MR. FREDERIC:

4 The City Comptroller is the same person.

5 Not you.

6 MR. BARR:

7 Well, back then. So, I mean, that's who
8 the statue would tell you to peg. But, obviously,
9 you've got to look at whoever you delegated that
10 to, if it was outside. But I don't know that she
11 has the authority to delegate it to anybody else,
12 to be honest with you.

13 COUNCILWOMAN COLMER:

14 So when you looked at this audit, how
15 long has the City been operating on bond proceeds?

16 MR. BARR:

17 Let's -- let me look at one thing. I
18 think I can see that on --

19 COUNCILWOMAN COLMER:

20 And that's kind of a year, I guess is
21 what I'm looking for.

22 MR. BARR:

23 Yeah, okay. Well, go to Exhibit 2. I
24 tried to go there a little while ago and I talked
25 myself out of it. So, we've talked enough now

1 that I think I can use Exhibit 2.

2 If you look at the top line there, Total
3 General Fund Deficit Balance -- General Fund
4 Balance or Deficit For Audit Report, there again,
5 when I say that number, I'm talking about what
6 they report as unrestricted, not the complete
7 general fund balance. That's what you would see
8 on the audit report. So you don't really see a
9 deficit until 2016, and there, it's like \$794,000.
10 Because I think there might have been some other
11 stuff that made that other number we talked about,
12 the \$800,000.

13 If you -- if you delete all the special
14 revenue funds and the capital projects funds, I
15 mean, that really would have been a deficit fund
16 balance at the end of '15. So I would say from
17 that point forward, you were utilizing bond funds.
18 And in older months, it would have been that
19 \$8 million that came in from the 2015 -- or I
20 don't know the series of numbers. '14 --

21 COUNCILWOMAN COLMER:

22 2014.

23 MR. BARR:

24 Yeah. And then, you know, as that was
25 spent out, then along came that \$12.5 million that

1 kind of shored it back up.

2 COUNCILMAN BURROW:

3 Mr. Barr, one more question. Based on
4 your review of all the records and in light of
5 your report, are you aware or have you seen any
6 indication that any individual personally
7 benefited from any of the activities that you've
8 documented in your report?

9 MR. BARR:

10 I haven't seen any indication of that,
11 but I want to be clear that that wasn't really the
12 scope --

13 COUNCILMAN BURROW:

14 I understand.

15 MR. BARR:

16 Yeah, like, I can't give you reasonable
17 assurance that anybody did or didn't, to be honest
18 with you. But I haven't seen it. No, I have not
19 seen it.

20 COUNCILMAN BURROW:

21 That's all I was asking, what you had
22 seen.

23 MR. BARR:

24 I have not seen it.

25 MAYOR MAXWELL:

1 Mr. Barr, one thing -- actually, several
2 things. Reading through your report, it was kind
3 of a punch in the gut that I think we all seen
4 coming. But I'd like to rehash some of your terms
5 that you used in this report, financial crisis,
6 \$14 million deficit, unable to produce documents.
7 I realize that was in reference to some budgeting
8 items.

9 MR. BARR:

10 Right.

11 MAYOR MAXWELL:

12 Not following proper accounting
13 practices, unreasonable budgets, immediate
14 solutions needed, and obtain legal counsel. That
15 doesn't sound very good.

16 In your opinion, were prior audit
17 reports, should they have been presented as
18 unqualified reports?

19 MR. BARR:

20 You know, that involves materiality. I
21 mean, they've got statement problems on them, you
22 know, but I don't know -- I mean, unqualified
23 report versus a qualified report. I mean, all it
24 would have taken is a restricted -- you know, some
25 of that stuff could have been (inaudible)

1 corrected, I don't know that I would call into
2 question. Does that make sense?

3 COUNCILMAN PARKER:

4 It does --

5 MR. BARR:

6 I mean, I know you are a little bit
7 familiar with this, aren't you?

8 COUNCILMAN PARKER:

9 There's a lot of misleading information,
10 looks like, was presented to the general public,
11 and it's --

12 MR. BARR:

13 Yeah, I mean, it was -- it's better to
14 call it misleading because it didn't paint the
15 picture it should have painted. It didn't paint
16 the picture the standards intended for it to
17 paint. But, I mean, I wouldn't take the same
18 audit report, I don't believe, and call it
19 unqualified, but I -- you know, gosh, man, I mean,
20 I -- they've done hours and -- you know, I
21 can't --

22 COUNCILMAN PARKER:

23 And I realize that wasn't your
24 engagement, to review the prior audit reports. So
25 that's kind of out of your scope. But I guess

1 just for -- you know, I mean we haven't even been
2 presented an audit report. We're 14, 15 months
3 into this and have never seen the first audit.

4 MR. BARR:

5 I'll just leave it at the audit report
6 does not paint a clear picture of what the general
7 fund looked like, and it's primarily in that
8 equity section because it's not restricted and
9 that type thing. So, I mean, it's a limited --
10 limited little --

11 And, look, I said this. In the '17
12 audit, it's been redone, and so if you compare a
13 '16 audit report to a '17 audit report, you are
14 going to see what I'm talking about. And so I
15 think they would agree, the auditors would agree.
16 But I wouldn't never want to say it should be not
17 unqualified, based on what I've done. I mean, I
18 know what you are asking me, but I --

19 COUNCILMAN PARKER:

20 I realize it's a tough question for you.

21 MR. BARR:

22 I'm not going to answer it.

23 COUNCILWOMAN COLMER:

24 Well, I'm going to follow that up in a
25 statement because I went back and looked at audits

1 2011 through 2017. In every report, it clearly
2 states that the City of Pascagoula has not
3 established procedures to ensure that its external
4 financial statements are free from material
5 errors. I mean, it clearly states that we have
6 accounting problems and we are not correcting
7 them.

8 And year, after year, after year, if your
9 audit firm is telling you this, why -- why, at
10 some point after, let's see, what is that, '11 to
11 '17 -- why haven't they, at some point said, okay,
12 enough, guys. You keep telling us you are fixing
13 it and you are not.

14 So why, at some point, didn't they make
15 one of those audits unqualified? I mean, that's
16 just --

17 MR. BARR:

18 Well, unqualified versus qualified just
19 means that they feel like those numbers present
20 fairly your financial position and your changing
21 financial position of that year, you know, along
22 with all of the decorations and footnotes and
23 things.

24 Well, they kind of do that, you know. I
25 mean, that was your fund balance. Well, no, I see

1 what you are saying. There were material -- what
2 they are referring to in that finding you just
3 quoted or kind of just said are all those prior
4 period adjustments that somebody asked earlier
5 about. The fact that they're constantly having to
6 make prior period adjustments is indicating that
7 the prior year audit report had errors in it, and
8 it's -- you know, it would make them unhappy to
9 find that out. It would make any auditor unhappy.
10 So I can see where they would keep lighting them
11 up about it. Well, yeah, somebody should probably
12 have said, like, what are we going to do to get
13 this comment out of here? You are right.

14 COUNCILWOMAN COLMER:

15 When Stephen talked about him not having
16 accounting classes, okay, I'm even worse. But I'm
17 smart enough to know that when I looked at those
18 reports, in 2014, they had a zero cash balance.
19 In 2015, they had a cash balance because an
20 \$8 million bond came in and that went in the
21 general fund.

22 So these are things that combined with
23 those words in that audit, I guess I'm thinking
24 exactly what Matt asked, or Councilman Parker
25 asked, why wasn't this -- why didn't these light

1 bulbs go off for somebody else?

2 MR. BARR:

3 Yeah. Let me look at something real
4 quick. So in '14, at 9/30/14, you said the cash
5 was zero?

6 COUNCILWOMAN COLMER:

7 Zero.

8 MR. BARR:

9 All right. So the fund balance was like
10 a million-and-a-half dollars. So that means it
11 probably was composed of receivables and other
12 things made it all up. They really probably
13 didn't have any cash. That makes great sense.
14 You have your sales tax is always running a month
15 behind, that kind of stuff. So, yeah, but it gets
16 counted as fund balance because it's coming in.

17 MAYOR MAXWELL:

18 Well, the audit report shows that, right?

19 COUNCILWOMAN COLMER:

20 Right.

21 MAYOR MAXWELL:

22 So you take a city of this size with a
23 zero cash balance, I'm not a CPA, but I can tell
24 you, that's a problem. And I want to know --

25 MR. BARR:

1 In '17, it shows, like, negative
2 \$12 million. But the bottom line is negative
3 \$14 million, so there is a couple of million
4 dollars of other assets and things that make up --
5 MAYOR MAXWELL:

6 So what I want to know is why -- who knew
7 that and why they didn't present it to the
8 Council. So that's what I want to know.

9 MR. BARR:

10 Which gets back -- you asked me that,
11 didn't you, how they kept not knowing it?

12 COUNCILWOMAN COLMER:

13 Who's responsible, because it put -- it
14 put that Council --

15 MAYOR MAXWELL:

16 All right. So anybody else got any
17 questions?

18 COUNCILMAN BURROW:

19 Thank you, very much. I appreciate you.

20 MAYOR MAXWELL:

21 We're going to go now to Ryan and --

22 MR. FREDERIC:

23 Can we take a quick break?

24 MAYOR MAXWELL:

25 Let's take a ten-minute break.

1 MR. FREDERIC:

2 Or five. But ten, that's fine, Mayor.

3 MAYOR MAXWELL:

4 Ten-minute break.

5 (Off the record.)

6 MAYOR MAXWELL:

7 We're going to call back to order now.

8 All right. So we're going to get back on this and
9 we're going to discuss the plan moving forward
10 that our team has put together. So with that,
11 Ryan.

12 MR. FREDERIC:

13 Thank you, Mr. Mayor. Two points real
14 quick. Mr. Barr, thank you for that. It provided
15 a lot of insight and I think it provided some
16 context to what your report actually said because
17 as I believe most of our Council people up here
18 said, not one of us are accountants, and don't
19 have that background, so I appreciate your
20 explaining that.

21 The next point would be this. All right.
22 We just recently received the annual audit for the
23 Fiscal Year 2017 from Wolfe, McDuff & Oppie. It
24 is our intent to have you all request for them to
25 come to -- which, by the way, we're going to

1 recommend that we have another budget meeting a
2 week from today, which would be the 31st, and we
3 would like for you all to authorize either for us
4 to do it or you all can do it, but to request for
5 them to be here, please. But there are copies of
6 that audit. I believe we just got them Friday
7 afternoon.

8 So, with that being said, what we want to
9 talk about now is something that I touched on when
10 we first started, which is, look, ladies and
11 gentlemen, this is not something that you all
12 thought you were getting yourselves into. Quite
13 frankly, it's not something that anyone up here
14 thought they were getting their self into.

15 But it's now our chance to focus on the
16 opportunities that you all have, that we have,
17 both as a Council, a Mayor and an administration
18 to finally get this thing right. Because as I
19 appreciate what Mr. Barr said, is that this is
20 something that's been going on for quite some
21 time.

22 So what you have in front of you -- and
23 we've given you all packets of these slides. What
24 you have in front of you right now, it says
25 Administration Decisions. Who you are primarily

1 going to hear from for the next however long you
2 all want it to be is myself, Ms. Trosclair, and
3 Mr. Corder.

4 So, with that being said, we've kind of
5 broken this up. I think it may be logistically
6 better, so long as you can hear Frank and Sherria,
7 I think they are going to sit at the table and I'm
8 going to be the one that stands up for most of
9 this. If we talk over one another, we apologize.
10 Tell us to slow down.

11 With that, I would like to call or have
12 Ms. Trosclair speak on the first point, which is
13 the overview of departmental budgets.

14 MS. TROSCLAIR:

15 We're going to take a look at revenues
16 very briefly. You will see it kind of falls in
17 line with what Mr. Barr was saying. You can hear
18 me, correct? This is the historical property tax
19 revenues from 2010 to 2017. The point, basically,
20 here is that it's almost a flat line. I mean, as
21 he said, there are no big variances there from
22 year to year.

23 The next one is our sales tax diversions
24 from the state. The good news here is that in the
25 past couple of years, you are seeing an uptick.

1 Right now, I think we're looking at Fiscal Year
2 2018 to be projecting about a three-and-a-half
3 percent increase over the previous year.
4 Hopefully, that's going to carry forward into
5 Fiscal Year 2019.

6 COUNCILMAN BURROW:

7 Sherria, does that include the prepared
8 food tax or does that exclude the prepared food
9 tax?

10 MS. TROSCLAIR:

11 No. This is the diversions only, so none
12 of the additional taxes.

13 Here, these are historic utility fee
14 revenues. They're kind of almost all over the
15 place. You can see the dip that happened from
16 2010 all the way to 2013, and then you had an
17 uptick. Of course, 2016, in March, is when the
18 last real rate increase happened, so the
19 collections then went up from that point forward.

20 COUNCILMAN TIPTON:

21 Can't we put that on the gas revenue for
22 this year, with it being a colder winter?

23 MS. TROSCLAIR:

24 This year actually isn't in there yet.
25 That is 2017.

1 Okay. On our expenditures, this is the
2 -- these are the budgeted expenditures for the
3 general fund only from 2014 to proposed for 2019.
4 Like Mr. Barr was saying, you can see in the years
5 2015 to 2018, that's when we were spending bond
6 funds, okay, quite a large amount of the bond
7 funds there.

8 This year, we have virtually no capital
9 in the general fund, and also, the \$6 million
10 expenditures that we have budgeted for the capital
11 projects for the revenue -- the recreation bond
12 has been pulled out and it is in capital project
13 fund. So that \$6 million -- well, you see a
14 reduction from 36 to 24. \$6 million of that, you
15 can say is the bond funds being pulled out.

16 Okay. These are the budget expenditures
17 for proprietary funds from '14 to '19, which is
18 basically your utility fund. And, again, we have
19 the uptick between 2015 and 2018. Again, that's
20 bond funds that were expended. And we've cut that
21 way back this year into 2019.

22 And this is just a combination of both of
23 those. This is all of our funds together.

24 COUNCILMAN BURROW:

25 Are we expected -- if you would, go back,

1 Sherria, to the bond funds -- I mean, to the
2 utility funds. You said this was primarily, on
3 this chart, this was primarily the utility funds;
4 is that correct?

5 MS. TROSCLAIR:

6 This is basically the utility fund, yes.

7 COUNCILMAN BURROW:

8 Why are we expecting a decrease of
9 \$3 million -- of over \$3 million in expenses?
10 What's the basis for that decrease?

11 MS. TROSCLAIR:

12 Number one, all department heads were
13 told to cut capital, like, not put capital in the
14 budget unless it was absolutely necessary. So
15 there is very little capital in the utility fund
16 this year.

17 Another is the fact that we've been
18 commingling the expenditures of the bond funds in
19 with the utility fund expenditures. So we have
20 about \$1.1 million left to spend on the bond that
21 we took out in 2015, so we're not really carrying
22 any of that over.

23 COUNCILMAN BURROW:

24 But you're not expecting our actual
25 costs, like, for gas, or the Jackson County

1 Utility Authority, or the cost for the -- you are
2 not expecting those costs to actually go down?

3 MS. TROSCLAIR:

4 No. These are cuts. I mean, cuts to
5 capital and cuts to expenditures. We actually
6 don't have the new numbers yet for JCUA, but I'm
7 expecting that they'll come in soon.

8 COUNCILMAN BURROW:

9 All right.

10 MS. TROSCLAIR:

11 You probably can't really see this, but
12 it was in the -- it was the last exhibit in your
13 budget package, I believe. And this is basically
14 general fund only, no capital. So these are
15 basically our operating costs for the general
16 fund, what was budgeted last year versus what was
17 requested this year, and then we -- we're asking
18 for a 15 percent cut, basically, across the board
19 to help us close that \$6 million gap that we spoke
20 of earlier.

21 We have gotten to \$2 million. That's the
22 third column of numbers there, the Fiscal Year '18
23 to '19, increase or decrease. You can see who has
24 been able, so far, to make those cuts. So we have
25 a \$2 million decrease so far. That leaves us

1 another \$1.7 million that we need to cut in
2 expenditures just from the general fund.

3 And that will still leave us about
4 \$1.1 million in additional revenues or additional
5 cuts that we're going to have to come up with to
6 finish closing that gap. And we've already
7 started working toward that.

8 These numbers are a week-and-a-half old
9 now, so we're still -- we've still been meeting
10 and discussing other ways that we can cut.

11 MR. FREDERIC:

12 Some of what you are going to see in our
13 recommendations that are to follow, as far as
14 reducing costs, should help with some of these
15 numbers right here. We'll get to those in just a
16 second.

17 MS. TROSCLAIR:

18 Okay. This nice little pie chart shows
19 us what makes up our general fund budget. As you
20 can see, public safety is -- you know, I mean,
21 that's where most of it goes, especially in a year
22 like 2019, when streets and drainage, you know,
23 have been cut. So you are not having a big piece
24 of the pie going to -- well, it says city
25 engineer. This is by who -- which department head

1 is responsible for that budget. So, yeah, I mean,
2 it's mainly public safety right now, is what we're
3 looking at. Everything else is just spread out
4 between a lot of small departments.

5 Okay. These are the larger budgets.
6 This is the comparison. The blue is what they had
7 requested this year. The gold is what we have
8 proposed to you.

9 So this shows you the gap between those
10 two. And these are the smaller budgets. You can
11 see that more of the smaller departmental budgets
12 were able to kind of level that out between where
13 -- the goal that we -- the goal that we set for 15
14 percent. It's a lot harder on those larger
15 budgets. Police and fire are -- I think fire is
16 over 95 percent personnel cost, and I believe that
17 police is 84 to 85 percent personnel.

18 COUNCILMAN BURROW:

19 To what do you attribute the increase
20 that was on another slide? If you go, I think
21 forward -- it was showing -- yeah, recreation
22 director, in the middle there, to what do you
23 attribute -- some of these proposed budgets are
24 still higher. I mean, is this simply, you know,
25 more cuts are to be found? Is there any

1 resistance that you are getting? What is --

2 MS. TROSCLAIR:

3 No. And let me -- let me backtrack a
4 minute. We had not shared with the department
5 heads a 15 percent goal. That 15 percent goal is
6 what has come out of the last couple weeks. So we
7 didn't tell them up front, we need to cut 15
8 percent. We didn't know, when we first handed out
9 those departmental requests back in April, that --
10 we didn't know what our goal was going to be yet.
11 So we asked them to cut where they could. We have
12 -- we have more recently come to the conclusion
13 that it's going to take about 15 percent to get us
14 where we need to be.

15 And I think I misstated, the gold is the
16 goal, okay. That's the goal. So you pointed out
17 the recreation director there. We have actually
18 -- what the proposed budget is the blue, so we've
19 more than cut. So, basically -- basically,
20 they've more than met the goal.

21 COUNCILMAN BURROW:

22 All right. I understand.

23 MS. TROSCLAIR:

24 Okay. We're going to look at our bonds,
25 just very quickly. This first slide shows the two

1 most recent bond issues, the issues that we have
2 remaining commitments to expend funds on. So you
3 can see what our proceeds were at the beginning,
4 what we have expended to date, and this is as of
5 the last docket, and then what our remaining
6 commitment is, what we have to continue to expend
7 on those.

8 The outstanding balance, that's what we
9 actually owe on the bond, and then beneath that
10 are the payments due, principal and interest on
11 those two bonds.

12 And these are all of the bonds that the
13 City now currently has outstanding and what our
14 annual commitments are for 2019 to pay those
15 bonds.

16 MR. CORDER:

17 This next slide, Mayor and Council, is a
18 slide that we consider an opportunity to find some
19 cost savings, but these have always been
20 discretionary spending items based on requests
21 made to the Council. You will see on here some
22 recommendations from staff.

23 There are some future discussions to be
24 had. For example, on the Boys & Girls Club item,
25 we'll see that come up in just a second. But

1 basically, we're looking at cutting the majority
2 of these. If you have any questions about these,
3 please feel free to ask.

4 There is one that we need to make sure we
5 correct. On the JCEDF, the recommendation should
6 be 500, not zero, because if we don't give them --
7 our understanding is that based on what we've been
8 doing with the agency, we have to be a voting
9 member of them to benefit from their authority.
10 So we need to give them at least a minimum of
11 that.

12 MR. FREDERIC:

13 The next item you see in front of you in
14 regards to the discretionary spending deals with
15 certain contract services that we're either
16 looking to renegotiate or cut services in order to
17 cut costs.

18 The first one of those is the cleaning
19 services contract. With the cleaning services
20 contract, we have met and have determined at this
21 time that we are going to reduce the amount of --
22 or the number of buildings that the current
23 cleaning contractor cleans to three. Those three
24 will be, as of right now, or what we'll recommend
25 that you cut it to, I'm sorry, would be the Andrew

1 Johnson Center, the Recreation Center, and then
2 the Senior Center. If we cut and leave those
3 three, that will save us somewhere in the
4 neighborhood of about \$52,000 this year.

5 So what that means for the employees, you
6 all are soon to find out, is that we all are going
7 to be responsible for our own areas, which just
8 makes good common sense. You know, we should --
9 the citizens of the City of Pascagoula should not
10 be required to bear the burden of this if we are
11 not willing to roll up our sleeves and do the
12 same, which I know is something that y'all have
13 been on us about. So that would be the first item
14 there.

15 The next item there would be in regards
16 to grass cutting. Currently, that is a contract
17 that we have with Turf Masters. Mr. Jordan, at
18 least over the last year that I have been here,
19 who is the principal with Turf Masters, has always
20 met us every time we've said, hey, we need to look
21 to reduce services and/or save costs. We are
22 intending to do that with him again.

23 Something of note here is that if there's
24 going to be a slide down the road where you see,
25 to use the Mayor's word when we met earlier today,

1 is that everything is on the table. Meaning we
2 are going to suggest or recommend to you that
3 there are certain properties within the city that
4 we are going to request that you put up for sale
5 because, quite frankly, we need the money. So, a
6 few of those are parks. Should we be able to sell
7 those properties, well, then, of course, then your
8 grass cutting contract would be less because then
9 there would be less properties to maintain.

10 The next contract that we have up there,
11 Utility Partners has been a longstanding, for lack
12 of better way to put it, partner with the City for
13 a number of years. We have already met with
14 Ms. Turner, who, of course, is our engineer who
15 manages that contract, and are seeking to engage
16 UP to renegotiate the terms of that contract.

17 What we've looked at potentially doing is
18 combining those two contracts. In Ms. Turner's
19 recommendation, there's a public works and a ditch
20 maintenance, which are separate contracts. We are
21 looking to combine those in the hopes that will
22 save us some money. It is currently on a
23 month-to-month basis, but we're going to recommend
24 right now -- we believe we should do it on a
25 six-month basis and then see where we are after

1 that. And then Frank will speak to you regarding
2 the grant matches.

3 MR. CORDER:

4 One thing that's not in your budget is
5 grant matches. We have been going after specific
6 grants in recent months because of the fact that
7 we knew that we are under tight fiscal
8 constraints. However, what is not in there is our
9 grant match. That's what we want to bring back to
10 you at a later date, and discuss further about
11 what, specifically, you all want us to target, and
12 looking for some guidance from the Council.

13 MR. FREDERIC:

14 This next slide, I know, is going to be
15 met with much trepidation, and it was with myself
16 and Frank, and Cheryl, when we sat down. All
17 being extremely financially conservative, never
18 did we think we would recommend to you that there
19 needs to be a tax increase. Unfortunately, as
20 much as we put our heads together, we can't come
21 up with a way for us to get out of this and get
22 out of this quickly without increasing taxes.

23 So what you see on this current slide is,
24 is that currently, our current tax rate is at
25 42.05 mills. For your benefit, 1 mill essentially

1 equals \$227,875.

2 Okay. So our current recommendation to
3 you would be to increase the general millage by
4 4.2 mills, as well as the debt service millage by
5 4.2 mills. My math is not great, but Sherria, I
6 think, has checked this, and so what we're looking
7 at is somewhere in the neighborhood of that
8 increase, \$1.8 million, thereabouts. Okay. So
9 that's a lot of money, but it's not enough, of
10 course. However, the first thing when people hear
11 tax cuts, they think, well, how much money is that
12 going to cost me, and rightfully so. This slide
13 right here illustrates that with the proposed tax
14 cuts, we are --

15 COUNCILMAN BURROW:

16 You mean the tax increase.

17 MR. FREDERIC:

18 I'm sorry. Tax increase. Sorry. The
19 tax increase that we're proposing, a person whose
20 home is valued at \$100,000 would be looking at an
21 annual increase of about \$80 per year, or that's
22 less than \$10 per month. So those will be the
23 recommendations that we provide to you when it
24 comes time to approve this budget.

25 And the reason why that is important for

1 us to make a decision -- and we're, of course, not
2 asking you to make a decision on that tonight.
3 But as you all all remember, there are statutory
4 requirements as to what we must do when we publish
5 our notice of adopting our budget. And we want to
6 make sure that that is done properly and
7 accurately this year, so it will be something that
8 we're going to need a decision from you all
9 sometime in the next few weeks.

10 Sherria, do you want to --

11 MAYOR MAXWELL:

12 Let me stop right there. I want to ask
13 you a question. I want to go back on this,
14 because we keep -- I'm going to lose my place and
15 my thought, and I don't want to do that.

16 Back on this stuff, Jaci, with your
17 department, like cutting the grass, and digging
18 ditches, and roadway help, paving, fixing, is that
19 something we can reach out to the county, too, and
20 ask their assistance to help us?

21 MR. FREDERIC:

22 Well, I mean, we already are asking the
23 county for certain assistance in regards to -- as
24 you can see, we've done that with -- I mean, the
25 county was kind enough to pave and stripe -- pave,

1 mill and stripe Market Street. There are certain
2 other tasks that we are going to make or intend to
3 make of the county for them to help us with our
4 roadways, yes.

5 As you recall, Mayor, we met with the
6 city -- or the county engineer two days ago and
7 discussed exactly what they had available. So,
8 yes, we are certainly going to seek help from the
9 county. Anything in regards to that, as far as
10 maintaining our roadways, well, I mean, I think
11 that would take some negotiations by lawyers as to
12 whether or not there's --

13 MAYOR MAXWELL:

14 And two days ago, when I was in that
15 meeting, I didn't know all this. So I think it
16 would be worth sitting back down with the lawyers
17 and us and seeing if we can't come to an agreement
18 with those guys to help prop us up. I mean, you
19 know, we are -- you know, we're the county seat.
20 And obviously, none of us -- we didn't choose to
21 be here, in this situation, and none of us knew
22 what we were walking into, but we are certainly
23 going to be the ones to make the hard decisions to
24 get the city propped back up.

25 I think it's time that we go out to all

1 of our resources, and tap those, and to make sure
2 that, you know, the county seat is standing tall
3 and operating back in the black. So I am willing
4 to reach out to anybody who will help us do that.
5 And I think -- I think that would be a good idea
6 if maybe you opened the door to that, and let us
7 walk through it, and to have those discussions.

8 MR. FREDERIC:

9 Absolutely.

10 COUNCILMAN WOLVERTON:

11 Do we get MDOT on board on Highway 90?

12 MR. FREDERIC:

13 Sir?

14 COUNCILMAN WOLVERTON:

15 Could we get MDOT on board on Highway 90?

16 MR. FREDERIC:

17 Well, now, there's already a project
18 that's upcoming, and specifically --

19 COUNCILMAN WOLVERTON:

20 At the causeway?

21 MR. FREDERIC:

22 Well, in between, yes, sir, but then it's
23 also going to come into Pascagoula, I believe.

24 Jaci, isn't it through 14th Street or Railroad?

25 MS. TURNER:

1 The project that's awarded goes to 14th
2 Street.

3 MR. FREDERICK:

4 Right.

5 MAYOR MAXWELL:

6 That's going to be a -- that's going to
7 be a huge help to us. I appreciate MDOT doing
8 that, because that's something that's really
9 needed. And, apparently, that project is going to
10 be a big project, and we are going to be excited
11 about that very soon.

12 MR. FREDERIC:

13 Right. And they are doing some other --
14 and I could probably get the terminology wrong,
15 and Jaci could correct me, of course. It's some
16 sort of safety -- they're also doing safety
17 roundabouts, and whatnot ---

18 MS. TURNER:

19 There's another safety project from one
20 end of the city to the other that's going to focus
21 on access management, signals, median
22 improvements, and that sort of thing. The entire
23 length of that project has not been bid or awarded
24 yet.

25 MR. FREDERIC:

1 But that is MDOT again.

2 MAYOR MAXWELL:

3 Look, I love them guys there. They're
4 stepping up to help us big time, and I appreciate
5 that.

6 COUNCILWOMAN COLMER:

7 Before you move on, on that slide right
8 there, just a question. We all have the
9 anticipated millage increase from the school
10 district. Is that included in here?

11 MR. FREDERIC:

12 It is not. So what you would be looking
13 at, Mrs. Colmer, is that in addition to the 8.4
14 that we are going to recommend to you, that with
15 the school district -- and I don't have that
16 notice in front of me to that, but, yes, they are
17 seeking an increase. I want to say that it's
18 somewhere around four or so, but I would be
19 guessing. But it does not include that.

20 MR. CORDER:

21 And just to jump in, Ms. Tracy Wilson,
22 from Jackson, did reached out to me, and she has
23 confirmed she will attend at the August 6 meeting.
24 The other two board members have not yet.

25 MAYOR MAXWELL:

1 Well, I would -- I would hope that we
2 hear a response back from them that they would
3 respond that they are going to join us as our
4 representative. I'm going to need to see them
5 join us.

6 COUNCILWOMAN COLMER:

7 You would hope.

8 MR. FREDERIC:

9 I would hope. So these slides, right
10 here, which would show you that where we are
11 currently, where our millage stands as it is
12 today, that would be the graph at the top. The
13 bottom would show you that with our proposed
14 increase, or our recommended proposed increase at
15 this time, where it would land you in regards to
16 those municipalities located within the City -- or
17 within, I'm sorry, within the county.

18 This next slide, I'm going to defer
19 Ms. Trosclair on.

20 MS. TROSCLAIR:

21 The proposed budget has an increase in
22 it, proposal for water for \$1.17 per thousand
23 gallon increase, sewer \$.33 per thousand gallons,
24 and then gas \$1.50 per thousand cubic feet.

25 COUNCILMAN BURROW:

1 Do you have any idea what that will yield
2 -- if there's something later, what that will
3 yield with those anticipated increases?

4 MS. TROSCLAIR:

5 I have work papers on that. I do not
6 have it with me, but I can get that for you.

7 MR. FREDERIC:

8 We'll get those to you.

9 MS. TROSCLAIR:

10 This slide kind of shows where we are
11 compared to other cities and utility districts
12 along the coast. Our increase will only -- this
13 is -- I'm sorry. This is on 6000 gallons of water
14 right here. So the top is where we are currently.
15 The bottom is where we would stand with the
16 increase. I believe we only move up past the
17 rates of the West Jackson County Utility District.
18 I think those are the only ones we didn't surpass
19 there.

20 At 10,000 gallons, I believe actually
21 West Jackson County would be -- yes, it would be
22 about the same. So whether it's 6000 or 10,000,
23 our rates, in comparison to other cities, stay
24 about the same.

25 What it means for our citizens, okay, on

1 a water bill, water/sewer only, garbage, right
2 now, for 6000 gallons, they would pay about \$91 a
3 month. After the rate increase, that would go up
4 to \$103 per month.

5 Now, if you take gas on top of that, 2.2
6 cubic -- 2.2 cubic feet of gas probably would run
7 a hot water heater and maybe a gas stove. The
8 increase of the total bill then would go from \$115
9 to \$130, I believe.

10 If you go to the next -- to the bottom
11 there, you are going to see a 10,000 gallon a
12 month level of water and 6.2 cubic foot of gas,
13 which would indicate someone who heats their house
14 in the wintertime, I would say an average home.
15 That would, for water, sewer and garbage,
16 currently be about \$118. That would go up to
17 \$136. You include the gas in that, you are going
18 to go from about \$176 to \$202.

19 MR. CORDER:

20 The next slide is basically what's in
21 your packet. There's a utility ordinance
22 amendment by statute. You are supposed to amend
23 these yearly -- sorry, review these yearly and
24 amend them, as needed, based on the rates. What
25 you have been presented in your packets are

1 considerations for amendments to that utility
2 ordinance, with the proposals, along with
3 proposals for increases to late fees and other
4 items that are not market rate at this point. We
5 are trying to get a market average. We've done
6 comparisons around other cities.

7 Also in there, you will see some changes
8 in language that is outdated and needed to be
9 updated. So once we do that, we'll come back to
10 you at the next workshop and also make sure you
11 are okay with that.

12 The next slide is what we referred to
13 earlier regarding city property. We are reviewing
14 all properties and all assets to see if they are
15 working and needed as possible. One of the things
16 we've learned is that we have a need to
17 consolidate properties. We have way too many that
18 we could keep up with at this point, based on
19 budgetary needs.

20 We are recommending, at this point, and
21 we will have future assets to go forward, as well.
22 But at this point, we're recommending the listing
23 of Pat Wilson Park on Polk; BB Jennings Park, just
24 off Telephone Road; Pine Street Park, on Pine
25 Street; and then future listings of, perhaps, I.G.

1 Levy North, after the next season with ball. And
2 then, of course, the 12th Street complex, which
3 will be closed once the new fields come on line.

4 We feel that with it being D3 commercial
5 or residential development, these can be put back
6 on tax rolls and help our bottom line, ultimately.

7 COUNCILMAN BURROW:

8 If I may make a comment. This is more of
9 a public consumption than anything. I can see a
10 lot of people being upset or concerned about
11 listing these parks for sale. It's something that
12 probably happens once in a lifetime. And if those
13 of you who are watching on Facebook or here in the
14 audience, if you oppose that, I certainly
15 understand it and respect that.

16 But, you know, we're also in a situation
17 where you've got to be constructive. If you
18 oppose the sale of Pine Street Park, I understand
19 that. Give me an alternative on how to raise
20 money or to get us out of the hole where we're in.
21 Please don't just come in and oppose it and tell
22 us that, you know, this would be a tragedy and so
23 forth. Nobody wants to do any of these things.
24 But you need to come with an alternative if you
25 don't want to sell I.G. Levy North or you don't

1 want to sell Pine Street Park. That's just -- you
2 know, that's just the way it is and that's kind of
3 the dire straits we find ourselves in today.

4 MAYOR MAXWELL:

5 Well, and one of the things, too, is the
6 consolidation of some of these is what we're
7 looking at. That's going to be a priority. I.G.
8 Levy North, I.G. Levy South, consolidate on the
9 southern side. And then use those ball fields out
10 there, and then, you know, at some point, sell it.
11 Develop it, you know, commercially or residential.
12 Well, I guess that would probably be residential.

13 Everything is on the table, guys. And I
14 believe that. I don't -- I don't want to ever be
15 put in this position again and I don't want the
16 Council to ever have to go through this position
17 again.

18 So, you know, we got on here -- I might
19 not be here next term, but I'm going to fix it
20 while I'm here. They can vote me off, but I'm
21 going to make the tough decisions, and I know you
22 guys will too. I am not going to leave it like it
23 was just presented to us. So everything is on the
24 table for me.

25 Okay. The next item that you have is

1 just a general slide, but we have provided to you
2 the packet from Lockard Williams. And, Johnny,
3 Mr. Lockard is in the back, if you all want to ask
4 questions of him, but I'm just going to hit the
5 high points for you.

6 This is something that we looked at doing
7 very -- I would say early part of this year. And
8 we sat down with Mr. Lockard, Mr. Williams and a
9 support staff member of his that I cannot
10 remember -- Alison, who was very helpful.

11 But where we landed was this, is that we
12 had them focus on a few separate things. One of
13 those is, is that what we have learned is, along
14 the coast, we believe that the City of Pascagoula
15 has the lowest employee contribution and the
16 highest employer contribution for health insurance
17 benefits.

18 What that means is, that we've paid the
19 most out of any city on the coast and our
20 employees pay less. Now, that doesn't mean that
21 that's such a bad thing; however, given where we
22 are, it seems unfair for the public to subsidize
23 our employees' health insurance.

24 So, at our request, Mr. Lockard and his
25 group provided a number of different options in

1 there where we can raise monthly premiums to get
2 us to a point. What we're going to recommend to
3 you is, is that it would be a \$50 per month
4 request across the board, meaning singles,
5 families with children, families without children
6 would all be affected the same. And if you accept
7 that request, then you are looking at savings
8 somewhere in the neighborhood of about \$132,000 a
9 year.

10 The other items that we had Mr. Lockard
11 and his group look at, is that currently your
12 health insurance includes vision coverage whether
13 you need vision or not. The information that
14 Mr. Lockard and his group presented to us shows
15 that if we take vision out of health insurance and
16 make it voluntary, that's a savings of somewhere
17 in the neighborhood of \$18,722 per year. It just
18 seems like common sense to us, especially
19 considering where we are.

20 The other two recommendations that we are
21 going to make to you in this next budget term is
22 that, just by simply changing the provider of our
23 prescriptions -- I did get that right, right
24 Johnny? Just by changing the provider of our
25 prescriptions, we potentially could save over

1 \$110,000 a year. That's another recommendation we
2 are going to make to you.

3 And finally, in regards to health
4 insurance, the last change, is changing our co-pay
5 for our employees from \$5 to \$10 for generic,
6 which Johnny again tells me that the only people
7 that generally have a \$5 generic co-pay would be
8 the hospital, and that's because the hospital can
9 go to their own pharmacy. Just by changing that,
10 you are looking at somewhere in the neighborhood
11 of \$24,100 a year in savings. I mean, I'm not
12 good at math, but I total that up and that's over
13 \$285,000 a year. Did I get that right?

14 MR. LOCKARD:

15 Yes.

16 MR. FREDERIC:

17 Okay. And we appreciate Johnny and his
18 group for doing that for us.

19 Now, I say that to tell you this. There
20 are other options within that book that says we
21 could raise employee contributions on our
22 employees more than what we already have. That is
23 not my recommendation. When I say "I," I don't
24 mean me individually. I mean us collectively.
25 Because there are going to be other items that

1 we're about to get to that tells you that there
2 are other ways that our employees are going to be
3 affected by this. So if you have any questions,
4 we'll go to the next slide, which addresses that.

5 The next slide -- well, look, as I
6 appreciate it -- and I had to ask Ms. Moore, who
7 is our HR director. I don't know where she is.
8 She's back there hiding. We had to ask her
9 earlier, since we've taken over, one of the
10 biggest things that I can remember, specifically
11 Mr. Tipton was one that always would bring it to
12 Frank and I's attention, as well as Stephen's, is
13 that you all need to reduce the number of jobs.
14 Okay? And we've tried to do that. Currently,
15 we've eliminated four positions.

16 Our proposed reductions, at this time,
17 are right in front of you. They're easy to read.
18 I can read them if you want to. But essentially,
19 what it would equate to is, our full-time number
20 of employees would be reduced by ten. Our
21 part-time would be reduced by three. Temporary
22 full-time, which would be summer help, which we'll
23 get to in a second, would be reduced to zero. Of
24 course, elected, that's seven, we're not reducing
25 you all, of course. And then you have appointed,

1 which is five employees and one contract employee.

2 So, just that alone, if we did those
3 recommendations, which is within the purview of
4 this administration, you are looking at savings,
5 without benefits, in the neighborhood of about
6 \$485,000. If you tack on benefits, that's
7 probably another hundred, so we are looking at
8 probably getting closer to \$600,000.

9 These are decisions that not one person
10 up here takes lightly. Someone's job is their
11 livelihood. But as the Mayor said, and you all
12 have said tonight, these are not times for us -- I
13 mean, we can't. We have to make hard decisions.
14 You all have to make hard decisions. So that's
15 where we looked there with reductions.

16 Some other items that we anticipate,
17 which is not on a slide, and this is going to make
18 Mr. Corder and I very popular with the employees
19 in the City, but we have a merit pay adjustment
20 right now. Okay. Every year, you potentially get
21 a merit-based pay raise based off what your
22 evaluation is. We think it is practical,
23 feasible, that we freeze that for a period of one
24 year. Our estimate, by doing that for a period of
25 one year, will save us somewhere in the

1 neighborhood of \$207,000. Is that right? Okay.
2 So that's one that we're going to do.

3 So that's part of the reason why we say
4 we don't want to make our employees pay more for
5 their benefits than what they already do, But,
6 this has to be a two-pronged approach. We can't
7 just put this all on our citizens. It has to come
8 from our employees, as well.

9 There are two other items that we're
10 looking to do. In fact, Ms. Moore has already
11 drafted the amendments to the handbook, and those
12 would be in regards to education compensation,
13 which under the current terms of our handbook, if
14 you have a college degree or some sort of specific
15 certification that is required for your job, you
16 get additional money tacked on to your salary. We
17 are going to recommend that for the time being,
18 until otherwise noted, no additional participants
19 will be allowed to participate in that particular
20 benefit. Meaning, if you get it right now, that's
21 fine, but if you are hired after October 1 -- is
22 it October 1? If you are hired after October 1,
23 then that won't be available to you.

24 The other item in there is the tuition
25 reimbursement. Again, no new participants after

1 October 1st. And I believe that covers everything
2 in regards to staff.

3 MR. CORDER:

4 Program and service changes we're looking
5 at, currently, we have a very popular after school
6 and summer camp program. We are looking to
7 outsource this with a private entity. This would
8 affect a number of people, yes, but the benefit,
9 from a cost analysis standpoint, makes more sense.
10 We are losing money in that program every year,
11 and it probably could provide the same service to
12 a different level with similar fees being charged
13 to our citizens.

14 As such, there would also be the same
15 ones served by the Boys & Girls Club currently at
16 the Andrew Johnson facility. And then we would
17 end that partnership with the Boys & Girls Club
18 with their use of the facility, as well as the
19 \$30,000 that is budgeted annually for that
20 organization. But the children and the families
21 being served would still be the same, given the
22 same credence under the outsource.

23 We are beginning to negotiate that and
24 will bring it back for you for future
25 consideration.

1 Also, we're looking at closing the
2 Scranton Floating Museum. It's been over at the
3 park for about 35, 40 years. The issue there is
4 that it has reached the point, structurally, it
5 cannot be moved, and if it does, it will cost
6 somewhere between a half a million dollars to a
7 quarter million dollars to do so. We have
8 directed our staff to remove the exhibits and the
9 assets there, and put them at the Nature Center
10 for now because of the deteriorating status of
11 that boat.

12 We are also looking at eventually closing
13 the Scranton Nature Center at I.G. Levy given the
14 fact that we're also looking at putting it on the
15 market, north. And that will be moved potentially
16 downtown or somewhere in a more reasonable venue
17 for us.

18 We're also looking at increasing the
19 facility use and rental fees, along with parks and
20 recreation services that will be reviewed for
21 pavilions, senior citizen use. Just as an
22 example, we charge \$50 right now, annually, for
23 out-of-city use of that facility, and no charge to
24 our local residents at all.

25 Simply going to a \$10 a month type of fee

1 would, given the usership of that facility, could
2 be in excess of \$200,000 of revenue. They pay --
3 you know, you pay \$10 a fee to go to a gym. Now,
4 at the different private entities, using that kind
5 of a fee structure would actually add to our
6 bottom line.

7 MR. FREDERIC:

8 Let me piggyback on that, just so you are
9 aware. This is not -- I mean, these are actually
10 real numbers, and this is something that could be
11 the tip of the cap to the Mayor for, and
12 Ms. Kinsey, who is not here right now.

13 Currently, as I appreciate it, there's
14 1600 participants at the Senior Center. And as
15 Mr. Corder stated accurately, they are charged an
16 annual fee of \$50. If you were to charge a \$20
17 monthly fee -- I'm sorry. If you were to charge a
18 \$20 monthly fee to non-residents and a \$10 monthly
19 fee to residents, which is the exact same that it
20 would be if you rent a pavilion at I.G. Levy or
21 you rent a pavilion at the Beach Park, those
22 numbers would equate to roughly \$249,000. Okay.
23 And it gets back to the purposes of being
24 consistent, as far as, if you are going to charge
25 us for a pavilion, it is what it is. And, again,

1 these are decisions that are going to have to be
2 made -- we believe need to be made in order to get
3 us back whole.

4 COUNCILMAN JONES:

5 In addition, on the ending the
6 partnership with the Boys & Girls Club, what
7 exactly are you referring to?

8 MR. CORDER:

9 The current structure of the Boys & Girls
10 partnership with us now, as it's structured, they
11 use the Andrew Johnson facility as it is, with no
12 rent, no charge, no anything, plus the City
13 donates or gives to them \$30,000 annually,
14 budgeted.

15 Whenever we are considering the
16 outsourcing of these programs for after school and
17 summer care, this private entity would come in,
18 manage all of those functions, and which would
19 then serve the same clientele as they're serving
20 now at both the Boys & Girls Club and the after
21 school and summer care programs. So there
22 shouldn't be a competing interest at that point.
23 They will serve the same clientele, the same
24 families, the same children. So the
25 recommendation is going to be to end that

1 partnership with the Boys & Girls Club at that
2 point and move to this private base service.

3 MR. FREDERIC:

4 And Mr. Corder, if I could, this is not,
5 by any means, a done deal. Okay? This is us
6 doing our due diligence to see where we could cut
7 costs.

8 This one particular entity, who we
9 discussed this possibility with, I don't want to
10 say the word "assured," but they pretty much said
11 that, you know, we will do what is necessary to
12 make sure that the participants there, you know,
13 can still participate there. Whether that be
14 helping them obtain funding, or whatnot, but that
15 we wouldn't be going from one extreme to the
16 other. It would be the same type of project for
17 the people there to participate.

18 COUNCILMAN JONES:

19 They're doing a lot of construction work.

20 MR. CORDER:

21 In addition, this would also open that
22 facility up to more of a community function;
23 whereas, right now, it's kind of limited to the
24 functionality of that center.

25 Going forward, too, on utilities wise, we

1 have discussed with an entity to consider the sale
2 of the gas system. The Mayor's been keenly aware
3 and interested in this, as well. We'll be
4 presenting this to you at a future meeting. The
5 idea would be to get an initial purchase of this
6 system, and an annual franchise fee from
7 thereafter. That would allow for the -- as you've
8 seen, our need to upgrade and improve lines,
9 somewhere in the 40 percent range, as has been
10 quoted a number of times. The onus would be on
11 them, at that point, and not on the City. That's
12 a very big item.

13 Also, we're looking at extending our
14 partnership with the county. That's already been
15 mentioned with Mr. Frederic and Mr. Maxwell, as
16 well.

17 The next thing is the hotel/motel tax
18 referendum. You all are keenly aware of this.
19 This died in the 2017 legislature, for lack of a
20 better term, due to political wrangling.

21 The issue is now is that if we do not try
22 to get this put back on the hotel/motel tax for
23 future facility use and operational needs, we will
24 be doing a disservice to what we are planning for
25 recreational upgrades.

1 So with that said, we are asking -- we
2 want to ask in this fall, that you authorize a
3 resolution be sent to the Legislature, to the
4 Governor, asking that they allow us to reinstall a
5 hotel/motel tax and allow a future referendum to
6 reinstall that with our citizens.

7 That would be a three percent hotel/motel
8 tax. That tax is passed along. It's a user fee.
9 Unless you rent a hotel or a facility, you are not
10 paying that tax. It's basically a fee passed
11 along.

12 COUNCILMAN WOLVERTON:

13 Did Brice say anything as to why it
14 dropped?

15 MR. CORDER:

16 I will defer that to you, from a
17 political standpoint, to ask him.

18 The next thing in your handout on your
19 desk is online sales tax resolution. There's a
20 move across the state of Mississippi, as you are
21 aware, that the Supreme Court recently handed down
22 a ruling that would allow us to start -- the State
23 to start collecting online sales tax, more than
24 what it already has been operating under,
25 Mr. Frierson's purview. The question here is,

1 will it be -- will those funds go to the State's
2 general fund or will they go to cities at some
3 level.

4 Right now, the 18.5 percent diversion
5 that's done through sales tax through the cities
6 is being requested by a number of cities around
7 the state, and this is a resolution that's also
8 mirroring that request from you all. If you are
9 interested in that, we will bring that back to you
10 at a future meeting for discussion, as well.

11 The next thing is -- what you see there
12 is a false alarm program and a sample ordinance.
13 A sample ordinance is taken from a different city.
14 It is not fully indicative of what we are trying
15 to put forward to you here. It's just a sample of
16 what could be done.

17 Mr. Frederic and I, along with PD, have
18 taken a look at this. We do have a report of
19 false alarms. Thankfully, they are not at a level
20 that is too substantial at this point; however,
21 there are a number that do require use of
22 resources and -- from PD and manpower that would
23 cause an issue over time.

24 The program, itself, Mr. Frederic can
25 speak to, but basically, it would be a

1 grandfathered in on those that currently have the
2 program, the alarms. And then from that point
3 forward, there will be a fee assessed for new
4 applicants. And if you have an excessive number
5 of false alarms over a period of time, then a
6 penalty or a fee will be assessed at that point.

7 MR. FREDERIC:

8 And Frank put it pretty soundly, but what
9 this is, again, is one of those decisions where we
10 have made, or are potentially looking to make
11 where we could increase our revenue. These exist
12 up and down the coast. I believe a fee of
13 somewhere in the neighborhood of probably \$25 to
14 register it, and then if you exceed three false
15 alarms during a given time period, then you are
16 fined or you are sent a bill for an additional
17 \$25.

18 That doesn't sound like a lot of money.
19 But, as you all are abundantly aware of after
20 tonight, any little bit helps. And it's my
21 understanding, and Frank you can correct me, but I
22 believe Ocean Springs is looking to enroll it, as
23 well. I do know Gulfport has one.

24 Now, I do believe these are the last two
25 slides. Short-term financing options. After what

1 you've heard from Mr. Barr and from, I guess,
2 everyone else up here tonight talking to you, our
3 financial picture is anything but pretty, and we
4 need quick help. This is Jason Thomas, which if
5 you all want to ask him any questions, you are
6 more than able to do so; however, he's the
7 financial advisor that we engaged last week.

8 One of the first things that we talked
9 to, when we spoke to Jason last week, was whether
10 or not -- what would be some ways that we could
11 help ourselves short-term.

12 Where we landed at that time, and it's by
13 no means a done deal, but we need to mention to
14 you is that under Mississippi law, which I guess
15 is Section 21-33-325, it allows for what's called
16 a tax anticipation note.

17 What that says is, is that you can borrow
18 up to 50 percent of your annual anticipated
19 revenue, which in our case, would be \$5.5 million,
20 because the annual anticipated revenue would be
21 \$11 million. And that you could get that
22 relatively shortly. Jason can tell me what the
23 timeframe would be. But that our note, our
24 payment on that money would be due March 15th of
25 next year. I mean, it's pretty self-explanatory.

1 It's basically, my words, getting an advance on
2 what you anticipate collecting on your revenue.
3 But, I think, again, it's abundantly clear, based
4 on what we've heard tonight, this is something --
5 if not this option, which I believe is the best
6 option currently, something has to be done in that
7 regard.

8 COUNCILMAN PARKER:

9 Payday loan, for lack of a better word.

10 MR. CORDER:

11 It gives us time for these cuts to take
12 affect.

13 COUNCILMAN BURROW:

14 I have a few questions. Jason, just for
15 lack of a better explanation, are you affiliated
16 with a bank or --

17 MR. THOMAS:

18 No. The company I work for is called
19 Municipal Advisors of Mississippi, and I'm an
20 independent registered municipal advisor. What
21 that basically means is, I'm registered with the
22 FCC and the Municipal Security Rulemaking Board,
23 and qualified, under those rules, to provide
24 advice to you all on financing options that you
25 have available to you.

1 COUNCILMAN BURROW:

2 In this type of situation, obviously no
3 one on this Council, probably nobody in this room
4 has had this happen to them. I realize we need to
5 act quickly. Is this something that you would go
6 out and negotiate with a particular lender in
7 mind, or is this something that you would get
8 basically some quick RFPs? While we need quick
9 money, I don't want to be gouged at the same time,
10 so I would like to drive the best deal we could,
11 under the circumstances.

12 MR. THOMAS:

13 Typically, I would approach mainly local
14 banks, you know, preferably banks that are active
15 in the community. But the local connection in a
16 case like this is going to be critical, and then
17 select, from among those, the best option that's
18 offered.

19 COUNCILMAN BURROW:

20 And what is the timeframe if,
21 hypothetically, you are told go, how many days are
22 we looking at in order to secure financing?

23 MR. THOMAS:

24 Troy might could speak better to that,
25 but the way I understand the statute, you would

1 have to -- we would have to close it after you
2 start your next fiscal year, after October 1st.
3 But we can set up a closing date within that and
4 have all the preliminary work done in advance of
5 that funding date.

6 COUNCILMAN BURROW:

7 Well, my concern is, is this body
8 approving expenditures when you've already heard
9 the circumstances of how our, you know, account is
10 right now. And I don't know what the -- that's
11 why I'm asking what the timeframe is, because we
12 start having our August meeting, I guess, August
13 6th. We're going to have a claims docket. And
14 so, you know, are we looking at getting some money
15 in by August 6th?

16 MR. THOMAS:

17 I believe, once again, Troy can speak
18 better to that, but I think that's a little bit
19 too much to expect.

20 MR. JOHNSON:

21 When are you all meeting next?

22 COUNCILMAN BURROW:

23 August 6th.

24 MR. JOHNSON:

25 August 6th? It will take 30 days, I

1 mean, by the time -- it's going to take a little
2 bit.

3 COUNCILMAN BURROW:

4 Okay.

5 MR. JOHNSON:

6 And I mean, we can do it as fast as we
7 can do it.

8 MAYOR MAXWELL:

9 We have to look at another option then,
10 because we are not going to make that (inaudible).

11 MR. JOHNSON:

12 You all have a scheduled meeting? I'm
13 talking about next week.

14 MR. FREDERIC:

15 Yes, we do.

16 COUNCILMAN BURROW:

17 I mean, understand where I'm coming from.

18 MR. JOHNSON:

19 Yeah, I know. You all do not need to
20 spend bond proceeds --

21 MAYOR MAXWELL:

22 We're not going to.

23 MR. JOHNSON:

24 -- on any of this.

25 MAYOR MAXWELL:

1 We're not going to.

2 MR. JOHNSON:

3 I know you all aren't.

4 MAYOR MAXWELL:

5 We are not going to.

6 MR. JOHNSON:

7 We need to act as fast as possible, and
8 we will.

9 MR. CORDER:

10 As soon as I get the green light from
11 that, I can start talking to the local banks in
12 Pascagoula. It will take a little time to explain
13 the situation to them and to bring them up to
14 speed on what you all have been discussing
15 tonight.

16 MAYOR MAXWELL:

17 Well, what's the process?

18 MR. JOHNSON:

19 Do a resolution next week and go forward.
20 That's really all this takes, is a resolution.

21 MR. FREDERIC:

22 As I appreciate the statute, and Troy and
23 I -- Troy, nor Jason and I had the chance to talk
24 about it. As I appreciate it, it doesn't require
25 any sort of -- I'm reviewing this as we are

1 sitting here. It doesn't require any sort of
2 publication or anything of that nature. It's
3 basically adopt a resolution saying you need
4 money, and go out and see if you can find it.

5 So the other option -- and I don't want
6 to speak out of turn, but Troy and I were talking
7 about it -- but the other, Jason, which is the
8 anticipation note or there's basically an
9 emergency financing option, but the cap on that is
10 \$250,000, I believe. And that's not going to do
11 us any good, quite frankly.

12 COUNCILMAN BURROW:

13 What is our norm -- and I apologize. I
14 should know. What is our normal claims docket for
15 any given meeting?

16 COUNCILMAN WOLVERTON:

17 \$1 point something mill.

18 MS. TROSCLAIR:

19 Yes. It varies widely. Anywhere from --

20 COUNCILMAN BURROW:

21 It's more than \$250,000?

22 MS. TROSCLAIR:

23 Oh, yeah. Between \$2 million and \$2.5
24 million is, I think the largest one I've seen
25 recently. Typically, somewhere around

1 one-and-a-half to two.

2 COUNCILMAN BURROW:

3 I was looking for a number. I knew it
4 was north of 250.

5 MAYOR MAXWELL:

6 Oh, I got a headache on this.

7 MR. CORDER:

8 One thing to add, too, is that next --
9 when you recess to next Tuesday, we will have to
10 bring you a budget amendment by statute. It's
11 never been done before by this body, that I'm
12 aware of. But when your expenditures outpace your
13 revenues, you have to adjust your budget down.
14 And we'll try our best to do that, as well.

15 COUNCILMAN BURROW:

16 Is this going to be a comprehensive one?
17 Because I know we get some, one or two, maybe, a
18 month. But, you know, based on what we've heard
19 tonight, and some of the things that you are
20 proposing, I'm talking about the Fiscal '18
21 budget, I mean, this is going to be a pretty much
22 -- an across the board, wholesale budget amendment
23 from top of the revenues down to the last
24 expenditure. Is that what we should expect?

25 MR. FREDERIC:

1 Yes.

2 Any more for this particular one?

3 All right. The next one, and this is
4 future financing opportunities. And I know it
5 seems kind of ironic for us to talk about that now
6 after what we've just discussed. But it needs to
7 be addressed for a couple of reasons. One is, is
8 that you have to -- based on the recommendations
9 that we have, these bond obligations that you
10 currently have, which would be the infrastructure
11 GO bond for 2014, and then the rec bond, which was
12 pulled in 2017, people are -- for people inside
13 this room, as well as people that are watching on
14 Facebook or wherever they may be, those projects
15 will continue to occur because we are obligated to
16 do so under the terms of the bonds. So,
17 therefore, you are going to see those projects
18 continue. Okay. I don't want anybody to think
19 that those will stop because, quite frankly, we
20 can't without further -- further violating the
21 terms.

22 Now, that being said, and since we're
23 about to wrap this portion of it up, I can use
24 that to say this. This is, by no means, a perfect
25 situation. I think all of you all, if you didn't

1 get that before tonight, which I know you all went
2 home and read that book, you do now.

3 So what we would just say is that this is
4 an opportunity for us to right the ship. And one
5 of those things is, is that myself, and Jason, and
6 even Troy, to a certain extent talked about, you
7 know, there's no doubt that we're going to need
8 additional bond funding going forward to make sure
9 that our infrastructure doesn't fall apart.

10 If we can take these steps right now that
11 we're going to recommend to you all, and there may
12 be further steps for us to take, we believe that
13 there is a potential for us to secure additional
14 bond financing somewhere in the next 12 to 18
15 months so that there is potentially light at the
16 end of the tunnel. Okay? This isn't all doom and
17 gloom. As you can see, we have made a substantial
18 number of cuts already. We will continue to make
19 those cuts. That's the promise that we make to
20 you all. Because it's just the right thing to do,
21 quite frankly.

22 And with that being said, that's the end
23 of our presentation for this evening, if you all
24 have any additional questions. Because, with that
25 being said, we are anticipating, if you all are

1 available, that we need to come back a week from
2 tonight, which would be the 31st, to have further
3 discussions regarding the budget and how we
4 continue to dig out of this.

5 COUNCILMAN WOLVERTON:

6 Yeah. I saw in here where we got a
7 \$600,000 debit coming up pretty soon.

8 MR. FREDERIC:

9 Yes, sir. We're not recessing, by any
10 means, because we have an executive session item,
11 but that, again, concludes this part.

12 MAYOR MAXWELL:

13 Anybody got any questions?

14 Ladies and gentlemen, thank you for
15 attending tonight. You can stay, if you want.
16 We're going to make a motion to go into executive
17 session.

18 COUNCILMAN BURROW:

19 Closed session.

20 MAYOR MAXWELL:

21 Closed session to determine the need for
22 executive session. Thank you.

23 (Off the record at 7:31 p.m.)

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CERTIFICATE OF COURT REPORTER

I, MONICA SCHROEDER, Court Reporter and Notary Public, in and for the County of Jackson, State of Mississippi, hereby certify that the foregoing pages, and including this page, contain a true and correct transcript of the proceedings as taken by me at the time and place heretofore stated, and later reduced to typewritten form by computer-aided transcription under my supervision, to the best of my skill and ability.

I further certify that I am not in the employ of, or related to, any counsel or party in this matter, and have no interest, monetary or otherwise, in the final outcome of the proceedings.

Witness my signature and seal, this the _____ day of _____, 2018.

Monica Schroeder, RPR, CRR, CSR #1285
My Commission Expires July 19, 2019