LEGISLATIVE, FINANCE AND ADMINISTRATION COMMITTEE

The Legislative, Finance, and Administration Committee meeting was held on June 8, 2015, at 6:31 p.m. with Chairman Hare presiding. Members present were Mr. Cole, Mr. Sudler, and Mr. Shevock. Ms. Maucher was absent. Members of Council present were Mr. Anderson (departed at 6:35 p.m. and returned at 6:40 p.m.), Mr. Neil (arrived at 6:46 p.m.), Mr. Hosfelt (arrived at 6:32 p.m.), Mr. Hutchison, and Mr. Slavin.

AGENDA ADDITIONS/DELETIONS

Mr. Sudler moved for approval of the agenda, seconded by Mr. Shevock and unanimously carried.

Disposition of City Owned Land – Property Located at 16 South Queen Street, 18 South Queen Street, and 24 North New Street

Mr. Scott Koenig, City Manager, advised members that the City of Dover acquired properties located at 16 South Queen Street, 18 South Queen Street, and 24 North New Street at a monition sale due to liens for demolition expenses. He stated that the City had acquired several properties at monition sales over the past few years, explaining that staff attends the sales and in instances where the City is the largest lien holder on a property, the City has purchased the property to protect the City's interest.

Mr. Koenig stated that the subject properties are excess properties, as the City has no use for them and is better served by the properties being redeveloped and restored as taxable properties. He noted that the City has maintenance responsibilities associated with the properties and has no long-term interest in owning them. Mr. Koenig advised that the City has a procedure for Sale and Disposition of Real Property, which includes a "Standard Method of Disposition" that begins at the Legislative, Finance, and Administration Committee. As articulated in the procedure, the first decision by Council (after a favorable recommendation by the Committee) is whether or not to dispose of the surplus property and, subsequently, to determine the method of disposal (auction or sealed bid). The procedure also includes "Exceptions to Standard Method of Disposition," which states as Exception D, "Donation of Land to Non-Profit Organizations: If, in the opinion of the Dover City Council, the donation of a parcel of excess land to a non-profit organization would be in the best interest of the City of Dover, Council then reserves unto itself the right to make such a donation."

Mr. Koenig advised members that the Central Delaware Habitat for Humanity had submitted an offer to purchase the subject properties. He stated that the sale of these properties to Habitat for Humanity is consistent with the goals of the City of Dover 2008 Comprehensive Plan, the City of Dover 2015-2019 Consolidated Plan, and the Downtown Development District designation, to foster home ownership for low- and moderate-income households, and also supports the City's goal and mandate to affirmatively further fair housing by allowing for location choices for low- and moderate-income households.

Mr. Koenig reviewed the offers from Habitat for Humanity, explaining that if the offers were accepted, the City would need to write off a portion of the costs for demolition and the other charges, as follows:

Address	Offer Price	Lien Amount	Write-Off Amount	City's 2015 Assessed Land Value
16 S. Queen Street	$ 5,000	$ 12,275	$ 7,275	$ 10,400
18 S. Queen Street	$ 5,000	$ 6,920	$ 1,920	$ 10,400
24 N. New Street	$ 5,000	$ 35,908.46	$ 30,908.46	$ 11,000

Mr. Koenig recommended negotiating a final agreement of sale and price for 16 and 18 South Queen Street with Habitat for Humanity. He stated that the final write-off amounts for these properties would be relatively low based on the initial offer letter from Habitat for Humanity; however, he would attempt to increase the final sale price to minimize the write-off amounts. Mr. Koenig noted that when the City had transferred property to Habitat for Humanity in the past, it was below the write-off amount and technically a donation to them through the loss process. By selling to Habitat for Humanity, the City would be ensured that the lots would be developed and occupied by homeowners, and he indicated that home ownership is important in creating strong communities.

Mr. Koenig recommended disposing of the property at 24 North New Street by using the "Standard Method of Disposition" due to the significant potential write-off amount. He believed that there may be other buyers interested in this property, and the City could potentially recover additional costs and reduce the amount of the potential write-off by seeking bids.

Mr. Koenig noted that 16 and 18 South Queen Street were adjacent to property owned by Habitat for Humanity; therefore, it made sense to dispose of the real estate to them.

Staff recommended the following action: 1) determine that the property is excess property; 2) authorize the City Manager to negotiate a final sale price with Habitat for Humanity that minimizes the write-off amounts for 16 and 18 South Queen Street; and 3) authorize the City Manager to dispose of 24 North New Street using the "Standard Method of Disposition."

Mr. Sudler questioned the difference between the cost and sale amount that the City would lose. Responding, Mr. Koenig explained that for 16 South Queen Street the City's lien amount was $12,275 and the offer price from Habitat for Humanity was $5,000; therefore, the maximum write off under current conditions would be $7,275. For 18 South Queen Street, the lien amount was $6,920 dollars and the offer from Habitat for Humanity was $5,000, so the maximum write off amount would be $1,920. He reiterated his recommendation to authorize him to negotiate an increased amount in an effort to reduce the City's write-off amounts, realizing that the City would not be cash positive on this transaction. Referring to 24 North New Street, Mr. Koenig explained that the current offer from Habitat for Humanity would result in a write-off amount of $30,908.46, which he believed was too high to request Council to authorize. Instead, it was his opinion that the City should proceed with a sealed bid and accept the highest offer.

In response to Mr. Sudler, Mr. Koenig explained that if the City were to accept the offer from Habitat for Humanity for 24 North New Street, the City would have to write off, or basically lose, $30,908.46.

Mr. Shevock questioned whether the City should advertise for 16 and 18 South Queen Street to see if there are offers above Habitat for Humanity's, since staff will advertise for 24 North New Street. Responding, Mr. Koenig stated that he did not recommend advertising for 16 and 18 South Queen Street. He explained that Habitat for Humanity owns 14 South Queen Street and, because these are small lots, their intention is to consolidate 14, 16, and 18 into two (2) lots with a house on each lot. Mr. Koenig stated that there is value in getting houses in this area quickly, and it would not be worth the amount of administrative time to advertise these properties.

In response to Mr. Shevock, Mr. Koenig stated that the City always reserves the right to reject bids. He advised that the last time the City disposed of excess property in this manner, a minimum bid amount was set, which worked well.

Mr. Sudler questioned if there were any Code violations on these properties. Responding, Mr. Koenig stated that there were no longer any Code violations because all of the structures had been removed, and the land should be vacant and free of trash. He noted that the City would write off any unpaid fines or vacant building fees remaining.

Mr. Sudler inquired if the new owner would be responsible for existing violations. In response, Mr. Koenig explained that they would only have to mow the grass because the properties are vacant lots at this point. He stated that past violations will not transfer with the property, but the new owner would take over maintenance upon the transfer of the property.

Mr. Anderson questioned whether the City would write off the lien against the property or reserve the right to continue to pursue other options, such as a civil suit, for collecting the debt. Responding, Mr. Koenig explained that once the City receives payment from Habitat for Humanity for the properties located at 16 and 18 South Queen Street, the unpaid balance would be removed from potential revenue and, for accounting purposes, would be written off. He stated that there would be no pursuit of legal action against the previous owner.

Mr. Anderson stated that the process made sense for 16 and 18 South Queen Street because of the amount of staff time and legal fees that would be involved without a guarantee that the person would be found. However, he did not believe it made sense for 24 North New Street because the City would not be able to sell that property for an amount close to the lien, and questioned whether the City would consider selling the debt to a collection agency instead of writing it off.

In response to Mr. Anderson, Mr. Koenig stated his belief that the City had never sold this type of debt to a collection agency. He advised that Mr. William Pepper, Deputy City Solicitor, had indicated that once the City owns the property, the true liens against the property are extinguished. Mr. Koenig stated that the City does not have a legal measure to go back and pursue a lawsuit. Since the owner forfeited the property and the City took title to it, the City basically agreed to forgive the prior property owner the amount.

Mr. Shevock moved to recommend: 1) declaring properties located at 16 South Queen Street, 18 South Queen Street, and 24 North New Street as excess property; 2) authorizing the City Manager to negotiate a final sale price with Habitat for Humanity that minimizes the write-off amounts for 16 and 18 South Queen Street; and 3) authorizing the City Manager to dispose of 24 North New Street using the "Standard Method of Disposition," as recommended by staff. The motion was seconded by Mr. Cole.

Responding to Mr. Sudler, Mr. Koenig explained that the "Standard Method of Disposition" would be through sealed bid.

In response to Mr. Sudler, Mr. Hare confirmed that through the sealed bid process, someone would purchase the property, and the intent was to try to get more than $5,000 for it.

The motion to recommend: 1) declaring properties located at 16 South Queen Street, 18 South Queen Street, and 24 North New Street as excess property; 2) authorizing the City Manager to negotiate a final sale price with Habitat for Humanity that minimizes the write-off amounts for 16 and 18 South Queen Street; and 3) authorizing the City Manager to dispose of 24 North New Street using the "Standard Method of Disposition was unanimously carried.

Discussion - Fiscal Year 2015 Audit Program

Mrs. Donna Mitchell, Controller/Treasurer, and Mr. William Seymour, SB & Company, LLC, reviewed a presentation entitled "Auditor's Responsibility for Communicating with Audit Committee."

In regard to the Auditor's Responsibility - Page 4, Mr. Seymour advised members that, under generally accepted auditing standards, there is a requirement to communicate with those charged with governance and this can occur in various forms, such as a meeting or letters. He advised members that SB & Company would bring items of significance to their attention as they are discovered. Mr. Seymour stated that the audit responsibilities of SB & Company and of management would be outlined in an engagement letter. He indicated that field work would begin in a few weeks and would include a preliminary review of the processes and controls that underlie the financial reporting process and the compliance process for the single audit. A secondary process would take place after year-end to validate on a scope basis the actual numbers within the financial statements. At the end of the audit, the results would be summarized, including whether or not significant deficiencies or material weaknesses were found. Mr. Seymour stated that his firm would effectively evaluate whether management would be able to produce an accurate set of financial statements if the financial auditor were removed from the process, and whether the system is designed to provide reliable data. He indicated that the number one (1) potential issue would be a finding of lots of journal entries. Mr. Seymour noted that, during an audit, sometimes numbers reported by management are found to be incorrect, such as discrepancies between the cash balance reported by management and the balance obtained by the auditor; at other times there may discrepancies in how items are presented within the statement, such as assets that are capitalized in one (1) place and expended elsewhere.

Mr. Seymour stated that this presentation related specifically to the June 30, 2015 audit and was requested by Mrs. Mitchell so that new members would have this information prior to receiving the audit results. He advised members that SB & Company was available to answer any questions they may have.

Mrs. Mitchell advised members that the Legislative, Finance, and Administration Committee serves as the City's audit committee. She indicated that the calendar provided spelled out the tasks to be performed during the audit period. Mrs. Mitchell noted that there was a goal to have the audit done by November 30th, rather than December 31st as had been done in the past. She informed members that new pension accounting standards were implemented both last year and this year, which would result in a larger pension liability for unfunded pensions on the financial statements.

Mr. Shevock moved to recommend acceptance of the Fiscal Year 2015 Audit Program, seconded by Mr. Cole and unanimously carried.

By unanimous consent, the meeting adjourned at 6:54 p.m.

William F. Hare
Chairman

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