



Minutes

**REGULAR MEETING
OF THE
FINANCIAL ADVISORY BOARD**
Tuesday,
December 11, 2018 7:00 p.m.
El Cerrito City Hall
Hillside Conference Room
10890 San Pablo Avenue
El Cerrito, CA 94530

Chairman Patterson convened the Financial Advisory Board (FAB) meeting at 7:00 p.m.

Roll Call: Present: Board members: Patterson (Chair), Keller, Rangdol and Vranich.
Public: C Hindler, R Mitchell, C Thiel, D. T. Hunter, P Duncan, D Straus, S Perry, D Sangster.
Staff Liaison: Mark Rasiah, Finance Director.

1. Reviewed and approved meeting minutes from November 13, 2018 meeting.
By motion made to approve (Keller) and seconded (Rangdol) the meeting minutes were approved unanimously.
2. Board/Staff Communications/Announcements.
None.
3. Council Liaison Announcements and Reports.
None.
4. Oral Communications from the Public on Items Not on the Agenda.

C Hindler urged the FAB to consider moving the FAB meeting day to the fourth week of the month so that the public could attend other City commission meetings that occur on the same night as the FAB. He also shared information on a production of the Contra Costa County Civic Theater group and invited members to attend a performance costing \$20 per person. C Thiel expressed concerns about the City's financial condition as reported by the auditor. He mentioned the unfunded pension liability, interfund borrowings, net cost of service versus tax revenue and urged the FAB to tell Council to control costs and to refrain from spending Measure V funds until 2020 as recommended by the auditor and the Finance Director. He thanked FAB for saying so to Council. He also said that the advertisement for Measure V were false, and had among other things, promised improvements to Police and Fire. D Sangster inquired if the FAB was aware of the restatements to prior audit reports that were proposed by the auditor. She expressed concerns about interfund borrowings and said it was not compliant with GASB. She suggested that FAB be made party to such borrowings by being made aware more frequently than annually and that it should be a part of policy. Chair Patterson responded that the FAB was not an auditor. Keller said that the FAB had reviewed the investment report at the last meeting. She also stated that the duty of the FAB was to review the CAFR and make recommendations to Council on reserves. Mark Rasiah said that the change in Fund balance in the draft CAFR had been discussed during the proposed budget review at the June FAB meeting. He recapped the changes that had resulted in the fund balance being restated, principally the accounting for payroll and the timing of it. He said that the CAFR was available on the City website and that it

detailed the proposed changes. He also explained how the auditor had arrived at his numbers based on prior period payments and capital projects related to the RDA, and that some of the funds due to the General Fund were in fact in the process of being received from other funds, as a normal part of operations. He also said that in CAFRs past, going as far back as 2012, similar amounts had been due to the General Fund from other funds and that the previous auditors had not thought it necessary to call these out, as much as the new auditor had done. Keller said that the change in the auditors was an important improvement in the City's fiscal practices and she stressed that the auditor had given an unqualified opinion of the City's financial statements. She also said that the auditor had wanted a payment schedule for repaying the General Fund, from funds that owed it money. Thiel said that the auditor's main concern was that the repayments to the General Fund had been long overdue. Mark Rasiah stated that he had made the change in auditor as the previous firm had been auditors for a lengthy period. He said that he had wanted greater transparency and a fresh set of eyes on the City's fiscal condition. He also stated that the transfers were in the adopted budget. He said that the transfers that had been made in prior years were noted in the CAFR of those years past. He said that the auditor had wanted Council to adopt a repayment plan for monies owed the General Fund, which had been lacking in past Council actions. He said that some of the interfund transfer occur during the normal course of the year. As an example, he pointed out that the Integrated Waste Management Fund (IWM) had already paid some of the monies due, back to the general fund during the normal course of FY 2018. The IWM had owed the General Fund monies every year back to 2012, which it had then repaid during the normal course of the business. He said that some transfers that had originated several years ago, related to the dissolution of the RDA and the transfer of assets to the Successor Agency may not be immediately recoverable, and that it appeared that the funds had been used for City purposes for the benefit of citizens. Mitchell wanted to know when the minutes would be posted on the website. Vranich responded that the minutes are posted on the web, once they were reviewed and approved by the FAB at a subsequent meeting.

D Sangster said that in 2014, Mary Dodge one of the previous Finance Directors had asked Council for money to meet payroll because the money had come in late from the County. She said that she had been watching interfund transfers for over ten years and had asked previous FABs about it but had not got a clear explanation.

D T Hunter said that the City needed to operate within the budget. Mark Rasiah said that in each of the recent past years the City budget had delivered a small operating surplus which had improved the Fund Balance slightly, but that the Fund Balance was impacted by Council approved capital expenditures and loans, some going back to 2012, the year of the RDA dissolution. He said these were treated as receivables in the General Fund ever since, but it was time to write these off. Keller said that at the last Council meeting in November 2018, members of the FAB had addressed the Council and had stressed the need to set aside \$6 million for reserves in an emergency fund.

R Mitchell inquired why the City Housing Fund was unable to pay the general fund back. D Sangster said that several years ago the City had begun work on a low-income housing project but with the dissolution of the RDA, the revenues for the Housing fund had dried up and the General Fund had to pay for certain costs, which were now unrecoverable. C Thiel wanted to know why it was not possible to write it off immediately. Chair Patterson wanted to know if staff was going to work with council on a plan to write off the unrecoverable items. Mark Rasiah said that there needs to be new revenues or funds available to write anything off and that staff needs to obtain auditor approval first, before going to Council to seek approval to write anything off. He said that there had to be a process to bring such items back to Council

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in the coming months and potentially at mid-year, which included auditor approval. He also said that the City is required to make annual disclosures to bond holders and rating agencies and that the City uses the services of Willdan, an outside independent agency to do that. He said that past CAFRs too had disclosed the details of interfund borrowings. He stated that his goal was to make sure that anything that was not collectable is expensed and if the item is material and there was a likelihood that it was not recoverable, he would seek Council authorization to write it off. He said that prior to the dissolution of the RDA, the City had received about \$5 million in cash annually, which had stopped after 2012. Despite this Council had chosen to maintain services by using Fund Balance rather than cut costs. This had resulted in a nearly \$3 million reduction in Fund Balance in 2012 and General Fund reserves had never recovered since then and have been hovering around a million dollars for several years since - not enough to cover the write offs that may be necessary. He said that part of the write off will now have to come from a combination of the proceeds of the sale of RDA properties and any new revenue. He said that the prior period adjustments proposed by the auditors would have wiped out the unassigned fund balance several years ago, had they been recognized as such by the previous auditors. Keller stated that she was grateful to the Finance Director for changing the auditors and for taking positive steps to clean things up. The chair then moved onto the next item on the agenda.

5. New Business Items

Discuss timeline and use of RPTT funds

Chair Patterson initiated the FAB's discussion on the timing of revenue from the real property transfer tax measure that was recently passed. He said that the FAB had been tasked with overseeing the use of RPTT revenues. He then asked Mark Rasiah to outline the timeline and the uses of the fund. Mark Rasiah said that the first step was for the County to certify the election result. He then outlined the expected timeline for revenues and said that the tax was being implemented with effect from January 14, 2019. He said that the measure was expected to bring in about \$2.7 million annually and that for the first 5 months after its introduction, revenues are expected to be of the order of about \$100,000 a month, partly due to seasonality in property transfers. He said the money would be collected directly by the City, since the County would impose a 3% fee for collecting the tax on behalf of the City. Vranich and Patterson stated that it was not the role of the FAB to define the use of RPTT monies. Vranich added that the FAB will be the oversight body for the use of funds as defined by Council. Chair Patterson inquired how the FAB would monitor the use of RPTT funds since it was part of General Fund revenues. He wanted a process discussion, to be a future agenda item.

Mark Rasiah said that the RPTT was a general tax and as such would be reflected within the General Fund and would be tracked as a separate revenue line item but be expended among the existing expense line items in the accounting system. Vranich inquired if the FAB would be the sole body that would monitor RTTP expenditures and the other members confirmed that that was their understanding. Chair Patterson wanted to know how the FAB was to track expenditures. Vranich said that a part would go to the EDRF and some to reserves, but that there would not be a need to track expenditures except in broad categories. The consensus was that council

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should direct staff during the budget process to spend funds on specific projects. Mark Rasiah suggested that the RPTT funds should be allowed to accumulate for a period and that the budget priorities outlined by Council should be based on cash in hand, rather than on future revenue from the RPTT. Vranich estimated that by June 2020, the accumulated cash would amount to about \$3 million at which point, the Council could define how that amount should be budgeted in the following biennial budget. Keller said that there had been a slow down in the volume of property transactions recently and that if there was a down turn in the economy, that could cause a shortfall in property tax revenues that would need to be covered by RPTT funds.

Oral Communications from the Public on Items on the Agenda:

D T Hunter asked if the Council was going to form a committee to oversee the use of RPTT revenue annually. He said that commercial property sales amounted to less than 19% of sales in the City. He said that Chevron would choose to lease rather than sell, if there was a transfer tax.

C Thiel stated that since the RPTT revenue was part of the City's General Funds, there would be no way to track it and that the FAB had no control over it or how it was being spent.

D Sangster requested that the FAB governance should focus on how the funds were being used by category of use. She said that the quality of the transfers should be disclosed.

R Mitchell said that the FAB should make it easier for the public to understand what the auditor had said.

C Thiel said that it would not be possible to track every dollar that came in from RPTT. He said there was no reasonable way to track where the money was spent. Keller responded that a budget process can make it possible. Chair Patterson said that the FAB was not making a shopping list. Vranich said that the General Fund reserve needs to be brought up to policy and that the EDRF should be funded first. He said that it was not the role of FAB to direct funding to specific projects. Keller stated that GFOA recommends at least 3 months of reserves.

Vranich stated that the General Fund reserve was an accounting concept and that the FAB had been stressing the need for cash holdings over reserve ratios. He said that FAB's recommendation to Council was to follow policy once the EDRF was adopted. He said that it may still be necessary to cut costs, which would have happened had the measure not passed. D Sangster asked that the FAB create governance in terms of transparency in how the funds are spent. Keller inquired when the revised Comprehensive Financial Policy will be presented to Council and said that both she and Dick will attend. Mark Rasiah responded that it was on the Council agenda for January 15, 2019.

Thereafter Chair Patterson thanked the members of the public for attending and adjourned the meeting.

6. Discuss Agenda Items for the Next Meeting

- Continue discussion of RPTT governance and FAB's role.
- Interfund loans and governance.

7. Meeting adjourned at 9:10 p.m.

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