



**Minutes**

**REGULAR MEETING  
OF THE  
FINANCIAL ADVISORY BOARD  
Tuesday,  
May 14, 2019 7:00 p.m.  
El Cerrito City Hall  
Hillside Conference Room  
10890 San Pablo Avenue  
El Cerrito, CA 94530**

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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.  
Staff Liaison: Mark Rasiah, Finance Director.

1. Reviewed and approved meeting minutes from April 9, 2019 meeting.  
By motion made to approve (Vranich) 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 – None.
5. New Business Items
  - 1) Review Proposed Changes to the FY 2019-20 General Fund Budget and recommend that City Council approve it.

Mark Rasiah presented the following changes to the General Fund Budget.

**Proposed Revenue Changes to Previously Adopted Budget**

- i. **Real Property Transfer Tax Revenue:** Addition of \$650,000; based on Measure V receipts in the first half of 2019. While the full amount will not be known until there has been a track record of receipts for a whole year, staff anticipates bringing back a budget amendment at midyear to capture actual tax revenues in the first half of the fiscal year. He said that staff is mindful that unlike property taxes, property sales that generate transfer tax revenues can be more sensitive to economic headwinds in the short run.
- ii. **Charges for Services:** Addition of \$300,000; Staff expects an increase in revenue from expanded childcare and recreation programs and activities in the summer, with a corresponding increase in expenditures (see below).

## **Proposed Expenditure Changes to Previously Adopted Budget**

Taking the above revenue increases into consideration, staff is proposing, the following changes to the adopted General Fund expenditure budget. The budget increase of \$950,000 will be paid for entirely by the proposed increase in revenues and the budget will continue to be in balance.

- i. **Public Safety:** (\$600,000) – Addition.
  - Increase in Public safety overtime (\$500,000); bringing the overtime budgets in Police and Fire in line with expenditure trends in prior years.
  - Capital expenditure budget (\$50,000) for Roof repairs at the Corporation Yard and Fire Station 72.
  - \$50,000 Budget to help initiate fire hazard prevention efforts in the Hillside Nature area (\$30,000 for Public works hazardous tree removal and \$20,000 for Fire Department weed abatement).
  
- ii. **Community Development:** (\$73,000) – Internal transfer.
  - Transfer \$33,000 from the Fire Department vehicle lease budget (from equipment that has been paid off in FY 2019) and transfer \$40,000 in previously budgeted funds (for a 0.5 FTE vacant position in the City Clerk's office) to the Community Development Department. This will consolidate functions and fund a full-time staff position to maintain the rent registry, issue parking permits and business licenses and provide much needed customer service support at the City Hall reception counter during business hours. Some of these services were previously provided by temporary staff funded by professional services budgets. Once the registry is established, some part of this cost will be recovered through cost recovery pricing.
  
- iii. **Recreation:** (\$350,000) – Addition.
  - An increase of \$198,000 for part time salaries and wages on account of the minimum wage increase and to support childcare and camps, expanded summer programs and activities. This cost will be paid for by the anticipated increase in program service revenues.
  - Increase in Professional Services budget (\$14,000) to pay for professional grant writing services in pursuit of several Prop. 68 grants that are available; provide (\$50,000) to pay for professional service efforts to renew the Measure A Swim Center Tax that was passed by voters in 2000; increase budget for bank charges (\$63,000), to account for fees and finance charges for credit card payments for childcare, summer camps and other programs; increase budget for operating

supplies (\$25,000) to support expanded summer programs and cover the cost of replacing small equipment.

Following a detailed discussion, by motion made to approve (Vranich) and seconded (Keller), the Board unanimously recommended that City Council approve the proposed changes to the FY 2019-20 Budget.

2) Discuss the FY 2019-20 TRAN and recommend that City Council approve it.

Mark Rasiah stated that the City has issued a TRAN in each of the last seven years to tide through cash flow pressures. Staff has projected cash flow shortfalls, as in previous years, typically in the fall of each year. A facility such as the TRAN will help bridge the dip in cash flow pending receipt of property tax revenues that staff anticipates in mid-December 2019.

The City has previously issued its TRAN and sold it to Westamerica Bancorporation. NHA Advisors, working with Hilltop Securities (serving as the City's Placement Agent), has negotiated with Westamerica Bancorporation to purchase the \$9 million TRAN at an interest rate of 2.19% (0.06% lower than last year). By selling the TRAN directly to a single investor, the City avoids the costs associated with rating agencies, disclosure counsel, and underwriting firms. Based on a financial analysis performed by the NHA Advisors, the all-in cost of the TRAN will be lower through the sale directly to Westamerica Bancorporation than a public offering through an underwriter.

Following a brief discussion, by motion made to approve (Vranich) and seconded (Rangdol), the Board unanimously recommended that City Council approve the FY 2019-20 TRAN.

3) Review the FY 2018 CAFR and recommend that City Council receive and file it.

Mark Rasiah reviewed the FY 2018 CAFR and the General Fund based on the CAFR that was published on the City website.

He said that the City's audit firm, Badawi and Associates, has completed its audit of the City's financial records for the fiscal year ending June 30, 2018 (FY 2018). A complete copy of the CAFR is available on the City's website at <http://www.el-cerrito.org/DocumentCenter/View/11682/City-of-El-Cerrito-CAFR-2018-Final>

Mark Rasiah said that he is pleased to report that the City received an unmodified opinion for the FY 2017-18 financial statements. An unmodified opinion by the Auditor indicates that the Financial Statements have been prepared using Generally Accepted Accounting Principles; comply with relevant statutory requirements and regulations; include adequate disclosure

of all material matters relevant to the proper presentation of the financial information subject to statutory requirements, where applicable; and any changes in the accounting principles or in the method of their application and the effects thereof have been properly determined and disclosed in the Financial Statements. He referred to the highlights in the MD&A section of the CAFR and said that:

***Financial Highlights***

- ❖ At the close of the fiscal year, City assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$26.1 million. The City's net position decreased by \$4.8 million from \$31.9 million to \$26.1 million of which \$6.0 million was invested in capital assets.
- ❖ Program revenues for Governmental Activities increased by \$2.1 million and program revenues for Business-Type Activities increased by \$0.2 million, contributing a total increase of \$2.3 million to the FY2018 City net position. General Revenues, mainly from property taxes and sales taxes, contributed \$0.7 million to the increase in the total City net position in FY2018.
- ❖ Expenditures in FY2018 in general increased by \$7.2 million over the prior fiscal year. Public safety expenditures increased by almost \$4 million, which represents almost 56% of the total increase in expenditures in FY2018.
- ❖ Total General Fund revenues of \$35.8 million exceeded the prior year's total revenue of \$34.5 million as a result of increased property tax receipts and charges for services. Despite this, total General Fund revenues fell short of the budgeted amount by \$1 million while total expenses exceeded budget by \$0.2 million, largely due to the unexpected cost of the Senior Center relocation that had to be paid for by the General Fund in FY2018.
- ❖ The General Fund reported an ending total fund balance at June 30, 2018 of nearly \$0.1 million, a decrease of \$0.7 million over the ending balance in the prior fiscal year. This was mainly due to sales tax revenues in FY2018 of \$0.7 million being received 60 days after the close of the fiscal year and therefore being classified as deferred revenue, rather than revenue in FY2018 per Governmental Accounting Standards. Had this not been so classified, the fund balance would have been nearly the same as in the prior year. In fact, the fund balance would have been almost \$1.2 million, if not for the unexpected added cost of

the Senior Center relocation of over \$0.4 million that was absorbed by the General Fund

Mark Rasiyah said that total revenue continues to improve with a moderate increase anticipated in FY2019, largely driven by property taxes. Sales tax revenues will be boosted in a small way by receipts from Home Depot, although the broader retail sales landscape is expected to grow at only about 1% in the coming years. The City's Real Property Transfer Tax revenues can help the General Fund achieve the policy goal reserve ratio of 10% sooner, if left unspent for the duration of the current biennial budget cycle. Regular debt payments will resume in FY2019 and are expected to limit liquidity in the short run. For the second year in a row the auditor has expressed concern about the City's ability to be a going concern. Staff has noted in the CAFR that this opinion does not take into account the new revenues from the recently voter approved Measure V-Real Property Transfer Tax; sales tax receipts from Home Depot; increased construction and development activity within the City generating more permit and fee revenue; potential for Cannabis sales taxes and the recent sales of redevelopment agency assets that will generate additional property taxes in the future when these properties are developed; not to mention the one-time source of cash from such sales – all of which can be expected to add over \$ 3.0 million annually to the General Fund revenue base compared with FY 2018 revenues, on which the auditor based his opinion.

On the expense side, Mark noted that employee costs continue to trend upwards. General Fund Employee costs are projected at nearly 75% of Total General Fund Expenditures for FY2019. This proportion will increase with the increase in pension related costs in FY2019 and thereafter. Union contracts will need to be renegotiated in FY 2020. In the face of these challenges staff remains focused on financial stability and opportunities to strengthen the City's financial position. That includes aligning expenses with available revenue, eliminating fund deficits and restoring the General Fund reserve ratio from the current level to at least the policy goal minimum of 10% by the next bi-annual budget cycle. Establishing and maintaining a cash balance that can sustain the City in the event of an economic downturn so that it can continue to provide quality services residents have come to expect, is a primary goal of City Management.

Following a short discussion, by motion made to approve (Keller) and seconded (Rangdol), the Board unanimously recommended that City Council receive and file the FY 2017-18 CAFR.

6. Discuss Agenda Items for the Next Meeting:

- Review meeting minutes from the May 14<sup>th</sup>, 2019 FAB meeting

7. Meeting adjourned at 8:15 p.m.