



Minutes

**REGULAR MEETING
OF THE
FINANCIAL ADVISORY BOARD
Tuesday,
January 8, 2019 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, Farahmand and Vranich.
Public: Robin Mitchell
Council Liaison: Greg Lyman
Staff: Karen Pinkos, City Manager; Mark Rasiah, Finance Director.

1. Reviewed and approved meeting minutes from December 11, 2018 meeting.
By motion made to approve (Vranich) and seconded (Keller) the meeting minutes were approved unanimously.
2. Board/Staff Communications/Announcements.
Mark Rasiah announced that the proposed revisions to the Comprehensive Financial Policy will be reviewed by Council at the January 15th Council meeting.
3. Council Liaison Announcements and Reports.
Council member Lyman thanked the FAB for attending the Council meetings in November and December 2018 and for their work on the Financial Policy. He said he was now the Mayor Pro-tem and shared information on two recent Council agenda items/actions on the Transportation Impact fee and Tenant protection ordinance that is under review.
4. Oral Communications from the Public on Items Not on the Agenda.
None.
5. New Business Items

Interfund loans and governance

Chair Patterson initiated the FAB's discussion of interfund transfers as mentioned by the auditor and asked Mark Rasiah to educate the FAB on the need for such transfers. Mark Rasiah outlined the uses of restricted funds in governmental fund accounting. Vranich inquired if there should be loan agreements between funds. Chair Patterson said that he had looked at several other Cities and noted that they all had transfers, which appeared to be a normal part of doing business, but that he hadn't seen any plans to put back transfers. Keller said that there could be transfers from a business fund like the integrated Waste Management (IWM) fund that would be authorized in the budget. Mark Rasiah said that transfers were reflected in the budget document adopted by Council, including allocation of costs between funds. Keller said that she was a GAO trained external auditor for the State of California and had spent over 25 years in fund accounting for both the public and private sectors. As an auditor,

she would examine transfers to see if an entity was moving funds from a restricted fund to an unrestricted fund such as the General Fund to bridge shortfalls in the General Fund. She said that it is not appropriate accounting practice (nor prudent fiscal policy) to move funds to cover General Fund deficits without a repayment plan. And restricted funds should never be used to cover shortfalls on unrestricted funds such as the General Fund. Chair Patterson observed that all the transfers in the CAFR are standard and common and that as far as he could determine, all cities did them as a normal practice.

Mark said that at the end of a fiscal year, quite often a transfer from the General Fund (GF) occurs whenever the GF lends money to another fund, in anticipation of being paid back when the other fund gets revenues. Due to the timing of such a transfer, the amount owed will be reflected in the CAFR as a "due to" the GF from the other fund. He said that this was normal practice and he illustrated this with a table he had prepared using the City's prior CAFRs that are available on the City website.

Mark shared a summary table of transfers that he had put together from prior CAFRs, from 2012 through 2017. He pointed out that the Council approved "due to" (from an Operating fund such as the IWM Fund or the Capital Improvement Project (CIP) Fund) to the GF had been an annual practice, that the prior auditors had treated as normal. He drew the attention of the FAB to the amounts owed to the GF as presented by the auditor and said that in fact the balance owed by the IWM fund to the General Fund had dropped by a third since the auditor's presentation. He said he expected the remainder to be paid back within the next year or two, as revenues in IWM increase. He said that likewise, the amount owed the GF by the CIP had dropped in half, as reimbursements of Capital Expenditures had been received as expected.

Of the balance owed to the General Fund by the City Housing Fund and the CIP, Mark said that these were legacy items related to the dissolution of the Redevelopment Agency (RDA) that had been detailed in prior CAFRs. He said that the Capital Projects Fund had owed about \$450,000 which had been in dispute with the California Department of Finance for several years; that the Housing Trust Fund had owed the GF \$250,000 before 2012 but had no way of paying it back as the fund did not have any revenues. He stated that these were all Council approved actions in the past. Mark said that with the imminent sale of RDA properties within the City, he would obtain Council approval at mid-year to write off these two items totaling about \$700,000 against all or part of the sale proceeds that the City would receive. He said that it was only logical that RDA expenses be written off against RDA income and that bringing the assets to market had taken time. As such the amounts owed had been carried on the books for many years. He said that he expected these write offs to occur in the current fiscal year, which would significantly reduce the amounts owed the GF by a handful of funds. He said that he would not use Measure V funds for the purpose. He stated that the GF also had an amount of \$1.3 million related to a settlement with the DOF in connection with the RDA dissolution, that was being treated as non-spendable by the auditor within the GF fund balance, pending receipt of funds. The settlement was approved by Council in September 2015, but unfortunately the City had lost the legal challenge to it and has since appealed the decision of the courts. He said that until such time as the appeal is disposed of favorably, or he has information to the

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contrary from the City's attorney, the amount in question will be treated as a receivable by the GF. Mark stated that the thrust of the auditor's comments was related to Council adopting a plan to collect/write-off receivables or advances if they were not collectable within a few months of the close of the fiscal year. He said that in the case of the long-term RDA related receivables, his plan was to write them off completely in the current year if possible.

At the end of the discussion, Chair Patterson observed that he had not heard that there was anything wrong with the process or accounting or the governance related to receivables and interfund transfers/loans. Keller said that she disagreed on the basis that even though the auditor had expressed an unqualified opinion on the financial statements, he had in his presentation highlighted a material issue facing the City namely the lack of adequate GF cash reserves.

Vranich suggested that the FAB review the City's liquidity position as part of the next budget review.

Oral Communications from the Public on Items on the Agenda:

R Mitchell said that she thought the auditor had categorized the \$1.6 million of amounts due to the GF as items that had been long overdue and not as something that was due in the short term. She said that if they all became uncollectable as presented by the auditor, the GF reserve would be significantly negative. She said that she thought the auditor was looking for a plan to deal with such receivables. After having heard Mark's plans for writing off old amounts using RDA asset sales, she suggested that the City could clear any misunderstanding the public might have about the City's fiscal condition and provide a context for what the auditor had said, by sharing the information Mark presented to FAB. Mark Rasiah responded that he planned to present the exact same information to council at the next Council meeting, which would go on public record.

Real Property Transfer Tax

Chair Patterson outlined his understanding of how the revenue from the RPTT will be accounted for and sought clarification from Council Liaison Lyman about the role of the FAB. Council Member Lyman said that firstly, Council would need to discuss the FAB's role and secondly the City attorney would need to interpret the ordinance and provide guidance. Karen Pinkos said that since the RPTT was GF money, she didn't see any difference in how the FAB oversaw the GF budget and expected the RPTT to be reviewed at budget time like the oversight of Measure R. She also pointed out that RPTT was GF money and unlike property or sales taxes revenues, which were predictable, it was an unknown at this point, until we have a record of receipts over the next several months or years. She said that she didn't see the FAB's role being any different from how it oversees the GF budget. She said that staff would be mindful about balancing the various needs that the City has and will potentially bring it back to Council in the next budget cycle. Chair Patterson stated that he too saw the FAB's role to be a part of the annual budget process. Keller inquired how the rebate process would work, and Karen responded that there would be a separate process for it

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requiring full documentation, before the City rebated any funds. Vranich said that he would be interested in seeing the seasonality of the revenues from the FAB's perspective. Chair Patterson summarized the discussion and said that he did not see that any further action on the RPTT was needed on the part of the FAB. Keller thanked Karen for attending and Karen in turn thanked the FAB for all the work that they had done.

Oral Communications from the Public on Items on the Agenda:

R Mitchell said that the public would want to see an open and transparent process for the use of the RPTT funds like how some other agencies such as the East Bay Regional Parks did with their Measure WW.

6. Discuss Agenda Items for the Next Meeting

- Quarterly Investment report
- Review Council response to Financial Policy recommendations

7. Meeting adjourned at 9:00 p.m.

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