

Financial Advisory Committee Meeting Minutes
 Regular Meeting – December 3, 2020

Attendance:

Al Royse, Commissioner	Jan Cooke, Finance Director
David Brooks, Chair	Ann Ritzma, City Manager
Jeffrey Baxter, Member	Rich Santiago, Assistant Finance Director
Rod Ferguson, Member	Shawn Christianson, Mayor
Joel Friedman, Member	Paul Willis, Public Works Director
Michele Gutierrez, Member	Bruce Barron, Fire Chief
Richard Kuersteiner, Member	Mandy Brown, Senior Management Analyst
Tom Maloney, Member	Ahmad Gharaibeh, Eide Bailly
Paul Regan, Commissioner Emeritus	Joe Escobar, Eide Bailly

Jan Cooke called the meeting to order at 8:01 a.m. The FAC meeting was conducted in a virtual setting using Zoom.

Item 1 Approval of Minutes for April 28, 2020 meeting

Minutes were approved unanimously by roll call vote with no modification. The motion to approve the minutes was made by Richard Kuersteiner and seconded by Jeff Baxter.

Item 2 Financial Highlights- FY 2019-20

Jan Cooke presented the FY 2019-20 financial results.

General Fund net excess revenues greater than expenditures for FY 2019-20 was \$2.5 million and is added to reserves. Property taxes and excess ERAF revenue increased by 4%, however, total General Fund revenue showed no revenue growth. This is attributable to prior year one-time revenues, as well as permitting revenue that decreased due to the construction moratorium from COVID-19 shut down in late FY 2019-20. Permitting revenue has started to improve in Q1 FY 2020-21. Despite a reduction in the latter part of FY 2019-20 due to market volatility, the Town's investment income increased for FY 2019-20 over the prior fiscal year. General Fund expenditures increased 5% due to personnel costs for cost-of-living increases, step increases and the increase for contributions to Central County Fire JPA.

Ms. Cooke stated the General Fund reserve balance is \$28.8 million on June 30, 2020 as reported in the Comprehensive Annual Financial Report (CAFR) and the reserves by category are \$5 million in restricted reserves for the Section 115 pension trust, \$6.1 million in assigned reserves for capital improvements and \$17.7 million in unassigned reserves. \$13.4 million of those unassigned reserves are held for contingencies per policy. The General Fund reserve policy states the 30% minimum and goal of 50% of annual operating expenditures. The Town's CAFR reports the contingency policy in the unassigned category based upon the GASB 54 definitions. However, Ms. Cooke stated that the General Fund reserves per contingency policy are reported in the assigned category for management reporting and budgeting purposes. While there is an unassigned reserve balance, the Town also has unfunded liabilities for pension and other postemployment benefits (OPEB)

The Government-wide statements show the total Town-wide view for all funds and reports an increase of \$8.3 million (11.5%) over the prior fiscal year. The Town's long-term liabilities total \$40.7 million and are mostly comprised of pension and other post-employment benefits (OPEB) liabilities. Long-Term debt complies with the bond covenants. On June 30, 2020, the Town's Certificates of Participation (COPs) total \$34.6 million and debt coverage is 3.94. The COPs are debt of the Water and Sewer Enterprise Funds.

Water Fund revenue increased by 9% due to an increase in units sold (no rate increase) and Sewer Fund revenue increased by 6% due to a rate increase effective July 1, 2019. Water and sewer revenue covered operating and capital costs resulting in net excess revenue over expenses of \$7 million (13.1%) that increases the Enterprise Funds' net position.

Ms. Cooke outlined other miscellaneous information related to the financial results and CAFR. The Town added a COVID-19 footnote in the CAFR which conveys the unknown impacts from the pandemic and that the Town will continue to monitor the results. The Town will also monitor any future changes to the CalPERS discount rate to manage increasing pension liability and annual required contributions. The Town received the GFOA CAFR award for June 30, 2019, reflecting the Town's eighteenth consecutive year for the award. The Town anticipates receiving the award for the June 30, 2020 CAFR.

After the presentation, the FAC discussed the year-end results and asked questions regarding the Town's CAFR. The FAC suggested footnote edits to uncategorized cash and investments, CalPERS pension sensitivity in relation to a discount rate change and stating the range of contingent liability related to the San Mateo Clean Water program. Staff indicated that these changes would be reviewed and incorporated for the final adoption of the CAFR by the City Council.

Item 3 FY 2019-20 Audit

Ahmad Gharaibeh, audit partner from Eide Bailly, presented the FY 2019-20 audit results. Mr. Gharaibeh explained the scope of the audit, the auditor's responsibilities and the process of examining, assessing and evaluating the overall financial statement presentation. Eide Bailly gave an unmodified (clean) audit opinion, with no difficulties in conducting the audit, that the auditors are unaware of consulting with other auditors or accountants and there were no findings to the financial statements and no material weaknesses or deficiencies. Mr. Gharaibeh also confirmed the test of the Town's internal controls confirmed that the Town is in compliance with its policies. Due to COVID-19, both the interim and final audit this year were conducted virtually, where the Town uploaded most of the auditing samples to the firm's online portal. A staff member from Eide Bailly audited on site for one day to review sensitive documents that the Town did not want to send electronically. An FAC member asked if there were any issues with conducting the audit procedures virtually instead of having the audit on site. Mr. Gharaibeh stated the importance of face-to-face audits, however, the familiarity with the Town's procedures gave Eide Bailly confidence in completing the audit. Ms. Cooke also mentioned that Finance Department staff was primarily full-time on site during the pandemic, and that all the processes were conducted using the existing established approvals and procedures.

Jan Cooke introduced Mr. Jeff Baxter. Prior to the FAC meeting, Mr. Baxter and Mr. Gharaibeh reviewed the financial statements and audit results. Mr. Baxter reported to the FAC that staff were well prepared for the audit and met standards of accounting and controls. Mr. Baxter mentioned there were no quality control issues or prior year adjustments, which he stated was due to the quality of the work of the Finance department. Mr. Baxter concluded that overall, it was a stable and positive year for the Town, with no material errors or internal control issues, leaving the auditors comfortable on how the Town operates. The continuity of the Town staff helped keep the audit process consistent with prior years.

The FAC posed various questions to Mr. Gharaibeh and the responses to those questions were discussed.

At 9:05 a.m., FAC member Michele Gutierrez left the meeting after voting on the agenda item.

FAC recommendation:

1. FAC recommended that City Council approve the audit results and Comprehensive Annual Financial Report for the fiscal year ended June 30, 2020, with no modifications by unanimous roll call vote. The motion to approve the CAFR and audit results was made by Jeff Baxter and seconded by Tom Maloney.

Item 4 Updates

Jan Cooke stated that the updates are discussion items only; no action is required.

COVID-19 Dashboard & Update

Ms. Cooke presented the Town's COVID-19 dashboard, which was created for transparency at the start of COVID-19 to track financial items. Ms. Cooke provided updates on the status of the items on the dashboard. Property Taxes are on track with budget for FY 2020-21 and the Town has no known takeaways from the State. Town reserve levels are currently expected to hit budget. Debt covenants are being tracked and the bond liquidity facility has not been needed to date. The CalPERS year-end investment returns fell short of expectation and staff is tracking what impact that might have with the CalPERS board changing the discount rate. The FAC briefly discussed additional

funding to the section 115 pension trust should be reviewed in 2021 to help offset future budget impacts from a discount rate change.

The estimated range of revenue volatility for FY 2020-21 remains at \$0.4 to \$1.2 million, as was originally estimated during the budget adoption. Ms. Cooke provided updates around the items that are being monitored. Ms. Cooke stated that the Town will be receiving \$149k in Cares Act monies (3 of 6 payments received year-to-date). The Town is also researching eligibility for a FEMA reimbursement. The Town will continue to monitor Excess ERAF revenue and Motor License Vehicle Fees. A MVLFF shortfall from FY 2019-20 will reduce FY 2020-21 revenue. The property tax assessment roll will be locked in January 2021 for FY 2021-22 and the Town will be advised whether the 2% CPI is applied to the tax roll. The Town is monitoring permitting revenue and has seen an improvement in Q1 FY 2020-21. Investment income improved in Q1 2020-21 after dipping in Q4.

Financial System Update

Ms. Cooke gave an update on the Town's process and status of selecting a new financial ERP system. After the request for proposal process (October 2019), submittals, interviews, demos and reference checking, the Town awarded the financial ERP system to Tyler Technologies for the Munis software in November 2020. This will be replacing the Town's current 21-year-old system, which will improve efficiencies and be more secure on the cloud. Ms. Cooke also informed the FAC that the project will begin in January 2021 with the first phase, which will implement general ledger, accounts payable, accounts receivable, purchase ordering, reporting and cashiering. The projected completion date of phase one March 2022. The second phase for Utility Billing will begin in January 2022 with a projected completion date of March 2023. This was a discussion item only and no action was taken.

Swaps tied to LIBOR

Ms. Cooke presented information that banks are no longer obligated to post LIBOR rates after 2021. The Town has three COP series (2000, 2003 and 2006) with interest rate swaps on the 2000B, 2003A and 2006A series. The series 2006A swaps are tied to the LIBOR index. LIBOR will no longer be the metric used to measure the Town's 2006A swap after 2021. The Town will work with J.P. Morgan, the swap counterparty, to modify the existing swap contract. Ms. Cooke stated the Town will review other options to mitigate economic risk that may range from adopting fallback language for the existing swap, to converting the swap to SIFMA, to refinancing the certificates of participation and paying off the swap.

FAC members discussed looking more broadly at the Town's long-term financing needs when addressing the LIBOR issue. The interest rate environment is very low and will likely continue, potentially making a refinancing of all COPs and paying off all swaps advantageous. FAC members also indicated that they need a fuller picture before determining if it is an advantageous to refinance and pay off all swaps. The Town has a municipal advisor, swap advisor, and bond attorney that will assist in conducting analysis. Ms. Cooke indicated timeline targeted a December 2020 review by the FAC investment subcommittee and a Joint City Council/FAC meeting in January 2021 with implementation in calendar year 2021. However, Ms. Cooke stated the timeline will be reviewed and adjusted based upon the broader analysis of debt refinancing that may be analyzed.

Meeting adjourned at 9:37 a.m.