



City of Emeryville

INCORPORATED 1896

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William C. Reuter, Chair
Benay Curtis-Bauer, Vice Chair
Brian Cross, Member
Fran Quittel, Member
Ossee Desmangles, Member

Budget Advisory Committee
Special Meeting
Civic Center, Garden Level
1333 Park Avenue, Emeryville, CA 94608
November 30, 2016, 1:30 PM

AGENDA

Actions taken by Advisory Committees are not official actions of the City Council, but must be ratified at a regular City Council meeting.

All writings that are public records and relate to an agenda item below which are distributed to a majority of the Joint Meeting of the Budget Advisory Committee & Budget and Governance Committees (including writings distributed to a majority of the committee less than 72 hours prior to the meeting noticed below) will be available at the Information Counter, 1333 Park Avenue, Emeryville, CA, during normal business hours (9am to 5pm, Monday through Friday, excluding legal holidays).

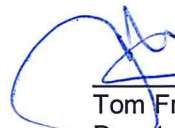
In compliance with the Americans with Disabilities Act, a person requiring an accommodation, auxiliary aid, or service to participate in this meeting should contact the committee secretary at (510) 596-4352 as far in advance as possible but no later than 72 hours before the scheduled meeting. The best effort to fulfill the request will be made. Assistive listening devices are available for anyone with hearing difficulty from the committee secretary prior to the meeting, and must be returned to the committee secretary at the end of the meeting. All documents are available in alternative formats, upon request. No dogs, cats, birds or any other animal or fowl shall be allowed at or brought in to a public meeting by any person except (i) as to members of the public or City staff utilizing the assistance of a service animal, which is defined as a guide dog, signal dog, or other animal individually trained to provide assistance to an individual with a disability, or (ii) as to police officers utilizing the assistance of a dog(s) in law enforcement duties. All committee meetings are recorded and are available through the City's website.

1. Roll Call
2. Public Comment
3. Approval of October 24, 2016 Minutes
4. Action Items
 - 4.1. Review and Acceptance of FY 15-16 CAFR and Compliance Reports
5. Information items
 - 5.1. 1st Quarter FY 16-17 Financial Update
 - 5.2. Update on Alameda County Fire Services Agreement
 - 5.3. Update on Long-Term Debt Currently Outstanding
6. Future Agenda Items
7. Announcements/Member Comments
8. Adjournment

FURTHER INFORMATION may be obtained by contacting Susan Hsieh, Committee Secretary, at (510) 596-4352 or shsieh@emeryville.org.

DATED: November 22, 2016

Post on: November 23, 2016
Post until: December 1, 2016



Tom Francis McGurk,
Deputy City Clerk

City of Emeryville
Joint Meeting of Budget & Governance Committee and Budget Advisory Committee Minutes
October 24, 2016, 2:45 p.m.

Members Present:

Budget & Governance Committee

Jac Asher, Chair
Nora Davis, Vice Chair

Staff Present:

Susan Hsieh, Finance Director
Michelle Strawson O'Hara, Finance Supervisor

Budget Advisory Committee

William C. Reuter, Chair
Benay Curtis-Bauer, Vice Chair
Fran Quittel, Resident
Brian Cross, Business Rep
Ossee Desmangles, Labor Rep

Excused:

None

1. **Roll Call:** The meeting was called to order at 2:45 p.m.
2. **Public Comments:** None
3. **Minutes from July 13, 2016 Meeting:** Approved
4. **Action Items:** None
5. **Information items:**

5.1 4th Quarter FY15-16 Financial Update – Finance Director Susan Hsieh presented the unaudited FY15-16 financial results.

Committee members expressed concern over the budget savings from education & training and advertising/printing and publication expenses. They noted the importance of employee training and encouraged staff to fully utilize the budgets in each of the departments in the future. Council members Jac Asher and Nora Davis also noted that the Public Works maintenance budget should be fully utilized and any surplus funds should be spent on maintenance activities such as tree pruning, street cleaning, etc. Ms. Hsieh explained that she would communicate this at the next Department Head meeting.

Committee members asked staff for the current status of open recruitments. Ms. Hsieh will follow-up with the committee after confirming the unfilled positions with the Human Resources department.

5.2 Update on Alameda County Fire Services Agreement – Ms. Hsieh presented the 2015-16 Year End Report.

Ms. Davis inquired about the current status of Emeryville fire services. Ms. Hsieh will follow-up with the City Manager's office to confirm.

Ms. Davis questioned why the Human Resource program is over budget due to heavy recruitment and promotional activities since Fire department recruitment traditionally isn't as challenging as recruiting for other public safety positions. Members would also like to understand why there is a recruitment shortfall as the report indicates there were only 21 recruits compared to 24 in the budget. Ms. Hsieh will confirm and follow-up.

Member Fran Quittel requested information on the vehicle replacement schedule for Fire; which staff will provide.

5.3 Update on Long-Term Debt Currently Outstanding – Ms. Hsieh presented the schedule.

Ms. Hsieh to include retiree medical benefit (OPEB) liability and unfunded pension liability in future reports.

Ms. Asher requested future reports also include bonding capacity.

5.4 Report on Section 115 Pension Trust – Ms. Hsieh presented the report and explained that the next steps are to prepare a Request for Proposal (RFP) and send to the committee for input.

Ms. Asher requested information on other cities that the three trust companies work with.

Ms. Quittel expressed concern about low interest rates and how the fees could diminish the principal balance in the trust.

Ms. Asher suggested staff summarize what the initial intent was for the trust.

Ms. Hsieh will follow-up with trust companies to request information on expected returns and fees given the City investment policy and to confirm what the risks are.

6. Future Agenda Items:

6.1 Regular Meeting Dates of Budget Advisory Committee & Budget and Governance Committee – Ms. Hsieh will include this on the agenda when new Council members join the Committee. Ms. Hsieh will send committee members information on their current terms.

7. Announcements/Member Comments: Member Bill Reuter gave thanks to outgoing Council/Committee members Nora Davis and Jac Asher for their many contributions.

8. Adjournment: The meeting was adjourned at 3:43 p.m.



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: November 30, 2016

TO: Budget Advisory Committee

FROM: Carolyn Lehr, City Manager
Susan Hsieh, Finance Director

SUBJECT: Audited Financial Statements for the City of Emeryville for the Fiscal Year Ending June 30, 2016

RECOMMENDATION

Staff recommends that Committee members review the Audited Financial Statements for the City of Emeryville for the fiscal year ended June 30, 2016, and recommend acceptance by the full City Council at their December 6, 2016 meeting.

BACKGROUND

Each year, the City of Emeryville (City) prepares a Comprehensive Annual Financial Report (CAFR) to provide City Council and others with information about the City's fiscal year financial activities and its end of year financial position. To provide independent assurance, the Certified Public Accounting firm of Lance, Soll & Lunghard (LSL) has been engaged to conduct financial and compliance audits for the year ended June 30, 2016. LSL has completed its audits and issued "clean" unmodified audit reports. The audited financial statements are attached for your reference.

DISCUSSION

Financial Highlights

1. City Pension Obligations and Funding Strategy

In the prior fiscal year, the City implemented Governmental Accounting Standard Board (GASB) Statement 68 – Accounting and Financial Reporting for Pensions. Under the new guidance, government agencies across the country are required to report unfunded pension liabilities on the Statement of Net Position, similar to bonds and other debt obligations. This standard provides greater transparency in reporting the City's pension

obligations. In addition, the City has developed strategies to pay down its unfunded pension liabilities.

As of June 30, 2016, the City has recorded a \$28 million net pension liability for its aggregate unfunded pension costs, including all Miscellaneous and Safety pension plans of the City. Liabilities are reported one year in arrears, as data becomes available from CalPERS. Emeryville's financial statements now include more than 10 pages of footnote disclosures with detailed information covering each of the City's pension plans and their funding status.

The City's Statement of Net Position reflects a liability, with related deferred inflow and outflow accounts, that recognize and generally accelerate the accounting recognition of both good news and bad news as actual investment earnings, costs, and contributions vary from actuarial funding assumptions.

Contemporaneous with the implementation of the new pension accounting standard, the CalPERS Board took action in November 2015 to begin a shift towards a significant 1% overall reduction in its investment earnings assumption, from 7.65% to 6.65%. The change will be phased in slowly, perhaps over a 19 to 21-year span. As reported in the CAFR pension footnote, the sensitivity to the City's net pension liability of a 1% change in the CalPERS investment earnings assumptions is estimated at about \$21 million for aggregated Miscellaneous and Safety Plans, which has the impact of increasing the City's net unfunded pension liability from \$28 million to \$49 million, as measured in today's dollars. Of this, 36% is attributable to the City's Police pension plans.

To ensure sufficient funding for pension commitments, the City has continued to set aside funds in the PERS Liability Reserve. The reserve balance was \$4.7 million as of June 30, 2015. In FY 2015-16, the General Fund transferred \$8.8 million to the reserve fund. This transfer is consistent with the City's long-term budget philosophy to fund unfunded liabilities when surplus funds are available. The reserve balance was \$13.5 million as of June 30, 2016, or 47% of the \$28 million net pension liability.

To pay down their unfunded pension liabilities, some local agencies have elected to participate in a Section 115 Pension Trust - a tax-exempt irrevocable trust. Participation in a pension trust provides agencies with an alternative to sending funds to CalPERS and provides greater local control over assets and portfolio management. Agencies can tailor the investment strategy to meet their objectives. Staff introduced this funding strategy to the Budget Advisory Committee and City Council in May 2016. Additional information regarding the structure of a pension trust and potential firms was provided to the

Committee at its October 2016 meeting. The Committee directed staff to send out a request for proposal (RFP) to the firms identified and consider selecting a firm to help the City establish a trust. The firms identified include Keenan, PARS, and PFM. Staff is in the process of developing the RFP and will provide to the Committee for review. Regardless of whether the City will establish a pension trust, the City has taken a proactive approach in funding its pension obligations.

2. Successor Agency Continues to Wind Down its Affairs

Continuing its mission since the State legislature took state-wide action to dissolve redevelopment agencies in 2012, the Successor Agency transferred \$167,000 in assets to the City's Housing Assets Fund in the year ended June 2016.

In FY 15-16, the Successor Agency recognized pollution obligations in accordance with Governmental Accounting Standard Board Statement No. 49. The former Emeryville Redevelopment Agency acquired properties which were determined to have soil and groundwater contamination. These sites include the Corporation Yard, Bay Street-Site A, and Bay Street-Site B. The former Emeryville Redevelopment Agency is responsible for the investigation, characterization and remediation of the soil and groundwater from the contamination at these sites. In accordance with the Dissolution Act, these obligations are now the responsibility of the Successor Agency to the Emeryville Redevelopment Agency. Remediation costs are covered by Redevelopment Property Tax Trust Fund ("RPTTF") revenues distributed by Alameda County to the Successor Agency for expenditure on its obligations with approval from the California Department of Finance.

Using the expected outflows technique, the Successor Agency has measured the liabilities based on the pollution remediation outlays expected to be incurred to settle those liabilities. The estimated remaining outstanding cost to complete the cleanup of the Corporation Yard and Bay Street – Site B, and conduct on-going groundwater monitoring at Bay Street – Site A, is estimated at \$53,530,395 as of June 30, 2016. Of this amount, \$48,395,429 for the Corporation Yard and \$4,615,952 for Bay Street-Site B have been determined to be capitalized because remediation outlays are necessary to place these assets into their intended location and condition for use. Therefore, these amounts are not reported on the face of the financial statements (only for footnote disclosure). The liability for Bay Street – Site A in the amount of \$519,014 has been recorded in the Successor Agency's private purpose trust fund.

As the Successor Agency completes its capital projects and pays down its obligations, an increasing share of tax increment revenues will be available for distribution to the

taxing entities that share property tax allocations in the former redevelopment project areas. The City shares in the distribution of tax increment.

3. General Fund Ending Position at June 2016 is Stronger than Projected in the 2015-16 Budget Plan

The City consolidates the General Fund and five related reserve funds for CAFR reporting, including the Economic Uncertainty Reserve, Pension Liability, Economic Development, Community Programs and Earthquake Insurance Funds. This meets a GASB objective of consolidating the reporting of unrestricted funds available to support City programs.

The FY 2015-16 operating results for the consolidated General Fund was a net \$9.7 million favorable to budget. Revenues and transfers in exceeded the budget plan by \$7.5 million, primarily due to the increase in transient occupancy tax and real property transfer tax revenue. Increased occupancy combined with higher room rates resulted in higher than budgeted hotel revenues. The real property transfer tax ordinance was effective in fiscal year 2014-2015. Because this new revenue source is driven by occasional high value parcel turnover and might not always be available within a fiscal year to fund base-line City operating programs, the City took a conservative approach in budgeting this revenue item. Actual revenue was higher than budgeted mainly due to a one-time commercial property sale in December 2015.

Program expenditures were \$2.2 million favorable to budget, prior to a one-time transfer. The savings were primarily contributed to vacant positions and lower than expected contract obligations. The General Fund transferred \$6 million to the General Capital Improvements Fund to support the Cultural Arts Center and establish an infrastructure reserve. This is consistent with City Council objective to develop infrastructure required to support a vibrant City.

The following chart shows the General Fund revenue and expenditure trend vs. the prior year and vs. budget. Consistent with prior year, FY 2015-16 revenues have grown faster than expenditures.

FY 2015-16 General Fund Activity (a)	Audited 6/30/15	Budgeted 6/30/16	Audited 6/30/16	Budget vs. Actual
Revenues and Transfers In	\$ 36,587,467	\$ 36,586,749	\$ 44,125,685	\$ 7,538,936
Expenditures and Transfers Out	(31,290,888)	(35,287,710)	(33,079,145)	2,208,565
Net Results, before supplemental transfers	5,296,579	1,299,039	11,046,540	9,747,501
Transfers Out - Mid cycle Amendments - CDC/PBID	(1,052,088)	-	-	-
Transfers Out - Housing Successor Assets	(8,518,695)	-	-	-
Transfers Out - Cultural Arts Center	-	(1,000,000)	(1,000,000)	-
Transfers Out - Capital Infrastructure Reserve	-	(5,000,000)	(5,000,000)	-
Net Results	\$ (4,274,204)	\$ (4,700,961)	\$ 5,046,540	\$ 9,747,501

(a) For purpose of CAFR reporting, the City consolidates the General Fund and five related reserve funds, including the Economic Uncertainty Reserve, Pension Liability, Economic Development, Community Programs and Earthquake Insurance Funds.

The consolidated General Fund's fund balance increased by \$5 million to \$38.9 million at June 2016. Of this amount, \$1 million is undesignated fund and \$37.9 million is committed for specific purposes. As presented in the table below, City Council has historically established various strategic fund balance reserves to improve security and sustainability for the General Fund. In particular, targets have been established for the Economic Contingency Reserve and Unassigned Reserve, using their ratio to the following year's 2016-17 operating expenditures as a benchmark.

General Fund (a) - Fund Balance Reserves	Audited Balance at 6/30/14	Audited Balance at 6/30/15	Audited Balance at 6/30/16
Nonspendable			
Prepaid Costs	161,402	89,906	127,388
Notes and loans		90,698	70,800
Land Held for Resale	8,354,747	-	-
Advances to Other Funds	5,104,540	6,906,810	367,314
Deposits		92,383	-
	13,620,689	7,179,797	565,502
Reserves			
Small Business Incentives	100,000	100,000	100,000
PERS Liability	5,156,915	4,683,559	13,519,592
Economic Development	516,789	-	1,103,114
Community Programs	-	-	400,000
Earthquake Insurance Reserve	1,328,589	1,335,717	1,344,194
Economic Uncertainty	5,487,298	1,894,755	20,897,710
Unassigned	11,977,384	18,719,632	1,029,888
Total	38,187,664	33,913,460	38,960,000

(b)
(c)

Benchmark

2016-17 Budgeted Operating Expenditures 40,016,836

Reserves As % of 2016-17 Budgeted Operating Expenditures

Economic Uncertainty Reserve 52%

Council Goal: Minimum 15%, up to 50%

Combined Economic Uncertainty and Unassigned Reserves 55%

Council Goal: Up to 50%

Notes

(a) For purpose of CAFR reporting, the City consolidates the General Fund and five related reserve funds, including the Economic Uncertainty Reserve, Pension Liability, Economic Development, Community Programs and Earthquake Insurance Funds.

(b) Land Held for Resale, including Christie Avenue parcels, has been consolidated with other restricted housing assets in the Housing Special Revenue Fund to clarify the State restrictions on the use and disposition of these assets.

(c) At the end of June 30, 2016, the nonspendable fund balance was reclassified to the Economic Uncertainty Reserve because the Housing Assets Fund repaid a portion of the inter-fund loan to the General Fund and Economic Uncertainty Reserve in FY 16-17, for funds borrowed to acquire the Christie Avenue parcels. The repayment is considered spendable resources at June 30, 2016 because it is due within one year.

As of June 2016, the Small Business Incentive, Economic Development, Community Programs, and Earthquake Insurance reserves were \$100,000, \$1.1 million, \$400,000, and \$1.3 million respectively. These funds have been set aside to support various vital city services and projects, such as business tax rebate programs, homelessness programs, and community grant programs. The Earthquake Insurance Reserve Fund accounts for resources set aside for potential seismic incidents.

The PERS Liability Reserve was \$13.5 million at June 30, 2016, an increase of \$8.8 million from prior year. As discussed above, the City may establish a Section 115 Pension Trust to pay down its unfunded pension liabilities.

The Economic Uncertainty Reserve in combination with the Unassigned Reserve totaled \$22 million at June 30, 2016, an increase of \$1.3 million from prior year. The Economic Uncertainty Reserve policy was modified in fiscal year 2015-16 to increase the reserve target from 25% to 50%. The reserve goal for the combined Economic Uncertainty and Unassigned Reserves remains at 50% of annual expenditures. As presented in the table above, the ratios for the Economic Uncertainty Reserve and combined reserves exceeded the 50% target at June 30, 2016.

This analysis of the past fiscal year's actual operating results and assessment of the ending fund balance reserves are important first steps to launching the upcoming mid-cycle budget review. Staff will return in Spring 2017 to discuss City Council goals, reserve policies, and strategies for the 2016-18 budget revision. Projection and consideration of a longer-term, five-year look at the General Fund will inform City Council on the framework of resources available to "right size" a sustainable level of programs to be supported by the City's General Fund.

Auditors' Communication with Those Charged with Governance

Professional auditing standards require the auditors to communicate in writing to management and those charged with governance. LSL has issued its *Auditors' Communications with those Charged with Governance* and its *Report on Internal Control over Financial Reporting and Compliance and Other Matters*. These letters are attached to this report for your review.

Finding and Recommendations – The Auditor has provided no findings or recommendations with respect to City Finance operations. However, there are four 2016 findings for the Child Development Center (CDC) presented with its financial report. These are instances of non-compliance with certain laws, regulations, contracts and grant agreements. Staff has taken steps to implement these recommendations.

Attachments:

1. Comprehensive Annual Financial Report for City of Emeryville
2. Single Audit
3. Child Development Program Compliance Audit
4. Measure B Compliance Audit
5. Measure BB Compliance Audit
6. Vehicle License Fee Compliance Audit
7. Housing Compliance Audit
8. Letter regarding Auditors' Communications with Audit Committee
9. Letter regarding Auditor's Report on Internal Control