

Comments from Terry Duryea, Finance Committee Member:

Hi Laurel, Arn and Steve

Hope each of you are weathering the unrelentless, but rainless, Covid storm as well as possible.

Here are my comments, which are mostly questions, on the draft CAFR. The questions are to help better understand the 2020 financial story and reasons for changes from 2019. I also have one key question on the impact of Covid on 2020/2021 based on the 4 month impact on 2020 that I'd like you to address. I've tried to include questions on the basic financial statements only if I couldn't find the answers in the MD&A.

Questions on the MD&A

- Page 19 talks about \$2.2M in increases in intergovernmental grant revenues. What are the source of the grant the contributed to the increase and how are the funds used?
- Page 24 note 1 talks about a reclassification of 2019, although the reclassification doesn't appear to be made in the 2019 numbers. What is the dollar amount? And how and when was the misclassification identified? Also, since you disclose the need for the reclassification, do you want to change the 2019 numbers?
- Page 26 discussion of the Governmental Activities Expenses explains the increase in General Government expense is due to large swings in the amount allocated with the current year allocation adjustment increasing costs while the prior year allocation adjustment decreased costs. What is the reason for the large swing?
- Page 26 discussion of Governmental Activities Expenses explains that Sworn employees received a 4% raise while all Non-sworn and management employees received 3%. What was the reason Sworn officers received a larger increase than the non-sworn employees. I'm particularly sensitive to this given the much larger per person pension costs for sworn officers.
- Page 27 indicates there is \$700K in the Restricted Fund Balance that represents amounts placed in an IRS Section 115 trust. Restricted cash in the Government Fund on the Governmental Funds balance sheet reflects a similar amount. When do you expect to pay the funds to the Section 115 IRS Trust?
- Page 28 indicates the Governmental Funds Balance Sheet has \$4.5M identified in the Committed Fund Balance for additional discretionary payments toward pension and OPEB unfunded liabilities. How do you expect to use the \$4.5M and when will the funds in the Committed Reserve be utilized/paid to CALPERs?
- Page 29 has a table of Total Governmental Funds Revenues, Expenditures and Changes in Fund Balances year over year. How does the \$4.8M in Intergovernmental Revenues tie to the aggregate of the \$8,854K plus \$850K for Grants and Contributions in the Townwide Statement of Activities on page 41, and to the \$2.2M increase over prior year receipts for "intergovernmental (grants) revenues" on page 19?
- Page 32 discusses General Fund Variances from budget for revenues and expenditures. It indicates that 5 revenue categories declined a total of \$3.2M due to Covid over 4 months. If you annualize the 4 months to a year, it is \$9.7M. Total revenue for the year from these 5 categories per the Statement on page 48 is \$18,179K. This implies that for the 4 month period, revenues from these 5 categories declined 53%. Is this a realistic analysis, and if so, how much does the current 2020-2021 budget assume revenue from these categories decline over prior year non Covid impacted revenue?

- Page 34 under Economic Factor and Next Year's Budgets talks about the Town having identified contingencies should there be a revenue shortfall. Without going into specifics, what are the nature and type of actions the Town would consider?

Questions on the Basic Financial Statements

Statement of Position—Town wide

- Why the \$11.7M decrease to \$22.3M in Nondepreciable assets year over year? Note 5 indicates there were \$13.97M of Transfers and Retirements. Was this change primarily transfers of completed projects for street infrastructure that are now depreciable?

Statement of Activities—Town wide

- Compensated absences liability is growing. Can the Town do anything to manage it down, potentially to conserve cash, even if it's necessary to wait to address in the next labor negotiations?

Governmental Funds Balance Sheet

- It looks like you broke Capital projects into 2 categories this year. The total of the 2 reserves increased \$4.7M. What is the purpose of splitting the account into 2 categories? Also, from Note 8, it looks like the Capital Projects fund increased from \$4.3M to \$12.2M year over year? Why the large increase that was effectively a transfer from the Capital/Special Projects fund?
- What is the Market Fluctuations Reserve? How does it differ from other reserves, if it is?
- Note 8: I would suggest that the purpose of the Capital Projects Reserve Fund and the Market Fluctuations Reserve Fund also be disclosed in Note 8.

Reconciliation of Governmental Funds Balance Sheet to Government-Wide Net Position—Governmental Activities

- What is reason for 8.5% decrease in Allocation of Internal Service Funds Net Position to \$7,731 amount from the prior year of \$8,454?

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance—page 46

- Note 4 explains the nature of the Transfers in and out, but it doesn't give the dollar magnitude of any of the categories. For transfers that are reported as \$1M or more in the footnote, what are the dollar amounts for capital projects & outlays, lease or debt payments, operating expense, and low and moderate-income housing projects in the General Fund, Appropriated Reserve Fund, and Internal Service Funds transfers?

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance—Budget to Actual

- When comparing Actual results to the Final Budget, the Town has a negative variance for every operating revenue account which is a swing from the prior year when the Town had a positive variance in all categories except 2 of the smaller accounts. The revenue variance in 2019 was a positive \$2.4M and the variance in 2020 was a negative \$1.6M, a swing of \$4.0 million. The explanation on page 32 of the MD&A on the impact from Covid explains \$3.2M of the swing. But even in the absence of Covid there is still a \$600K decline in the favorable revenue variance. In addition, the favorable Expenditures variance declined significantly in 2020 from \$7.3M to \$3.7M year over year. The swing appears to be more than a statistical budgetary aberration. Was there a structural reason for the decline in favorable variances? I did not in the discussion

on pages 32 and 33, there continued to be favorable expense variance incurred for unfilled staff positions.

Proprietary Funds—Internal Service Funds Statement of Revenue, Expenses and Changes in Net Position—page 51

- Why did the Charges for services decrease for 13% year over year to \$3,029K. Were services less or costs of services reduced?

From: [Ronald Dickel](#)
To: [Stephen Conway](#); [Gitta Ungvari](#)
Cc: [Arn Andrews](#); [Laurel Prevetti](#)
Subject: Finance Meeting Monday
Date: Sunday, December 6, 2020 3:29:54 PM

Steve and Gitta

First, thanks Gitta for printing out the CAFR and agenda items. Much appreciated.

I look forward to the discussion Monday, but want to list out the following various comments and questions for discussion. I would appreciate this being distributed appropriately with the Brown Act to members of the finance committee.

Investment Report

Regarding the Investment Report, you have been extending the portfolio's maturities to a weighted average of 556 days, yielding a return of 1.86%. How do you view the risk of increasing maturities? If it was riskless, you would have always had increased maturities before presumably.

Also, assuming that the current treasury and other bonds yields hold steady, how much will the yield of 1.86% decline by the end of FY 2021?

Finally, \$24,500,000 has been withdrawn YTD compared to \$11,800,000 deposited. How does this compare to prior years and do you anticipate more net withdrawals for the year?

CAFR

It would be very useful for the Town Council to have a standalone paragraph on page 3 discussing the COVID impact on revenue in Q4. You discuss how much sales tax went down, but knowing the actual decline in Q4 revenue for all fees and taxes in Q4 would allow a better forecast of decreased revenue in 2021.

On page 4, it would be very good to note as on page 24 a \$4,000,000 decline in net position in 2020 compared to 2019.

On page 4 in the pension paragraph detailing amounts, add that the liabilities are based on a 7.15% investment return and a change of 1% would result in an increased liability of \$X as shown on page 84 and also that the 2020 Calpers return was 4.7%. Want to give more perspective that the liability is understated.

On page 4, in the third paragraph, delete "from zero in 2019." Duplicative.

On page 18 in the second bullet point paragraph, may want to add the page 29 line of 2020 excess revenues over expenditures of negative \$4,350,379 compared to a positive \$221,363 in 2019. Shows a \$4 mln decline year on year.

On page 25, new operational and capital grants of \$1.3 mln were noted. Are these recurring or one-time?

On page 26, the paragraph on salary increases should note the effective date and the \$ impact in 2020.

On page 35, in the pension paragraph add that the 2020 Calpers return was 4.7%.

On page 48, why was interest under forecast by \$1.6 mln?

On page 48, what was the anticipated sale gain of \$1.2 mln that did not occur?

On page 81, in the discount rate paragraph line 6 delete "adequate and the use of" and insert "used rather than the municipal bond rate" and delete "calculation is not necessary."

On page 95 under Covid, need to have more specific dollar estimates of declines in revenue in 2021, including actual declines in Q4 2020.

Thanks for all the hard work on the CAFR in these trying covid times. See you tomorrow.

Ron