

County of Fresno
Auditor-Controller/Treasurer-Tax Collector
Audit Committee Minutes
Board of Supervisors' Chambers
January 5, 2024 – 10:00 a.m.

MEMBERS PRESENT:

Supervisor Nathan Magsig, Audit Committee Chairman
Supervisor Sal Quintero, Audit Committee Vice-Chairman
Daniel C. Cederborg, County Counsel
Paul Nerland, County Administrative Officer
Kari Gilbert, Department Heads Council Member
Manuel Vilanova, Public Member

Call to Order: Chairman Magsig called to order the regular meeting of the Audit Committee (Committee) on January 5, 2024, at 10:00 a.m. in the Board of Supervisors' Chambers.

1. Roll Call

- Karoll Diaz, Accounting & Financial Manager, Financial Reporting & Audits Division took roll call.

2. Pledge of Allegiance

- Vice-Chairman Quintero led all in attendance with the Pledge of Allegiance.

3. Approve Agenda

- A motion was made by Paul Nerland, seconded by Kari Gilbert, and carried 6-0 to approve the January 5, 2024 agenda.

4. Public Presentations

- This portion of the meeting is reserved for persons desiring to address the Committee briefly on any matter not on this agenda within the Committee's subject matter jurisdiction.
- There being none, the Committee proceeded to hear the next item on the agenda.

5. Approval of December 8, 2023 Audit Committee Meeting Minutes

- There being no public comments, a motion was made by Kari Gilbert, seconded by Vice-Chairman Quintero, and carried 6-0 to approve the December 8, 2023 Audit Committee Meeting Minutes.

6. Consent Items

a) Approve Quarterly Fraud Report covering October 1, 2023 to December 31, 2023.

- There being no public comments, a motion was made by Kari Gilbert, seconded by Paul Nerland, and carried 6-0 to approve agenda item 6a.

7. Discussion and Action Items

a) Review and approve the Department of Public Health Emergency Medical Services Authority (EMSA) Report for fiscal year ended June 30, 2023.

- Karoll Diaz introduced and presented the item.
- There being no public comments, a motion was made by Vice-Chairman Quintero, seconded by Manuel Vilanova, and carried 6-0 to approve agenda item 7a.

b) Review and accept the 2022-2023 County of Fresno Annual Comprehensive Financial Report.

- Paul Sahota, Audit Supervisor, Brown Armstrong Accountancy, introduced and presented the item.
- Supervisor Nathan Magsig, Audit Committee Chairman, inquired if the \$2.2 billion total long-term liabilities, included in the financial highlights section, includes pension obligation bonds. Paul Sahota responded the \$2.2 billion total long-term liabilities is composed of net pension liabilities, compensated absences, GASB 87 leases, among other liabilities.
- Chairman Magsig inquired if the \$287 million bonds payable is the pension obligation bond. Karoll Diaz, responded yes, it includes pension obligation bonds, tobacco bonds, and lease revenue bonds.
- Chairman Magsig inquired about the \$303 million accreted interest. Paul Sahota explained it relates to the bonds, as it is an accretion that happens on additional funding that is invested to pay out the bonds.
- Chairman Magsig inquired if the tobacco tax bond is included as part of Note 11, then followed to say that it was his understanding that the pension obligation bond initial issuance of \$600 million were refinanced after a couple of years. He also inquired if the amount reported on Note 11 included the initial \$600 million issuance plus any interest that will take to pay them off to 2034. Paul Sahota proceeded to state that the amount includes lease revenue bonds, pension obligation bonds, and tobacco tax bonds are also included.
- Chairman Magsig questioned if the Department of Social Services new building lease payments are part of the total liability. Paul Sahota clarified the net pension liability at the beginning of the fiscal year 2023 totaled \$432 million and increased to \$1.1 billion, which was due to actuary assumptions and return on investment.
- Chairman Magsig mentioned the discount rate was lowered over several years and most recently it was lowered from 7% to 6.5%, which he added, would increase unfunded liability. Chairman Magsig proceeded to add, with a lower assumed rate of return the actuary would determine higher contributions are needed to make up the difference in the increase of unfunded liability. Chairman Magsig inquired if the \$700 million change in net pension liability, year to year, was due to FCERA lowering the discount rate and the unfunded liability growing. Paul Sahota responded yes, as well as the money sitting in retirement that gets invested in other financial companies for whom the market decreased in prior years, which resulted in a decrease in net pension liability for future years.
- Chairman Magsig mentioned FCERA does a five-year comparison, and inquired if for purposes of year end reporting, the County does a one-year snapshot. Paul Sahota responded yes, the County looks at year-end. Chairman Magsig also commented, when visiting the FCERA website, and reviewing five years of worth of information, the County has met the discount rate of return. Oscar J. Garcia, Auditor-Controller/Treasurer-Tax Collector, responded that the information is provided by the FCERA actuarial report, which includes the County's share of pension liability.
- Chairman Magsig inquired if the \$786 million increase in the County's long-term liabilities was driven by the FCERA board's decision to decrease the assumed rate of return from 7% to 6.5%. Oscar J. Garcia responded that market value was also an additional contributor. Paul Sahota added that in the GASB 68 report, FCERA considers assets and liabilities, which are determined by geodemographic factors such as those who will be retiring, how much money will be needed for those who retire, and how long they are going to retire for. Paul Sahota mentioned those key assumptions are taken into consideration when determining the net pension liability in future years and is offset by the expected return on investment. Oscar J. Garcia mentioned the FCERA Actuarial provides the County Administrative Office the rates and the County pays the rates each year as far as employee and employer contributions to FCERA. Oscar J. Garcia also commented the County Administrative Office budgets based on the rates provided by the FCERA Actuarial.
- Chairman Magsig inquired if the investment policy that states the total weighted average maturity of investments cannot exceed 3.5 years, is County or state driven. Oscar J. Garcia responded that it is

County driven and is presented yearly to the Board of Supervisors. Oscar J. Garcia commented the current average maturity is slightly greater than 2 years.

- Chairman Magsig inquired if the County should extend the 3.5 years weighted average maturity to 5 years. Oscar J. Garcia responded that currently the County's Pool weighted average maturity still has some flexibility, and the current policy is working well, and investments are based on cash flow needs, so there is no need to extend it past 3.5 years.
- Chairman Magsig questioned if the current \$68 billion State deficit presents any concerns as the County move to 2024. Oscar J. Garcia stated no, as the County has not heard any updates whether school funds will be withheld. Oscar J. Garcia added that funds were withheld by the State in 2008-09. The State would pay the County at a later time.
- Chairman Magsig inquired if the ACTTC Office has been successful and made it a priority in working with the various departments in regard to the departments spending state and federal funds prior to General Fund monies. Oscar J. Garcia responded his office is collaborating with the CAO in regard to the matter, and it is a policy that was presented to the Board of Supervisors. Oscar J. Garcia added in the policy that departments have to use restricted funds first prior to using discretionary revenue. Chairman Magsig commented the more discretionary money that is kept in the treasury pool, the more interest is gained.
- Paul Nerland asked for details regarding what the County's net position over the last ten years illustrates in the statistical section. Oscar J. Garcia discussed that due to the implementation of GASB 68 in fiscal year 2015, there was a major change in the unrestricted net position from FY 2014 to 2015. Oscar J. Garcia added that prior to the implementation of GASB 68, the County was not required to show the pension liability on the financials. Oscar J. Garcia also commented that although the County has to absorb the entire pension liability, there are subvention departments that will be paying for a larger portion of the liability.
- Paul Nerland inquired if the FCERA Board takes a conservative approach and lowers the expected rate of return further, would the change be reflected in the unrestricted net position. Oscar J. Garcia said yes, it would reflect in the County's net position.
- Kari Gilbert inquired what the advantage would be if FCERA lowered their rate. Oscar J. Garcia responded the rate would be more attainable. Paul Sahota mentioned GASB 68 governs how the rate is calculated and regulated.
- There being no public comments, a motion was made by Kari Gilbert, seconded by Paul Nerland, and carried 6-0 to accept Agenda Item 7b.

c) Review and receive the 2022-2023 First Five Annual Comprehensive Financial Report

- Luis Magallanes, Business Manager, First Five Fresno County, introduced the item.
- Osvaldo Gutierrez, Audit Manager, Price Paige & Company, presented the item.
- Daniel Cederborg inquired if the forecasted decrease in revenue-generating abilities presents concern over their long-term liabilities. Osvaldo Gutierrez mentioned Note 14 addresses there is an economic dependency on the cigarette tax to help fund First Five. Luis Magallanes added they are aware revenue is declining and therefore take it into consideration when creating their yearly budget and that First Five does not have any long-term liabilities.
- Nathan Magsig inquired if their debt service is classified as a long-term liability. Luis Magallanes responded the debt service expense is related to GASB 68. Osvaldo Gutierrez added, there is a new liability that needs to be reflected in the balance sheet and represents the amount that is owed to help pay off the lease.

- Nathan inquired if First Five pays capital gains when they have investment earnings. Osvaldo Gutierrez said the amount is solely revenue.
- There being no public comments, a motion was made by Manuel Vilanova, seconded by Vice-Chairman Quintero, and carried 6-0 to receive Agenda Item 7c.

8. Staff Updates

- There being no updates, the Committee proceeded to next item on the agenda.

9. Adjournment

- A motion was made by Kari Gilbert, seconded by Vice-Chairman Quintero, and was carried 6-0 to adjourn the meeting at 10:43 a.m.

Audit Committee Members:

Supervisor Nathan Magsig, Audit Committee Chairman
Supervisor Sal Quintero, Audit Committee Vice-Chairman
Daniel C. Cederborg, County Counsel
Paul Nerland, County Administrative Officer
Kari Gilbert, Department Heads Council Member
Manuel Vilanova, Public Member
Kulwinder Brar, Public Member