



THE CITY OF
NOVATO
CALIFORNIA

**AGENDA
MEASURE F OVERSIGHT/CITIZENS FINANCE
COMMITTEE**

Thursday, July 16, 2015: 7:30AM – 9:00AM
922 Machin Ave
City Administration Office
Womack Conference Room

A. Call to Order

B. Approval of Final Agenda

C. Public Comment

(Anyone wishing to speak on non-agenda items will be recognized at this time. These items can legally have no action as they are not on the agenda. There is a three minute time limit.)

D. Committee Organizational Items

D-1: Approval of February 26, 2015 Meeting Minutes

D-2: Approval of April 23, 2015 Meeting Minutes

D-3: Approval of May 21, 2015 Meeting Minutes

E. General Business

(Anyone wishing to speak on agenda items will be recognized after the Committee has concluded their initial discussions. There is a three minute time limit for public comment per item.)

<i>Time</i>	<i>Item/Attachments</i>	<i>Purpose and Actions</i>
<i>10 minutes</i>	E-1: Fiscal Sustainability/Revenue Measure Update <i>No attachments</i>	<i>Staff Updates. No Action.</i>
<i>50 minutes</i>	E-2: Fiscal Policy Overview and Reserve Policy Discussion <u><i>Attachments</i></u> <i>Financial Policy Staff Report, Draft Policy and Chart</i>	<i>Discussion. No Action.</i>

F. Committee / Staff Comments

G. Adjournment/Future Meetings

Attachments

1. February 26, 2015 Meeting Minutes
2. April 23, 2015 Meeting Minutes
3. May 21, 2015 Meeting Minutes
4. Financial Policy Staff Report, Draft Policy and Chart

AFFIDAVIT OF POSTING

I, Carla Hansen certify that on July 10, 2015, I caused to be posted the agenda of the Thursday, July 16, 2015 meeting of the Measure F Oversight/Citizens Finance Committee of the City of Novato, California, on the City of Novato Community Service Boards in City Hall and the Police Department.

/Carla Hansen/
Management Analyst



THE CITY OF
NOVATO
CALIFORNIA

SPECIAL MEETING

MINUTES MEASURE F OVERSIGHT/CITIZENS FINANCE COMMITTEE

Thursday, February 26, 2015: 7:30AM – 9:00AM
922 Machin Ave
City Administration Office
Womack Conference Room

A. Call to Order *The meeting was called to order at 7:35 a.m. In attendance: Committee members: Robert Jordan, Bob Scott, Cris MacKenzie and David Bentley. Al Berson, Bob Ratto and Caitrin Devine were absent. City Staff: Cathy Capriola, Brian Cochran, Maureen Chapman and Carla Hansen*

B. Approval of Final Agenda

The agenda was approved unanimously- Ayes: 4 Robert Jordan, Cris MacKenzie Bob Scott, and David Bentley Bob Ratto), Noes:0 Absent: 3 (Al Berson, Bob Ratto, Caitrin Devine,)

C. Public Comment

Hutch Turner

D. Committee Organizational Items

D-1: Approval of January 15, 2015 Meeting Minutes

There was not a quorum of Committee members to approve the minutes.

E. General Business

<i>Time</i>	<i>Item/Attachments</i>	<i>Purpose and Actions</i>
45 minutes	E-1: Mid-Year General Fund Budget Update <u>Attachment</u> Mid-Year Budget Review Staff Report	<i>Discussion. No action.</i>
<i>B. Cochran provided the Committee with a mid-year FY 14/15 budget update on revenues and expenditures through December 2014. The revenue report included in the staff report includes data through January. Property tax revenue is 2% higher than expected. By year end, the City could surpass the budget by \$300,000. Sales tax revenue is lower than expected. Revenue has declined for three consecutive quarters. The last quarter's report was not negative and the sales tax report for the quarter including the holidays has not been received. Transient Occupancy Tax revenue is increasing and has been for four years. Expenditures for mid-year are as expected.</i>		

<i>15 minutes</i>	E-3: Purchasing Policy Update <i>Verbal update</i>	<i>Discussion. No Action.</i>
<i>B.Cochran verbally provided an update on the review and update of the City's purchasing policy. The last time the policy was updated was the mid-1990s. Major changes will include bidding requirements of non-Public Works projects and expanding and clarifying the City surplus procedures. The City Council will review the proposed changes in late Spring.</i>		

F. Committee / Staff Comments

There were no additional comments.

G. Adjournment/Future Meetings

The Committee will meet on March 26 to review the City Manager's Operating Budget recommendations.



THE CITY OF
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SPECIAL MEETING

MINUTES MEASURE F OVERSIGHT/CITIZENS FINANCE COMMITTEE

Thursday, April 23, 2015: 7:30AM – 9:00AM
922 Machin Ave
City Administration Office
Womack Conference Room

A. Call to Order- *The meeting was called to order at 7:35 a.m. In attendance: Committee members: Robert Jordan, Bob Ratto, Caitrin Devine, Al Berson and David Bentley. Cris MacKenzie and Bob Scott were absent. City Staff: Cathy Capriola, Brian Cochran, Maureen Chapman, Carla Hansen, Pam Shinault, Julian Skinner and Felicia Newhouse*

B. Approval of Final Agenda

The agenda was approved unanimously- Ayes: 5 (Robert Jordan, Caitrin Devine, Bob Ratto, Al Berson, and David Bentley), Noes:0 Absent: 3 (Al Berson, Cris Mackenzie and Bob Scott)

C. Public Comment

Hutch Turner

D. Committee Organizational Items

- D-1: Approval of January 15, 2015 Meeting Minutes
- D-2: Approval of February 26, 2015 Meeting Minutes

There was not a quorum of Committee members to approve the minutes.

- D-3: Approval of March 26, 2015 Meeting Minutes

The minutes were approved unanimously- Ayes: 5 (Robert Jordan, Caitrin Devine, Bob Ratto, Al Berson and David Bentley), Noes:0 Absent: 2 (Cris Mackenzie and Bob Scott)

E. General Business

(Anyone wishing to speak on agenda items will be recognized after the Committee has concluded their initial discussions. There is a three minute time limit for public comment per item.)

<i>Time</i>	<i>Item/Attachments</i>	<i>Purpose and Actions</i>
<i>60 minutes</i>	E-1: City Manager’s FY 15/16 Capital Improvement Program (CIP) Budget Recommendations <i>Presentation from Parks, Recreation and Community Services Director Pam Shinault, Engineering Manager Julian Skinner, and Assistant City Manager, Cathy Capriola</i>	<i>Review and provide feedback to Council.</i>

	<u>Attachment</u> <i>FY 15/16 CIP staff report and budget recommendations provided to City Council on April 21, 2015</i>	
<i>Julian Skinner, Engineering Manager and Pam Shinault Parks and Recreation Director, Maureen Chapman Accounting Supervisor, presented FY 15/16 CIP Budget including new and existing projects requesting funding for the next year. Cathy Capriola presented the Technology and Organizational Efficiency Investments.</i>		
<i>The Committee was generally supportive of the proposed CIP budget.</i>		
<i>30 minutes</i>	E-2: Measure F Expenditures for FY 15/16 Budget and Operating Budget <i>Input to Council for final FY 15/16 budget and Measure F Expenditures.</i> <u>Attachment</u> <i>Staff report to be distributed on Monday, April 20, 2015</i>	<i>Review and provide feedback to Council.</i>
<i>Brian Cochran presented the FY 15/16 Measure F Expenditures and Operating Budget to the Committee. The proposed budget contains \$3.5 million in Measure F requests. Some Committee members expressed concerns that the proposed uses of Measure F funding may not be consistent with the uses listed in the ballot language but overall the Committee was generally supportive.</i>		

F. Committee / Staff Comments

There were no additional comments.

G. Adjournment/Future Meetings

The meeting was adjourned at 9:10 a.m. The next meeting will be May 21.



THE CITY OF
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**MINUTES
MEASURE F OVERSIGHT/CITIZENS FINANCE
COMMITTEE**

Thursday, May 21, 2015: 7:30AM – 9:00AM
922 Machin Ave
City Administration Office
Womack Conference Room

A. Call to Order *The meeting was called to order at 7:43 a.m. In attendance: Committee members: Robert Jordan, Caitrin Devine, Al Berson and Cris MacKenzie. Bob Ratto, David Bentley and Bob Scott were absent. City Staff: Cathy Capriola, Brian Cochran, Chris Stewart, Scott Ward and Maureen Chapman.*

B. Approval of Final Agenda

The agenda was approved unanimously- Ayes: 4 Robert Jordan, Caitrin Devine, Al Berson and Cris Mackenzie), Noes:0 Absent: 3 (Bob Ratto,David Bentley and Bob Scott)

C. Public Comment

Hutch Turner.

D. Committee Organizational Items

- D-1: Approval of January 15, 2015 Meeting Minutes
- D-2: Approval of February 26, 2015 Meeting Minutes
- D-3: Approval of April 23, 2015 Meeting Minutes

There was not a quorum of Committee members to approve the minutes.

E. General Business

<i>Time</i>	<i>Item/Attachments</i>	<i>Purpose and Actions</i>
30 minutes	E-1: Economic Development Update <i>Presentation from Chris Stewart, Economic Development Manager</i>	<i>Discussion. No Action.</i>
<i>Economic Development Manager, Chris Stewart presented the Committee with an update on economic development efforts in the City. The economic development program is focused on marketing, recruitment and retention of businesses as well as the Bio Life Science campaign.</i>		
30 minutes	E-2: Hamilton Base Reuse Update <i>Presentation from Scott Ward, Hamilton Base Reuse Director</i>	<i>Discussion. No Action.</i>

Hamilton Base Reuse Director, Scott Ward provided an update to the Committee on the Lands to Parks land transfer and sale of historic property at Hamilton Air Force Base.

10 minutes

E-3: Recap of City Council FY 15/16 Budget Direction
Verbal report

Discussion. No Action.

The City Council provided staff direction on the proposed FY 15/16 budget. The Council will take official action on June 23.

F. Committee / Staff Comments

There were no additional comments.

G. Adjournment/Future Meetings

The Committee will not meet in June.



STAFF REPORT

MEETING

DATE: July 16, 2015

TO: Measure F / Citizens Finance Oversight Committee

FROM: Cathy Capriola, Assistant City Manager
Brian Cochran, Finance Manager

SUBJECT: REVIEW OF DRAFT RESERVE POLICIES

75 Rowland Way #200
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(415) 899-8900
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REQUEST

Review a working draft of reserve policies for several key City funds and provide feedback.

DISCUSSION

As the Committee is aware, the City maintains a variety of financial policies on topics such as debt administration, investments, purchasing, reserves, budgeting, etc. These policies are outlined in brief in the “Community Profile” section of each year’s adopted budget document.

One of the Committee’s duties as the Citizens Finance Committee is to occasionally review and provide feedback on these financial policies. Over the past year, the Committee has seen updated versions of the Investment Policy, the Purchasing Ordinance, and a new Local Preference Purchasing Ordinance.

Staff is now turning to the Reserve Policies for several City funds for an update. The reserve policies that currently exist within the budget document are not robust when compared with Government Finance Officers Association (“GFOA”) best practices. Recommendations include that the policy should state not only what the reserve target level is, but how and when the funds can be spent, how and when they should be replenished, and what can be done with funds in excess of the required reserve levels.

As the four funds with significant discretionary fund balances, staff has selected these funds for updated reserve policies:

- General Fund / Emergency and Disaster Response Fund (“EDRF”) – Generally speaking, the City will maintain a 15% (of General Fund expenditures) reserve that will be kept in the EDRF; the policy describes various situations that might require transfers to or from the EDRF and what those funds might be spent on;
- Insurance Reserve Fund – The Insurance Fund must keep a reserve of \$1,000,000; funds can be spent on unexpected settlements or claim payouts during a year
- Measure F – No required reserves; however, the City Council did designate a \$3 million “Risk Mitigation Reserve” as an additional reserve buffer, and more detailed decisions about how to allocate that money will be made in the future by the City Council; and

- Vehicle and Equipment Replacement Fund – No specific reserves required beyond the funds that are accumulated for each individual vehicle; specifies that excess monies in the fund can be repurposed for other vehicles / equipment purchases or replacements.

As part of the City’s broader update of its entire suite of financial policies, staff appreciates Committee input and suggestions prior to reviewing the policy recommendations with the City Council.

ATTACHMENTS

1. City Financial Policy Overview Slide
2. City of Novato Reserve Policies – Working Draft

City of Novato Reserve Policies – Working Draft

The City of Novato endeavors to maintain adequate reserves for its General Fund and several other funds as a matter of fiscal prudence and sound financial management. These policies will guide the City in:

- Planning for contingencies and unexpected events;
- Maintaining good standing with credit rating agencies;
- Ensuring cash availability when revenue is unavailable; and
- Deciding when to use reserves and how to replenish reserves if they have been spent.

Per current governmental accounting standards (“GASB 54”), fund balances are divided into 5 categories in the financial statements:

Category	Description
Non-Spendable	Cannot be readily converted to cash or cannot legally be spent
Restricted	Externally imposed restrictions on spending
Committed	City Council formally-imposed restrictions on spending
Assigned	Funds earmarked by Council or City Manager for specific purposes
Unassigned	Residual balance not another category

For purposes of this document, a fund’s “reserves” include the sum of the Committed, Assigned, and Unassigned Fund Balances for that fund.

General Fund and Emergency & Disaster Response Fund

The General Fund shall not maintain any reserves at year end, except for those designated as Assigned for capital projects, which represent budgeted funds for capital projects that have yet to be completed. Instead, the City shall maintain a separate fund on its books, called the “Emergency and Disaster Response Fund” (hereinafter the “EDRF”) which shall be the main reserve fund for the General Fund. The City maintains this fund to provide a financial buffer in the event of significant economic downturns or for unexpected severe emergencies or natural disasters.

The Government Finance Officers Association maintains a best practice for general reserve funds. While the level of reserves should be assessed on a City’s unique circumstances or risk levels, the generally recommended best practice is to keep at least two months of operating expenditures or 15% reserves.

For Novato, the EDRF shall be maintained at a level equal to 15% of annual General Fund expenditures.

The City will endeavor to avoid spending EDRF funds for recurring operating expenditures.

If the General Fund ends the fiscal year with a surplus of revenues over expenditures, any Unassigned fund balance that would result shall be transferred out of the General Fund and into the EDRF.

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If the General Fund budget is adopted with an expected deficit, funds shall be budgeted to be transferred from other available, unencumbered funds of the City to cover the deficit. If no such funds are available from another source, funds shall be transferred from the EDRF in the amount of the deficit to ensure that the budget is balanced.

If the General Fund ends the year with an unexpected deficit (typically due to a revenue shortfall) which would create a negative Unassigned fund balance, funds shall be transferred from the EDRF at year end to ensure a zero Unassigned fund balance for the General Fund.

The City Council may from time-to-time authorize budget appropriations that would reduce the EDRF below its policy-mandated 15% level. These appropriations should be made only in response to significant events such as (but not limited to):

- Economic downturns / recessions that impact City revenues;
- Natural disasters and declared emergencies; and/or
- State government reductions or takeaways of City revenues.

If the City Council appropriates funds that, for any purpose authorized in this policy, would drop the EDRF below 15%, the next budget cycle should include a plan outlining how the EDRF will be restored to the 15% required reserve level within a reasonable time period.

If the level of the EDRF rises above the required 15% level, appropriations of EDRF funds may be authorized by the City Council for one-time purchases or projects that bring the EDRF back down to the 15% level. Funds above the 15% level shall not be spent on recurring operating expenditures unless otherwise authorized in this policy.

It may be prudent from time-to-time to loan funds from the EDRF to other City funds or to invest EDRF in less-than-immediately liquid investments. The City Council shall authorize all such loans and shall make findings in a resolution acknowledging the duration and payback timeframe of said loans, which should not exceed five years. If the loan is made with another entity (for example, the Redevelopment Successor Agency), the loan should also be accompanied by a written loan agreement.

In case of emergencies falling under the purview of Novato Municipal Code Section 2-13, purchases authorized by the Director of Emergency Services under Section 2-13.13(c) may cause the balance in the EDRF to drop below the required 15% level.

Measure F Transactions and Use Tax Fund

This fund, hereinafter known as the Measure F fund, shall be used to account for all funds collected under the Measure F transactions and use tax, which shall be collected in the City of Novato from April 1, 2011 through March 31, 2016.

There are no specific reserves required within this fund. However, the City Council has designated \$3 million of unassigned Measure F fund balance as a "Risk Mitigation Reserve". This reserve will be subject to future City Council decisions about uses for the funds, but is intended to mitigate risk from economic recessions, pension rate and investment earnings fluctuations, unanticipated state takeaways, or unanticipated required expenditures due to changing laws or regulatory requirements.

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To the extent Measure F funds are available beyond the Risk Mitigation Reserve mentioned above, they may be used to backfill General Fund deficits while permanent revenue streams or other longer-term budget balancing strategies are implemented.

Recognizing its status as a general purpose tax, the City Council has complete purview to appropriate Measure F funds for any lawful government purpose. However, as a tax with a fixed 5-year duration, Measure F funds should be spent on one-time or short term programs and projects rather than ongoing operating expenditures.

Self-Insurance Fund

The City shall maintain a reserve of \$1 million in the Self-Insurance Fund. This reserve can be used at the City Council's discretion to pay one-time insurance and liability related costs, such as large unexpected claims, settlements, etc. The next year's budget should include a plan to replenish the reserve back to the \$1 million level.

Equipment, Technology and Vehicle Replacement Fund

The City shall maintain an Equipment and Vehicle Replacement Fund (hereinafter "EVRF") to properly fund the eventual replacement of vehicles, technology and equipment. The City will set aside an appropriate amount of money annually in the fund for each vehicle, technology, or equipment, based on that item's typical usage and expected useful life. Monies that have accumulated in the fund for a specific asset's replacement can then be used when the asset is replaced.

No specific reserves are required for the EVRF. However, excess funds not specifically needed for replacements from sources such as interest earnings, surplus sales or trade-ins, auction sales, and lower-than-expected equipment prices should remain in the fund until other EVRF-related purposes are identified for the funds and appropriated by the City Council. Such excess funds can also be used to replace or begin replacement cycles for vehicles, equipment, or technology items that are not currently in the replacement fund.

City of Novato – Financial Policy Overview

Reserve Policies

✓ **IN PROCESS**
MFC - July 16, 2015
CC – August 4, 2015

Investment Policy

✓ **COMPLETED**

Debt Management Policy

✓ **OCTOBER 2015
(estimated)**

Purchasing Policy

✓ **COMPLETED**

Budget, Revenue, and Expenditure Policies

✓ **JANUARY 2016
(estimated)**

Accounting, Financial Reporting, and Internal Control Policies

✓ **MARCH 2016
(estimated)**