



## **Finance Advisory Commission Meeting Agenda**

**Thursday, October 19, 2023 – 7:30 AM**

**To Be Held At:**

**City Administrative Offices,  
Baget Conference Room  
922 Machin Avenue, Novato, CA 94945**

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**Chair  
Andy Zmyslowski**

**Vice Chair  
Larisa Thomas**

**Members  
Cris MacKenzie, Regina Bianucci Rus, Rafelina Maglio, Tina McMillan, Richard Johnson**

**Staff Liaison  
Amy Cunningham**

The Finance Advisory Commission welcomes you to attend its meetings which are regularly scheduled the third Thursday every month, except March through June when the schedule is adjusted for the annual budget development process. Your interest is encouraged and appreciated.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk at (415) 899-8900. Notification at least 48 hours prior to the meeting will enable the City to make reasonable accommodation to help ensure accessibility to this meeting.

The Finance Advisory Commission may discuss and/or take action on any or all of the items listed on the agenda irrespective of how the agenda items are described.

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**A. CALL TO ORDER AND ROLL CALL**

**B. APPROVAL OF FINAL AGENDA**

## **C. PUBLIC COMMENT**

*All members of the public wishing to address the Finance Advisory Commission are requested to submit a speaker card in advance to the Staff Liaison. (Please remember that all comment cards are PUBLIC RECORDS). The Chair will call the names of speakers from the cards. In addition to receiving comment from the public during the Public Comment period, the Chair will recognize persons from the audience who wish to address the Commission on a particular agenda item at the time that item is considered.*

*There is a three-minute time limit to speak although the Chair may shorten the time based on the number of speakers or other factors. A speaker may not yield his or her time to another speaker.*

*For issues raised during Public Comment that are not on the published agenda, except as otherwise provided under the Ralph M. Brown Act, no action can legally be taken. The Commission may direct that the item be referred to the Staff Liaison for action or may schedule the item on a subsequent agenda.*

## **D. CONSENT ITEM**

*All matters listed on the Consent Calendar are considered to be routine and will be enacted by a single vote of the Commission. There will be no separate discussion unless specific items are removed from the Consent Calendar for separate discussion and action. Any Commission Member may remove an item from the Consent Calendar and place it under General Business for discussion.*

### **D.1. Approve the Meeting Minutes of September 21, 2023**

## **E. UNFINISHED AND OTHER BUSINESS**

## **F. GENERAL BUSINESS**

*These items include significant and administrative actions of special interest and will usually include a presentation and discussion by the Finance Advisory Commission. They will be enacted upon by a separate vote.*

### **F.1. Fiscal Year 2022/23 Quarter 4 Report**

### **F.2. Measure F Annual Reports FY 2020/21**

### **F.3. Fiscal Sustainability Plan Update**

### **F.4. Finance Department Updates**

## **G. COMMISSION AND LIAISON REPORTS**

*This section is used for Commission Members and the Staff Liaison to orally report on topics that can be considered for discussion at a future meeting.*

**G.1. Staff Updates**

**G.2. Commission Member Reports**

**The next meeting is scheduled for November 16, 2023, at 7:30 AM, and will be held in-person in the Baget Conference Room at 922 Machin Avenue, Novato**

**H. ADJOURNMENT**

***Materials that are submitted to members of the Commission after the distribution of the meeting's agenda packet will be available upon request.***

**AFFIDAVIT OF POSTING**

I, Stacey Hoggan, certify that on the Thursday before the Finance Advisory Commission meeting of September 21, 2023 that the agenda was posted on the City Community Service Board at 922 Machin and on the City's website at [novato.org](http://novato.org) in Novato, California.

/ Stacey Hoggan /  
Stacey Hoggan, Management Analyst I



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## Finance Advisory Commission

### DRAFT Minutes

Thursday, September 21, 2023 – 7:30 AM

#### A. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Chair Zmyslowski at 7:30 A.M.

**Commissioners Present:** Regina Bianucci Rus, Rafelina Maglio, Cris MacKenzie, Tina McMillan, Larisa Thomas, Andy Zmyslowski

**Arrived Late:** Commissioner Richard Johnson arrived at 7:40

**Staff Present:** Deputy City Manager Amy Cunningham, Finance Director Carla Carvalho-DeGraff, Management Analyst I Stacey Hoggan, Jennifer Maldonado Principal Management Analyst

#### B. APPROVAL OF FINAL AGENDA

**Commission Action:** Upon a motion by Commissioner Bianucci Rus, and seconded by Commissioner Maglio, the Commission voted 6-0-0-1 to approve the final agenda.

**Ayes:** Bianucci Rus, Maglio, MacKenzie, McMillan, Thomas, Zmyslowski

**Noes:** None

**Abstain:** None

**Absent:** Johnson

**Motion Carried**

#### C. PUBLIC COMMENT

None received

#### D. CONSENT ITEMS

##### D.1. Approve the Meeting Minutes from July 20, 2023



**Commission Action:** Upon a motion by Vice Chair Thomas, and seconded by Commissioner McMillan, the Commission voted 4-0-1-1 to approve the Meeting Minutes as amended to add public comment from Paul Shaw, Novato Police Officers Association.

**Ayes:** MacKenzie, Maglio, McMillan, Zmyslowski

**Noes:** None

**Abstain:** Bianucci Rus

**Absent:** Johnson

### **Motion Carried**

## **E. UNFINISHED AND OTHER BUSINESS**

None

## **F. GENERAL BUSINESS**

### **F.1. Fiscal Model Updates**

Staff are currently working on updating the fiscal model so that it reflects current numbers and will be easily accessible for use by the public when posted on the City website. Commissioners provided feedback to staff.

### **F.2. Measure F Annual Reports FY 2018/19 & FY 2019/20**

When the Measure F sales and use tax increase was passed in 2010, it required annual reports on its revenue and spending. Commissioners were presented with Measure F reports for FY 2018/19 and FY 2019/20. These reports had been delayed in part due to staffing issues, including the pandemic, and the need to fully reconcile the Capital Improvement Project program. The FY 2018/19 Measure F report was presented to City Council by Commissioner Bianucci Rus in October 2021, but staff had not yet completed the written report.

Commissioners made initial recommendations to staff and will further review and submit any additional feedback prior to finalization of the reports. When complete, the FY 2018/19 report will be posted to the City's website, and the FY 2019/20 report will be presented to the City Council as an item on the consent agenda.

*Regarding Item F.2: Public comment was taken at 922 Machin Ave.*

1. *Howard Hertz*
2. *Pam Drew*

### F.3. Finance Updates

- Finance Department Reorganization: City Council recently approved a reorganization to ensure that staff meet important goals that align with the strategic plan and commitments made following the recent grand jury report.

Amy Cunningham is now in the role of Deputy City Manager, while still responsible for overall Finance operations, she is also responsible for Human Resources, Risk Management, IT, and implementing key items on the City Council's Strategic Plan. Carla Carvahlo-DeGraff has been promoted to Finance Director and will directly oversee all finance functions.

Due to these organizational changes, a recruitment for the Deputy Finance Director position has been opened. This role will assist the Finance Director in continuing to drive the catch-up of financial activities and continue the training and development of staff.

- FY 2020/21 Audit Status: Auditors have committed to providing the draft audit report by the end of September so that staff can review, and both staff and auditors can finalize the report, and prepare to present the document and findings to the City Council on October 24<sup>th</sup>.

The Commissioners asked staff about the status of the bank reconciliation staff advised the bank reconciliations are current through August 2023 (payroll and accounts payable), June 2022 (disbursements and operating), though the consultants have moved to 2023 for the operating account.

- FY 2021/22 Close and Audit Preparation: Auditors are scheduled to start their field work in late February. Staff are already preparing for this upcoming audit.
- City Council 2023-2025 Adopted Strategic Plan: Staff reviewed the newly adopted Strategic Plan approved by City Council. This new Strategic Plan covers the period of July 1, 2023 – June 30, 2025. The plan includes items that will address the revenue issues that face the City, improvements to efficiency and prioritization of the City's workforce, and economic development efforts, among other items.
- FY 2023/24 Budget in Brief: The FY 2023/24 Budget in Brief is complete and has been posted on the City's website. Commissioners were also able to view the new "Budget 101" video created by Communications staff. The video shares information about how the budget process works.
- FY 2022/23 Quarter 4 Budget Report Status: The Q4 Budget Report is almost complete and will be presented at the upcoming Finance Advisory Commission meeting on October 19<sup>th</sup>.

- Commissioner Recruitment: Two of the existing Commissioners terms are set to expire, City Council appointments are scheduled for October 24th.

## **G. COMMITTEE AND LIAISON REPORTS**

### **G.1. Staff Updates**

None

### **G.2. Commission Member Reports**

None

## **H. ADJOURNMENT**

The meeting was adjourned at 9:03 AM.

**I HEREBY CERTIFY that the foregoing minutes were duly adopted at the Finance Advisory Commission Meeting of October 19, 2023.**

/ Stacey Hoggan /  
Stacey Hoggan, Management Analyst I

## STAFF REPORT

### MEETING

DATE: October 19, 2023

TO: Finance Advisory Commission

FROM: Jennifer Maldonado, Principal Analyst

**SUBJECT: FISCAL YEAR 2022/2023 QUARTER 4 BUDGET**

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### REQUEST

Receive Quarter 4 budget report for Fiscal Year 2022/2023.

### DISCUSSION

FY 2022/2023 represents the first year of quarterly budget reporting. The goal for this first year is to improve budget transparency by reporting on the status of the General Fund each quarter. Beginning with Quarter 1 of FY 2023/2024 the report will include a year-to-date comparison by quarter for the current and prior year and will be expanded to include non-General Fund categories that have significant budgetary impacts (such as Gas Tax). Finance Staff is currently developing the new format which will incorporate feedback from the Finance Advisory **Committee** (FAC) before presentation to the City Council in fall 2023.

### **General Fund Performance Summary**

Revenue for the General Fund amended<sup>1</sup> budget is \$47.2 million, while expense for the General Fund amended budget is \$50.1 million for Fiscal Year 2022/2023. The amended budget deficit was projected at \$2.8 million. Revenue came in at \$48.8 million at fiscal year-end or about 3% over projections. Expense came in at \$48.6 million or about 3% under projections. Overall, a \$165k surplus is currently anticipated, as a result of increased revenue and significant personnel cost savings.

Some financial activity for FY2022/2023 is still underway, therefore these reported numbers may change once the books have completely closed; however significant changes are not anticipated. Summarized information about performance-to-quarter is detailed below. For more detailed variance explanations please see page 2 of the budget report (Attachment 1).

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<sup>1</sup> Revenue and expense are different than the adopted budget due to budget amendments approved by the City Council throughout the year.

## **Revenue**

As of Fiscal Year 2022/2023, Quarter 4, 103% or \$48.8 million of budgeted revenue has been received. The variance in revenue is largely due to increased receipts for property taxes as noted below. Additionally, approximately \$160K in one-time funds were not needed for identified one-time projects (election, emergency tree removal) and were absorbed as revenue to offset ongoing expenses per prior City Council direction.

Some revenue reported is one-time in nature as Finance staff continue to address the backlog of finance activities, and catch-up billing in some areas such as cost recovery and for Marin Valley Mobile Country Club. Additionally, Staff have begun to actively pursue collection of delinquent revenue from prior years and unanticipated grant revenue was received that helped offset General Fund expense.

### Property Tax

The largest source of General Fund revenue is derived from Property Tax which is budgeted at \$17.7 million for Fiscal Year 2022/2023. Receipt of Property Tax revenue is at 105% or \$18.7M through Quarter 4. The City receives property tax in three installments during the year, the largest disbursements are received in December and April. Secured Property Taxes exceeded targets by approximately \$939K. This variance is largely due to an unanticipated increased revenue from In Lieu VLF receipts, and ROPS Residual revenue exceeding budget estimates.

### Sales Tax

The second largest revenue source is Sales Tax, budgeted at \$15.2 million for Fiscal Year 2022/2023. The largest component of the City's Sales Tax revenue is General Use Sales Tax budgeted at \$11.9 million, while Measure C Sales tax predominately makes up the difference at \$3.3 million. Through the end of Quarter 4, the City has received \$15.6 million in total Sales Tax or 103% of budget.

### Hotel Tax (TOT)

Hotel Tax is received in quarterly installments throughout the year and is budgeted at \$1.6 million for Fiscal Year 2022/2023. Approximately \$2.0 million or 124% has been received through Quarter 4. Overall, TOT is outperforming anticipated revenues and recovering from pandemic related impacts as travel increases. Additionally, one hotel which stopped paying TOT at the start of the pandemic has resumed payments and is paying down the prior balance owed.

### Grants, Fines, Int. Earnings, Other Revenue

This category is under budget due to losses on investments. With market recovery anticipated in future budget cycles, earnings are expected to rebound as the economy recovers.

### Community Development

Revenue was increased at mid-year to include estimates related to adoption of the new fee schedule which became effective in July 2023. Overall, Community Development revenue is at 128% or \$3.4 million of the \$2.7 million amended budget. Much of this category is related to services and permits issued by Community Development, these revenues are offset by expenses to provide the services. (See below.)

### Park, Recreation and Community Services Fees

The City assumed responsibility for programming at the Hamilton Pool in 2023; these programs were previously provided under contract by the City of San Rafael. In anticipation of receiving new aquatics revenue in Quarters 3 and 4, this budget was initially increased by \$117K. The budget was amended at mid-year for an additional \$100K in program/registration fees. Revenue for all programs combined is at 110% of budget through Quarter 4, indicating that the demand for Parks, Recreation and Community Services programs has returned and remains strong.

### **Expense**

As of Fiscal Year 2022/2023, Quarter 4, 97% or \$48.6 million of budget has been expended. Significant savings in personnel costs were realized throughout the year as detailed below.

### Non-Departmental

Non-Departmental Operating expenses are budgeted at \$4.3 million and 99% or \$4.2 million has been expended through Quarter 4. Expense is trending as expected in this category.

### Personnel Costs – All Departments

The majority of the City's budget, 65%, is comprised of personnel costs. Personnel costs, comprised of employee salaries and benefits, are budgeted at \$33.2 million for all City departments, with 96% or \$31.8 million expended through Quarter 4. Over \$1.4 million in savings was realized in this category primarily due to staff turnover and difficulty attracting and retaining qualified candidates for vacant positions. Approximately \$420K of that savings occurred in Community Development resulting in the need to backfill vacancies with contractors and consultants to provide the needed services.

### Operating Costs – All Departments

Operating costs throughout City departments are budgeted at \$16.8 million and are at 100% of budget through the end of Fiscal Year 2022/2023. Overall operating expenses are trending as expected.

### One-Time Projects

For Fiscal Year 2022/23 the City Council approved approximately \$1.8 million in one-time funds for several one-time projects, including the Climate Action Plan, Housing Element, and Parks Master Plan. Many of the one-time projects were not completed in Fiscal Year 2022/2023 resulting in approximately \$1.1 million of one-time funds being carried forward into Fiscal Year 2023/2024. As noted above, approximately \$160K was unexpended and not carried forward offsetting General Fund expense.

### **RECOMMENDATION**

Receive report.

### **ATTACHMENT**

1. FY2022/2023 Quarter 4 Budget Report

## General Fund Quarterly Budget Report

Period 07/01/2022-06/30/2023

Through Qtr. 4

	Amended Budget	Actual FYTD	% of Budget FYTD	Variance Analysis
<b>Revenues</b>				
<b>Non Departmental</b>				
Property Taxes	17,714,010	18,652,683	105%	
Sales Tax	15,177,020	15,636,975	103%	
Hotel Tax TOT	1,580,000	1,953,678	124%	a
Other Taxes	3,015,000	2,738,408	91%	
Grants, Fines, Int. Earnings, Other Rev	218,304	(341,224)	-156%	b
Transfers in from Other Funds	1,775,730	1,518,695	86%	
Other Financing Sources	652,398	491,939	75%	c
Rents	80,500	73,264	91%	
<b>Central Administration - General</b>	140,200	151,346	108%	d
<b>Central Administration - City Attorney</b>	13,300	93,931	706.2%	e
<b>Central Administration - Risk Management</b>	4,400	-	0.0%	
<b>Finance Operations</b>	33,210	181,312	546%	f
<b>Finance Special Programs</b>	50,000	(4,917)	-10%	g
<b>Police</b>	1,452,845	1,351,213	93%	
<b>Community Development</b>	2,685,550	3,447,644	128%	h
<b>Public Works</b>	629,032	652,665	104%	
<b>Parks, Recreation &amp; Community Services</b>	2,002,856	2,203,449	110%	
<b>General Fund Gross Revenue</b>	47,224,355	48,801,062	103%	
<b>Expense</b>				
<b>Non Departmental</b>				
Personnel	(250,000)	(16)	0%	
Operating	4,292,207	4,253,102	99%	
<b>Central Administration - General</b>				
Personnel	2,060,438	1,849,852	90%	
Operating	916,746	770,823	84%	
<b>Central Administration - City Attorney</b>				
Personnel	-	-		
Operating	687,600	765,363	111%	i
<b>Central Administration - Risk Management</b>				
Personnel	33,394	6,554	20%	
Operating	1,839,476	1,856,326	101%	

\*\*\*As Finance continues to make progress closing the year, we anticipate adjustments which will slightly shift YTD totals.

## General Fund Quarterly Budget Report

Period 07/01/2022-06/30/2023

Through Qtr. 4

	Amended Budget	Actual FYTD	% of Budget FYTD	Variance Analysis
<b>Central Administration - Human Resources</b>				
Personnel	518,895	607,585	117%	j
Operating	537,372	405,644	75%	k
<b>Information Technology</b>				
Personnel	871,669	808,998	93%	
Operating	649,443	903,296	139%	l
<b>Finance Operations</b>				
Personnel	1,492,250	1,384,971	93%	
Operating	690,564	607,537	88%	
<b>Finance Special Programs</b>				
Personnel	-	-		
Operating	1,859,584	1,853,996	100%	
<b>Police</b>				
Personnel	16,765,441	16,539,105	99%	
Operating	1,579,816	1,414,121	90%	
<b>Community Development</b>				
Personnel	3,190,101	2,695,586	84%	
Operating	443,338	1,318,372	297%	m
<b>Public Works</b>				
Personnel	5,896,705	5,389,405	91%	
Operating	2,717,101	2,143,654	79%	n
<b>Parks, Recreation &amp; Community Services</b>				
Personnel	2,640,669	2,490,971	94%	
Operating	629,296	570,768	91%	
<b>General Fund Expenditures</b>				
	50,062,105	48,636,016	97%	
	<b>Budget</b>	<b>Actuals</b>		
Revenue	47,224,355	48,801,062		
Expense	50,062,105	48,636,016		
<b>General Fund Summary</b>				
	(2,837,750)	165,046		
	<b>Budget</b>	<b>Actual</b>		
Personnel	33,219,562	31,773,012	96%	
Operating	16,842,543	16,863,004	100%	
	50,062,105	48,636,016		

\*\*\*As Finance continues to make progress closing the year, we anticipate adjustments which will slightly shift YTD totals.



## Variance Analysis

Period 07/01/2022-06/30/2023  
Through Qtr. 4

- a. TOT is outperforming anticipated revenues and recovering from pandemic related impacts as travel increases. Additionally, one hotel has resumed paying TOT.
- b. This category is underbudget due to losses on investments. With market recovery anticipated in future budget cycles, earnings are expected to rebound as the economy recovers.
- c. This category identifies one-time funds collected in prior years that has been allocated for one-time projects.
- d. The City received \$170k in unanticipated revenue. \$75k is related to EV charging rebates and reimbursements. In addition, approximately \$95k of grant revenue from the County of Marin was received and utilized on a reimbursement basis for the Homeless program.
- e. There was more cost recovery of attorney fees than anticipated. This category is variable year over year.
- f. Revenue was higher than anticipated due to \$110k of unbudgeted revenue received from LAD/CFD Administrative Fees. This revenue will continue to be received quarterly.
- g. Marin Valley Mobile Country Club (MVMCC) administrative services charges in the amount of \$359K were brought current resulting in a negative . In addition, in the Finance Special Programs category, the City received \$17k in unanticipated loan interest revenue.
- h. Revenue is offset by expense related to permit activity.
- i. Cost recovery legal fees were over budget by \$123k. These fees are variable and offset by incoming revenue (see "e").
- j. Overage in the personnel category is due to an administrative shift within the Central Administration department. Overages are offset by savings in Central Administration - General.
- k. The training and travel budget was underexpended by \$54k. In addition, this category has items such as licensing renewals that will carryover in next years budget.
- l. Vacancy savings offset by contractor/consultant costs to provide needed services.
- m. Vacancy savings offset by contractor/consultant costs to provide needed services. Additionally, these expenses are offset by revenue received for services (see "h").
- n. Materials and supplies was underbudget in the maintenance divisions. This accounts for approximately \$101k of underexpended funds.

## STAFF REPORT

### MEETING

DATE: October 19, 2023

TO: Finance Advisory Commission

FROM: Amy Cunningham, Deputy City Manager

**SUBJECT: Measure F Reporting**

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### REQUEST

Receive and provide feedback on the FY20/21 report.

### DISCUSSION

A responsibility of the Finance Advisory Commission (Commission) is to prepare annual reports on use of Measure F funds for the City Council. With the backlog of Finance activity over the past few years, Staff has been unable to provide the Commission with the information necessary to complete the annual reports.

Measure F expired in 2015. In anticipation of the expiration, use of Measure F in the operating budget to support ongoing operations ceased in FY19/20, however the remaining balance of Measure F funds have been used extensively in the capital program since that time. Because the capital program is now reconciled, Staff is able to provide the Commission with the information needed to complete the annual reports.

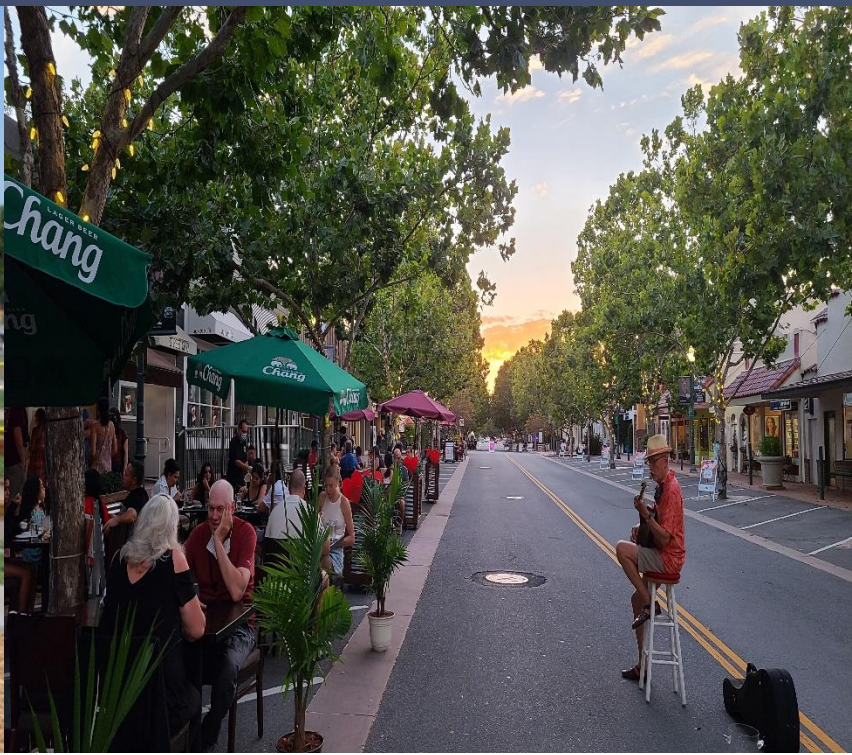
A draft report for FY20/21 has been prepared and is ready for Commission review. Once complete, this report will need to be presented to the City Council on the consent agenda.

Staff recommends the Commission provide final direction on the draft report for FY20/21.





**NOVATO CITIZENS FINANCE ADVISORY / OVERSIGHT COMMITTEE  
FY 2020/21 REPORT**



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**EXECUTIVE SUMMARY**

In 2010 Novato residents voted to pass Measure F, a ½ cent sales tax increase. Measure F was intended to help the City address its ongoing budget deficit and assist in maintaining essential City services.

The ballot measure language for Measure F included several key focus areas. The City Council directed the budget allocations of Measure F resources to the following categories:

- General Fund Deficit Backfill
- Police / Crime Prevention / 9-1-1 Response Times
- Youth and Senior Programs and Projects
- Parks and Street Maintenance / Programs
- City Facility Investments
- Technology / Customer Service / Efficiencies
- Economic Development
- Future Risk Mitigation Reserve

Measure F expired in 2015, in recent years minimal residual revenue from Measure F has been received. As shown in the table below, for Fiscal Year 2021/22, no additional revenue is anticipated. Beginning in FY 2020/21 no Measure F funds are budgeted in the operating budget and any funds expended were the result of funding previously approved for critical ongoing capital programs.

**MEASURE F BALLOT LANGUAGE**

To **offset/prevent** additional budget cuts and **maintain/restore** vital general city services including, and not limited to: neighborhood police patrols, crime prevention programs, 9-1-1 response times; city street/ pothole repair; park maintenance; preventing closure or elimination of youth and senior centers/services, shall the City of Novato enact a half-cent sales tax for 5 years, with review by a citizen committee, annual independent audits, and all funds spent locally for the benefit of Novato citizens.

FOCUS AREA	SPENDING THROUGH FY 20/21	BUDGETED FY 21/22	CATEGORY TOTALS
General Fund Deficit Backfill	\$754,129	\$0	\$754,129
Police / Crime Prevention / 911 Response Times	\$2,183,548	\$0	\$2,183,548
Youth & Senior Programs / Project	\$118,576	\$0	\$118,576
Parks & Street Maint. / Programs	\$1,683,897	\$0	\$1,683,897
City Facility Investments	\$1,141,581	\$0	\$1,141,581
Technology / Customer Service / Efficiencies	\$659,461	\$0	\$659,461
Economic Development	\$2,473,937	\$0	\$2,473,937
Risk Mitigation Reserve	\$3,000,000	\$0	\$3,000,000
CIP Project Funding	\$9,024,791	\$0	\$9,024,791
Pension Obligation & IRS Section 115 Pension Trust	\$238,296	\$0	\$238,296
Future Funding for Multi-Year Positions / Programs	\$0	\$0	\$0
<b>Total Expenditures / Allocation</b>	<b>\$21,278,216</b>	<b>\$0</b>	<b>\$21,278,216</b>

## Measure F was essential in addressing the City of Novato's Financial crisis

### MEASURE F BACKGROUND

Over the past several years, the City of Novato has faced numerous budgetary challenges. The Great Recession in 2008 exacerbated these already tough financial issues. To address these problems, City voters passed Measure F, a ½ cent, 5-year sales and use tax increase that would help save some essential City services. The ballot language outlined that the funds were to be used to (1) offset and prevent additional budget cuts and (2) maintain and restore vital general city services.

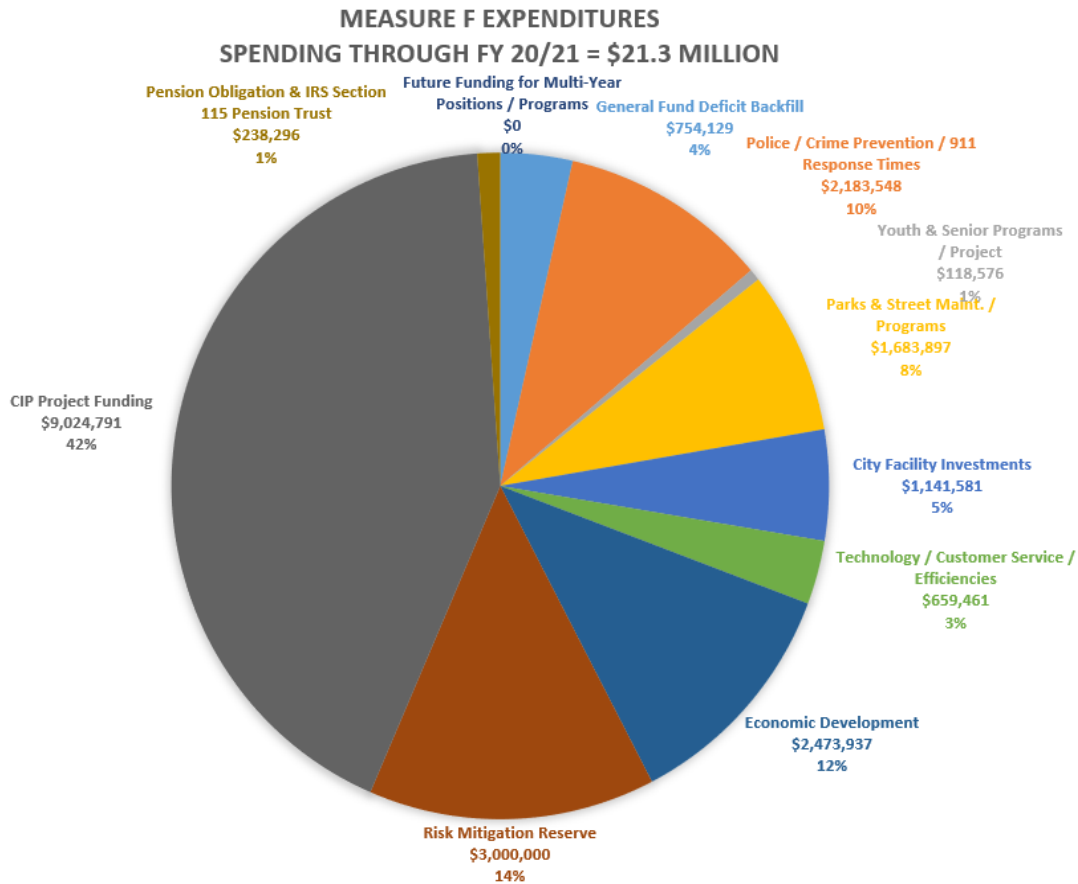
Measure F was approved by Novato voters in the November 2010 general election with 58% voter approval. Over its 5-year term, Measure F provided \$22.6 million in revenue, and as a general sales tax, it has been used for vital services and key community priorities, including:

- Maintaining and Restoring Neighborhood Services and Public Safety
- Supporting Seniors, Youth and Families
- Reinvesting in Park and Street Maintenance

Measure F also required the creation of an independent Citizens' Oversight Committee to review and report on the revenue and spending of the Measure F funds. All Measure F expenditures are reviewed by this committee and followed up with annual reports. The Committee's responsibilities include:

- Providing input on Measure F-related budget proposals
- Reviewing and reporting on the revenue, expenditures, and use of Measure F funds
- Presenting an annual report to the City Council and making it available to the public
- Commenting on any concerns regarding Measure F-related expenditure allocations
- Commenting on the status of efforts to achieve fiscal sustainability.

This Committee meets approximately 10 times per year where Committee members discuss the issues noted above. By reviewing information provided by staff, hearing from subject matter experts or departmental experts, and asking questions to gain a deeper understanding of the City's financial issues, the Committee regularly provides advice and recommendations to the City Council on Measure F-related topics and other City financial matters.



**WHAT HAS MEASURE F DONE FOR NOVATO**

For several years, Measure F has had a direct and beneficial impact on our community:

- Saved critical City services and temporarily stopped further cuts.
- Funded, improved, or reinstated key public safety, recreation, and economic development programs and services.
- Invested in one-time projects to reduce ongoing costs and increase revenues, and has invested in City infrastructure and technology to improve efficiency.

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Measure F saved critical City services and temporarily stopped further cuts.

This report provides historical context and summarizes the use of Measure F funds in FY 2020/21.

### MEASURE F SUPPORTS: POLICE & CRIME PREVENTION

Services paid for by Measure F included crime analysis, Computer Crimes Task Force, emergency planning, and more customer service hours for the public.



### Police, Crime Prevention, and Safety

Measure F funds helped to subsidize several programs in the Novato Police Department over the past few years, helping the City achieve its goals of improving safety and partnering with the community.

Measure F funded programs including the formation of the Novato Response Team (NRT), funding for an officer assigned to the Northern California Computer Crimes Task Force (NC3TF), and an Emergency Services contract with the Novato Fire Protection District.

In FY 2020/21, Measure F funding for these positions was no longer available and several of the positions were transitioned into the City's General Fund.

For several years, Measure F was a valuable resource for the Novato Police Department. The funds enabled the City to launch new programs and initiatives that helped to make the community safer and more livable.

### MEASURE F SUPPORTS: YOUTH & SENIOR SERVICES

Measure F provided financial assistance for the City's recreational programs, and capital improvements to improve City facilities.



### Youth, Senior and Recreation Programs

Measure F provided funding for programs and improvements to benefit Novato's youth and senior communities. In partnership with the Novato Unified School District, Measure F provided on-campus afterschool programs to Novato students.

Measure F and other funding sources significantly improved the Hill Recreation Area, a 12-acre sports park that perfectly complements Margaret Todd Senior Center and the Hamilton Gymnasium. This state-of-the-art, multi-generational facility includes synthetic turf and grass sports fields, pickle ball and bocce ball courts, expanded parking with electric vehicle charging stations and a new bioretention landscape that filters water before it leaves the site. New trees and shrubbery were planted to reduce the environmental footprint as well and beautify the park.

These Measure F funded programs and services provided important support for the youth and seniors in Novato, helping them to stay healthy, active, and engaged in the community.



### Parks and Street Maintenance

When Measure F was passed by the Novato voters, it not only assisted with funding of maintenance and improvement projects, but it also funded the hiring of additional maintenance workers. This helped to offset the 30%+ workforce reductions that were a result of the 2008 recession.

Maintenance workers are essential to keeping Novato a safe and livable community. They work hard to keep our streets, parks, and public spaces clean and well maintained. Measure F has helped to support and enhance their efforts, and the results were evident in the quality of life enjoyed in Novato. In FY 2020/21, Measure F funding for these positions was no longer available and funding for these two FTE maintenance workers shifted to the City's General Fund.

In addition, Measure F has provided one-time funds to enhance the City's streets crack filling program and to complete various special and seasonal parks and island improvements. These additions have helped to improve the appearance and safety of Novato's public spaces.

### Technology and City Operations

Measure F funded approximately \$2.8 million in technology projects, as well as a Business Analyst Position. The Information and Technology (IT) department is responsible for protecting the City's critical data and systems from cyberattacks and other threats. IT also plays a vital role in maintaining the City's technological infrastructure.

Without the Measure F funding, the City would not have been able to provide the same levels of service to its residents and businesses. The new technologies that were funded helped the City to become more efficient and effective in operations.

### Economic Development

Measure F funding supported the City's Economic Development program with the launch of the "Shop Local Novato" campaign. This program focused on ensuring a business-friendly environment in Novato.

The "Shop Local Novato" campaign features a website and marketing campaign that encourages residents to shop locally. The Shop Local website and social media are updated regularly to feature local businesses.

In addition, the Economic Development staff have focused on attracting new businesses, while also retaining and expanding existing businesses. Ongoing stakeholder outreach by staff has included supporting owners of local businesses with their plans to update or expand.

### MEASURE F SUPPORTS: PARKS & STREET MAINTENANCE

Measure F provided funding towards hiring additional maintenance workers that help in improving Novato's public spaces.



## Measure F Oversight / Citizens Finance Committee

The Measure F Oversight / Citizens Finance Committee was established in 2011 to review and report annually on how Measure F funds are spent. As noted earlier in this report, in Fiscal Year 2020/21, the remainder of Measure F funding was designated for previously approved Capital Improvement Projects.

### Challenges and Opportunities

The completion of this most recent report was delayed due to several factors, including staffing shortages and turnover in the Finance Department (including delays related to the pandemic), and the conversion to a new financial software system.

The Measure F sales tax was a major financial boost for Novato, helping to prevent significant budget cuts and service reductions. However, the more recent Measure C ¼ cent sales tax, half the amount of Measure F, will require the City to find new ways to generate revenue to continue to support services and ensure long-term fiscal sustainability.

The Committee is committed to working with the City Council to develop strategies for addressing the challenges posed by the reduction in revenue from Measure F. These strategies may include increasing revenue, reducing spending, and increasing efficiency in operations.

### Balancing Act

The City Council and staff need to continue carefully monitoring the financial outlook and make prudent budget decisions to best use the limited General Fund revenues available. Balancing the demands of infrastructure replacement and investment, service delivery and program staffing levels, and maintaining competitive pay and benefits to retain a talented workforce will be an ongoing challenge for Novato.

### Conclusion

The City is confident that by working together, the financial challenges currently being faced can be overcome to ensure a bright future for all Novato residents, businesses, and visitors.

NOVATO CITIZENS  
FINANCE ADVISORY /  
OVERSIGHT COMMITTEE

Rafelina Maglio, Chair  
Mark Milberg, Vice Chair  
Regina Bianucci Rus  
Caitrin Devine  
Cris MacKenzie  
Tim O'Conner

**MEASURE F ANNUAL REPORT  
FY 2020/21**

**MEASURE F FUNDING HISTORY DETAIL**

	FINAL ACTUAL 2010/11	FINAL ACTUAL 2011/12	FINAL ACTUAL 2012/13	FINAL ACTUAL 2013/14	FINAL ACTUAL 2014/15	FINAL ACTUAL 2015/16	FINAL ACTUAL 2016/17	FINAL ACTUAL 2017/18	FINAL ACTUAL 2018/19	FINAL ACTUAL 2019/20	FINAL ACTUAL 2020/21	ADOPTED BUDGET 2021/22	CATEGORY TOTALS
<b>REVENUES</b>													
Measure F Sales Tax Revenue	689,126	4,089,401	4,473,532	4,422,885	4,750,569	3,739,015	46,089	23,206	20,871	15,123	5,182	-	
Investment Earnings / Miscellaneous	347	9,491	20,872	50,394	94,083	113,782	148,902	129,108	216,836	167,825	108,531	-	
<b>TOTAL REVENUES</b>	<b>689,473</b>	<b>4,098,892</b>	<b>4,494,404</b>	<b>4,473,279</b>	<b>4,844,652</b>	<b>3,852,797</b>	<b>194,991</b>	<b>152,314</b>	<b>237,707</b>	<b>182,948</b>	<b>113,713</b>		<b>23,335,170</b>
<b>EXPENDITURES AND ALLOCATED FUNDS</b>													
<b>General Fund Deficit Backfill</b>													
<b>/ Prevent Budget Cuts</b>	-	16,784	411,375	-	325,970	-	-	-	-	-	-	-	<b>754,129</b>
<b>Police / Crime Prevention / 911 Response Times</b>													
Novato Response Team - Staff and Program Support	-	52,302	105,126	73,582	277,577	-	-	-	-	-	-	-	
0.50 FTE Records Clerk	-	-	-	-	12,152	40,200	17,565	42,229	76,532	59,639	38,968	-	
0.50 FTE Office Assistant	-	-	-	-	5,187	40,199	17,127	35,096	-	-	-	-	
1.0 FTE Dispatcher	-	-	-	-	-	-	77,131	72,033	100,884	107,439	127,766	-	
Crime Analysis Contract Services	-	-	-	-	-	-	28,853	31,426	36,062	38,461	37,942	-	
Emergency Services Contract	-	-	-	15,053	64,712	30,663	28,427	23,568	25,985	27,739	-	-	
Major Crimes Task Force	-	-	-	-	-	-	38,942	38,723	41,588	48,233	-	-	
Northern CA Computer Crimes Task Force	-	-	-	12,022	31,742	31,302	32,617	27,652	-	-	-	-	
Replacement Fund for Police Technology	-	-	-	-	25,102	22,000	22,000	22,000	22,000	-	-	-	
* CIP - CAD / RMS Replacement	-	-	-	-	-	-	-	265,750	435,367	101,710	101,933	-	
<b>TOTAL</b>													<b>3,088,308</b>
<b>Youth and Senior Programs and Projects</b>													
Youth After School Initiative / Needs Summit	-	-	14,236	17,337	-	-	-	-	-	-	-	-	
* CIP - Hill Recreation Master Plan	-	-	-	272	-	81,989	42,040	-	-	3,391,203	572,764	-	
Youth Athletics Scholarship Program	-	-	-	-	10,000	20,000	10,000	30,000	-	-	-	-	
Special Events - Concerts in the Park	-	-	-	-	-	-	-	9,975	7,028	-	-	-	
<b>TOTAL</b>													<b>4,206,844</b>
<b>Parks and Streets Maintenance / Programs</b>													
Maintenance Worker Staffing	-	169,864	86,092	85,542	-	-	253,920	201,809	146,566	9,287	-	-	
Parks, Medians, Streets Maintenance	-	-	-	-	-	13,084	180,402	256,226	-	-	27,326	-	
* CIP - Pedestrian Safety Improvements	-	-	-	-	34,340	58,853	68,372	-	-	-	-	-	
* CIP - Traffic Signal Improvements Design	-	-	-	-	2,945	447	-	-	7,240	4,368	-	-	
Open Space Purchase - 90+ acres Trust for Public Lands	-	-	-	253,779	-	-	-	-	-	-	-	-	
* CIP - LED Streetlight Replacement Project	-	-	-	-	179,347	603,732	42,218	6,770	33,369	-	-	-	
<b>TOTAL</b>													<b>2,725,898</b>
<b>City Facility Investments</b>													
Payoff of Corp Yard Lease	-	-	-	-	1,141,581	-	-	-	-	-	-	-	
* CIP - Hamilton Pool Solar	-	-	-	-	13,277	83,555	76,891	40,379	-	-	-	-	

**MEASURE F ANNUAL REPORT  
FY 2020/21**

* CIP - Lieb Property Deferred Maintenance	-	-	-	-	-	-	-	-	32,519	13,800	4,192	-	
<b>TOTAL</b>													<b>1,406,194</b>
<b>Technology / Customer Service / Efficiency</b>													
1.0 FTE Management Analyst	-	-	-	-	-	-	86,369	27,078	128,017	112,578	-	-	
1.0 FTE Receptionist / Admin Clerk	-	-	-	63,123	-	-	-	-	-	-	-	-	
0.75 FTE IT Business Analyst	-	-	-	-	-	-	-	1,213	123,722	-	-	-	
Technology & Service Improvements	-	-	-	-	-	-	-	-	79,919	-	-	-	
Geographic Info Systems Support	-	-	9,144	-	-	-	-	-	-	-	-	-	
IT Temporary Staffing	-	-	-	-	-	-	-	-	-	28,298	-	-	
* CIP - Technology Projects Citywide	-	-	-	-	272,000	630,640	605,221	785,759	186,571	125,728	119,229	-	
<b>TOTAL</b>													<b>3,384,609</b>
<b>Economic Development</b>													
Economic Development - Staff and Program Support	-	-	170,982	215,006	-	-	-	-	164,465	11,373	2,885	-	
Hamilton Base Reuse - Staff and Program Support	-	-	107,076	284,663	309,957	227,132	212,843	138,932	-	-	-	-	
Shop Local Campaign	-	-	19,232	85,522	-	-	-	-	-	-	-	-	
Bio-Life Sciences Campaign	-	-	-	157,301	134,709	99,999	56,348	-	-	-	-	-	
Tenant Incentive Program	-	-	-	-	-	-	-	-	5,000	50,000	20,513	-	
<b>TOTAL</b>													<b>2,473,937</b>
<b>Transfer to Risk Mitigation Reserve Fund</b>								3,000,000	-	-	-	-	<b>3,000,000</b>
<b>Pension Obligation Bond Payment - for Measure F Employees</b>	-	5,748	13,103	19,481	29,938	14,170	10,227	28,190	20,505	12,283	-	-	<b>153,645</b>
<b>IRS Section 115 Pension Trust</b>	-	-	-	-	-	-	-	-	84,651	-	-	-	
<b>Reserves and Future Commitments</b>													
Future Technology Projects - IT Master Plan	-	-	-	-	-	-	-	-	-	-	-	-	
* CIP - Future Park Improvement Projects	-	-	-	-	-	-	-	-	-	-	-	-	
Risk Mitigation Reserve	-	-	-	-	-	-	-	-	-	-	-	-	
Future Funding for CIP Projects	-	-	-	-	-	-	-	-	-	-	-	-	
Equipment Replacement	-	-	-	-	-	-	-	-	-	-	-	-	
Labor Expense - One-Time	-	-	-	-	-	-	-	-	-	-	-	-	
MERA Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	
Future Funding for Multi-Year Positions / Programs	-	-	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL EXPENDITURES / ALLOCATIONS</b>	-	<b>244,698</b>	<b>936,366</b>	<b>1,282,683</b>	<b>2,870,536</b>	<b>1,997,965</b>	<b>1,907,513</b>	<b>5,084,808</b>	<b>1,757,990</b>	<b>4,142,139</b>	<b>1,053,518</b>	-	<b>21,193,564</b>
<b>MEASURE F ENDING FUND BALANCE</b>	<b>689,473</b>	<b>4,543,667</b>	<b>8,101,705</b>	<b>11,292,301</b>	<b>13,266,417</b>	<b>15,121,249</b>	<b>13,408,727</b>	<b>8,476,233</b>	<b>6,955,951</b>	<b>2,996,760</b>	<b>2,056,955</b>	<b>2,056,955</b>	<b>4,198,560</b>

Capital Improvement Program ("CIP") project budgets represent appropriated funds. Depending on project timing, actual expenditures may not occur until future fiscal years. 2020/21 Adopted budgets for CIP projects include updated carryover budgets based on actual expenditures during 2019/20.

"Final Actual" figures represent past year revenues and expenditures that are finalized and audited

## STAFF REPORT

### MEETING

DATE: October 19, 2023

TO: Finance Advisory Commission

FROM: Amy Cunningham, Deputy City Manager

**SUBJECT: Fiscal Sustainability Plan Update**

### REQUEST

Receive and discuss report.

### DISCUSSION

For the past four years, the City Council has adopted deficit budgets as there has not been adequate revenue to offset the cost of providing critical services to the community. The table below provides an overview of the projected annual deficits since FY2020/21. The fiscal conditions leading to the deficits have been outlined in detail in multiple public reports over the past several years, including in a June 2023 Grand Jury report titled “Novato’s Chronic Fiscal Deficits: A Call to Action” (Attachment 1).

General Fund Budget Deficits						
	Adopted Budget FY19/20	Adopted Budget FY20/21	Revised Budget FY20/21*	Adopted Budget FY21/22	Adopted Budget FY22/23	Amended Budget FY23/24
<b>Surplus / (Deficit)</b>	\$355,700	(\$5,746,581)	(\$2,485,409)	(\$207,553)	(\$1,656,330)	(\$2,615,902)**
*September 2020 Budget Revise **Includes additional cost of proposed labor agreements approved by City Council on 6/27/23.						

The City Council has been discussing possible options to address the City’s long-term fiscal sustainability. The 2023-2025 Strategic Plan recently adopted by the City Council identifies several actions that should be evaluated to address this condition, including:

- #15. Initiate a review and modernize the 2013 Fiscal Sustainability Plan with an emphasis on increasing City revenues, including an interactive model if possible.

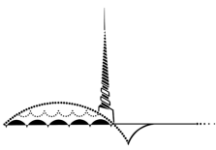
The 2013 Plan (adopted February 11, 2014) is a 170+ page static document developed prior to passage of Measure F (the voter approved ½ cent sales tax which expired in 2015) comprehensively discussing the City’s financial condition and options to address the need for revenue to maintain critical city services. Much of the document remains accurate today, however with the number of technological advances since 2013, the community does not receive / digest information in the same way it did ten years ago.

While several tools have been developed to share information about the City’s budget condition with the community including: Budget in Brief, providing a simplified overview of the annual budget; Budget 101 Video; interactive fiscal model, currently under development; more work is necessary to share information with the community.

Staff is requesting feedback from the Commission about ideas to “modernize” the Fiscal Sustainability Plan.

Attachments:

1. Grand Jury Report: “Novato’s Chronic Fiscal Deficits: A Call to Action”
2. 2023-2025 Strategic Plan
3. 2013 Fiscal Sustainability Plan



# **Novato's Chronic Fiscal Deficits: A Call to Action**

## **June 8, 2023**

### **SUMMARY**

The City of Novato (City) is a lovely place to live. It offers many outdoor recreational opportunities, a wide range of housing, and the friendly community spirit of a small town. However, the City has inherent fiscal challenges, in part because of its relatively recent incorporation in 1960. It lacks some of the revenue sources upon which many other cities rely, and the area's independent special districts impact both Novato's revenues and operations. Such long standing factors are impediments to Novato's financial sustainability.

Novato is confronted with chronic and ongoing structural financial deficits. Its current revenues do not cover its operating expenses and have not in recent years. For the current fiscal year ending June 30, 2023, Novato's budget is \$49.1 million, and its deficit is now projected to be over \$1.9 million. For the last several years, Novato has faced difficult decisions about how to meet its residents' service expectations with its limited financial resources. Budget cuts have reduced staffing levels, leaving fewer people to do the same or a greater amount of work and leading to reduced services for its residents. There have been lapses in the City's financial management to the detriment of Novato and its residents.

While Novato's City Council has known for more than a decade about its financial challenges and looming deficits, they have not taken sufficient measures to resolve them. This report describes Novato's inherent limitations on raising revenue. The report also reviews decisions that have exacerbated and those that have reduced its deficits. The Grand Jury offers recommendations for promptly addressing the need to put Novato's financial house in order.

To correct these deficiencies, the Grand Jury recommends that the City implement accepted financial controls; that it establish comprehensive records management systems; that it create a new position of an independent internal auditor; that it review all properties that it owns to identify opportunities to generate revenue; and that it aggressively investigate all possibilities to increase long term revenue, including increasing the sales tax.

### **BACKGROUND**

Novato was incorporated in 1960 and is the northernmost city in Marin County. Occupying 28 square miles, it is Marin's largest city geographically. With a population of about 53,000 residents, it's the County's second most populous city.<sup>1</sup> The median household income is

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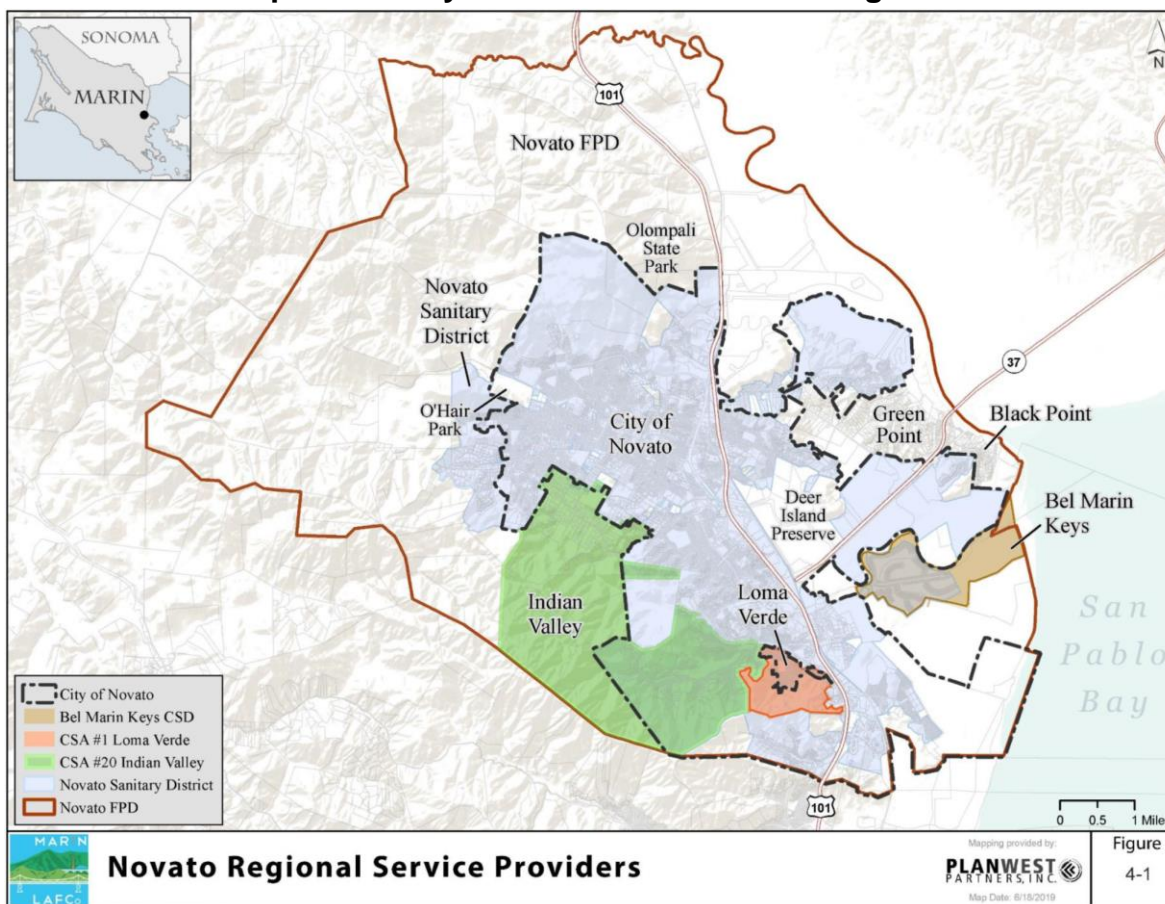
<sup>1</sup> [www.census.gov/quickfacts/fact/table/novatocitycalifornia,CA/PST04022](http://www.census.gov/quickfacts/fact/table/novatocitycalifornia,CA/PST04022), Accessed on 4/23/23.



\$108,000, substantially lower than the \$131,000 for the County overall.<sup>2</sup> Over 63 percent of residences are owner-occupied.

Considered a desirable place to live, Novato offers outdoor recreational opportunities, a wide range of housing from affordable apartments to luxury estates and rural farms, and a wealth of community activities. Its Vintage Oaks shopping center includes major national retailers, car dealerships, and smaller local businesses. The greater Novato community includes unincorporated areas and special districts which overlay the city limits.

**Map 1. The City of Novato and Surrounding Areas**



Source: Marin LAFCo, Novato Municipal Services Review 2020, pg. 24.<sup>3</sup>

## Special Districts in the Novato Area

The map above from the Marin Local Agency Formation Commission's (LAFCo) 2020 Municipal Service Review of Novato, helps illustrate the complexity of factors that both complicate and compromise the governance of the City.<sup>4</sup> Novato's city limits are outlined in a dashed black line, and the lower left corner provides a key to the delineation of the six overlapping districts and areas within and around the City.

<sup>2</sup> [www.census.gov/quickfacts/marincountycalifornia](http://www.census.gov/quickfacts/marincountycalifornia), Accessed on 4/23/23.

<sup>3</sup> [www.marinlafco.org/files/ca1e33357/Novato+MSR+Final+Report.pdf](http://www.marinlafco.org/files/ca1e33357/Novato+MSR+Final+Report.pdf), Accessed on 4/2/23.

<sup>4</sup> [www.marinlafco.org/novato-region-municipal-service-review](http://www.marinlafco.org/novato-region-municipal-service-review), Accessed on 4/23/23.



This maze of boundaries and partially overlapping areas is primarily explained by Novato's history. Until the 1940s, the area was rural, including many farms. To provide local services, the citizens formed three independent special districts: the Novato Sanitary District (1925), the Novato Fire Protection District (1926), and the North Marin Water District (1948). When Novato was incorporated as a city in 1960, the city limits were established within preexisting special districts. These districts independently provide essential services but share none of their tax and service revenue with the City. While the districts depend on the City's infrastructure for some of their operations, they do not contribute directly to defray such costs. Novato is solely responsible for maintaining its streets and other infrastructure within the city limits. Likewise, residents living in Novato's unincorporated islands depend on City streets and access City amenities without contributing to their costs through property taxes. The LAFCo report summarizes this predicament: "... pockets of unincorporated territory that are surrounded or substantially surrounded by incorporated cities, typically known as "islands," create governance and service delivery inefficiencies and deficiencies."<sup>5</sup>

## **Novato's Financial Condition: A Long-Standing Concern**

This is not the first report about Novato's financial difficulties; there are many that precede it. For more than a decade, the City Manager's letter accompanying every approved City budget has expressed concerns about the City's long term fiscal sustainability (see Appendix A). The City's exhaustive and detailed 2014 Fiscal Sustainability Plan outlined Novato's inherent revenue limitations, projected long term deficits, and proposed solutions including an extension of the 0.5 percent sales tax increase.<sup>6</sup> Although the pandemic certainly exacerbated Novato's financial challenges, the pandemic is not solely responsible for its ongoing structural financial deficits. That responsibility rests primarily with the members of the Novato City Council.

The recent quadrennially required report from Marin LAFCo suggested that Novato "...look at other sources of long-term revenue to help offset these rising costs." Regarding the fiscal year 2019-2020 (FY20) budget, Marin LAFCo concluded: "The city will either need to reduce personnel costs to a level that would offset future expenditure increases and/or evaluate and implement multiple revenue growth strategies that will generate sufficient revenue to meet the future projected expenditure increases to the General Fund."<sup>7</sup>

## **Local Sales Tax Measures and Oversight**

The City Council has taken some steps to increase revenue. In 2010, Novato enacted Measure F, a 1/2 percent sales tax for a five-year period. In November 2015, Novato's City Council decided to renew the tax but lowered the rate to 1/4 percent, thereby halving the

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<sup>5</sup> [www.marinlafco.org/files/ca1e33357/Novato+MSR+Final+Report.pdf](http://www.marinlafco.org/files/ca1e33357/Novato+MSR+Final+Report.pdf), Accessed on 4/23/23.

<sup>6</sup> [www.novato.org/home/showpublisheddocument/13554/635774142357330000](http://www.novato.org/home/showpublisheddocument/13554/635774142357330000), Accessed on 4/23/23.

<sup>7</sup> [www.marinlafco.org/files/ca1e33357/Novato+MSR+Final+Report.pdf](http://www.marinlafco.org/files/ca1e33357/Novato+MSR+Final+Report.pdf), Accessed on 4/25/20.

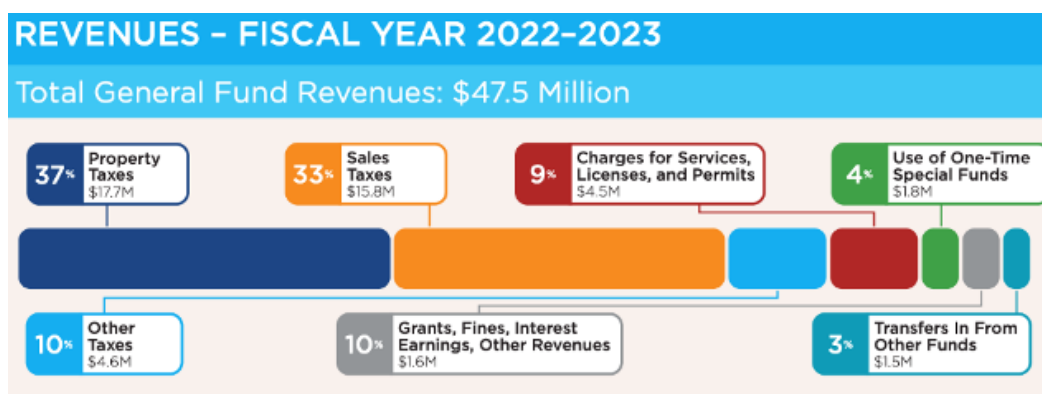
potential revenue. While the new measure, Measure C, does not have an expiration date, it does not generate enough revenue to balance the budget.

Measures F and C mandated that a Citizens Advisory Committee monitor the distribution of the local sales tax funds. Over time, the committee has been given additional duties and was renamed the Financial Advisory Committee. In October 2022, the Financial Advisory Committee was renamed the Finance Advisory Commission (the “Commission”). Currently, the mission of the Commission is to “...provide regular feedback, insight, recommendations, and report periodically to the City Council on a variety of financial matters such as financial policies, long-term fiscal sustainability, budgets, and forecast assumptions.”<sup>8</sup>

## Novato's Revenues

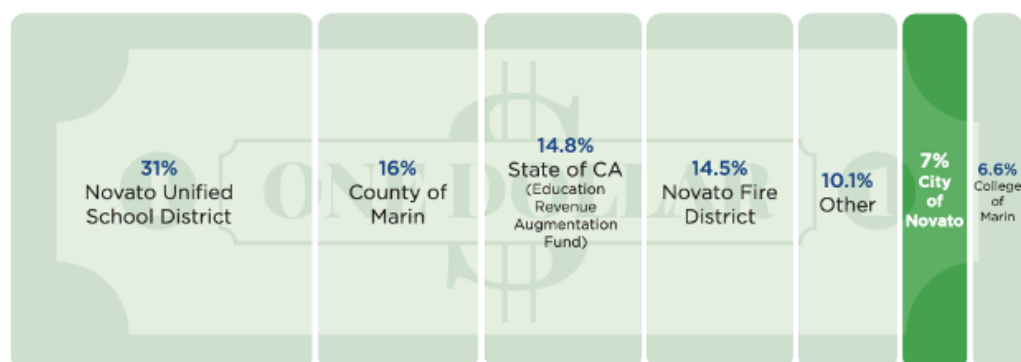
As shown in Figure 1, about 80 percent of Novato's revenue comes from taxes. Its property tax revenues are slightly greater than its sales tax revenues. Other taxes (such as the Transient Occupancy or “hotel” tax) and fees contribute a much smaller portion.

**Figure 1. Novato's Budgeted Revenue Sources – Fiscal Year 2022-2023**



### Distribution of Property Tax

How each dollar you pay is distributed.



Source: Adopted Annual Budget, Fiscal Year 2022-23<sup>9</sup>

<sup>8</sup> [www.novato.org/home/showpublisheddocument/35081/638036020674030000](http://www.novato.org/home/showpublisheddocument/35081/638036020674030000), Accessed on 4/23/23.

<sup>9</sup> [www.novato.org/home/showpublisheddocument/34983/638009945823400000](http://www.novato.org/home/showpublisheddocument/34983/638009945823400000), Accessed on 4/23/23.

## **Property Tax Constraints**

In the 1970's Novato was growing, and property tax revenues were increasing. During that period, the City Council significantly cut the City's property tax rate. In 1978, California voters passed Proposition 13 which locked in the assessment and distribution of property tax receipts.

Therefore, Novato receives just 7 percent of the basic property tax collected from its residents. This is one of the City's most severe impediments to its financial stability. Novato's share of the basic property tax is the lowest of any major municipality in Marin; San Rafael receives 12.2 percent; Larkspur, 21.7 percent; and Mill Valley, 25.8 percent. This limitation on property tax revenues forces the City to find other revenue to finance services comparable to those in other Marin communities. Figure 1 (bottom panel above) illustrates how Novato's property taxes are distributed to various entities. The Novato Fire District receives twice as much revenue as does the City, which maintains seven departments. The College of Marin, which serves about 9,000 students from throughout Marin, receives approximately the same amount as the City, which serves 53,000 people.

## **APPROACH**

To investigate Novato's financial condition, the Grand Jury reviewed both public and non-public records, the City's financial projections, the independently audited financial statements of the City and the opinions of its independent auditors, the City's investment policies, and all City budgets from 2011 to present. Selected City Council and Finance Advisory Commission agendas, minutes, and accompanying documentation were reviewed, as were video recordings of City Council and Finance Advisory Commission meetings. Comprehensive interviews were conducted with current and past City Council members and City staff, municipal government consultants, attorneys, and contractors. This report was completed in April 2023.

Although perhaps relevant for future consideration, this report does not discuss adjustments of base property tax distribution proportions, and consolidation or annexation of special districts or unincorporated areas.

## **DISCUSSION**

### **Novato's Ongoing Structural Financial Deficit**

Novato's approved budget for the fiscal year ending June 30, 2023 (FY23) anticipated expenditures of \$49.1 million with a deficit of \$1.6 million. The deficit has been termed by City officials as "structural," meaning that no revenue sources are projected to cover the shortfall. This is the third consecutive year of deficits for Novato.

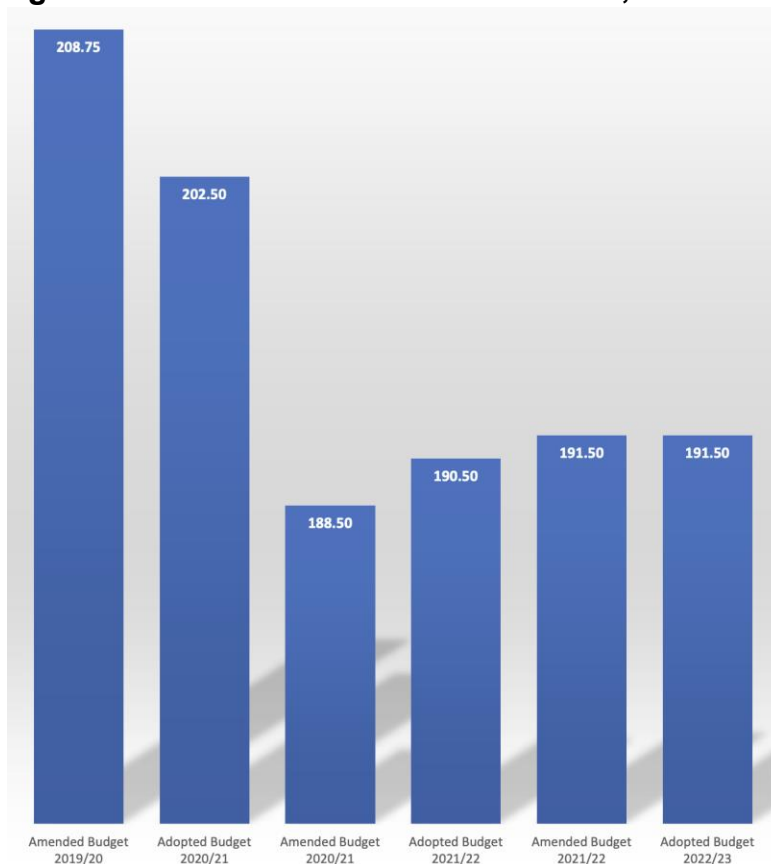
In his "State of the City" presentation on April 6, 2023, the Novato City Manager stated: 1) that the FY23 deficit had increased to \$1.9 million; 2) the structural deficit is likely to persist

for several years to come; and, 3) it is likely to grow.<sup>10</sup> Facing significant cuts in an already reduced employee base with consequential cuts in services, Novato's structural financial deficit must be addressed.

## Impact on Staff and the Community

The structural deficit has impacted City staff and the community. In 2008, the City had 231 employees. The City currently has 191.5 full-time equivalent positions filled, despite a larger population and increased demand for services.<sup>11</sup>

**Figure 2. Novato's Personnel Allocations, 2020-2023**



Numbers shown are full time equivalents.

Source: [www.novato.org/home/showpublisheddocument/34983/638009945823400000](http://www.novato.org/home/showpublisheddocument/34983/638009945823400000), page 60, Accessed on 4/23/23

One result of the ongoing budget deficits is that the City continues to experience difficulties with hiring and retention. Due to budget issues Novato has cut staffing so fewer people now carry the same or greater workload. With its budget constraints, Novato is unable to pay wages and benefits comparable to cities of similar size in the Bay Area. Several staff explained that turnover continues to be high. As a result of staff reductions and turnover,

<sup>10</sup>

[novato.granicus.com/player/clip/1912?view\\_id=7&meta\\_id=149823&redirect=true&h=1527c543b308e48b2346d72b045440c2](http://novato.granicus.com/player/clip/1912?view_id=7&meta_id=149823&redirect=true&h=1527c543b308e48b2346d72b045440c2), Accessed on 4/20/23.

<sup>11</sup> [www.novato.org/home/showpublisheddocument/34983/638009945823400000](http://www.novato.org/home/showpublisheddocument/34983/638009945823400000), page 60 Accessed on 4/18/23.

many City departments are staffed with recent hires who are unfamiliar with their jobs, institutional history, and city culture.

Employment expenses comprise approximately 70 percent of the City's budget, or approximately \$35 million. The City has begun negotiations with unions representing its employees and the resulting new contracts are expected to significantly increase the deficit. If the new contracts with the unions contain just a 3 percent increase in wages and benefits, that would add approximately \$1 million to the deficit each year, an increase of 47 percent on FY23's \$1.9 million deficit.

City staff and Council members noted that the reduction and turnover of employees has adversely affected the performance of City services. There have been delays in service requests, including the processing of various permits. The Public Works Department lacks sufficient staff to maintain some of the City's infrastructure, such as streets. The Pavement Conditions Index of Novato's total street network decreased from a "Fair" rating of 72 in 2017 to 66 in 2022. Currently, 38 percent of the network is in "Good" condition while more than one-tenth is in a "Poor" or "Failed" condition.<sup>12</sup>

## **Records Management System**

The City lacks comprehensive records management systems. One consequence is that the City is not aware of all the properties it owns or leases, or the agreements to which it is a party. A stark example is the City's December 2022 "emergency" purchase of corporation yard space that it had occupied, and believed it owned, for 30 years. The actual owner, Frontier Telecommunications Co., notified the City last August that it intended to sell the entire parcel as a whole, only one acre of which was being used for the corporation yard. Rather than lose a portion of its corporation yard, the City was effectively forced to buy the entire parcel for \$5.9 million. Novato made the purchase by borrowing \$4.9 million from its vehicle fleet fund, \$500,000 from its general fund, and \$400,000 from Measure F sales tax funds.<sup>13</sup>

Comprehensive records management systems are essential to the operation of any city. Such systems provide accessible and accurate records of its financial transactions, assets, liabilities, leases, and other financial and legal documents. The City has taken a first step by procuring a new records system for the City Clerk's office.

## **Financial Staffing, Controls, and Oversight**

The City's inadequate financial controls are reflected by the substantial delays in producing audited financial statements for FY20, FY21, and FY22. Attrition in 2019 in the Finance Department left only two employees. While understaffed, the Finance Department was

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<sup>12</sup> [www.novato.org/home/showpublisheddocument/35660/638182063363963415](http://www.novato.org/home/showpublisheddocument/35660/638182063363963415), Accessed on 4/27/23.

<sup>13</sup> [www.marinij.com/2022/12/09/novato-closes-5-8m-land-purchase-to-retain-corporation-yard/](http://www.marinij.com/2022/12/09/novato-closes-5-8m-land-purchase-to-retain-corporation-yard/), Accessed on 4/9/23.

unable to maintain accurate, timely, and complete records, which in turn led to inadequate financial controls, incomplete records, and a loss of financial accountability.

A consequence of the inadequate record keeping meant that conducting the City's required annual independent financial audit would be much more complicated and delayed because of lost or misplaced records, and staff's faded memories of transactions. For over a year, the standard practice of monthly reconciliations was not performed. Hence, a reconstruction of transactions would take much more time. For example:

- For the fiscal year ending June 30, 2018 (FY18), the City Manager was unable to present to the City Council the City's Comprehensive Annual Financial Report (CAFR) by the City's independent financial auditors (Auditors), for the fiscal year ending June 30, 2018, until April 30, 2019, a full ten months after that fiscal year ended.<sup>14</sup>
- For the next fiscal year ending June 30, 2019 (FY19), the CAFR from the Auditors was not presented to the City Council until February 1, 2021, nineteen months after that fiscal year ended.<sup>15</sup> The Auditor's FY19 Management Letter (a separate and required letter from an auditor to the audited entity) alerted the City Council that the Auditors "...became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency."<sup>16</sup>
- For the next fiscal year ending June 30, 2020 (FY20), the CAFR was not presented to the City Council until February 21, 2023, thirty-one months after that fiscal year ended.<sup>17</sup> The FY20 Management Letter from the Auditor contains the same quote as the previous year's Management Letter.<sup>18</sup> A separate letter by the Auditor to the City Council dated February 21, 2023, noted that "The completion of the audit was delayed due to personnel turnover and the fact that processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective. In addition, management informed the auditors that there was a significant breakdown of internal controls through most of the fiscal year due to the turnover."<sup>19</sup> Fiscal 2020 is the most recent fiscal year of completed financial audits of the City.

It should be noted that all the foregoing CAFRs were "clean," meaning that they were materially accurate in all respects. However, that does not change the fact that they were all significantly late. The Finance Department is under new leadership and has been actively recruiting staff with municipal finance experience, but it continues to have difficulties

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<sup>14</sup> [www.novato.org/home/showpublisheddocument/29024/636966290655170000](http://www.novato.org/home/showpublisheddocument/29024/636966290655170000), Accessed on 4/7/23.

<sup>15</sup> [www.novato.org/home/showpublisheddocument/32151/637491744047800000](http://www.novato.org/home/showpublisheddocument/32151/637491744047800000), Accessed on 4/7/23.

<sup>16</sup> [legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/818769/Attachment\\_3\\_-\\_Management\\_Letter.pdf](https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/818769/Attachment_3_-_Management_Letter.pdf), Accessed on 4/7/23.

<sup>17</sup> [www.novato.org/home/showpublisheddocument/35449/638127587521587818](http://www.novato.org/home/showpublisheddocument/35449/638127587521587818), Accessed on 4/7/23.

<sup>18</sup> [legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/1808367/Attachment\\_3\\_-\\_Management\\_Letter\\_-\\_2020.pdf](https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/1808367/Attachment_3_-_Management_Letter_-_2020.pdf), Accessed on 4/7/23.

<sup>19</sup> [legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/1808367/Attachment\\_3\\_-\\_Management\\_Letter\\_-\\_2020.pdf](https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/1808367/Attachment_3_-_Management_Letter_-_2020.pdf), Accessed on 4/9/23.

locating qualified personnel. Despite new staff and a huge backlog, the Finance Department has been slowly catching up.

The Auditor's FY21 field work (their onsite examination of financial records at the Finance Department) is scheduled for two weeks in the second half of August 2023, with the goal of delivering FY21's CAFR before December 31, 2023. The schedule for the field work on the audits for FY22 and FY23 has not yet been determined, but the stated goal for those completed audits is summer 2024 and early 2025, respectively. One consequence of the delayed annual audits is that the City is technically not in compliance with various covenants with its lenders and debt instruments. It should be noted that the timing of completion of the audits is not completely under the Finance Department's control, as there is a well-known national shortage of accountants and auditing firms are heavily booked.

These events and delays over multiple years should have been largely foreseeable and preventable with proper oversight provided, and operational discipline imposed, by the City Council. A common solution used by governments and private enterprises alike is an internal audit group (not the same as, and distinct from, outside independent auditors), charged with acting as "watchdogs" over the financial and other operations of the organization to make sure that processes are being done correctly and on time.

## **Finance Advisory Commission**

As discussed in Background, the Finance Advisory Commission (Commission) is an outgrowth of the citizen oversight mandated by Measures C and F, which enacted the local sales tax. The current mission of the Commission is "...to provide regular feedback, insight and recommendations and report periodically to the City Council on a variety of financial matters such as financial policies, long-term fiscal sustainability, budget and forecast assumptions."<sup>20</sup> The Commission also continues to act as the official citizens oversight committee as required by Measures C and F.<sup>21</sup> However, the Commission does not routinely participate in City Council meetings.

In 2022, the Commission consisted of seven voting members, who met monthly, and generated minutes for each meeting. The Commission included members with a spectrum of financial expertise such as a certified public accountant, a vice president and marketing manager with a regional bank, and university director of finance and business services. The Commission has not generated a report since the Fiscal 2017-2018 Annual Report.

In the fall of 2022, the Commission analyzed and voted on two financial proposals that the City was considering. These proposals and the votes of the Commission are notable because the City Council chose *not* to follow the Commission's recommendations. These proposals

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<sup>20</sup> [www.novato.org/home/showpublisheddocument/35081/638036020674030000](http://www.novato.org/home/showpublisheddocument/35081/638036020674030000), Accessed on 4/9/23.

<sup>21</sup> [www.novato.org/government/commissions-committees-boards/novato-citizens-finance-advisory-oversight-committee](http://www.novato.org/government/commissions-committees-boards/novato-citizens-finance-advisory-oversight-committee), Accessed on 4/9/23.



involved loans totaling \$5 million to the North Bay Children's Center and to Homeward Bound:

1. On October 20, 2022, the seven Commission members voted unanimously that the City Council reject the loan proposal.<sup>22</sup> However, on October 25, 2022, the Novato City Council voted 3-2 to enter into the loan agreement with the North Bay Children's Center.<sup>23</sup>
2. On November 17, 2022, the seven Commission members voted unanimously to recommend that the City Council reject the loan proposal.<sup>24</sup> However, on December 6, 2022 the Novato City Council voted 3-2 to enter into the loan agreement with the Homeward Bound Veterans Project.<sup>25</sup>

Details on the loans and the Commission's deliberations can be found in Appendix B.

Given the ongoing financial deficit facing the City, the Commission's oversight and advisory role is particularly important. Based upon these two examples, and interviews conducted by the Grand Jury, it is evident that the Commission's opinion doesn't carry sufficient weight with the City Council.

## **City Properties**

Illustrative of the City's inadequate record keeping, no one in the City was able to provide a current and comprehensive list of City-owned properties. However, it is clear that Novato owns a substantial amount of property, including 50 acres of parks and an additional 300 acres of open space. Its developed property includes buildings occupied by the City, facilities leased or rented by others, and vacant structures. It appears that of an estimated 40 buildings, at least one-third are vacant or otherwise not in active use.

Available property information and interviews of City staff and elected officials led the Grand Jury to conclude that Novato's portfolio of properties is not being optimally managed. There are clear needs to decrease wasteful spending and resolve liabilities related to old and long-vacant structures. Selected properties could be sold to generate sufficient funds so that other properties could be transformed into revenue sources. For example, surplus Hamilton properties have been sold in recent years. Most recently, the City arranged for the purchase and redevelopment of the Bachelor Officers' Quarters and Old Hamilton Gym.<sup>26</sup> In contrast, the Lieb Property, 10-acres obtained in 2016 for \$1.56 million, cannot be sold until October 2026 due to a restrictive purchase agreement.<sup>27</sup>

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<sup>22</sup> [www.novato.org/home/showpublisheddocument/35127/638047168631030000](http://www.novato.org/home/showpublisheddocument/35127/638047168631030000), Accessed on 4/20/23.

<sup>23</sup> [novato.granicus.com/DocumentViewer.php?file=novato\\_2b6df3b448a6a08915d0611c39e18d6d.pdf](http://novato.granicus.com/DocumentViewer.php?file=novato_2b6df3b448a6a08915d0611c39e18d6d.pdf), Accessed on 4/20/23.

<sup>24</sup> [www.novato.org/home/showpublisheddocument/35328/638097302454530000](http://www.novato.org/home/showpublisheddocument/35328/638097302454530000), Accessed on 4/20/23.

<sup>25</sup> [novato.granicus.com/DocumentViewer.php?file=novato\\_156822645aee0ef9700f93324b5951cb.pdf](http://novato.granicus.com/DocumentViewer.php?file=novato_156822645aee0ef9700f93324b5951cb.pdf), Accessed on 4/20/23.

<sup>26</sup> [novato.granicus.com/MinutesViewer.php?view\\_id=7&clip\\_id=1740](http://novato.granicus.com/MinutesViewer.php?view_id=7&clip_id=1740), Accessed on 4/20/23.

<sup>27</sup> [www.novato.org/Home/ShowDocument?id=19231](http://www.novato.org/Home/ShowDocument?id=19231), Accessed on 4/24/23



## Marin Valley Mobile Country Club

Since 1997, Novato's properties have included the Marin Valley Mobile Country Club (MVMCC), a 55-plus senior community of 315 manufactured homes situated on a secluded 63 acres south of Hamilton Field. MVMCC's website describes the park as providing affordable housing "...in a self-sustaining community that operates with no financial support from local, county, state, or federal funds."<sup>28</sup> However, City financial documents and a staff report presented to the City Council on March 28, 2023, show that the park is neither self-sustaining nor independent of local government funds.<sup>29</sup> Both the Grand Jury's investigation and the staff report conclude that unless action is taken by the City Council, 1) operating and other essential expenditures will continue to exceed revenues at MVMCC, and 2) reserve funds designated for MVMCC will be exhausted within five years, leaving the City's taxpayers to cover the deficits.

Many factors, including insufficient oversight and delayed actions by the City, have contributed to this situation. The financial impact is demonstrated at many levels by multiple sources.

- Novato's 2022-2023 Adopted Budget shows that in the past four fiscal years MVMCC's expenses have exceeded revenues by a total of more than \$3.6 million.<sup>30</sup> An independent analysis indicated that MVMCC operated at a loss with annual capital expenditures significantly impacting the extent of the deficit in those four years.<sup>31</sup>
- Over \$200,000 per year (about \$662 per residence) of utility costs are not fully recovered through pass-through charges to residents, leaving the balance to be paid by the City.<sup>32</sup>
- Since 1997, the City has relinquished the bulk of oversight and decision-making to the Park Acquisition Corporation (PAC), which is essentially the MVMCC homeowners' association. A Delegation Agreement assigns the PAC responsibilities, such as hiring of a park management company, preparing annual budgets, accumulating funds for long term maintenance, and submitting financial reports to the City.<sup>33</sup> The City Council consistently defers to the PAC regarding rental increases.
- The City intended MVMCC to be financially self-sufficient with revenues coming entirely from tenants' pad rental fees. Yet at PAC's request, the City Council has not raised rental fees since 2016, freezing rental income despite increasing park expenditures.<sup>34</sup>

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<sup>28</sup> [marinvalley.net/marin-valley/about/](http://marinvalley.net/marin-valley/about/), Accessed on 4/20/23.

<sup>29</sup> [novato.granicus.com/MetaViewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](http://novato.granicus.com/MetaViewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23

<sup>30</sup> [www.novato.org/home/showpublisheddocument/34983/638009945823400000](http://www.novato.org/home/showpublisheddocument/34983/638009945823400000), page 131, Accessed on 4/20/23.

<sup>31</sup> [novato.granicus.com/MetaViewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](http://novato.granicus.com/MetaViewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

<sup>32</sup> [novato.granicus.com/MetaViewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](http://novato.granicus.com/MetaViewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

<sup>33</sup> [novato.granicus.com/MetaViewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](http://novato.granicus.com/MetaViewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

<sup>34</sup> [novato.granicus.com/MetaViewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](http://novato.granicus.com/MetaViewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

- In March 2022, the City Council again assisted MVMCC by appropriating \$3 million of the City's one-time funds from the American Rescue Plan Act (ARPA) for the MVMCC sewer system improvement projects. This was one third of the \$9.1 million ARPA funds allocated to the entire City of Novato.<sup>35</sup>
- While MVMCC is described as "affordable housing," just 41 percent (131) of rented spaces are required to be occupied by low- or moderate-income residents. Current monthly rates average \$634, range from \$518 to \$937, and do not vary by tenant income level.<sup>36</sup> Thus, all park residents benefit from the City Council's decisions to maintain low rental fees and subsidize costs.
- In a recent three-year period (2020-2022), 28 MVMCC homes were sold for prices ranging from \$110,000 to \$717,000 with a median of \$347,000.<sup>37</sup>

Even if enacted immediately, incremental rental fee increases that meet rent control requirements cannot provide the revenue needed by MVMCC's projected financial needs.<sup>38</sup> It is simply too little, too late. However, as the staff report notes, larger rent adjustments are allowable to 1) pass through the cost of necessary capital improvements, or 2) ensure the City receives "a fair and reasonable rate of return."<sup>39</sup> Such adjustments may be essential in this situation.

The City's current debt service payment for MVMCC is about \$651,000 a year and the loan balance of \$2.3 million is scheduled to be paid in full in December 2026.<sup>40</sup> The City's most recent (2023-2031) Housing Element Update states that Novato will "Consider measures such as refinancing the Marin Valley Mobile Country Club to further save money and to permit the financing of future needed capital improvements to the park."<sup>41</sup> This, in concert with corresponding rent increases, is a logical option to examine.

In response to the recent staff report regarding the park's financial sustainability, the City Council approved a workshop study session between City staff and MVMCC residents. Staff and Council members shared with the Grand Jury a broad spectrum of possibilities to address MVMCC's financial condition, including investigating whether the property might be sold. Regardless of what solutions are considered, Novato is not in a financial position to take on more deficits. Delays in rectifying MVMCC's financial instability are not in the best interest of the City or MVMCC residents.

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<sup>35</sup> [legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/1273501/G.8\\_cc22-052\\_MVMCC\\_Pump\\_Station.pdf](https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/1273501/G.8_cc22-052_MVMCC_Pump_Station.pdf), Accessed on 4/20/23.

<sup>36</sup> [novato.granicus.com/Viewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149693](https://novato.granicus.com/Viewer.php?view_id=7&clip_id=1908&meta_id=149693), Accessed on 4/20/23.

<sup>37</sup> [www.zillow.com/novato-ca/sold/](https://www.zillow.com/novato-ca/sold/), Accessed on 4/20/23.

<sup>38</sup> [novato.granicus.com/Viewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](https://novato.granicus.com/Viewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

<sup>39</sup> [novato.granicus.com/Viewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](https://novato.granicus.com/Viewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

<sup>40</sup> [novato.granicus.com/Viewer.php?view\\_id=7&clip\\_id=1908&meta\\_id=149692](https://novato.granicus.com/Viewer.php?view_id=7&clip_id=1908&meta_id=149692), Accessed on 4/20/23.

<sup>41</sup> [www.novato.org/home/showdocument?id=35310&t=638095538412570000](https://www.novato.org/home/showdocument?id=35310&t=638095538412570000), Accessed on 4/20/23.

## Sales Tax

An increase in Novato's local sales tax would provide significant additional revenue for the City's general fund. After Proposition 13 restricted property tax growth, local governments sought additional revenue sources. Governments shifted costs from their general funds with no restrictions on their use to special funds that would pay for linked services. For example, cities began to require payments for documents sought from police departments, levied higher fees for building and other permits, and demanded payments for tree removal. A major source of post-Proposition 13 revenue, however, remains a locally determined sales tax. Property tax collections have been the most dependable source of local government revenue because property values have grown over the past several decades producing a steady, reliable revenue source, though property taxes fluctuate as population and mortgage interest rates change over time. Many cities turned to a local sales tax to increase revenue. Some Marin County cities have raised their local sales tax rates substantially, but Novato has not. Its 8.5 percent sales tax is the second lowest among cities in Marin, as shown in Table 1.

**Table 1: Sales Tax Rates**

	<u>Tax Rate</u>
Greenbrae, San Anselmo, San Rafael	9.25%
Corte Madera, Fairfax, Larkspur, Mill Valley	9.00%
Ross, Sausalito	8.75%
Novato	8.50%
Belvedere/Tiburon	8.25%

Source: <https://www.sales-taxes.com/ca/marin-county>, Accessed on 4/2/23.

As discussed above in Background, in 2010 Novato's Measure F implemented a local sales tax of 0.50 percent for a period of five years. While in effect, it generated an average of \$4.7 million annually. Measure C extended the local sales tax indefinitely but lowered the tax rate to 0.25 percent in 2016. That tax generated approximately \$2.5 million annually through FY19. Since then, the economy has grown and sales tax revenues have increased.

**Table 2. Novato Measure C Sales Tax Revenues**

\$ Millions					
FY18	FY19	FY20	FY21	FY22	FY23
\$2.62	\$2.65	\$2.70	\$2.64	\$3.10	\$3.31

Source: FY23 Budget<sup>42</sup>

Table 2 shows that Measure C's ongoing revenues have substantially increased in recent years. However, the revenue is insufficient to eliminate the City's ongoing and increasing financial deficit. Of note, a substantial portion of sales taxes come from non-Novato residents making purchases in Novato. Based on the above data, for every 1/4 percentage point

<sup>42</sup> [www.novato.org/home/showpublisheddocument/34983/638009945823400000](http://www.novato.org/home/showpublisheddocument/34983/638009945823400000) Page 39, Accessed on 4/20/23.

increase in local sales tax Novato would, assuming taxable sales remain relatively constant, gain over \$3 million annually.

If Novato's sales tax rate was raised an additional 3/4 of a percentage point to equal that of San Rafael's 9.25 percent rate, the incremental increase in revenue would be approximately \$10 million annually. This would more than cover the City's present annual structural deficit and anticipated future deficits.

## **FINDINGS**

- F1. The City of Novato is facing an ongoing structural financial deficit.
- F2. The City Council has not adequately pursued options for ongoing sources of revenue, including increasing its local sales tax.
- F3. The City's financial deficits have resulted in reductions in City staff, and difficulties in hiring and retaining employees.
- F4. The City's financial deficits have resulted in a reduction of City services.
- F5. The City's financial deficit will significantly increase once new labor contracts go into effect.
- F6. The City's Finance Department's inadequate staffing resulted in insufficient financial controls, incomplete records, and a loss of financial accountability.
- F7. The City lacks comprehensive and functional records management systems.
- F8. The City lacks a plan to optimize revenue from its existing properties, including the sale of City owned properties. The City owns many properties that are vacant or in disrepair, and others where ongoing expenses exceed income.
- F9. The City has not provided sufficient financial and operational oversight of the Marin Valley Mobile Country Club. The property operates at a substantial deficit, has ongoing deferred maintenance, and presents increasing administrative and financial burdens on the City.
- F10. The City's Finance Advisory Commission has the responsibility, but lacks the authority, to effectively oversee the City's financial condition and operations.

## RECOMMENDATIONS

- R1. By December 31, 2023, design and begin implementation of a plan to address Novato's ongoing structural financial deficit. This plan should include resources, staff, and systems necessary to institute strong financial controls to improve its financial condition and to enable timely independent financial audits.
- R2. By December 31, 2023, the City Council, in consultation with the Finance Advisory Commission, should consider creating and funding a new position of an independent internal auditor with the authority to investigate and report on City operations.
- R3. By December 31, 2023, require the Finance Advisory Commission to issue quarterly financial reports on the City's financial condition and require that the reports be discussed at City Council meetings.
- R4. By December 31, 2023, develop a schedule to install and maintain comprehensive records management systems for all City operations by June 30, 2025.
- R5. By October 1, 2023, begin strategic planning to increase the City's sales tax.
- R6. By December 31, 2023, initiate a comprehensive inventory and review of the City's entire portfolio of properties to identify opportunities for more cost-effective use of each holding. The assessment, including recommendations and timelines for implementation, should be completed no later than May 1, 2024.
- R7. By December 31, 2023, implement a plan to address the operational and financial condition of the MVMCC, including an evaluation of options for rent increases.

## REQUIRED RESPONSES

The following responses are required, pursuant to Penal Code sections 933 and 933.05:

From the following governing body within 90 days:

- The City of Novato (F1-F10, R1-R7)

Note: At the time this report was prepared information was available at the websites listed.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code Section 929 prohibiting disclosure of witness identities to encourage full candor in testimony in Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Civil Grand Jury investigation.

## **APPENDIX A**

### **A History of Fiscal Warnings**

Below are quotes extracted from City Manager comments in the adopted City budgets for the past 12 years. Of note, the term “structural deficit” was used as early as 2011. The approved budget documents may be found on the Novato website.<sup>43</sup>

2011-12: “... the City faces significant financial challenges as the underlying structural problem continues to worsen.”

2012-13: “Our financial forecasts project ongoing structural deficits in the coming years.”

2013-14: “... determine a plan to find long term fiscal sustainability.”

2014-15: “... after years of budget cuts, belt tightening, layoffs, furloughs, and economic malaise, the City Council adopted a Fiscal Sustainability Plan in February 2014 to chart a sustainable path for Novato’s future.”

2015-16: “[This is] the budget year in which we’ve committed to achieving new ongoing revenue by November 2015.”

2016-17: “... an acknowledgement that the ¼ cent Measure C tax is less than the adopted Fiscal Sustainability Plan’s assumption.”

2017-18: “The City’s Fiscal Sustainability Plan has committed to approximately \$1 million in annual funding required to properly maintain city buildings and infrastructure, and this proposed budget reflects that contribution. Unfortunately, based on current revenues, this investment from the General Fund is not sustainable in the long run.”

2018-19 and 2019-20: “The increased demand for services coupled with mandatory operational increase will require our organization to begin developing strategies for revenue generation and new fiscal sustainability policies and strategies over the next three to five years that allow the Council to develop fiscal policies to address future cost increases and demand for more services.”

2020-21 and 2021-22: “Even prior to the pandemic, the City Council was working toward ensuring future fiscal sustainability, including identifying ways to generate revenue to support critical services.”

2022-23: “FY 2022/23 represents the third consecutive year a deficit has been projected.”

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<sup>43</sup> [www.novato.org/government/finance/city-budget](http://www.novato.org/government/finance/city-budget), Accessed on 4/25/23.



## **APPENDIX B**

### **Financial Advisory Commission (Commission)**

#### **North Bay Children's Center Loan**

In October 2022, the North Bay Children's Center requested a loan from the City for improvements on the Center's Novato campus: \$2 million principal, plus \$55,000 for processing costs. The proposed interest was 2.5 percent, payable over 30 years. This loan would be funded through the Novato Public Finance Authority (NPFA), originating through the Hamilton Trust as a lease/leaseback.

Commission members provided feedback to staff and the City Council, advising of their concerns with the details of the loan. Some of the concerns members noted:

- This would set precedent for other non-profits to request funding.
- There are no criteria to identify who can/should qualify for funds.
- There is concern regarding the financial viability of the organization and the ability to pay and it is not clear where the balance of the project funding will come from.
- The terms of the loan (30-year term/loan rate) are not consistent with other construction loans and many construction projects fail.
- The terms of the loan are much more favorable than would be received through a commercial bank. Funding should only be disbursed as project milestones are completed.
- North Bay Children's Center is debt free; they should be leveraging for a loan instead.

On October 20, 2022 the Commission of seven voted unanimously to recommend that the City Council reject the Hamilton Trust Loan Proposal.<sup>44</sup> However, on October 25, 2022, the Novato City Council voted 3-2 to enter into the loan agreement with the North Bay Children's Center.<sup>45</sup>

#### **Homeward Bound Veterans Project Loan**

One month later the Commission evaluated a bridge loan for the Homeward Bound Veterans Project, a 30-month loan to cover Phase I construction costs of a 24-unit, veterans housing apartment complex. Upon completion and certificate of occupancy, Homeward Bound would receive money from the State Veterans Housing and Homeless Prevention Program (VHHP), which will be paid to the City as reimbursement of the loan. The projected completion of this

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<sup>44</sup> [www.novato.org/home/showpublisheddocument/35127/638047168631030000](http://www.novato.org/home/showpublisheddocument/35127/638047168631030000). Accessed on 4/20/23.

<sup>45</sup> [novato.granicus.com/DocumentViewer.php?file=novato\\_2b6df3b448a6a08915d0611c39e18d6d.pdf](http://novato.granicus.com/DocumentViewer.php?file=novato_2b6df3b448a6a08915d0611c39e18d6d.pdf), Accessed on 4/20/23.

phase of construction was October 2024. The loan is scheduled to fund in June 2025, with the terms of the loan extending to September of 2025. Homeward Bound was requesting a loan amount of \$3,000,000 at an interest rate of 2.5 percent. The money for this loan will be funded from the City's Emergency Disaster Relief Fund; these monies are currently being held in the Local Agency Investment Fund (LAIF). LAIF's rate at this point is about 1.7 percent and it is unknown if it will exceed the 2.5 percent rate of return for this loan in the next 30-month period.

Commission members noted their concerns with the City issuing loans. As a future agenda item, Commission members suggested that Staff add the discussion of the City's policies and procedures surrounding loan proposals and use of Hamilton Trust for loans.

On November 17, 2022 the Commission voted unanimously to recommend that the City Council reject the Homeward Bound Veterans Project Bridge Loan.<sup>46</sup> However, on December 6, 2022 the Novato City Council voted 3-2 to enter into the loan agreement with the Homeward Bound Veterans Project.<sup>47</sup>

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<sup>46</sup> [www.novato.org/home/showpublisheddocument/35328/638097302454530000](http://www.novato.org/home/showpublisheddocument/35328/638097302454530000), Accessed on 4/20/23.

<sup>47</sup> [novato.granicus.com/DocumentViewer.php?file=novato\\_156822645aee0ef9700f93324b5951cb.pdf](http://novato.granicus.com/DocumentViewer.php?file=novato_156822645aee0ef9700f93324b5951cb.pdf), Accessed on 4/20/23.





# CITY OF **NOVATO**

C A L I F O R N I A

# **STRATEGIC PLAN**

JULY 1, 2023 - JUNE 30, 2025







## OVERVIEW

This strategic plan is a tool to help our City work together — to focus our energy, to ensure that the Novato Community values the same goals, and to assess and adjust, when necessary, the City’s direction in response to a changing environment. Strategic planning is a disciplined effort to make fundamental decisions that shape and guide the present to our desired future.

When making decisions, everyone needs to keep our shared goals and objectives as the primary focus. The city staff is charged with implementing the Strategic Plan through the work plan items listed under each of the five Goals:

Living Well Together, Great Places, Environmental Stewardship, A City that Works and Economic Vitality.

The Strategic Plan is a two-year plan. It guides both capital and operating budget development. To ensure effective implementation and accountability, the City Council and community will review progress toward objectives quarterly and adjust the work plan and objectives as needed. The Strategic Plan and its updated work plans will be posted on the city website at [novato.org/strategicplan](http://novato.org/strategicplan).

Please join us in collectively creating an even better future for Novato.



**CITY OF NOVATO**  
CALIFORNIA





## MISSION

Dedicated to quality services, financial strength and sustainability that enriches and supports the quality of life for everyone within our community.

## VISION

Novato will be a vibrant, safe, inclusive, and sustainable community with a welcoming atmosphere in which to live, work, shop, play, visit and thrive.





# LIVING WELL TOGETHER

Support facilities and design programs and services that create a healthy, caring, and interconnected community that is safe and secure.

## OUTCOME

A safe, livable, thriving, informed and involved community where people care for one another, strive to bridge differences and people aim to be active and healthy.

### *Workplan items*

1. Explore zoning solutions to encourage tiny homes and other affordable housing options.

2. Work with service providers and other agencies to coordinate response and solutions to homelessness including transitioning unhoused Novatans into shelter and housing and determining whether to continue the temporary camp at Lee Gerner Park.



**CITY OF NOVATO**  
CALIFORNIA





# GREAT PLACES

Create inviting natural and built places and spaces for contemplation, play, arts, and connection while celebrating our diverse community.

## OUTCOME

Great places that encourage community pride and interaction, captivate the imagination, and offer tranquility.

### *Workplan items*

3. Prioritize improvements identified in the Parks Master Plan and develop a strategy and timeline for implementation.
4. Continue to explore options to determine appropriate uses for the Historic Train Depot and parking area.

5. Examine and analyze all City-owned properties with a view toward understanding the optimum way to utilize them for the benefit of the entire community; consider both financial elements plus “greater good” components. Complete a study and needs assessment for best and highest use for each property, evaluate ongoing maintenance costs to determine whether the property is a liability or an asset, and establish the best and highest use of each site.







# ENVIRONMENTAL STEWARDSHIP

Preserve, protect, and enhance Novato’s unique environment, now and for future generations, and model best sustainability practices for the community.

## OUTCOME

An engaged City that is actively working together to reduce climate impacts and adapt to the local consequences of climate change will reduce greenhouse gas emissions and resource use and increase community awareness of our collective impact on the natural world.

### *Workplan items*

6. Publish a Sustainability Action Dashboard that tracks City and community progress on key success indicators (metrics) on an annual basis.

- 7. Update the City’s Climate Action Plan and identify priority actions to reduce both municipal and community-wide greenhouse gas emissions and explore broadening the Plan to include other environmental issues.
- 8. Explore opportunities to install solar energy systems in the Hamilton Open Space, other City-owned properties, and other opportunities to reduce energy costs and possibly generate revenue.
- 9. Update the City’s purchasing, contracting, and consulting policies, procedures, and ordinances to give a preference to local businesses and those that advance our green policies.





# A CITY THAT WORKS

Know, understand, and respond to the community we serve, engage our residents, and provide valued services promptly, professionally and with a passion.

## **OUTCOME**

A respected and valued City organization that is efficient and collaborative, promotes community involvement and is proactive, responsible, transparent, and ethical.

### *Workplan items*

10. Authorize a study of potential outsourcing opportunities that would improve service delivery and reduce short- and long-term costs.
11. Conduct a Citywide staffing study to assess our structure and staffing for the current needs and challenges facing the City while also factoring in the service levels our community desires.
12. Identify a long-term plan and compensation philosophy that addresses labor/salary market conditions to address recruitment and retention issues of City employees.
13. Recognize the City's workforce is our greatest resource for providing the service our community deserves by providing City staff with the tools, resources, coaching and feedback they need to provide the best service possible.
14. As resources become available, develop a targeted plan to address deficiencies and deferred maintenance in our existing parks, recreational facilities and City-owned infrastructure.







# ECONOMIC VITALITY

Encourage a healthy economy where businesses flourish and grow to support the City's long-term financial health and preserve crucial City services.

## OUTCOME

Become a hub of economic activity and innovation with a focus on high-paying industries, a vibrant downtown, a thriving economic environment, and a fiscally sustainable organization which has the resources needed to provide the services our community desires.

### *Workplan items*

15. Initiate a review and modernize the 2013 Fiscal Sustainability Plan with an emphasis on increasing City revenues, including an interactive model if possible.

16. Address long-term revenue shortfalls: explore a November 2024 ballot initiative to increase sales tax by ¼ cents.
17. Complete Annual Comprehensive Financial Reports (ACFR) for Fiscal Years 2020/21, 2021/22, 2022/23 and 2023/24.
18. Establish Policy on ownership and financial management of Marin Valley Mobile Country Club.
19. Assess economic development needs and develop a strategy toward building a comprehensive, long-term economic development plan.
20. Consider allowing licenses for Commercial Cannabis Storefront Retail.



# City of Novato



## Adopted Fiscal Sustainability Plan

Approved and Adopted by Novato City Council February 11, 2014

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# **Executive Summary**

## **Adopted Fiscal Sustainability Strategy**

*(Approved by the Novato City Council on February 11, 2014)*



## **Fiscal Sustainability Plan**





## PLAN BACKGROUND

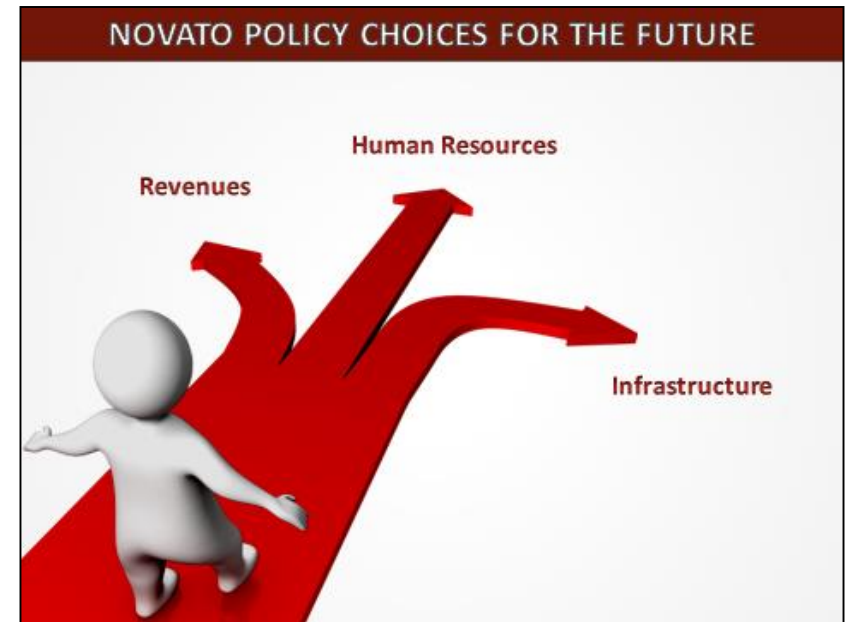
Novato’s draft Fiscal Sustainability Plan was released publicly on June 19, 2013. The draft plan included an executive summary, detailed sections outlining the research and analysis that was conducted throughout 2012 and 2013, the Fiscal Sustainability Options Tool, a City Manager-recommended fiscal sustainability plan scenario, and a variety of appendices. In July 2013, City staff reviewed the draft plan with the City Council, conducted two town hall meetings with the public, and created a number of new web pages at <http://www.novato.org> dedicated to fiscal sustainability news and information.

Since that time, at the request of the City Council, staff conducted significant additional outreach to the community. From October 2013 through December 2013, the City Manager developed an informational presentation about fiscal sustainability and delivered it to over 30 community groups and more than 650 total residents. The goal was to find “the simplicity on the other side of complexity”, and focus on the most critical, key policy issues that came out of the past year’s work and analysis. As a result, taking into account Council and community feedback, as well as staff’s perspective on the most important decisions facing City leadership, the presentation focused on these three significant themes:

1. The unsustainable nature of Novato’s revenue structure;
2. Employee compensation and its effects on recruiting and retaining quality staff; and,
3. Importance of infrastructure investment and maintenance.

## PLAN ASSUMPTIONS

The purpose of this Fiscal Sustainability Plan is to set a long range vision for the City’s fiscal health and future – beyond the annual budget process. In addition, the Fiscal Sustainability Plan is also a road map with strategic financial objectives to move the City forward based on Council’s vision. The Plan is both a policy document and a financial plan and as such, it is important to recognize the key assumptions and policy statements that represent the City Council’s objectives for the plan. These assumptions are the result of the data, analysis, research, discussion and outreach conducted over the last two years. These assumptions are the drivers for what ultimately goes into the plan to achieve both organizational and fiscal sustainability in the long run.







At its meeting of January 28, 2014, the City Council unanimously approved the following assumptions for the Plan:

- We want a long term fiscal and organizational sustainability plan;
- We want, at a minimum, to maintain existing service levels;
- We want, at a minimum, to maintain and improve the safety of our existing infrastructure; and,
- We want employee compensation, at a minimum, to keep pace with the cost of living (inflation) in the long run.

Given the above assumptions, the City Council also agrees that significant new ongoing revenue is needed in order to fund the elements of the fiscal sustainability plan, and that the preferred scenario is to achieve that new revenue by the end of 2015.

## ELEMENTS OF THE PLAN

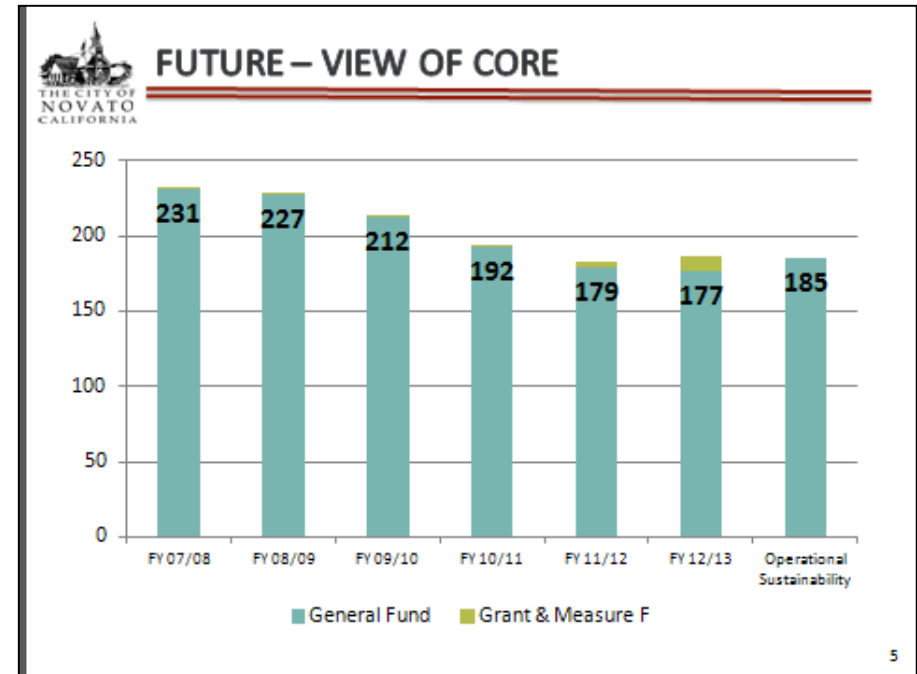
Detailed below are the elements included in the Fiscal Sustainability Plan as presented at the meeting of January 28, 2014.

1. **Status Quo Economic Development** – The Plan assumes no new revenue from economic development. This is not an assumption that no economic development will occur during the next 5-10 years. Rather, the City Council acknowledges that there is significant new retail development occurring in a variety of communities around Novato. Therefore, the plan does not assume or “count on” additional revenue from economic development, but instead assumes that our proactive economic development initiatives and achievements in Novato will preserve and maintain our existing revenue base.
2. **One-Time Investments** – The draft plan identified several investments of one-time funds that will either save ongoing expenses or generate additional ongoing revenues for Novato. These investments include installing at least one synthetic turf sports field; constructing a tournament bocce ball facility; replacing the remaining streetlights city-wide with energy saving LED bulbs; and paying off the Corp Yard lease from the Hamilton Trust Fund. The plan estimates that these investments will cost approximately \$3.7 million one-time and will benefit the General Fund by about \$370,000 on an ongoing basis once fully implemented.

One-time Investment Opportunity	One-Time Cost (Measure F Funding)	Ongoing Annual Savings
Installation of one synthetic turf sports field and construction of a tournament bocce ball facility	\$1.3 million	\$130,000
Replacing remaining city streetlights with energy saving LED bulbs	\$1.2 million	\$140,000
Pay off Corporation Yard lease from the Hamilton Trust	\$1.2 million	\$100,000
<b>TOTAL</b>	<b>\$3.7 million</b>	<b>\$370,000</b>



**3. Maintain Service Levels (Core Staffing)** – The City made major reductions in services and staffing over the last 5 years including a 30% reduction in every department, except Police which absorbed an 11% reduction in staff. There is agreement that Novato’s staffing levels will stay lean going forward, yet there is also a recognition that some additions are necessary to have the correct “core” staffing to provide the current level of services expected by the community. The draft plan discussed the need to restore staffing levels by a net of approximately 6-8 full-time equivalent positions in the long run. There are a number of elements to the recommended staffing plan including adding back positions in areas that may have been cut too deeply; funding, on an ongoing basis, positions that are currently either grant-funded or paid via Measure F; adding positions in a few areas that have not historically been staffed correctly; and eliminating several positions where additional streamlining can occur in the organization. The details of which positions are to be added and when they would be added will ultimately be decided by the City Council during future budget deliberations. The chart “Future – View of Core” shows the historical staffing levels for Novato and the City Manager’s recommended level (“Operational Sustainability”) that would be achieved with the Core staffing recommendations.




**4. Set Compensation to Keep Pace with Cost of Living and Improve Market Competitiveness** – As a service organization, the issues of compensation, recruitment, and retention are key components of the Fiscal Sustainability Plan. The Plan includes an assumption that staff salaries keep pace with the cost of living (i.e. inflation) in the long run. The plan also anticipates improving the market competitiveness of the City’s overall compensation package in the long run; this could include changes to or restructuring of the salary ranges of various positions, improving the City’s cafeteria contribution to health related benefits, and other possible changes. It is important to note that this element of the plan is not intended to reference any specific labor negotiations cycle and is intended as a long-term goal / policy. The plan includes costs in the forecast for planning purposes as a result of some of these possible changes, but actual compensation is negotiated with each of the bargaining units as part of the collective bargaining process.



**5. Fund the Basic Infrastructure Maintenance Program** – The City is responsible for over \$300 million worth of infrastructure including streets, facilities, storm drains, retaining walls, bridges, traffic signal and streetlights, multi-use paths and park facilities. It is far less expensive to maintain infrastructure, then let it deteriorate and have to replace or construct a complete overhaul.

As part of the research and analysis phase of developing the draft Fiscal Sustainability Plan, the City along with outside experts identified the various areas of infrastructure owned and maintained by the City, as well as the required annual contribution for each of those components to maintain Novato’s current infrastructure. A Storm Drain Maintenance Assessment will occur this fiscal year and provide more firm cost projections. The Fiscal Sustainability Plan anticipates that the City will begin funding these annual contributions to properly maintain its infrastructure investment. The “Infrastructure Program” slide details the components and their estimated annual cost. Overall, staff is estimating a minimum of \$1 million needed annual to maintain the City’s infrastructure.

 <b>INFRASTRUCTURE PROGRAM</b>		Annual Cost	Above Current Investment
Pavement Condition	Maintain 2011 PCI	\$2.7M	\$300k
City Buildings	Maintenance Program per report	\$400k	\$100k
Traffic Signals & Streetlights	Maintain status quo	\$107k \$111k	-\$13k \$0
Bridges	Basic maintenance program	\$20K Seek Grants	\$20K Seek Grants
Retaining Walls	Perform inventory FY 13/14 (\$50k)	\$100K	\$100K
Multi-Use Paths	Basic maintenance program	\$50k	\$50k
Storm Drains	Perform Storm Drain Master Plan (\$300k)	\$75K Unknown	\$75K Unknown
Park Facilities	Maintenance Program per report	\$331k	\$145k
<b>TOTAL ADDITIONAL ANNUAL INFRASTRUCTURE INVESTMENT:</b>			<b>\$777K</b>

**6. New Ongoing Revenue** – Given the assumptions outlined above, as well as the five other elements of the fiscal sustainability plan, the City Council agrees that a significant source of new, ongoing revenue is needed to maintain a responsible, balanced plan in the long run. As documented, Novato’s current revenue base is structurally broken and can’t sustain the service levels desired by the community. (Section 3 of this Plan outlines the research and analysis of Novato’s revenue structure to demonstrate the need for ongoing revenue.) While the original draft Fiscal Sustainability Plan specifically mentioned a voter-approved sales tax as the main source of ongoing additional revenue, this final plan acknowledges that approximately \$4 million in new revenue is needed and anticipates significant additional research prior to deciding what precise revenue source or voter-approved measures will be pursued. The City Council also endeavors to achieve the new revenues by the end of 2015. The “Next Steps” section below contains more details about additional steps to occur in the next 2 years.



## UPDATED FORECAST

When combined with a baseline 5-year forecast, incorporating the above-mentioned elements of the Fiscal Sustainability Plan generates a new 5-year forecast that models the financial implications of the Plan. The same caveats that the City always uses when discussing the Forecast apply to this updated version. The 5-Year Forecast is not a budget or a labor relations plan, nor is it trying to state what *will* happen. Rather, given a basic set of assumptions about inflation, revenue growth, salary growth, etc, it projects how the General Fund will accrue surpluses or deficits over a 5-year time period. To the extent that the City makes future decisions that differ from the assumptions in the plan, and to the extent that economic and other risk factors influence the City's revenues and expenditures over time, the City's actual financial performance will be different.

The updated Forecast table on the next page also includes some information about available Measure F monies for additional future one-time investments. The use of one-time Measure F funds is a key consideration for the City Council. A more complete discussion about uses of Measure F is part of the Next Steps outlined below.



City of Novato - Fiscal Sustainability and Measure F Scenario Planning

(All figures expressed in 000's of dollars)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	One Time Funds Required
General Fund Surplus / (Deficit) January 2014	(56)	(221)	(14)	(107)	(303)	(424)	
13 - Future PERS Mortality Changes	0	0	0	(122)	(158)	(239)	
<b>Assumptions from Options Tool</b>							
5a - Status Quo Economic Development	0	0	0	0	0	0	
6 - Synthetic Turf Sports Fields / Park Improvements	0	0	130	130	130	130	(1,300)
7 - Replace all Remaining Streetlights with LED Bulbs	0	0	132	136	140	144	(1,200)
8 - Pay off Corporation Yard Debt	0	100	100	100	100	100	(1,200)
10b - Maintain Service Levels (Core Staffing)	0	(626)	(641)	(1,310)	(1,103)	(1,131)	
12a - Set Compensation to Keep Pace with Cost of Living & Improve Market Competitiveness	0	(921)	(1,216)	(1,518)	(1,834)	(2,146)	
Fund the Basic Infrastructure Maintenance Program		(777)	(796)	(816)	(837)	(858)	
<b>SURPLUS / (DEFICIT) WITH STANDARD ASSUMPTIONS</b>	<b>(56)</b>	<b>(2,445)</b>	<b>(2,305)</b>	<b>(3,507)</b>	<b>(3,864)</b>	<b>(4,424)</b>	
<b>Revenue</b>							
4c - Voter Approved Revenue Option - 2015 Ballot	0	0	0	4,600	4,738	4,880	
<b>SURPLUS / (DEFICIT) WITH ALL ASSUMPTIONS</b>	<b>(56)</b>	<b>(2,445)</b>	<b>(2,305)</b>	<b>1,093</b>	<b>874</b>	<b>457</b>	<b>(4,806)</b>
<b>Measure F Planning</b>							
Total Measure F Revenue to be Collected Through 2016							21,800
One-Time Options and Deficit Backfill (from above)							(8,506)
Past Measure F Expenditures and Future Budgeted Commitments							(3,118)
As-of-yet unallocated Measure F Funds							10,176



## NEXT STEPS

Adoption of this Fiscal Sustainability Plan for Novato triggers a number of next steps over the next six months and the next several years. Below are some of the associated implementation actions.

### *By July 2014*

- Budget process for fiscal year 2014/15 completed. This budget cycle may include implementation of elements of the components in the sustainability plan, including infrastructure investments, staffing changes, one-time investments, etc.
- Process to analyze and make decisions on future potential uses of Measure F. With the Fiscal Sustainability Plan in place, the City is poised to make more significant decisions about Measure F.
- Additional research about one-time options and reserves. Various Council Members have expressed interest in research on topics such as a rainy day fund / revenue stabilization fund; a pension reserve / fluctuation fund; and additional one-time investments that could save additional ongoing costs.

### *Fall / Winter 2014*

- Conduct an initial presentation / work session regarding revenue options with an expert to explore strategies for success and options, including infrastructure bonds.

### *During 2015*

- Budget process for fiscal year 2015/16
- Additional work and research with revenue / revenue consultant
- Final decision on what type of new revenues to implement
- If a voter-approved revenue option is selected, prepare and conduct a public information program
- General election – November 2015



## SECTION 2

# Background and Context



## Fiscal Sustainability Plan





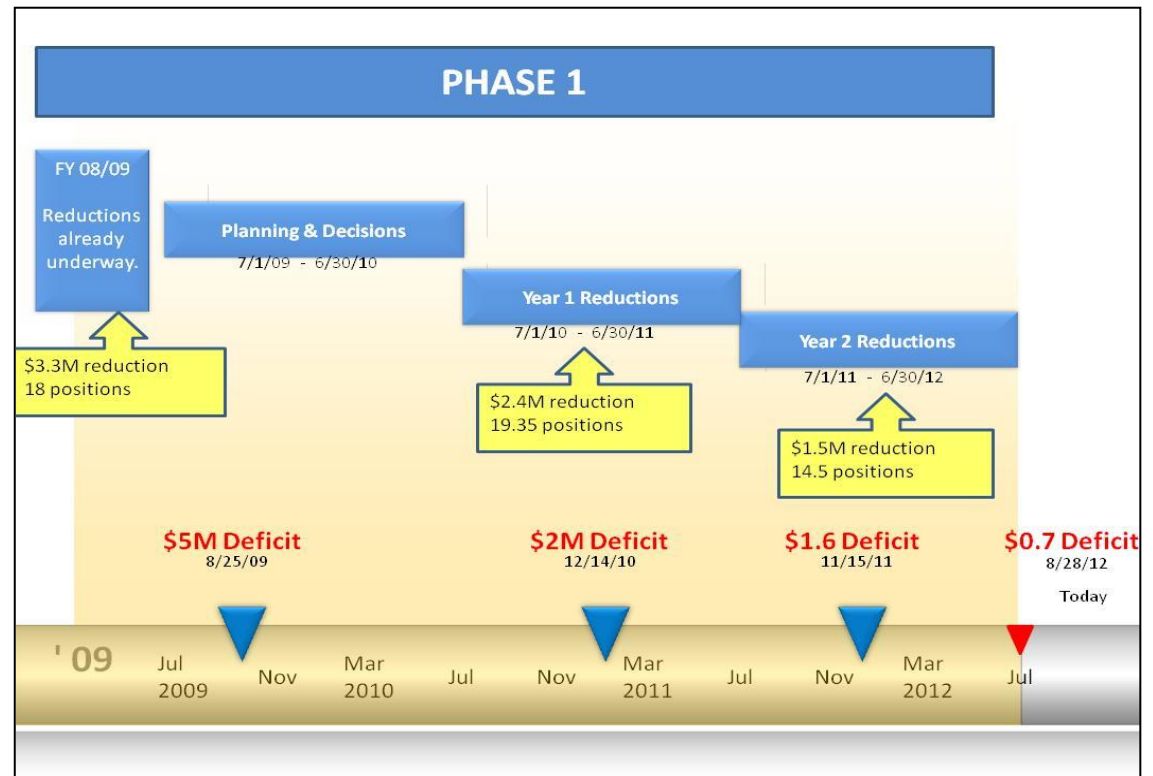
## BACKGROUND AND HISTORY

The City’s budget strategies and focus have evolved through the recession. Novato was hit hard and the City faced a fiscal crisis despite historically conservative fiscal decisions.

### First Address the Fiscal Crisis – Phase 1; Then Plan for Long Term Sustainability – Phase 2

As the national, state and local economies weakened, development activity and associated revenue declined. The collapse of the financial sector froze credit markets, causing the bottom of the already declining housing market to drop out and new housing and business development to effectively halt. The slowing business cycle of the recession, economic uncertainty, depressed consumer confidence, and increased unemployment resulted in decreased consumption, reducing the City’s income from taxes. Sales taxes plummeted. Housing values declined dramatically, forcing county assessors to revalue entire neighborhoods downward. Property tax revenues first leveled and then fell for the first time in the City’s history. Continuing a pattern for over a decade, the State of California looked to solve its budget by raiding local revenues. The most devastating and many would say cynical, power grab was the elimination of Novato’s redevelopment agency; the City’s tool for promoting economic development. That State action shot an additional \$800,000 hole in the City’s budget. Lastly, increased retirement costs primarily associated with the California Public Employees Retirement System (CalPERS) investment losses and actuarial assumptions added to Novato’s problems.

With this back drop, beginning in FY 08/09, the City began implementing a series of General Fund budget reductions in recognition of the impact of the factors listed above. The *Phase 1* slide shows how the City reduced the deficit over four fiscal years and was focused on addressing the crisis. Departments reduced operating expenditures and eliminated five vacant positions. Reserve funds were used to fill the remaining gap in the budget. During FY 08/09, the Council was able to address the emerging revenue shortfall of \$1,000,000 by taking a number of actions including: reducing operating expenses across all departments, eliminating vacant positions, deferring part of the annual set-aside for vehicle replacement, using accrued funds to offset Worker’s Compensation expense and approving user fee increases where possible. Most of





the reductions for FY 08/09 were temporary or one-time reductions. The adopted FY 09/10 budget addressed a \$3,000,000 anticipated deficit through elimination of 15 positions, reductions in operating expenses from all departments ranging from 5% to 10%, employee concessions of 3% to 5% of salary and use of reserve funds.

In August 2009, the City faced a \$6,700,000 structural deficit. While reductions had been made in the prior two years, the continuing economic freefall with no end in sight required a complete reassessment, realignment and reduction strategy to be developed. During FY 09/10, the City Manager outlined his recommendation to create a comprehensive two-year deficit reduction plan. The Council held a series of public meetings from January – March 2010 to address the crisis, understand alternatives and review the City Manager’s recommended reduction package. In March, the City Council approved a two-year deficit reduction package (FY 10/11 and FY 11/12) that removed more than \$4,100,000 from the General Fund and resulted in the loss of over 33 positions and 7,400 part-time hours. Those original reductions and concomitant service level impacts affected the City’s capacity to provide excellent municipal services to the community. As shown in the *Phase 1 Success – Shrinking Deficit* chart, with this two year reduction package, the structural deficit had been reduced by 90%, but not eliminated.

The impacts of the approved and implemented cuts are broad and varied and included eliminating the Police Officers assigned to schools and a reduction in management staff in the Police Department, ending the Neighborhood Crime Prevention Program, eliminating the City’s funding for school crossing guards, closing or transferring responsibility for various parks, ending teen and youth center drop-in hours, closing the Hamilton Community Center, and ending most youth programs that were free and low cost targeting our most vulnerable populations. The impacts to the Police Department and public safety were real; yet core Police patrol staffing was protected from cuts. Recreation services were transitioned to “Pay-to-Play” and free community events that were sponsored by the City were eliminated. Maintenance staffing reductions affected street quality, island and park maintenance, and continued the deferred maintenance and decline of City facilities including the City’s historical buildings. Many clerical and analytical positions were eliminated.

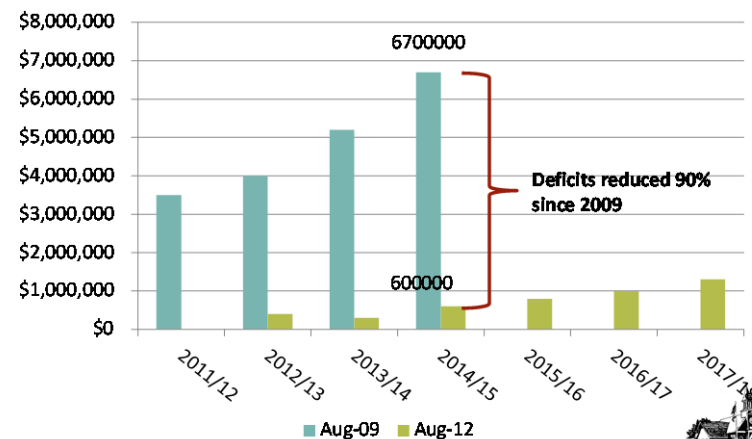
## PHASE I – ADDRESS THE CRISIS

### Some Significant Actions to Date

- GF Budget reduced 13% (nearly \$5 million) since 2006/07
- Staff reductions of 21.5% (50 FTE) citywide since 2007/08, not including Redevelopment elimination
- Labor concessions
- Multiple years of furloughs
- No COLAs since 2008
- Pension reform (Second tier pensions for new employees, 3-year average, no EPMC reporting)
- Partnerships
- Organizational and Efficiency Studies – fleet, custodial, cost allocation plan, IT / GIS master plan
- Voter adoption of Measure F in 2010

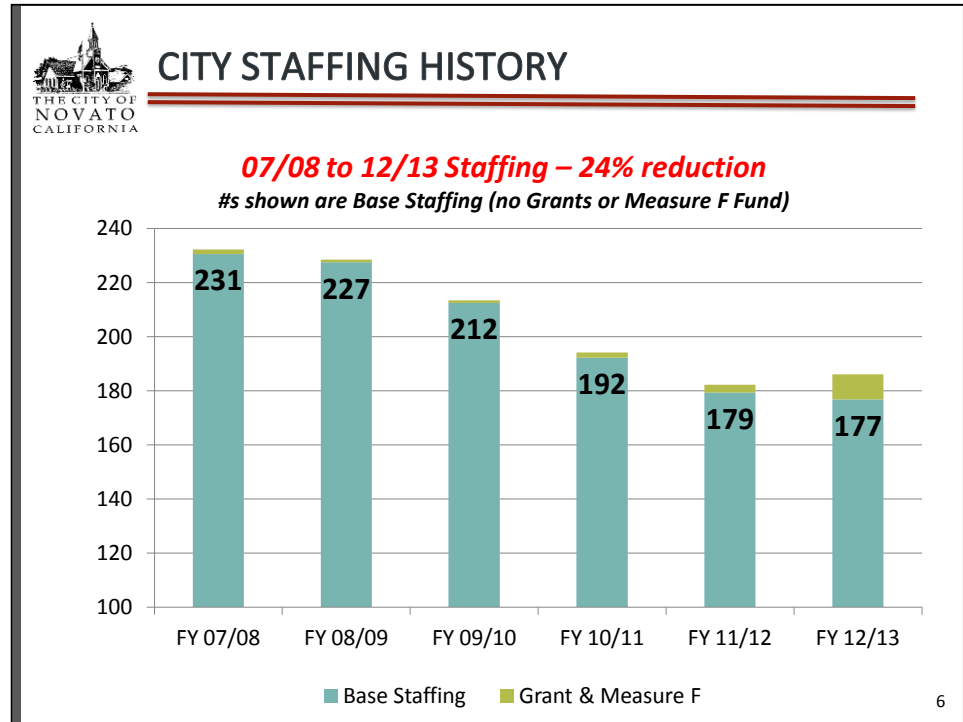


## PHASE 1 SUCCESS – SHRINKING DEFICITS





These two tables show the City positions eliminated since FY 07/08.



FY 08/09	FY 09/10	FY 10/11	FY 11/12
<b>Management Analyst</b>	Administrative Clerk II (2)	Reprographics Assistant	Assistant to the City Manager
<b>Senior Engineer (2)</b>	Information Technology Assistant	Account Clerk	Police Lieutenant
<b>Principal Engineering Technician</b>	Emergency Services Manager	Administrative Assistant	Police Sergeant
<b>Deputy Director, Parks &amp; Recreation</b>	Community Service Officer	Community Service Officer (2)	School Resource Officer
	Planner I	Principal Planner	Police Records Specialist
	Building Inspector I	Planner I	Principal Civil Engineer
	Engineer II (2)	Sr. Administrative Clerk	Engineer I
	Public Works Inspector	Engineer I	Engineering Technician
	Maintenance Worker (2)	Equipment Technician	Maintenance Worker
	Gymnastics Instructor	Maintenance Worker (4)	Recreation Supervisor
	Management Analyst II	Recreation Division Manager	Recreation Coordinator (1.5)
	Reprographics Assistant (0.5)	Recreation Supervisor	Gymnastics Instructor
	Technical Services Manager	Recreation Coordinator (2)	
		Gymnastics Instructor	
		Administrative Clerk II	



In June 2010, the City was still facing a structural deficit of \$1.4M in the fifth year of the 5-Year Forecast. Reserves had been reduced by 38% to balance budgets and in June 2012 were at the Council's minimum reserve policy and were not a fiscally prudent solution for a future year. At this point, the City had taken all reasonable steps available to reduce spending and still was not able to bring expenditures in line with anticipated revenues. Further spending reductions would have required deeper cuts including cuts to essential public services including closing a City facility such as the Senior Center or to start eliminating Police Officers. The City Manager determined that, without additional sources of General Fund revenue, the City would be forced to further reduce City services. The City then moved forward to consider a temporary sales tax measure.

### Fiscal Emergency and Measure F Ballot Measure

Because of changes in State law, particularly the approval of Propositions 62 and 218, the City had very few substantive means available for increasing General Fund revenue. On June 22, 2010, the City Council declared a fiscal emergency. Article XIIC, section 2(b) of the California Constitution permits a City, in an emergency situation declared unanimously by its Council, to seek voter approval for a general tax at an election that is not consolidated with an election for a member of the Council. On July 27, 2010, the City Council voted unanimously to place a general revenue measure on the ballot for a ½ cent sales tax for five years. By going to the voters, the City Council wanted to allow the community of Novato to (a) determine the level of service that it valued and (b) chose to provide additional resources to stop additional reductions and/or to restore some prior reductions.

On November 2, 2010, the voters of Novato passed Measure F with 58% support. The approval of Measure F prevented additional cuts which would have negatively impacted Novato residents and our overall quality of life. As described in the ballot measure, Measure F was seen as preventing any additional reductions, with the remainder used to restore some of the prior reductions or make investments in key priority areas: (1) Enhance Neighborhood Services and Public Safety; (2) Support Seniors, Youth and Families; and (3) Reinvest in Park and Street Maintenance. It was estimated to provide about \$3 million per year at the time of its passage (as the economy has slowly improved, Measure F is generating about \$4 million per year). The City began to receive these new revenues in April 2011. The funding will end in January 2016. With the passage of Measure F, the City Council committed to a transparent dialogue and public engagement process with the community to develop a plan for use of Measure F funding and also to develop a long term fiscal plan. The Council also created the Measure F Oversight / Citizens' Finance Committee, a seven-member commission, charged with reviewing and reporting on the revenue and expenditure of Measure F and overall review of the City's finances.

With the passage of Measure F, the City has been able to stabilize the organization and take the time to methodically and thoughtfully develop a long-term plan to allow the City to be both fiscally and operationally sustainable. Longer term, the City must develop a budget that is less subject to the vagaries of the economy and create a sustainable organization that is capable of providing quality programs and services within the revenues that are available. This additional revenue stream has provided Novato with the time to work down the structural deficit, maintain key services in the interim, and spend the time necessary to chart a long-term path to sustainability.



In order to create a multi-year work plan to achieve fiscal and organizational sustainability, the City embarked on a new course of action – “Phase 2 – Plan for Fiscal and Organizational Sustainability”. This Phase has two main components: education on relevant fiscal sustainability topics and the development of an interactive “Sustainability Options Tool” to assist in discussing and weighing policy options and strategies for the long term.

Starting in August 2012 and continuing through July 2013, the City held a series of detailed background information and analysis work sessions on various components of fiscal sustainability. Each of the work sessions contained draft recommendations of options to consider for fiscal sustainability. The most relevant and realistic of these options were incorporated into an interactive Options Tool. The Council was also able to propose other ideas or options for staff to investigate. The focus of the Options Tool was on larger scale items of \$100,000 or over. At the end of each work session, staff asked the Council for feedback as to what options and strategies to add to the sustainability options tool for future consideration. The goal was to develop 3-5 options within each topic area to add to the Options Tool. The final Options Tool would be polished and returned to Council for review and approval before developing it into a web-based educational tool for Council and the public.

The “Options Tool” takes the City’s structural deficit and allows the Council and residents to visualize different choices and attempts to solve the structural deficit using an on-line interactive web site. This interactive spreadsheet will assist Council and the community to understand the tensions, choices and implications of various strategies to solve the City’s long term structural deficit. It is staff’s hope that the Options Tool will help Council move to the end goal -- the City Council’s approval of a plan for the City to gain long term fiscal and operational sustainability.

Below is a list of the public work sessions and what occurred at each public meeting.

July 24, 2012 – The first fiscal sustainability work session outlined a draft process for Council’s consideration and input. This included a schedule of proposed work sessions and the use of a web-based interactive Options Tool.

August 28, 2012 -- The next fiscal sustainability work session reviewed the assumptions in the City’s 5-year Forecast Model and determined if there were other “baseline” assumptions that the Council wanted to be able to consider within the Sustainability Options Tool. This work session also explained the overall process and how the Options Tool would work.

September 18, 2012 – As a starting point, staff believed that a presentation on each department would provide important background information and context. This meeting covered Central Administration (City Manager’s Office, City Attorney and City Clerk), Administrative Services, Citywide and Community Development. Each Department Head presented an overview of their department and discussed current trends and issues, current service levels, recent expenditure reductions, and service level holes where opportunities exist to invest resources for the long-term to improve services and/or understand the consequences. Information was also presented on current unfunded liabilities and options for reducing these liabilities through strategic investments.



October 16, 2012 – The department review sessions continued with three additional departments: Parks, Recreation and Community Services; Police and Public Works.

December 11, 2012 – A good understanding of the City’s revenue base is critical for the Fiscal Sustainability initiative. Staff presented potential revenue options for the City and explained why some revenues that other cities are able to utilize are not available to Novato. Staff also provided some per capita comparisons on revenue. Staff called this presentation “Revenue-Part 1” because it excluded discussions on revenue generation through economic development.

February 5, 2013 – A focused meeting on economic development with two key components – a draft Economic Development Work Plan presented by the Economic Development Manager and information and options for how the City’s economic development initiatives might link back to potential strategies for the City’s fiscal sustainability efforts. This was the City Council’s first proactive conversation regarding economic development in almost two years since the State of California eliminated redevelopment agencies throughout California. The loss of redevelopment created an additional \$800,000 hole in the City’s structural deficit and eliminated 2.5 staff positions focused on economic development and redevelopment.

March 12, 2013 -- Staff presented a work session on Employee Compensation which provided a broad overview of Novato’s employee compensation compared to other cities, balancing recruitment and retention and overall macro-level employee compensation options for Council’s consideration. The Employee Compensation Work Session included a review of the Five Year Financial Forecast, background and history about Novato’s workforce, a discussion about the key components of employee compensation, including pensions, and discussion about Novato’s compensation in relation to other public agencies in our local and regional labor markets. It is important to note that the session was not intended as a discussion about labor relations or negotiations or a detailed review of all benefit components, nor was it a pension study session. The purpose was to provide a broad overview of employee compensation, explore the relationship between the City’s finances and employee compensation, discuss the impact of employee compensation on recruitment and retention, and present macro level compensation options for Council consideration.

March 16, 2013 – A consulting firm, Faithful+Gould, was hired to provide a Facility Condition Assessment (FCA) and Maintenance Analysis to review the City of Novato’s 21 active-use facilities. Faithful+Gould inspected each facility to evaluate its current condition, report any existing physical or operational deficiencies, and provide cost estimates and a time schedule for repair work. The Facility Condition Assessment identified current deferred maintenance, recommended annual maintenance funding levels and prioritized capital improvements/major repairs necessary to maintain the facilities at current service levels. Faithful+Gould staff visited the 21 city-owned facilities in January 2013 and subsequently generated a FCA report for each facility. These reports provide a summary of the facility information, the scope of work performed, an equipment inventory, evaluation of the visually apparent condition of the property and an expenditure forecast of expenditures anticipated over the next 20 years. The consultant presented their findings and the financial implications and options of their work.





March 26, 2013 – A discussion centered around City infrastructure to understand long-term maintenance and capital funding options. The City owns many different types of infrastructure and assets including buildings, streets, streetlights, retaining walls, bridges, the storm drain system and more. As with most public agencies, there are large financial needs to maintain and repair these assets. This session described the various components and outlined options and costs for consideration by Council. One of the key decisions for the Council was if a portion of the City’s General Fund should be utilized to help fund these investments or if Novato should rely on bonds and grants.

April 23, 2013 -- Staff presented information and recommendations regarding Core Staffing – areas where management believes that overall service levels and service delivery are not operationally sustainable and provided recommendations for consideration. The Core Staffing presentation included a review of past baseline staffing levels, a look at base staffing augmentations (grant and Measure F funded positions), current staffing levels and recommendations for long-term Core staffing as part of fiscal sustainability. The purpose of this session was to provide the City Council with a high-level view of core staffing options for the Fiscal Sustainability Options Tool and to offer background and research on the recommended number of core staff required to maintain service levels and become fiscally and organizationally sustainable in the future.

May 7, 2013 -- City Council held a four-hour work session to review, in detail, the options proposed for inclusion in the “Sustainability Options Tool”; to ask questions of staff and gain additional education and information about the financial impacts and tradeoffs of various decisions; and to review and provide feedback about the public input process for the fiscal sustainability planning effort. Council gave staff significant feedback and suggestions for changes, modifications, and improvements to various options contained within the tool.

May 21, 2013 – This session was Council’s final approval of the Options Tool. Staff had followed Council’s direction from the May 7<sup>th</sup> session and also performed further polish and clarification. The version of the Fiscal Sustainability Options Tool that was approved on May 21 was then transformed into the interactive web-based version for inclusion on the City’s website.

As emphasized throughout this process, the Council was not making final decisions about fiscal sustainability at any of these work sessions. Rather, staff presented to the community and Council detailed background information and analysis as part of this education phase. Each of the work sessions contains draft option recommendations for potential inclusion in the Options Tool based on Council’s direction.

## **PUBLIC ENGAGEMENT PROCESS**

There have been a wide variety of tools and techniques used to encourage the public to be involved in Phase 2 of the Fiscal Sustainability effort that began in July 2012. Below is an overview of the public engagement opportunities that have already been provided and those that are available in the next 60 days.





- 12 Work Sessions - Twelve City Council work sessions completed, with educational data and information about the various topic areas (links to these videos will be integrated into the Options Tool and Fiscal Sustainability web pages).
- Retail Sales Tax Leakage Analysis with Shopper Survey and Business Survey – The Retail Sales Tax Leakage Study was presented on May 7 at a Council meeting. The study found \$169 million in sales tax leakage out of Novato. The Measure F Oversight/Citizens Finance Committee and the Economic Development Commission were very involved in the sales tax leakage analysis.
- Community Satisfaction Survey -- In March 2013, the City contracted with the International City Management Association (ICMA) to utilize their National Citizens Survey (NCS) to survey Novato residents. The NCS is a five-page questionnaire that provides a statistically-valid survey of residents' opinions about their community and services. Four-hundred local governments in the United States use NCS to benchmark service quality and assess community needs. A standard survey is used for all jurisdictions requesting feedback on quality of life in the community, resident use of services and quality of services delivered. This allows all jurisdictions to benchmark their results nationally and regionally with other agencies that have also completed the survey. Surveys were sent to a randomly-selected sample of 3,000 households in Novato. Residents were able to complete the survey in a written format or on-line. A total of 825 completed surveys were returned yielding an overall response rate of 28%. The Council heard a presentation regarding the results on June 18, 2013. The results provided a variety of information that was relevant and helpful to the Council and community when considering some of the fiscal sustainability choices and options. A brief summary of the Survey is in the Appendix with links to the full report.
- Measure F Oversight / Citizens' Finance Commission – Staff held active review and discussion with the Council's key financial commission, the Measure F Oversight/Citizens' Finance Committee, through the development of all of the research and work sessions. The Commission's agendas and minutes are on the City's web site for review. Staff would like to sincerely thank the Committee for their valuable input, advice and recommendations as this Plan was developed.
- Enhanced Fiscal Sustainability Web Pages – New web information has been added to provide background and context to the community to help them participate in Council's deliberation process in June/July 2013.
- Sustainability Options Tool Web Tool –The Option Tools is a complicated and robust Excel-based financial management tool. Staff has taken the spreadsheet version and worked with a web developer to create an interactive tool. The Options Tool can be found on the City's web page for Council, Commission and community use. The Options Tool will be available on the City's web site at [www.novato.org](http://www.novato.org) on the Hot Topics page. This interactive Options Tool will allow members of the public to try out different options and determine their own preferred scenario to solve the structural deficit. Each option is accompanied by a background paragraph that provides additional information. Participants will be able to select, or unselect, each of the various options, and the Tool will automatically re-solve the General Fund deficit accordingly. It is important to remember that the purpose of the Options Tool is to allow the Council and community members to explore difficult choices, tradeoffs, and implications of possible decisions. While staff tried to make the Options Tool clear and concise for the



public, some of the financial choices within the Options Tool will remain complicated due to the nature of option. In order to understand the options and provide meaningful input, the Options Tool requires that users read this Fiscal Sustainability Plan and there is additional background information on the web site.

The web-based Options Tool will not provide the public with an option to submit their preferred solution electronically. Raw data from residents' use of the Options Tool will not be collected and/or analyzed; however, the Tool does have a comment form for members of the public to send in their ideas, comments, concerns, suggestions, etc about the Options Tool and Fiscal Sustainability.

- Two Town Hall Meetings – Staff will hold Fiscal Sustainability Town Hall meetings on July 2<sup>nd</sup> and July 8<sup>th</sup>. These meetings are intended to serve as an update to the fiscal sustainability process, an overview of the options contained in the Tool, and how the Tool works mechanically. The primary purpose is to serve as an educational component for residents who have not fully followed along with all of the past Council work sessions, as well as serve as a feedback loop to obtain public comment.
- Fiscal Sustainability Plan – This document is the Fiscal Sustainability Plan and was released publicly on June 19<sup>th</sup>. The Plan has a variety of background information, descriptions of the various aspects of the City budget, overviews of the options contained in the Tool, and the City Manager's recommended "solution" to long term fiscal and organizational sustainability.
- City Council Discussion & Deliberation– After learning about the Options Tool and reading the draft Fiscal Sustainability Plan, the community will be invited and encouraged to participate in a number of City Council meetings to discuss and ultimately adopt the final version of the Fiscal Sustainability Plan. The first City Council review of the Plan will be on June 25<sup>th</sup>. Additional meetings are scheduled for July 9<sup>th</sup> and July 16<sup>th</sup>.

## FIVE-YEAR FORECAST

The Five-Year General Fund Forecast was developed four years ago as a long-range planning tool, showing a five-year outlook of future City revenues and expenditures, with the ability to model different outcomes by changing the assumptions. The forecast is based on a large set of reasonable assumptions that, in staff's view, reflect a "most likely" scenario. The forecast is not a five-year budget; the City Council makes decisions about the annual budget during the spring of each year, based on the most recent revenue projections and on the City Manager's and department head recommendations about expenditures for the upcoming year. Rather, the forecast uses the current budget and projects out from there – assuming no new programs or staff additions, no major changes in state law, and without attempting to buffer every possible negative or positive future impact that could occur. Staff does, however, attempt to integrate known information about specific revenues or expenditures; for example, limited-term positions are assumed to expire on schedule, grant-funded positions to expire when the grants expire, one-time revenues are pulled out of the forecast when they end, and so on.



The Five-Year Forecast has been an important tool to help staff and the Council manage the structural deficit and make a variety of decisions to reduce and improve our financial position from where we were in FY 07/08 to where we are today.

**Revenue and Expenditure Assumptions** – As mentioned above, the forecast is based on a large set of assumptions for both revenues and expenditures. Staff incorporates as much information as possible when putting together the assumptions, including factors such as:

- Inflation, unemployment, retail sales performance, changes in property values, and other economic factors
- Known legislative and policy changes
- Historical performance of various revenue categories
- Rate increases from services providers – utilities, contracts, material suppliers, etc
- Negotiated bargaining agreements – salaries, benefits, work hours, etc

After considering all available information, staff puts the assumptions into the model so that the revenue and expenditure trends can be calculated. The revenue assumptions for the most recent forecast are summarized in the *Revenue Growth and Assumptions* slide. As shown in the table, it is important to point out that the forecast does assume growth in revenues over time. At an average growth rate of 2% to 3% annually, the growth in revenues roughly mirrors the long term inflation average of about 2.4%, but varies depending on the individual revenue source. As mentioned above, these projections represent staff’s “most likely” scenario, with the recognition that actual revenue performance is likely to differ from these assumptions. As the forecast is updated about three times per year, these assumptions may change over time to reflect the newest information.

Staff also conducts similar analysis on the expenditure assumptions and uses those assumptions to project the expenditures over the five-year forecast horizon. The *Key Expenditures Assumptions* slide illustrates the expenditures assumptions.

## REVENUE GROWTH AND ASSUMPTIONS

February 2013 Forecast Update

	Forecast FY13/14 %	Forecast FY14/15 %	Forecast FY15/16 %	Forecast FY16/17 %	Forecast FY17/18 %
Property Tax / VLF	1.8%	3.0%	3.0%	3.0%	3.0%
Sales Tax	2.9%	3.0%	3.0%	3.0%	3.0%
Other Taxes	5.0%	4.2%	4.3%	2.4%	2.1%
Service Charges	-0.4%	1.8%	1.8%	1.8%	1.8%
Licenses / Permits	4.7%	2.0%	2.0%	2.0%	2.0%
Other Revenue **	-0.6%	-6.6%	-16.8%	1.0%	1.0%
Total	2.3%	2.4%	1.9%	2.7%	2.7%

\*\* Grants expiring over time

## KEY EXPENDITURE ASSUMPTIONS\*

February 2013 Forecast Update


Category	14/15	15/16	16/17	17/18
Salaries (COLA Increase)	1.5%	1.5%	1.5%	1.5%
Salaries (Merit Increases)	0.35%	0.35%	0.35%	0.35%
Other Benefits	0.75%	0.75%	0.75%	0.75%
Contracts / Materials / Supplies	2.5%	2.5%	2.5%	2.5%
Insurance / Utilities	5.0%	5.0%	5.0%	5.0%
PERS MISC (\$ Growth Rate)	15.7%	9.5%	3.1%	6.6%
PERS SAFETY (\$ Growth Rate)	6.8%	4.2%	2.0%	2.0%
All GF Expenditures Average Growth	2.8%	1.5%	2.5%	2.7%

\* Includes most, but not all, of the assumptions for the major expenditure categories. Does not include things such as one-time expenditures, limited-term or grant-funded positions, etc.



**Results and Charts** – After putting all of the above assumptions into the forecast and running the model, the *General Fund Forecast* slide shows the following results. Essentially, the City’s structural General Fund deficit as computed in the forecast is about \$400,000 to \$500,000 per year. This is significantly lower than has been forecasted in prior years, mostly due to the lengthy budget reduction process that the City undertook from 2009 to 2012.

- Employee salaries are projected to grow at 1.5% per year. This is lower than inflation, and given current data that shows many of the City’s job classifications are compensated significantly below our market comparables, this assumption may or may not be sustainable.
- Facilities maintenance is funded at \$300,000 per year. This amount is less than the estimated \$400,000 required to fully upkeep most City facilities. It also does not contribute any money to other infrastructure maintenance such as bridges, retaining walls, storm drains, etc.
- Grant funded positions expire. Some key positions currently on staff will end when the grants expire. The forecast does not assume any additional general fund funding on an ongoing basis for these positions.
- No additional revenue is assumed from new businesses or economic development. As mentioned above, revenues are generally growing 2% to 3% per year, which essentially representative of inflation. Any additional retail or commercial businesses that start in Novato over the next five years have not been factored into the forecast at this time, however, the Options Tool does allow the choice to select addition economic development revenue.

 <b>GENERAL FUND FORECAST*</b>					
In millions \$	Forecast FY13/14	Forecast FY14/15	Forecast 15/16	Forecast 16/17	Forecast 17/18
Revenues & Transfers In	\$30.1	\$30.9	\$31.6	\$32.4	\$33.2
Expenditures & Transfers Out	\$30.4	\$31.4	\$31.9	\$32.8	\$33.7
<b>Surplus / (Deficit)</b>	<b>\$(0.3)</b>	<b>\$(0.5)</b>	<b>\$(0.4)</b>	<b>\$(0.4)</b>	<b>\$(0.5)</b>

One important aspect to keep in mind about the assumption-driven nature of the forecast is that sometimes changing one or two key assumptions can make substantial differences in the forecast. One example to which to call the reader’s attention is the recent modification to the citywide salary increase assumptions for employees. For the past 18 months or thereabouts, every version of the forecast that staff has produced has used assumptions on salaries that increased by 2.5%, 2.5%, 3.0%, and 3.0% during the final four years of the forecast. While these forecasts always vary slightly each time, the deficit for the 2017/18 year was consistently showing about at \$1.4 to \$1.8 million. During recent review of the Forecast for the preparation of the Options Tool and this report, the City Council directed staff to lower that assumption to a flat 1.5% per year each year.



While not necessarily appearing to be a massive change, the compounding effects are large; you can see that the deficit is now in the range of \$500,000 in that same fiscal year. This is approximately a \$1,000,000 swing in the Forecast. As you will read later, there is an option in the Options Tool to set salaries to grow with inflation, closer to 2.5%, which closely model the prior assumptions in the Forecast.

## FISCAL SUSTAINABILITY OPTIONS TOOL OVERVIEW

The goal of creating a fiscally sound long-term financial plan has been in the City Council's strategic plan for a number of years. Rather than having staff simply draft a plan with a series of analysis and proposals, and then solicit community and Council feedback, Novato more or less reversed the process. Instead, staff presented to the community and the City Council a series of work sessions intended to educate them regarding the various aspects and components of the City's financial health. These work sessions began in August 2012, and included topics such as revenues, economic development, departmental expenditures, employee compensation, infrastructure financing, and more. The effect of this process was essentially to walk through, in a deliberate and public way, the analysis that staff would have undertaken anyway during the drafting and construction of the long-range financial plan.

The culmination of each of the work sessions was a series of options that could be chosen that would have some effect on the long-range fiscal sustainability of the City. Staff and the City Council worked to aggregate all of these options into one matrix – the Fiscal Sustainability Options Tool. The Options Tool is intended to be used as a scenario modeling tool. The Options Tool gives the user the ability to select and un-select the options that he/she prefers for the City to pursue, and automatically sees how those choices affect the long-term General Fund deficit. It is intended to simulate the tradeoffs, tensions, and implications of choosing the various options. This is at least a 4-dimensional puzzle, but portrayed in a 2-dimensional format. Some of the considerations include:

- *Dollars* – How much does each option save (or cost) the General Fund?
- *Time* – How long does an option take to begin saving or costing money, and how do the savings change over time as you move through the five years?
- *Service Levels and Community Values* – How does the choice affect service levels, community character, employee morale, etc?
- *Risks / Probability of Implementation* – How easily can an option be implemented and what are the risks in doing so?

The work sessions, information found on the website, as well as this report are intended to provide more of those third and fourth dimensions listed above, as they are more challenging to portray on a spreadsheet-style forecast matrix. The options are initially explored within the background sections: Section 3 - Revenue, Section 4 - Expenditures, Section 5 – Facilities and Infrastructure. Section 6 is a complete detailed table of the Options Tool with descriptions and analysis. The next page shows the Sustainability Options Tool as a reference. The overall appearance will be different on the City's web site, but the content is the same.





The Options Tool can be found on the City's web site at [www.novato.org](http://www.novato.org) on the Hot Topics page.

The first line of the Options Tool shows the current forecasted deficit, utilizing all of the assumptions described in Section 6 of this report. Below that, there is a description of each option, as well as a display of the dollar savings (or cost) for each of the five years of the forecast model. To the left of each choice, the user can select which options he / she wishes, and the Options Tool will automatically re-solve and re-display the deficit with the selected options. Hovering over the title of any option or section will display a message box to the right that will provide the user with additional description and background about that particular option.

We invite you to try the tool on-line.

Novato Fiscal Sustainability Options Tool		One-Time	(All \$\$ in thousands)				
Include?	Initial Forecast	Funds	2013/14	2014/15	2015/16	2016/17	2017/18
√	Deficit from May 2013 Budget Forecast		(301)	(482)	(371)	(413)	(520)
<b>Revenue and Economic Development Options</b>							
	Contingency for State of CA Revenue Takeaways / Shifts		(50)	(100)	(150)	(200)	(250)
	Pursue Options to Collect Refuse Road Impact Fee					350	350
	Voter Approved Option (e.g. 0.25% Sales Tax) - continue & reduce current tax to 0.25%		-	-	-	2,200	2,266
	Voter Approved Option (e.g. 0.375% Sales Tax) - continue & reduce current tax to 0.375%					3,300	3,399
	Voter Approved Option (e.g. 0.5% Sales Tax) - continue current 0.5% tax					4,400	4,532
	Status Quo Economic Development - offsetting increased sales tax leakage		-	-	-	-	-
	Economic Development \$500k add'l ongoing revenue by 2017/18					250	500
	Economic Development - \$1.0M add'l ongoing revenue by 2017/18					500	1,000
	Economic Development - \$1.5M add'l ongoing revenue by 2017/18					750	1,500
<b>Expenditure / Departmental Options</b>							
	Install Synthetic Turf Sports Field(s) / Park Improvements to increase revenue / decrease ma	\$ 1,300		130	130	130	130
	Replace all remaining streetlights with LED bulbs	\$ 1,200		132	136	140	144
	Pay off Corporation Yard Debt to Yield Ongoing Debt Service Savings	\$ 1,200	100	100	100	100	100
<b>Service Level Additions / Reductions</b>							
	Staff Recommended Base Service Levels + Additional Service Level Enhancements		(556)	(980)	(1,252)	(1,867)	(1,905)
	Staff Recommended Base Service Levels		(556)	(726)	(737)	(1,083)	(844)
	Additional Service Level Enhancements		-	(254)	(515)	(784)	(1,061)
	No changes to existing Forecast - grant-funded positions end when grants ends		-	-	-	-	-
	Additional service level reductions / staffing cuts		-	-	-	1,000	1,015
	Utilize 50% of Parks Measure A Funding to offset existing / proposed Rec & Maintenance expenses				200	206	212
	Utilize 100% of Parks Measure A Funding to offset existing / proposed Rec & Maintenance expenses				400	412	424
<b>Employee Compensation / Benefits</b>							
	Set salary growth at inflation (2.5% per year) and add \$\$ to remain competitive			(403)	(834)	(1,284)	(1,767)
	Set salary growth assumptions to keep pace with inflation (2.5% per year)			(202)	(415)	(636)	(871)
	Keep existing salary assumptions in the Forecast (1.5% per year)			-	-	-	-
	Eliminate salary growth assumptions in the Forecast			302	615	932	1,261
	Additional Assumption for PERS Increases				(297)	(524)	(705)
	Implement modifications to employee health care / cafeteria contributions			(200)	(203)	(206)	(209)
	Pre-pay OPEB Liability with other funds	\$ 2,000	140	140	140	140	140
<b>Facilities and Infrastructure Maintenance</b>							
	Fully fund facilities maintenance as well as storm drains, bridges, retaining walls, and multi-use paths		(332)	(340)	(349)	(358)	(366)
	Fund streets / pavement / bike / pedestrian maintenance to maintain 2011 levels		(300)	(308)	(315)	(323)	(331)
	Fund additional infrastructure investments equivalent to Measure B levels		(1,500)	(1,538)	(1,576)	(1,615)	(1,656)
<b>NEW DEFICIT TO SOLVE WITH SELECTED OPTIONS</b>			<b>(301)</b>	<b>(482)</b>	<b>(371)</b>	<b>(413)</b>	<b>(520)</b>
<b>TOTAL ONE-TIME INVESTMENT REQUIRED</b>			<b>\$ -</b>				
<b>TOTAL MEASURE F DEFICIT BACKFILL FUNDS REQUIRED</b>			<b>\$ 2,087</b>				



## SECTION 3

# Revenues



## Fiscal Sustainability Plan

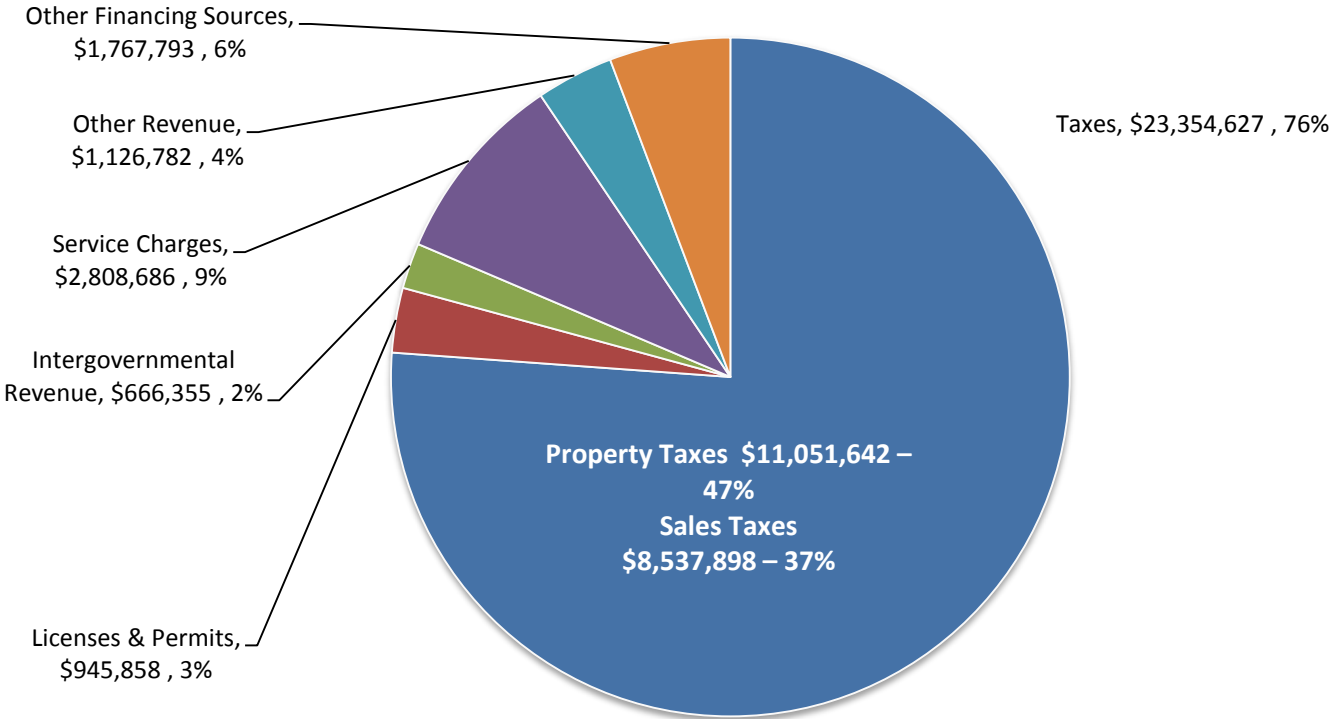


**NOVATO REVENUES**

Novato obtains its General Fund revenues from a variety of sources, including taxes, fees, charges, fines, interest, and leases. The *General Fund Revenues – FY 2013/14 Proposed Budget* chart shows that taxes are by far the largest source of revenue, comprising about 76% of the General Fund available resources.

Within the Taxes category, sales and property taxes represent nearly 84% of the total, with real property transfer tax, franchise fees, business license tax, and transient occupancy tax representing the rest of that significant category.

**General Fund Revenues - 2013/14 Proposed Budget**





**Property Tax** – Property tax includes Novato’s small share of the basic 1% property tax that is paid on all real property in the City. It also includes supplemental property tax, unsecured property tax, tax in lieu of motor vehicle license fees, refunds from the Education Revenue Augmentation Fund (ERAF), and previously obligated distributions of former tax increment from the City’s former Redevelopment Agency.

**Sales and Use Tax** – The City receives 1% out of the total 9% current sales tax rate for its General Fund. There is also a small public safety sales tax (often known as “Prop 172”). The recent passage of Measure F has also begun contributing an additional 0.5% to the City, but that is tracked in a separate fund of the City and does not directly come into the General Fund. The *Sales Tax* slide shows a breakdown of sales tax.

**Real Property Transfer Tax** – This tax is a charge that is levied anytime real property changes hands in the City. The City receives \$0.55 per \$1,000 of the sales price of a property. This tax rate is set by state law for General Law cities such as Novato.

**Franchise Fees** – The City receives franchise fees from all cable providers in Novato, as well as from PG&E for both gas and electric service. These operators pay a fee for the exclusive right to offer those services to residents. The waste hauling franchise, which is often another public service for which cities receive a franchise fee, resides with the Novato Sanitary District, and the City receives no compensation from that agreement.

**Transient Occupancy Tax** – The hotel tax in Novato is a total of 12%, with some of that charge going directly to the Countywide Business Improvement District, and a portion being dedicated to promoting tourism in Novato. The remainder (9%) is General Fund revenue. See the *Hotel or TOT Rates* slide for some comparisons of the 12% Novato tax to surrounding jurisdictions (other jurisdictions displayed do not include any relevant business improvement district assessments).

## SALES TAX

Currently 9.0%

- 6.50% - State
- 1.00% - Novato for general operations
- 0.50% - County transportation (“old” Measure A)
- 0.25% - County Rec and Parks (“new” Measure A)
- 0.25% - SMART (Measure Q)
- 0.50% - Novato (Measure F)
- Including Measure F, Novato receives a total of 1.5% sales tax

- General Fund receives a total of \$8.6 million in sales tax (basic sales tax and triple flip)
- Measure F adds \$4.1 million – segregated in special fund (but can be used for any lawful purpose) and sunsets March 2016



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## HOTEL OR TOT RATES

Does not include self-imposed BIAs or BIDs

Healdsburg 12%	Larkspur 10%
Rohnert Park 12%	Mill Valley 10%
Sausalito 12%	Novato 10%
Windsor 12%	Petaluma 10%
Cloverdale 10%	Sebastopol 10%
Corte Madera 10%	Sonoma 10%
Cotati 10%	Tiburon 10%
Fairfax 10%	Santa Rosa 9%

Note: Belvedere, Ross, and San Anselmo do not have a TOT





**Business License Tax** – Most businesses operating within City limits are required to possess a business license and pay the required fee on an annual basis. The fee is based on several factors, including type of business and number of employees.

One way to measure Novato’s tax base is on a per capita basis. This method of comparison controls for differences in population among different cities. Because of some of the inherent challenges to Novato’s overall revenue base (discussed in more detail below), it is clear that Novato does not have the same basic level of revenue available that other similar sized cities have.

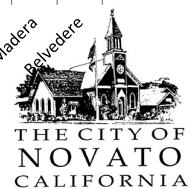
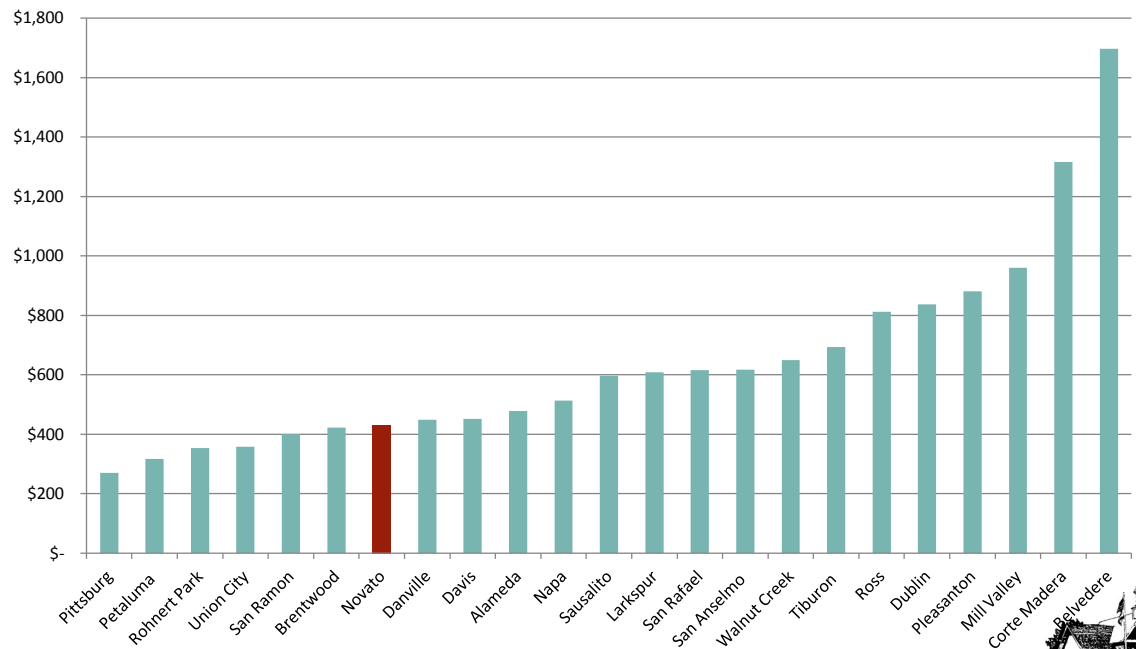
The *Per Capita Tax Revenue – FY 2010/11* slide shows the total tax revenue for a variety of cities, excluding expenditures on Fire and EMS services (since those services are not City-provided in Novato). The data for this analysis is taken from the State of California Controller’s Report. Clearly, Novato is well below many of the comparable cities in terms of total tax revenue, and is at the bottom of the list when comparing Marin County cities only.

Novato Faces Major Challenges Due to Revenue Inequalities:

Novato is not a full-service city - Novato officially incorporated in 1960. This incorporation date came after the Novato Sanitary District (incorporated in 1925), and the Novato Fire District (incorporated in 1926), and the North Marin Water District (incorporated in 1948). These dates are important because Novato, in contrast to many other cities, does not provide sanitary, fire or water services to the public. These services are provided by the relevant special district.

## PER CAPITA TAX REVENUE – 2010/11

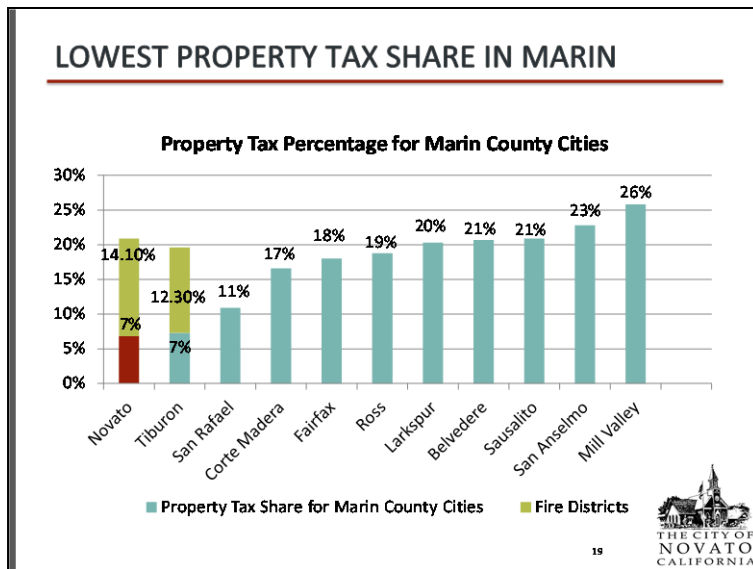
**Total Per Capita Tax Revenue**  
(Less Fire & EMS Net Expenses/Revenue)







Some of these entities receive a portion of the local property tax revenue to provide services. In instances where the City is “full-service,” the city receives a higher percentage of property tax revenue due to the larger number of services they provide. In Novato’s case, the City receives a lower percentage share of property taxes. This situation is illustrated in the *Novato’s Prop 13 History* slide which compares the property tax allocations for Novato and all other Marin County cities. The property tax allocation is a formula and is not necessarily based on service need as balanced against other services. Such separate districts make sharing of administrative overhead difficult.



the formulae were established using each agency’s pro-rata share of property taxes charged in that year. Those allocations have effectively remained unchanged since. The *Lowest Property Tax Share in Marin* slide explains a little bit more about how Proposition 13 affected Novato, including the fact that, at the time leading up to Prop 13, the Novato City Council was reducing property tax rates, effectively undermining its eventual share of the basic property tax when it came time to establish the allocations.

## NOVATO’S PROP 13 HISTORY

- Prior to Prop 13, every taxing jurisdiction established its own mill rate
- The sum of all mill rates for any given taxpayer was typically much higher than 1%
- Prop 13 fixed the total basic property tax at 1% of assessed value
- During the mid- to late-70’s, Novato’s combination of fiscal prudence and growing assessed values (typically 8% to 12% annually) allowed it to decrease its mill rate for a number of years

Novato Mill	74/75	75/76	76/77	77/78	78/79
Rate / \$1,000	\$0.95	\$0.92	\$0.88	\$0.85	\$0.77

- After Prop 13, jurisdictions’ shares of the 1% tax were divided pro rata according to their historical shares of the overall tax bill
- Formulas were complex – high tax cities saw less of a proportionate hit to tax revenues
- Early years after Prop 13 saw significant state backfill – this dwindled over time

	Actual 1976/77		Projected 1979/80	
Property Tax & Related	\$1,293	26%	\$ 664	12%
Sales Tax	943	19%	1,404	27%
Subventions	1,153	23%	1,752	33%
All Other Revenue	1,549	32%	1,454	28%
TOTAL	\$4,938	100%	\$5,254	100%



The deeper reason for these large discrepancies can be traced to Proposition 13, which was adopted by California voters in 1978. While it is fairly widely known that Prop 13 implemented the current rules for property tax levies in California – namely that the base tax is fixed at 1% of valuation and that the valuations can only go up a maximum of 2% per year – few realize the implications of Prop 13 for local governments.

Essentially, Prop 13 locked in allocations of resources that were in effect in 1978, since



The financial reality is that Novato's property tax allocation is the smallest in Marin County. This is particularly noteworthy because property taxes are Novato's primary revenue source; accounting for approximately \$11 million annually to the City's General Fund.

### Additional Revenue Options Limited

The City does not have some of the revenue sources that other communities have. For example:

The City does not have a utility users tax. Approximately 50% of Californians pay this revenue to a local government, which is essentially a tax on electricity, gas, telephone, cell phone service, etc. for those cities that have the tax, it makes up 15% of their General Fund budget. Since the passage of Proposition 218 which increased voter thresholds, the probability of passing a new utility users tax is slim.

- Due to the fact that the City does not provide garbage or sanitary services, the City does not receive a refuse franchise fee from waste haulers. This issue will be discussed in more detail later in the report, but by way of example, other cities of our size in Marin and Sonoma that operate garbage franchises typically receive between \$1 million and \$3 million annually from the waste hauler to pay for local services and the right to exclusively use the city maintained roads.
- The City has a lower real property transfer tax than many other local communities. Novato's tax is \$0.55 per \$1,000 in valuation. The Cities of Petaluma and San Rafael's tax is \$2.00 per \$1,000 in valuation. Novato would need to become a Charter City in order to increase its rate.
- Finally, the zoning designations of parcels throughout the City limit the ability to develop commercial and/or industrial projects. Only 5% of Novato's land is zoned as commercial or industrial in contrast with Petaluma and San Rafael who have 11% and 17%, respectively. The zoning designations limit the development impact fee revenue Novato would receive as a result of new development in the City. The zoning along with being a community that is mostly built out, results in limited ability to develop commercial property and generate additional sales revenue.

### State of California Takeaways

The state of California has diverted City property tax revenues since the early 1990s. In 1992, the state faced a significant budget deficit. In order to meet its constitutional obligations to fund education at certain levels, the state shifted a portion of their financial responsibility to local governments (cities, counties and special districts). This transfer was done through a mechanism called the Educational Revenue Augmentation Fund (ERAF). This transfer was ongoing; each year, a portion of Novato's property taxes is diverted to the ERAF. Most recently, the state has turned its attention towards city redevelopment revenues. Through the redevelopment process, the City retained property tax increment (i.e. growth) for designated areas that are rehabilitated and improved. In 2009, the state adopted legislation requiring redevelopment agencies



across the state to transfer \$2.05 billion over FY 2009/10 and FY 2010-11 fiscal years. Novato’s portion of the payment translated to \$2.7 million in FY 2009/10 and \$550,000 in FY 2010/11.

This action was only a prelude to the State’s more egregious action in 2011. In June, the state Legislature and the Governor approved legislation abolishing redevelopment agencies. The agency was a separate entity from the City’s General Fund. However, transfer of redevelopment funds and the elimination of the redevelopment agency place additional administrative cost and economic development burdens on the General Fund totaling \$800,000 annually.

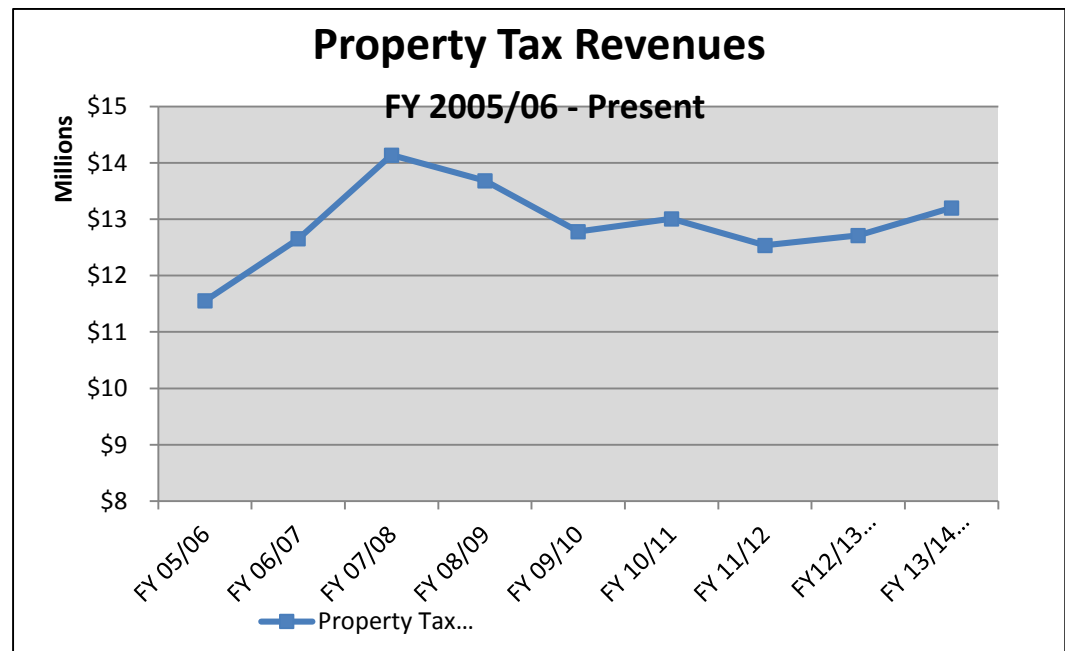
With the FY 2011/12 budget, the State eliminated the last modest piece of Motor Vehicle License Fees allocated to cities – an impact of about \$100,000 annually to Novato. Additionally, with the 2012/13 budget, the state continued its occasional practice of eliminating funding for certain mandates pushed down to local governments. By simply removing or suspending the requirement of local governments to provide certain services, the State relieves itself of any requirement to fund that service. In this case, the state suspended the requirements of the Brown Act (i.e. open meetings law), thereby eliminating a \$20,000 reimbursement to the City – despite the fact that Novato has every intention of continuing to comply with open meetings rules.

Proposals that would divert or otherwise affect other City revenue sources (examples: highway users tax and transient occupancy/hotel taxes) have also been introduced in recent years. Fortunately, these proposals have not been enacted into law.

In summary, Novato has been negatively impacted by previous state transfers and the City continues to face yearly threats from the state. The Council and staff work closely with City legislative representatives in Sacramento to protect our revenues.

The Great Recession Exacerbates Financial Challenges

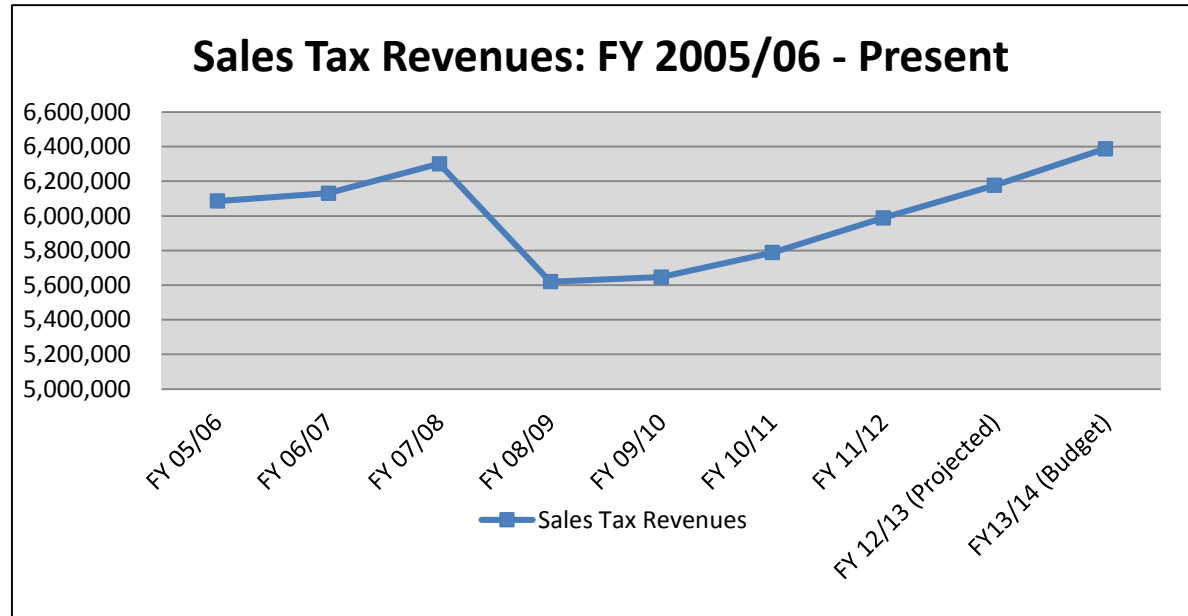
Along with the City’s inherent fiscal challenges, the recession further complicated the City’s financial picture by significantly reducing key revenue sources. The City’s primary revenue source is property tax. The *Property Tax Revenue FY 2005/06 – Present* slide shows the recent trend in property tax revenue. Over a four-year period between FY 2007/08 and FY 2011/12, property tax revenue decreased by approximately \$1.6 million, a decrease of about 11%. While this revenue source has stabilized somewhat,





the level remains significantly lower than it was five years ago.

During this same time period, the City’s second revenue source, sales tax, also decreased substantially. The *Sales Tax Revenues: FY 2005/06 – Present* slide shows sales tax revenues in recent history. The significant drop in sales tax in FY 2008/09 represented a drop of about \$600,000 annually, or about 12%. Clearly, as the nation has slowly pulled out of recession, the City’s sales tax revenue has recovered as well.



Other revenue streams have been significantly impacted by the recession in the non-tax categories. Charges for services include all of the permit fees, engineering fees, planning fees, recreation registration fees, etc that Novato charges directly to users of its services. As development slowed with the economic downturn many of these development-related charges and permit fees declined dramatically.

Similarly, investment and interest income has declined significantly since FY 2007/08. With the historic decline in interest rates since 2008 and the restrictions on investment vehicles for public entities, the City’s investment portfolio has been earning very low returns for the past few years. The City also has a unique irrevocable trust, the Hamilton Trust Fund, which provides investment income to the General Fund. The City entered into a trust agreement with the developer of the Hamilton housing subdivisions, permanently dedicating a \$30 million investment trust to the City. The City is only permitted to utilize portions of the interest earned on the trust corpus, and certain components of the interest earnings must be used for specific purposes (e.g. senior housing). Pre-recession, this trust was earning over \$1 million annually for the City. Today, that income is around \$300,000 based on today’s low yields.

The table below shows this history comparing FY 2007/08 with estimated totals for FY 2012/13:

	<u>2007/08 Revenue</u>	<u>2012/13 Projected Revenue</u>
Charges for Services	\$3,288,582	\$2,750,725
General Fund Investment Income	\$334,124	\$20,000
Hamilton Trust Investment Income	\$1,033,337	\$341,660



## ECONOMIC DEVELOPMENT

The elimination of redevelopment agencies throughout California eliminated the key redevelopment and economic development tool for the City of Novato. With a Redevelopment Administrator and a Senior Management Analyst, the City had a dedicated team looking at opportunities for future economic improvements in key redevelopment areas. Since the loss of those positions and the elimination of the redevelopment tax increment funding source, the City Council approved the addition of a full-time Economic Development Manager (for a 4-year limited term appointment from FY 2012/13 through FY 2016/17) to continue these efforts. This position has been actively pursuing opportunities and working on strategic goals. Understandably, the work plan for this single position is large, and includes a wide variety of objectives and initiatives.

- Commission a retail sales leakage analysis study to identify weaknesses, trends, and opportunities for improvement in Novato’s retail sector
- Creation of marketing materials to attract new retail businesses
- Assist new retail businesses to find appropriate sites and guide them through the development process
- Meet with new and expanding businesses to help find appropriate office space lease sites
- Identify companies looking to relocate; market Novato and assist with finding quality office space
- Participate in County, regional, and “cluster-based” marketing and outreach opportunities
- Develop and market a business brand image for Novato; including implementation of a proactive media campaign
- Work with angel and venture capital investors to support entrepreneurial start-up companies
- Promote Novato as a regional destination for hosting of targeted regional and industry conferences / meetings



Along with all of the above objectives, and in addition to focusing on improving the overall economy and bringing in quality jobs, companies, shopping, and entertainment to Novato, another important goal is to focus on generating additional revenue to support City services. There are a number of specific sites and projects in Novato that are in various stages of development that could bring significant additional revenue to the City – specifically, Hanna Ranch, Redwood Corridor, and Hamilton. During the work session on this topic in March 2013, staff highlighted a variety of these sites and gave rough estimates of the potential dollar impact to City revenues if development were to proceed. The charts below show information on the specific sites that could be further developed and generate revenue for the City in addition to enhancing value for the community in different ways.





Finally, keep in mind that some level of Economic Development may be necessary regardless simply to play “defense;” that is, with major new retail development on the verge of opening in Petaluma and San Rafael, and with a potentially large development proposal in Napa appearing to gain steam, Novato can expect some additional sales leakage to those communities if nothing is done locally to counterbalance it.

### Hanna Ranch



### HANNA RANCH – HOTEL AND COMMERCIAL

Entitled development approved by Council

**Location:**

•Southern end of Rowland Boulevard, east of Highway 101 and north of State Route 37, in central Novato

**Mixed-use Development:**

- 34,700-sqft of retail
- 21,200- sqft office space
- 116-room business class hotel
- 10,000-sqft restaurants
- Estimates full build-out

Development Type	Minor build-out w/out Hotel	Build-out w/out hotel	Full build-out
Transient Occupancy Tax	\$0	\$0	\$370,000
Sales Tax	\$59,000	\$118,000	\$235,000
Property Tax	\$13,000	\$ 27,000	\$ 54,000
<b>Total:</b>	<b>\$72,000</b>	<b>\$145,000</b>	<b>\$660,000</b>

**Challenges**

- Estimates don't include cannibalization of other businesses



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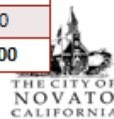
### North Redwood Corridor

#### NORTH REDWOOD CORRIDOR

Estimate of potential development for Redwood Blvd

- Public engagement process initiated to gauge the community's development preferences
- The area with the highest potential is the north-west side of Redwood Blvd-north of Olive Dr.
- The area consists of mostly vacant and underdeveloped parcels

Development	City Retail-Oriented	Regional Retail-Oriented	Mixed-use Regional Retail with Housing
Square feet	144,000	144,000	192,000
Average price per sqft sales	\$340	\$460	\$460
Housing	-	-	280 units
Sales Tax	\$490,000	\$655,000	\$800,000
Property tax	\$ 60,000	\$ 75,000	\$200,000
<b>Total:</b>	<b>\$ 550,000</b>	<b>\$730,000</b>	<b>\$1,000,000</b>





## HAMILTON

### Available land

The new Hamilton Base Reuse Director is conducting analysis on these properties for potential new uses.

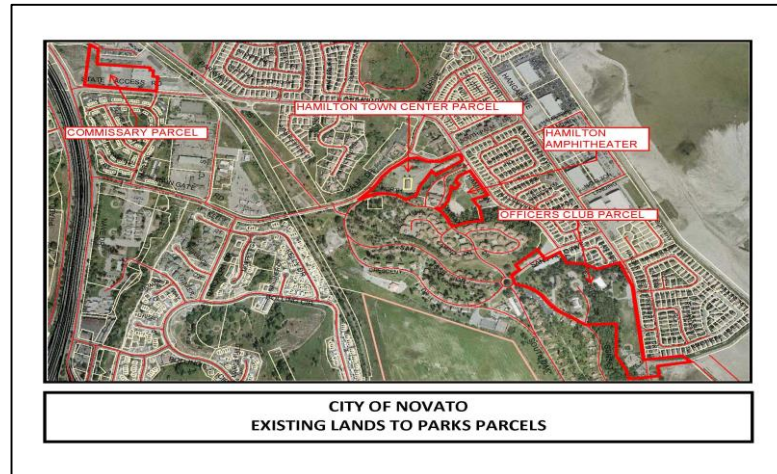
### Lands to Parks Parcels

- Parcels must be used for recreational purposes or open space and can't be sold
- Possible swap or kind-value exchange for other properties

Type of Property	Sites	Acres	Vacant Buildings
Land to Parks Parcels	Commissary	5.5	-
	Town Center	4	Theater
Vacant Property	Officers Club and BOQ	4	
	Hamilton Hospital	3	Hospital
Unencumbered Vacant Property	Transit and Senior Housing Site	3	-
	HUD parcel	5.5	-



## Hamilton – City Owned Properties



## MEASURE F

Background - On July 27, 2010, the Novato City Council adopted Ordinance No. 1551 adding Section 16-6 to the Novato Municipal Code. By adopting Ordinance No. 1551, the Novato City Council approved the placement of a 5-year ½ cent local sales and use tax increase before the voters. The Measure F ordinance was placed on the November 2010 ballot to ask Novato residents to maintain vital city services during these difficult economic times. The ballot language outlined that the funds were to (1) offset and prevent additional budget cuts and (2) maintain and restore vital general city services. A summary of the Measure F ballot language is included below:

*“To offset/prevent additional budget cuts and maintain/restore vital general city services including, and not limited to: neighborhood police patrols, crime prevention programs, 9-1-1 response times; city street/pothole repair; park maintenance; preventing closure or elimination of youth and senior centers/services, shall the City of Novato enact a half-cent sales tax for 5 years, with review by a citizen committee, annual independent audits, and all funds spent locally for the benefit of Novato citizens?”*



This ordinance, “Measure F” on the ballot, was subsequently approved by the Novato voters in the November 2010 election. The tax increase took effect on April 2011 and will sunset on March 31, 2016 absent any action to extend the measure. As a general tax measure, the revenues were not legally designated to fund particular programs or services and, therefore, can legally be spent on any City operation. However, the ballot measure identified “priority focus” areas where Measure F revenues would likely be spent.

These priority areas of focus included:

1. Enhance Neighborhood Services and Public Safety
2. Support Seniors, Youths and Families
3. Reinvest in Park and Street Maintenance
4. General City Services

### Usage of Measure F to Date

The expenditures of the past few years in Measure F have coordinated closely with the key priority areas outlined in the Measure F language itself. Programs funded with Measure F to date include the following:

- Equipment, Training, Overtime, and a Management Analyst position to help support the Novato Response Team
- Commitment to fund the fourth year of the three NRT police officers after the expiration of the federal COPS grant expires
- Two Public Works maintenance workers (limited-term)
- Hamilton Base Reuse Director position and associated operating budget
- Economic Development Program – Economic Development Manager and associated operating budget
- Recreation and Parks After School Initiative program
- Front counter receptionist and imaging position

The Council has been cautious in its use of Measure F revenue and has generally focused on using the funds for one-time rather than ongoing expenditures until the Fiscal Sustainability Plan is finalized. As such, a limited amount of the total funds have been spent. At the same time, actual Measure F revenue has been higher than budgeted in the past two fiscal years due to an increase in sales tax revenues.



The limited expenditures and higher revenue levels created a \$4.3 million balance in the Measure F fund at the close of FY 2011/12, with a projected balance at the end of current FY 2012/13 of nearly \$8 million. Looking out one more year, based on the current budget revenues and expenditures for FY 2013/14, it is estimated that Measure F will end that year with a balance of approximately \$11.3 million. The *Projection of Future Planned Measure F Expenditures* table shows more detail on the finances of the Measure F fund to date, including the projected usage for FY 2013/14.

**Projection of Future Planned Measure F Expenditures**

	Actual	Actual	Projected (figures estimated and rounded)					
	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
Measure F Annual Forecast	689,473	4,098,892	4,435,563	4,441,391	4,460,000	3,655,000	0	0
Measure F Budgeted Expenditures (approved in 12/13 budget or earlier)	–	(222,166)	(451,541)	(504,064)	(250,000)	(250,000)	–	–
Measure F Budgeted Expenditures (Recommended in 13/14 budget)			–	(297,000)	(10,000)	(10,000)	(10,000)	(10,000)
Proposed Future Expenditures (4 <sup>th</sup> year of COPS grant officers)	–	–	–	–	–	(468,000)	–	
Measure F Deficit Infusion		<u>(16,784)</u>	<u>(544,102)</u>	<u>(343,000)</u>	<u>(482,000)</u>	<u>(371,000)</u>	<u>(413,000)</u>	<u>(520,000)</u>
Measure F Balance	689,473	4,549,415	7,989,335	11,286,662	15,004,662	17,560,662	17,137,662	16,607,662

Future Usage of Measure F and Fiscal Sustainability

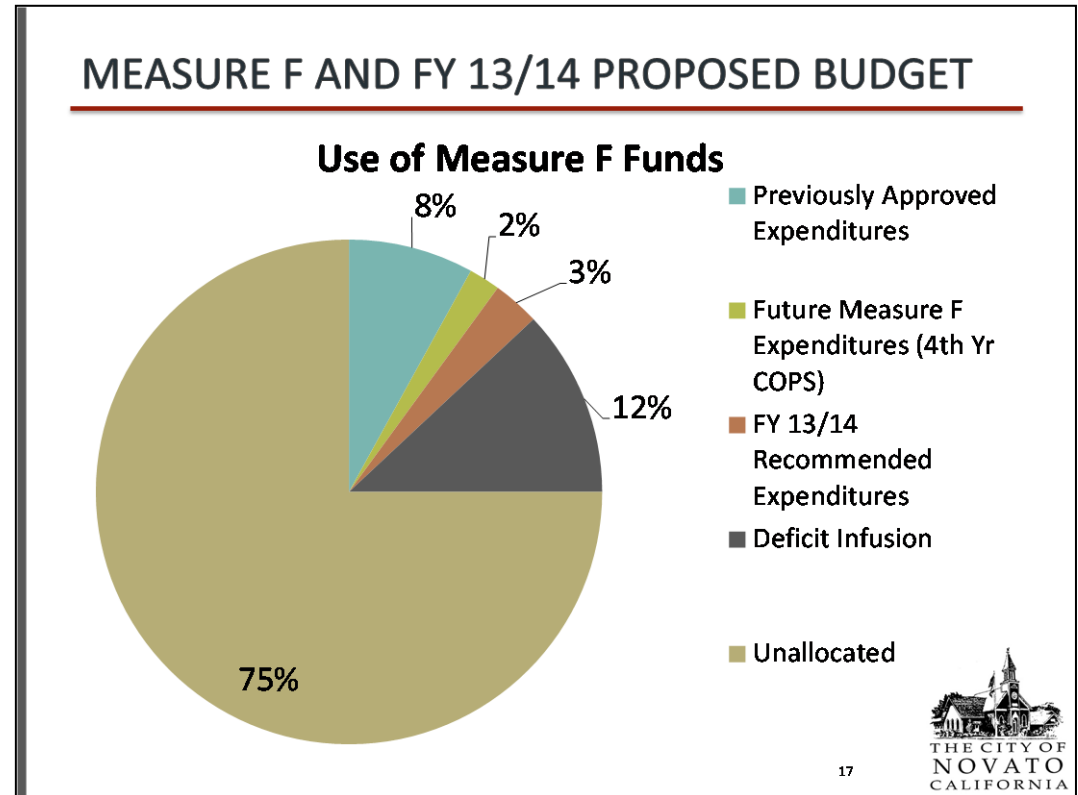
Measure F will be a key part of the overall fiscal sustainability plan for Novato moving forward. There are a number of reasons for this including:

- **Deficit Backfill** – The first stated purpose for Measure F in the ballot language is to “offset / prevent additional budget cuts” that would otherwise occur in the General Fund if the deficits were not backfilled. This is one of the primary purposes that Measure F has served to date and will continue to serve. For the Fiscal Sustainability Options Tool, any budget deficits at the end of each year will be solved with this funding source.



- **One Time Measures to Reduce Ongoing Costs** – There are several measures in the Options Tool that require one-time investments in order to save ongoing funds. The details of these options are discussed later. These one-time funds could come from Measure F, which would then free up ongoing General Fund resources and help the deficit.
- **New Projects / Programs / Community Enhancements** – There are a significant number of projects, initiatives, ideas, capital items, and other investments that are not contemplated in either the five-year forecast or the Options Tool. These choices have probably not been possible with the budget realities of the past few years, but Measure F may give Novato the opportunity to pursue some initiatives that would significantly enhance important aspects of the community such as: bicycle / pedestrian options, recreation programming, community events, community policing services, pavement maintenance, etc. After the long term financial plan is adopted and finalized, the City Council may begin a discussion of how to fund some of these potential initiatives.

Another way to look at the total 5-year package of revenues and expenditures is to roll up all of the years to examine what has been spend to date, what is committed but not spent, and what remains uncommitted and, therefore, available for potential future uses. The *Measure F and FY 2013/14 Proposed Budget* chart shows this calculation. The bottom line is that up to 75% of the total 5-year available Measure F revenue remains uncommitted at this point. Future discussions with the City Council and the community will determine the uses for these funds.







**OPTIONS TOOL – REVENUE & ECONOMIC DEVELOPMENT**

The following options related to revenue and economic development are outlined below with additional background explanations. These options are included in the Fiscal Sustainability Options Tool at the end of this Plan.

Contingency for State of California Revenue Takeaways / Shifts					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a	(\$50,000)	(\$100,000)	(\$150,000)	(\$200,000)	(\$250,000)

Since the early 1990s, the State of California has had a history of using dedicated local revenues from cities and counties to address its budget issues. There are many examples. A few are outlined below:

- In 2004, the state enacted the “Vehicle License Fee Swap,” essentially trading VLF revenues for a property tax allocation based on overall assessed value growth. However, cities were still receiving a small amount based on actual motor vehicle registration activity, as a true-up payment. For Novato, this true-up payment amounted to about \$100,000 annually. In 2011, the State adopted SB 89, which effectively eliminated the true-up payments to local cities, and dedicated the revenue to state-funded programs, thereby eliminating a \$100,000 revenue source for Novato.
- California eliminated Redevelopment Agencies in 2011. While technically separate entities, redevelopment agencies served as economic development catalysts in their respective cities, investing in infrastructure and providing funding to revitalize run-down areas. Redevelopment agencies provided funding for staff to focus on economic development and redevelopment initiatives, to enhance the economy, and work with the business community. Moving forward, Novato must fund all redevelopment and housing-related activities out of its General Fund revenues.

This option in the Options Tool, if selected, is a way to buffer the forecast against additional future State impacts. It doesn’t predict any specific impacts, but reflects upon the perceived likelihood that something may occur in the future that would negatively impact City Revenues.



Pursue Options to Collect Refuse Road Impact Fee					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a				\$350,000	\$350,000

Most cities in California do not offer garbage service directly as a City-provided service. Rather, they typically contract out that service to an exclusive provider via a “franchise agreement” that gives one provider effectively a monopoly on that service in town. As compensation for granting a monopoly franchise for garbage service, cities typically charge a franchise fee within the agreement that provides significant compensation to the City. This franchise fee is considered general revenue to the City (similar to general tax revenue) and can be used for any City services. Additionally, many franchise agreements levy a separate but related fee on the waste hauler that is specifically a “Road Impact Fee” or similarly named fee, that is specifically charged to compensate for the significant wear and tear that the weekly waste and recycling trucks have on city streets and pavement conditions.

Novato is fairly unique amongst cities in that it is one of the only incorporated municipalities that does not hold the garbage franchise. In those rare instances where cities are not the franchise holder, there is a pass-through by the franchise holder to the City. Rather in Novato’s case, the Novato Sanitary District is the public agency in Novato that contracts with and administers the waste hauling franchise. There are multiple issues for the City with this arrangement. First, the City receives no compensation under the arrangement – either for the right of the waste hauler to have a monopoly or for the wear and tear on City streets. While the Sanitary District holds the franchise due to its earlier formation, it is the *City’s responsibility* to repair and maintain the pavement, storm drains, and other public assets that receive wear and depreciation from the weekly waste and recycling trucks. This effectively amounts to a City taxpayer subsidy to the waste hauler for the wear and tear on City-maintained streets. Second, it should be noted that it is City staff’s belief that not even the Sanitary District is receiving appropriate compensation from the hauler for the franchise rights. The Novato waste hauler pays a total annual franchise fee of \$45,000 per year. For comparison purposes, the *Refuse Franchise Fee / Vehicle Impact Fee* slide looks at the financial details of three other neighboring cities’ franchise agreements. It is clear that franchise agreements, even for small- to medium-sized cities, can result in millions of dollars in annual additional revenue to the cities.

There is clearly a nexus between the franchise fee amount and the rates charged to the residents. Within each franchise agreement, it is typically spelled out fairly

## REFUSE FRANCHISE FEE / VEHICLE IMPACT FEE

- Novato Sanitary District grants the franchise for waste hauling in Novato
- City of Novato maintains the roads upon which garbage trucks operate
- Total franchise fee collected from hauler by Sanitary District - \$45,000 + CPI factor
- No gross receipts fee
- No vehicle impact fee
- No compensation to the City for impacts on roads / maintenance

	Novato Sanitary	San Rafael	Petaluma	Mill Valley
Franchise Fee	n/a	10% receipts	10% receipts + \$500k	20% receipts
\$ Generated	\$45,000	\$1,400,000	\$1,500,000	\$790,000
Vehicle Impact Fee	n/a		10% receipts	\$135,000 (fixed rate)
\$ Generated	\$0	\$196,000	\$1,000,000	\$135,000
Total \$\$	\$45,000	\$1,596,000	\$2,500,000	\$925,000

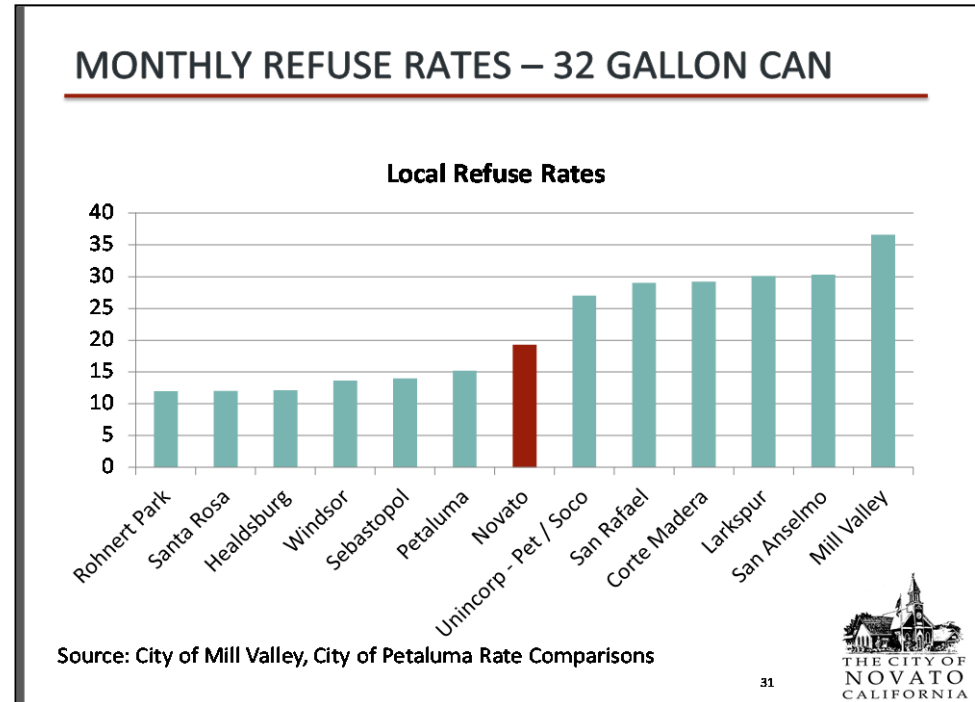


clearly what portions of a franchise fee can be passed on to residents in higher rates and which cannot be. In essence, portions of any franchise fee are paid directly out of the waste hauler’s profit margin, and other portions of the fee end up coming from user rates.

The effect of Novato Sanitary’s franchise agreement are multiple: (1) the waste hauler effectively shares only a minor amount of the gross receipts and therefore keeps almost a 100% of their profit; (2) rates are relatively low; and (3) the City (and its taxpayers) receive no compensation for road impacts.

The *Monthly Refuse Rates – 32 Gallon Can* slide, compiled in the fall of 2012, compares garbage rates of some various Marin and Sonoma cities. Clearly, Novato is the lowest of the Marin County cities, and yet Novato’s rates are above many Sonoma County cities. What is especially interesting about the chart is that all of the cities that have lower rates than Novato are served by the same waste hauler company, and most of those cities receive significant franchise fee payments from their franchise agreements.

This option in the options tool, if selected, does not attempt to institute a new franchise fee or attempt to take over the franchise from the Sanitary District. Instead, it proposes to enter into negotiations with both the waste hauler and the Sanitary District to implement a road impact fee, specifically to help fund roadway improvements and upkeep that are necessitated by the continual operation of waste trucks on City-owned streets. Very rough estimates are that this option could generate about \$350,000 annually for the City’s roads, but would be ultimately be subject to the completion of a nexus study to quantify the actual impacts.





Voter Approved Options					
	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
1/4 cent Sales Tax (0.25%)				\$2,200,000	\$2,266,000
3/8 cent Sales Tax (0.375%)				\$3,300,000	\$3,399,000
1/2 cent Sales Tax (0.5%)				\$4,400,000	\$4,532,000

Cities in the State of California are quite limited as to their ability to raise taxes to fund municipal services. Since the passage of Proposition 13 and Proposition 218, virtually every tax increase must be approved by the voters in the local jurisdiction. For taxes that are considered “general” in nature, and not dedicated to paying for any specific services, the vote must be a simple majority of 50%+1. For taxes that are considered “special” taxes, which are to pay for specified services, the vote must be a 2/3 majority to pass. There are a variety of taxes that could be levied or increased in Novato to help pay for services. These include:

- **Parcel Tax** – Essentially an add-on property tax, this tax could take the form of, for example, a \$50 per parcel tax that would be added onto every property owner’s tax bill each year. This option is slightly different than a “general obligation bond measure” where bond proceeds are raised and the debt service for the bonds are placed on the property tax bill. Instead, this is simply a tax revenue source that would go to the City to pay for services (and could be “specific” or “general” in nature).
- **Sales Tax** – Add-on sales tax rates are common in California, and Marin County and Novato already have several of them in place. Current add-on sales taxes in Marin County include a transportation-dedicated 0.50% tax, a parks and recreation-dedicated 0.25% tax, and the SMART rail tax of 0.25%. Additionally, in November 2012, Novato voters adopted Measure F, which was a 5-year general 0.50% sales tax within the City.
- **Utility Users Tax** – As mentioned earlier in this report, Novato does not currently levy a utility users tax. This is a tax that about half of California residents pay, and can vary from 1% to 5% on their electric, gas, telephone, cell phone, and voice-over-IP charges.
- **Business License Tax** – This is a tax on businesses who operate in the City. The basic license is \$97 per year plus add-ons for various business types. The total revenue projected for FY 13/14 is \$923,000. Any changes to the current City business license tax ordinance would require voter approval.
- **Transient Occupancy Tax** – This is a tax on hotel/motel guests and shows up on their room bill. The current tax is 12% in Novato, and is split to several different entities for tourism and promotional purposes (9% to City of Novato, 1% designated for tourism / promotions, and 2%



for a Countywide Business Improvement District focused on tourism). This tax could be raised with voter approval, and could be either a special or general tax.

- **Real Property Transfer Tax (RPTT)** – This tax on real estate transactions is currently set at \$1.10 per \$1,000 of sales price. The City and County split the tax with \$0.55 each. The tax rate is set by state law for General Law cities (i.e. cities that do not operate under their own charter). Charter cities have the option to change their RPTT, while General Law cities do not, and in fact many have done so. Both Petaluma and San Rafael both have a \$2.00 per \$1,000 RPTT.

These are just some of the most obvious examples of voter-approved revenue measures, and any future decision to put any type of revenue measure on the ballot will be subject to future public debate and Council decision. For purposes of the Options Tool, staff has used the example of a sales tax option, since Novato has experience with sales tax measures and it is fairly easy to quantify the financial impact, given our existing sales tax base. Furthermore, it is assumed that no tax would be implemented until the expiration of the existing Measure F sales tax in FY 2015/16, so the Options Tool shows the revenue from a new tax, if adopted, beginning in FY 2016/17.



Different types of tax measures have significantly different histories with success at passage at the ballot box. Although one might select one of the sales tax options in the Tool, the actual type of tax implemented could be determined at a future date.

Voter Approved Revenue Option – examples	Annual Revenue to Novato
0.25% Sales Tax – extend and reduce existing tax	\$2,200,000
0.375% Sales Tax – extend and reduce existing tax	\$3,300,000
0.50% Sales Tax – continue existing 0.50% tax	\$4,400,000





ECONOMIC DEVELOPMENT OPTIONS					
	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
Status quo economic development	-	-	-	-	-
\$500,000 ongoing revenue					\$500,000
\$1,000,000 ongoing revenue					\$1,000,000
\$1,500,000 ongoing revenue					\$1,500,000

From these individual project estimates, for purposes of the Options Tool, staff boiled down the options into three Economic Development tiers; the user of the Options Tool has the option to select one of these tiers (or none of them). It should be noted that the tiers are intentionally generic in nature. The purpose of this financial plan is not to weigh in on specific development proposals or assign probabilities to the likelihood of any given proposal actually occurring. Rather, the intent is for the community and City Council to weigh in on how much Economic Development new revenue should be “counted on” in the context of long term fiscal sustainability.

Obviously, the higher the tier chosen, the more proactive and aggressive the Economic Development program will need to be in order to meet those goals. Additionally, if, at some point in the next few years, it becomes doubtful that the chosen levels can be achieved, an alternative plan may need to be developed to keep the integrity of the Fiscal Sustainability Plan relevant and balanced in the long-term.

## NEXT STEPS

### Options for Revenue

#### Potential development scenarios

Development	Low	Med	High
Hanna Ranch	\$ 72,000	\$145,000	\$660,000
Redwood Corridor	\$ 550,000	\$730,000	\$1,000,000
Hamilton	Tbd	Tbd	Tbd
Vacant/Infill			
Phase 1: Entitled	\$250,000	\$500,000	\$750,000
Phase 2:Un-entitled			
<b>Total estimated revenue</b>	<b>\$870,000</b>	<b>\$1.5M</b>	<b>\$2.4M</b>

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## KEY FINDINGS AND STAFF CONCLUSIONS – REVENUE AND ECONOMIC DEVELOPMENT

Novato is an outlier among cities with respect to its revenue sources. Novato does not have the revenue base that other cities have. Novato is hamstrung by a low property tax share, no Utility Users Tax, a low Real Property Transfer Tax, no waste hauler franchise fees, significant leakage of sales tax to other communities, limited remaining commercially-zoned space, and no ongoing locally-approved sales tax. Staff believes that additional economic development and retail sales tax generation can be accomplished in a manner that still maintains Novato’s small town character and sense of place. Yet while some additional revenue can come to the City from economic development, staff does not believe it can be the sole solution. Overall, it is critical to establish additional long-term revenue sources to properly support the key priorities of the City.



## SECTION 4

# Expenditures



## Fiscal Sustainability Plan



**NOVATO EXPENDITURES**

Novato’s General Fund is the main conduit through which all core service delivery is financed. As mentioned above, the General Fund brings in a variety of tax revenues, fees, and charges to finance the operations of the City departments. Novato has five departments, plus Central Administration, through which services are delivered. In addition, there is a citywide budget that has expenses shared across the organization, like insurance costs, animal control, and citywide memberships. These departments and their services are described in detail in the sections that follow.

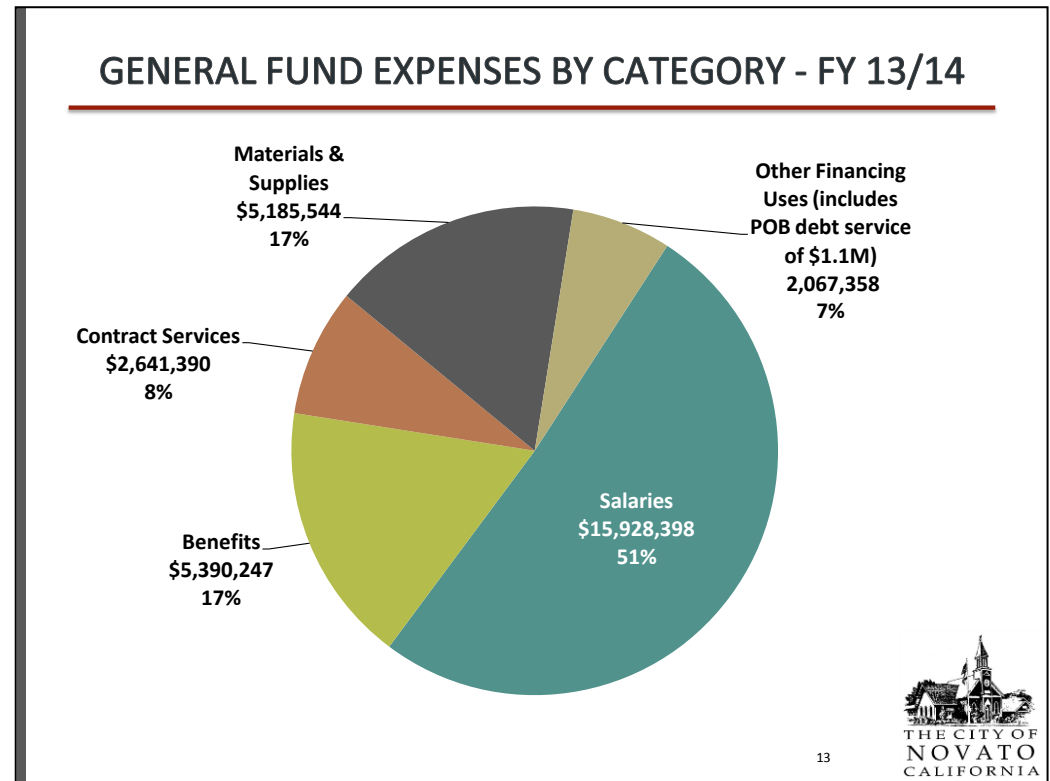
- Central Administration
- Administrative Services Department
- Community Development Department
- Parks, Recreation, and Community Services Department
- Police Department
- Public Works Department

Each department spends its budgeted funds on a variety of employee costs, contracts, materials, and supplies that help deliver services. These expenditures fall into a variety of broad categories, depicted in the *General Fund Expenses by Category – FY 13/14* slide. Generally, the City organization provides services through its employees like Police Officers, Street Maintenance Workers, or City Planners. It is not surprising, therefore, that employee compensation (Salary and Benefits), is by far the largest expense in the City’s budget.

**Salaries** – Includes wages for all employees, including part-time and temporary staff; overtime; special pays; and other forms of wages.

**Benefits** – Includes contributions to CalPERS for retirement; health care / cafeteria plan contribution by the City to employees; Medicare tax; and other miscellaneous benefits.

**Contract Services** – Includes all services provided by third party contracts; City Attorney services; engineering services; animal control services; contract staffing services at Hamilton Pool; software licenses; maintenance contracts; etc.





**Materials and Supplies** – Includes all manner of physical materials used to perform City services; office supplies and equipment; tools; landscape materials; recreation equipment; asphalt; water; computers and IT equipment; etc.

**Other Financing Uses** – Includes all General Fund transfers to other funds; Pension Obligation Bond payments; Equipment Replacement Fund; Long-Term Maintenance fund; Capital Improvement Program and the General Plan fund.

**CITY DEPARTMENTS**

The fiscal sustainability process included a review and discussion of each of the City’s departments. This review occurred in two public sessions held on September 18, 2012 and October 16, 2012.

The department review provided an overview of each department and discussed current trends and issues, current service levels, recent expenditure reductions and service level holes where the Council and the community might wish to invest resources for the long-term. In

essence, the presentations identified where the department currently stands in terms of staffing and resources following years of reductions, what key issues and trends will impact the department, plus long-term fiscal and organization sustainability questions to be addressed.

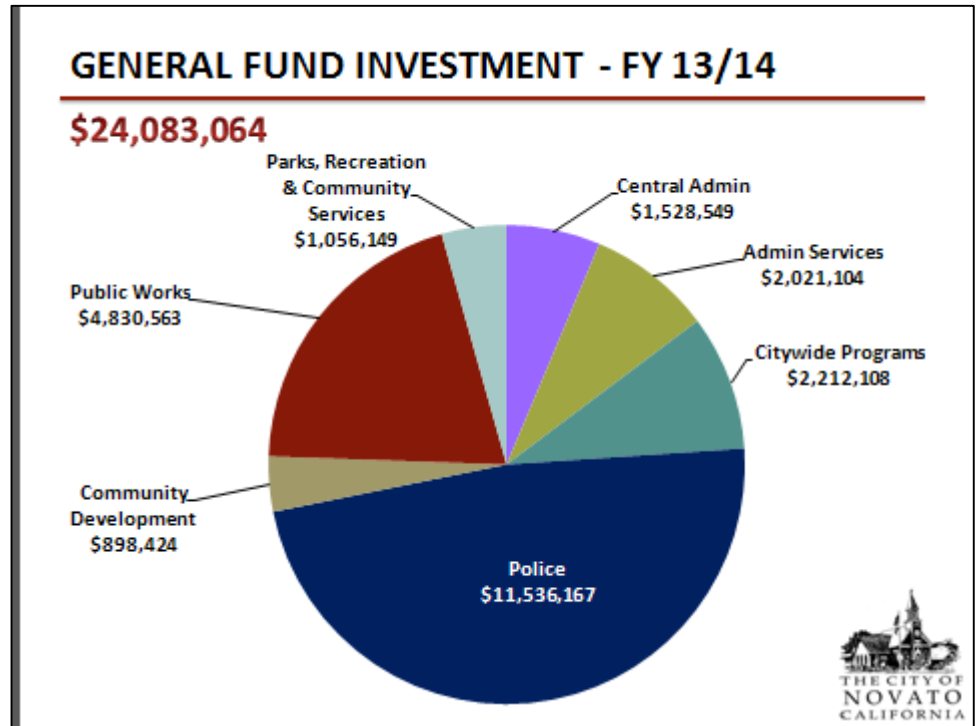
The Administrative Services, Central Administration and Community Development departments were reviewed on September 18<sup>th</sup> and the Parks, Recreation and Community Services, Police, and Public Works departments were discussed at the October 16<sup>th</sup> meeting. Departments also presented information on current unfunded liabilities and options for reducing these liabilities through strategic investments. There were ideas considered, and some chosen, for inclusion on the Options Tool. Finally, departments also presented fiscal sustainability and Measure F ideas and proposals for Council consideration.

Department	FY 13/14 Expenditures/ Transfers Out	FY 13/14 Revenues/ Transfers In	General Fund Investment (\$) / %
Central Administration	\$1,553,490	\$24,941	\$1,528,549 / 6.35%
Administrative Services	\$2,342,536	\$321,432	\$2,021,104 / 8.39%
Citywide Programs	\$2,240,659	\$28,551	\$2,212,108 / 9.19%
Community Development	\$2,497,364	\$1,598,940	\$898,424 / 3.73%
Parks, Recreation & CS	\$3,089,740	\$2,033,091	\$1,056,149 / 4.39%
Police	\$13,015,081	\$1,478,914	\$11,536,167 / 47.90%
Public Works	\$6,166,048	\$1,088,789	\$4,830,563 / 16.11%



The focus of the fiscal sustainability discussions is on the use of General Fund resources. The General Fund is the discretionary fund of the City. The *General Fund Investment – FY 13/14* chart shows each department’s reliance on the General Fund after any revenues that are dedicated to that department are removed. This shows the “subsidy” or “investment” by the General Fund to provide a particular department’s services.

Not surprisingly, departments have different opportunities for revenue collection. It is important to understand the current service levels and issues in each department, it is also important to recognize that some departments are able to recover some of their costs through revenues, while others are not. For example, Community Development is only subsidized by the General Fund by 3.73%; while the Police Department has much fewer revenue opportunities and has a 47.9% investment by the General Fund. The City has looked hard at opportunities to recover costs for services where appropriate and early in the recession increased a number of fees and charges. Other than general tax increases, staff does not believe that there are significant opportunities to increase such revenues at this time.



In each section below, there is information regarding the current spending and revenues for each departments and an organization chart. If there are positions that are currently funded with Measure F or grant funding, those positions are noted by being highlighted in grey.





**SERVICE LEVEL HOLES SUMMARY** – Each department of the City has outlined areas where the level of service that is provided is not at the level the department feels is appropriate. A broader discussion occurs in each department’s section. The table below is a summary of this information.

<b>Central Administration</b>	<b>Administrative Services</b>	<b>Community Development</b>
<p><u>Events and Partnerships</u> -- Opportunities for City to promote community events has been reduced through budget reductions; the goal is to bring residents together and to build community connectedness.</p> <p><u>Record Management and Imaging</u> -- The City has many documents that need to be scanned into electronic format; digital images will allow for greater staff efficiency and enhanced customer service; this will entail a multi-year and large technology and scanning investment.</p>	<p><u>Additional analytical support for Human Resources Division</u> -- The Human Resources Division is not staffed correctly. An additional professional position is needed in order to meet the needs of departments and proactively move forward key projects.</p> <p><u>Staff capacity for process re-engineering and streamlining</u> -- With all the reductions and realignments, there is a need to review how we work and streamline steps that don’t add value. Examples that need review include: Purchasing / Contracts, City Claims, Encroachment permits, Personnel hiring and processing, and Accounts Payable / Receivable.</p> <p><u>Additional Staffing for IT Division</u> – Additional staffing and support is needed to jumpstart, and then support going forward, a number of needed technology investments and initiatives. These investments will help the City streamline processes and provide better information more efficiently.</p> <p>Funding for Technology investments for software and hardware to improve service and to allow staff to work more efficiently and effectively.</p>	<p><u>Need to Augment Planning and Building Staffing when Economy Improves</u> -- As development activity increases with the decreased staffing levels there will be a need for temporary staff as warranted by revenues and workload to maintain permit processing and inspection timelines.</p> <p><u>Code Enforcement cannot meet community expectations currently</u> -- Community-wide code enforcement complaints are increasing beyond staff capabilities to respond in a timely manner. Staffing is also inadequate to perform proactive code enforcement to improve community aesthetics and nuisance abatement.</p> <p><u>No Staff Focused on Environmental Sustainability</u> -- Adoption and implementation of the Climate Action Plan has not progressed due to staffing levels and the focus on the Housing Element and General Plan updates.</p> <p><u>Front Receptionist needed</u> -- Occupancy of the new City Administrative Office Building will require review of staffing options for front counter public reception functions.</p>



SERVICE LEVEL HOLES SUMMARY (continued)

Parks, Recreation & Community Services	Police	Public Works
<p><u>Lack of staff to perform research, manage projects, identify and manage grants, and support program and projects of Department</u> – Examples include ADA Committee Oversight; Special projects with non-profits and service clubs; Logistics Section Planning and Training for EOC; Public art efforts, both private and public; Capital Improvement Projects related to parks and recreation facilities, including studies and construction efforts.</p> <p><u>Lack of City-run Community Events and Series</u> - Concerts in the Park; Celebrate Family events; community celebrations; children’s events; special events focused on health (Let’s Move, endurance sports events, bike and run events, competitions – i.e., dance, aerobics).</p> <p><u>Lack of programs for low income; limited funding for the Youth Financial Assistance program</u></p> <p><u>Limited time of professional staff to support the City museums</u> - including little time to ensure trained oversight of the historical collections.</p>	<p><u>Investigations</u> – Current staffing can handle majority of investigations. No depth of personnel for complex and lengthy investigations, or coverage for injuries, illnesses, or protracted court appearances.</p> <p><u>Availability of Lobby Access</u> – Reduced hours of front counter service to the public resulting in occasional lengthy delays for members of the public. Increased overtime costs.</p> <p><u>Emergency Services Coordinator</u> – A full-time staff member to coordinate preparedness and mitigation programs including public education, staff training and disaster exercises, the Emergency Operations Plan and implement the Hazard Mitigation Plan.</p> <p><u>Administrative Staff &amp; Technical Support</u> -- Currently the Chief’s Administrative Assistant is the only administrative support person for entire department; Heavy reliance upon volunteers to assist/perform critical department functions.</p> <p>Lack of ability to coordinate and regularly staff Neighborhood Watch meetings.</p> <p>Reduction of on-going, proactive Crime Analysis.</p> <p>Community Outreach programs such as child safety seat inspections and installations.</p>	<p><u>Community expectations in park and island maintenance</u></p> <p><u>Need for new software</u> – To improve monitoring, management and response of operations (such as computerized maintenance management; fleet, etc.)</p> <p><u>Decreasing funding for roadway maintenance</u> - Measure B expired March 2012; loss of \$1.0 - \$1.5 million per year; Remaining funding is \$1.25 million per year from Gas Tax and Measure A; deferred maintenance continues to grow for City streets</p> <p><u>Other infrastructure with limited to no non-General Fund monies</u> (See Infrastructure Section of this Report) – Need for ongoing and one-time funding for facility and infrastructure maintenance; non-General Fund sources are minimal.</p> <p><u>Parks facilities</u> – No non-General Fund monies for short-term or long-term capital improvement or deferred maintenance enhancements.</p>



**MEASURE F FUNDED POSITIONS AND PROGRAMS – SUMMARY TABLE FOR ALL DEPARTMENTS**

<b>Measure F Funded Positions &amp; Programs</b>	<b>FY 13/14 Funding</b>
<b>CENTRAL ADMINISTRATION</b>	
Economic Development Manager & Program Budget	\$219,000
Hamilton Base Reuse Property Manager & Program Budget	\$221,000
Front Reception Position – Records and Imaging Assistance	\$61,000
<b>PARKS, RECREATION, AND COMMUNITY SERVICES</b>	
Low income scholarships, youth summit and needs assessment, and continuation of after-school initiative	\$55,000
<b>POLICE</b>	
Emergency services contract & Tactical pre-plan site surveys	\$40,000
Management Analyst for NRT team	\$85,000
Overtime, supplies and materials for NRT team	\$38,000
<b>PUBLIC WORKS</b>	
Maintenance Worker for parks, islands, median maintenance	\$82,000
<b>TOTAL</b>	<b>\$801,000</b>

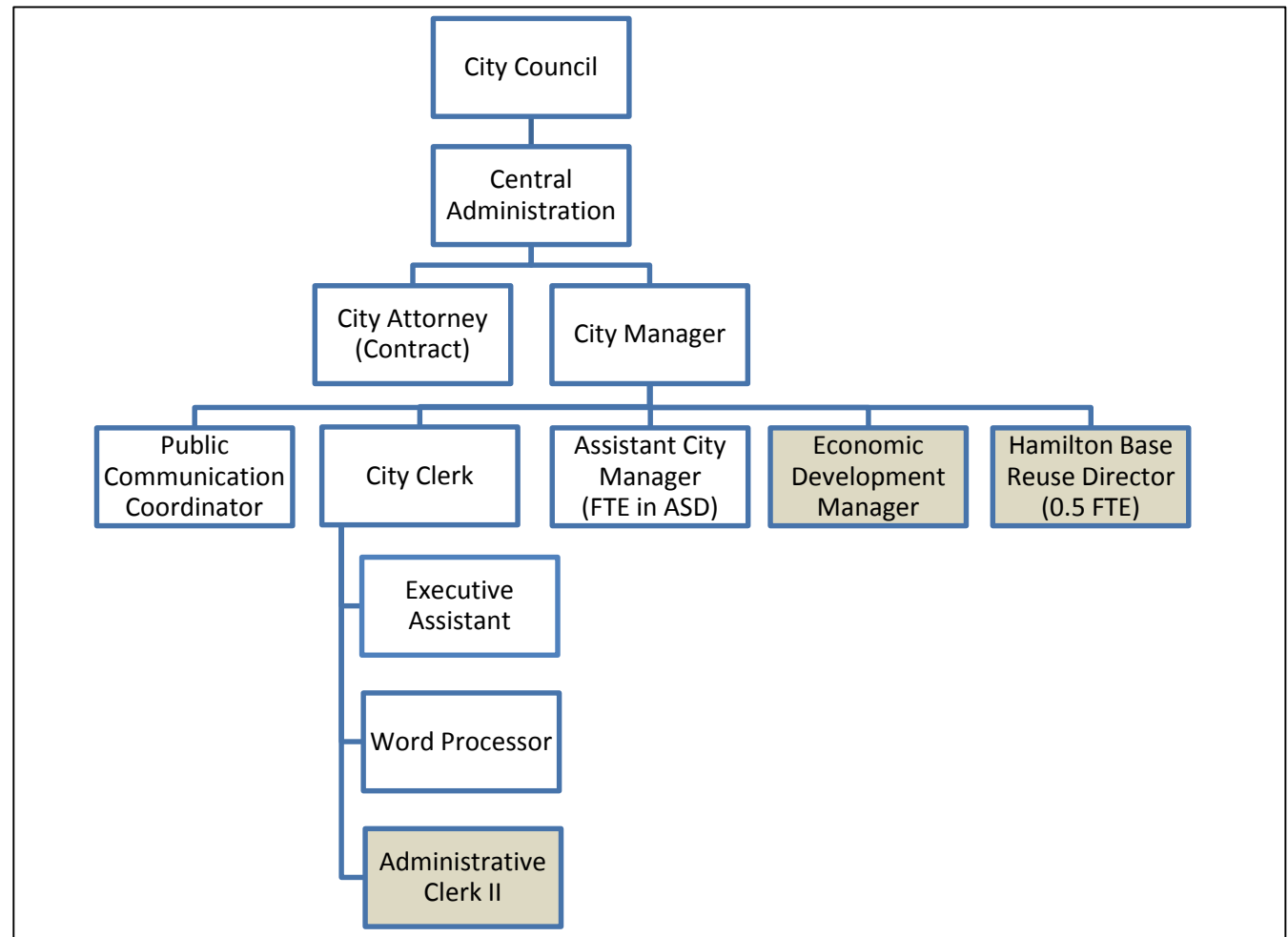


**CENTRAL ADMINISTRATION (CITY MANAGER’S OFFICE, CITY CLERK, CITY ATTORNEY)**

The mission of Central Administration is to assist the City Council provide valuable overall policy direction to the organization through the general management, legal and administrative services of the City Manager, City Attorney and the City Clerk. Specifically, the City Manager’s office also houses the City’s front reception, economic development, Hamilton reuse development and public communication functions. The City Manager’s office is also responsible for the oversight of Marin Valley Mobile Country Club, a 315 unit mobile home park providing affordable housing to senior citizens, which is owned by the City. In addition, the Successor Agency for the Dissolved Novato Redevelopment Agency is included within the Central Administration function.

**CURRENT ORGANIZATION CHART**

The Organization Chart for Central Administration is shown to the right. Any Measure F or Grant Funded Position are highlighted in grey and are not included within the historical comparison of staffing below.



In general, the Department has responded well to the new economic reality. While the numbers look the same, there have been significant realignments in staffing. There have been positions eliminated and functions reviewed and then re-engineered. The City Clerk’s operation used to have 3.3 FTE and the same work is now accomplished with 2.2 FTE through use of technology. An Assistant to the City Manager position was eliminated, and a Grant/Volunteer Coordinator position was reclassified to focus on public information and communication.



**STAFFING REDUCTIONS DUE TO 5 YEARS OF BUDGET REDUCTIONS**

<b>CENTRAL ADMINISTRATION</b>	<b>2007/08</b>	<b>2012/13</b>	<b>% Change</b>
Staffing Level (in Full Time Employees)	5.50	4.85	(12%)

**CURRENT FUNDING – FY 13/14 PROPOSED BUDGET**

Below is a summary of the expenditures, revenues and remaining General Fund subsidy provided to Central Administration.

<b>FY 13/14 (Division)</b>	<b>Expenditures / Transfers Out</b>	<b>Revenues / Transfers In</b>	<b>General Fund Investment (\$)</b>	<b>General Fund Investment (%)</b>
City Manager	\$602,194	\$355	\$601,839	2.50%
City Clerk	\$378,931	\$233	\$378,698	1.57%
City Council	\$66,336	\$0	\$66,336	0.28%
City Attorney	\$506,029	\$24,353	\$481,676	2.00%
<b>TOTAL</b>	<b>\$1,553,490</b>	<b>\$24,941</b>	<b>\$1,528,549</b>	<b>6.35%</b>

**DESCRIPTION OF CURRENT SERVICE LEVELS**

Below is a brief summary of the current service levels and responsibilities of each function within Central Administration.

- City Council
  - Provides policy direction to the organization and sets long term strategic direction; represents the organization in the community and the community in the region and State; Hires and reviews performance of the City Manager and City Attorney
- City Manager’s Office
  - Develops policy options for and implements policies of the City Council
  - Manages all City departments as well a number of functions directly reporting out of the City Manager’s Office including:
    - City Clerk -- Oversees coordination and production of City agendas, manages City document retention and destruction, and elections
    - Economic Development and Hamilton Reuse -- Economic Development Manager Position funded for 4 years and Director of Hamilton Reuse funded half-time for 2 years





- Public Communication and Community Engagement -- Proactively manage web, social media, public outreach, communications, and community engagement
  - Special Projects including oversight of Marin Valley Mobile Home Park, direct oversight of City Administrative Offices construction, Fiscal Sustainability Process Oversight, among other projects
- City Attorney (Contract)
  - Provides legal consultation, litigation and legal advice on City municipal code issues and other City-related legal matters.

Overall, service levels within Central Administration are sustainable with the inclusion of the Measure F funded positions for economic development. Staff believes that the overall support of the City Council by the City Manager and City Clerk is responsive and of good quality. The City is making progress on the Council's strategic plan goals and customer issues are responded to in a prompt manner. The City contracts for legal services through Walter & Pistole and occasionally uses additional specialized legal counsel if necessary. This contracting relationship is at a sustainable service level.

## CURRENT ISSUES / TRENDS

There are three primary issues and trends impacting Central Administration.

1. State Redevelopment Agency Dissolution Issues – Joining a growing number of municipalities throughout California suing the State over use of redevelopment funding, the City is legally challenging a determination issued by the Department of Finance (DOF) that denies a \$6 million repayment to the City for loan advances made to its former redevelopment agency (RDA). The City loan advances to the RDA were pursuant to a 30-year old agreement between the City and RDA to jump-start community redevelopment projects. In its initial determination, DOF rejected a total of \$21.5 million in repayments of obligations of the City's former redevelopment agency arising from loan advances made by the City from its General Fund. These loan advances were made over decades and the RDA's repayment occurred prior to the passage of ABx1 26--the law that ordered the dissolution of city redevelopment agencies. Disputing their findings, the City met with DOF on March 21 to provide supporting documentation and evidence that the RDA's loan repayments to the City were legally valid.

Subsequently, DOF revised its position and allowed \$14.5 million in bond proceeds issued by the RDA to repay the City, noting that "the proceeds were used for the purposes for which they were issued." DOF also allowed \$855,600 in cash repayments that occurred in 2010.



The DOF now contends that the remaining \$6 million in RDA loan repayments are “disallowed cash transfers,” that aren’t enforceable obligations of the RDA, despite the fact the repayment of the \$6 million from the RDA to the City was a repayment of the same loan advances as the repayment made from the \$14.5 million in bond proceeds the DOF approved. The City is also currently undergoing an “asset transfer audit” of its RDA by the State Controller.

The City and Redevelopment Successor Agency filed a lawsuit in Sacramento County Superior Court to seek a judicial determination that the \$6 million repaid by the RDA to the City for the outstanding loan advances was lawful. This lawsuit as well as issues being reviewed by the State Controller will continue to be a significant focus of staff’s effort and attention in Central Administration as well as Finance..

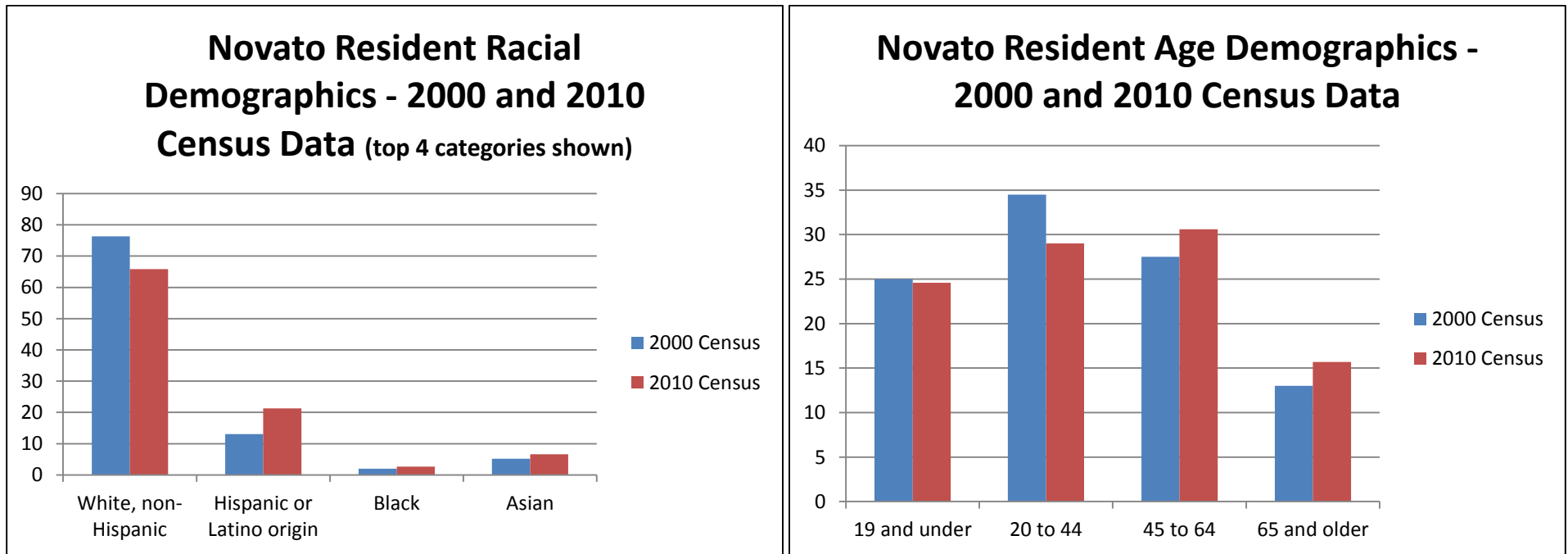
2. Economic Development Program – With the elimination of redevelopment agencies by the State of California, the financial support for redevelopment and economic development has shifted to the General Fund effective February 1, 2012. This meant an \$800,000 impact to the General Fund. There are many discussions and different sponsored legislation that may created a new form of redevelopment tools for cities, but that is yet to be determined.

Another impact to the City with the loss of its Redevelopment Agency was the loss of any Economic Development staff. With an understanding of the need for economic development and a business liaison, the Council approved a 4-year limited term Economic Development Manager to be funded via Measure F. Staff believes that an Economic Development Manager and function should be part of the City’s core services which is why this position is recommended in the Core Staffing option in the Fiscal Sustainability Tool. In addition, a half-time position focused on the reuse of Hamilton Base properties owned by the City was also created for two years. Together, these positions represent the City’s focused efforts to improve the economy and maximize revenues for services.

3. Public Communication Coordination / Education – Today’s fast paced world is changing the dynamics of how organizations communicate. Cities must provide accurate, timely and clear information to its residents. This communication must also be proactive. Technology and the social media phenomenon have created new and heightened expectations for dialogue, response and interaction with a city’s residents and stakeholders. The Public Communications Coordinator provides management of the city’s web site, social media, and other outreach efforts. This position also works directly with staff on key projects to ensure that the communication and engagement needs are woven into the project plan and process.



4. Changing Demographics – The 2010 Census shows an aging population and an increase in the Latino population. See the *Novato Resident Racial Demographics* and the *Novato Resident Age Demographics* charts for the comparison between the 2000 and 2010 Census data.





**MEASURE F – DIRECT FUNDING**

The table below shows where the City Council has specifically approved Measure F funding for positions/programs. It is important to remember that these positions are funded by Measure F and are not included in the current staffing levels of the General Fund. An elimination of Measure F funding for these positions would mean that the services associated with them would also evaporate.

<b>Measure F Funded Positions &amp; Programs</b>	<b>FY 13/14 Funding</b>
Economic Development Manager and Program Budget	\$219,000
Hamilton Base Reuse Property Manager and Program Budget	\$221,000
Front-Reception Position – Records and Imaging Assistance	\$61,000

**SERVICE LEVEL HOLES**

Below is a summary of key areas that Central Administration feels that there are areas where services could be improved:

- Events and Partnerships -- Opportunities for City to promote community events has been reduced through budget reductions; partner with Downtown to bring residents downtown and to build community connectedness; partner with other commercial areas to support events and programs to bring together neighborhoods for fun and community building.
- Record Management and Imaging – The City has many documents that need to be scanned into electronic format; digital images will allow for greater staff efficiency and enhanced customer service; this will entail a multi-year and large technology and scanning investment requiring focused time and project management attention.



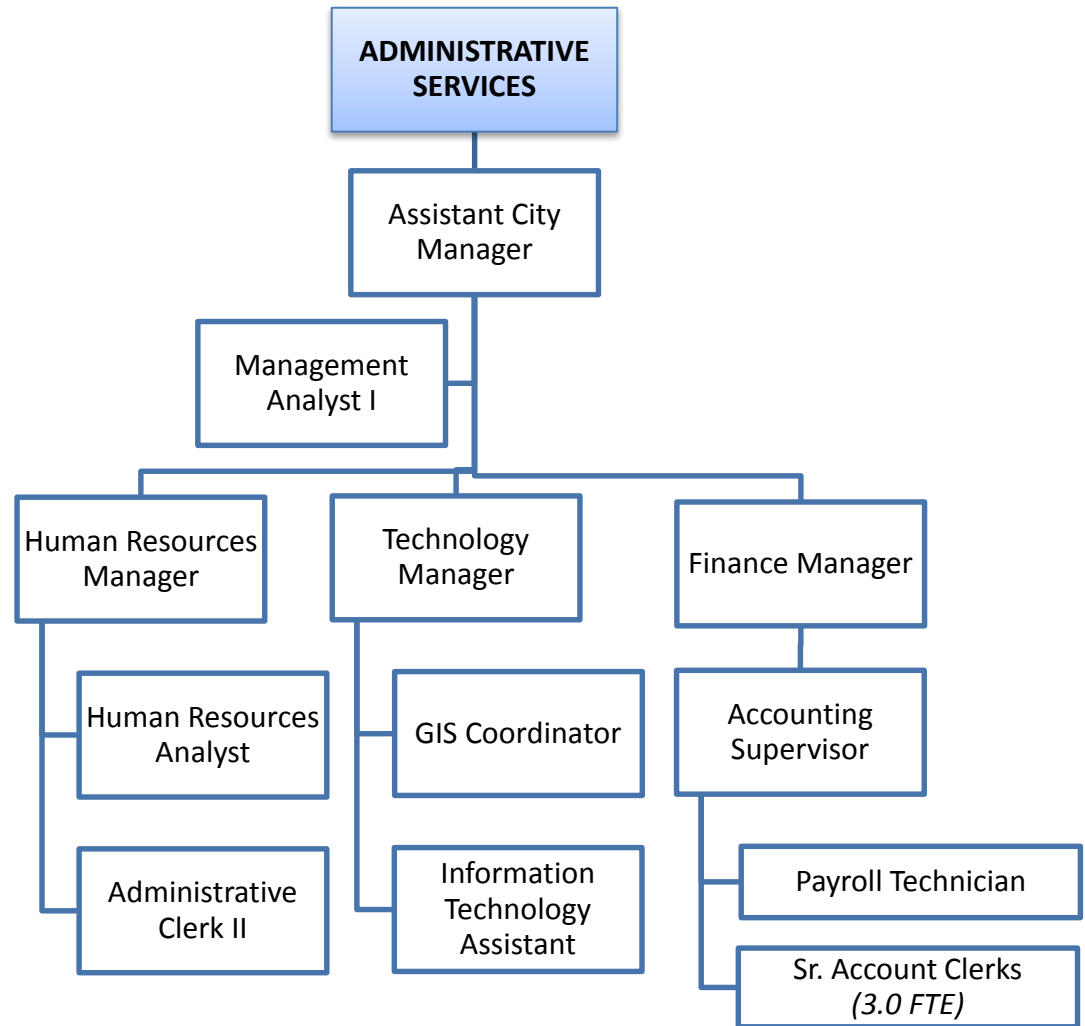
**ADMINISTRATIVE SERVICES DEPARTMENT**

The mission of the Administrative Services Department is to provide comprehensive and effective staff services to other city departments. As an internal service provider, the Department provides financial, human resources, risk management, information technology support and assistance to each of the other departments, management and employees. Under the supervision of the Assistant City Manager, Administrative Services also provides some direct services to the public, such as business licenses and other permits.

**CURRENT ORGANIZATION CHART**

The Organization Chart for Administrative Services is shown to the right. There are no Measure F or Grant funded positions within the department.

In general, the Department has responded well to the new economic reality. While the numbers look the same, there have been realignments in staffing from FY 07/08 to FY 13/14. There have been positions eliminated and functions reviewed and then re-engineered. Centralized purchasing and reprographics have been eliminated and decentralized for departments to administer.







**STAFFING REDUCTIONS DUE TO 5 YEARS OF BUDGET REDUCTIONS**

ADMINISTRATIVE SERVICES DEPARTMENT	2007/08	2012/13	% Change
Staffing Level (in Full Time Employees)	13.55	13.45	None

**CURRENT FUNDING – FY 13/14 PROPOSED BUDGET**

Below is a summary of the expenditures, revenues and remaining General Fund subsidy provided to the Administrative Services Department.

**ADMINISTRATIVE SERVICES DEPARTMENT  
2013/14 Budget and General Fund Subsidy**

Divisions	Expenditures/ Transfers Out	Revenues/ Transfers In	Total General Fund Subsidy (\$)	Total General Fund Subsidy (%)
Administration	\$281,646		\$281,646	1.17%
Human Resources	\$537,359		\$537,359	2.23%
Finance	\$725,170	\$321,432	\$403,738	1.68%
Info. Technology	\$798,361		\$798,361	3.32%
Citywide Programs	\$2,240,659	\$28,551	\$2,212,108	9.19%
<b>TOTAL</b>	<b>\$4,583,195</b>	<b>\$349,983</b>	<b>\$4,233,212</b>	<b>17.58%</b>

**DESCRIPTION OF CURRENT SERVICE LEVELS**

The information below summarizes current staffing levels, the staffing changes and impacts of the budget cuts to date and staff’s assessment of where the operations currently stand. The sustainability of staffing levels and services ranges among the specific functions.

Human Resources & Risk Management -- The Human Resources division is not at sufficient staffing levels. In addition, the City’s risk management function is also staffed by Human Resources. Risk Management includes management of liability claims, worker’s compensation, mandated safety training and systems, and oversight of the City’s insurance and contracting requirements to try to proactively manage and prevent issues on the front end. For all of these duties, the Human Resources / Risk Management Division has never been adequately staffed with the right level and mix.



There is the need for an additional high level professional human resource position to support the departments in their employee development and management. Increased complexity in Federal and State requirements and regulations require active human resources management.

The Human Resources Division provides the following support:

- Overall management of City's human resource activities and services
- Negotiate labor agreements with six different employee groups
- Conduct recruitments for all City job openings (13 recruitments completed in 2011; 19 in 2012 to date);
- Manage the City's general liability claims (19 liability claims in 2011; 17 in 2012 to date);
- Manage worker's compensation and employee injuries; manage return to work for health of employee and organization;
- Assist department management with performance issues and provide staffing for employee professional development.

Finance -- Staffing levels in Finance are currently appropriate. The Division has a manager, supervisor and four accounting clerical positions. Management staff does believe that with a new financial software system, there will be streamlined operations which will allow one less accounting clerical position within 3-4 years with a new financial system is in place. This is one of the positions that is recommended for reduction as part of the City Manager's Core Staffing recommendation later in the report.

The Finance Division provides the following support:

- Payroll for approximately 175 full-time staff and approximately 90 temporary part-time employees;
- Process approximately 3,500 payments to vendors for purchased materials and services annually;
- Process approximately 4,500 business licenses annually;
- 622 new licenses issued in 2011-2012 fiscal year (average = 677 prior 4 years); and
- Manage, prepare and account for all financial transactions and official recordkeeping.

Information Technology -- Staffing levels for Information Technology are not sustainable in the future based on technology investments that are envisioned to improve services, efficiency and access. The City had an IT Assessment and IT Master Plan completed this past fiscal year. A reliable and high performing technology infrastructure is critical to allow staff to obtain the maximum benefits from business and operations applications (i.e., finance, payroll, permitting, document management, etc.).

*The City's current technology environment provides a strong foundation to build upon to realize the full benefits technology has to offer.*



The City's use of third party service providers has proven to be a cost effective approach to maintaining a secure, reliable, and robust technology environment. In fact, using third party service providers has allowed the City access to technical expertise that may not be available if the City were to rely exclusively on City resources. The most significant service providers for the City are as follows:

- MIDAS – Marin Information Data Access System (MIDAS) is a wide-area telecommunications network that links its members and provides internet access. It is currently managed by the Marin County Department of Information Services and Technology. The MIDAS program connects the County to its municipal and non-profit business partners by providing internet access and support for private network-based shared applications: MariNET libraries, Marin Law Enforcement Data System, MarinMap, the County, as well as cities and towns of Marin.
- MarinMap – The City participates in MarinMap, which is a consortium of public agencies (local governments and special districts) organized under the legal authority of the Marin General Services Authority. MarinMap provides the City access to Countywide Geographic Information Systems (GIS) applications.
- County Sheriff - The City contracts with Marin County for computer aided dispatch (CAD) and records management system (RMS) to support the Police Department.

The IT Master Plan estimates \$2.5 to \$3 million in technology investments in the next 3-5 years. Without continued investments, the technology gap will increase and the City will not have the software and hardware to provide high customer service. With these investments, there will be the need for additional staffing of at least one permanent position and one temporary position within this time period.

### **CURRENT ISSUES / TRENDS**

There are three primary issues and trends impacting the Administrative Services Department.

1. Need for software and technology improvements to enhance effectiveness – The City has made improvements in the last five years to its network and invested in some key software to enhance services in a few departments – Police, Parks & Recreation and Community Development. There are major software needs in Administrative Services (a financial software system that is 15 years old and cumbersome for department use; no Human Resources system) and Public Works is using Excel and Access to manage maintenance, assets, work orders, fleet and custodial. Every department has identified technology to improve services and opportunities to utilize mobile technology. A significant investment in technology will be needed to position the organization to work with ongoing leaner staff and meet the expectations and responsiveness of the community.



2. Training and Succession Planning for City departments – The City has reduced 25% of its staffing from layoffs and retirements. There will be more key retirements in the coming years and there is a need to ensure that current and future workers have necessary skills to respond to new challenges. Also with the reductions and employee concessions, there has been very little training for employees or management. Training in technology and software will also be key.
  
3. Ability to Retain and Attract Talented Employees – Novato’s compensation in base salary and total compensation including what employees pay for health care and pensions is below our neighboring communities and our labor market. During the past four years with the recession, we have been able to hold our own. However, management staff believes that as the economy improves our pay practices will make it more difficult to recruit and retain the best employees moving forward.

**MEASURE F – DIRECT FUNDING**

The table below shows where the City Council has specifically approved Measure F funding for positions/programs.

<b>Measure F Funded Positions &amp; Programs</b>	<b>FY 13/14 Funding</b>
None	None



## SERVICE LEVEL HOLES

Below is a summary of key areas that Administrative Services feels are areas where services could be improved.

- Additional analytical support for Human Resources Division -- The Human Resources Division is not staffed correctly. An additional professional position is needed in order to meet the needs of departments and proactively move forward on key projects. For example there is the need to update Personnel Rules and Regulations; Administrative Policies; Training and Professional Development Program; Comprehensive Safety Training Program; Evaluation System; new Human Resources Information System (HRIS).
- Staff capacity for process re-engineering and streamlining -- With all the reductions and realignments, there is a need to review how we work and streamline steps that don't add value. However, to change processes that cut across many departments requires time and staff. At this time, there are not enough staff resources to transform how the organization does work and still maintain the current work priorities and demands. Many of these processes need to be reviewed and changed prior to or in conjunction with new software systems. Examples that need review include: Purchasing / Contracts, City Claims, Encroachment permits, Personnel hiring and processing, and Accounts Payable / Receivable.
- Additional Staffing for IT Division -- The Information Technology Division has been staffed with an IT Manager and an IT Technician. The GIS Coordinator position was moved from the Public Works Department after a retirement last year, but has not yet been filled. If the Council is supportive of making an investment in technology to jump the City's capabilities and capacities, then there will need to be additional resources to support these systems. Ultimately, this could mean two additional positions.

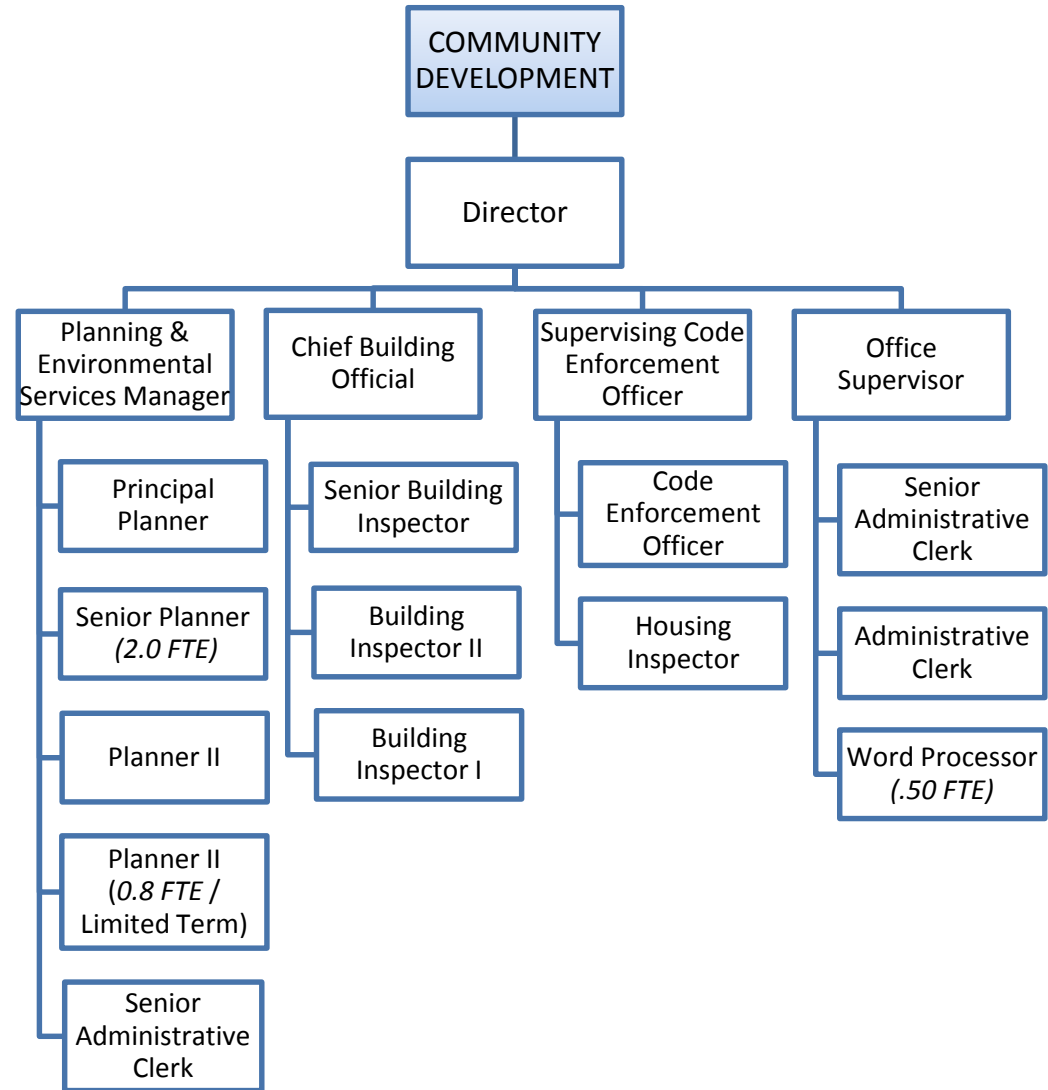


**COMMUNITY DEVELOPMENT DEPARTMENT**

The mission of the Community Development Department is to actively engage the community in defining its goals, ensure that Novato’s values are reflected in the physical environment of the city, and assist in providing safe and well maintained buildings. The Community Development Department is responsible for administering land use policies, environmental regulations, and design and building code standards for new construction based on federal, state and local requirements. The Community Development Department provides staffing to various commissions and committees that support the Department’s mission, with the Planning Division providing support to the Planning Commission and Design Review Commission. Building and code enforcement staff provides support to the Novato Housing, Zoning and Building Codes Appeals Board.

**CURRENT ORGANIZATION CHART**

The Organization Chart for Community Development is shown to the right. There are no Measure F or Grant funded positions within the department at this time. In general, the Department has adjusted to the new economic reality; however there have been impacts. Staff has been reduced by 29%. The table below highlights these budget cuts.







**STAFFING REDUCTIONS DUE TO 5 YEARS OF BUDGET REDUCTIONS**

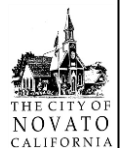
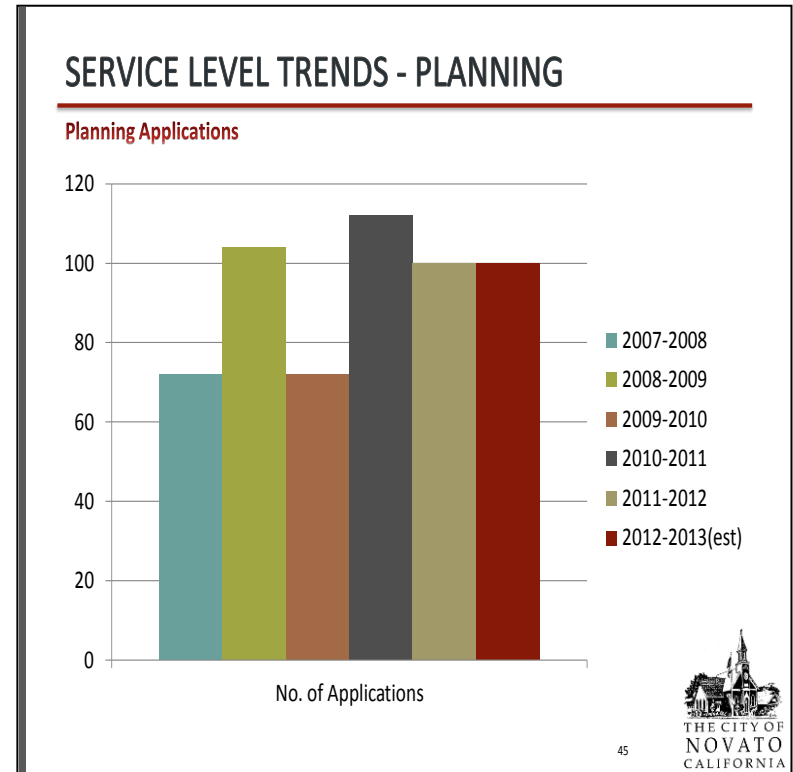
COMMUNITY DEVELOPMENT DEPARTMENT	2007/08	2012/13	% Change
Staffing Level (in Full Time Employees)	26.13	18.3	(30%)

**DESCRIPTION OF CURRENT SERVICE LEVELS**

The *Service Level Trends* charts summarize the staffing changes and impacts of the budget cuts to date and staff’s assessment of where the operations currently stand.

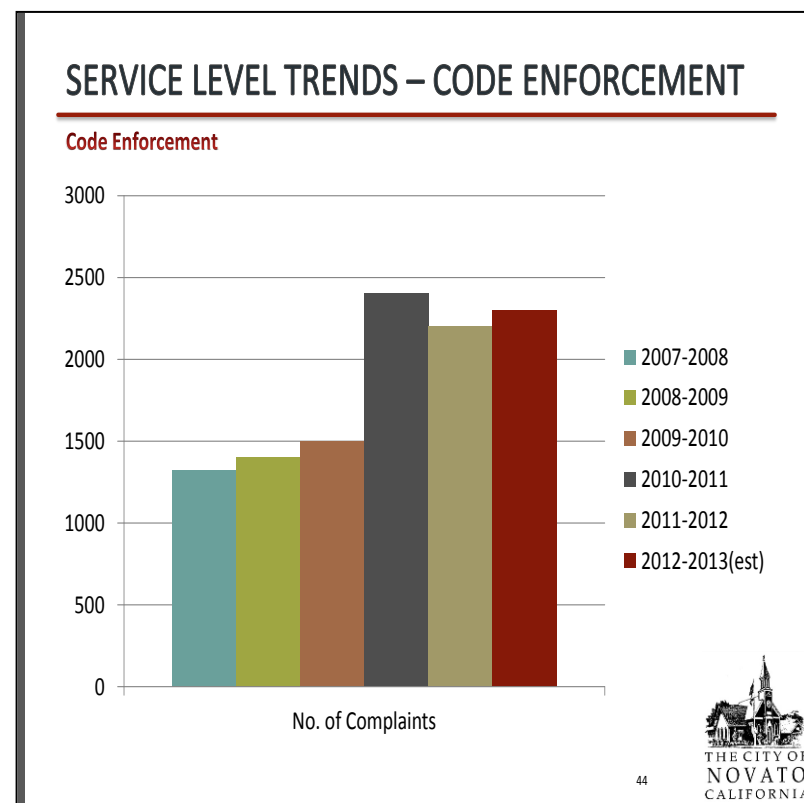
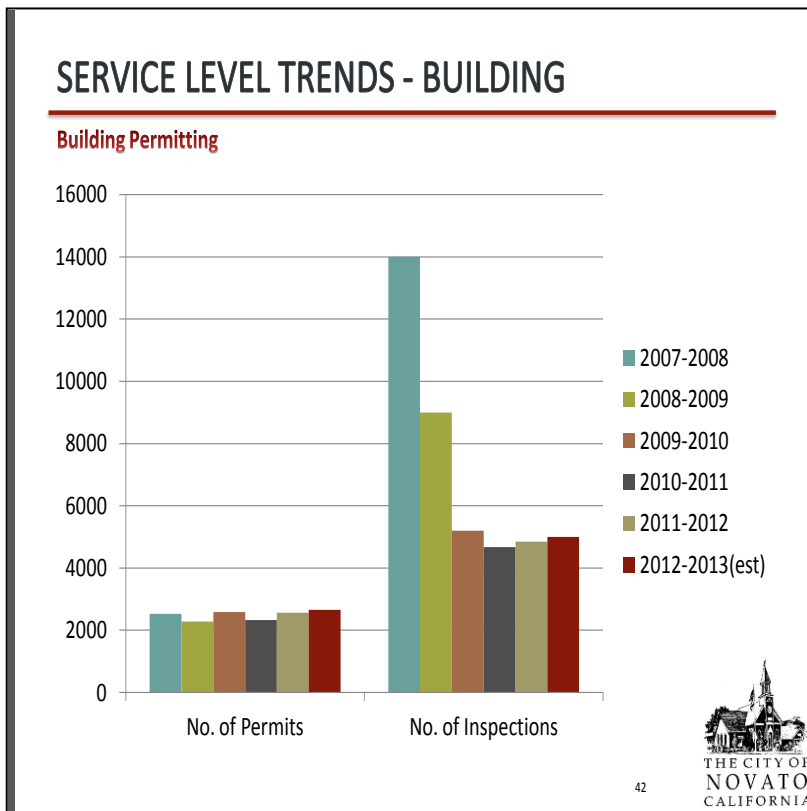
- **Planning** - The Planning Division maintains and implements the Novato General Plan, the local governing policy document that reflects the City’s vision of future growth and development and which provides policy direction for department operations. In addition, the Planning Division is charged with management of the City’s environmental sustainability efforts and its Climate Action Plan.

Planning staff has been reduced by 4 FTE. In FY 07/08, there were 10.2 full time planners working in Novato. Today, there are 6.2. Planning in Novato is complicated and often controversial. As a primarily built-out community, the majority of new planning projects are in-fill projects and have current neighbors and stakeholders with their own impressions and desires.





- Building Inspection & Compliance-** The Building Division is responsible for issuing building permits and inspecting construction projects according to state building codes. This division staffs the City’s One-Stop Shop for over-the-counter permitting services.
- Code Enforcement** – The Code Enforcement Division investigates and directs the remediation of unsafe and blighted properties. This division also manages the city’s residential resale program and the multi-family inspection program. The multi-family inspection program complements the residential resale inspection program by providing ongoing monitoring of the overall condition of a range of housing types and reducing unpermitted construction. Code Enforcement staff has been reduced from 4.15 positions in FY 07/08 to 3.00 positions in FY 13/14. One major change was the reduction in how often multi-family inspections occur.





**CURRENT FUNDING – FY 13/14 PROPOSED BUDGET**

Below is a summary of the expenditures, revenues and remaining General Fund subsidy provided to the Community Development Department. Community Development had cost recovery of 86% from application fees in 2011/12 and 73% in 2012/13 due to increased General Fund expenses for the Housing Element/General Plan Update. A large portion of this change is the impact of the elimination of the City’s Redevelopment Agency and the resulting shifting of some staff completely back to the General Fund.

**COMMUNITY DEVELOPMENT DEPARTMENT  
2013/14 Budget and General Fund Subsidy**

<b>Divisions</b>	<b>Expenditures/ Transfers Out</b>	<b>Revenues/ Transfers In</b>	<b>Total General Fund Subsidy (\$)</b>	<b>Total General Fund Subsidy (%)</b>
Administration	\$223,611		\$223,611	0.93%
Planning / Housing	\$1,224,173	\$312,500	\$911,673	3.79%
Building	\$525,053	\$851,470	(\$326,417)	(1.36%)
Code Enforcement	\$298,277	\$416,300	(\$118,023)	(0.49%)
Clerical Support	\$226,250	\$18,670	\$207,580	0.86%
<b>TOTAL</b>	<b>\$2,497,364</b>	<b>\$1,598,940</b>	<b>\$898,424</b>	<b>3.73%</b>

**CURRENT ISSUES / TRENDS**

Below are primary issues and trends impacting the Community Development Department.

1. Increased Construction Activity - Development activity continued during the recession due to home remodels and commercial tenant improvements, and is increasing in 2013 as the economy improves. Community Development has experienced an almost 30% reduction in staffing over the past four years. As development activity increases, it will require additional staff resources. Staff anticipates much of this staffing to be hired on a temporary basis to allow for future flexibility and the volatility of development cycles.
2. Infill Development - There are few vacant properties remaining in Novato. Most new development will occur on more challenging infill sites and through redevelopment of existing sites. The level of likely public participation in the development review process will increase as well as the amount of time for staff review and sheparding of such projects through the development process.



**MEASURE F – DIRECT FUNDING**

The table below shows where the City Council has specifically approved Measure F funding for positions/programs.

Measure F Funded Positions & Programs	FY 13/14 Funding
None	None

**SERVICE LEVEL HOLES**

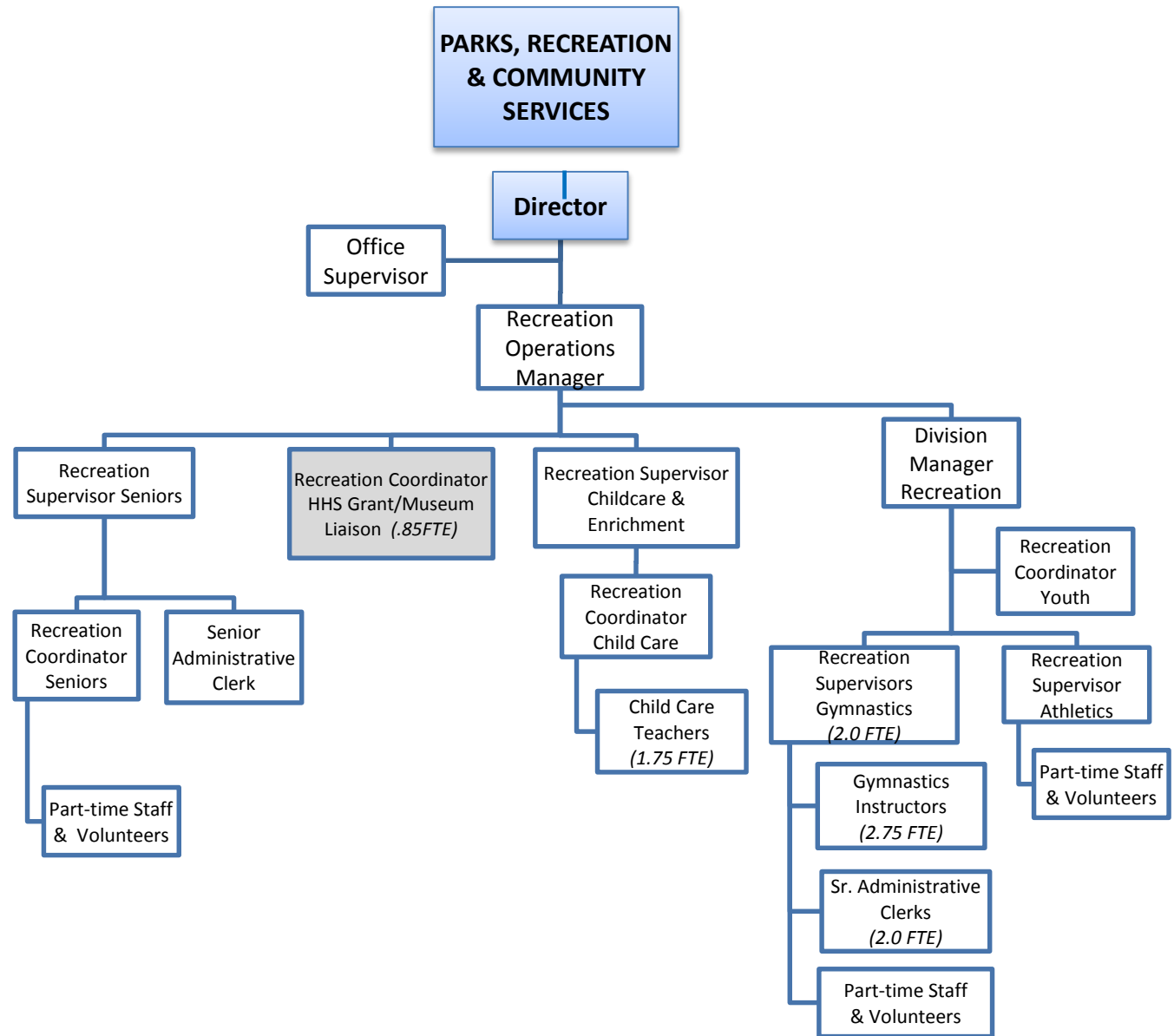
Below are a summary of key areas that Community Development feels that there are areas where services could be improved.

- Need to Augment Planning and Building Staffing when Economy Improves - As development activity increases with the decreased staffing levels there will be a need for temporary staff as warranted by revenues and workload to maintain permit processing and inspection timelines.
- Code Enforcement cannot meet community expectations currently - Community-wide code enforcement complaints are beyond staff capabilities to respond in a timely and proactive manner.
- No Staff Focused on Environmental Sustainability - Adoption and implementation of the Climate Action Plan has not progressed due to staffing levels and the focus on the Housing Element and General Plan updates.



**PARKS, RECREATION & COMMUNITY SERVICES DEPARTMENT**

The mission of the Parks, Recreation and Community Services Department (PRCS) is to enrich individual and community life. The goals remain: 1) Promoting a healthy community through the provision of high quality active recreation programs, and supporting active living throughout life, 2) Investing in youth by providing opportunities to grow and develop into productive, thriving, and resilient adults, 3) Investing in seniors to provide active opportunities to remain independent and healthy, and 4) Prevention – PRCS recreation programs and facilities help prevent crime, disease, depression, and help a community to thrive by engaging community members in positive activities and interactions. PRCS manages over 20 community recreation facilities. The City offers a wide variety of programs, activities, services, and events, for individuals ranging in age from preschool to senior citizens. PRCS manages parks and recreation facilities for City programs and community uses.





For decades, PRCS has worked with, and continues to rely on, volunteers to meet community needs and its mission. Currently, PRCS manages nearly 600 volunteers a year who donate more than 25,000 hours annually (value of over \$425,000). The Department provides a Youth Financial Assistance Program which enables a limited number of eligible children from low-income families to participate in recreation programs, classes, and activities.

**CURRENT ORGANIZATION CHART**

The Organization Chart for PRCS is shown on the previous page. There are no Measure F funded positions and one 0.75 FTE Grant funded position within the department at this time.

In general, the Department has responded well to the new economic reality; however there have been significant impacts. Since FY 07/08, full-time staff has been reduced by 30% and part-time staff has been reduced by 41% (the equivalent of 12.21 FTE). The department is generating more revenue which has reduced the amount of General Fund investment provided. The table below highlights these budget cuts.

**STAFFING REDUCTIONS DUE TO 5 YEARS OF BUDGET REDUCTIONS**

<b>PARKS, RECREATION AND COMMUNITY SERVICES DEPARTMENT</b>	<b>2007/08</b>	<b>2012/13</b>	<b>% Change</b>
Staffing Level (in Full Time Employees)	28	19.85*	-30%

Note -- \*In FY 12/13 1 FTE added by converting part-time salaries, causing no net impact to GF.  
 One .75 FTE position is funded through a multi-year grant to work with the Novato Blue Ribbon Coalition for Youth, with no impact to the GF.

**DESCRIPTION OF CURRENT SERVICE LEVELS**

The slides below summarize the staffing changes and impacts of the budget cuts to date and staff’s assessment of where the operations currently stand. In the last five years, the General Fund investment/subsidy to the PRCS department has been reduced by 50%. Reductions in analytical and management staff have significantly reduced the Department’s ability to respond to initiatives, community service volunteer project requests, and our partners’ needs. The department has eliminated many of their free programs and has shifted to a “pay-to-play” package of services. The Department has also eliminated community concerts and many other free community events that have historically been organized by the City. Even in this era of reduced staffing, PRCS serves nearly 140,000 participants and attendees through programs, events, and facilities. Below are descriptions of the services provided by PRCS:





Overview of Parks, Recreation & Community Services

- Provides thousands of hours of programs each year and operate a dedicated senior center, gymnastics facility, and the downtown community center
- Collaborates with many partners, including Novato Historical Guild, Senior Club, Gymnastics Boosters, NIEP, City of San Rafael, Fire District, Reading Institute, Novato Blue Ribbon Coalition for Youth

CHILD CARE AND ENRICHMENT	2,943 served annually	MUSEUMS	2,858 served annually
Lu Sutton Before and After School Child Care Summer Day Camp, Camp Ton-of-Fun, Specialty Classes Novato School of Dance Facility Rentals – 295 bookings for Hamilton Community Center 2,943 annual attendance in camps, classes, child care, programs		Museum Liaison and Museum Volunteers  2,639 Visitors & School Tours, 219 attendance for special events	

ATHLETICS	15,386 served annually	GYMNASTICS	6,800 served annually
<p><b>Children, Teen &amp; Adult Athletics</b></p> <ul style="list-style-type: none"> <li>▪ Multiple Sports, Camps, Classes, (Preschool – Teen) – 1,616 enrolled</li> <li>▪ Youth, Men, Women &amp; Coed Sports Leagues – 2,480 on teams</li> <li>▪ 1<sup>st</sup>- 8<sup>th</sup> Grade Girls &amp; Boys Basketball Leagues – 610 on teams</li> <li>▪ Basketball Tournaments – 380 participants</li> <li>▪ League Games &amp; Tournament Attendance – 9,000 spectators</li> <li>▪ Saturday Night Dances – 300 attendees</li> <li>▪ Middle School Events - 1,000 attendees; 7<sup>th</sup> &amp; 8<sup>th</sup> Grade Middle School Dances; 6<sup>th</sup> Grade Recreation Nights &amp; Welcome to Middle School</li> <li>▪ Facility Rentals -                             <ul style="list-style-type: none"> <li>▪ 1,729 Gym bookings, 3,492 Field reservations</li> <li>▪ 670 Downtown Recreation Center/Pocket Park reservation</li> </ul> </li> </ul>		Recreational Gymnastics Classes – 3,619 enrolled  Competitive Girls Gymnastics Team Program – 528  Gymnastics Camps – 253 participated  Gymnastics Meets & Shows – 2,400 participants and spectators	



SENIORS AND ADULTS	49,826 served annually	FACILITY MANAGEMENT AND RENTALS	28 sites managed
<ul style="list-style-type: none"> <li>Drop-In Classes &amp; Programs – 19,566 annual attendance</li> <li>Senior Club Activities – 11,207 meeting &amp; program attendance, trip sign-ups</li> <li>Novato Independent Elders Program/Episcopal Senior Communities Services, Meals, &amp; Program attendance – 12,464</li> <li>Senior/Adult Classes – 1,835 enrollments</li> <li>Margaret Todd Senior Center Membership – 1,065 members (Year 2011)</li> <li>Senior Center &amp; Club Special Events – 3,267 attendance</li> <li>In addition, there are Facility Rentals – 1,482 bookings of Margaret Todd Senior Center and Hill Community Room</li> </ul>		<ul style="list-style-type: none"> <li>11 Community Recreation Buildings                             <ul style="list-style-type: none"> <li>Including Gymnastics Center, Margaret Todd Senior Center, and 3 Gymnasiums</li> </ul> </li> <li>11 Fields, Tennis Courts, and Outdoor Activity Areas                             <ul style="list-style-type: none"> <li>Including Marion Park, Hill, IVC, Thigpen, Hamilton Pool and more</li> <li>32,000 pool admissions</li> <li>800 swim lessons, 350 season passes,</li> </ul> </li> <li>6 Parks for Rentals and Events                             <ul style="list-style-type: none"> <li>Including Civic Green, Pioneer, Hoog, and Miwok Parks, Scottsdale Pond, and Pocket Park</li> </ul> </li> </ul>	

**CURRENT FUNDING – FY 13/14 PROPOSED BUDGET**

Below is a summary of the expenditures, revenues and remaining General Fund subsidy provided to the Parks, Recreation and Community Services Department.

**PARKS, RECREATION & COMMUNITY SERVICES DEPARTMENT  
2013/14 Budget and General Fund Subsidy**

Divisions	Expenditures/ Out	Transfers	Revenues/ In	Total General Fund Subsidy (\$)	Total General Fund Subsidy (%)
Administration		\$739,109	\$261,756	\$477,353	1.98%
Children’s Programs		\$594,711	\$505,338	\$89,373	0.37%
Museum Administration		\$16,826		\$16,826	0.07%
Senior Programs		\$315,442	\$161,100	\$154,342	0.64%
Athletic Programs		\$1,423,652	\$1,105,397	\$318,255	1.32%
<b>TOTAL</b>		<b>\$3,089,740</b>	<b>\$2,033,591</b>	<b>\$2,033,591</b>	<b>4.39%</b>



## CURRENT ISSUES / TRENDS

There are four primary issues and trends impacting the Parks, Recreation & Community Services Department:

1. Most Low Income Programs Eliminated – With the need to reduce the amount of subsidy provided to the Department by the General Fund, most low cost and free programs and community events were eliminated. These included programs targeted at at-risk youth, free family summer event series, and concerts in the park. The recent Community Survey showed strong support for increasing programs for youth.
2. Expectation and Opportunity to Participate in Cross-agency, County, State and National Initiatives – There are a series of initiatives that warrant coordinated efforts and response. These include youth alcohol prevention, crime prevention related to youth, gang prevention, HEAL – healthy eating, active living, and future workforce preparedness including programs focused on science, technology, and math curriculums. Participation and partnerships require extensive staff time interacting with community coalitions, non-profits, and other governmental agencies. An appropriate role for the City is as an active collaborator and facilitator in these initiatives.
3. Demographic Changes
  - a. Increasing number of senior citizens as a percentage of the community – largest cohort of seniors in history is unfolding over next few years and will impact the programs provided by the City’s Senior Center.
  - b. The increasing Hispanic population is anticipated to continue and will make up a major segment of the City’s future workforce. The Department will continue to explore how to provide the most appropriate and needed programs to this population.
4. Passage of County-wide Measure A – The voters in Marin County recently adopted a new quarter-percent sales tax dedicated to funding parks and recreation facilities and programs across the County. A portion of the money generated from this new tax is dedicated to Cities and Special Districts to enhance recreation and parks in those jurisdictions. Staff estimates that Novato will receive about \$400,000 per year for the nine-year duration of the tax. This money is relatively flexible in how it can be spent, so the City has numerous choices.



**MEASURE F – DIRECT FUNDING**

The table below shows where the City Council has specifically approved Measure F funding for positions/programs.

Measure F Funded Positions & Programs	FY 13/14 Funding
After-School Program – Pilot Project <u>Status:</u> Pilot program was launched successfully at one school and expansion is planned for upcoming school year, and additional funding was secured from the Kaiser Foundation for 2013 in support of the physical activity part of the program (SPARK Afterschool)	\$45,000
Youth Financial Assistance Program	\$10,000

**SERVICE LEVEL HOLES**

Below is a summary of key areas that PRCS feels are areas where services could be improved.

- Project Management Staffing - The significant reduction of fulltime staff in the Department has impacted the ability of the Department to perform research, manage projects, identify and manage grants, and support programs and projects. Examples include ADA Committee Oversight, projects with non-profits and service clubs (Community Garden, Miwok Museum Expansion), emergency preparedness logistics section planning and training, public art efforts (both private and public), and capital improvement projects related to parks and recreation facilities including studies and construction efforts. One position has been included in the Core Staffing recommendation of the City Manager to assist in this area.
- Community Events – There is a great opportunity to create community by providing Concerts in the Park, Celebrate Family events, community celebrations, children’s events, special events focused on health (Let’s Move, endurance sports events, bike and run events, competitions – i.e., dance, aerobics).
- Programs Targeting the Low Income Community – The Department is primarily a “pay to play” operation following reductions. Some funding was allocated with Measure F this year for financial assistance.
- Museum Staffing – The Department has limited staff time to support the city museums including little time to ensure trained oversight of the historical collections.



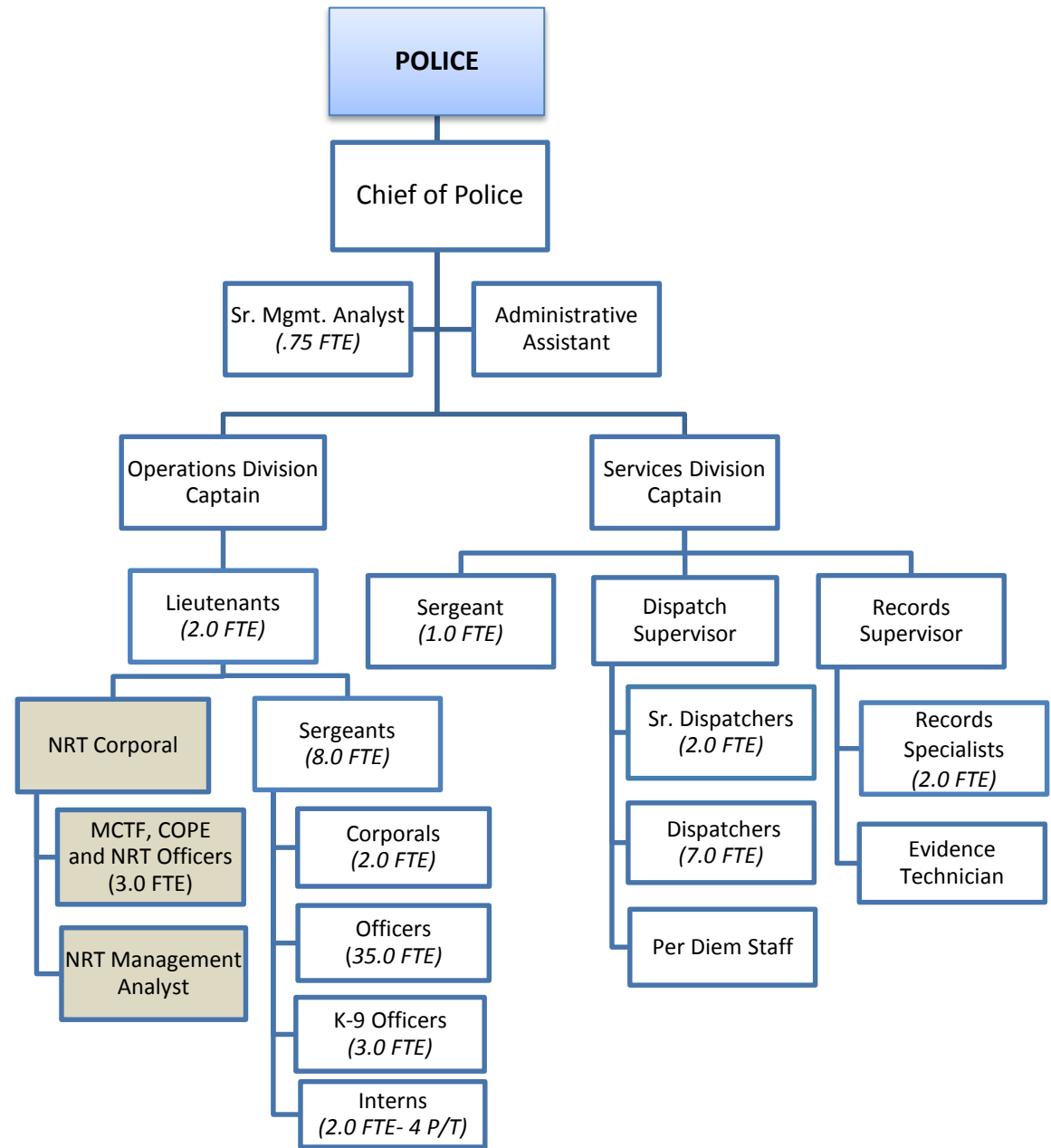
**POLICE DEPARTMENT**

The mission of the Novato Police Department is to provide a safe and secure environment through professional and proactive law enforcement partnerships with the community. The dimensions of our community-oriented philosophies are problem solving, community partnerships, and a focus on service delivery at the neighborhood level. The Department’s services include Patrol, Investigations, Traffic, Emergency Services, Youth Services and other programs designed to enhance the quality of life in Novato.

**CURRENT ORGANIZATION CHART**

The Organization Chart for the Police Department is shown to the right. Any Measure F or Grant Funded Position are highlighted in grey and are not included within the historical comparison of staffing below.

Administration: Administration handles planning and management, policy development, scheduling, crime analysis, grant writing, budget development oversight, confidential files, training, staff reports, policy revisions, and many other functions.





Operations Division: The Operations Division is responsible for Patrol, Investigations, Traffic, Special Response Team, Novato Response Team, Crisis Negotiation Team and Special Police programs.

Services Division: The Services Division Captain is responsible for Professional Standards, Dispatch, Records and Property, Volunteers in Policing, Emergency Services, General Order review and update, budget oversight, grant management, and purchasing.

Reductions to the Police Department were significant yet purposeful. Overall, patrol staff was protected, but overall Police staff was reduced by 11%. Between FY 2009/10 and FY 2011/12, three management positions were eliminated from the department. This equals a 37.5% reduction in police management staff in three years. The table below highlights these budget cuts.

**STAFFING REDUCTIONS DUE TO 5 YEARS OF BUDGET REDUCTIONS**

<b>POLICE DEPARTMENT</b>	<b>2007/08</b>	<b>2012/13</b>	<b>% Change</b>
Total Staffing Level (in Full Time Employees)	80.63	69.75	(13.5%)
Grant Funded Positions	1.00	5.00	400%
Total Employees	81.63	74.75	(8.4%)
<hr/>			
Total Patrol Staffing Level	42.00	41.00	(2.4%)
Officers/Corporals	33.00	33.00	--
Sergeants/Lieutenants	9.00	8.00	(11.1%)
<hr/>			
Total Investigations/Traffic Staffing Levels	14.00	13.00	(7.1%)
<hr/>			
Total Civilian Staffing Levels	22.63	15.75	(30.4%)
Dispatch/Records	17.00	14.00	(17.6%)
Admin. Asst./M. Analyst	2.63	1.75	(33.5%)
Community Service Officers/Interns	3.00	2.00	(33.3%)





**CURRENT FUNDING – FY 13/14 PROPOSED BUDGET**

Below is a summary of the expenditures, revenues and remaining General Fund subsidy provided to the Police Department.

<b>Division</b>	<b>Expenditures / Transfers Out</b>	<b>Revenues / Transfers In</b>	<b>Total General Fund Subsidy (\$)</b>	<b>Total General Fund Subsidy (%)</b>
Administration	\$1,154,407	\$38,130	\$1,116,277	4.64%
Technical Services	\$1,732,095	\$43,975	\$1,688,120	7.01%
Professional Standards	\$373,281	\$30,000	\$343,281	1.43%
Investigations	\$854,552	\$13,500	\$841,052	3.49%
Patrol	\$7,465,266	\$781,386	\$6,683,880	27.75%
Traffic	\$679,741	\$107,000	\$572,741	2.38%
Special Police Services	\$755,739	\$464,923	\$290,816	1.21%
<b>TOTAL</b>	<b>\$13,015,081</b>	<b>\$1,478,914</b>	<b>\$11,536,167</b>	<b>47.90%</b>

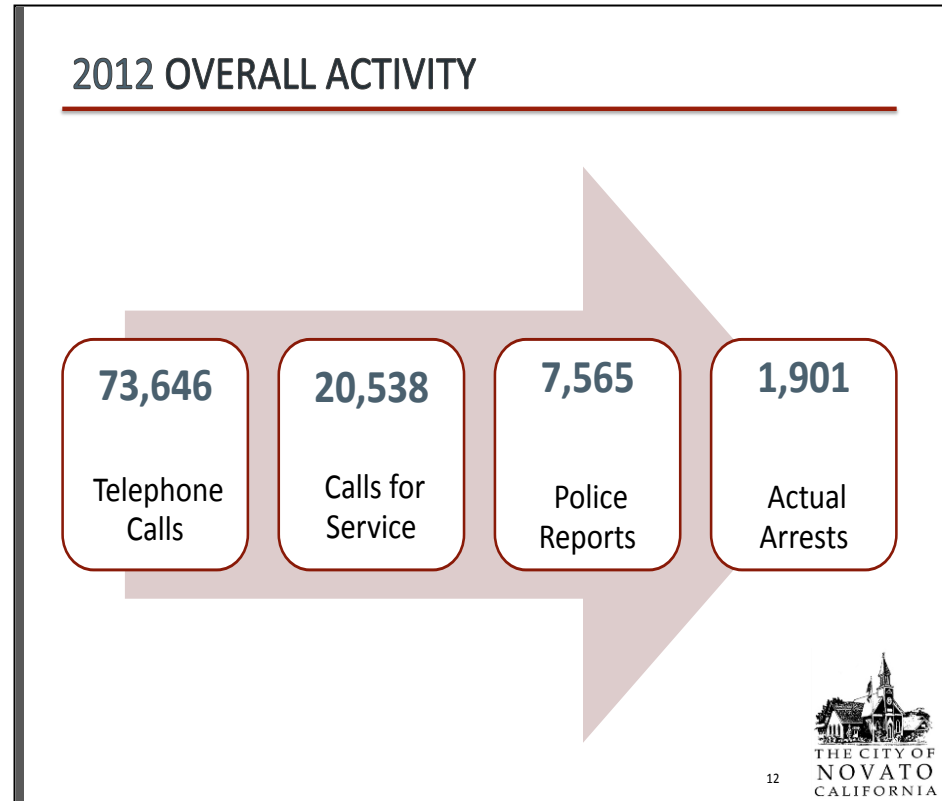
**DESCRIPTION OF CURRENT SERVICE LEVELS**

Overall, the Police Department sees the following service levels and issues:

- Patrol - Current patrol staffing levels are able to adequately respond to the current level of calls for service. Budget reductions have not resulted in a reduction in patrol staffing, with exception of one management level position (Lieutenant).
  - Patrols city streets 7 days a week, 24 hours per day
  - Minimum staffing levels of uniformed officers ranges from 5 to 9 officers/sergeant depending on day and time of the week
  - Department has maintained officer/sergeant staffing levels in the Patrol Bureau



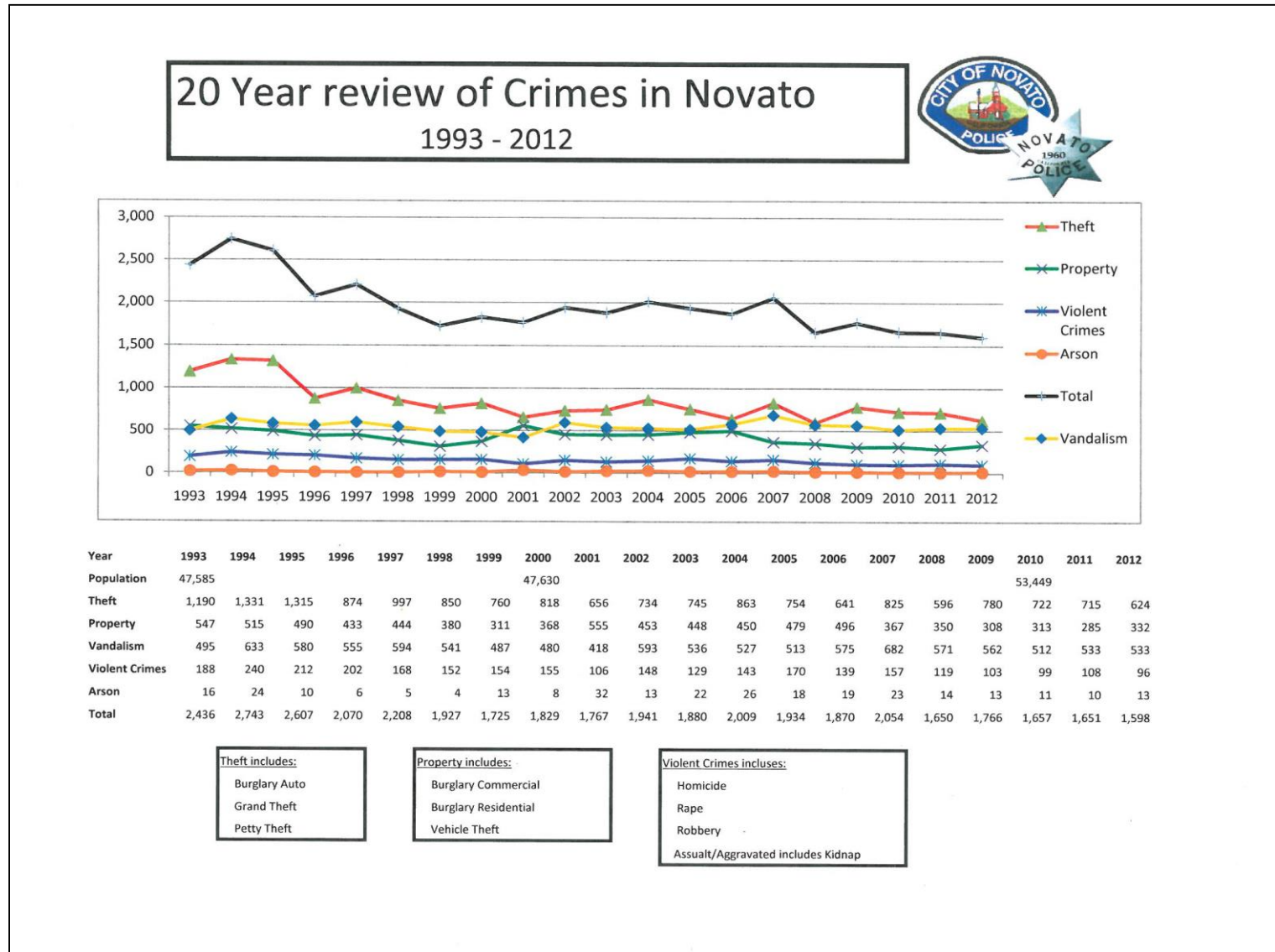
- **Investigations** - The Investigation Section is responsible for the investigation of violent crimes and felony property crimes
  - The Investigations Section served +/- 50 search and arrest warrants in 2011
  - Coordinates County wide gang and probation enforcement operations
  - Coordination and supervision of newly created Novato Response Team
- **Crime Trends** - In 2012, the City experienced its lowest incidences of violent crime in 20 years.
- **Grants** - The Police Department has taken extensive advantage of grants to fund technology projects which increase officer efficiencies as well as grants to increase traffic safety and prevent youth access to alcohol. The Department also received a three year grant for three officers which are staffing the Novato Response Team (NRT). NRT is increasing service delivery and augmenting patrol and investigations while initiating proactive projects for intervention, prevention and enforcement. This team has demonstrated its effectiveness such that 3 out of 4 positions on the Team are part of the City Manager’s baseline core staffing recommendations.





## Crime Data:

The overall crime level in Novato is very low. As stated above, Novato is experiencing its lowest incidences of violent crime in 20 years. Despite these statistics, there are mixed perceptions in the community regarding crime and safety. Some of the perceptions came out of the affordable housing discussions in the last few years; while others may come from media's focus on individual crime incidents. Overall, staff believes that the level of patrol staffing is adequate to meet the community's needs when it is linked with the additional resources provided by the specialized Novato Response Team.





One of the ways in which the Police Department measures success in meeting the Department mission is the collection and reporting of crime statistics. Crime statistics are submitted to both the federal and state government and they are one tool in measuring the safety of a community. These *Crime Data Comparison* slides compare Novato’s property and violent crimes with Petaluma, San Rafael and Beverly Hills as a comparison. The statistics reflect that Novato, much like any other City, is not crime free. However they do reflect that Novato is a very safe community in comparison to similar size communities and that crime is significantly down in most areas over a twenty year period.

## CRIME DATA COMPARISON– PROPERTY CRIMES

### Police-FBI Annual Report

YEAR	Petaluma	San Rafael	Novato	Beverly Hills
Population	55,178	55,901	<b>53,449</b>	34,318
2008	902	1,573	<b>946</b>	1,070
2009	852	1,705	<b>1,088</b>	1,230
2010	782	1,675	<b>1,035</b>	985
2011	887	1478	<b>1000</b>	974
2012	816	1785	<b>956</b>	1080

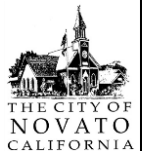


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## CRIME DATA COMPARISON– VIOLENT CRIMES

### Police-FBI Annual Report

YEAR	Petaluma	San Rafael	Novato	Beverly Hills
Population	55,178	55,901	<b>53,449</b>	34,318
2008	217	202	<b>119</b>	126
2009	169	175	<b>103</b>	82
2010	206	259	<b>99</b>	75
2011	143	207	<b>107</b>	172
2012	153	194	<b>93</b>	98



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## **CURRENT ISSUES / TRENDS**

There are a variety of issues and trends impacting the Police Department.

1. Integrating New Technologies into the Department – The number of technologies used by Police has grown significantly. These technologies have increased the effectiveness and efficiency of Officers and our ability to increase safety in the community. The challenge moving forward is our ability to support, upgrade, provide training, and integrate these technologies with existing sworn staff. Many technology initiatives are moving forward with the most significant being the County-wide Emergency Radio replacement. Others include: installation of emergency and communication equipment in the Mobile Command Vehicle, electronic ticket writers to expand into the whole fleet to increase officer efficiency, and Wi-Fi networks to enhance transmission speeds for complex and critical information to and from patrol units traveling within the City.
2. State Prisoner Realignment (AB109) – Although at this point in time, there does not seem to be a significant impact to Marin County, realignment is impacting other counties across the State. Staff will continue to monitor this issue to determine impacts and any actions needed.
3. Changing Demographics/Community Outreach – With the increase in the Hispanic population in the community and the aging of Novato, the Department will need to continue to increase outreach and partnerships to improve safety and the perception of safety.
4. Staffing – See Service Level Holes below.



**MEASURE F – DIRECT FUNDING**

The table below shows where the City Council has specifically approved Measure F funding for positions/programs.

Measure F Funded Positions/Programs	FY 13/14 Funding
Novato Response Team funding:	
Overtime	\$12,000
Training	\$12,500
Equipment	\$13,500
Management Analyst	\$85,000
<i>*Measure F Funding for NRT already approved by City Council for FY15/16</i>	
Emergency Services contract	\$40,000
<b>TOTAL</b>	<b>\$163,000</b>

**SERVICE LEVEL HOLES**

Below is a summary of key areas where services could be added or augmented.

- Staffing Depth in Patrol and Investigations – While generally staffed appropriately to respond to calls for service and the majority of investigations, there is very little depth in staffing which creates challenges when employees are injured, ill, retire, involved with lengthy investigations, or leave for other agencies. It becomes difficult during these times to be proactive with regard to graffiti research and documentation, response to homeless encampments, making crime prevention presentations, and other activities. The Novato Response Team has definitely assisted, however, when significant safety issues surface.
- Emergency Preparedness Program - Currently, Emergency Services tasks are being handled by a Police Captain. Staff believes that emergency coordination is critically important. This function would best be handled by a dedicated staff member that can coordinate preparedness and mitigation programs including public education, staff training and disaster exercises, manage the Emergency Operations Plan and implement the Hazard Mitigation Plan. The City and Novato Fire Prevention District will share the costs for a half time Emergency Services Coordinator starting in FY 13/14 to be paid by Measure F funding.
- Comprehensive Community Education / Neighborhood Watch / Crime-free Multi Family Housing Program – With the elimination of the Department’s Community Services Officers, many of these functions either fall to existing patrol staff, NRT, or are not pursued.





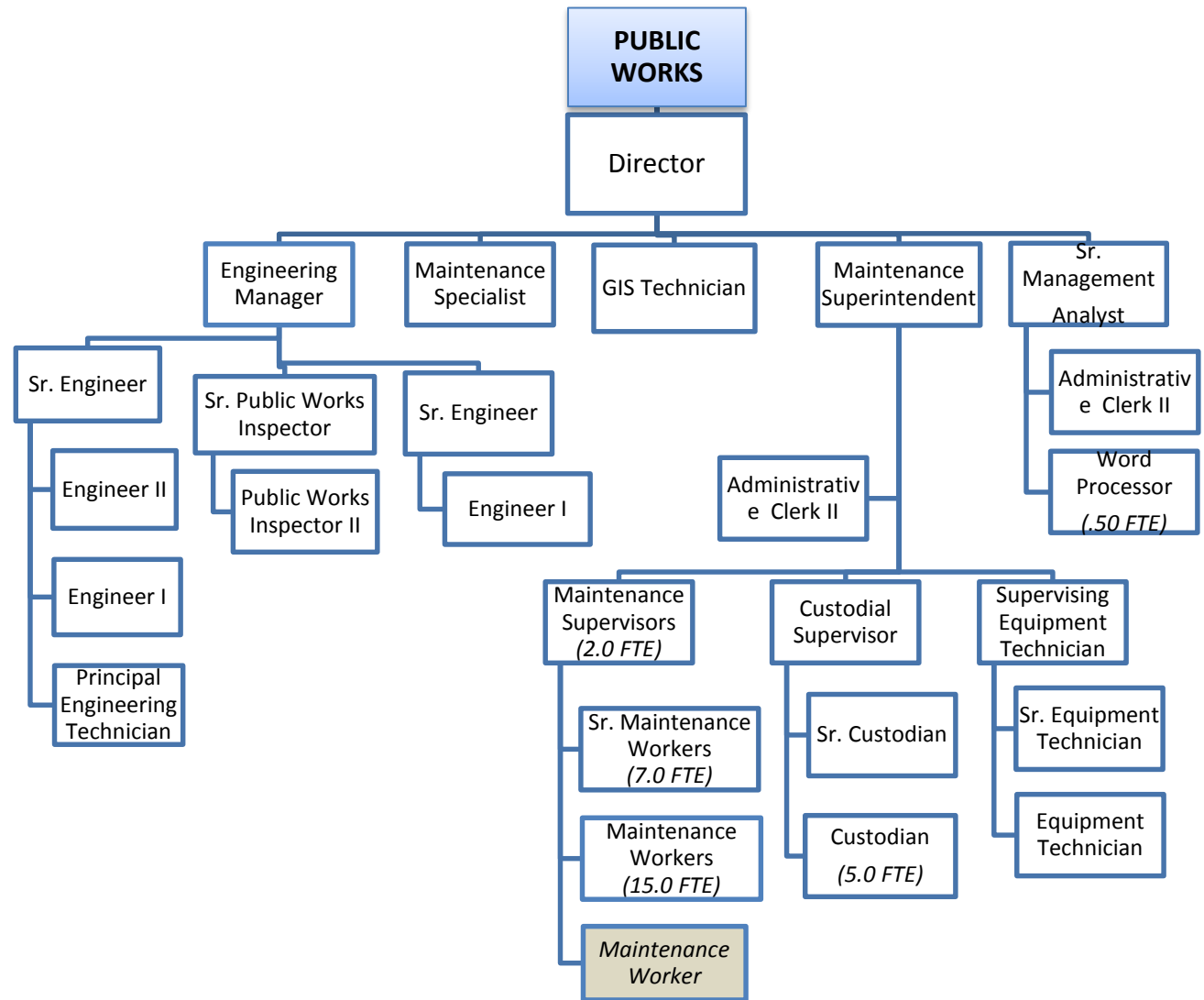
**PUBLIC WORKS DEPARTMENT**

The Public Works Department is committed to providing top quality programs, projects and services through the design, construction, maintenance, and operation of public use facilities. The Department is comprised of the Engineering and Maintenance Divisions. These two operating divisions are complementary in achieving the successful design, construction, and operation of the city’s public infrastructure.

Current Organization Chart

The Organization Chart for Public Works is shown to the right. Any Measure F or Grant Funded positions are highlighted in grey and are not included within the historical comparison of staffing below.

The Engineering Division is responsible for all technical issues related to traffic movement, the design of public facilities (public street, park, building and drainage improvements) and project construction management within the public right-of-way. The division also administers the streetlight maintenance contract, several landscaping assessment districts, the pavement management program (PMP), drainage master plan, Geographic Information System (GIS) and applications, bus shelter advertising program and special programs such as the National Flood Insurance Program (NFIP) including the community rating system.





The Maintenance Division is responsible for the long-term care of all city-owned land and public buildings, as well as regular maintenance and repair of streets, storm drains, pumping facilities and levees, parks, median islands, roadside landscaping, street trees, vehicles, and equipment. The division also provides many additional behind the scenes services to the community such as winter storm preparedness, emergency/disaster response, hazardous materials cleanup and disposal, and traffic management services. The division provides regular community services such as street sweeping, debris and leaf removal, graffiti removal, banner installation and removal, compost and wood chip provision, holiday tree light placements in the downtown area, and facilities set-up for public and private events.

In general, the Department has responded well to the new economic reality; however there have been impacts. Staff has been reduced by 29%.

### STAFFING REDUCTIONS DUE TO 5 YEARS OF BUDGET REDUCTIONS

PUBLIC WORKS DEPARTMENT	2007/08	2012/13	% Change
Staffing Level (in Full Time Employees)	71.5	50.5	(29%)




Due to reductions in staff, management has analyzed internally or with consultants existing operations to explore the potential for increased efficiencies and cost savings. Some of these efforts include:

- Equipment Maintenance (complete; implementation in process)
- Vehicle and Equipment Utilization Study (completed; implementation pending)
- Custodial and Building Maintenance Study (completed; implemented as recommended; transition through attrition)
- Landscape and Streets Maintenance Service Level Evaluation (complete)
- Building Condition Assessment & Maintenance Analysis (complete)
- Park Facilities Condition Assessment (in process)

The Maintenance Division management staff has been forced to modify how work tasks are delegated and performed due to the low staffing levels, resulting in more combined division operations. The current staff resource levels are below national service level standards, which is becoming visible in the community due to reductions in the frequency of services provided and increased deferred maintenance.

### DESCRIPTION OF CURRENT SERVICE LEVELS

Public Works – Parks & Islands Maintenance (cont.)

ISLANDS				ISLANDS
	Grade: <b>Good</b>	<b>Poor/Fair</b>	<b>Poor/Fair</b>	
PARKS				PARKS

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THE CITY OF NOVATO CALIFORNIA



**CURRENT FUNDING – FY 13/14 PROPOSED BUDGET**

Below is a summary of the expenditures, revenues and remaining General Fund subsidy provided to the Public Works Department.

**PUBLIC WORKS DEPARTMENT  
2013/14 Budget and General Fund Subsidy**

<b>Division</b>	<b>Expenditures/ Transfers Out</b>	<b>Revenues/ Transfers In</b>	<b>Total General Fund Subsidy (\$)</b>	<b>Total General Fund Subsidy (%)</b>
Engineering Administration	\$813,579	\$10,000	\$803,579	3.34%
Engineering Development/Const. Mgmt/GIS	\$477,942	\$330,770	\$147,172	0.61%
Maintenance Admin	\$318,141	\$3,300	\$314,841	1.31%
Street Maintenance	\$1,297,339	\$967,000	\$330,339	1.37%
Traffic Operations	\$437,881	\$2,700	\$435,181	1.81%
Tree & Island Maintenance	\$349,521		\$349,521	1.45%
Parks Maintenance	\$1,340,252	\$4,545	\$1,335,707	5.55%
Building Maintenance	\$1,131,393	\$17,170	\$1,114,223	4.63%
<b>TOTAL</b>	<b>\$6,166,048</b>	<b>\$1,335,485</b>	<b>\$4,830,563</b>	<b>20.06%</b>



**DESCRIPTION OF CURRENT SERVICE LEVELS**

The *Description of Current Service Levels* slides summarize the staffing changes and impacts of the budget cuts to date and staff’s assessment of where the operations currently stand.

**DESCRIPTION OF CURRENT SERVICE LEVELS (CONT.)**

**Public Works – Parks & Islands Maintenance**

	2007/08	2012/13	% Change
Maintenance Workers	16 FTE	11 FTE	-31%

- **The resource / service level relationship is unbalanced in Park & Island Maintenance, as we do not believe we are providing the expected service level to the community.**
- Island maintenance has been concentrated on main thoroughfares, while secondary islands and landscapes get less frequent attention.
- No active maintenance of Open Space
- Parks maintenance has been concentrated on high-use regional parks, while community parks get less frequent attention.
- Increased focus on volunteerism through close collaboration with the Streetscape Maintenance Coalition Advisory Committee

**Landscape Areas: 450**  
**Island & Medians: 85 acres**  
**Parks: 230 acres**



**DESCRIPTION OF CURRENT SERVICE LEVELS (CONT.)**

**Public Works – Streets Maintenance**

	2007/08	2012/13	% Change
Maintenance Workers	8 FTE	5 FTE	-37%

**Roadways: 151 miles**  
**Storm Drain Inlets: 3,110**

**New ways to fix old roads**

As much as possible, the city is trying to fix old roads. The Public Works Department has begun to adopt alternative strategies for handling the city's extensive road maintenance portfolio.

Starting this week, Public Works employees began a "road-walking" program. They will be inspecting roads for potholes and other damage. The program is a first step in preventing pavement damage and reducing costs, says Public Works Director Dan McCall. "Our goal is to fix potholes as soon as they are found. It's a new strategy for us. We hope that the city can save money by fixing potholes in the public works industry. It's known as the first step of a program to reduce the city's pothole backlog working for the city on Jan. 30."



- **Operational changes away from paving to potholing & preventative maintenance.**
- Effective management of current storm water quality requirements; however, NPDES Phase II increases mandates.
- Street sweeping has been reorganized and made more efficient, resulting in a significant reduction in complaints due to standardized program (~\$50,000 per year in efficiency & maintenance).
- To date, staff has had healthy roadway maintenance funds through community approved infrastructure bonds, such as Measure B (\$1.0 - \$1.5 million per year).
- Staffing is adequate for the current service level.
- Increasing focus on removal of homeless camps. (8/26–9/21: 307 man-hours; \$25,000 total cost)





DESCRIPTION OF CURRENT SERVICE LEVELS (CONT.)

Public Works – Engineering – CIP and Private Projects

	2007/08	2012/13	% Change
Staffing Level	18 FTE	9.5 FTE	-47%

- Staffing in the three engineering sections (Capital Projects, Private Projects and GIS) appears to be adequate due to less available funds and smaller, more traditional projects.
- **Measure B expired in March 2012 (\$1.0 - \$1.5 million per year).**
- Intelligent and strategic use of CIP funds to keep good/fair streets good.
- Engineers are now responsible for taking projects from cradle to grave.
- Consultants are used to provide a higher level of technical experience.
- The volume of private projects requiring Engineering has significantly declined over the past 5 years, although the volume of encroachment permits (for work in the public right-of-way) continues to be strong.



1

DESCRIPTION OF CURRENT SERVICE LEVELS (CONT.)

Public Works – Engineering – CIP and Private Projects

Before



After



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CURRENT ISSUES / TRENDS

There are a few primary issues and trends impacting the Public Works Department.

1. National Pollutant Discharge Elimination System (NPDES) Phase II Permit Mandates - Regulatory changes by the State and Federal government impact our local operations and practices. Generally, these increased requirements require additional costs without any additional funding. The Federal Clean Water Act (CWA) was amended in 1987 to address urban stormwater runoff pollution of the nation’s waters. The National Pollutant Discharge Elimination System (NPDES) program includes regulations that apply to storm drain systems owned and operated by cities. This permitting program requires storm drain system operators like a city to implement a stormwater management program as a means to control polluted discharges from the storm drain system.

In California, it wasn’t until 2003 that small (less than 100,000 population) municipalities were required to obtain coverage under a statewide NPDES municipal general storm water permit (Phase II Permit) issued by the State Water Resources Control Board. In Marin, the County and all Marin’s municipalities are subject to the conditions of the regulations described in the current Phase II Permit, however, all



of Marin’s local governments have been implementing a baseline stormwater pollution prevention through the Marin County Stormwater Pollution Prevention Program (MCSTOPPP).

The Phase II Permit currently requires Marin’s municipalities and the county to implement their Stormwater Management Plan with the goal of reducing the discharge of pollutants to the maximum extent practicable (MEP). The Stormwater Management Plan program areas include public education and outreach; public information and participation; illicit discharge detection and elimination; construction and post-construction stormwater controls for development projects; and good housekeeping for municipal operations. The new NPDES permit dramatically increases permit requirements for cities. The Public Works Department is working with MCSTOPPP to meet the requirements. The exact impacts and costs are not known; however staff anticipates that these new federal requirements may mean additional staffing and/or costs.

2. Street Maintenance, Transportation, and Infrastructure Funding -- Novato faces less available funding for street maintenance, street improvements, and other infrastructure funding in the next few years. Measure B, the City’s local street infrastructure bond, expired in March 2012 and with it the \$1.0 - \$1.5 million per year available for these purposes. Gas Tax is another source of funding; however, with the move to electric vehicles, it is likely that there will be less Gas Tax available in the future. Gas tax funding is also not indexed for inflation therefore it loses value over time. In addition, there are policy changes underway to link regional transportation funding to land use planning. Many of these changes are through the Association of Bay Area Governments “One Bay Area” effort. This could significantly decrease the transportation funding that is available to Novato.

**MEASURE F – DIRECT FUNDING**

The table below shows where the City Council has specifically approved Measure F funding for positions/programs.

Measure F Funded Positions/Programs	Measure F Funding
<b>1.0 FTE Maintenance Worker (retain for 1 year)</b> <i>Rationale – position needed for one year for graffiti abatement/general maintenance; analysis of staffing levels to be completed this fiscal year</i>	<b>\$82,000</b>

**SERVICE LEVEL HOLES**

Below are some key areas where the Public Works Department feels services could be improved:

- Park and Island Maintenance – Even with Measure F funding the restoration of one Maintenance position, it has been very difficult to keep up with island and park maintenance responsibilities at a level that staff believes the community expects.





**OPTIONS TOOL – CITY DEPARTMENTS**

The following options related to City departments are outlined below with additional background explanations. These options are included in the Fiscal Sustainability Options Tool at the end of this Plan.

Install Synthetic Turf Sports Fields / Park Improvements					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
\$1,300,000		\$130,000	\$130,000	\$130,000	\$130,000

This option in the Options Tool proposes to install two sets of improvements, both of which have the goal of improving recreation facilities and access in Novato, as well as generating additional revenue and/or reducing maintenance expenses.

*Synthetic Turf Sports Fields* – This project would replace one or more existing natural grass sports fields in the City with a comparable artificial turf field. The benefits of this are multiple. The fields can be used more often, including the winter months and evenings, when sports teams and leagues could not normally use natural grass fields due to weather conditions. This generates additional revenue through team/league registrations and lease revenue. Additionally, maintenance costs can be drastically reduced since synthetic turf does not need to be mowed or edged, and overall maintenance is significantly less than grass. Finally, watering costs are negligible – approximately one million gallons of water can be saved each year with one synthetic turf field. The downsides in terms of financial costs to the City are both the initial upfront construction cost of an estimated \$800,000 and the need to budget for the eventual replacement of the fields, which tend to have a 10-12 year useful life. The *Fiscal & Organizational Sustainability Ideas – Synthetic Turf Fields* slide summarizes some of the additional considerations for the fields, including potential revenue generation and cost savings. In total, the upfront investment of \$800,000 yields an ongoing financial benefit to the City of about \$80,000 annually.

**FISCAL & ORGANIZATIONAL SUSTAINABILITY IDEAS**

**Synthetic Turf Fields**

Information	\$
Construction – Up front investment of field + amenities; creates year round use	\$800,000/field
Revenue Generation	\$40,000 new revenue for 1 field
Annual Savings TBD -- Save 1 Million gallons of H2O; no mowing, fertilizing; less staff time	TBD; estimate of \$50 – 75,000 savings annually
Replacement Costs; 10-12 year life	\$350,000

**Location Options:**

Hill Recreation Area -- Central location, lots of field use currently that makes lawn maintenance challenging, no lights

Indian Valley Campus of College of Marin -- College District owned lighted ballfields; City manages City and Community Use via agreement – agreement ends in 20 years

Hamilton – TBD





*Bocce Tournament Facility at Margaret Todd Senior Center* – This project would install a bocce ball tournament facility and associated improvements at the Margaret Todd Senior Center. Similar to the synthetic field above, this would add a new community asset while, at the same time, generating additional revenue for the City. In general terms, the facility would cost about \$500,000 to construct, including some money for parking improvements at the senior center to accommodate the additional usage. Revenue generated by the facility is estimated to be about \$82,000 annually, and it would require annual upkeep and maintenance of about \$35,000. Thus, the net additional financial benefit to the City would be about \$47,000. The *Fiscal & Organizational Sustainability Ideas – Bocce Ball Tournament Facility at MTSC* slide gives some additional information about the facility.

## FISCAL & ORGANIZATIONAL SUSTAINABILITY IDEAS

### Parks, Recreation and Community Services

Bocce Ball Tournament Facility at MTSC	\$
One Time Cost 4 Tournament size Courts	\$400,000 (Plus \$75K-\$100K for Parking Improvements @ MTSC)
Operating Costs Annually PRCS staff: \$20,000/yr Maintenance: \$15,000/yr	\$35,000/yr
New Revenue	\$ 82,000/yr

- Recommended Location at Senior Center – Would require increased parking at site; \$75K-\$100K one-time investment
- Play would be March through early December
- League play, drop-in, weekend tournaments, and group rentals
- Bocce is a great activity for seniors and individuals with disabilities



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Replace All Remaining Streetlights with LED Bulbs					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
\$1,200,000		\$132,000	\$136,000	\$140,000	\$144,000

Novato has already begun a program of replacing its high pressure sodium streetlight bulbs with more energy-efficient LED bulbs. In 2011 and 2012, the City replaced about 1,400 of its 3,900 streetlights with LED bulbs, saving about \$60,000 in energy costs annually, but leaving around 2,500 bulbs still to be replaced. This option would use one-time funds of about \$1,200,000 (less any available PG&E rebates) to replace the remaining bulbs. This effort would save the General Fund about \$140,000 annually, increasing over time as energy costs increase. The chart below shows some additional information about this effort.



Use one-time funds to pay off corporation yard lease					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
\$1,200,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000

The City took out a loan from its own Hamilton Trust Fund in 2004 to help finance a variety of improvements that were to be made at the City’s Corporation Yard. The loan was \$1.7 million at a 6.5% interest rate. This loan made sense for the City, as a relatively low cost and simple way to borrow money for needed capital improvements, and it also made sense for the Hamilton Trust, which could earn 6.5% on its money. As an aside, the City’s General Fund actually is the beneficiary of 80% of the interest earned by the Hamilton Trust, so the effective interest rate paid by the City is really only 1.30%. Fast forward to today, and the City still owes about \$1.2 million on the loan and is making annual payments of about \$155,000 per year. If the City were to pay off the loan with some one-time funds, it would save the amount of principal paid each year, as well as the 20% component of the interest that it doesn’t receive back from the Hamilton Trust. In summary, paying off the remaining \$1.2 million of the loan would save the City about \$100,000 annually in debt service payments.

**KEY FINDINGS AND STAFF CONCLUSIONS – CITY DEPARTMENTS**

As detailed throughout this report, City departments have endured significant reductions in personnel over the past 5 years which have directly impacted service. Still other reductions have been absorbed by re-alignments, implementation of technology, and other means. Overall, the workforce is 24% smaller than it was 5 years ago. Therefore, staff does not believe that additional reductions in employees, other than those few recommendations contained within the Core Staffing discussion, are feasible at this time. Additionally, one of the key priorities of the Measure F sales tax was to “offset / prevent additional budget reductions,” so it is staff’s view that additional reductions at this time do not support the goal presented to the public. Departments did, however, propose several creative solutions that would expend one-time resources to save ongoing dollars and provide additional community benefit. While additional research and planning is needed to properly implement them, staff feels that these strategies have merit and should continue to be explored.



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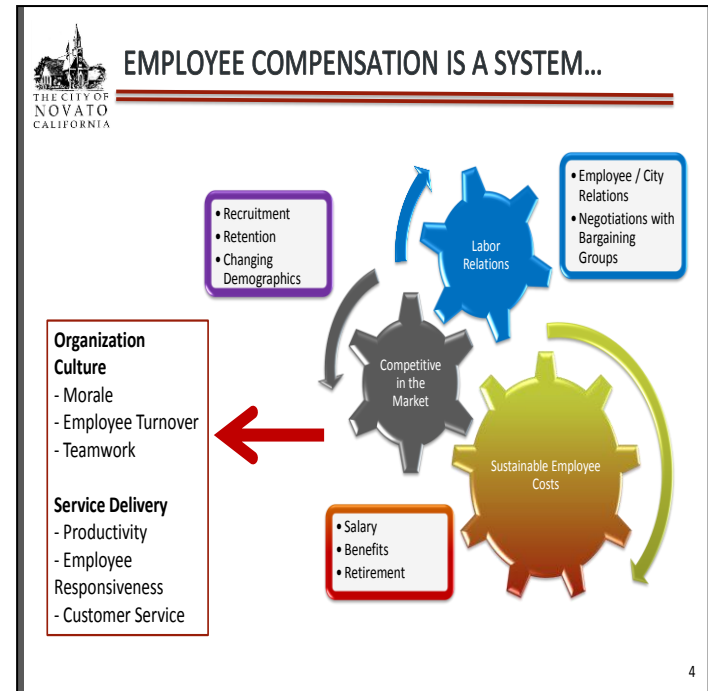


## EMPLOYEE COMPENSATION BACKGROUND

This section provides background and history about Novato’s workforce, a discussion about the key components of employee compensation including pensions, and discussion about Novato’s compensation in relation to other public agencies in our local and regional labor markets. The expenditure data included in this section is based on the FY 12/13 budget, which was in effect when the employee compensation presentation was prepared in March 2013 for the City Council. The purpose of this section of the Plan is to provide a broad overview of employee compensation, explore the relationship between the City’s finances and employee compensation, discuss the impact of employee compensation on recruitment and retention, and to present a macro level view employee compensation options for Council consideration. This overview and Council’s deliberation sessions to come are not intended as a discussion about labor relations or negotiations or a detailed review of all employee benefit components. Its purpose is to wrestle with compensation policy issues for the long term, not what might be appropriate to negotiate in any particular labor contract in the short term.

Employee compensation is part of an integrated system and affects our service delivery options, culture, and productivity. As a local government, Novato is in the service industry with our main costs being employee compensation. While there are the hard costs of employee compensation in the budget, there are also important employee “soft costs” that are not measured on a city’s accounting books. These soft costs affect operations and customer service and include competency and knowledge, an ability to manage risks and liability, creativity, and experience and expertise. Just like any organization, a city is only as good as the employees who are working for it.

Employee compensation includes salaries, benefits such as retirement and health, and various leaves. Controlling and understanding employee compensation costs must be balanced with the ability to attract and retain the most qualified employees. This is particularly true in a small, lean organization that has cut 25% of its staff and has limited redundancy in many positions. The City competes regularly with other public agencies when we are trying to attract or retain employees. At times, we also compete with the private sector for employees also – this is especially true for information technology and engineering positions.





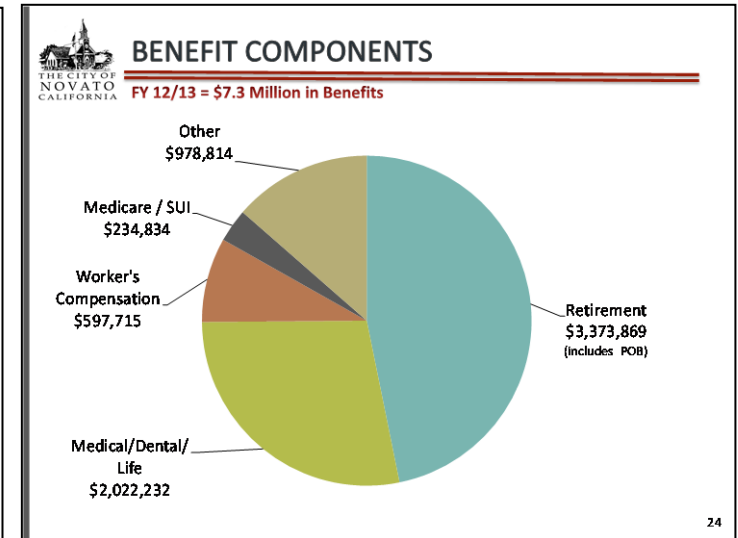
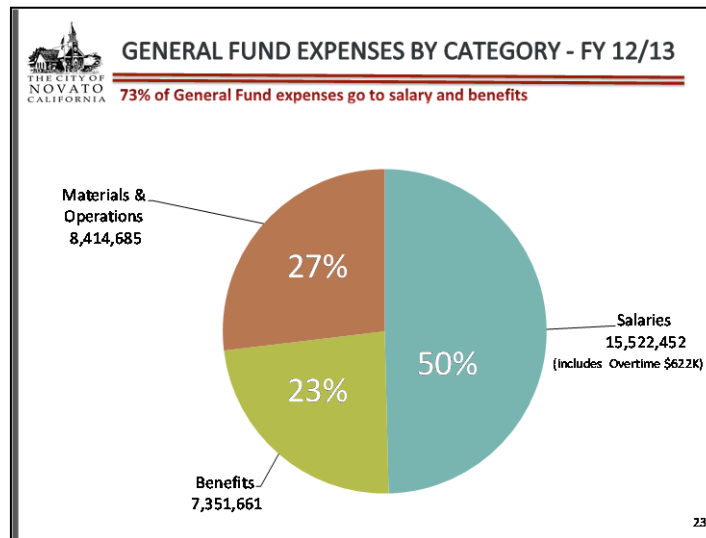
The ability to hire and retain talented employees is based primarily on what the City’s compensation package is and how it compares to alternative places of work – the “labor market”. However, studies are clear that employees of all sectors do not come to work or stay with an employer for compensation only. Employees want to feel valued, provide service, develop their skills and feel as if their contributions matter. Compensation, however, is a key factor in retention and recruitment and there is a point at which even long-tenured employees stop feeling valued financially for their work and may leave.

The overall key messages regarding employee compensation are:

- Compensation costs must be sustainable for the organization;
- Historically, Novato City Councils have been fiscally conservative with all elements of employee compensation;
- All legally permissible pension reform has been accomplished; local efforts are now supplemented by statewide reform;
- A new normal exists for the organization; there is a leaner base staffing level going forward;
- Pension costs are likely to increase as CalPERS modifies its base actuarial assumptions and risk allocation parameters;
- Novato’s compensation structure is lower than surrounding cities and its labor market;
- Novato’s health care contribution is extremely low; and,
- Fiscal sustainability discussions need to consider Novato’s competitive position in the market as well as the need to retain and attract talented and qualified employees.

## Financial Overview of Employee Compensation

The *General Fund Expenses by Category – FY 12/13* slide and the *Benefit Components* slide provide a summary of employee compensation. As a customer service business, 73% of the City’s General Fund is expended on employee salary and benefits. While this figure may sound high, it is far less many local governments.





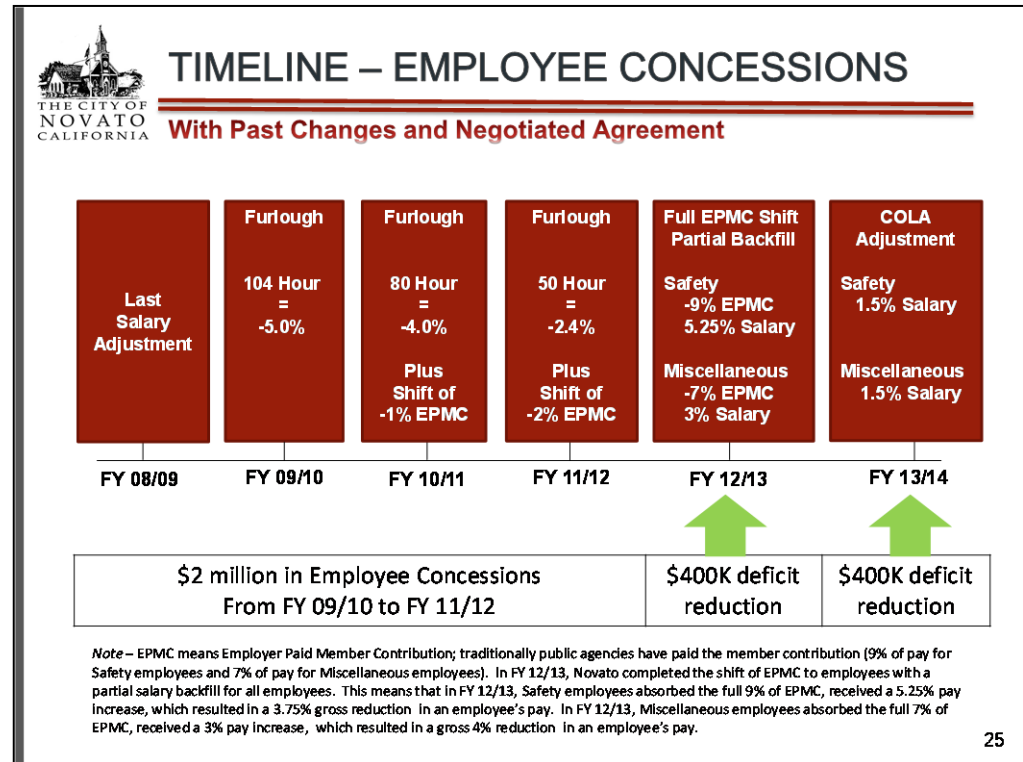


The *Timeline – Employee Concessions* slide shows the employee compensation changes that have occurred from FY 08/09 through FY 13/14. For these six years, there were concessions provided by employees that totaled \$2.8 million. These concessions were part of the deficit reductions that took place and have been important in helping the City address its structural deficit. The employee concessions were a blend of furloughs, a partial shifting of pension costs to employees, and no salary increases from FY 08/09 to FY 12/13. During this same time period, health care costs increased by 42% and the City’s contribution to employee health care increased by 9%.

### Who are Novato employees?

In order to understand Novato’s workforce, one must understand the jobs that are performed and the education, skills, and experience needed for those positions; where employees live or their residency; age of the work force; and staff turnover or the percentage of your employees that changes each year.

The services of cities as municipal corporations are as broad and diverse as their employees – from a Police Officer carrying a gun, a Maintenance Worker fixing streets or landscaping parks, to a Planner and Building Inspector reviewing projects based on State and federal standards, or to a Recreation Coordinator working with senior citizens, teens or youth. Each of the employees in these “service businesses” requires different training (often very specialized). Many require Bachelors or Masters Degrees, and all require ongoing training and professional development.





**Residency** -- The majority of city employees used to live within Novato; that is no longer true. 24% of all employees live in Novato and only 8% of sworn employees live in Novato. The great majority of city employees live in Sonoma County (73% of sworn employees and 50% of miscellaneous employees). Still other employees drive from Contra Costa County or the East Bay.

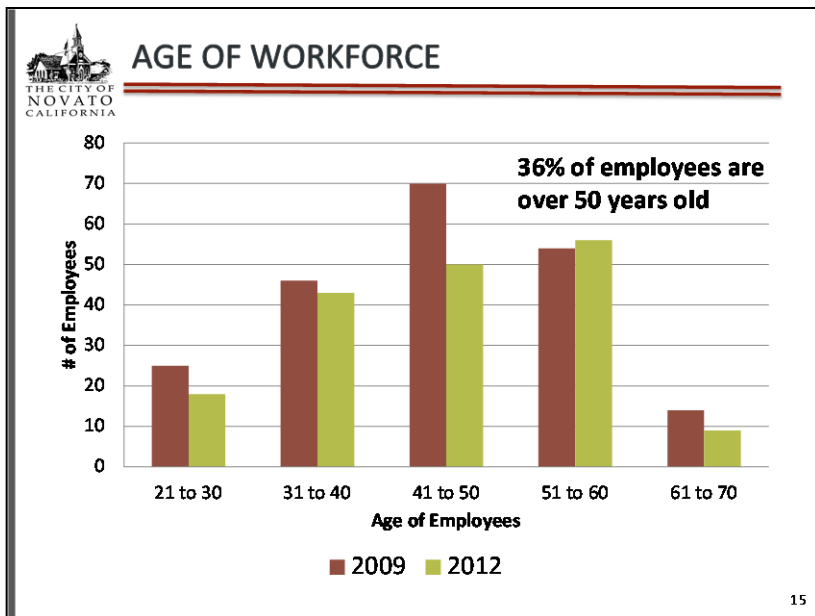
Residency	Miscellaneous. Employees	Sworn Employees
Live in Marin County	40%	11%
Live in Sonoma County	50%	73%
Another County (Primarily Contra Costa)	10%	16%

The residency of employees is important for two reasons. First, employees in general choose jobs and public agencies that are commuting distance from their residence. These commute patterns help define our labor market [Marin, Sonoma and Contra Costa counties], since employees can choose to work for any public agency in these counties. Second, City employees are expected to respond to emergencies – floods, earthquake, fire, etc. It is important for the City to have employees live close enough to respond during these critical times.

**Age** –Historically, Novato has been fortunate to have many employees work and build a career working for the City. There have been many employees with over 25 years of public service within this organization.

In the last four years, there have been a number of retirements in Novato – some through some deficit reduction incentives and others independently. Just like in the private sector, however, the economy, and in particular the cost of medical insurance, has made some employees revisit the timing of their retirement and decide to stay and continue working longer than they had originally expected.

In addition, there were 12 layoffs over a two year period. These were employees with the least amount of public service, which tended to be younger employees. These are some of the factors that have resulted in an increase in the average age of Novato’s work force.






**Employee Turnover** -- Employee turnover has been relatively low during this time of economic crisis and uncertainty. Management staff is concerned about an increase in turnover as the economy starts to improve and employees have options to go to other local governments with higher compensation, stronger benefit packages, and shorter commutes than Novato.

Specifically, the turnover rate for a Police Officer is higher at 11%. In the past 5 years, Novato hired 29 Police Officers and only three were Police Officers with experience from another public agency. Traditionally, Novato has not been able to attract or hire laterally (meaning Police Officers from another agency), but rather must hire new graduates of the Police Academy and then teach these new officers the business of law enforcement. While there are some benefits of being able to “grow our own” sworn personnel, this strategy can be costly in terms of time and money. Police staff is also seeing increased competition and recruiting for Academy graduate as departments across the Bay Area are beginning to increasing their hiring.

Below is some cost information regarding the hiring of new Police Officers coming from the Academy.

- **Hiring of a Police Officer** -- Approximately 13 hours and \$4,000 to recruit and hire a new Officer (includes testing, interviewing and background, medical and psychological screening)
- **Training of a Police Officer** -- Developing new Officers requires an extensive investment in on-the-job training. The new Officer is with a Field Training Officer and receives daily review, training and evaluation. The training, much of it mandated, requires 1,600 hours of staff and Trainee time over a 16 week period and costs approximately \$78,000. Even after or during the training, a probationary police officer can be released from service. It is not uncommon for Police Officers to be released from employment during their probationary period due to risks to their own safety, or their inability to perform to the standards of the organization.

As shown above, the hiring and training of a Police Officer is a time intensive and costly initiative because of the liability and safety issues the City places in each sworn officer it hires. While there is always turnover in police personnel, too much turnover is costly on a financial and operational basis. This is an area that we will continue to monitor and needs to be considered within our employment strategy.



## EMPLOYEE TURNOVER

**The importance of recruitment and retention ...**

- **Average Turnover Rate in the past 5 Years**
  - 5% -- All employee turnover rate
  - 11% -- Police Officer turnover rate
  - 29 Officers hired during this period
  - 3 were lateral Officers -- had prior police officer experience.
  - 24 were Academy graduates only (no sworn experience)
  - This trend will continue
- **As the recession ends and the economy improves, recruitments have become competitive**
  - Cities in the Bay Area are hiring back
  - Expect increased competition for all positions, especially Police Officers and other professional/highly technical positions
  - Also expect increased competition in the private sector for some classifications -- engineers, technology positions



**EMPLOYEE PENSIONS AND RETIREMENT**

After the federal government, the California Public Employees’ Retirement System (CalPERS) is the largest provider of employee retirement benefits in the country. Most local governments in California belong to CalPERS and provide their pensions through CalPERS. CalPERS offers what is known as a "defined benefit plan", which means an eligible member will receive a specific dollar amount in retirement based on three factors: how long the member worked in CalPERS agencies, the member’s salary at retirement and the benefit formula the employer provides. The other common type of retirement program is a "defined contribution plan" in which the employer contributes a fixed dollar amount or a percentage of salary to a traditional 401K or deferred compensation account on behalf of the employee. At one time, defined benefit-style plans were typical in both the public and private sectors. In the last several decades, there has been a shift from defined benefit plans to defined contribution plans in the private sector.



CalPERS divides membership between public safety employees, such as police officers and firefighters (“Safety Members”) and all other employees (“Miscellaneous Members”). Within each category of membership (Safety and Miscellaneous), there are different benefit formulas that an employer can provide. Until recently, employers usually provided one formula for each membership category (i.e., one for Safety members and one for Miscellaneous members). More recently, with the increase in pension costs, many employers started providing a second, lower benefit formula for new employees (commonly referred to as a “2nd Tier”). While these formulas continue to be available to employees who began working for a public agency before the end of 2012 (“Classic”), they are no longer available to new public employees. Recent statewide pension reform in California has resulted in three new Safety formula and one new Miscellaneous formula that are mandated for new public employees hired after December 31, 2012. These formulas provide a lower benefit and have a lower cost than the formulas that have traditionally been offered by public employers through CalPERS.

Novato provides the “2% at 55” formula for its “Classic” Miscellaneous employees and the “3% at 55” formula for its “Classic” Safety employees; new Miscellaneous and Safety employees, however, are provided the mandated “2% at 62” and “2.7% at 57” formulas, respectively. The formula references (e.g., “2% at 55” and “3% at 55”) are merely convenient ways of referring to and distinguishing the formulas. As an example, a “2 at 55”



“Classic” Miscellaneous employee would receive a 2% of his/her salary (the “benefit factor”) for each year of service if the employee retired at age 55. If an employee started working at age 25 and retired at age 55, the employee would have 30 years of service times 2%. As such, the employee would receive 60% of salary at retirement.

CalPERS uses the average of the highest consecutive 36 months of salary as the standard method for determining the retirement benefit; however historically public agencies could contract for a higher benefit at 12 months of salary, also referred to as “single highest year”. Many years ago, the City of Novato contracted for the “single highest year” method for determining the retirement benefit. In 2011, the City Council amended Novato’s contract so that the City now uses the average of the highest 36 consecutive months for new employees hired after the effective date of the amendment. The practical effect of the amendment was to lower the retirement benefit for future employees and reduce the City’s pension costs. Statewide pension reform that became effective on January 1, 2013, mandates the 36 month method all new employees.

Another important pension topic is the concept of employee and employer contributions. CalPERS receives money to pay for retirement benefits from three sources: employer contributions, and employee contributions, and investment earnings on the contributed funds. By far, most of the money CalPERS uses to pay benefits comes from investment earnings.

Employee Contributions – Historically, employee contributions are constant. They are 7% for standard Miscellaneous plans, 8% for enhanced Miscellaneous enhanced plans and 9% for Safety plans. Based on statewide pension reform that was enacted on January 1, 2013, rates for Miscellaneous employees can grow to 8% and Safety employees to 12%.

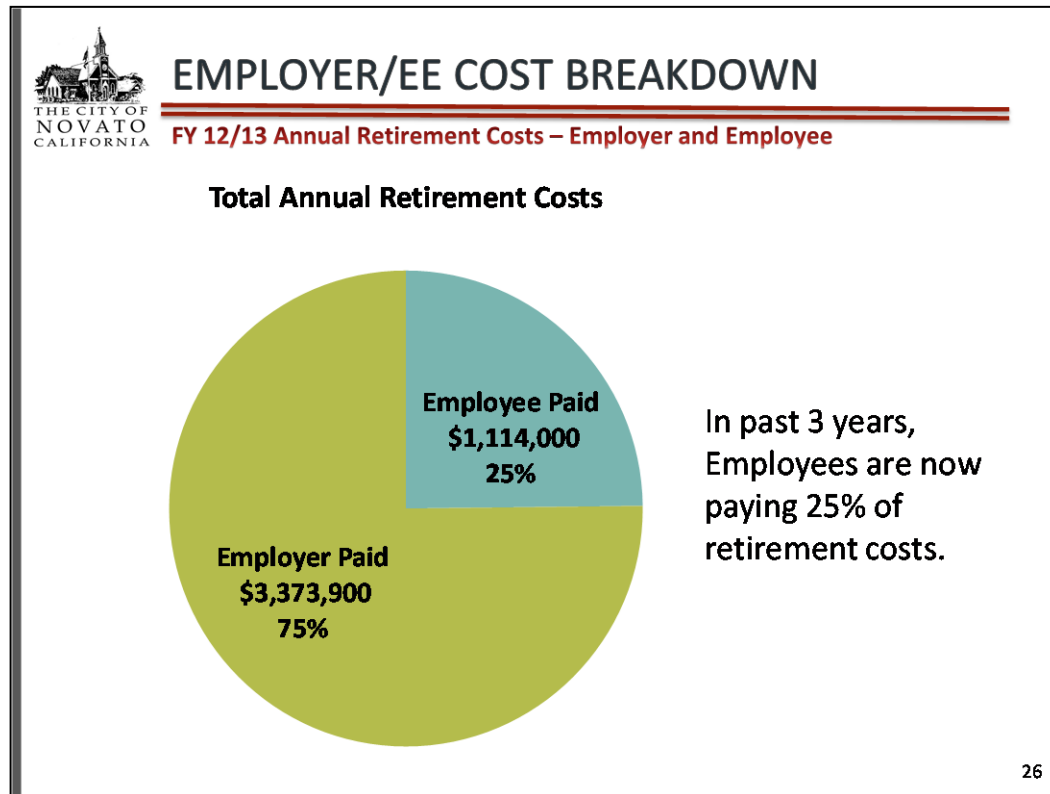
Employer Contributions – Employer rates can vary from year to year based on CalPERS investment earnings. When CalPERS’ investment earnings are good, employer rates can be relatively low; when investments earnings are poor, employer rates go up.

Investment Earnings – CalPERS assumes investment earnings at 7.5% over the long-term. When CalPERS reaches or exceeds these earnings, then the employer rates and required contributions go down. During the Tech Boom of the 1990’s, the required contribution for many agencies went down to zero. However, when CalPERS does not reach 7.5% earnings, employers’ rates and consequent contributions are increased to make up for this deficit. CalPERS does not pass on the investment gains and losses immediately because it could result in wild fluctuations in Employer contribution rates, which makes budgeting difficult at best. Instead, PERS has recently used a method that smoothes out the gains and losses over many years so that there is some degree of stability in rates. In 2013, the CalPERS Board of Administration eliminated the pension fund’s unfunded liability by changing the smoothing method which will cause employer contribution rates to increase substantially in FY 15/16 and remain high for many years thereafter.





Employer Paid Member Contributions (EPMC) -- Prior to statewide pension reform, employers could also agree through the collectively bargaining process to pay on behalf of employees the employees' contribution. This is known as Employer Paid Member Contribution (EPMC). It was commonly negotiated 10 to 15 years ago, typically in lieu of salary and other benefit increases. This meant that the employer paid both the Employer and Employee share. This was the practice in Novato until FY 10/11 when portions of the EPMC began to be shifted back to employees. A related aspect of this practice is that the employer could also elect to report the value of EPMC to CalPERS. In this circumstance, CalPERS recognizes the EPMC as salary for purposes of calculating the employee's retirement benefit. As another step in pension reform, Novato changed its CalPERS contract and stopped reporting the value of EPMC for new employees, and more recently, the City has fully shifted the employee contribution back to employees. "Classic" employees now pay the 7% (Miscellaneous) or 9% (Sworn) employee share. New employees also pay the full employee contribution, although the rates are slightly different based on statewide pension reform requirements.



Public employee pensions are a complicated and sometimes dizzying topic, both in terms of the mechanics of the retirement system and the issues surrounding pension reform. Novato as been active in reforming its pensions and managing costs including: placing a cap on Miscellaneous employee benefits, moving to the 36 month average, shifting the employee contribution back to employees, and no longer reporting the value of EPMC. In the last three years, the City has shifted 25% of its total pension costs to employees through negotiations and agreements with its labor unions. The City is appreciative of these concessions from employees.





## Statewide Pension Reform

Effective January 1, 2013, the State passed the Public Employees Pension Reform Act (PEPRA) which created standard pension benefits for all new employees at lower rates with higher costs. Specifically, PEPRA established single statewide pension formulas for new employees -- Miscellaneous (2% @ 62) and Safety (2.7% @ 57).

PEPRA also created 50/50 cost sharing of pension of the Normal Cost. The Normal Cost, an actuarial term for pensions, does not include any costs associated with unfunded liability or pension obligation bonds. In other words, the current year's cost to provide the current year's earned pension benefit is to be shared with employees on a 50/50 basis starting in 2018.

PEPRA clearly distinguishes that there are no benefits changes for any current employee, termed "Classic" employees. At this point, it does not appear likely that there will be further Statewide pension reform. Although not pension reform, the only option to reduce costs related to retirement is to shift additional costs to employees. In 2018, PEPRA allows an employer to unilaterally impose cost sharing of up to 50% of the Normal Cost. An employer must first attempt to negotiate the change and must observe recently enacted impasse procedures if not mutually agreed upon. Over time, through turnover and retirements, there will be more employees in the new lower PEPRA retirement formulas which will reduce costs.

CalPERS has recently modified its rate smoothing actions which has increased its rates to employers. This increase has not impacted Novato as much as others since City staff anticipated such action and previously built increases into the City's Five-year forecast. However, CalPERS continues to review its actuarial assumptions, which could result in additional pension cost increases for Novato of up to \$700,000 in outer years. These potential cost increases are one of the options for consideration within the Fiscal Sustainability Options Tool.

## PERS RATES – CLASSIC & NEW EMPLOYEES

2012 Actuarial & PEPRA implications – FY 12/13 and FY 14/15

**MISCELLANEOUS EMPLOYEES**

2% @ 55 - Classic Employees				2% @ 62 - New Employees		
	Employer Contribution Rate	Total Normal Cost	Employee Rate Per MOU	Employer Contribution Rate	Total Normal Cost	Employee Rate per PEPRA
13/14	12.698%	15.789%	7%	12.698%	12.5%	6.25%

**SAFETY EMPLOYEES**

3% @ 55 - Classic Employees				2.7% @ 57 - New Employees		
	Employer Contribution Rate	Total Normal Cost	Employee Rate Per MOU	Employer Contribution Rate	Total Normal Cost	Employee Rate per PEPRA
13/14	22.2%	15.811%	9%	11.5%	23%	11.5%

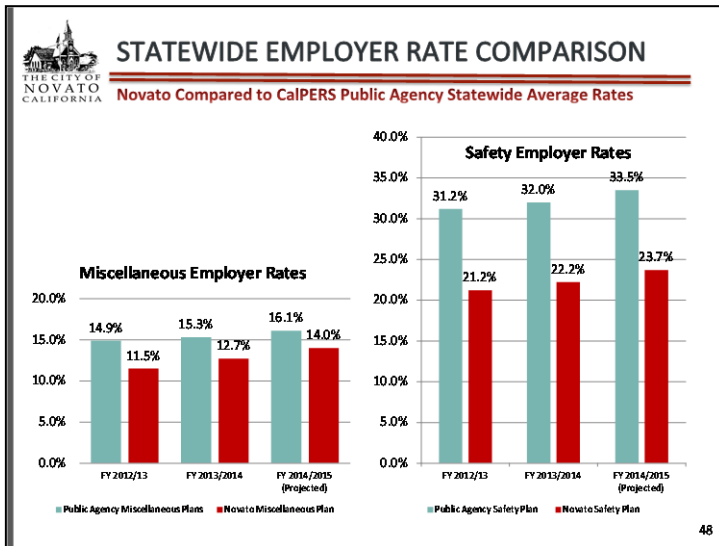
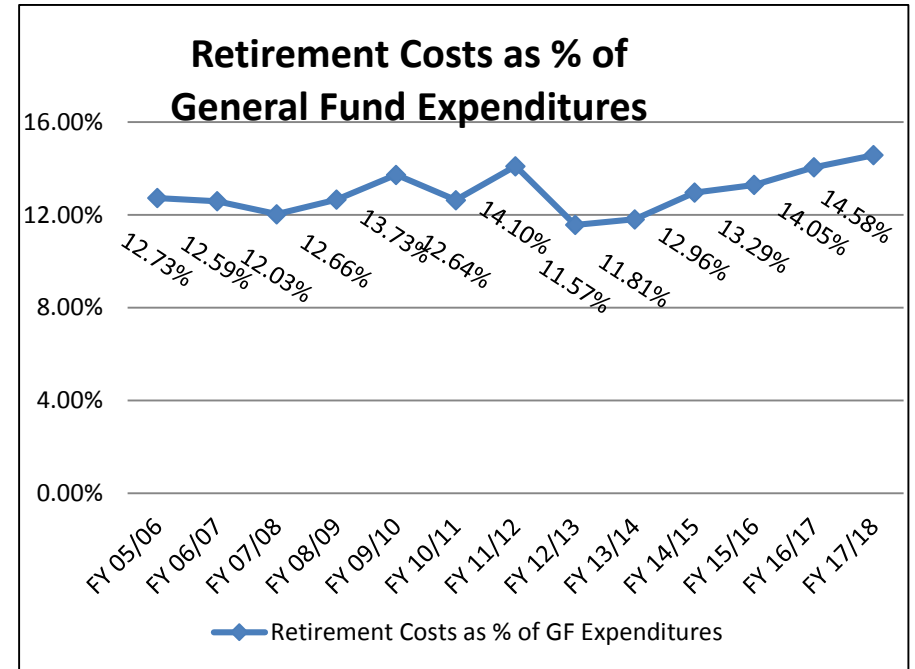
Note – Employee rates are different due to language in PEPRA and MOU. MOUs state "employee pay 100% of employee costs". Under PEPRA, 100% of employee costs is 6.25% for New Miscellaneous employees and 11.5% for New Safety Employees.



## Retirement Costs Increasing

With the recession, investment earning by PERS were dramatically affected. As outlined above, when PERS does not meet its investment assumptions, then the employer's costs increase. The City has experienced increasing retirement costs which have been somewhat mitigated by reduction in staff positions and cost shifting of 25% of the pension cost to employees.

The *Retirement Costs as % of General Fund Expenditures* slide shows that while pension costs have increased, these costs as a percent of the General Fund have been in the 12% to 14% range for the past 10 years. The decrease in FY 12/13 is when the final full employee share was shifted back to employees.



Notwithstanding statewide pension reform measures implemented in January of 2013 that will produce modest initial savings, recent administrative changes approved by the CalPERS Board of Administration to the manner in which unfunded liabilities are amortized will likely cause the City's pension costs to climb above 14% beginning in FY 16/17. Additionally, further administrative changes to the discount rate and mortality assumptions that may be contemplated by CalPERS in 2014 could put further pressure on employer rates. If approved, it is estimated this could be \$700,000 more in later years.

Compared to other public agencies in California, Novato's pension costs are lower for Miscellaneous Employees and substantially less for sworn (Safety Employees). This is due

in large part to the City not providing the more expensive retirement formulas that have created significant unfunded liabilities for other public agencies.



Novato’s Compensation and the Labor Market

The following section describes Novato’s compensation for its employees and compares it to Novato’s Labor Market, those cities that we compete against for talent (employees). Specifically, the following information is outlined below: (1) Base Salary and Total Compensation Comparisons; (2) Retirement Comparisons; (3) Health Care and Benefit Comparisons and (4) Other Post Employment Benefits. The purpose of this section is to provide an understanding of Novato’s relative position in the labor market and implications moving forward.

Historically, each bargaining unit has had different agencies selected for its labor market. For overall ease, staff has recommended the following unified Labor Market to evaluate the City’s competitive position in the market. The *Novato Labor Market* table outlines the recommended Labor Market.

Novato’s Labor Market was determined based on a number of important criteria:

- Proximity to Novato and typical employee residency/commute patterns;
- Size of city – employees and population;
- Services offered;
- General Fund budget; and,
- Overall community character.

Novato Labor Market	
Local Agencies	Regional Agencies
<u>Marin</u>	Napa
San Rafael	Fairfield
Marin County	Pleasant Hill
<u>Sonoma</u>	Concord
Petaluma	Walnut Creek
Rohnert Park	
Santa Rosa	

Base Salary and Total Compensation Comparisons

In March 2013, the City conducted a sample survey of 14 classifications representing a blend of safety, general staff, and management staff. Within the City, there are 186 full-time positions and 66 classifications/job descriptions (based on similarities of purpose, required knowledge, skills, and abilities; education and experience; duties). While 14 classifications were only a sample, staff believed that it represented 75% of the positions in the organization. Staff surveyed base salary and total compensation to include retirement, health and welfare benefits at full family assumption, any special pays, and deferred compensation. For the purposes of this analysis, “Below Market” was defined as more than 5% below median. Before exploring the results of this market survey, it is important to discuss why the “market” matters. First, Novato directly competes with other public agencies. As a smaller agency, Novato hires primarily lateral seasoned employees versus hiring employees and training them to do the job. One key exception to this practice is Police Officers where we have been unable to directly compete and hire seasoned officers from other agencies. We seek employees that know the business of public sector operations and regulations. With a smaller workforce, we have less depth and redundancy in positions now than previously. We need employees with experience that can walk in and perform their duties with minimal



ramp-up time or training. Second, Novato also competes against the private sector for some occupations – engineers, information technology. Third, turnover is costly in terms of recruiting, training and time. Fourth, while there are other aspects of employment that are important (such as location, career opportunities, culture), an organization can reach a “tipping point” in their compensation package where they are no longer competitive.

Key Findings

Overall, Novato’s compensation package is lower and less competitive when compared with our Labor Market. The chart below shows Novato’s relative position in comparison to the labor market. The summary results are listed below.

<b>BASE SALARY</b> # of Classes / % of Classes	2 14%	7 50%	4 28%	1 7%			
<b>Relative % to Market</b> (Median)	5.0% to 0.0%	0% to -5.0%	-5.1% to -10.0%	-10.1% to -15.0%	-15.1% to -20.0%	-20.1% to -25.0%	-25.1% to -30.0%
<b>TOTAL COMPENSATION</b> # of Classes / % of Classes		1 7%	1 7%	7 50%	3 21%		2 14%

Salary

- Base Salary -- 36% of surveyed positions are below market
- Total Compensation -- 93% of positions are below market

Benefits

- Novato offering lower contributions towards health and related insurance; Novato is one of few agencies with Cafeteria plan capping costs
- Health insurance family plan reduces gross pay by about \$8,800/year

Retirement

- Many agencies are continuing to pay a portion of Employee’s share of retirement; more true for Police employees than Miscellaneous employees
- Novato has shifted 100% of Employee share to Novato employees (9% for Police and 7% of General Employees)
- Novato never provided top enhanced formula plans and market is shifting to where Novato is – but still agencies with enhanced formulas; creates a competitive disadvantage for Novato when attracting employees with prior public sector experience

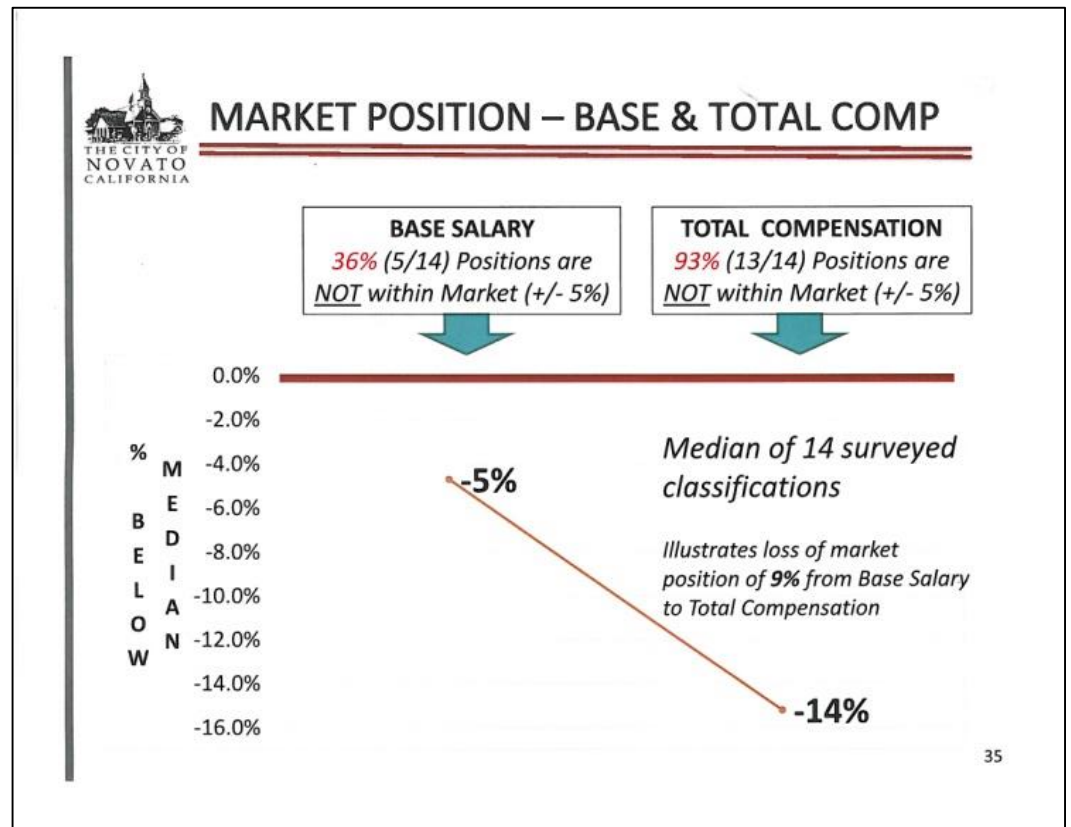


A look at base salary only shows about 2/3 of the positions to be within 5% of market and 1/3 to be more than 5% below market. However, it is important to remember that the City increased the base salaries of City employees in FY 12/13 with the complete shift of the Employer Paid Member Contribution. So while the base salary increased, so did the costs that employees now pay out of their paycheck.

Overall, the picture changes when one looks at Total Compensation. With employees paying 100% of the Employee Paid Member Contribution (7% for Miscellaneous Employees and 9% for Sworn Employees) and the out-of-pockets costs for health care increasing, City employees lose market position. 93% of the classifications are more than 5% off market with the median being 14% off market when total compensation is considered.

The *Market Position – Base & Total Comp* slide provide a summary of the comparison information and explanations of what is occurring within the Market. Basically, on average base salaries of employees are slightly below market (with some positions being significantly off market), however, the position gets worse once total compensation is taken into consideration.

Being competitive within a local government market is complicated and has a number of dimensions to consider. A brief summary is provided below each chart as information.





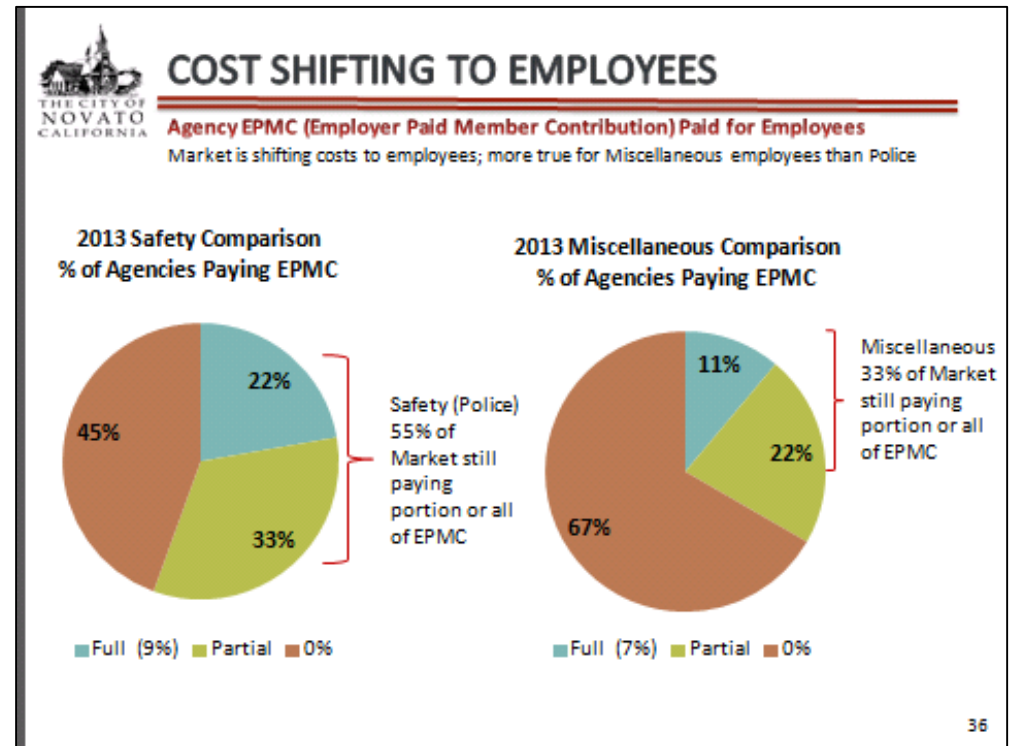
## Retirement Comparisons - Cost Shifting to Employees

One element of pension reform has been shifting costs to employees such that the employee is paying for a portion of their retirement (EPMC). Historically, many public agencies were paying all of the retirement costs. In the past four years, this has begun to change as agencies negotiate to shift a portion of retirement costs to employees.

As we compare our compensation structure to other agencies, one question is “how much shifting of retirement costs has actually occurred” in our labor market. The *Cost Shifting to Employees* slide shows differences between Safety employees and Miscellaneous employees. For Safety employees, 22% of the Employers have not shifted any retirement costs to employees and another 33% have shifted some, but not all. This means that in 55% of the labor market, the Employer is still paying all or a portion of the retirement costs. This means more take home compensation for the employee. Novato sits with the other 45% of the labor market agencies and is at a disadvantage when competing (all other compensation elements being equal) with the other 55% of agencies that have not shifted all of the 9% of EPMC to their employees.

For Miscellaneous employees, the story is a little different. 67% of the Labor Market is not paying any EPMC. This means that, like Novato, they have shifted all of the employee costs to the employee. One third of the labor market is still paying all or a portion of the EPMC for Miscellaneous employees. Novato sits with the majority of the public agencies in the labor market for Miscellaneous Employees.

The *Cost Shifting to Employees* pie charts show the cost shifting, but the charts do not indicate if there was backfill or an increase in salary by the public agency when these shifts of EPMC occurred. From Staff’s review, Novato was one of the more frugal agencies by only providing a partial backfill; many agencies shifted the EPMC and increased salaries in a corresponding manner.








## Retirement Comparisons - Formula Changes

Another key difference when looking at retirement across agencies is what level of benefit formula is provided by the agency. Novato never provided the enhanced formula for its miscellaneous employees and did not provide the richest benefit for its sworn employees.

The *Formula Shift* slides show the different formulas that existed in 2009 and then where agencies sit in 2012 following negotiations. Once again, there have been significant changes for Miscellaneous employees with only three agencies providing higher formulas and now four agencies providing lower formulas. However, for public safety, there are still four agencies providing the enhanced 3% @ 50 benefit.


Even with statewide pension reform in place, any legacy employee (those employees working for public agencies prior to January 1, 2013) is able to receive the benefit formula that is in place for current employees and not the new lower statewide formula. This means that Novato will compete based on benefit formula as a variable that employees will consider – if they are thinking about coming to Novato or if they are thinking about staying with Novato. This is particularly true for sworn employees and a labor market difference that needs to be kept in mind.



### MISC. EMPLOYEES – FORMULA SHIFTS


#### Current Miscellaneous (General) Employees in Market

	3% @ 60	2.7% @ 55	2.5% @ 55	2% @ 55	2% @ 60
2009	Santa Rosa	Fairfield Napa Rohnert Park San Rafael	Concord Larkspur Mill Valley Sausalito	County of Marin <b>Novato</b> Petaluma Pleasant Hill Walnut Creek	
2013			Fairfield Sausalito Santa Rosa	Concord Larkspur <b>Novato</b> Mill Valley Petaluma Rohnert Park San Rafael	County of Marin Napa Pleasant Hill Walnut Creek



Higher benefit formulas provided higher retirement benefits to employees.  
Cities moving away from enhanced formulas – Novato's original position now sits in the middle of the new norm for current employees.

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### SAFETY EMPLOYEES – FORMULA SHIFTS

#### Current Safety Employees in the Market

	3% @ 50	3% @ 55	
2009	Concord County of Marin Fairfield Napa Petaluma	Pleasant Hill Rohnert Park San Rafael Santa Rosa Walnut Creek	Larkspur Mill Valley <b>Novato</b> Sausalito Twin Cities
2013	Concord Fairfield Marin County Petaluma	Larkspur Mill Valley Napa <b>Novato</b> Pleasant Hill Rohnert Park	San Rafael Santa Rosa Sausalito Twin Cities Walnut Creek

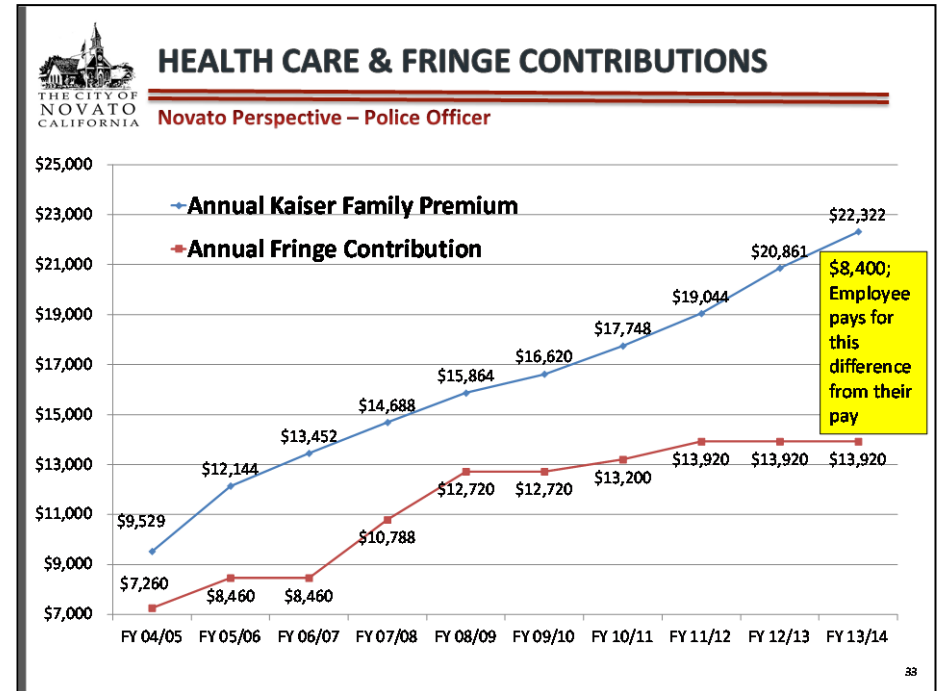
*Similar story – Agencies moving away from Enhanced formulas; Novato's formula (3% @ 55) has become the new formula. However, there is still a significant percentage of agencies that retain the higher 3% @ 50 for Classic safety employees.*

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## Health Care & Benefit Comparisons

The City provides various optional and mandatory benefits to employees through a cafeteria plan. Employees receive a specific monthly dollar amount for these fringe benefits based on the employee’s bargaining unit. The contribution for all bargaining groups averages approximately \$1,000/month. Employee’s can purchase medical insurance, as well as mandatory dental and life insurance. Any unused fringe benefit contribution becomes taxable income, however, it is not PERSable or included when calculating the employee’s retirement benefit. Within the City’s Labor Market, only 20% of the agencies offer a cafeteria program (San Rafael and Marin County). Cafeteria plans tend to be more conservative in terms of covering the cost of benefits for employees. The other agencies in the City’s labor market pay all or a significant portion of each benefit provided, which means higher employer contributions towards health and welfare insurance costs. The average contribution for labor market agencies for health and related benefits is \$1,610/month, while Novato’s total direct contribution to employees for all health and welfare benefits is approximately \$1,060.



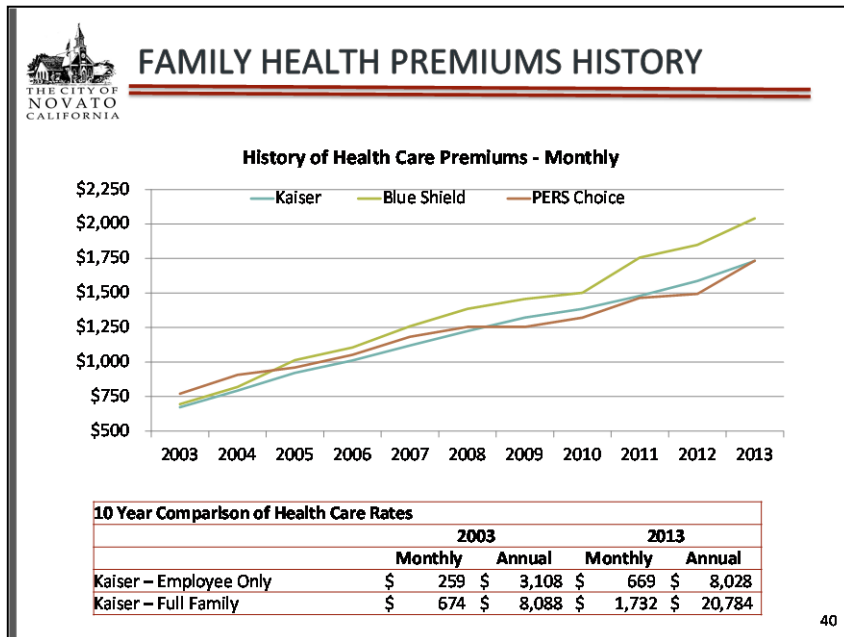
The majority of City employee enrolled in the City’s medical plan choose Kaiser as their health care provider. Kaiser is the least expensive HMO option and costs \$1,738/month for full family coverage. Therefore with respect to the costliest benefit, medical insurance, Novato employees enrolled in the full family Kaiser plan pay an out-of-pocket difference of approximately \$8,800 per year, based on the average fringe benefit contribution of \$1,000 per month. This is just for medical insurance. Mandatory dental and life insurance result in further out-of-pocket cost for these employees.

	Novato	Labor Market Median
<b>All Health &amp; Welfare Benefits</b>	\$1,060 / month	\$1,610 / month

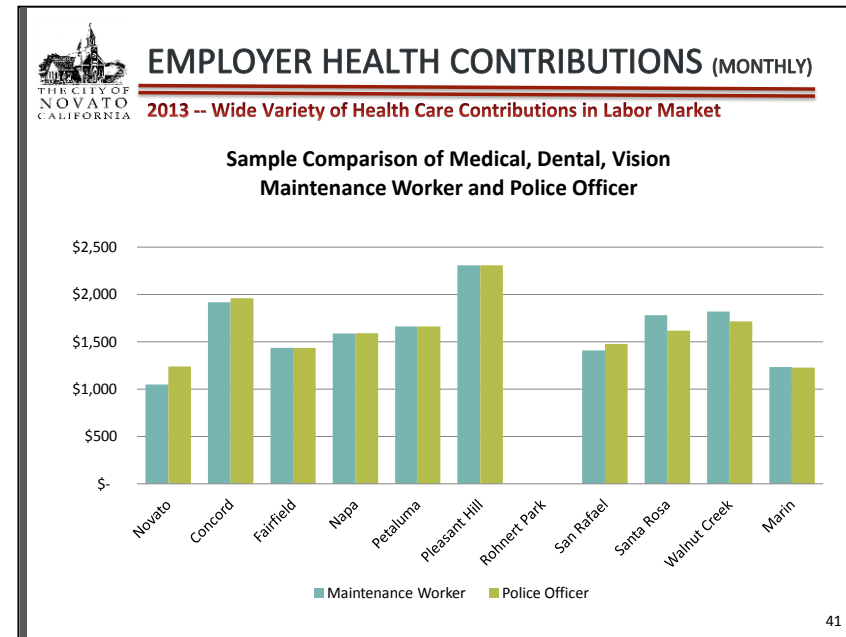


Health care costs have risen dramatically in the last 10 years. There has been a 157% increase in Kaiser rates and a 194% increase in Blue Shield rates. As an illustration, the table below and the *Family Health Premiums History* demonstrate these cost increases. The *Employer Health Contributions* slide shows the different contributions that the different labor agencies provide.

HMO / PPO	2003		2013	
	Monthly	Annual	Monthly	Annual
<b>Kaiser – Employee Only</b>	\$ 259	\$ 3,108	\$ 669	\$ 8,028
<b>Kaiser – Full Family</b>	\$ 674	\$ 8,088	\$ 1,732	\$ 20,784
<b>Blue Shield – Employee Only</b>	\$ 267	\$ 3,204	\$ 785	\$ 9,420
<b>Blue Shield – Full Family</b>	\$ 695	\$ 8,340	\$ 2,040	\$ 24,480



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## Other Post Employment Benefits – OPEB

Other Post-Employment Benefits (OPEB) are non-pension benefits provided to employees upon retirement. Novato provides a very minor health care contribution (a defined contribution) for retiree health. The City contracts with CalPERS to purchase health care (PEHMCA). CalPERS requires public agencies that participate in PEHMCA to provide an option for retirees to purchase their health care at the same rates as existing employees. Novato participates at the minimum contribution available. For 2013, the minimum employer contribution for retiree health care is \$115 per month for each retiree. Currently, the City is paying \$77,000 per year for the health contribution for retirees. Based on a 2010 actuarial study, the City should be setting aside \$139,000 per year to pay for future retiree costs. The City has just joined an Irrevocable Trust as a means to gain greater investment earnings to help pay for these retiree health costs.

The City has been very conservative with post employment benefits and is fortunate to have this benefit well under control. There are many public agencies with millions of dollars in retiree health benefits and tens of millions of dollars of unfunded liabilities. The *OPEB Local Agency Comparison* slide showing Novato’s modest costs versus other agencies.

One of the options in the Sustainability Options Tool is to use some one-time funds to prepay the liability and reduce the current and future costs, saving the City about \$140,000 per year if a lump sum of \$2,000,000 is invested.



## OPEB LOCAL AGENCY COMPARISON

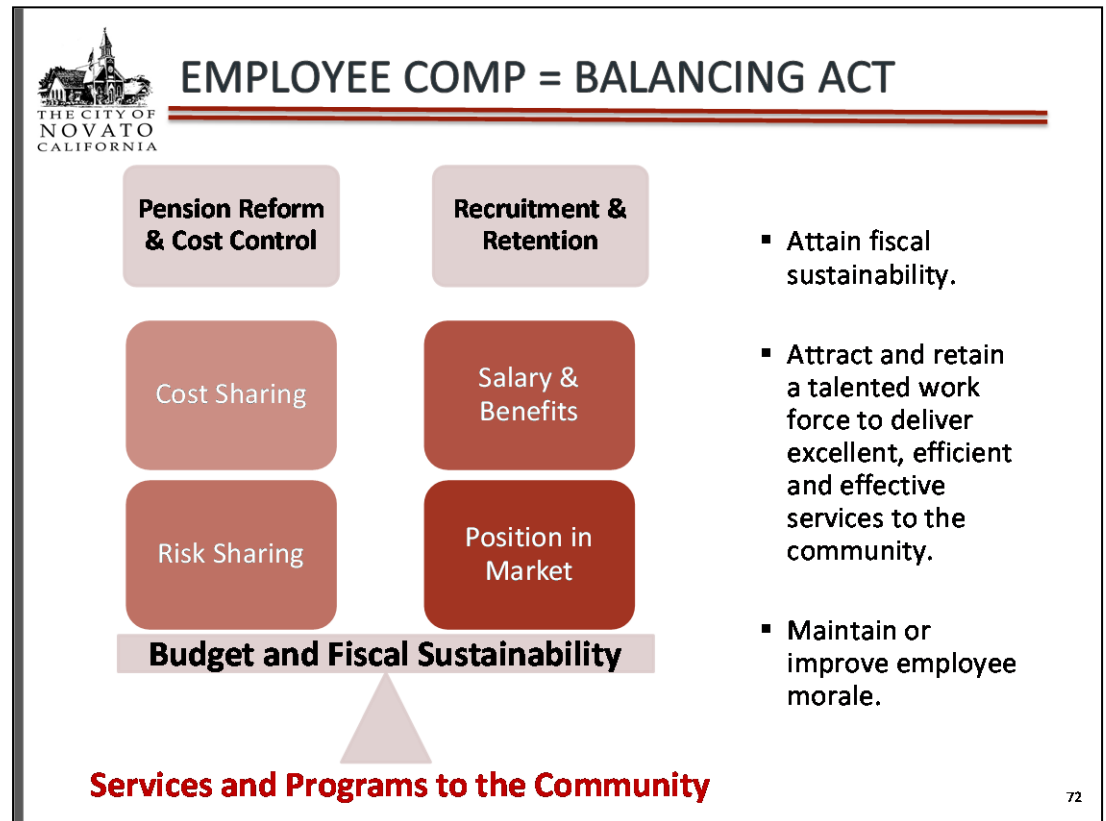
Marin 2011 data and \* updated for 2012 Sonoma and Napa 09/10 Financials

Jurisdiction	Unfunded Liability (GASB 45)	Unfunded Liability Per Capita
Mill Valley	\$20.3 M	\$1,445
Marin County	\$359.9 M	\$1,411
Rohnert Park	\$45.5 M	\$1,100
Sausalito*	\$6.6 M	\$925
San Rafael	\$46.1 M	\$791
Larkspur	\$7.5 M	\$622
Ross*	\$1.5 M	\$614
Fairfax*	\$2.31 M	\$307
Tiburon*	\$2.15 M	\$237
Belvedere	\$374,116	\$179
San Anselmo*	\$1.94 M	\$156
Corte Madera	\$1.4 M	\$150
Napa	\$10.9 M	\$140
Petaluma	\$7 M	\$120
Santa Rosa	\$19.8 M	\$117
<i>Novato*</i>	<i>\$2.7 M</i>	<i>\$53</i>



Overall, Novato has been very fiscally conservative compared to most other California agencies:

- Never gave highest enhanced pension benefits;
- Never gave lifetime health or other post employment benefits;
- New employees now have lower retirement benefits;
- Novato has lower base salary and total compensation for current employees when compared to surrounding agencies and labor market; and,
- Current employees are now paying 100% of employee share of retirement costs.





**OPTIONS TOOL – EMPLOYEE COMPENSATION**

The following options related to employee compensation are outlined below with additional background explanations. These options are included in the Fiscal Sustainability Options Tool at the end of this Plan.

The Employee Compensation section earlier in the report contains significant background about how the City’s compensation and benefit programs work and how they compare in the broader marketplace. It also describes the history of salaries and employee concessions over the past few years. It is important to understand a few things about how salary assumptions work in the City’s Five-Year Forecast and what the implications would be of any given choice in the Options Tool. If employees have existing bargaining agreements in place, the Forecast uses those parameters to estimate salary increases and benefit costs. Once current contracts end, however, the Forecast *builds in an assumption* about how much employee salaries will grow. Note that this is an assumption. Actual wages and benefits will be negotiated in good faith at the bargaining table when the contracts are up for re-negotiation. The Forecast and the Options Tool are not labor relations parameters or strategies. The City Council sets negotiating parameters at the time the agreements are being bargained, and any actual changes in compensation could be different from those chosen in the Options Tool. Instead, keep in mind that this is a long-term planning tool, intended to show the Community and the City Council the impacts of different compensation levels. It is not a budget or contract that actually sets compensation.

Eliminate Salary Growth Assumptions in the Forecast					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a		\$302,000	\$615,000	\$932,000	\$1,261,000

As mentioned in the Forecast in Section 2 of this report, the salary growth assumption in the forecast is 1.5%. This is not projected to keep up with inflation of approximately 2.5%. As detailed in the Employee Compensation section earlier in the report, recent compensation surveys and analysis conducted by an outside firm show that employee salaries and total compensation are, in some classifications, significantly behind the market of peer organizations. Choosing this option eliminates those 1.5% salary assumptions. It saves about \$300,000 annually, compounding each year such that by the last year of the forecast the savings is about \$1.2 million. The tradeoff is that staff salaries are at risk of falling further behind market and challenge the City’s ability to recruit and retain qualified employees in the future.





<b>Keep the Existing Salary Assumptions in the Forecast</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		-	-	-	-

This option keeps the existing 1.5% salary increases in the Forecast as they currently are. Since this is the existing assumption, there is no financial impact positive or negative to the Forecast. However, the issues mentioned in the previous option still exist in this option. To the extent that Novato salaries are not keeping up with inflation and benefit costs such as health continue to rise, employees’ take home pay and buying power goes down. Additionally, assuming that surrounding organizations do offer raises that are fairly consistent with inflation, Novato will continue to risk falling further behind in salary and overall compensation.

<b>Set Salary Growth Assumptions to Keep Pace with Inflation (2.5% per year)</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		(\$202,000)	(\$415,000)	(\$636,000)	(\$871,000)

This option would increase the existing assumptions on the growth in employee salaries from 1.5% per year to 2.5% per year. This assumption is projected to keep pace with inflation and keep employee salaries from falling further behind in market comparisons. This option does increase the deficit by about \$200,000 per year compounding, such that by the last year of the forecast the deficit is increased by about \$800,000.

<b>Set Salary Growth at Inflation (2.5% per year) and add \$\$ to remain competitive</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		(\$403,000)	(\$834,000)	(\$1,284,000)	(\$1,767,000)

This option builds on the previous option to set compensation increase assumptions at 2.5% per year and add additional dollars, equivalent to another 1% of salary for each year of the forecast, to remain competitive in the market. These dollars could be used in a variety of ways, including across-the-board increases, targeted increases for classifications that are significantly behind market, bonus programs, increases to the health care contribution, etc. The specific uses would be determined at a later date.



Additional Assumptions for CalPERS Increases					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a			(\$297,000)	(\$524,000)	(\$705,000)

The rates that the City pays for its employee pension plan, administered by CalPERS, have changed through a variety of factors over the past several years. After the significant investment losses in FY 2008/09, CalPERS implemented some additional actuarial smoothing techniques to spread the losses over a few years. This had the effect of lessening the impact of rate increases for local governments in the short term. In the spring of 2012, the CalPERS Board adopted a new discount rate, reducing the assumption of their investment returns from 7.75% to 7.5%. This change had the immediate effect of increasing employer rates to offset the lower investment earnings. In the summer of 2012, the City concluded its labor negotiations with all bargaining units, implementing additional cost-sharing measures; effective July 1, 2012, employees began paying the full employee share.

Effective January 1, 2013, the statewide pension reform took effect, reducing pension formulas for new hires and mandating additional future cost sharing between employers and employees. In the long term, this will reduce employer rates as more newly hired employees enter under the new system. The CalPERS Board took additional actions in April 2013, as recommended by the actuarial office, to modify some of the smoothing techniques that were previously put into place during the Great Recession. These changes do not kick in until 2015/16, but they will have the effect of putting upward pressure on rates – the benefit of these actuarial changes is that plans will have a higher probability of being fully funded in the long term.

The rates forecasted by the City in the most current version of the Five-Year Forecast take all of the above into account. Novato contracted with an actuarial firm to make projections of what Novato’s CalPERS rates would be including all of the above changes, and we have built those rates into the forecast. However, the CalPERS Board is also considering making additional changes in the Spring of 2014 that would significantly increase employer rates. These include changes to the mortality tables used (i.e. how long workers are expected to live after retirement) and an additional change to the assumed discount rate, down to 7.25%. These additional changes have not been built into the forecast, since the CalPERS Board is still about a year away from making any decisions, and there is no guarantee that they will do so. However, staff along with the Actuary made estimates of what these changes would do to Novato’s contribution rates, and have estimated what the impacts would be to the forecast. Selecting this option in the Options Tool will increase the deficit, but it does present a way to buffer the forecast and plan for future changes in CalPERS, though whether or not the changes actually happen remains to be seen.



The two *PERS Contribution Rates – Current and Projected* charts give additional detail on the existing retirement rate assumptions built into the forecast, as well as what the next set of changes from CalPERS might do to rates in the future. The first chart shows the data for Novato’s Safety employees, the second for Miscellaneous employees.

<b>PERS Contribution Rates - Current and Projected; Updated with Bartel &amp; Associates</b>							
Date - May 7, 2013							
Rates Based on "Expected" Investment Return of 7.5% annually							
<b>Safety</b>							
	13/14	14/15	15/16	16/17	17/18	18/19	19/20
PERS Rate Projections from October 2012 Actuarial (no additional info after 14/15)	22.20%	23.70%	23.70%	23.70%	23.70%	23.70%	23.70%
Assumption for possible actuarial changes			1.00%	1.00%	1.00%	1.00%	1.00%
Additional out-year growth assumption				0.50%	1.00%	1.50%	2.00%
Our Prior Projections	22.2%	23.7%	24.7%	25.2%	25.7%	26.2%	26.7%
<b>New Bartel Calculations</b>							
<b>APPROVED BY STATE LEGISLATURE OR PERS BOARD</b>							
Tier 1, 2 & PEPRA	21.9%	23.2%	23.4%	23.4%	23.5%	23.5%	23.6%
<b>Tier 1, 2 &amp; PEPRA + Smoothing</b>	<b>21.9%</b>	<b>23.2%</b>	<b>24.3%</b>	<b>24.7%</b>	<b>25.7%</b>	<b>26.7%</b>	<b>27.6%</b>
<b>FUTURE PERS BOARD POSSIBLE ACTIONS</b>							
Tier 1, 2 & PEPRA + Smoothing + Mortality & Rate	21.9%	23.2%	27.7%	29.6%	31.5%	33.4%	35.2%
Tier 2 = 3 Year Final Average Compensation PEPRA = Public Employee Pension Reform Act Smoothing = new amortization periods and smoothing methods Mortality & Rate = possible future changes to mortality assumptions and discount rate							



<b>PERS Contribution Rates - Current and Projected; Updated with Bartel &amp; Associates</b>							
Date - May 7, 2013							
Rates Based on "Expected" Investment Return of 7.5% annually							
<b>Miscellaneous</b>							
	13/14	14/15	15/16	16/17	17/18	18/19	19/20
PERS Rate Projections from October 2012 Actuarial (no additional info after 15/16)	12.70%	14.70%	15.10%	15.10%	15.10%	15.10%	15.10%
Assumption for possible actuarial changes			1.00%	1.00%	1.00%	1.00%	1.00%
Additional out-year growth assumption				0.50%	1.00%	1.50%	2.00%
Our Prior Projections	12.7%	14.7%	16.1%	16.6%	17.1%	17.6%	18.1%
<b>New Bartel Calculations</b>							
<b>APPROVED BY STATE LEGISLATURE OR PERS BOARD</b>							
Tier 1, 2 & PEPR -	12.7%	14.2%	14.5%	14.7%	14.9%	15.1%	15.3%
Tier 1, 2 & PEPR + Smoothing (Included in new forecast)	12.7%	14.2%	15.4%	16.6%	17.7%	18.9%	20.0%
<b>FUTURE PERS BOARD POSSIBLE ACTIONS</b>							
Tier 1, 2 & PEPR + Smoothing + Mortality & Rate	12.7%	14.2%	17.4%	19.3%	21.2%	23.0%	24.9%
Tier 2 = 3 Year Final Average Compensation							
PEPR = Public Employee Pension Reform Act							
Smoothing = new amortization periods and smoothing methods							
Mortality & Rate = possible future changes to mortality assumptions and discount rate							



Implement Modifications to Employee Health Care / Cafeteria Contribution					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a		(\$200,000)	(\$203,000)	(\$206,000)	(\$209,000)

In the recent compensation surveys, one key factor in the City’s lack of competitiveness in the market is the contribution to Health Care benefits. As mentioned in the Employee Compensation section earlier in this report, an employee choosing full family health care can easily be out of pocket by \$9,300 on top of the City’s contribution due to the costs of the health plans compared to the City’s contribution. To make the City’s cafeteria contribution more competitive, it would require an approximate \$200,000 General Fund cost. This increase would bring the contribution from the City to 90% of the Kaiser full family price and would significantly increase Novato’s competitiveness to recruit and retain employees.

Pre-pay OPEB Liability					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
\$2,000,000	\$140,000	\$140,000	\$140,000	\$140,000	\$140,000

Many public employers offer post-employment health benefits when employees retire, ranging from a small stipend or defined contribution programs to fully paid health benefits for retirees and their families. When these programs were initially implemented, health insurance costs were relatively low and the ratio of retirees to active workers was quite low, making the offered benefit easy to fund on a pay-as-you-go basis. However, as the landscape for healthcare and health insurance has changed, and as the number of retirees increases (and those retirees live longer), the costs for public agencies begins to mount. Additionally, accounting changes implemented in 2004 requiring the disclosure of the annual expenses, unfunded liabilities, and other information about these benefits have exposed significant accrued liabilities for agencies that offered more generous plans. Some examples of unfunded actuarial accrued liabilities reported on June 30, 2012 financial statements (or from the June 3, 2013 Marin County Civil Grand Jury Report on this topic) for some local jurisdictions are shown in the *Unfunded OPEB Liability* table.

Agency	Unfunded OPEB Liability
County of Marin	\$359.9 million
San Rafael	\$24.3 million
Rohnert Park	\$39.5 million
Mill Valley	\$24.5 million
Corte Madera	\$11.8 million
Larkspur	\$7.5 million
Petaluma	\$7.0 million
Novato	\$2.8 million



Novato is fortunate to have a relatively small liability as a percentage of payroll, since we offer the minimum benefit required by participating in CalPERS' health program. We essentially pay a small premium (currently \$115) each month per retiree that enables retirees if desired to buy into CalPERS health plans at standard employee rates once they retire.

While Novato's liability is relatively low, the actuarially required contribution is still about \$220,000 per year. This amount includes both the annual payment of the current year's benefit as well as the amortization of the unfunded liability. Novato's current policy, begun in the most recent fiscal year, is to fully fund the annual required contribution each year, placing the pre-funding amount into an OPEB trust to be invested and to be set aside to pay for future costs.

The option in the Options Tool would amount to setting aside about \$2,000,000 to fully fund the unfunded liability and set that amount of money into Novato's OPEB trust. This would eliminate the need to contribute the annual pre-funding amount and save the General Fund that annual amount, or \$140,000.

### **KEY FINDINGS AND STAFF CONCLUSIONS – EMPLOYEE COMPENSATION**

Historically, Novato's City Councils have been fiscally conservative with regard to employee compensation. Novato never offered the additional enhanced pension formulas that most cities offered their employees, did not offer lifetime retiree health, only provided a partial stipend to pay for health benefits, and maintained compensation below market levels. Considering both the locally adopted pension changes as well as statewide pension reform that began in January of this year, there is very little cost-cutting left to be done with regard to pensions. Retirement costs and pensions have been discussed and reviewed thoroughly. For reasons outlined in this report, rates will be increasing over time. While not ideal, with the changes that have been made locally and statewide, they are manageable within the context of our budget. The more conservative assumptions made by ourselves and CalPERS are anticipated to reduce volatility over time.

Furthermore, staff has conducted a variety of research and analysis and determined that Novato's compensation system significantly lags its peers in the marketplace. While in some cases there are intangibles that may bring employees to work for Novato, there is significant concern about recruitment and retention challenges for key positions. While admittedly appearing self-serving, management staff feels that it is important in the long run, particularly if we are to have far fewer employees, to have a compensation package that is competitive in the market.





## SERVICE LEVELS AND STAFFING

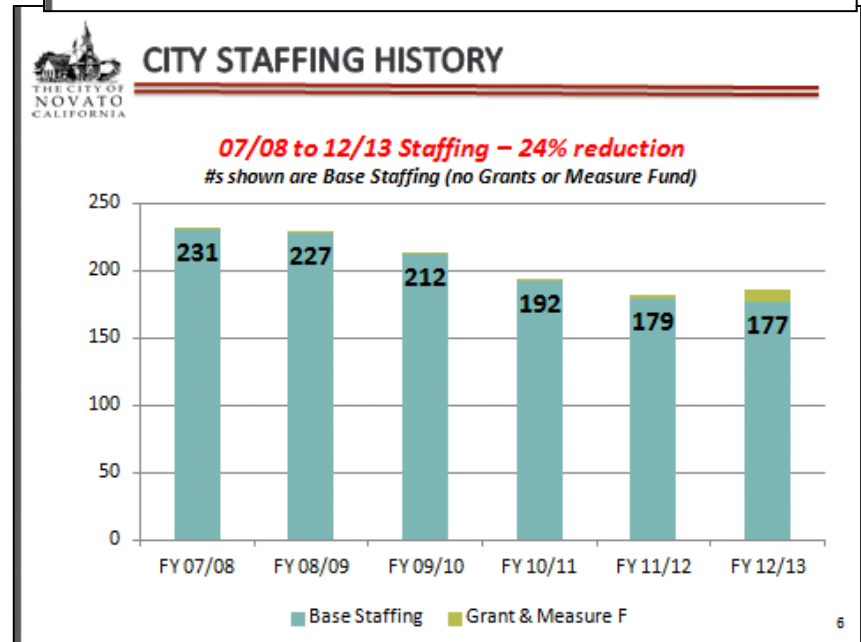
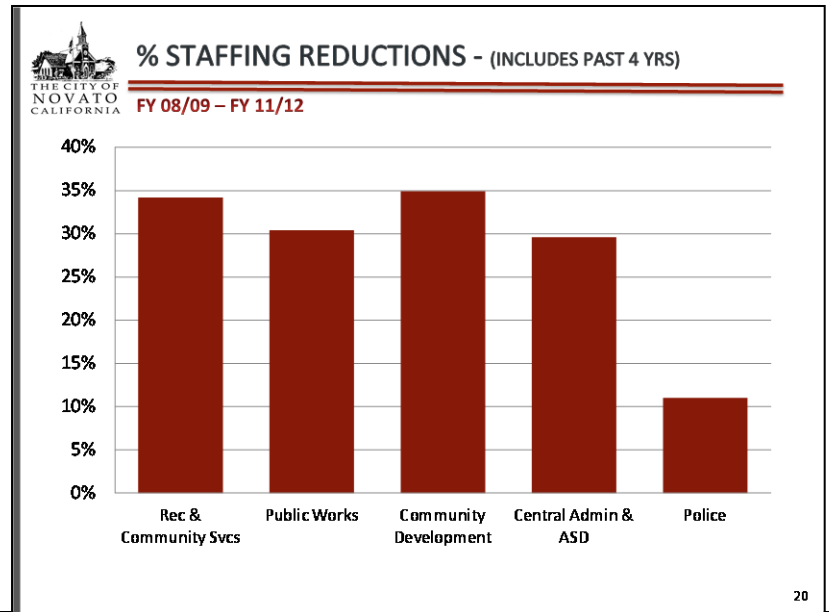


This section includes a review of past baseline staffing levels, a look at base staffing augmentations (grant and Measure F funded positions), current staffing levels and recommendations for long-term Core or baseline staffing as part of fiscal sustainability. The purpose of this section is to provide the City Council with a high-level view of core staffing options for the Fiscal Sustainability Options Tool.

With deficit and staffing reductions the past four years, staff was able to review the core operational needs and services provided to the community. The core staffing options presented reflect areas where there are holes in current city service levels. Some of these holes are already being filled with temporary grant and Measure F funding, but will be eliminated when this special funding ceases.

Core or baseline staffing is the number of staff that is required in order to maintain the service levels of an organization that is fiscally and operationally sustainable. With deficit reductions of the past 4 years, Novato's staffing levels are 24% lower than 5 years ago and the current staffing levels are the same as in FY 95/96 despite population increases of 13% during the same time period. The *City Staffing History* slide shows the reduction in staff by year.

The *% Staffing Reductions* slide shows that each department reduced their staff by 30% except Police which reduced staff by 11% in order to maintain sufficient law enforcement service levels. No Police Patrol staff positions were eliminated. The second chart to the right shows the current staffing levels by department in FY 12/13. Grant funded positions are shown in a different color from positions that are funded by the General Fund.

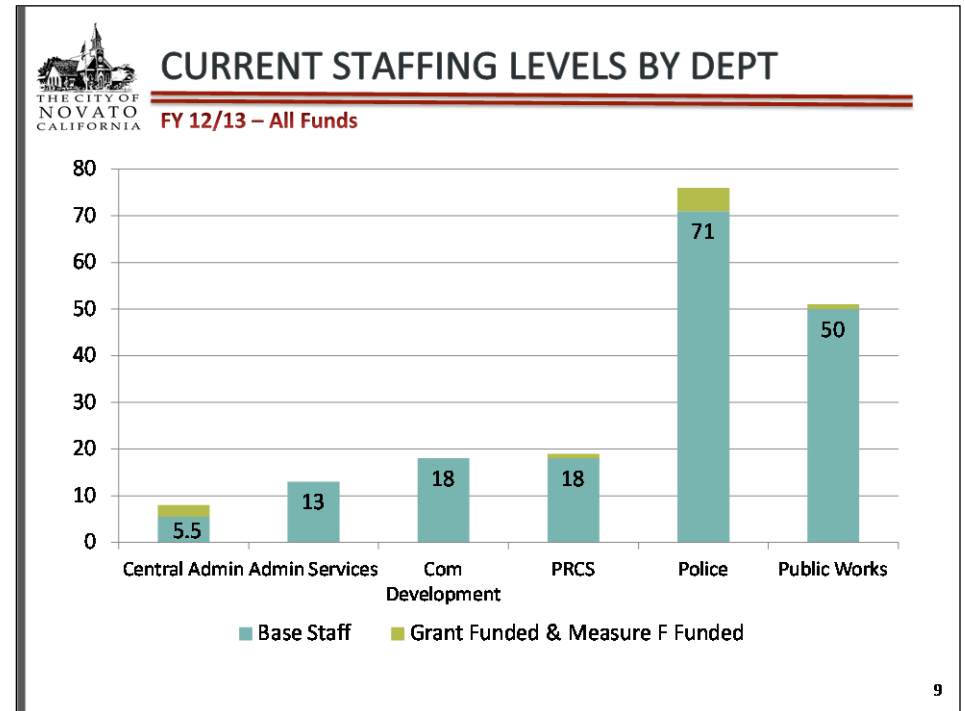




During this same time period, the State of California reduced revenue to Novato and there have been increased State and Federal mandates during the same time period.

With these reductions, Management has found the following:

- The City cut too deeply in some functions which are not operationally sustainable – maintenance, customer service, and administrative infrastructure.
- State takeaways and the dissolution of redevelopment eliminated funding for economic development and business support – therefore the need to fund an Economic Development position.
- Before reductions took place, the City was not adequately staffed in key areas impacting the organization’s productivity – information technology and human resources.
- Need for proactive community policing effort to focus on prevention and intervention separate from routine police patrol and resources for Emergency Preparedness.



Before we outline the specific recommendations for Core Staffing based on current service levels, it is important to remember that Measure F and grant funding are augmenting services now that will be eliminated without a decision by the Council to move these positions to the General Fund and determine a funding strategy. Below is a list of those positions.



<b>Position</b>	<b>Why</b>	<b>Measure F / Grant Funding</b>
Economic Development Manager	Position eliminated with loss of Redevelopment funds	4 years; Measure F Funding Approved through FY 15/16
Police Novato Response Team focused on Prevention & Intervention (2 Police Officers, Corporal, Management Analyst)	Elimination of Community Service Officers and School Resource Officers and a recognition of the need for focused proactive community based problem solving. Patrol staffing at thresholds that do not allow for sustained follow-up or proactive prevention.	3 years of federal COPS grant mandated with 1 year of Measure F funding; Analyst only funded by Measure F for FY 12/13 and 13/14
Maintenance Worker (Parks & Islands)	37% reduction in Maintenance Worker staffing levels 9 positions eliminated since FY 09/10	1 year of Measure F funding approved for FY 11/12; continued for FY 12/13 and FY 13/14
Receptionist	42% reduction in clerical staffing levels citywide 5 positions eliminated since FY 09/10 Front receptionist eliminated in FY 10/11; operated by rotating staff in position for 1 year; not effective or efficient; customer service suffered.	1 year of Measure F funding approved for FY 11/12; continued for FY 12/13 and FY 13/14



## Core Staffing is NOT Ideal Staffing

Core Staffing represents a recommendation from the City Manager regarding the staffing necessary to maintain the existing reduced service levels, not increase or restore services to pre-recession levels. The recommendation is also not for enhanced or new service levels or programs for customers. These are important distinctions. Simply put, Core Staffing is not ideal staffing. There are many other services that could be enhanced or new services that could be developed for the community with additional resources. Below are some ideas that are not included in

the Core Staffing recommendation, but do reflect higher service levels if funding and commitment were available.

- Full Novato Response Team as staffed presently with 3 sworn officers instead of the partial team recommended in the Core Staffing proposal
- Family and community building events
- Staffing to assist Novato’s Downtown, the heart of the City, thrive and reach its potential
- Arborist and more proactive Integrated Pest Management
- Environmental sustainability and action plan initiatives
- Hispanic community outreach and leadership development
- Staffing of museums and arts program
- Economic Development resources
- Additional maintenance resources to improve city owned parks and landscaping

## Core Staffing Recommendations

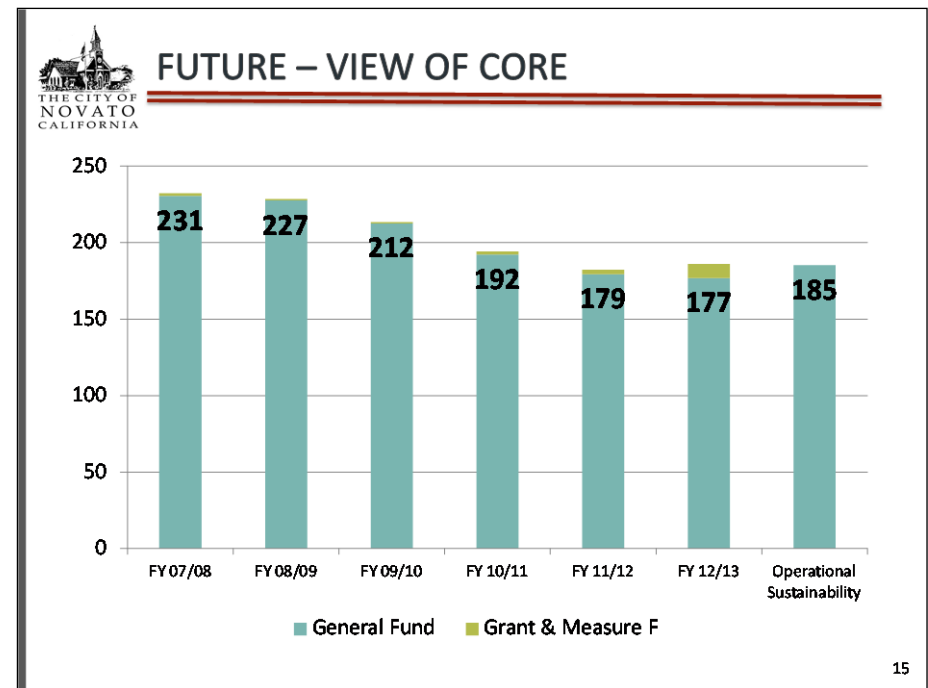
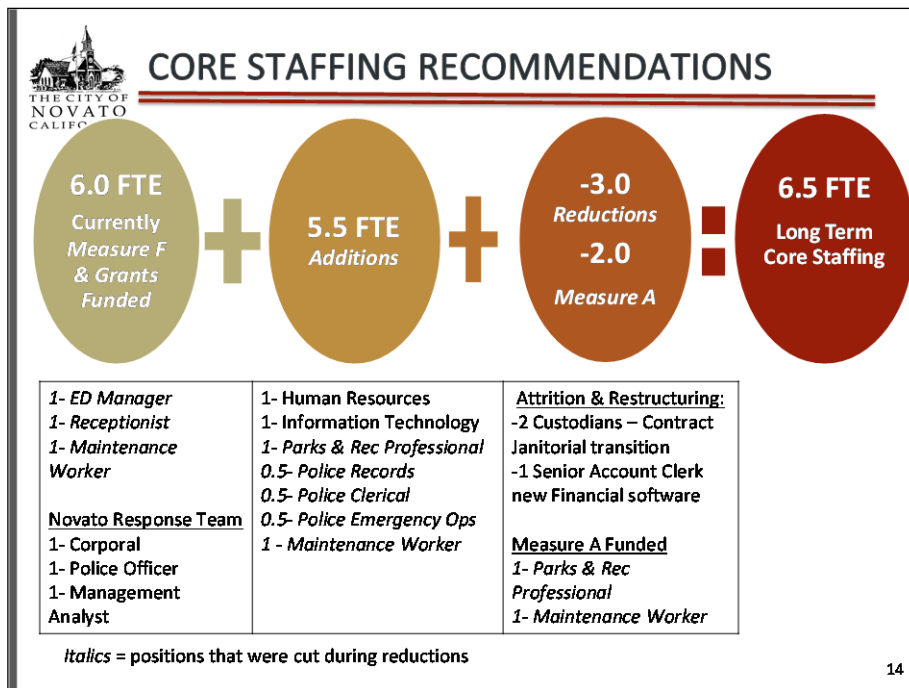
The City’s executive management team is recommending that 11.5 positions be added to the City’s core or base staffing. A list of the positions is in the table below. However, staff believes that there are some staff reductions that can be made and an opportunity for alternative funding that should be utilized.

Restructuring –Management believes that 3 positions can be eliminated through restructuring and contracting out. Through attrition, two Custodian positions can be eliminated with a focus to contract out janitorial services and refocus remaining staff on building maintenance services. With technology improvements, one of the four accounting clerical positions can be eliminated with a more streamlined operation available after a new financial software system is implemented.



Marin County Measure A Funding (Parks & Recreation) – This nine year special tax is to be spent on recreation and maintenance programs and Novato will receive approximately \$400,000 per year. This funding can be used for capital, programs or staffing. Management believes that a backfill of two positions – one for maintenance and one for recreation – is an appropriate use of these funds and would allow services levels to be maintained at current levels.

The recommendations below outline what the City Manager and management staff believes is minimally necessary to meet the goals of the Council and the community based on current services. The overall recommendation is for a net 6.5 positions over existing positions. Below is chart summarizing the recommendation and a table with further information. The slide titled “Future – View of Core” illustrates what the staffing levels would look like if the Staff’s Core Staffing Recommendation was approved in order to allow operational sustainability within the organization.





Core Staffing Summary - City Manager Recommendations				
Position Type	Position Type	Total Cost Estimate	Position Type	Position Type
<b>Customer Service / Clerical</b> (Central Admin)	1.0	\$70,000	Measure F Funded Through FY 13/14 <i>Prior Reduction</i>	Central customer service clearing house for City; provide professional front line consistent assistance to all centralized phone, web, in-person customers.
<b>Manager – Economic Development</b> (Central Admin)	1.0	\$160,000	Measure F Funded Through FY 15/16 <i>Prior Reduction</i>	Maintain and increase City revenue and ability to provide City services through retention and attraction of businesses and jobs.
<b>Human Resource Professional</b> (Admin Services)	1.0	\$140,000	No funding -- At this time	Support line departments with professional human resources and risk management systems ensuring accountability, training and support..
<b>Information Technology Professional</b> (Admin Services)	1.0	\$115,000	No funding -- At this time  New	Software, hardware, and network that allows employees and customers efficient, current and effective technology solutions to improve service delivery and information access.
<b>Parks &amp; Recreation Professional /Analyst (PRCS)</b>	1.0	\$106,000	Fund with Measure A <i>Prior Reduction</i>	Ability to respond to business and community-driven project/requests, preserve and develop collaborative partnerships, and perform analysis for grants and ADA compliance.
<b>Police Officer Partial Augmentation (2 sworn staff / 1 professional analyst)</b> (Police) Novato Response Team -- 1 Corporal, 1 Officer, 1 Analyst	3.0	\$355,000	Grant & Measure F Funded Through 15/16 <i>Prior reduction; realignment of 3 SROs</i>	Neighborhood Response Team - Proactive street crimes & neighborhood intervention law enforcement. Multi-faceted unit provides rapid response to community with emphasis on long-term solutions ranging from gang interdiction to issues surrounding homelessness to neighborhood blight plus liaison with NUSD. <i>(1 less sworn position than in place now.)</i>
<b>Customer Service &amp; Records Support (PT) (Police)</b> 0.5 Position 0.5 Position	0.5 0.5	\$37,500 \$37,500	No funding -- At this time <i>Prior Reduction</i> <i>Prior Reduction</i>	Enhance administrative support for proper customer service, responsiveness and internal staff and public. Ensures that sworn employees focus on higher level duties with efficiency.
<b>Police Professional – Emergency Operations (PT) (Police)</b>  0.5 Position	0.5	\$37,500	No funding -- At this time <i>Prior Reduction</i>	Ensure City is prepared for emergency situations in order to protect community. Focused leadership for emergency operation planning, exercises and training in partnership with Novato Fire District.
<b>Maintenance Work – Parks &amp; Islands (Public Works)</b>  1.0 Position 1.0 Position	1.0 1.0	\$82,000 \$82,000	1 position Measure F Funded Through 13/14; Fund 1.0 with Measure A <i>Prior Reduction</i> <i>Prior Reduction</i>	Preserves existing service levels and reduces deferred maintenance activities to ensure basic safety, functionality and aesthetic standards for streets, parks, islands and active open space areas are realized.
<b>Positions to be Added</b>				
	<b>11.50</b>	<b>\$1,222,500</b>		
<b>Positions to be Eliminated</b>				
	<b>(3.0)</b>	<b>(\$240,000)</b>		Elimination of 2 Custodians and 1 Senior Account Clerk through attrition and realignment.
<b>Positions offset with Measure A</b>				
	<b>(2.0)</b>	<b>(\$188,000)</b>		Fund 1 Recreation & Parks position and 1 Maintenance position with Measure A funds.
<b>General Fund Staffing @ Year 5</b>	<b>6.50</b>	<b>\$794,500</b>		<b>FINAL GENERAL FUND CORE STAFFING SUMMARY</b>





**OPTIONS TOOL – SERVICE LEVELS / STAFFING**

The following options related to service levels and staffing are outlined below with additional background explanations. These options are included in the Fiscal Sustainability Options Tool at the end of this Plan.

Additional Service Level Reductions / Staffing Cuts					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a				\$1,000,000	\$1,015,000

The Core Staffing section of this report details the existing staffing levels within the City, and the Departmental sections describe in detail the service levels currently offered by the City departments and what current service level holes exist. Choosing this option in the Options Tool would save about \$1 million annually in the forecast, but there would be a reduction in existing service levels in Novato. The following is an example of approximately \$1M service level reductions. It is not a recommended course of action. Any actual program or staffing cuts would need to go through public budget processes over a series of years. **THESE ARE FOR ILLUSTRATION PURPOSES ONLY – NOT RECOMMENDATIONS.**

- **Example:** Eliminate transfer of \$300,000 to capital program for facility maintenance
- **Example:** Eliminate Police motorcycle traffic unit including 1.0 Sergeant and 3.0 Police Officers and the resulting reduction in traffic safety (\$300,000)
- **Example:** Reduce 2.0 Maintenance staff including proactive graffiti removal
- **Example:** Reduce either senior or youth programs by \$100,000
- **Example:** Reduce central administration by \$100,000

Additionally, recall that the City currently has seven grant-funded and Measure F positions whose funding expires over the next three years. Selecting this option also implies that those grant-funded positions would go away and would not be renewed or funded by the General Fund in subsequent years.



No Changes – Grant-funded positions eliminated when grants end					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a	-	-	-	-	-

As outlined below, and as detailed in the Core Staffing section of this report, the City has seven positions currently funded by grants and Measure F.

Position	Measure F / Grant Funding
Economic Development Manager	4 years; Measure F Approved through FY 15/16
Novato Response Team (Police Prevention & Intervention Task Force); 2 Police Officer, 1 Corporal, 1 Analyst	3 years of federal COPS grant mandated with 1 year of Measure F funding; Analyst only funded by Measure F for FY 12/13 and 13/14.
Maintenance Worker (Parks & Islands)	1 year of Measure F funding approved for FY 11/12; continued then for FY 12/13 and FY 13/14.
Receptionist	1 year of Measure F funding approved for FY 11/12; continued then for FY 12/13 and FY 13/14.

Selecting this option has no impact on the General Fund deficit because the Forecast does not currently budget to provide any General Fund funding for these positions when they end. The current assumption in the forecast is that limited-term and grant-funded positions end when they are projected to end. That said, all of the above positions are critical services for the City, and selecting the “No Changes” option effectively eliminates these seven positions over the course of several years, thereby reducing service levels in Novato.



Staff Recommended Core Staffing Levels					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a	(\$556,000)	(\$726,000)	(\$737,000)	(\$1,083,000)	(\$844,000)

The reasons and recommendations that encompass the staff-proposed “Core Staffing” proposal are detailed in the Core Staffing section of this report. In order to maintain current service levels to residents in Novato, City Staff recommends a package of “core” staff positions. The term “Core” is meant to describe the baseline staff needed to operate and provide the current service levels being provided to the community in the long term. Some of these positions were cut in the past five years; other functions were not staffed appropriately even before the reductions. Below is a list of the positions to be added. In addition, this recommendation also includes the reduction of three current positions where City staff believes there are opportunities to realign services.

Add these Positions that are Currently Funded by Grants or Measure F	Add these Positions to Restore Prior Reductions and/or to Increase Service Level for Base Operations
Economic Development Manager	Human Resources professional position
Front-desk receptionist	Information Technology professional position
Maintenance Worker	Police Department clerical and records support
Novato Police Response Team (NRT)	Part-time Emergency Preparedness Coordinator
Corporal	Maintenance Worker (funded by Measure A)
Police Officer	Parks and Recreation professional position (funded by Measure A)
Management Analyst	

In total, this option adds 6.5 staff members. It is important to note that, in the opinion of staff and the City Manager, this option represents the minimum level of investment to maintain current service levels after the grants and Measure F expire; not a significant upgrade in community services.



Additional Service Level Enhancements					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a	-	(\$254,000)	(\$515,000)	(\$784,000)	(\$1,061,000)

While the Options Tool contains an item that eliminates positions and reduces service levels, staff and the City Council felt it was appropriate to also include a choice that enhances and improves service levels. Department Heads and the City Manager brainstormed a sample list of enhancements that could be made to City services that would total approximately \$1 million in additional ongoing General Fund expenditures. They also had the benefit of using the preliminary results and conclusions from the Community Satisfaction Survey that was recently conducted by a national survey firm. One aspect of the survey revealed a desire by a majority of respondents for service enhancements in recreation programs for youth, maintenance of streets, and police services.

The following is an **example** of approximately \$1M service level enhancement. Any actual enhancement would need to go through public budget processes over a series of years. These examples are not a recommended course of action, but rather are intended to give an idea, if this option were chosen, of the types of programs that could receive enhancements. **THESE ARE FOR ILLUSTRATION PURPOSES ONLY – NOT RECOMMENDATIONS.**

- **Example:** After school youth programs targeted at at-risk youth promoting character building, fitness, and math and science aptitude
- **Example:** Crime prevention coordinator focused on community safety and best management practices at multi-family housing
- **Example:** Additional street maintenance staff to improve quality of streets and sidewalks
- **Example:** Create position to improve vibrancy of the Downtown and the types and health of businesses
- **Example:** An additional Police Officer to bring to full staffing the Novato Response Team (NRT)

Core Staffing Recommendations + Additional Service Level Enhancements					
One-Time Funds	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
n/a	(\$556,000)	(\$980,000)	(\$1,252,000)	(\$1,867,000)	(\$1,905,000)

This choice adds both of the prior options as described. Thus the total impact to the City’s deficit is approximately \$2 million when fully implemented.



Parks Measure A Options					
	FY 13/14	FY 14/15	FY15/16	FY 16/17	FY 17/18
50% of Parks Measure A			\$200,000	\$206,000	\$212,000
100% of Parks Measure A			\$400,000	\$412,000	\$424,000

The voters in Marin County recently adopted a new quarter-percent sales tax dedicated to funding parks and recreation facilities and programs across the County. A small portion of the money generated from this new tax is dedicated to Cities and Special Districts to enhance recreation and parks in those jurisdictions. Staff estimates that Novato will receive about \$400,000 per year for the nine-year duration of the tax. This money is relatively flexible in how it can be spent, so the City has numerous choices. The two options presented for selection in the Options Tool represent assumptions that either 50% or 100% of the funds would be spent on existing or proposed staffing and programs. This essentially represents a “backfill” of existing General Fund spending, which improves the City’s overall General Fund deficit situation. On the other hand, to the extent that monies are used for existing programs, clearly less funding is available for service-level enhancements, new programs, new facilities, etc. The “Core Staffing” recommendation presented above assumes that one park maintenance position and one Recreation and Parks professional position will be funded with Measure A, but these recommendations will be subject to future budget discussions.

**KEY FINDINGS AND STAFF CONCLUSIONS – SERVICE LEVELS / STAFFING**

Despite the significant reductions in staff incurred over the past few years, Novato is close to having the right mix of personnel and programs to provide a quality level of service to residents. The City organization has been realigned and a “new normal” level of lower staff levels is set for the future. Novato is fortunate to have received some significant grants over the past few years, as well as to have Measure F to help support and backfill some of the most critical community priorities and the associated staff positions. However, staff believes that some key position additions will dramatically assist the entire City. The recent Community Satisfaction Survey outlined preferences for additional services which are generally aligned with staff’s prior recommendations. Some of these positions are direct service-delivery personnel like the continuation of the Police Department Novato Response Team (a dedicated team of one Corporal, two Police Officers and one Analyst) and additional maintenance staff for parks and streets. Some of the proposed positions will help advance the City’s human resources, information technology, and other administrative areas to increase the level of productivity, efficiency, and best practices of the line departments.



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## SECTION 5

# Facilities and Infrastructure



## Fiscal Sustainability Plan




## FACILITIES AND INFRASTRUCTURE


The City of Novato has a wide variety of facilities, infrastructure, and other physical assets under its care and ownership. These facilities vary widely by type of use, age, and condition. Some facilities are used most days of the week (Margaret Todd Senior Center). Other structures are historic and have not been used for decades such as the Hamilton Hospital. Still others, such as roads and pavement, are used at all hours of the day and night. Additionally, the City has assets that most residents never even notice or think about such as retaining walls, levees, pump stations, and drainage facilities. The City has a responsibility to maintain these assets to preserve the public investment, to protect life and safety, and to enhance the beauty and quality of life in the community. Novato also has many assets that provide recreational opportunities to residents while generating significant revenue for the City. Proper maintenance of all these facilities is critical in the long term.

In an effort to fully understand the value, longevity and ongoing service needs of these assets, the City has initiated a series of studies to inventory, assess and evaluate a number of key operations related to City infrastructure. These studies have helped staff to more fully understand all of the City’s assets and facilities to ensure that the appropriate resources are identified to maintain them in good working order for the benefit of the entire community.


### Assets & Infrastructure




- 151 miles of streets
- 39 Signals  
*(31 maintained by City and 8 by Caltrans)*
- 3,874 Street lights
- 300 Supporting poles



- 133 miles of Storm Drains
- 4,576 Inlets and manholes
- 3.2 miles of creeks
- 44,000 linear ft. of natural and concrete ditches
- 2 Pump stations



- 34 Parks (228 acres)
- Skate Park
- 4 Athletic fields
- 73 acres of grounds



- City Hall on Sherman
- Corporation Yard
- Margaret Todd Senior Center
- Gymnastics Center
- Hamilton Properties
- Hill & Hamilton gyms
- Police Facility
- Hamilton Pool



Studies that have been initiated and completed to date include:

- Facilities Condition and Maintenance Report (i.e. City buildings) – Completed in 2013
- Roadway Infrastructure / Pavement Condition – Completed in 2011; 2013 update is in progress
- Storm Drain Master Plan – Development of Plan budgeted to commence in FY 2013/14
- Bridges – Annual reports generated by CalTrans
- Streetlights – Maintained by Marin General Services Authority
- Traffic Signals – Recently negotiated new maintenance contract; citywide signal timing evaluation in progress; completion in June 2013
- Retaining walls – Study budgeted to commence in FY 2013/14
- Multi-use pathways – To be determined
- Parks – Study similar to Facilities Condition Report above in progress
- Landscape Maintenance – Completed in April 2013
- Fleet Utilization Study – Completed in June 2010

This section will review the various components of the City’s infrastructure and assets and provide a status of their condition and the associated fiscal implications and options.

## City Buildings

The City owns a significant number of buildings, about 15 of which would be considered “actively used”, with many more either not operational or only rarely used. The 2013 Facility Condition and Maintenance Report, mentioned above, examined the status and maintenance needs of each of the 15 actively used facilities, and outlined the condition of every system in each building (roof, walls, plumbing, electrical, HVAC, structural, flooring, etc).

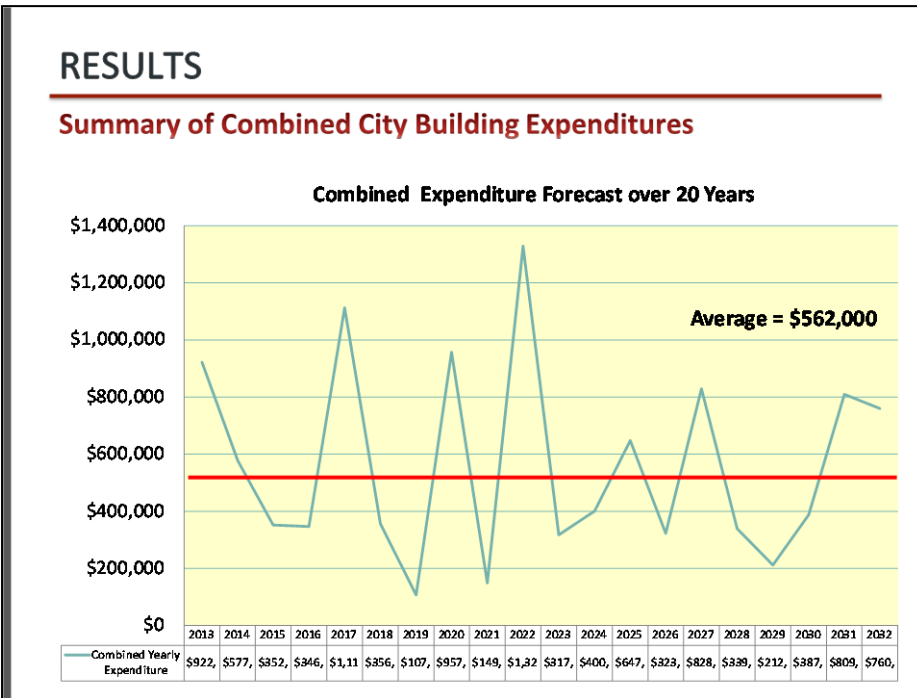
The detailed report also put together a 20-year maintenance plan for every building, taking into account the current condition of the systems as well as the expected useful life and immediate maintenance needs to be addressed. The study included a detailed maintenance plan in addition to cost estimates for a 20-year horizon.





The *2013 Facilities Studied* table lists the facilities that were included in the study, and those that were not. The overall report card for City facilities is good. There is only one facility in poor condition – the old Hamilton Gymnasium. (With the construction of the new shared gymnasium at Hamilton School, the Council will make a decision in the future about the disposition of the older facility.)

Some deferred maintenance was identified totaling approximately \$920,000, with two-thirds of that total associated with the old Hamilton Gymnasium. Additionally, a routine maintenance program spanning the 20-year horizon was identified for each facility.



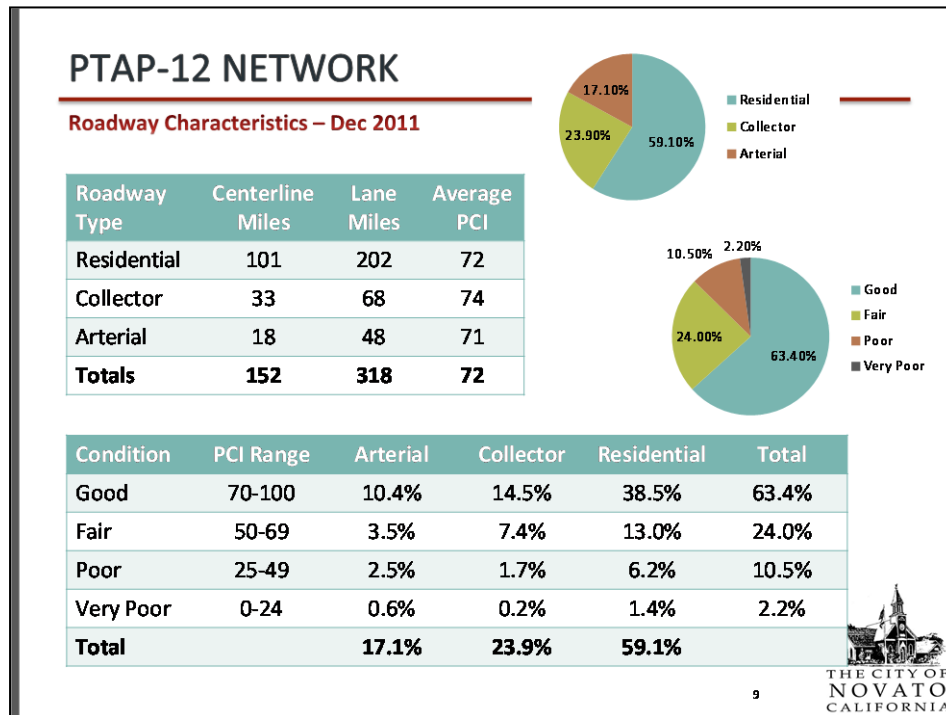
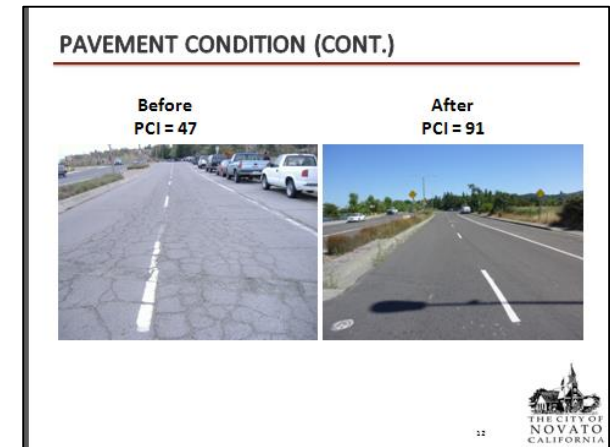
While there will be peaks and valleys in terms of what and when projects need to be completed, the average expenditure required over the 20 year horizon is about \$562,000 per year. Removing the Old Hamilton Gym from the equation drops the current deferred maintenance requirement to only \$247,000 and reduces the annual required expenses to approximately \$500,000. Furthermore, some City facilities have active leases or other funding sources that can be used to pay for identified maintenance activities (i.e. non-General Fund sources). Accounting for the other outside funding sources reduces the annual contribution from the General Fund to an estimated \$400,000 per year. The *Results* chart shows the original information from the consultant’s report projecting forward the annual expenditure costs until 2032.

2013 Facilities Studied - Report	
Facilities Included in the Analysis	Facilities Not Included in this Analysis
<ul style="list-style-type: none"> <li>▪ City Council Chambers</li> <li>▪ Police Department</li> <li>▪ Downtown Recreation Center (Gymnastics)</li> <li>▪ Margaret Todd Senior Center</li> <li>▪ Hill Gymnasium &amp; Community Room</li> <li>▪ Corporation Yard Building and Maintenance Buildings</li> <li>▪ Lu Sutton Child Care Trailers</li> <li>▪ Postmaster’s House (History Museum)</li> <li>▪ Carlile House (Chamber of Commerce tenant)</li> <li>▪ Hamilton Community Center</li> <li>▪ Hamilton Pool &amp; Bath House</li> <li>▪ Hamilton Gym &amp; Bowling Alley</li> <li>▪ New Hamilton Gym</li> <li>▪ Hamilton Firehouse</li> <li>▪ Hamilton Arts Center Complex</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hamilton Vacant Buildings                             <ul style="list-style-type: none"> <li>○ Hospital, Theater, BOQ, Officer’s Club</li> </ul> </li> <li>▪ Downtown Vacant Buildings                             <ul style="list-style-type: none"> <li>○ Simmons, Hanen, Scott, Community House</li> </ul> </li> <li>▪ Facilities City Does Not Maintain                             <ul style="list-style-type: none"> <li>○ Morning Star, Miwok Museum</li> </ul> </li> <li>▪ Park Bathrooms and Other Structures</li> <li>▪ New City Administrative Offices</li> <li>▪ Infrastructure                             <ul style="list-style-type: none"> <li>○ Roads, Storm Drains, Retaining Walls, Lights, etc.</li> </ul> </li> </ul>



## Roadway Infrastructure and Pavement Condition

Streets and pavement are a critical City-owned infrastructure, and maintaining them in good condition helps support smooth, safe traffic flow for residents, businesses and safety personnel in Novato. Pavement condition is typically measured by “Pavement Condition Index”, or PCI. Every two years, the City partners with the Metropolitan Transportation Commission (MTC) to conduct a pavement condition assessment of City streets. This assessment provides the City with a comprehensive evaluation to guide the development of a cost-effective pavement rehabilitation strategy and program. The *PTAP-12 Network* slide shows the results for 2011; Novato’s pavement condition was rated a 72 on a scale of 0 – 100 by MTC. This rating is considered in the category of “good” and ranks Novato within the top 30 percent of Bay Area cities and counties in terms of overall pavement quality and condition. The *PTAP-12 Network* slide gives a summary of the results from this study, broken down by arterial streets, connector streets, and residential streets.



Funding for street maintenance comes from a few different sources; unfortunately, some of those sources are drying up and may be less available or not available at all in the future. Prior to 2012, Novato was spending about \$1.5 million a year from the locally adopted \$15,000,000 Infrastructure Bond Measure B, which was approved by the Novato voters in 2000 for street and pavement maintenance. This funding expired in 2012 and all funds have been spent or allocated to qualifying projects. Gas tax also provides a substantial revenue source, contributing about \$1.3 million annually to street maintenance.

Finally, the City receives approximately \$450,000 annually from the Countywide Transportation Measure A, a locally adopted sales tax to support transportation initiatives in Marin County. Given the above, the lack of additional bond funding will significantly constrain the City’s ability to continue to maintain roads in “good” condition resulting in ongoing pavement degradation. Furthermore, with the gas tax having no built-in escalator for inflation and the purchase of electric cars on the rise, the potential for gas tax funding to decline over time is likely.



Related to the issue of pavement condition and funding is the fact that maintaining and preserving the existing pavement is significantly less expensive than rebuilding a street from the sub-base upward. Properly maintaining a street in good condition usually costs about six to eight times less than it does to reconstruct a street. For this reason, as well as the desire to continue to have quality streets in Novato, the final fiscal sustainability plan should consider the funding levels for pavement maintenance and how that fits into the long term funding sources available to the City.

## Storm Drains and Drainage

The storm drain system is the network of pipes, ditches, culverts and gutters that direct and move rainwater from the roadways and private property into the proper drainage channels and creeks, ultimately ending up in the bay. The system, built over many years (most by private developers), traverses both public and private property and is owned both by the City as well as private property owners. The City has been, and is currently, in a reactionary mode with respect to storm drain maintenance.



There is limited dedicated funding for storm drain repair and maintenance. The stormwater runoff fee, which is an assessment on property tax bills for clean stormwater programs, generates about \$350,000 annually for the City. Portions of this fee are used to contribute to countywide services provided by the Marin County Stormwater Pollution Prevention Program (MCSTOPPP), while the remainder is programmed for Novato's own activities and projects. The development impact fee charged on new development in the City also has a storm water component but can only be used for capital projects and has a "City match" aspect, such that the City must use additional funds from the General Fund or other sources to match the contributions from the fees.

The City Council has approved for the 2013/14 fiscal year funding to begin developing a storm drain master plan. This report would act similarly to the facilities condition report discussed earlier, giving the City a complete picture of its storm drain assets and their locations, conditions, and sizes. It will also provide a schedule of recommended maintenance and associated costs to comply with the maintenance program. Until this project is complete, it is unclear what the proper level of funding for storm drain maintenance should be.





## Bridges

The City of Novato maintains 18 bridges and many other smaller pedestrian-oriented bridges. Additionally, we are responsible for maintaining the Atherton / San Marin overcrossing over Highway 101 per an agreement with Caltrans. For many years, the City has been diligent and fairly successful at receiving grants and other funding sources to retrofit and improve bridges. Over the past 10 years, Novato has received approximately \$2 million in grant funds to replace two bridges – the Simmons Lane bridge and the Center Road bridge. Additionally, we have been approved for an additional \$1 million in funding to improve the Grant Avenue bridge, currently in the design phase and is anticipated to be constructed in FY 2014/15. Other than outside funding sources, there is no typical annual budget or program for bridge repair and maintenance projects.



Caltrans performs an annual bridge assessment that represents a comprehensive evaluation of both the structural safety and the projected longevity of every bridge. Despite the average age of Novato’s bridges being 53 years old, most of the comments indicate that the structures are in good condition with no major issues.

## Streetlights

Most of the roughly 3,900 streetlights in Novato are actually owned by the Marin General Services Authority (MGSA) through a joint powers agreement designed to manage the maintenance of streetlights throughout Marin County. While the MGSA owns the physical lights and poles, each agency is responsible for monthly maintenance activities, electric bills and any capital improvement projects. The City has adopted an annual operating budget of \$111,000 annually for the maintenance contract.

In 2011, Novato began a program of replacing all of its streetlights with high efficiency LED bulbs. The first two phases, completed in 2012, converted 1,400 lights, at an annual savings of about \$60,000 annually. On the Fiscal Sustainability Options Tool, later in this report, the reader will note that staff has included an option that would entail spending about \$1.2 million in one-time funds to replace the remaining 2,500 streetlights and save the City more than \$130,000 annually.



Traffic Signals

The City owns 31 traffic signals, 1 pedestrian-actuated flasher, and 5 radar feedback signs. These assets are maintained under a contract which is paid out of the annual operating budget. The City recently solicited bids for the maintenance contract and awarded a contract that was fiscally superior to the prior contract. The *Traffic Signals & Street Lights* slide details the old and new contracts.

**TRAFFIC SIGNALS & STREET LIGHTS**

**Traffic Signals**

- Current contract (2005) – 22 signals included
  - Siemens (formerly Republic Electric)
  - Annual budget of \$120,000
  - Based on estimate of \$473/signal/month
  - Painting 3 signals per year (poles, cabinets & backplates)
- Proposed contract (2013) – Full City infrastructure
  - Recommending Siemens – Contract approval to Council in April
  - Proposed annual budget = \$107,000
  - \$140/signal/month + \$70/other device/month = \$57,000/year
  - Out-of-Scope (T&M) Service = \$50,000 per year
  - Painting included as out-of-scope service





## Retaining Walls

The City owns a variety of retaining walls throughout town, but the actual number, height, and length of all of the retaining walls in Novato is currently unknown. Many walls were built when subdivisions were originally constructed, with no clear demarcation or inventory of what is City owned. Some walls even pass across private and public property, further obscuring maintenance responsibility. Furthermore, conditions of retaining walls can vary depending on differing soil conditions and drainage patterns along the same length of wall.

Most of the retaining walls in Novato are wood construction and nearing or at the end of their useful lives. A full assessment is needed to collect all of this currently spotty or unknown data and recommend a replacement schedule and cost estimates. This study would function similar to the other condition analysis studies mentioned above for the other infrastructure categories. There is funding budgeted in the capital improvement program to conduct this study in FY 2013/14.

In the *Retaining Walls* slide, the reader can see the range of costs for repairing and/or replacing a section of retaining wall. As an illustration, the other slide shows an analysis for retaining walls on Indian Hills Drive which outlines the different possible choices. A full report, which will occur in FY 13/14, regarding the condition and potential costs for retaining walls will help guide the City in its maintenance of this infrastructure.

## RETAINING WALLS

### Case Study: 165-foot wood retaining wall with a 50-foot failing section

1. Replace failing 50 foot section with in-kind materials; freeboard and drainage improvements for entire length
  - Cost = ~\$25,000 or \$500/foot
  - Life = 10-15 years
2. Replace entire 165 foot wall with steel soldier piles and timber lagging; freeboard and drainage improvements included
  - Cost = ~\$71,300 or \$432/foot
  - Life = 30-40 years (the timber lagging has a 20 year life)
3. Replace entire 165 foot wall with reinforced concrete; freeboard and drainage improvements included
  - Cost = ~\$125,000 or \$758/foot
  - Life = 40-50 years
4. Replace failing 50 foot section with in-kind materials with maintenance staff
  - Cost = ~\$14,000
  - Life = 10-15 years



Miller Pacific ENGINEERING GROUP		Project No. 396.36		March 2013		Page 2 of 2	
Site 1	101 Indian Hills Drive	Lat. 38.0769	Lon. -122.5730	Category: Retaining Wall	Area: Ignacio Valley		
<b>SITE DESCRIPTION:</b> Approximately 165 LF timber-lagging retaining wall, ranges from 2 to 5-feet high, retains weathered sandstone slope ranging from 2:1 (H:V) at north to 3:1 at center and south. Wall consists of 4x4 timber posts and 2x12 lagging with 2x10 cap boards.							
<b>MARCH 2013 CONDITION:</b> Northernmost 30-feet of 5-foot high section appears recently replaced. Approximate 50 LF section at center of 5-foot high wall failed, posts leaning and rotted, no apparent slide above. Wall has no freeboard and no ditch behind, note existing V-ditch from higher on slope discharges through base of wall at south end to roadway gutter pan.							
<b>CONDITION: 7</b>		1=GOOD, 10=POOR		<b>DAMAGE POTENTIAL: 2</b>		1=LOW, 10=HIGH	
				<b>PRIORITY RATING: 14</b>			
<b>REPAIR OPTION 1:</b> Replace failed center section with 50 LF new posts and lagging. Excavate soil debris from behind top and back of wall to create 6" freeboard and wall drainage layer.				<b>REPAIR OPTION 2:</b> Replace entire wall (165 LF) with new steel soldier-pile and timber lagging wall and drainage.		<b>REPAIR OPTION 3:</b> Replace entire wall (165 LF) with new reinforced concrete wall. Construct 165LF perforated backdrain and 165 LF concrete v-ditch, discharge both to (E) ditch at south end.	
ESTIMATED COST: \$25,000				ESTIMATED COST: \$71,300		ESTIMATED COST: \$112,725	



Multi-Use Pathways

Novato currently owns and maintains 5.62 miles of multi-use (class I) pathways. These are dedicated paved pathways for walking, biking, and other recreational use. They are not included in the roadway infrastructure report mentioned above, so staff currently does not have detailed knowledge of the PCI of every stretch of pathway. That said, even from casual observation, it is clear that the pavement condition varies greatly.

For multi-use pathways, it is relatively easier to apply for and receive outside funding to construct new pathways when compared to locating funds to pay for maintenance and repair of existing pathways. The City has been successful in receiving multiple grants recently to construct new sections of path, including a \$1.9 million commuter bike connection and a commitment from SMART to construct three different segments along the rail line through Novato. On the other hand, maintenance of pathways can only be funded by a few limited sources: TDA Article III funding, Gas Tax (which, if used, would reduce the amount available for road maintenance), and the Transportation Authority of Marin Measure B funds (new surcharge on vehicle license fees in Marin). For example, the City was recently awarded \$127,000 of TDA Article III funds to resurface a pathway in the Bel Marin Keys area, but there is not a large pool of funding for these types of projects. Using the funding in this example, staff has calculated that it would take approximately a \$50,000 per year investment to continue to maintain and preserve Novato’s multi-use paths in good condition. The *Multi-use (Class I) Pathways* slide is further information about the Bel Marin Keys example.

**MULTI-USE (CLASS I) PATHWAYS**

**Case Study: Bel Marin Keys (Frosty Lane) Multi-Use Path**

- Approximately 3,300 lineal feet (0.6 mile)
- Hanna Ranch Road south to Hamilton Drive
- Constructed in 70s following Highway 101 Freeway project
- Minor pavement maintenance since construction
- Daytime use only due to lack of lighting
- January 2012 - Received \$127k of TDA Article III in to resurface/reconstruct
- Roughly \$4.50 per SF to rehabilitate
- Scheduled for FY 13/14
- **At 237,000 SF system maintenance is approximately \$1.1M with a 20 year life**
- **~\$50,000 per year**



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## Parks, Play Equipment, Sports Fields, Activity Areas, Medians

The City maintains a robust park system and other facilities for outdoor recreation. It is also responsible for maintaining many of the medians, islands, and other landscaped public areas within the City.

In aggregate, these include:

- 230 acres of parkland
- 450 individual landscaped areas
- 85 acres of islands and medians
- 11 sports fields and outdoor activity areas (including Hamilton Pool, Thigpen, Hill Recreation Area, etc)

The City employs a team of 11 full-time staff members (down from 16 several years ago, a 31% decline) dedicated to maintaining the City's parks, recreation and landscape facilities. As staffing has been reduced, the focus has shifted more to the high-use parks and the main thoroughfares' islands and medians. Less attention is given to smaller neighborhood parks and secondary and tertiary roadway medians and landscaped areas.

Park and recreation projects are typically funded through the capital budget as the needs arise. For example, for FY 2013/14, multiple tennis courts in the City were identified as having a pressing need to be resurfaced for safety purposes, therefore the City has included those projects in the capital budget for the upcoming fiscal year. Development impact fees provide Novato with a significant funding source for parks and open space improvement projects; however, as with other DIF funds, a very sizable match is required. It occasionally can take years to accumulate the appropriate funds. Parks and recreation projects can also be funded with General Fund, grant sources, and the new County Measure A sales tax.





**OPTIONS TOOL – FACILITIES AND INFRASTRUCTURE**

The following options related to facilities and infrastructure are outlined below with additional background explanations. These options are included in the Fiscal Sustainability Options Tool at the end of this Plan.

<b>Fully fund facilities maintenance, as well as storm drains, bridges, retaining walls, and multi-use pathways</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$332,000)	(\$340,000)	(\$349,000)	(\$358,000)	(\$366,000)

As outlined in the Facilities and Infrastructure background section, the City has a wide variety of infrastructure for which it is responsible, including streets, storm drains, parks and recreation facilities, City-owned buildings, street lights, traffic signals, retaining walls, and multi-use pathways. For purposes of the Fiscal Sustainability Options Tool, staff has broken out the Streets maintenance funding into two separate options, described below. Funding for the remaining components of City infrastructure is captured in this section of the Options Tool.

The City currently has included a \$300,000 contribution for long-term maintenance in the baseline forecast assumptions. To increase this amount to the level recommended by the Facilities Condition Report would require an additional \$100,000 per year. For the other infrastructure components, many of these areas require additional research and analysis to obtain more concrete estimates of the future maintenance costs. Additionally, street light maintenance and traffic signal maintenance are currently funded out of the operating budget, and parks and recreation area projects are typically funded with development impact fees, grants and County Parks Measure A funds which allow us to exclude those components of the infrastructure from this section; however, the recommended staff-estimated funding levels for the other infrastructure components are as follows:

	<b>Recommended Funding</b>	<b>Amount Assumed in Forecast</b>	<b>Difference</b>
City Buildings	\$400,000	\$300,000	\$100,000
Storm Drains	\$75,000	\$0	\$75,000
Bridges	\$20,000	\$0	\$20,000
Retaining Walls	\$100,000	\$0	\$100,000
Multi-Use Pathways	\$50,000	\$0	\$50,000
<b>Total Funding Option for Options Tool</b>			<b>\$345,000</b>





These funding estimates are based on a combination of recommendations from the various studies, extrapolations of current work efforts and/or professional judgment by staff. Over time, it may be necessary to increase or decrease these funding levels based on the more complete analytical studies once completed.

<b>Fund streets / pavement / bike / pedestrian maintenance to maintain 2011 PCI levels</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$300,000)	(\$308,000)	(\$315,000)	(\$323,000)	(\$331,000)

Per the 2011 pavement condition report, one of the scenarios that the report analyzed was the amount of expenditure required to maintain Novato’s PCI at the 2011 level (PCI of 72 = “Good”). The amount estimated by the report was approximately \$2.7 million annually. Summing all of the available funding sources for street maintenance, Novato currently budgets approximately \$2.4 million annually. Thus, this item in the Options Tool would dedicate an additional \$300,000 annually from the General Fund toward street maintenance.

<b>Fund additional infrastructure investments equivalent to Measure B levels</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$1,500,000)	(\$1,538,000)	(\$1,576,000)	(\$1,615,000)	(\$1,656,000)

As mentioned in the Facilities and Infrastructure background section, the City was utilizing Infrastructure Measure B bond funds through March 2012 that injected an extra \$1.5 million per year into the street repair capital improvement program. Those funds have now expired and are fully expended. This item in the Options Tool would infuse \$1.5 million additional funding for street maintenance consistent with the Measure B funding level of about \$3.9 million annually. This item would actually increase Novato’s PCI from a current level of 72 to a level five years from now of about 78. Despite that, even with this additional level of funding, a significant deferred maintenance component would still exist, albeit much less than if the City did not fund the additional \$1.5 million annually.



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## **KEY FINDINGS AND STAFF CONCLUSIONS - FACILITIES AND INFRASTRUCTURE**

Being a proper steward of the public’s infrastructure investments is one of the key responsibilities of local government. To date, the residents of Novato have been quite supportive of maintaining streets and pavement, having approved several bond measures over the past decades. With all Bond Measure B funds having been expended, however, Novato is at a crossroads with its infrastructure funding. Armed with substantial additional information and analysis, plus more on the way, staff is gaining a better understanding of the condition of Novato’s infrastructure and what it will take to maintain it into the future. That said, at the same time, funding sources have the potential to dwindle over time, so the question becomes how these key capital projects will be funded. Staff is supportive of dedicating some General Fund resources to maintaining active buildings and other types of infrastructure that may not have another dedicated revenue source. However, staff also realizes that the significant investment and importance of the roadway infrastructure in Novato may require another funding source if significant improvements in quality are to be made.



# Section 6

# Sustainability Options Tool



**Fiscal Sustainability Plan**



<b>Initial Surplus/Deficit Forecast – Deficit from May 2013 Budget Forecast</b>					
	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
	(\$301,000)	(\$482,000)	(\$371,000)	(\$413,00)	(\$520,000)
<b>REVENUE AND ECONOMIC DEVELOPMENT OPTIONS</b>					
<p>The five-year forecast projects a \$520,000 deficit in FY 2017/18, meaning that expenditures exceed revenues on a year-to-year basis. This section focuses on increasing revenues to eliminate the deficit accumulated over a five-year period.</p> <p>The City of Novato’s total General Fund revenue for FY 2013/14 is approximately \$31 million. Like most cities, property and sales taxes are the two largest sources of revenue. Compared to all other Marin County cities, the City of Novato generates the lowest amount of tax revenue per capita (per person in the population).</p> <p>Tax revenue can be increased in a number of ways, but we focus on two key methods in the Options Tool - through voter-approved tax increases or through economic development.</p>					
<b>Contingency for State of California Revenue Takeaways/Shifts</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$50,000)	(\$100,000)	(\$150,000)	(\$200,00)	(\$250,000)
<p>Recent State actions have impacted the City’s budget including the elimination of Agencies and the elimination of the vehicle license fee transfer to cities. This option creates a buffer for unforeseen future State actions that could further impact the City.</p>					
<b>Pursue Options to Collect Refused Road Impact Fee</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a				\$350,000	\$350,000
<p>In most cities, the waste (garbage) hauler pays a franchise fee to the City for the exclusive right to operate the service for residents. Some franchise agreements also charge the hauler some version of a “Road Impact Fee” to compensate for the wear and tear that the hauler causes. The fees pay for the maintenance and improvement of the public streets within the City that are impacted by these heavy trucks regularly driving on City Streets. In Novato, the waste hauler is managed by Novato Sanitary District and does not pay a road impact fee to the City to drive on its roads. This option, if actively pursued, assumes the City could negotiate with the Novato Sanitary District and begin collecting a road impact fee from the waste hauler.</p>					



Voter Approved Options					
	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
¼ cent Sales Tax (0.25%)				\$2,200,000	\$2,266,000
⅜ cent Sales Tax (0.375%)				\$3,300,000	\$3,399,000
½ cent Sales Tax (0.5%)				\$4,400,000	\$4,532,000

Each of the following options proposes an on-going voter approved sales tax. Sales tax is a general purpose tax paid by all consumers purchasing goods and services in the City. Visitors and residents making purchases (excluding groceries and prescriptions) would be subject to the tax.

Measure F, a 5 Year ½ cent sales tax increase was approved by Novato voters in November 2010.

An on-going 0.25% sales tax would generate \$2.2 million annually. If a visitor or resident made a \$100 purchase in Novato, she or he would pay an extra 25¢ as compared to if the tax were not in place.

An on-going 0.375% sales tax would generate \$3.3 million annually. If a visitor or resident made a \$100 purchase in Novato, she or he would pay 38¢ more on the bill as compared to if the tax were not in place.

An ongoing 0.50% sales tax would generate \$3.3 million annually. If a visitor or resident made a \$100 purchase in Novato, she or he would pay 50¢ more as compared to if the tax were not in place. This is the same amount as the current Measure F sales tax which expires in March 2016.



Economic Development Options					
	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
Status quo economic development	-	-	-	-	-
\$500,000 ongoing revenue					\$500,000
\$1,000,000 ongoing revenue					\$1,000,000
\$1,500,000					\$1,500,000

With the loss of Redevelopment Agencies (primarily responsible for creating incentives, constructing infrastructure, assembling parcels, or other mechanisms to attract new businesses and developments), the City has limited funding for the purchase of property or business recruitment and retention efforts. The goal of economic development is to increase revenue for the City of Novato and improve the health of the local economy. Seventy-five percent of the City’s annual tax revenue comes from property tax (\$6.5 million) and sales tax (\$12 million). The City can influence economic development by actively marketing Novato as a viable business community, building relationships with current business owners, facilitating strategic public/private partnerships and changing zoning laws and granting entitlements. The City’s Economic Development Manager and staff developed an Economic Development Strategy for the City of Novato that aims to increase sales tax revenue, help existing businesses grow and expand, recruit new businesses and clusters of industry, encourage high paying jobs, and promote development that fits with the communities’ character.

This set of options provides three tiers of estimated revenue that could be generated by economic development. The estimated revenue generation comes from potential development at Hanna Ranch, North Redwood Corridor, Hamilton Air Force base and a variety of vacant and underused sites within the City, but does not specifically anticipate any particular development.

Economic Development - No additional revenue by FY 2017/18 - This option assumes that any new revenue generated is offset by loss of revenue to new retail developments to the north and south of Novato.

Economic Development - \$500k additional revenue by FY 2017/18 - This option assumes the City of Novato can generate \$500,000 in new and on-going revenue through economic development efforts by 2017.

Economic Development - \$1.0M additional revenue by FY 2017/18 - This option assumes the City of Novato can generate \$1 million in new and on-going revenue through economic development efforts by 2017.

Economic Development - \$1.5M additional revenue FY 2017/18 - This option assumes the City of Novato can generate \$1.5 million in new and on-going revenue through economic development efforts by 2017.





EXPENDITURE / DEPARTMENTAL OPTIONS					
The Public Works Department and Parks, Recreation and Community Services Department have put forward four options that require one-time investment of funds, but save the City money on an ongoing basis.					
Install Synthetic Turf Sports Fields/Park Improvements					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
\$1,300,000		\$130,000	\$130,000	\$130,000	\$130,000
This option includes installing synthetic turf sports fields and a bocce ball court. The one-time investment pays for the initial construction and installation. The projected savings are a combination of lower maintenance and utility costs as a result of the synthetic turf fields (use less water and require less labor hours to maintain) and revenue generation from fees for use and rental of the bocce court complex. The ROI (return on investment is estimated at 10 years.)					
Replace All Remaining Streetlights with LED Bulbs					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
\$1,200,000		\$132,000	\$136,000	\$140,000	\$144,000
Two-thirds of streetlights within the City have been converted to LED bulbs which use less energy and reduce the City's utility bills. This option invests \$1.2M of one-time funds to complete the streetlight conversion. This option creates savings for the City that will increase over-time because as utility rates go up, the City will be using less energy and thus paying a lower bill. The ROI (return on investment is estimated at 8 years.)					
Use One-Time Funds to Pay Off Corporation Yard Lease					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
\$1,200,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
In 2004, the City made improvements to the Public Works Corporation Yard. The "Corp Yard" is the home-base for all Public Works crews in the City and where all road, park and landscape maintenance equipment is stored. The City's General Fund borrowed \$1.8M at a 1.3% interest rate and still owes \$1.2M. This option would pre-pay the loan with one-time funds and save about \$100,000 per year on debt payments for the next 12 years. The ROI (return on investment is estimated at 12 years.)					



SERVICE LEVELS ADDITIONS / REDUCTIONS OPTIONS					
<p>City employees are service providers to residents in Novato. Each service and program offered by the City is supported by various staff members. Since 2008, the City’s staffing levels have decreased by 50 employees – a 24% reduction of City’s employees. With these reductions, the City has changed how it delivers some services and worked to improve efficiency, but the City has also reduced the level of service provided to City residents. Additionally, current staffing levels are being supported by a number of grants and temporary funding sources. Within a current workforce of just over 180 full-time equivalent staff, 6.5 positions are being funded with temporary sources that will expire with the next 1-3 years.</p> <p>This section includes options that will continue, reduce or increase the level of services provided to residents by increasing or reducing the number of employees working for the City.</p>					
Additional Service Level Reductions/Staffing Cuts					
One-Time Funds	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
n/a				\$1,000,000	\$1,015,000
<p>This option cuts \$1 million of City services provided to the community. These reductions can help balance the structural deficit, but would significantly impact levels of service.</p> <p>The following is an <u>example</u> of approximately \$1M service level reductions. Any actual program or staffing cuts would need to go through public budget processes over a series of years.</p> <ul style="list-style-type: none"> <li>▪ Example: Eliminate transfer of \$300,000 to capital program for facility maintenance</li> <li>▪ Example: Eliminate Police motorcycle traffic unit including 1.0 Sergeant and 3.0 Police Officers and the resulting reduction in traffic safety (\$300,000)</li> <li>▪ Example: Reduce 2.0 Maintenance staff including proactive graffiti removal</li> <li>▪ Example: Reduce either senior or youth programs by \$100,000</li> <li>▪ Example: Reduce central administration by \$100,000</li> </ul>					
No Changes – Grant-Funded Positions Eliminated When Grants End					
One-Time Funds	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
n/a	--	--	--	--	--
<p>Measure F and Grants provide funding for six employee salaries (referred to as positions). The positions include: Economic Development Manager, Front-desk receptionist, Maintenance Worker and the Novato Response Team (a dedicated police team focused on crime prevention, suppression and early intervention comprised of a Corporal, 2 Police Officers and a Management Analyst. Both funding sources will expire in the near future effectively eliminating the positions. This option does not offer alternative funding sources for the six positions. This option means no backfill of these grant funded positions when the funding is completed -- service levels to residents will decrease with the expiration of these six positions. Financially, there is no net gain or loss but as mentioned above, but service levels will decrease due to elimination of staff.</p>					



Staff Recommended Core Staffing Levels					
One-Time Funds	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
n/a	(\$556,000)	(\$726,000)	(\$737,000)	(\$1,083,000)	(\$844,000)

In order to maintain current service levels to residents in Novato, City Staff recommends a package of "core" staff positions. The term "Core" is meant to describe the baseline staff needed to operate and provide the current service levels being provided to the community in the long term. Some of these positions were cut in the past five years; other functions were not staffed appropriately even before the reductions.

Specifically, this package includes continuing the following positions currently being funded by Grants or Measure F:

- Economic Development Manager
- Front-desk receptionist
- Maintenance Worker
- Novato Police Response Team (NRT)
  - Corporal
  - Police Officer
  - Management Analyst

And adds or restores the following staff positions

- Human Resources professional position
- Information Technology professional position
- Police Department clerical and records support
- Part-time Emergency Preparedness Coordinator
- Maintenance Worker (funded by County Parks Measure A)
- Parks and Recreation professional position (funded by County Parks Measure A)

This option also eliminates three current positions where City staff believes there are opportunities to realign services.

In total, this option adds 6.5 staff members. It is important to note that, in the opinion of staff and the City Manager, this option represents the minimum level of investment to maintain current service levels after the grants and Measure F expire; not a significant upgrade in community services.



Additional Service level Enhancements					
One-Time Funds	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
n/a	--	(\$254,000)	(\$515,000)	(\$784,000)	(1,061,000)
<p>This option adds \$1 million for service level enhancement to be provided by the City. The City of Novato has conducted a Community Satisfaction Survey which revealed a desire by a majority for service enhancements in recreation programs for youth, maintenance of streets, and police services.</p> <p>The following is an <u>example</u> of approximately \$1M service level enhancement. Any actual enhancement would need to go through public budget processes over a series of years.</p> <ul style="list-style-type: none"> <li>▪ Example: After school youth programs targeted at at-risk youth promoting character building, fitness, and math and science aptitude</li> <li>▪ Example: Crime prevention coordinator focused on community safety and best management practices at multi-family housing</li> <li>▪ Example: Additional street maintenance staff to improve quality of streets and sidewalks</li> <li>▪ Example: Create position to improve vibrancy Downtown and the types and health of businesses</li> <li>▪ Example: An additional Police Officer to bring to full staffing the Novato Response Team (NRT)</li> </ul>					
Core Staffing Recommendations + Additional Service Level Enhancements					
One-Time Funds	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
n/a	(\$556,000)	(\$980,000)	(\$1,252,000)	(1,867,000)	(\$1,905,000)
Parks Measure A Options					
	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
50% of Parks Measure A			\$200,000	\$206,000	\$212,000
100% of Parks Measure A			\$400,000	\$412,000	\$424,000
<p><u>50% of Parks Measure A</u> - In 2012, Marin County voters passed a temporary (9 years) ¼ cent sales tax measure to fund the protection of natural places, local parks and family farms in Marin County. The City of Novato expects to receive \$400,000 per year (for nine years) to spend on park-related programs and projects. This option utilizes 50% or \$200,000 of Measure A funding to offset existing and proposed recreation and park maintenance expenses including staff positions. The remaining \$200,000, under this option, would be allocated to new services, programs, facilities, etc, and would not assist in balancing the deficit.</p> <p><u>100% of Parks Measure A</u> - This option utilizes 100% or \$400,000 of Measure A funding to offset existing or proposed recreation and park maintenance expenses including staff positions</p>					



**EMPLOYEE COMPENSATION / BENEFIT OPTIONS**

As a service provider to the residents of Novato, 70% of the City’s budget is personnel. This is not atypical for a public agency, but 70% is lower than most cities. Employee compensation (salary and benefits) is a large part of the fiscal sustainability conversation. The City employs 186 staff who are represented by five labor bargaining units. Historically, Novato Councils have been fiscally conservative with all elements of employee compensation.

Facts about Novato’s employee compensation:

- All legally permissible employee pension reform has been implemented; local efforts are supplemented by Statewide (CalPERS) reform
- Employees pay 25% of their annual retirement costs
- Novato’s healthcare and dental benefit structure is different than many entities that pay a fixed percentage of the cost of benefits. Novato employees receive a “cafeteria” plan or a lump sum of money to be used to purchase health care. An employee receiving full-family medical benefits still pays on average \$8,800 per year out of pocket for benefits
- A study comparing Novato employee compensation to its labor market revealed that Novato’s compensation package is lower

As the economy grows and cities and private companies begin to hire, Novato will be less competitive and in some areas may be unable to recruit and retain the caliber of employees needed to run an efficient organization. There’s a balancing act between keeping compensation costs low and remaining competitive in the labor market to ensure the recruitment and retention of high quality candidates.

**Eliminate Salary Growth Assumptions in the Forecast**

<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		\$302,000	\$615,000	\$932,000	\$1,261,000

Salary increases occur on an annual basis and typically mirror the inflation rate. This option completely removes salary increases for employees from the forecast.

It is important to note the potential impacts of selecting this option. In conjunction with the below-market conditions currently exhibited by Novato’s compensation structure, staff have gone 5 years with no salary increases, and have contributed additional amounts of compensation in the form of mandated furloughs and contributions to their retirement plan. July 2013 will represent the first salary increase (1.5%) in 5 years.



<b>Keep the Existing Salary Assumptions in the Forecast</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		--	--	--	--
Salary increases over time typically mirror the inflation rate. This option holds increases at 1.5% on an on-going basis; Because this assumption is built into the forecast, there's no change to the deficit. However, even a 1.5% increase each year is well below projected inflation and could push staff salaries and compensation further behind the labor market medians in many classifications.					
<b>Set Salary Growth Assumptions to Keep pace with Inflation (2.5% per year)</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		(\$202,000)	(\$415,000)	(\$636,000)	(\$871,000)
Salary increases occur on an annual basis and typically mirror the inflation rate. This option builds in a 2.5% salary increase for employees each year to keep up with inflation.					
<b>Set Salary Growth at Inflation (2.5% per year) and Add \$\$ to Remain Competitive</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		(\$403,000)	(\$834,000)	(1,284,000)	(\$1,767,000)
Salary increases occur on an annual basis and typically mirror the inflation rate. This option builds in a 2.5% salary increase for employees each year to keep up with inflation. This increases salaries for specific classifications to bring them within market (or comparable to other classifications in other cities) and make them more competitive.					
<b>Additional Assumptions for PERS Increases</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
			(\$297,000)	(\$504,000)	(\$705,000)
Public Employee Retirement Service (PERS) manages individual public agencies' employee pension programs throughout the State. Periodically, PERS will make changes to various investment assumptions or rates which directly affect Novato's pension costs. An actuarial study was completed to project the potential changes PERS might implement in the future and its financial costs for the City. This option essentially prepares the City for potential PERS cost increases by building those costs into the forecast. CalPERS is contemplating making a number of important changes in the spring of 2014, which would first impact Novato's pension rates in FY 2015/16, at the earliest. Selecting this option adds estimates into the model to plan for those increased rates.					





<b>Implement Modifications to Employee Health Care/Cafeteria Contribution</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a		(\$200,000)	(\$203,000)	(\$206,000)	(\$209,000)
This option increases the amount of funds provided to employees to purchase healthcare and dental insurance to make the City's benefits package more competitive.					
<b>Pre-Pay OPEB Liability</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
\$2,000,000	\$140,000	\$140,000	\$140,000	\$140,000	\$140,000
The City of Novato pays only one Other Post Employment Benefit (OPEB) to its retirees – health care. Novato provides the minimum contribution which is \$121 per month to City retirees. The City is required to calculate and report the amount of money it will need to pay for its future retirees. This is known as the City's unfunded liability. The City established an irrevocable trust fund to pay-down its unfunded liability and generate tax exempt revenue through investment earnings. This option invests \$2 million in the OPEB trust which will save the City \$140,000 per year.					



**FACILITIES AND INFRASTRUCTURE MAINTENANCE**

The City of Novato is responsible for the maintenance of its assets, or buildings and various elements of its road-way network (streets and sidewalks, bridges, traffic signals and retaining walls). The City’s funds the maintenance and repair of its assets through its Capital Improvement Program. On-going maintenance helps prevent the failure of any of these assets and the cost to repair a major failure.

A Facilities Condition Assessment and Maintenance Study was completed in 2013 to analyze the condition of City’s buildings and estimate short and long-term repair needs. The study revealed 20 of the 21 City buildings are good condition.

In order to keep facilities in good condition, the analysis recommended investing \$11,235,000 over 20 years. Up front, it’s recommended the City fund its deferred maintenance, \$920,000. Then, maintenance costs per year would be \$515,000 per year on average. The five-year Forecast currently builds in an annual \$300,000 per year for maintenance.

A 2012 Infrastructure Assessment Study analyzed the condition of the City’s roadway assets (pavement, traffic signals, bridges, retaining walls and multi-use paths). Results of the Study showed assets are in good condition. Most of the maintenance funding for these assets come from Measure B (a bond measure passed by voters for street, sidewalk and storm drain improvements), \$1.5 million per year. The funding from local Measure B has been spent. There is no longer \$1.5 million annually for street improvements.

Both studies recommend an increase in annual maintenance funding to ensure the City’s assets remain in good condition. This section offers options for funding improvements and maintenance for the City’s assets.

**Fully Fund Facilities Maintenance, as well as Storm Drains, Bridges, Retaining Walls, and Multi-Use Pathways**

<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$332,000)	(\$340,000)	(\$349,000)	(\$358,000)	(\$366,000)

The five-year Forecast includes an annual appropriation of \$300,000 for maintenance of the City’s assets. According to two analyses, this amount is not adequate to ensure the good condition of City assets.

Choosing this option fully funds the recommended maintenance needs of all City buildings, bridges, retaining walls and multi-use paths. The \$332,000 would be in addition to the \$300,000 already included in the five-year forecast. This amount increases over five-years to keep up with inflation.



<b>Fund Streets/Pavement/Bike/Pedestrian Maintenance to Maintain 2011 PCI Levels</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$300,000)	(\$308,000)	(\$315,000)	(\$323,000)	(\$331,000)
<p>The Pavement Condition Index (PCI) measures the overall condition of the roadway network. The PCI ranges include:</p> <ul style="list-style-type: none"> <li>▪ 100-70: Good</li> <li>▪ 69-50: Fair</li> <li>▪ 49-25: Poor</li> <li>▪ 24-0: Very Poor</li> </ul> <p>The average score for the City of Novato's 318 lane miles and 27,536,000 square feet of pavement is 72 or within the "good" range. Maintaining a good condition keeps the costs of roadway infrastructure repairs low.</p> <p>Choosing this option funds maintenance, repairs and improvements to maintain the City's PCI score of 72.</p>					
<b>Fund Additional Infrastructure Investments Equivalent to Measure B Levels</b>					
<i>One-Time Funds</i>	<i>FY 13/14</i>	<i>FY 14/15</i>	<i>FY 15/16</i>	<i>FY 16/17</i>	<i>FY 17/18</i>
n/a	(\$1,500,000)	(\$1,538,000)	(\$1,576,000)	(\$1,615,000)	(\$1,656,000)
<p>Funding for maintenance and improvements of the City's roadway infrastructure primarily comes from two places, local Measure B (bond measure passed by voters in 2000) \$1.5 million, and State Gas Tax, \$1.2 million.</p> <p>Measure B funding has run out. All bond proceeds have been spent and this funding source is no longer available.</p> <p>Choosing this option essentially supplements the expiration of Measure B funding with new funding into the City's General Fund for maintenance and to improve the City's roadway assets.</p>					



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# Section 7

## City Manager

### Recommended Scenario



**Fiscal Sustainability Plan**



The selected mix of options represents a data driven, balanced, and strategic approach to making Novato a fiscally and organizationally sustainable organization in the long run. The overall results of implementing the recommendation are:

- The existing 0.50% sales tax would be continued, providing the necessary ongoing funding source that our community lacks;
- Core staffing recommendations would be implemented in order to maintain existing service levels. The recommendation does not include the “enhanced service levels” option;
- Employee salaries would keep pace with inflation, with additional dollars available to address recruitment challenges in key positions; and,
- City infrastructure would receive additional General Fund resources, ensuring the long-term viability and maintenance levels of City streets, facilities, and parks.

**Revenue and Economic Development Options** – Staff’s perspective is that the best long term solution to expand the revenue base for Novato is to extend or make permanent the 0.50% sales tax that is currently in place. After two years, residents and visitors are used to paying this tax and Novato has seen no visible impacts (in terms of lost sales tax revenue) from this change. Staff also recommends selecting the \$500,000 level of economic development; though, if a few key properties were to be successful, our actual revenue from economic development could be higher. This conservative level of economic development recognizes that there are some significant new projects underway in surrounding cities that will absorb some of the demand for new commercial and retail space over the next few years. Staff is not recommending selection of the “State Takeaways” option or the “Road Impact Fee” option, since the likelihood of occurrence of both of these items appears questionable at this point.

**Expenditure and Departmental Options** – All three of these options appear to be worthwhile investments of one-time resources, and all three save ongoing expenses or generate ongoing revenue. Key details of some of the capital projects will need to be worked out and will come back before the City Council prior to commencement, but staff feels these are quality projects to move forward in the Options Tool.

**Service Level Additions / Reductions Options** – Staff has given careful thought and analysis about the provision of services and the advancement of a variety of best practices and technology initiatives. The positions currently funded by grants and Measure F dollars were or have become key functions within the City and should be continued. The additional recommended positions will pick up a variety of backlogged work and key projects moving forward that will allow the continuing provision of quality services to the community without any further degradation. While the “Additional Service Level Enhancements” are not selected, note that the recommended option generates about a \$1 million surplus beginning in year 4, which could be used if available to selectively fund additional positions in the future. Finally, staff believes that a balanced approach to the usage of County Parks Measure A funds is appropriate and is recommending the “50% Measure A” option, which will allow for some Measure A funds to be utilized for new projects or programs.





**Employee Compensation / Benefits Options** – Staff believes that, for several key position classifications, Novato is very close to the point of not being able to properly hire qualified employees. While salaries and total compensation overall are behind the market, some positions are much more significantly off than others. Staff recognizes that employee compensation is a balancing act, but keeping up with inflation and improving Novato’s market position will pay dividends in terms of recruiting the most qualified employees to deliver services moving forward. Staff also selected the “PERS Assumptions” option, as it does appear likely that the CalPERS Board will make changes next year. Finally, staff recommends pre-paying a larger portion of our OPEB obligation, as it saves ongoing contributions and will allow us to take advantage of higher investment yields than our standard portfolio.

**Facilities and Infrastructure Maintenance Options** – Properly maintaining roads, storm drains, bridges, buildings, and all manner of capital assets is key to the City’s long-term success. As the steward of public assets, staff recommends that Novato begin a program of fully funding the long-term maintenance needs of all actively used City buildings, as well as setting aside annual contributions to maintain the other types of infrastructure within the City’s purview. Additionally, while the City receives gas tax and County Transportation Measure A funds for street maintenance, the expiration of local Measure B has meant that some other funding source needs to replace it to continue proper upkeep of our roads. Short of putting another infrastructure bond measure on a future ballot, staff is not recommending committing \$1.5 million annually from General Fund to maintain roads. Rather, the recommendation is to commit \$300,000 to increased road maintenance from the General Fund, with any additional augmentations to come from an as-yet-unplanned bond measure or future economic development growth.



City Manager Recommended Fiscal Sustainability Plan

Novato Fiscal Sustainability Options Tool

Include?	Initial Forecast	One-Time Funds	(All \$\$ in thousands)				
			2013/14	2014/15	2015/16	2016/17	2017/18
√	Deficit from May 2013 Budget Forecast		(301)	(482)	(371)	(413)	(520)
<b>Revenue and Economic Development Options</b>							
	Contingency for State of CA Revenue Takeaways / Shifts		(50)	(100)	(150)	(200)	(250)
	Pursue Options to Collect Refuse Road Impact Fee					350	350
√	Voter Approved Option (e.g. 0.5% Sales Tax) - continue current 0.5% tax					4,400	4,532
√	Economic Development \$500k add'l ongoing revenue by 2017/18		-	-	-	250	500
<b>Expenditure / Departmental Options</b>							
√	Install Synthetic Turf Sports Field(s) / Park Improvements to increase revenue / decrease ma	\$ 1,300		130	130	130	130
√	Replace all remaining streetlights with LED bulbs	\$ 1,200		132	136	140	144
√	Pay off Corporation Yard Debt to Yield Ongoing Debt Service Savings	\$ 1,200	100	100	100	100	100
<b>Service Level Additions / Reductions</b>							
√	Staff Recommended Base Service Levels		(556)	(726)	(737)	(1,083)	(844)
√	Utilize 50% of Parks Measure A Funding to offset existing / proposed Rec & Maintenance expenses				200	206	212
<b>Employee Compensation / Benefits</b>							
√	Set salary growth at inflation (2.5% per year) and add \$\$ to remain competitive			(403)	(834)	(1,284)	(1,767)
√	Additional Assumption for PERS Increases				(297)	(524)	(705)
	Implement modifications to employee health care / cafeteria contributions			TBD	TBD	TBD	TBD
√	Pre-pay OPEB Liability with other funds	\$ 2,000	140	140	140	140	140
<b>Facilities and Infrastructure Maintenance</b>							
√	Fully fund facilities maintenance as well as storm drains, bridges, retaining walls, and multi-use paths		(332)	(340)	(349)	(358)	(366)
√	Fund streets / pavement / bike / pedestrian maintenance to maintain 2011 levels		(300)	(308)	(315)	(323)	(331)
<b>NEW DEFICIT TO SOLVE WITH SELECTED OPTIONS</b>			<b>(1,249)</b>	<b>(1,757)</b>	<b>(2,197)</b>	<b>1,381</b>	<b>1,225</b>
<b>TOTAL ONE-TIME INVESTMENT REQUIRED</b>		<b>\$ 5,700</b>					
<b>TOTAL MEASURE F DEFICIT BACKFILL FUNDS REQUIRED</b>		<b>\$ 5,203</b>					



## Section 8

# Appendix



# Fiscal Sustainability Plan



**Fiscal Sustainability Options Tool – Options Not Considered**

Throughout the research process for the past 12 months’ work sessions with the City Council and for the options within the Options Tool, staff has uncovered a number of choices and strategies that do not appear in the final version of the Options Tool. This may be for a variety of reasons, including feasibility, legal restrictions, lack of good data, etc. The table below captures this research.

Option Name / Topic	Type	Description	Reasons not Selected
Re-fund Pension Obligation Bonds	Expenditure / Departmental	The City’s POBs could be re-financed beginning in 2016, possibly for lower debt service interest rates.	Because of the taxable nature of the POBs, the call provisions are very unfavorable to the City, and according to a recent analysis, would cause a \$3 million present value cost to the city (as opposed to a savings)
Re-financing other City debt obligations	Expenditure / Departmental	The City has smaller debt obligations issued to fund its MERA radio obligations, as well as various solar installations in Novato.	The MERA bonds were just re-funded in 2011 and are not callable until 2021. The Solar bonds have a 0% interest rate, so paying those bonds off early or otherwise re-financing them does not make sense at this time.
Usage fee and impact fee studies	Revenue	The City has not conducted a comprehensive fee study or impact fee analysis for many years. These studies used detailed City financial and cost information to calculate the maximum fees that can be legally charged.	Staff’s perspective is that there is not a lot of capacity to raise fees. With the great recession, a number of jurisdictions have moved to reduce fees, delay the payment of impact fees, and other programs to reduce the impacts fees have on families and businesses.
Changes to business license tax	Revenue	Through its research staff discovered several changes that could be made to the business license. The ordinance has a CPI inflation adjustment built in, but that has not been implemented since 2003. Staff has the option to begin implementing the escalator, and / or implement a “catch-up” provision to raise the fee to the level at which it should currently be.	Staff initially put these options into the Options Tool, but it was decided by staff, with Council support, to simply implement these options administratively as the ordinance mandates. These changes are now included in the base forecast shown in the Options Tool.
Enhanced Parking Enforcement Program (using Automated License Plate Readers)	Departmental / Expenditure	This program would enhance existing parking enforcement efforts with vehicles that utilize automated license plate reader technology).	Up front purchase costs of about \$25,000 per vehicle combined with uncertain revenue estimates and possible negative reaction to stepped-up parking enforcement.



Option Name / Topic	Type	Description	Reasons not Selected
Pre-Pay CalPERS unfunded liability	Expenditure / Departmental	At the last valuation, the Miscellaneous pension plan had a reported unfunded liability of \$6.7 million. One option available to the City is to contribute additional money to PERS to pre-pay the City's obligations, thus reducing future rates and rate increases.	Contributing these additional monies makes them instantly susceptible to investment losses / gains as with all assets in the PERS portfolio. In general, this is a riskier option than some other pre-payment strategies, since the City loses any future ability to control the money contributed or direct the investment options for the funds.
\$2 million economic development tier	Economic Development	This option would assume \$2 million of economic development revenue by the fifth year of the forecast	While proposed in staff's initial presentation, it was later decided that this may be too aggressive of an option to put into the Options Tool. It would require a significant amount of new retail development, most likely, in order to occur.
Additional investment in solar capacity	Departmental / Expenditure	With the move to Marin Clean Energy for the City's electricity, the City would have the option to add additional solar generation to City facilities to reduce energy costs	While staff is very supportive of this option, a feasibility study is underway and has not yet been completed. For purposes of the options tool, we removed the choice since it was still TBD. However, when staff has more information about the solar options, a separate Council agenda item will be scheduled to discuss those possibilities.
Pursue options to implement a franchise fee	Revenue	Similar to the Road Impact Fee described in the Revenue Options section.	This option is considered to be of even lower likelihood than the Road Impact Fee. It was removed for that reason. There are a number of barriers to implementation, the most significant of which is the Novato Sanitary District's existing franchise agreement that does not expire until at least 2025.



## 2013 Community Survey

In March 2013, the City contracted with the International City Management Association (ICMA) to utilize their National Citizens Survey (NCS) to survey Novato residents. NCS is a five-page questionnaire that provides a statistically-valid survey of residents' opinions about their community and services. Five-hundred and fifty local governments in the United States use NCS to benchmark service quality and assess community needs. A standard survey is used for all jurisdictions requesting feedback on quality of life in the community, resident use of services and quality of services delivered. This allows all jurisdictions to benchmark their results nationally and regionally with other agencies that have also completed the survey.

Surveying residents within the community on a routine basis is a best practice for many jurisdictions as it helps gauge service performance, benchmark service quality, assess community needs, assist with strategies for improvement, and evaluate potential policies or community characteristics. The last community survey in Novato was conducted in 2007.

The following goals for surveying Novato's residents were as follows:

- Gather information regarding resident's satisfaction with City services and performance measurement;
- Gather input regarding growth, economic development and fiscal sustainability;
- Create a benchmark for current status and future progress by using consistent questions both against ourselves for future performance and against other cities as a point of comparison;
- Reach a broad segment of the community that may not be actively engaged in local government including those who can't or don't regularly participate in public meetings, but still have valuable input on how the City can improve its service delivery; and,
- Look for opportunities to include the Hispanic community (2010 Census demographic figures show 21.3% of Novato's population as Hispanic).

### Community Survey Results

Surveys were sent to a randomly-selected sample of 3,000 households in Novato. Residents were able to complete the survey in a written format or on-line. A total of 825 completed surveys were returned yielding an overall response rate of 28%. This is within the typical response rate range of 25% to 40%. With this positive response rate, staff is pleased to share the results with the City Council and the community. Attached to the staff report is the full report.

The survey contained questions that are standard for all NCS survey participants. The City also asked three custom questions related to priorities, service level desires and an open ended response to allow residents to state what services they would like to see restored, improved or added in



the next five years. Some of the key findings are summarized. In addition, staff is finalizing a PowerPoint presentation that will be given on Tuesday at the meeting to provide an overview of the survey results.

Most residents experienced a good quality of life in the City of Novato and believed the City was a good place to live. The overall quality of life in the City of Novato was rated as “excellent” or “good” by 87% of respondents. Almost all reported they plan on staying in the City of Novato for the next five years.

A variety of characteristics of the community were evaluated by those participating in the study. The three characteristics receiving the most favorable ratings were quality of overall natural environment in Novato (84%), ease of car travel (74%), and ease of walking in Novato (73%). The three characteristics receiving the least positive ratings were availability of affordable quality housing (42%), opportunities to attend cultural activities (49%) and employment opportunities (27%).

Residents in the City of Novato were civically engaged. While 26% had attended a meeting of local elected public officials or other local public meeting in the previous 12 months, a majority had read the Novato newsletter (67%) and visited the City’s website (56%).

In general, survey respondents demonstrated trust in local government. A majority (55%) rated the overall direction being taken by the City of Novato as “good” or “excellent.” Those residents who had interacted with an employee of the City of Novato in the previous 12 months gave high marks to those employees. 74% of respondents rated their overall impression of employees as “excellent” or “good.” On average, residents gave generally favorable ratings to many local government services. 76% of respondents rated police services as “good” or “excellent.”

Respondents were asked to rate how frequently they participated in various activities in Novato. The most popular activities included providing help to a friend or neighbor and visiting a neighborhood or City park; while the least frequent activities were attending a meeting of local elected officials and riding a local bus. Generally, participation rates in the various activities in the community were similar to other communities across the nation.

In addition to the standards questions, three custom questions were asked of which two were multiple choice and one was open-ended. Respondents were asked what level of priority (Very High, High, Intermediate, Low or Not a Priority) they would give to certain services. Of the services listed, respondents rated as high or very high: programs for youth and teens (74%), maintaining parks and recreation facilities (70%), maintaining streets and bike paths (69%), senior programs (62%), and programs for at-risk and low income youth (60%).

Respondents were also asked if they would increase, keep the same or reduce service levels for a list of services. The services respondents would increase are recreation programs for youth (60%), maintenance of City streets (58%) and emergency preparedness/disaster recovery (49%). The services respondents would keep the same are maintenance of islands and medians (62%), maintenance of City parks (57%) and maintenance of City public recreation facilities (53%).





There was also an open survey available to any interested person that was posted on the City’s web site for ten days. The City received 98 responses. While not statistically significant, the results were similar in theme to what was received in the mailed primary survey.

## Benchmark Report

Ratings of community characteristics were compared to the national benchmark database and two other databases. The national benchmark contained cities across the nation of various population levels. In order to have a more refined group of benchmark cities, staff worked with the NCS consultant to create two other benchmarks. The purpose of these benchmarks is to select one group going forward that can be utilized for comparison purposes in future years.

National Benchmark -- When looking at the national benchmark comparison of the 28 characteristics for which comparisons were available, eight were above the national benchmark comparison, nine were similar to the national benchmark comparison and 11 were below.

### Benchmark #1—National Group - Population & Household Income

Staff asked NCS to select a group of Cities that were similar in socio-economic background of residents and community size to try to compare Novato against communities of similar characteristics and culture. This database created a benchmark of 18 cities with similar populations (35,000-65,000) and with household incomes ranging from \$68,000-\$88,000. The group of cities included three California cities -- San Rafael, Walnut Creek, Brea -- the remaining cities were from across the nation. Out of the 28 characteristics compared, two were above, nine were similar and 17 were below the benchmark.

National Benchmark		
All Cities in NCS Database – 500 Cities		
<i>Novato Above National Benchmark</i>	<i>Novato Similar National Benchmark</i>	<i>Novato Below National Benchmark</i>
<b>8</b>	<b>9</b>	<b>11</b>
Benchmark #1 - National		
Population (35,000-65,000) + Household Incomes (\$68,000-\$88,000)		
Brea, CA	Urbandale, IA	Huntersville, NC
San Rafael, CA	Crystal Lake, IL	Westerville, OH
Walnut Creek, CA	Elmhurst, IL	Westerville, OH
Broomfield, CO	Oak Park, IL	Lake Oswego, OR
Castle Rock, CO	Blaine, MN	Rowlett, TX
Ankeny, IA	Edina, MN	Edmonds, WA
<i>Novato Above Benchmark #1</i>	<i>Novato Similar Benchmark #1</i>	<i>Novato Below Benchmark #1</i>
<b>2</b>	<b>9</b>	<b>17</b>
Benchmark #2 – California		
Population (35,000-65,000)		
Menlo Park	Dublin	Lodi
Seaside	San Rafael	Walnut Creek
Brea	Cupertino	Palo Alto
Palm Springs	Encinitas	
<i>Novato Above Benchmark #2</i>	<i>Novato Similar Benchmark #2</i>	<i>Novato Below Benchmark #2</i>
<b>4</b>	<b>13</b>	<b>11</b>



Staff conducted some research on the above agencies to understand the rationale for these benchmark distinctions. Staff is reviewing this data and will have more information to provide to Council at the meeting. Although the City of Novato fits within the socio-economic ranges of these Cities, the difference in the amount of available revenue per capita (plus the many factors associated with out-of-State regulations and revenue differences) is considerable. Staff is reviewing this data as well and will have more information to provide to Council at the meeting.

### Benchmark #2—California Group - Population Only

Staff asked NCS to select a group of California cities within Novato’s population range, 32,000 to 65,000, irrespective of income. Of the 28 characteristics compared, four were much above, 13 were similar and 11 were below the benchmark. Staff believes this group of Cities serves as a stronger comparison because each City is faced with the same revenue challenges brought on by Proposition 13 and 218.

The charts to the right show how Novato compares to these different bench market agencies. The results are based on comparing 28 characteristics from the survey. Although these Cities are different in character and socioeconomic status, staff believes that Benchmark #2 can be used as a performance metric in the future to gauge how well the City is doing to improve its service delivery.

<b>PRIORITY OF CERTAIN SERVICES</b>	<b>“High” or “Very High” Priority</b>
Programs for youth and teens	74%
Maintaining park and recreation facilities	70%
Maintaining streets and bike paths	69%
Senior program	62%
Programs for at-risk and low income youth	60%

### Fiscal Sustainability

As the City is looking at its Fiscal Sustainability decision making starting at the end of this month, the feedback from this survey can be utilized by staff, residents and the Council. Residents were asked two custom questions. The first question asked was about their priority for a list of services. The second question asked about whether residents would like to see certain services increased, remain the same or reduced. The following tables offer a summary of results.

### **SERVICES RESIDENTS WOULD INCREASE OR KEEP THE SAME**

<b>Increase “Significantly” or “Somewhat”</b>	<b>Keep the Same</b>		
Recreation programs for youth	60%	Maintenance of islands and medians	61%
Maintenance of City streets	58%	Maintenance of City parks	57%
Police street patrol	51%	Maintenance of public recreation facilities	53%
Emergency preparedness/disaster recovery	49%	Programs and activities for seniors	49%
Programs and activities for seniors	46%	Emergency preparedness/disaster recovery	47%

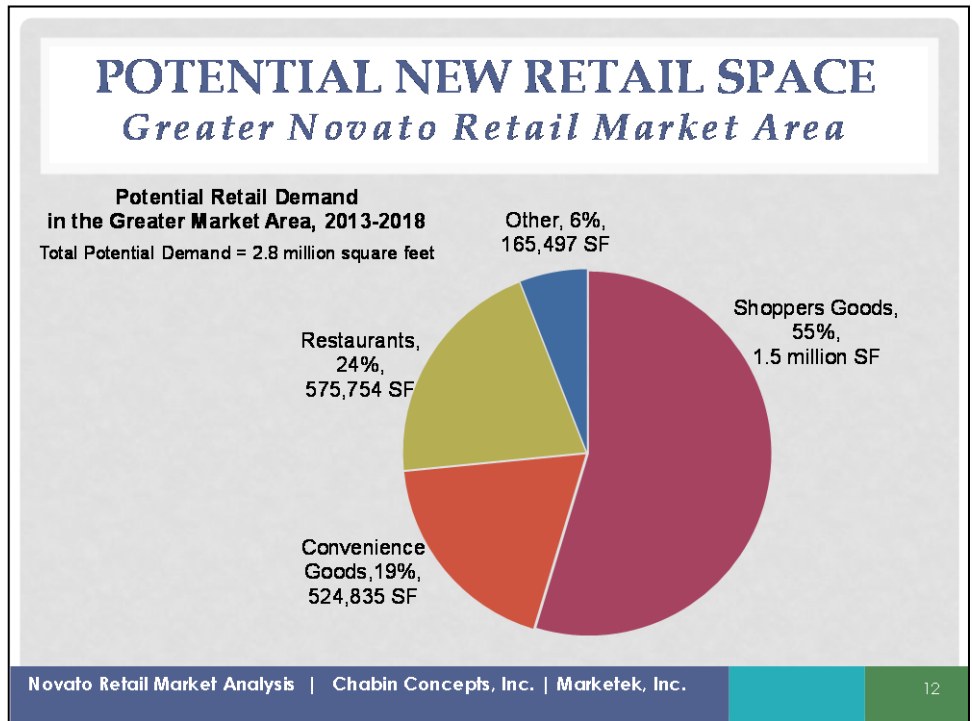
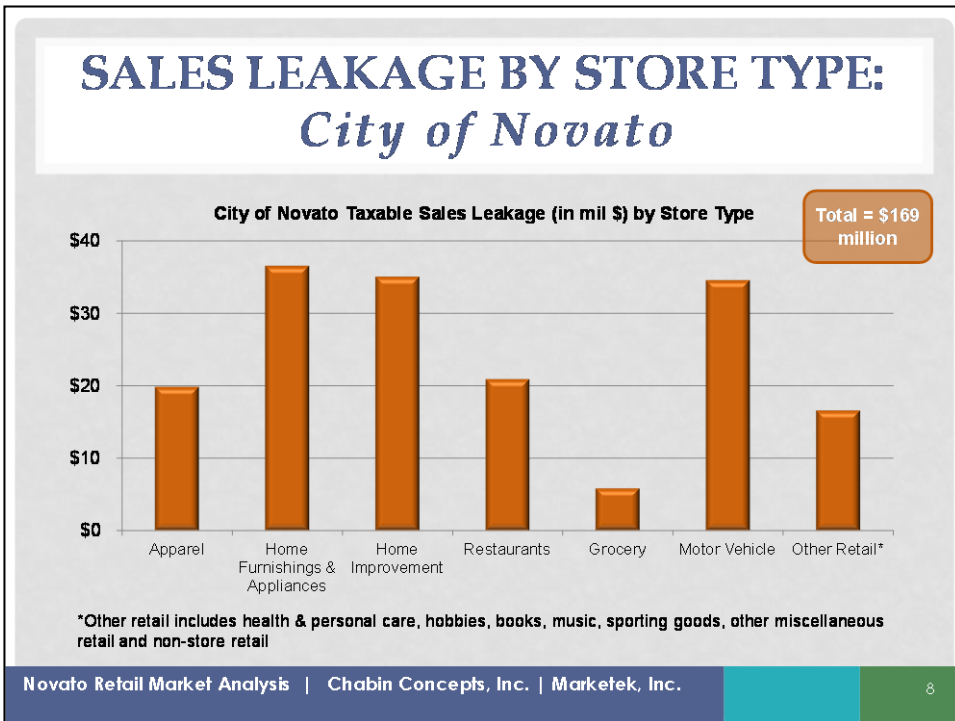


## Retail Market Analysis

Consultants conducted a Retail Market Analysis for the City of Novato and the regional trade area which includes all of Marin and southern Sonoma Counties. The study was based on interviews with local business, real estate brokers and community stakeholders, an online opinion survey of business and residents, evaluations of existing retail centers and potential development areas, and research and analysis of city-wide and regional economic data.

The results of the analysis provided the City’s with a range of opportunities and challenges for business retention and attraction. Areas for improvement included a retail leakage of nearly \$170 million for the City of Novato. The largest leakage area is in home furnishings and appliance stores at \$37 million followed by building materials and garden equipment at \$35 million. To assess the existing and future retail demand potential the study referred to the regional trade area and estimated a \$850 million loss in sales primarily in the dining and general merchandise areas

In short, residents and visitors consistently leave the City of Novato and the market trade area to their shopping for areas of items mentioned above. The City will embark on number strategies to capture this lost revenue and provide more shopping opportunities for residents and visitors.



## **STAFF REPORT**

### MEETING

DATE: October 19, 2023

TO: Finance Advisory Commission

FROM: Amy Cunningham, Deputy City Manager  
Carla Carvalho-Degraff, Finance Director

**SUBJECT: Update on Finance Department Activities**

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### **REQUEST**

Receive report.

### **DISCUSSION**

Staff will provide the Finance Advisory Commission (Commission) with updates on current finance department activities including:

- FY 20/21 Audit Status – Preparation of report to present to Council.
- FY 21/22 Audit Preparation
- FY 22/23 Close and Audit Preparation
- FY 23/24 Budget Document
- Update Regarding Joint Meeting with Economic Development Advisory Commission – Date and time TBD
- Other Finance Activities

Staff recommends the Commission receive the report and provide any feedback on the above areas.