



**CITY OF NOVATO**  
**CALIFORNIA**

**AMENDED**

**Finance Advisory Commission**

**Special Meeting Agenda**

**Thursday, February 22, 2023 – 7:30 AM**

**To Be Held At:**

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

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**Chair  
Larisa Thomas**

**Vice Chair  
Tina McMillan**

**Members  
Regina Bianucci Rus, Cris MacKenzie, Rafelina Maglio, Andy Zmyslowski**

**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 January 18, 2024**

**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. Internal Service Fund (ISF) Study Informational Presentation**

~~**F.2. Fiscal Year 2023/24 Quarter 2 Budget Report**~~

**F.2. Creation and Appointment of Commissioners to Ad Hoc Fiscal Sustainability Committee**

**F.3. Consider Creation of Comprehensive Policies and Procedures for City's Lease Agreements**

**F.4. Update on Finance Department Activities**

**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 March 7, 2024, at 7:30 AM, and will be held in-person in the Womack Conference Room at 922 Machin Ave, 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.*

**This agenda has been amended to remove item F.2.**

**AFFIDAVIT OF POSTING**

I, Stacey Hoggan, certify that on the Thursday before the Finance Advisory Commission meeting of February 22, 2024 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, January 18, 2024 – 7:30 AM**

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

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

**Commissioners Present:** Regina Bianucci Rus, Cris MacKenzie, Tina McMillan, Andy Zmyslowski

**Arrived Late:** Commissioner Rafelina Maglio at 7:35

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

#### **B. APPROVAL OF FINAL AGENDA**

**Commission Action:** Upon a motion by Commissioner Bianucci Rus, and seconded by Commissioner Zmyslowski, the Commission voted 5-0-0-1 to approve the final agenda with the following adjustments: move item F.3., Update on Finance Department Activities, to F.1. and renumber the 2<sup>nd</sup> F.3. to item F.4.

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

**Noes:** None

**Abstain:** None

**Absent:** Maglio

**Motion Carried**

#### **C. PUBLIC COMMENT**

*Public comment was taken at 922 Machin Ave*

1. *Dean Moser*
2. *Doug Hood*
3. *Derek Knell*
4. *Pam Drew*

## D. CONSENT ITEMS

### D.1. Approve the Meeting Minutes from November 16, 2023

**Commission Action:** Upon a motion by Commissioner Bianucci Rus, and seconded by Vice Chair McMillan, the Commission voted 5-0-1-0 to approve the Meeting Minutes from November 16, 2023.

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

**Noes:** None

**Abstain:** Maglio

**Absent:** None

**Motion Carried**

## E. UNFINISHED AND OTHER BUSINESS

None

## F. GENERAL BUSINESS

### F.1. Update on Finance Department Activities

Finance Manager Carvalho-DeGraff provided an update regarding Finance Department Activities:

- The FY 21/22 audit started with the engagement letter signed. Staff started uploading financial schedules to the auditors website. The MUN auditors will be onsite the last week of February.
- The audit timing for FY 22/23 is dependent on the completion of the FY 21/22 audit. Staff are also currently working on the items that will be needed for the FY 22/23 audit.
- The position of Deputy Finance Director has not yet been filled. Consultants and other outsourcing have occurred to fill several vacant high-level positions, including Human Resource Manager and Deputy City Manager.

### F.2. 'Local Funding' Initiative / Outreach

The Strategic Plan approved by City Council in August 2023 included a work plan to address the City's economic vitality. Item #16 of the Strategic Plan states, "*Address long-term revenue shortfalls: explore a November 2024 ballot initiative to increase sales tax by ¾ cents*". Initial outreach to Novato residents regarding the City's financial situation is now in progress. A mailer was sent out providing basic, general information

on the City's financial status. An informative website has been created; [novato.org/localfunding](http://novato.org/localfunding). This webpage provides important facts to visitors, including 'frequently asked questions', links to adopted budgets, and other resources providing details on unmet infrastructure and other financial needs. The successful outreach garnered significant questions from our community members. Additional mailers and materials will be shared with the community following the March primary elections.

The Commissioners discussion focused on comparing budget challenges and revenue sources in similar cities. Commissioners proposed the creation of a "Fiscal Sustainability Ad-Hoc Committee" to engage in comprehensive comparison of similar municipalities, researching their revenues and expenditures, per capita allocations, and service offerings.

*Public comment was taken at 922 Machin Ave*

1. Pam Drew

**Commission Action:** Upon a motion by Commissioner Bianucci Rus, and seconded by Commissioner MacKenzie, the Commission voted 6-0-0-0 to agendize the proposal of establishing a "Fiscal Sustainability Ad Hoc Committee" to research revenue and expenditures and compare services provided by similar municipalities.

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

**Noes:** None

**Abstain:** None

**Absent:** None

### **Motion Carried**

### **F.3. FY2024/2025 Budget**

Staff, developing the FY2024/2025 budget, seeks Finance Advisory Commission suggestions to address the forecasted deficit for City Council consideration.

Commissioners provided the following feedback for City Council:

- Preserve current service levels.
- Add resources where needed.
- Identify areas for cost savings and operational efficiencies.
- Use any available one-time funds.
- Use emergency reserves to balance the budget only as a last resort.

### **F.4. Proposed 2024 Finance Advisory Commission Meeting Calendar**

at The City Council is scheduled to approve the FY24/25 budget development calendar their February 13<sup>th</sup> meeting. Staff recommended the Finance Advisory Commission meetings adjust for the months of March through June in order to align with the dates that Council will meet.

**Commission Action:** Upon a motion by Chair Thomas, and seconded by Commissioner Zmyslowski, the Commission voted 6-0-0-0 to move all future Finance Advisory Commission meetings to the first Thursday of the month, commencing in March (with the exception of the May 9, 2024 meeting).

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

**Noes:** None

**Abstain:** None

**Absent:** None

**Motion Carried**

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

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

None

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

Commissioner Johnson tendered his resignation effective immediately. This vacant position will remain open until the Commission appointment that will occur in Spring.

## **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 \_\_\_\_\_, 2024.**

/ Stacey Hoggan /

Stacey Hoggan, Management Analyst I

## **STAFF REPORT**

### **MEETING**

**DATE:** February 22, 2024

**TO:** Finance Advisory Commission

**FROM:** Jennifer Maldonado, Principal Analyst  
Carla Carvalho-Degraff, Finance Director

**SUBJECT: Internal Service Fund Rate Study (Equipment Maintenance and Equipment Replacement Funds)**

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### **REQUEST**

Receive report and discuss.

### **BACKGROUND**

Internal Service Funds (ISF) are funds created by governments to allocate the cost of activities shared between multiple departments. Internal service funds are only appropriate for activities that are intended to operate on a break-even basis over time. Using an Internal Service Fund to allocate costs provides a more complete picture of the true cost of operating the department. As an example, if the costs of maintaining and replacing the fleet were charged to a department in Public Works the costs of the Police Department would be understated as the Police Department has a significant number of vehicles.

Many times, Internal Service Funds are used instead of a direct appropriation. This is because internal service funds allow for long-term cost accounting, the allocation of costs to all fund sources, reduction of incentive to spend more than services require, and they allow for planned capital replacements. A direct appropriation many times has a one-year view of cost accounting, a tendency to use it or lose it, and equipment replacement by its nature would cause a volatile budget as the capital needs swing up and down.



The advantages of using an Internal Service Fund are that it allows an optimal allocation across all fund sources, economies of scale, control and consistency in service, smooths costs over time, and allowance for long term capital planning. The disadvantages are that it is more complex, there is a risk of customer disconnect, it can cause a lack of choice, and there is the potential for structural deficits.

The City has five internal service funds: equipment maintenance, equipment replacement, self-insurance, and technology. These are common internal service funds. This study addresses the equipment maintenance and equipment replacement funds. The equipment replacement fund is governed by section 2-21 of the Novato Municipal Code. All the funds were created by the City Council.

## **DISCUSSION**

On December 6, 2022, the City Council approved the use of the Equipment Replacement Fund as a source for financing a portion of the purchase of 501 Davidson (Corporation Yard). The general fund borrowed \$4,850,000 from the Equipment Replacement Fund via an interfund loan, and the emergency reserves, which were initially used for the purchase, were replenished. The Equipment Replacement fund had approximately \$6.3M in fund balance at the time of the loan. At that time there had not been any recent studies of the Internal Service Fund rates and staff committed to undertaking a study and bringing the results of the study to the City Council.

In addition, to the Equipment Replacement Fund, the Equipment Maintenance Fund had not had its rates updated for several years and had been in a negative cash position as far back as 2005/2006 although the deficit was growing at a much slower rate than it is currently since costs were lower. The current deficit is approximately \$2.3M. Studying the rates for both funds at the same time makes sense as they are both related to equipment.

The City contracted for a study of both funds with Clear Source Financial Consulting (Clear Source). Clear Source is a firm that specializes in this type of work. The scope of the study was to evaluate the revenues, expenses, and cash flows for the funds, ensure that the fiscal policies and reserve strategies for each fund are sound, and recommend

adjustments to the service rates to maintain a positive financial performance. The Principal Consultant from Clear Source will present the results of the study to you.

**Study Results**

Internal service Funds are funded through charges to the fund’s customers which are generally other funds of the government. In Novato the primary customer is the general fund as the equipment/vehicles are largely used for operational work of Public Works and the Police Department and are funded by the general fund. Under generally accepted accounting principles (GAAP) internal service funds are required to recoup the funds to cover their services from their customers. They are intended to operate on a break-even basis over a period of time. The current reserve policy does not require a specific reserve for the Equipment Replacement fund though excess funds are to remain in the fund awaiting identified uses. Equipment Maintenance is not part of the current reserve policy.

**Equipment Maintenance Fund**

The Equipment Maintenance Fund is intended to recoup costs associated with repair and maintenance of the City’s fleet vehicles and heavy equipment, including staff costs, parts, fuel, tires, etc. The fund has been undercharging approximately \$700K per year including overhead and the general fund share of that would be approximately \$665K per year (95%). The rates for the staff charges are currently too low and have not been increased to keep up with the true costs of the employees providing this service. The number of hours being billed is less than the hours that should be billed. The rates would need to be increased to ensure annual costs are covered. The study proposed the rates in the below table.

<b>Equipment Maintenance Fund Rate Adjustment Proposal</b>		
	<b>Current</b>	<b>Proposed</b>
Equipment Maintenance Hourly Billing Rate	\$91/hour	\$185/hour
Equipment Maintenance Hours Billed	1,400 hours	4,200 hours
Fuel Mark-Up	0%	10%
Parts Mark-Up	10%	10%

Alternatively, a fixed monthly charge could be established to cover the costs. The

proposed rates only cure the annual cost allocation but do not address the deficit. The deficit would have to be corrected by some other means.

### **Equipment Replacement Fund**

The Equipment Replacement Fund is intended to collect funds to replace vehicles and heavy equipment in the existing fleet inventory. The results of the study were that the equipment replacement charges are sufficient to fund the anticipated replacement of equipment. The loan taken against this fund must have at least a partial payback so that the fund stays stable. The loan payment was deferred in FY 2023-2024 to offset the general fund deficit.

Given the City's current financial constraints it will be challenging to increase the rates and correct the deficit at the same time.

### **ACTION REQUESTED**

No action from the Finance Advisory Commission is requested at this time. Staff brought this item for discussion with the Commission to create an awareness and understanding as this will be an issue that informs the budget development.

## **STAFF REPORT**

### **MEETING**

**DATE:** February 22, 2024

**TO:** Finance Advisory Commission

**FROM:** Amy Cunningham, Interim City Manager

**SUBJECT:** **Consideration of Creating Comprehensive Policies and Procedures regarding the City's Lease Agreements.**

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### **REQUEST**

Discuss and provide feedback on establishing standardized policies and procedures to effectively manage City-owned property leases.

### **DISCUSSION**

During the February 14, 2024, Joint Commission meeting between the Economic Development Advisory Commission (EDAC) and the Finance Advisory Commission (FAC), members of the FAC requested Staff agendize an item at the next FAC meeting to consider establishing comprehensive policies and procedures related to leasing of City owned properties.

## **STAFF REPORT**

### MEETING

DATE: February 22, 2024

TO: Finance Advisory Commission

FROM: Amy Cunningham, Interim 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 21/22 Audit Status
- FY 22/23 Close and Audit Preparation
- FY 24/25 Budget Development Process
- Finance Staffing Update
- CCB Recruitment Timelines
  - Application period opens – Late February
  - Application review – March
  - CC Appointments – April
  - Term to start – May 1st
- Other Finance Activities

Staff recommends the Commission receive the report and provide any feedback on the above areas.