



Finance Advisory Commission Meeting Agenda

Thursday, September 5, 2024 – 7:30 AM

To Be Held At:

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

**Chair
Larisa Thomas**

**Vice Chair
Tina McMillan**

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

**Staff Liaison
Amy Cunningham**

The Finance Advisory Commission welcomes you to attend its meetings which are regularly scheduled for the first Thursday every month. 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.

-
- 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 Special Meeting Minutes of July 18, 2024

D.2. Update on Finance Department Activities

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. Review Investment Strategy

F.2. Fiscal Sustainability Model Update

F.3. Discuss City Funded Loans Policy

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: Ad Hoc Committee Updates

The next meeting is scheduled for October 3, 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.

AFFIDAVIT OF POSTING

I, Stacey Hoggan, certify that on the Thursday before the Finance Advisory Commission meeting of September 5, 2024 that the agenda was posted on the City Community Service Board at 922 Machin and on the City's website at novato.org in Novato, California.

/ Stacey Hoggan /
Stacey Hoggan, Management Analyst I



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CITY OF NOVATO
CALIFORNIA

Finance Advisory Commission

DRAFT Special Meeting Minutes

Thursday, July 18, 2024 – 8:00 AM

A. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Chair Thomas at 8:03 A.M.

Commissioners Present: Regina Bianucci Rus, Cris MacKenzie, Rafelina Maglio, Michele Manos, Tina McMillan, Larisa Thomas

Absent: Andy Zmyslowski

Staff Present: City Manager Amy Cunningham, Assistant City Manager Jessica Deakyne, Finance Director Carla Carvalho-DeGraff, HR Assistant Jean Holzgang

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, MacKenzie, Maglio, Manos, McMillan, Thomas

Noes: None

Abstain: None

Absent: Zmyslowski

Motion carried.

C. PUBLIC COMMENT

None

D. CONSENT ITEMS

D.1. Approve Meeting Minutes of June 27, 2024

Commission approved the meeting minutes of June 27, 2024.

Commission Action: Upon motion by Commissioner Manos, and seconded by Commissioner MacKenzie, the Commission voted 4-0-2-1 to approve items on consent.

Ayes: MacKenzie, Maglio, Manos, McMillan

Noes: None

Abstain: Bianucci Rus, Thomas

Absent: Zmyslowski

Motion carried.

E. UNFINISHED AND OTHER BUSINESS

F. GENERAL BUSINESS

F.1. Fiscal Sustainability Options

The City of Novato has faced mounting budget deficits and rising capital needs over the past five years and has depended on one-time funds and emergency reserves to maintain essential services, which is not a sustainable long-term solution. To address these fiscal challenges, the City Council's 2023-2025 Strategic Plan includes initiatives aimed at ensuring fiscal sustainability. Specifically, Item 16 of the plan proposes exploring a November 2024 ballot initiative to increase the sales tax by 3/4 cent to address revenue shortfalls.

Staff and Commissioners reviewed the City's sustainability efforts and proposed suggestions for the upcoming presentation at the City Council meeting on July 23, 2024. The Commissioners highlighted the need for the report to convey their concerns regarding fiscal challenges. Commissioners stressed the importance of clear and impactful language to ensure that their perspective is effectively communicated.

Public comment was taken at 922 Machin Ave

1. Pam Drew

Upon motion by Chair Thomas, and seconded by Commissioner Manos, the Commission voted 6-0-0-1 recommending that City Council approve the sales tax measure for the November 2024 ballot, until repealed by voters, a 0.75% increase, with independent financial oversight by the Finance Advisory Commission.

Ayes: Bianucci Rus, MacKenzie, Maglio, Manos, McMillan, Thomas

Noes: None

Abstain: None

Absent: Zmyslowski

Motion carried.

Upon motion by Chair Thomas, and seconded by Commissioner Manos, the Commission voted 6-0-0-1 to recommend to City Council that the Finance Advisory Commission should continue to receive regular reports from City staff on the City's financial activities, and specifically the revenue from the recommended sales tax measure to be accounted for in a separate fund, similar to Measure F, with quarterly reports to the Commission. The Finance Advisory Commission will be required to report annually to the City Council and prepare an annual report to the taxpayers, similar to Measure F.

Ayes: Bianucci Rus, MacKenzie, Maglio, Manos, McMillan, Thomas

Noes: None

Abstain: None

Absent: Zmyslowski

Motion carried.

Upon motion by Chair Thomas, and seconded by Commissioner Bianucci Rus, the Commission voted 6-0-0-1 to recommend that the City Council be provided with the following statement:

The Finance Advisory Commission recognizes that while the sales tax is absolutely essential, it is just one part of a larger solution to the City's budget woes. Thus, we also recommend, the Council consider the following as part of an overall Fiscal Sustainability Plan:

- a) The City must urgently and aggressively make more cost-effective use of its many properties. To that end, detailed information for each of the City's recently inventoried properties should immediately be compiled and used for realistic cost-benefit assessments that will inform the development of practical, rational options.
- b) The City must identify factors currently impacting economic development in Novato and then vigorously pursue a spectrum of innovative economic policies that encourage both existing and new business, while minimizing the obstacles to growth. Better direction by the City to the Economic Development Advisory Commission (EDAC) and closer coordination between the City and the Chamber of Commerce is necessary.
- c) The City should identify and aggressively apply for any and all grants that could benefit the City of Novato. For the 2025/2026 budget year, the City should allocate a dedicated resource to be assigned to that task.

Ayes: Bianucci Rus, MacKenzie, Maglio, Manos, McMillan, Thomas

Noes: None

Abstain: None

Absent: Zmyslowski

Motion carried.

G. COMMITTEE AND LIAISON REPORTS

G.1. Staff Updates

None

G.2. Commission Member Reports

None

H. ADJOURNMENT

The meeting was adjourned at 9:41 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: September 5, 2024

TO: Finance Advisory Commission

FROM: Amy Cunningham, City Manager
Carla Carvalho-Degraff, Finance Director

SUBJECT: Update on Finance Department Activities

REQUEST

Receive report.

DISCUSSION

Staff will provide updates to the Finance Advisory Commission (Commission) on current finance activities including:

- **FY 22/23 Audit;** Staff will have completed the initial audit requested items list and have submitted the trial balance to the auditors by the time of the Commission meeting. The auditors selected interim samples and staff have fulfilled that request as well. There will be additional sample selections received before the auditors are on site. The auditors will be conducting fieldwork September 16th through 27th and will be onsite for the first week of fieldwork.
- **FY 23/24 Close;** a large part of the closing activities has been completed. Staff is moving on to finalize outstanding entries and prepare for the audit.
- **Finance Staffing Update;** Jose Morales, the new Deputy Director of Finance started on August 19th.
- **Other Finance Activities**

Staff recommends the Commission receive the report.

STAFF REPORT

MEETING

DATE: September 5, 2024

TO: Novato Finance Advisory Commission

FROM: Natlie Moline, Accountant II
Carla Carvalho-Degraff, Finance Director

SUBJECT: Investment Policy Review

REQUEST

Discuss and provide feedback on the investment policy and potential changes of strategy within California Code requirements.

DISCUSSION

PFM Asset Management (PFMAM) is the City's investment advisor and manages the investments of City funds in accordance with the investment policy approved by City Council. The policy directs that investment goals, in order of priority, are safety, liquidity, and yield. This conservative approach ensures assets are available for use while also allowing the City to earn additional return on idle funds. All funds are proactively managed, and while all investments are purchased with the intent to hold to maturity, some securities may be sold before maturity to rebalance the portfolio, increase diversification, or enhance return safely. The City relies on local government investment pools (LGIPs) like the California Asset Management Program (CAMP) and Local Agency Investment Fund (LAIF), as well as registered investment advisors to invest its funds.

The investment policy should be reviewed annually and updated for changes to the California Code governing how public agencies are legally allowed to invest public funds. At the May 14, 2024, City Council meeting a revision to the investment policy was presented. City Council declined to approve the policy and requested a more thorough

understanding of allowable investments to determine if the investment strategy should be changed.

PFMAM, Senior Analyst, Allison Kaune, the primary PFMAM team liaison with the City will be attending the Finance Advisory Commission meeting to present the Commission with an overview of the City's investments, investment strategy where the City is more conservative than code, and where there is potential for changes in the investment strategy.

Ms. Kaune will also be attending the City Council meeting on September 10, 2024 to review the investment policy and approach with City Council.

Staff request that the Commission provide feedback to staff on the investment strategy to be incorporated in the staff report to City Council.

STAFF REPORT

MEETING

DATE: September 5, 2024

TO: Novato Finance Advisory Commission

FROM: Amy Cunningham, City Manager
Carla Carvalho-Degraff, Finance Director

SUBJECT: Fiscal Sustainability – Interactive Model for the Community

REQUEST

Discuss and provide feedback on the fiscal sustainability model.

DISCUSSION

The Finance Advisory Commission established an ad hoc committee to review and revise the interactive fiscal sustainability model that was a part of the 2014 Fiscal Sustainability Plan. Commissioner Zmyslowski presented the draft model at the October 20, 2022 meeting, and subsequently incorporated the feedback turning over the model to staff for finalization.

After having consultant Andrew Heath develop the General Fund forecast, staff asked Mr. Heath if he would help us further develop the prior model with inputs from the Commission into a “one page” document that could be placed on the website.

Attached to this staff report is a draft of the model. Andrew Heath will be present at the meeting to walk the Commission through how the model works.

Staff recommends that the Commission review and provide feedback on the model. After feedback is incorporated the model will be posted to the City’s website

**CITY OF NOVATO
FORECASTING SCENARIOS - GENERAL FUND**

Future City Key Revenue Sources

Property Tax

Property Tax typically grows as home values increase and / or new residential / commercial development is added to the tax base

Annual Growth
0.0%

Sales Tax

Sales Tax typically grows as demand and prices for taxable goods rise and/or new businesses with taxable products are added to the tax base

Annual Growth
0.0%

Measure M Sales Tax

Ballot Measure - November 2024

The passage of Measure M will provide an additional \$10.3 million for services such as fixing potholes / streets; maintaining 9-1-1 emergency response; crime / gang prevention; attracting / retaining small businesses; maintaining parks / recreation facilities; enhancing wildlife prevention; and repair aging storm drains.

Measure M is Adopted?
NO

Transient Occupancy Tax

Transient Occupancy Tax (TOT) is typically received from visitors to the City who stay in hotels / motels / AirBNB / VRBO for stays of 30 days or less. TOT will grow as more people travel to and stay in the City and/or as room rates increase over time.

Annual Growth
0.0%

Service Level Reduction / Staff Reduction (Cost Savings)

The City of Novato currently has 198 positions funded with the FY 2024-25 Adopted Budget. On average, each of these positions costs the City ~ \$142,500 annually to fully fund when considering salary and benefits costs borne by the City. Eliminating and / or freezing positions would reduce overall costs and also reduce levels of services provided.

Total Positions Eliminated From Budget?
0

Future City Key Expenditure / Cost Drivers

Labor Costs / Cost-of-Living Adjustments

Cost-of-Living salary adjustments are typically provided to employees each year subject to bargaining unit negotiations

Annual Increase
0.0%

General Operating Costs

General Operating Costs for materials / supplies / insurance / contracts / legal fees / etc. are typically impacted by inflationary price pressures

Annual Inflation
0.0%

Deferred Maintenance / Capital Outlay and Projects

If available, the City can use discretionary General Fund funding towards the backlog of deferred maintenance on City buildings and infrastructure

Deferred Maintenance - City Facilities
- Note: City could benefit from an additional \$1 million (or more) annually

Additional Funding
\$0

Deferred Maintenance - Roads
- Note: To maintain roads in good condition City could benefit from additional funding (need = \$11 million annually to keep pace)

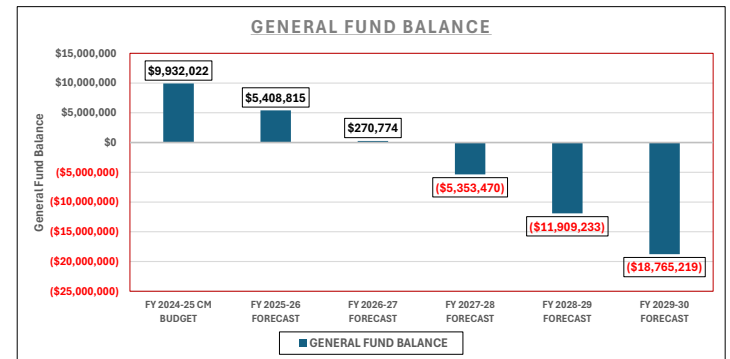
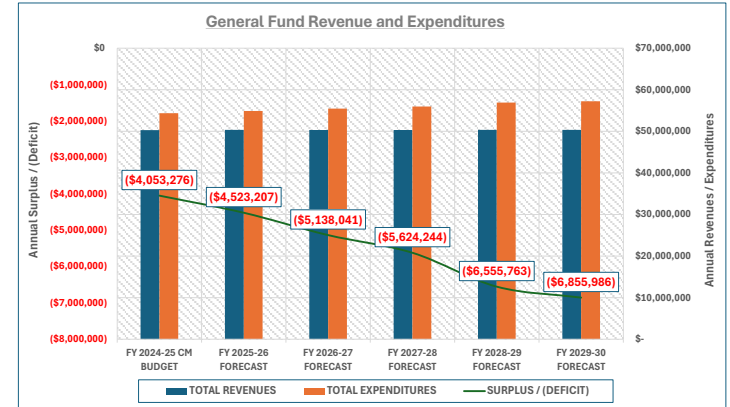
Additional Funding
\$0

Vehicles & Equipment
- Note: City is required to maintain safe and reliable equipment and apparatus necessary to provide excellent service

Additional Funding
\$0

Capital Projects - Discretionary Funding
- Note: City could benefit from additional contributions from General Fund towards certain Citywide capital projects (matching)

Additional Funding
\$0



STAFF REPORT

MEETING

DATE: September 5, 2024

TO: Novato Finance Advisory Commission

FROM: Carla Carvalho-Degraff, Finance Director
Stacey Hoggan, Management Analyst I

SUBJECT: Draft City of Novato Loan Policy

REQUEST

Discuss and provide feedback on establishing a City of Novato Loan Policy.

DISCUSSION

During the City Council meeting on July 23, 2024, Council directed staff to develop a loan policy to address the issuance of city-funded loans. This initiative arises from past instances where loans were approved without a standardized framework for eligibility. The purpose of this new policy is to establish clear criteria and procedures for consistent consideration of loan requests, ensuring a structured, transparent, and accountable approach to loan issuance.

As part of the Finance Advisory Commission's responsibilities outlined in [Resolution 2022-079](#), which include reviewing existing fiscal policies and recommending new ones to the City Council, reviewing this policy will align with these duties.

The City of Novato Loan Policy is designed to address the concerns of fund management and oversight by introducing specific restrictions and guidelines. To ensure that the policy is effective, staff is actively soliciting input and feedback from the Commission. This collaborative approach aims to refine the policy and enhance its effectiveness in meeting the City's financial objectives. Key aspects included in this draft policy are:

- **Approval Requirement:** To ensure appropriate oversight, any loan proposal must receive approval from at least four of the five Council members, as specifically stipulated by the City Council at their meeting on July 23, 2024. This requirement underscores a commitment to careful and prudent decision-making by ensuring a strong consensus among Council members.
- **Stringent Criteria:** The policy sets out specific eligibility requirements and criteria to ensure that loans are granted based on well-defined terms and conditions. The policy also restricts the funding of loans based on the city's financial health.
- **Alignment with Strategic Goals:** The policy supports the City's Strategic Plan by support of initiatives that align with long-term city objectives along with community benefit.

By establishing a loan policy, the City Council is strengthening management of city funds, ensuring that loans are issued in a fiscally responsible manner and ensuring that the loan can be managed efficiently by staff within the municipal accounting structure. By implementing clear criteria and requiring super-majority Council support, the policy aims to address concerns and ensure a higher level of fiscal control.

Staff recommends that the Commission review the draft policy and provide feedback, specifically on the financial criteria, eligibility criteria, and the City's financial health criteria. Your input is important to refining the policy and ensuring that it effectively addresses the concerns related to the City's financial management and budgetary considerations. After incorporating the Commission's feedback, the draft policy will be submitted to the City Attorney's office for further review before presentation to the City Council at a future meeting.

CITY OF NOVATO LOAN POLICY

I. POLICY

This policy refers to a set of guidelines and regulations established by the City of Novato to manage and administer loans funded by municipal resources.

II. PURPOSE

The City of Novato's loan policy documents methods used by the City to demonstrate prudent financial management for loans given by the City of Novato to outside organizations. This policy will provide a clear and consistent framework for the issuance of loans to and ensure that loans are granted based on merit, financial viability, and alignment with the city's fiscal health and strategic goals.

The City does not generally engage in regular lending as it not a financial institution but from time-to-time organizations request financial assistance from the City and this policy applies to those situations.

III. SCOPE

This loan policy applies to requests for a loan from an organization seeking financial assistance from the City.

The policy does not apply to interfund loans, housing program loans, grants, or programs approved by City Council under other policies (i.e. Community Sponsorship program).

All loan agreements governed by this policy must be approved by a super-majority (4/5 support) of the City Council at a public meeting.

IV. ELIGIBILITY CRITERIA

To qualify for a city loan, organizations must meet the following criteria:

- a. Type of organization:
 - State certified non-profit organizations
 - Other public benefit entities aligned with the City's goals and project priorities (*e.g. Strategic Plan*)

- b. Project Relevance:

- The project or activity must support the City’s strategic goals, including economic development, community enhancement, or other public benefit.
- The organization must demonstrate that the loan will directly contribute to the project’s success and sustainability.

V. FINANCIAL ELIGIBILITY CRITERIA

a. Financial Health:

- Organizations must provide audited financial statements for the past three years or for the duration of their operation, whichever is shorter.
- Financial statements should demonstrate a history of sound financial management and a reasonable expectation of future financial stability.
- Organization shall be rated in a category of “AA” or the equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
- Independent Third-party review of financial statements must be conducted to validate financial health of organization. This review would be at the borrower’s cost.

b. Loan Repayment Ability:

- Organizations must demonstrate that they have adequate revenue streams or funding sources to support loan repayment.

c. Collateral and Guarantees:

- The city may require collateral or personal guarantees to secure the loan, depending on the organization’s financial strength and the loan amount.

VI. LOAN TERMS AND CONDITIONS

All loans will be documented in an agreement and will contain the following terms and conditions:

a. Interest Rates:

- Interest rates for city loans shall be set in alignment with prevailing rates offered by local banks and financial institutions. Rates will be competitive but ensure the city is not at a financial disadvantage.

b. Loan Duration:

- Loan terms; loan could be short-term or long-term depending on the project.
 - Short-term loan is defined as less than 5 years
 - Long-term loan is defined as 5 years or more
- Short-term and long-term loans require the same super-majority (4/5 support) City Council approval.

- c. Repayment Schedule:
 - Repayment schedules will be structured with clear milestones and regular payment intervals as outlined in the loan documents.
- d. Disbursement Schedule:
 - Disbursement schedules will be dependent on the project being funded. Borrower will be required to meet all requirements for disbursement in loan agreement prior to funding being released.
- e. Fees and Penalties:
 - Loan agreements will specify any applicable fees and penalties for late payments or default. Such terms will be consistent with standard banking practices.
- f. Prepayment Options
- g. Priority of Lien:
 - The Borrower agrees that the City of Novato shall have a first lien priority over any and all other claims, liens, and encumbrances on the property described in the agreement, including but not limited to any mortgages, deeds of trust, or other security interests. This first lien priority shall be maintained throughout the term of the Loan and shall not be subordinated to any other debt or encumbrance without approval of the City Council and written consent of the City.

VII. FINANCIAL HEALTH OF THE CITY

- a. Budget Considerations:
 - The issuance of any loan will be contingent on the City's financial health and budgetary position. The City Council will only approve a loan if it does not jeopardize the City's financial stability.
- b. Funding Source:
 - Loans must comply with the purpose of the funding source, and all financial policies associated with the funding source.
- c. Audit and Financial Reporting:
 - To issue any loan, the City must be current with its Annual Comprehensive Financial Reports (ACFRs) and any required audits by other agencies. This

ensures the City's financial health is accurately represented and that loan issuance does not compromise its financial integrity.

VIII. TRANSPARENCY AND REPORTING

- a. Record-Keeping:
 - Detailed records of all loan applications, approvals, and disbursements will be maintained and made available for public view upon request.
- b. Reporting Requirements:
 - Borrowers will be required to submit quarterly reports detailing their financial performance and project progress. Reporting requirements will be detailed in the loan agreement. Failure to meet reporting requirements may impact future loan considerations and may cause the City to require that the borrower repay the loan in full.

IX. POLICY REVIEW AND AMENDMENTS

- a. Regular Review:
 - This policy will be reviewed annually to ensure it remains effective and relevant to the city's objectives and financial conditions.
- b. Amendments:
 - Amendment to this policy must be approved by a super-majority of the City Council (4/5 approval), ensuring that the changes align with the City's strategic goals and financial health.

X. EFFECTIVE DATE

This policy is effective as of [Insert Effective Date] and supersedes any previous loan funding policies or procedures.

City Manager

