

CITY OF NOVATO – BUDGET 101 DISCUSSION

Measure F Oversight/Citizens Finance Committee

June 1, 2011



PURPOSE AND AGENDA

Purpose

- To provide an overview of City finance and specifically, Novato's financial picture.
- Educate Committee members on the fiscal challenges the City faces
- Set the stage for future discussions on fiscal sustainability

Agenda

- Budget Basics
 - Revenues
 - Expenditures
 - Fund Structure
- Novato Financial History/Status
 - Context
 - Past
 - Present
- Financial Planning/Budget Model
- Fiscal Sustainability Discussion

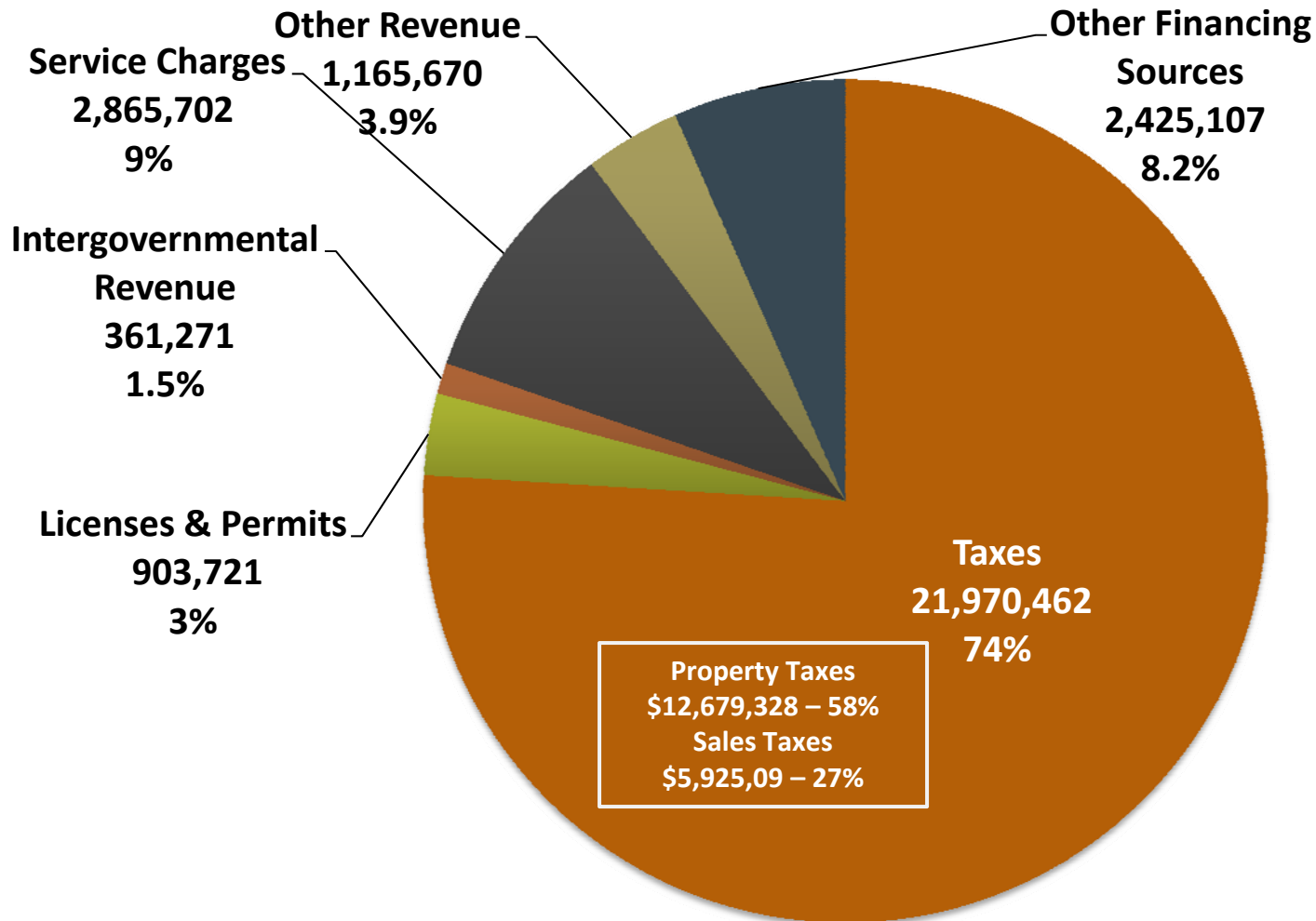


BUDGET BASICS - REVENUES



NOVATO GENERAL FUND REVENUE BY CATEGORY

2011-2012 Fiscal Year



CITY REVENUE SOURCES

Taxes

- ✓ Charges which pay for public services and facilities that provide general benefits. No need for a direct relationship between a taxpayer's benefit and the tax paid.
- ✓ Cities may impose any tax not otherwise prohibited by state law. (Gov Code 37100.5)
- ✓ The state has reserved a number of taxes for its own purposes including:
 - cigarette taxes, alcohol taxes, personal income taxes.
- ✓ General & Special
 - General Tax - revenues may be used for any purpose.
 - Majority voter approval required for new or increased local tax
 - Special Taxes - revenues must be used for a specific purpose.
 - 2/3 voter approval required for new or increased local tax
 - Parcel tax - requires 2/3 vote

CITY REVENUE SOURCES

Property Tax

- ✓ An *ad valorem* tax imposed on real property and tangible personal property
- ✓ Maximum 1% rate (Article XIII A) of assessed value, plus voter approved rates to fund debt
- ✓ Assessed value capped at 1975-76 base year plus CPI or 2%/year, whichever is less
- ✓ Property that declines in value is reassessed to the lower market value.
- ✓ Reassessed to current full value upon change in ownership (with certain exemptions)
- ✓ Allocation: shared among cities, counties and school districts according to state law.



NOVATO PROPERTY TAX BREAKDOWN

WHERE DO MY PROPERTY TAXES GO?

Jurisdiction	% of Property Tax
Novato Unified School District	30.0%
Marin County General Fund	15.5%
ERAF	14.4%
Novato Fire District	14.1%
City of Novato	6.8%
Marin Community College	6.4%
Tax Increment to Novato RDA	3.1%
Marin County School Service Fund	2.2%
Library	2.2%
Novato Sanitary District	2.1%
Flood Control Zone	1.5%
Marin County Open Space	0.8%
Marin Transit District	0.5%
Marin/Sonoma Mosquito Abatement	0.3%
BAAQMD (Air Quality)	0.2%
North Marin Water District	0.1%
TOTAL	100%



CITY REVENUE SOURCES

Sales and Use Tax

- ✓ **Sales Tax:** imposed on the total retail price of any tangible personal property.
 - ✓ Example: Television purchased at Novato Target in Vintage Oaks
 - ✓ “Situs” rule: Collected by state – returned to “site” (jurisdiction) where purchase was made.
 - ✓ Novato Rate = 9.5% (includes ½ cent Measure F).
- ✓ **Use Tax:** imposed on the purchaser for transactions in which the sales tax is not collected.
 - ✓ Example: Television purchased at Amazon.com
 - ✓ Consumer responsible to pay “use tax” when filing taxes.

CITY REVENUE SOURCES

Fees and Charges and Intergovernmental Subventions

✓ Fees

- ✓ A charge imposed on an individual for a service or facility provided directly to that individual.
 - ◆ User Fees
 - ◆ Property Related Fees
 - ◆ Regulatory Fees

✓ Assessments

✓ Licenses and Permits

✓ Franchises

✓ Rents, Royalties & Concessions

✓ Fines, Forfeitures & Penalties

✓ Intergovernmental Subventions

- ✓ Money granted by another government agency to support or aid some cause, institution or undertaking.

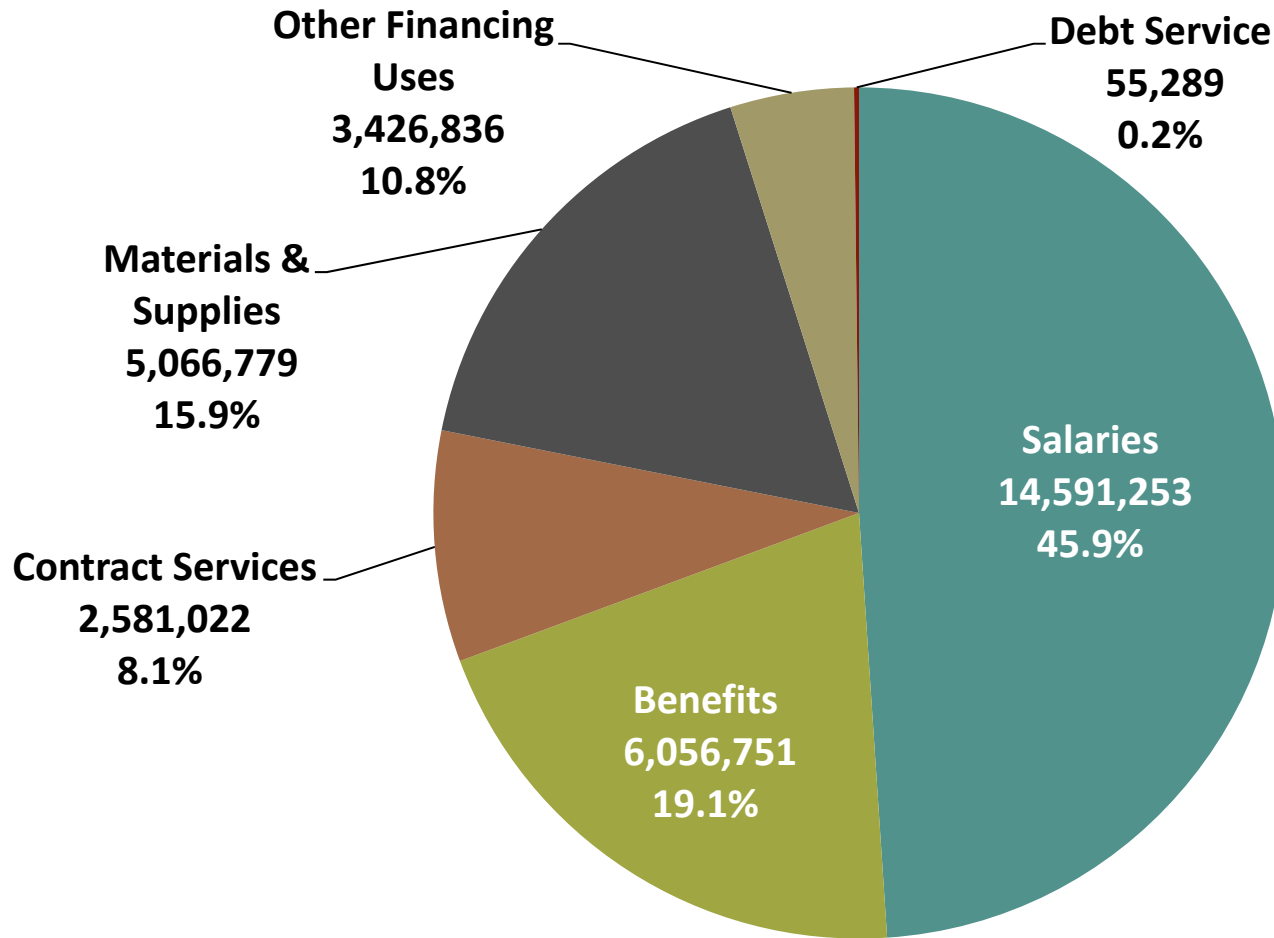


CITY EXPENDITURES



NOVATO GENERAL FUND EXPENSES BY CATEGORY

2011-2012 Fiscal Year



CITY EXPENDITURES

How does the City spend revenues?

✓ Personnel / Human Resources (65% of our costs)

- Salaries / wages
- Health Benefits
- Retirement Benefits
- Other Post Employment Benefits

✓ Non-Personnel

- Supplies / Materials / Equipment
- Contract Services

✓ Capital / Debt

FUND STRUCTURE, RESERVES AND REDEVELOPMENT



FUND STRUCTURE

Fund Accounting

- Government uses fund accounting system
 - Different than for-profit private sector
- City is divided into various funds, each one a self-balancing set of accounts
- Primary example:
 - **General Fund** is used to account for money which is not required legally or by sound financial management to be accounted for in another fund.
 - Funds general City operations
 - Central Administration
 - Administrative Services
 - Police
 - Public Works
 - Parks, Recreation, Community Service

FUND STRUCTURE

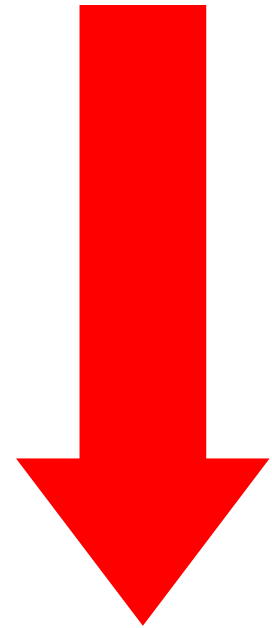
Other Fund Examples

- **Special Revenue Funds** are used to account for activities paid for by taxes or other designated revenue sources which have specific limitations on use according to law.
 - Examples: Gas Tax fund and affordable housing fund
- **Debt Service Fund** is used to pay for City's long-term debt
 - Examples: general obligation and pension obligation bonds
- **Internal Service Funds** are used to pay for good/services provided from one department to another
 - Example: equipment maintenance
- **Enterprise Funds** are used to account for self supporting activities which provide services on a user-charge basis.
 - Novato does not have enterprise funds
- Other Funds:
 - Trust Funds;
 - Reserve Funds.

GENERAL FUND RESERVE

✓ City Policy mandates that general fund reserve be at least 15% of general fund expenditures.

FY 04/05	7,809,764
FY 05/06	7,000,774
FY 06/07	7,784,078
FY 07/08	7,119,002
FY 08/09	5,538,625
FY 09/10	4,849,136
FY 10/11	4,550,078
FY 11/12 Est.	5,298,585



**33% Decline
2005-2011**



REDEVELOPMENT

- The intent of Redevelopment is to provide a fiscal mechanism for community revitalization
- The Redevelopment Agency establishes project areas and adopts and implements plans for the improvement and revitalization of the “project area”
- Redevelopment funds capital projects such as:
 - Affordable housing
 - Infrastructure (streets, sidewalks, utilities)
 - Rehabilitation of public & private buildings
 - Parking facilities
 - Land assemblage for economic development



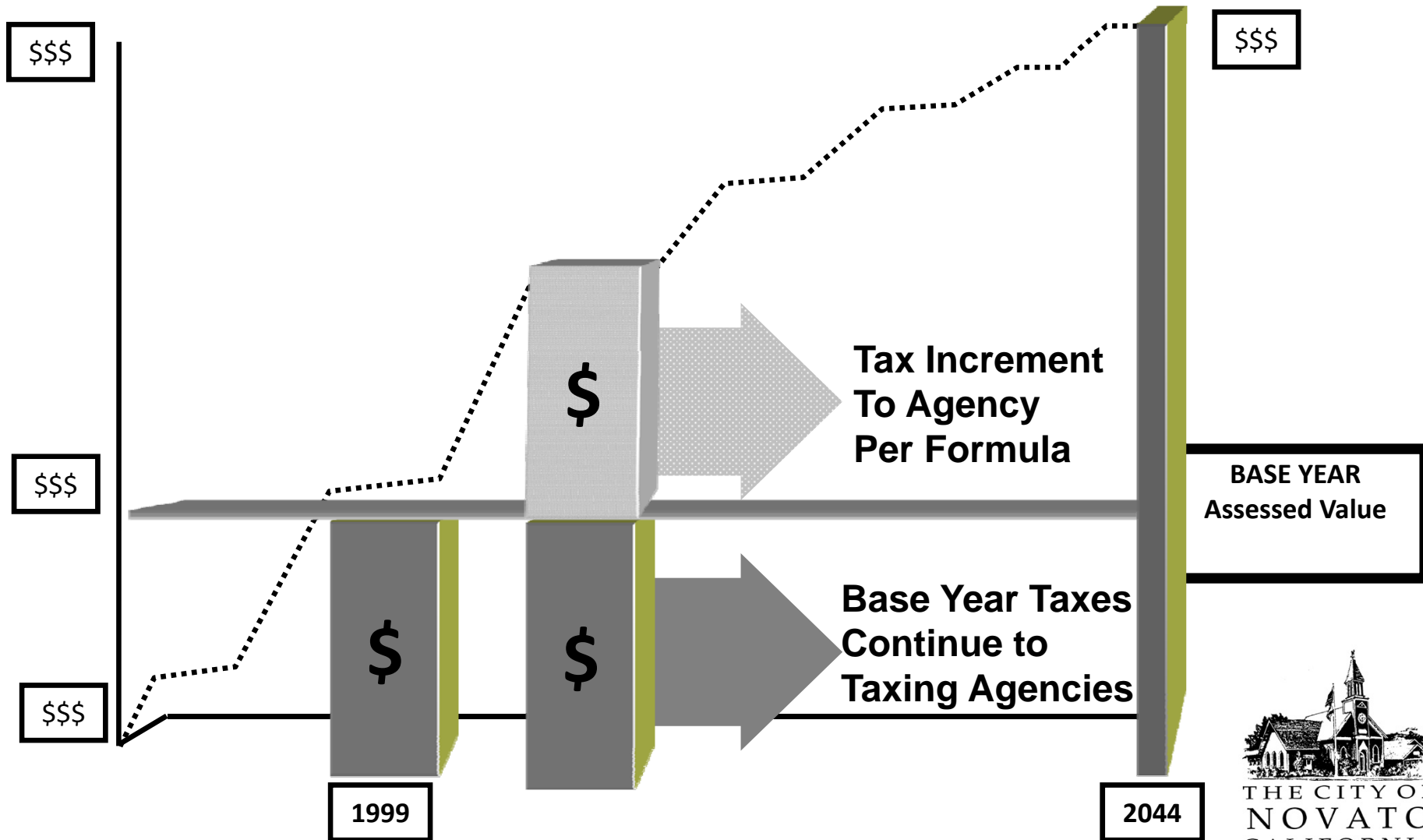
REDEVELOPMENT FINANCE

TAX-INCREMENT FINANCING

- Tax increment financing is the funding method for redevelopment activities
- Tax increment is the increase in property taxes within the Project Area over the base year assessed value
- There are no new taxes, no increase in taxes, but merely a redistribution of property taxes



TAX INCREMENT: REVENUE GROWTH "ABOVE THE BASE"



NOVATO FINANCIAL HISTORY/STATUS



ALL CITIES ARE NOT CREATED EQUAL

Novato

No Utility Users Tax

- 50% of statewide population pays for this major tax revenue (15% of cities' budgets)

Real Property Transfer Tax is 73% less than neighbors

- Petaluma and San Rafael: \$2.00 per \$1,000 valuation
- Novato: \$0.55 per \$1,000 valuation
 - Tax rate for general law cities (i.e Novato) set by state law

Limited commercial/industrial land zoning

- (Novato at 5%; San Rafael at 17%; Petaluma at 11%)

No refuse franchise fee

- San Rafael FY \$1.5 million
- Petaluma FY \$1.4 million



NOVATO PROPERTY TAX BREAKDOWN

Novato

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BAAQMD (Air Quality)	0.2%
North Marin Water District	0.1%
TOTAL	100%

NOTE:
14.1% goes
to Fire
District



PROPERTY TAX BREAKDOWN COMPARISON

City of San Rafael

Jurisdiction	% of Property Tax
Elementary School District	19.9%
Marin County General Fund	18.6%
High School District	15.5%
ERAF	13.7%
City/Town	10.9%
Tax Increment to RDA	7.8%
Marin Community College	7.7%
Marin County School Service Fund	2.6%
Sanitary District	1.1%
Marin County Open Space	1.0%
Marin Transit District	0.6%
Marin/Sonoma Mosquito Abatement	0.3%
BAAQMD (Air Quality)	0.2%
North Marin Water District	0%
Fire District	0%
Flood Control Zone	0%
Library	0%
Unified School District	0%
TOTAL	100%

City gets larger % of property taxes

NOTE: In San Rafael, 0% goes to Fire District



RECENT REALITIES

Lived through worst recession in 75 years

- Real estate market free-fall
- Credit crisis and foreclosures
- Development at a virtual standstill
- Low consumer confidence
- Retail sales down
- High unemployment

Novato revenue hit hard!

- 1 ½ years past end of recession



OUR GOOD FRIENDS IN SACRAMENTO

Decades of State raids on local revenue and unfunded mandates

- “ERAF Shift” \$1.3 million per year from Novato (since early 90’s)

2009 - \$2.6 million from Redevelopment

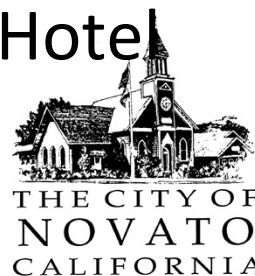
2010 - \$546,500 from Redevelopment

2011 – **Under attack**

Redevelopment - potential elimination

Police – Booking Fees, POST training, COPS, Hotel

Tax Revenues



KEY REDUCTIONS ALREADY APPROVED

2 year budget reductions approved for FY 10/11 and FY 11/12

- Council approved \$4M two-year budget reduction package last year; approved March 2010; made difficult policy decisions.
 - FY 10/11
 - \$2.4 M in reductions
 - 19.35 FTE positions eliminated
 - FY 11/12
 - \$1.6 M in reductions
 - 14.5 FTE positions approved for elimination
- Nevertheless, \$1.4 million structural deficit remained
- Choice for the community: Further reductions vs. additional revenues



FY 10/11 & 11/12 - DEFICIT REDUCTION SUMMARY

	TOTAL TWO YEAR DEFICIT REDUCTIONS			
	DEFICIT REDUCTION \$	DEFICIT REDUCTION %	FTE	FTE %
ADMINISTRATION	-\$189,333	-7 %	-2	-13%
CITYWIDE PROGRAM	-\$74,568	-4%	0	0.0%
COMMUNITY DEVELOPMENT	-\$402,189	-86%	-5	-22%
PARKS, REC & COMM SVCS	-\$733,328	-52%	-7	-27%
POLICE	-\$1,074,673	-9%	-7	-9%
PUBLIC WORKS	-\$1,547,338	-29%	-13	-23%
TOTAL	-\$4,021,429	-17%	-34	-17%



MEASURE F -- TEMPORARY SALES TAX

Ballot Measure Language

- Measure F approved in November 2010
 - 5-Year temporary ½ cent sales tax
 - \$3 million estimated annually
 - Went into effect on April 1st
 - First payment will be received in late June
 - Discussion for use of Measure F funds will occur this summer; part of a broader fiscal sustainability discussion

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?*



SUMMARY

- Novato faces inherent fiscal challenges due to:
 - Limited revenue options
 - No UUT
 - No Franchise Fee
 - Real Property Transfer Tax is smaller
 - Limited commercial/industrial zoning)
 - Property tax allocations
 - Novato is not a “full service city”
 - Property tax percentage is lower
- Potential for actions by state government to take and/or limit local revenue options
 - Each year seems to bring a new proposal



SUMMARY

- Recent economic realities
 - Recession has had a significant impact on property and sales tax revenues
- City made difficult spending cuts in June 2010 (\$4M over two years)
 - First round of cuts went into effect last July
 - Remaining cuts go into effect July 1, 2011
- Community passed Measure F to prevent further cuts, allow city to engage in discussions with community re: city operations over the long term.
 - Ex: Measure F Oversight/Citizens Finance Committee
- The Bottom Line: Fiscal challenges remain



FINANCIAL PLANNING/BUDGET MODEL



FINANCIAL PLANNING

- What is financial planning?
 - Process of projecting revenues and expenditures over a long-term period.
 - Process of aligning financial capacity with long-term service objectives.
- Why engage in financial planning?
 - Tool for developing strategies to achieve long-term sustainability
 - Engenders long-term perspective/strategic thinking
 - Helps avoid financing challenges

FINANCIAL PLANNING

- How to do financial planning?
 - Establish a time-horizon (Novato = 5 years)
 - Scope – Identify all appropriate funds
 - Content
 - Underlying economic conditions
 - Revenue and expenditure projections
 - Projected reserve levels
 - Affordability analysis
- When to engage in financial planning
 - Maintain and Update Quarterly
 - City staff presents to Council (April 2011 – most recent)

NOVATO BUDGET MODEL

- Assumption driven
- City estimates increases (or decreases) of revenues and expenditures from year-to-year and builds budget based on the assumptions.
 - Scenario: Use data from 2010-2011 budget, apply assumptions and develop 2011-2012 budget
- Assumptions based on historical and economic data
- Some “assumptions” provided by other agencies:
 - Example: CalPERS provides rates for retirement contributions on a yearly basis.
- Changes frequently
 - Model is a tool – not a budget



NOVATO BUDGET MODEL

Revenue Assumptions: 2011-2012

	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16
Property Taxes	(1.0%)	1.0%	2.5%	3.0%	3.0%
Sales Taxes	2.5%	2.5%	3.0%	3.5%	3.5%
Vehicle License Fees	1.0%	1.0%	1.0%	1.0%	1.0%
Hotel (TOT) Tax	1.0%	1.0%	1.0%	1.0%	1.0%
Investment Earnings	2.0%	2.5%	2.5%	2.5%	2.5%
Property Leases	2.5%	2.5%	2.5%	2.5%	2.5%
Hamilton Trust	2.5%	3.0%	3.0%	3.0%	3.0%

NOVATO BUDGET MODEL

Expenditure Assumptions: 2011-2012

	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16
Employee Salaries	0%	2.0%	2.0%	3.0%	3.0%
General Operating & Maintenance	2.5%	2.5%	2.5%	2.5%	2.5%
Insurance & Utilities	5.0%	5.0%	5.0%	5.0%	5.0%

* Another cost consideration: CalPERS retirement contribution rates for miscellaneous and safety employees. CalPERS provides rates to Novato annually (More detail will be provided in the future).

FORECAST HISTORY

18 month history of changes to the Five Year Forecast

Date of Report	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	Average
January 2010 <i>(Before 2 Yr Reductions)</i>	(4.1M)	(4.6M)	(5.0M)	(6.1M)	(6.9M)	n/a	(5.3M)
<i>Council approved \$4 Million in deficit reductions for FY 10/11 and FY 11/12.</i>							
March 2010 <i>(After 2 Yr Reductions)</i>	(1.6M)	(0.8M)	(1.0M)	(2.3M)	(3.0M)	n/a	(1.7M)
<i>Voters approve Measure F – ½ cent sales tax for 5 years; estimated at \$3 million annually</i>							
December 2010	n/a	(0.4M)	(1.4M)	(2.4M)	(2.5M)	(2.8M)	(1.9M)
April 2011	n/a	(0.4M)	(1.7M)	(2.9M)	(3.2M)	(3.4M)	(2.3M)
Unallocated Measure F Expected Revenues	3.0M	3.1M	3.2M	3.3M	3.3M	2.5M	

KEY MESSAGES FROM SPRING QUARTERLY UPDATE

From Mid-Year/Spring Financial Forecast – April 12, 2011 Council Meeting

- Economy remains slow to recover
 - Revenues are beginning to stabilize
 - Sales tax is improving
 - Private development and construction activity continues to decline
 - FY 10/11 projecting to need \$400,000 in reserves as budgeted
- Underlying structural problem continues to worsen
 - Interest earnings and private development revenues decline
 - Pension costs
- Passage of Measure F provides financial resources in interim (5 years) to prevent additional painful reductions
 - Fiscal sustainability discussion this summer
 - Difficult policy issues ahead
- Limited ability to absorb unanticipated ongoing revenue reductions or additional expenditure requirements



FISCAL SUSTAINABILITY DISCUSSION



FISCAL SUSTAINABILITY

- Measure F designed to prevent further reductions in staff and service levels
 - However, Measure F is temporary and expires in 5 years
- Projections demonstrate that the City faces a \$3.55 million deficit in the first year after Measure F expires
- Council will begin discussions on actions needed to ensure the City's long term fiscal sustainability after action on the FY 2011/2012 budget

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FISCAL SUSTAINABILITY – A BALANCING ACT

Managing
Employee
Compensation
Balanced with
Sustaining a
Talented Work
Force

Encourage
Commercial
Development
Balanced with
Retaining
Community
Character and
Neighborhoods

Increase
Revenue and
Fees to Ensure
Cost Recovery
Balanced with
Ensuring Access
and Overall
Competitiveness

Control
Operating
Expenses &
Improve
Efficiency
Balanced with
Retaining
Flexibility and
Resources to be
Responsive and
Creative

FISCAL SUSTAINABILITY

Employee Compensation/Benefits

- Through negotiations in 2010, City staff agreed to the following changes:
 - Employee furloughs
 - FY 10/11: 80 hours (3.85% salary reduction)
 - FY 11/12: 50 hours (2.40% salary reduction)
 - Increased Employee contributions for CalPERS retirement
 - FY 10/11: Employees pay 1% of CalPERS pension
 - FY 11/12: Employees pay 2% of CalPERS pension
- New Labor-Management negotiations will take place in Spring 2012.

FISCAL SUSTAINABILITY

Encourage Commercial Development

- Work with business community to retain existing business and recruit new ones:
 - Examples: Rustic Bakery, Trek Winery, Southern Pacific Smokehouse, Chipotle
- Future discussions on how to utilize opportunities on the North Redwood Corridor.
- Working to leverage opportunities out at Hamilton.
 - Ground lease revenue?

FISCAL SUSTAINABILITY

Increase Fees/Revenues While Maintaining Competitiveness

- Options For Consideration
 - Transition Parks, Recreation and Community Services to more of an enterprise operation and reduce the general fund subsidy for programs
 - Assess current Development Fees
 - Ensure that fees are at appropriate level
 - Balance potential increases with reality that high fees may discourage development.



FISCAL SUSTAINABILITY

Control Operating Expenses and Improve Efficiency

- Moving forward on new City office to eliminate \$700,000 lease payment at current 75 Rowland location.
- Looking at other ways to reduce our expenses.
- Providing training to employees to enhance staff capabilities and improve overall efficiency.
 - Utilize new technology (ex: Customer Response System)
- Further IT advancements planned in the future
- Overall: Find ways to respond to the new model of how to provide services with less resources.



FISCAL SUSTAINABILITY

Summary

- City has taken actions to improve fiscal situation and set the foundation for long-term fiscal sustainability
- Novato not starting from square one
- Taking actions now and starting conversations regarding Measure F resources soon.
- Measure F expires in only five short years.
- Novato wants to be prepared for future fiscal challenges.



QUESTIONS/COMMENTS

