



MEASURE F OVERSIGHT COMMITTEE

FY 2011-2012 ANNUAL REPORT

September 25, 2012

COMMITTEE MEMBERS

Cris MacKenzie,
(Chair)

David Bentley,
(Vice-Chair)

Alan Berson

George Cohen
(Term Expired 9/1/12)

Caitrin Devine

Robert Jordan

Robert Ratto
(Appointed 9/1/12)

Robert Scott



City of Novato



September 13, 2012

Dear Novato City Council:

As you know, the Measure F Oversight/Citizens Finance Committee has been engaged in fiscal sustainability discussions concurrently with your work sessions and meetings. During this time, we have received information and presentations from City staff about the inherent opportunities and challenges in this process. As we move through this process, the Committee is offering the following comments for your consideration.

The City has taken significant steps to reduce the City's budget deficits in the last three years. Through a number of actions, the City's projected budget deficit for the 2014-2015 fiscal year has been reduced by 90% compared to projections provided to Council in August 2009. The Council, staff and the community should be commended for making the difficult, but necessary, decisions to address a significant part of our City's financial challenges.

Nevertheless, the City continues to face ongoing deficits and, therefore, additional fiscal sustainability actions are needed. The need for additional action is urgent due to macro and local economic impacts. As we have seen over the past three years, the economic recovery has been slow. Novato has limited land for new economic development for retail or commercial enterprises. Furthermore, neighboring communities are moving forward with economic development projects that will potentially impact Novato's sales tax revenue (examples: Target in San Rafael and Petaluma and Freidman's in Petaluma). We believe new revenue through economic development is an imperative piece of Novato's fiscal action plan. However, we cannot expect an economic rebound will solve Novato's budget challenges through large increases in sales tax revenue.

These actions should be part of a comprehensive fiscal sustainability plan. The City is fortunate to have Measure F resources, which provide time for the Council and the community to have discussions on this important topic. As part of this plan, the Committee recommends that the Council identify how the City will strategically invest Measure F revenue. While some investments were identified in the recently approved 2012-2013 budget, the majority of Measure F revenue is not yet programmed. We believe the community needs to have a clear understanding as to what services and programs these resources will fund. We urge the Council to create a multi-year road map for Measure F investments.

Finally, the Committee believes that the Council should adopt a Fiscal Sustainability Plan in 2013 that provides the City with a balanced budget by fiscal year 2015-2016 when the Measure F tax sunsets. We urge the Council to make this your top priority over the next fiscal year. We thank you for considering our views and express our willingness and commitment to work with you, staff and the public on a plan that ensures the City's long term financial and organizational sustainability and Novato's quality of life.

Sincerely,
Measure F Oversight/Citizens Finance Committee

Submittal of Report

The Measure F Oversight/Citizens Finance Committee has reviewed the allocations, expenditures and appropriations of the Measure F tax revenue. It is the Committee's opinion that all such revenues have been allocated, appropriated and spent consistent with the intent and purpose of the Measure F Ordinance 1551, which governs the tax.

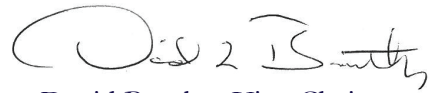
The FY 2011-2012 Measure F Annual Report was reviewed and approved by the Measure F Oversight Committee at its meeting on September 13, 2012.

The report is hereby submitted to the Novato City Council.

Respectfully submitted,



Cris Mackenzie, Chair



David Bentley, Vice-Chair



Alan Berson



Caitrin Devine



Robert Jordan



Robert Ratto



Robert Scott

*Note: Former Committee Member George Cohen had input on the report. However, his term expired as of September 1, 2012 and therefore, he did not vote on final approval of this report.

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. 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 ballot measure was approved by the Novato voters in the November 2010 election. The tax increase took effect on April 1, 2011 and will sunset on March 31, 2016.

As a general tax measure, the revenues were not legally designated to fund particular programs or services and, therefore, can 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

As mentioned previously, the tax increase became effective on April 1, 2011, with initial revenue received in June 2011. City staff estimated that annual revenue generated by this tax would be approximately \$3 million annually. A special revenue fund, separate from the City’s General Fund, was established to track the revenue and expenditures associated with the measure.

The Measure F ordinance also mandated the creation of a Citizens Oversight Committee to review and report on the revenue and expenditure of Measure F funds. The Committee is charged with presenting this report to the City Council and making the report available to the public. The Committee was created

Measure F Background (continued)

on February 8, 2011 by the City Council. The Committee held its first meeting on April 14, 2011.

The Committee's responsibilities, related to its role as the Measure F Oversight Committee, are outlined below.

1. Discuss and provide input to staff on Measure F-related budget proposals.
2. Review and report on the revenue generated, expenditures made and use of Measure F funds from the tax adopted by the Measure F ordinance.
3. Present the report referenced in (2) to the City Council and make it available to the public annually.
4. Comment on any concerns regarding the appropriateness of Measure F related expenditure allocations.
5. Comment on the status of efforts to achieve fiscal sustainability.



“To offset/
prevent
additional
budget cuts and
maintain/restore
vital general city
services”
-Language
from Measure F



Measure F Fund Balance by Fiscal Year

Overview:

The Council has been conservative in its use of Measure F revenue and has focused on using the funds for one-time rather than ongoing expenditures until a long-term fiscal and organizational sustainability plan has been developed. As such, a limited amount of the funds has been spent. At the same time, actual Measure F revenue has been higher than budgeted in the past two fiscal years. The limited expenditures and higher revenue levels have created a \$4.5 million balance in the Measure F fund at the close of the 2011-2012 fiscal year.

The Council is currently moving forward with discussions on long-term fiscal sustainability and considering options of how to strategically invest Measure F resources to ensure the City's long-term financial stability in conjunction with priority areas of focus. Through this process, the Council will receive input from the public, City staff, City boards and commissions (including the Measure F Committee) and will ultimately develop a broad plan to achieve fiscal sustainability and utilize these funds. These discussions will continue in the FY 2012-2013 year.

The table below demonstrates the Measure F fund balance for the 2010/11, 2011/12 and 2012/2013 fiscal years.

| Table 1 MEASURE F FUND BALANCE | Previous Actual 2010/11 | Final Actual 2011/12 | Proposed Budget 2012/13 |
|---|--|-------------------------------------|--|
| Fund Balance - Begin Fiscal Year | 0 | 689,473 | 4,568,084 |
| Revenues | | | |
| Sales Tax | 689,126 | 4,089,401 | 3,994,406 |
| Investment Earnings | 347 | 9,491 | 20,970 |
| Subtotal Revenues | 689,473 | 4,098,892 | 4,015,376 |
| TOTAL FINANCING AVAILABLE | 689,473 | 4,788,365 | 8,583,460 |
| Expenditures | | 214,533 | 635,420 |
| Transfers Out: | | | |
| General Fund | | | 594,363 |
| Debt Service-POB Fund | | 5,748 | 12,476 |
| Total Expenditures & Transfers Out | 0 | 220,281 | 1,242,259 |
| Fund Balance - End Fiscal Year | 689,473 | 4,568,084 | 7,341,201 |

Measure F Revenues and Expenditures—2010/11 Fiscal Year

Measure F sales tax revenue for FY 2010/2011 totaled \$689,126. This figure represented revenue received between April 1, 2011, when the Measure went into effect, and June 30, 2011.

Measure F expenditures for the 2010/2011 fiscal year were zero, as Measure F was not approved until after the FY 2010/2011 budget was adopted.

| Table 2 FY 10/11—Measure F | Actual 2010/11 |
|---|--------------------------|
| Revenues | 689,473 |
| Total Expenditures & Transfers Out | 0 |
| Fund Balance - End Fiscal Year | 689,473 |





Measure F Revenue and Expenditures – 2011/12 Fiscal Year

The 2011/2012 fiscal year was the first year that the City received a full year of Measure F revenue. As such, the City Council approved revenue estimates and program expenditures through the 2011/2012 budget process. The 2011-2012 budget was approved on June 28, 2011.

Measure F revenue was estimated at approximately \$3 million with an estimation of earning \$24,400 in investments. In the FY 11/12 budget, the City Council approved \$218,473 in Measure F expenditures. The Council also identified the “priority focus area(s)” of each expenditure to clarify how the funds were being spent in accordance with the ballot measure approved by the voters.

As is common, actual revenue and expenditures deviated from the budgeted figures. In the 11/12 fiscal year, the actual Measure F revenue was higher than budgeted. In addition, the actual Measure F expenditures were lower than budgeted. The key difference between actual expenditures versus budgeted expenditures was due to the program changes regarding the proposed School Resource Liaison Officer.

Revenue Explanation:

Sales tax revenue was higher due to the improvement in taxable sales in the fiscal year. This higher revenue was related to the slow improvement in the economy in the aftermath of the Great Recession. The interest earnings were lower than budgeted due to the City’s investment portfolio earning a small return. Interest earnings were lower than budgeted as most of the funds were invested in the Local Agency Investment Fund (LAIF) managed by the California State Treasurer. This fund invests in low-risk debt securities such as

U.S. treasury bonds, government agency bonds as well as certificates of deposit (CDs), which provided small returns. The balance in the Measure F fund increased over the year as the City received monthly sales tax payments from the state Board of Equalization. For most of the year, interest was being earned on a small fund balance, thus accounting for the variance between the budget and actual interest earnings.



| Table 3 FY 11/12—Measure F | | |
|------------------------------------|-------------------|-------------------|
| | Budget 2011/12 | Actual 2011/12 |
| Revenues | \$3,024,400 | \$4,098,892 |
| Total Expenditures & Transfers Out | \$218,548 | \$220,281 |


Measure F Revenue and Expenditures – 2011/12 Fiscal Year

**Table 4
FY 11/12—Measure F Detail**

| Measure F Expenditures | City Department | Amount (Budgeted) | Amount (Actual) | Priority Focus Area(s)* |
|---|-----------------|-------------------------|-------------------------|-------------------------|
| 1. Part-Time School Resource Liaison Officer | Police | \$50,000 | \$0 | #1, #2 |
| 1a. Police Vehicles for Novato Response Team | Police | \$0 | \$51,733 | #1, #2 |
| 2. Street Maintenance Employee (1.0 FTE) | Public Works | \$84,274 | \$84,274 | #3 |
| 3. Median Island Maintenance Employee (0.5 FTE) | Public Works | \$42,137 | \$42,137 | #3 |
| 4. Parks Maintenance Employee (0.5 FTE) | Public Works | \$42,137 | \$42,137 | #2,#3 |
| <u>TOTAL</u> | | <u>\$218,548</u> | <u>\$220,281</u> | |

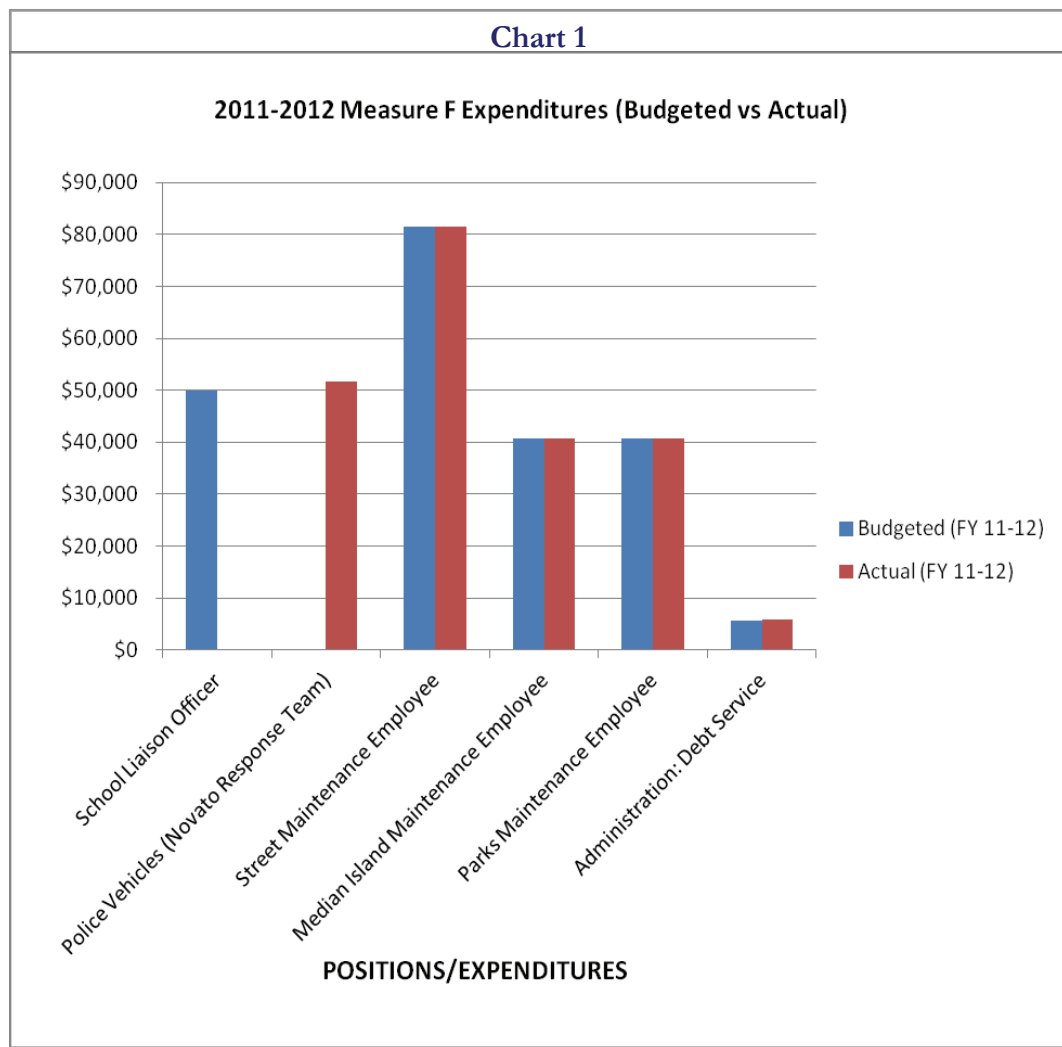
***Priority Focus Areas Include:** 1) Enhance Neighborhood Services and Public Safety; 2) Support Seniors, Youths and Families; 3) Reinvest in Park and Street Maintenance and 4) General City Services.





 “The City had been awarded grant funding for three years for three officers that would be focused on neighborhood and gang intervention—the Novato Response Team”

Measure F Revenue and Expenditures – 2011/12 Fiscal Year



MEASURE F EXPENDITURES DESCRIPTION

1. Police: School Resource Liaison Officer:
 The Council approved funding for a part-time school resource liaison officer to focus on communication between the Novato school district and the Police Department. The position was designed to offset the elimination of School Resource Officers over the previous two years. The Liaison Officer was charged with developing a long-term partnership with the School District and recommending a plan to foster communication between the two entities in the future.

Ultimately, the City did not move forward with this position in the fiscal year. During subsequent discussions with the Novato Unified School District, the District communicated that their new contract school security program was

Measure F Revenue and Expenditures – 2011/12 Fiscal Year

managing their need. In addition, the City received news it had been awarded grant funding for three years for three officers that would be focused on neighborhood and gang intervention (Novato Response Team) and would also be able to link and liaison with the Novato schools. The City determined that the responsibilities of the School Liaison Officer Position would be included as part of the Response Team. Thus, the City determined that Measure F resources would be better spent on the Response Team rather than the half-time, one year School Liaison position. Overall, while the Liaison Officer position was not funded directly, the responsibilities and tasks of the position were funded in the 2012-2013 fiscal year through the creation of the Novato Response Team.

1a. Police: Police Vehicles for Novato Response Team

On January 24, 2012, the City Council formally accepted a \$1.095 million grant from the federal Department of Justice to fund the hiring of three police officers for the next three years. As a condition of accepting the grant, the City agreed to retain the three officers for an additional fourth year after the expiration of the grant. The grant did not provide funding for police vehicles or other equipment. At its December 15, 2011 meeting, the Measure F Oversight/Citizens Finance Committee adopted a motion that supported spending \$429,000 in Measure F funds for the three police officers in the 2014-2015 fiscal year. The Committee asked the City to further explore the use of Measure F revenue for police vehicles. The Council, in its acceptance of the grant, authorized the expenditure of up to \$60,000 in Measure F funds to be used to purchase two police vehicles for the new officers. The expenditure was made in the 2011-2012 fiscal year.

2.3.4. Public Works Maintenance Workers:

The Council retained two public works maintenance workers for the 2011/2012 fiscal year. These positions were originally scheduled for elimination as part of the two-year budget reduction approved in June 2010. However, in June 2011, the Council opted to maintain the positions for one year and fund them out of Measure F.

The primary rationale for this decision was to provide additional time to review the maintenance responsibilities and explore opportunities to transition the streets and parks/median maintenance functions of the Public Works department (possibly to community organizations). Parks, streets and median maintenance is also a visible public service and the Council determined that maintaining the positions met the Measure F criteria of maintaining vital City services.





Measure F Revenue and Expenditures – 2012/13 Fiscal Year

The City Council approved additional Measure F expenditures in the 2012/2013 budget. This budget was approved on June 26, 2012.

Measure F revenue was estimated at \$3.9 million. In addition, the budget estimated approximately \$21,000 in Measure F fund investment earnings. The City Council also approved a total of \$1,242,258 in expenditures from the Measure F fund. Approximately \$594,363 will be transferred to the General Fund to offset the City's 2012/2013 structural deficit. In addition, the Council approved approximately \$635,420 in specific Measure F expenditures. Finally, \$12,475 was approved to pay debt service. The tables below illustrate the budgeted Measure F revenue and expenditures.

| Table 5 FY 12/13 Measure F Revenues | Amount (Budgeted) | Amount (Actual) |
|--|------------------------------|----------------------------|
| Sales Tax Revenue | \$3,994,406 | TBD |
| Interest Earnings | \$20,970 | TBD |
| <u>Total Revenues</u> | <u>\$4,015,376</u> | <u>TBD</u> |

Revenue Explanation:

The 2012-2013 budget proposal includes an estimated increase of 3.6% in Measure F sales tax revenue compared to the projected actual amount received in the 2011-2012 fiscal year. In FY 11/12, the City projected to receive approximately \$3.024 million. In August 2012, the City determined the final actual revenue amount to be \$4,089,401. The City also projects an increase in interest earnings as compared to the actual interest earnings of 2011-2012, which were approximately \$9,500. The projected earnings of \$20,970 are due to the larger fund balance in Measure F as compared to last fiscal year. Therefore, even if the City continues to receive low returns on debt securities and CDs, the actual earnings will be larger due to the larger fund balance. In addition, the City recently entered into a contract with PFM Asset Management, who will manage the City's investments. It is expected that the professional management and expertise of PFM will result in higher returns for the City's investment portfolios, including Measure F.

Measure F Revenue and Expenditures – 2012/13 Fiscal Year

| Table 6 FY 12/13 Measure F Expenditures | Amount (Budgeted) | Amount (Actual) | Priority Focus Area(s)* |
|--|------------------------------|----------------------------|------------------------------------|
| 1. General Fund (Budget Deficit) | \$594,363 | TBD | #4 |
| 2. Measure F Specific Expenditures | \$635,420 | TBD | #1,#2,#3, #4 |
| 3. Administration: Debt Service | \$12,475 | TBD | #1, #2, #3, #4 |
| <u>TOTAL</u> | <u>\$1,242,258</u> | <u>TBD</u> | |

***Priority Focus Areas Include:** 1) Enhance Neighborhood Services and Public Safety; 2) Support Seniors, Youths and Families; 3) Reinvest in Park and Street Maintenance; and 4) General City Services

MEASURE F EXPENDITURE DESCRIPTIONS

1. General Fund Budget Deficit

Measure F was approved to help preserve and protect existing City services and offset additional budget cuts. The City continues to face a structural budget deficit related to the continuing difficult economic conditions. Therefore, the City allocated approximately \$594,000 to backfill the general fund deficit for the 2012-2013 fiscal year. This allocation will fund existing City services and staff across all departments.

2. Measure F Specific Expenditure Descriptions:

Novato Response Team:

The City Council approved the creation of the Novato Response Team in June 2012. In January 2012, the City received a \$1.095 million grant from the federal Department of Justice to fund the hiring of three officers for the next three years. As a condition of accepting the grant, the City agreed to retain the three officers for an additional fourth year after the expiration of the grant. At its December 15, 2011 meeting, the Measure F Oversight/Citizens Finance Committee adopted a motion that supported spending \$429,000 in Measure F funds for the three police officers in the 2014-2015 fiscal year. The Committee asked the City to further explore the use of Measure F revenue for police vehicles.

The primary goal of the Response Team is to build an interdepartmental and inter-

MEASURE F OVERSIGHT COMMITTEE FY 2011-2012 ANNUAL REPORT

“The City continues to face a structural deficit related to the continually difficult economic conditions. Therefore, the City allocated funds to backfill the general fund deficit for the 2012-2013 fiscal year.”



Measure F Revenue and Expenditures – 2012/13 Fiscal Year

disciplinary team between the Police Department and the City Manager’s office. The team will provide neighborhood police patrols and crime prevention programs and is comprised of two Police Officers, a Corporal and a newly-created Management Analyst position.

In the 2012-2013 fiscal year, Measure F revenue will be used to pay for the new Analyst position and provide the necessary training, equipment, supplies and vehicle maintenance for the two officers and the corporal. The grant received by the City did not include funding for operational expenses. The Novato Response Team will not always work traditional hours, so funding was included to pay for overtime

| Table 7 Novato Response Team | Amount | Priority Focus Area(s) |
|---|------------------|-----------------------------------|
| Management Analyst | \$90,771 | #1 |
| Training, Equipment, Supplies, Vehicle Maintenance | \$26,000 | #1 |
| Overtime | \$12,000 | #1 |
| Total Expenditure | \$128,771 | |

cost for the officers and the corporal.

Economic Development Program:

The Council approved positions and operating budgets from the Measure F fund to continue the City’s economic development program. With the elimination of redevelopment in February, 2012, the City was left without a functioning economic development program. Council and staff believe economic development is a core local government function. The Council funded two positions: a four-year Economic Development Manager to focus on broad economic development activities and a

| Table 8 Economic Development Program | Amount | Priority Focus Area(s) |
|---|------------------|-----------------------------------|
| Economic Development Manager Position | \$164,445 | #4 |
| Economic Development Operating Budget | \$40,000 | #4 |
| Hamilton Properties - Part-Time Program Manager | \$80,890 | #4 |
| Economic Development: Hamilton Properties – Operating Budget | \$25,000 | #4 |
| Total Expenditure | \$310,335 | |

Measure F Revenue and Expenditures – 2012/13 Fiscal Year

Parks and Recreation After-School Program:

The Council approved an after-school initiative pilot program to be operated by the Parks, Recreation and Community Services department. This program corresponds with the Measure F priority to support youths and families and has proven successful in steering youths away from crime, while improving the academic performance, health and fitness of youths in our community.

| Table 9 After School Initiative | Amount | Priority Focus Area(s) |
|--|-----------------|-----------------------------------|
| Pilot Program | \$20,000 | #2 |
| Total Expenditure | \$20,000 | |



Public Works – Maintenance and GIS Support Staff:

The Council approved spending Measure F resources to fund a street maintenance position and a park and island/median position for the 2012-2013 fiscal year. These actions support the Measure F priority of “reinvesting in the City’s park and street maintenance.” The Council also funded a one-year, part-time intern position to provide additional support for the geographic information system (GIS) function within the Public Works Department.

| Table 10 Public Works Maintenance & GIS | Amount | Priority Focus Area(s) |
|--|------------------|-----------------------------------|
| Street Maintenance Position (0.5 FTE) | \$44,001 | #3 |
| Parks and Medians Position (0.5 FTE) | \$44,000 | #3 |
| GIS Support Intern | \$15,000 | #4 |
| Total Expenditure | \$103,001 | |



“The Measure F Committee will continue to monitor potential revenue challenges and advise the City Council as appropriate “

Measure F Revenue and Expenditures – 2012/13 Fiscal Year

Central Administration – Customer Service Position:

The Council approved funding a front-office customer service clerk position through the Central Administration department for the 2012-2013 fiscal year. This position serves as the primary point of contact for community members when they visit City offices. The City considered alternate ways to staff the front desk. For instance, staff explored hiring a virtual assistant to manage general telephone calls into City offices. Staff also tried to manage the customer service responsibilities by having different employees serve as the initial customer service contact throughout the workday. This strategy proved to be ineffective as it took these employees away from their core duties. Ultimately, the City Manager determined that a designated employee is needed to answer the general City telephone line, greet members of the public and direct them to the appropriate department. The position will also assist the City Clerk’s Office in managing and scanning City files in preparation for the move to the new City Administrative Office in September 2013.

| Table 11 Customer Service | Amount | Priority Focus Area(s) |
|--|-----------------|-----------------------------------|
| Front-Reception Position & Records/Imaging | \$73,313 | #4 |
| Total Expenditure | \$73,313 | |



Measure F: Looking Forward

Future Challenges

Measure F revenue has been higher than projected up to this point. Nevertheless, there are potential challenges to this revenue. The first is general economic conditions that may impact the amount of sales tax revenue the City receives. The second involves sales tax leakage. Adjacent communities are pursuing new retail development that may reduce taxable sales in Novato. The Measure F Committee will continue to monitor these potential revenue challenges and advise the City Council as appropriate as conditions change.

Measure F Strategy/Fiscal Sustainability

In the coming months, the City will develop a broad fiscal sustainability plan. This plan will include options and strategies of how to utilize Measure F revenue to ensure the City's long term financial sustainability. The Measure F Committee looks forward to being part of these discussions and providing advice to the City Council as they consider the best use of resources for the Novato community.





City's Progress Toward Fiscal Sustainability

Over the last four years, the City of Novato has made significant strides toward reducing its budget deficit to achieve fiscal sustainability. For the FY 2009/2010, the impact of the national recession hit Novato's revenue hard. The Council approved eliminating 18 positions and a total of \$3.3 million in expenditure reductions to be included in the FY 2009/2010 budget. Even after these reductions were in place, in August 2009, the City still projected a deficit of approximately \$6.7 million in the 2014-2015 fiscal year (see table on Page 20). Deep organizational changes would be necessary to achieve the next round of reductions.

To start this undertaking, City staff began a review of the City's budget to plan for budget reductions to be implemented over a two year period starting on July 1, 2010. Staff also engaged the community through a public outreach process to solicit feedback and ideas on potential reductions. The City Manager announced the proposed reductions in January 2010. Following this announcement, the City Council held a number of workshops and town hall meetings to provide information to the community.

In March 2010, the City Council approved a two-year budget reduction package. These reductions totaled \$3.9 million and resulted in the reduction of 34 additional positions over the 2010-2011 and 2011-2012 fiscal years. By phasing these reductions over two years, the City was able to transition the organization to a lower level of staffing and modify its programs and services. These reductions had an immediate impact on the City's long-term structural deficit; however the May 11, 2010 updated forecast still showed a deficit of \$2.9 million in FY 2014-2015.



This led to the Council's declaration of a fiscal emergency and the adoption of the Measure F ordinance, which proposed to increase the City's sales tax by ½ cent for five years. As mentioned earlier, Measure F was approved by the voters in November 2010 and took effect on April 1, 2011. The new revenue was first received in June 2011.

City's Progress Toward Fiscal Sustainability (continued)

PHASE 1 – Stabilizing the Organization

The City's Phase 1 of deficit reductions took it through June 30, 2012. In parallel, the City Council directed staff to continue work on a number of other fiscal sustainability initiatives. The major efforts are listed below; however the City has completed other efforts to reduce the deficit, such as a reduction in the Animal Control contract by \$40,000 annually beginning in FY 12/13.

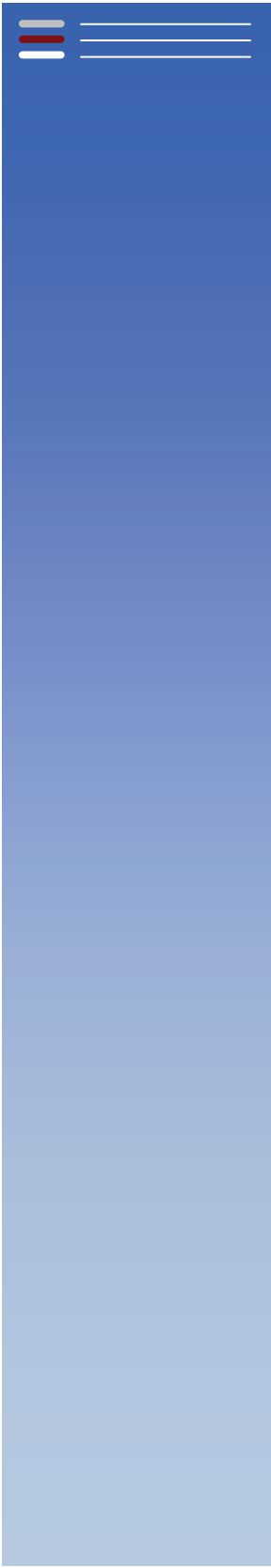
City Offices – The City Council researched and analyzed a number of options for a permanent home for city administrative offices. In May 2011, the City Council decided to build the City Administrative Office facility downtown next to the Council Chambers and the Police Department to create a consolidated Civic Center. By eliminating its \$700,000 lease, the City anticipates saving at least \$500,000 per year starting in September 2013.

2010 and 2012 Labor Negotiations – In recognition of the City's financial circumstances, all of the employee bargaining units have agreed to significant one-time and ongoing concessions in the last two negotiation cycles. The City has also negotiated significant pension reform and shifted retirement costs to the employees. The cost savings to the City from the last two labor negotiations in 2010 and 2012 are outlined in the table below.

| Table 12 | |
|--|--|
| 2010 Negotiations [July 2, 2010 – June 30, 2012] | 2012 Negotiations [July 1, 2012 – June 30, 2014] |
| \$779,000 for FY 2010-2011 \$660,000 for FY 2011-2012 | \$800,000 for FY 2012-2013 \$800,000 for FY 2013-2014 <i>(Based on February 2012 Forecast)</i> |

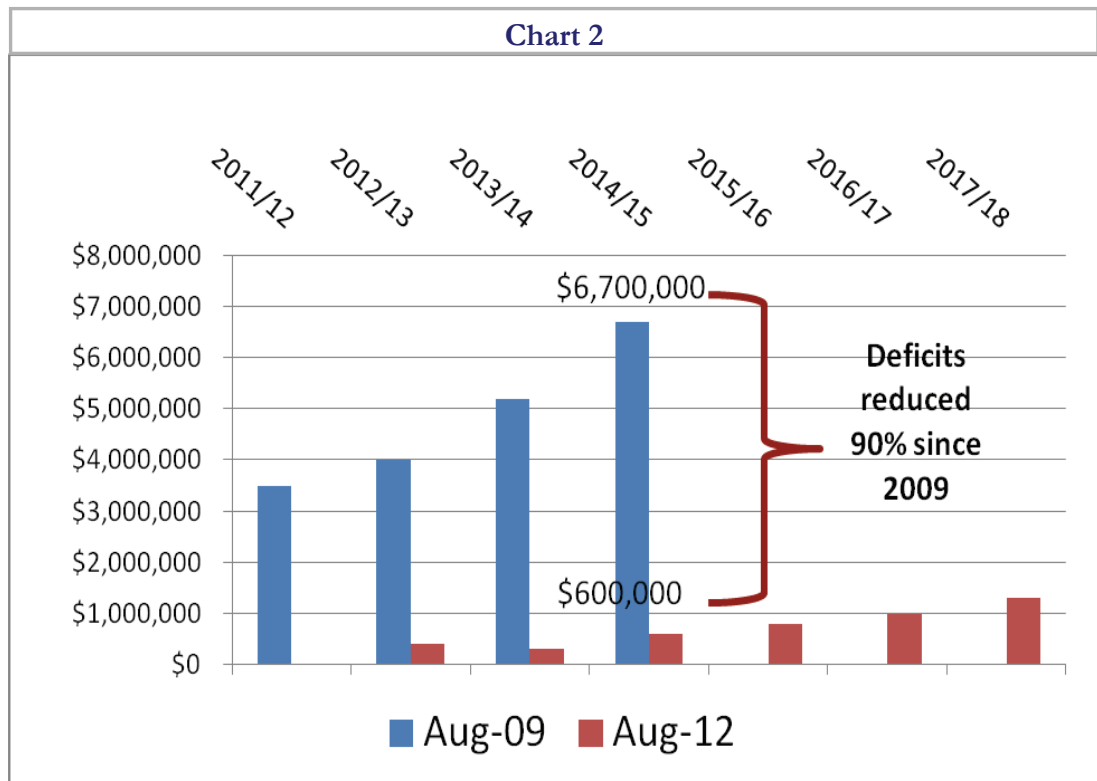
The City's vision to develop a broad fiscal sustainability plan was delayed due to the State of California's elimination of redevelopment agencies statewide. A significant portion of Council's and staff's time (beginning January 2011 through the summer of 2012) was expended in order to understand and navigate the new post-redevelopment world and the numerous requirements imposed on Novato by the State. Even though this unforeseen state action delayed the adoption of an "official" fiscal sustainability plan, the Council and staff continued to pursue initiatives to improve the City's fiscal standing as described above.

These initiatives have had a significant positive impact, yet there is still work to be done. In August 2012, staff presented a revised financial forecast to Council and the community demonstrating that the estimated deficit in the 2014-2015 fiscal year is now at approximately \$600,000.



City's Progress Toward Fiscal Sustainability (continued)

The graph below shows the structural deficit on the City's 5-Year Forecast in August 2009 compared to August 2012. While there is still a growing deficit in the out years, the City has reduced the deficit by 90% in FY 2014/2015. Novato's General Fund budget is not yet balanced and sustainable, but the City is moving in the right direction.



In conclusion, Novato has made notable progress towards fiscal sustainability in recent years. While the elimination of redevelopment delayed the adoption of a formal fiscal sustainability plan, the City has been proactive to reduce future deficits on a number of different projects. Nevertheless, additional work remains to develop a formal Fiscal and Organizational Sustainability Plan in order to be ready for the end of Measure F revenues.

PHASE 2 – A Plan for Fiscal and Organizational Sustainability Moving Forward

Over the past four years, the City Council has taken the necessary action to stabilize the organization and therefore needs to transition to the second phase of fiscal sustainability by creating a long-term fiscal and organizational plan. This plan will look deeply at the City's current and long term fiscal health.

City's Progress Toward Fiscal Sustainability (continued)

City staff has begun analysis and discussion on Phase 2 of fiscal sustainability. From July 2012 through February 2013, City staff will bring information and research to the City Council and community in a series of work sessions to discuss the options and impacts of sustainability – both fiscally, organizationally, and operationally. The City Council has scheduled March and April for discussion, deliberation and decisions. Staff will then bring a Fiscal Sustainability Report and Plan to the Council for final approval in June. This Plan will be a multi-year and multi-faceted program to guide the City's decision making and actions.

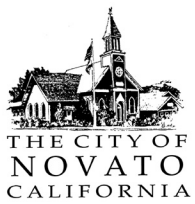
As a framework for considering the different community interests, the following five “balancing act” themes were created to help frame the community's discussion.

- Increasing revenue and fees balanced with ensuring access and competitiveness;
- Controlling expenses and improving efficiency balanced with retaining flexibility, responsiveness and creativity;
- Encouraging economic development balanced with retaining community character;
- Managing employee compensation balanced with sustaining a talented work force;
- Maintaining long-term assets and facilities balanced with meeting immediate resource needs.

There will be public outreach, input and communication as part of this process. The ultimate goal is to produce a balanced fiscal and organizational sustainability plan that includes input from all stakeholders and provides a road map with implementation initiatives to achieve long term fiscal sustainability.



“The Fiscal Sustainability Report and Plan will be a multi-year and multi-faceted implementation plan to guide the City's decision making and actions. “



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