

# FISCAL SUSTAINABILITY - REVENUE WORK SESSION – PART 1

**City Council Meeting**

**December 11, 2012**



THE CITY OF  
NOVATO  
CALIFORNIA

# PURPOSE OF TODAY'S SESSION – PART 1

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## •Part 1:

- Review detailed information about City revenue sources – both tax and non-tax
- See how Novato compares to other cities in some key categories
- Review fiscal sustainability revenue ideas over which the City has some control
- Provide a few choices to add to the fiscal sustainability options tool

## •Part 2:

- Economic development strategies and revenues

**•Note: Economic development ideas, strategies, and possible revenues are not the focus of today's session**



# CITY CONTROL OVER REVENUES

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- Taxes – any increases to taxes must be approved by voters
  - Exception: Business license – some flexibility since ordinance pre-dates prop 218
  - Exception: Real property transfer tax – set by state law
- Fees and charges – City can generally set its own fee rates
  - Fees cannot exceed the reasonable cost of providing the service
  - Recent trend – fee reductions, forgiveness, holidays, payment delays
  - Fee study required to calculate maximum fee – could be reduced given staff reductions

# ALL CITIES ARE NOT CREATED EQUAL (1 OF 2)

## Limited commercial/industrial land zoning

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

## No Utility Users Tax

- 50% of statewide population has 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

## Lower Property Tax Share

- Late incorporation; not a full-service city



# ALL CITIES ARE NOT CREATED EQUAL (2 OF 2)

## No refuse franchise fee

- San Rafael = \$1.6 million annually
- Petaluma = \$2.5 million annually
- Mill Valley = \$925k annually
- Novato Sanitary = \$45k annually
- City of Novato = \$0 annually

## Road Impacts without Compensation

- Other entities' impacts on streets with no compensation or cost sharing for deterioration of roadways

## No long-term local voter sales tax measures

- San Rafael: General 0.5% generates \$6 Million annually
- Local Measure F ends in 2016
- Santa Rosa – Public safety 20-year sales tax (expires 2024)



# AGENDA

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- Per capita revenue information
- Novato Tax Revenues
- Novato Non-Tax Revenues
- Suggestions for the Fiscal Sustainability Options Tool



# PER CAPITA TAX COMPARISONS



# PER CAPITA REVENUE DATA

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Selected Cities (all of Marin plus greater Bay Area cities between 40,000 and 80,000 population):

## Marin

All cities included

## Sonoma

Petaluma

Rohnert Park

## Napa

Napa

## Yolo

Davis

## Alameda

Alameda

Pleasanton

Union City

Dublin

## Contra Costa

Brentwood

Danville

Pittsburg

San Ramon

Walnut Creek





# NOVATO AT THE LOWER END OF SPECTRUM

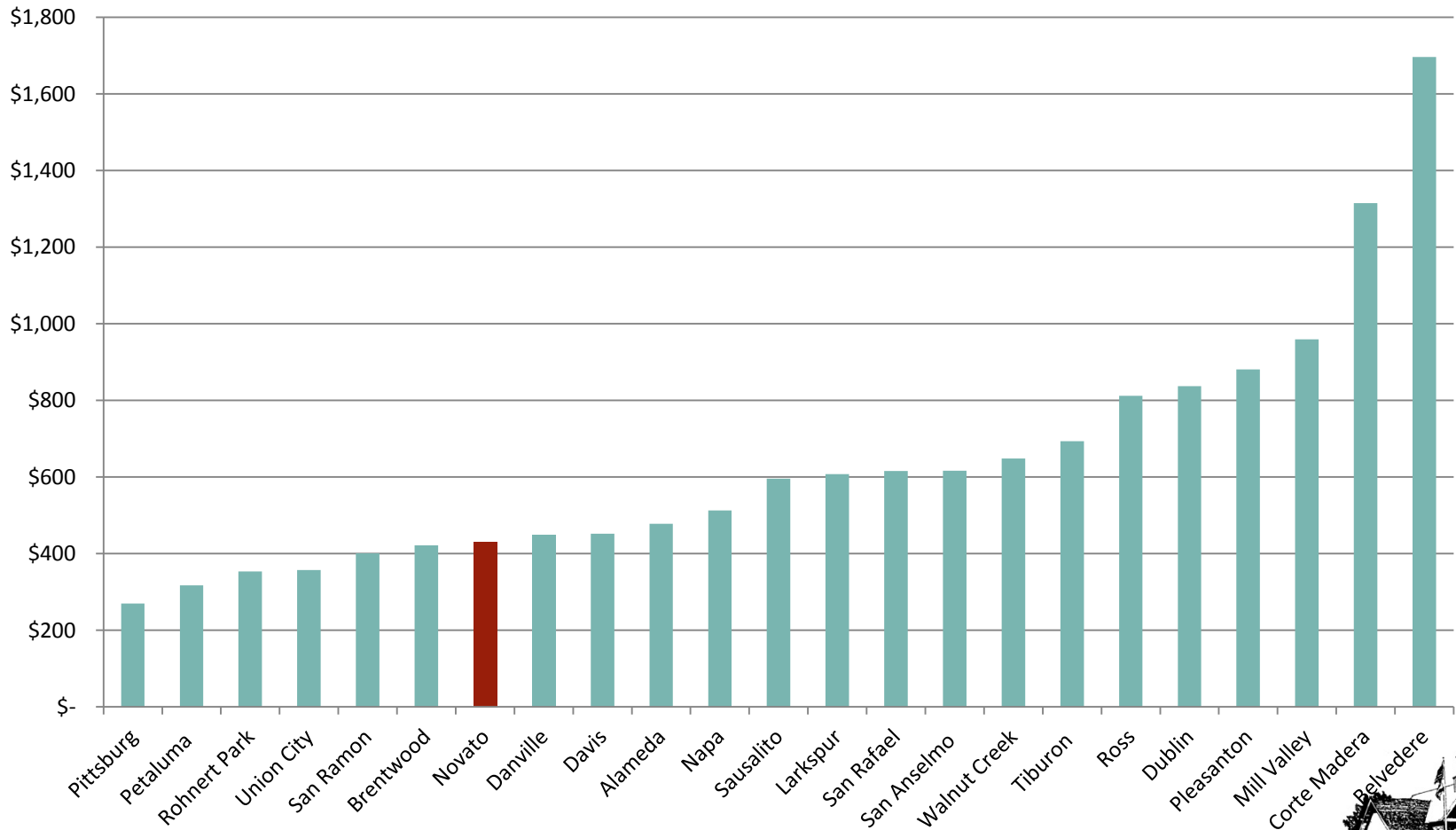
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- \$432 tax revenue per capita for Novato
- Both Sonoma County cities lower than Novato
- 4 out of 5 Contra Costa County cities lower than Novato
- All Marin County cities higher than Novato
- Comparisons:
  - \$317 for Petaluma
  - \$616 for San Rafael
  - \$513 for Napa
  - \$649 for Walnut Creek
  - \$452 for Davis
  - \$501 for Alameda
- Every \$10 in per capita differential translates to \$520,000 annually for the City



# PER CAPITA TAX REVENUE – 2010/11

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

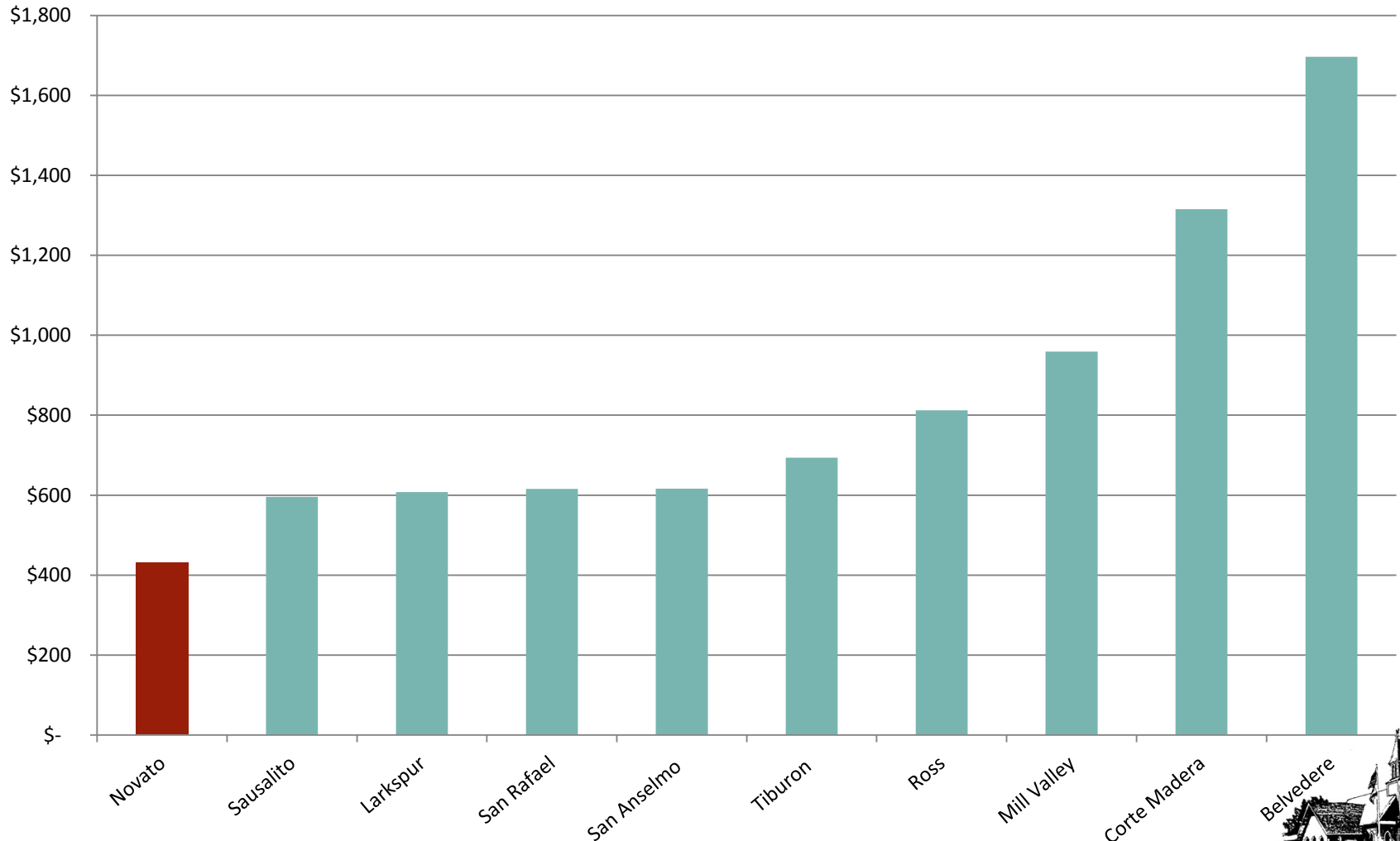


Note: Excludes the 1 quarter of Measure F revenue - \$700k



# PER CAPITA TAX REVENUE – MARIN COUNTY

## Less Fire & EMS Expenses – 2010/11

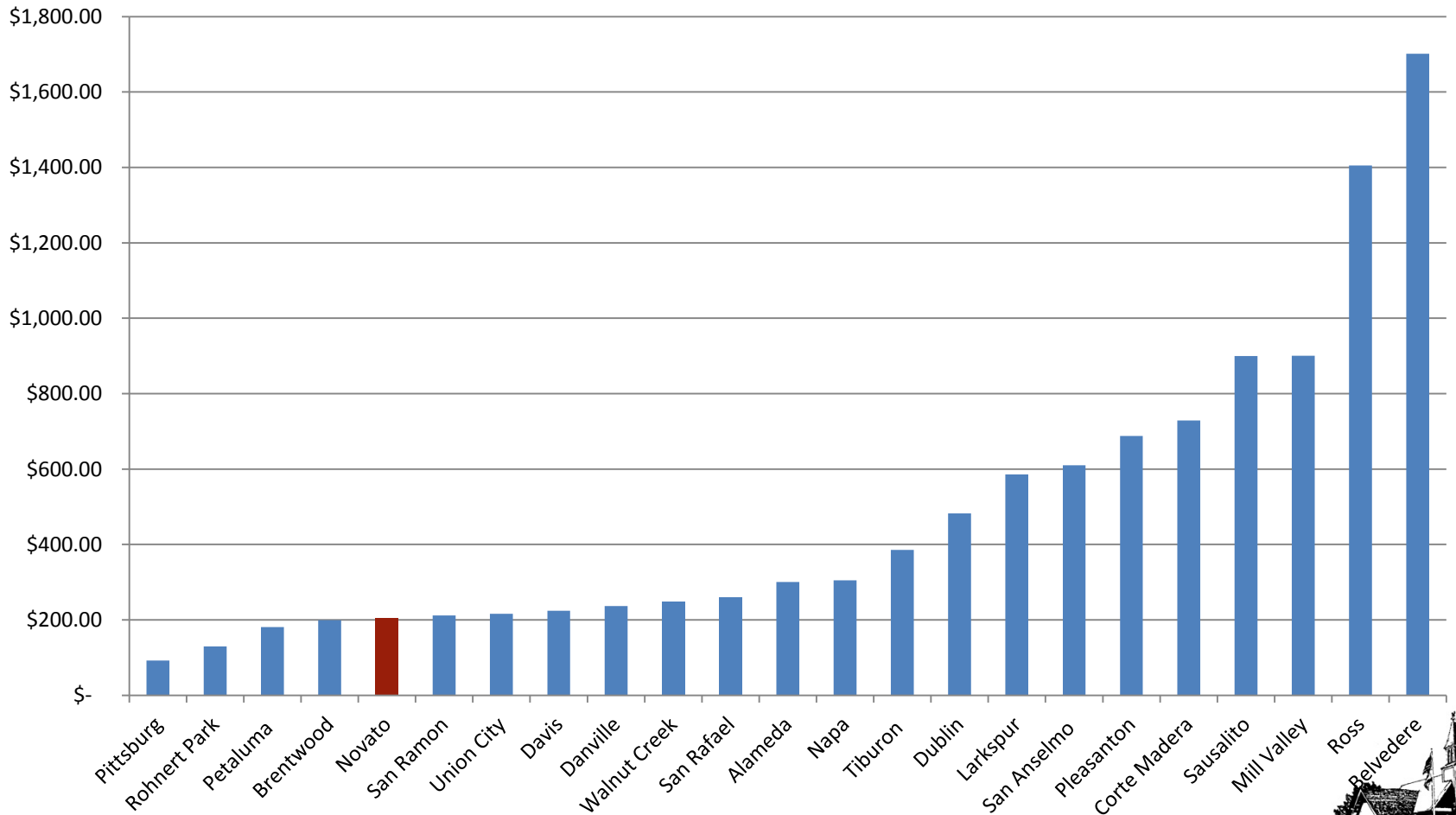


Note: Excludes the 1 quarter of Measure F revenue - \$700k



# PROPERTY TAX – 2010/11

## Property Taxes Per Capita

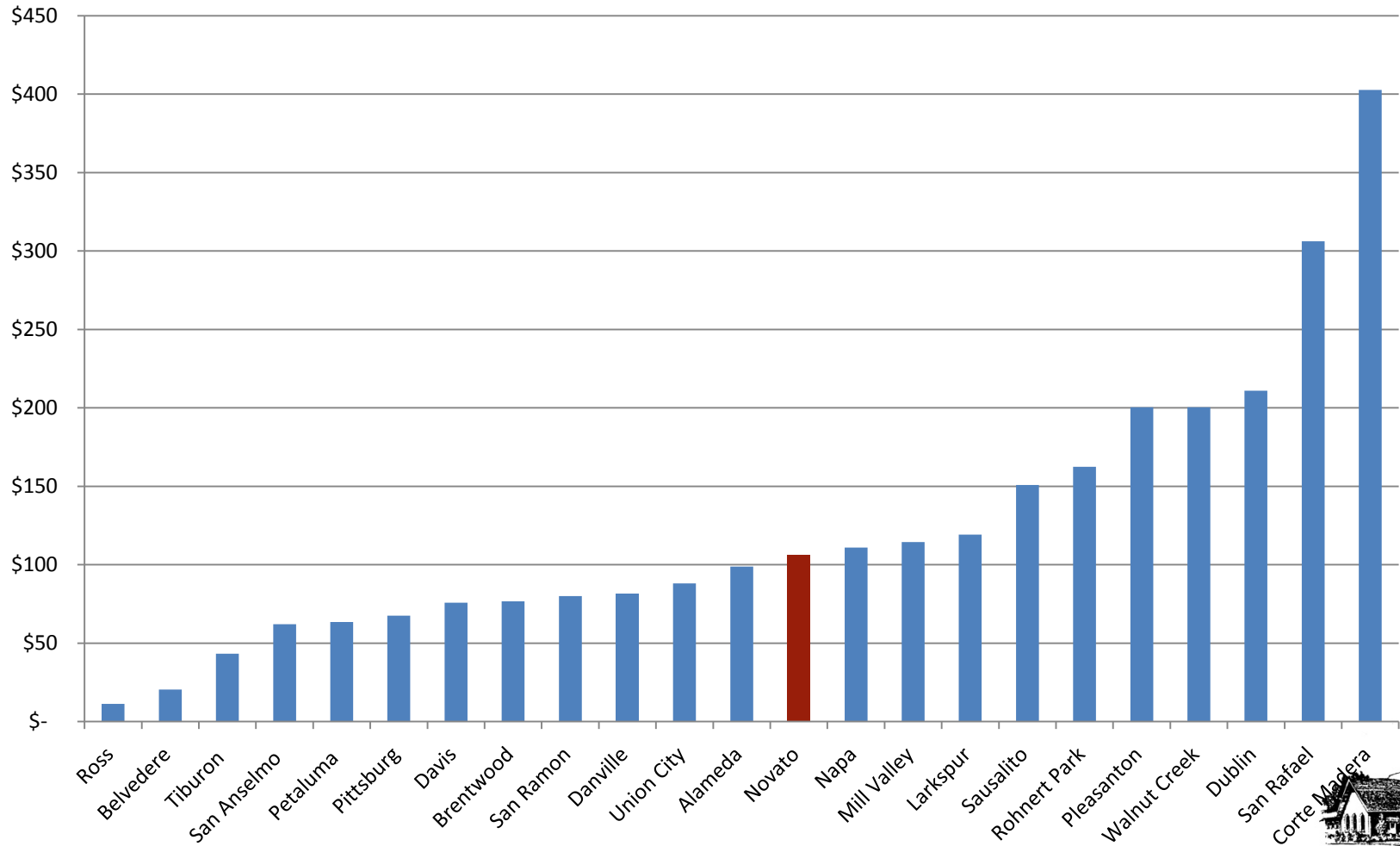


Note: Includes all types of property tax – secured, unsecured, supplemental, VLF swap, ERAF refund, etc.



# SALES TAX – 2010/11

## Sales Tax Per Capita



Note: Does not include any Measure F revenue



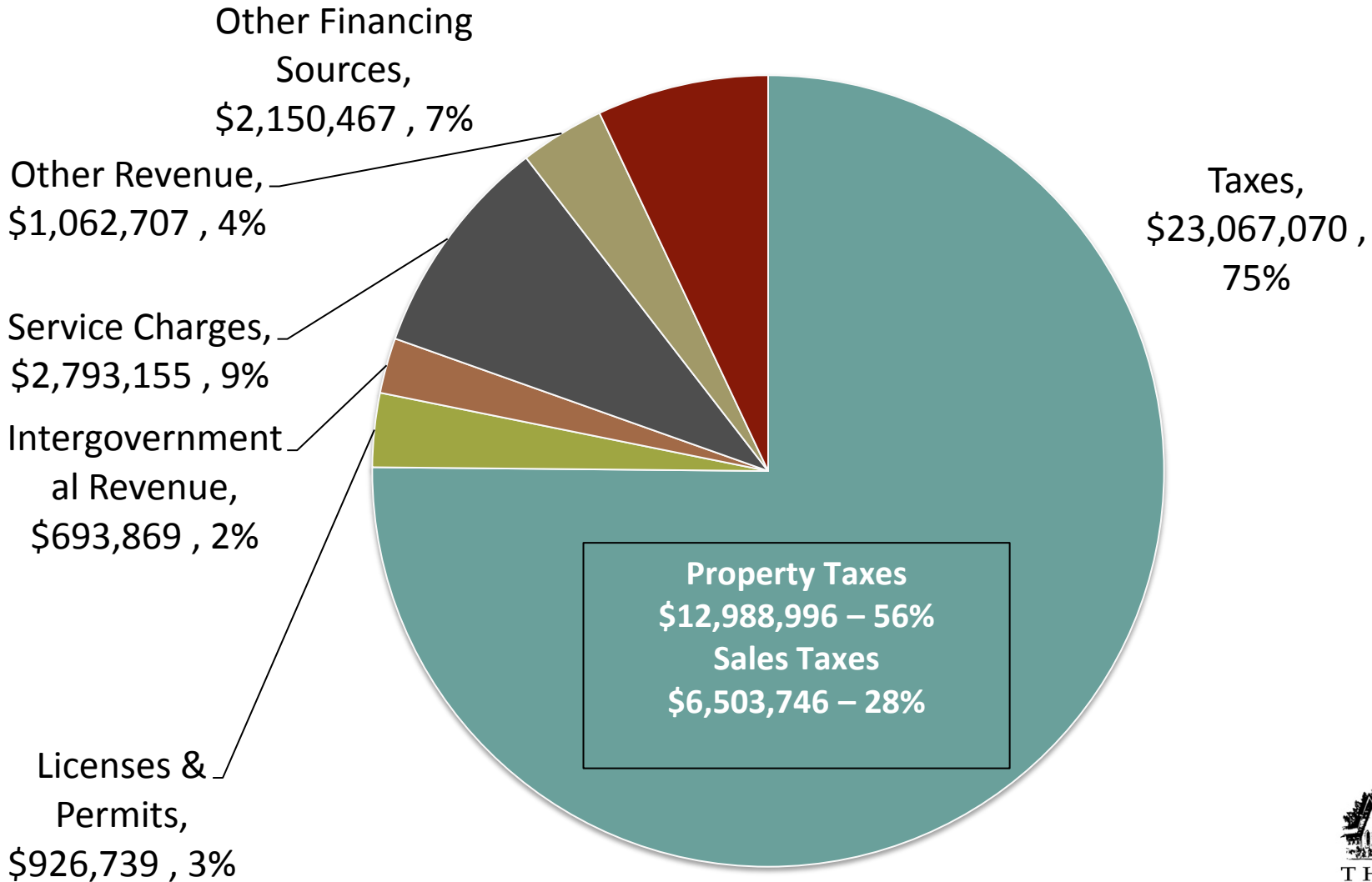
# NOVATO REVENUE DETAILS



THE CITY OF  
NOVATO  
CALIFORNIA

# GENERAL FUND OPERATING REVENUES - FY 12/13

**Total GF Revenue = \$30,694,007**



# TAXES

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## **\$23.1 Million**

- Property tax - \$13 million – Secured and unsecured tax, triple flip sales tax, VLF in-lieu property tax, ERAF refund, RDA increment revenue, supplemental property tax
- Sales tax - \$6.5 million – General sales tax, Prop 172 public safety sales tax
- Real property transfer tax - \$156k
- Transient occupancy tax - \$1 million
- Business license tax - \$860k
- Franchise fees - \$1.5 million





# PROPERTY TAX

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- Basic property tax limited by Prop 13 to 1% of assessed value
- Assessed value can only increase up to 2% annually
- Exception – properties that have applied for and received a valuation decrease can escalate more quickly
- In lieu fees received for vehicle license fees (VLF swap) and ¼% sales tax (triple flip)
- Virtually any change to property tax requires voter approval
  
- Possible Options:
  - Parcel tax – typically special tax earmarked for parks, libraries, fire, police, open space, pools, etc
  - Infrastructure bond
  - Economic development (not discussed in this presentation)

# PROPERTY TAXES - \$13 MILLION

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Includes – secured and unsecured property tax, MVLF, triple flip sales tax, supplemental property tax, other

Question: How much of the basic 1% property tax goes to the City of Novato?

Answer:

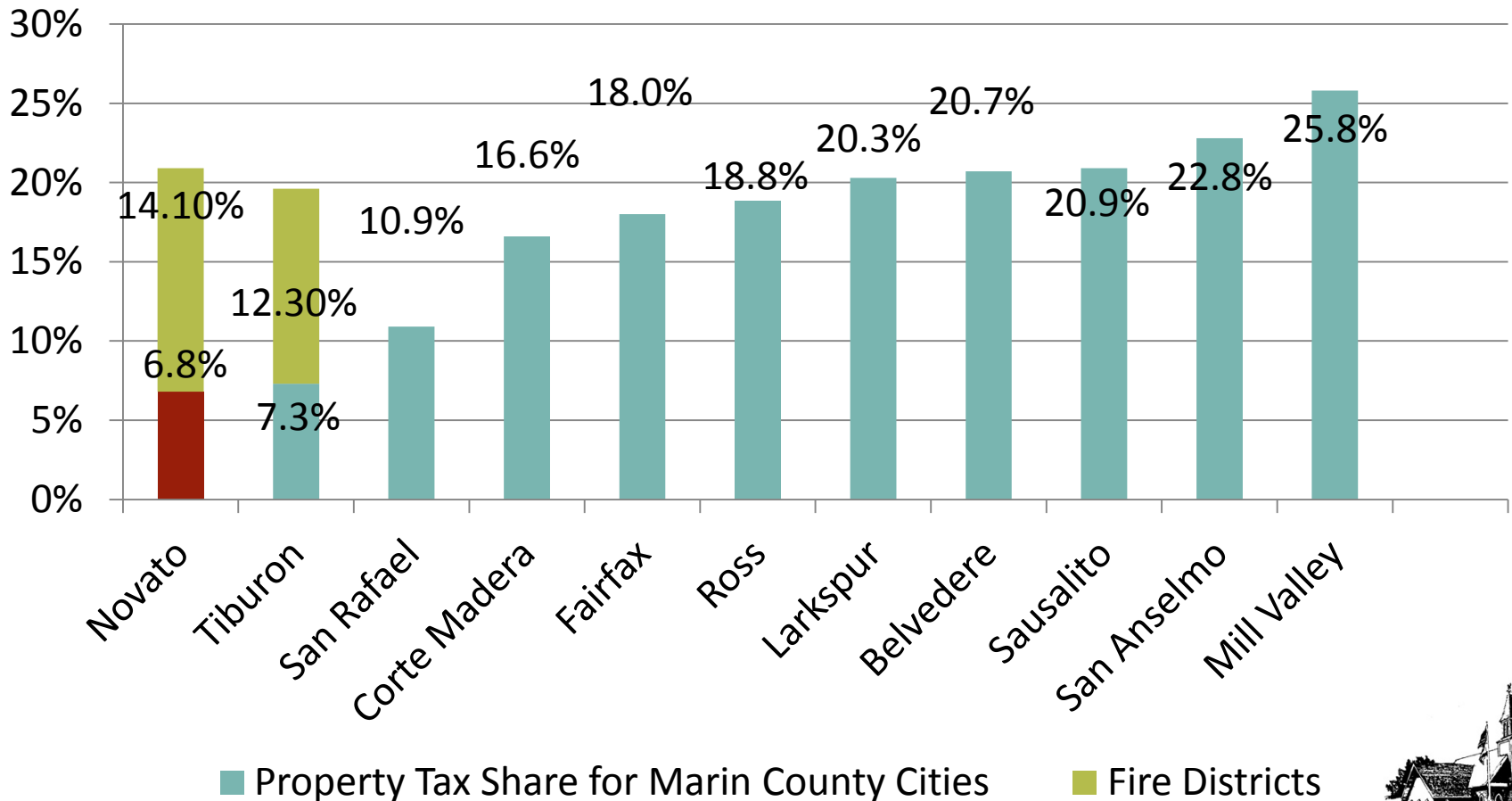
Example:

- Your home is assessed for \$500,000
- Your basic 1% property tax is \$5,000 per year
- Novato receives...



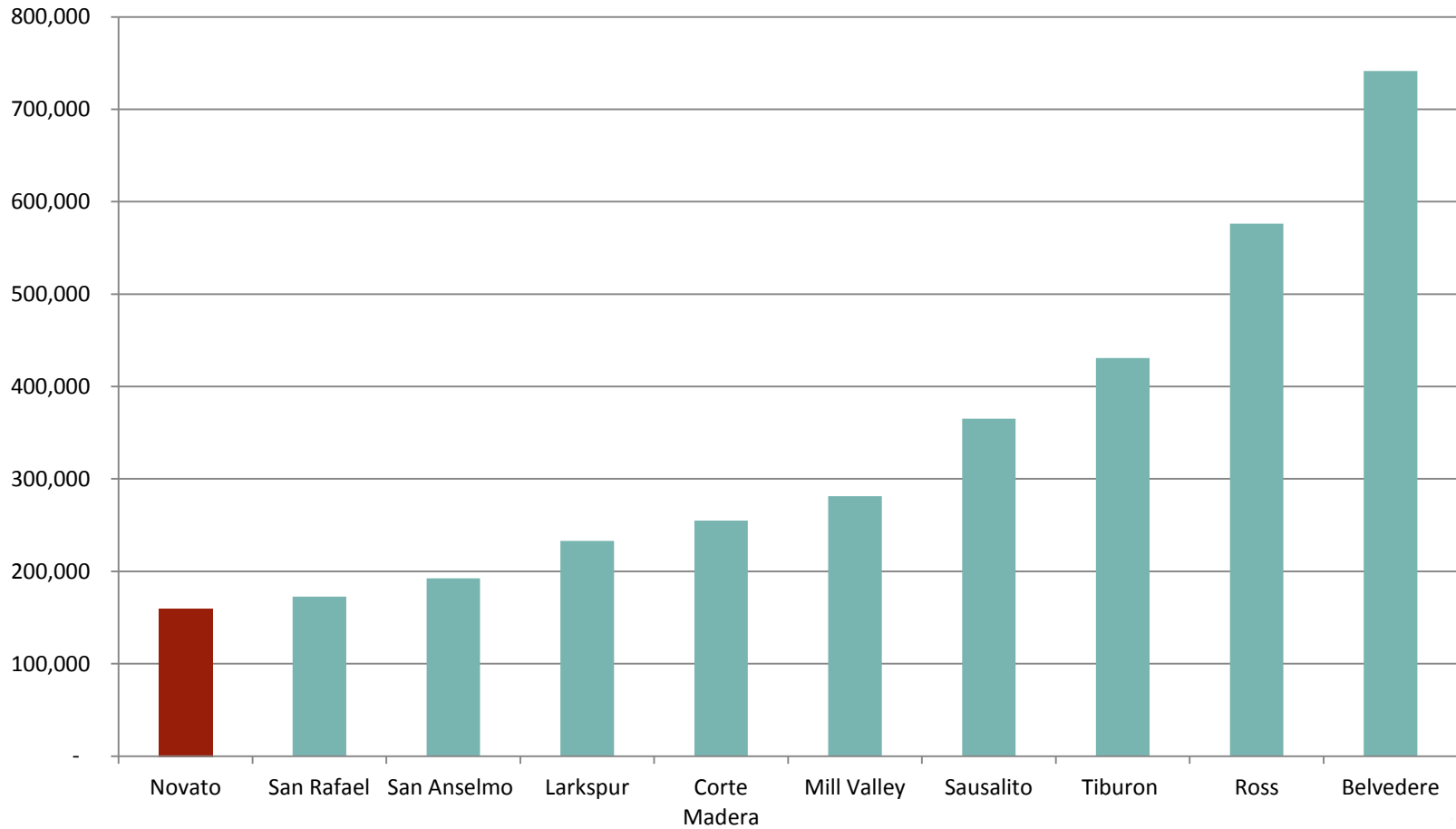
# LOWEST PROPERTY TAX SHARE IN MARIN

## Property Tax Percentage for Marin County Cities



# ASSESSED VALUE PER CAPITA – MARIN COUNTY

**FY 2010/11**



# NOVATO'S PROP 13 HISTORY

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

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

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

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



# SALES TAX

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Currently 8.5% (includes Meas. F, but not “new” Meas. A)

- 6.25% - State
  - 1.00% - Novato for general operations
  - 0.50% - County transportation (“old” Measure A)
  - 0.25% - SMART (Measure Q)
  - 0.50% - Novato (Measure F)
  - Including Measure F, Novato receives a total of 1.5% sales tax
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- General Fund receives a total of \$8.6 million in sales tax (basic sales tax and triple flip)
  - Measure F adds \$4.1 million – segregated in special fund (but can be used for any lawful purpose) and sunsets March 2016
- 
- Possible options:
    - Extend life of existing add-on sales tax
    - Extend life and reduce existing add-on sales tax
    - Do either of the above and designate for certain services (requires 2/3)
    - Economic development (not discussed in this presentation)



# REAL PROPERTY TRANSFER TAX

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## **\$150k per year**

- Currently charged on all property sales in the City
- As a general law City, tax is set at \$0.55 per \$1,000 sales price (County also receives an equivalent \$0.55) – total tax is \$1.10 per \$1,000
- In charter cities Petaluma and San Rafael, the County keeps the entire \$1.10, and the City has a locally set RPTT of \$2.00 per \$1,000
- Novato would need to become a charter city to affect the RPTT rate
- Increases in property sales and prices will naturally affect collections; for example, in 2006/07, RPTT totalled \$440,000



# TRANSIENT OCCUPANCY TAX

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**\$1 million annually**

- Total rate paid by Novato hotel guests = 12%
  - 9% - City of Novato
  - 1% - Designated for tourism / promotions
  - 2% - Countywide Business Improvement District
- } Locally adopted tax
- Rates vary widely across the state from 3.5% to 15%
  - Median local rate is 10%
  - Of the 429 cities with a TOT, 310 of them (72%) levy between 9% and 12%
- Possible options:
- Increase the TOT rate (requires voter approval)
  - New / expanded hotels increase tax collections
    - Example: Hanna Ranch hotel , 116-room business-class hotel = \$368k annually, before factoring in any cannibalization from other Novato hotels
    - Assumes 70% room occupancy, \$138 / night rate





# HOTEL OR TOT RATES

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## Does not include self-imposed BIAs or BIDs

Healdsburg 12%

Rohnert Park 12%

Sausalito 12%

Windsor 12%

Cloverdale 10%

Corte Madera 10%

Cotati 10%

Fairfax 10%

Larkspur 10%

Mill Valley 10%

Novato 10%

Petaluma 10%

Sebastopol 10%

Sonoma 10%

Tiburon 10%

Santa Rosa 9%

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



# BUSINESS LICENSE

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- Current ordinance put into place in 1993
- Although called a “license”, this is a city tax
- Basic license = \$97
- Plus add-ons for various business types
- Total revenue in 2011/12 = \$820,000
- CPI Escalator built into ordinance – has not been implemented since 2003
- Since then, the CPI has increased 25%
- Because this tax was instituted prior to Prop 218 (1996), the CPI escalation formula is legal
- However, unclear if we could institute “catch up” increases over time
  
- Possible Options:
  - Begin increasing future rates, beginning January 2014, by CPI
  - Voter approval would be required for any structural changes

# SAMPLE BUSINESS LICENSES

Business Description	Annual Business License \$	If increased by 3% (CPI)	If increased by 25%
General business license (e.g., self-employed, no employees)	\$97	\$100	\$123
8-unit apartment building (or 8-unit commercial building)	\$191	\$197	\$239
General business with 10 employees (e.g., retail, restaurant, manufacturing, sales, etc)	\$252	\$260	\$315
Firm with 3 professionals and 2 employees (e.g., CPAs, engineers, law firms, etc)	\$496	\$511	\$620

# BUSINESS LICENSE

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## San Rafael and Petaluma

### •San Rafael

- Gross receipts -sliding scale
  - Contractors, retail, wholesale and general service- \$40-\$810
  - Professional services-\$80-\$1,100
  - **Total projected FY 12-13: \$2,430,030**

### •Petaluma

- New businesses-Flat rate :\$45
- Renewals- Gross receipts or \$45 flat rate (whichever is higher after calculation)
  - Retailers, wholesalers and administrative headquarters: \$0.16 per \$1,000
  - Contractors, service businesses, rental of property: \$0.32 per \$1,000
  - Professional services- \$0.48 per \$1,000
  - **Total revenue FY 11-12: \$910,000**

### •Walnut Creek - Flat rate and Gross receipts

- Flat Rate
  - Contractors- \$438.00
  - Restaurants- \$329.00 plus \$22.00 for each employee
  - Hotels- \$329.00 plus \$22.00 for each employee
  - Other businesses-\$329.00 plus \$22.00 for each employee
- Gross-receipts
  - Restaurants- \$23.00-\$414.000
  - Hotels-\$23.00-\$414.000
  - Other businesses- \$23.00-\$414.000
- **Total revenue FY 10-11: \$1.9 million**



# FRANCHISE FEES

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## **\$1.5 million annually**

- Franchise fees are paid by cable TV licensees and energy utility companies
- Total video / cable revenue annually = \$851k (Comcast, AT&T, Horizon)
- Total PG&E revenue annually = \$661k
  
- No waste hauling franchise fee for Novato – franchise held by Novato Sanitary



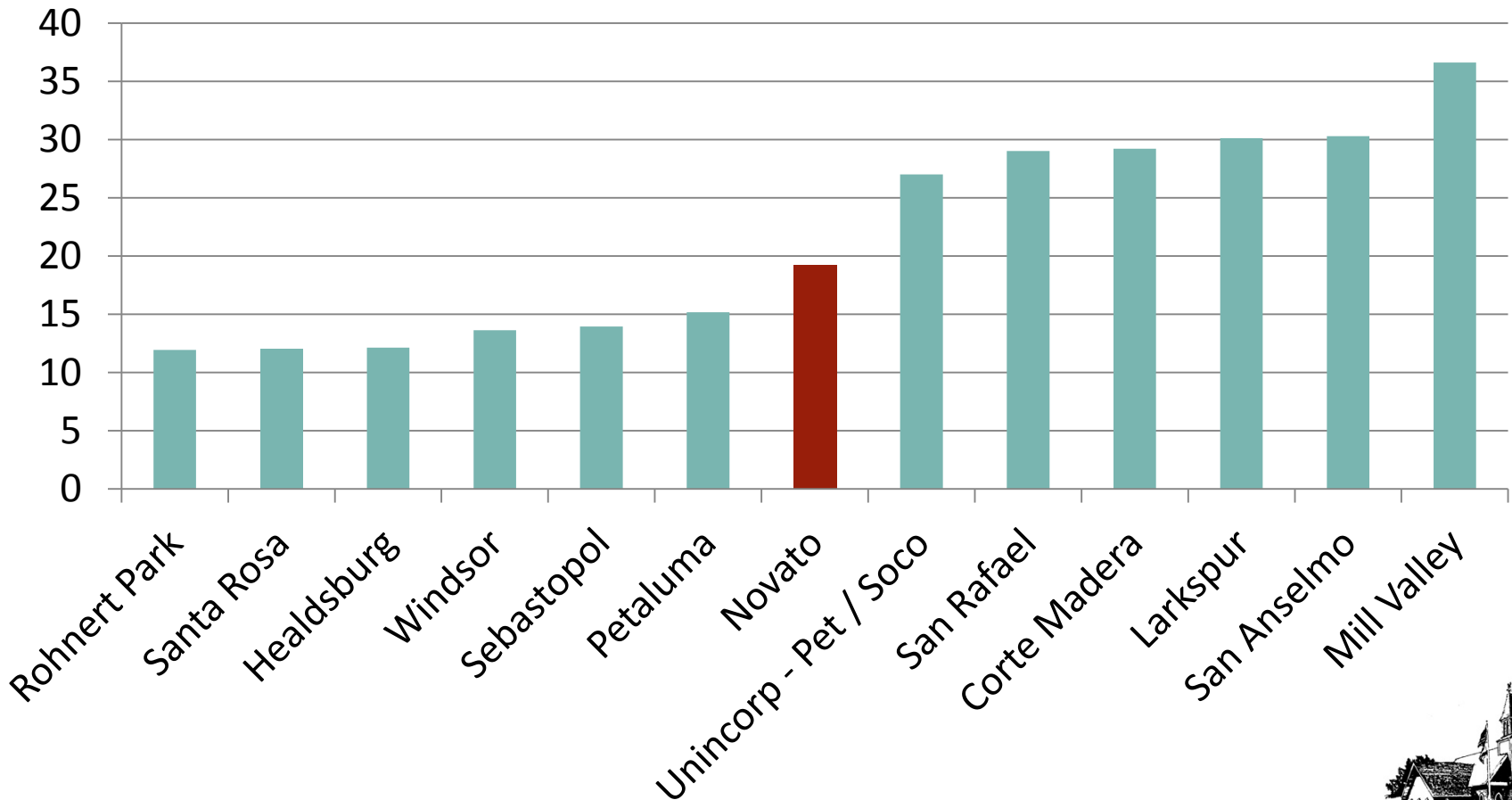
# REFUSE FRANCHISE FEE / VEHICLE IMPACT FEE

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

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

# MONTHLY REFUSE RATES – 32 GALLON CAN

## Local Refuse Rates



Source: City of Mill Valley, City of Petaluma Rate Comparisons

## OTHER CITY REVENUES





# OTHER FINANCING SOURCES = TRANSFERS IN

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## **\$2.1 million**

- Clean Stormwater Fund - \$155k
  - DIF Fund = \$129k
  - Gas Tax = \$817k
  - Hamilton Trust Fund - \$412k
  - Measure F / Emergency Reserve = \$594k (adjusted to the ending GF deficit)
  - Several other small miscellaneous transfers
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- Possible Options:
    - Increase overhead allocations to other funds (probably no capacity here)
    - Increase gas tax transfer (decreases capital plan funding)
    - Change Hamilton Trust Fund investment parameters

# SERVICE CHARGES AND LICENSES / PERMITS

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## **\$3.7 million**

- Recreation Fees - \$1.8 million – Child care programs, Senior services, Athletics
- General Gov't Fees - \$230k – Various admin and application fees, business license application fees, other miscellaneous
- CDD / Development Charges - \$554k – Zoning and subdivision, plan checking, engineering
- Police Fees - \$107k – Impound fees, alarm fees, records releases
- Other - \$119k – Legal fee recovery, administration of consultant contracts, plan storage fees
- Licenses / Permits - \$927k – Building permits, electrical/plumbing/mech permits, inspection fees, grading, tree removal, etc

Staff does not foresee significant new revenue options in these areas.

- Fees must not exceed reasonable cost of providing the service
- With significant staff reductions the past 2 years, costs may be declining
- Costs may also be declining due to efficiencies, business changes, lack of salary increases
- Fee increases may conflict with goals of providing increased access to services



# INTERGOVERNMENTAL REVENUE

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**\$700k**

- Highly dependent on grants received:
  - COPE Grant - \$126k
  - COPS Grant - \$347k
  - HHS Grant - \$75k
- Homeowners Exemption - \$39k
- Abandoned vehicle program - \$35k
- POST reimbursement - \$30k
- Other miscellaneous payments and reimbursements



# OTHER REVENUE

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## **\$1.1 million**

- Fines, forfeitures, penalties - \$545k – Vehicle code fines, code enforcement fines, parking fines, other penalties
- Uses of money and property - \$463k – Interest earnings, property rentals/leases, Bus shelter advertising
- Miscellaneous - \$54k – equipment sales, donations, miscellaneous reimbursements
  
- Options may exist to incrementally increase some revenues:
  - Interest earnings should increase with asset manager now managing \$20 million portfolio; after 2015, rates may be on the rise
  - Decision to become more aggressive with portfolio
    - Currently \$20 million with PFM; \$18 million LAIF
    - Could move from 1-3 year benchmark to 3-5 year benchmark
  - Rentals – if new recreation facilities built (synthetic turf fields, bocce courts, etc)

# SUGGESTIONS FOR FISCAL SUSTAINABILITY OPTIONS TOOL



# EXTEND AND / OR REDUCE ADD-ON SALES TAX

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- Reducing the existing add-on sales tax to 1/8, 1/4, or 3/8 percent and extending it could significantly reduce ongoing budget stress for many years
- Assuming no fiscal emergency, possible election dates could be November 2013 or November 2015 (tax ends March 2016)
  
- 1/8% ongoing sales tax ~ \$1.1 million annually
- 1/4% ongoing sales tax ~ \$2.2 million annually
- 3/8% ongoing sales tax ~ \$3.3 million annually
  
- No recommendations on voter-approved revenue options at this time
- More research to be done – recommendations to come after more complete fiscal sustainability plan developed

# IMPLEMENT BUSINESS LICENSE CPI ESCALATORS

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- Begin increasing business license fees by CPI annually, to keep up with ordinance
- Basic license would increase between \$2 - \$3 each year

	2013/14	2014/15	2015/16	2016/17	2017/18
Begin increasing business license by CPI	\$20k	\$40k	\$60k	\$80k	\$100k

# PURSUE OPTIONS FOR REFUSE VEHICLE IMPACT FEE

## Or refuse franchise fee

- Complex issue
  - Sanitary District
  - Waste Hauler Franchisee
  - Potential impacts on customer rates
- Based on other surrounding cities, \$\$ value could be:
  - Road impact fee = \$200k - \$500k per year
  - Franchise fee = +/- \$1,000,000

	2013/14	2014/15	2015/16	2016/17	2017/18
Pursue options for road impact fee	-	-	-	\$350k	\$350k
Pursue options for refuse franchise fee	-	-	-	\$800k	\$800k





# CHANGES TO INVESTMENT PORTFOLIO

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- Portfolio currently invested
  - \$20 million with PFM Asset Management
  - \$18 million in LAIF
- Actively managed portion is currently managed to a 1-3 year benchmark
- Moving to a 3-5 year benchmark should increase yields
- Additionally, more LAIF funds (additional \$5 - \$8 million) could be moved to active management
  
- Hamilton Trust – portfolio could be lengthened considerably
  - Currently benchmarked against LAIF
  - PFM is managing closer to a 1-3 year benchmark index
  - Trust principal can never be removed – i.e. no liquidity needs for this money
  - Standard investment policy allows investments up to 5 years duration
  - Council approved securities up to 30-year maturity in 2007 for Hamilton Trust only
  - Extending portfolio duration to 7, 10, 15 years, etc could significantly improve returns
  - Staff and PFM to conduct additional research and return with recommendation



# SUMMARY

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- Novato has inherent, structural revenue challenges when compared with many of our peers in a number of revenue areas
- Many options are not controlled by the city council
  - Most tax increases require voter approval
  - Fees, charges limited by prop 218
- City Council direction requested on options outlined today, plus any other options for which the Council would like additional research / information
- Current Staff research / focus:
  1. Changes allowed within the business license ordinance
  2. Research on options for refuse franchise fee / vehicle impact fee
  3. Changes to investment parameters for Hamilton Trust
  4. Voter approved options – sales tax, UUT, TOT, etc.
- Economic development strategy and policy workshop coming in early 2013



# QUESTIONS AND DISCUSSION

