



THE CITY OF
NOVATO
CALIFORNIA

922 Machin Avenue
Novato, CA 94945
415/899-8900
FAX 415/899-8213
www.novato.org

**NOVATO CITIZENS FINANCE ADVISORY/
OVERSIGHT COMMITTEE MEETING**

to be held at

City Administrative Offices
Womack Conference Room
922 Machin Ave

September 21, 2017
7:30 AM

Chair

Caitrin Devine

Vice Chair

Tim O'Connor

Commissioners

David Bentley

Regina Bianucci Rus

Rafelina Maglio

Cris MacKenzie

Robert J. Scott, Jr

AGENDA

A. CALL TO ORDER

B. APPROVAL OF FINAL AGENDA

C. PUBLIC COMMENT

Anyone wishing to speak on non-agenda items will be recognized at this time. These items can legally have no action as they are not on the agenda. There is a three-minute time limit.

7:35 A.M. *(Time is approximate.)*

D. COMMITTEE ORGANIZATIONAL ITEMS

D-1: APPROVAL OF AUGUST 31, 2017 MINUTES

D-2: APPROVAL OF MAY 18, 2017 MINUTES

E. GENERAL BUSINESS

Anyone wishing to speak on agenda items will be recognized after the Committee has concluded their initial discussions. There is a three-minute time limit for public comment per item.

7:45 A.M. *(Time is approximate.)*

E-1: REVIEW OF CITY RESERVE POLICIES

Information and discussion.

E-2: REVIEW OF PRELIMINARY JUNE 30, 2017 GENERAL FUND BALANCE

Information and discussion of proposed uses of unallocated fund balance at June 30, 2017.

F. COMMITTEE / STAFF COMMENTS

G. FUTURE MEETINGS

Next meeting scheduled for October 19

H. ADJOURNMENT

ATTACHMENTS

1. August 31, 2017 Meeting Minutes
2. May 18, 2017 Meeting Minutes
3. City of Novato Reserve Policies

AFFIDAVIT OF POSTING

I, Maureen Chapman, certify that on September 15, 2017 I caused to be posted the agenda of the September 21, 2017 meeting of the Novato Citizens Finance Advisory/Oversight Committee meeting of the City of Novato, California, on the City of Novato Community Service Boards in City Hall and the Police Department, and on the City's website at www.novato.org.

/Maureen Chapman/
Interim Finance Manager



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**August 31, 2017
7:30 AM**

Chair

Caitrin Devine

Vice Chair

Tim O'Connor

Commissioners

David Bentley

Regina Bianucci Rus

Don Bibeault

Cris MacKenzie

Robert J. Scott, Jr

MINUTES

A. CALL TO ORDER

Meeting called to order at 7:34 am. Committee Members: Caitrin Devine (arrived at 7:42 am), Tim O'Connor, David Bentley, Regina Bianucci Rus, Don Bibeault, Robert J. Scott, Jr. and new Committee Member Rafelina Maglio. Staff Members: City Manager Regan Candelario, Assistant City Manager Peggy Flynn, Interim Finance Manager Maureen Chapman, Accounting Supervisor Gina Javier, Accounting Technician Christina Soares. Members of the Public: Hutch Turner

B. APPROVAL OF FINAL AGENDA

The agenda was approved unanimously. Ayes: 6 (Devine, Bentley, Bianucci Rus, Bibeault, O'Connor, Scott) Noes: 0. Absent: 1 (MacKenzie)

C. PUBLIC COMMENT

Hutch Turner prepared an analysis of City Personnel Allocations and shared the report with the Committee. Hutch questioned how many staff members were hired while Measure F was in effect. When the Measure F proposition was presented to the public, if what was presented is what they got. Hutch is looking forward to a future discussion about the data. Bentley asked if staff provided any of the data for the report. Staff did not provide any information and Hutch stated he found the data published by the City. Bibeault inquired if the population had been measured over the 19 years and it had not. Hutch added that public safety is a priority to City Council. CM Candelario noted he will look at the report and review the data with staff.

D. COMMITTEE ORGANIZATIONAL ITEMS

D-1: APPROVAL OF JULY 27, 2017 MINUTES

Approved unanimously.

D-2: APPROVAL OF MAY 2, 2017 MINUTES

Approved on 7/27/17. Minutes for the May 18th meeting will be available for approval at the next meeting.

E. GENERAL BUSINESS

Anyone wishing to speak on agenda items will be recognized after the Committee has concluded their initial discussions. There is a three-minute time limit for public comment per item.

E-1: SECOND REVIEW OF DRAFT FISCAL YEAR 2016/17 ANNUAL REPORT ON MEASURE F

Maureen Chapman presented the revised draft report to the Committee. The Committee gave feedback on the report and approved the use of a table for the 16/17 report. The Committee discussed the reduction and/or elimination of programs and scholarships offered by Parks & Recreation. CM Candelario stated that General Fund dollars are used to fund the PRCS programs. Agreed to use the term “substantially reduced.” Also discussed PERS contribution rates and health insurance increases. During recession, City’s contribution to health did not increase while employee portion did. Added to the report, Council’s approval to allocate Measure F Funds for Hill Recreation over two fiscal years. The Committee approved the draft with changes as discussed.

E-2: USE OF UNALLOCATED MEASURE F FUNDS

CM Candelario spoke about the newly acquired Lieb property at 1521 Hill Road. Upon inspecting the property discovered safety and security issues to be addressed, such as on-site property management, fencing, site security and trees with issues. Candelario requested \$100,000.00 of Measure F Funds to address immediate site issues. Potential site for community garden.

Bibeault asked about one-time expense versus on-going maintenance. Candelario stated the use of one-time funds are to be used only for site maintenance and most likely not all funds will be spent. On-going expenses will be part of the Operations Budget. Assistant City Manager Peggy Flynn reiterated the need for site security and for cleanup. Caretaker houses need to be repaired. Bianucci Rus agreed that those funds would be well spent cleaning up the site. Scott, Jr and Bentley agreed but does the ballot language for Measure F Funds allow for these types of expenses? Measure F is not the appropriate place for funding. Devine mentioned part of the ballot language included, “reinvest in parks.”

O’Connor asked if there will be an increase of staff needed to handle Lieb site. CM Candelario noted there will be no additional staff now but will be doing an analysis over the next few years and how to utilize that space. The Committee discussed the issues with current small park maintenance and how Public Works will be able to maintain

additional property. CM Candelario suggested this item be discussed further at a future meeting. Devine mentioned a discussion that had occurred years ago that HOA's were responsible for smaller parks.

Bianucci Rus posed the question if the property could be sold during another recession. CM Candelario replied it is a possibility, but there would be provisions on the sale and in dire situations that would be an option. Not comfortable with selling property as a Government entity. The Committee also discussed alternate funding sources.

Scott, Jr. motioned to move recommendation to City Council, the allocation up to \$100,000.00 of Measure F Funds for use of securing the Lieb site. Bibeault seconded the motion provided the ongoing expenses become part of the Operating Budget, Devine clarified using funds from the Operating Budget for on-going maintenance.

Ayes: 4 (Scott, Jr., Bibeault, Devine, Bianucci Rus) Noes: 2 (O'Connor, Bentley) Absent: 1 (MacKenzie)

F. COMMITTEE / STAFF COMMENTS

CM Candelario noted the departure of the Accounting Supervisor, Gina Javier. Added Council made appointments to the various Committees and welcomed the newest Member, Rafelina Maglio. Don Bibeault is no longer on the Committee and thanked Don for his participation.

Bianucci Rus asked for Reserve Policy information. Item will be discussed at September's meeting. Also inquired about Marin Grand Jury Report and responses. Commented that the budget is not easy to understand. Offered to work with staff in creating something easier to understand. The Committee discussed pension costs and unfunded liabilities. CM Candelario noted the importance of having these discussions allows cities to make changes in order to survive. Will send materials from League of California Cities to Committee.

CM Candelario announced the arrival of new Finance Director, Tony Clark, in October and Assistant City Manager, Michael Antwine, in September.

Devine asked when the final annual report will be presented to Council. CM Candelario noted late September. ACM Flynn will notify the Committee prior to the report being sent to Council. Bianucci Rus would like to attend Council meeting when report is presented.

G. FUTURE MEETINGS

Next meeting scheduled for September 21st.

H. ADJOURNMENT

Meeting adjourned at 8:50 am.



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May 18, 2017
7:30 AM

Chair

Caitrin Devine

Vice Chair

Tim O'Connor

Commissioners

David Bentley

Regina Bianucci Rus

Don Bibeault

Cris MacKenzie

Robert J. Scott, Jr

MINUTES

A. CALL TO ORDER

Meeting called to order at 7:33 am. Committee Members: Caitrin Devine (left at 8:45 am), David Bentley, Regina Bianucci Rus, Don Bibeault, Cris MacKenzie, Tim O'Connor. Staff Members: City Manager Regan Candelario (left at 8:30 am), Assistant City Manager Peggy Flynn (left at 8:34 am), Deputy Director of Public Works Chris Blunk, Interim Finance Manager Maureen Chapman, Accounting Technician Christina Soares. Councilmembers: Pam Drew, Pat Eklund (arrived at 7:40 am) Public

B. APPROVAL OF FINAL AGENDA

The agenda was approved unanimously. Ayes: 6 (Devine, Bentley, Bianucci Rus, Bibeault, MacKenzie, O'Connor) Noes: 0. Absent: 1 (Scott)

C. PUBLIC COMMENT

No public comment

D. COMMITTEE ORGANIZATIONAL ITEMS

Minutes from May 2, 2017 meeting unavailable for approval.

E. GENERAL BUSINESS

Anyone wishing to speak on agenda items will be recognized after the Committee has concluded their initial discussions. There is a three-minute time limit for public comment per item.

E-1: REVIEW OF GENERAL FUND RESERVES AND MEASURE F EXPENDITURES

Further review and feedback of FY 2017/18 CIP budget. Discussion of reserve funds (balances and uses. Long-term strategy), and funding options for CIP projects.

M. Chapman reviewed reserve funds and policies. The reserve fund is 15% of General Fund, making the required reserve \$5.5 million. The mitigation reserve is \$3 million and insurance reserve \$1million. Total reserve balance at July 1, 2017 is \$11.9 million. Reserve partially due to limited staffing. Reserve calculations: reserve funds 32%, GFOA 16.67%, Novato 4 months reserves 32%. \$5.2 million of Measure F Funds unallocated. Novato has greater reserves than Petaluma & San Rafael.

R. Bianucci Rus asked what the Novato reserve policy is. Chapman replied the reserve policy is 15%. C MacKenzie inquired if someone has compiled info on policy. D. Bentley noted that the conversation is limited to the General Fund and how many funds there are. There is lots of other money but never discuss. How much percentage of General Fund compared to overall funds? R. Bianucci Rus asked if other funds be used for other items or if they are restricted by funder or internally restricted. M. Chapman responded they can be used for other items unless funds are restricted for specific projects or items.

Deputy Director of Public Works Chris Blunk noted the purchasing power of unallocated funds. 32% of Reserve Funds, \$5.2 million of Measure F Funds, 1.49% return on City investments (LAIF-Local Investment Agency Fund), 1.70-2.20% inflation and the average construction national index of 4.4%. D. Bentley asked if the construction index is higher in the local area. C. Blunk responded the index is cyclical. C. MacKenzie inquired about the how much higher is Bay Area index is compared nationally and anticipate a higher rate locally. T. O'Connor asked if looking at funding alternatives in addition to state funds.

C. Blunk presented the Measure F Risk Mitigation Reserve and noted Council designated \$3 million of unassigned Measure F Fund balance as "Mitigation Risk Reserve." Measure F ballot language reviewed and Measure F Considerations of funding \$1 million in 17/18 for police.

C. Blunk presented Alternate CIP Funding Strategies for the following projects:

Downtown SMART- \$1.3 million General Fund

Hill Rec - \$3 million Measure F Funds

Cameras and AV Equipment for Council - \$300,000.00 ERAF General Funds

Dogbone Meadow-\$500k-unspent 16/17 long-term

maintenance funds

R. Bianucci Rus inquired about alternate funding for downtown SMART station. Blunk replied there is not a lot of GRANT opportunities and Novato is competing against regional agencies for funding. When MTC makes funding available, Novato has to apply for funding. If project is not approved we would have to give funds back. Doesn't want to jeopardize the risk of losing funding multiple times.

D. Bentley commented we don't want to lose grant money and potential funding sources. CM Candelario is looking at funding sources for SMART station. When asked for internal financing options, other funding sources were available, but when funding was needed, funding sources were no longer available.

C. MacKenzie asked what the statistics are for a city of our size to support and utilize SMART rail and what the projected ridership is for Downtown SMART station. C Devine inquired about how available the will train be and if it will be a commuter train only. D. Bibeault asked about the customer demand for SMART and if SMART has positive outcome, would that provide additional funding. ACM Peggy Flynn noted that SMART released a preliminary service schedule. C. Blunk questions what the demand would be on the two operating stations. Councilmember Pat Eklund noted the Staff Report from January 2016 that discusses ridership.

T. O'Connor posed the question of finishing what was started, the stations are already built, is it time to finish the Downtown SMART station? Novato is the hardest city to hire for, due to commute, shortage of parking in Downtown Novato and most cars probably belong to employees. D. Bentley commented on the \$1.5 million in Grant Funds and Council needs to hear from Committee the importance of getting those funds.

C. Blunk noted funding restrictions for paving to be used for paving only. SMART signal project for underground electrical switching; electrical subcontractor is international and getting attention may be difficult, project. Novato has opportunity to join with Santa Rosa or Larkspur projects and cannot touch Grant funding until there is a construction commitment.

D. Bibeault questioned using Measure F Funds for filling potholes. Blunk suggested using local TAM Measure A & B Funds toward Downtown SMART station. Blunk noted there was a 2/2 split vote at Council to use funds. D. Bentley asked if \$2 million of Measure F Funds were slated for Hill Recreation

Master Plan. R Bianucci Rus asked about local funding to backfill and commented there are enough funds to finish Downtown station. Blunk noted staff recommendation is to use Measure F Funds.

Councilmember Pam Drew commented about an article on the SMART train and noted the ramifications of a single track system. Uncertain about Fireman's Fund future site and don't know projected ridership. R. Bianucci Rus replied that she appreciates Fireman's Fund and the huge possibility of needing a Downtown SMART station would be needed. T. O'Connor also agreed the demand would be there. Councilmember Drew commented on the \$5.5 million possibility of choosing an additional SMART station. Many of people cannot afford to ride SMART at present ticket structure and the many surface arguments about who would be able to take the train. T. O'Connor disagreed about demographics, that alternative transportation would be utilized by mid to lower income riders.

C. Devine noted the commute would allow work to be done on train. C. MacKenzie noted the decision on the Downtown SMART station had already been made and need to protect \$1.5 million Grant. The decision has already been made on initial investment. Noting the potential loss of Grant funds, it would be unwise to not make a decision.

Bentley- 1st motion: Approve Hill Rec \$3million funding using Measure F Funds. Ayes: 5 (O'Connor, MacKenzie, Bentley, Bianucci Rus, Devine) Noes: 1 (Bibeault). Absent: 1 (Scott)

Bentley-2nd motion: Downtown SMART station: committee would support financing, look for alternate funding sources, do not want to lose grant funding. Approved. Ayes: 6 (O'Connor, MacKenzie, Bentley, Bianucci Rus, Devine, Bibeault.) Noes: 0. Absent: 1 (Scott)

D. Bentley asked what the current surplus balance is and is concerned the expenses are increasing. M. Chapman stated the balance is currently \$1.2 million.

F. COMMITTEE / STAFF COMMENTS

None

G. FUTURE MEETINGS

Next regular meeting is June 15, 2017

H. **ADJOURNMENT**
Meeting adjourned at 8:48 am

ATTACHMENT A

City of Novato Reserve Policies

The City of Novato endeavors to maintain adequate reserves for its General Fund and several other funds as a matter of fiscal prudence and sound financial management. These policies will guide the City in:

- Planning for contingencies and unexpected events;
- Maintaining good standing with credit rating agencies;
- Ensuring cash availability when revenue is unavailable; and
- Deciding when to use reserves and how to replenish reserves if they have been spent.

Per current governmental accounting standards (“GASB 54”), fund balances are divided into 5 categories in the financial statements:

Category	Description
Non-Spendable	Cannot be readily converted to cash or cannot legally be spent
Restricted	Externally imposed (by granting agencies, governmental entities, etc.) restrictions on spending
Committed	City Council formally-imposed (by resolution or other action) restrictions on spending
Assigned	Funds reserved by Council direction or City Manager for designated purposes
Unassigned	Residual balance not classified in any of the above categories

For purposes of this document, a fund’s “reserves” include the sum of the Committed, Assigned, and Unassigned Fund Balances for that fund.

General Fund and Emergency & Disaster Response Fund

The General Fund shall not maintain any reserves at year end, except for those designated as Assigned for capital projects, which represent budgeted funds for capital projects that have yet to be completed. Instead, the City shall maintain a separate fund on its books, called the “Emergency and Disaster Response Fund” (hereinafter the “EDRF”) which shall be the main reserve fund for the General Fund. The City maintains this fund to provide a financial buffer in the event of significant economic downturns or for unexpected severe emergencies or natural disasters.

The Government Finance Officers Association maintains a best practice for general reserve funds. While the level of reserves should be assessed on a City’s unique circumstances or risk levels, the generally recommended best practice is to keep at least two months of operating expenditures or 15% reserves.

For Novato, the EDRF shall be maintained at a level equal to 15% of annual General Fund expenditures (excluding “Transfers Out” for purposes of this calculation).

September 15, 2015

When adopting the budget for each fiscal year, the General Fund budget shall be balanced. If the General Fund budget projects a surplus of revenues over expenditures, then a fund transfer out of the General Fund to the EDRF shall be budgeted. If the General Fund budget is expected to encounter a deficit of revenues compared to expenditures, then a transfer of funds from other available, unencumbered funds shall be budgeted to balance the General Fund. If no such funds are available from another source, a fund transfer shall be budgeted from the EDRF to the General Fund in the amount of the projected deficit to ensure that the budget is balanced.

If the General Fund ends the fiscal year with a surplus of revenues over expenditures, any Unassigned fund balance that would result shall be transferred out of the General Fund and into the EDRF.

If the General Fund ends the year with an unexpected deficit which would create a negative Unassigned fund balance, funds shall be transferred from the EDRF at year end to ensure a zero Unassigned fund balance for the General Fund.

The City Council may from time-to-time authorize budget appropriations that would reduce the EDRF below its policy-mandated 15% level. These appropriations should be made only in response to significant events such as (but not limited to):

- Economic downturns / recessions that impact City revenues;
- Natural disasters and declared emergencies; and/or
- State government reductions or takeaways of City revenues.

If the City Council appropriates funds that, for any purpose authorized in this policy, would drop the EDRF below 15%, the next budget cycle should include a plan outlining how the EDRF will be restored to the 15% required reserve level within a reasonable time period.

If the level of the EDRF rises above the required 15% level, appropriations of EDRF funds may be authorized by the City Council for one-time purchases or projects that bring the EDRF back down to the 15% level. Funds above the 15% level shall not be spent on recurring operating expenditures unless otherwise authorized in this policy or a long-term plan for ongoing funding is developed.

It may be prudent from time-to-time to loan funds from the EDRF to other City funds or to invest EDRF in less-than-immediately liquid investments. The City Council shall authorize all such loans and shall make findings in a resolution acknowledging the duration and payback timeframe of said loans, which should not exceed five years. If the loan is made with another entity (for example, the Redevelopment Successor Agency), the loan should also be accompanied by a written loan agreement.

In case of emergencies falling under the purview of Novato Municipal Code Section 2-13, purchases authorized by the Director of Emergency Services under Section 2-13.13(c) may cause the balance in the EDRF to drop below the required 15% level.

Measure F Transactions and Use Tax Fund

This fund, hereinafter known as the Measure F fund, shall be used to account for all funds collected under the Measure F transactions and use tax, which shall be collected in the City of Novato from April 1, 2011 through March 31, 2016.

There are no specific reserves required within this fund. However, the City Council has designated \$3 million of unassigned Measure F fund balance as a “Risk Mitigation Reserve”. This reserve will be subject to future City Council decisions about uses for the funds, but is intended to mitigate risk from economic recessions, pension rate and investment earnings fluctuations, unanticipated state takeaways, or unanticipated required expenditures due to changing laws or regulatory requirements.

To the extent Measure F funds are available beyond the Risk Mitigation Reserve mentioned above, they may be used to backfill General Fund deficits while permanent revenue streams or other longer-term budget balancing strategies are implemented.

Recognizing its status as a general purpose tax, the City Council has complete purview to appropriate Measure F funds for any lawful government purpose. However, as a tax with a fixed 5-year duration, Measure F funds should be spent on one-time or short term programs and projects rather than ongoing operating expenditures.

Self-Insurance Fund

The City shall maintain a reserve of \$1 million in the Self-Insurance Fund. This reserve can be used at the City Council’s discretion to pay one-time insurance and liability related costs, such as large unexpected claims, settlements, etc. in addition this fund may be used for one-time proactive risk mitigation measures. The next year’s budget should include a plan to replenish the reserve back to the \$1 million level.

Equipment, Technology and Vehicle Replacement Fund

The City shall maintain an Equipment and Vehicle Replacement Fund (hereinafter “EVRF”) to properly fund the replacement of vehicles, technology and equipment. The City will set aside an appropriate amount of money annually in the fund for each vehicle, technology, or equipment, based on that item’s typical usage and expected useful life. Monies that have accumulated in the fund for a specific asset’s replacement can then be used when the asset is replaced.

No specific reserves are required for the EVRF. However, excess funds not specifically needed for replacements from sources such as interest earnings, surplus sales or trade-ins, auction sales, and lower-than-expected replacement prices should remain in the fund until other EVRF-related purposes are identified for the funds and appropriated by the City Council. Such excess funds can also be used to replace or begin replacement cycles for vehicles, equipment, or technology items that are not currently in the replacement fund.