



THE CITY OF
NOVATO
CALIFORNIA

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

held at

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

**City Administrative Offices
Womack Conference Room
922 Machin Ave**

**March 26th, 2018
7:30 AM**

Chair

Tim O'Connor

Vice Chair

Regina Bianucci Rus

Commissioners

Caitrin Devine

David Bentley

Cris MacKenzie

Rafelina Maglio

Robert J. Scott, Jr

MINUTES

A. CALL TO ORDER

Meeting called to order at 7:35am. Committee Members: Tim O'Connor, Regina Bianucci Rus (left at 8:30), Caitrin Devine (left at 8:30), Cris MacKenzie (left at 8:55), Rafelina Maglio, David Bentley, Robert Scott, Jr. Staff Members: Assistant City Manager Michael Antwine (arrived at 9:35), Finance Manager Tony Clark, Accounting Assistant Christina Soares. Members of the Public: Hutch Turner.

B. APPROVAL OF FINAL AGENDA

Bentley motioned to approve, Bianucci Rus seconded motion.

C. PUBLIC COMMENT

Reviewed Five-Year forecast from 2015 and noted reserve levels will decrease from 18% to 8% in 2022/2023. Concerned about cutting into reserves to cover operating expense. Curious as to what the City is spending Measure F Funds on? Measure F was passed in order to restore City functions. Do not use Measure F funds for operating funds and concerned funds are being spent on projects such as Hill Rec area.

D. COMMITTEE ORGANIZATIONAL ITEMS

D-1: APPROVAL OF FEBRUARY 15, 2018 MINUTES

Bianucci Rus motioned to approve, Bentley seconded motion upon clarification of Five-Year Forecast, not Fiscal Sustainability Plan referred to. Scott also asked for clarification on wording regarding budget approval timeline.

Bentley asked if it is important for the City to have a distinction between Fiscal Sustainability Plan and the Five-Year Forecast. May be in the City's best interest to combine the two reports. MacKenzie asked about options or scenarios as how to be fiscally solvent. Use the Fiscal Sustainability plan in order to have sensitivity about Five-Year forecast? Scott noted Fiscal Sustainability should be an ongoing practice, not an event.

E. GENERAL BUSINESS

Scott asked how the Committee can get items on future agendas. MacKenzie asked if possible to add items to the agenda in a pending section in order to keep track of outstanding items for discussion.

E-1: REVIEW FY18/19 ~ FY22/23 FIVE YEAR GENERAL FUND FORECAST

FM Clark presented Five-Year Forecast to the Committee. Report posted online is different than report presented at meeting due to salaries being adjusted. Union negotiations taking place and cost of living adjustments will be one of the largest items for discussion. In fiscal year 18/19 there will be a 3% COLA adjustment. First forecast report includes salary adjustments, second forecast report excludes adjustments. Component of salaries factored in include health care costs and pension costs.

Due to issue with new accounting system, Purchase Orders encumbered funds but bills weren't paid against purchase orders. Since expenses were double counted, the 17/18 budget for revenues and expenditures, and 18/19 salaries were used for baseline numbers in report. MacKenzie asked about overtime factored in or out using actual salary payments. Clark parsed out overtime pay to showed base salaries, overtime and also included a growth rate of 3.5% for base.

Clark noted expenses are disproportionate but also need to look at increasing revenue. Novato receives lowest amount of property tax revenue in Marin. Staff has been doing double work while demand for services has increased. Pension obligation is large part of the deficit and layoffs or stabilized staffing effects pension liability. Clark noted that as a City, we are doing well with reserve funds.

Clark reviewed basic revenue assumptions with Committee. Anticipated revenue from Transient Occupancy Tax (TOT) project \$1.7million reflecting 1% growth, City receives 5.1% of property tax revenue. Novato online sales tax revenue is largest in Marin County. Scott noted the Sonoma County fires caused TOT to move south and Clark added that housing has been impacted as well. Parks & Recreation projected at \$3million for services.

Bentley noted big push for affordable housing. Is City looking at reducing fees to make housing more affordable to build? Clark wasn't sure if City was looking at making adjustments to fees.

Clark reviewed basic expenditures with the Committee. MacKenzie suggested adding comparison column to report to show Bay Area costs. Clark continued to review pension liability plans. Salary and benefit projection liability projections for 18/19 is 19.42% of payroll and in 22/23 it grows to 27.25% of payroll. Cost reduction efforts clearly largest percentage of growing costs. Focus on revenue to hedge growing pension costs. Bentley suggested adding historical data to report. Cannot control revenue but can control costs.

Clark continued to discuss pension obligations. Ongoing obligations continue to increase and reducing staff will not improve increasing debt.

During recession, PERS suffered tremendous losses and not only have to make up those losses, also have to fund current and future funding. If rate of return is lower than expected, the unfunded liability continues to grow. Returns in PERS portfolio doing poorly. The City paid off pension obligation by taking out pension obligation bond in 2006. City has been paying back debt over the past 10 years.

Clark explained bond valuation to the Committee and part of PERS overall lack of return on investment. To help offset future obligations, an Irrevocable Section 115 Trust was proposed to Council. Allows for flexibility in investment options and allows City to use earnings to fund pension payments. Council approved requests for proposals, contract with actuary and once complete, will present findings to Council. If approved, investment strategy would be done slowly. Initial investment would be made and then slowly make payments to Trust. Committee continued discussion on reality of PERS future liabilities and options.

E-2: DISCUSS FY18/19 BUDGET TIMELINE

Clark reviewed budget timeline with Committee. Operating budgets due to Finance by April 3rd for review and approval. April 5th prepare final slides for presentation to Council. Strategic Plan to be presented to Council April 24th. The Committee asked for a draft of the Strategic Plan and Clark currently working on. Bentley requested condensed budget for budget sub-committee. Clark noted improved reports available in new accounting software. New Accounting Supervisor Nick Saschin will be an effective resource to provide information once Maureen retires.

E-3: DISCUSS BUDGET / CAFR SUBCOMMITTEE

Add to future agenda

E-4: REVIEW STRATEGIC PLAN SCHEDULE

Add to future agenda

F. COMMITTEE / STAFF COMMENTS

Hutch commented how refreshing to see quality of discussion and that committee understands. Novato's middle-class shrinking. How does City generate revenue? In order to keep Novato the way it is, need to take a mature attitude over today's discussion. Who will protect citizens from the people who run the City?

G. FUTURE MEETINGS

Next meeting scheduled for April 19, 2018

H. ADJOURNMENT

Meeting adjourned at 9:35am.