STAFF REPORT

MEETING
DATE: April 24, 2018

TO: City Council

FROM: Regan M. Candelario, City Manager
       Michael Antwine, Assistant City Manager
       Tony Clark, Finance Manager

PRESENTERS: Michael Antwine, Assistant City Manager
            Tony Clark, Finance Manager
            Department Directors

SUBJECT: FY 2018/19 OPERATING BUDGET WORKSHOP DEPARTMENTAL BUDGET PRESENTATIONS AND PROPOSED OPERATING BUDGET RECOMMENDATIONS

REQUEST

Hold a budget workshop regarding the first draft of the proposed FY 2018/19 Operating Budget and provide direction to staff.

BACKGROUND

The development of the City’s annual budget development process is a six (6) month process from January – June each year. The process begins with the review of the City’s mid-year budget, projection of estimated revenues & expenditures, review of the 5-year forecast, development of the Capital Improvement Program (CIP) Budget, submission of department requests for funding, community and stakeholder workshops, draft operating budget development, and Council adoption of the City budget in June.

DISCUSSION

In preparation for the presentation of City’s first draft FY 2018/19 Operating Budget presentation, staff held community budget workshops on April 17, 23 with a final workshop scheduled for April 28. During the workshops staff presented an overview of the City’s budget and five-year forecast of City revenues and expenditures, and set-up department-specific stations where participants could interact with City staff, ask questions, and provide feedback on City budget priorities.

Additionally, on April 19 staff met with the Novato Citizens Finance/Advisor Oversight Committee to present the draft CIP budget recommendations. The Committee has scheduled
a special meeting on May 3 to review the operating budget along with the initial comments from the City Council.

On April 10, 2018, staff presented the proposed Capital Improvement Program Budget to the City Council, and the first draft of the City’s Operating Budgets will be presented at the April 24th, 2018 meeting.

During the Operating Budget Workshop, staff will present a variety of data and information regarding the proposed FY 2018/19 Operating Budget. Additionally, staff will present brief highlights of each department’s current year accomplishments and any new FY 2018/19 budget recommendations based on trends and key issues facing the City. Council questions and feedback are encouraged.

**Budget Development Assumptions:**

Consistent with previous City budget processes, instructions to departments for the FY 2018/19 budget development process required flat operations and maintenance (O&M) budgets with a 2.5% growth rate assumption to the current year’s approved budget. In light of the significant amount of initiatives and special projects that the departments have been tasked with throughout the year and in previous years, departments were asked to provide a list of additions to the budget to be considered separately by the City Manager.

The City Manager has taken all of the department’s request into consideration and is recommending Council approval of certain additions, which are incorporated within this presentation for Council consideration. Staff feels that the recommended additions to the City’s budget expenditures are important for the organization’s operations to meet the City’s service expectations, meet Council’s objectives and to address several unavoidable one-time costs. Staff will review the key issues and any new recommendations, as well as take specific inquiries and input from the Council during each department’s presentation section.

**ANALYSIS**

The proposed budget emphasizes a prudent and targeted approach on our community’s highest priorities and most pressing challenges. The City continues to anticipate financial stability for the near-term that will allow the City to maintain service levels to the community in key areas. In future years the City will need to evaluate a variety of revenue growth strategies to meet the increasing expenditures costs.

The City Manager is presenting a balanced budget for FY 2018/19. What’s more, if Council approves the proposed additions, staff is proposing that a portion of those funds be allocated from prior year surplus and/or special revenue funds as one-time costs. Staff does recognize that there are other options available to Council for the fund surplus; such as, allocation into general fund reserves or future pension costs. With that being said, staff feels that the use of these funds for a one-time allocation will create a positive return on investment for the City. Likewise, if the Council determines that’s none of these additions will be included in the FY 18/19 budget, staff will be able to present a balanced budget that will eliminate or put the proposed expenditures on hold and present as a status quo from current fiscal year 2017/18.

The current five-year forecast does indicate, however, that marginal General Fund deficits will return in subsequent years beginning in FY 19/20; although the size of these projected deficits for
the next several years remain relatively small when compared to the overall size of the General Fund. Furthermore, staff has identified and are undertaking in some instances multiple revenue generation -value added and cost-saving strategies that are not yet reflected in the General Fund Forecast. For the purpose of discussion staff has listed those strategies below:

**Opportunities**

**Council Sponsorship Fund**

Staff is proposing that we add an additional $5,000 to the city’s sponsorship fund account to allow the City Council to provide assistance to local community organizations that provide services to the residents of Novato. In the past the City has budgeted approximately $20,000 in this account, but has consistently exceeded the approved budget amount.

Consequently, staff’s acknowledges the need in the community for support from the city for various events and services; thus are proposing this increase in funding to provide for greater fiscal management of the City’s resources. What’s more, staff is currently reviewing the City’s Sponsorship Policy to create a more consistent and clear process for staff and the community. Any proposed changes to the Sponsorship Fund policy will be submit to the City Council for consideration.

**Youth Financial Assistance Program** - The City’s Parks, Recreation and Community Services administers a financial assistance program that provides a $150 credit to eligible families and a 40% reduction of fees for any city-staffed youth program. Currently, the program assists approximately 240 families each year. This program is extremely successful and well received in the community. Additionally, the program leverages an additional $10,000 through a grant from the State of California. In an effort to continue with the City’s strategic plan goal of Community Service, the City Manager is recommending an increase of $10,000 to expand the services of the program.

**Reinvest in City Infrastructure & Maintenance** – The City continues to proactively invest in its facilities and Infrastructure to improve accessibility, streets/parks/island deferred maintenance and enhanced custodial/facility maintenance services through a variety of staffing and programs.

**Economic Development & Incentive Programs** - Staff continues to move forward with an Economic Development Strategy that is multi-faceted and builds upon the City’s commitment and investment in attracting a variety of different business sectors and industry to Novato. Additionally, staff is focusing on public-private partnerships, and enhancing City business services including permitting and development processes, and business development, and implementation of a formal business retention and expansion program—to create a strong, diverse local economy. To that extent, staff is recommending one-time funds to accomplish the following activities:

- **Tenant Incentive Program** - staff is recommending allocating $150,000 to create programs that will provide assistance to new or existing business to locate or expand their business in Novato. Staff is proposing a “Pilot Program” utilizing one-time funds.

- **Website Updates** – Staff is recommending allocating $25,000 in one-time funds to implement improvements to the City’s websites that will improve the User-Interface and functionality of the City’s website.
Organizational Efficiencies through Personnel Changes

The intent of the proposed personnel changes recommended in the FY 18-19 Budget are designed to create greater efficiencies and productivity. In addition, these changes will develop a succession planning model within each city department.

Administrative Services Department & Parks Recreation, Community Services:

1. Human Resources Division
   a. Reclassification of the Principal Analyst position to a Senior Analyst/Risk Mgt. Analyst
   b. Reclassification of the Management Analyst 1 position to Human Resource Analyst
   c. Reclassification of the Office Assistant position to Human Resources Technician

2. Information Technology Division
   a. Conversion of Technical Business Analyst position from Limited Term (Measure F) to General Fund

3. Parks Recreation, Community Services Department
   a. Create a Deputy Director position
   b. Add Gymnastics instructor (.75 FTE)
   c. Change a Recreation Coordinator position from .75 to Full-Time
   d. Reclassify the Administrative Technician position to Management Analyst 1

Challenges

Pension Costs
   a. Creating the 115 Trust and budgeting for future contributions to that fund from the General Fund
   b. Work with other local and regional agencies and state legislature to develop policies to decrease future unfunded liabilities

Labor Negotiation
   a. Develop a strategy for labor negotiations in late 2018 and 2019
   b. Future deficits in the General Fund may impact labor negotiations

Utilities
   a. Develop aggressive cost saving measures and policies for all city facilities
   b. Direct Bill/Charge Utility costs to lessees of city property
   c. Develop an activity based cost system to allocate city wide utility costs

Legal Fees
   a. Identify strategies to reduce costs on legal services
   b. Update Risk Management Safety and Liability Plans

General Fund Allocation to Internal Funds
   a. Long-Term Facility Maintenance & Infrastructure
   b. Vehicle Replacement Fund

Downtown SMART Station – Complete Phase 2 of the downtown Sonoma / Marin Area Rail Transit station involving switches, electrical components, positive train control technology, and platform amenities. The revised costs estimates requires approximately an additional $2 million dollars in order to be completed in 2019.
Fiscal Health and Revenue Generation – Integrate the Council’s Strategic Plan within the FY 2018/19 Budget. Staff will continue to identify potential reductions and savings, opportunities to leverage private funding and/or resources, and create new efficiencies to have an even greater impact on our Five-Year General Fund Forecast. Some of these areas of focus will include the following:

- **Comprehensive Fee Study** – perform a total City-Wide cost analysis to update current fees for service to ensure adequate cost recovery.
- **Economic Development Opportunities** - new businesses and proposed revenue generating projects
- **Future Sales Tax growth** – staff is currently budgeting conservatively at 2.5%; however, the current trend shows a growth rate of approximately 2.75%
- **Joint Ventures and Public Private Partnerships** - create partnership with other agencies
- **Property Management Plan** - review all existing leases and Perform Costs Benefit Analysis of Sale of City property
- **Leveraging Use of Special Revenue Funds** - Measure F Reserve, Unallocated Balance, Hamilton Trust Fund, Technology Organization Improvements (T.O.I.)
- **Refinance Existing Long-term Debt** - analyze existing long-term debt for costs savings
- **Cost Allocation Plan to General Fund** - allocate charges to each city department and funds for direct services and admin costs
- **Grant Research and Writing** - identify staff or consultant to perform aggressive grant writing for city-wide projects
- **City Investment Policy** - review City’s Investment policy and strategize opportunities to increase investment earnings

**NEXT STEPS**

The schedule for the upcoming budget workshops for both operating and capital budget is listed below:

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<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>April 28, 2018</td>
<td>City Budget Planning Workshop at Margaret Todd Senior Center</td>
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<tr>
<td>May 3, 2018</td>
<td>Budget Meeting with Finance Oversight Committee</td>
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<td>May 8, 2018</td>
<td>Council Meeting – Final FY18/19 Budget Direction at Council Workshop</td>
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<tr>
<td>May 14, 2018</td>
<td>Budget Meeting with Marin Valley Mobile Country Club</td>
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<td>May 22, 2018</td>
<td>Council Meeting – Distribute proposed FY18/19 budget draft (3 week review)</td>
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<td>June 7, 2018</td>
<td>Finance Oversight Committee – Discuss updated FY18/19 budget per Council</td>
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<td>June 12, 2018</td>
<td>Council Meeting / Public Hearing #1</td>
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<td>June 24, 2018</td>
<td>Council Meeting / Public Hearing #2 (If Necessary)</td>
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**PUBLIC OUTREACH**

Community workshops were held on April 17th, April 23rd, and April 28th at City Hall, the Hamilton Community Center, and the Margaret Todd Senior Center where staff provided an overview of the City’s budget and five-year forecast of City revenues and expenditures, where participants could interact with City staff, ask questions and provide feedback on City budget
priorities. On April 19 staff met with the Novato Citizens Finance/Advisor Oversight Committee to present a preliminary draft of the CIP program budget. On May 3, staff will meet with the Committee again to discuss any changes to the operation budgets based on Council direction.

Feedback on the FY 2018/19 budget from the Committee will be relayed to the City Council at the May 8th and 22nd meeting when the proposed budget draft will be distributed to Councilmembers.

**RECOMMENDATION**

Staff recommends that Council hold a budget workshop regarding the proposed FY 2018/19 Operating Budget and provide direction to staff.