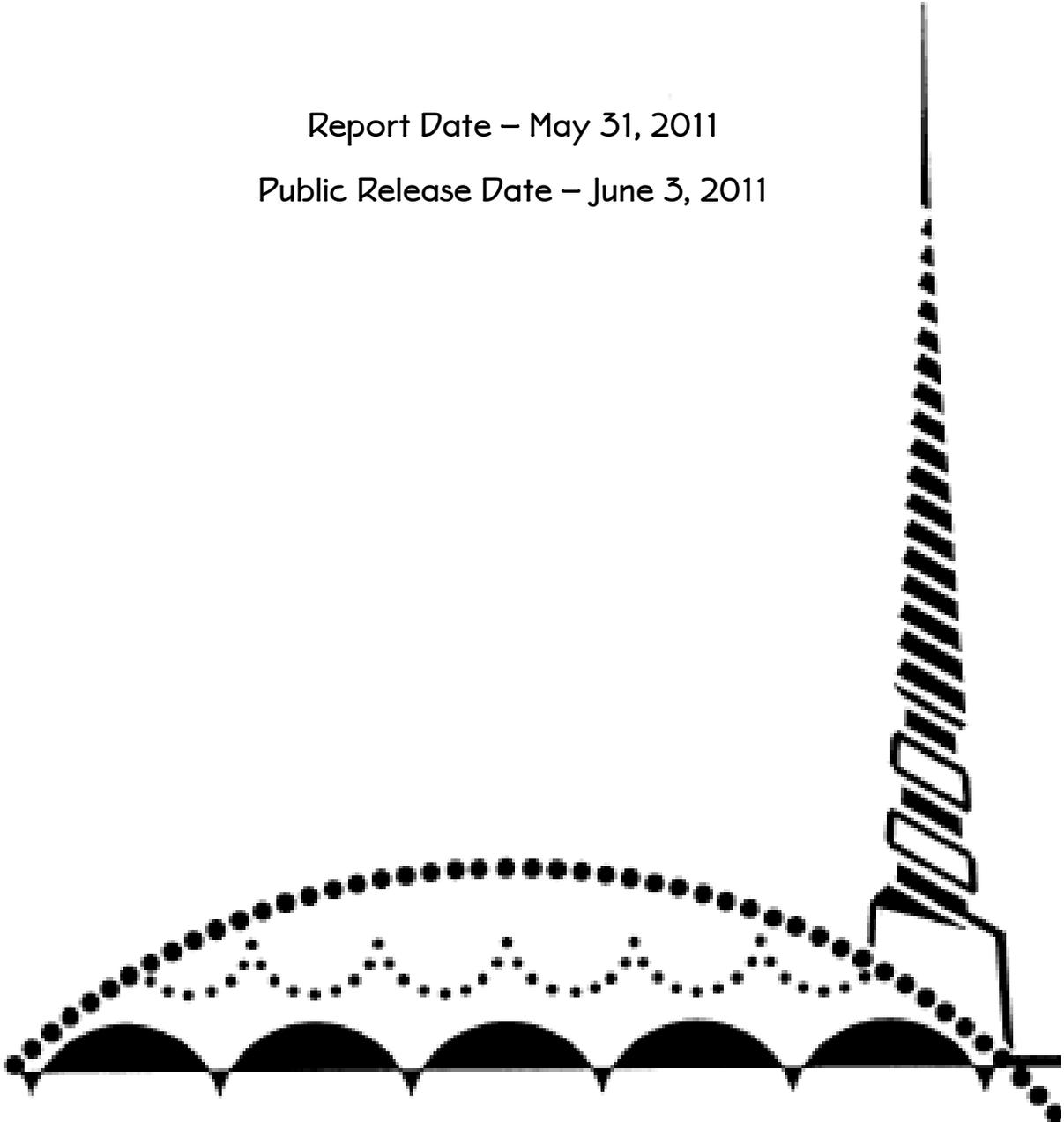


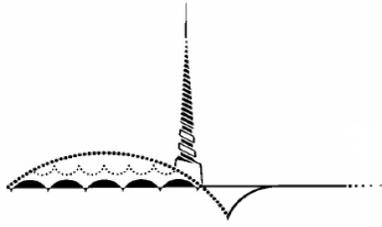
2010/2011 MARIN COUNTY CIVIL GRAND JURY

Corte Madera: Weathering the Economic Storm?

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Corte Madera: Weathering the Economic Storm?

SUMMARY

Wise stewardship of the public's tax dollars is one of the paramount responsibilities of local government. Cities in California are now facing an unprecedented "perfect storm" of serious economic challenges, significant reductions in state and federal support, and unsustainable spending practices that are threatening their fiscal stability. Against this larger context, the Marin County Civil Grand Jury undertook an investigation of how Marin's local governments are weathering the extended economic downturn. This eventually evolved into an in-depth review of one city: the Town of Corte Madera (Corte Madera).

Corte Madera depends on sales tax revenue as a major source of funding for the town. As a result, the town was hard hit by a 23 percent decline in sales tax revenues over the past seven years.¹ Nevertheless, Corte Madera still has a relatively strong tax base, ranking fifth highest of the eleven Marin County cities in per capita revenues, and 47 percent higher than the average per capita revenue for Marin cities.² Cities with greater per capita revenue have more capacity to provide higher service levels and set aside prudent reserves than towns with lower per capita revenues.

Reserves are the equivalent of municipal savings accounts. Cities set aside reserves to pay for anticipated needs such as vehicle replacement, capital projects and future liabilities. These are called committed reserves. Reserves also provide a safety net during periods of economic uncertainty. These are called unrestricted reserves. In spite of its relatively robust per capita revenue, Corte Madera compares poorly against other Marin municipalities in a key measure of fiscal stability: it has the lowest combined unrestricted and committed reserves – both in total dollars and as a percentage of its budget – of any of the 11 cities and towns in Marin.³

According to Corte Madera officials, the town should have 10 percent of general fund expenditures (\$1.3 million of its current budget) in its unrestricted general fund reserve fund. In contrast to the other Marin cities with relatively high per capita revenues (Belvedere, Mill Valley, Ross, Sausalito and Tiburon), Corte Madera falls well short of that goal, projecting only \$264,900 in unrestricted general fund reserves at June 30, 2011. Corte Madera has no monies at all in other established reserve funds (capital equipment replacement, capital maintenance, and capital improvements).⁴ The town, however, has reported to the Grand Jury that it has \$713,190 in other committed reserves.

¹ See Table 1 on p. 4.

² See Table 4 on p.12.

³ Corte Madera's reserves are the lowest of all eleven Marin municipalities in terms of both total dollars, and as a percentage of general fund expenditures. This comparison is shown on Table 4 on p. 12.

⁴ Source: Town of Corte Madera Adopted FY 2010-2011 Budget.

Another indicator of fiscal stability is an agency's level of debt. Corte Madera pays \$588,900 for debt service annually out of the town's general revenues.⁵ These debt payments strain town finances and reduce the funds available for other important community needs. In addition, for six out of the past nine years, Corte Madera has operated with a general fund structural deficit, generally meaning that it has spent more than it received in recurring revenues.

The combination of inadequate reserves, debt, and a structural deficit, has left Corte Madera in a weakened financial position. Town officials have told the Grand Jury that they do not expect the town's financial circumstances to appreciably improve until FY 2013-14. Despite this guarded outlook, Corte Madera has not yet developed a long-range, written plan to stem the flow of red ink.

The genesis of Corte Madera's fiscal problems is rooted in practices that span several decades and a management approach that appears ad hoc instead of long-range; reactive instead of proactive; and hopeful instead of strategic. For example, over the 20-year period from FY 1983-84 to 2001-02, the town realized an average of nearly \$1 million in surplus funds every year (\$19.6 million total).⁶ The town spent \$15.4 million of those surplus revenues on one-time projects, but did not set aside prudent reserves.⁷ The balance of \$4.2 million went toward the equipment replacement fund, which has since been exhausted.

Corte Madera's financial problems have been further exacerbated by the \$10.6 million debt it incurred in acquiring the Park Madera Center in late 2006 as a future park expansion and community center site. Since buying the property, Corte Madera has paid a total of \$1.7 million out of the town's general-purpose fund to make up the difference between the Park Madera Shopping Center's net income and the annual debt service for the property.⁸ The debt for the property is not scheduled to be paid off until 2037.⁹ Town officials state that they will continue to subsidize the shopping center for the next 15-16 years.

The Grand Jury is encouraged that Corte Madera scheduled a public Town Council retreat on May 17, 2011 to discuss town finances. We hope that the analysis and recommendations contained in this report will bring attention to Corte Madera's financial challenges and also stimulate community involvement in crafting a plan for the town's fiscal recovery.

METHODOLOGY

This investigation examines Corte Madera's fiscal integrity and the financial problems it faces against the backdrop of the town's ongoing financial practices in times of both prosperity and economic distress. We also measure Corte Madera's financial practices against financially resilient cities and widely accepted "best practices" established for state

⁵ See Table 3 on p. 10.

⁶ Source: Corte Madera FY 10-11 budget, p. FM 2. "Surplus" revenues are defined as recurring revenues minus recurring expenditures.

⁷ Source: Corte Madera FY 10-11 budget, pp. FM 18-20

⁸ Source: Town of Corte Madera Mid-year Budget Report FY 2010-11, 2-1-11

⁹ Source: Official Statement for \$10,575,000 Town of Corte Madera Certificates of Participation (Taxable), Town of Corte Madera website http://munibase.elabra.com/Corte%20Madera/P06-10089%20Corte%20Madera_fos_web.pdf

and local agencies by the Government Finance Officers Association (GFOA). Based on this inquiry, the investigation suggests certain actions that Corte Madera should undertake to begin restoring its financial well-being.

The Grand Jury recognizes that Corte Madera's problems are not unique among California's cities. To gauge Corte Madera's practices against other communities, the study benchmarks Corte Madera against two different peer groups. The first group is the other Marin County towns and cities. Corte Madera differs from most other Marin cities and towns with respect to its heavy reliance on sales tax revenues. Consequently, we also benchmarked the town of Corte Madera against three other small California cities with comparable sales tax bases.

The Grand Jury's investigation entailed interviews with Corte Madera town officials and council members as well as other persons familiar with the financial management issues in Marin's local communities. We also utilized the pro-bono consultant services of an independent local government finance expert who confirmed "best practices" regarding effective budget processes, prudent reserves and sound finance policies.

Our extensive documentary research included: review of municipal budgets, reserve balances and expenditure/revenue trends; analysis of Corte Madera financial reports, budgets, and audit reports; review of small cities in California with comparable sales tax bases; and a literature review of financially resilient agencies. A glossary of terms is provided in Appendix A.

DISCUSSION

LOCAL GOVERNMENT FINANCE – AN OVERVIEW

There are few cities in California left untouched by the economic challenges of recent years. Experts acknowledge that the level and severity of the problems being experienced are unprecedented in recent history. Although all local governments are in uncharted waters that could not have been fully anticipated, the range of responses and hardships encountered covers the full spectrum. At one extreme is the City of Vallejo, which has declared bankruptcy. At the other extreme are the communities that have constricted their spending but continue to provide high levels of municipal services with sufficient cash reserves to withstand the ongoing uncertainty. This latter category includes the Marin municipalities of Belvedere, Mill Valley, Ross, Sausalito and Tiburon. The level of financial hardship experienced by a municipality is related to factors unique to each community, including its tax base, fiscal practices and demographic factors. This section of the investigation provides a brief overview of municipal finance and also touches on financial practices that set the fiscally stable cities apart from the ones that are struggling.

Cities are Facing Declining and Stagnant Revenues

Property tax and sales tax are the lifeblood for local governments, typically accounting for more than half of all revenues. The property tax generated in each community is distributed according to a formula based on pre-Proposition 13 property tax allocations. In general, sales tax is distributed according to a State formula, with cities receiving the equivalent of one cent of the sales tax collected for every dollar spent in their jurisdiction.

Marin public agencies have fared better than many others in California with respect to property tax revenues. Thanks to Marin's historically robust real estate industry, countywide property tax revenues grew an average of 8.5 percent annually from FY 1998-1999 through FY 2008-09. That growth slowed to just two percent in FY 2009-10. The County has projected a two percent decline in property tax revenues for FY 2010-11 as a result of the decreased sales volumes, lower prices and reassessments for properties that were purchased at the market peak.¹⁰

Three cities in Marin have budgets that are highly reliant on sales tax revenues: San Rafael, Novato and Corte Madera. The difficulty that sales-tax reliant cities face is that sales tax is a volatile revenue source that tracks consumer spending. When spending plummeted as a result of the recent recession, so did sales tax revenues. A further complication is that sales tax revenues have been further eroded in recent years as a result of increased online sales, restricted consumer credit, and increased consumer proclivity to save.¹¹ The following table illustrates the impact of declining sales tax revenues for Marin County agencies over the past six years:

Table 1
Marin County and Cities Revenue From Local Sales and Use Taxes

Source: California State Board of Equalization

Jurisdiction	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	FY2008-09	Six Year %Change
San Rafael	17,199,466	13,693,633	13,329,178	13,577,438	13,518,338	11,830,997	-31%
Novato	6,662,145	5,754,019	5,770,856	5,838,061	5,909,981	5,361,548	-20%
Corte Madera	5,069,989	4,289,476	4,432,498	4,343,246	4,359,067	3,918,221	-23%
Marin County	3,294,440	2,709,922	2,624,376	2,926,032	2,865,485	2,578,357	-22%
Mill Valley	2,017,284	1,699,132	1,820,594	1,732,221	1,987,632	1,692,098	-16%
Larkspur	2,108,620	1,428,195	1,469,184	1,511,592	1,500,436	1,458,357	-31%
Sausalito	1,250,934	1,129,719	1,099,749	1,154,146	1,195,745	1,230,056	-2%
San Anselmo	931,680	787,553	744,375	749,521	821,519	785,904	-16%
Tiburon	505,014	387,712	415,551	376,771	446,552	375,675	-26%
Fairfax	351,445	306,750	308,479	321,772	314,561	340,830	-3%
Belvedere	76,133	58,868	48,973	49,990	58,999	47,377	-38%
Ross	51,635	99,900	0	20,218	30,098	36,515	-29%

With the real estate market still depressed, and sales tax remaining well below its 10-year peak, many local government finance experts now believe that California's local governments are experiencing a "new normal," a condition in which the still lagging economic present becomes the norm. Under the "new normal" scenario, many agencies are

¹⁰ County of Marin, Long Term Restructuring Plan, January 12, 2010
www.co.marin.ca.us/budgetinfo/budgetinfo/LTR/FinalLTRPlan11210ExecSumm.pdf

¹¹ A July 20, 2009 Gallup poll found that half of Americans say they have been spending less than they use to in recent months and 32 percent of those people say they will make this their new, normal spending pattern for years to come.

recalibrating their property tax and sales tax revenue baselines at lower levels, without any immediate expectation of recovery. Whether this is a long-term readjustment or a transitory period remains to be seen.

Rising Employee Healthcare and Pension Costs

At the same time that cities' revenues have lagged, their expenses have continued to rise. This upsurge is largely driven by significant increases in health insurance and pension costs. Health insurance rates for participating CalPERS agencies (including Corte Madera) have nearly doubled over the past 10 years.¹² Corte Madera now pays more than \$640,000 annually in health and dental costs for 45 employees and dependents. This is 15 percent of total payroll costs.

City governments in California typically offer defined benefit pensions to their employees, but usually do not pay into Social Security.¹³ Defined benefit pensions offer a guaranteed retirement income to the employees based on a formula that offers a designated percentage of salary times years of service at a specified retirement age. For example, under a 3% @55 pension benefit formula, a 55 year old employee earning \$50,000, with 30 years of service, could retire with a pension of \$45,000 (3% x 30 x \$50,000= \$45,000.)

The stage for the pension cost increases was set in the late 1990's when cities across California started increasing future pension benefits to attract qualified employees. The additional pension benefits began when budgets were flush, the stock market was posting double-digit returns, and public agencies faced competition in recruiting and retaining qualified employees. At the time, it seemed like a sound strategy: actuarial projections indicated that the agencies would be able to increase pension benefits without increasing their payments to pension funds due to the retirement funds' large investment earnings.

A major flaw underlying the enhanced pension benefits was the belief that pension agencies' investments would continue to post consistent high returns. That mistaken assumption became apparent when the bottom fell out of the investment market and employer pension costs significantly increased to compensate for the investment losses. For example, for Corte Madera fire employees, the employer contribution rate jumped from five percent in FY 00-01 to 24 percent in FY 03-04, and then generally stabilized at around 35 percent during the next six fiscal years.¹⁴ For FY 11-12, the town officials reported the rate will rise to 40 percent.¹⁵

To be clear, the impact of rising pension and healthcare costs is not just Corte Madera's problem. It applies to agencies throughout California and the nation. Many California cities, including a number in Marin County, have negotiated contract modifications with their labor unions to reduce pension benefits. Under current California law, pensions for current

¹² Source: CalPERS website - www.calpers.ca.gov

¹³ Exceptions in Marin County are the Towns of San Anselmo and Ross, which grant both CalPERS defined benefit pensions and Social Security to their employees.

¹⁴ Source: CalPERS Actuarial Statements for the Town of Corte Madera Safety Employees, FY 2001-02 and FY 2003-04. The employer-paid pension rate is stated as a percentage of salary multiplied by the retiree's years of service. The FY 00-01 rate was lowered to 5 percent by PERS due to offsetting investment earnings.

¹⁵ In some cases, cities also pay all or part of the employee share of pensions, which is an added 7 percent of salary for miscellaneous employees and 9 percent for safety employees.

employees and retirees cannot be reduced. As a result, pension reforms are being crafted as two-tier plans, with the higher pre-existing tier for the vested employees, and a new lower tier for newly hired employees. Thus, the savings from pension reform will only be fully realized over a period of many years. Nonetheless, the agencies that implement lower pension tiers for new employees will see significant savings over time. For example, the Twin Cities Police Authority, the joint powers authority that provides police services to both the Town of Corte Madera and the City of Larkspur, has a two-tier pension plan for its employees, with significantly lower pension rates for the new employees.¹⁶

Other Factors that Affect the Financial Resilience of a City Government

External economic conditions are not the only factors that determine an agency's ability to weather a fiscal crisis. Leadership and financial practices play a significant role in the ability of cities to successfully ride out the crisis.

Several key characteristics distinguish financially-resilient municipalities. The resilient governments have a long-term perspective on the financial health of their organization. They monitor historic trends and project both revenues and expenditures well into the future.

Financially resilient organizations also:

- Adhere to written policies that set minimum cash reserves, require balanced budgets and keep debt service ratios low. These agencies plan for and set funds aside for long-term liabilities, such as pensions, post-employment healthcare benefits, workers compensation, depreciation and equipment replacement.¹⁷
- Create long-term plans that articulate organization-wide service objectives. Individual departments are held accountable for their own plans and budgets, yet remain aligned with the organization-wide objectives.
- Adopt performance-based budgets that reflect their organizational objectives and community values, and measure outcomes.¹⁸ This framework informs budget decisions and supports innovations.
- Have elected and appointed leaders who work in collaboration with an engaged citizenry. They are open to non-governmental partnerships, technological solutions and sharing of services with other agencies.¹⁹

This is not to suggest that those agencies that strictly adhere to best practices will be guaranteed the ability to weather any economic downturn. However, the resilient agencies that follow these practices are better positioned to anticipate and respond to a change in their community's circumstances. In particular, those agencies that have set aside healthy reserves

¹⁶ See Appendix C

¹⁷ Government Finance Officers Association website, http://www.gfoa.org/index.php?option=com_content&task=view&id=1319&Itemid=506

¹⁸ Ibid

¹⁹ Ibid

are better able to sustain services as they undertake a proactive plan to address serious fiscal challenges.

CORTE MADERA'S FINANCIAL PRACTICES

Corte Madera does not appear to follow the best practices of financially resilient cities. The town's financial management instead seems to be ad hoc rather than long-range; mostly reactive, not proactive; and hopeful instead of strategic. As a result, Corte Madera finds itself poorly positioned to correct its financial problems.

The major shortcomings in Corte Madera's financial practices are highlighted below:

Failure to Set Aside Adequate Reserves

As discussed above, one of the hallmarks of a financially resilient agency is the creation and maintenance of adequate financial reserves. Like many public agencies in California, Corte Madera enjoyed an extended period of prosperity during the 1980's and 1990's. From FY 1983-84 to 2001-02, Corte Madera's recurring revenues exceeded recurring municipal expenses by \$19.6 million. This was the ideal time for Corte Madera to set aside an unrestricted general fund reserve equal to 10 percent of its budget.²⁰

Instead of building its unrestricted reserves, Corte Madera spent \$15.4 million of its "excess" revenues over that 20-year period. The balance of \$4.2 million went toward the equipment replacement fund, which has since been exhausted. While the majority of the surplus funds went to ongoing maintenance and capital projects, the town also spent additional funds on one-time park improvements that otherwise could have been placed in an unrestricted reserve to help buffer the town against an economic downturn or natural disaster.

According to Corte Madera officials, the town should have an unrestricted general fund reserve of 10 percent of the current general fund.²¹ However, the town has not met its goal of a 10 percent reserve in its general fund during the past 29 years. In fact, during this period, Corte Madera's general fund ranged from \$2.7 million to \$14.8 million, but its general fund reserve never exceeded \$300,000.²² The town is projecting an unrestricted general fund reserve balance of \$264,900 at the end of the current fiscal year, well below 10 percent of the current general fund of some \$13 million.²³

²⁰ Unrestricted reserves are monies that are set aside without designation for a particular use. Some agencies also set aside "economic emergency reserves" or "contingency reserves" for use during periods of economic emergencies or natural disasters. Agencies also may commit reserves for specific purposes, such as equipment replacement or employee leave liabilities. Committed reserves may be reallocated by a vote of the governing body. Agencies may also have restricted reserves that are legally required to be used for a specific purpose and cannot be permanently reallocated to another purpose.

²¹ Ten percent of the town's current general fund expenditures of \$12,931,100 equals \$1.3 million (rounded).

²² Source: Town of Corte Madera Adopted FY 2010-2011 Budget, pp. FM 9-11.

²³ See Table 4 on p.12

Structural Deficit

Like other cities, Corte Madera's long period of prosperity ended in FY 02-03, following the post-9/11 recession. Although revenues still continued to climb every year until FY 2008-09, the town's expenditures, fueled in part by rising employee pension and health care costs, climbed even higher. As a result, for seven fiscal years (with the exception of an anomaly in FY 2004-05) Corte Madera operated with a structural deficit, generally meaning that it spent more money on its municipal services, such as police and fire protection and public works, than it received in recurring revenues. This deficit spending is illustrated on Table 2 below:

Year	Surplus (Deficit)
FY 02-03	\$(125,030)
FY 03-04	(246,700)
FY 04-05	439,080
FY 05-06	(584,313)
FY 06-07	(464,077)
FY 07-08	(252,882)
FY 08-09	(643,782)
Cumulative Total	\$(1,877,704)

It bears emphasis that Corte Madera is not unique in having a structural deficit. What sets Corte Madera apart, however, is its failure to build adequate reserves during times of economic prosperity, which, when combined with its long-term structural deficit, has left the town ill-equipped to respond to the current economic downturn.

To balance its budget, Corte Madera has had to resort to various account transfers. For example, in certain years, Corte Madera transferred monies from its capital equipment replacement funding to the general fund in order to offset a general fund deficit. As a result, the town has been left with no monies to replace vehicles and equipment. The deferral of equipment replacement is a short-term strategy that cannot be carried on indefinitely, as all equipment will eventually wear out or become unreliable and/or obsolescent. Even in the short term, Corte Madera's savings from deferring the replacement of equipment is being offset by increased maintenance costs for the aging equipment.

Costly Errors in Judgment

Corte Madera's failure to build reserves during times of prosperity is even more problematic in light of several transactions that have further depleted the town's accounts. One of these

²⁴ Source: Town of Corte Madera Adopted FY 2010-2011 Budget, p. FM 3.

was the town's purchase of the Park Madera Shopping Center as a possible community center site in 2006.²⁵

At the outset, it bears emphasis that the Grand Jury does not question the desirability of the Park Madera Shopping Center as a potential recreation site. At that time, Corte Madera and many towns assumed that revenues and real estate values would continue to rise. However, Corte Madera's reliance on this assumption appeared to result in a less than thorough review by the town of the cost and other terms of the purchase. The Grand Jury's concerns relate to the lack of due diligence the town followed in purchasing the property. Specifically:

(1) Corte Madera did not appraise the property before making an offer. Town officials told the Grand Jury that their broker had advised them that the property was worth about \$8 million. Town officials also told us that there were no competing offers to purchase the property. Nonetheless, in its zeal to acquire the property, the Town Council agreed to entice the owner to sell by "sweetening" the offer to \$10 million. An appraisal performed after the purchase valued the property at only \$5.9 million. Even when the Town Council learned that the appraised value was well below its contingent offer, it moved ahead with the transaction, pledging Corte Madera's town hall, two fire stations and the Park Madera Property as additional security for the debt financing.²⁶

(2) The town failed to independently verify the real estate broker's projection that the Park Madera Center's rents would fully cover the debt service payments by 2011 to 2013. In reality, the town is paying \$372,300 this year to make up the shortfall between the rents and the debt payment. Town officials presently expect that it will be 15-16 years from now before the property's rents are sufficient to fully pay the debt service. In other words, the town's taxpayers are responsible for the negative cash flow on the Park Madera Shopping Center until the property becomes profitable or a special tax measure is approved by two-thirds of the town's voters to pay off the property debt.

The Park Madera Center purchase is impacting Corte Madera's financial condition – an impact that could have been avoided or at least minimized had the town conducted a conscientious financial analysis prior to consummating the transaction. Corte Madera has had a cumulative negative cash flow of \$1.7 million from the shopping center since it was purchased, and that shortfall is continuing to grow.²⁷

The most recent appraisal of the Park Madera Center found that the property value would be worth \$8.2 million if it were fully leased.²⁸ With the property value still underwater, town

²⁵ A town official told the Grand Jury that the town was in good financial condition in 2006 when the purchase was made. However, Corte Madera overspent its recurring revenues by \$464,077 that year, and was already five years into a structural deficit. Even today, Corte Madera officials defend the decision to purchase the Park Madera property as a cornerstone of their recreation program.

²⁶ Source: Commercial Property Purchase Agreement for the Park Madera Center Property, March 30, 2006. The purchase agreement was contingent upon the property appraising at "no less than the specified purchase price." The town conducted its appraisal within the 120 day limit specified in the purchase agreement and could have terminated the agreement at that time. Following termination of the agreement, the town could have attempted to negotiate a new purchase at a reduced price based on the property appraisal.

²⁷ Town of Corte Madera Mid-Year FY 2010-11 Budget Report, 2-1-11

²⁸ David Tattersall and Company Appraisal Report, Park Madera Center, October 2008. The property still has 1459 SF that is not leased.

officials do not consider the sale of the shopping center as a viable option. For the time being, town officials have told the Grand Jury that their primary goal is to lease the remaining vacant space in the building and put as little money into the property as possible. Town officials say they may have to eventually place a special tax measure of about \$30 million on the ballot to refinance the land purchase and to fund the park improvements. Such a tax measure would require a two-thirds affirmative vote for passage.

The town's apparent lack of attentiveness appears also to have been a contributing factor in the November 2010 defeat of a parcel tax measure to extend funding for paramedic services in the town. Town officials told the Grand Jury that the measure failed because proponents (including the town's elected officials and the firefighters' union) failed to recognize the need for a campaign. The town has decided to place a new paramedic tax measure on the November 2012 ballot, the earliest date legally possible. If the new measure passes, the price for failing to mount an effective campaign would be limited to a four month delay in receipt of tax revenues, plus the cost of an additional election. If the 2012 measure does not pass, Corte Madera officials have told the Grand Jury that the town might be forced to lay off six firefighter/paramedics and close a fire station.

Town of Corte Madera Debt

As a result of various property loans and other financings, Corte Madera is paying \$588,900 annually in debt service out of the town's general revenues, as illustrated on the table below:²⁹

Current Debt	Payoff Date	Current Debt	Annual Debt Service	Annual Income Offset
Park Madera Center	2/1/2037	\$10,130,000	\$774,200	\$ 401,500
Police facility ³⁰	3/20/2029	968,000	79,400	
152 Willow ³¹	6/15/2015	520,614	123,300	24,000
Court traffic fines	Nov. 2011	36,200	37,500	
TOTALS		\$11,654,814	\$1,014,400	\$ 425,500
	Net town debt payment		\$588,900	

The debt repayment is straining the town's resources and reducing the funds available for other town needs.

²⁹ Source: Town of Corte Madera adopted FY 2010-11 Budget, pp. Q10-Q12

³⁰ According to town officials, the town unexpectedly learned that Larkspur required Corte Madera to pay one-half of the value of the land for the Larkspur-owned property for the police facility.

³¹ The 152 Willow Street property is adjacent to and intended for future town hall expansion.

What actions has Corte Madera taken to stem the flow of red ink?

To cope with its current financial challenges, town officials state that Corte Madera's general budget reduction strategy has been, "to incrementally reduce [operating and capital] expenditures while continuing to maintain a reasonable level of service and to do it in a way that has as little impact on the public as possible."³² Corte Madera's primary strategy to reduce operating expenditures has been to freeze vacant positions, a move that, along with three layoffs, has reduced town personnel by 23 percent since 2000.³³ A secondary strategy has been to reduce compensation for remaining employees. The town imposed one day a month furloughs for all general employees and management staff, which equates to a five percent wage reduction. Fire employees agreed to forgo scheduled January 2010 salary increases and also agreed to a one percent compensation reduction.

Town officials have told the Grand Jury that they have already cut their operational expenditures (office supplies, utilities, maintenance, etc.) to the bone. They say that the only remaining opportunity for operational savings would be to reduce their landscape maintenance contracts.

Town officials state that they are exploring opportunities for reducing their fire service costs through cooperative agreements other Marin agencies. One cost saving opportunity that has emerged is possible sharing of fire battalion chief services by multiple agencies. The Grand Jury applauds the efforts of Corte Madera to seek more cost effective service delivery methods. There are good models that Corte Madera should consider for reducing costs without sacrificing service levels, local identity and home rule.³⁴

How do Corte Madera's financial practices compare to accepted "best practices" and to the practices of other cities?

To gauge Corte Madera's practices, the Grand Jury examined the budgets of other cities in Marin County. Recognizing that cities with large sales tax bases were particularly hard hit by the recession, we also examined several other small California cities that have large sales tax bases to see how they have fared as a result of the economic downturn.

While some of the peer cities have suffered an ongoing structural deficit, none have depleted their reserves to the extent that Corte Madera has. A complete summary of the comparison of Corte Madera with the other cities is provided in Appendices B, C and D.

We also compared Corte Madera's financial practices to the nationally accepted and widely used "best practices" published by the Government Finance Officers Association (GFOA), detailed in Table 5.

³² Town of Corte Madera FY 2010-11 Budget, p. M2.

³³ The Town budget documents a staff reduction from 59.25 full-time equivalent employees (FTE) in FY 2000-01 to 45.75 FTE in 2011, a total reduction of 13.5 FTE.

³⁴ For example, a "federation" of fire agencies was formed in San Mateo County to improve inter-agency cooperation and reduce fire service costs. Through attrition, a single chief and administrative section was created to manage the individual fire departments within three adjoining cities. The local cities maintained their own fire and emergency medical personnel, retaining their unique uniforms and apparatus. The agencies were able to achieve savings and greater efficiency from sharing a common administration and overhead. See the San Mateo County Grand Jury report at: http://www.sanmateocourt.org/documents/grand_jury/2009/fire_dept.pdf

Here are the highlights of our findings:

Comparison of Corte Madera to Other Marin Cities

The Grand Jury was interested in learning whether any of the other Marin cities and towns had an ongoing structural deficit and depleted reserves like the Town of Corte Madera. In order to gauge the relative strength of each town's tax base, we measured per capita revenues using data from the State Controller's Office. Our analysis is summarized on Table 4 below:

Per Capita Revenue (Tax Base) ³⁶			Self-Reported Data by City in Response to Grand Jury Survey ³⁷					
Tax Base Rank	Agency	Per Capita General Fund Revenues (6-30-11)	Structural Deficit?			Projected General Fund Expenditures (6-30-11)	Projected Unrestricted Reserve Fund Balance (6-30-11)	Projected Committed Reserve Fund Balance (6-30-11)
			FY08-09	FY09-10	FY10-11			
1	Belvedere	\$2,236				\$4.4 mil	\$3.3 mil	0
2	Ross	\$2,223				\$5.3 mil	\$2.2 mil	\$1.5 mil
3	Sausalito	\$1,659				\$13.8 mil	\$1.6 mil	\$7.1 mil
4	Mill Valley	\$1,629				\$22.3 mil	\$2.2 mil	\$7.0 mil
5	Corte Madera	\$1,416	•			\$12.9 mil	\$264,900	\$713,190
6	Tiburon	\$1,304		•		\$6.9 mil	\$3.3 mil	\$6.4 mil
7	Larkspur	\$1,104	•	•	•	\$13.6 mil	0	\$4.6 mil
8	San Anselmo	\$974	•	•	•	\$12.6 mil	\$1.5 mil	0
9	San Rafael	\$901	•	•	•	\$54.5 mil	0	\$6.5 mil
10	Novato	\$901	•	•	•	\$30.7 mil	0	\$10.8 mil
11	Fairfax	\$860	•	•	•	\$6.9 mil	\$1.6 mil	\$61,000
Average		\$966						

As the table demonstrates, Corte Madera stands out from its peer Marin County cities and towns in a number of respects.

- Corte Madera is not a “low tax base” town relative to other Marin communities. In fact, it has the fifth highest per capita revenue in Marin (below Belvedere, Ross, Sausalito and Mill Valley) and 47 percent above the average per capita revenue for Marin County cities. Cities with greater per capita revenues have a larger capacity to

³⁵ See Appendix B for notes on the methodology used in developing this table.

³⁶ The tax base ranking is based on per capita revenues. The source for per capita revenue is State of California Controller Cities Report (FY 08-09) and published budget data for Fairfax. Per capita revenues for Novato and Tiburon were adjusted to include per capita fire protection revenues (derived from their respective fire protection districts) to equalize the comparison for all cities.

³⁷ The data is self-reported by the towns and cities on a February 2011 Grand Jury Survey. The Grand Jury did not independently verify the accuracy of the data; it is intended for comparison purposes only.

provide high service levels and set aside prudent reserves than cities with lower per capita revenues.

- Notwithstanding its comparatively robust revenues, Corte Madera has the lowest combined unrestricted and committed reserves of any municipality in Marin County, measured both in total dollars and as a percentage of general fund expenditures.
- The town's per capita revenues are 57 percent higher than that of the other two Marin cities that are highly reliant on sales tax revenues (San Rafael and Novato);

Corte Madera also stands apart from other Marin cities with respect to employee benefits.³⁸ Corte Madera is the only town remaining in Marin County with a single tier 3 percent @ 50 public safety pension offered to its fire employees. Ironically, in 2003, Corte Madera had a two-tier pension plan for its firefighters in place, with the majority of firefighters in the lower tier. During labor negotiations that year, the town and its firefighters union bargained to place all fire employees in the single higher tier. Had the town left that prior two-tier plan in place, it would be in a better financial position today.

Corte Madera also grants the most generous retiree health insurance benefit to its employees compared to all Marin cities. Upon retirement with a CalPERS pension, Corte Madera pays for each employee's and their dependent(s') full Kaiser insurance coverage, regardless of how long that employee worked for the town. In comparison, the cities of Belvedere and Novato offer no supplemental retiree health insurance for their retirees beyond the minimum CalPERS health benefits. Other Marin cities offer partial or full retiree health insurance coverage only after the employee has been employed by the town for considerable length of time, typically 15-25 years. The town's current unfunded liability for this retiree healthcare benefit is \$1.4 million.

It should be noted that the town is presently in labor negotiations with its employee groups.

Comparison of Corte Madera to Comparable High Sales Tax Cities

The Grand Jury recognizes that high sales tax communities have been impacted disproportionately by the recent recession. Therefore, we endeavored to compare Corte Madera to other small communities throughout California that are sales tax reliant.

Corte Madera ranks 4th highest in total sales tax revenues of 117 small California cities.³⁹ Of all of the high sales tax small cities, we selected Capitola, Colma and Emeryville as the closest matches to Corte Madera.⁴⁰ Appendix D contains our detailed comparative analysis of Corte Madera with these three communities. Again, Corte Madera stands in contrast to its peers:

³⁸ Source: Marin County Pension Survey, prepared for Marin County Council of Mayors and Councilmember's Committee on Pensions, April 25, 2011. See Appendix C.

³⁹ See Table D-1 in Appendix D.

⁴⁰ See Appendix D, p. 24.

- All three comparable cities have written reserve policies. Minimum unrestricted general fund reserve levels are 15 percent in Capitola and 40 percent in Emeryville. More importantly, the three cities all maintained their minimum reserve levels during the current economic downturn. In contrast, Corte Madera has an unwritten 10 percent unrestricted general fund reserve policy that it has not met in the last 29 years.
- Each of the three cities has a clearly written budget document that spells out their community’s mission, goals and objectives. The budget documents provide a detailed analysis of the budget challenges the agencies face, coupled with a proactive plan to address those challenges. For example, Capitola rejected a furlough program in favor of targeted layoffs that corresponded to the city’s lowest service priorities. Emeryville consolidated its administrative departments, eliminating a finance director position. Colma required most of its departments to make targeted seven percent cuts, despite the fact that it could have easily made up the entire budget shortfall with its large general fund reserve (\$22 million, or 164 percent of the budget.)

Comparison of Corte Madera’s Practices to GFOA “Best Practices”

The Grand Jury compared Corte Madera’s financial practices to seven widely used “best practices” recommended by GFOA. In contrast to other towns, Corte Madera did not appear to follow these practices as shown on Table 5 below:

TABLE 5 - GFOA Best Practice	Corte Madera Practice	Examples of Best Practice
<p><u>Recommended Budget Practices of NACSLB –</u> Long-term perspective; linkages to organizational goals; budget decisions based on results and outcomes; effective communication with stakeholders; incentives for employees</p>	Lacks all four elements	<p>The City of Emeryville is a high sales tax city with a comparable population to Corte Madera. Emeryville’s budget closely subscribes to the NACSLB model: http://www.ci.emeryville.ca.us/index.aspx?nid=376. The City of Novato also has an excellent budget document and process that features all elements of the NACSLB model.</p>
<p><u>Establishment of Strategic Plans-</u> Strategic planning enables organizations to assess the current environment, anticipate and respond to changes, envision the future, define the organization’s mission, and reach consensus on strategies and objectives.</p>	Corte Madera does not have a Strategic Plan.	The City of Novato and Town of Colma both use strategic planning as part of their budget processes. One of Novato’s current strategic goals is to align city service and facilities needs with city revenue.
<p><u>Financial Policies-</u> At a minimum, GFOA recommends that municipalities adopt written policies governing:</p> <ul style="list-style-type: none"> • <u>Financial Planning-</u> Commitment to a balanced budget; long range financial planning; asset inventory • <u>Revenue-</u> Revenue diversification; fees and charges; use of one-time revenue; • <u>Expenditure-Debt;</u> reserves and stabilization accounts; 	Corte Madera does not follow any of these practices.	The City of Novato includes a complete summary of its financial policies in its budget document.
<p><u>Financial Forecasting-</u> GFOA recommends at least 3-5 year forecasts of both revenues and expenditures beyond the budget period. Forecasts evaluate financial risks, assess the sustainability of services, and identify key variables in revenue change.</p>	Corte Madera has a forecast model that it uses for its sewer fund. However, the town does not appear to use any forecasting for its operating budget.	The City of Novato uses a 5-year forecast model.

TABLE 5 – GFOA Cont. Best Practice	Corte Madera Practice	Examples of Best Practice
<p><u>Public Participation in Budgeting and Performance Management-</u> Effective public participation can make governments more accountable and responsive. Input can be solicited through surveys, focus groups, interviews, public workshops and through informal task forces.</p>	<p>Corte Madera has traditionally sought public input on its budget only at its annual budget hearing. A review of town council minutes indicates minimal public participation. In 2010-2011, for the first time in many years, the Town Council held a mid-year budget review. After the 2011 mid-year budget review, the Town Council expressed desire for a public workshop to gather public input on budget balancing options.</p>	<p>The Cities of Novato and San Rafael have held town hall meetings to solicit public input budget balancing strategies. The City of Emeryville sent out a survey to town residents and held a well-attended Saturday morning workshop to gather public input on its capital improvement plan.</p>
<p><u>Concise Budget Summary-</u> The budget summary is a guide to educate and involve the public and should include: changes in priorities and service levels; major financial factors and trends; summary data on revenues, expenditures and resources</p>	<p>Corte Madera’s budget lacks a summary, has a minimal budget narrative, and utilizes a format that is difficult for a lay reader to understand.</p>	<p>The cities of Novato and San Rafael and the Town of Colma have concise budget summaries on their websites that serve to inform and engage the public.</p>

What should Corte Madera do to begin its financial recovery?

Corte Madera should begin its recovery by following the recommended budget practices of the National Advisory Council on State and Local Budgeting (NACSLB) and the GFOA steps for recovery from financial distress.⁴¹ Among other things, Corte Madera should adopt and adhere to written finance policies that govern appropriate reserve levels, debt management, financial forecasting, budgeting practices, and public participation in financial decisions. The town’s elected and management leadership, in collaboration with its employees, community stakeholders, and its constituents, should develop and commit to a fiscal recovery plan that will, over time, result in financial resiliency for the community.

The town should also develop and utilize a budget that adopts and clearly communicates a long-term view of the town’s priorities and financial status; establishes a relationship between proposed expenditures and community goals, priorities and desired service levels; and provides a concise summary that will facilitate public understanding of the budget.

The Town of Corte Madera’s financial challenges are the legacy of practices set in place over a period of decades, and amplified by an enduring economic downturn. The town’s financial recovery will necessarily be a long-term process that requires dedicated leadership, fiscal discipline, and partnership with all of the town’s stakeholders. The Grand Jury hopes that this report will both instruct and support that effort.

FINDINGS

The Grand Jury finds that:

- F1.** Despite having a significant surplus of recurring revenues over recurring expenditures over a twenty-year period, the Town of Corte Madera failed to bring its unrestricted general fund reserve up to prudent levels for use in times of economic distress or natural disaster.
- F2.** Compared to other Marin County cities, the Town of Corte Madera has the lowest combined unrestricted and committed general fund reserves.

⁴¹ Internet links to these resources are provided in the appended bibliography.

F3. Corte Madera lacks a written recovery plan that contains a detailed diagnosis of its financial problems and strategies for realigning the budget in accordance with community goals and priorities.

F4. Corte Madera's purchase of the Park Madera Center has significantly impacted the town's financial condition and town officials expect that the shopping center property will continue to require advances from town funds for the next 15-16 years.

RECOMMENDATIONS:

The Grand Jury recommends that:

R1. Corte Madera adopt and adhere to written finance policies that govern appropriate reserve levels, debt management, financial forecasting, budgeting practices, and public participation in financial decisions.

R2. Corte Madera develop and utilize a budget template that adopts and clearly communicates a long-term view of the town's priorities and financial status; establishes a relationship between proposed expenditures and community goals, priorities and desired service levels; and provides a concise summary that will facilitate public understanding of the budget.

R3. Corte Madera's elected and management leadership, in collaboration with its employees, community stakeholders, and its constituents, develop and commit to a written fiscal recovery plan that will, over time, establish financial resiliency for the community.

REQUEST FOR RESPONSES

Pursuant to Penal Code section 933.05, the grand jury requests responses as follows:

From the following governing body:

- The Corte Madera Town Council: **All findings and recommendations.**

The governing body indicated above should be aware that the comment or response of the governing body must be conducted in accordance with Penal Code Section 933 (c) and subject to the notice, agenda and open meeting requirements of the Ralph M. Brown Act.

California Penal Code Section 933 (c) states that "...the governing body of the public agency shall comment to the presiding judge on the findings and recommendations pertaining to matters under the control of the governing body." Further, the Ralph M. Brown Act requires that any action of a public entity governing board occur only at a noticed and agendized public meeting.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person, or facts leading to the identity of any person who provides information to the Civil Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code Section 929 prohibiting disclosure of witness identities to encourage full candor in testimony in Civil Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Civil Grand Jury investigation.
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BIBLIOGRAPHY

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County of Marin, Long Term Restructuring Plan, January 12, 2010,
<http://www.co.marin.ca.us/budgetinfo/.../FinalLTRPlan11210ExecSumm.pdf>

David Tattersall and Company Appraisal Report, Park Madera Center, October 2008

Government Finance Officers Association (GFOA) Website, <http://www.gfoa.org> :

- Internet Links to GFOA Best Practices and Advisories by Category
 - [Accounting, Auditing, Financial Reporting](#)
 - [Budgeting and Fiscal Policy](#)
 - [Debt Management](#)
 - [Economic Development and Capital Planning](#)
 - [Retirement and Benefits](#)
 - [Treasury and Investment Management](#)
- Characteristics of a Financially Resilient Government, 2009. [GFOA's resiliency whitepaper](#).
- Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting, National Advisory Council on State and Local Government Budgeting, 1998.
<http://www.gfoa.org/services/df/budget/RecommendedBudgetPractices.pdf>
- GFOA Resource for Jurisdictions Recovering from Financial Distress, [online resource](#) was designed to help public officials cope with budgetary difficulties and ultimately improve the financial health of their governments

Marin County City Websites:

City of Belvedere www.cityofbelvedere.org

City of Larkspur <http://www.ci.larkspur.ca.us/201.html>

City of Mill Valley <http://www.cityofmillvalley.org/>

City of Novato <http://www.ci.novato.ca.us/>

City of San Rafael
http://www.cityofsanrafael.org/City_of_San_Rafael.htm

City of Sausalito <http://www.ci.sausalito.ca.us/>

Town of Corte Madera <http://www.ci.cortemadera.ca.us/index.html>

Links to Town of Corte Madera Financial Documents,
http://www.ci.corte-madera.ca.us/finance_dept/index.html

[Annual Budget](#)

Table Opening Balances Estimated and Actual
Annual Audited Town Financial Statements
Annual Audited Sanitary District Financial Statements
Annual Published Town Summary Financial Statements
Annual Published Sanitary District Summary Financial Statements
1915 Act Special Assessment Districts Annual Report
Annual Continuing Disclosure Statement
Most Current Weekly Cash Report
Annual Statement of Investment Policy
Most Current Monthly Investment Report
Sales Tax Results
2006 Certificates of Participation
2009-2010 Tax & Revenue Anticipation Notes

Town of Fairfax <http://town-of-fairfax.org/>

Town of Ross <http://www.townofross.org/>

Town of San Anselmo <http://www.townofsananselmo.org/>

Town of Tiburon <http://www.ci.tiburon.ca.us/>

Other Referenced California City Websites:

City of Capitola <http://www.ci.capitola.ca.us/>

City of Colma <http://www.colma.ca.gov/>

City of Emeryville <http://www.ci.emeryville.ca.us/>

APPENDIX A – GLOSSARY

Actuarial report- A valuation carried out by an actuary on a regular basis, to test future funding or current solvency of the value of the pension fund's assets with its liabilities.

Capital Improvements- Construction or major repair of city facilities, buildings, and infrastructure.

Debt Service - The costs of paying the principal and interest on borrowed money according to a predetermined schedule.

Debt Service Funds- Funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Expenditure - Payment of cash or cash-equivalent for goods or services, or a charge against available funds in settlement of an obligation as evidenced by an invoice, receipt, voucher, or other such document..

Fiscal Year (FY) - A time period designated by the city signifying the beginning and ending period for recording financial transactions. California cities use a fiscal year of July 1 through June 30.

Fund Balance- The net effect of assets less liabilities at any given point in time.

General Fund- Accounts for tax and other general purpose revenues, e.g., sales taxes, property taxes, fines and forfeitures, investment income, etc., and records the transactions of general governmental services, e.g., fire, police, recreation, public works, planning, etc.

Government Finance Officers Association (GFOA) - Organization established to promote and enhance the professional management of governments for the public benefit by identifying and developing financial policies and practices and promoting them through education, training and leadership.

Liability- Debt or other legal obligations arising out of past transactions that will be liquidated, renewed, or refunded at some future date.

Operating Budget: A financial plan used to allocate resources among program operations, which lists an estimate of required expenditures and the means of financing them for the fiscal year.

National Advisory Council on State and Local Budgeting (NCSLB) - The NCSLB was formed in 1995 by GFOA to recommend a framework for describing the overall budget process. The framework is organized around the four principles of the budget process: establishment of broad goals to guide government decision making; development of approaches to achieve goals; development of a budget consistent with approaches to achieve goals; and evaluation of performance and according budget adjustments.

Revenues- The historical and estimated yield of taxes and other sources of income that a governmental unit collects and receives for public use.

Recurring revenues- The portion of a city's revenue that is highly likely to continue in the future.

Reserves- The funds that a public agency sets aside for contingency or other purposes. Local governments can have unrestricted reserves, that are available for unspecified purposes, committed reserves, that are earmarked for a particular purpose but can be reallocated at the discretion of the governing body, and restricted reserves that are committed for a particular purpose and cannot be reallocated. Public agencies may also have “emergency” or “contingency” reserves that can be utilized during an economic downturn or other defined emergency.

Structural Deficit - A “structural deficit” means that the current revenue structure (e.g., taxes, fees, and other sources), is insufficient to maintain services at the current level.

Stakeholder- The term “stakeholder” refers to anyone who has an interest in or is affected by the local government. The term includes citizens, customers, the business community, elected representatives, management staff, and employees.

Pension- ‘Public pensions’ is an arrangement to provide people with an income when they are no longer earning a regular income from employment. Public employment pensions offered by California local governments typically provide a defined benefit that guarantees a future income for the retired employee and potentially their survivor for life based on a formula involving a pension rate multiplied by years of service multiplied by a defined average salary level.

APPENDIX B - METHODOLOGY FOR COMPARATIVE DATA FOR MARIN CITIES (TABLE4, PAGE 12)

- The Grand Jury identified a **structural deficit** when general fund expenditures exceeded ongoing general fund revenues (i.e., one-time revenues excluded). This methodology offers an “apples-to-apples” comparison of Marin’s towns and cities, but may differ from other methods of calculating a structural deficit. For example, Table 2, on page 8 is based on pages FM2-FM3 of the Town of Corte Madera FY 2010-11 budget, which identifies a structural deficit as recurring general operating expenditures over recurring revenues. Corte Madera subtracted gas tax and flood tax monies from recurring revenues in this particular methodology.
- “**Unrestricted General Fund Reserve Balance**” and “**Committed Reserve Fund Balance**” are terms that are defined by GASB 54, (a uniform set of accounting rules set by the Governmental Accounting Standards Board.) “Unrestricted reserves” are not designated for a specific purpose, but are spendable for any general purpose approved by the governing body. Many governing bodies set policies for minimum unrestricted fund balances. “Committed reserves” are funds that are set aside for a specific purpose (for example, equipment replacement) but may be reallocated by action of the governing body. The Grand Jury requested this information from the Marin municipalities knowing that many cities in Marin (and throughout California), including Corte Madera, are transferring committed reserves to the General Fund unrestricted reserve in order to maintain a positive fund balance in their audit reports.
- Corte Madera’s **committed reserves** include \$3,600 in cash/inventory, \$548,000 in Park Capital fees, \$77,790 in Traffic Receivables and \$84,000 in Street Impact Fees.
- **Average per capita revenue** in Marin County cities and towns is measured by the total revenues of the 11 Marin County cities and towns (\$182,081,930) divided by the total population residing within the 11 cities and towns (188,452)

APPENDIX C – MARIN PENSION SURVEY- PREPARED BY THE MARIN COUNTY COUNCIL OF MAYORS AND COUNCILMEMBERS, 4-25-11 (SEE NEXT PAGE)

MARIN PENSION SURVEY
AS OF APRIL 26, 2011
UPDATED AS OF

Member Type	Employee Group	Pension Agency	Retirement Formula	Formula Effective Date	Final Average Compensation Period	Maximum COLA	2011 - 2012 Employer Contribution	Employee Paid Member Contribution	Employer Paid Member Contribution (EPMC)	EPMC Considered Special Contribution	Maximum Pension	Participate In Social Security	Side Fund Obligation	Funds Set Aside	Bonds Issued (dollars)	Comments
Safety	RELMADERE Police	PERS	2% @ 50	4/1/1976	Highest 3 yrs	2.0%	30.673%	1.0%	8.0%	No	90%	No	\$ 430,254			
Miscellaneous	All Non-Safety	PERS	2% @ 55	2/1/2001	Single highest	2.0%	14.379%	0.0%	7.0%	Yes	100%	No	\$ 550,438			
CORTE MADERA																
Safety	Fire - Battalion Chiefs	PERS	3.0% @ 50	1/6/2003	Single highest	2.0%	40.194%	0.0%	9.00%	Yes	90%	No				
Safety	Fire - CMFA	PERS	3.0% @ 50	1/6/2003	Single highest	2.0%	40.194%	9%	0%	No	90%	No				
Misc.	SEIU	PERS	2.5% @ 55	7/18/2005	Single highest	2.0%	20.673%	8	0	No	100%	No				
Misc.	Other	PERS	2.5% @ 55	7/18/2005	Single highest	2.0%	20.673%	0.0%	8.00%	Yes	100%	No				
COUNTY OF MARR																
Safety Tier 1	All Safety (Sheriff, Fire, Probation) hired before 7/1/1980 who did not opt to transfer to Tier 1A on 1/2/2005	MCERA	3% at 55	Before 7/1/1980	Single highest	4.0%	0.00%	13.73% - 18.35%**	n/a		100%	No	\$84.3 million		\$112.8 million	Issued 11/2003
Safety Tier 1A	All Safety (Sheriff, Fire, Probation) hired 7/1/1980 or later who transferred to Tier 1A on 1/2/2005	MCERA	3% at 50	1/2/2005*	Single highest	4.0%	0.00%	13.73% - 18.35%**	n/a		100%	No				1A
Safety Tier 2B	All Safety (Sheriff, Fire, Probation) hired 7/1/1980 or later who did not opt to transfer to Tier 2B on 1/2/2005	MCERA	3% at 55	7/1/1980	Highest 3 yrs	2.0%	32.81%	11.74% - 18.35%**	n/a		100%	No				2
Misc Tier 1	All Mgmt and non-safety who opted out of Tier 3 on 7/6/2002	MCERA	2% at 55.5	Before 7/1/1980	Single highest	4.0%	32.49%	8.26% - 10.25%**	n/a		100%	No				1
Misc Tier 2	All Tier 2 Mgmt and non-safety who did not opt out of Tier 3 on 7/6/2002, plus new hires after that date	MCERA	2% at 61	7/1/1980	Highest 3 yrs	2.0%	19.89%	4.99% - 9.98%**	n/a		100%	No				2
Misc Tier 3	All Mgmt and non-safety who did not opt out of Tier 3 on 7/6/2002	MCERA	2% at 55	7/6/2002	Highest 3 yrs	2.0%	19.89%	6.19% - 11.11%**	n/a		100%	No				3
FAIRFAX																
Safety - Tier 1	Swim	PERS	3% @ 50	7/1/2002	Highest 3 yrs	3.0%	48.540%	0.0%	8.0%	No	100%	No				
Safety - Tier 2	Swim	PERS	3% @ 55	7/1/2006	Highest 3 yrs	3.0%	22.052%	0.0%	8.0%	No	100%	No				
Misc Tier 1	Dispatch & CSO Management	PERS	2.5% @ 55	7/1/2002	Highest 3 yrs	3.0%	16.310%	0.0%	8.0%	No	100%	No				
Misc Tier 1	Public Works	PERS	2.5% @ 55	7/1/2002	Highest 3 yrs	3.0%	16.310%	0.0%	8.0%	No	100%	No				
Misc Tier 2	Dispatch & CSO	PERS	2% @ 55	1/1/2010	Highest 3 yrs	3.0%	10.340%	0.0%	8.0%	No	100%	No				
Misc Tier 2	Management	PERS	2% @ 55	1/1/2010	Highest 3 yrs	3.0%	10.340%	0.0%	8.0%	No	100%	No				
Misc Tier 2	Public Works	PERS	2% @ 55	1/1/2010	Highest 3 yrs	3.0%	10.340%	0.0%	8.0%	No	100%	No				

MARIN PENSION SURVEY
AS OF APRIL 26, 2011
UPDATED AS OF

Member Type	Employee Group	Pension Agency	Refirement Formula	Formula Effective Date	Current Plan Terms										Bonds Issued (dollars)	Comments
					Final Average Compensation Period	Maximum COLA	2011 - 2012 Employer Contribution	Employee Paid Member Contribution	Employer Paid Member Contribution (EPMC)	EPMC Considered Special Contribution	Maximum Pension	Participate In Social Security	Side Fund Obligation	Funds Set Aside		
Safety	LARKSPUR Fire	PERS	3% @ 55	12/1/2000	Single highest	2.0%	40.274%	0.0%	9.0%	Yes	90%	No	\$ 2,258,140	0	0	
Miscellaneous	All Non-Safety	PERS	2.5% @ 55	8/1/2009	Single highest	2.0%	18.071%	1.0%	7.0%	Yes	100%	No	\$ 1,267,958	0	0	
Safety - Tier I	MILL VALLEY Police	PERS	3% @ 55	7/8/1972	Single highest	2.0%	21.262%	0.0%	9.0%	No	50%	No	\$ -	\$ -	\$ 2,470,787	T-1 POB for Tier 1 Police & Fire
Safety - Tier II		PERS	3% @ 55	7/19/1966	Highest 3 yrs	2.0%	20.368%	0.0%	9.0%	No	50%	No	\$ -	\$ -	\$ 762,070	T-1 POB for Tier 1 Police & Fire
Safety - Tier III		PERS	3% @ 55	7/1/2010	Highest 3 yrs	2.0%	20.368%	0.0%	9.0%	No	50%	No	\$ -	\$ -	\$ -	
Safety - Tier I		PERS	3% @ 55	7/8/1972	Single highest	2.0%	21.262%	3.0%	6.0%	No	50%	No	\$ -	\$ -	\$ -	see T-1 above
Safety - Tier II		PERS	3% @ 55	7/19/1966	Highest 3 yrs	2.0%	20.368%	3.0%	6.0%	No	50%	No	\$ -	\$ -	\$ -	see T-1 above
Safety - Tier I		PERS	3% @ 55	7/8/1972	Single highest	2.0%	21.262%	0.0%	9.0%	No	90%	No	\$ -	\$ -	\$ -	
Safety - Tier II	Fire Chiefs	PERS	3% @ 55	7/19/1966	Highest 3 yrs	2.0%	20.368%	0.0%	9.0%	No	90%	No	\$ -	\$ -	\$ -	
Misc - Tier I	Management	PERS	2.5% @ 55	5/3/2003	Single highest	2.0%	14.266%	0.0%	8.0%	No	100%	No	\$ -	\$ -	\$ 3,306,687	Total for all miscellaneous
Misc - Tier II	Management	PERS	2.5% @ 55	2/26/11 est.	Highest 3 yrs	2.0%	(1) 19.359%	0.0%	8.0%	No	100%	No	\$ -	\$ -	\$ -	Effective 3/26/11
Misc - Tier I	AFS/CAE	PERS	2.5% @ 55	5/3/2003	Single highest	2.0%	14.266%	2.0%	6.0%	No	100%	No	\$ -	\$ -	\$ -	Included in Management POB
Misc - Tier II	AFS/CAE	PERS	2% @ 55	2/26/11 est.	Highest 3 yrs	2.0%	(1) 19.359%	2%	5.0%	No	100%	No	\$ -	\$ -	\$ -	Effective 3/26/11
Miscellaneous	All represented employees	PERS	2.7% @ 55	7/1/2003	Highest 3 yrs	3.0%	18.145%	5.0%	3.0%	Yes	No cap	Yes	\$ -	\$ -	\$ -	
Safety	NOVATO Police Tier 1	PERS	3% @ 55	7/1/2001	Single highest	2.0%	21.407%	1.0%	8.0%	Yes	90%	No	\$ 1,345	Yes	\$ 9.8 million	issued in 2006
Safety		Police Tier 2	PERS	3% @ 55	7/1/2001	Highest 3 yrs	2.0%	21.407%	1.0%	8.0%	No	90%	No	Yes	Yes	
Miscellaneous	All Mgmt. and non-safety tier 1	PERS	2% @ 55	7/1/2000	Single highest	2.0%	10.975%	1.0%	6.0%	Yes	No cap	No	n/a	n/a	\$ 8.0 million	Benefit factor 2.418% @ age 63+. No limit on years of service.
Miscellaneous	All Mgmt. and non-safety tier 2	PERS	2% @ 55	7/1/2000	Highest 3 yrs	2.0%	10.975%	1.0%	6.0%	Yes	Y	No	n/a	n/a		
Miscellaneous	All represented employees	PERS	2% @ 55	Before 2000	Single highest	2.0%	14.028%	0.0%	7.0%	Yes	No cap	No	\$ 1,254,401	\$ -	\$ -	
Safety	ROSS Police	PERS	3% @ 55	6/30/2003	Single highest	2.0%	30.433%	0.0%	9.0%	No	90%	Yes	\$ 1,525,324	\$ -	\$ -	Police Chief pays member contribution. Fire & Police total.
Safety		Fire	PERS	3% @ 55	6/30/2003	Single highest	2.0%	30.433%	0.0%	9.0%	Yes	90%	Yes			
Miscellaneous	All Mgmt. and non-safety	PERS	2% @ 55	6/30/2003	Highest 3 yrs	2.0%	11.164%	0.0%	7.0%	No	No cap	Yes	\$ 107,927	\$ -	\$ -	PW Director to pay member contribution.
Safety - Tier I	SAN ANSELMO Swam Police	PERS	3% @ 50	11/7/1966	Single highest	2.0%	42.60%	0.0%	9.0%	No	90%	Yes	\$ 2,029,645	\$ -	\$ -	
Safety - Tier II		Swam Police	PERS	3% @ 55	2/1/2007	Single highest	2.0%	21.50%	0.0%	9.0%	No	90%	Yes	\$ -	\$ -	\$ -
Miscellaneous	All others incl non-swam police Tier I	PERS	2.7% @ 55	7/1/2004	Single highest	2.0%	25.98%	0.0%	8.0%	No	No cap	Yes	\$ 2,019,593	\$ -	\$ -	
Miscellaneous	All others incl non-swam police Tier II	PERS	2% @ 55	2/1/2007	Single highest	2.0%	10.06%	0.0%	7.0%	No	No cap	Yes	\$ -	\$ -	\$ -	

MARIN PENSION SURVEY
AS OF APRIL 26, 2011
UPDATED AS OF

Member Type	Employee Group	Pension Agency	Refirement Formula	Formula Effective Date	Final Average Compensation Period	Maximum COLA	2011 - 2012 Employer Contribution	Employee Paid Member Contribution	Employer Paid Member Contribution (EPMC)	EPMC Considered Special Contribution	Maximum Pension	Participate in Social Security	Side Fund Obligation	Funds Set Aside	Bonds Issued (dollars)	Comments
Current Plan Terms																
SAN RAFAEL																
Safety	Police	MCERA	3% @ 55	7/1/2004	Single highest	3.0%	53.76%	6.99-17.64%	0.0%	No	100%	No	No	~ \$2.5M	~ \$4.2M	Finished one year of "normal cost"
Safety	Fire	MCERA	3% @ 55	7/1/2006	Single highest	3.0%	66.77%	6.99-17.64%	0.0%	No	100%	No	No			
Miscellaneous	All Mgmt and non-safety	MCERA	2.7% @ 65	7/1/2004	Single highest	3.0%	40.78%	6.29-13.72%	0.0%	No	100%	No	No			
SAUSAUTO																
Safety	Police	PERS	2.40% @ 55	6/1/2000	Single highest	2.0%	38.533%	9.0%	0.0%	Yes	90%	No				See below
Safety	Fire	PERS	3.0% @ 55	6/2/2000	Single highest	2.0%	31.548%	0.0%	0.0%	No	90%	No				See below
Misc	All non safety employees	PERS	2.0% - 2.5% @ 55	7/1/2003	Single highest	2.0%	15.565%	8.0%	0.0%	Yes	No cap	No				See below
Effective 7/1/2003, the City adopted the provisions of IRS Code Section 414(h)(2) on behalf of all its miscellaneous and police personnel. Base salaries are grossed up 8% and 9% respectively so that employees may pay their own PERS contributions out of pre-tax compensation. The City continues to pick up the tax deemed contributions on behalf of its																
TIBURON																
Safety	Police	PERS	3% @ 55	6/1/2004	Highest 3 yrs	2.0%	23.965%	9.0%	0.0%	No	90%	No	\$ 288,573	\$ -	\$ -	6 years left on amortization
Miscellaneous	All Non-Safety	PERS	2% @ 55	7/1/2001	Single highest	2.0%	11.775%	7.0%	0.0%	No	100%	No	\$ 427,716	\$ -	\$ -	14 years left on amortization
TWIN CITIES POLICE AUTHORITY																
Safety - Tier 1	Police	PERS	2% @ 50	Pre 1/1/2003	Highest 3 yrs	2.0%	77.221%	0.0%	9.0%	Y	90%	No				3 employees left in this tier
Safety - Tier 2	Police	PERS	3% @ 55	1/1/2003	Single highest	2.0%	25.357%	0.0%	9.0%	Y	90%	No				
Misc. Tier 1	All Non-Safety	PERS	2% @ 50	Pre 7/1/2002	Highest 3 yrs	2.0%	54.381%	3.50%	4.50%	Y	100%	No				0 employees left in this tier
Misc. Tier 2	All Non-Safety	PERS	2% @ 55	7/1/2002 thru 6/30/09	Single highest	2.0%	17.200%	3.50%	4.50%	Y	100%	No				

* 2010-2011 Employer Contribution
** 2010-2011 Employee Paid Member Contribution
 Vested Employee Right
 Negotiable with Current Employees

APPENDIX D - ANALYSIS OF COMPARABLE HIGH SALES TAX SMALL CITIES

In order to compare Corte Madera to other small municipalities with large sales tax bases, the Grand Jury created a comparison group all cities under 17,000 population in California, a total of 117 cities. Using data derived from California State Board of Equalization records, we extracted all of the small cities with 2009-10 sales tax revenues in excess of \$1 million (a total of 21 cities.) That data is reflected on Table D-1 below

Table D-1

COMPARISON OF SMALL CITIES WITH HIGH SALES TAX BASE			
City Name	Population	09-10 Sales Tax	10-11 Sales Tax (to 1/31)
COMMERCE	13,581	8,948,467.85	5,505,461.45
COLMA	1,622	4,764,428.26	2,841,082.28
EMERYVILLE	10,227	4,716,196.94	3,034,813.89
CORTE MADERA	9,816	3,983,621.00	2,384,271.13
GRASS VALLEY	12,809	3,544,757.58	2,149,235.69
CAPITOLA	10,198	2,955,577.44	1,750,876.13
LA PALMA	16,304	2,139,547.79	1,306,556.55
WESTLAKE VILLAGE	8,872	2,013,335.39	1,183,166.18
MALIBU	13,765	1,820,628.41	1,145,525.84
PISMO BEACH	8,704	1,563,132.79	930,936.52
ST. HELENA	6,010	1,542,814.75	907,520.09
MILL VALLEY	14,144	1,534,143.76	913,465.73
SONOMA	10,078	1,429,732.70	911,177.66
LARKSPUR	12,398	1,343,124.78	813,378.71
HALF MOON BAY	13,371	1,321,202.52	826,549.80
CARPINTERIA	14,528	1,303,068.97	653,827.85
BIG BEAR LAKE	6,272	1,258,735.86	704,132.03
CARMEL	4,053	1,256,725.72	826,740.65
SCOTTS VALLEY	11,903	1,247,905.14	730,371.35
COTATI	7,476	1,131,250.30	698,838.91
SEBASTOPOL	7,943	1,015,549.44	607,859.65

Corte Madera ranks fourth highest in sales tax revenues of all the other similar-population cities, as highlighted above. The Grand Jury chose the City of Emeryville, the City of Capitola and the Town of Colma, as the closest comparables to Corte Madera, based on the following criteria:

- Comparability of sales tax revenues
- Geographic similarity (Northern California suburban)
- Similar government structure (all three are general law cities, with a Council/Manager form of government)

The Town of Colma is not a perfect comparison, given the fact that it has only 1,600 residents. However, it does have a similar retail/ auto dealership mix to Corte Madera and is located in the Bay Area.

It bears noting that the Marin County cities of Mill Valley and Larkspur rank 12th and 14th respectively on the list of small cities with high sales tax bases. However, these cities were not included in this comparison of sales tax based communities, due to the fact that their sales tax revenues are less than half of Corte Madera's.

Our review is further described in narrative discussion of each of the comparable cities below:

City of Capitola:

In 2007-08, 48 percent of Capitola's general fund revenue was from sales tax. That proportion subsequently declined to 40 percent in 2008-09 and 41 percent in 2009-10 as the result of the closure of four the city's top 10 sales tax generators (including a Honda dealership, Gottschalks and Mervyns.) The town continues to struggle with double-digit unemployment and other fiscal challenges.

After going through a series of proactive budget reduction strategies, the City of Capitola was able to adopt a balanced FY 2010-11 budget without dipping into its reserves. Capitola's budget contains clear statements of the city's mission, values and goals. The budget message provides a well-articulated discussion of the financial challenges that the community has faced, and continues to face, in the context of the larger economic climate.

Capitola has written unrestricted general fund reserve policies in place requiring 10 percent in contingency reserves and five percent in emergency reserves. Both reserve funds exceed their respective targets. Capitola also has committed reserve funds for equipment replacement, technology, pension obligations, self-insurance, stores and workers' compensation.

Capitola began labor negotiations to seek concessions from its labor unions in 2008-09. The initial concessions were 1-day per month furloughs and early retirement incentives. Capitola later rescinded the furloughs so that the city could make program-specific personnel cost reductions that reflect their budgetary goals and priorities.

Capitola differs from Corte Madera in that it has a redevelopment agency and employs beach lifeguards. It receives fire protection and emergency medical services from a special district. Like Corte Madera, it issues community grants totaling about \$275,000 annually.

The Town of Colma:

The municipal government is “affluent” by small-town standards. The town’s motto, “It’s good to be alive in Colma,” apparently rings true for its 1600 residents. Residents are issued a card that enables them to get a 95 percent discount on youth recreation and 90 percent reduction on adult recreation programs. Not surprisingly, residents gave the recreation programs a 9.6 rating out of 10. Sewer costs are subsidized by the General Fund, with residents paying only \$1 per year for sewer service.

Thanks to a \$13.4 million budget and a \$22 million reserve (164 percent of general fund), the town has been cushioned from the impact of economic decline. Nevertheless, due to declining revenues, most departments took a reduction in the town’s FY2010-11 budget and there was also a seven FTE reduction in staff positions. The town also dipped into their ample reserves to balance the budget in FY 10-11.

Colma is the consummate high sales tax small city. Sales tax constitutes 51 percent of budget revenues and card rooms contribute an additional 35 percent. Property tax contributes only 2 percent of the town’s total revenues.

The Town of Colma’s budgetary decisions are guided by well-articulated mission, goals and values statement. Colma updates their town’s strategic plan early in the calendar year; they also hold a mid-year budget review during that same time frame. A public study session on the budget is held in May prior to adoption. Colma’s budget received a CSMFO award for excellence in budgeting for its most recent budget. An easy-to-follow summary of that budget is posted on the town’s website.

Emeryville:

Like some of the small cities in Marin, Emeryville was incorporated just before the turn of the century.

Emeryville’s population is virtually identical to that of Corte Madera. It is a full service city with its own police and fire departments. Its key distinction from Corte Madera is its redevelopment and economic development programs.

The City of Emeryville budget spells out the city’s financial challenges in light of the “new normal” in local government finance. Emeryville’s \$28.4 mil operating budget is the largest of the four comparable agencies. Like the other three comparable agencies, Emeryville responded to the economic downturn by cutting \$1.3 million in costs, including the elimination of seven FTE. In addition, the city transferred \$2.2 mil from reserves to balance the budget.

Emeryville was in a position to use reserves without jeopardy to the city’s long-term fiscal health thanks to its adherence to detailed financial policies spelled out in its budget. The city has a written policy to maintain an undesignated reserve fund balance of a minimum of 25 percent of operating expenditures, with goal to build that reserve to 50 percent. The city’s FY 2010 undesignated reserve is \$7.2 million, or about 25 percent of

operating expenses. In addition, city policy sets an economic reserve (to be used in cases of economic downturn) equal to a minimum of 15 percent of operating expenses, with a goal to grow that reserve to 25 percent. Emeryville also established the following committed reserves: major maintenance- \$7.4 million; vehicle replacement- \$4.5 million; earthquake insurance fund- \$1.3 million; PERS liability fund- \$3.14 million; and post-employment benefits (OPEB) fund- \$4.8 million.

The City of Emeryville has a performance-based budget with detailed and measurable goals and objectives for each department. The Emeryville City Council conducted seven hours of public “study sessions” in May 2010 before adoption of its FY 2010-11 budget. The programmatic reductions in that budget included creation of a downsized administrative services department (with elimination of a finance director position) and restructuring of a city-run child development center. The budget message is understandable for citizens and elected officials alike, but lacks a stand-alone summary like those produced in San Rafael and Colma.

Emeryville’s city council receives detailed monthly budget reports in its city council agenda packet that include all check registers (expenditure details) and fund balances. City staff also report to the City Council on police overtime expenditures. In contrast, Corte Madera’s town council receives a weekly statement of unreconciled cash balances for the town’s bank and investment accounts. That snapshot report serves to verify the town’s cash flow, but is not a particularly useful tool in monitoring the town’s overall fiscal condition.

Emeryville’s only general fund debt is \$7 million in lease revenue bonds issued for construction of its city hall in 1998. Debt service payments are equal to 1.5 percent of its operating budget. In contrast, Corte Madera is currently paying 6.7 percent of its operating budget for debt service.

The transparency of Emeryville’s city government is exemplified on the city’s website. City residents receive a twice-monthly electronic newsletter. All city council meetings are webcast using funds from city’s cable TV franchise. Emeryville employs the same type of live- and recorded- webcast of its city council meetings used by the County of Marin and the cities of San Rafael and Sausalito. With links between searchable City Council agendas and staff reports and the webcast, citizens have ready access to their city government actions. Emeryville’s public budget outreach is exemplified by the process it utilized in updating its capital improvements program. Surveys were sent to all city residents to gauge the public’s priorities. The City Council also held a well attended Saturday study session to gather public input before finalizing the plan.