

JANUARY 2024

City of Petaluma





Measure U Oversight Committee Biannual Report FY 2022-23 Year Ended June 30, 2023

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Measure U Background

On August 3, 2020, the Petaluma City Council adopted Ordinance No. 2743 adding Chapter 4.18 to the Petaluma Municipal Code, setting forth a one-cent transactions and use tax which was subsequently approved by more than simple majority of Petaluma voters in the November 2020 election. The general-purpose tax measure, known as Measure U, increased sales tax by one percent to fund governmental services including Police, Fire, disaster emergency preparedness, repairing roads, supporting local businesses, and keeping public spaces safe and clean, as identified by the Petaluma community as top priorities, and as set forth in the Ordinance.

The tax increase became effective on April 1, 2021, with initial revenue received in June 2021. It was estimated that annual revenue generated by this tax would be approximately \$13 million. A separate fund has been established to track revenue and expenditures, with any unspent revenue remaining in the fund.

Fiscal and Organizational Sustainability

Concurrent with the public outreach program that culminated in the passage of Measure U, staff engaged in a Fiscal and Organizational Sustainability ("FOS") effort. This effort consisted of significant research and analysis into all facets of the General Fund finances as well as a series of informational workshops to present the data and findings on each topic to the City Council and public. The intent was to identify options and solutions to ensure that City services, programs, and infrastructure are provided and maintained in a sustainable way. Rather than balancing the annual budget based on the available estimated revenues, the FOS process analyzed what the City should be investing in to be sustainable in the long run, and then identified the amount of revenue necessary to achieve those goals. Key recommendations and takeaways from the FOS process:

Baseline General Fund Forecast – Per the forecast presented during the Fiscal Year 2020/21 budget process, the City is estimated to have an average structural General Fund deficit over the lifetime of the 5-Year General Fund Forecast of approximately \$6.4 million annually. This means that to continue to fund the existing core services, programs, and staffing levels currently funded by the General Fund, given

reasonable growth assumptions on revenues and expenditures, the City would need \$6.4 million annually. This assumes no new programs or staff positions added. Stated differently, if the City took no other action to ameliorate its financial situation, Petaluma would need to cut \$6.4 million permanently from its annual budget to stay balanced.

Infrastructure Investments – The City of Petaluma maintains a vast array of infrastructure for the benefit of our constituents, including streets, sidewalks, storm drains, bridges, parks, pathways, islands & medians, buildings & facilities, etc. While not funded from the City's General Fund, the City also has major capital investments in its Water, Wastewater, Airport and Marina enterprise funds. In efforts to balance the annual budget, the City invested very few General Fund dollars to maintain this infrastructure over time, which has resulted in hundreds of millions of dollars in deferred maintenance for these facilities. As one example, Petaluma has the unfortunate distinction of having the worst roads in the entire nine-county Bay Area; to bring our road condition up to a pavement condition index of "Good / 70", we would need to invest more than \$100 million. Additionally, our three antiquated fire stations require nearly \$10 million in improvements to seismic, accessibility and functional adequacy for these important public safety facilities to remain viable. In an ideal world, the City would be able to invest upwards of \$10 million annually to maintain all its infrastructure categories and take care of the significant backlog of deferred maintenance. Instead, as a reasonable middle ground, an annual investment target of approximately \$4.6 million has been incorporated, which will make a significant dent in our existing maintenance needs.

Core Staffing, Services, and Recruitment and Retentions — As a "service business," the City of Petaluma provides value to its residents through the hard work and expertise that our employees perform and provide every day. It is essential that the City is able to recruit and retain well-trained, highly-qualified employees to perform essential functions. While we have an incredibly dedicated staff who work to provide the best possible service, the City Manager's Office and City departments have identified a number of areas that do not appear sustainable without additional staff to continue maintaining community needs and priorities that City residents

expect and deserve. In total, this process identified approximately 29 new staff positions that would be required to bolster and augment the City's General Fund operations to ensure they are sustainable. Given the cost of this initial proposal, the City Manager ultimately decided on a more "limited core staffing" scenario that included 11 new positions for the General Fund. Note that these staffing additions would not provide significant new services to the community; rather, they help to provide resiliency, reliability, and proactivity to existing services to ensure that they are sustainable. In total, staff estimated that approximately \$4.2 million would be required to ensure our ability to recruit and retain staff and add the additional positions required to make Petaluma's operations more sustainable. Even with the addition of 11 new positions, the City still has fewer General Fund-funded positions than it did prior to the Great Recession, while the City's population has grown by approximately 6,000 residents during that time.

Measure U spending priorities identified by the Petaluma community include:

Communit	y-Identified	City Se	rvice l	Priorities
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Community Safety, Health & Emergency Preparedness

Fire Prevention & Protection

Maintain and prevent cuts to firefighting equipment/fire engines and adequate 24-hour staffing.

Emergency Preparedness & 911 Response

Ensure public health, wildfire, natural disaster emergency preparedness and maintain 911 emergency response times to ensure first responders can respond quickly to calls for services.

Addressing Homelessness

Continue homeless prevention programs and community partnerships while ensuring our local businesses, public areas, and neighborhoods are safe, stable, and secure for everyone.

Public Safety

Maintain properly trained community based public safety officers, community outreach programs, and ensure adequate 24-hour staffing.

Safe Public Spaces & Recovery

Keep public areas safe and clean; support local business and job retention through recovery

Roads Maintenance & Repair Investment

Repairing Roads & Fixing Potholes

Enhance street maintenance, repaving, and pothole repair on Petaluma's 396 miles of streets

Road Safety

Address existing road hazards and improve road safety for drivers, bicyclists, and pedestrians, including maintaining safe routes to schools.

Deferred Maintenance

Improve conditions of local roads by better addressing \$141 million in repairs backlog and prevent road ratings from further decreasing per the standard Pavement Condition Index

As a general-purpose measure, the City Council cannot obligate the exact uses of the tax revenue and the revenue is eligible to be spent on any legal governmental purpose. The priority areas were developed from community feedback received during the 2-year community outreach campaign about the future of the City and long-term fiscal and organizational sustainability.

Measure U sales tax is a locally controlled revenue source that includes transparency and accountability requirements: independent citizen oversight, biannual independent financial review, all funds spent locally and no funding that can be taken by the State. Spending is to be consistent with the intent of the City's ordinance.

A five-member Citizen Oversight Committee, appointed by the City Council, is to review and comment on the use of the City Transaction and Use Tax proceeds pursuant to Section 4.18.140 of the Petaluma Municipal Code. Committee members are appointed for 4-year terms. The City will prepare biannual reports for the Committee's review. The Committee will review the reports which will include information about Use Tax proceeds collected and the use of those proceeds. The Committee will meet biannually to review and comment on the reports. The comments shall address the following: How the City's use of the tax proceeds in the prior year relates to the spending priorities identified by the community that were included in the recitals to Measure U and comments on the proposed Measure U appropriations for the upcoming budget year prior to the City council budget hearings.

The Committee shall provide a year-end summary report annually that uses data from the biannual reports.

Measure U Annual Report Overview

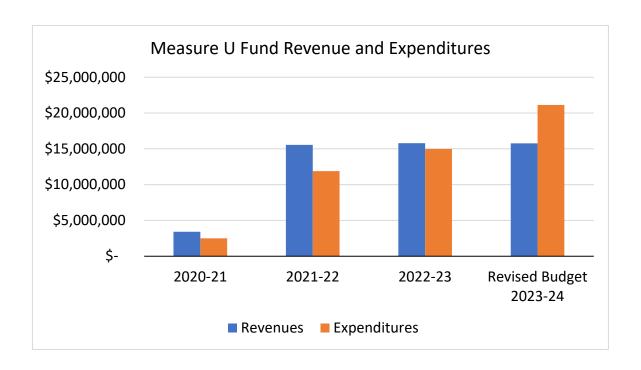
The Measure U Annual report provides a year end summary of the Measure U Fund and the accomplishments funded with Measure U tax proceeds. In addition, fund balance, revenue and expenditure detail schedules are shown for all fiscal years since the inception in FY 2021. The Annual Report features actual accounts of programs, statistics and expenditures for the prior fiscal year and the data is typically available in early January. Meetings with the Measure U Citizen Oversight Committee take place twice per year – once after fiscal year-end and once before the new fiscal year budget adoption.

Measure U Revenue and Expenditures

Sales tax revenues generated in FY 2022-23 were \$15.8 million. While our economy experienced a strong recovery during FY 2021-22, the ongoing uncertainty of what lies ahead, from supply chain challenges, high inflation and ongoing world events, could impact tax revenues received by the City. Expenditures for FY 2022-23 were \$15.0 million as approved by City Council with the FY 23 mid-year budget adjustments.

Measure U revenue and expenditures since inception are shown in the following charts.

Fiscal Year		Revenues		Expenditures
2020-21	\$	3,412,285	\$	2,500,000
2021-22	\$	15,553,023	\$	11,887,653
2022-23	\$	15,783,396	\$	14,981,567
Revised Budget 2023-24	\$	15,762,700	\$	21,135,395



Below is the breakdown of the FY 22-23 budget vs actual. Funds received in FY 22-23 allowed the City to continue providing core essential services to our community by filling the projected deficit gap. The funding also provided much needed resources to address deferred maintenance on roads and addressed a variety of priority initiatives. All excess funds remaining due to revenues higher than expected can be appropriated by City Council during the quarterly budget and financial updates or during the upcoming budget cycle in conjunction with the fiscal year budget adoption.

Measure U Fund Budget vs Actual

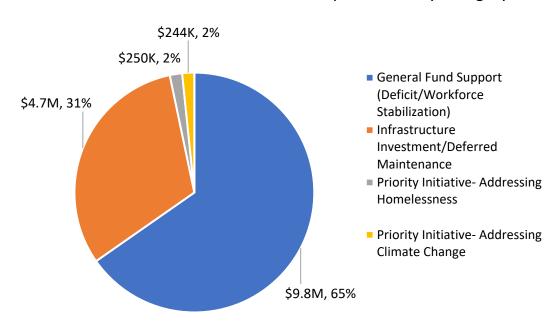
	Rev	ised Budget		Actuals		
Revenue Categories	FY 22-23			FY 22-23		
Sales and Use Taxes		14,881,750		15,783,396		
Total Revenues	\$	14,881,750	\$	15,783,396		
Expenditure Categories						
General Fund Support (Deficit/Workforce Stabilization)		9,782,432		9,782,432		
Infrastructure Investment/Deferred Maintenance						
Road Improvement, bike, pedestrian, safety, multi-modal		3,701,135		3,701,135		
Library Fire Suppression System		600,000		600,000		
Petaluma Community Baseball Field		154,000		154,000		
Technology - Financial System Replacement/Technology Upgrades		250,000		250,000		
Priority Initiatives:						
Addressing Homelessness(COTS, DST):						
Specialized Assistance for Everyone (SAFE)		250,000		250,000		
Addressing Climate Change:						
Electric Vehicle Chargers		100,000		100,000		
Evergreen		69,000		69,000		
Climate Outreach		75,000		75,000		
Total Expenditures	\$	14,981,567	\$	14,981,567		
Rev. Over (Under) Exp.	\$	(99,817)	\$	801,829		
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Beginning Fund Balance	\$	<u> </u>	\$	4,577,655		
Ending Fund Balance	\$	4,477,838	\$	5,379,484		

Fund Structure and Balances; Project and Program Updates

Expenditures funded by Measure U sales tax are funded through a 1% general sales tax. Although the sales tax proceeds are general and can be used on a broad range of governmental services (same as the General Fund), Measure U funds are programmed based on community feedback and maintained in a separate fund. This allows for complete transparency and efficient reporting. Fund balance that is not spent or encumbered at the end of the year, and/or revenue received in excess of initial revenue projections go into fund balance at the end of the year.

As mentioned previously, the City's FOS process that began in 2019 and concluded in July 2020 identified many important areas of investment that will encompass the annual Measure U funds. Since the adoption of Measure U, staff has worked to distill and prioritize these needs into several thematic categories which were presented to Council in early 2021. These categories are: General Fund Deficit Backfill – Maintain Service Level and Workforce Stabilization, Infrastructure Investment, and Priority Initiatives. As reported during the FOS process and with more recent General Fund forecasts, the City expects to encounter an average annual budget deficit of approximately \$6.4 million each year over the five years of the forecast. Thus, nearly 50% of Measure U funds will serve to bolster existing programs and services, and ensure that additional budget cuts, layoffs or other service reductions are avoided. Also necessary is an adequately funded emergency reserve which is set by Council policy and is to be maintained at 15% of general fund expenditures. From year to year and depending on the current balance and available resources, funds from Measure U could be used to fund this reserve. It is critical that our community is prepared should we be impacted by another natural disaster, pandemic, or unforeseen emergency. Workforce Stabilization is focused on rebuilding, stabilizing, and improving the City workforce through a classification and compensation study, regular cost of living adjustments and adding back positions cut during the great recession. If not for Measure U, the City's General Fund-funded workforce would continue to be 16% below pre-recession levels. Core staffing is about what functions are needed to be a well-run, responsive, full-service City. Infrastructure Investments include investing in our City roads, facilities and other infrastructure categories that require significant annual investment. Priority

initiatives are based on community outreach and are initiatives that do not fall into another category. Below is a chart showing FY 23 expenditures by category:



FY 2022-23 Measure U Actual Expenditures by Category

City staff monitors fund activity and forecasts fund balance for future years. This monitoring serves as a proactive tool for planning budgets and helps guard against sudden cutbacks to balance the budget should an unexpected event impacting revenues and/or expenditures occur.

Project And Program Status Update as of June 2023

Projects and programs funded with Measure U funds received from inception through today have all been implemented and are proceeding as planned. Funds appropriated to projects are encumbered for that purpose for the duration of the project until completion. On occasion, projects could span over several years, however the funds remain in the project and are available when needed.

General Fund Deficit/Workforce Stabilization- Maintain Service Levels- funding provided for staffing to immediately address priority initiatives which includes new positions that have either been successfully recruited for and resulted in a hire or are in the active recruitment process. Services provided by these new positions are critical to maintain service levels and move initiatives, projects, and programs forward. Workforce Stabilization also includes updating classification and compensation to align with regional market to aid the City in retention and attraction of professional staff and cost of living adjustments. The General Fund Deficit represents approximately 60% of the total in this category with the remaining 40% representing workforce stabilization.

Infrastructure Investment-

- A. Road Improvements- The City issued \$20m in Lease Revenue Bonds in August of 2021. Access to up front capital provides the resources necessary to immediately address the City's pavement program which includes road construction and rehabilitation, bike, pedestrian, and other multi-modal and safety improvements, among other measures. While there are pavement projects occurring all throughout the City, there is a lot left to do. This work will continue over the next few years. Funds in this category cover annual debt service.
- B. Library Fire Suppression System: \$600,000 this contribution funds part of a larger joint project between the City and Sonoma County to improve and enhance the Petaluma branch of the Sonoma County Library.
- C. Petaluma Community Baseball Field: \$154,000 this contribution helps to bridge the funding gap in this large-scale project that includes the construction of a new baseball field and ancillary facilities at the East Washington Park site.
- D. Technology Upgrades/Financial System Replacement: \$250,000 the City's financial system, Tyler Technologies Eden, is nearing its end of life and is slated to sunset in 2027. The City is preparing to issue an RFP to select a new ERP solution, and has contracted with consultants to assist in this process.

Priority Initiatives for FY 22-23:

A. Addressing Homelessness

a. Specialized Assistance for Everyone (SAFE): \$250,000 – this contribution helps support SAFE team operations City-wide.

B. Addressing Climate Change

- a. Electric Vehicle Chargers: \$100,000 EV chargers have been installed at all city facilities that had excess electrical capacity available. Staff will be taking the consultant proposal to Council in March which will assist in designing the EV Infrastructure Master Plan for all priority facilities within 6 months. The design includes evaluating electrical capacity at different locations to determine if replacement of electric panels and PGE transformers are necessary prior to installing an electric charger.
- b. Evergreen: \$69,000 climate related studies and ongoing participation in the evergreen program.
- c. Climate outreach: \$75,000 The City initiated a Climate Outreach program in FY 22-23 lead by Climate Outreach experts in climate change communications and held several climate ready campaigns aimed at ensuring impacts are understood, accepted, and acted upon across the City.

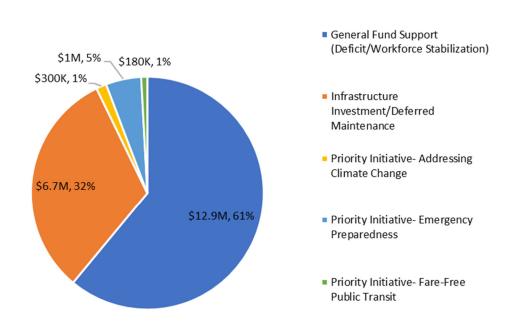
Measure U Budget FY 2023/24

The City's FY 23/24 Operational and Capital Improvement Budget was adopted unanimously by City Council on June 5, 2023. The Measure U adopted budget corresponds to the Community's priorities and initiatives. Below is the same chart as shown above for FY 23 budget vs actual, expanded to include historical spending and the FY 23/24 budget. As mentioned above, excess funds remaining due to revenues higher than expected can be appropriated by Council during the quarterly budget and financial updates or during the upcoming budget cycle in conjunction with the fiscal year budget adoption.

Measure U Fund Budget vs Actual

Revenue Categories	Actuals Y 20-21	Actuals FY 21-22	Actuals FY 22-23	Original Budget FY 23-24	Revised Budget FY 23-24
Sales and Use Taxes	3,412,285	15,553,023	15,783,396	15,762,700	15,762,700
Total Revenues	\$ 3,412,285	\$ 15,553,023	\$ 15,783,396	\$ 15,762,700	\$ 15,762,700
Expenditure Categories					
General Fund Support (Deficit/Workforce Stabilization)	\$67,000	7,289,248	9,782,432	12,897,174	12,897,174
Infrastructure Investment/Deferred Maintenance					
Road Improvement, bike, pedestrian, safety, multi-modal		4,194,405	3,701,135	2,684,221	2,684,221
Community Center Roof and Interior Repairs	363,000				
Library Fire Suppression System			600,000	268,000	268,000
Petaluma Community Baseball Field			154,000		
Technology - Financial System Replacement/Technology Upgrades	425,000		250,000	692,000	692,000
Turning Basin Docks and Dredging				700,000	1,650,000
Downtown Public Restroom and Beautification				775,000	775,000
River Dredging Program				650,000	650,000
Priority Initiatives:					
Addressing Homelessness(COTS, DST):					
COTS and Dow ntown Streets Team	550,000				
Specialized Assistance for Everyone (SAFE)	500,000		250,000		
Mobile Show ers	200,000				
Addressing Climate Change:					
⊟ectric Vehicle Chargers	100,000	100,000	100,000	200,000	200,000
Facility Energy Efficiency Study	150,000	180,000			
Emergency Pow er Backup City Hall & Police Headquarters		124,000		100,000	100,000
Evergreen	60,000		69,000		
Climate Outreach			75,000		
Emergency Preparedness	25,000			1,039,000	1,039,000
Fare-Free Public Transit				180,000	180,000
Public Safety and Police Department Audit	60,000				
Total Expenditures	\$ 2,500,000	\$ 11,887,653	\$ 14,981,567	\$ 20,185,395	\$ 21,135,395
Rev. Over (Under) Exp.	\$ 912,285	\$ 3,665,370	\$ 801,829	\$ (4,422,695)	\$ (5,372,695)
Beginning Fund Balance	\$	\$ 912,285	\$ 4,577,655	\$5,379,484	\$ 5,379,484
Ending Fund Balance	\$ 912,285	\$4,577,655	\$5,379,484	\$ 956,789	\$ 6,789

Total budgeted expenditures of the Measure U Fund for FY 2024 are \$21.1 million, which is a \$6.2 million increase over FY 2023 and represents the use of all anticipated revenue from FY 2024 as well as fund balance from excess revenues in prior years.



FY 2023-24 Measure U Revised Budget by Category

Workforce Stabilization includes updating classification and compensation to align with regional market, cost of living adjustments and the addition of 11 funded positions to meet demand and improve service levels.

Infrastructure appropriations include funding necessary to address deferred road and facility maintenance. In an effort to fast-track urgently needed road and street improvements and begin addressing the backlog of deferred road maintenance projects, in August of 2021, the City issued \$20m of Lease Revenue Bonds for road construction and rehabilitation, bike, pedestrian, and other multi-modal and safety improvements, among other measures. Annual debt service will be provided by Measure U funds and appropriated within this category for the life of the bond.

Finally, priority initiatives include \$200,000 of funding for fast electric chargers, \$100,000 for emergency power backup for City Hall and Police Headquarters, \$1,039,000 for emergency preparedness, and \$180,000 for fare-free public transit. On the Infrastructure side, projects include \$268,000 for a Library Fire Suppression System, \$692,000 for the City's financial system replacement project, \$1,650,000 for the Turning Basin Docks and Dredging, \$775,000 for downtown public restroom and beautification, and \$650,000 for river dredging. A Project status update for projects budgeted in FY 24 will be provided at our next meeting when more up to date information is available.

Measure U sales tax revenues are received into the Measure U fund and transferred out to other City funds where appropriations reside. Revenue received in excess of estimates will remain in the Measure U Fund and be available for future appropriations. The current revised budget for FY 23-24 fully appropriates all fund balance in the Measure U fund.

At this point in time, no additional revisions to the current appropriation budget for FY 23-24 are expected. As the year progresses, this could change. Budget adjustments are brought forward to City Council at least three times per year, once at first quarter, again at mid-year and the final occurring at year end. Close monitoring is occurring and any changes from the forecasted revenues will be brought forward immediately.

The FY 23/24 Adopted Budget can be found on the City's website under the Finance page and should be viewed in conjunction with the Measure U reports-https://cityofpetaluma.org/documents/fiscal-year-2024-adopted-budget/. Past Measure U agendas, meetings and reports can also be found on the City website under archived meetings - https://cityofpetaluma.org/meetings/.

Conclusion

We are excited to report on the successes that Measure U has afforded the Petaluma community. It cannot be emphasized enough how critical Measure U is to Petaluma's future. As our fiscal and organizational sustainability planning project has shown, FY 2022/23 and beyond would have been met with severe budget shortfalls and

accompanying cutbacks. Backfilling the deficit serves to bolster existing programs and services and ensure that additional budget cuts, layoffs or other service reductions are avoided. It also allows for us to focus and invest in the priority initiatives identified by the community such as addressing homelessness, fixing our roads and Climate Ready 2030. We have already begun the work of reinvesting in our City organization to attain our goals and we are energized to continue delivering on our promises.