

City of Sonoma &  
Successor Agency

**DRAFT FY 2018/2019  
OPERATING AND CAPITAL  
BUDGET**



Madolyn Agrimonti, Mayor  
Amy Harrington, Vice Mayor  
David Cook, Council Member  
Gary Edwards, Council Member  
Rachel Hundley, Council Member  
.....

Cathy Capriola, City Manager  
Sue Casey, Assistant City Manager



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# ACKNOWLEDGEMENTS

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## SONOMA CITY COUNCIL

Madolyn Agrimonti, Mayor  
Amy Harrington, Vice Mayor  
David Cook, Councilmember  
Gary Edwards, Councilmember  
Rachel Hundley, Councilmember

*This proposed FY 18/19 City of Sonoma budget is prepared and submitted to the City Council by City staff on behalf of the Sonoma community. The preparation of a City budget is the work product of a team. Much appreciation to the following staff for their talents, dedication and work to prepare this document and to deliver the services and initiatives contained here.*

## SONOMA BUDGET TEAM

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And part-time expertise of Laurie Decker



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# **CITY MANAGER BUDGET MESSAGE**





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## CITY MANAGER MESSAGE

### 2018 – 2019 OPERATING & CAPITAL BUDGET

June 18, 2018

To Mayor Agrimonti and Members of the City Council:

On behalf of the City staff, I am pleased to present the 2018-19 Operating and Capital Budget for the City of Sonoma.

The City's Operating and Capital Budget is a policy document which sets the financial course for the City of Sonoma and defines the service priorities provided to the community. This document provides a comprehensive overview of City services and projects for the fiscal year beginning July 1, 2018. The budget identifies the City's organizational structure and staffing, includes program descriptions and recent accomplishments, provides an overview of the City's financial condition, and summarizes budget priorities and issues. This year, we have continued to enhance the budget document to improve its usefulness as a communication tool, a financial and policy plan, and an operations guide for the City Council, employees and citizens of Sonoma.

#### Overview

The proposed budget for the City of Sonoma and the Sonoma Successor Agency for FY 2018-19 includes a combined Operating and Capital Improvement Program (CIP) Budget of \$31,604,770. In accordance with the direction of the City Council, this budget represents a spending plan that balances the need to be responsive in providing services to residents, businesses and visitors within the limits of available resources. The priorities discussed in your May 9th City Council Goals Retreat were a key consideration during development of this budget. The proposed budget reflects several key themes, including:

#### ***Protecting Sonoma's community character and quality of life that residents value and enjoy.***

This budget provides financial support for maintaining our core service levels in public safety and public works, partnering with local non-profits to provide recreational and other community services, protecting our community assets, enforcing City codes, and increasing our focus on preparing for emergencies. Some examples include:

- One-time funding to enhance the existing budget for emergency planning and preparedness. Our community is grateful for the public safety professionals that protected our town in October. There is much work to continue forward to be ready for the next emergency.



- Capital projects including Plaza and Depot Park enhancements, neighborhood parks, street maintenance and improvement projects, and a downtown parking initiative.
- Funding for our recreation and community service partners – the Boys & Girls Club, Sonoma Community Center, Vintage House, Sonoma Ecology Center, Sebastiani Theater Foundation, and Sonoma Overnight Support. Recreation is a core service provided by cities; here in Sonoma, our robust non-profits provide those services. With modest annual financial support, the City acts as a co-sponsor and invests in these core recreation services for our community.
- Contracting for specialized enforcement services for illegal short-term vacation rentals. Cities are turning to outside technology firms with complex algorithms and search capabilities to help monitor these short-term rentals and capture past taxes.



***Investing in infrastructure and maintenance for Sonoma's future.*** Our local economy and daily life rituals depend on reliable infrastructure to deliver our water, circulate our vehicles and bicycles, protect our creeks, and prevent flooding by removing excess water through storm drains. Maintenance and reinvestment in infrastructure is costly and if deferred, becomes even more expensive. Looking back at history, the City's redevelopment agency was the major funder of capital infrastructure improvements for our community. For example, in FY 09/10, the City had \$4.2 million per year which was a major source for City infrastructure and facilities including street improvements,

parks and recreational facilities, storm drain, and community facilities. The State's elimination of redevelopment has created a large financial hole for Sonoma that continues to impact us.

This year, the Public Works Department has created a true 5-year Capital Improvement Program budget. A scan of the CIP budget shows that there are numerous important projects in transportation, creeks and drainage, water, parks and building/facilities. Similar to other cities, Sonoma does not have the funding to accomplish all of these projects; however, it is important to capture the needs and begin to strategically look for outside revenues and grants in order to accomplish our infrastructure goals.

***Supporting Housing Opportunities and Strategies.*** Sonoma also has a long history of supporting and financially investing in affordable housing. In FY 10/11, the City was receiving almost \$1.1 million in redevelopment funding for low/moderate income housing. With the State of California's dissolution of redevelopment, this annual funding was eliminated. This loss of funding has severely affected the ability of cities across California to support and advance the construction of affordable housing – including Sonoma.

Despite this, in the last year, the City Council approved the Altamira 48-unit affordable housing development on Broadway, implemented emergency measures for housing post the October Fires, worked on housing impact fees for future funding, and continued the City's support of services for the homeless. As

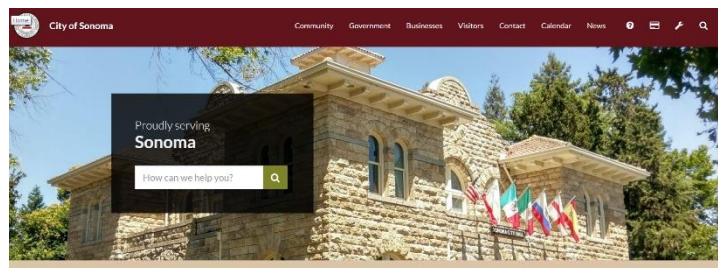


part of the Council goal discussion to date, there was high interest to create a housing trust fund and to hold community workshops to learn about best practices from other Bay Area communities post redevelopment. The FY 18/19 budget programs the following investments:

- Continues to set aside \$30,000 from reserves for accessory dwelling unit fee waivers and recommends \$20,000 for housing strategy and education initiatives;
- Funding for an update of the City's inclusionary housing ordinance post the Council's housing impact fee update; and,
- One-time funding of \$20,000 for Sonoma Overnight Support to backfill the loss of Sonoma County funding for the Haven, our community's homeless shelter.

***Developing the City's organizational capacity and communication to deliver services and complete the City Council's Goals.*** Sonoma provides a full range of city services through a combination of City employees and contract services. As a small city, we are lean with only 36 full-time employees to implement daily operations and advance new initiatives or programs. In the past year, we focused on building capacity through organizational changes and new hires, improving our financial systems, and implementing new tools for communicating with the public. This year, additional part-time staff and contract services are used to meet needs for peak service demands and specialized skills, while retaining a lean full-time staff. New technology will be used to increase the efficiency of existing personnel.

While there is the need for additional staff to support the City Council and serve the community, I am not recommending any new full-time staff until we have secured additional revenue and initiated analysis on pension impacts. Examples of items included in the proposed budget to increase our capacity include:



- A part-time position to manage content and provide public information on the City's new website and on social media;
- Minor increase to our contract Special Event Manager contract to capture film permit, support to the arts and CFAC, and coordination of City special events;
- Contractual or part-time staffing to supplement Planning's review of development applications;
- Contract funding for project management and analytical assistance in central administration;
- Mobile tablets for the Plans Examiner and the Building Inspector to electronically research and cite building code requirements in the field.
- Expanding use of mobile tablets for water, streets and parks maintenance staff to update the City's maintenance management system.

***Furthering the City's focus on financial responsibility, sustainability and best practices.*** The City Council has continued to invest in the City's fiscal systems and staff to build capacity and best practices to ensure strategic, accountable and responsible management of the City's finances. Many enhancements have been accomplished in the last year as noted in the Finance Department's list of budget accomplishments. A key change going forward will be the creation of financial planning tools that allow the City to look out 5 years in order to plan and to understand the impact of decisions made today. This year's budget has a true 5-year Capital Improvement Program which allows the City Council and community to understand the funding needs for infrastructure and community assets. Other examples in the proposed budget include:

- Continued funding to complete the 2018 Water Rate Study update with numerous public workshops and a detailed review cost sharing between the City's General Fund and Water Fund.
- Implementation of the Cost Allocation Plan in support of water rates and a fee update, including development services fees.
- Construction of a cost recovery plan to recover increased fees from the development community for the processing of applications (planning and legal review) versus the City's flat fee structure now. This best practice moves to a deposit based system with hourly fees for major projects which

will reduce the subsidy currently being provided by the General Fund. Based on outside analysis, City staff estimates an additional \$340,000 in revenue which allows funding of \$100,000 to bring additional planning staff time to assist with reviewing applications.

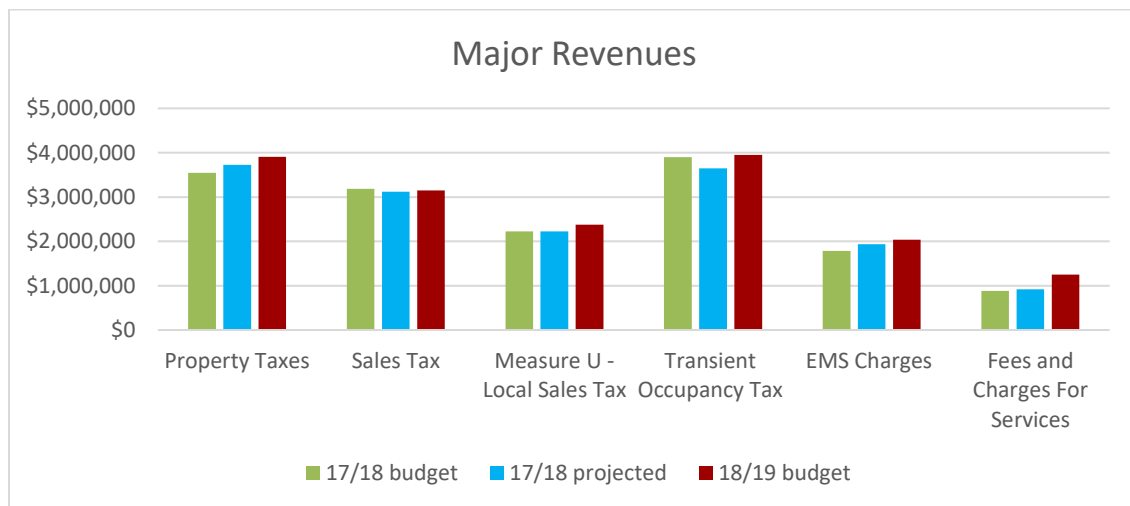
- Revamp of services provided by City Prosecutor and development of an administrative citation process to allow immediate enforcement for some Municipal Code violations after a lack of voluntary compliance.
- Analysis and options for managing pension costs with consultant assistance including exploring a pension rate stabilization fund design to prefund rising pension costs and address pension liabilities.
- Review and analysis of the City’s three cemeteries from an operational, financial and strategic perspective. This has been a desire of the City Council for some time. With some one-time funding, we can bring in some outside expertise and move this project forward.

**General Fund Revenues**

Sonoma is experiencing a healthy economy, mainly due to a continued general economic expansion and a strong local tourism and real estate market. The October 2017 Fires were a major disruptive force within Sonoma County, and in the City of Sonoma we were very fortunate to have no loss of life or structures. While the Fires negatively impacted tourism-related revenues for FY 17/18, the rebound has been relatively quick for the City of Sonoma and positive trends are expected to resume in the coming year. Our other major General Fund revenues (Property Taxes, Measure U Sales Tax, and EMS revenues) are all showing solid growth.

It is important to note that our current financial status would not be possible without the voters’ continued support for our local half cent sales tax (first approved as Measure J in 2012 and continued for five years as Measure U in 2016). The City’s core sales tax at 1 cent is projected to be \$3.15 million this next year, and interestingly, Measure U has grown to \$2.37 million. This local community approved funding source is critical to our ability to maintain our current levels of service to the community.

FY 18/19 General Fund revenues are projected to increase by more than \$1.3 million over FY 17/18 estimates. About half of this increase comes from growth in the major revenue sources outlined above. The other half comes from increases in Fees & Charges for Services (primarily development related) and transfers into the General Fund through implementation of a Cost Allocation Plan. Additional detail is provided in the Revenue Summary.



### **General Fund Expenditures**

General Fund expenditures are increasing by about \$1.8 million or 10% over the adopted budget for FY 17/18, including a \$579,620 transfer to CIP. Excluding one-time expenditures, the increase is closer to 6.5%. Police, Fire and Public Works make up almost three quarters of the General Fund operating budget. The budget reflects several general increases, including a cost of living increase of 1.75% for City employees effective July 1, 2018, along with an increase in the City's contribution toward health care benefits and an assessment to address deficit balances in our shared workers' compensation and liability funds beginning in FY 18-19.

Additional expenditure details and highlights can be found in the Expenditures Summary and on the departmental pages.

Recurring operating revenues that keep pace with recurring operating expenditures are an important indicator of financial health and are key to ensuring the City's ability to respond to the current and future needs of the community. One-time expenditures are typically funded by one-time revenues or reserves. The proposed operating budget for the General Fund has recurring revenues and expenditures in balance, with a slight surplus projected at year-end.

<b>General Fund Operating Position -- FY 18/19</b>		
<b>Sources of Funds:</b>		
General Fund Operating Revenue	\$18,112,628	
Operating Transfers In	\$677,063	
Use of Special Project Reserve	\$731,920	
Capital Projects [\$579,620]		
One-time Projects/Goals[ \$152,300]		
<b>Total Sources, General Fund:</b>	<b>\$19,521,611</b>	
<b>Uses of Funds:</b>		
General Fund Operating Expenditures:	\$18,305,861	*
Operating Transfer Out	\$477,415	**
Transfers Out - CIP	\$579,620	
<b>Total Uses, General Fund:</b>	<b>\$19,362,896</b>	
<b>Net Operating Surplus (Deficit)</b>	<b>\$158,715</b>	
<i>* Includes one-time special projects of \$122,300.</i>		
<i>** Includes one-time special projects of \$30,000 (transfer to fund the Cemetery Analysis)</i>		

However, the operating budget will require additional revenue or reductions in services going forward. The reality is that the City of Sonoma's financial outlook is constrained by several factors, discussed in more detail below. These constraints are similar to the majority of other communities.

## Use of Reserves

The Budget utilizes General Fund reserves to make important one-time investments in our community. The Special Projects Fund reserve is used to segregate year-end budget surpluses to be appropriated only for non-recurring expenditures such as capital projects; surveys and studies; updates of adopted plans; and limited duration service programs. Funding is programmed as specific project costs are known.

For FY 18-19, one-time projects totaling \$731,920 have been identified to be funded through use of General Fund Reserves, including \$579,620 in Capital Improvement Program (CIP) projects. Projects are identified in some of the proposed City Council goal categories of Financial Sustainability, Housing Opportunities/Strategies, Community Character and Quality of Life, and Community Infrastructure Investment. Details are provided in the Financial Summary – Reserves section and in the CIP budget.

Another major project to be funded through reserves is the General Plan update. Because the City's 2020 General Plan is nearing the end of its term, as is the voter-adopted Urban Growth Boundary embedded in the plan, it is necessary to implement a comprehensive General Plan update. This is a multi-year project with an estimated total cost of \$500,000, including the preparation of an environmental impact report. Expenditures for FY 18/19 will be budgeted through a mid-year adjustment as the process is planned and costs for specific components are better known.

RESERVES	FY 18/19 Proposed Budget	
	Estimates	Recommended Budgeted in FY 18/19
<b>GENERAL FUND RESERVE</b>	<b>\$9,080,411</b>	
<b>NON-SPENDABLE</b> <i>[Cannot be readily converted to cash or cannot legally be spent]</i> None	N/A	
<b>RESTRICTED</b> <i>[Externally imposed restrictions on spending]</i> None	N/A	
<b>COMMITTED</b> <i>[Council formally-imposed (by resolution or other action) restrictions]</i> <b>Emergency Reserve: 17%</b> (use in event of local disaster or catastrophic event ) Less: Allocation for October 2017 Fire Expenditures <b>Operating Reserve: \$1.5M</b> (time to evaluate alternatives if financial hardships)	<b>\$4,577,247</b>  \$3,177,247 -\$100,000 \$1,500,000	
<b>ASSIGNED</b> (includes the Special Projects Reserve) <i>[Funds reserved by Council direction or City Manager for designated purposes]</i> <b>Council Approved Assigned Funds - Prior Years</b> EMS Equipment Replacement Fund Reserve Water Transfer Set-Aside (sequester 3 years water transfers – future true-up) Broadway Affordable Housing Project (predevelopment costs 12/19/16 contract) Allocation from Emergency Reserve for October 2017 Fires General Plan <b>Financial Sustainability:</b> <b>Housing Opportunities and Strategies:</b> <b>Community Character &amp; Quality of Life Projects:</b> <b>Community Infrastructure Investments:</b>		
	\$371,681 \$516,925 \$25,000 \$100,000 \$500,000	\$72,300 \$40,000 \$347,620 \$272,000
TOTAL BUDGETED FY 18/19: <b>TOTAL ASSIGNED AND BUDGETED</b>	<b>\$2,295,526</b>	<b>\$731,920</b>
<b>UNASSIGNED</b> <i>[Residual balance not classified in any of the above categories]</i>	<b>\$2,207,638</b>	

## Other Funds

In addition to the General Fund, the City's Operating Budget includes Special Revenue Funds, Enterprise Funds (Water and Cemeteries) and Internal Service Funds (replacement funds for vehicles, information technology, and long-term building maintenance. These funds are discussed in detail on the pages that follow. The budget document also includes information on the Successor Agency to the Sonoma Community Development Agency.

## Constraints

- **Lingering Effects of the State's Dissolution of Redevelopment.** Sonoma, along with many other cities in California, was significantly impacted by the State's elimination of redevelopment in 2011. Sonoma is extremely fortunate to have a voter-approved half-cent local sales tax, which helps to mitigate the ongoing losses in property tax revenue. However, loss of redevelopment has drastically reduced our ability to financially support new low and moderate housing projects. Moreover, the City remains in a dispute with the State Department of Finance over the use of proceeds from bonds issued prior to the effective date of dissolution to fund capital projects, with unresolved but potential impact unassigned General Fund reserves.
- **Over-reliance on General Fund revenues to support the Capital Improvement Program.** Dissolution of redevelopment also eliminated a major funding source for capital projects and facility improvements for the City and community. Moreover, Sonoma historically has not put in place many of the development-related fees (impact fees) often used by cities as a funding source for growth-related capital improvements. This has led to a reliance on the General Fund for capital investments (for example, more than a third of the current year CIP) that is beyond its capacity to support on an ongoing basis. Sonoma is not unique here, as funding capital improvements is an issue for numerous California cities.
- **Major increase in pension costs.** Casting a shadow on the positive economy is the rising cost of pension costs. CalPERS continues to demand extraordinary sums from employers in an effort to make-up for prior year shortfalls for its portfolio performance. As an employer who wants to see employees realize the promise made to them, the City applauds CalPERS for finally recognizing the need to adjust its methodology and project smaller returns from its investments. But with these smaller projected returns comes greater pressure on employers to fill the gap CalPERS has created. Sonoma is not alone -- cities across California are being impacted by increasing retirement costs. For Sonoma, the pension unfunded liability cost increase is \$186,223 for FY 18/19 and going forward costs are projected to continue increasing. [See Expenditure Summary for more detail.]

For Sonoma, these increases are particularly frustrating since the City has made a variety of fiscally prudent decisions over time regarding pensions and employee benefits.

- The City did not improve pension benefit formulas for its general employees while many of our neighboring communities did.
- The City also chose to contract police and fire services over the last decade. Both the Sheriff's Department and the Valley of the Moon Fire District have pensions operated by the Sonoma County Employees' Retirement Association which is 94% funded.
- While not a pension cost, the City has never provided any post-retirement medical benefits to retirees which many other cities do. For other cities, this means an additional large unfunded liability commitment.
- Sonoma employees are paying the full amount of the employee share of retirement contributions and have begun paying a portion of the City's costs as the employer.

State law limits options available to cities to resolve this issue. Change needs to occur at the State level for true impacts to be felt. In the interim, this budget contains \$20,000 in funding to hire an actuary and a pension consultant to review the City’s pension costs and develop a strategy which will likely include creating a pension stabilization fund. In addition, we have created a Labor/Management Team with our employees and will be working together over the next year to review our pension costs and look for solutions collaboratively.

In light of these constraints outlined above, City staff is working to develop key financial planning tools, including a 5-year financial forecast for the Council to review and consider in its decision-making. While we have enjoyed a sustained period of economic growth, we need to understand our financial future and look at our financial resilience and long term sustainability.

**Opportunities**

**Transient Occupancy Tax (TOT) Increase on November 2018 Ballot** – In early 2017, a group of local hotel owners came to the City Council to recommend an increase of the base TOT rate from 10% to 12%. They stated that Sonoma was behind other communities in this tax collection opportunity. During last year’s budget discussions, the City Council communicated their interest to increase the Transient Occupancy Tax (TOT) in line with many other North Bay agencies. An increase to the TOT requires voter approval when there are City Council Member running for election on the ballot. Based on this, the City was unable to proceed in November 2017. Staff is bringing a revenue measure for consideration by the City Council in July prior to the August election deadline. In preparation, staff has collected information regarding the status of TOT from other North Bay agencies. Interestingly, many communities are now looking at going up another percent which further demonstrates that Sonoma should move to 12% or potentially higher.



14% TOT Base Rate	12% TOT Base Rate Considering Increase	12% TOT Base Rate	10%
Healdsburg, San Francisco	American Canyon, Calistoga, Napa, St. Helena, Yountville, Santa Rosa	Sonoma County, Windsor, Rohnert Park	<b>Sonoma</b> , Sebastopol, Petaluma

The bottom line is that as a community we are undercharging tourists in comparison to other North Bay communities. While tourists contribute to a variety of city taxes, there are also community impacts. It is my recommendation that the City Council discuss this during the budget process and in July to determine our direction for the November ballot where we can ask our residents for this revenue increase. If approved, a 2% increase would provide an additional \$790,000 per year.

Staff will continue to work to identify other opportunities as part of the financial forecasting process and ongoing budget management. The final payment on our Pension Obligation Bonds in three years will allow redirection of over \$400,000 in debt service to remaining pension liabilities. An upcoming 1/8 cents county-wide sales tax measure for parks maintenance, if passed, would allocate one-third of the revenue generated to cities. We will continue our commitment to balancing the key drivers of the City’s financial health – monitoring costs and efficiency, identifying ways to increase revenue, and developing a long-term pension strategy.



**Team Sonoma**

The October Fires highlighted the caring and committed community that we call home. This budget continues to make modest investments in our community now and moves us forward to plan and prepare for the future.

Our department managers and their teams are to be commended for the many accomplishments of the past year, highlights of which can be found on the department budget pages, as well as for their hard work in putting this budget together. In particular, I want to acknowledge Assistant City Manager Sue Casey for her professionalism, expertise and dedication, and our outstanding Public Works team, which has created a 5-year Capital Improvement Plan which will be an important tool going forward as we to maintain our infrastructure and community assets.



I want to express my honest appreciation for the leadership and hard work of the City Council, and my pride in the team of employees and contractors that support the Sonoma community. As I serve in my second year as your City Manager, I remain impressed with the dedication, sense of ownership, and teamwork that is authentically conveyed on a daily basis to our customers, residents, visitors and businesses. Sonoma is a special place to live and work – it is an honor to work in partnership with the City Council, the community and our employees to maintain Sonoma’s quality of life.

Respectfully submitted,

A handwritten signature in blue ink that reads "Cathy Capriola". The signature is fluid and cursive.

Cathy Capriola, City Manager



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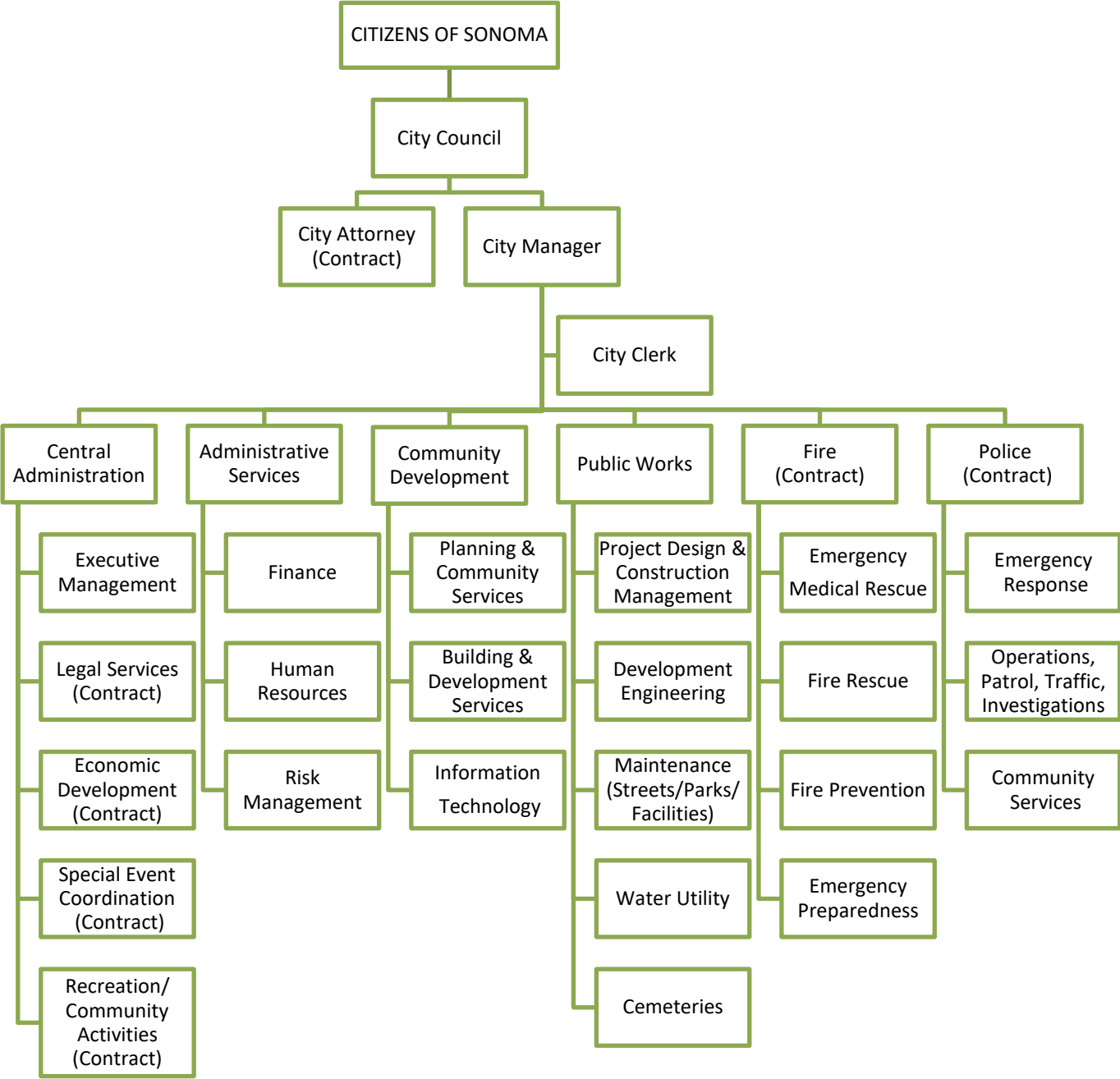


# **FINANCIAL SUMMARY**

**City Organization Chart**  
**Fund Overview**  
**Financial Summary**  
**Revenue Summary**  
**Expense Summary**  
**Staffing/Position Summary**  
**Reserve Summary**



# *City of Sonoma -- Organization Chart (by function)*



**City of Sonoma / Successor Agency  
FY 18/19 Operating and Capital Budget  
FUND VIEW**

DEPARTMENT	FY 2018/19 BUDGET
CITY COUNCIL	\$127,177
CITY CLERK	\$216,776
CITY MANAGER	\$486,952
FINANCE	\$603,147
LEGAL SERVICES	\$450,300
POLICE	\$5,260,832
FIRE/EMS	\$5,862,030
PUBLIC WORKS ADMIN &	\$1,354,378
PUBLIC WORKS STREETS	\$920,998
PLANNING & ZONING	\$847,993
BUILDING	\$604,468
COMM. ACTIVITIES	\$624,487
SUCCESSOR AGENCY	\$250,567
NON-DEPARTMENTAL	\$695,756
GEN FUND - TO OTHER	\$1,057,035
<b>TOTAL 100 GENERAL FUND</b>	<b>\$19,362,896</b>
C.O.P.S. Grant (217)	\$100,000
Gas Tax (302)	\$206,000
SB-1 Road Maintenance (303)	\$183,868
Intergovernmental Transfer (IGT) Fire/EMS	\$263,992
Successor Agency (391)	\$3,714,134
CREBS (495)	\$41,749
POB (498)	\$412,100
Cemetery (501)	\$313,863
Cemetery Endowment (504)	\$50,000
Water (510)	\$5,004,355
Management Information Systems (601)	\$260,180
Vehicle Replacement (603)	\$336,100
Long Term Building Maintenance (610)	\$186,800
<b>TOTAL OTHER FUNDS</b>	<b>\$11,073,141</b>
<b>TOTAL OPERATING BUDGET</b>	<b>\$30,436,037</b>
Streets/Transp/Drainage CIP	\$277,000
Parks & Facilities CIP (304)	\$457,733
Water CIP (512)	\$434,000
<b>TOTAL CAPITAL IMPROVEMENT FUNDS</b>	<b>\$1,168,733</b>
<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>	<b>\$31,604,770</b>

## INTRODUCTION

The City Council serves as the policy board for the municipality. As an elected “Board of Directors”, the City Council provides policy direction, establishes goals, and sets priorities for the City government. In addition to serving as the policy makers for the community, the City Council also is responsible for numerous land use decisions within its borders, including the General Plan. The City Council appoints the City Manager and City Attorney.

The City of Sonoma operates under a Council-Manager form of government. The City Manager is considered the Chief Executive Officer (CEO) of the City as a municipal corporation. The City provides municipal services that include police, fire, public works and parks, community development and community activities. In addition, the City operates a water system and three cemeteries in the form of enterprise activities. This report includes all funds of the City of Sonoma and its blended component unit, the Successor Agency of the Sonoma Community Development Agency, for which the City is financially accountable.

The City Council establishes annual budgets for the General Fund and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager, in collaboration with the Finance staff, prepares an estimate of revenues and prepares recommendations for the next year’s budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

## BUDGET / CITY FUNDS

The budget is a comprehensive financial plan that articulates the goals and objectives of all City departments for the following year. Department managers prepare budgets and outline goals and objectives for the next year. The budget is also an opportunity to look back and accomplishments in the current fiscal year. The budget reflects the goals and initiatives that have been outlined by the City Council.

In order to understand the budget document, it is important to have some background on the basis of municipal budget and accounting. The City’s accounts are organized on the basis of funds, each of which is considered a separate accounting entity, and which are required by state or federal law or proper accounting practice. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The operating budget includes proposed spending from many different funds. Depending on the type of service provided by a department, expenditures may be authorized from a number of funds. The majority of traditional city services are funded through the General Fund.

# OVERVIEW – FINANCIAL SUMMARY

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## **General Fund**

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The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that require accounting in another fund.

## **Proprietary Funds**

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The proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus, which means that all assets and all liabilities associated with each fund’s activity, whether current or non-current, are included on its balance sheet. The reported fund equity is segregated into assigned and unassigned retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets. There are two primary types of proprietary funds – Enterprise Funds and Internal Service Funds.

**Enterprise Funds** – The city maintains two enterprise funds – Water Fund and Cemetery Fund. By Governmental Accounting definition, Enterprise Funds are “to account for operations that are financed and operated in a manner similar to private business enterprise-where the intent of the governing body is that the costs of providing goods or services are financed or recovered primarily through user charges.” The intent is to have the expenses (including depreciation) of providing goods or services on a continuing basis to the park residents, financed or recovered primarily through charges to the residents.

**Internal Service Funds** — The internal service funds are used to account for, and finance, services and commodities furnished by a designated department of a governmental unit to other departments of the same governmental unit. The City uses Internal Services Funds to develop reserves for large purchases such as vehicles (Vehicle Replacement Fund), Management Information Systems, and large building maintenance activities (Long Term Building Maintenance Fund). This avoids large fluctuations due to large asset purchases or significant repairs.

## **Special Revenue Funds**

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The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. For example, the Gas Tax Fund is designated as a Special Revenue Fund which is dedicated for specific purposes/projects and their uses are legally restricted.

## **Capital Projects Funds**

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The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

## **Debt Service Funds**

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The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The Water Fund and Successor Agency have debt payment within their program budgets. In addition, there are two other current debts obligations which have their own debt service fund.

## OVERVIEW – FINANCIAL SUMMARY

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### ***Fiduciary Funds***

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Trust and agency funds are used to account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trust funds, non-expendable trust funds (permanent funds), pension trust funds, and agency funds.

The Successor Agency is one example of this type of fund. The Successor Agency provides for receipt of Redevelopment Property Tax Trust Fund (RPTTF) funds and payment of former Community Development Agency expenses approved by the State Department of Finance. The City Council sits as the Successor Agency. All actions of the Successor Agency must be approved by an Oversight Board comprised of representatives of the taxing entities and the State's Department of Finance.



# REVENUES - FINANCIAL SUMMARY

## REVENUE OVERVIEW

The proposed budget for the City of Sonoma and the Sonoma Successor Agency for FY 2018-19 includes \$19,521,614 in General Fund Revenue and total revenue for all funds of \$31,887,632.

Revenue Category	FY 15/16 Actuals	FY 16/17 Actuals*	FY 17/18 Adopted Budget	FY 17/18 Amended Budget	FY18/19 Proposed Budget
<b>GENERAL FUND:</b>					
Property Taxes	\$3,318,086	\$3,533,711	\$3,545,722	\$3,545,722	\$3,903,200
Sales Tax	\$3,239,370	\$3,122,892	\$3,181,000	\$3,181,000	\$3,151,898
Measure U -Local Sales Tax	\$2,075,392	\$2,248,496	\$2,227,839	\$2,227,839	\$2,377,698
Transient Occupancy Tax	\$3,751,167	\$3,726,130	\$3,900,000	\$3,900,000	\$3,950,000
EMS Charges	\$1,709,865	\$1,729,749	\$1,785,000	\$1,785,000	\$2,037,700
Fees and Charges for Services	\$919,804	\$631,074	\$882,563	\$882,563	\$1,248,487
Franchise Taxes	\$487,517	\$494,353	\$503,970	\$503,970	\$514,080
Business License Taxes	\$433,469	\$434,762	\$431,000	\$431,000	\$450,000
Other Revenues	\$933,966	\$667,504	\$574,700	\$524,700	\$479,567
Transfers	\$598,250	\$986,889	\$477,294	\$512,808	\$677,063
<b>General Fund Subtotal</b>	<b>\$17,466,887</b>	<b>\$17,575,559</b>	<b>\$17,509,088</b>	<b>\$17,494,602</b>	<b>\$18,789,694</b>
Special Projects Reserve Transfer	\$0	\$0	\$0	\$0	\$731,920
<b>Total General Fund</b>	<b>\$17,466,887</b>	<b>\$17,575,559</b>	<b>\$17,509,088</b>	<b>\$17,494,602</b>	<b>\$19,521,614</b>
<b>ENTERPRISE FUNDS:</b>					
Water Utility Operating (510)	\$4,181,109	\$4,426,934	\$4,505,400	\$4,505,400	\$4,861,600
Water Utility - Capital Projects (512)	\$6,825	\$7,928	\$3,045,800	\$3,045,800	\$184,750
Cemetery (501)	\$267,446	\$306,933	\$270,051	\$270,730	\$366,480
<b>SPECIAL REVENUE FUNDS:</b>					
C.O.P.S. Grant (217)	\$107,358	\$129,488	\$100,000	\$100,000	\$100,000
Gas Tax (302)	\$1,081,960	\$720,953	\$270,051	\$247,808	\$235,721
Measure M (313)	\$79,376	\$102,717	\$82,745	\$82,745	\$86,526
SB-1 Road Maintenance (303)	\$0	\$0	\$0	\$75,104	\$197,561
Intergovernmental Transfer IGT (796)	\$0	\$204,034	\$0	\$480,104	\$370,000
Cemetery Endowment (504)	\$62,729	\$78,465	\$0	\$0	\$50,120
<b>INTERNAL SERVICE FUNDS:</b>					
Mgt Info Systems (601)	\$176,774	\$178,723	\$199,848	\$199,848	\$215,890
Vehicle Replacement (603)	\$253,532	\$406,771	\$348,917	\$365,926	\$392,348
Long Term Building Maint (610)	\$227,471	\$278,438	\$231,943	\$231,943	\$313,307
<b>DEBT SERVICE FUNDS:</b>					
CREBS (495)	\$41,749	\$41,749	\$41,749	\$41,749	\$41,749
POB (498)	\$412,850	\$415,399	\$410,326	\$410,326	\$412,100
<b>AGENCY FUNDS:</b>					
Successor Agency Admin (100)			See General Fund		
Successor Agency RPPTF-ROPS (391)	\$6,702,333	\$3,908,328	\$5,495,006	\$5,495,006	\$3,759,133
<b>CAPITAL PROJECTS:</b>					
Streets/Transp/Drainage Capital Projects (301)	\$51,138	\$41,260	\$590,594	\$640,594	\$351,000
Parks & Facilities Capital Projects (304)	\$0	\$0	\$0	\$0	\$427,733
<b>TOTAL:</b>	<b>\$31,119,536</b>	<b>\$28,823,677</b>	<b>\$33,101,518</b>	<b>\$33,687,685</b>	<b>\$31,887,632</b>

\* Unaudited

# REVENUES - FINANCIAL SUMMARY

## GENERAL FUND REVENUE

The General Fund supports most City services such as Administration, Community Development, Public Safety including Fire and Police, Public Works, and Community Activities. For the City of Sonoma, the primary General Fund revenue sources are Transient Occupancy Tax (TOT), Property Tax, and Sales Tax (General and Measure U). Together, these sources comprise 71% of total General Fund revenue. Other major General Fund revenue sources include Emergency Medical Service (EMS) revenue, Fees & Charges for Services, Franchise Tax, and Business License Tax.

Total General Fund revenues are projected to end FY 17/18 at \$17,418,969. This total is slightly below FY 16/17, due primarily to impacts of the October 2017 Fires. For FY 18/19, revenues are projected to total \$18,789,694, an increase of about \$1.37 million or almost 8% over projected actual revenue for FY 17/18. About half of the revenue growth comes from increases in Fees & Charges for Service and increased Transfers from the implementation of a Cost Allocation Plan. An additional funding source (not shown below) is use of the Special Projects Reserve in the amount of \$731,920 for FY 18/19.

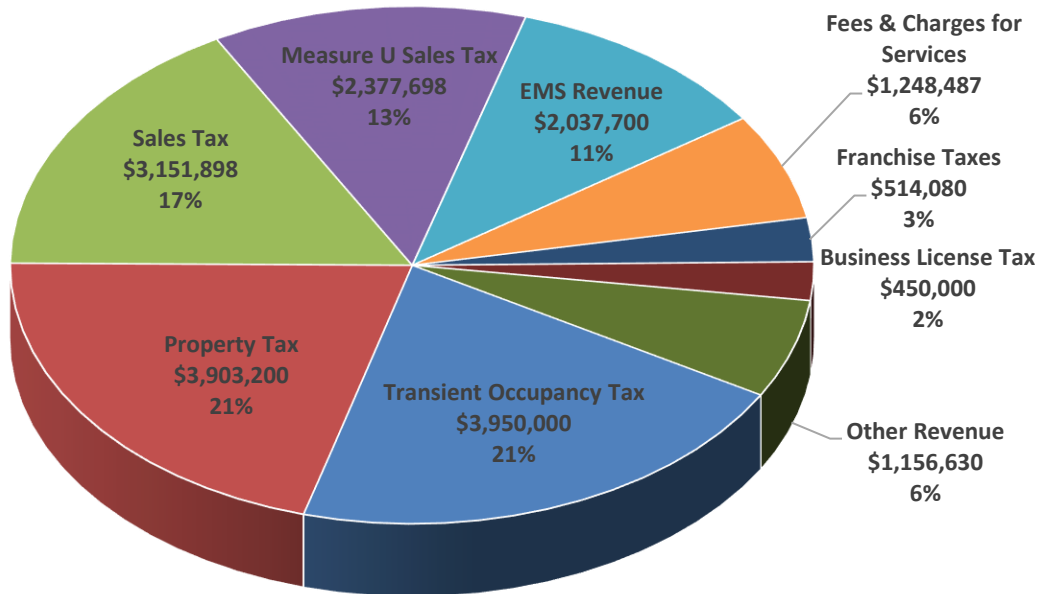
	FY 2015/16 Actual	FY 2016/17 Actual (Projected)	FY 2017/18 Actual (Projected)	FY 2018/19 Proposed Budget
<b>General Fund Revenues</b>				
Property Taxes	\$ 3,318,086	\$ 3,533,711	\$ 3,726,886	\$ 3,903,200
Sales Tax	\$ 3,239,370	\$ 3,122,892	\$ 3,117,710	\$ 3,151,898
Measure U -Local Sales Tax	\$ 2,075,392	\$ 2,248,496	\$ 2,227,156	\$ 2,377,698
Transient Occupancy Tax	\$ 3,751,167	\$ 3,726,130	\$ 3,648,709	\$ 3,950,000
EMS Charges	\$ 1,709,865	\$ 1,729,749	\$ 1,937,700	\$ 2,037,700
Fees and Charges For Services	\$ 919,804	\$ 631,074	\$ 919,229	\$ 1,248,487
Franchise Taxes	\$ 487,517	\$ 494,353	\$ 504,000	\$ 514,080
Business License Taxes	\$ 433,469	\$ 434,762	\$ 451,825	\$ 450,000
Other Revenues	\$ 933,966	\$ 667,504	\$ 536,974	\$ 479,567
Transfers	\$ 598,250	\$ 986,889	\$ 348,780	\$ 677,063
<b>TOTAL:</b>	<b>\$ 17,466,887</b>	<b>\$ 17,575,559</b>	<b>\$ 17,418,969</b>	<b>\$ 18,789,694</b>

As the regional economy recovered from the recession, the City benefitted from significant growth in its major revenue sources. Steady growth has continued in Property Taxes, as well as in EMS revenue. In the past two years, however, both general Sales Tax and TOT revenues have been flat or slightly down.

Sonoma's largest industry is tourism, and the City budget is reliant on tourism-related revenues. Tourism-related revenue is not limited to the TOT generated by overnight visitors (i.e. "heads in beds"). Tourists are also supporting our local dining establishments, with restaurants and food products comprising the largest segment of Sales Tax revenue. Sonoma is fortunate to have these sources to sustain the public services for residents, but it is important to recognize that these revenue sources are very sensitive to economic fluctuations, weather patterns, and major disruptions such as the 2017 fires.

# REVENUES - FINANCIAL SUMMARY

## FY 18/19 Budget General Fund Revenue Sources



### Transient Occupancy Tax (TOT)

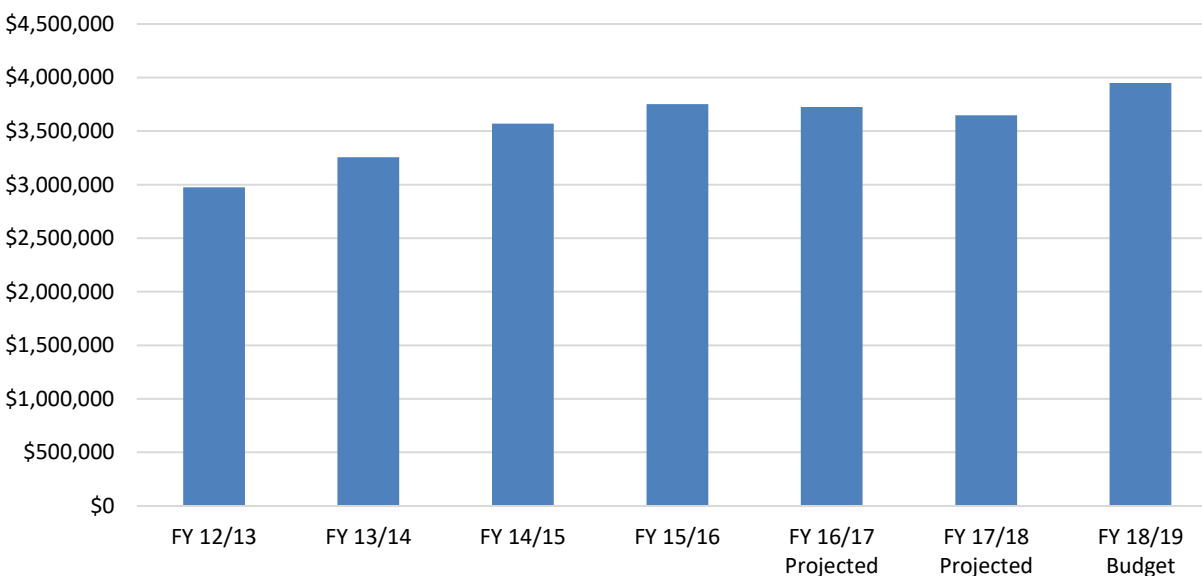
The Transient Occupancy Tax, often called a hotel tax, is imposed on occupants of hotels, inns, motels and other lodging facilities for occupancy of 30 days or less. The tax is applied to a customer's lodging bill. Taxes are remitted for all approved lodging operators in the City of Sonoma, but a small number of hotel properties contain the majority of rooms and thus generate the majority of TOT revenue.

For FY 17/18, the City budgeted \$3.9 million however with the October Fires, there was a loss of TOT revenue in October and November that is estimated at approximately \$250,000. The City of Sonoma's TOT rate is currently 10%, which is retained and used as a General Fund revenue. TOT represents over 21% of the City's General Fund revenue. An additional 2% is collected and remitted to the Sonoma Tourism Improvement District (STID). The STID was formed to provide a stable source of funding for a sustained marketing program with the goal of increasing occupancy and room revenues at lodging properties in the City of Sonoma. The 2% assessment was initially approved for three years beginning July 2012, and was extended by approval of the Sonoma City Council in June 2015 for ten years.

## REVENUES - FINANCIAL SUMMARY

After growing steadily for some time, TOT revenue has flattened in recent years, reflecting its sensitivity (at least in the short-run) to disruptive events. In FY 16/17, a wet winter and major renovation work at the Lodge at Sonoma resulted in TOT revenues that were down very slightly from the previous year. For FY 17/18, projected TOT revenue is \$3,648,709, about 6% below the original budget projection and about 2% below FY 16/17, as a result of booking losses from the 2017 fires for October (typically a peak tourism month) and several months thereafter. This year and FY 18/19, we find MacArthur Place also embarking on a major renovation off all rooms, restaurant and spa which will affect TOT at this hotel. Overall, as visitors return, however, staff is projecting that the earlier trend will resume and is estimating TOT at \$3,950,000 for FY 18/19, an increase of 8.2%.

Transient Occupancy Tax Revenue



Although not reflected in the revenue projection for FY 18/19, City staff is recommending an increase in the Transient Occupancy Tax (TOT) from 10% to 12%. This increase will require Council legislative actions and placement of a revenue measure on the ballot for public vote. During a strong economy this increase could potentially bring the City over \$790,000 in revenue annually for City services and community investments. This will bring the combined TOT/STID rate to 14%, but as the combined rate (TOT plus assessments) in most other public agencies in Sonoma and Napa counties already sits at 14%, this increase would put Sonoma in line with the lodging establishments in our region.

### Sales Tax and Measure U

Consumers are familiar with the experience of purchasing items at a store and having a percentage amount added for sales tax. The State Board of Equalization (BOE) collects local sales and use tax revenues from the retailer and sends revenue from local rates and allocations back to cities and counties. Sales and use tax revenue is general purpose revenue and is deposited into the City's General Fund.

## REVENUES - FINANCIAL SUMMARY

California's sales tax has a relative called the "use tax." While the sales tax is imposed on the seller, the use tax is imposed on the purchaser and at the same rate as the sales tax. The most common example of use tax is for the purchase of goods from an out-of-state retailer for use in California.

Out-of-state retailers doing business in California are required to report to the BOE the jurisdiction to which sold items are delivered. Retailers with a physical presence (nexus) in California must collect use tax when goods are delivered to purchasers in this state. If the seller does not collect and remit the use tax, the purchaser is legally obligated to report and pay sales taxes.

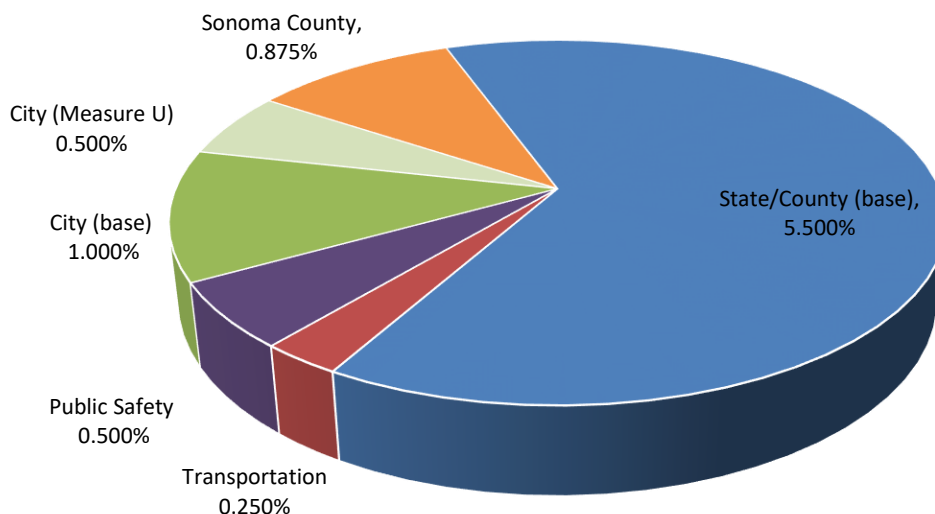
State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity and water delivered through pipes, prescription medicines, and other items.

The total sales and use tax rate in Sonoma is 8.625%. This includes a "base" Statewide sales tax rate of 7.25%, allocated as follows:

- 5.50% for the State general fund (3.9375%) and the County for realignment programs shifted to counties from the State (1.5625%).
- 0.50% for Public Safety (Prop 172), created to mitigate impacts on local public safety from state shifts in property tax revenues (0.50%). The City receives a pro-rated share of Public Safety Sales Tax collected in the County. Use of this revenue is restricted to public safety purposes. In FY 18/19, the City estimates it will receive \$135,300.
- 0.25% for Transportation programs in the county where the transaction occurs.
- 1.00% for the city where the transaction occurs (if the transaction occurs in an unincorporated area, the 1.00% amount goes to the County).

In addition, Sonoma County has sales and use taxes totaling 0.875%, and the City of Sonoma has a voter-approved 0.50% sales and use tax, known as Measure U, approved in 2016 for five years.

Sales Tax Breakdown (8.625% total rate)



## REVENUES - FINANCIAL SUMMARY

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Measure J/U – Local ½ Cent Sales Tax – Cities, counties and countywide transportation agencies may impose sales tax rates to be added on to the “base” statewide sales and use tax rate. The add-on rates are actually “transactions and use taxes” and are allocated to the jurisdiction where the taxed product is received or registered (as in the case of a motor vehicle purchase). Under current state law, the maximum combination of transactions and use tax rates in any location may not exceed two percent without special State legislation.

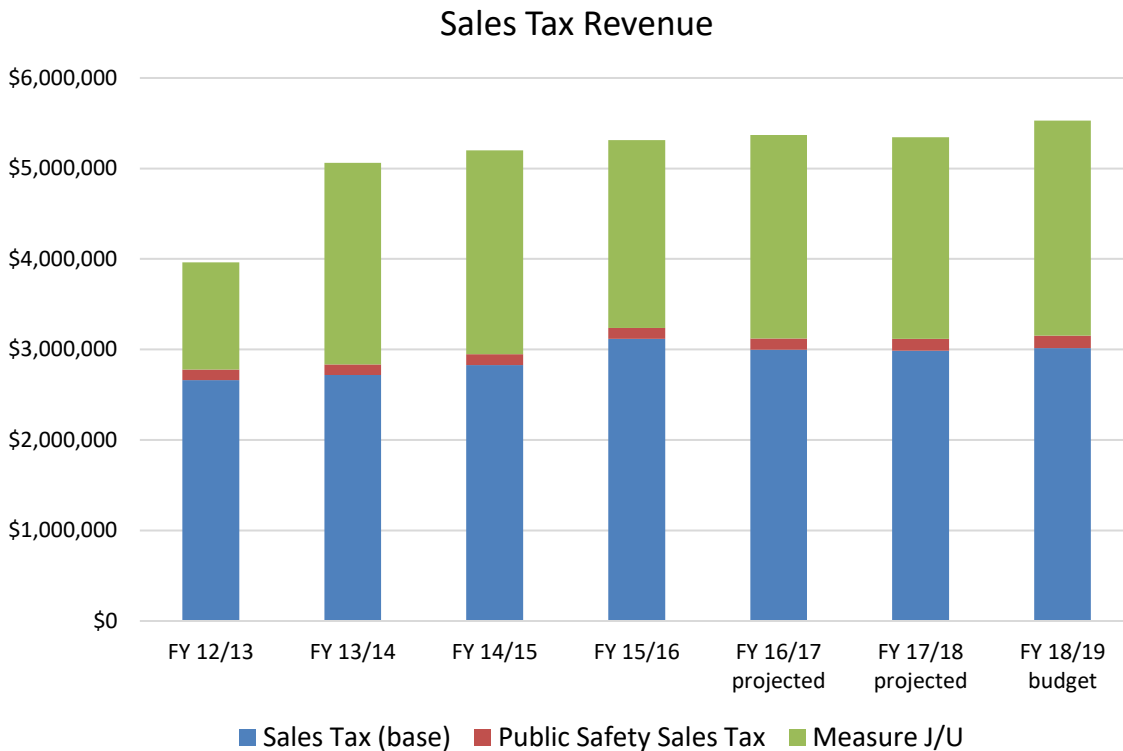
In 2012, the City went to the voters with Measure J, a half-cent local transactions and use tax to fund City services. Until this measure, the City of Sonoma had not turned to its constituents for a new tax in 20 years. The measure passed with a 67.1% affirmative vote, well over the simple majority needed. Measure J was set with a 5-year sunset clause in a calculated and focused approach to (1) review the performance of the local sales tax, and (2) assure taxpayers that the City could and would demonstrate its ability to manage and use the funds in a fiscally responsible way. It also provided for the breathing room to analyze how the State would ultimately realign redevelopment activities, fund affordable housing and transfer further responsibilities to cities without benefit of additional funding.

In anticipation of Measure J’s expiration, the City Council reviewed and discussed the need to continue the sales tax in summer 2016. Measure J revenue provided coverage for costs assumed by the General Fund for core public services and outside organizational services, some of which were formerly provided under the redevelopment program. As stated in the text of the original measure, the City was diligent in maintaining its promise to the voters and using the resources provided by the Measure J tax proceeds wisely to provide “funding for essential services such as police, fire and emergency medical services, street and road maintenance, graffiti abatement and other general community services”. Overall, Measure J provided a stabilizing local economic foundation for the City’s provision of public services.

In July 2016, the City Council took action to extend the City’s local transaction and use tax on the November ballot. In November 2016, 73.3% of the voters of Sonoma passed Measure U – a ½ percent sales tax increase for 5 years. The City is appreciative of the voters’ confidence to invest this revenue in services for the Sonoma community. Because the City receives 100% of this half-cent sales tax, it plays a major role in funding City services.

For FY 18/19, the City’s projected revenue from the “base” sales tax is \$3,016,598, with an additional \$135,300 from the City’s share of the Public Safety sales tax. This represents a slight increase of 1.1% over projected FY 17/18 revenues, which are coming in below budget as a result of impacts from the 2017 fires. Growth in the construction sector and rising gas prices are expected to play a role in the increase for the coming year. Measure U revenue has been less volatile than general Sales Tax revenue, due in part the large role played by online sales and out-of-town auto sales to local residents. Measure U Sales Tax revenue for FY 18/19 is projected at \$2,377,698, up by 6.8% over FY 17/18.

# REVENUES - FINANCIAL SUMMARY



## Property Tax

Property tax remains a major source of revenue for the City. In FY 18/19, a total of \$3,903,200 or approximately 21% of General Fund revenue is projected to be derived from property taxes.

Property tax is imposed on “real property” (land and permanently attached improvements such as buildings) and tangible personal property (movable property such as boats and business equipment). The maximum tax rate permitted on real property for general purposes is one percent of the property's assessed value plus voter-approved rates to fund indebtedness (general obligation bonds, requiring two-thirds voter approval).

The tax rate is applied to the assessed value (AV) of the property. The AV of real property is the “full cash value” of the property in 1975-76 or at change of ownership, whichever is more recent, adjusted annually by the change in the Consumer Price Index (CPI), not to exceed an annual increase of two percent. If a property changes hands, then the AV becomes the full cash value upon change in ownership. The value of new construction is additional.

If a property's market value falls below its factored base year value, it may be temporarily reassessed to its lower actual value, but in future years may be reassessed at the lesser of its actual value or its factored base year value. This can result in increases of more than two percent as a property's actual value returns to its earlier value, as when the housing market rebounds from a slump.

As a result of two State legislative actions in the mid-2000s, Proposition 57 (also known as the Triple Flip) and the Vehicle License Fee Swap (VLF Swap), property tax revenues increased and sales tax and

## REVENUES - FINANCIAL SUMMARY

vehicle license fee revenues decreased. The passage of Proposition 57 reduced the city's sales tax revenue by 0.25% and replaced it with an equal amount of property tax revenue. The VLF Swap permanently reduced vehicle license fees from 2% to 0.67% and replaced the resultant revenue loss with an equal amount of property taxes. The Triple Flip ended in FY 15/16, with a resultant decrease in that component of property tax revenues. This was offset by a similar increase in sales tax as the State is now remitting the full 1% to the city.

Until FY 2011/12, the City's Community Development Agency (referred to in other organizations as a Redevelopment Agency or RDA) was receiving tax increment revenue based on increases in property value as a result of redevelopment projects. By agreement with the County of Sonoma, 1% of the property value over a base amount was allocated to the Redevelopment Agency. This allocation was reduced by a required distribution of 20% to the Housing Set Aside Fund and funding to other taxing agencies as pass through amounts. With the elimination of redevelopment agencies by the State of California in June 2011, the City's revenue from dedicated RDA property taxes is now limited to an amount equivalent to annual debt service payments and other enforceable obligations and the City now receives "residual redevelopment" property tax revenues which has been increasing.

Currently, the largest portion of each property tax dollar goes to local school districts, with the next largest portion going to Sonoma County. The City of Sonoma receives approximately 18 cents of every property tax dollar remitted.

Sonoma is seeing increased property tax revenues as the housing market has recovered from the economic recession and new homes are added. Although no structures were lost within City limits to the 2017 fires, the loss of a significant number of homes in Sonoma County has impacted an already tight housing market in Sonoma County. Projected property tax revenues for FY 17/18 are more than \$3.7 million, coming in 5% higher than budgeted. Based on information received from the Sonoma County Assessor and historical trends, property tax is projected to increase by 4.7% to \$3.9 million for Fiscal Year 18/19.

### EMS Revenue

The Fire Department provides advanced life support (ALS) medical services through the use of dual-role firefighting employees, who are also trained as paramedics and emergency medical technicians. All staffed engines and ambulances are ALS equipped and staffed with at least one paramedic. Under the terms of the Sonoma Valley Fire and Rescue Authority, the City receives 100% of the Emergency Medical Services Revenue. Growth in ambulance billing revenue has been steady and for FY 18/19 is projected to increase to more than \$2 million. An additional \$36,900 in revenue is budgeted from the Ambulance Membership Program (AMP).

### Other Revenue Sources

User Fees and Charges for Services: While the primary mission of government is to satisfy community needs, some City services solely benefit specific individuals or businesses. It is the City's policy that the public at large should not subsidize activities of private interest through general tax revenues. The City has therefore established user fees to ensure that those who use proprietary services pay for those services in proportion to the benefit received. Fees that do not recover the full cost of providing the service result in a General Fund subsidy which shifts funds away from other critical and high priority programs that may not have similar cost recovery options. Fees are generated from a variety of services



## REVENUES - FINANCIAL SUMMARY

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including building and planning permits and inspections, special event fees, appeal fees, public safety fees, and administrative fees, such as the 1% fee charged to the Sonoma Tourism Improvement District for collecting and remitting payments. Water service fees are part not part of the General Fund, but are segregated into an Enterprise Fund for the Water Utility.

Generally, annually, the City of Sonoma reviews and updated its City Fee Schedule. The City Council has the authority to establish these fees and charges as defined by the State Constitution and in accordance with Government Code Section 39001 with limitations set by Proposition 218. This regulatory authority provides cities the means to “protect overall community interests, while charging only the individual who is benefiting from the service.”

The most recent update to the City’s fee schedule as approved by the City Council became effective in February 2017. Staff will be presenting an updated fee study for Council approval that is expected to increase cost recovery on development-related staff work by planning and legal staff, followed at a later date by a general update to City fees and charges. The development-related fee update is reflected in the projections for fees and charges, resulting in a significant increase of almost 36%.

Business License Tax: Improved enforcement of the Business License Tax, including engagement of the City’s Code Enforcement Officer and City Prosecutor, has resulted in collections and penalties for unpaid licenses in prior years. Business License Tax revenue is projected at \$450,000 in FY 18/19 as these strong enforcement programs continue.

Franchise Tax: Franchise Taxes are collected from businesses that are granted franchises to provide services in the City such as gas and electric, cable TV, telephone, and garbage collection. The City is projecting \$250,000 in franchise tax revenue for FY 18/19.

Other Revenues: This category includes Real Property Transfer Tax; Licenses & Permits; Fines & Forfeitures; Interest & Rents; and Grants & Intergovernmental Revenue. Grants and reimbursements for capital projects are now shown in the CIP budget.

Operating Transfers: This category includes transfers from the Water Fund identified through the cost allocation plan totaling \$501,102, as well as transfers from Water for leases of two tank sites (the lease amount for a third site is a transfer from Water to the Cemetery Fund – each lease at \$37,980) for a total of \$615,042. Also included is a transfer of \$100,000 from the Citizens Option for Public Safety (COPS) special revenue fund in support of Police operations.



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# EXPENSE - FINANCIAL SUMMARY

## EXPENSE OVERVIEW

The proposed budget for the City of Sonoma and the Sonoma Successor Agency for FY 2018-19 includes a combined Operating and Capital Improvement Program (CIP) Budget of \$31,604,770.

### FY 18/19 APPROPRIATIONS FOR ALL FUNDS

Expenditure Category	FY 15/16 Actuals	FY 16/17 Actuals*	FY 17/18 Adopted Budget	FY 17/18 Amended Budget	FY18/19 Proposed Budget
<b>GENERAL FUND:</b>					
City Council (41001)	\$79,398	\$136,467	\$127,086	\$139,319	\$127,177
City Clerk (41002)	\$161,899	\$196,537	\$179,422	\$179,809	\$216,775
City Manager (41003)	\$186,402	\$217,328	\$258,592	\$293,117	\$486,953
Finance (41004)	\$215,156	\$287,366	\$409,157	\$454,793	\$603,147
Legal Services (41005)	\$304,709	\$436,837	\$408,432	\$478,432	\$450,300
Police (42101)	\$4,576,518	\$4,667,861	\$5,275,029	\$4,929,865	\$5,260,832
Fire/EMS (42201)	\$5,078,837	\$5,197,805	\$5,730,017	\$5,747,937	\$5,862,030
Public Works Admin & Parks (43020)	\$1,009,020	\$977,375	\$1,333,366	\$1,408,262	\$1,354,378
PW Streets Capital Projects (43021)	\$1,042,649	\$765,901	\$0	\$0	\$0
Public Works Streets (43022)	\$0	\$9,594	\$830,500	\$832,111	\$920,998
Planning (43030)	\$629,813	\$695,973	\$704,690	\$731,197	\$847,993
Building (43040)	\$498,905	\$502,873	\$553,297	\$564,051	\$604,468
Community Activities (43101)	\$336,808	\$566,680	\$603,446	\$603,446	\$624,487
Successor Agency (43199)	\$361,090	\$300,802	\$265,143	\$265,698	\$250,567
Non-Departmental (43200)	\$405,620	\$400,658	\$528,318	\$586,400	\$695,756
<b>Subtotal General Fund</b>	<b>\$14,886,824</b>	<b>\$15,360,057</b>	<b>\$17,206,495</b>	<b>\$17,214,437</b>	<b>\$18,305,861</b>
General Fund Transfer Out (43999)	\$1,063,753	\$1,719,360	\$302,595	\$552,993	\$1,057,035
<b>Total General Fund</b>	<b>\$15,950,577</b>	<b>\$17,079,417</b>	<b>\$17,509,090</b>	<b>\$17,767,430</b>	<b>\$19,362,896</b>
Internal Cost Allocation	\$0	\$0	\$0	\$0	-\$501,102
<b>Net General Fund</b>	<b>\$15,950,577</b>	<b>\$17,079,417</b>	<b>\$17,509,090</b>	<b>\$17,767,430</b>	<b>\$18,861,794</b>
<b>ENTERPRISE FUNDS:</b>					
Water Utility Operating (510)	\$4,179,401	\$4,647,538	\$4,401,244	\$4,401,244	\$5,004,355
Water Utility - Capital Projects (512)	\$6,825	\$7,928	\$3,045,800	\$3,000,463	\$464,000
Cemetery (501)	\$267,446	\$306,933	\$270,051	\$270,730	\$313,864
<b>SPECIAL REVENUE FUNDS:</b>					
C.O.P.S. Grant (217)	\$120,742	\$100,000	\$100,000	\$100,000	\$100,000
Gas Tax (302)	\$1,081,960	\$720,953	\$270,051	\$247,808	\$206,000
Measure M (313)	\$0	\$0	\$82,200	\$82,200	\$0
SB-1 Road Maintenance (303)	\$0	\$0	\$0	\$75,104	\$183,868
Intergovernmental Transfer IGT (43200)	\$0	\$204,034	\$55,525	\$239,810	\$263,992
Cemetery Endowment (504)	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
<b>INTERNAL SERVICE FUNDS:</b>					
Management Information Systems (601)	\$167,139	\$315,911	\$340,880	\$340,880	\$260,180
Vehicle Replacement (603)	\$224,965	\$0	\$267,509	\$267,509	\$336,100
Long Term Building Maintenance (610)	\$24,949	\$163,245	\$109,550	\$109,550	\$186,800
<b>DEBT SERVICE FUNDS:</b>					
CREBS (495)	\$41,749	\$41,749	\$41,749	\$41,749	\$41,749
POB (498)	\$412,850	\$412,125	\$410,326	\$410,326	\$412,100
<b>AGENCY FUNDS:</b>					
Successor Agency Admin (100)	see General Fund				
Successor Agency RPPTF-ROPS (391)	\$1,165,582	\$1,693,724	\$5,495,006	\$5,495,006	\$3,714,133
<b>CAPITAL PROJECTS:</b>					
Streets/Transp/Drain Capital Projects (301)	\$40,000	\$40,000	\$572,900	\$572,900	\$277,000
Parks & Facilities Capital Projects (304)	\$0	\$0	\$0	\$0	\$427,733
<b>TOTAL:</b>	<b>\$23,734,185</b>	<b>\$25,783,557</b>	<b>\$33,021,881</b>	<b>\$33,472,709</b>	<b>\$31,604,770</b>

\* Unaudited

## EXPENSE - FINANCIAL SUMMARY

### GENERAL FUND APPROPRIATIONS BY CATEGORY AND PROGRAM

The General Fund (\$19,362,896, including transfers) is an important component of the Operating Budget. Of the \$1.8 million increase from last year's adopted budget, the largest component is \$731,920 from appropriation of reserves for CIP and other one-time projects. Other increases are ongoing, and include:

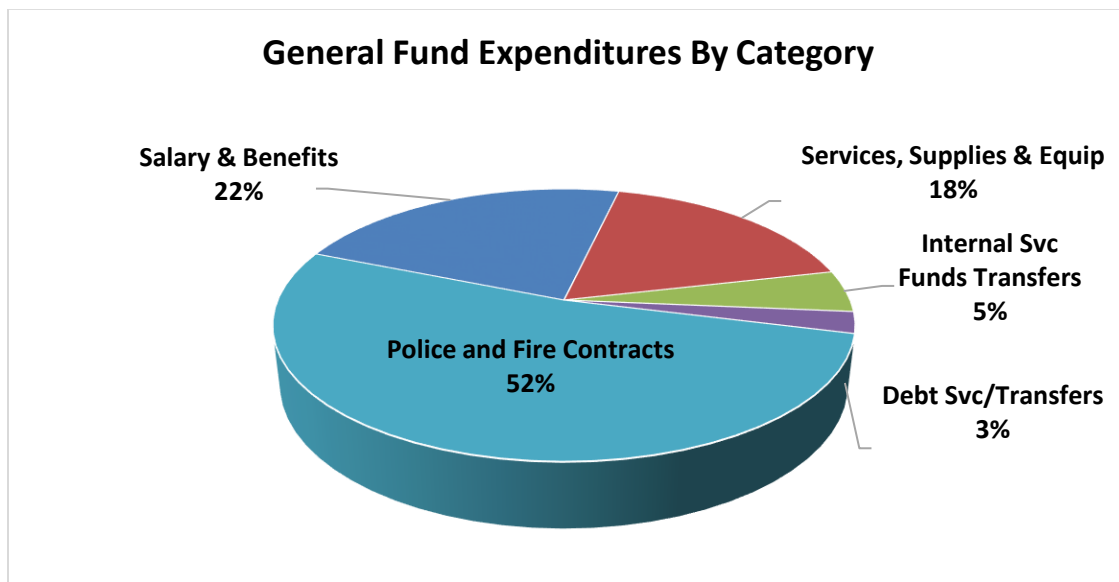
- \$501,102 from realignment of staff (offset by Cost Allocation Plan charges)
- \$150,000 additional staffing for planning and legal development review (offset by cost recovery revenue)
- \$132,000 for annual growth in unfunded pension liability costs imposed by CalPERS for FY 18/19 for the General Fund
- \$119,000 from shift of pension obligation bond costs from Water Fund to General Fund
- \$100,000 for salary and benefit negotiated increases with employees
- \$85,000 for insurance (workers' compensation and liability) 5-year assessment
- \$85,000 for cost increases with Fire contract
- \$66,000 for other staffing cost increases, position changes, and employee contract increases
- \$50,000 in contract services for project management and analytical support.

General or "global" changes are discussed in further detail below, and program adjustments are discussed in more detail on each department's budget pages.

In percentage terms, the total General Fund budget increase from the adopted FY 17/18 budget is about \$1.8 million, or 10.6%. The table above also includes a comparison of "Net General Fund" to reflect that the higher direct costs are offset by internal cost allocations. The proposed budget has a Net General Fund that represents an increase of 7.7% from the prior year's adopted budget. Excluding new costs that are offset by new/increased fees results in an increase of 6.9%, and excluding transfers (which include one-time projects) results in an "ongoing base budget" increase of 2.6%.

GENERAL FUND BUDGET	FY 17/18 Adopted	FY 18/19 Proposed	% increase
Total Budget	\$17,509,090	\$19,362,896	10.6%
Excluding costs offset through CAP (\$501,102)	\$17,509,090	\$18,861,794	7.7%
Excluding costs offset by CAP or new fees (\$501,102; \$150,000)	\$17,509,090	\$18,711,794	6.9%
Excluding offset costs and transfers out (debt service and one-time) (\$501,102; \$150,000; \$1,057,035)	\$17,206,495	\$17,654,759	2.6%

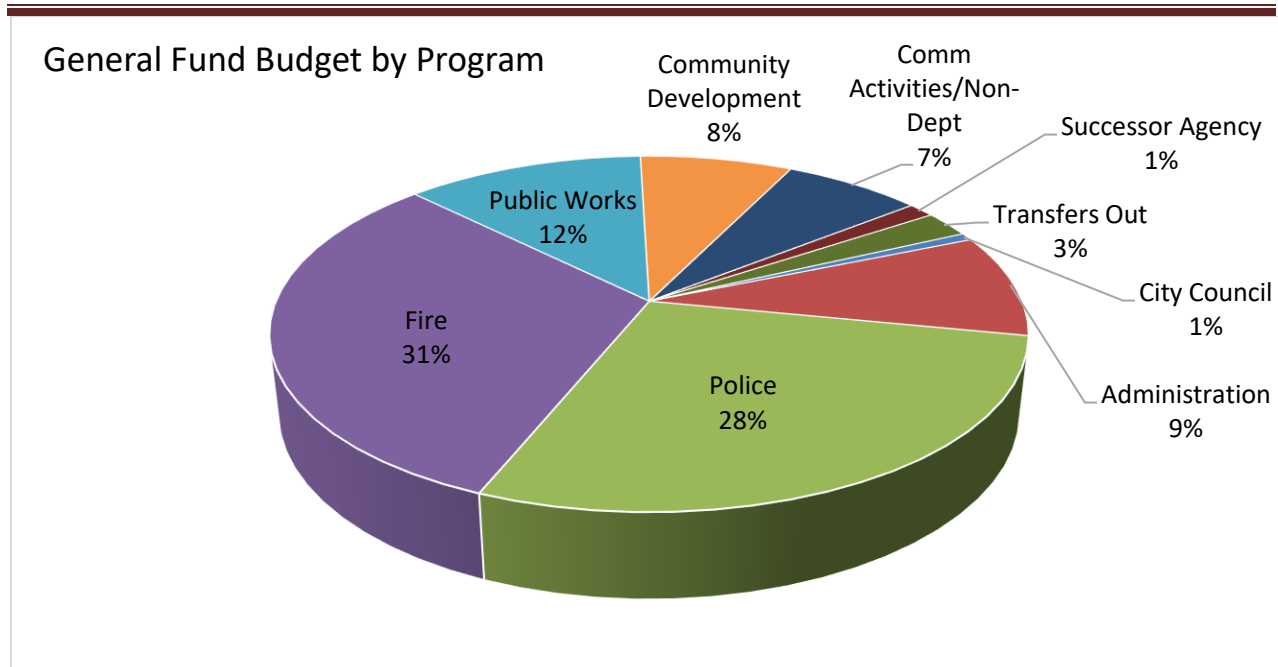
The City of Sonoma's General Fund expenses can be grouped into several broad categories. The largest category of expenses is Police and Fire Service Contracts which is typical for cities as most cities do spend the majority of their General Fund budget on public safety.



The next largest category is salary and benefits, which is appropriate for a service-based organization (a summary of staffing and positions follows this section). General Fund department budgets include a total of \$122,300 in one-time special projects, which are mostly included in the Services, Supplies & Equipment category. The proposed General Fund budget also includes transfers for \$1,057,035 to other funds. These transfers include a total of \$447,415 in debt service costs, as well as a transfer of \$30,000 to the Cemetery Fund (for a cemetery analysis special project) and an appropriation of \$579,620 from General Fund Reserves for Capital Improvement Program projects (discussed in further detail below). Finally, the Internal Service Funds category comprises contributions to Citywide funds for replacement of informational technology and vehicles and for long-term building maintenance.

In looking at the General Fund on a program basis (excluding transfers for one-time projects), 71% of operating expenditures go to Police, Fire, and Public Works. The budgets of Police and Fire account for 52% of the General Fund, which is much lower than many public agencies that utilize more than 60% of their General Fund to support public safety departments.

## EXPENSE - FINANCIAL SUMMARY



### BUDGET CHANGES

#### Global Changes for 2017-18 Affecting All Budgets

In each of the department budgets, some general changes have been included based on contractual agreements, increased pension-related costs, or realignment of costs initiated to better capture the appropriate accounting structure or cost share. These changes are not specific to a single program or department. Each is briefly discussed as follows:

Personnel Allocations: Individual employee positions are allocated to the specific department budget where they spend their time. For example, the Public Works Operations Manager is spread among the various public work budgets (Streets, Water, Parks & Facilities, and Cemetery). Each year the allocations are reviewed and modified based on current operations.

Cost Allocation Plan Implementation: An important point in comparing staffing costs with previous years is that implementation of the new Cost Allocation Plan. Historically, employees that provided support to the Water Utility were charged directly to the Water Fund. The City conducted a comprehensive review of its employee time and costs associated with supporting the Water Fund and any other non-General Fund programs. This was done in conjunction with a Cost Allocation Plan, a best practice cost methodology, with the assistance of an outside consultant. The implementation of the Cost Allocation Plan puts the salaries and benefits costs back into the General Fund “central services” departments or divisions (e.g. the City Manager’s Office, City Clerk, Finance and Administrative Services, and Public Works Administration) and then then portions of these departments are charged back to line departments or enterprise funds based on specific cost methodologies. Most of these increases are offset by allocations to recipients of these services through fund-level transfers, and do not represent an actual increase in total costs.

## EXPENSE - FINANCIAL SUMMARY

**Employee's Salary:** The City has one formal union, SEIU, and all other employees are not represented. The current SEIU MOU and management agreement expires on June 30, 2019. The budget reflects a cost of living increase of 1.75% for City employees effective July 1, 2018.

**CalPERS:** The City is a member of the California Public Employee Retirement System (CalPERS) through which pensions are provided to its employees. The City does not participate in Social Security. The City has been judicious through the years about pensions, however pension costs are increasing for all cities.

Pensions are funded in three ways -- investment earnings by CalPERS, contributions by employees and contribution by employers. PERS investment earnings used to pay well over 70% of the total cost. As of January 1, 2017, PERS investment earnings are paying 61% of total pension costs. As investment earnings provide less funding, the public agencies as the employer are faced with increasing costs.

Every dollar paid to CalPERS retirees comes from three sources:



61¢ Investment earnings  
26¢ CalPERS employers  
13¢ CalPERS members

As of January 2018, CalPERS had 68% of the funds required to pay estimated retirement benefits — in other words, only 68 cents for every dollar needed to fund retiree pension commitments. Throughout the state, there are several factors contributing to this including: enhanced benefits provided to employees in the early 2000s, investment losses from the recession including a 34.75% loss in 2008, cost of living increases, changing demographics with mortality rates decreasing, and changing PERS contribution rates and investment assumptions which have pushed costs to the cities as the employer.

The CalPERS Board has also recently made adjustments to the discount rate (assumed rate of return), which will be impacting public agencies. The discount rate will be incrementally lowered from 7.5% to 7.0% within the next three years, beginning Fiscal Year 2018-19. Investment earnings affect how much future benefit payments can be funded by investment income rather than by contributions. If lower investment earnings occur, future contributions must increase to make up the expected difference. The volatility of the investment earnings in recent years have been a significant contributor to the required employer contribution. As show below, CalPERS total net investment returns in recent years have been under the assumed 7.5%. For the past 10 years, the average annual returns have been closer to 5%. Lowering the discount rate increases the City's unfunded liabilities and shifts costs to cities.

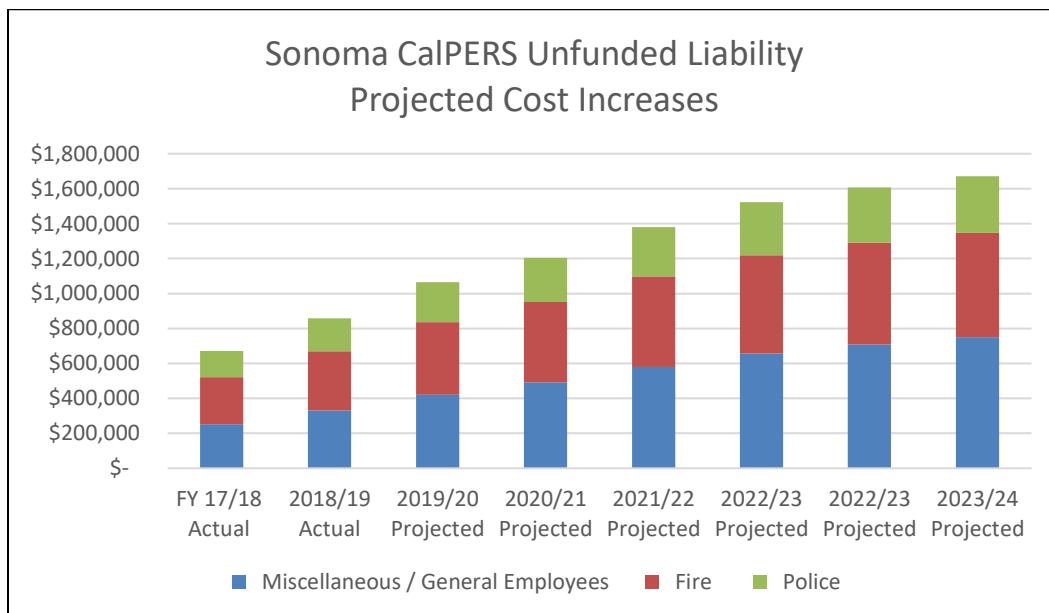
Year	CalPERS Investment Earnings
2012	0.1%
2013	13.2%
2014	18.4%
2015	2.4%
2016	0.6%
2017	11.2%

## EXPENSE - FINANCIAL SUMMARY

There are two primary costs for pensions – the “normal cost” which is the annual cost for the current year of service and the “unfunded liability”. For FY 18/19, the normal cost paid by the City for employee retirement increased from 9.599% of payroll to 10.152% of payroll with employees paying 1% of this cost. The City also pays a fixed annual payment for Unfunded Actuarial Liability (UAL) for current employees and also past fire and police employees.

PERS Costs	2017/18	2018/19	Change
<b>Annual Costs – “Normal Costs”</b>			
Classic Member Rate	9.599%	10.152%	0.59%
PEPRA Member Rate	6.908%	7.266%	0.36%
<b>Unfunded Liability Assessments</b>			
UAL Classic Member	\$251,599	\$329,892	\$78,293
UAL PEPRA Member	\$21	\$303	\$282
UAL Safety – Fire	\$269,970	\$339,924	\$69,954
UAL Safety - Police	\$149,647	\$187,341	\$37,694
Sub-Total	<b>\$671,237</b>	<b>\$857,460</b>	<b>\$186,223</b>

Based on CalPERS investment earning and other policy changes, all California cities that belong to PERS are seeing their unfunded liability increase. Looking forward, CalPERS has estimated pension unfunded liability costs increasing for the City of Sonoma from \$671,237 in FY 17/18 to a projected \$1,671,900 in FY 23/24. The chart below shows the projected unfunded liability costs projected for the City of Sonoma over the next seven years.



*Note -- In FY 17/18, the fixed annual payment for Unfunded Actuarial Liability (UAL) is now accounted for in each department instead of the General Fund's "Transfers to Other Funds". This was done to better account for the true salary and benefit cost for each operation/cost center.*



## EXPENSE - FINANCIAL SUMMARY

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While State law and CalPERS control much of the pension regulations and costs, there are a few options available to cities to work toward pension cost stabilization. The proposed budget contains funding to review the CalPERS actuarial analysis, bring forward educational materials and strategy to the City Council, and explore implementation of pension rate stabilization fund (a Section 115 irrevocable trust) designed for cities to prefund rising pension costs and address pension liabilities. This can mitigate long-term pension investment volatility, while at the same time providing employers with greater local control of assets and investment flexibility to create a more actuarially sound retirement system.

Employee Health Insurance: While many California cities are experiencing significant increases in employee health insurance costs, the City of Sonoma has experienced minimal cost increases for two reasons: (1) a change to self-insured health plans has kept rates relatively stable and (2) City's contribution to employee health insurance is fixed based on enrolled members (single, couple, family). The FY 18/19 budget includes a modest increase in the City's contribution toward health care benefits. It is also important to note that the City does not offer medical benefits upon retirement hence it does not have any outstanding liability for former employees. This is a credit to past administrations which protected the City and future taxpayer obligations.

Insurance Assessments: The City belongs to the Redwood Empire Municipal Insurance Fund (REMIF) which is a self-insured joint powers authority (governmental entity) established in 1976 to handle the insurance claims, benefit programs, and risk management needs of fifteen (15) member cities. The cities are located in the five Northwest counties. In the last year, a thorough review of REMIF's funding has been completed and it was determined that there had not been enough funding paid to cover all of the projected expenditures for workers' compensation and liability claims. Based on this REMIF has approved enhanced assessments for all members. The City of Sonoma will be paying assessments of \$85,351 for the next five years for liability and workers' compensation, and in year 6 a final payment of \$57,250. We have allocated these costs among City departments and funds based on staffing, with the majority in the General Fund.

Debt Service: The City's debt service for the Pension Obligation Bonds (POB) issued in 2012 has historically been allocated among multiple funds. A recent analysis indicates that the basis for allocation was not the actual unfunded liability from 2012, which is the appropriate method of spreading costs. As a result, the Water Fund has been overcharged in past years, and the General Fund undercharged. The past payments will be reconciled, but for the remainder of the bond duration (three years remain) the entirety of the debt service will be charged to the General Fund, increasing General Fund debt service for the POB.

## EXPENSE - FINANCIAL SUMMARY

Program-Based Budget Modifications and Special Projects: In addition to these global changes, there are program-based budget modifications proposed for the operating departments. These changes are summarized in the City Manager’s Message and detailed in the department pages that follow this section. In addition to the department increases are transfers from the General Fund (use of Reserves) for Capital Improvement Projects (\$579,620) and other one-time projects (\$152,300), as listed below.

<b>USE OF SPECIAL PROJECTS RESERVE</b>	
Downtown Parking Study (CIP SS-8)	\$40,000
Broadway Streetscape Improvements & Traffic Circulation (CIP SS-7)	\$75,000
Plaza Park Trash/Recycling Receptacles & Bike Parking Enhancement (CIP P-4)	\$55,000
Plaza/Depot Parks Improvements (CIP P-1)	\$50,000
ADA Improvements Depot Park (CIP P-5)	\$40,000
Neighborhood Parks Reinvestment (CIP P-2)	\$25,000
Overlook Trail Rehabilitation (CIP P-3)	\$22,620
Fryer Creek Pedestrian & Bicycle Bridge Project (CIP SS-2)	\$48,000
Annual Slurry Seal Projects (CIP SS-3)	\$32,000
Biennial Pavement Rehabilitation & Water Svcs Replacement (CIP SS-5)	\$47,000
Citywide Roadway Safety Improvement Projects (CIP SS-6)	\$35,000
Veteran's Building Property Access Gate (CIP)	\$30,000
Corp Yard Facility Improvements (CIP BF-2)	\$60,000
ADA Self-Evaluation, Transition Plan & Implementation Project (CIP BF-1)	\$20,000
<b>TOTAL - CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS</b>	<b>\$579,620</b>
Cemetery Analysis (Cemetery Fund)	\$30,000
Pension Study/Analysis	\$20,000
Citywide Fee Study	\$22,300
Inclusionary Housing Ordinance	\$20,000
Sonoma Overnight Support	\$20,000
Emergency Preparedness supplement	\$10,000
Plaza Tree Assessment and Major Maintenance	\$30,000
<b>TOTAL - OTHER ONE-TIME PROJECTS</b>	<b>\$152,300</b>
<b>TOTAL USE OF RESERVES FOR ONE-TIME PROJECTS</b>	<b>\$731,920</b>

# SUMMARY OF STAFFING AND POSITIONS

## City of Sonoma FY 2018-19 Budget -- Position Allocation Listing by Department

	Adopted Budget Authorized Personnel FY 16/17	Adopted Budget Authorized Personnel FY 17/18	Proposed Budget Authorized Personnel FY 18/19
<b>City Manager's Office/Administrative Services</b>			
City Manager	1.00	1.00	1.00
City Clerk/Executive Assistant	1.00	1.00	1.00
Assistant City Mgr/Admin Svcs Director	0.00	1.00	1.00
Finance Director	1.00	0.00	0.00
Administrative Services Manager	1.00	1.00	1.00
Deputy Finance Manager*	0.00	1.00	1.00
Accounting Technician	1.75	1.75	2.00
Administrative Clerk PT ( <i>prev. shown in Planning</i> )	0.50	0.50	0.20
Administrative Assistant PT	0.75	0.75	0.75
Webmaster/Public Info PT	0.00	0.00	0.38
	<b>7.00</b>	<b>8.00</b>	<b>8.33</b>
<b>Community Development (Planning &amp; Building)</b>			
Planning & Community Svcs Director	1.00	1.00	1.00
Senior Planner	1.00	1.00	1.00
Associate Planner	1.00	1.00	1.00
Development Svcs Director/Building Official	1.00	1.00	1.00
Plans Examiner	1.00	1.00	1.00
Building Inspector	1.00	1.00	1.00
Administrative Assistant	2.00	2.00	2.00
	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>
<b>Police and Fire (excludes contract services staff)</b>			
Administrative Clerk	1.00	1.00	1.00
	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
<b>Public Works</b>			
Public Works Director/City Engineer	1.00	1.00	1.00
Administrative Assistant	1.00	1.00	1.00
Environmental Compliance Specialist ( <i>title change</i> )	1.00	1.00	1.00
Public Works Project Manager ( <i>title change</i> )	1.00	1.00	1.00
Public Works Operations Manager	1.00	1.00	1.00
Water Operations Supervisor	1.00	1.00	1.00
Streets Supervisor	1.00	1.00	1.00
Parks Supervisor	1.00	1.00	1.00
Maintenance Worker I/II - Water	4.00	4.00	4.00
Maintenance Worker I/II - Streets	4.00	4.00	4.00
Maintenance Worker I/II - Parks	3.00	3.00	3.00
Maintenance Worker I/II - Cemeteries	1.00	1.00	1.00
Parks Worker PT (2 positions, 0.5 FTE each)	1.00	1.00	1.00
	<b>21.00</b>	<b>21.00</b>	<b>21.00</b>
<b>Total Budgeted Staffing (Full Time Equivalent)</b>	<b>37.00</b>	<b>38.00</b>	<b>38.33</b>

NOTE: Some positions are charged to multiple departments; these are listed in the department where the largest percentage is charged.

Proposed FY 18/19 Changes - Accounting Technician from 0.75 to 1.0; eliminate PT Admin Clerk 0.3; add webmaster/social media 0.38.

# SUMMARY OF STAFFING AND POSITIONS

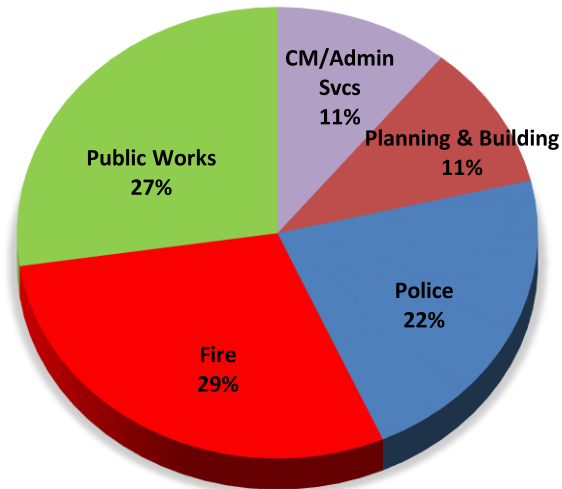
## City of Sonoma FY 18/19 Budget Summary of Staffing - Position Allocation

Departments	Adopted Budget Authorized Personnel FY 16/17	Adopted Budget Authorized Personnel FY 17/18	Proposed Budget Authorized Personnel FY 18/19
City Manager's Office/Administrative Services	7.00	8.00	8.33
Planning and Building Services	8.00	8.00	8.00
Police	1.00	1.00	1.00
Public Works	21.00	21.00	21.00
<b>Total City Employees (FTE, includes part-time staff)</b>	<b>37.00</b>	<b>38.00</b>	<b>38.33</b>
<b>Police (Sheriff contract staffing)*</b>	<b>16.00</b>	<b>16.00</b>	<b>16.00</b>
<b>Fire (SVFRA contract staffing) *</b>	<b>22.52</b>	<b>22.52</b>	<b>22.52</b>
<b>TOTAL STAFFING:</b>	<b>75.52</b>	<b>76.52</b>	<b>76.85</b>

\* Police staffing excludes the two Valley-wide Sergeants (blended model).

Fire staffing based on total SVFRA staffing pro-rated by the City's share of expenditures (57%).

### Staffing Summary



## GENERAL FUND RESERVES

In 2006, the City Council passed a Financial Reserve Policy in Resolution 41-2006 to maintain stable reserve levels for the General Fund. (Staff is currently drafting an update to this policy to be in compliance with Government Accounting Standards Board (GASB) recommendations.) The purpose of the policy is to maintain a minimum level of reserves necessary to ensure the City's credit worthiness and to adequately provide for:

- Local disasters or catastrophic events;
- Economic uncertainties and other financial hardships or downturns in the local or national economy;
- Future debt or capital obligations;
- Cash flow requirements; and,
- Legal requirements.

The City's current Financial Reserve Policy creates three separate accounts to address different circumstances as outlined above.

1. **EMERGENCY RESERVE** – The purpose of the emergency reserve is to provide operating and/or repair funds in the event of a local disaster or catastrophic event. The City will establish and maintain a General Fund Emergency Reserve of 17% of discretionary general fund and EMS fund revenue (approximately two months), which is available for expenditure to respond to local disasters or catastrophic events, whether natural or man-made. For the purposes of this policy, “discretionary revenue” is defined as “all revenues not directly tied to specific identified projects or programs operated out of the general fund and/or EMS fund”. One example of non-discretionary revenue would be the funds received as reimbursement for special Police equipment.

Any use of the Emergency Reserve account requires 4/5ths vote of the Council.

2. **OPERATING RESERVE** – The purpose of the operating reserve is to provide breathing room for the City to evaluate alternatives in the event of financial hardships. The City of Sonoma will establish and maintain a General Fund Operating Reserve of \$1,500,000 which is available as a temporary revenue source to be used while an orderly financial plan for cost-reduction or revenue enhancement for services provided through the general fund and/or EMS fund is developed.

The Operating Reserve can cover any significant unanticipated or mandated expenditure, which cannot be deferred or funded by borrowing. This reserve is not intended to provide funding for new programs or for “buys of opportunity” or similar circumstances, usually involving the purchase of property. The Operating Reserve is distinguished from and shall be reported separately on the balance sheet from the Emergency Reserve and from reserves designated for specific purposes and from undesignated/unreserved fund balances.

*Process for the Use of Operating Reserve Funds:*

- In the event of financial adversity (defined as a prolonged downturn in one or more major revenue sources for the general fund and/or EMS fund or imposition of a significant, unanticipated and unavoidable expense that cannot be deferred or funded

## RESERVE SUMMARY

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by borrowing), staff would request Council approval to utilize the Operating Reserve Account if funds are necessary to maintain current service levels until a reduced budget is prepared.

- Appropriate staff (i.e. City Manager, Assistant City Manager and Department Heads) will evaluate affected revenues and programs, and make a recommendation regarding reduced service levels.
- The proposed financial plan will be shared with all City staff.
- Recommendations from the City Manager and staff on the proposed financial plan will be presented to City Council for review, discussion and adoption at a public meeting.

Use of Operating Reserve funds are by direction of the City Council only. The Council shall then have the option of utilizing the Operating Reserve funds to mitigate the hardship. Any use of the Operating Reserve account shall be by a 4/5ths vote of the Council.

Whenever expenditures or transfers are made from the Operating Reserve, it must be a high priority for the City to reimburse such expenditures at the earliest possible date, normally by deferring other service or project expenditures.

Should the Council opt not to draw on the Operating Reserve account or should the financial hardship exceed the available reserve funds, the City Council may direct that funding be augmented through the following options:

- Inter-fund Financing Transfer
  - External/Third-Party Financing
  - Immediate spending freeze
  - Other financing options available at the point of need
3. **SPECIAL PROJECTS FUND** – A special projects fund is hereby created into which shall be transferred any undesignated fund balances in the combined General Fund and EMS fund. In the event that the undesignated combined fund balance is less than \$0.00, the amount of the negative balance is to be deducted from the balance in the Special Projects Fund. The purposes of the Special Projects Fund are to segregate the surplus fund balance from recurring revenue sources so that such surpluses will be appropriated only for non-recurring expenditures and to create a funding source for one-time projects such as, but not limited to:
- Capital improvement projects of any type;
  - Surveys, studies and analyses of both operating and capital needs;
  - Updates of adopted plans (e.g., general plan or specific general plan elements, facility master plans); and
  - Temporary service programs (for example, a limited-duration code or traffic enforcement effort).

Approval of any appropriation from the Special Projects Fund shall be by a simple majority vote of the Council.

**INTER-FUND FINANCING** – The City of Sonoma maintains additional funds outside the General Fund, which may be utilized to provide interim financing to the General Fund in the event of financial adversity.

## RESERVE SUMMARY

Financing levels of the inter-fund loan should not exceed 50% of the available fund balance and shall be documented by an established repayment schedule approved by the City Council based on recommendation by staff. Repayment of this method of financing should become first priority in future budgeting cycles.

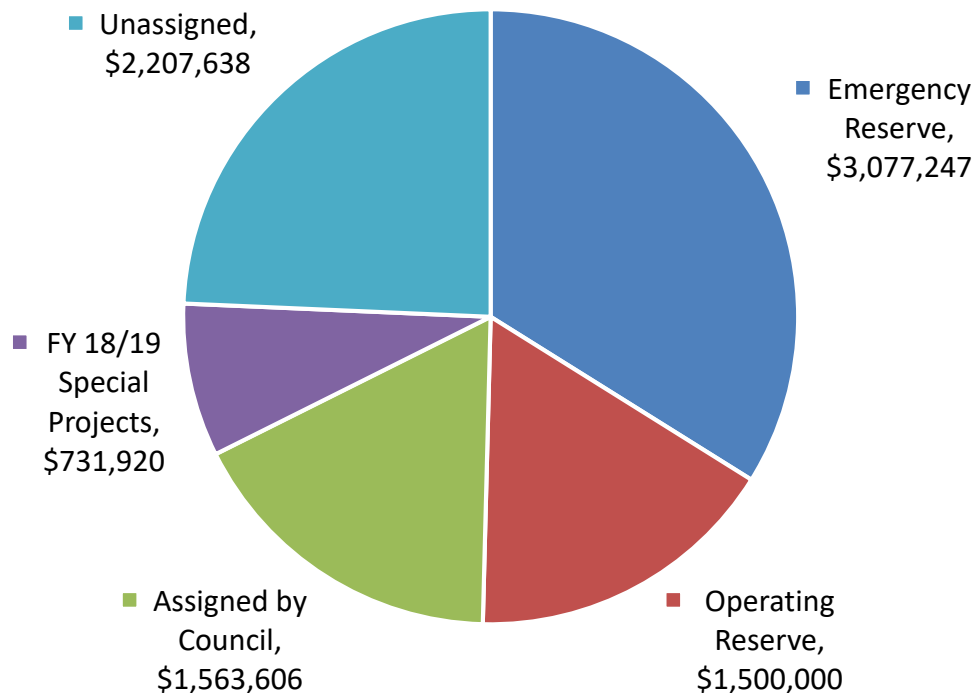
### CURRENT RESERVES

On the following page is a chart showing current reserves based on the policies outlined above and future updates for compliance with GASB. Staff will be reviewing past Council actions and further update this chart when we bring an updated Reserve Policy to the City Council.

In FY 17/18, the City Council assigned \$100,000 from the Emergency Reserve for October 2017 Fire expenditures.

The FY 18/19 Budget includes a total of \$731,920 in appropriations from the Special Projects Fund. This includes \$579,620 for Capital Improvement Projects and \$152,300 for other one-time projects.

### General Fund Reserve Fund



# RESERVE SUMMARY

RESERVES	Estimates	Recommended Budgeted in FY 18/19
<b>GENERAL FUND RESERVE</b> (estimated FY 17/18 year end)	<b>\$9,080,411</b>	
<b>NON-SPENDABLE</b> [Cannot be readily converted to cash or cannot legally be spent]	N/A	
<b>RESTRICTED</b> [Externally imposed restrictions on spending]	N/A	
<b>COMMITTED</b> [Council formally-imposed restriction (by resolution or other action)]	<b>\$4,577,247</b>	
<b>Emergency Reserve: 17%</b>	\$3,177,247	
Less: Allocation for October 2017 Fire Expenditures	-\$100,000	
<b>Operating Reserve: \$1.5M</b>	\$1,500,000	
<b>ASSIGNED</b> (includes the Special Projects Reserve) [Reserved by Council direction or City Manager for designated purposes]		
<b>Council Approved Assigned Funds - Prior Years</b>		
EMS Equipment Replacement Fund Reserve	\$371,681	
Water Transfer Set-Aside (sequester 3 years water transfers)	\$516,925	
Broadway Affordable Housing Project (predevelopment loan)	\$25,000	
Allocation from Emergency Reserve for October 2017 Fires	\$100,000	
<u>General Plan:</u>	\$500,000	
General Plan Consultant		
Community Survey		
Economic Development Strategic Plan		
<b>Financial Sustainability:</b>		
Cemetery Analysis		\$30,000
Pension Study/Analysis		\$20,000
Citywide Fee Study		\$22,300
<b>Housing Opportunities and Strategies Reserve:</b>		
Accessory Dwelling Unit Fee Waiver Incentive Program	\$30,000	
Housing Strategy and Education Initiatives	\$20,000	
Inclusionary Housing Ordinance		\$20,000
Sonoma Overnight Support		\$20,000
<b>Community Character &amp; Quality of Life Project Reserve:</b>		
Emergency Preparedness supplement		\$10,000
Plaza Tree Assessment and Major Maintenance		\$30,000
Downtown Parking Study (CIP SS-8)		\$40,000
Broadway Streetscape Improvements/Traffic Circulation (CIP SS-7)		\$75,000
Plaza Park Trash/Recycling & Bike Parking Enh Project (CIP P-4)		\$55,000
Plaza/Depot Parks Improvements (CIP P-1)		\$50,000
ADA Improvements Depot Park (CIP P-5)		\$40,000
Neighborhood Parks Reinvestment (CIP P-2)		\$25,000
Overlook Trail Rehabilitation (CIP P-3)		\$22,620
<b>Community Infrastructure Investments -- Capital Improvements Projects</b>		
Fryer Creek Pedestrian & Bicycle Bridge Project (CIP SS-2)		\$48,000
Annual Slurry Seal Projects (CIP SS-3)		\$32,000
Biennial Pavement Rehabilitation & Water Svcs Replacement (CIP SS-5)		\$47,000
Citywide Roadway Safety Improvement Projects (CIP SS-6)		\$35,000
Veteran's Building Property Access Gate (CIP)		\$30,000
Corp Yard Facility Improvements (CIP BF-2)		\$60,000
<u>ADA Self-Evaluation, Transition Plan &amp; Impl. Project (CIP BF-1)</u>		<u>\$20,000</u>
<b>TOTAL BUDGETED FY 18/19:</b>		<b>\$731,920</b>
<b>TOTAL ASSIGNED AND BUDGETED</b>	<b>\$2,295,526</b>	
<b>UNASSIGNED</b> [Residual balance not classified in any of the above categories]	<b>\$2,207,638</b>	