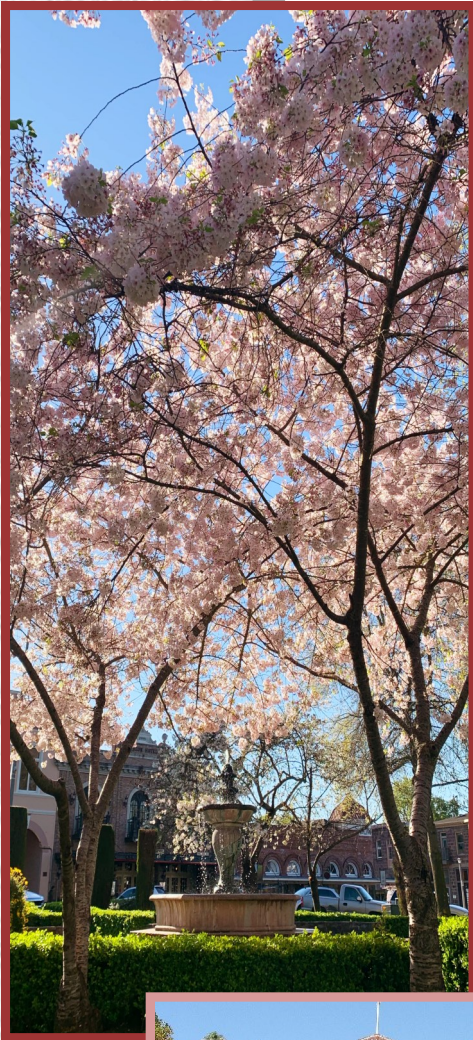


City of Sonoma & Successor Agency ADOPTED FY 2019/2020 OPERATING AND CAPITAL BUDGET



Amy Harrington, Mayor
Logan Harvey, Vice Mayor
Madolyn Agrimonti, Council Member
David Cook, Council Member
Rachel Hundley, Council Member

Cathy Capriola, City Manager
Sue Casey, Assistant City Manager/Administrative
Services Director





[This page intentionally left blank]



ACKNOWLEDGEMENTS



SONOMA CITY COUNCIL

Amy Harrington, Mayor
Logan Harvey, Vice Mayor
Madolyn Agrimonti, Councilmember
David Cook, Councilmember
Rachel Hundley, Councilmember

This proposed FY 19/20 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

Cathy Capriola, City Manager
Sue Casey, Assistant City Manager/Administrative Services Director
Jenna Burrows, Deputy Finance Director
Rebekah Barr, City Clerk/Executive Assistant
Cathy Lanning, Administrative Services Manager
David Storer, Planning & Community Services Director
Wayne Wirick, Development Services Director/Building Official
Steve Akre, Fire Chief
Orlando Rodriguez, Police Chief
Colleen Ferguson, Public Works Director/City Engineer
Kat Wall, Public Works Project Manager
Trent Hudson, Public Works Operations Manager



[This page intentionally left blank]



TABLE OF CONTENTS

	Page #
TABLE OF CONTENTS	
CITY MANAGER BUDGET MESSAGE	1
FINANCIAL SUMMARY	
Organization Chart	12
Fund Overview	13
Revenue Summary	17
Expense Summary	26
Staffing / Position Summary	33
Reserve Summary	36
GENERAL FUND	
CENTRAL ADMINISTRATION	51
City Council	53
City Clerk	57
City Manager	61
Finance	67
Legal Services	71
PUBLIC SAFETY	75
Fire / EMS	77
Police	83
COMMUNITY DEVELOPMENT	87
Planning & Community Services	89
Building & Development Services	95
PUBLIC WORKS (includes PW Special Revenue / Enterprise Funds)	97
Public Works – Administration & Stormwater	99
Public Works - Streets Maintenance	103
Public Works – Parks Operations	105
MISCELLANEOUS	107
Community Activities	109
Non-Departmental	113
Transfers	115
CAPITAL IMPROVEMENT PROGRAM (CIP)	
Overview	119
Overall CIP Funding Sources	120
CIP Projected Funding by Project and Source for Fiscal Year 2019/20	121
CIP Projected Funding by Source for 2019-2024	123

TABLE OF CONTENTS

Transportation & Creeks/Drainage Capital Projects	125
Transportation	126
Creeks & Drainage	141
Water Capital Projects	151
Water	155
Parks & Facilities Capital Projects	163
Parks	167
Buildings & Facilities	171
ENTERPRISE FUNDS	181
Water Utility - Operating	183
Cemetery - Operating	187
SPECIAL REVENUE FUNDS	189
COPS Grant	191
Gas Tax	193
Transportation Measure M	195
RMRA: SB 1	197
Proposition 68 – Parks	199
Parks Measure M	201
Quimby Act	203
IGT – Inter-governmental Revenue (EMS)	205
Cemetery – Endowment	207
INTERNAL SERVICE FUNDS	209
Management Information Services	211
Vehicle Replacement	213
Long-Term Building Maintenance	215
DEBT SERVICE FUND	219
CREBS	221
POB	221
AGENCY FUNDS	223
Successor Agency – General Fund	225
Successor Agency – Redevelopment Property Tax Trust Fund	227
APPENDICES	229
Glossary	231
Budget Resolutions (to be added upon adoption)	237



CITY MANAGER BUDGET MESSAGE





[This page intentionally left blank]





CITY MANAGER MESSAGE

2019 – 2020 OPERATING & CAPITAL BUDGET

June 17, 2019

To Mayor Harrington and Members of the City Council:

On behalf of the City staff, I am pleased to present the 2019-2020 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 proposed services and projects for the fiscal year beginning July 1, 2019. 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.

Overview

The proposed budget for the City of Sonoma and the Sonoma Successor Agency for FY 2019-20 includes a combined Operating and Capital Improvement Program (CIP) Budget of \$37,093,675. 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. At a high level, the FY 19/20 budget encompasses the following:

- Tax revenues continue to be relatively strong (especially property and sales tax) and new revenue sources are available including 2% increase in Transient Occupancy Tax, new Parks Measure M, and State Proposition 68 for Parks investments. Other one-time funding is also available with Quimby Funds to invest in parks and SB 2 funding (not programmed in the budget at this time) for reimbursement of housing streamlining work efforts.
- Three full-time positions are included (Senior Management Analyst, Accountant, converting one 30 hour part-time Administrative Assistant to full-time) and three part-time positions (new limited term Sustainability Coordinator, new temporary part-time Administrative Assistant and shift from contract for the Special Events Manager (due to legal parameters).
- The majority of other new General Fund expenditures are one-time projects and purchases, which are proposed to be funded from Unassigned Reserves. As always occurs, some one-time projects that were budgeted in FY 18/19 have been carried over to be completed in FY 19/20.
- The budget also reflects projected increases in Police and Fire contracts, along with other general across-the-board ongoing increases. No funding for City employee compensation has been budgeted since we are currently in negotiations.

- Other ongoing increases are partially offset by other budget reductions, cost recovery, or new restricted revenues.
- General Fund CIP continues to need to be funded through some combination of ongoing revenues and use of unassigned reserves. This year, the total General Fund contribution to the CIP budget is \$578,877 of which \$185,000 is programmed from the Special Projects Unassigned Reserves and the rest from current year General Fund revenues.

General Fund Operating Position -- FY 19/20	
Sources of Funds:	
General Fund Operating Revenue	\$19,360,276
Operating Transfers In	\$1,138,995
Use of Special Project Reserve	\$473,450
Capital Projects	\$ 185,000
One-time Projects/Goals	\$157,600
Carryover Funds (projects in process)	\$130,850
Total Sources, General Fund:	\$20,972,721
Uses of Funds:	
General Fund Operating Expenditures:	\$19,349,075
Operating Transfer Out	\$484,249
Transfers Out - CIP	\$578,877
Total Uses, General Fund:	\$20,412,201
Net Operating Surplus (Deficit)	\$560,520

More detailed information regarding revenues, expenditures and reserves is included in the Financial Summary portion of the budget.

Key Projects and Initiatives

As always, the City Council’s initiatives were a key consideration during development of this budget. The proposed budget reflects several key themes, including:

Enhanced services to invest in 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:



Code Enforcement / Parking / Vacation Rentals

- Beginning two years ago, a realignment of our City Prosecutor’s Office shifted core prosecution duties to the District Attorney resulted in \$50,000 decrease over two years. By utilizing \$25,000 of this savings for Code Enforcement operations this year, we can deliver greater enforcement for

vacation rentals, parking enforcement and plaza/special event education and enforcement (smoking, dogs, bikes, etc.). Sonoma, like other cities, has also contracted with an outside technology firm that uses complex algorithms and search capabilities to help monitor and stop illegal short-term rentals and capture past taxes.

- A change in parking citation vendor will allow for greater revenue recovery (95% versus 65%). This shift provides funding to allow for a full-time receptionist in the Police Department which, in turn, returns Community Service Officers to the field to perform greater parking enforcement and community outreach/education.
- Enhanced education and enforcement of tobacco sales and youth tobacco use by the Police Department will occur this year based on a State of California tobacco grant.

Recreation

- **Recreation** – Recreation is a core service provided by cities. Here in Sonoma, our talented non-profits provide these services. With annual financial support, the City acts as a co-sponsor and invests in these core recreation and community services for our community. Funding for our recreation and community service partners continues (Boys & Girls Club of Sonoma Valley, Sonoma Community Center, Vintage House



Senior Center, Sonoma Ecology Center, and Sebastiani Theater Foundation). The increase in TOT funding provides additional funding opportunities this year, including a contribution to the Sonoma Valley Field of Dreams and the sponsorship of the new “Sonoma Shuttle,” part of Sonoma County Transit’s successful “Fare Free” Program.

Planning our Future

- In July, the City Council will launch a discussion about the City’s General Plan, Urban Growth Boundary, and Development Code. The General Plan update has \$500,000 sitting in reserves to start this process which includes an Economic Development Strategic Plan update.
- Commercial cannabis businesses in town will be another focus for this coming year as a competitive selection process is completed and land use permits are secured.
- Parking in and around the Plaza has become a key community concern. This year, a focus will be to obtain a long-term city lease for the Casa Grande parking lot and to find ways to better manage and utilize parking.
- A study of historic properties with the goal to create a Historic Railroad District near Depot Park is another way that the City is working to protect the past while planning for the future.

New resources to focus on sustainability and Climate Action to do our part as a City to protect and preserve our environment.

From being the first City in Sonoma County to purchase Evergreen power through Sonoma Clean Power to the recent ban of single use plastics at Plaza & Depot Park events, Sonoma has a long history of caring for the environment. Despite lean resources, with today’s changing climate, it is important for local governments to step forward and take steps to protect our planet. Some examples of environmental initiatives included in the budget:



- 50% Sustainability Coordinator (part-time, 2-year limited term position) to focus on environmental projects and the advancement of the City’s Climate Action efforts. (It will be important to prioritize and focus efforts to ensure meaningful progress, even with these new

staffing resources. A shift of the staffing of the CSEC from Public Works to the Planning Department connects these efforts to the department with lead on the City’s Climate Action Plan.)

- Additional funding (Parks Measure M) to maintain current service levels for vegetation management and parks maintenance without use of glyphosate which has been banned for City use.
- Upgrade to the existing Electric Vehicle charging stations from 2 deployments to 3 with costs to be partially offset by implementation of usage fees.

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. Historically, the City’s redevelopment agency was the major funder of capital infrastructure improvements for our community. The State’s elimination of redevelopment has created a large financial hole for Sonoma that continues to impact us.



Last year, the Public Works Department created a true 5-year Capital Improvement Program (CIP) budget. A scan of the CIP budget shows that there are many 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 to accomplish our infrastructure goals. This important capital investment planning tool lets the City program and set-aside funding for large projects. The 5-year CIP reflects potential projects for the amount of funds (including grant funds) that the City may receive. It does not show the level of funding that is needed in the future to maintain the City’s aging bridges, drainage system, parks and other facilities.

FY 19/20 brings continued investments in a number of capital projects. The table below shows a summary of the recommended funding.

FY 19/20 CAPITAL IMPROVEMENT PROGRAM BUDGET

	<i>General Fund</i>	<i>Other Funds</i>	<i>Total</i>
<i>TRANSPORTATION: Keeping Sonoma Moving Safely</i>	\$370,477	\$1,182,754	\$1,553,231
<i>CREEKS & DRAINAGE: Reducing Flooding & Protecting Water Quality</i>	\$98,400	\$83,263	\$181,663
<i>WATER: Providing High Quality, Dependable Water</i>	\$0	\$1,655,680	\$1,655,680
<i>PARKS: Making Life Better</i>	\$0	\$460,000	\$460,000
<i>BUILDINGS & FACILITIES: Maintaining Critical Assets</i>	\$110,000	\$417,700	\$527,700
TOTAL	\$578,877	\$3,799,397	\$4,378,274



Some key capital and maintenance projects coming this year include those listed below.

- Final plans for Fryer Creek Pedestrian and Bicycle bridge for construction in summer 2021.
- Continued street and sidewalk maintenance and pavement rehabilitation.
- Roadway safety improvements with a focus on 5th Street West between West Spain and Oregon Street.
- Additional funding for the Broadway Streetscape Enhancement and Traffic Circulation for outreach and striping plan ahead of Caltrans resurfacing project of Highway 12 through town.
- Storm water trash reduction systems will need to be added to the City’s storm drain network. The City will be required to retrofit its storm drain system to capture 100% of trash originating from designated priority land-uses over a ten-year period.
- Numerous water projects including upsizing water mains for better fire flow and planning for new water meter upgrades.
- New investments in parks including new trash receptacles for Plaza, new signage for the Overlook Trail, a concept plan for a loop trail connection on Montini Preserve, and an assessment/plan for neighborhood park improvements.
- The focus for facilities this year will be initiating improvements to the Corporation Yard for an enhanced staff facility, painting and aesthetic upgrades to the Council Chambers and Conference Room, and major maintenance to the Carnegie building, including a new roof.

Supporting Housing Opportunities and Strategies. One of the City Council’s key initiatives is to support and encourage the preservation and production of affordable and workforce housing. With the State of California’s dissolution of redevelopment, dedicated annual funding for housing 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. With the launch of the City’s successful “Housing our Community” Town Hall Series, there is an active community conversation regarding housing options and opportunities. The City Council has also formally created a Housing Trust Fund (HTF) and extended the Accessory Dwelling Unit Fee Waiver program as the first formal program of the HTF effort.

In FY 19/20, the City will also have access to new state funding from SB 2 “Building Homes and Jobs Act” which will provide \$160,000 to Sonoma to prepare, adopt, and implement plans and process improvements that streamline housing approvals and accelerate housing production. Half of the funding generated in the first year will be available to local governments through noncompetitive grants. For the second year, 70% of the funding will be allocated to local governments for affordable housing purposes. Sonoma will need to submit a work plan proposal for the first year of funding outlining our proposed use of these funds. Once the first year workplan is approved by the State, Sonoma can then complete the projects and submit for reimbursement. The SB 2 projects are not included in the budget at this time since the City Council will need to discuss the components and projects that Sonoma wants to undertake.

HOUSING OUR COMMUNITY
TOWN HALL SERIES

LEARN Housing 101 April 25, 2019 6-8 PM	DISCUSS Housing Experts Panel May 16, 2019 6-8 PM	EXPLORE Community Workshop June 20, 2019 6-9 PM
---	---	---

Stone Hall at Vintage House, 264 First Street East, Sonoma
www.sonomacity.org/housing-our-community

The FY 19/20 budget programs the following housing investments:

- Programs \$25,000 from reserves into the Housing Trust Fund for the Accessory Dwelling Unit Fee Waiver Program;

- Sets aside \$25,000 in Unassigned Special Project Reserves for a Housing Action Plan, should the City Council decide to initiate that next step;
- Continued funding to complete the City’s inclusionary housing ordinance and housing impact fee determination and implementation; and,
- Investment in enhanced homeless funding with the City having been conditionally awarded \$245,000 for capital investments with the majority of funding to renovate and upgrade the Haven. This funding is not included in the budget since final approvals are still being completed.

Developing the City’s organizational capacity 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 very lean with less than 40 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 budget adds and realigns staff positions in order to meet the service level expectations of the City Council and community. As a service business, we need the right level of staff to provide the programs, project management and analytical work that it takes to operate a municipality and provide support to the City Council’s goals and initiatives.



Increased state and federal regulations and areas of growing focus (public information and sustainability) require additional staff resources. Examples of items included in the proposed budget to increase our capacity include:

- A Senior Management Analyst in the City Manager’s Office to provide analytical and project management assistance for Council initiatives and city projects (already approved by the City Council);
- Convert a part-time Administrative Assistant to full-time in the City Manager’s office to provide higher level assistance to the City Council and support the front receptionist.
- A temporary part-time Administrative Assistant will provide additional support to the City Clerk operation with a focus on records management and some back-up for City Hall front desk reception.
- An Accountant to provide the proper level of professional and current financial management for the City and some part-time contract to complete past projects/audits;
- Using new revenue, shifting an Administrative Clerk from Finance to Police to be a full-time receptionist frees-up the Community Services Officers to be more active in parking enforcement and community education/outreach.
- Transition the Special Event Manager from contract to part-time employee due to legal changes in independent contractor requirements (25 hours per week); and,
- Invest in the City’s sustainability and environmental initiatives by hiring a part-time Sustainability Coordinator (20 hours per week).

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. Other examples in the proposed budget include:

- Implementation and billing of the City’s new deposit-based planning cost recovery fees for development applications. This best practice moves to a deposit-based system with hourly fees for major projects.

- Implementation of a new vendor of parking and administrative citations at a lower cost and enhanced services for police and code enforcement.
- 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.
- Launch of a comprehensive fee study to ensure the City is covering its costs for various services provided to residents, visitors and the business community.



Opportunities

- **½ Cent Sales Tax Extension** -- In November 2020, the City will look to place an extension of the ½ cent sales tax on the ballot. It will be important to talk with our community about the importance of this funding and its continued need.
- **Pension Obligation Bonds Paid Off** – In 2012, the City sold pension obligations bonds to pay off unfunded pension liability from PERS. The final bond payment will occur in three years which could allow for redirection of over \$400,000 in debt service to remaining pension liabilities or a pension prepayment program.

Constraints / Challenges

- **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 to 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 which 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.
- **Service Levels / Staffing Needs.** Sonoma has been a lean organization in terms of staffing and service levels. While there are some staffing increases recommended this year, there are needs in other departments including Police, Fire and Public Works.
- **Major increase in pension costs.** Casting a shadow on the positive economy are rising pension costs. CalPERS continues to demand extraordinary sums from employers in an effort to make-up for prior year shortfalls for their investments. 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 \$163,000 for FY 19/20 and going forward costs are projected to continue increasing. [See Expenditure Summary for more detail.] It is important to note that these pension cost 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 carries forward \$5,000 in funding to complete a review of the City's pension costs and develop a strategy which will likely include creating a pension stabilization fund.

In light of these constraints outlined above, City staff are 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. 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

Our staff is to be commended for the many accomplishments of the past year which are listed in this budget. In particular, I want to acknowledge Assistant City Manager Sue Casey for her expertise and dedication in preparing this budget and our outstanding Public Works team, who continue to polish our 5-year Capital Improvement Program.



I am deeply thankful for the leadership and hard work of the City Council. We are fortunate to have dedicated volunteers serving on our various city commissions. I am also extremely proud of the team of employees and contractors that support the Sonoma community. I remain impressed with their dedication, ownership, and teamwork that is authentically conveyed on a daily basis to our customers. Sonoma is a special place to live and work and 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,

Cathy Capriola, City Manager

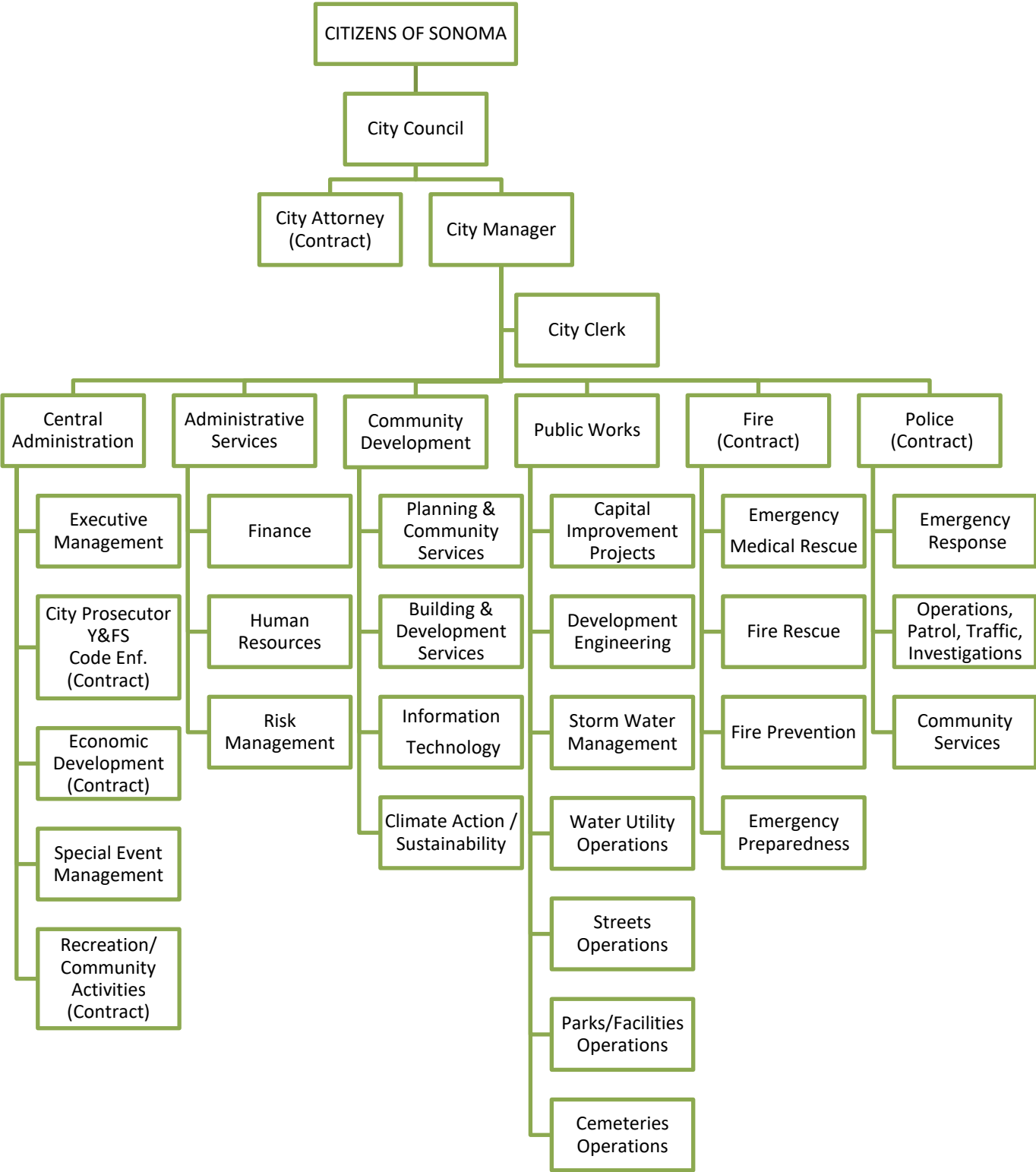


FINANCIAL SUMMARY

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



City of Sonoma -- Organization Chart (by function)



FUND EXPENSE VIEW

CITY OF SONOMA / SUCCESSOR AGENCY FY 19/20 OPERATING AND CAPITAL BUDGET FUND VIEW BY EXPENSE

Expenditure Category	FY 19/20 Budget	Expenditure Category	FY 19/20 Budget
GENERAL FUND:		SPECIAL REVENUE FUNDS:	
City Council (41001)	\$161,878	C.O.P.S. Grant (217)	\$100,000
City Clerk (41002)	\$231,844	Gas Tax (302)	\$548,590
City Manager (41003)	\$596,553	Transportation Measure M (313)	\$192,869
Finance (41004)	\$741,086	SB-1 Road Maintenance (303)	\$234,558
Legal Services (41005)	\$517,405	Parks-Proposition 68 (316)	\$200,000
Police (42101)	\$5,451,674	Parks Measure M (315)	\$115,000
Fire/EMS (42201)	\$6,133,733	Parks-in-Lieu/Quimby Act (314)	\$520,000
Public Works Admin (43020)	\$409,656	Inter-Govt Transfer IGT (796)	\$355,000
Streets – Capital Projects (43021)	\$0	Cemetery Endowment (504)	\$50,000
Public Works Streets (43022)	\$988,518	INTERNAL SERVICE FUNDS:	
Public Works Parks (43023)	\$1,066,619	MIS (601)	\$285,140
Planning (43030)	\$853,462	Vehicle Replacement (603)	\$408,000
Building (43040)	\$631,720	LT Building Maintenance (610)	\$387,700
Community Activities (43101)	\$667,297	DEBT SERVICE FUNDS:	
Successor Agency (43199)	\$192,757	CREBS (495)	\$41,749
Non-Departmental (43200)	\$704,872	POB (498)	\$412,100
Subtotal General Fund	\$19,349,074	AGENCY FUNDS:	
General Fund Transfer Out (43999)	\$1,063,126	Successor Agency Admin (100)	In Gen Fund
Total General Fund	\$20,412,200	Successor Agency ROPS (391)	\$3,484,584
CAPITAL PROJECTS:		TOTAL ALL EXPENSES	\$37,093,675
Streets/Transp/Drainage Capital Projs (301)	\$468,877		
Water Utility - Capital Projects (512)	\$1,755,680		
Parks & Facilities Capital Projects (304)	\$115,000		
ENTERPRISE FUNDS:			
Water Utility Operating (510)	\$6,671,620		
Cemetery (501)	\$335,008		

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

General Fund

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

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

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

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

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

Fiduciary Funds

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 a County Consolidated Oversight Board comprised of representatives of the taxing entities and the State's Department of Finance.

REVENUES - FINANCIAL SUMMARY

REVENUE OVERVIEW

The budget for the City of Sonoma and the Sonoma Successor Agency for FY 2019/20 includes \$20,972,721 in General Fund Revenue and total revenue for all funds of \$34,686,179.

Revenue Category	FY 16/17 Actuals*	FY 17/18 Actuals*	FY 18/19 Adopted Budget	FY 18/19 Amended Budget	FY 18/19 Projected Actuals*	FY19/20 Budget
GENERAL FUND:						
Property Taxes	\$ 3,533,711	\$ 3,857,998	\$ 3,903,200	\$ 3,903,200	\$ 4,261,788	\$ 4,297,336
Sales Tax	\$ 3,122,892	\$ 3,183,716	\$ 3,151,898	\$ 3,151,898	\$ 3,329,522	\$ 3,462,362
Measure U -Local Sales Tax	\$ 2,248,496	\$ 2,362,761	\$ 2,377,698	\$ 2,377,698	\$ 2,502,815	\$ 2,581,438
Transient Occupancy Tax	\$ 3,726,130	\$ 3,637,856	\$ 3,950,000	\$ 4,135,691	\$ 3,788,111	\$ 4,819,277
EMS Charges	\$ 1,583,891	\$ 1,650,116	\$ 2,037,700	\$ 1,837,700	\$ 1,537,700	\$ 1,568,454
Fees and Charges For Services	\$ 881,074	\$ 921,437	\$ 1,248,488	\$ 1,248,488	\$ 1,043,240	\$ 1,094,231
Franchise Taxes	\$ 494,353	\$ 499,398	\$ 514,080	\$ 514,080	\$ 514,080	\$ 524,362
Business License Taxes	\$ 434,762	\$ 429,767	\$ 450,000	\$ 450,000	\$ 450,000	\$ 454,500
Other Revenues	\$ 667,505	\$ 674,049	\$ 479,567	\$ 610,728	\$ 635,033	\$ 558,316
Transfers	\$ 564,631	\$ 343,482	\$ 677,063	\$ 852,063	\$ 852,063	\$ 1,138,995
GENERAL FUND SUBTOTAL	\$ 17,257,445	\$ 17,560,580	\$ 18,789,694	\$ 19,081,546	\$ 18,914,352	\$ 20,499,271
Speical Projects Reserve Transfe	\$ -	\$ -	\$ 731,920	\$ 731,920	\$ 731,920	\$ 473,450
TOTAL GENERAL FUND	\$ 17,257,445	\$ 17,560,580	\$ 19,521,614	\$ 19,813,466	\$ 19,646,272	\$ 20,972,721
ENTERPRISE FUNDS:						
Water Utility Operating (510)	\$ 4,628,035	\$ 7,411,689	\$ 4,861,600	\$ 4,861,600	\$ 5,218,164	\$ 5,380,139
Water Utility - Cap Proj (512)	\$ 7,927	\$ 3,163,716	\$ 184,750	\$ 184,750	\$ 423,797	\$ 185,000
Cemetery (501)	\$ 343,576	\$ 345,281	\$ 366,480	\$ 366,480	\$ 340,152	\$ 368,030
SPECIAL REVENUE FUNDS:						
C.O.P.S. Grant (217)	\$ 129,488	\$ 118,962	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Gas Tax (302)	\$ 839,088	\$ 228,919	\$ 235,721	\$ 235,721	\$ 235,539	\$ 293,045
Measure M (313)	\$ 102,716	\$ 104,877	\$ 85,926	\$ 85,926	\$ 85,926	\$ 100,705
SB-1 Road Maintenance (303)	\$ -	\$ 78,597	\$ 197,561	\$ 197,561	\$ 180,162	\$ 201,238
Parks-In-Lieu/Quimby Act (314)						\$ 520,000
Parks Measure M (315)						\$ 118,612
Parks-Proposition 68 (316)						\$ 200,000
Intergovernmentl Trans IGT (796)	\$ 480,880	\$ 768,245	\$ 370,000	\$ 370,000	\$ 1,121,435	\$ 500,000
Cemetery Endowment (504)	\$ 78,464	\$ 43,719	\$ 50,120	\$ 50,120	\$ 50,120	\$ 50,120
INTERNAL SERVICE FUNDS:						
MIS (601)	\$ 178,723	\$ 245,109	\$ 215,890	\$ 215,890	\$ 215,890	\$ 209,564
Vehicle Replacement (603)	\$ 406,771	\$ 552,462	\$ 392,348	\$ 392,348	\$ 392,348	\$ 287,899
LTBM (610)	\$ 278,438	\$ 290,986	\$ 313,307	\$ 313,307	\$ 313,307	\$ 330,247
DEBT SERVICE FUNDS:						
CREBS (495)	\$ 41,749	\$ 41,749	\$ 41,749	\$ 41,749	\$ 41,749	\$ 41,749
POB (498)	\$ 415,399	\$ 409,817	\$ 412,100	\$ 412,100	\$ 412,100	\$ 412,100
AGENCY FUNDS:						
Succ Agency Admin (100)						
Succ Agency RPPTF-ROPS (391)	\$ 3,908,325	\$ 3,477,429	\$ 3,759,133	\$ 3,759,133	\$ 3,759,133	\$ 3,759,133
CAPITAL PROJECTS:						
Street/Transp/Drainage (301)	\$ 41,260	\$ 89,839	\$ 351,000	\$ 351,000	\$ 351,000	\$ 540,877
Parks & Facilities (304)	\$ -	\$ -	\$ 427,733	\$ 427,733	\$ 427,733	\$ 115,000
TOTAL:	\$ 29,138,284	\$ 29,441,419	\$ 31,887,032	\$ 32,178,884	\$ 33,314,827	\$ 34,686,179

* Unaudited

REVENUES - FINANCIAL SUMMARY

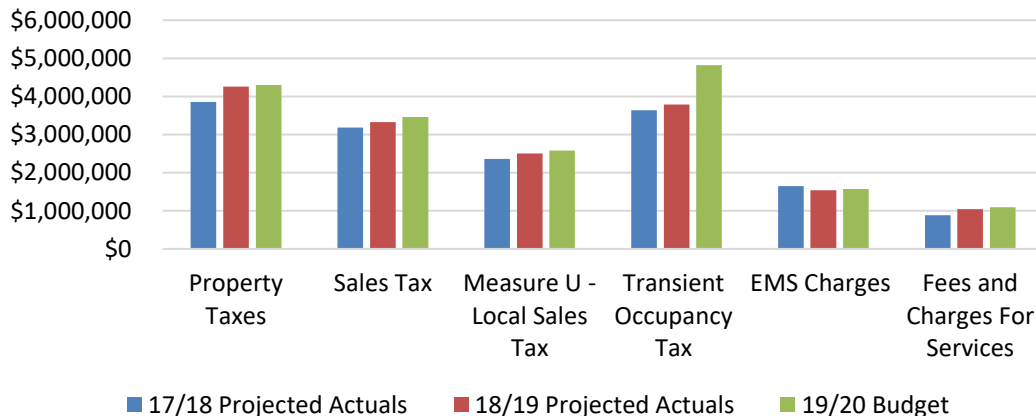
GENERAL FUND REVENUE

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 74% 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 FY 18/19 General Fund revenues are projected to be \$19,646,272. For FY 19/20, revenues are projected to total \$20,972,721, an increase of about \$1.32 million or almost 7% over projected actual revenue for FY 18/19. Over 75% of the revenue growth comes from the 2% increase to the Transient Occupancy Tax which became effective in January 2019 and the projected increase in revenue from the MacArthur Place Hotel renovation. An additional funding source (not shown below) is use of the Special Projects Reserve in the amount of \$473,450 for FY 19/20.

	FY 16/17 Actuals (Projected)	FY 17/18 Actuals (Projected)	FY 18/19 Adopted Budget	FY 18/19 Amended Budget	FY 18/19 Actuals (Projected)	FY19/20 Budget
General Fund Revenues:						
Property Taxes	\$3,533,711	\$3,857,998	\$3,903,200	\$3,903,200	\$4,261,788	\$4,297,336
Sales Tax	\$3,122,892	\$3,183,716	\$3,151,898	\$3,151,898	\$3,329,522	\$3,462,362
Measure U -Local Sales Tax	\$2,248,496	\$2,362,761	\$2,377,698	\$2,377,698	\$2,502,815	\$2,581,438
Transient Occupancy Tax	\$3,726,130	\$3,637,856	\$3,950,000	\$4,135,691	\$3,788,111	\$4,819,277
EMS Charges	\$1,583,891	\$1,650,116	\$2,037,700	\$1,837,700	\$1,537,700	\$1,568,454
Fees and Charges For Services	\$881,074	\$921,437	\$1,248,488	\$1,248,488	\$1,043,240	\$1,094,231
Franchise Taxes	\$494,353	\$499,398	\$514,080	\$514,080	\$514,080	\$524,362
Business License Taxes	\$434,762	\$429,767	\$450,000	\$450,000	\$450,000	\$454,500
Other Revenues	\$667,505	\$674,049	\$479,567	\$610,728	\$635,033	\$558,316
Transfers	\$564,631	\$343,482	\$677,063	\$852,063	\$852,063	\$1,138,995
TOTAL	\$17,257,445	\$17,560,580	\$18,789,694	\$19,081,546	\$18,914,352	\$20,499,271

Major Revenues

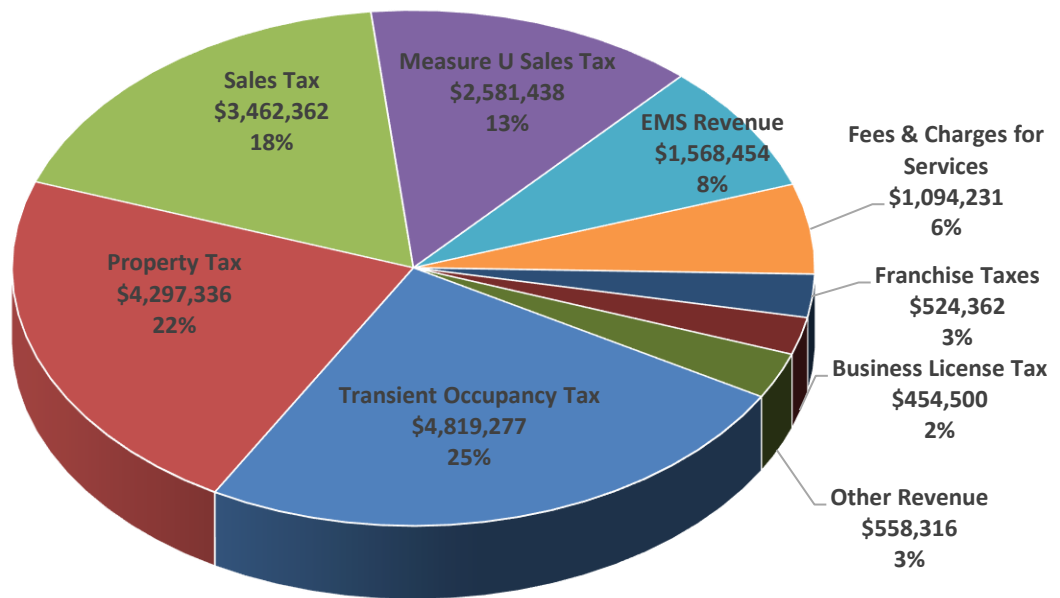


REVENUES - FINANCIAL SUMMARY

As the regional economy recovered from the recession, the City has benefitted from continued growth in Property Taxes and Sales Tax. EMS revenue increased in both FY 16/17 and FY 17/18, but has declined with more MediCal and other insurance write-offs. Fortunately, the IGT Program Revenue, which is directly related to the MediCal write-offs, has been steadily increasing which helps offset some of this loss.

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. In FY 19/20, TOT Revenue is projected to grow with the voter improved 2% increase in the tax. Ongoing renovations in several hotels will add to the growth.

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.

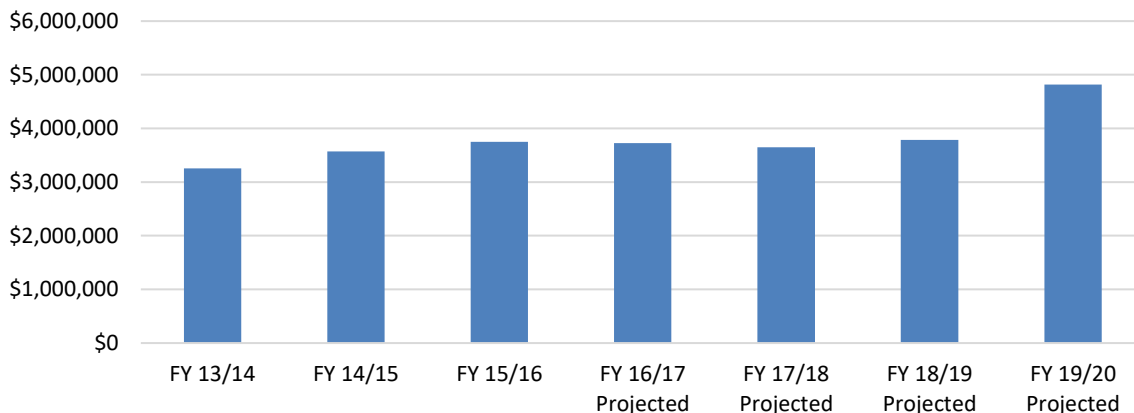
For FY 18/19, the City budgeted \$4.1 million in TOT revenue, however an expected hotel renovation was not completed during the fiscal year and a prolonged rainy season further reduced the projected revenue.

REVENUES - FINANCIAL SUMMARY

The City of Sonoma's TOT rate is currently 12%, which is retained and used as a General Fund revenue. In November 2018, 70% of Sonoma voters approved Measure S, a 2% increase to the TOT which became effective in January 2019, and gave the City Council the authority to increase another 1% within 5-years of the vote. TOT represents over 25% 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.

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 \$3,637,856, about 6% below the original budget projection and about 2% below FY 16/17. This was a result of booking losses from the 2017 fires for October (typically a peak tourism month) and several months thereafter. In FY 18/19, MacArthur Place Hotel also embarked on a major renovation of all rooms, its restaurant and spa, which should increase TOT at this hotel. Overall, staff is projecting that the earlier trend will resume and with the 2% increase in TOT, plus the completion of the MacArthur Place Hotel renovation, TOT is estimated at \$4.8 million for FY 19/20, an increase of 16.5%.

Transient Occupancy Tax Revenue



Sales Tax, Measure U and Measure M

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.

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.

REVENUES - FINANCIAL SUMMARY

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.

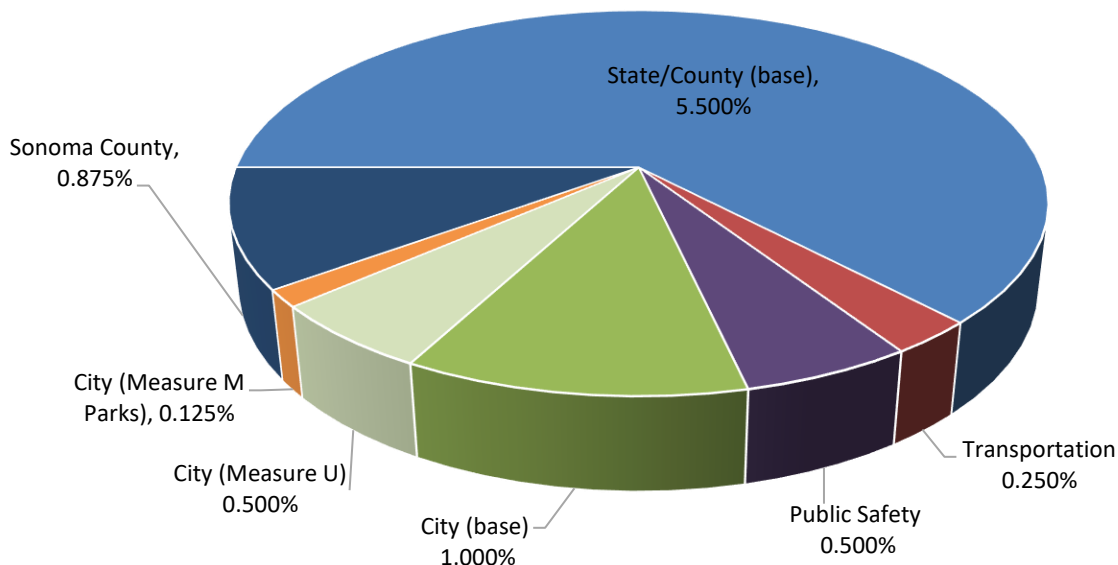
State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity and water delivered through pipes, prescription medicines, and other items.

The total sales and use tax rate in Sonoma is 8.75%. 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%. The City of Sonoma has a voter-approved 0.50% sales and use tax, known as Measure U, approved in 2016 for five years and an additional .125% sales and use tax known as Measure M - Sonoma County Parks, to be used for parks maintenance and capital projects. For FY 19/20 this is estimated to bring in \$118,612 in additional revenue. This revenue will be placed in a separate fund, (315-Parks Measure M,) and will be used for City parks maintenance and related CIP projects.

Sales Tax Breakdown (8.75% total rate)



REVENUES - FINANCIAL SUMMARY

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.

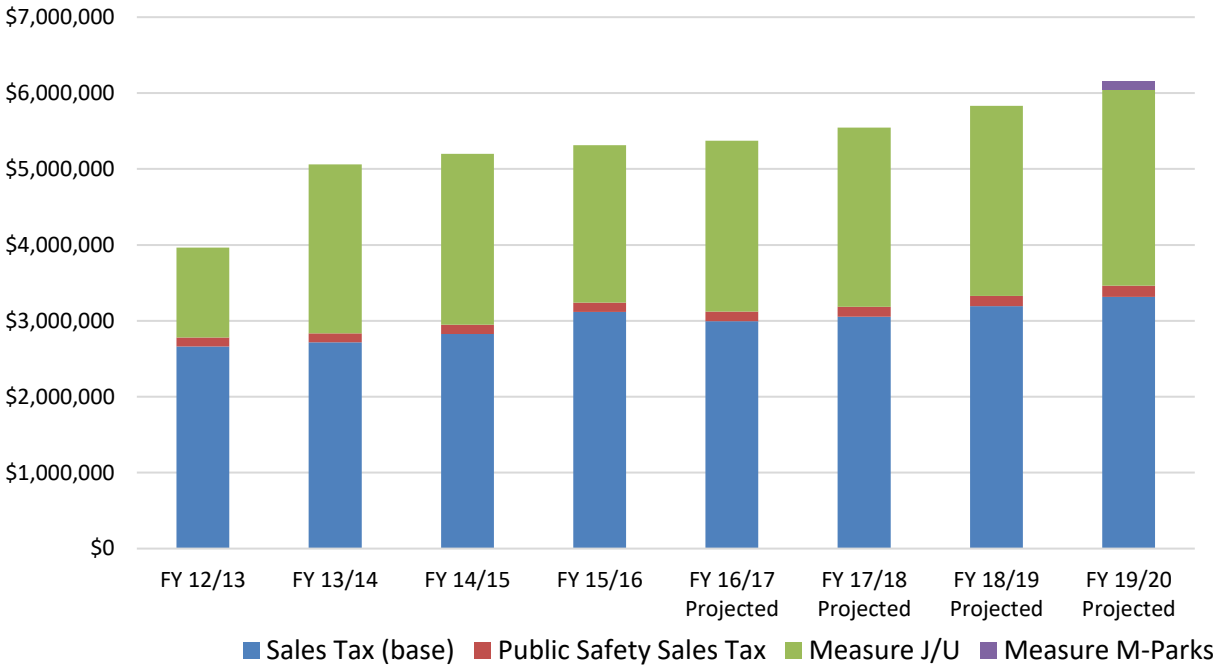
In July 2016, the City Council took action to extend the City’s local transaction and use tax on the November ballot. In November 2016, 73.3% of the voters of Sonoma passed Measure U – a ½ percent sales tax increase for 5 years. The City is appreciative of the voters’ confidence to invest this revenue 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.

Measure M – Sonoma County Parks 1/8 Cent Sales Tax - with the successful passage of Measure M - Sonoma County Parks 1/8 cent County-wide sales tax measure in 2018, the City of Sonoma will be receiving approximately \$115,000 per year for investment in parks maintenance and capital projects.

For FY 19/20, the City’s General Fund projected revenue from the “base” sales tax is \$3,315,762, with an additional \$146,600 from the City’s share of the Public Safety sales tax. This represents an increase of 4% over projected FY 18/19 actuals. Growth in tourism related sales, 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 to the large role played by online sales and out-of-town auto sales to local residents. Measure U General Fund Sales Tax revenue for FY 18/19 is projected at \$2,581,438, up by 3.1% over FY 18/19 projected actuals. Measure M Sonoma County Parks Sales Tax revenue for FY 19/20 is projected to be \$115,000.

REVENUES - FINANCIAL SUMMARY

Sales Tax Revenue



Property Tax

Property tax remains a major source of revenue for the City. In FY 19/20, a total of \$4,297,336 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 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

REVENUES - FINANCIAL SUMMARY

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 18/19 are more than \$4.26 million, coming in 9% higher than budgeted. Based on information received from the Sonoma County Assessor, property tax is projected to increase by 1% to \$4.29 million for Fiscal Year 19/20.

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 had been steady but began to decline in FY 18/19 with an increase in MediCal and other insurance write-offs. Fortunately, the IGT Program Revenue, which is directly related to the MediCal write-offs, has been steadily increasing, which helps offset some of this loss. For FY 19/20 EMS revenue is projected at \$1,530,754. An additional \$37,700 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 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.

REVENUES - FINANCIAL SUMMARY

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. In FY 18/19 staff presented an additional fee schedule to increase cost recovery on development-related staff work by planning and legal staff that was approved by Council and implemented in February 2019. The development-related fee update is reflected in the projections for fees and charges and is forecasted to bring in an additional \$250,000 in cost recovery fees. During FY 19/20, a general update to City fees and charges will be brought to Council for review.

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 \$454,500 in FY 19/20 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 \$524,362 in franchise tax revenue for FY 19/20.

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 \$516,136, 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 \$38,929.50) for a total of \$593,995. Also included is a transfer of \$100,000 from the Citizens Option for Public Safety (COPS) special revenue fund in support of Police operations.

Revenue update

This year, we are fortunate to have new funding from several sources to assist with operating and capital investments. In November 2018, 70% of Sonoma voters approved Measure S, a 2% increase to the TOT which became effective in January 2019, and gave the City Council the authority to increase another 1% within 5-years of the vote. Later this month, the City Council will consider implementing the additional 1% and programming it for housing investments for an amount of time to be determined. Measure S was a general tax to provide funding for infrastructure and general City services, including police, fire, emergency preparedness, streets, parks, open space, recreation and affordable/workforce housing. With the successful passage of Measure M, Sonoma County Parks 1/8 cents county-wide sales tax measure for parks maintenance, the City of Sonoma is receiving approximately \$115,000 per year for investment in park maintenance and capital projects. In addition, the State’s Park Bond (Proposition 168) provides \$200,000 in reimbursable grant funding for parks capital investments. The State’s recent passage of SB 2 provides up to \$200,000 in planning grants for cities like Sonoma to update general plans, community plans, specific plans, local planning related to increasing the amount of housing to be constructed. These funding sources are providing additional resources for enhanced investments and initiatives.

EXPENSE - FINANCIAL SUMMARY

EXPENSE OVERVIEW

The proposed budget for the City of Sonoma and the Sonoma Successor Agency for FY 2019-20 includes a combined Operating and Capital Improvement Program (CIP) Budget of \$37,040,552.

FY 19/20 APPROPRIATIONS FOR ALL FUNDS

Expenditure Category	FY 16/17 Projected Actuals*	FY 17/18 Projected Actuals*	FY 18/19 Adopted Budget	FY 18/19 Amended Budget	FY 18/19 Projected Actuals*	FY 19/20 Budget
GENERAL FUND:						
City Council (41001)	\$136,464	\$108,504	\$127,177	\$138,670	\$121,002	\$161,878
City Clerk (41002)	\$196,534	\$162,568	\$216,775	\$242,454	\$250,243	\$204,517
City Manager (41003)	\$217,325	\$272,223	\$486,953	\$489,300	\$443,220	\$596,553
Finance (41004)	\$287,363	\$423,838	\$603,147	\$606,702	\$583,026	\$741,086
Legal Services (41005)	\$436,836	\$458,604	\$450,300	\$700,300	\$700,491	\$517,405
Police (42101)	\$4,667,858	\$4,927,436	\$5,260,832	\$5,261,216	\$5,246,709	\$5,451,674
Fire/EMS (42201)	\$5,197,805	\$5,723,233	\$5,862,030	\$5,862,030	\$5,930,974	\$6,133,733
Public Works Admin 43020	\$977,370	\$1,193,047	\$1,354,378	\$1,360,067	\$1,281,503	\$409,656
100-43021 STREETS-CAPITAL PROJECTS	\$765,900	\$0	\$0	\$0	\$0	\$0
Public Works Streets (43022)	\$9,592	\$796,075	\$920,998	\$924,877	\$871,608	\$988,518
Public Works Parks (43023)	\$0	\$0	\$0	\$0	\$0	\$1,066,619
Planning (43030)	\$695,970	\$717,856	\$847,993	\$876,978	\$737,491	\$853,462
Building (43040)	\$502,871	\$544,451	\$604,468	\$608,505	\$627,332	\$631,720
Community Activities (43101)	\$566,679	\$560,300	\$624,487	\$630,112	\$630,112	\$667,297
Successor Agency (43199)	\$300,800	\$257,563	\$250,567	\$251,352	\$190,433	\$192,757
Non-Departmental (43200)	\$400,655	\$502,171	\$695,756	\$696,161	\$637,018	\$688,691
Subtotal General Fund	\$15,360,022	\$16,647,869	\$18,305,861	\$18,648,724	\$18,251,161	\$19,305,566
General Fund Transfer Out (43999)	\$1,731,111	\$431,511	\$1,057,035	\$1,057,035	\$1,057,035	\$1,063,126
Total General Fund	\$17,091,133	\$17,079,380	\$19,362,896	\$19,705,759	\$19,308,196	\$20,368,692
CAPITAL PROJECTS:						
Streets/Transp/Drainage Capital Projs (301)	\$40,000	\$117,101	\$277,000	\$277,000	\$277,000	\$468,877
Water Utility - Capital Projects (512)	\$0	\$2,262,346	\$464,000	\$464,000	\$416,000	\$1,755,680
Parks & Facilities Capital Projects (304)	\$0	\$0	\$0	\$0	\$427,733	\$115,000
ENTERPRISE FUNDS:						
Water Utility Operating (510)	\$4,572,747	\$7,673,553	\$4,977,783	\$4,988,130	\$4,709,388	\$6,671,762
Cemetery (501)	\$318,077	\$295,516	\$323,864	\$315,304	\$264,062	\$325,251

EXPENSE - FINANCIAL SUMMARY

Expenditure Category	FY 16/17 Projected Actuals*	FY 17/18 Projected Actuals*	FY 18/19 Adopted Budget	FY 18/19 Amended Budget	FY 18/19 Projected Actuals*	FY 19/20 Budget
SPECIAL REVENUE FUNDS:						
C.O.P.S. Grant (217)	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Gas Tax (302)	\$720,952	\$157,712	\$206,000	\$206,000	\$10,000	\$548,590
Transportation Measure M (313)	\$0	\$304,750	\$0	\$0	\$0	\$192,869
SB-1 Road Maintenance (303)	\$0	\$52,677	\$183,868	\$183,868	\$184,406	\$234,558
Parks-Proposition 68 (316)	\$0	\$0	\$0	\$0	\$0	\$200,000
Parks Measure M (315)	\$0	\$0	\$0	\$0	\$0	\$115,000
Parks-in-Lieu/Quimby Act (314)	\$0	\$0	\$0	\$0	\$0	\$520,000
Intergovernmental Transfer IGT (796)	\$236,555	\$482,238	\$263,992	\$263,992	\$472,852	\$355,000
Cemetery Endowment (504)	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
INTERNAL SERVICE FUNDS:						
Management Information Systems (601)	\$209,424	\$189,750	\$260,180	\$260,180	\$260,180	\$285,140
Vehicle Replacement (603)	\$218,051	\$244,926	\$336,100	\$336,100	\$336,100	\$408,000
Long Term Building Maintenance (610)	\$163,245	\$80,791	\$186,800	\$186,800	\$186,800	\$387,700
DEBT SERVICE FUNDS:						
CREBS (495)	\$41,749	\$41,749	\$41,749	\$41,749	\$41,749	\$41,749
POB (498)	\$417,019	\$410,225	\$0	\$412,100	\$412,100	\$412,100
AGENCY FUNDS:						
Successor Agency Admin (100)	See General Fund					
Successor Agency RPPTF-ROPS (391)	\$2,436,616	\$2,422,271	\$3,714,134	\$3,714,134	\$3,714,134	\$3,484,584
TOTAL:	\$26,615,567	\$31,964,984	\$30,748,366	\$31,505,116	\$31,170,701	\$37,040,552

* Unaudited

GENERAL FUND APPROPRIATIONS BY CATEGORY AND PROGRAM

The General Fund (**\$20,368,693** including transfers) is a significant component of the Operating Budget. The approximately **\$1 million or 5.19%** increase from last year's adopted budget includes two new full-time positions, (Senior Management Analyst and an Accountant) and two part-time positions, (Sustainability Coordinator and shifting the Special Events Manager from a contractor to a part-time employee due to legal parameters regarding contracted employees). The budget also reflects projected increases in Police and Fire contracts, along with other general across-the-board ongoing increases. The majority of other new General Fund expenditures are one-time projects and purchases, which are proposed to be funded from Unassigned Reserves. As always occurs, some one-time projects that were budgeted in FY 18/19 have been carried over to be completed in FY 19/20. No funding for City employee compensation has been budgeted since we are currently in negotiations.

Some of the key increases outlined above include:

- **\$125,000** additional staffing for a Senior Management Analyst;
- **\$97,000** additional staffing for an Accountant;

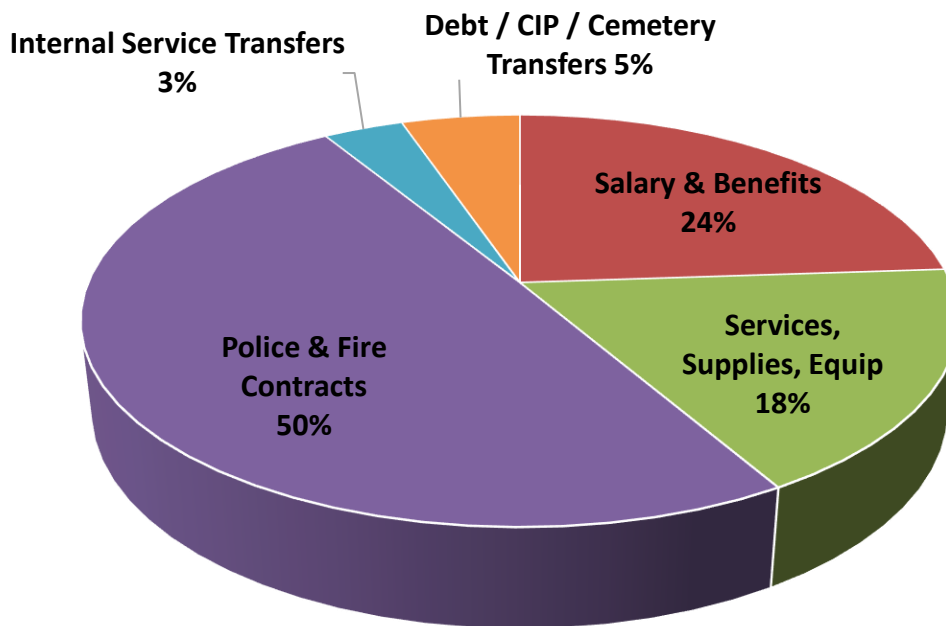
EXPENSE - FINANCIAL SUMMARY

- **\$163,320** in the General Fund for the CalPERS unfunded pension liability FY 19/20 annual growth;
- **\$64,339** for the annual portion of the REMIF 5-year assessment for workers' compensation and liability insurance;
- **\$216,326** for Fire and EMS contract with Valley of the Moon Fire District and **\$92,279** for Police contract with Sonoma County Sheriff's Department. (Both of these increases reflect employee compensation increases for FY 18/19 that were not included in prior budget due to timing of negotiations; therefore the increase reflects two years of labor increases.)

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

The City of Sonoma's General Fund expenses can be grouped into several broad categories. The Police and Fire Service Contracts are the largest category of expenses for the City. It is very typical for municipalities to spend most their General Fund budget on public safety. In looking at the General Fund on a program basis (excluding transfers for one-time projects), **50%** of operating expenditures go to Police, Fire, and Public Works. Many cities invest over 60% of their General Fund in public safety.

General Fund Expenditures By Category



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 \$157,600 in one-time special projects, which are mostly included in the Services, Supplies & Equipment category. The proposed General Fund budget also includes transfers for **\$1,063,126** to other funds. These transfers include a total of **\$454,249** 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 **\$578,877** from General Fund Reserves for Capital Improvement Program projects (discussed in further detail below). Finally, the Internal

EXPENSE - FINANCIAL SUMMARY

Service Funds category comprises contributions to Citywide funds for replacement of informational technology and vehicles, as well as long-term building maintenance.

BUDGET CHANGES

Global Updates 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: 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 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.

Employee’s Salary: The City has one formal union, SEIU, with all other employees unrepresented. The current SEIU MOU and management agreement expires on June 30, 2019.

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. Although City has been judicious through the years about pensions, pension costs are increasing for all cities. Pensions are funded in three ways -- investment earnings by CalPERS, contributions by employees and contributions by employers. PERS investment earnings used to pay well over 70% of the total cost. As of June 30, 2018, PERS investment earnings are paying 59% of total pension costs. As investment earnings provide less funding, public agencies as the employer are faced with increasing costs.



As of June 30, 2018, CalPERS had about 71% of the funds required to pay estimated retirement benefits. There are several factors contributing to CalPERS’ insufficient funding, 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, all of which have pushed costs to the cities as the employer.

EXPENSE - FINANCIAL SUMMARY

CalPERS Investment earnings affect how much future benefit payments can be funded by investment income rather than by contributions. If lower investment earning occurs, 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. CalPERS investment earnings for the past six years are reflected in the chart below.

CalPERS Investment Earnings – Recent Years (www.calpers.ca.gov)					
2013	2014	2015	2016	2017	2018
13.20%	18.4%	2.4%	0.6%	11.2%	8.6%

(www.calpers.ca.gov)

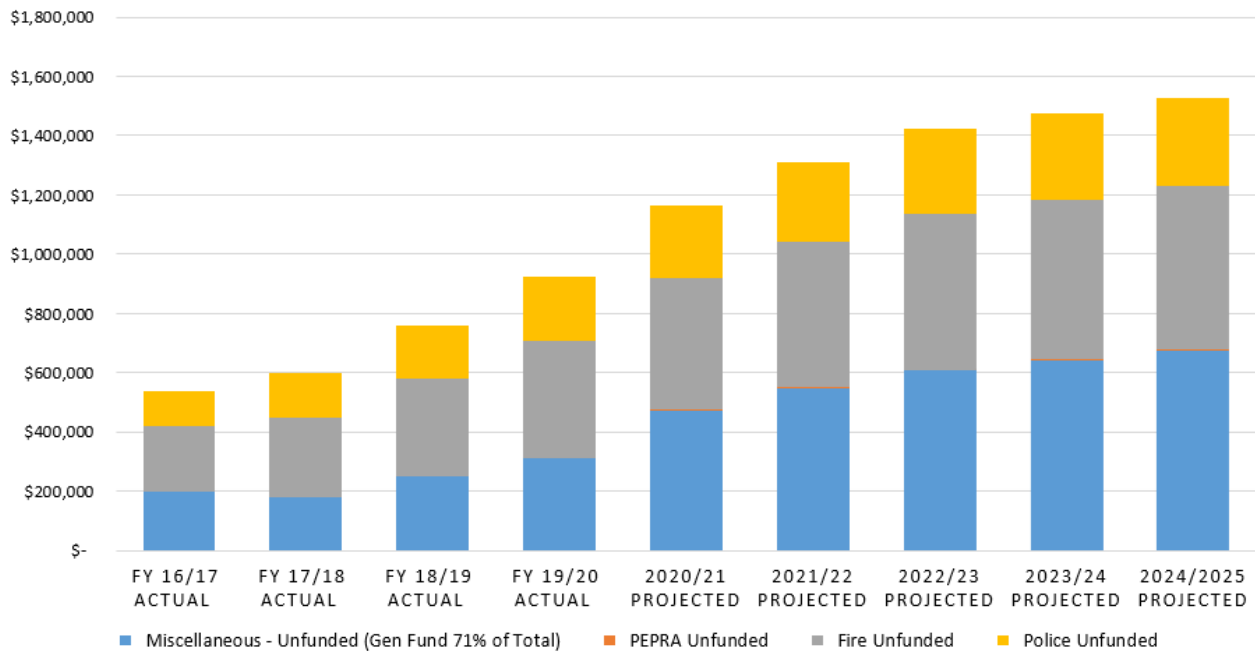
There are two primary costs for pensions – the “normal cost”, which is the annual cost for the current year of service and the “unfunded liability”. For FY 19/20, the projected normal cost to be paid by the City for employee retirement will increase from 10.152% of payroll to 10.868% of payroll with employees paying 1% of this cost. The City also pays a fixed annual amount for the Unfunded Actuarial Liability (UAL) of current employees, as well as past fire and police employees.

CalPERS Costs	2018/19	2019/20	Change
Annual Costs (Normal Costs)			
Classic Member Rate	10.152%	10.868%	0.72%
PEPRA Member Rate	7.266%	7.072%	-0.19%
Unfunded Liability Assessments			
UAL Classic Member	\$ 250,920	\$ 310,702	\$ 59,782
UAL PEPRA Member	\$ 292	\$ 1,652	\$ 1,360
UAL Safety Fire	\$ 328,042	\$ 394,282	\$ 66,240
UAL Safety Police	\$ 180,793	\$ 216,644	\$ 35,851
Total	\$ 760,047	\$ 923,280	\$ 163,233

Based on CalPERS investment earnings and other policy changes, all California cities that are members of CalPERS are seeing their unfunded liability increase. Looking forward, CalPERS has estimated pension unfunded liability costs increasing for the City of Sonoma from \$760,047 in FY 18/19 to a projected \$1,528,100 in FY 24/25. The chart below shows the unfunded liability costs projected for the City of Sonoma over the next six years.

EXPENSE - FINANCIAL SUMMARY

PERS UNFUNDED LIABILITY



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 includes 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.

Employee Health Insurance: While many California cities are experiencing 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) the City’s contribution to employee health insurance is fixed based on enrolled members (single, couple, family). The FY 19/20 budget includes no 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 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 continue to pay assessments of \$85,351 for the next four years for liability and workers’ compensation, and in year five 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, will be paid in full by the end of 2021.

EXPENSE - FINANCIAL SUMMARY

Program-Based Budget Modifications and Special Projects: See Financial summary / reserves. 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.

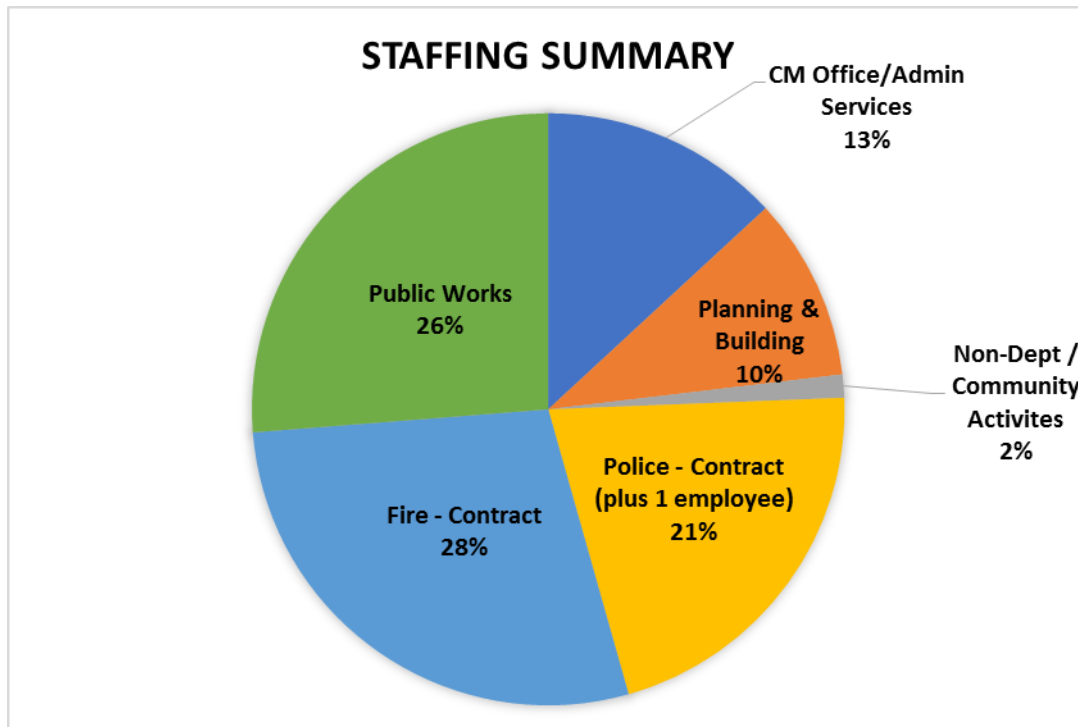
SUMMARY OF STAFFING AND POSITIONS

City of Sonoma FY 19/20 Budget Summary of Staffing - Position Allocation

Departments	Adopted Budget	Adopted Budget	Proposed Budget
	Authorized Personnel FY 17/18	Authorized Personnel FY 18/19	Authorized Personnel FY 19/20
City Manager's Office/Administrative Services	8.40	8.15	10.50
Planning and Building Services	8.00	8.00	8.50
Non-Departmental / Community Activities	0.00	0.38	1.01
Police	0.60	0.60	1.00
Public Works	21.00	21.00	21.00
Total City Employees (FTE, includes part-time staff)	38.00	38.13	42.01
Police (Sheriff contract staffing) *	16.00	16.00	16.00
Fire (SVFRA contract staffing) *	22.52	22.52	22.52
TOTAL STAFFING:	76.52	76.65	80.53

* 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%) without Glen Ellen.



SUMMARY OF STAFFING AND POSITIONS

City of Sonoma FY 2019-20 Budget Detailed Position Allocation Listing by Department

The City Council has policy authority for approving all regular positions within the City's budget. A Position Allocation Chart is the tool used to monitor and track positions. The City of Sonoma has contracts for fire/emergency medical services with the Valley of the Moon Fire District and with Sonoma County Sheriff's Department for law enforcement services. Those staff are not employees of the City of Sonoma and are not listed here. The budget narrative provides an overview of the staffing provided by the contracts.

	Adopted Budget Authorized Personnel FY 17/18	Proposed Budget Authorized Personnel FY 18/19	Proposed Budget Authorized Personnel FY 19/20
City Manager's Office/Administrative Services			
City Manager	1.00	1.00	1.00
Senior Management Analyst	0.00	0.00	1.00
City Clerk/Executive Assistant	1.00	1.00	1.00
Assistant City Manager/Admin Svcs Director	1.00	1.00	1.00
Administrative Services Manager	1.00	1.00	1.00
Accounting Manager	1.00	0.00	0.00
Deputy Finance Manager*	0.00	1.00	1.00
Accountant	0.00	0.00	1.00
Accounting Technician	1.75	2.00	2.00
Administrative Clerk - Finance	0.40	0.40	0.00
Administrative Clerk PT (<i>prev. shown in Planning</i>)	0.50	0.00	0.00
Administrative Assistant	0.75	0.75	1.00
Administrative Assistant PT	0.00	0.00	0.50
	8.40	8.15	10.50
Community Development (Planning and Building Departments)			
Planning & Community Services Director	1.00	1.00	1.00
Senior Planner	1.00	1.00	0.00
Associate Planner	1.00	1.00	2.00
Development Services 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
PT Sustainability Coordinator (<i>2 yr.; Limited Term</i>)	0.00	0.00	0.50
	8.00	8.00	8.50
Non-Departmental / Community Activities			
PT Webmaster/Public Info	0.00	0.38	0.38
Community Engagement Manager (<i>prior contract</i>)	0.00	0.00	0.63
	0.00	0.38	1.01

SUMMARY OF STAFFING AND POSITIONS

Police and Fire (excludes contract services staff)

Administrative Clerk - Police	0.60	0.60	1.00
	0.60	0.60	1.00

Public Works

Public Works Director/City Engineer	1.00	1.00	1.00
Administrative Assistant	1.00	1.00	1.00
Environmental Compliance Specialist	1.00	1.00	1.00
Public Works Project Manager	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
	21.00	21.00	21.00

Total Budgeted Staffing (Full Time Equivalent)

	38.00	38.13	42.01
--	--------------	--------------	--------------

NOTES:

Some positions are charged to multiple departments; these are listed in the department where the largest percentage is charged. Does not include extra help for vacation backfill, minor projects or peak workloads.

FY 19/20 Changes -- New Accountant 1.0, Senior Management Analyst 1.0; Convert Administrative Assistant .75 FTE to full-time, shift contract Community Enhancement Manager to employee position; shift Administrative Clerk 0.4 FTE from Finance to Police; add 2-year limited term Sustainability Coordinator 0.50 FTE, add temporary Administrative Assistant .50 FTE

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

GENERAL FUND RESERVES

In 2019, the City Council updated the City’s Financial Reserve Policy to maintain stable reserve levels for the General Fund and formalized reserve policies for the Water Fund. Below is the updated policy which contains reserve parameters for the General Fund. The Water Fund Reserve policy is at the end of this section. The City recently adopted a formal Water Reserve policy and the Water Utility Fund is building reserves to comply with these best practices.

BACKGROUND

Comprehensive reserves are a vital component of a sound financial plan for both the City and the City’s Water Utility Fund. Strong reserves position an organization to weather significant economic downturns more effectively, alleviate the consequences of outside agencies actions that may result in revenue reductions, and help to manage unexpected emergencies, such as natural disasters, catastrophic events, or excessive liabilities or legal judgements against the organization.

Fiscal stability is an important factor to any City. It is Council’s responsibility to provide for the continuation of services in the event of natural or fiscal emergency. Realizing that city revenues are not stable and are dependent upon national, state and local economic trends, it is prudent for the City of Sonoma to have a “Financial Reserve Policy” in place to address any downturns that would affect the city revenues.

The City of Sonoma endeavors to maintain adequate reserves for its General Fund and Water Utilities Fund, as a matter of fiscal prudence and sound financial management. These policies will guide the City in:

- Planning for economic uncertainties, downturns in the local or national economy, local disasters or catastrophic events;
- Maintaining good standing with credit rating agencies;
- Future debt or capital obligations
- Ensuring cash availability when revenue is unavailable
- Deciding when to use reserves and how to replenish reserves if they have been spent.

Per current Government Accounting Standards Board Statement No. 54, (“GASB” 54), fund balances are divided into five (5) categories in the financial statements:

CATEGORY	DESCRIPTION
Non-Spendable	Cannot be readily converted to cash or is not legally spendable (example: assets required to be maintained intact)
Restricted	Externally imposed restrictions on spending (creditors, granting agencies, or laws)
Committed	City Council formally imposed restrictions on spending (by resolution or other action)
Assigned	Funds reserved by City Council direction of City for designated purposes
Unassigned	Residual balance not classified in any of the above categories and available for expenditure

RESERVE SUMMARY

Cities often create different reserves within these classifications to set aside funds for specific purposes. For purposes of this document, the City’s General Fund reserve will include the sum of the Committed, Assigned, and Unassigned Fund Balances for that fund.

To mitigate these financial challenges, three separate General Fund reserves and three separate Water Utility Fund reserves are established as set forth below.

GENERAL FUND RESERVES

GENERAL FUND			
Reserves	Description	Calculation	GASB Categorization
General Fund Operating Reserve	Provide funding to evaluate alternatives in the event of financial hardships, provide resources in times of economic uncertainties and downturns, and to provide funding due to unexpected expenditures and/or reductions in revenues.	Two (2) months annual operating expenditures (17% of annual operating expenditures)	Committed
General Fund Emergency Reserve	Provide operating and/or repair funds in the event of a local disaster or catastrophic event.	Base amount of \$1,500,000	Committed
General Fund Special Projects Reserve	To segregate surplus fund balance from recurring revenue sources so that such surpluses will be appropriated only for non-recurring expenditures and 2) to create a funding source for one-time projects such as, but not limited to: <ul style="list-style-type: none"> ▪ 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) ▪ Temporary service programs (for example, a limited-duration code or traffic enforcement effort). 	No dedicated funding; based on Council direction and financial resources	Committed or Assigned
General Fund Unassigned Reserve	Residual balance not classified in any of the above categories and available for expenditure	Residual General Fund balance not classified above and available for expenditure	Unassigned

RESERVE SUMMARY

General Fund Operating Reserve

The purpose of the General Fund Operating Reserve is to provide sufficient cash flow and to provide breathing room for the City to evaluate alternatives in the event of financial hardships, provide resources in times of economic uncertainties and downturns, and to provide funding due to unexpected expenditures and/or reductions in revenues.

The Government Finance Officers Association (GFOA) maintains a best practice for general fund reserves. While the level of reserves should be assessed on a City's unique circumstances or risk levels, the recommended best practice is to keep at least two months of operating expenditures or minimum of 15% reserves.

The General Fund Operating Reserve can cover any significant unanticipated or mandated expenditures which cannot be deferred or efficiently 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 General Fund Operating Reserve is distinguished from the General Fund Emergency Disaster/Reserve, from any reserves that may be assigned for specific purposes, and from unassigned fund balance and shall be reported separately on the balance sheet.

Under "GASB 54" the General Fund Operating Reserve will also be categorized in the City's financial statements as *Committed* fund balance.

When adopting the budget each year, the City of Sonoma shall establish a General Fund Operating Reserve of 17% of annual General Fund expenditures, (equal to two month of annual operating expenditures), which is available for appropriation for financial hardships or to provide resources in times of economic uncertainties and downturns, and to provide funding due to unexpected expenditures and/or reductions in revenues.

Process for the Use of the General Fund Operating Reserve in the Event of Financial Adversity:

- In the event of financial adversity, (defined as a prolonged downturn in one or more major revenue sources for the General Fund or imposition of a significant, unanticipated and unavoidable expense that cannot be deferred or efficiently funded by borrowing), staff would request City Council approval to utilize the General Fund Operating Reserve to maintain current service levels until a reduced budget is prepared or other solutions identified.
- Appropriate staff (i.e. City Manager, Assistant City Manager and Department Heads) would evaluate affected revenues and programs and make recommendations regarding any reduced service levels and/or any other solutions.
- The proposed financial plan would be shared with all City staff.
- Recommendations from the City Manager and staff on the proposed financial plan would be presented to the City Council for review, discussion, and adoption at a public meeting.

Use of the General Fund Operating Reserve in the event of financial adversity will be by direction of the City Council only and shall be appropriated by a simple majority vote of the City Council.

Whenever expenditures or transfers are made from the General Fund Operating Reserve, it shall be a high priority for the City to reimburse such expenditures soon, normally by deferring other service or project expenditures.

RESERVE SUMMARY

Should the Council opt not to draw on the Operating Reserve 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; and/or
- Other financing options available at the point of need.

The City Council may from time-to-time authorize budget appropriations that would reduce the General Fund Operating Reserve below its policy-mandated 17% level and this shall be by a simple majority vote of the City Council.

If the City Council appropriates funds that, for any purpose authorized in this policy, would drop the General Fund Operating Reserve below 17%, the next budget cycle should include a plan for how the General Fund Operating Reserve will be restored to the required 17% reserve level within a reasonable time.

General Fund Emergency Reserve

The purpose of the City of Sonoma's General Fund Emergency Reserve is to provide operating and/or repair funds in the event of a local disaster or catastrophic event.

When adopting the budget each year, the City of Sonoma shall establish a General Fund Emergency Reserve of \$1.5 million, which is available for appropriation to respond to local disasters or catastrophic events, whether natural or man-made.

The City Council may from time-to-time authorize budget appropriations that would reduce the General Fund Emergency Reserve below its policy-mandated \$1.5 million level and this shall be by a simple majority vote of the City Council. These appropriations should be made only in response to significant events such as, (but not limited to), natural disasters, declared emergencies or catastrophic events.

If the City Council appropriates funds that, for any purpose authorized in this policy, would drop the General Fund Emergency Reserve below \$1.5 million, the next budget cycle should include a plan for how the General Fund Emergency Reserve will be restored to the required \$1.5 million reserve level within a reasonable time.

In case of emergencies falling under the purview of the City of Sonoma Municipal Code Section 2.36, purchases authorized by the Director of Emergency Services under Section 2.36.060 (b) may cause the balance in the General Fund Emergency Reserve to fall below the required \$1.5 million level.

Under "GASB 54" the General Fund Emergency Reserve will be categorized in the City's financial statements as *Committed* fund balance.

General Fund Special Projects Reserve

The City of Sonoma shall establish a General Fund Special Projects Reserve which is made up of unassigned fund balance in the General Fund. The purposes of the General Fund Special Projects Reserve are 1) to segregate surplus fund balance from recurring revenue sources so that such surpluses will be appropriated only for non-recurring expenditures and 2) to create a funding source for one-time projects such as, but not limited to:

RESERVE SUMMARY

- 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)
- Temporary service programs (for example, a limited- duration code or traffic enforcement effort).

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

Under “GASB 54”, the General Fund Special Projects Reserve will be categorized in the City’s financial statements as either Assigned, if the funds are reserved by City Council direction or the City Manager for designated purposes; or Committed or Assigned, if the funds are approved in the annual budget process.

General Fund 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. Financing levels of the inter-fund loan shall not exceed 50% of the available fund balance and shall be documented by an established repayment schedule, including interest accrued on the loan using the quarterly Local Agency Investment Fund (“LAIF”) interest rate earned by the City on its idle cash, approved by the City Council based on the recommendation of staff.

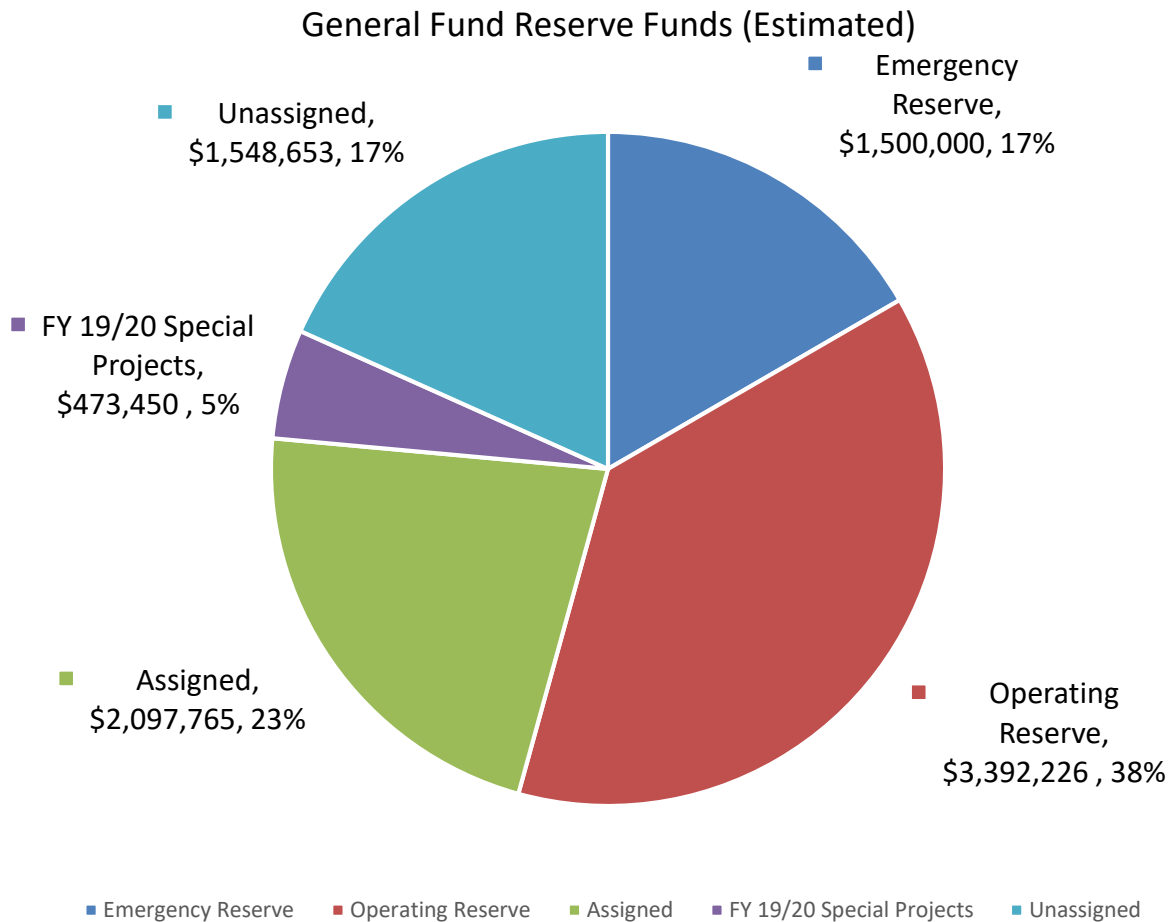
The staff recommendation shall include a certification that the fund from which the cash is to be borrowed shall not need these dollars during the repayment period to meet City obligations, based upon fund financial projections and based upon legal requirements. Repayment of these loans shall become the priority in future budgeting cycles.

RESERVE SUMMARY

CURRENT RESERVES

On the following page is a chart showing an estimate of current reserves based on the City Council's General Fund Reserve Policy outlined prior.

The FY 19/20 Budget includes a total of \$473,450 in appropriations from the unassigned Special Projects Fund. This includes \$185,000 for Capital Improvement Projects, \$157,600 for other one-time projects, and \$130,850 to carryover funding from FY 18/19 that are in process and/or not completed. A more detailed breakdown is on the next few pages.



RESERVE SUMMARY

USE OF GENERAL FUND RESERVES FOR FY 19/20 BUDGET

The table below shows the recommended use of unassigned Special Project Reserve. Reserves are used to fund a portion of Capital Improvement Projects, some one-time projects for this budget year only, and projects that are being carried over or budgeted from FY 18/19 since they were not completed.

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS	
Citywide Roadway Safety Improvement Projects (T-6)	\$175,000
City Hall Emergency Generator Connection - Assessment Project (BF-4)	\$10,000
TOTAL - CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS	\$185,000
ONE-TIME PROJECTS	
BUILDING - Vacation and Training Backfill (training new employee)	\$7,000
BUILDING - New Building Code books (every 5 years)	\$3,500
FINANCE - Accounting Interim Contract Assistance	\$24,000
PLANNING - Parking Study Consultant for Public Engagement	\$7,500
PLANNING - SCTA Travel & Behavior Study for VMT/General Plan	\$9,000
PW PARKS - Mower equipment replacement	\$10,000
PW STREETS - Crack sealer street maintenance equipment replacement	\$30,000
PW STREETS - EV Charging Stations Upgrade	\$20,000
NON-DEPT/FACILITIES - Council Chambers/Conf Room - New tables, décor, AV	\$8,500
NON-DEPT/FACILITIES - New office furniture - 2nd Floor City Hall	\$30,000
NON-DEPT/FACILITIES - Part-time assistance records scanning and archiving	\$8,100
TOTAL ONE-TIME EXPENSES	\$157,600
CARRYOVER / REBUDGET FROM FY 18/19	
PLANNING - Housing Town Halls Contract (carryover)	\$4,750
PLANNING - Cannabis Consultant Contract (carryover)	\$18,800
PLANNING - Cell Tower Technical Consultant (carryover)	\$5,000
Historic Railroad District (carryover)	\$15,000
Plaza Tree Risk Assessment (carryover)	\$35,000
Citywide Fee Study (carryover)	\$22,300
Cemetery Analysis (carryover)	\$30,000
TOTAL - OTHER ONE-TIME PROJECTS	\$130,850
TOTAL USE OF RESERVES FOR ONE-TIME PROJECTS & CARRYOVER	\$288,450

RESERVE SUMMARY

RESERVE SUMMARY – DRAFT / ESTIMATED	Estimates	Budget FY 19/20
GENERAL FUND RESERVE (estimated FY 18/19 year end)	\$9,012,094	
NON-SPENDABLE [Cannot be readily converted to cash or cannot legally be spent]	N/A	
RESTRICTED [Externally imposed restrictions on spending]	N/A	
COMMITTED (Includes 19/20 appropriations Special Projects Reserve) [Council formally-imposed restriction by resolution or other action]]		
Emergency Reserve: 1.5M	\$1,500,000	
Operating Reserve: 17%	\$3,392,226	
Capital Improvement Program Projects		
Traffic Safety Analysis (CIP T-6)		\$175,000
<u>City Hall Emergency Power Connection (CIP B-4)</u>	\$185,000	<u>\$10,000</u>
One-Time Projects		
BUILDING - Vacation and Training Backfill (training new employee)		\$7,000
BUILDING - New Building Code books (every 5 years)		\$3,500
FINANCE - Accounting Interim Contract Assistance		\$24,000
PLANNING - Parking Study Consultant for Public Engagement		\$7,500
PLANNING - SCTA Travel & Behavior Study for VMT/General Plan		\$9,000
PW PARKS - Mower equipment replacement		\$10,000
PW STREETS - Crack sealer street equipment replacement		\$30,000
PW STREETS - EV Charging Stations Upgrade		\$20,000
NON-DEPT/FACILITIES - Council Chambers/Conf Room Upgrades		\$8,500
NON-DEPT/FACILITIES - New office furniture - 2nd Floor City Hall		\$30,000
<u>NON-DEPT/FACILITIES - P/T assistance records scanning and archiving</u>	\$157,600	<u>\$8,100</u>
Carryover / Rebudget from FY 18/19		
PLANNING - Housing Town Halls Contract (carryover FY 18/19)		\$4,750
PLANNING - Cannabis Consultant Contract (carryover FY 18/19)		\$18,800
PLANNING - Cell Tower Technical Consultant (carryover FY 18/19)		\$5,000
PLANNING - Historic Railroad District (carryover FY 18/19)		\$15,000
PW PARKS - Plaza Tree Assessment (carryover FY 18/19)		\$35,000
NON-DEPARTMENTAL - Citywide Fee Study (carryover FY 18/19)		\$22,300
<u>CEMETERY - Cemetery Analysis (carryover FY18/19)</u>	\$130,850	<u>\$30,000</u>
TOTAL BUDGETED FY 18/19:		\$473,450
TOTAL COMMITTED	\$5,365,676	
ASSIGNED / SPECIAL PROJECTS RESERVE [Reserved by Council direction or City Manager for designated purposes]		
Council Approved Assigned Funds - Prior Years		
EMS Equipment Replacement Fund Reserve	\$380,840	
Broadway Affordable Housing Project (predevelopment loan)	\$25,000	
Water Transfer Set-Aside (sequester 3 years water transfers)	\$516,925	
Castagnasso Matching Grant Resolution	\$500,000	
<u>General Plan:</u>	\$500,000	
General Plan Consultant		
Community Survey		
Economic Development Strategic Plan		
<u>FY 19/20 Council Approved and City Manager Recommendations</u>		
Urban Growth Boundary (UGB) Review and Analysis	\$100,000	
Housing Action Plan	\$25,000	
Police/Fire Fiscal Analysis	\$50,000	
TOTAL ASSIGNED	\$2,097,765	
UNASSIGNED [Residual balance not classified in any of the above categories]	\$1,548,653	

WATER UTILITY FUND RESERVES

In 2019, the City Council updated the City’s Financial Reserve Policy to maintain stable reserve levels for the General Fund and formalized reserve policies for the Water Fund. Below is the update policy which contains reserve parameters for the Water Fund.

BACKGROUND

Comprehensive reserves are a vital component of a sound financial plan for both the City and the City’s Water Utility Fund. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agencies actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events, or excessive liabilities or legal judgements against the organization.

Per current Government Accounting Standards Board Statement No. 54, (“GASB” 54), fund balances are divided into five (5) categories in the financial statements:

CATEGORY	DESCRIPTION
Non-Spendable	Cannot be readily converted to cash or is not legally spendable (example: assets required to be maintained intact)
Restricted	Externally imposed restrictions on spending (creditors, granting agencies, or laws)
Committed	City Council formally imposed restrictions on spending (by resolution or other action)
Assigned	Funds reserved by City Council direction of City for designated purposes
Unassigned	Residual balance not classified in any of the above categories and available for expenditure

WATER UTILITY FUND RESERVES

It is the City Council’s responsibility to provide for the continuation of water utility services in the event of a natural or fiscal emergency, therefore fiscal stability is vital for the City’s Water Utility Fund. In 2018, the City updated its water rates and conducted a comprehensive review of the City’s Water Utility financial plan, user classifications, and various rate structures to help ensure the City will continue to provide high quality, dependable water service to the community while maintaining financial stability, affordability, and adequate levels of investment in infrastructure.

In keeping with sound financial policies three separate Water Utility Fund reserves were established, as outlined next:

RESERVE SUMMARY

Water Utility Fund			
Reserves	Description	Calculation	GASB Categorization
Water Utility Fund Operating Reserve	Provide cash flow to support the operation, maintenance and administration of the City's Water Utility Fund to cover any significant unanticipated or mandated expenditures.	Two (2) months of annual expenditures	Committed
Water Utility Capital Reserve	To cover any unexpected and unplanned infrastructure repairs and replacements not included in the Capital Improvement Plan (CIP) annual budget.	Annual average of CIP expenditures (averaged over the next five years)	Committed
Water Utility Fund Rate Stabilization Reserve	To be used during periods of short-term revenue shortages due to economic recession, drought, or other causes, to alleviate the need to quickly implement substantial rate increases.	10% of annual Volumetric Charge revenue, increasing by 1% every year until it reaches 15% of annual Volumetric Charge revenue	Committed

Water Utility Fund Operating Reserve

The purpose of the Water Utility Fund Operating Reserve is to provide working capital to support the operation, maintenance and administration of the City's Utility Fund, ensuring that cash flow needs of normal operations are met.

Beginning with fiscal year 2018/19, the City shall establish and maintain an Operating Reserve target level equal to two months or 17% of operating and maintenance expenditures.

The Water Utility Fund Operating Reserve can cover any significant unanticipated or mandated expenditures which cannot be deferred or efficiently 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 Water Utility Fund Operating Reserve is distinguished from any reserves that may be assigned for specific purposes and from unassigned fund balance and shall be reported separately on the balance sheet.

Under "GASB 54" the Water Utility Fund Operating Reserve will be categorized in the City's financial statements as Committed fund balance.

Process for the Use of the Water Utility Fund Operating Reserve in the Event of Financial Adversity:

- In the event of financial adversity, (defined as a prolonged downturn in one or more major revenue sources for the Water Utility Fund or imposition of a significant, unanticipated and

RESERVE SUMMARY

unavoidable expense that cannot be deferred or efficiently funded by borrowing), staff would request City Council approval to utilize the Water Utility Fund Operating Reserve to maintain current service levels until a reduced budget is prepared or other solutions identified.

- Appropriate staff (i.e. City Manager, Public Works Director and Department Heads) would evaluate affected revenues and programs and make recommendations regarding solutions.
- The proposed financial plan would be shared with all City staff.
- Recommendations from the City Manager and staff on the proposed financial plan would be presented to the City Council for review, discussion, and adoption at a public meeting.

Use of the Water Utility Fund Operating Reserve in the event of financial adversity will be by direction of the City Council only and shall be appropriated by a simple majority vote of the City Council.

Whenever expenditures or transfers are made from the Water Utility Fund Operating Reserve, it shall be a high priority for the City to reimburse such expenditures soon, normally by deferring other service or project expenditures.

Water Utility Fund Capital Reserve

The purpose of the Water Utility Fund Capital Reserve is to cover any unexpected and unplanned infrastructure repairs and replacements not included in the Capital Improvement Plan (CIP) annual budget.

Beginning with Fiscal Year 2018/19 the City shall establish and maintain a Water Utility Fund Capital Reserve of annual average CIP expenditures (averaged over the next five years). The Capital Reserve target levels do not include the debt funded CIP projects.

Use of the Water Utility Fund Capital Reserve in the event of any unexpected and unplanned infrastructure repairs and replacements not included in the Capital Improvement Plan (CIP) annual budget will be by direction of the City Council only and shall be appropriated by a simple majority vote of the City Council.

Whenever expenditures or transfers are made from the Water Utility Fund Capital Reserve, it shall be a high priority for the City to establish a plan to reimburse the Water Utility fund Capital Reserve as soon as fiscally possible.

Under "GASB 54" the Water Utility Fund Capital Reserve will also be categorized in the City's financial statements as Committed fund balance.

Water Utility Fund Rate Stabilization Reserve

The Water Utility Fund Rate Stabilization Reserve is to be used during periods of short-term revenue shortages due to economic recession, drought, or other causes, to alleviate the need to quickly implement substantial rate increases. Beginning in Fiscal Year 2018/19 the Water Utility Rate Stabilization Reserve target level is 11% of annual Volumetric Charge revenue. The Water Utility Rate Stabilization Reserve will be increase by 1% every year, until it reaches a targeted 15% percent of annual Volumetric Charge revenue.

Use of the Water Utility Fund Rate Stabilization Reserve during periods of short-term revenue shortages caused by economic recession, drought, or other reasons, will be by direction of the City Council only and shall be appropriated by a simple majority vote of the City Council.

RESERVE SUMMARY

Whenever transfers are made from the Water Utility Fund Rate Stabilization Reserve, it shall be a high priority for the City to reimburse the Reserve as soon as fiscally possible.

Under "GASB 54" the Water Utility Fund Rate Stabilization Reserve will also be categorized in the City's financial statements as Committed fund balance.



[This page intentionally left blank]

