



City of Sonoma

Budget in Brief

Fiscal Year 2020-2021

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The City's five-year General Fund Forecast model was developed as a best practice tool for remaining on a financially sustainable path.

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The COVID-19 pandemic is significantly impacting our local economy, our City revenues, and the services that our community needs. With so much uncertainty as to what the future will bring, the City of Sonoma is focused on supporting our residents and businesses throughout this public health and economic crisis, and setting a flexible course of action for funding city services.

With its tourism-based local economy, the City of Sonoma relies on revenues that have been significantly impacted by the pandemic. Last fiscal year (FY 2019-20) began with a balanced budget, but steep drops in hotel and sales taxes for the 4th quarter (April – June) led to an estimated revenue shortfall of more than \$2M. In May, the City Council approved a plan to reduce expenditures by cutting spending wherever possible and deferring one-time projects. With these cuts, preliminary figures show a FY 2019-20 year-end operating deficit of approximately \$650,000, which was funded with financial reserves.

In the coming months, Sonoma's finances will be affected not only by changes in the shelter-in-place restrictions but also by changes in consumer/traveler behavior, unemployment rates and the overall economy, as well as the possibility of federal aid to smaller cities. In developing the FY 2020-21 budget, the City used a multi-year General Fund Forecast model as a tool for remaining on a financially sustainable path, with several scenarios for key revenues.

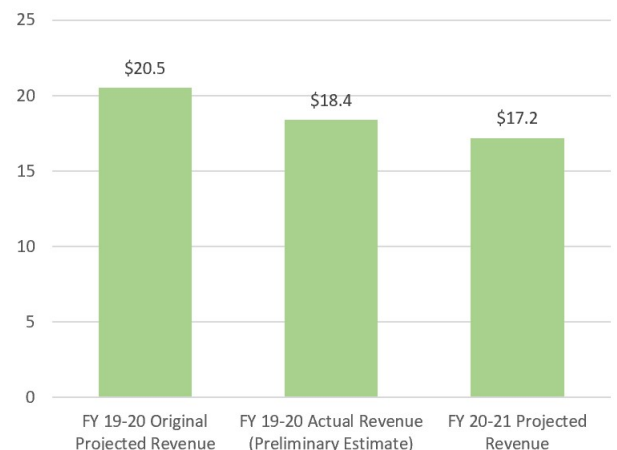
The budget adopted by the City Council for FY 2020-21 includes projected revenue of \$17.2M and significant spending reductions. Financial reserves will backfill funding for operations until more is known about the fiscal outlook for the coming year.

A budget is a plan. It sets a course of action. But more than ever before, budgeting is an ongoing process, with an emphasis on monitoring and modification. By using a phased approach to budget reductions, the City can preserve its capacity to provide services and respond to community needs, but remain flexible. The City's financial reserves were established for emergencies and economic downturns, which we are now experiencing simultaneously. Judicious use of these one-time resources allows time to plan for further restructuring and service level reductions if needed.

This "Budget in Brief" provides an overview of the City's operating and capital improvement budget. To learn more, or to subscribe to updates, please visit sonomacity.org.

Sincerely, Cathy Capriola, City Manager

**Pandemic Impact on
General Fund Revenue
(in \$ Millions)**



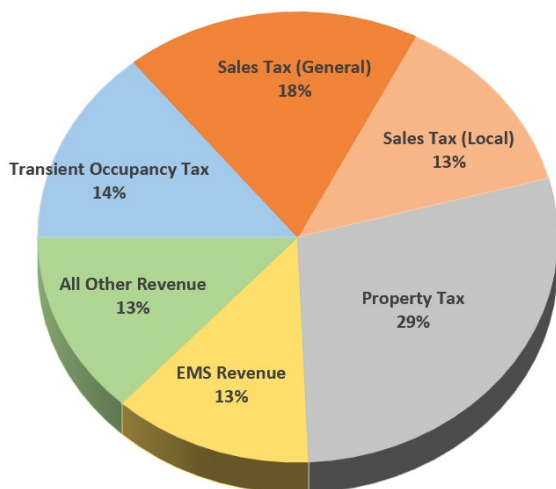
The General Fund

The City budgets and accounts for revenues and expenditures in several different funds. The largest is the General Fund, which provides for basic governmental services including public safety, planning and building services, maintenance of streets, parks, and facilities, and other community services as prioritized by the City Council. The Council adopts an annual budget for the fiscal year that begins on July 1. For FY 20-21, the General Fund budget totals \$19.3 million.

The General Fund revenues most impacted by the pandemic are hotel taxes (called Transient Occupancy Tax or TOT) and sales taxes. As of January 2020, annual TOT revenues were on track to reach \$4.8 million. With the pandemic shutdown, the FY 20-21 budget includes projected TOT revenue of less than half this amount, down about \$2.6 million. Sales taxes are also highly impacted by tourism, with restaurants comprising the largest single segment. Total sales taxes for FY 20-21 are projected at more than \$1 million below pre-pandemic levels.

Projected declines in these and other revenues will be partially offset by revenues sources with less short-term volatility, such as property taxes. But in total, the budget projects a \$3.3M decrease in total General Fund revenue (from \$20.5M in FY 19-20 adopted budget to \$17.2M in FY 20-21). Finance staff are tracking TOT and other revenues closely, and providing monthly financial reports to the City Council.

**Where the \$ Comes From:
FY 20-21 General Fund Revenue**



To meet the challenge of balancing the budget in this time of economic uncertainty, the adopted budget for FY 20-21 uses a combination of spending reductions and drawing down of reserves. Expenditures and reductions are summarized on the next page.

FY 20/21 Budget – General Fund	
Revenues	\$17,246,277
Expenditures	\$19,305,165
Deficit – Use of Reserves	\$2,058,888

Use of reserves is an appropriate and important part of the budget solution for the City's current financial situation. However, these are one-time funds, so as the impacts of the pandemic on City finances becomes more clear, further budget adjustments may be needed to align expenditures with revenues.

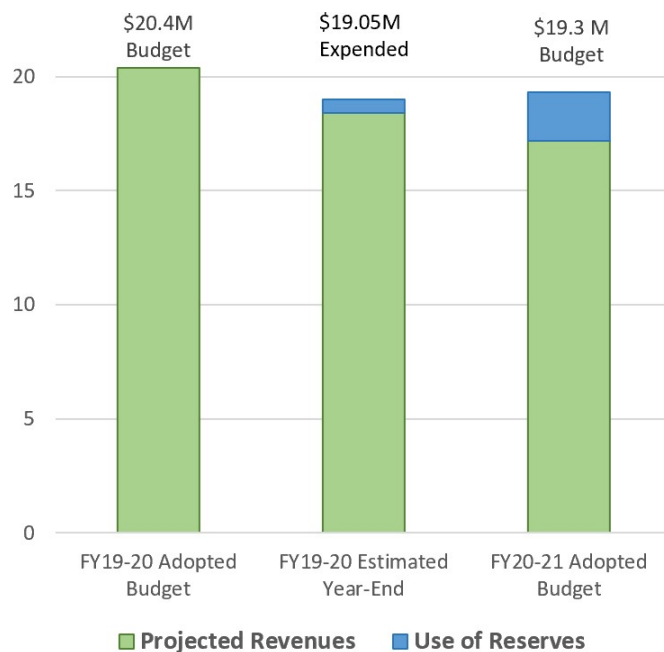
Reserves: the City's "Rainy Day Funds"

As a result of years of fiscal prudence, City has built healthy financial reserves, which function as savings accounts or rainy day funds. The **Emergency Reserve** helps fund the costs of responding to a major fire, earthquake, or pandemic. The **Operating Reserve's** purpose is to help mitigate the effects of economic downturns on City services and allow time to adjust operations accordingly. Any remaining reserves are available for one-time projects and to restore the emergency and operating reserves to their target levels.

After using \$650,00 to balance last year's budget, total General Fund reserves at the beginning of FY 20-21 are estimated at \$8M. The projected use of \$2M this year will draw total reserves down to \$6M.

Learn more about the City's reserve policy at sonomacity.org/financial-documents.

**How the Operating Budget is Funded
(\$ in Millions)**



Expenditures

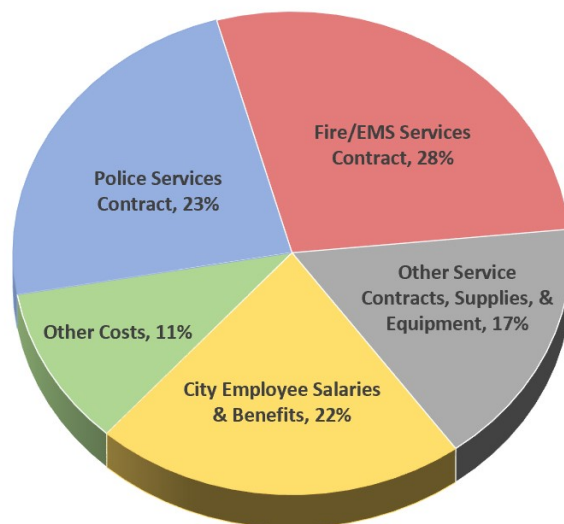
The City provides services to the community through a combination of city employees and contracts for services. The FY 20-21 budget includes a total of 42 FTE (full time equivalent) staff positions, whose salaries and benefits make up 22% of the General Fund Budget. Among the functions these employees provide are city management, council and commission support, city clerk services, finance, human resources, public information, community development services (planning and building), traffic safety, maintenance of streets and parks, management of capital projects, coordination of community events and services, and sustainability programs. City employees also operate and maintain the City's water utility, which has a separate fund.

City staff also manage a number of contracts for services, including fire and emergency medical services (SVFRA) and police services (County Sheriff). Together, public safety contracts comprise more than half of the General Fund budget (51%). Other city functions provided by contract include code enforcement, youth/family services, legal services, economic development services, recreation and social services, trail maintenance, specialized engineering services, and technology support.

Other operating costs include debt service, payments on accrued pension liabilities, property and liability insurance costs, and facility maintenance.

At \$19.3M, the FY 20-21 adopted budget for General Fund expenditures is about \$2M below the "status quo" forecasted expenditures for this year and \$1.1M less than the pre-pandemic FY 19-20 budgeted expenditures of \$20.4M. Although impacts from this level of budget reductions are unavoidable, these cuts were designed and will be implemented in ways to minimize impacts on service levels to the community and retain capacity of staff, which drives responsiveness, emergency response, and new initiatives. Further budget reductions, if needed, would likely require significant changes in the level and/or scope of services provided.

**Where the \$ Goes:
FY 20-21 General Fund Expenditures**



FY 20-21 Budget Reductions Include:

- Reduction of three full-time positions (including 1 Officer) and the K-9 unit in the Police services contract renewal.
- Reduction in park maintenance through eliminating contract services and bringing maintenance of all neighborhood parks in-house, with no increase in staffing.
- Reduction of 23% in funding for the Recreation and Community Services Program (the funding for these services is based on a percentage of the City's largest revenues); reduced funding to key non-profits for contract services.
- Elimination of almost all General Fund support for Capital Improvement Program projects. In recent years the budget included approximately \$500,000/year for CIP projects; the FY20-21 budget includes only \$5,000 (for the sidewalk repair program).
- Salary savings agreement with City's management and part-time staff to forgo a 3% increase for FY20-21.
- A 50% reduction in contributions to funds for vehicle replacement and long-term building maintenance (100% of contributions for FY19-20 were eliminated as part of the budget reductions for that year).
- Other reductions include significant cuts to the non-personnel budgets for all operating departments (including the Fire/EMS service contract), reduction to the Legal Services budget, and continued deferral of several one-time projects.

Other Highlights from the Operating Budget

- **FIRE:** The contract for Fire/EMS services includes continuation of three firefighter positions added last year using a federal grant ("SAFER" grant). The City only pays one-third of the cost for these positions during the 3-year term of the grant. Restricted reserves, generated from fire services contract savings from prior years, will be used to fund the City share of costs.
- **PARKS:** The City Council chose not to utilize the "financial downturn" provisions of the Measure M - Parks (a countywide voter approved one-eighth sales tax for regional and city parks and recreation), which would have allowed using these revenues to help fund existing parks operations. Instead, Council directed that these funds be used in accordance with voter intent, for additional services and park improvements implemented after the tax was approved.
- **SUSTAINABILITY:** The budget continues funding for the part-time Sustainability Coordinator position, as well as the "Fare Free Transit" program with Sonoma County Transit.
- **HOUSING:** In addition to an allocation \$150,000 from the City's Housing Trust Fund for rental assistance provided by Friends In Sonoma Helping (FISH) last fiscal year, the FY 20-21 budget includes \$35,000 to support services for those experiencing homelessness. The Housing Trust is funded by a City Council-designated portion of hotel tax revenues.
- **WATER:** The City has two "Enterprise Funds" (Water Fund and Cemetery Fund), which are supported by user fees and charges. In May, the City Council took action to defer the scheduled July 2020 water rate increase of 7.5% for six months in order to help community members with potential financial strain caused by the COVID-19 pandemic.

Sonoma's Local Half-Cent Sales Tax

Since 2012, the City of Sonoma has had a voter-approved local transaction and use tax, which adds a half-percent (0.50%) tax on purchases in the city to fund general City services. Prior to the pandemic, this local tax was contributing approximately \$2.5 million to the City's General Fund budget.

This local sales tax is set to expire on September 30, 2022. Without this revenue source, the City would need to consider further budget and service level reductions.

At the meeting at which the FY 20-21 Budget was adopted, the City Council also voted unanimously to place renewal of the local sales tax on the November ballot for voter consideration. This will appear on the ballot as "Measure V".

Capital Improvement Program Budget

The Capital Improvement Program (CIP) is a planning and budgeting document to support investment in public infrastructure throughout the City. The CIP includes projects to improve the City's streets, sidewalks, bikeways, stormwater drainage, water system, parks and open space, cemeteries, and City buildings. Due to the fiscal impacts of the pandemic, the FY 20-21 CIP budget minimizes use of the City's General Fund and reflects reduced estimates for other funding sources, such as gas tax.

The large majority of projects in this year's \$2.8 million CIP Budget are transportation related. These include funding for ongoing programs such as street slurry seals and roadway safety improvements, as well as two major projects scheduled for construction in Summer 2021 if planned federal grant funding is available: the Chase Street Bridge Replacement Project and the Fryer Creek Pedestrian and Bicycle Bridge Project.

For more information or to view budget documents, go to sonomacity.org/city-budget.

