

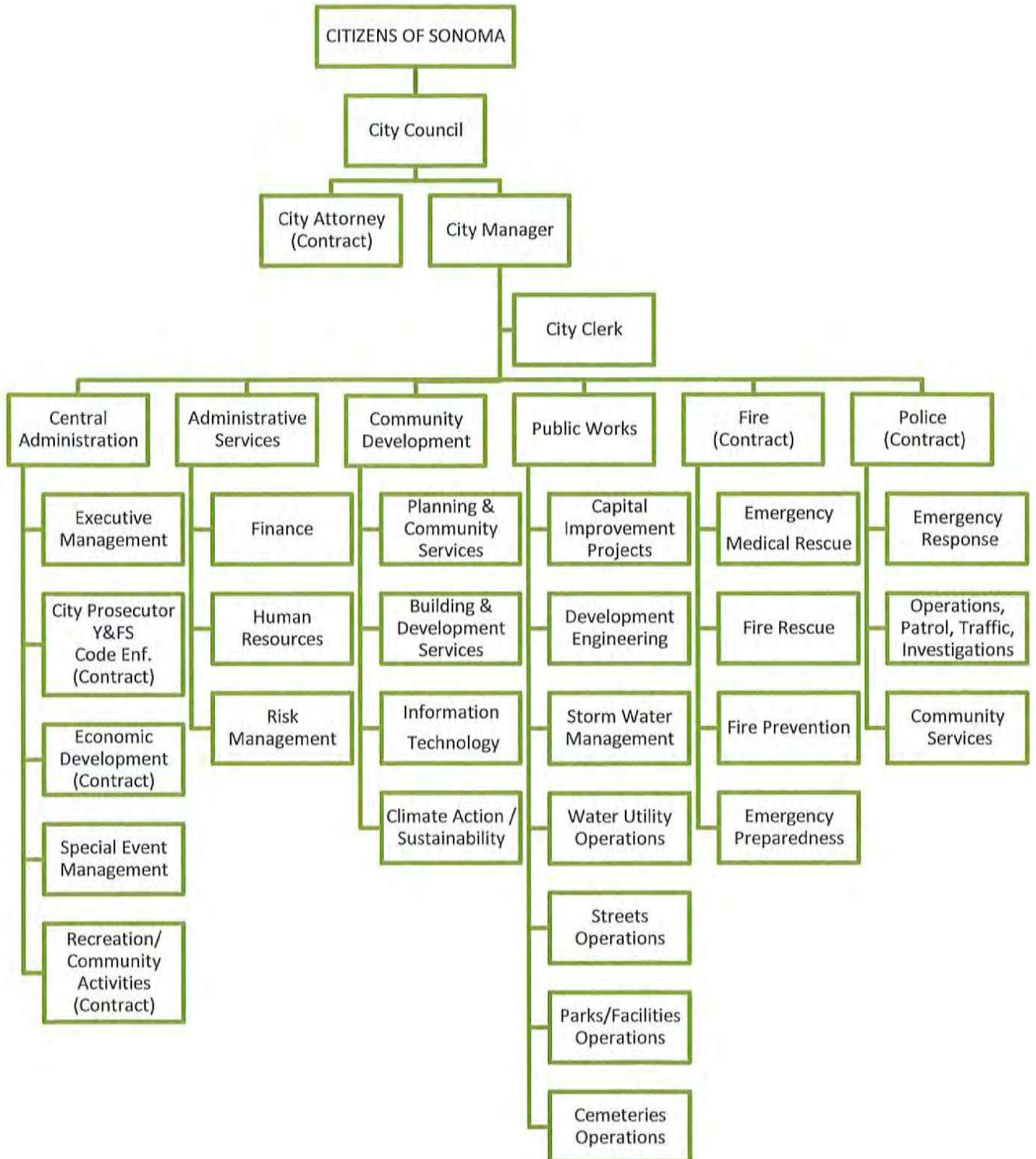
FINANCIAL SUMMARY

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



[This page intentionally left blank]

City of Sonoma -- Organization Chart (by function)



ALL FUNDS EXPENSE VIEW

**CITY OF SONOMA / SUCCESSOR AGENCY
OPERATING, CAPITAL PROJECTS,
ENTERPRISE, SPECIAL REVENUE, INTERNAL SERVICE, DEBT SERVICE AND AGENCY FUNDS
FY 21/22 ALL FUNDS EXPENSE**

Expenditure Category	FY 21/22 Budget	Expenditure Category	FY 21/22 Budget
GENERAL FUND - OPERATING:		SPECIAL REVENUE FUNDS:	
City Council (41001)	\$116,794	Public, Educational & Govt PEG (202)	\$52,000
City Clerk (41002)	\$346,895	C.O.P.S. Grant (217)	\$120,412
City Manager (41003)	\$740,891	Gas Tax (302)	\$611,400
Finance (41004)	\$834,704	SB-1 Road Maintenance (303)	\$444,114
Legal Services (41005)	\$478,295	Transportation Measure M (313)	\$205,735
Police (42101)	\$5,828,360	Parks-in-Lieu/Quimby Act (314)	\$363,577
Fire/EMS (42201)	\$6,523,921	Parks Measure M (315)	\$235,000
Public Works Admin (43020)	\$455,570	Parks-Proposition 68 (316)	\$177,952
Public Works Streets (43022)	\$915,600	EMS Equipment Replacement (521)	\$32,750
Public Works Parks (43023)	\$1,104,255	Grants Restricted (630)	\$70,000
Planning (43030)	\$992,312	Housing Trust Fund (732)	\$20,000
Building (43040)	\$703,274	Inter-Govt Transfer IGT (796)	\$760,739
Community Activities (43101)	\$631,284	Cemetery Endowment (504)	\$50,000
Successor Agency (43199)	\$50,000	INTERNAL SERVICE FUNDS:	
Non-Departmental (43200)	\$1,103,998	MIS (601)	\$376,922
Subtotal General Fund - Operating (100)	\$20,826,154	Vehicle & Equipment Replacement (603)	\$690,312
General Fund Transfer Out (43999)	\$923,035	Long Term Building Maintenance (610)	\$305,000
Total General Fund - Operating (100)	\$21,749,189	DEBT SERVICE FUNDS:	
CAPITAL PROJECTS:		CREBS (495)	\$41,749
Streets/Transp/Drainage Cap Projs (301)	\$219,236	POB (498)	\$0
Parks & Facilities Capital Projects (304)	\$360,000	AGENCY FUNDS:	
Water Utility - Capital Projects (512)	\$3,475,674	Successor Agency ROPS (391)	\$3,325,288
ENTERPRISE FUNDS:		TOTAL ALL EXPENSES	\$39,876,288
Cemetery (501)	\$393,794		
Water Utility Operating (510)	\$5,795,445		

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 and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt. For example, the Gas Tax Fund is designated as a Special Revenue Fund as it receives the State calculated allocation of motor vehicle fuel taxes which can only be used for legally restricted specific streets and related transportation purposes/projects.

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 is one other current debt obligation which has its own debt service fund.

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

Fund	Revenue Category/Fund Total	FY 18/19 Actuals	FY 19/20 Projected Actuals*	FY 20/21 Adopted Budget	FY 20/21 Amended Budget	FY 20/21 Projected Actuals*	FY 21/22 Budget
100	Property Taxes	\$4,235,814	\$4,504,042	\$4,527,641	\$4,527,641	\$4,527,641	\$4,643,155
100	Sales Tax	\$3,361,377	\$3,161,974	\$2,910,475	\$2,910,475	\$3,052,023	\$3,344,767
100	Measure U -Local Sales Tax	\$2,588,045	\$2,265,087	\$2,112,852	\$2,112,852	\$2,287,858	\$2,496,896
100	Transient Occupancy Tax	\$3,993,600	\$3,411,309	\$2,245,436	\$2,024,286	\$2,810,456	\$4,028,992
100	EMS Charges	\$1,545,926	\$1,912,995	\$1,980,000	\$2,805,557	\$2,200,000	\$2,600,000
100	Fees and Charges For Services	\$822,535	\$1,190,720	\$698,796	\$776,246	\$489,768	\$707,834
100	Franchise Taxes	\$486,027	\$454,351	\$511,020	\$511,020	\$511,020	\$420,000
100	Business License Taxes	\$407,381	\$377,875	\$408,907	\$408,907	\$380,000	\$380,000
100	Other Revenues	\$811,471	\$831,546	\$478,209	\$455,759	\$488,679	\$528,316
100	Transfers	\$898,038	\$898,038	\$1,372,941	\$1,372,941	\$1,386,479	\$1,174,368
100	Total General Fund	\$19,150,214	\$19,007,937	\$17,246,277	\$17,905,684	\$18,133,924	\$20,324,329
CAPITAL PROJECT FUNDS:							
301	City - CIP	\$307,438	\$347,542	\$78,200	\$78,200	\$14,144	\$441,600
304	Parks & Facilities CIP	\$349,764	\$13,653	\$100,000	\$100,000	\$0	\$100,000
ENTERPRISE FUNDS:							
501	Cemeteries	\$314,305	\$279,177	\$340,353	\$340,353	\$267,505	\$371,350
510	Water Utility	\$5,044,209	\$5,892,014	\$5,670,398	\$5,708,246	\$6,040,529	\$6,096,707
512	Water - CIP	\$457,632	\$72,891	\$77,750	\$77,750	\$158,272	\$77,750
SPECIAL REVENUE FUNDS:							
202	Public, Educational & Govt PEG	\$44,833	\$33,213	\$0	\$0	\$11,604	\$52,080
203	Strong Motion	\$622	\$0	\$0	\$0	\$0	\$0
211	Asset Forfeiture	\$12,052	\$0	\$0	\$0	\$0	\$0
217	SLESF Cops Grnt	\$122,937	\$122,791	\$100,000	\$100,000	\$111,452	\$102,000
234	Schell Drainage	\$3,693	\$0	\$0	\$0	\$0	\$0
240	Abandon Vehicle	\$42	\$0	\$0	\$0	\$0	\$0
302	Gax Tax	\$235,457	\$257,308	\$279,679	\$279,679	\$250,820	\$279,679
303	Road Maintenance SB1	\$222,386	\$213,139	\$199,809	\$199,809	\$199,809	\$227,058
313	Measure M Funds	\$80,292	\$91,653	\$80,600	\$80,600	\$80,600	\$97,000
314	Parks-In-Lieu Fees/Quimby Act	\$0	\$0	\$520,000	\$520,000	\$40,083	\$0
315	Parks Measure M Funds	\$5,097	\$131,795	\$95,000	\$95,000	\$95,000	\$141,113
316	Parks Proposition 68 Funds	\$0	\$0	\$200,000	\$200,000	\$0	\$200,000
504	Cemetery Endowment	\$38,830	\$41,201	\$40,620	\$40,620	\$32,849	\$40,620
630	Grants (Potential EV Chrging Stations Grant)	\$0	\$0	\$0	\$0	\$0	\$70,000
731	Senior Housing	\$2,898	\$0	\$0	\$0	\$0	\$0
732	Housing Trust Fund	\$25,183	\$184,726	\$0	\$187,120	\$187,120	\$375,486
750	Bids & Deposits	\$117,907	\$0	\$0	\$0	\$0	\$0
796	IGT Fire	\$1,135,049	\$990,607	\$0	\$0	\$990,000	\$500,000
INTERNAL SERVICE FUNDS:							
513	Water Equip Replacement	\$12,536	\$0	\$0	\$0	\$0	\$0
521	EMS-Equip.Replacement	\$7,255	\$0	\$0	\$0	\$0	\$2,500
601	Mgmt Information Service (MIS)	\$216,445	\$42,775	\$209,564	\$209,564	\$209,564	\$373,624
603	Vehicle Replacement	\$325,306	\$34,668	\$287,899	\$287,899	\$287,899	\$406,733
610	L/T Bldg Maint	\$331,915	\$38,428	\$330,247	\$330,247	\$330,247	\$322,635
614	Computer Loan	\$2,552	\$280	\$0	\$0	\$0	\$0
DEBT SERVICE FUNDS:							
495	2008 Creb Bonds	\$41,749	\$41,748	\$41,749	\$41,749	\$41,749	\$41,749
498	2012 Pension Obligation Bonds	\$413,559	\$412,500	\$412,300	\$412,300	\$412,300	\$0
AGENCY FUNDS:							
391	Successor Agency	\$3,655,674	\$3,373,978	\$3,358,048	\$3,358,048	\$3,317,652	\$3,358,048
701	Culture Fine Art	\$592	\$0	\$0	\$0	\$0	\$0
702	Tree Trust	\$933	\$0	\$0	\$0	\$0	\$0
715	Pool Scholarship	\$425	\$0	\$0	\$0	\$0	\$0
Revenue Total (*Unaudited)		\$32,679,928	\$31,624,024	\$29,668,493	\$30,552,868	\$31,213,122	\$34,002,061

REVENUES - FINANCIAL SUMMARY

The budget for the City of Sonoma and the Sonoma Successor Agency for FY 21/22 includes \$20,324,329 in General Fund Revenue and total revenue for all funds of \$34,002.061.

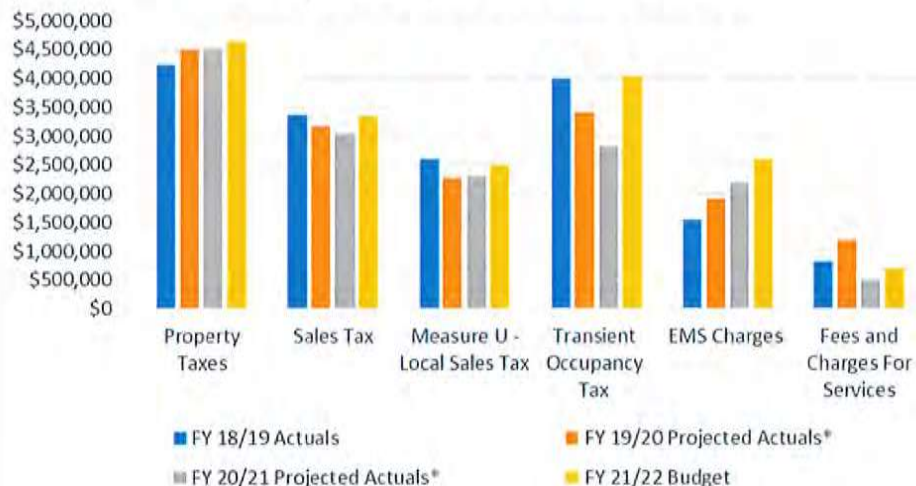
GENERAL FUND REVENUE

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 Property Tax, Sales Tax (General and Measure U) and Transient Occupancy Tax (TOT). Together, these sources comprise 71% of total General Fund revenue. Other major General Fund revenue sources include Emergency Medical Service (EMS) revenue, Fees & Charges for Services, Franchise Tax, and Business License Tax.

Total FY 20/21 General Fund revenues are projected to be \$18,133,924. For FY 21/22, revenues are projected to total \$20,324,329, an increase of about \$2.2 million or almost 12.1% over projected actual revenue for FY 20/21. Over 56% of the revenue growth is coming from a projected increase in Transient Occupancy Tax of \$1.2 million as hotels have been allowed to fully re-open and tourism is on the rise following the shelter-in-place closures of the COVID-19 pandemic.

Fund	Revenue Category/Fund Total	FY 18/19 Actuals	FY 19/20 Projected Actuals*	FY 20/21 Adopted Budget	FY 20/21 Amended Budget	FY 20/21 Projected Actuals*	FY 21/22 Budget
100	Property Taxes	\$4,235,814	\$4,504,042	\$4,527,641	\$4,527,641	\$4,527,641	\$4,643,155
100	Sales Tax	\$3,361,377	\$3,161,974	\$2,910,475	\$2,910,475	\$3,052,023	\$3,344,767
100	Measure U -Local Sales Tax	\$2,588,045	\$2,265,087	\$2,112,852	\$2,112,852	\$2,287,858	\$2,496,896
100	Transient Occupancy Tax	\$3,993,600	\$3,411,309	\$2,245,436	\$2,024,286	\$2,810,456	\$4,028,992
100	EMS Charges	\$1,545,926	\$1,912,995	\$1,980,000	\$2,805,557	\$2,200,000	\$2,600,000
100	Fees and Charges For Services	\$822,535	\$1,190,720	\$698,796	\$776,246	\$489,768	\$707,834
100	Franchise Taxes	\$486,027	\$454,351	\$511,020	\$511,020	\$511,020	\$420,000
100	Business License Taxes	\$407,381	\$377,875	\$408,907	\$408,907	\$380,000	\$380,000
100	Other Revenues	\$811,471	\$831,546	\$478,209	\$455,759	\$488,679	\$528,316
100	Transfers	\$898,038	\$898,038	\$1,372,941	\$1,372,941	\$1,386,479	\$1,174,368
100	Total General Fund (*Unaudited)	\$19,150,214	\$19,007,937	\$17,246,277	\$17,905,684	\$18,133,924	\$20,324,329

General Fund Major Revenue Sources



REVENUES - FINANCIAL SUMMARY

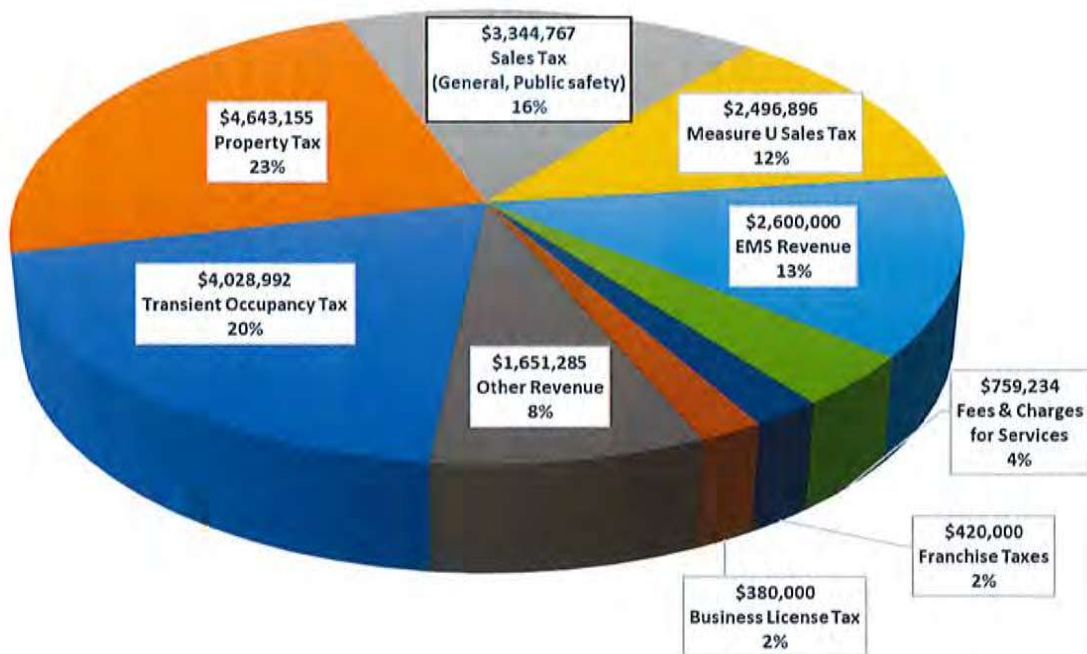
The City of Sonoma's General Fund revenue forecast is driven primarily by property tax, transient occupancy tax (TOT) and sales taxes. Property tax for FY 21/22 is projected to be \$142,117 more than the original FY 20/21 budgeted revenue of \$4,527,641. Regular property tax is increasing by 3.44%, however, the Sonoma County Assessor changed the methodology for calculating Redevelopment Property Tax Trust Fund (RPTTF) residual revenue resulting in a loss of approximately \$39,000 from the prior fiscal year budgeted revenue.

With a tourism-based local economy, the City of Sonoma is reliant on hotel and sales taxes which represent 48% of the City's General Fund budget. The City Sales Tax expert, HdL, is forecasting revenue from regular plus Public Safety Sales Tax at \$3,344,767 and Measure U Sales Tax at \$2,496,896. The combined total of \$5,841,663 is \$818,336 more than the original FY 20/21 combined budgeted Sales Tax revenue of \$5,023,327.

For FY 21/22 Staff is projecting TOT will be at 80% of "pre-pandemic normal" or \$4.0 million. (This revenue total includes the 1% TOT that is transferred to the Housing Trust Fund which is shown as a transfer out of the General Fund.) This is most likely a conservative estimate, as March 2021 TOT revenue was 86% of "pre-pandemic normal" and April 2021, with just the larger hotels reporting, is already higher.

The last 60 days of FY 21/22 and the first 90 days of FY 21/22 will provide more certain information regarding TOT revenue and its recovery.

**FY 21/22 Budget
General Fund Revenue Sources**



REVENUES - FINANCIAL SUMMARY

Transient Occupancy Tax (TOT)

The transient occupancy tax (or TOT) is also commonly known as a hotel tax. The tax is imposed on occupants of hotels, inns, and other short-term lodging facilities for stays of 30 days or less. The tax is applied to a customer's lodging bill. Transient occupancy taxes are remitted for all approved lodging operators within the City of Sonoma. The TOT is a general tax which is deposited into the City's General Fund.

TOT generated from Sonoma's lodging community currently represents more than one-fifth of the City's General Fund revenue. The General Fund pays for essential City services that benefit both residents and visitors. These include police protection, fire and paramedic services, emergency preparedness, maintenance of streets and traffic operations, recreation services, maintenance of parks and open space, maintenance of City buildings and facilities, improvements and maintenance of overall City infrastructure and property, and general municipal services to the public.

In a November 2018 mid-term election, voters approved Measure S, which increased the TOT rate from the then existing 10% to 12% effective January 1, 2019, and authorized the City Council to further increase the rate to 13% by January 1, 2024. On June 10, 2019, the City Council adopted a resolution authorizing the additional 1% increase in the TOT, effective September 1, 2019, bringing the total TOT rate to 13%.

Affordable workforce housing in the City of Sonoma has become a challenge and the City has made this issue a priority. In 2019, a Housing Trust Fund was established. Following approval of the additional 1% TOT the City Council voted to have the additional 1% transferred to the Housing Trust Fund. The additional 1% TOT increase helped fund affordable housing initiatives for Fiscal Years 19/20 and 20/21. This will continue in FY 21/22.

Lodging operators in the City of Sonoma collect both the TOT which is general city tax revenue and an additional 2% assessment that is remitted to the Sonoma Tourism Improvement District (STID) as a funding source for a sustained marketing program with the goal of increasing occupancy and room revenues in the City of Sonoma.

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.

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.

REVENUES - FINANCIAL SUMMARY

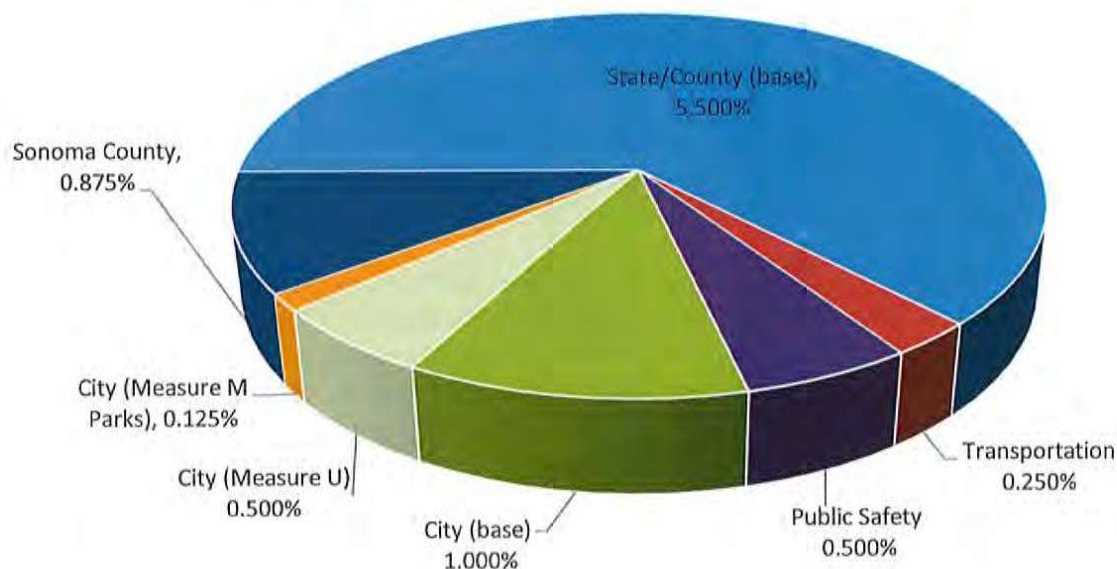
State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity, and water delivered through pipes, prescription medicines, and other items.

The total sales and use tax rate in Sonoma is 8.5%. 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 21/22, the City estimates it will receive \$154,806.
- 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 V, approved in 2020 on an ongoing basis until repealed by the voters 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 21/22 this is estimated to bring in \$80,000 in additional revenue. This revenue is 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)



Measure V – 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

REVENUES - FINANCIAL SUMMARY

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 transaction 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.

In November 2020, 68.93% of the voters of Sonoma passed Measure V – a ½ percent sales tax to continue funding general city services, including: emergency preparedness, infrastructure, street maintenance, parks, open space, community services, ambulance services, public safety, and supporting Sonoma's quality of life, on an ongoing basis until ended by voters.

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 21/22, the City's General Fund projected revenue from the "base" sales tax is \$3,344,767, with an additional \$154,806 from the City's share of the Public Safety sales tax. This represents an increase of 9.6% over projected FY 20/21 actuals. As the economy continues to recover from the pandemic, tourism related sales, construction sector and rising gas prices are expected to play a role in the increase for the coming year. Measure V revenue has been less volatile than general Sales Tax revenue, due mostly to the large role played by online sales during the shelter-in-place mandates of the COVID-19 pandemic. Measure V General Fund Sales Tax revenue for FY 21/22 is projected at \$2,496,896, up by 9.1% over FY 20/21 projected actuals of \$2,287,858. Measure M Sonoma County Parks Sales Tax revenue for FY 21/22 is projected to be \$80,000.

Property Tax

Property tax remains a major source of revenue for the City. In FY 21/22, a total of \$4,643,155 or approximately 23% of General Fund revenue is projected to be derived from property taxes.

REVENUES - FINANCIAL SUMMARY

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 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 2008 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 impacted an already tight housing market in Sonoma County. Projected property tax revenues for FY 20/21 are more than \$4.5 million. Based on information received from the Sonoma County Assessor, property tax is projected to increase by 2.55% to \$4.6 million for Fiscal Year 21/22.

REVENUES - FINANCIAL SUMMARY

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 21/22 EMS revenue is projected at \$2.6 million.

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.

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 \$150,000 in cost recovery fees. In June 2021, a general update to City fees and charges will be brought to Council for review.

Business License Tax: All individuals, partnerships, corporations, and sole proprietors conducting business within city limits are required to file a business license with the City on an annual basis. In accordance with the City of Sonoma Municipal Code 5.04, "it is unlawful for any person to transact and carry on any business, trade, profession, calling or occupation in the city without first having procured a license from the city...". This includes subcontractors, independent contractors, non-profits, and home-based businesses in the city. The City of Sonoma business license period is January 1 through December 31 of each year. All annual licenses are due and payable in advance on the first day of February. For new businesses within the city, the business license tax is due prior to the opening of the business. City Municipal Code sets the business license tax as a flat rate and not on a gross receipts basis. For most businesses, not all, the license is an annual fee plus an additional charge based on number of employees. 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.

REVENUES - FINANCIAL SUMMARY

However, as many small businesses were forced to close during the COVID-19 related shelter-in-place mandates, business license tax revenue is projected at \$380,000 in FY 21/22, down from the budgeted \$408,907 in FY 20/21.

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 \$420,000 in franchise tax revenue for FY 21/22.

Other Revenues: This category includes Real Property Transfer Tax; Licenses & Permits; Fines & Forfeitures; Interest & Rents; and Grants & Intergovernmental Revenue. Grants are now recorded in a separate fund and reimbursements for capital projects are now shown in the CIP budget. For FY 21/22 Other Revenues are projected at \$528,316.

Operating Transfers: This category includes transfers from the Water Fund identified through the cost allocation plan totaling \$547,468, as well as transfers from the Water Fund 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 \$40,900.57). Also included is a transfer of \$100,000 from the Citizens Option for Public Safety (COPS) special revenue fund in support of Police operations, a transfer of \$95,000 from the SVFD Fund 798 to fund the SAFER Grant partially funded Fire employees, and \$350,000 from the IGT fund to support Fire operations. For FY 21/22 operating transfers into the General Fund total \$1,174,368.

Revenue update

The pandemic and resulting economic impact dramatically affected local governments, especially the City of Sonoma's general fund revenues with our strong tourism-based economy. This year, we are fortunate to have funding from several sources to assist with the pandemic related loss of revenue in FY 19/20, FY 20/21 and 21/22:

- Federal Assistance - The \$1.9 trillion American Rescue Plan (ARP) was enacted on March 10, 2021. Among other things, the ARP will provide the City of Sonoma approximately \$2.6 million in funding for FY 21/22. There are restrictions on how the funds can be spent but eligible expenditures will include replacement of lost revenue. Staff is recommending that the ARP Funds which create a one-time operating surplus of \$1.2 million be returned to reserves to backfill for the FY 19/20 and FY20/21 use of reserves which is projected to total \$2.1 million.
- Cannabis Tax – A Cannabis Business Tax was approved by the voters in November 2020. This could generate a potential \$400,000 in new revenue from up to two Council approved retail dispensaries. The General Fund Five-Year Forecast includes \$25,000 in Cannabis tax revenue for FY 21/22 and \$25,000 for each year after. These estimates are conservative and will be updated when dates for opening of the dispensaries are known and revenue begins to be received.

EXPENSE - FINANCIAL SUMMARY

FY 21/22 APPROPRIATIONS FOR ALL FUNDS

Expenditure Category	FY 18/19 Actuals	FY 19/20 Projected Actuals*	FY 20/21 Adopted Budget	FY 20/21 Amended Budget	FY 20/21 Projected Actuals*	FY 21/22 Budget
GENERAL FUND:						
City Council (41001)	\$128,711	\$108,067	\$130,212	\$130,212	\$106,727	\$116,794
City Clerk (41002)	\$245,030	\$215,797	\$294,501	\$294,501	\$216,122	\$346,895
City Manager (41003)	\$471,586	\$628,401	\$632,790	\$657,790	\$639,346	\$740,891
Finance (41004)	\$555,929	\$706,623	\$786,427	\$786,427	\$791,104	\$834,704
Legal Services (41005)	\$804,002	\$634,907	\$478,220	\$478,220	\$478,220	\$478,295
Police (42101)	\$5,251,730	\$5,180,864	\$5,360,557	\$5,360,557	\$5,240,909	\$5,828,360
Fire/EMS (42201)	\$5,853,260	\$5,968,342	\$5,991,194	\$6,193,482	\$6,240,759	\$6,523,921
Public Works Admin (43020)	\$1,195,493	\$476,917	\$400,718	\$400,718	\$465,415	\$455,570
Public Works Streets (43022)	\$852,576	\$846,654	\$913,356	\$913,356	\$817,993	\$915,600
Public Works Parks (43023)	\$14,621	\$725,400	\$968,609	\$968,609	\$833,042	\$1,104,255
Planning (43030)	\$760,291	\$1,228,709	\$857,835	\$857,835	\$887,589	\$992,312
Building (43040)	\$622,600	\$576,694	\$648,218	\$648,218	\$638,855	\$703,274
Community Activities (43101)	\$575,246	\$673,553	\$600,954	\$610,954	\$594,951	\$631,284
Successor Agency (43199)	\$181,044	\$141,557	\$75,000	\$75,000	\$123,795	\$50,000
Non-Departmental (43200)	\$737,709	\$567,009	\$707,525	\$745,371	\$781,211	\$1,103,998
Disaster Response & Emergency Prep (43201)	\$0	\$154,207	\$0	\$0	\$82,299	\$0
Subtotal General Fund	\$18,249,827	\$18,833,700	\$18,846,116	\$19,121,250	\$18,938,336	\$20,826,154
General Fund Transfer Out (43999)	\$1,177,645	\$813,975	\$459,049	\$646,169	\$662,562	\$923,035
Total General Fund	\$19,427,473	\$19,647,675	\$19,305,165	\$19,767,419	\$19,600,898	\$21,749,189
CAPITAL PROJECTS:						
Streets/Transp/Drainage Capital Projs (301)	\$216,800	\$128,662	\$5,000	\$5,000	\$5,536	\$219,236
Parks & Facilities Capital Projects (304)	\$37,253	\$55,693	\$60,000	\$60,000	\$35,220	\$360,000
Water Utility - Capital Projects (512)	\$858	\$144,419	\$75,000	\$75,000	\$169,081	\$3,475,674
ENTERPRISE FUNDS:						
Cemetery (501)	\$350,552	\$292,575	\$335,772	\$335,772	\$301,487	\$393,794
Water Utility Operating (510)	\$3,978,333	\$4,460,772	\$5,543,448	\$5,543,448	\$5,373,791	\$5,795,445
SPECIAL REVENUE FUNDS:						
Public, Educational & Govt PEG (202)	\$56,739	\$49,297	\$0	\$0	\$48,989	\$52,000
C.O.P.S. Grant (217)	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$120,412
Gas Tax (302)	\$38,783	\$341,462	\$301,615	\$348,615	\$213,576	\$611,400
SB-1 Road Maintenance (303)	\$184,406	\$204,552	\$198,609	\$198,609	\$184,850	\$444,114
Transportation Measure M (313)	\$0	\$87,535	\$80,000	\$80,000	\$150,881	\$205,735
Parks-In-Lieu/Quimby Act (314)	\$0	\$127,315	\$32,755	\$32,755	\$53,838	\$363,577
Parks Measure M (315)	\$0	\$90,000	\$35,000	\$35,000	\$2,000	\$235,000
Parks-Proposition 68 (316)	\$0	\$0	\$200,000	\$200,000	\$0	\$177,952
EMS Equipment Replacement (521)	\$0	\$283,872	\$0	\$0	\$0	\$32,750
Grants Restricted (630)	\$0	\$0	\$0	\$0	\$0	\$70,000
Housing Trust Fund (732)	\$0	\$100,000	\$0	\$0	\$56,849	\$20,000
Intergovernmental Transfer IGT (796)	\$618,662	\$853,787	\$500,000	\$500,000	\$500,000	\$760,739
Cemetery Endowment (504)	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
INTERNAL SERVICE FUNDS:						
Management Information Systems (601)	\$208,049	\$236,737	\$338,345	\$338,345	\$248,820	\$376,922
Vehicle Replacement (603)	\$235,528	\$701,484	\$35,000	\$35,000	\$35,000	\$690,312
Long Term Building Maintenance (610)	\$29,823	\$23,756	\$269,000	\$269,000	\$65,763	\$305,000
DEBT SERVICE FUNDS:						
CREBS (495)	\$41,749	\$41,749	\$41,749	\$41,749	\$41,749	\$41,749
POB (498)	\$410,883	\$412,500	\$412,300	\$412,300	\$412,300	\$0
AGENCY FUNDS:						
Successor Agency RPPTF-ROPS (391)	\$2,383,110	\$3,213,694	\$2,728,384	\$2,728,384	\$3,134,789	\$3,325,288
TOTAL OPERATING & CAPITAL PROJECTS:	\$28,369,001	\$31,647,536	\$30,647,142	\$31,156,396	\$30,785,417	\$39,876,288
*Unaudited						

EXPENSE - FINANCIAL SUMMARY

EXPENSE OVERVIEW

The budget for the City of Sonoma and the Sonoma Successor Agency for FY 21/22 includes a combined Operating and Capital Improvement Program (CIP) budget of \$39,876,288.

GENERAL FUND APPROPRIATIONS BY CATEGORY AND PROGRAM

The General Fund expenditures (\$21,749,189 including transfers) is a significant component of the Operating Budget. As a service organization, the majority of the City's costs are for staffing (either city employees or service contracts, such as police and fire). For the FY 21/22 General Fund budget there are no increases to City staff, however a part-time Administrative Assistant in the City Clerk's department and a part-time Community Engagement Manager (Senior Management Analyst) in the Community Activities department was combined into a full-time Management Analyst in the City Clerk's Department. The new Management Analyst will provide increased records imaging and cataloging for both the City Clerk and Building departments, improved compliance with Public Records Act requests, alternate backup for the City Clerk (Deputy City Clerk training is budgeted for this position), and other special projects.

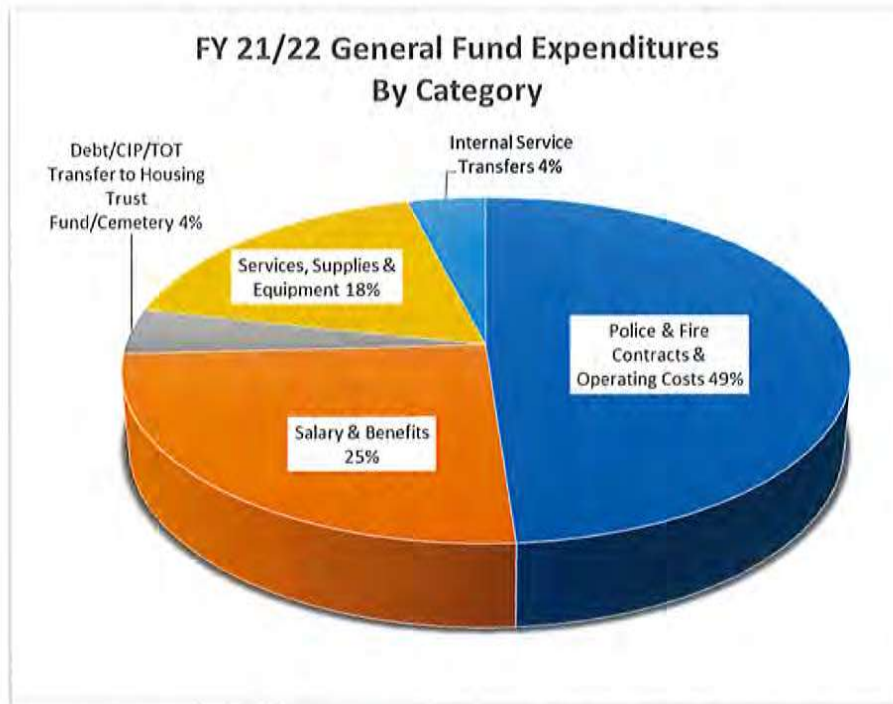
Major increases within the General Fund budget for FY 21/22 include \$458,295 to the Sheriff's contract (details follow under Public Safety), \$69,920 in insurance cost increases, and a \$111,380 increase in costs associated with paying for the City's modest unfunded pension liability. Importantly, there also are critical one-time expenses proposed here, in part to take advantage of the Federal Stimulus bill's revenue. There is no time like the present to fund these important efforts, which will increase efficiency and safety. These items are:

- \$300,000 for a one-time expenditure for new cloud-based electronic permitting/budgeting/accounting software,
- \$75,588 for network & data cyber security vulnerability reduction and best practices that were recommended in the 2019 Network Security Review and Audit,
- \$30,000 for a one-time expenditure for new cloud-based records archive and public portal software); and
- \$30,000 for the City's portion of a possible Valley Governance Study (to be cost-shared with the County of Sonoma and private philanthropy) .

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, 49% of operating expenditures go to Police & Fire. Chart 1 below shows the FY 21-22 general fund expenditures by category:

EXPENSE - FINANCIAL SUMMARY

Chart 1 - FY 21-22 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 \$465,960 in one-time special projects, which are mostly included in the Services, Supplies & Equipment category. The proposed General Fund budget also includes transfers for **\$923,036** to other funds. These transfers include a total of **\$41,749** in debt service costs, a transfer of **\$30,000** to the Cemetery Fund (for a cemetery analysis special project), the 1% TOT transfer to the Housing Trust Fund of **\$296,962**, a transfer of **\$74,924.50** to the Housing Trust Fund to reimburse ½ the Fund for the rental assistance payment provided to community partner FISH, (the other ½ will be transferred back to the Housing Trust Fund in FY 22/23), and an appropriation of **\$478,400** from General Fund Reserves for Capital Improvement Program projects (discussed in further detail in the 5-Year CIP program budget). Finally, the Internal Service transfers of **\$871,946** are the contributions for replacement and purchase of informational technology, equipment, 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

EXPENSE - FINANCIAL SUMMARY

are reviewed and modified based on current operations.

Cost Allocation Plan: The implementation of the 2018 Cost Allocation Plan puts 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 contract expires June 30, 2022. The FY 21/22 General Fund budget includes complying with previously approved memorandum of understanding with labor groups, which will result in a 2.5% to 5.5% increase in wages to the city employees affected. To avoid compaction and to reflect warranted cost-of-living adjustments, the managers’ wages (except for the City Manager’s wages and benefits, which are set by contract) are increased at the same amount. Other wage changes allow for step increases for new employees and for employees not yet at top step.

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 the 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 55% of total pension costs. As investment earnings provide less funding, public agencies as the employer are faced with increasing costs.



As of June 30, 2019, CalPERS had about 74% 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.

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 Table 1 below.

Table 1 - CalPERS Investment Earnings – Recent Years (www.calpers.ca.gov)					
2015	2016	2017	2018	2019	2020
2.4%	0.6%	11.2%	8.6%	6.7%	4.7%

(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 20/21, the projected normal cost to be paid by the City for

EXPENSE - FINANCIAL SUMMARY

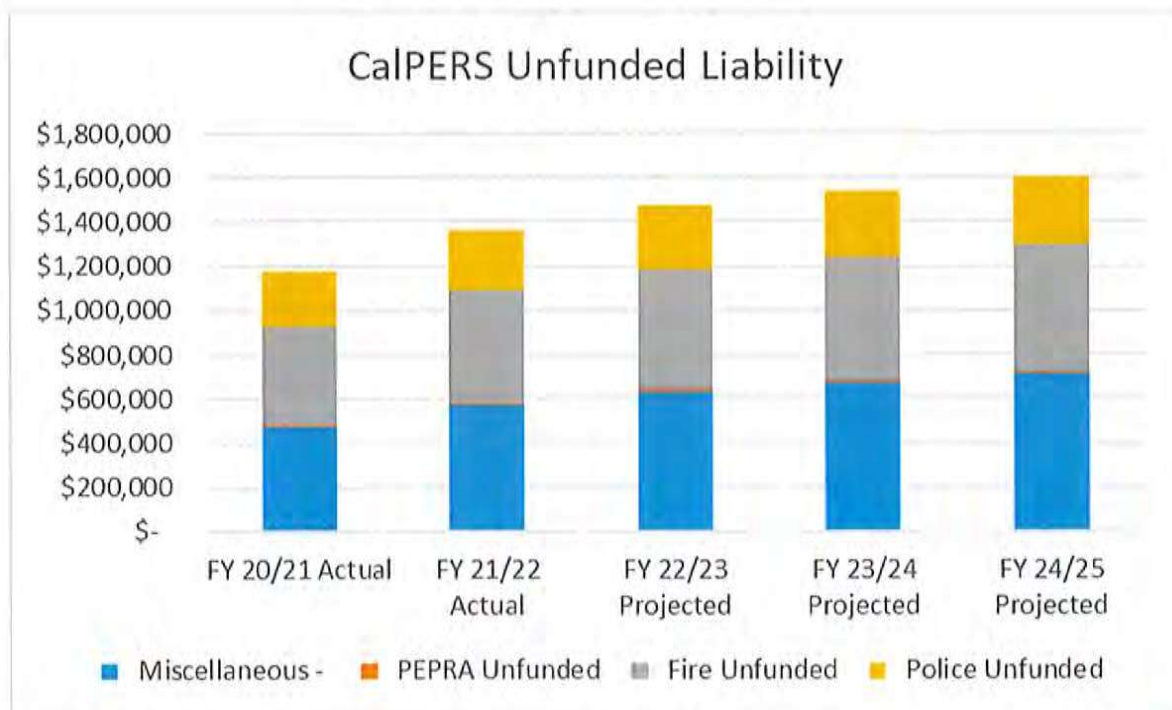
employee retirement will decrease from 11.746% of payroll to 11.60% of payroll with employees paying 1% of this cost. The City also pays a fixed annual amount for the Unfunded Actuarial Liability (UAL) of current employees, as well as past fire and police employees. Table 2 below shows the CalPERS normal costs and unfunded liability assessments for FY 20/21 and FY 21/22:

Table 2 - CalPERS Normal Costs and Unfunded Liability Assessments for FY 20/21 and FY 21/22

CalPERS Costs	2020/21	2021/22	Change
Annual Costs (Normal Costs)			
Classic Member Rate	11.746%	11.60%	-0.146%
PEPRA Member Rate	7.874%	7.73%	-0.144%
Unfunded Liability Assessments			
UAL Classic Member	\$ 476,659	\$ 567,752	\$ 91,903
UAL PEPRA Member	\$ 7,306	\$ 7,765	\$ 459
UAL Safety Fire	\$ 446,032	\$ 504,631	\$ 58,599
UAL Safety Police	\$ 243,469	\$ 273,795	\$ 30,326
Total	\$ 1,173,466	\$ 1,353,943	\$ 180,477

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 \$1,173,466 in FY 20/21 to a projected \$1,604,600 in FY 24/25. Chart 2 below shows the unfunded liability costs projected for the City of Sonoma over the next six years.

Chart 2 – CalPERS Unfunded Liability



EXPENSE - FINANCIAL SUMMARY

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. Early in FY 21/22 staff will be recommending a pension rate stabilization fund designed to prefund rising pension costs and address pension liabilities.

Employee Health Insurance: The FY 21/22 budget includes a 2% increase in the City's contribution toward health care benefits. It is important to note that the City does not offer medical benefits to employees upon retirement, therefore 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 has been a member of the Redwood Empire Municipal Insurance Fund (REMIF) a self-insured joint powers authority – JPA (governmental entity) which was established in 1976 to handle the insurance claims, benefit programs, and risk management needs of fifteen (15) member cities. On July 1, 2021, REMIF will merge with a larger California based JPA – PARSAC, to become the California intergovernmental Risk Authority (CIRA). Over the past couple of years costs for liability insurance has been escalating for the public entity sector. The hard liability market is driven by unexpectedly high jury verdicts, settlements, and defense costs for law enforcement and dangerous (fire related) conditions claims. As a result, underwriting standards have tightened and carriers are offering lower limits while significantly increasing costs. In addition, many insurance carriers are leaving the state – leaving the capacity available to CIRA significantly reduced (with increased prices). For property, the wildfires and natural disasters have done the same – many insurers simply want nothing to do with California. However, with the merger, CIRA was able to secure coverage (strength in numbers). Costs for property and liability insurance increased approximately 34% from FY 20/21 to FY 21/22 and could increase by as much as 40% in FY 22/23. Fortunately, workers compensation insurance, unlike the commercial liability market, is soft and the renewal was straight forward with only a 2.3% increase from FY 20/21 to FY 21/22.

The City of Sonoma will continue to pay REMIF assessments of \$85,351 for liability and workers' compensation for FY 21/22 and FY 22/23, with a final payment of \$57,250 in FY 23/24. 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 only debt service is for the 2008 Clean Renewable Energy Bonds (CREB) that were used for photovoltaic (solar) projects at the Police Station and Corporation Yard. The obligation was a lease agreement with Municipal Finance Corporation in the amount of \$1,156,000 entered into on July 10, 2008. Principal installments of \$41,749 are made on December 15 of each year, with the final installment due on December 15, 2024.

Program-Based Budget Modifications and One-time Expenditures: In addition to these global changes, there are program-based budget modifications proposed for the operating departments. The one-time expenditures are summarized in the City Manager's Message, and above and are also detailed in the department pages that follow this section.

EXHIBIT C - SUMMARY OF STAFFING AND POSITIONS

City of Sonoma FY 21/22 Budget Summary of Staffing - Position Allocation

Departments	Adopted Budget	Adopted Budget	Proposed Budget
	Authorized	Authorized	Authorized
	Personnel	Personnel	Personnel
	FY 19/20	FY 20/21	FY 21/22
City Manager's Office/Administrative Services	10.50	10.50	11.00
Planning and Building Services	8.50	8.50	8.50
Non-Departmental/ Community Activities	1.01	1.01	0.38
Police	1.00	1.00	1.00
Public Works	21.00	21.00	21.00
Total City Employees (FTE, includes part-time staff)	42.01	42.01	41.88
Police (Sheriff contract staffing) *	16.00	13.00	15.00
Fire (SVFRA contract staffing) *	22.52	22.52	22.52
TOTAL STAFFING:	80.53	77.53	79.40

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

Fire - includes 3 Firefighters with SAFER grant; overall staffing based on total SVFRA pro-rated by the City's share (57%) without Glen Ellen.

FY 21/22 Staffing Summary

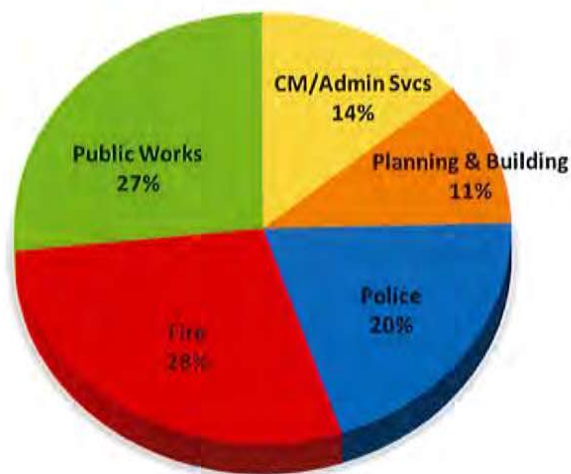


EXHIBIT C - SUMMARY OF STAFFING AND POSITIONS

City of Sonoma FY 2021/22 Budget Position Allocation Listing by Department

	Adopted Budget Authorized Personnel FY 19/20	Adopted Budget Authorized Personnel FY 20/21	Proposed Budget Authorized Personnel FY 21/22
City Manager's Office/Administrative Services			
City Manager	1.00	1.00	1.00
Senior Management Analyst	1.00	1.00	1.00
City Clerk/Executive Assistant	1.00	1.00	1.00
Management Analyst	0.00	0.00	1.00
Assistant City Mgr/Admin Svcs Director	1.00	1.00	1.00
Administrative Services Manager	1.00	1.00	1.00
Deputy Finance Manager	1.00	1.00	1.00
Accountant	1.00	1.00	1.00
Accounting Technician	2.00	2.00	2.00
Administrative Assistant	1.00	1.00	1.00
Administrative Assistant PT	0.50	0.50	0.00
	<u>10.50</u>	<u>10.50</u>	<u>11.00</u>
Community Development (Planning and Building Depts)			
Planning & Community Svcs Director	1.00	1.00	1.00
Senior Planner	1.00	1.00	1.00
Associate Planner	1.00	1.00	1.00
Development Svcs Director/Building Official	1.00	1.00	1.00
Plans Examiner	1.00	1.00	1.00
Building Inspector	1.00	1.00	1.00
Development Svcs Supervisor	0.00	1.00	1.00
Administrative Assistant	2.00	1.00	0.00
Permit Technician	0.00	0.00	1.00
PT Sustainability Coordinator	0.50	0.50	0.50
	<u>8.50</u>	<u>8.50</u>	<u>8.50</u>
Non-Departmental / Community Activities			
Webmaster/Public Info PT	0.38	0.38	0.38
Community Engagement Manager	0.63	0.63	0.00
	<u>1.01</u>	<u>1.01</u>	<u>0.38</u>
Police and Fire (excludes contract services staff)			
Administrative Clerk	1.00	1.00	1.00
	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>

EXHIBIT C - SUMMARY OF STAFFING AND POSITIONS

City of Sonoma FY 2021/22 Budget Position Allocation Listing by Department

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)	41.00	41.00	41.88

NOTE: Some positions are charged to multiple departments; these are listed in the department where the largest percentage is charge.
Proposed FY 21/22 - Eliminate PT Admin. Assistant and PT Community Engagement Manager; add FT Mgmt. Analyst

General Fund Forecast Summary
(Includes FY 19/20 as Year 1 -
Pandemic began in March 2020)

Pandemic Begins March 2020
Year 1

Description	2018/19 Projected	2019/20 Budget (Amended)		2019/20 Actuals		2020/21 Adopted Budget		2020/21 Budget (Amended)		2020/21 Actuals		Year 3 2021/22 Proposed Budget		Year 4 2022/23 Projected Budget		Year 5 2023/24 Projected Budget		Year 6 2024/25 Projected Budget	
Revenues:																			
Property Tax	\$ 4,235,814	\$ 4,297,336	\$ 4,504,042	\$ 4,527,641	\$ 4,527,641	\$ 4,527,641	\$ 4,527,641	\$ 4,527,641	\$ 4,527,641	\$ 4,527,641	\$ 4,527,641	\$ 4,643,155	\$ 4,785,272	\$ 4,952,940	\$ 5,320,599				
Transient Occupancy Tax	\$ 3,993,600	\$ 3,209,046	\$ 3,411,309	\$ 2,245,436	\$ 2,074,286	\$ 2,074,286	\$ 2,074,286	\$ 2,074,286	\$ 2,074,286	\$ 2,810,456	\$ 2,810,456	\$ 4,028,992	\$ 4,556,475	\$ 4,661,194	\$ 4,754,418				
Sales Tax (general, public safety)	\$ 3,364,377	\$ 3,078,108	\$ 3,164,974	\$ 2,910,475	\$ 2,910,475	\$ 2,910,475	\$ 2,910,475	\$ 2,910,475	\$ 2,910,475	\$ 3,052,023	\$ 3,052,023	\$ 3,344,767	\$ 3,499,526	\$ 3,639,405	\$ 3,767,482				
Sales Tax (local half-cent)	\$ 2,588,045	\$ 2,257,000	\$ 2,265,087	\$ 2,112,852	\$ 2,112,852	\$ 2,112,852	\$ 2,112,852	\$ 2,112,852	\$ 2,112,852	\$ 2,287,858	\$ 2,287,858	\$ 2,496,896	\$ 2,615,789	\$ 2,707,587	\$ 2,793,450				
Emergency Medical Services	\$ 1,545,926	\$ 1,749,454	\$ 1,912,995	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000	\$ 2,200,000	\$ 2,200,000	\$ 2,600,000	\$ 2,652,000	\$ 2,705,040	\$ 2,759,141				
Other revenues	\$ 2,573,390	\$ 2,631,409	\$ 2,477,100	\$ 2,096,932	\$ 2,151,932	\$ 2,151,932	\$ 2,151,932	\$ 2,151,932	\$ 2,151,932	\$ 1,869,467	\$ 1,869,467	\$ 2,036,150	\$ 2,023,114	\$ 2,053,870	\$ 2,085,232				
Transfers In	\$ 852,062	\$ 1,612,445	\$ 1,138,994	\$ 1,372,941	\$ 1,372,941	\$ 1,372,941	\$ 1,372,941	\$ 1,372,941	\$ 1,372,941	\$ 1,386,479	\$ 1,386,479	\$ 1,174,369	\$ 1,184,165	\$ 1,105,632	\$ 1,119,174				
Reimbursements (FEMA, State, CARES)	\$ -	\$ -	\$ 136,436	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
TOTAL OPERATING REVENUE	\$ 19,150,214	\$ 18,834,798	\$ 19,007,937	\$ 17,246,277	\$ 17,905,684	\$ 18,133,924	\$ 20,324,329	\$ 21,316,340	\$ 21,825,667	\$ 22,595,496	\$ 22,595,496								
Expenditures:																			
Current Staffing (Salaries & Benefits)	\$ 3,417,624	\$ 4,015,451	\$ 3,843,550	\$ 4,164,280	\$ 4,164,280	\$ 4,164,280	\$ 4,164,280	\$ 4,164,280	\$ 4,164,280	\$ 3,852,197	\$ 3,852,197	\$ 4,324,348	\$ 4,421,536	\$ 4,520,987	\$ 4,622,759				
Police Contract & Operating Costs	\$ 4,523,125	\$ 4,642,010	\$ 4,439,437	\$ 4,529,301	\$ 4,529,301	\$ 4,529,301	\$ 4,529,301	\$ 4,529,301	\$ 4,529,301	\$ 4,529,301	\$ 4,529,301	\$ 4,988,226	\$ 5,112,932	\$ 5,240,755	\$ 5,371,774				
Fire/EMS Contract & Operating Costs	\$ 5,255,042	\$ 5,471,368	\$ 5,470,908	\$ 5,377,311	\$ 5,377,311	\$ 5,377,311	\$ 5,377,311	\$ 5,377,311	\$ 5,377,311	\$ 5,377,311	\$ 5,377,311	\$ 5,640,750	\$ 5,592,144	\$ 5,731,947	\$ 5,875,246				
Other Professional/Contractual Services	\$ 1,278,080	\$ 971,945	\$ 1,075,626	\$ 829,678	\$ 829,678	\$ 829,678	\$ 829,678	\$ 829,678	\$ 829,678	\$ 755,199	\$ 755,199	\$ 764,839	\$ 717,487	\$ 724,662	\$ 731,909				
Payments on accrued PERS Liability (UAL and POBs)	\$ 1,172,146	\$ 1,335,780	\$ 1,335,780	\$ 1,482,411	\$ 1,482,411	\$ 1,482,411	\$ 1,482,411	\$ 1,482,411	\$ 1,482,411	\$ 1,493,429	\$ 1,493,429	\$ 1,181,491	\$ 1,360,538	\$ 1,415,501	\$ 1,474,173				
Other Operating Costs	\$ 3,201,836	\$ 2,957,936	\$ 3,308,374	\$ 2,917,184	\$ 3,354,441	\$ 3,354,441	\$ 3,354,441	\$ 3,354,441	\$ 3,354,441	\$ 3,588,461	\$ 3,588,461	\$ 4,371,134	\$ 4,227,228	\$ 3,976,835	\$ 3,936,855				
Transfer to Capital Improvement Program	\$ 579,620	\$ 311,180	\$ 175,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 478,400	\$ 400,000	\$ 400,000	\$ 400,000				
TOTAL OPERATING EXPENDITURES	\$ 19,427,473	\$ 19,705,669	\$ 19,647,675	\$ 19,305,165	\$ 19,767,422	\$ 19,600,898	\$ 21,749,188	\$ 21,831,865	\$ 22,010,688	\$ 22,412,715	\$ 22,412,715								
GENERAL FUND SURPLUS (DEFICIT):	\$ (277,259)	\$ (870,871)	\$ (639,738)	\$ (2,058,888)	\$ (1,861,738)	\$ (1,466,974)	\$ (1,424,859)	\$ (515,525)	\$ (185,021)	\$ 186,781	\$ 186,781								
Federal Relief Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
GEN FUND SURPLUS (DEFICIT) W/FED RELIEF FUNDS:	\$ (277,259)	\$ (870,871)	\$ (639,738)	\$ (2,058,888)	\$ (1,861,738)	\$ (1,466,974)	\$ 1,212,316	\$ (515,525)	\$ (185,021)	\$ 186,781	\$ 186,781								

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	<p>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:</p> <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.