

Adopted on June 22, 2021

City of Sonoma & Successor Agency FY 2021/2022 PROPOSED OPERATING AND CAPITAL BUDGET



Madolyn Agrimonti, Vice Mayor
Amy Harrington, Council Member
Jack Ding, Council Member
Kelso G. Barnett, Council Member

Dave Kiff, Interim City Manager
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ACKNOWLEDGEMENTS



SONOMA CITY COUNCIL

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Amy Harrington, Councilmember
Jack Ding, Councilmember
Kelso Barnett, Councilmember

This proposed FY 21/22 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.

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AMENDMENTS
to the City of Sonoma & Successor Agency
Proposed FY 2021/22 Operating and Capital Budget

The following changes to the Proposed Operating and Capital Budget were approved by the City Council at the meeting of June 22, 2021 as part of the Council's discussion, consideration, and adoption of the City's annual budget for FY 2021/22:

General Fund:

\$30,000 (City Manager's Department):	Add contractor or part-time staffing to administer the City's affordable housing program
\$30,000 (Public Works Parks Division):	Plaza landscaping
\$39,000 (City Clerk):	Election costs
\$5,000 (Administration):	Management compensation study
\$10,000 (City Manager):	Federal lobbyist costs
\$10,000 (City Manager):	Grant writing
\$24,300 (Community Activities):	City Party
<hr/>	
\$148,300	Total Increases
(\$75,924)	Remove transfer to Housing Fund
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\$72,376	Net increase in General Fund Budget

As a result, the total Operating and Capital Budget of \$39,876,288 in the Budget Resolution adopted by the City Council is adjusted by an increase of \$72,376 to a total of **\$39,948,664**.

Note: additional changes and direction to staff were provided by the City Council at this meeting; however, only those changes affecting the total adopted budget are shown here.

CITY MANAGER BUDGET MESSAGE



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CITY MANAGER MESSAGE FY 2021/22 OPERATING & CAPITAL BUDGET

June 21, 2021

To Mayor Harvey and Members of the City Council:

On behalf of the City staff, I am pleased to present to you the Fiscal Year 2021/22 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 that begins July 1, 2021. 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 budget for the City of Sonoma and the Sonoma Successor Agency for FY 2021/22 includes a combined Operating and Capital Improvement Program (CIP) Budget of \$39,876,288. 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. Those resources are frustratingly limited as we present the budget.

In March 2020, the City issued an emergency proclamation in response to the worldwide coronavirus pandemic, activated the City's EOC, responded to numerous public health orders and shelter-in-place requirements, and began assisting with recovery for City businesses and the community at large. The City moved to have some staff working from home and adjusted new communication and business operations for the public. City staff also provided extensive support to the Food Security Task Force, Hearts for Art, business information and assistance, the Sonoma Valley SAFE program, and general business reopening and recovery.



Public Works continued daily maintenance of City streets, bike paths, parks, cemeteries, and our water system while following complex coronavirus safety protocols, supported food distribution sites and Farmers Markets, and followed the changing orders for access and use of City parks and open space. In addition, management staff began analyzing and preparing financial planning documents to help problem solve through the uncertainty brought on by the pandemic and how it would affect the City's revenues for the next few years.

The pandemic and resulting economic impact dramatically impacted local governments, especially the City of Sonoma's general fund revenues with our strong tourism-based economy. Last fiscal year, as staff

began preparing the FY 20/21 budget the focus was centered on the financial impacts of the pandemic and a potential \$2.7 million loss of revenue in FY 19/20 and projected \$4.6 million loss of revenue for FY 20/21.

Moving to today, the FY 21/22 budget development included:

- A detailed analysis of the pandemic's actual impacts on FY 19/20;
- Projected revenue and expenses in FY 20/21;
- Projections for FY 21/22; and
- Updating the five-year forecast for the City's General Fund to understand how the pandemic has affected the City's use of reserves and to determine when the City will begin to see a recovery and return to a balanced operating budget.

Our city government relies heavily on revenues (such as transient occupancy taxes [TOT] and sales taxes from food and beverage sales) that were significantly impacted by the pandemic. Fiscal Year 19/20 began with a balanced budget, but steep drops in TOT and sales taxes for the 4th quarter (April – June) led to a projected revenue shortfall of more than \$2M.

In May 2020, the City Council approved a plan to reduce FY 19/20 expenditures by cutting spending wherever possible and deferring one-time projects. Following these cuts and other adjustments, we project that **FY 2019-20 closed with a year-end operating deficit of approximately \$660,000**, which will be funded with financial reserves. In summary, FY 2019/20 closed about \$210,871 better than we had projected, as shown in Table 1.

Table 1 – Changes in Uses of Reserves from Projected to Now Estimated (FY 2019-20)

Use of Reserves	FY 2019-20	
Projected	\$ 870,871	
Now Estimated	\$ 660,000	
<i>Difference</i>	\$ 210,871	↑

More about TOT and Sales Taxes. As of January 2020, annual TOT revenues were on a path to reach \$4.8 million, which would have been a record amount. With the pandemic and related shutdown, the FY 20/21 budget assumed TOT revenue of less than half this amount, down by 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 were assumed to be more than \$1 million below pre-pandemic levels.

We forecasted that projected declines in these and other revenues would be partially offset by revenue sources with less short-term volatility, such as property taxes. In total, the FY 20/21 budget projected a \$3.3 million decrease in total General Fund revenue (from \$20.5 million in the FY 19/20 adopted budget to \$17.2M in FY 20/21). Table 2 shows that revenue losses in the end were not as bad as we expected. In FY 2019/20 we ended up losing about \$1,206,937 less than expected. In FY 2020/21 we project that we will lose \$2,233,924 less than expected.

Table 2 – Revenue Loss – Projected and Now Estimated

Revenue Loss	FY 2019-20		FY 2020-21	
Projected	\$ 2,700,000		\$ 4,600,000	
Now Estimated	\$ 1,493,063		\$ 2,366,076	
<i>Difference</i>	\$ 1,206,937	↑	\$ 2,233,924	↑

FY 20/21 budgeted expenditures also included spending cuts and deferral of one-time projects and transfers to CIP. The adopted General Fund operating budget projected \$19.3M in expenditures for FY 20/21.

Optimism and Careful Spending. There is reason for optimism and some good news as we are finishing out FY 20/21, as the City's major revenue sources for FY 20/21 have done better than originally forecasted when Council approved the FY 20/21 budget. This was not without its challenges - extreme smoke from North Bay fires in September and October and the renewal of a strict stay at home order in December and part of January forced hotels to close. Still, thanks to a robust Spring 2021:

- TOT for FY 20/21 is projected to come in higher than originally budgeted at \$565,020.
- Combined regular Sales and Measure U Sales Tax revenue is projected to be \$316,554 higher than originally budgeted.
- EMS Ambulance billing is projected to be approximately \$220,000 higher.

Partially offsetting that, some of the more minor revenue sources such as Business Licenses, Fees and Charges for Services are coming in lower than budgeted as many small businesses were forced to close, events were not allowed, there was no enforcement of downtown parking for most of the fiscal year plus other related fee for service declines.

Expenditures are also coming in lower than originally budgeted for FY 20/21. The General Fund amended operating budget projected \$19,969,324 in expenditures for FY 20/21. The total FY20/21 year-end salary and benefit projections of \$3,708,000 are **forecast to be at 89%** of the total \$4,164,280 budgeted expense. This is due to several vacant staff positions that have not yet been filled and will most likely remain open until near the fiscal year's end. In summary, the FY 20/21 actual budget will show about \$368,426 fewer expenditures than first envisioned, as shown in Table 3.

Table 3 – Changes in Expenditures Estimated at Year End Close 2020-21

Expenditures	FY 2020-21	
Projected	\$ 19,969,324	
Now Estimated	\$ 19,600,898	
Difference	\$ 368,426	↓

About Reserves. To meet the challenge of balancing the budget in a time of extreme economic uncertainty, the adopted budget for FY 20/21 used a combination of spending reductions and a drawdown of reserves. Council and staff felt that the use of reserves was an appropriate and important part of the budget solution for the City's current financial situation.

As a result of years of fiscal prudence, the City has developed healthy financial reserves, which function as savings accounts or rainy-day funds. The City's 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 a projected \$660,000 of reserves in FY 19/20, General Fund Reserves at the beginning of July 1, 2020 are estimated to have been \$8.91 million. The original FY 20/21 General Fund adopted budget assumed a further use of \$2.0 million to balance the budget, which would have drawn down reserves to \$6.91 million by June 30, 2021. However, with the FY 20/21 forecasted revenue increases

and expense reductions it appears the use of general fund reserves will instead be \$600,000 less at approximately \$1.5 million. Table 4 shows the specifics of this change:

Table 4 – Reserve Use in FY 2020/21

Use of Reserves	FY 2020-21	
Projected	\$ 2,063,640	
Now Estimated	\$ 1,466,974	
Difference	\$ 596,666	↑

General Fund Five-Year Forecast

A multi-year General Fund forecast is an important tool for informing decisions that affect long-term financial sustainability. A year ago, with the FY 20/21 budget, staff prepared and included the presentation of a five-year forecast to assist the City Council with its decision process for the FY 20/21 proposed budget.

A Financial forecast is:

- A way to identify trends in revenues and expenditures to see impacts and plan for adjustments over time.
- A tool to inform decision making affecting long-term financial sustainability.
- Dynamic (regularly updated based on new information)
- A starting point or baseline

A Financial forecast is not:

- A budget
- A labor relations plan
- A one-time endeavor
- "What Will Be"

A Forecast gives you the ability to look at the horizon so that you can adjust course.

Although the City's financial outlook is constantly evolving based on new information and actions that were taken to deal with ever evolving public health orders, the Forecast provides a framework for identifying trends and critical issues and serves as a baseline for budget decisions and financial planning. To be clear, a Forecast and its assumptions are based on the best information available at the time, however today's health and economic emergencies create unprecedented levels of uncertainty.

The Forecast reflects informed estimates by city staff and consultants regarding trends in revenues and expenditures. There are a significant number of unknowns and new information that may affect the Forecast arrives on a weekly if not daily basis.

There are reasons for optimism.

- While new COVID-19 cases vary day to day, cases are predominately within the age 16-24 YO unvaccinated cohorts, which while problematic do not typically lead to hospitalizations.
- The overall level of hospitalizations remains very low at this time.
- Over 62% of Sonoma County residents have been fully vaccinated, and nearly 75% are fully or partially vaccinated.
- The Pfizer vaccine was approved for children ages 12-15 (it had been approved for persons 16 years and older), and vaccinations locally began Thursday, May 13, 2021)



- Vaccine supply is no longer an issue in the County. Appointments are readily available.
- California will have reopened much of its economy on June 15.
- Federal legislative relief, approved by Congress and President Biden in late February 2021, will provide the City with about \$2.64 million which can be used for revenue losses.

There are also reasons for prudence.

- It is unclear what the shape and length of the pandemic caused recession will be, including whether an aggressive variant(s) among the unvaccinated community will cause another shutdown.
- Many workers are unemployed.
- Although hotels are filling up on weekends, lower average daily room rates and less corporate travel during the week are still affecting TOT revenue. This summer will provide true data of what revenue our hotels will provide, which is a critical data point for our financial planning efforts.

Further details are in the General Fund Five-Year Forecast which includes FY 19/20 – FY 24/25 and in the Financial Summary Portion of the budget.

FY 21/22 GENERAL FUND OPERATING BUDGET

Overall

The General Fund Operating budget for the City of Sonoma for FY 21/22 is \$21,749,190 including transfers. Table 5 is a summary chart for the FY 21/22 General Fund Budget.

Table 5 - FY 2021/22 General Fund Budget Summary

FY 21/22 Budget - General Fund	
Revenues	\$20,324,330
Expenditures	\$21,749,190
Deficit - Use of Reserves	(\$1,424,860)

Strategy

First, it is important to remember that a budget is a plan. The City Council can modify and adapt the budget as we proceed through the fiscal year. Generally, when preparing a budget, there is some firm ground. Today, we have a pandemic and economic uncertainty. In addition, we are entering fire season and will also be facing PG&E de-energization (Public Safety Power Shutoffs or PSPSs) this summer/fall. The triple play of the coronavirus pandemic plus fire season plus PSPSs (all in a drought year) means that the City may be facing layered emergencies at one time including ongoing economic recovery.

The FY 21/22 Budget will be an active “plan” with proactive monitoring and review based on continued uncertainty and constantly changing information. In preparing the budget, our goal was to reduce the deficit and modestly use reserves while restoring some investment in the City’s infrastructure and increasing service levels that were impacted with the prior fiscal year’s budget. With an already lean staff who provide services for regular operations and the City’s multiple emergencies, we have preserved staff positions and capacity to ensure our ability to respond proactively to the community.

General Fund Revenues

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.

Data from the final 60 days of FY 20/21 and the first 90 days of FY 21/22 will give us real information regarding TOT revenue and its recovery. Table 6 shows FY 21/22 projected General Fund revenue by type.

Table 6 – FY 2021/22 Revenue Estimates by Type

Revenue Type	FY 21/22 Budget
Property Tax	\$4,643,155
Transient Occupancy Tax	\$4,028,992
Sales Tax (general, public safety)	\$3,344,767
Measure U Sales Tax	\$2,496,896
EMS Revenue	\$2,600,000
Fees & Charges for Services	\$759,234
Franchise Taxes	\$420,000
Business License Tax	\$380,000
Other Revenue	\$1,651,285
Total	\$20,324,329

Table 7 shows some of the FY 21/22 General Fund key revenue increases/(decreases) as compared to the FY 20/21 original General Fund Budget:

Table 7 - General Fund Key Revenue Increase/ (Decreases)

Revenue Type	Key Revenue Increases/ (Decreases) for FY 21/22
Property Tax	\$88,514
Transient Occupancy Tax	\$1,593,643
Sales Tax (general, public safety)	\$555,639
Measure U Sales Tax	\$384,044
EMS Revenue	\$620,000
Franchise Tax	(\$91,020)
Business License Tax	(\$28,907)
Operating Transfers In	(\$198,572)
Total	\$2,923,341

General Fund Expenditures

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.

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.

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) .

Table 8 shows FY 21/22 expenditures for the General Fund. More detailed information regarding revenues, expenditures and reserves is included in the Financial Summary portion of the budget.

Table 8 - FY 2021/22 General Fund Expenditures

Description	FY 2021/22 Expenditures
Current Staffing (Salaries & Benefits)	\$ 4,324,350
Sheriff Contract & Operating Costs	\$ 4,988,226
Fire/EMS Contract & Operating Costs	\$ 5,640,750
Other Professional/Contractual Services	\$ 764,839
Payments on accrued PERS Liability (UAL)	\$ 1,181,491
Other Operating Costs	\$ 4,371,134
Transfer to Capital Improvement Program	\$ 478,400
Total General Fund Operating Expenditures	\$ 21,749,190

Public Safety

Over 50% of the City's General Fund budget is invested in Police and Fire/EMS services via contracts and operating costs. For FY 21/22, the Sheriff's Office is proposing a 10% increase over the original FY 20/21 budget totaling \$458,925. This increase includes salaries and benefits to add back a Deputy Sheriff (as of July 1, 2021) and a Community Services Officer (CSO) (as of January 1, 2022). These two positions were held vacant for FY 20/21. The Chief is also proposing an increase in traffic officer coverage to assist with speed control and pedestrian safety, among other things.

During the pandemic and related State and Sonoma County ordered shutdowns, the City was relatively quiet in terms of criminal activity and traffic. Now that the City has reopened, the Police Chief would like to address any possibility that crime and traffic are on the rise.



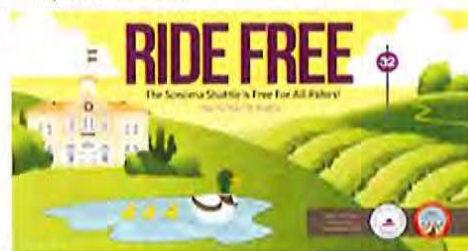
The FY 21/22 proposed budget for the Fire District is increasing by \$263,439 over FY 20/21. The increases include \$78,439 for the Fire District contract, \$95,000 for the three SAFER (Staffing for Adequate Fire and Emergency Response) grant employees assigned to Sonoma (offset by a transfer from Fund 798), \$90,000 for the new outside EMS billing company fees, (offset by an increase in EMS ambulance billing revenue), and an increase in PERS UAL of \$41,813.

Community Activities

Recognizing the significant role that recreational and community services programs play in enhancing the overall health and well-being of its citizens, the City has regularly provided funding and financial support to non-profits providing these services in Sonoma. A few years ago, the City organized funding of recreation and community services into a Recreation & Community Services program and created agreements with key non-profits to recognize this outsourcing partnership. In FY 20/21 support to these providers was cut by 15%.

Due to the importance of these community services, staff recommends that the City continue to support Core Recreation providers such as Vintage House, Boys & Girls Club, Sonoma Community Center, Sonoma Ecology Center, and Field of Dreams in the following manner:

- Create 3-year contract extensions with funding to be determined annually.
- Restore FY 21/22 funding by 11% to equal the FY 19/20 pre-pandemic contribution of \$186,250.
- Extend economic development related contracts (Chamber of Commerce and Sonoma Valley visitor's Bureau) with no reduction. Business support, visitor outreach, and economic development during re-opening/recovery are key to City revenues.
- No changes to fee waiver policies for City-sponsored events, although some may not be held this year.
- No change recommended in financial support to Sebastiani Theatre Foundation, Fare Free Transit program and student artist scholarships.
- Add funding for Parks Project Contractor
- Additional one-time funding of \$25,000 for the Field of Dreams organization to catch-up on important maintenance and irrigation improvements.



Homelessness Services

Over time and in part as a response to the pandemic, Sonoma Overnight Support shifted some of its operations. While a new model for some services is warranted soon, staff recommends continued support for costs for FY 21/22 of \$30,000 which have been included in the budget.

Key Projects and Initiatives

As always, the City Council's initiatives were a key consideration during development of this budget. 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.



Each year, there are one-time expenditures included in the budget. Table 10 is a list of items that are included in the proposed FY 21/22 Budget (some of which have been mentioned previously in this message).

Table 10 - FY 2021/22 General Fund One-Time Expenditures

Item	FY 21/22	Notes
Pension Study Analysis	\$5,000	Pension Study (Carryover from FY 20/21)
Photographic Art for City Council Chambers	\$9,201	To complete refurbishing of Council Chambers - City Council budget
For Council - Directed Studies	\$15,000	Studies may include Fiscal Impact Analysis, a Downtown Parking Effort, and more - Planning budget
One laptop and 8 iPads	\$10,960	One laptop needed for new IT Security - Planning budget and 8 iPads for Public Works communication upgrades
Public Works Parks Flat-Bed Truck	\$20,000	\$35K for replacement - Public Works Parks budget
TESLA EV Charging Stations	\$20,000	City Contribution to Community Center for Tesla EV Charging Stations
Field of Dreams	\$25,000	One time contribution for maintenance and irrigation needs - Community Service's budget
Cemetery Analysis	\$30,000	Transfer from General Fund to Cemetery Fund
Cloud-based records Archive Software	\$30,000	Upgrade records management/archive software which will include a public portal - Non-Departmental budget
Valley Governance Study	\$30,000	City Manager's budget
Plaza Tree Assessment	\$35,000	Arborist/tree maintenance - Public Works Parks budget
Disaster Recovery and Cyber Security Software	\$75,588	Network & Data Cyber Security Vulnerability Reduction and Best Practices - Recommended by 2019 Network Security Review and Audit - transfer from General Fund to MIS Internal Service Fund
Cloud-based permitting/budgeting/accounting software	\$300,000	Implementation of new permitting/budgeting/accounting to replace manual permitting system and upgrade budgeting/accounting software - Non-Departmental budget
Total	\$605,749	

Capital Improvement Budget

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.

The Capital Improvement Program (CIP) is a planning document to support our safe, healthy, and vibrant community through investment in public infrastructure throughout the City. The CIP includes projects to improve the City's streets, sidewalks, bikeways, and storm drainage; water system; parks and open space; cemeteries; and City buildings. Table 11 is the FY 21/22 General Fund funding for CIP projects.

Table 11 - Total Funding Request by Project for Fiscal Year 2020/21 Capital Improvement Program – General Fund Only

CIP #	FY 21/22 ACTIVE PROJECTS	FY 21/22 NEW FUNDING REQUEST	
TRANSPORTATION: Keeping Sonoma Moving Safely			
T-2	Fryer Creek Pedestrian & Bicycle Bridge Project	\$50,000	Proposed for construction Summer 2021
T-3	Bi-Annual Slurry Seal Projects	\$40,000	
T-4	Citywide Sidewalk Inspection & Repair Program	\$10,000	Annual program
T-10	Broadway Pedestrian Safety Project	\$232,000	(Estimated)
SUBTOTAL		\$332,000	
BUILDINGS & FACILITIES: Maintaining Critical Assets			
BF-8	Depot Park Museum HVAC	\$60,000	Estimated
New	Depot Park Museum Roof and Solar	\$86,400	Estimated
SUBTOTAL		\$146,400	
TOTAL TRANSFERS TO CIP FOR FY 21/22		\$478,400	

Additional Revenue Sources

- Federal Assistance - The \$1.9 trillion American Rescue Plan was enacted on March 10, 2021. Among other things, the ARP will provide the City of Sonoma approximately \$2.64 million in funding for FY 21/22. The FY 21/22 use of Reserves is forecasted to be \$1,424,860. With the one-time Federal Relief Funding the City will have a projected General Fund Operating surplus of \$1,212,315. 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 the one-time operating surplus 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 FY 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.

Conclusion -- Setting a Course, Remaining Flexible.

These are unprecedented times that make it difficult for City budgeting. The size, scope, and duration of economic and financial impacts of the pandemic/response are difficult to predict. Although there is no consensus on what the future will bring, our goal as an organization is to provide an informed assessment to you for use in making financial decisions, to communicate transparently with our community, and to adapt as needed to continue to serve our residents and business within available resources.

While it is important to set a course of action, it is equally important to be able to adjust along the way. More than ever before, budgeting is an ongoing process, with an increased frequency and emphasis on monitoring and modification.

Specifically, to that point, as I transition to the new City Manager, I offer you a handful of recommendations. There is a fairly good chance that some important revenues, such as TOT and Sales Taxes could come in higher than expected – significantly higher – and you as a Council might know that quite soon (by July – August 2021). If this occurs, the new Manager and Council have a chance to address some important needs:

- The City should conduct a brief nexus study and, once the electronic permitting software is purchased, add an IT maintenance and improvement fee to all building permits.
- To stay ahead of new equipment needs in Fire, the proposed Valley-wide Fire Impact Fee should be adopted, and once revenue is generated, up to \$135,000 should be allocated for this purpose.
- The City can improve the way it manages our inventory of affordable housing units (especially those operated by private sector developers). The City could partner with other cities in hiring a staff member or outside contractor to assist here, in the amount of about \$30,000 (an estimate). Here, too, a nexus study should be completed, and a monitoring and administrative fee should be charged per unit to assist in covering these costs.

The City of Sonoma benefits from a history of fiscally conservative Council leadership and of community support for local revenues, which has helped to position the City of Sonoma to sustain the economic impacts of the COVID-19 pandemic. Many of the organizational improvements made in the past several years to our emergency preparedness capabilities, financial management systems, and community information channels have helped us greatly in managing the current crisis. We have a City workforce that is committed, responsive, and adaptable. While many challenges remain, Sonoma is well positioned to make its way along the road ahead.

Team Sonoma

Our staff is to be commended for the many outstanding and selfless accomplishments of this past difficult and unprecedented year. Some but not all are listed in this budget.

In particular, I want to acknowledge the entire Finance Team led by Sue Casey, Assistant City Manager and



Jenna Burrows, Deputy Finance Director, for their expertise and dedication in preparing this budget and also our outstanding Public Works team, who continue to polish our 5-year Capital Improvement Program.

I am thankful for the leadership and hard work of the City Council. I am also extremely proud of the Management Team and rank-and-file employees that support the Sonoma community. This has been a very tough year for so many – from our community, to our City leadership, to our staff. As to the team I've been honored to become a part of for this brief time, I am so impressed with their dedication, professionalism, and the teamwork that is authentically conveyed on a daily basis to our customers. Sonoma is a special place to live and work and it has been an honor to work in partnership with the City Council, the community, and our employees to maintain Sonoma's quality of life.

Respectfully submitted,

Dave Kiff
Interim City Manager