



City of Sonoma

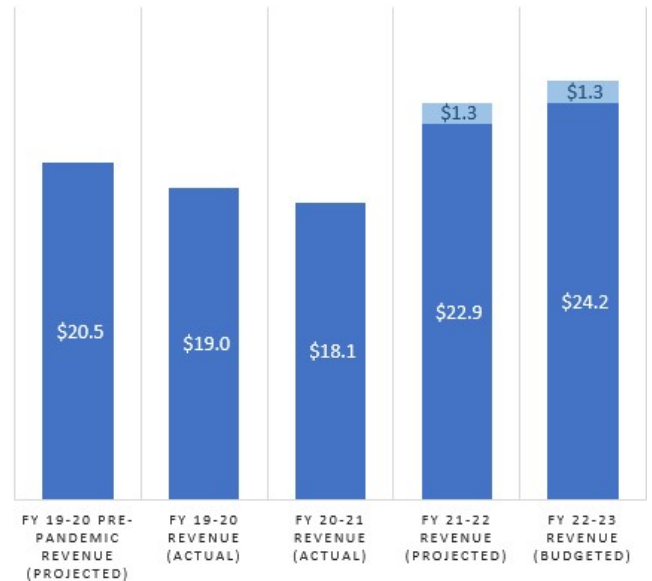
Budget in Brief

Fiscal Year 2022-2023

Since the COVID-19 pandemic's onset in early 2020, it has been the major driver of the local economy, the City's budget, and our workplan priorities. However, after a protracted drop in City revenues that began in the spring of 2020, we are now seeing continued and pronounced economic recovery. Tourists have returned in full force, as Sonoma benefits from the pent-up demand for travel now that few pandemic-related restrictions remain in effect. Both hotel tax and sales tax revenues have increased dramatically over the past year, and are now projected to exceed pre-pandemic levels.

PANDEMIC IMPACT ON GENERAL FUND REVENUE (IN \$ MILLIONS)

■ General Fund Revenue ■ Federal Grants



Federal relief funds from the American Rescue Plan (ARPA) totaling \$2.6 million over two years, along with a rebounding tourist economy, have helped to restore the City's financial footing.

Federal relief grants from the American Rescue Plan Act have helped to stabilize the City's finances, providing about \$2.6 million over two years. These funds are being allocated to offset allowable expenses in the FY 21-22 and 22-23, resulting in projected operating surpluses for these fiscal years.

With revenues in recovery and City Hall re-opened, we can continue to restore investments in the service levels and infrastructure that were impacted by pandemic-related budget reductions, and begin to address emerging needs. The "Budget Highlights" on page 3 provide details.

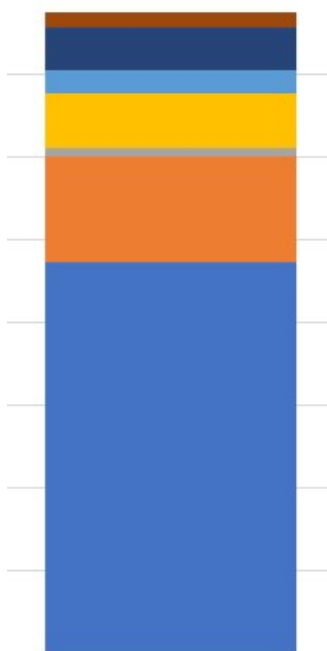
Many unknowns remain with COVID

and potential future variants. Trends in the overall economy, changes in consumer and traveler behavior, and emergencies caused by drought and wildfire all create risks. The primary tools that the City uses to help manage these risks are healthy financial reserves and a five-year General Fund forecast that informs budget development and financial decisions. Together, the multi-year forecast and the annual budget serve as a financial roadmap, while the reserves help to provide funding for critical City services in times of need.

"Detours" in this roadmap such as the pandemic can and do happen, but with the leadership of the City Council and the dedication and professionalism of the City team, we have the ability to adapt as needed to effectively serve our community within available resources.

An overview of the FY 22-23 Operating & Capital Improvement Program Budget, which totals almost \$40 million (all funds), is provided on the following pages of this "Budget in Brief".

City Budget \$38.7M



- General Fund
- Water Utility Operating
- Cemetery
- Special Revenue Funds
- Internal Svc Funds
- Debt Svc Funds
- Agency Funds
- Capital Projects

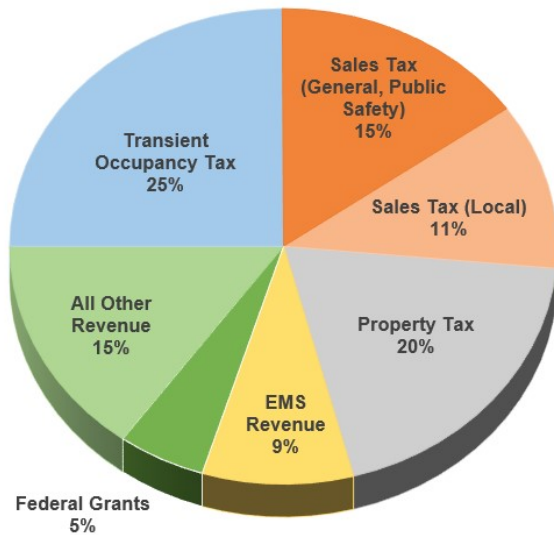
The budget for the Fiscal Year 22-23, which began July 1, 2022, totals \$38,719,925.

The General Fund

City revenues and expenditures are tracked in several different funds. The largest is the General Fund, which provides for basic governmental services including public safety, parks and street maintenance, planning and building services, and other community services as prioritized by the City Council.

FY 22-23 General Fund Budget	
Revenues	\$ 25,514,945
Expenditures	\$ 23,629,236
Surplus:	\$ 1,885,709

Where the \$ Comes From:
FY 22-23 General Fund Revenue



Revenues

The FY 22-23 General Fund budget is funded by projected revenues of \$25.5 million. These revenues include the second of two years of federal relief grants of \$1.3 million/year from the American Rescue Plan.

Sonoma’s economy is tourism-based, with hotel taxes (called Transient Occupancy Tax or TOT) projected to make up 25% of revenues this fiscal year. With the pandemic shutdown in spring of 2020, TOT dropped to less than \$3 million in FY 20-21, but with a strong recovery in tourism, TOT revenues are estimated to reach \$6.4 million this year.

Tourism also impacts sales taxes, with restaurants comprising the largest single segment. Sales tax revenues include a local half-cent (0.5%) local sales tax approved by the voters in November 2020 as “Measure V”.

Although the majority of property taxes paid by owners of residential and commercial property goes to fund county services and the public schools, the City’s share (approximately 18% of each dollar paid) generates one-fifth of total General Fund revenue. Emergency Medical Services (EMS) revenue contributes about 9%.

Expenditures

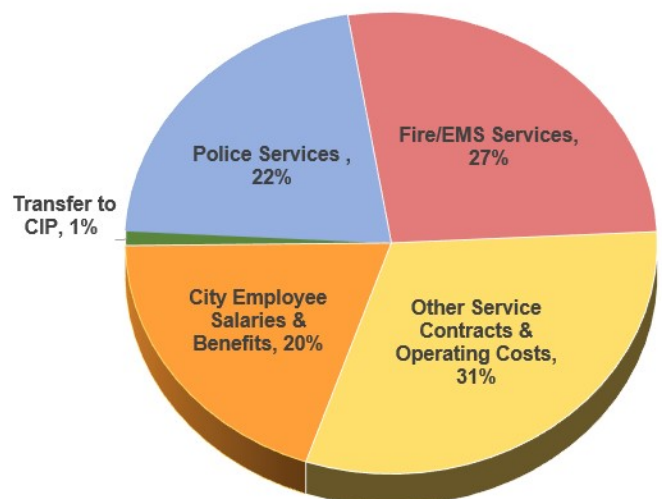
In Sonoma, city services are provided through a combination of employees and contracts for services. A staff of 42 FTE (full time equivalent) city employees provides the community with city administration, council and commission support, city clerk services, finance, human resources, public information, coordination of community events, sustainability programs, planning and building services, traffic safety, maintenance of streets and parks, operation of the water utility (a separate fund), and management of capital projects.

City staff also manage a number of contracts for services. The largest of these are for fire and emergency medical services (Sonoma Valley Fire District, or SVFD) and police services (Sonoma County Sheriff), which together comprise almost half of the General Fund budget. Other city functions provided by contract include code enforcement, youth/family services, legal services, economic development and visitor services, recreation and social services, trail maintenance, and specialized engineering and technology support.

Other operating costs include debt service, payments on accrued pension liabilities, insurance costs, and contributions toward replacement of equipment and vehicles as well as facility maintenance. A portion of the TOT revenue is transferred into a fund for affordable housing. A small amount of General Fund expenditures go to support the Capital Improvement Program (CIP).

At \$23.6 million, the FY 22-23 General Fund budget is about 8% higher than estimated year-end total expenditures for FY 21-22, reflecting increases in labor costs (including contract services) and other operating costs, as well as the program expansions and one-time investments summarized on the next page under “Budget Highlights”.

Where the \$ Goes:
FY 22-23 General Fund Expenditures



Budget Highlights

The budget is a tool for funding service priorities. The largest departmental increase (\$589,000 over FY 21-22) is to the Fire/EMS Department, reflecting both negotiated labor increases at Sonoma Valley Fire District and the City's cost share to continue three partially grant-funded SAFER (Staffing for Adequate Fire and Emergency Response) positions. Other increases included in the FY 22-23 Budget are:

- The addition of a Deputy for Community Oriented Policing and Problem Solving (COPPS). This position will work on a dedicated basis toward resolving ongoing issues facing the community, potentially including downtown parking, event security, issues for community members experiencing homelessness, school security issues, mental health awareness, and outreach and collaboration with residents, staff, and City Council.
- A new Assistant to the City Manager position to serve as a liaison to community organizations, assist in resolving operational issues and citizen complaints, and manage the City's affordable housing programs.
- Increases to Community Activities Budget to restore funding to core recreation partners at pre-pandemic levels, increase code enforcement for special events and high-traffic weekends, increased support for 4th of July Celebration, and fund scholarships for youth and senior swimming programs (a transfer from the Pool Scholarship Fund).
- A placeholder increase for salary increases for City employees, pending completion of negotiations.
- An increase of approximately \$200,000 in transfers from the General Fund to the Housing Trust Fund, reflecting the dramatic growth projected in TOT revenues (one percent of the 13% TOT collected by the City has been allocated by the City Council to a fund for affordable housing).

The FY 22-23 Budget also includes General Fund spending for special projects. These one-time costs include:

- \$240K for Capital Improvement Program (CIP) projects, including funding for the sidewalk repair and pavement rehabilitation programs, park and trail improvements, and HVAC replacement at the Depot Park Museum (see page 4 for more on the CIP).
- \$320K for one-time projects, including new software for budgeting/accounting, records archiving (with a public portal), and cloud-based building permitting; consulting or contracting services for climate action, issues for community members experiencing homelessness, and compensation studies; Plaza tree assessment and major maintenance; and photographic artwork for the City Council Chambers.

The Role of Reserves: the City's "Rainy Day" Funds

Over time, the City has built healthy financial reserves, which function as a savings accounts or "rainy day" fund. In accordance with the Reserve Policy adopted by the City Council, the **Emergency Reserve** (\$1.5 million) is set aside to help fund costs of responding to a major fire, earthquake, or other disaster. The purpose of the **Operating Reserve** is to help mitigate the effects of economic downturns on City services and allow time to adjust operations accordingly. This reserve is set at 17% (or 3 months) of General Fund operating expenditures. Remaining reserves are available to be budgeted or assigned for one-time purposes, such as capital improvements and other **Special Projects**.



Based on year-end projections for the prior fiscal year, FY 22-23 began with an estimated \$9.7 million in total reserves. This includes the \$1.5 million emergency reserve and a \$4 million operating reserve. Additional reserves are designated for specific purposes such as equipment replacement, and more than \$500,000 is assigned for the City's General Plan Update. An additional \$82,000 from reserves is budgeted for special projects in the current year.

Learn more about the City's reserve policy in the full budget document and at: sonomacity.org/financial-documents.

Investing in Infrastructure

Reliable infrastructure is essential to our quality of life. The City's Capital Improvement Program (CIP) is a multi-year plan to support investment in the City's streets, sidewalks, bikeways, stormwater drainage, parks and open space, water system, and municipal buildings and facilities. Due to their size and complexity, many CIP projects are multi-year, with funding carried forward as needed.

The major funding sources for CIP projects are gas taxes, federal and state grants, bond measures, countywide tax measures for transportation and parks, City fees on new development, annual set-asides for asset maintenance and replacement, and revenue from self-supporting enterprise funds such as the City's Water Fund. General Fund support available for the CIP budget has always been limited, but can provide the "missing piece" needed to making priority projects happen. The CIP includes \$240,000 from the General Fund in FY 22-23, as part of a total of almost \$2.6 million in new funding for capital projects. Among the numerous projects that will be active in FY 22-23 are:



TRANSPORTATION

- Complete the Fryer Creek Pedestrian & Bicycle Bridge to improve access and connectivity for residents to the middle school and high school.
- With approval from Caltrans, implement pedestrian safety measures at four crossings on Broadway.



PARKS

- Improvements at Depot Park, including to the restrooms, trash receptacles, bike parking and signage, and addition of two water bottle filling stations.
- Complete design and construction of the Montini connector trail.



WATER

- Improvements to City wells, valve boxes, and the Norbomm Water Tank.



FACILITIES:

- Complete construction of new all-electric HVAC system at the Depot Park Museum.

Building on Our Accomplishments

Most of the City's financial and staffing resources are dedicated to ongoing operations—such as responding to calls for service, maintaining parks and streets, and reviewing plan submittals. In the past year, supporting our residents and business community through the impacts of the pandemic remained a top priority. At the same time, we were able to add a number of other accomplishments, which are detailed in the full budget document at sonomacity.org/financial-documents. Just a few examples:

- Replaced 225 road signs using high-reflective materials to improve night-time visibility.
- Improved the appearance of the Plaza by reconstructing the enclosure for solid waste collection.
- Implementation completion of a cloud-based electronic plan review system in the Building Department, which will go live in Fall 2022.
- Amended the Municipal Code to add housing opportunities to Commercial and Mixed Use Zones, increase the housing affordability requirement from 20% to 25%, and adopt multi-family objective design standards.
- Initiated a strategic assessment of local homelessness efforts in the City and the Valley.
- Completed transition to 100% LED lighting at City Hall, Council Chambers, Police Building, Corp Yard, and Carnegie Library Building.
- Worked with county and local partners to develop the Sonoma County Community Wildfire Protection Plan.
- Coordinated implementation of an online Recreation Service Providers Directory for Sonoma Valley.



How to Learn More...

Understanding the City's resources and spending priorities is an important part of knowing how your local government works. While this "Budget in Brief" provides a summary, the full budget document includes all funds, details the City organizational structure and staffing, provides program descriptions and goals, and summarizes the General Fund five-year financial forecast. Find it online at sonomacity.org/financial-documents. To remain updated on budget monitoring and changes made during the year, be sure to subscribe to agenda notifications and our e-newsletter at sonomacity.org.