


Agenda Report Reviewed by:

City Manager: 

CITY OF SEBASTOPOL
CITY COUNCIL
AGENDA ITEM

Meeting Date: October 17, 2023
To: Honorable Mayor and City Councilmembers
From: Budget Committee Members
Vice Mayor Rich
Councilmember Zollman
Larry McLaughlin – City Manager/Attorney
Mary Gourley – Assistance City Manager/City Clerk
Ana Kwong – Administrative Services Director
Subject: PRELIMINARY REPORT of Revenue Enhancement Options
Recommendation: City Council Consider and Discuss the Preliminary Report on Revenue Enhancement Options
Funding: Currently Budgeted: Yes No Not Applicable

Account Code: [Fill in Account Number]

Costs authorized in City Approved Budget: Yes (Finance Initialed _____) No (Finance Exempt)

INTRODUCTION/PURPOSE:

The item is to request Council Consider and Discuss the preliminary report on Revenue Enhancement options. This is an initial summary that should be considered preliminary and subject to changes and updates.

BACKGROUND:

As has been stated during the budget process, the City is in a fiscal crisis and there is an urgent need for new revenue streams. The Budget Committee has been in discussion with City Administration on ways to increase revenues while facing structural budget shortfalls that threaten service delivery and quality. Department Directors were also tasked with providing ideas on potential strategies for increasing the City revenues beyond our primary revenue streams of service fees, permits, fines, licenses, charges for water and sewer, and taxes to name a few. The Committee reviewed which revenue streams could generate the most revenues with the least impact on stakeholders, as well as what is the size of the stream and is it feasible to achieve that revenue stream.

DISCUSSION:

The table below is a condensed financial forecast through fiscal year 29-30 and is a dire picture of the City’s finances if no new revenue streams are in place. The City’s current FY23-24 budget has a deficit of \$1.68M in a total budget of \$12.5M. The deficit will steadily increase without new revenue streams. Although the General Fund Reserve (GFR) for FY 23-24 and 24-25 meet the Council’s 15% reserve policy, the GFR will dip into an unhealthy range of 3.2% in FY25-26 and to an increasingly negative position in FY26-27 and beyond. To ensure the financial stability of the City, there is an urgent need for new revenue streams. In the absence of an effective strategy for new revenue streams, the City will need to plan for a reduction in current services.

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	Adopted FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Est End of Year Reserve	\$ 3,441,264	\$ 1,973,608	\$ 406,221	\$ (1,335,766)	\$ (3,259,515)	\$ (5,603,554)	\$ (8,182,857)
Reserve Level	27.4%	15.8%	3.2%	-10.1%	-23.9%	-39.2%	-55.4%

The Budget Committee’s policy regarding proposals for new expenditures for this fiscal year is that any such proposals should be brought forward to the full City Council, supported by a full staff report, to be discussed and decided by the full City Council. City Administration has also suspended use of City credit cards and all purchases must be pre-approved by City Administration before placement of any order or services can be procured. The City has also suspended community benefit grants and City sponsorship programs, and has suspended all Fee Waivers.

The focus of the Budget Committee’s time and effort, given the City’s dire financial state, will be on developing strategies for future fiscal stability for the City.

A. CURRENT FORECAST – NO NEW REVENUE OR EXPENSES

The table below provides the current financial forecast for the City without any new revenue streams. All numbers have been updated from those in the approved 2023-24 Budget to reflect current revenue and expense information available as of the date of this report. No new revenue or expenses have been added. Please note that these numbers will be updated in future reports, as the City’s Administrative Services Department continues its efforts to provide accurate fully updated information to the Budget Committee, the Council, and the public. Notably, however, the updated numbers here do not change the essential conclusion in the approved 2023-24 Budget: that is that the City is facing a structural deficit, projecting a 3.2% Reserve Level in FY 2025-26, leaving approximately \$400,000 to cover the subsequent year’s \$1.7 million dollar deficit. The numbers may shift somewhat as the Budget Committee continues to do its work, but the critical nature of the situation is unfortunately expected to remain unchanged.

	CURRENT FORECAST						
	Adopted FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 10,860,460	\$ 11,022,140	\$ 11,259,630	\$ 11,497,043	\$ 11,732,327	\$ 11,967,541	\$ 12,202,394
Projected Expenses	\$ (12,537,996)	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,677,536)	\$ (1,467,656)	\$ (1,567,387)	\$ (1,741,987)	\$ (1,923,749)	\$ (2,344,039)	\$ (2,579,303)
Est End of Year Reserve *	\$ 3,441,264	\$ 1,973,608	\$ 406,221	\$ (1,335,766)	\$ (3,259,515)	\$ (5,603,554)	\$ (8,182,857)
Reserve Goal (15%)	\$ 1,880,699	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	27.4%	15.8%	3.2%	-10.1%	-23.9%	-39.2%	-55.4%

*Throughout this report, all end of year reserve figures are estimated.

B. POSSIBLE NEW BALLOT MEASURES DETAILED

Summarized here are the various ballot measures the Budget Committee has discussed thus far. This is informational only. The Budget Committee makes no recommendation of one over the others. The November 2024 election date for bringing these forward is identified as the most likely election date given prior discussions of the City Council, but it is recognized that placing any ballot measure before the voters will first need to be approved by the Council. Please note that this is not an exclusive or exhaustive list of revenue generating options for the City. Section F below includes, for example, a list of non-tax ideas as well as additional cost cutting measures that the Budget Committee has been discussing.

1. Sales Tax – currently 9.25% (State – 6.25%, Sonoma County – 1.25%, Sebastopol – 1.75%). Any passage of sales tax increase would take effect on April 1, 2025.

New Revenues	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
¼ % Sales Tax	195,250	806,000	831,000	853,000	875,000	896,000
Growth %	2.80%	3.20%	3.10%	2.60%	2.60%	2.40%
½ % Sales Tax	390,250	1,612,000	1,661,000	1,707,000	1,750,000	1,791,000
Growth %	2.70%	3.30%	3.00%	2.80%	2.50%	2.30%

2. Transient Occupancy Tax (TOT) Rate – currently 12%. A 2% TOT increase could take effect January 1, 2025. The election will be on November 5. If approved, the new rate would be 14%.

New Revenues	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
2% TOT (Existing Hotel)	39,900	74,256	95,554	116,688	139,982	164,827
Growth %	1%	2%	5%	5%	5%	5%
2% TOT (New Hotel)	-	-	1,146,684	1,261,352	1,387,488	1,526,236
TOT New Hotel - (No increase)*	-	-	982,870	1,081,157	1,189,273	1,308,200
Growth %	N/A			10%	10%	10%

*This line represents revenue that would be generated by a new hotel with NO 2% increase in TOT

3. Utility User Tax (UUT) Rate – currently 3.75%. A 1.75% UUT increase could take effect March 1, 2025. If approved, the new rate would be 5%.

New Revenues	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
1.25% UUT	76,275	309,700	314,400	319,100	323,900	328,800
Growth %	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

4. Parcel Tax – None currently. A parcel tax approved in November 2024 would go on the property tax rolls for FY 2025-26, and so would not be received by the City until the property taxes for 2025-26 are received. Property taxes are typically received in December & April. This particular parcel tax is based on a flat rate for each of the 2724 parcels within the City of Sebastopol and as estimated here would be to support the City’s general fund. Please note that this is quite different from the revenue that might be generated by other parcel taxes, such as a parcel tax to support fire services. That type of special parcel tax can charge additional amounts for particular types of parcels (e.g residential vs agricultural vs commercial).

New Revenues	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
\$250/parcel	-	681,250	681,250	681,250	681,250	681,250
\$300/parcel	-	817,500	817,500	817,500	817,500	817,500

C. POTENTIAL NEW REVENUE RANKING FROM BALLOT MEASURES – HIGHEST TO LOWEST RETURN

This table provides a summary of the revenue to be generated by each tax measure discussed in this preliminary report.

#	New Revenues	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
1	½ % Sales Tax	390,250	1,612,000	1,661,000	1,707,000	1,750,000	1,791,000
2	2% TOT (Existing Hotel)	39,900	74,256	95,554	116,688	139,982	164,827
	2% TOT (New Hotel)	-	-	1,146,684	1,261,352	1,387,488	1,526,236
2a	TOT New Hotel - (No increase)*	-	-	982,870	1,081,157	1,189,273	1,308,200
3	¼ % Sales Tax	195,250	806,000	831,000	853,000	875,000	896,000
4	\$300/parcel	-	817,500	817,500	817,500	817,500	817,500
5	\$250/parcel	-	681,250	681,250	681,250	681,250	681,250
6	1.25% UUT	76,275	309,700	314,400	319,100	323,900	328,800

*2a - This line represents revenue that would be generated by a new hotel with NO 2% increase in TOT.

D. SCENARIOS – WITHOUT NEW HOTEL

The following 14 scenarios assume **NO NEW HOTEL**. Although the City is hopeful the long-awaited Hotel Sebastopol will open its doors in the near future, and has received reassurances that the project is still a priority for the developer, there is no guarantee. Therefore these revenue scenarios are offered without the new hotel. No new expenditures have been built into these scenarios. For scenarios that include potential revenue from a new hotel, please see section E below.

Option#1 – ½ % Sales Tax + \$300 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,412,390	\$ 13,689,130	\$ 13,975,543	\$ 14,256,827	\$ 14,535,041	\$ 14,810,894
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,077,406)	\$ 862,113	\$ 736,513	\$ 600,751	\$ 223,461	\$ 29,197
Est End of Year Reserve	\$ 2,363,858	\$ 3,225,971	\$ 3,962,484	\$ 4,563,235	\$ 4,786,696	\$ 4,815,893
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	18.9%	25.1%	29.9%	33.4%	33.4%	32.6%

Option#2 – ½ % Sales Tax + \$250 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,412,390	\$ 13,552,880	\$ 13,839,293	\$ 14,120,577	\$ 14,398,791	\$ 14,674,644
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,077,406)	\$ 725,863	\$ 600,263	\$ 464,501	\$ 87,211	\$ (107,053)
Est End of Year Reserve	\$ 2,363,858	\$ 3,089,721	\$ 3,689,984	\$ 4,154,485	\$ 4,241,696	\$ 4,134,643
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	18.9%	24.1%	27.9%	30.4%	29.6%	28.0%

Option#3 – ½ % Sales Tax + 1.25% UUT increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,488,665	\$ 13,181,330	\$ 13,472,443	\$ 13,758,427	\$ 14,041,441	\$ 14,322,194
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,001,131)	\$ 354,313	\$ 233,413	\$ 102,351	\$ (270,139)	\$ (459,503)
Est End of Year Reserve	\$ 2,440,133	\$ 2,794,446	\$ 3,027,859	\$ 3,130,210	\$ 2,860,071	\$ 2,400,568
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	19.5%	21.8%	22.9%	22.9%	20.0%	16.2%

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Option#4 – ½ % Sales Tax + 2% TOT increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,452,290	\$ 12,945,930	\$ 13,253,543	\$ 13,556,027	\$ 13,857,441	\$ 14,158,219
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,037,506)	\$ 118,913	\$ 14,513	\$ (100,049)	\$ (454,139)	\$ (623,478)
Est End of Year Reserve	\$ 2,403,758	\$ 2,522,671	\$ 2,537,184	\$ 2,437,135	\$ 1,982,996	\$ 1,359,518
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	19.2%	19.7%	19.2%	17.8%	13.9%	9.2%

Option#5– ¼ % Sales Tax + \$300 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,217,390	\$ 12,883,130	\$ 13,145,543	\$ 13,402,827	\$ 13,660,041	\$ 13,915,894
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,272,406)	\$ 56,113	\$ (93,487)	\$ (253,249)	\$ (651,539)	\$ (865,803)
Est End of Year Reserve	\$ 2,168,858	\$ 2,224,971	\$ 2,131,484	\$ 1,878,235	\$ 1,226,696	\$ 360,893
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	17.4%	17.3%	16.1%	13.8%	8.6%	2.4%

Option#6 – ¼ % Sales Tax + \$250 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,217,390	\$ 12,746,880	\$ 13,009,293	\$ 13,266,577	\$ 13,523,791	\$ 13,779,644
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,272,406)	\$ (80,137)	\$ (229,737)	\$ (389,499)	\$ (787,789)	\$ (1,002,053)
Est End of Year Reserve	\$ 2,168,858	\$ 2,088,721	\$ 1,858,984	\$ 1,469,485	\$ 681,696	\$ (320,357)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	17.4%	16.3%	14.0%	10.8%	4.8%	-2.2%

Option#7 – 2% TOT + ¼ % Sales Tax + 1.25% UUT tax increase

Projected Revenue	\$ 11,333,565	\$ 12,449,586	\$ 12,737,997	\$ 13,021,115	\$ 13,306,423	\$ 13,592,021
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,156,231)	\$ (377,431)	\$ (501,033)	\$ (634,961)	\$ (1,005,157)	\$ (1,189,676)
Est End of Year Reserve	\$ 2,285,033	\$ 1,907,602	\$ 1,406,569	\$ 771,608	\$ (233,549)	\$ (1,423,225)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	18.3%	14.9%	10.6%	5.7%	-1.6%	-9.6%

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Option#8 – ¼ % Sales Tax + 1.25% UUT increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,293,665	\$ 12,375,330	\$ 12,642,443	\$ 12,904,427	\$ 13,166,441	\$ 13,427,194
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,196,131)	\$ (451,687)	\$ (596,587)	\$ (751,649)	\$ (1,145,139)	\$ (1,354,503)
Est End of Year Reserve	\$ 2,245,133	\$ 1,793,446	\$ 1,196,859	\$ 445,210	\$ (699,929)	\$ (2,054,432)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	18.0%	14.0%	9.0%	3.3%	-4.9%	-13.9%

Option#9 - \$300 parcel tax + 1.25% UUT increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,098,415	\$ 12,386,830	\$ 12,628,943	\$ 12,868,927	\$ 13,108,941	\$ 13,348,694
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,391,381)	\$ (440,187)	\$ (610,087)	\$ (787,149)	\$ (1,202,639)	\$ (1,433,003)
Est End of Year Reserve	\$ 2,049,883	\$ 1,609,696	\$ 999,609	\$ 212,460	\$ (990,179)	\$ (2,423,182)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.4%	12.5%	7.6%	1.6%	-6.9%	-16.4%

Option#10 – ¼ % Sales Tax + 2% TOT

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,257,290	\$ 12,139,880	\$ 12,423,593	\$ 12,702,027	\$ 12,982,526	\$ 13,263,219
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,232,506)	\$ (687,137)	\$ (815,437)	\$ (954,049)	\$ (1,329,054)	\$ (1,518,478)
Est End of Year Reserve	\$ 2,208,758	\$ 1,521,621	\$ 706,184	\$ (247,865)	\$ (1,576,919)	\$ (3,095,397)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	17.7%	11.9%	5.3%	-1.8%	-11.0%	-20.9%

Option#11 - \$250 parcel tax + 1.25% UUT increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,098,415	\$ 12,250,580	\$ 12,492,693	\$ 12,732,677	\$ 12,972,691	\$ 13,212,444
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,391,381)	\$ (576,437)	\$ (746,337)	\$ (923,399)	\$ (1,338,889)	\$ (1,569,253)
Est End of Year Reserve	\$ 2,049,883	\$ 1,473,446	\$ 727,109	\$ (196,290)	\$ (1,535,179)	\$ (3,104,432)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.4%	11.5%	5.5%	-1.4%	-10.7%	-21.0%

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Option#12 – 2% TOT + \$300 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,062,040	\$ 12,151,380	\$ 12,410,093	\$ 12,666,527	\$ 12,925,041	\$ 13,184,719
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,427,756)	\$ (675,637)	\$ (828,937)	\$ (989,549)	\$ (1,386,539)	\$ (1,596,978)
Est End of Year Reserve	\$ 2,013,508	\$ 1,337,871	\$ 508,934	\$ (480,615)	\$ (1,867,154)	\$ (3,464,132)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.1%	10.4%	3.8%	-3.5%	-13.0%	-23.4%

Option#13 – 2% TOT + \$250 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,062,040	\$ 12,015,130	\$ 12,273,843	\$ 12,530,262	\$ 12,788,741	\$ 13,048,494
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,427,756)	\$ (811,887)	\$ (965,187)	\$ (1,125,814)	\$ (1,522,839)	\$ (1,733,203)
Est End of Year Reserve	\$ 2,013,508	\$ 1,201,621	\$ 236,434	\$ (889,380)	\$ (2,412,219)	\$ (4,145,422)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.1%	9.4%	1.8%	-6.5%	-16.9%	-28.0%

Option#14 – 2% TOT + 1.25% UUT tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,138,315	\$ 11,598,580	\$ 11,906,993	\$ 12,168,107	\$ 12,431,421	\$ 12,696,019
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,351,481)	\$ (1,228,437)	\$ (1,332,037)	\$ (1,487,969)	\$ (1,880,159)	\$ (2,085,678)
Est End of Year Reserve	\$ 2,089,783	\$ 861,346	\$ (470,691)	\$ (1,958,660)	\$ (3,838,819)	\$ (5,924,497)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.7%	6.7%	-3.6%	-14.3%	-26.8%	-40.1%

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E. SCENARIOS – WITH NEW HOTEL

There are six of the above 14 scenarios that change if a **NEW HOTEL** comes on line in July of 2026. The projections below assume a 2% increase in TOT. The six options from the above Section D that change with the addition of TOT from a new hotel are #4, #7, #10, #12, #13, and #14. The impact of the additional new hotel TOT for those six scenarios is explained below.

Option#4 from Section D Above with NEW HOTEL TOT ADDED – ½ % Sales Tax + 2% TOT increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,452,290	\$ 12,945,886	\$ 14,400,281	\$ 14,817,367	\$ 15,245,011	\$ 15,684,457
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,037,506)	\$ 118,869	\$ 1,161,251	\$ 1,161,291	\$ 933,431	\$ 902,760
Est End of Year Reserve	\$ 2,403,758	\$ 2,522,627	\$ 3,683,878	\$ 4,845,169	\$ 5,778,600	\$ 6,681,360
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	19.2%	19.7%	27.8%	35.5%	40.4%	45.2%

Option#7 from Section D Above with NEW HOTEL TOT ADDED - 2% TOT + ¼ % Sales Tax + 1.25% UUT tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,333,565	\$ 12,449,586	\$ 13,884,681	\$ 14,282,467	\$ 14,693,911	\$ 15,118,257
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,156,231)	\$ (377,431)	\$ 645,651	\$ 626,391	\$ 382,331	\$ 336,560
Est End of Year Reserve	\$ 2,285,033	\$ 1,907,602	\$ 2,553,253	\$ 3,179,644	\$ 3,561,975	\$ 3,898,535
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	18.3%	14.9%	19.3%	23.3%	24.9%	26.4%

Option#10 from Section D Above with NEW HOTEL TOT ADDED – ¼ % Sales Tax + 2% TOT

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,257,290	\$ 12,139,930	\$ 13,570,243	\$ 13,963,367	\$ 14,370,011	\$ 14,789,394
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,232,506)	\$ (687,087)	\$ 331,213	\$ 307,291	\$ 58,431	\$ 7,697
Est End of Year Reserve	\$ 2,208,758	\$ 1,521,671	\$ 1,852,884	\$ 2,160,175	\$ 2,218,606	\$ 2,226,303
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	17.7%	11.9%	14.0%	15.8%	15.5%	15.1%

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Option#12 from Section D Above with NEW HOTEL TOT ADDED – 2% TOT + \$300 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,062,040	\$ 12,151,380	\$ 13,556,743	\$ 13,927,827	\$ 14,312,511	\$ 14,710,954
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,427,756)	\$ (675,637)	\$ 317,713	\$ 271,751	\$ 931	\$ (70,743)
Est End of Year Reserve	\$ 2,013,508	\$ 1,337,871	\$ 1,655,584	\$ 1,927,335	\$ 1,928,266	\$ 1,857,523
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.1%	10.4%	12.5%	14.1%	13.5%	12.6%

Option#13 from Section D Above with NEW HOTEL TOT ADDED – 2% TOT + \$250 parcel tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,062,040	\$ 12,015,130	\$ 13,420,543	\$ 13,791,627	\$ 14,176,261	\$ 14,574,694
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,427,756)	\$ (811,887)	\$ 181,513	\$ 135,551	\$ (135,319)	\$ (207,003)
Est End of Year Reserve	\$ 2,013,508	\$ 1,201,621	\$ 1,383,134	\$ 1,518,685	\$ 1,383,366	\$ 1,176,363
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.1%	9.4%	10.4%	11.1%	9.7%	8.0%

Option#14 from Section D Above with NEW HOTEL TOT ADDED – 2% TOT + 1.25% UUT tax increase

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Projected Revenue	\$ 11,138,315	\$ 11,643,630	\$ 13,053,643	\$ 13,429,467	\$ 13,818,911	\$ 14,222,254
Projected Expenses	\$ (12,489,796)	\$ (12,827,017)	\$ (13,239,030)	\$ (13,656,076)	\$ (14,311,580)	\$ (14,781,697)
Surplus/(Deficit)	\$ (1,351,481)	\$ (1,183,387)	\$ (185,387)	\$ (226,609)	\$ (492,669)	\$ (559,443)
Est End of Year Reserve	\$ 2,089,783	\$ 906,396	\$ 721,009	\$ 494,400	\$ 1,731	\$ (557,712)
Reserve Goal (15%)	\$ 1,873,469	\$ 1,924,053	\$ 1,985,855	\$ 2,048,411	\$ 2,146,737	\$ 2,217,255
Reserve Level	16.7%	7.1%	5.4%	3.6%	0.0%	-3.8%

F. List of Potential Future Non-Tax Revenue Sources

All of these (as well as other revenue generating ideas) are on the list to be considered by the Budget Committee. Please note that this is a working list of ideas. The list will undoubtedly change as the Budget Committee continues its work, with some items removed and others added.

1. Vacancy /Commercial Buildings Tax
2. Expansion of vacation rentals
3. Events/Enforcement of business licenses
4. Review of City property for possible sale
5. Review of all City leases
6. Reassessment of City policies and ordinances (formula business ordinance?)
7. Municipal bonds
8. Reassess trench cut and other ordinances
9. Business district expansion
10. Establish an Enhanced Infrastructure Financing District (EIFD)
11. Revise City business license tax
12. Consider EMS Reimbursement
13. Continue to seek grant opportunities
14. Reassess policy regarding tiny homes

Although not revenue sources, it is anticipated recommendations below will help to off set the current financial deficit:

1. Efficiencies of combining and consolidating of departments will allow for shared customer service and permitting staff. The work of some departments is interrelated, and serve the same customer base.
2. Review of Capital Improvement Projects for Potential Delay or Set Aside Amount Per Year for Overall Capital Improvement Projects.
3. Review of assessed City fees/fines to maximize cost recovery.
4. Review of City fleet.
5. Review of City service contracts.

ENVIRONMENTAL REVIEW:

The proposed action is Not a project under CEQA Not exempt Exempt under Section _____ from the requirements of the California Environmental Quality Act (CEQA).

GOALS:

This action supports the following City Council Goals and General Plan Actions:

Goal 1 – Maintain the long term financial stability and sustainability of the City of Sebastopol and Operate City government in a responsive manner.

1.1 Develop and Implement Sound Financial Management Policies and Procedures

Economic Vitality (EV)

Goal EV7: Maintain a stable and self-sustaining fiscal base in order to generate the resources necessary to provide desired city services and support new growth that is consistent with the City’s values and goals (Pg.9-8)

PUBLIC COMMENT:

As of the writing of this staff report, the City has not received any public comment. However, staff anticipates receiving public comment from interested parties following the publication and distribution of this staff report. Such comments will be provided to the City Council as supplemental materials before or at the meeting. In addition, public comments may be offered during the public comment portion of the agenda item.

PUBLIC NOTICE:

This item was noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to schedule meeting date.

FISCAL IMPACT:

No fiscal impact at this time.

RECOMMENDATION:

Staff recommends the Sebastopol City Council Consider and Discuss the preliminary report on Revenue Enhanced options.

Attachments:

None