

CITY OF SEBASTOPOL CITY COUNCIL  
AGENDA ITEM REPORT FOR MEETING OF: May 21, 2024

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**To:** Honorable Mayor and City Councilmembers  
**From:** City Attorney  
 Outside Legal Counsel  
 City Manager  
**Subject:** Receipt of Information on Potential Ballot Measures/Time Lines for Placement of a Ballot Measure on the November 5, 2024 General Municipal Election /Direction to Staff for Investigation of Placement of Sales Tax Measure and Direction for Approval of Consulting Services (Estimate: \$30,000)

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**RECOMMENDATION:** This item is to request the City Council receive the report on consideration of a ballot measure on the November 5, 2024 Municipal Election and provide direction to staff for Investigation of Placement of Sales Tax Measure and Direction for Approval of Consulting Services (Estimate: \$30,000).

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**EXECUTIVE SUMMARY:**

As noted in recent City Council meetings, the City of Sebastopol faces major long-term budget challenges with our General Fund, which supports most City functions including police, fire, land use, housing, maintenance of parks and facilities, support for non-profits, and administrative functions. Attached is a working draft of the FY 23-24 year-end budget projections. It shows a projected deficit of \$1.3 million, use of \$1.1 in fund balance as a loan to the sewer fund, and unassigned fund balance of \$3.4 million. Staff is preparing the budget for FY 24-25. We anticipate proposing significant budget cuts to achieve a balanced budget.

**BACKGROUND AND ANALYSIS:**

Balancing the city’s annual operating and capital budget has become increasingly challenging given the slow growth of tax revenues and substantial increases in staff, services, contracts, insurance, and many other expenses. Sebastopol faces more severe financial challenges than most cities. This is in part because this is the fifth consecutive year in which on-going expenses exceed on-going revenue, which is not sustainable. Our latest financial model, from March 19 of this year, projects an average annual deficit of \$2.9 million/year. This excludes funding needed to improve the condition of our streets, which requires \$1.4 million/year for modest improvements. Combining the \$2.9 million deficit with the \$1.4 million needed for road improvements leaves an annual gap of \$4.3 million. The model also shows that our unassigned General Fund balance will be exhausted within three years without substantial changes in expenses and/or revenues. This timeline is likely shorter after shifting \$1.1 million as a loan to the sewer fund to be paid back starting in four years.

Addressing the budget challenges will require a mix of strategies, including reducing expenses. Staff is developing the FY 24-25 budget and expects to propose substantial reductions. Further reductions are likely in the following years. Service levels are likely to be well below what our residents expect.

Increased revenue is another part of the strategy. Next year’s budget will include increases in building fees to better cover our costs. We also anticipate shifting some staff time to activities which generate revenue. While worthwhile, these changes and reducing expenses will not solve our challenges.

Consolidating the Sebastopol Fire Department with the Gold Ridge Fire District could also generate \$1.1 million/year in parcel taxes, which must be dedicated to support fire services. When combined with the recently-passed ½ cent Measure H sales tax – also exclusively for fire services - we will have considerably greater funding

available to improve our fire operations. Still, we have substantial needs for on-going General Fund support for fire as we are behind on funding for new vehicles and need significant improvements or replacement of our fire station.

Another aspect of revenue generation is economic development, particularly attracting hotels that bring visitors and their spending to the City. It is an important step in leveraging Sebastopol's potential in the tourism industry in Sonoma County. There are two prospective hotels for the City, both in the early stages of development. We do not recommend counting on their tax revenue unless they are much closer to opening. Each may generate over \$1 million annually in City revenue, which would make a considerable improvement in the City's financial situation.

Even with the steps outlined above, we will continue to face financial challenges without a significant, on-going source of additional revenue. The most promising source of this revenue is an additional sales tax, which the Council directed us to explore earlier this year. We are asking the Council to consider a quarter cent sales tax that would generate approximately \$760,000 annually which would be paid by both residents and visitors; or the Council could consider a half cent sales tax that would generate approximately \$1,520,000 annually which would be paid by both residents and visitors.

#### DETAILS OF THE SALES TAX RATE IN SEBASTOPOL

Currently, the base statewide Bradley-Burns sales tax rate is 7.25%. Sebastopol voters approved an additional 0.25% tax in 2005 and an additional 0.50% tax in 2013. Voters countywide approved a 0.25% tax for the Sonoma County Transportation Authority in 2005 and a 0.250% tax for SMART in 2009, both of which are applicable in the City. The County levies additional sales taxes adding up to 0.75%, which are also applicable in the City. The current sales tax rate in Sebastopol is 9.25%.

Additionally, at the March 5, 2024 election voters countywide approved an additional 0.5% tax (Measure H -- Fire Prevention and Disaster Response), which will go into effect October 1, 2024. The sales tax rate in the City will increase to 9.75%.

The County has already placed on the November 2024 ballot an additional 0.25% tax for early childhood education and health care ("Our Kids Our Future"). If approved by voters, it would increase the tax rate in Sebastopol to 10% starting in April 2025.

#### LEGAL AUTHORITY FOR ADDITIONAL LOCAL SALES TAX

There are multiple sources of legal authority for the City and countywide sales taxes that affect the City Council's options. State law provides general authority for cities and counties to levy general and special sales taxes, subject to voter approval. (See Rev. & Tax. Code §§ 7285.9, 7285.91 (cities) and 7285, 7285.5 (counties).) (The differences between general taxes and special taxes are discussed below.) However, State law also provides that the "combined rate" of city and county sales taxes may not exceed 2%. (Rev. & Tax. Code § 7251.1.) Under this "2% cap," each time any city in a county passes a sales tax, it reserves part of the generally available authority for any other city. Each time a county passes a sales tax, it reserves part of the generally available authority for itself. Eventually, this generally available authority is exhausted when the local sales tax rate in any city plus the sales tax rate in the county add up to 2%. The City of Sebastopol still has 0.25% left under the 2% cap.

In Sonoma County, there's another source of legislative authority for local sales taxes. To assist local communities affected by the 2017 wildfires, the Legislature granted special authority to "the County of Sonoma or any city within the county" to levy a local sales tax "at a rate of no more than 1 percent" that would, in combination with

all other local sales taxes, exceed the 2% cap. (Rev. & Tax. Code § 7292.8.) The capacity available to the City of Sebastopol under this authority is discussed in the next section.

THE CITY COUNCIL’S SALES TAX RATE OPTIONS

It appears that the City Council could propose a 0.25% tax using the general authority discussed above, subject to the 2% cap. City of Cotati voters enacted a 1% local sales tax in 2014 relying upon the general authority. Consequently, with voter approval, any city in Sonoma County should be able to levy a local sales tax up to 1%. Since Sebastopol presently has local sales taxes that add up to 0.75%, its voters should be able to approve an additional 0.25% local sales tax under the general authority.

There are currently two voter-approved County tax measures that use the additional authority for Sonoma County local agencies. Those two taxes add up to 0.75%. The City should, therefore, be able to propose its own tax of at least 0.25% at the November 2024 election using that authority.

The City Council could propose a measure that combines a 0.25% tax under the remaining general authority and a 0.25% tax under the additional authority for Sonoma agencies, for a combined rate of 0.5%. The measure would expressly explain the reliance on both legislative authorizations and state that, if one portion of the tax is invalidated, the other should survive.

Outside legal counsel is confirming those options with the California Department of Tax and Fee Administration as well as how to interpret the grant of special authority for local agencies in Sonoma County.

Local Sales Tax Measures—General & Special

GENERAL SALES TAX	SPECIAL SALES TAX
<ul style="list-style-type: none"> <li>• Cities and counties may place on ballot</li> <li>• Requires 50%+1 voter approval</li> <li>• Statewide over 75% of measures passed since 2001</li> <li>• Must be consolidated with a City Council election (Nov.)</li> <li>• Available for all governmental purposes at discretion of City Council</li> </ul>	<ul style="list-style-type: none"> <li>• Cities, counties, and special districts may place on ballot</li> <li>• Requires two-thirds voter approval</li> <li>• Statewide less than 50% of measures passed since 2001</li> <li>• May be placed on any ballot (Special/ Primary/General)</li> <li>• May be spent only for the purposes stated in the measure</li> </ul>

At this time, direction is needed from the Council for staff to investigate placement of a quarter-cent or half-cent transaction and use tax increase on the November 2024 ballot. Council should consider proposed uses for the funding.

If the Council moves forward with consideration of a sales tax measure, it is also recommended that the City Council consider approval of a Community Survey Research Consultant to determine community priorities for City services and the level of support for a potential local sales tax on the November 2024 ballot. Consultant services would be in an amount not to exceed \$30,000. Council should consider as part of this item discussing potential uses of revenue from an additional local sales tax. The polling conducted by the consultant will include the services identified and other potential uses in the survey to gauge community priorities and whether the level of

support for different services potentially affects community support for the potential tax measure. Staff will ensure that the consultant is aware of Council's discussion when preparing the survey.

BASIC TIMELINE FOR NOVEMBER ELECTION FOR BALLOT MEASURE:

8/9/24	Deadline for governing bodies to submit measures
8/12/24	Measure letter assignments
8/14/24	Deadline to amend/withdraw measures
8/15/24	Random alphabet drawing
8/16/24	Argument deadline
8/16/24	Impartial analysis deadline
8/23/24	Rebuttal deadline (only if opposing arguments are filed)

PLEASE NOTE : INFORMATION FROM COUNTY ELECTIONS

"Our past practice has always been to assign the measure letters after the E-88 deadline, and then assign them in the order they will be on the ballot. However, that is not a legal requirement. We have been checking with other counties to see what their practices are, and many of them do assign measure letters as they are filed with our office.

**Therefore, to address concerns about campaign timelines and knowing what letters are assigned, and to be consistent with other counties, we will be changing our policy, effective immediately. Our new policy will be that a measure letter is assigned as the measure is filed in our office.**

**So if a City has a measure, it will receive a measure letter as soon as it is filed with us, and the city can begin working on the campaign. "**

ACTIONS REQUIRED TO PLACE A BALLOT MEASURE ON THE NOVEMBER 2024 ELECTION:

- The Resolution to Call the Election and Consolidate
- The Measure Text
- 75-Word Ballot Question
- Assigning Letters to Measures
- Arguments for or against ballot measures
- Rebuttals to arguments for or against
- Impartial Analysis
- Fiscal Impact Statement

**COMMUNITY OUTREACH:**

This item has been 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:**

A quarter-cent transaction and use tax is projected to generate approximately \$760,000 annually. If the voters approve of the tax measure on the November 2024 election, the additional local tax would take effect on April 1, 2025. Approximately 25% of the \$760,000 annual projected revenue amount, or \$190,000, is anticipated to be collected in FY2025, with the first full year of annual revenue projected in FY2026.

A half-cent transaction and use tax is projected to generate approximately \$1,520,000 annually. If the voters approve of the tax measure on the November 2024 election, the additional local tax would take effect on April 1,

2025. Approximately 25% of the \$1,520,000 annual projected revenue amount, or \$380,000, is anticipated to be collected in FY2025, with the first full year of annual revenue projected in FY2026.

If this transaction and use tax measure is not approved, staff will work with the Council to evaluate alternative revenue measures.

The funding allocated for sales tax support in the Administrative Services Department for FY23-24 was \$60,000 in account code 124-14-01-4210. However, a portion of this budget was utilized in November 2023 for polling and consulting costs, leaving a remaining balance of \$37,238.

**OPTIONS:**

It is recommended that the Council consider options for a Sales Tax Measure for the November 5, 2024 Municipal Election as follows:

Consider options for a Sales Tax Measure (quarter cent) for the November 5, 2024 Municipal Election; and consider approval of funding for a polling consultant; or ;

Consider options for a Sales Tax Measure (half cent) for the November 5, 2024 Municipal Election; and consider approval of funding for a polling consultant; or

Consider options for a Sales Tax Measure (quarter cent) for the November 5, 2024 Municipal Election; and deny funding for a polling consultant; or

Consider options for a Sales Tax Measure (half cent) for the November 5, 2024 Municipal Election; and deny funding for a polling consultant; or

Deny the request for consideration of a Sales Tax Measure for the November 2024 election

**ATTACHMENTS:**

Working Draft of FY 23-24 Year End General Fund projections

APPROVALS:

Department Head Approval: Approval Date:

CEQA Determination (Planning): Approval Date:

The proposed action is not a project under the California Environmental Quality Act (CEQA)

Administrative Services (Financial) Approval Date:

Costs authorized in City Approved Budget:  Yes  No  N/A

Account Code (f applicable) \_\_\_\_\_

City Attorney Approval: Approval Date:

City Manager Approval: Approval Date:



## GENERAL FUND FINANCIAL SCHEDULE

Description	2022-23 Actual	2023-24 Adopted Budget	2023-24 Adjusted Budget	2023-24 Estimated Actual	\$ Inc/(Dec) Est vs. Adjusted	% Change Est. vs. Adjusted
<b>OPERATING REVENUE</b>						
Property Tax	3,293,347	3,241,600	3,241,600	3,441,000	199,400	6.2%
Real Property Transfer Tax	49,530	50,000	50,000	40,000	-10,000	-20.0%
Sales Taxes	4,718,318	4,794,560	4,794,560	4,536,000	-258,560	-5.4%
User Taxes	858,334	908,000	908,000	865,900	-42,100	-4.6%
Transient Occupancy Tax	544,128	500,000	500,000	506,000	6,000	1.2%
Franchise Fees	468,871	410,000	410,000	490,000	80,000	19.5%
Licenses & Permits	709,578	439,500	439,500	482,500	43,000	9.8%
Fines & Special Assessments	51,623	47,500	47,500	63,200	15,700	33.1%
Intergovernmental Revenues	2,068,971	16,700	16,700	433,710	417,010	2497.1%
Interest & Rents	31,471	96,000	96,000	123,450	27,450	28.6%
Charges for Services	182,938	124,100	124,100	122,530	-1,570	-1.3%
Miscellaneous Revenue	788,352	130,500	130,500	120,010	-10,490	-8.0%
Cost Allocation Plan	2,189,693	2,476,141	2,476,141	2,476,141	-0	0.0%
Direct Cost	770,033	869,898	869,898	756,959	-112,939	-13.0%
Transfers In	102,500	102,000	102,000	112,000	10,000	9.8%
<b>TOTAL REVENUES</b>	<b>16,827,686</b>	<b>14,206,499</b>	<b>14,206,499</b>	<b>14,569,400</b>	<b>362,901</b>	<b>2.6%</b>
<b>OPERATING EXPENDITURE</b>						
10 - City Council	503,256	212,311	212,311	202,615	(9,696)	-4.6%
11 - City Manager	340,598	472,139	672,139	471,412	(200,727)	-29.9%
12 - City Attorney	461,932	645,240	645,240	759,135	113,895	17.7%
13 - City Clerk	424,717	426,745	426,745	403,857	(22,888)	-5.4%
14 - Finance	1,218,805	1,401,180	1,401,180	1,328,543	(72,637)	-5.2%
21 - Planning	596,114	643,456	643,456	542,434	(101,022)	-15.7%
22 - Building	248,051	249,279	249,279	237,689	(11,590)	-4.6%
23 - Engineering	515,766	584,197	584,197	586,898	2,701	0.5%
31 - Fire & Prevention	1,302,704	1,553,903	1,553,903	1,287,858	(266,045)	-17.1%
32 - Police	5,519,998	6,027,039	6,027,039	5,746,235	(280,805)	-4.7%
40 - Senior Center	64,732	69,572	69,572	74,722	5,150	7.4%
41 - Public Works	1,925,630	2,194,385	2,194,385	2,046,807	(147,578)	-6.7%
42 - Community Center	442,528	322,830	322,830	318,465	(4,365)	-1.4%
43 - Ives Pool	146,925	275,355	275,355	281,655	6,300	2.3%
00 - Non Departmental	280,357	289,000	289,000	239,454	(49,546)	-17.1%
Debt Service Payments	254,140	265,903	265,903	208,043	(57,860)	-21.8%
Enterprise Fund Loan (Sewer)	-	-	-	1,100,000	1,100,000	0.0%
Transfers Out	167,572	251,500	251,500	251,500	-	0.0%
Transfers Out - Library Project - Phase 1	60,591	-	-	294,902	294,902	0.0%
Transfers Out - Library Project - Phase 2	-	-	-	351,633	351,633	0.0%
Transfers Out - Police Donation	-	-	-	260,211	260,211	0.0%
<b>TOTAL EXPENDITURES</b>	<b>14,474,418</b>	<b>15,884,034</b>	<b>16,084,034</b>	<b>16,994,067</b>	<b>910,033</b>	<b>5.7%</b>
Net General Fund Surplus/(Deficit)	<b>2,353,268</b>	<b>(1,677,535)</b>	<b>(1,877,535)</b>	<b>(2,424,667)</b>		
Beginning Unassigned Fund Balance	3,450,550	5,808,703	5,808,703	5,808,703		
<b>Estimated</b> Ending Unassigned Fund Balance	<b>5,808,703</b>	<b>4,131,168</b>	<b>3,931,168</b>	<b>3,384,035</b>		
<b>RESERVE</b>						
Policy Reserve Level (Minimum-15%)	<b>2,171,163</b>	<b>2,382,605</b>	<b>2,412,605</b>	<b>2,549,110</b>		
Actual Reserve Level	40.1%	26.0%	24.4%	19.9%		