Outlook

Public Comment: The EIFD makes no financial sense, but it continues to defy common sense by moving forward

From Lee Mathias [redacted]
Date Tue 8/4/2026 1:10 PM
To City Council <citycouncil@cityofsebastopol.gov>
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1 attachment (157 KB)
The EIFD makes no financial sense but continues to defy common sense by moving forward.pdf;

Hi all,

Attached is my public comment on the EIFD.

[redacted]

The EIFD makes no financial sense, but it continues to defy common sense by moving forward

The Council has met several times to discuss the EIFD concept and proposal. At the last meeting the council wanted answers to three unresolved questions before making the next formal decision:

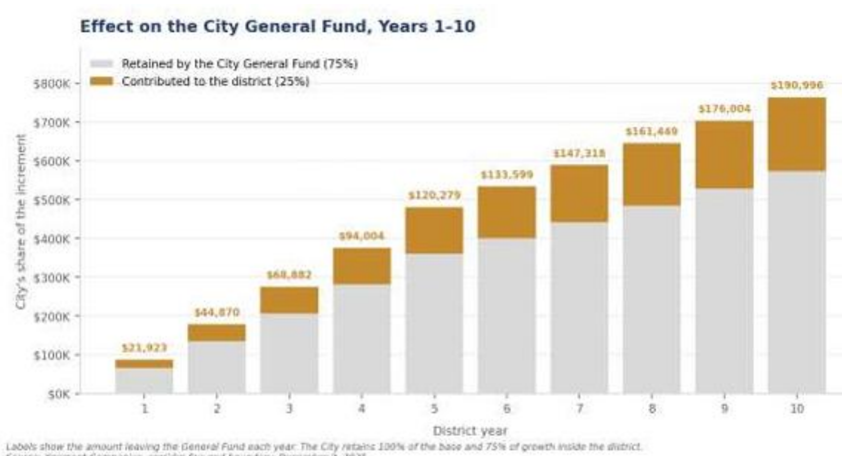
- What would the EIFD cost the General Fund?
- How much city staff time and additional consulting expense would be required?
- Would the County provide an acceptable match?

The current staff report fails to adequately address these requests. This public comment will try to provide context to inform the city council decision or at least stimulate more specific questions for the council to ask before moving forward.

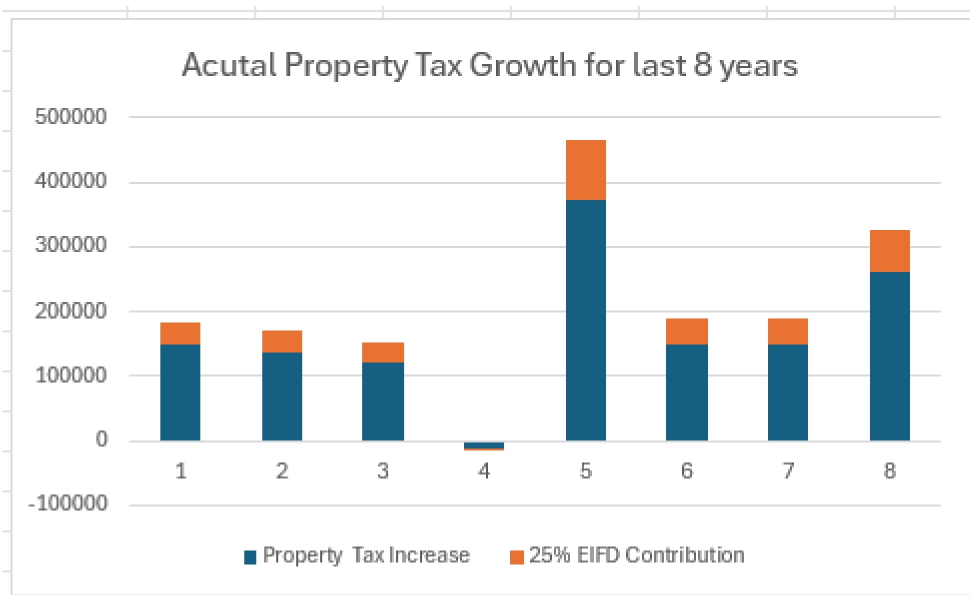
What would the EIFD cost the General Fund?

Costs come in two forms. What will be the cost of losing property tax revenue to the General Fund. The council is dependent on the data in the staff report. The question is: **Are the revenue projections in the staff report realistic?**

The staff report shows a projection of growth in property taxes and only a small percentage being allocated to the EIFD. It is a smooth curve and conveys the idea that the allocation of revenue is a minor blip in the budget. Unfortunately, property tax increases over the past 8 years don't look anything like this graph in the staff report.



Below is the actual growth in property tax annually for the last 8 years. The data is taken from the actual property tax revenue differences year over year. Reality does not look anything like the neat graph in the staff report. Is it possible that the graph was just an example and not the real numbers impacting city budgets going forward? You should be asking the question.



Property tax revenues are uneven as it the year-over-year growth. Why is the graph in the staff report so far removed from the reality? Is the data provided actual data? Is the data provided from the actual proposed district and thus much different than the city overall?

EIFD is all about the revenue – what about actual costs – ie. expenses?

In addition to the costs of lost revenue to the general fund, there are administrative costs to form and operate a Public Financing Authority. The staff report describes a considerable amount of upfront work to set up a Public Financing Authority. The staff report identifies the costs and describes them as reimbursable to the city once the PFA is funded.

From the staff report we have the upfront costs to establish the new agency.

Total Potential Project Cost

Component	Estimated Cost
EIFD Formation Costs (from table above)	$80,000 - $90,000
Optional Evaluation of Areas Outside City Limits	$20,000
Total Potential Project Cost	**$100,000 - $110,000**

The staff report also estimates 8-10 hours per week of staff time during the "formation period". Assuming the staffer is at the Accountant pay level the annualized cost of salaries and benefits for 9 hours per week would be $47,000. Other costs like workman's compensation and allocated insurance should be added to ensure all costs are allocated properly.

8-10 hours seems light. There is going to be hours managing the contractor(s), communicating with stakeholders, doing budgets and financial forecasts. Public communications and outreach to recruit representatives for the Board will take some time. There will be work from Public Works and engineering to identify and evaluate the cost of different infrastructure options. Up front there will be legal costs and paperwork filed with appropriate agencies. All this is just 8-10 hours? Many of these tasks are often outsourced to consultants which are not budgeted at this point in time.

There is a question the City Council should be asking: who is going to be assigned these duties and what duties they are giving up. Presumably there is limited free staff time for this significant new initiative. What consultant time is being budgeted. Actually, City Council should be asking for a firm budget for the next three years of costs to administer the operation. If the answer is we don't know then this is not ready for prime time.

For the moment we have the numbers in the staff report.

Total Organizing Costs to be reimbursed to the city - $147,000

Ongoing Annual Costs

Not presented are the ongoing costs of administering a Public Financing Authority of the Sebastopol Enhanced Infrastructure Financing District. It will have a five-member board that presumably will meet and require staff support. It will require zoom meeting support, staff reports and minutes to be prepared. Kosmont will presumably continue to provide consulting support and Kosmont Financial will be an added costs to be he city's municipal advisor.

The board will have a significant task of identifying the infrastructure to be funded from the EIFD funds. This will require staff time, probably additional consulting for outreach and cost estimates of various options. Once funding reaches a level that supports the planned project there will be more consulting costs associated with creating preliminary design requirements.

The staff report states in fine print that the city will also need a "Municipal Advisor", a service provided by Kosmont Financial Division. Because it is a separate financial entity from the city there will be incremental costs for accounting and financial audits. Below is an estimate based on other similar expenses the city budgets every year:

Staff Support – 5 hours per week @$100 per hour - $26,000 increased by 3.5%/year

City Municipal Advisor – Kosmont – estimated $25,000 / year

Accounting/Reporting expenses – estimated $2,000 / year

Miscellaneous (meeting expenses, office supplies, communications) - $2,000 / year

Other consulting - $20,000 / year (first 5 years).

Total Annual Costs estimate: $75,000 per year initially

Not included in these estimates is "overhead" of the type being allocated to the water/wastewater enterprise. Will City Council, City Manager and City Clerk time all be allocated to the Public Financing Authority as well. This is a policy decision for the City Council to make.

	City Property Tax Contribution	**Estimated Administrative Costs**	
Upfront Costs		147,000	
Year 1	21,923	75,000	
year 2	44,870	77,625	
Year 3	68,882	80,342	
Year 4	94,004	83,154	
Year 5	120,279	86,064	
Year 6	133,599	39,076	
Year 7	147,318	40,444	
Year 8	161,449	41,860	
Year 9	176,004	43,325	
Year 10	190,996	44,841	
Total	**$ 1,159,324**	**$ 758,731**	**$ 400,593**

So, a summary of the costs. Upfront costs $147,000. Administrative costs start at $75,000 and grow through year 5 as projects are defined and the "bonding" actually takes place. **At year 10 the Public Financing Agency will raise $1,159,324 (according to staff) and spend 758,751 to administer the program.**

Is this realistic? The West County EIFD is planning on $269,000 in administrative expenses for the first 10 years. The City of LaVerne only budgets $3,000 in administrative expenses. A review of recent meeting minutes however shows that LaVerne has at least two consulting firms. The costs were not mentioned but apparently LaVerne is absorbing the administrative costs. They do have $80MM in revenue so may have the capacity to absorb the costs.

These may not be the correct numbers, but the city staff and consultants have chosen not to provide you with a complete view of the financials. If the annual operating costs are even ½ of these estimates administrative costs still dramatically reduce the borrowing power of the Public Financing Agency.

What is the most reasonable approach for Sebastopol?

First the costs listed above are most likely realistic, at least for the first several years as projects are identified and planned. The West County example gives us a benchmark, but we know the county has many more resources than Sebastopol, which tends to outsource non-core new projects to consultants due to limited staffing. It seems likely Sebastopol will spend more than $269,000 over the next 10 years.

The one reason small towns do not do EIFDs is the proportion of administrative costs to the revenue raised to fund the loans.

CONCLUSION

The example shows two things.

- First, it shows how administrative costs can quickly overwhelm a small agency. It explains why small cities have not set up separate Public Financing Agencies. A major city would have similar administrative costs but would be raising hundreds of thousands of dollars per year in revenue.
- It also shows why the County Match is an absolute requirement to go forward with this project. Even **then it will be a very inefficient approach to finding funding for infrastructure.**

There is one other option which is for the city to pay all the administrative costs of the new agency. This may be the assumption as you have only been shown how much revenue can be generated to fund future debt. All of the financials presented to the council have not included any costs to administer the new Public Funding Entity. If the intention is for the city to absorb the costs into the general fund, then the cost to the city is actually very high.

The combination of the lost revenue and the administrative costs will total as much as $2MM over 10 years, which given the promise of no new property taxes will presumably come from existing general fund reserves.

There are other ways to get financing for the city's infrastructure. First, you could just spend $2MM fixing the streets and city buildings. There are of course many other options for financing infrastructure that don't have a $2MM upfront cost. Most of them would not have $2MM in interest for the life a loan.

The EIFD is an attractive idea and is typical of Sebastopol's desire to "punch" well above it size among municipalities in the county and the state. Financially it is very likely to be unattractive once the numbers are all worked out.

The question is how much more energy is the city council going to ask the city staff to expend to prove the project is not feasible.