

City of Sebastopol Budget July 1, 2026 - June 30, 2027

Budget Hearing

Presentation to City Council

Presented by Ana Kwong June 2026

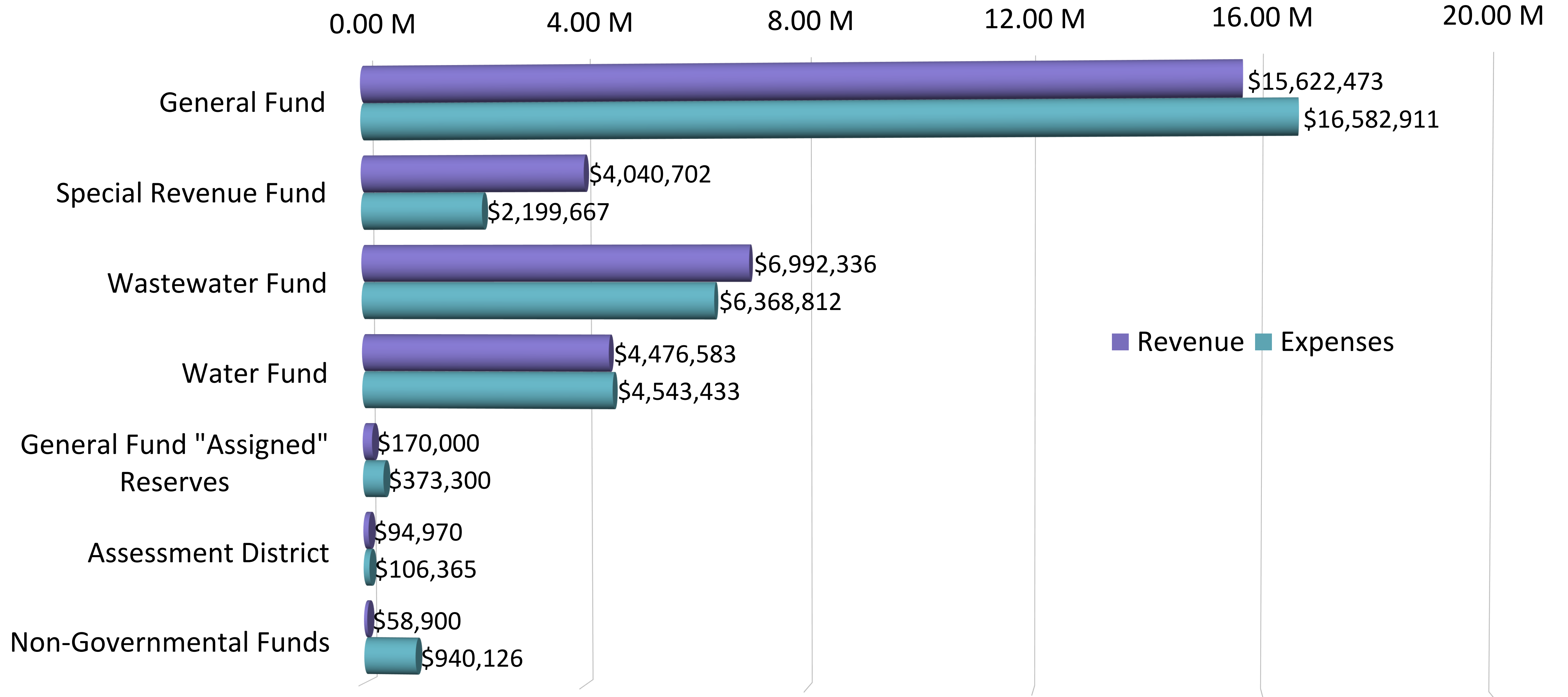
City of Sebastopol Budget July 1, 2026 - June 30, 2027

Agenda for Tonight's Budget Discussion

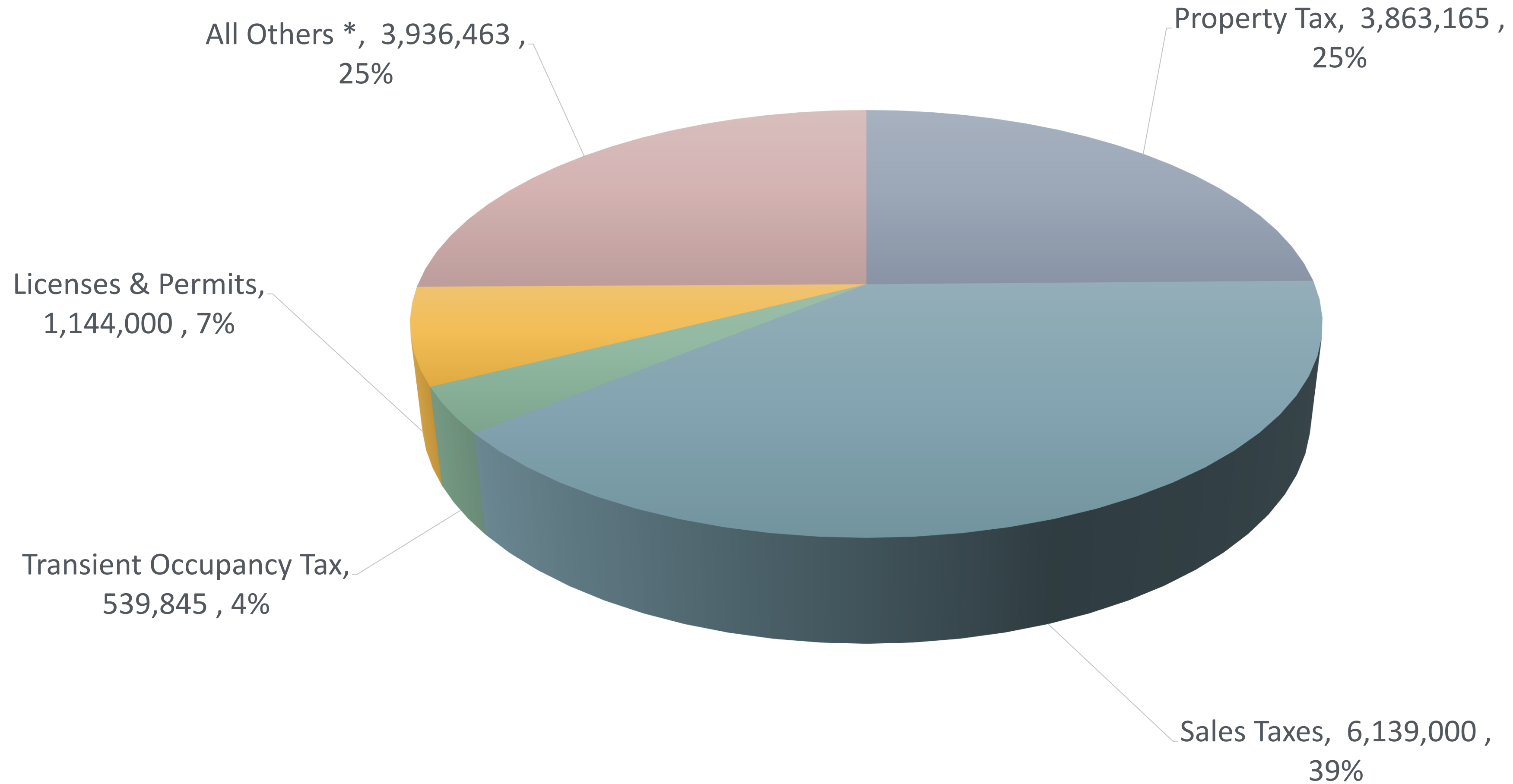
- Citywide (All fund) Overview
- Where the city gets money (revenue)
- Where the city spends money (expenses)
- General Fund Two-Year Financial Position
- Measure U Overview
- Financial Forecast Presentation by Bob Leland (Baker Tilly)
- Staffing Overview
- Enterprise Fund Summary
- Special Revenue Funds
- Insurance Fund
- Questions and Council Input

Budget Committee Members: Vice Mayor Maurer & Councilmember Carter, City Manager Mary Gourley, Administrative Services Director Ana Kwong

FY 2026-27 ALL FUND - Revenue | Expenditures Overview

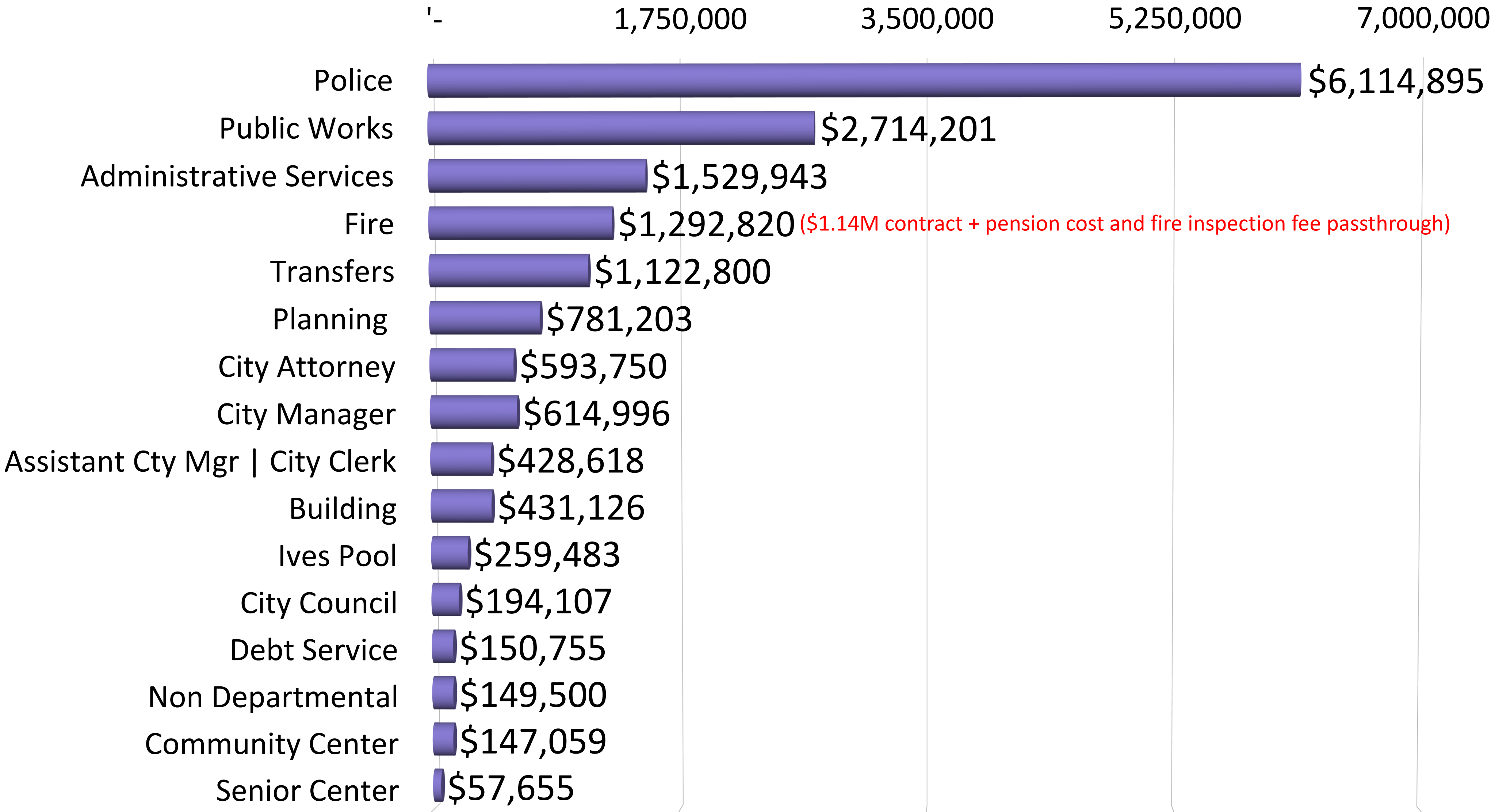


FY 2026-27 General Fund Revenue Sources %

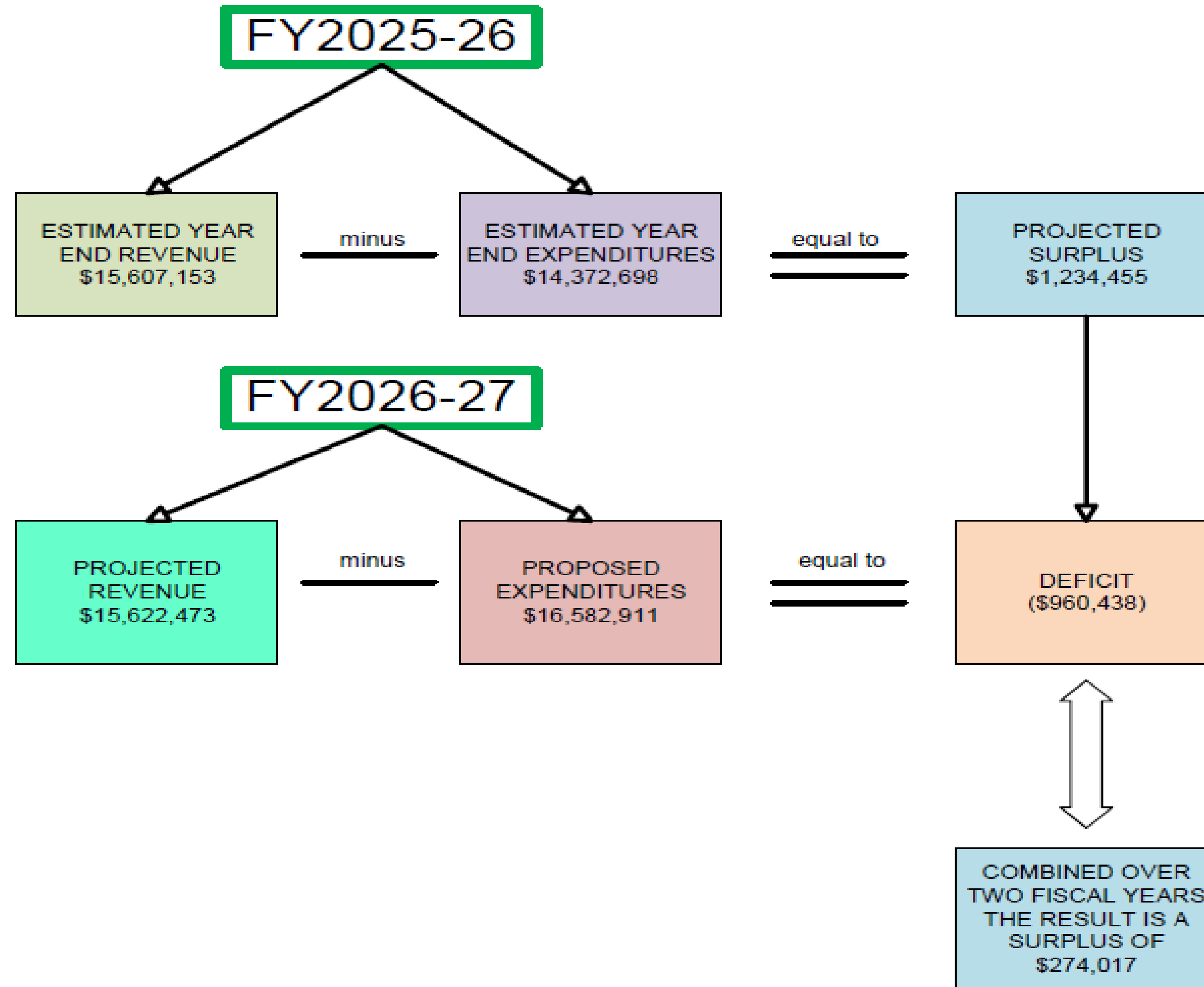


*user taxes, franchise fees, charges for services, cost allocation plan, transfers

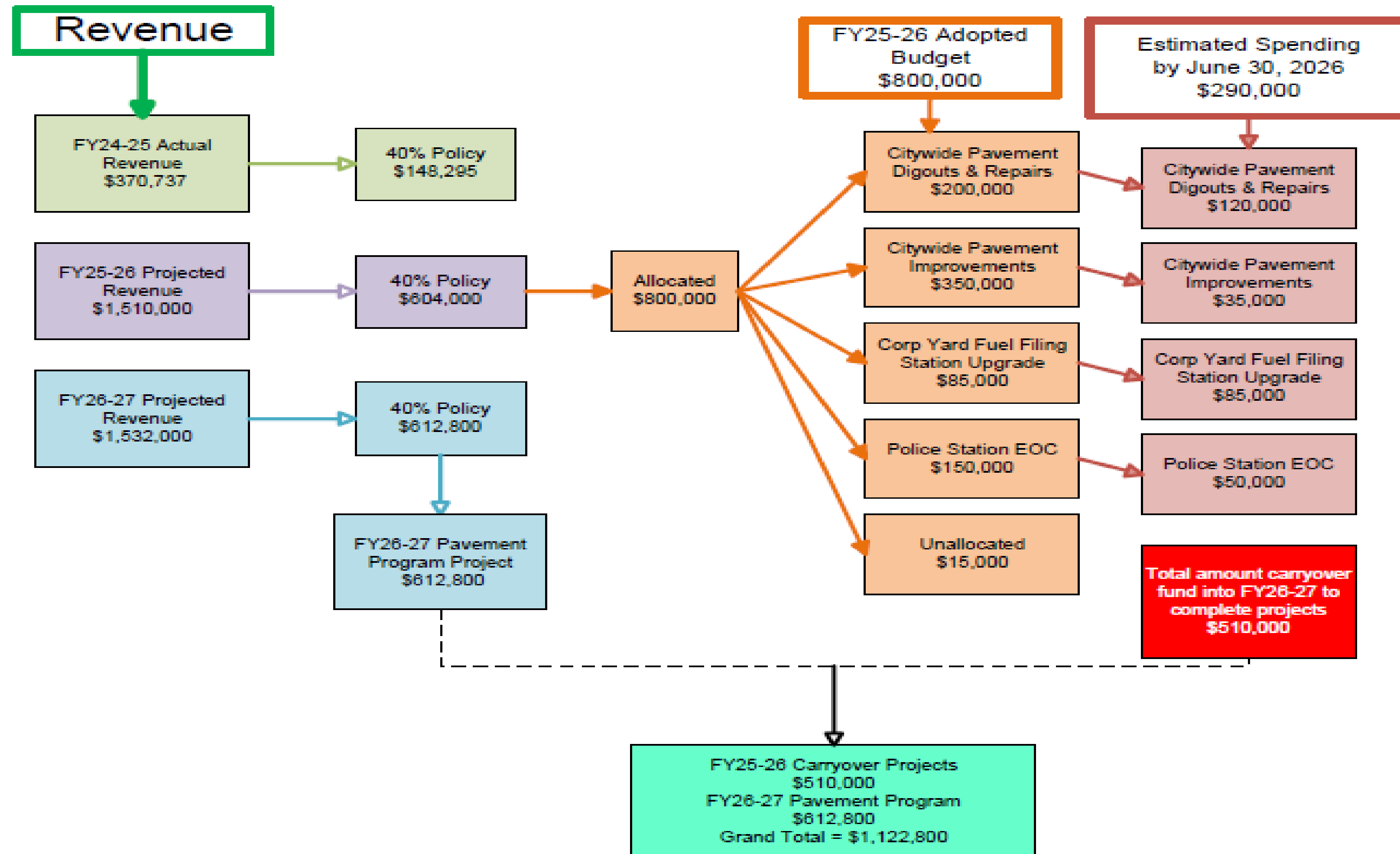
FY 2025-26 Expenditures By Department



General Fund Two Year Financial Position



FY26-27 Measure U Overview



Forecast Summary

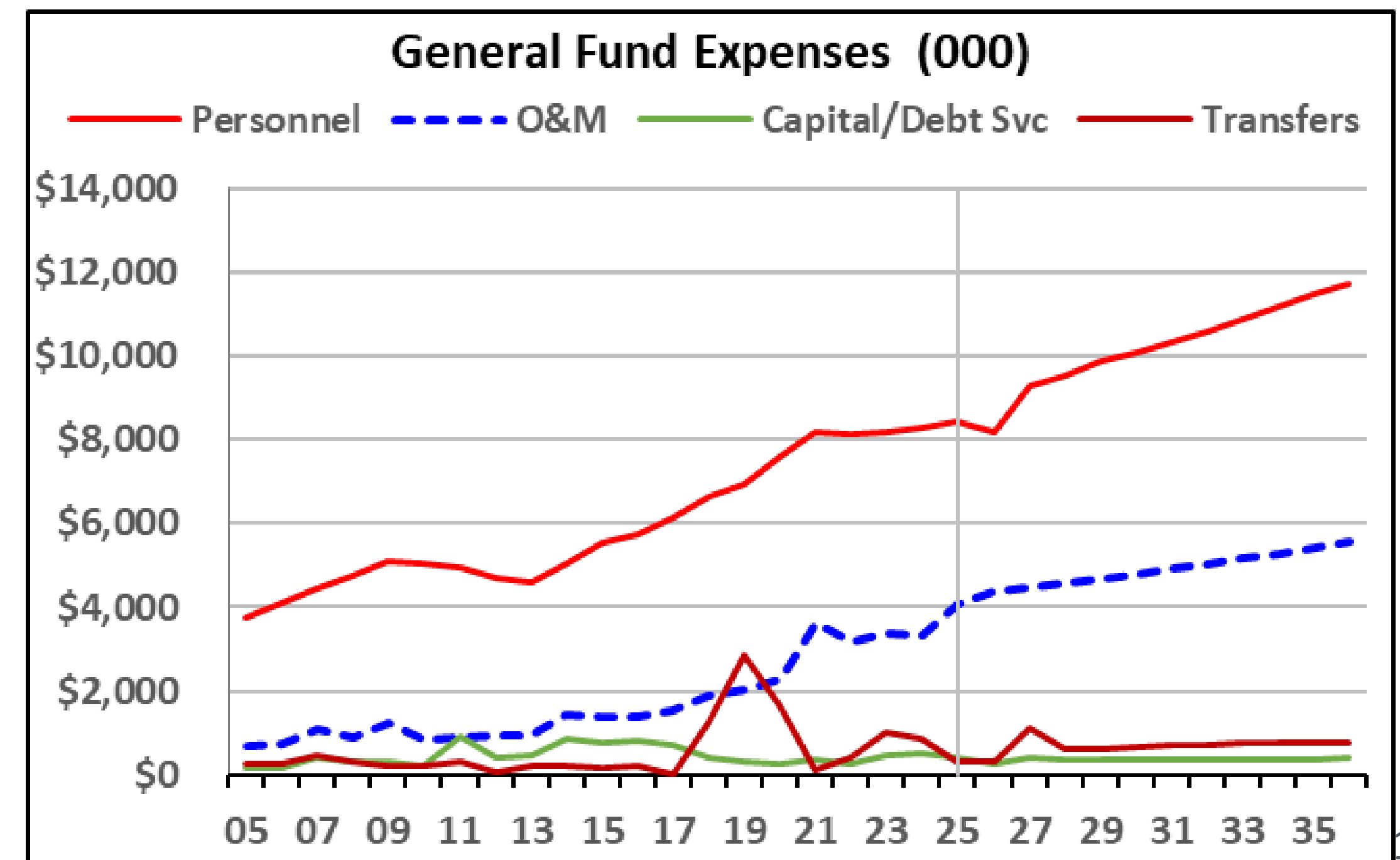
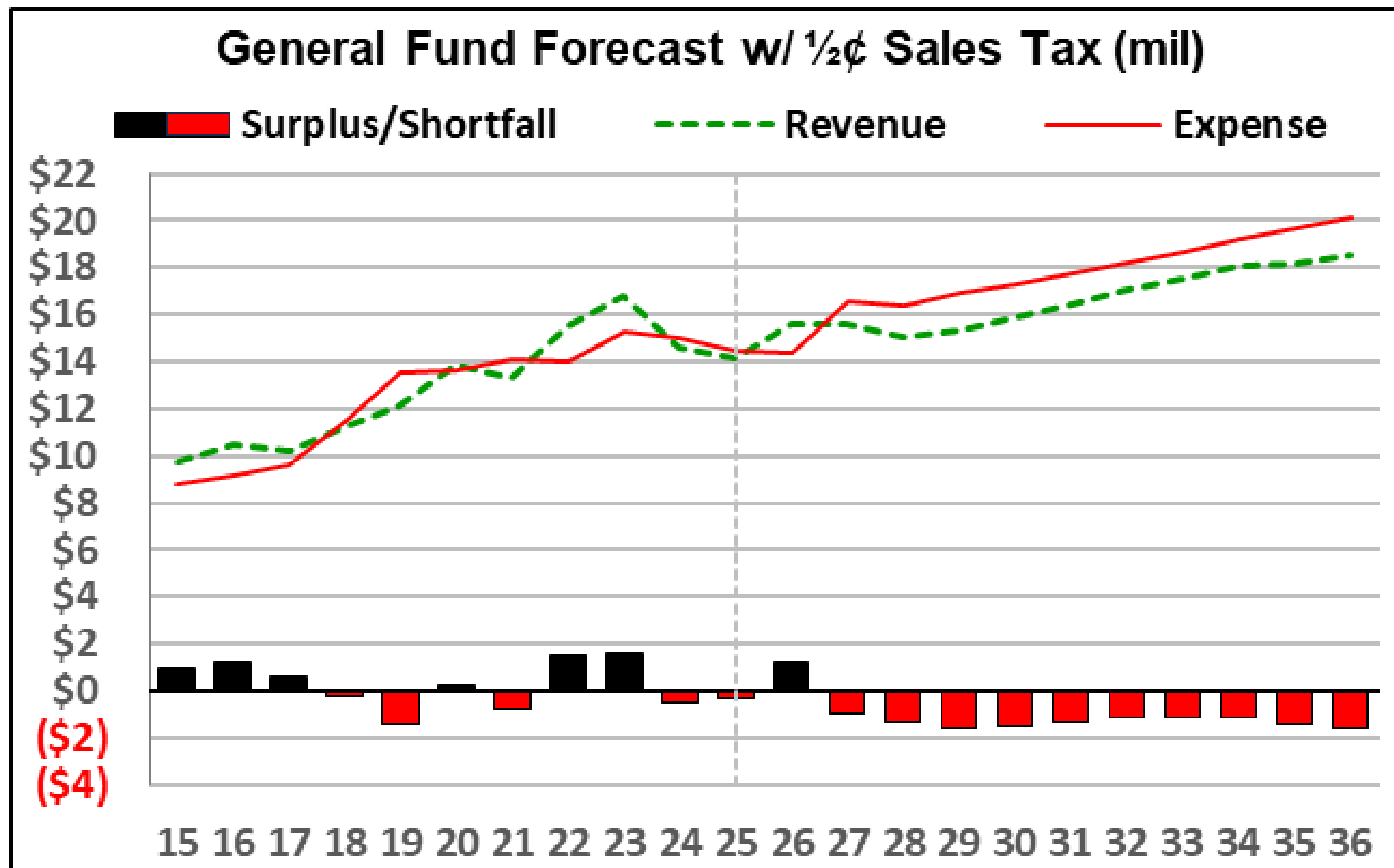
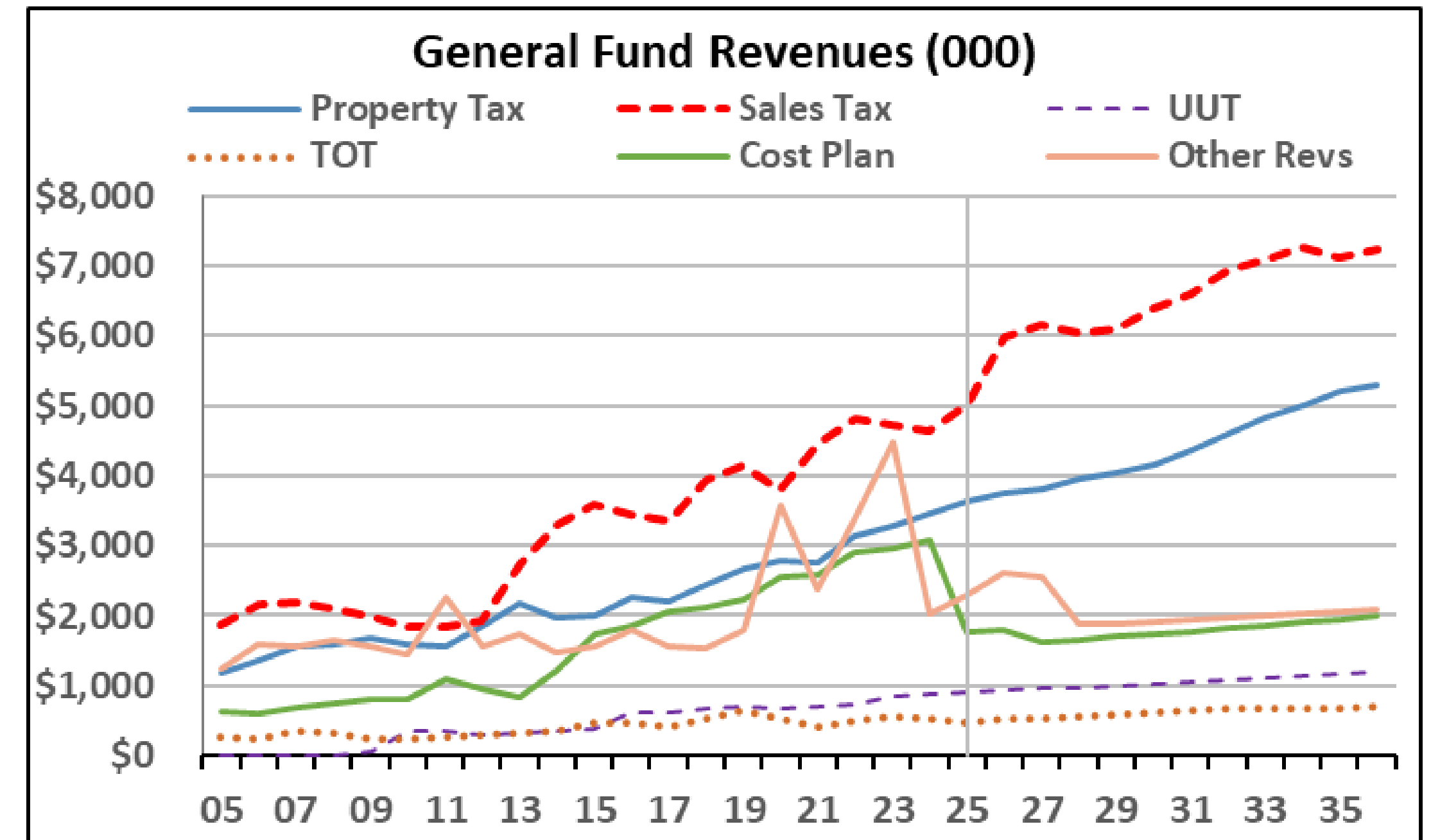
- Forecast depends on key factors, including a potential recession around FY28, whether Measure U is renewed, the impact of the Barlow Hotel, and whether the Sewer Fund loan is repaid
- The City is facing a structural imbalance, meaning ongoing revenues are not keeping pace with ongoing expenses under current practices
- Under the baseline scenario:
 - The City experiences an average annual shortfall of about \$1.4M
 - Reserves steadily decline and fall below minimum policy levels starting around FY29
 - Without action, reserves could reach a significant deficit by FY36
- Different scenarios were modeled to show how outcomes change:
 - If the Sewer loan is not repaid, the situation worsens (larger deficit)
 - If the Barlow Hotel is built, it helps reduce the gap but does not eliminate it
 - In all cases, reserves still decline over time without corrective action
- Across all scenarios, the City must act by:
 - Increasing revenue or reducing expenditures annually -- adjustment ranges roughly from \$210K to \$860K per year, depending on the scenario
 - With proactive adjustments, the City can stabilize reserves and maintain fiscal health, but action must begin early (starting FY27)

Major Forecast Variables

- Moderate recession starting FY28 on 7-year cycle (timing and magnitude may vary)
- No staffing growth and 3.25% total wage growth (net growth from COLAs, step increases, employee turnover savings when re-filled at lower step, reclassifications and other pay adjustments)
 - These are budgetary and labor negotiation decisions; if growth is higher, forecast outcome worsens
- Low vacancy rate of 1% (higher rate of vacancies will reduce expenses in near-term)
- Barlow Hotel uncertainties:
 - Will it be built? (baseline forecast excludes hotel, alternate scenario includes it)
 - Will it be successful at developer's plan for \$600 average room rate? (forecast assumes conservative \$350 average room rate; to extent it is higher this will improve forecast)
- Sewer Fund \$1.1M loan repayment (one-time revenue to GF if loan is repaid)
 - Baseline forecast includes repayment, alternate scenario assumes no repayment
- Whether Measure U sales tax is ultimately renewed significantly affects forecast starting FY38

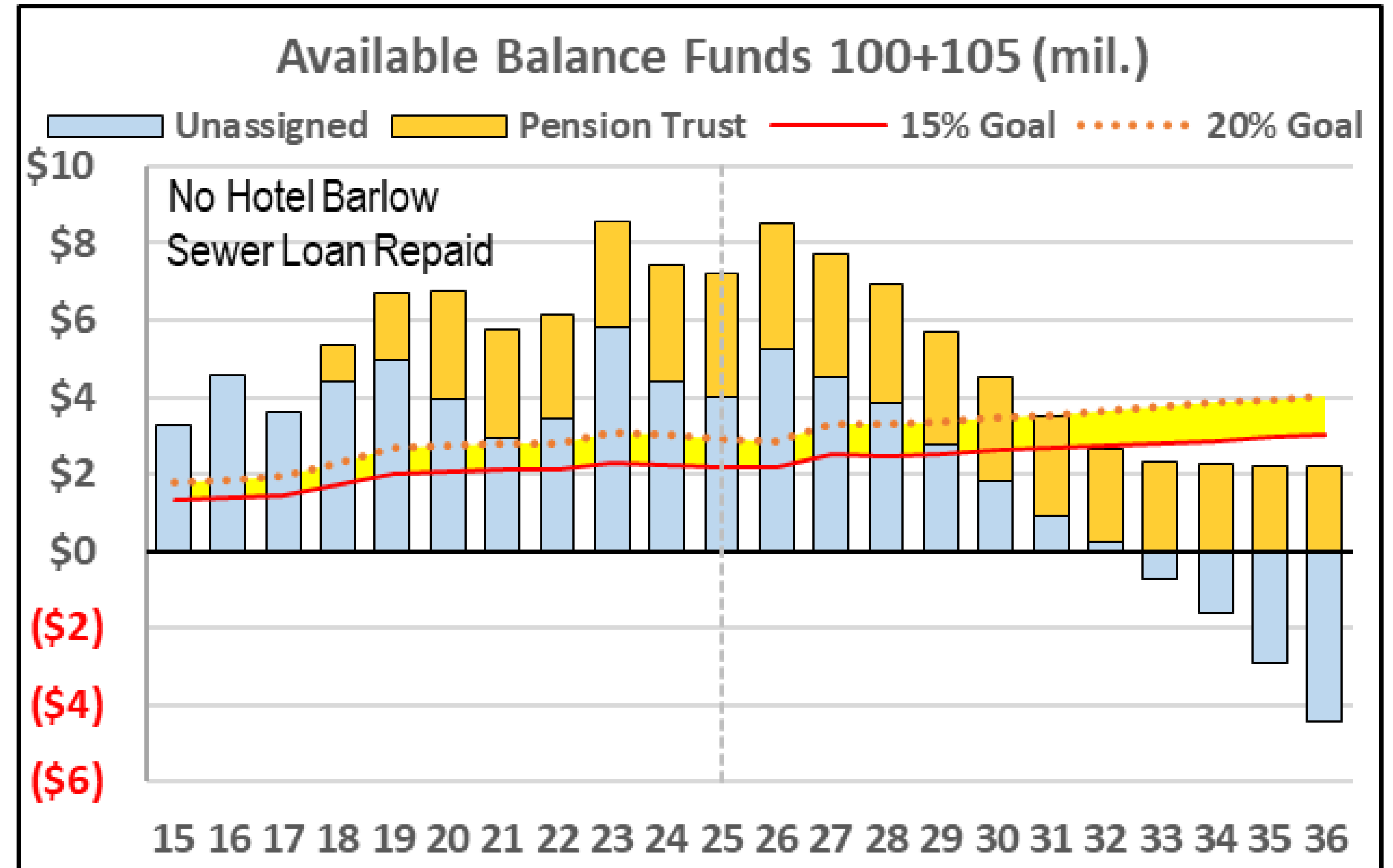
Baseline Forecast Summary

- End of one-time revenues plus assumed recession in FY28 creates ongoing structural shortfall in revenues versus anticipated expenses under status quo budget (no staffing change, costs increasing at inflation)



Baseline Forecast: Steady Decline in Fund Balance

- Measure U sales tax at 0.5% until FY37, hit by FY28 recession with subsequent recovery; recessions every 7 years thereafter
- Structural shortfall averages \$1.3M per year from FY27-FY36 (before trust use and Sewer loan repayment)
- Assumes 1% vacancy rate starting FY28
- Pension Trust use starts in FY27 based on NHA Advisors' proposal (trust remains at 2/3rds of current balance by FY36 instead of being depleted as previously assumed)
- Assumes \$1.1M loan to Sewer Fund is repaid
- Assumes no Barlow Hotel
- Unassigned balance continues to fall to deficit of \$4.4M by FY36; below minimum 15% reserve level starting FY30
- Requires \$710K additional annual revenues or reduced spending starting FY27 to achieve unassigned balance of 20% by FY36

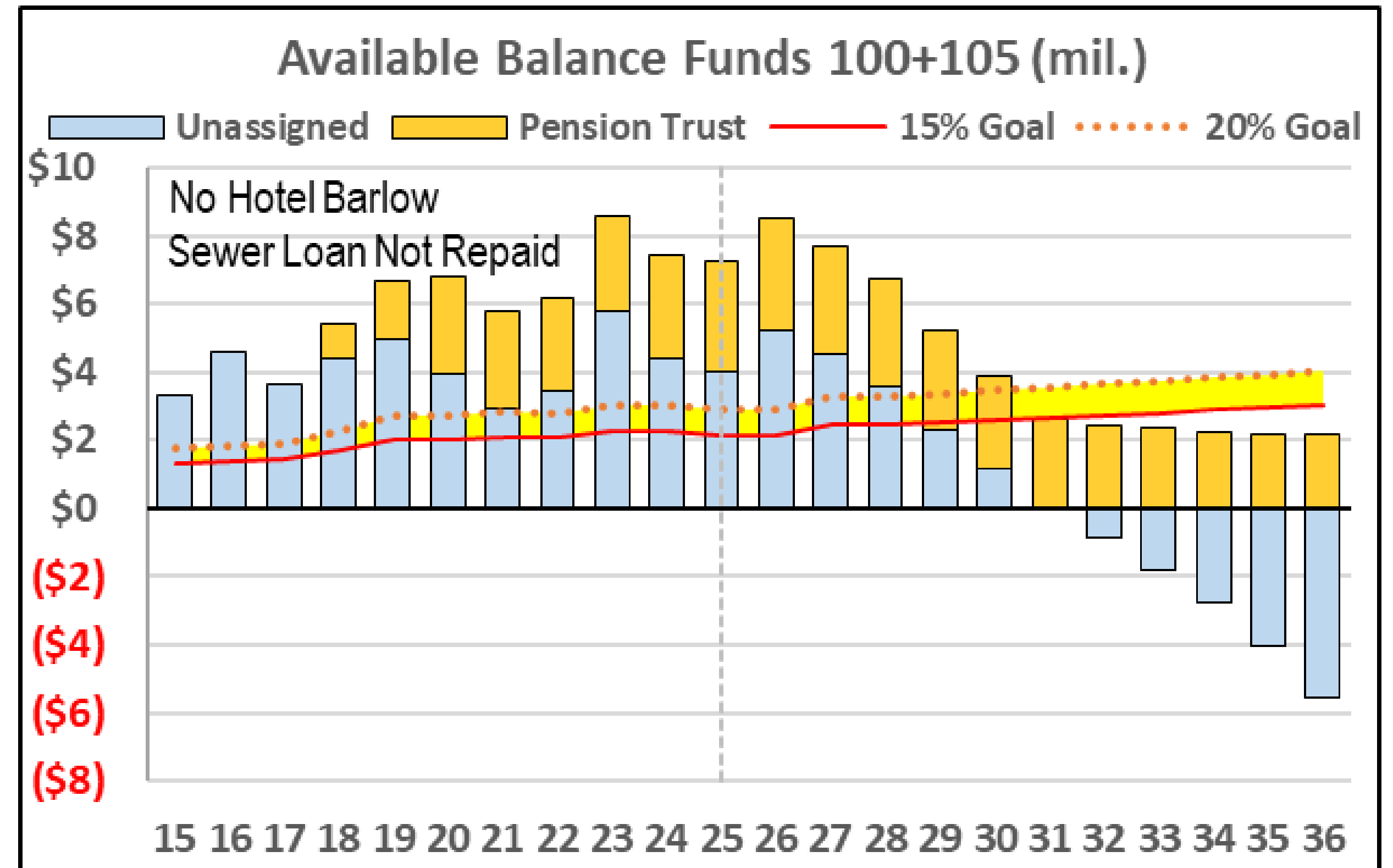


Before corrective budget actions

*Without renewal of Measure U
forecast worsens starting FY38*

Alternate 1: Baseline+No Sewer Loan Repayment

- Same Baseline assumptions except that \$1.1M Sewer loan is not repaid to the General Fund
- Structural shortfall averages \$1.3M per year from FY27-FY36 (before trust use and Sewer loan repayment)
- Unassigned balance continues to fall to deficit of \$5.5M by FY36; below minimum 15% reserve level starting FY30
- Requires \$810K additional annual revenues or reduced spending starting FY27 to achieve unassigned balance of 20% by FY36

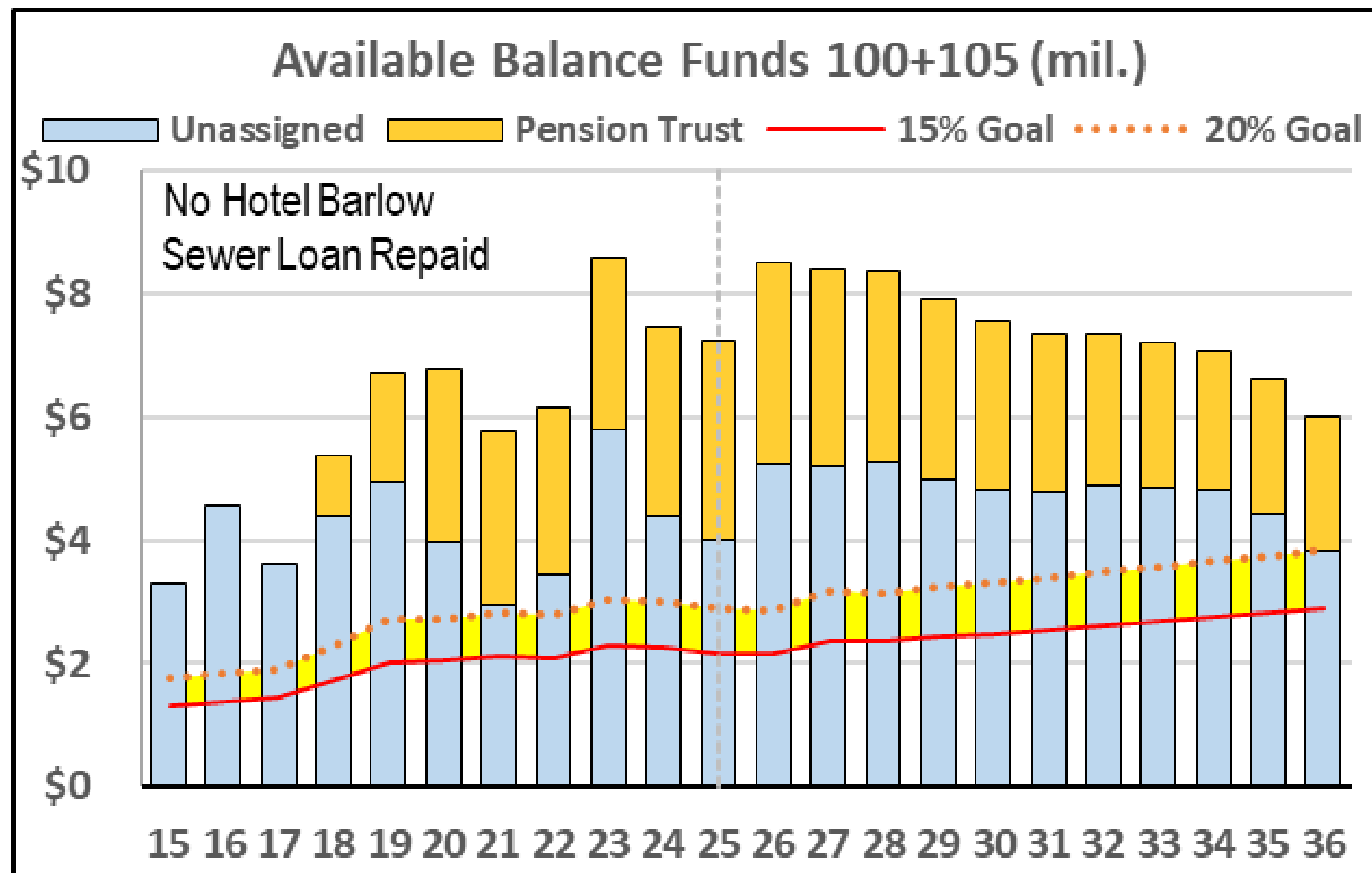


Before corrective budget actions

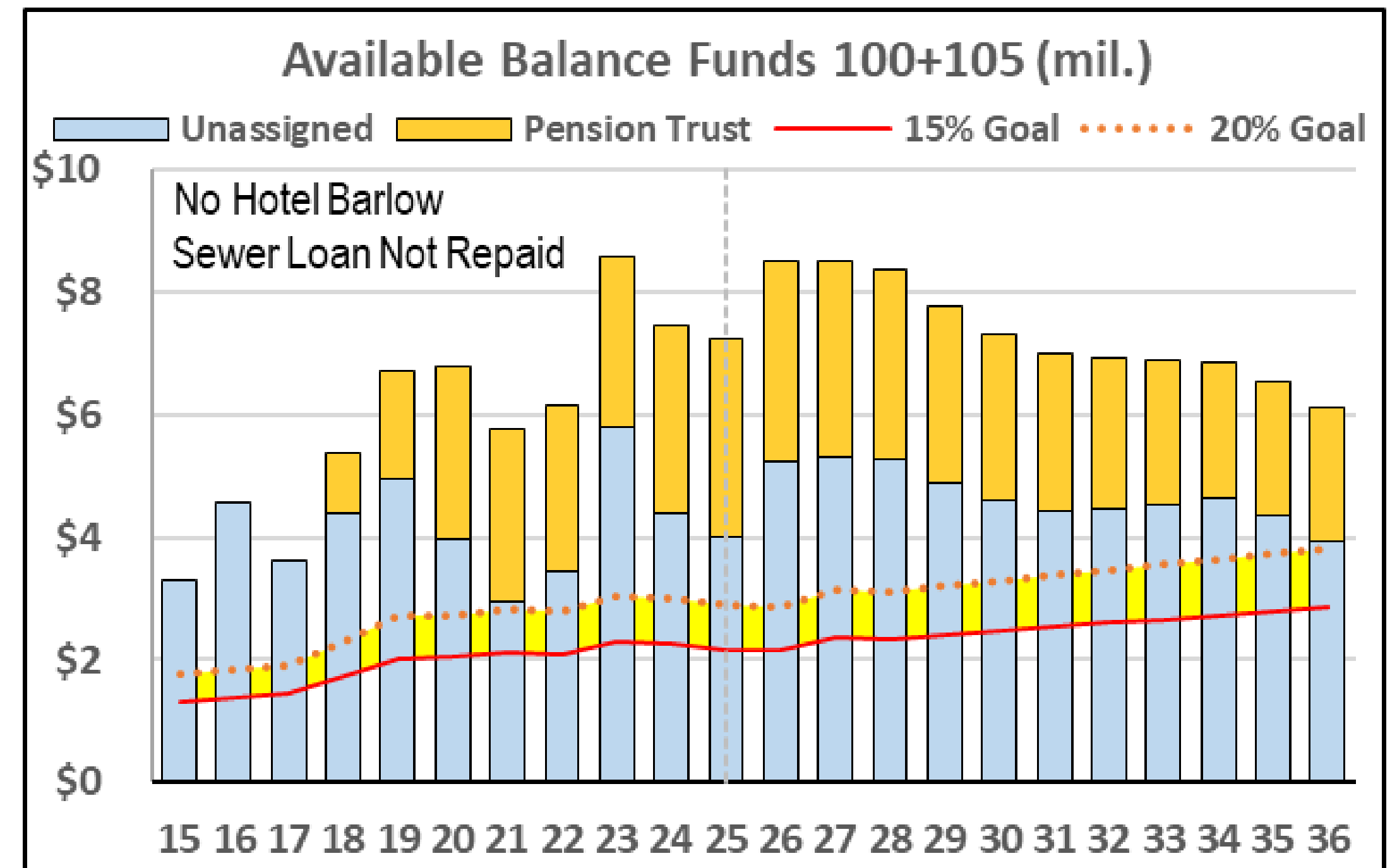
*Without renewal of Measure U
forecast worsens starting FY38*

Balance After Added Resources/Expenditure Reductions

- **Baseline Forecast** after \$710K increase in revenues or reduced expenditures starting FY27:

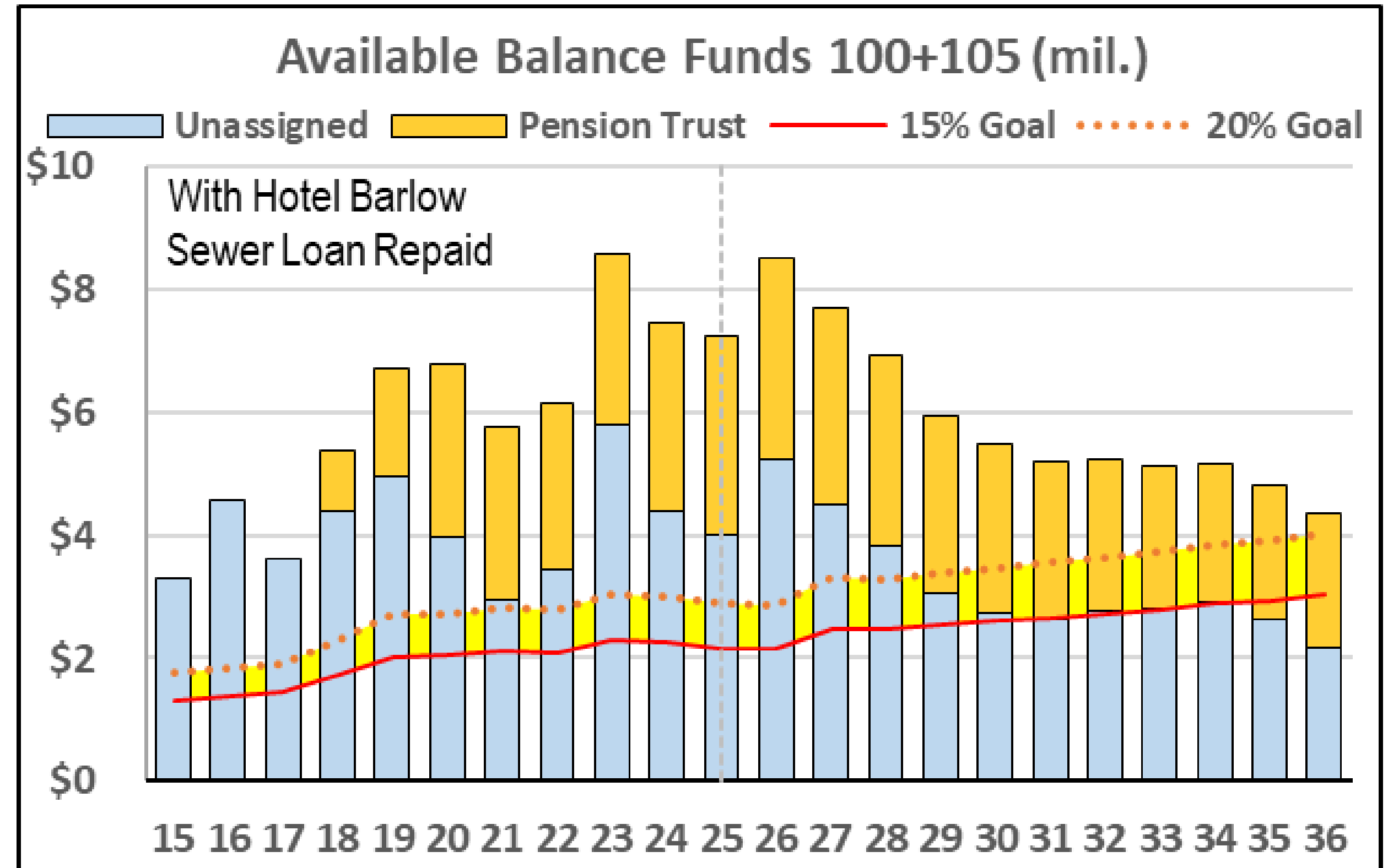


- **Alternative 1** after \$810K increase in revenues or reduced expenditures starting FY27:



Alternate 2: Baseline+Barlow Hotel

- Same Baseline assumptions except assumes Barlow Hotel opens July 2027 (83 rooms, \$350 average daily rate, 70% occupancy ramped up over 5 years)
- Developer assumes \$600 average daily rate and 65% occupancy; with a high-end hotel in a new market, experience will be required to determine revenue generation capability of this property, so this forecast is purposely more conservative
- Structural shortfall averages \$670K per year from FY27-FY36 (before trust use and Sewer loan repayment)
- Unassigned balance is below 15% of total expense even after hotel opens
- Requires \$150K additional annual revenues or reduced spending starting FY27 to achieve unassigned balance of 20% by FY36

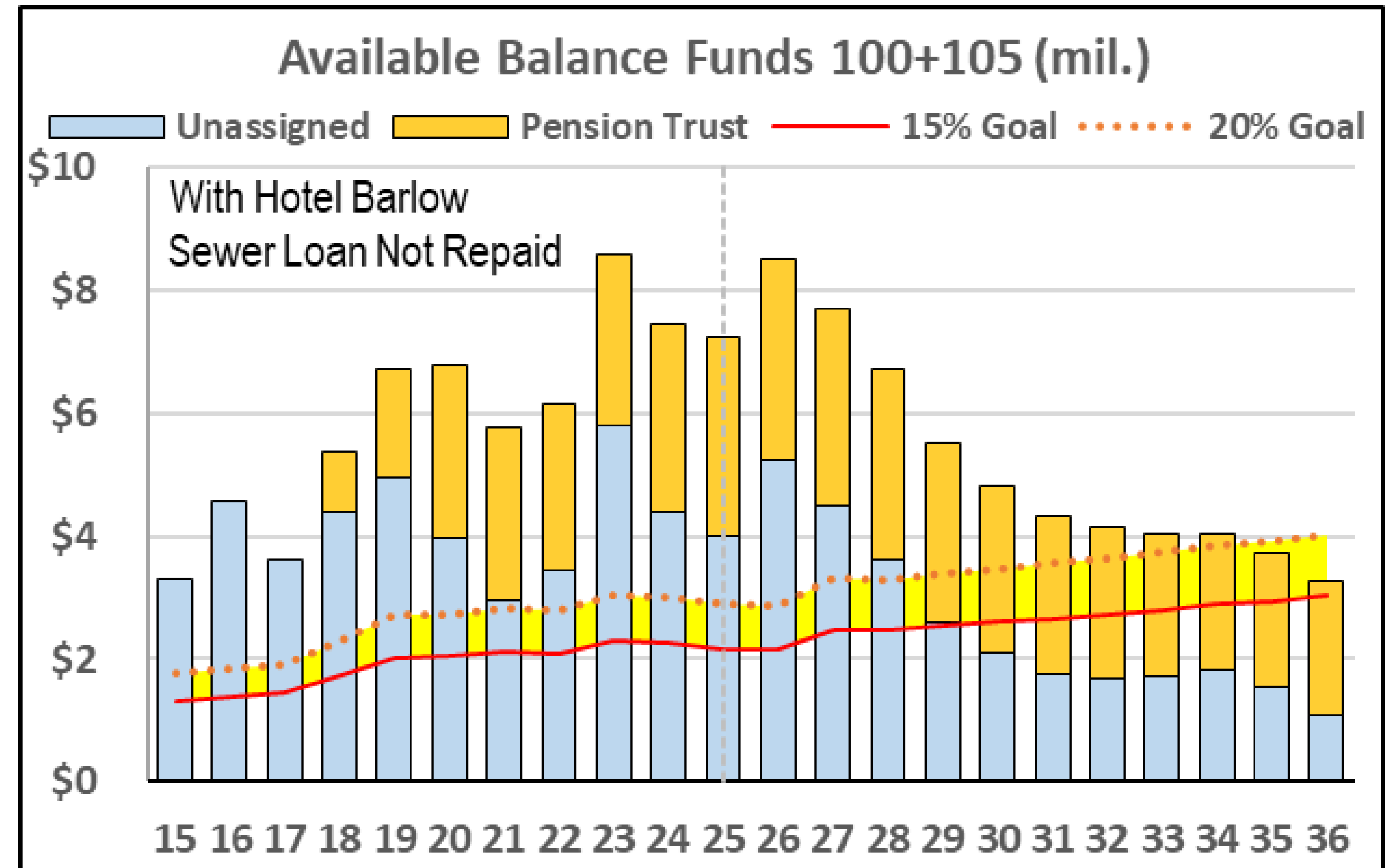


Before corrective budget actions

*Without renewal of Measure U
forecast worsens starting FY38*

Alternate 3: Baseline+Barlow Hotel+No Sewer Loan Repay

- Same Baseline assumptions except assumes (1) Barlow Hotel opens July 2027 (83 rooms, \$350 average daily rate, 70% occupancy ramped up over 5 years), and (2) no repayment of Sewer loan
- Developer assumes \$600 average daily rate and 65% occupancy; with a high-end hotel in a new market, experience will be required to determine revenue generation capability of this property, so this forecast is purposely more conservative
- Unassigned balance drops below minimum 15% of expense in FY30 and continues to fall even after hotel opens
- Requires \$250K additional annual revenues or reduced spending starting FY27 to achieve unassigned balance of 20% by FY36

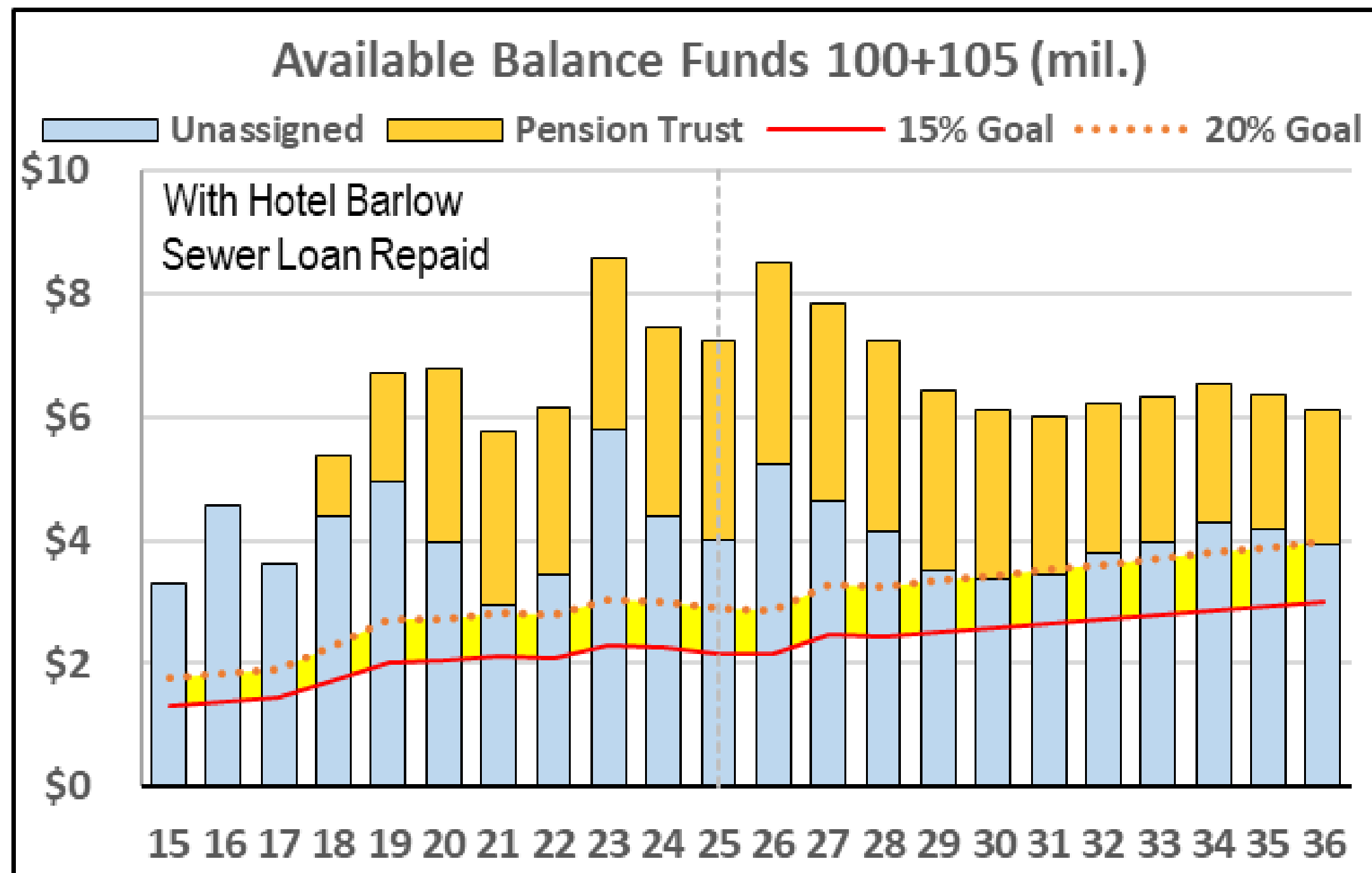


Before corrective budget actions

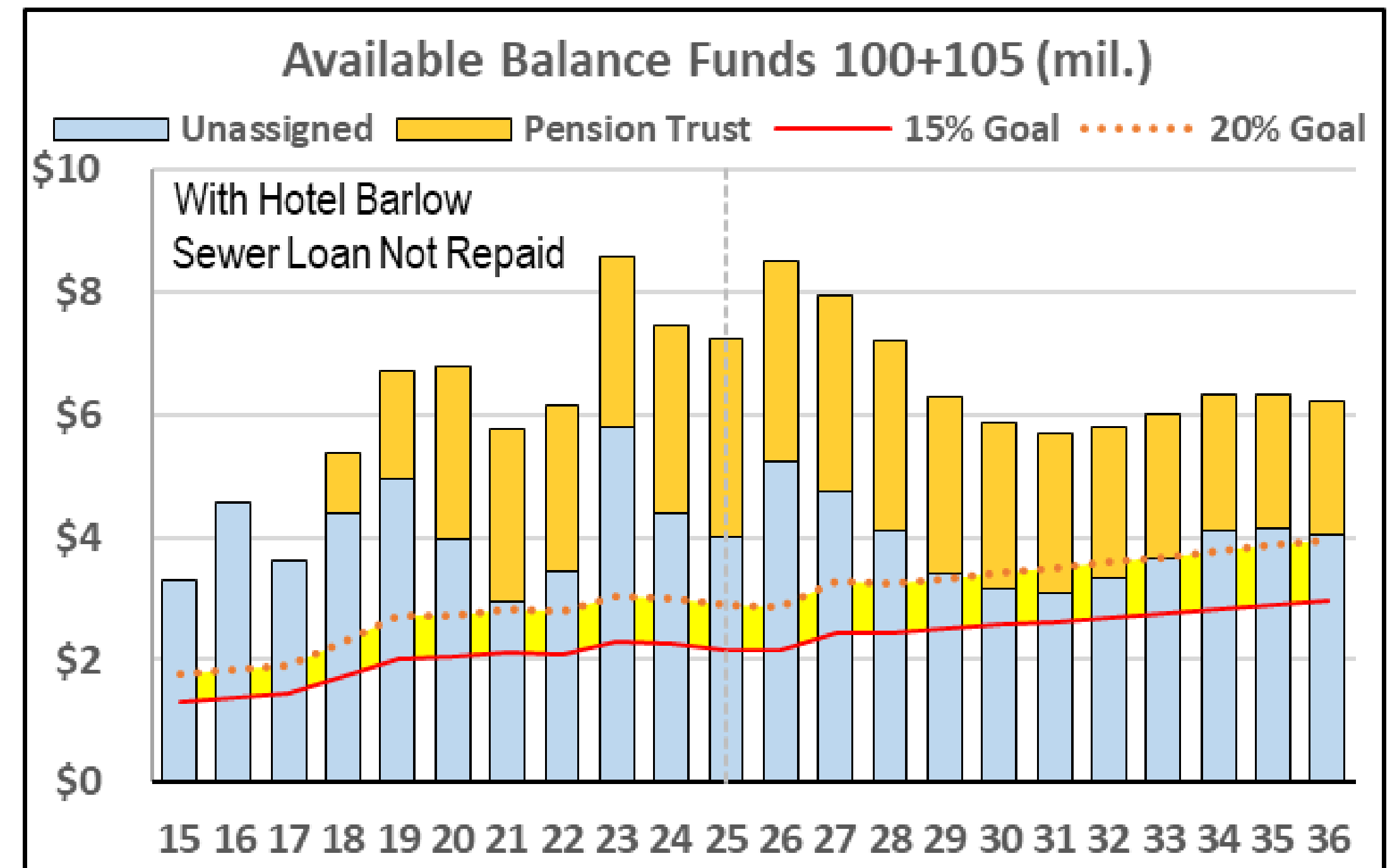
*Without renewal of Measure U
forecast worsens starting FY38*

Balance After Added Resources/Expenditure Reductions

- **Alternative 2** after \$150K increase in revenues or reduced expenditures starting FY27:

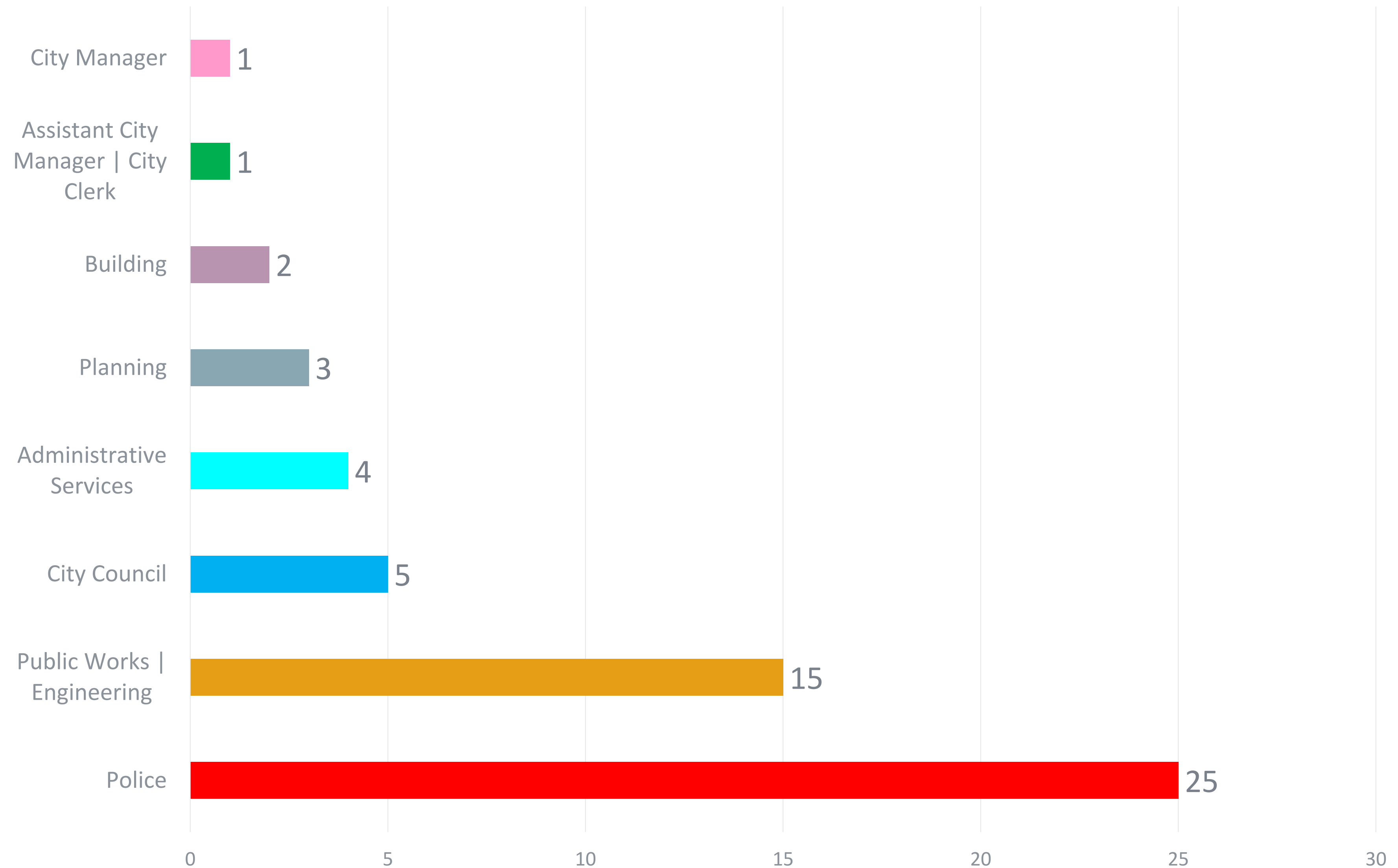


- **Alternative 3** after \$250K increase in revenues or reduced expenditures starting FY27:

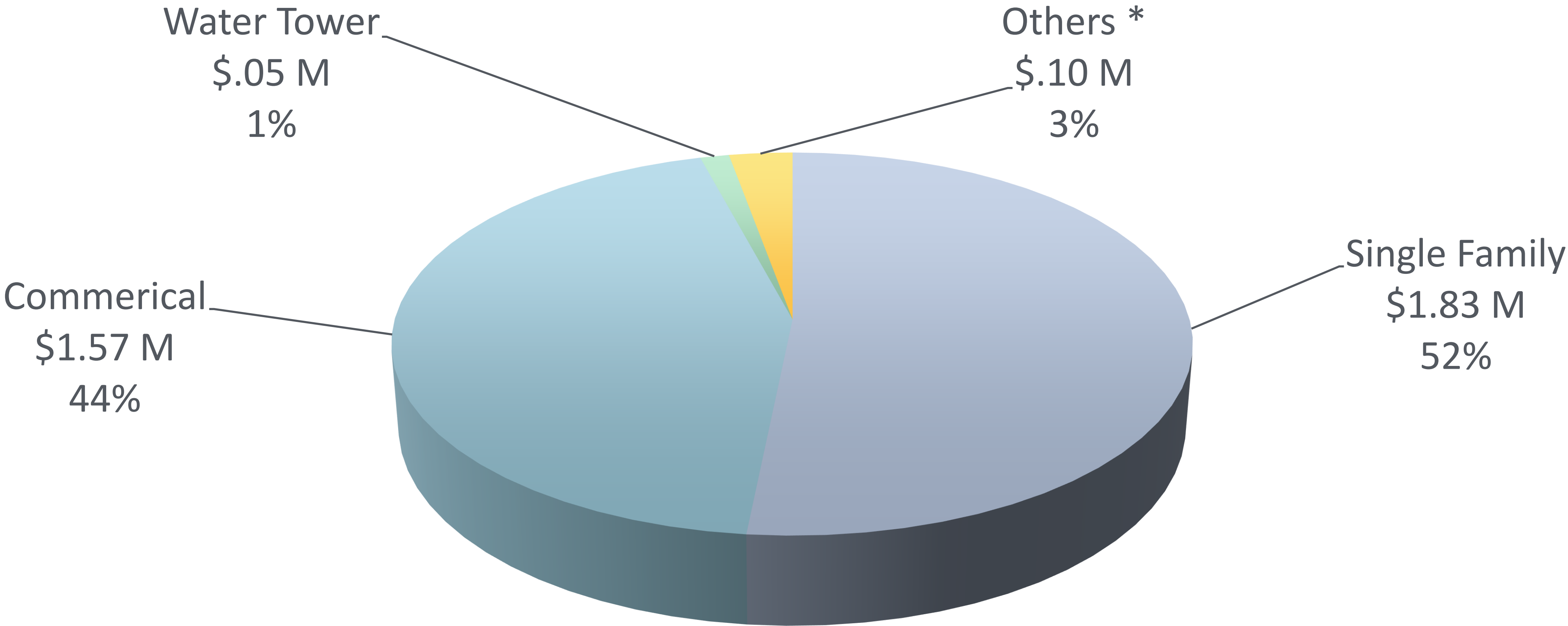


City Personnel

- 56 Full-Time Equivalent positions
- FY 26 27 Budget Includes COLA or step increases
- Maintains current staffing levels
- 2 Positions Remains Frozen (Maintenance Assistant & Police Officer)
- No layoffs or furloughs proposed for FY 26 27

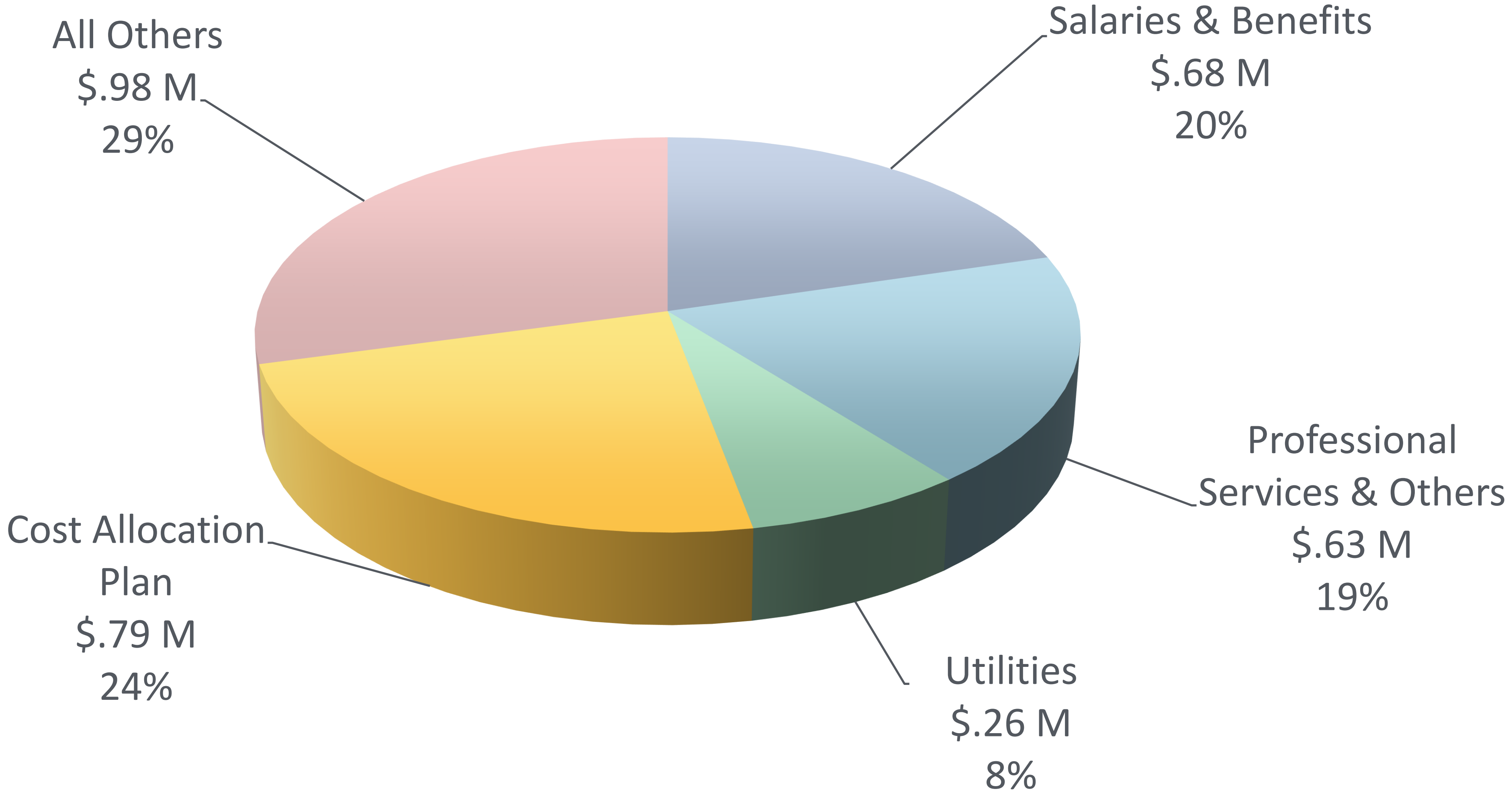


FY 2026-27 Water Fund Revenue Proposed Budget

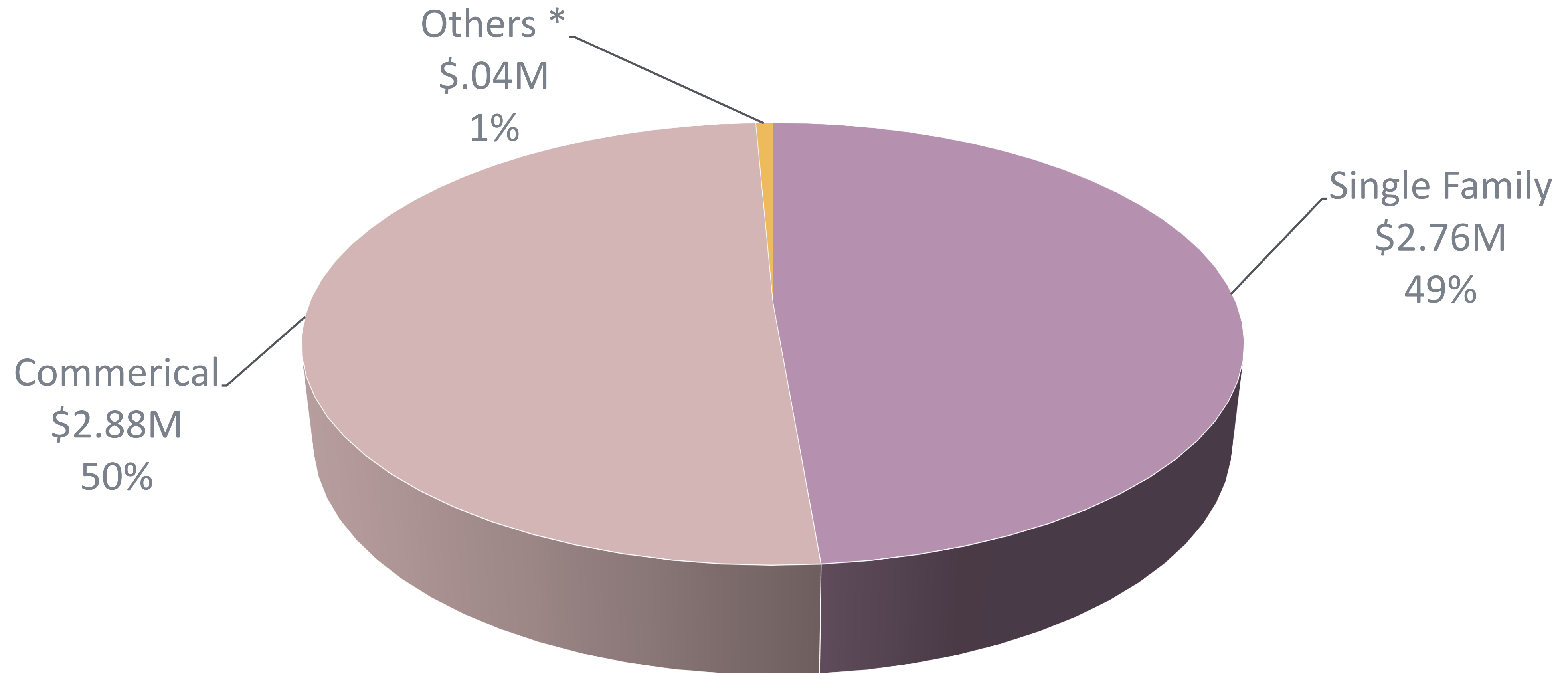


*Others: interest income, new account set up fee, penalties

FY 2026-27 Water Fund Expenses Proposed Budget

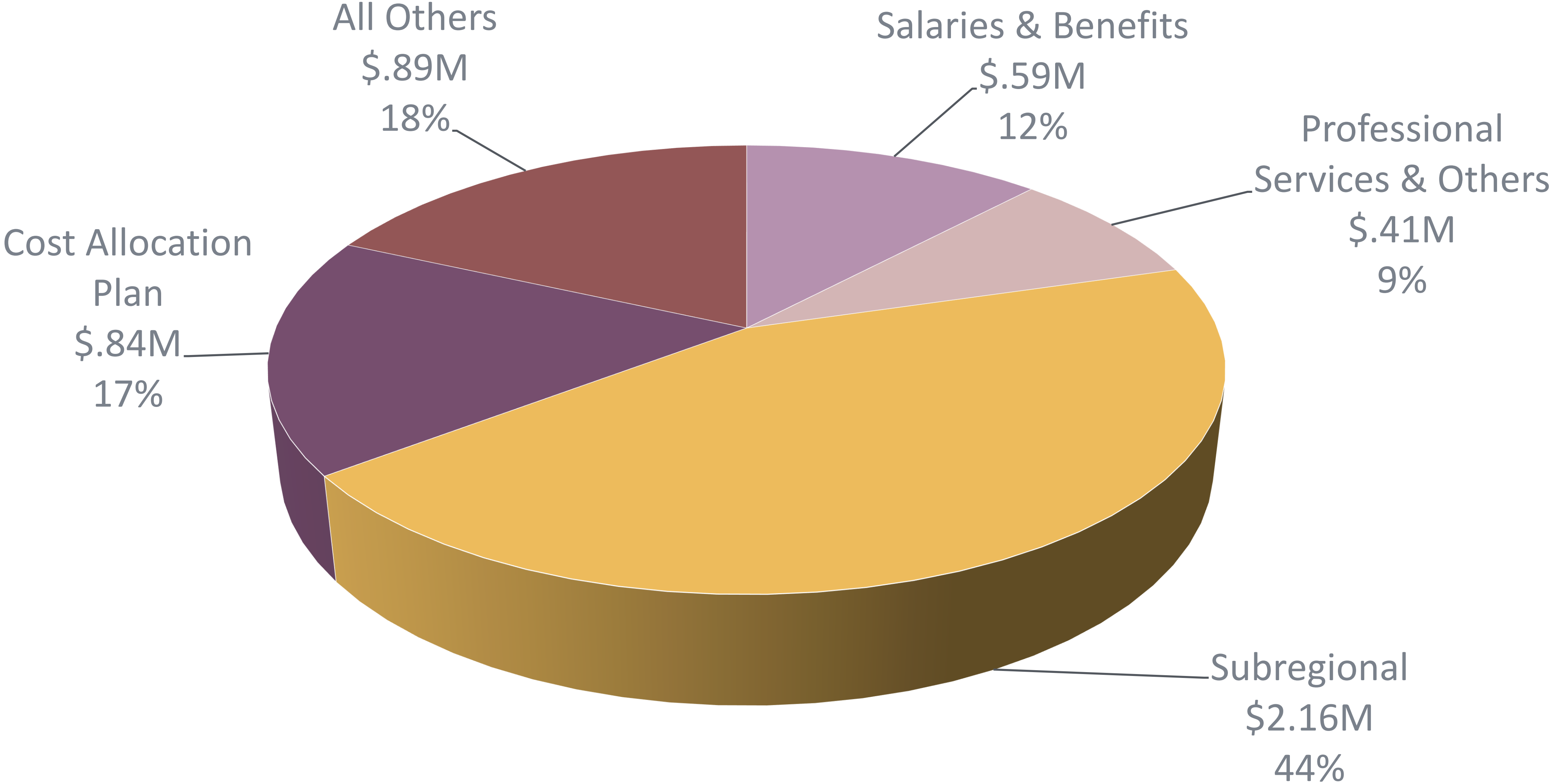


FY 2026-27 Wastewater Fund Revenue Proposed Budget



*Others: interest income, penalties

FY 2026-27 Wastewater Fund Expenses Proposed Budget



FY 2026-27 Special Revenue Funds Proposed Budget

- Money that comes with rules about how it can be spent, like having separate piggy banks for different purposes. For instance:
 - Gas Tax income can only fix roads
 - Park Fees can only improve parks
- Supports ongoing capital projects
- We keep 25+ different funds to follow these rules
- Each of these fund can be found on pages 127-159

FY 2026-27 Insurance Fund Proposed Budget

- The City is part of a joint powers authority (JPA) risk pool.
- Insurance Budget - pages 160-161
- Each year, the California Intergovernmental Risk Authority (CIRA) determines the premiums for various types of insurance, and the City budgets and distributes those costs accordingly.
 - Workers' compensation premium and deductible costs are paid from the insurance fund, then proportionally allocated to all departments based on their total salary
 - General liability premium and deductible costs are paid from the insurance fund, then distributed proportionally across all departments based on prior year expenditures

Open Public Hearing to Receive Comments from the Public

- Additional City Council Questions of Staff
- Council Discussion/Deliberations
 - Budget Discussion continues with the following options:
 - Budget continues at next scheduled meeting on June 16
 - If budget isn't adopted by June 16, schedule a special meeting before June 30th
 - Or budget continues at next scheduled meeting on July 7 and/or July 21, 2026
- Council discussion/deliberations/action will be conducted at a future city council meeting