



**CITY OF SEBASTOPOL CITY COUNCIL**

**AGENDA ITEM REPORT FOR MEETING OF: June 16, 2026**

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**To:** Honorable Mayor and City Councilmembers  
**From:** Ana Kwong, Administrative Services Director  
**Responsible Department:** Administrative Services & All Other Departments  
**Subject:** Continued Budget Hearing – FY 2026–27 Budget Direction and Considerations

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**RECOMMENDATION:**

It is recommended that the City Council:

- Continue the public hearing and discussion; and
- Provide direction to staff on the proposed FY 2026–27 budget, including the following key items:
  - Consideration of an additional contribution to the Section 115 Trust
  - Selection of either Scenario 2 or Scenario 3 for use of the Trust to offset pension liability costs
- Budget Adoption Options: The City Council has the following options:
  - Option A: Adopt a resolution to extend the use of Fiscal Year 2026-26 operating funds into Fiscal Year 2026-27 for a period of 60 days, through August 31, 2026. This ensures continuity of municipal services and extends several contracts set to expire on June 30, 2026. Once the new budget is approved, these contracts will return to the Council for approval as consent items.
  - Option B: Adopt the FY26–27 budget this evening and the following related resolutions:
    1. Adopt a resolution of the Council of the City of Sebastopol adopting the budget for fiscal year 2026-27 and making appropriations for amounts budgeted.
    2. Adopt a resolution of the Council of the City of Sebastopol determining and establishing the City’s Appropriations Limit for the fiscal year 2026-27.
    3. Adopt a resolution of the Council of the City of Sebastopol for the expenditure plan for Supplemental Law Enforcement Services (SLESF) funding for the fiscal year 2026-27.

**PROCESS OF AGENDA ITEM:**

- a. Brief introduction of the agenda item by department
- b. Questions and Discussion from Councilmembers
- c. Continue with Public Hearing/Public Comment
- d. Council Deliberation and Motion; or
- e. Continuation of Item to the July 7<sup>th</sup> City Council Meeting for Consideration if budget adoption is not feasible

**EXECUTIVE SUMMARY:**

On June 2, 2026, the City Council began its review of the proposed FY 2026–27 budget, including the overall financial forecast, budget scenarios, and an update on the Section 115 Trust and pension liabilities. Due to time constraints, the review was not completed, and the public hearing was continued to June 16, 2026.

The continued hearing is intended to provide the Council with additional time to review the proposed budget, consider updated information, and provide direction on key policy and funding priorities, including discretionary spending, and infrastructure investment.

As the City faces a projected structural deficit, Council direction will be critical to aligning service levels and budget priorities with available resources. Staff will incorporate this direction into the final proposed budget for adoption.

Given the scope and complexity of the budget review process, it may not be completed in tonight meeting. If additional time is needed, the City Council may schedule a subsequent meeting to ensure the budget is fully reviewed and adopted prior to the end of the fiscal year on June 30, 2026. This approach allows for thorough deliberation and supports a balanced and well-informed budget.



As a contingency, if the budget is not adopted by June 30, 2026, the City Council may adopt a resolution to carry forward the FY 2025–26 operating budget for a limited period (not to exceed 60 days) to ensure continuity of municipal services. There is no anticipated fiscal impact associated with continuing the existing appropriations on a temporary basis.

To avoid any disruption to operations, staff may also recommend extending select existing contracts scheduled to expire on June 30, 2026, for up to 60 days. Once the FY 2026–27 budget is adopted, any necessary contract approvals will return to the Council for consideration.

**BACKGROUND:**

At the June 2, 2026 budget hearing, the City Council provided initial feedback on several policy and funding priorities but did not complete a full review of the proposed budget. The hearing was continued to June 16, 2026 to allow for additional discussion, follow-up questions, and direction to staff.

**DISCUSSION:**

During the Council's June 2 public hearing to consider the budget, individual councilmembers raised a few proposed items for inclusion in the budget.

1. **Public Art – Mural Funding (\$10,000)** – A request was made for to allocate \$10,000 toward a public art mural project as a discretionary enhancement item.
2. **EIFD Placeholder Funding (\$75,000)** – A request was made to allocate \$75,000 placeholder for potential EIFD-related efforts, such as feasibility analysis or consulting support.
3. **Road Repair Priorities** -A request was made I to dedicate as much funding as possible for addressing road maintenance needs.(This is a City Council Goal and road maintenance projects will be discussed during the Capital Improvement Plan hearing following this item)

**STAFF ANALYSIS:**

The continued FY 2026–27 budget hearing provides an opportunity for the City Council to refine policy direction and align budget priorities with the City's projected financial outlook.

**Discretionary Spending:**

Council identified potential discretionary expenditures, including the public art mural and EIFD placeholder. The public art mural is anticipated to be funded from the Art in Lieu Fund, while the EIFD placeholder represents a potential General Fund commitment. As such, only the EIFD funding would increase General Fund expenditures and should be carefully weighed against the City's projected structural deficit.

**Infrastructure Needs:**

Road repair remains a key priority. Addressing deferred maintenance will require prioritization and potentially reallocation of existing resources or identification of new revenue sources. A broader discussion of the Capital Improvement Program (CIP) would provide additional context on long-term needs.

**Long-Term Financial Obligations:**

The Council should also consider long-term obligations, including pension-related costs and funding strategies. The Section 115 Trust remains an important tool to manage pension liabilities and reduce future rate volatility. However, contributions to the Trust must be balanced against near-term service needs and budget constraints.

Overall, Council direction at this meeting will play a critical role in shaping a balanced and fiscally sustainable budget.



**BUDGET COMMITTEE REVIEW:**

The Budget Committee is scheduled to meet on June 8, 2026, and will review this staff report.

**CITY COUNCIL GOALS/PRIORITIES/ AND OR GENERAL PLAN CONSISTENCY:**

This agenda item represents the City Council goals/priorities as follows:

Goal 5: Achieving Greater Fiscal Resilience and Long Term Fiscal Sustainability

This agenda item represents the City Council General Plan Consistency (if applicable): Not Applicable

**FISCAL IMPACT:**

The items above represent potential additions or policy changes that may increase General Fund expenditures:

Item	Estimated Impact
Public Art Mural	\$10,000
EIFD Placeholder	\$75,000
Road Repairs	To be determined

Given the projected deficit, any additional expenditures will require offsetting reductions, increased revenues, or deferrals in other areas or use of reserves.

**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. The City has also used social media to promote and advertise the City Council Meeting Agenda Items.

As of the writing of this agenda item report, the City has not received any public comment. If staff receives public comment from interested parties following the publication and distribution of this agenda item report, such comments will be provided to the City Council as supplemental materials before or at the meeting and will be posted to the city website.

**RESTATED RECOMMENDATION(S):**

It is recommended that the City Council:

- Continue the public hearing and discussion; and
- Provide direction to staff on the proposed FY 2026–27 budget, including the following key items:
  - Consideration of an additional contribution to the Section 115 Trust
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**OPTIONS:**

As listed in the recommendations

**ATTACHMENTS:**

- Where Your General Fund Dollar Goes Illustration
- General Fund Two-Year Financial Position
- Measure U Overview
- Receipt and Approval of Business Improvement District Use of Funds from BID Assessments
- FY26-27 Proposed Budget Book

**APPROVALS:**

Department Head Approval: Approval Date: \_\_\_\_\_

CEQA Determination (Planning): Approval Date: N/A

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 (if applicable) N/A

City Attorney Approval: Approval Date: \_\_\_\_\_

City Manager Approval: Approval Date: \_\_\_\_\_

DRAFT