

**CITY OF SEBASTOPOL
CITY COUNCIL
AGENDA ITEM**

Meeting Date: November 21, 2023
To: Honorable Mayor and City Councilmembers
From: City Administration
Subject: Continuation from Special City Council Meeting of Tuesday November 14, 2023: Item is to continue the discussion of Consideration of Measure(s) for a March 2024 Special Election. This item will be to continue the discussion of parcel taxes as due to Council protocols, the meeting of November 14, 2023 was adjourned as it did not have unanimous support to continue beyond the 10:30 meeting ending time.
Recommendation: That the Council continue /finalized discussion on the parcel tax item as discussed at the November 14th 2023 Special City Council Meeting
Funding: Currently Budgeted: Yes No Not Applicable

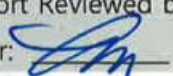
Account Code: [Fill in Account Number]

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

This item is a continuation of discussion of Consideration of Measure(s) for a March 2024 Special Election. This item will be to continue the discussion of parcel taxes as due to Council protocols, the meeting of November 14 2023 was adjourned as it did not have unanimous support to continue beyond the 10:30 meeting ending time.

As part of this item from November 14, 2023, the Council voted 3-2 to place a special sales tax measure onto the March 2024 Election. For placement of a special tax onto this March 2024 election, four out of five Councilmembers would have had to vote in favor. This was a 3-2 vote; therefore the motion failed to place the special sales tax measure onto the March 2024 election.

A copy of the November 14, 2023 Agenda Item is attached for reference.

Agenda Report Reviewed by:
City Manager: 

**CITY OF SEBASTOPOL
CITY COUNCIL
AGENDA ITEM**

Meeting Date: November 14, 2023
To: Honorable Mayor and City Councilmembers
From: City Administration
Subject: Consideration of Measures for March 2024 Election and Discussion of Fiscal Emergency
Recommendation: Direction to Staff
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 Different Types of Measures that could be considered at the March 2024 Election as well as Discussion of Fiscal Emergency and provide direction to staff as to whether or not to place a ballot measure on the March 2024 Election.

BACKGROUND:

The City Council recently approved a budget for Fiscal Year (FY) 2023-24 that contains an operating deficit of \$1,677,535. The City’s five-year General Fund forecast projects even larger operating deficits. The City Council requested the Budget Committee analyze possible methods for the City to address its financial situation, and particularly the deficits shown in the five-year forecast. The Committee has presented that information at various City Council meetings showing City’s projected deficits.

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 City Council at the October 17th and November 7th City Council meetings, discussed the City’s projected budget forecasts and 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.

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.

	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%

As has been stated multiple times, the City’s financial situation is dire and that the City must obtain significant additional revenue to avoid severe depletion of the City’s level of essential services provided for the benefit of our residents.

The financial crisis cannot be blamed on one item alone but is caused to multiple situations such as CalPERS pension liabilities; the pavement of a majority of the City’s streets is in fair to very poor condition according to the City’s 2023 Pavement Management Report, and it will cost the City approximately \$7.13 million to improve the pavement

condition to meet minimum standards in the next 5 years as well as the city does not have the funding to undertake such work for Capital Improvement Projects that in the current FY budget was estimated at a total of \$30.3 million dollars over the next 5 years.

Global Summary Report

City of Sebastopol FY 2023-24 to FY 2027-28

	FY22-23 Estimated	2023-24	2024-25	2025-26	2026-27	2027-28	TOTALS
PROJECT CATEGORY EXPENDITURES							
1 Bikes, Pedestrians & Safety	48,500	1,615,300	2,909,500	9,787,002			14,311,802
2 Transition Plan ADA Projects	35,000	338,500					338,500
3 Housing Projects		10,500	402,000				412,500
4 Parks Projects	256,500	716,000	445,000				1,161,000
5 Paving Projects	372,400	1,296,000	3,227,500	650,000	650,000	650,000	6,473,500
6 Sewer/Wastewater Projects	198,200	606,000	1,593,000	276,500			2,475,500
7 Stormwater Projects	52,000	150,000	1,417,500	400,000			1,967,500
8 Water Projects	392,000	633,000	810,500	1,642,000			3,085,500
9 Arts Projects	6,500	50,500					50,500
TOTALS	1,361,100	5,415,800	10,805,000	12,755,502	650,000	650,000	30,276,302
PROJECT FUNDING SOURCES							
000 Unfunded		171,500	5,903,000	9,921,000	450,000	450,000	16,895,500
001 Grant - Unsecured			358,000	1,522,000			1,880,000
002 Grant - TDA3		60,380					60,380
002 Grant - Quick Strike (MTC)		476,000					476,000
002 Grant - HSIP		528,120					528,120
002 Grant - OBAG2		968,000					968,000
002 Grant - District 5 Infra Funding		200,000					200,000
002 Grant - Go Sonoma (SCTA)			2,290,000				2,290,000
100 General Fund	52,000	1,500	83,500				85,000
103 Bldg./Fac./Infr. Reserve	88,400	215,500	206,000				421,500
103 B/F/IR - Donations		20,000					20,000
104 Rule 20A Monies PG&E				991,002			991,002
120 Tree Replacement Fund	4,000						
123 Pavement Reserve Fund		135,000					135,000
124 General Fund - Flood Grant		150,000	212,500				362,500
201 Measure M Transportation	105,500	193,000	150,000				343,000
202 Measure M Parks	104,500	316,557	31,500				348,057
203 Art-In-Lieu Fund	6,500	50,500					50,500
204 Housing Linkage Fee		10,500	400,000				410,500
212 Park Improvement Fund	500	78,500					78,500
212 Park Improvement (Sonoma Co.)		126,943					126,943
212 Park Improve Fund (Prop 68)	88,000						
213 Traffic Impact Fee Fund (TIF)		110,620					110,620
216 Community Dev. Grant (CDBG)	26,500	203,500	146,000				349,500
217 SB 1 Road Maintenance & Rehab	283,000	160,680	187,500	200,000	200,000	200,000	948,180
501 Water Capital Fund	392,000	633,000	810,500	120,000			1,563,500
511 Sewer Capital Fund	210,200	606,000	26,500	1,500			634,000
TOTALS	1,361,100	5,415,800	10,805,000	12,755,502	650,000	650,000	30,276,302

In addition to the infrastructure needs, the City also anticipates millions of dollars in other necessary expenditures over the next several years, including but not limited to:

- Protecting local drinking water (wells)
- Maintaining public safety
- Keeping public areas clean and safe
- replacements to the City’s vehicle fleet and building upgrades

- technology replacements and upgrades
- Staffing

Funding of these expenses will require depletion of the City’s reserves if the current financial condition of the City is not addressed. A copy of the potential deficit is shown below and revenue funds needed to reduce the deficit and maintain stability:

QUESTION: HOW MUCH NEW MONEY DOES SEBASTOPOL NEED TO COVER EXPENSES AND MAINTAIN A MINIMUM 15% RESERVE?							
ANSWER: \$2.5M BY NO LATER THAN FY 2026-27 AND EACH YEAR AFTER WITH A 3% ESCALATOR EACH YEAR							
CURRENT STATUS	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Revenue	\$10,860,460	\$11,022,140	\$11,259,630	\$11,497,043	\$11,732,327	\$11,967,541	\$12,202,394
Expenses	(\$12,537,996)	(\$12,489,796)	(\$12,827,017)	(\$13,239,030)	(\$13,656,076)	(\$14,311,580)	(\$14,781,697)
Shortfall	(\$1,677,536)	(\$1,467,656)	(\$1,567,387)	(\$1,741,987)	(\$1,923,749)	(\$2,344,039)	(\$2,579,303)
Reserves at Start of Year	\$5,118,800	\$3,441,264	\$1,973,608	\$406,221	(\$1,335,766)	(\$3,259,515)	(\$5,603,554)
Reserves Used for Shortfall	(\$1,677,536)	(\$1,467,656)	(\$1,567,387)	(\$406,221)	(\$1,923,749)	(\$2,344,039)	(\$2,579,303)
Reserves at End of Year	\$3,441,264	\$1,973,608	\$406,221	(\$1,335,766)	(\$3,259,515)	(\$5,603,554)	(\$8,182,857)
Reserve as % of Expenses	27.4%	15.8%	3.2%	-10.1%	-23.9%	-39.2%	-55.4%
ADDITION OF NEW \$\$	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Revenue	\$10,860,460	\$11,022,140	\$11,259,630	\$11,497,043	\$11,732,327	\$11,967,541	\$12,202,394
Expenses	(\$12,537,996)	(\$12,489,796)	(\$12,827,017)	(\$13,239,030)	(\$13,656,076)	(\$14,311,580)	(\$14,781,697)
Shortfall	(\$1,677,536)	(\$1,467,656)	(\$1,567,387)	(\$1,741,987)	(\$1,923,749)	(\$2,344,039)	(\$2,579,303)
Addition of New Funds	\$0	\$0	\$0	\$2,640,000	\$2,780,000	\$2,940,000	\$3,010,000
Adjusted Shortfall	(\$1,677,536)	(\$1,467,656)	(\$1,567,387)	\$898,013	\$856,251	\$595,961	\$430,697
Beg of Year Reserves	\$5,118,800	\$3,441,264	\$1,973,608	\$406,221	\$1,304,234	\$2,160,485	\$2,756,446
Adjusted Shortfall/Extra	(\$1,677,536)	(\$1,467,656)	(\$1,567,387)	\$898,013	\$856,251	\$595,961	\$430,697
End of Year Reserve	\$3,441,264	\$1,973,608	\$406,221	\$1,304,234	\$2,160,485	\$2,756,446	\$3,187,143
Reserve as % of Expenses	27.4%	15.8%	3.2%	9.9%	15.8%	19.3%	21.6%

A supplemental revenue stream is necessary to alleviate the crisis and help maintain critical city services and address community service priorities. This is indicated by the fact that the financial crisis has arisen despite recent budget cuts of \$1.5M from City Departments in the most recent budget adoption as well as use of reserves to balance the budget and has frozen staff positions for an already under-staffed City, as well as established a 115 Trust to provide stability and predictability to our ongoing pension payment obligations.

DISCUSSION:

The City of Sebastopol prides itself on its commitment to public safety and quality of life for all residents. However, like many California cities, as the demand for high-quality city services continues to increase, so does the cost - currently exceeding our City's available revenue. Quality of life, especially regarding our community's health, safety, and stability, continues to be the City’s highest priority such as keeping public spaces safe and clean; maintaining emergency services; preventing blight and dumping on our City streets; repairing deteriorating streets, roads, sidewalks, City infrastructure; as well as attracting and retaining local jobs and businesses. To do this the Council has requested review of different types of measures that could be considered at the March 2024 election and to ask for direction to staff for a potential ballot measure.

The California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose. A majority of voters must approve a new general tax, its increase or extension in the same election in which city council members are elected, unless an emergency is declared by unanimous vote (among those present) of the governing body. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax, its increase or extension. Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including the tax rate, the amounts of revenues collected and expended and the status of any project funded by the special tax.

As discussed on November 7, 2023, there are multiple types of measures that can be considered. Below is information that was discussed at that meeting relating to voting methods for certain types of measures.

GENERAL TAX (for general purposes): Requires (a) Declaration of Emergency, passed by unanimous vote of City Council, and (b) two-thirds approval of City Council (4 out of 5) to call for the election. (Majority of voters must approve.)

- The above applies to a sales tax measure.
- For a parcel tax for general City purposes, the rules for a special tax apply

If the City Council votes to approve a Declaration of Fiscal Emergency, City staff would return at the next City Council Meeting with a Resolution Declaring a Fiscal Emergency for formal ratification and placement of a ballot onto the March 2024 special election. Staff would return with a ballot question and ordinance for a sales tax that would for a General Tax Require:

- Ratification of Declaration of Emergency (Must be Unanimous); and
- Ballot Question and Ordinance (Requiring four out of the five Councilmembers voting in favor of the measure to placed it on the March election)

A one half percent (0.5%) would amount to fifty cents on every \$100 spent and the sales tax would help to address community priorities for maintaining critical city services with reliable, locally controlled funding that cannot be taken by the State. A sales tax is not applied to prescription medicine or food purchased as groceries and is not a tax on rent, homes or property. The revenues collected could be used on any general City services.

SPECIAL TAX (for specific purposes; includes parcel tax):

- Does NOT require a Declaration of Emergency.
- A parcel tax requires simple majority approval of City Council to call for the election.
- A sales tax requires two-thirds majority approval of City Council (4 out of 5) to call for the election.
- Any other special tax requires simple majority approval of City Council to call for the election.
- Two-thirds of voters must approve for all types of special taxes.

WHAT IS A SPECIAL PARCEL TAX?

A parcel tax is levied on parcels of real property, unlike property tax, the parcel tax is not based on the value of the property. The simplest parcel tax is a flat amount per parcel, the same tax regardless of the value, size, or use of the parcel, but a parcel tax can also be based on the size of the parcel, the improvements on the parcel, and the use of the parcel.

A tax on square footage is more equitable than a flat tax because the increase in value from better public services will be roughly proportional to parcel size.

The parcel tax will be a special tax, the proceeds of which are to be deposited into a Special Revenue Fund, created and maintained by the City, and used only for the specific purposes identified above. Finally, under Proposition 218, approved by voters in 1996 and added to the State Constitution all parcel taxes must be approved as special taxes, thereby requiring them to be approved by two-thirds of local voters.

The tax rate proposed is a maximum rate, and once adopted, the City Council, by resolution or ordinance, may levy a tax at any rate or amount that is equal to or less than the maximum rate, and may later restore the rate up to the maximum rate provided herein without another vote of the People.

All parcel taxes are the same in terms of some essential features:

1. They're collected annually on the property tax roll.
2. They have to follow the procedures for a special tax.

3. The City Council can identify a broad range of City services to be funded, but the revenue still has to go into a special fund and be used only for the purposes listed. **Agenda Item Number: 5**

Characteristics of the tax that are discretionary:

1. It can apply to all property or only subsets. For example, it can apply only to residential, only to commercial, only to some specific types of commercial, etc.
2. The tax rate can be based on a variety of factors: lot square footage, building square footage, lot length along a fronting street, etc. It can be a flat amount per parcel, with different dollar amounts for residential and non-residential. It can be a flat amount per dwelling unit, with an equivalent dwelling unit amount for each rental unit and non-residential property. For taxes related to storm drainage, I've also seen rates based on the amount of impermeable surface on a lot.
3. In cities, the tax rate does not have to be uniform for all property. School districts are required to have uniform rates.
4. The City Council can exempt different classes of property owners, such as seniors and individuals with disabilities.

In consideration of the impacts on voters, staff recommends in reviewing a measure, that the following questions may be considered when placing any measure onto a ballot.

- EQUITY: Who does the tax impact and how is the impact felt across all residents or businesses?
- ADMINISTRABILITY How is the tax administered and what would be the cost of compliance on taxpayers and the City?
- STABILITY What are the drivers of the tax revenue and how does the tax type in question affect the volatility of the revenue over time (including potential recession)?
- ECONOMIC BENEFITS Is the tax efficient, promotes economic development objectives and minimize disruption on the taxpayer?

PLEASE NOTE: Sky Woodruff from Meyers Nave will be present to advise the City Council on the structure and procedures relating to various tax measures.

Also, as there is no election for June of 2024, the next available election for a ballot measure that could be considered for the City of Sebastopol would be November 2024 election. This has been confirmed with the Sonoma County Registrar of Voters.

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

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 24 hours prior to this special meeting.

FISCAL IMPACT:

No fiscal impact at this time to provide staff direction. However, please see potential financial impact for revenue/expenses based on type of measure:

Sales Tax Measure Revenue:

The potential financial impact as a result of approval of this action and if approved by the voters will generate estimated tax revenue of \$1,600,000 on an annualized basis. If approved, the City would begin to collect revenue from a transaction and use tax measure passed in March 2024 and that is estimated to be an July 1, 2024 effective date. Total additional revenues in FY 2024-25 would be approximately \$1,600,000. These revenues would help to maintain City services and provide some resources for capital purchase and projects, although not enough to address the full needs of the City’s deferred infrastructure projects or other essential key City services.

Parcel Tax Revenue:

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

Cost of Election:

For March, if the Council conducted a special election/ballot measure, the cost would be: \$19,394 to \$33,246 (\$3.50-\$6.00 per voter). If other cities or government agencies join the March election, the cost could be reduced and shared among the agencies. In addition to the election costs from Sonoma County, the City may incur costs for consulting fees of approximately \$35,000 to assist with preparation of ballot question, ordinance and to assist with the dissemination of factual information relating to any proposed ballot measure.

For FY 23-24, funding was allocated as follows:

- \$60,000 Ballot Measure Expenses
- \$40,000 County Election Costs for Two Measures

Please note that \$60,000 was allocated for three measures (two measures in FY 23-24 and Funding Allocated for Writing of One Measure in FY 23-24 for the November 2024 Election. \$40,000 was allocated for election costs for FY 23-24 for two measures (estimated) and no funding has been used to date. However as seen above, election costs for one ballot measure ranges from \$19,394 to \$33,246.

As of today, the following funds remain:

- \$37,400 Funding allocated for ballot measure(s)
- \$40,000 County Election Costs

RECOMMENDATION:

Staff recommends the Sebastopol City Council Consider and Discuss the options and provide direction to staff.