

CITY OF SEBASTOPOL CITY COUNCIL
AGENDA ITEM REPORT FOR MEETING OF:

November 19, 2024

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To: Honorable Mayor and City Councilmembers
From: Ana Kwong – Administrative Services Director
Subject: FY24-25 Quarter 1 Financial Update – General Fund

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RECOMMENDATION:

Staff recommends the Sebastopol City Council receive year-to-date financial information for the General Fund.

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EXECUTIVE SUMMARY:

Based on the best available information as of September 30, 2024, the city's general fund revenue is currently less than 10% of the budget. Ideally, if all factors were consistent, it should be at 25% by this time of the year. The primary reason for revenue not being at 25% is that major revenue categories, such as property tax and sales tax, do not follow a linear pattern throughout the year. Expenses are tracking slightly below budget.

BACKGROUND:

This report represents the City's General Fund results for the first quarter of the current fiscal year. However, for several reasons first quarter reports are inherently of limited value. That is largely because the available data are limited, in some cases including a month of revenue such as for sales taxes, our largest source of revenue. We will not receive the first payment of property taxes, our second largest source of revenue, until December. Numerous revenue sources are not linear, meaning that we cannot accurately project year-end results from limited data – Transit Occupancy Tax is an example. The same is true to a lesser degree for some expense categories.

Many cities do not create first quarter reports because of the inherent uncertainties that come with limited data.

Nonetheless, we have received some newer information since adopting the budget. Most importantly:

- I. Based on notification from the County, it appears that our budgeted property tax revenue is \$117,000 too high.
- II. While we have only one month of actual results for our sales taxes, our consultant has projected that our budgeted estimate (which they developed for us) is \$54,000 too high.
- III. We are reviewing our estimates for building fees, and expect to have updated numbers for the Council at your November 19 meeting.
- IV. On the expense side, the Council has approved numerous increases in compensation for employees. This is because negotiations for new labor agreements were not completed in time to include in the adopted budget, and because we have raised salaries for some Department Head positions to improve our ability to attract strong candidates as several of these positions turn over.
- V. The budget did not include savings for vacant positions that occur over the year. We know that there will be some savings and are working on developing estimates.

Staff is working with our financial advisor, Bob Leland, to update our long-term financial model. That update will consider all of the factors above, and others including but not limited to the results of the election for Measure U. We believe that updating this model should be the focus of our efforts.

ANALYSIS:

General Fund: The financial information reported includes transactions through September 30, 2024, 3 months through the fiscal year. The current actual collection shows total general fund revenue is \$1.37M, which equates to 9.6% of budget. Specific items attributed to year-to-date income are as follows:

Description	2022-23 Actual	Audited 2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Y-T-D Actual 9/30/24	Footnote	% of Budget
OPERATING REVENUE							
Property Tax	3,293,347	3,443,916	3,620,000	3,620,000	-0	1	0.0%
Real Property Transfer Tax	49,530	36,506	40,000	40,000	6,338	2	15.8%
Sales Taxes	4,718,318	4,626,788	4,563,925	4,563,925	399,845	3	8.8%
User Taxes	858,334	871,287	887,175	887,175	144,463	4	16.3%
Transient Occupancy Tax	544,128	519,452	519,000	519,000	101,134	5	19.5%
Franchise Fees	468,871	489,591	502,250	502,250	51,404	6	10.2%
Licenses & Permits	709,578	498,057	1,442,500	1,442,500	105,477	7	7.3%
Fines & Special Assessments	51,623	70,560	66,700	66,700	31,311	8	46.9%
Intergovernmental Revenues	2,068,971	438,560	22,890	22,890	-0	9	0.0%
Interest & Rents	31,471	155,296	132,250	132,250	29,354	10	22.2%
Charges for Services	182,938	122,530	136,800	136,800	36,480	11	26.7%
Miscellaneous Revenue	788,352	120,010	183,225	183,225	24,243	12	13.2%
Cost Allocation Plan	2,189,693	2,476,141	1,761,797	1,761,797	440,449		25.0%
Transfers In	102,500	112,000	425,951	425,951	-0	13	0.0%
TOTAL REVENUES	16,057,653	13,980,694	14,304,463	14,304,463	1,370,498		9.6%

- Property Tax:** The City receives property tax payments twice a year, in December and again in late April 2025. As stated above, according to the most recent notification from the County, the projected property tax budget of \$3.62 million is overstated by \$117,000. We will have a clearer understanding of the property tax trend once the City receives the first distribution.
- Property Transfer Tax:** The amount of \$6,338 represents two months of collections. When compared to the same period in previous years, the revenue received so far this fiscal year aligns closely, suggesting that the original budget projections are too high.
- Sales taxes:** Sales tax collections during the first quarter is only recorded July activities. Our sales tax consultant has provided the latest projection based on Q2-2024 collections (April-June 2024) and preliminary year end projection does appear to be lower by \$54,000 from the adopted budget. The table below illustrates that while sales tax revenue is lower compared to the same period last year, it is higher than it was two years ago.

Category	July 2022	July 2023	July 2024
Bradley Burn	172,069.17	208,784.89	191,282.24
Measure T	59,905.25	66,050.45	62,450.28
Measure Q	119,941.21	131,380.35	124,807.72
Total	351,915.63	406,215.69	378,540.24

- User Taxes:** The city imposes a tax on the usage of telephone, garbage, and cable services. This tax is collected by these providers and then remitted to the city on a monthly and quarterly basis. The table below shows the revenue received through August. The cost of electricity has significantly increased, leading to higher electric bills for many residents. Consequently, this has resulted in an increase in the utility user tax. Although the city is receiving more revenue from this tax, it's still unknown at this point if the adopted

budget of \$887K need any adjustments.

Category	July					August				
	2022	2023	2024	\$ Diff 2024 vs 2023	% Diff 2024 vs 2023	2022	2023	2024	\$ Diff 2024 vs 2023	% Diff 2024 vs 2023
Electric	37,148	37,504	46,269	8,765	23.4%	38,888	40,294	48,196	7,902	19.6%
Garbage	6,733	7,602	8,535	933	12.3%	7,312	8,097	8,187	90	1.1%
Cable	6,096	6,262	5,983	(279)	-4.5%	6,111	6,155	5,848	(307)	-5.0%
Others *	11,446	10,203	9,420	(783)	-7.7%	11,427	11,103	12,026	923	8.3%
Total	61,423	61,571	70,206	8,636	14.0%	63,737	65,649	74,257	8,608	13.1%
* Others refer to smaller operators in the industry such as gas, communication, energy, wireless										

- Transient Occupancy Tax:** The city receives nearly 20% of its budget from hotel/motel, bed, and breakfast inn room rentals in Sebastopol. This year-to-date amount of \$101,000 represents two months of Transient Occupancy Tax (TOT) activities. While it might be tempting to project this figure linearly—by dividing the total received by two months and multiplying by twelve to estimate over \$600,000 for the year—it's important to consider the seasonal nature of bed tax. Before FY23-24, the results were too irregular and influenced by COVID to be useful for any meaningful comparison. Therefore, the table below shows the full year of FY23-24 actual amount received of \$519,000 and the first two months for both years, indicating a relatively flat revenue stream. Given this seasonality, it is more accurate to base our estimates on prior year actuals if we need to predict how the year-end will turn out.

Fiscal Year	Full Year Amount	July Actual	August Actual
FY2023-24	519,452	51,077	51,166
FY2024/25 Budget	519,000	51,892	49,851

- Franchise Fees:** The franchise fee category includes PG&E, Garbage, and Cable TV/Video. The PG&E franchise fees are normally received in late April. The Video franchise fees are submitted quarterly, and collections to-date have been received through August for garbage only.
- Licenses & Permits:** The majority of this line item revenue comes from development-related activity fees, which account for 10% of the budget. These fees are collected when permits are issued, and their timing can vary throughout the year depending on the development period. Additionally, this category includes business license fees, with the bulk of collections occurring during the renewal period in December.
- Fines & Special Assessments:** This category includes vehicle code violations and parking fines. The collections to date have exceeded the 25% quarterly mark due to the state mandated cost reimbursement for racial and ID profiling. This State-mandated cost reimbursement for racial and identity (ID) profiling involves compensating local governments for the expenses incurred in complying with state laws aimed at preventing and addressing racial and identity profiling by law enforcement agencies. To support these efforts, the state provides financial reimbursement to local governments for the costs associated with implementing these requirements.
- Intergovernmental Revenues:** This category includes reimbursement from other agencies, and it can vary throughout the year and challenge to predict. For the first quarter of the fiscal year, the city has not received our casino mitigation income and/or POST reimbursement.

10. **Interests and Rents:** Fluctuations in cash balances throughout the year may cause variations in interest income. This category is tracking as expected and has the potential to exceed its target if the cash position remains stable.
11. **Charges for Services:** Most line items are trending in line with budget.
12. **Miscellaneous Revenue:** This category housed reimbursement for chemicals and electricity the city paid on behalf of the pool. The electricity bills for the pool have been lower than expected so far in this fiscal year. Therefore, this is a direct correlation with lower expenses means lower reimbursement.
13. **Transfer In:** The budgeted transfer-in of \$426,000 comprises of the list below. These transfers are typically made in the fourth quarter of the fiscal year.

Description	2024-25 Adopted Budget
TRANSFERS IN	
Transfer in	
From Building, Facilities & Infra Reserve (Fund 103)	41,400
From Vehicle Abatement (Fund 125)	4,500
From Inclusionary Housing (Fund 205)	22,000
From Police Grant (Fund 209)	120,000
From Measure H (Fund 248)	238,051
3999 - Transfers In	425,951

Staff is not recommending any adjustments at this time. We plan to reassess the situation as we update the City's long-term financial model and after mid-year, when we will have a clearer picture of the overall financial performance and can make more informed decisions.

The first quarter fiscal year expenses for the General Fund are summarized below. In some cases expenditures are not linear. Overall, all departments reported that their expenditures are tracking slightly below budget.

Description	2022-23 Actual	Audited 2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Y-T-D Actual 9/30/24	Footnote	% of Budget
<u>OPERATING EXPENDITURE - By Department</u>							
10 - City Council	503,256	202,385	198,625	198,625	30,119		15.2%
11 - City Manager	340,598	518,664	698,885	698,885	172,144		24.6%
12 - City Attorney	461,932	759,058	647,900	647,900	158,317		24.4%
13 - City Clerk	424,717	366,405	430,771	430,771	100,638		23.4%
14 - Administrative Services (Finance)	1,218,805	1,314,441	1,436,923	1,438,173	358,150		24.9%
21 - Planning	596,114	532,564	616,426	616,426	120,716		19.6%
22 - Building	248,051	214,977	302,220	302,220	58,676		19.4%
23 - Engineering	515,766	544,009	553,020	553,020	73,081		13.2%
31 - Fire & Prevention	1,302,704	1,230,393	1,535,910	1,535,910	219,179		14.3%
32 - Police	5,002,699	4,995,733	5,366,488	5,413,761	1,244,384		23.2%
40 - Senior Center	64,732	72,703	41,038	41,038	7,775		18.9%
41 - Public Works	1,672,896	1,610,650	1,769,079	1,769,079	412,187		23.3%
42 - PW-Community Center	442,528	279,473	169,724	169,724	53,845		31.7%
43 - PW-Ives Pool	146,925	249,957	297,301	297,301	26,422		8.9%
00 - Non Departmental	280,357	210,838	191,645	191,645	5,856		3.1%
Debt Service Payments	254,140	300,407	446,094	446,094	356,512	^a	79.9%
Transfers Out	228,163	864,763	300,000	300,000	-	^b	0.0%
TOTAL EXPENDITURES	13,704,385	14,267,418	15,002,049	15,050,572	3,398,002		22.7%

- Debt Service Payments:** Debt service payments consist of various debt obligations, with the fire truck principal and interest amount being paid in the first quarter of the fiscal year. This means that a significant portion of the debt has been settled during the initial period, and the residual will be paid in the remainder of the year.
- Transfer-out:** The cost of the library HVAC roof project has been covered by the general fund made earlier this year. The City will be reimbursed for this cost when the project is completed after the rain stops.

PUBLIC COMMENT:

As of the writing of this staff report, the City has not received any public comment on this item. However, if staff receives 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.

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 the scheduled meeting date.

FISCAL IMPACT:

There is no fiscal impact in receiving this informational financial update.

RESTATED RECOMMENDATION:

That the City Council receive year-to-date financial information.

OPTIONS:

There are no options to consider.

ATTACHMENTS:

Attachment A – Quarterly Financial Reports

APPROVALS:

Department Head Approval: Approval Date: 10/14/24

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

The proposed action is / is not exempt from the requirements of the California Environmental Quality Act (CEQA)

Administrative Services/Financial Approval: Approval Date: 10/14/24

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

Account Code (f applicable) _____

City Attorney Approval: Approval Date: 10/31/24

City Manager Approval: Approval Date: N/A

DRAFT

**GENERAL FUND
QUARTERLY REPORTING - BY DEPARTMENT**



Description	2022-23 Actual	Audited 2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Y-T-D Actual 9/30/24	Footnote	% of Budget
OPERATING REVENUE							
Property Tax	3,293,347	3,443,916	3,620,000	3,620,000	-0	1	0.0%
Real Property Transfer Tax	49,530	36,506	40,000	40,000	6,338	2	15.8%
Sales Taxes	4,718,318	4,626,788	4,563,925	4,563,925	399,845	3	8.8%
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Franchise Fees	468,871	489,591	502,250	502,250	51,404	6	10.2%
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Debt Service Payments	254,140	300,407	446,094	446,094	356,512	a	79.9%
Transfers Out	228,163	864,763	300,000	300,000	-	b	0.0%
TOTAL EXPENDITURES	13,704,385	14,267,418	15,002,049	15,050,572	3,398,002		22.7%
Net Surplus/(Deficit)	2,353,268	(286,725)	(697,586)	(746,109)	(2,027,503)		

**GENERAL FUND REVENUES DETAILED
QUARTERLY REPORTING**

The information pertaining to each footnote is located in the section that follows the transfers schedule

Revenue Categories	2022-23 Actual	Audited 2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Y-T-D Actual 9/30/24	Footnote	% of Budget
3000 - Property Tax Secured / Unsecured	2,384,387	2,487,900	2,595,000	2,595,000	-0	1	0.0%
3002 - Real Property Transfer Tax	49,530	36,506	40,000	40,000	6,338	2	15.8%
3004 - Property Tax in Lieu of VLF	908,960	956,016	1,025,000	1,025,000	-0		0.0%
Property Tax	3,342,877	3,480,422	3,660,000	3,660,000	6,338		0.2%
3010 - Sales Tax-Bradley Burn	2,255,817	2,199,730	2,173,000	2,173,000	191,282		8.8%
3011 - Sales Tax-1/4 cent (T)	780,207	770,928	760,000	760,000	65,376		8.6%
3012 - Sales Tax-1/2 cent (Q)	1,572,895	1,550,631	1,520,125	1,520,125	124,808		8.2%
3014 - Sales Tax-Prop 172	109,400	105,500	110,800	110,800	18,379		16.6%
Sales Taxes	4,718,318	4,626,788	4,563,925	4,563,925	399,845	3	8.8%
3020 - Transient Occupancy Tax	544,128	519,452	519,000	519,000	101,134	5	19.5%
					-0		
3050 - Garbage Franchise	260,922	296,817	301,350	301,350	51,404		17.1%
3051 - PG&E Franchise	113,597	121,383	124,025	124,025	-0		0.0%
3052 - Cable TV Franchise	94,352	71,390	76,875	76,875	-0		0.0%
Franchise Fees	468,871	489,591	502,250	502,250	51,404	6	10.2%
3055 - Vehicle in lieu Tax	7,710	9,291	10,000	10,000	-0		0.0%
3056 - UUT PG&E	421,904	429,651	428,600	428,600	71,481		16.7%
3057 - UUT Sonoma Clean Power	128,652	128,152	135,300	135,300	22,984		17.0%
3058 - UUT Garbage	84,878	96,555	98,400	98,400	16,722		17.0%
3059 - UUT Cable	57,239	72,492	76,875	76,875	11,831		15.4%
3060 - UUT Misc	156,671	135,059	136,500	136,500	21,446		15.7%
3061 - UUT (AB-1717)	1,280	88	1,500	1,500	-0		0.0%
User Taxes	858,334	871,287	887,175	887,175	144,463	4	16.3%
3101 - Business License	145,992	142,770	140,000	140,000	7,039		5.0%
3102 - Business License-Late Fees	5,443	6,388	2,500	2,500	180		7.2%
3103 - Building Permits	558,093	348,900	1,300,000	1,300,000	98,259		7.6%
3104 - Pet Shelter Release Fee	50	-0	-0	-0	-0		0.0%
Licenses & Permits	709,578	498,057	1,442,500	1,442,500	105,477	7	7.3%
3105 - Vehicle/ Criminal Code Fines	10,388	13,906	13,700	13,700	4,077		29.8%
3106 - Parking Fines	18,378	20,760	18,000	18,000	3,270		18.2%
3107 - RBS Training Fees	12,800	11,600	12,000	12,000	1,000		8.3%
3110 - Business License - DSA 70% \$1	5,735	5,415	5,000	5,000	380		7.6%
3202 - State Mandated Cost Reimb	4,322	18,880	18,000	18,000	22,584		125.5%
Fines & Special Assessments	51,623	70,560	66,700	66,700	31,311	8	46.9%
3203 - POST Reimb	3,096	2,703	2,700	2,700	-0		0.0%
3204 - Casino Mitigation	19,149	24,224	20,190	20,190	-0		0.0%
3206 - County Grant	-0	60,000	-0	-0	-0		0.0%
3207 - State Grant	395,493	351,632	-0	-0	-0		0.0%
3209 - Federal Grant	1,651,233	-0	-0	-0	-0		0.0%
Intergovernmental Revenues	2,068,971	438,560	22,890	22,890	-0	9	0.0%

**GENERAL FUND REVENUES DETAILED
QUARTERLY REPORTING**

The information pertaining to each footnote is located in the section that follows the transfers schedule

Revenue Categories	2022-23 Actual	Audited 2023- 24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Y-T-D Actual 9/30/24	Footnote	% of Budget
3300 - Interest Income	-21,286	97,452	77,000	77,000	18,432		23.9%
3301 - Cell Tower Lease Rental	39,608	45,594	43,000	43,000	7,788		18.1%
3302 - City Property Rental - Little League	2,974	2,300	2,300	2,300	1,369		59.5%
3304 - City Property Rental - Parking Space	500	500	500	500	40		8.0%
3305 - City Property Rental - Palm Ave	3,000	2,250	2,250	2,250	-0		0.0%
3401 - Plaza and Special Event Fees	6,675	7,200	7,200	7,200	1,725		24.0%
Interest & Rents	31,471	155,296	132,250	132,250	29,354	¹⁰	22.2%
3404 - Credit Card Transaction Fee	177	1,000	1,000	1,000	697		69.7%
3405 - Finance Fee	7,407	5,000	5,000	5,000	1,170		23.4%
3425 - Fire Dept Fees	57,534	30,000	40,000	40,000	6,096		15.2%
3426 - Planning Fees	44,217	25,000	21,000	21,000	7,761		37.0%
3427 - Special Projects Plans/Specs	200	-0	-0	-0	-0		0.0%
3428 - GIS Fees	460	-0	-0	-0	-0		0.0%
3441 - Encroachment Permits Fee	27,074	30,000	30,000	30,000	10,398		34.7%
3442 - Grading Permit Fee	1,032	1,030	1,000	1,000	1,090		109.0%
3445 - Public Works Services	8,940	7,000	7,500	7,500	54		0.7%
3502 - Police Services	17,240	15,000	18,000	18,000	5,471		30.4%
3504 - Impounded Vehicle Release Fee	2,240	1,800	1,800	1,800	500		27.8%
3505 - Police Reports Copy Fee	3,878	4,000	4,000	4,000	280		7.0%
3506 - Police False Alarms Fee	3,400	-0	-0	-0	-0		0.0%
3507 - Police OT Reimbursement	9,139	2,700	7,500	7,500	2,964		39.5%
Charges for Services	182,938	122,530	136,800	136,800	36,480	¹¹	26.7%
3801 - Sales of Surplus Equipment	31,222	-0	10,000	10,000	870		8.7%
3804 - Insurance Claims	224,633	450	500	500	8,968		1793.5%
3805 - Miscellaneous Income	9,178	100	100	100	590		590.2%
3806 - Donations & Contributions	427,775	500	500	500	-0		0.0%
3807 - Rebates	14,100	14,000	14,000	14,000	2,576		18.4%
3810 - Pool Expense Reimbursement	81,445	104,960	158,125	158,125	11,239		7.1%
Miscellaneous Revenue	788,352	120,010	183,225	183,225	24,243	¹²	13.2%
3998 - Cost Allocation Plan	2,189,693	2,476,141	1,761,797	1,761,797	440,449		25.0%
3999 - Transfers In	102,500	112,000	425,951	425,951	-0	¹³	0.0%
				-0			
Total Revenue	16,057,653	13,980,694	14,304,463	14,304,463	1,370,498		9.6%