

DRAFT MEMORANDUM

To: Don Schwartz and Emi Theriault, City of Sebastopol
From: Jason Moody and Rosanna Ren; Economic & Planning Systems, Inc.
Subject: Sebastopol Barlow Hotel Fiscal Impact Analysis; EPS #241116
Date: March 7, 2025

The Economics of Land Use



This memorandum evaluates the impact of the proposed Barlow Hotel on the City of Sebastopol's annual General Fund budget. Economic & Planning Systems, Inc. (EPS) prepared the analysis to support the City as it seeks to execute a Development Agreement (DA) with the project Applicant (Aldridge Development). Among other considerations, the Applicant has requested a reduction and delay in the payment of its development impact fee obligations, concessions it maintains will be more than offset by the substantial increase in tax benefits received by the City during hotel operations.

The EPS fiscal analysis estimates the effects of the proposed 83-room hotel project on the City's annual budget by comparing the estimated change in General Fund revenues and expenditures. EPS developed a model that considers the projects' fiscal impact at stabilization, recognizing the hotel's performance will fluctuate over time. The model is based on the most recent development program submitted by the Applicant and the City's adopted General Fund budget for FY 2024-2025. The EPS analysis considers two scenarios based on pending sales tax rates in Sebastopol.¹

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¹ Measure U, passed by voters in the 2024 general election, establishes a half-cent sales tax in Sebastopol. However, this rate is pending legal review given statewide limits on sales taxation and the City may potentially be able to receive a quarter-cent sales tax revenue. The scenarios consider the half-cent and quarter-cent sales tax revenue options.

Project Description

The proposed hotel project will be integrated into “The Barlow”, a 12-acre, mixed-use development just east of Sebastopol’s Downtown Plaza. As summarized in **Table 1**, current plans indicate that the Barlow Hotel will include 83 rooms with ground-floor dining and retail, meeting space, a full-service spa and fitness center, and a rooftop pool and bar. Presently, Sebastopol has only one hotel, the Fairfield Inn, located outside of the downtown area. The subject site is currently occupied by a light-industrial/office building that is leased to Guayaki. The Applicant proposes to demolish the structure and relocate the existing tenant within The Barlow.

Table 1 Summary of Proposed Development Program

Item	Amount
Existing Industrial / Office Space¹	31,571 sq. ft.
Proposed Hotel Project	
Hotel (Rooms)	83 rooms
Retail ²	4,311 sq. ft.
Total Sq. Ft.	77,794 sq. ft.

[1] As reported by Costar.

[2] Includes ground floor retail, restaurant, bar, spa, pool, and other amenities, as reported by Applicant

Source: Costar; City of Sebastopol; Economic & Planning Systems

Key Findings

The key findings from this analysis are described below and summarized in **Table 2**. All estimates are provided in 2025 dollars.

1. EPS estimates that the Barlow Hotel will generate more than \$925,000 in annual net new General Fund revenues once it is fully operational.

Depending on whether a recently approved citywide sales tax measure is upheld, EPS estimates the Barlow Hotel will generate between \$926,000 and \$930,000 in annual net General Fund revenues. If achieved, the fiscal impact would represent a roughly five percent (5%) increase on the City’s FY 2024-2025 General Fund revenues. These impacts account for additional public service costs and deduct the net tax benefits from the existing industrial/office use. Actual fiscal impacts may vary due to the timing of Project buildout and changes in economic and budgetary conditions.

Table 2 Sebastopol Barlow Hotel Summary of Fiscal Impacts (2025\$)

General Fund Revenues and Expenditures	Existing Industrial/Flex	Proposed Hotel	Net New
<u>Option A - Half-Cent Sales Tax</u>			
Annual General Fund Revenues	\$9,000	\$1,022,900	\$1,013,800
Annual General Fund Expenditures	<u>\$4,800</u>	<u>\$88,400</u>	<u>\$83,600</u>
Annual Net Impact on General Fund	\$4,200	\$934,500	\$930,200
<u>Option B - Quarter-Cent Sales Tax</u>			
Annual General Fund Revenues	\$9,000	\$1,018,800	\$1,009,900
Annual General Fund Expenditures	<u>\$4,800</u>	<u>\$88,400</u>	<u>\$83,600</u>
Annual Net Impact on General Fund	\$4,200	\$930,400	\$926,300

Values shown are rounded to the nearest hundred.

Source: Economic & Planning Systems

- 2. EPS projects the Barlow Hotel will contribute about \$890,000 in transient occupancy tax (TOT) revenues to the City’s General Fund, based on the current 12 percent tax on hotel room rates. TOT revenue represents by far the most significant projected impact on the City’s General Fund from the Barlow Hotel.**

Given that the Barlow Hotel is proposed as a luxury and highly amenitized boutique facility integrated into a popular downtown Sebastopol destination, and convenient access to the Sonoma wine country, it will likely command average room rates at the upper end of the market. The EPS fiscal analysis assumes an average annual room rate of \$350 per night and a 70 percent occupancy rate, comparable to that of similarly positioned hotel offerings in the region. Under these assumptions, Sebastopol’s current 12 percent TOT rates would generate an estimated \$891,000 in TOT revenue, approximately 87 percent of the project’s total General Fund revenue contributions. The actual TOT revenue will depend fundamentally on the execution and operation of the Barlow Hotel and regional market conditions, among other factors. Given the high level of uncertainty associated with these outcomes, EPS has taken a relatively conservative approach, applying room rates that are below the top of the market but well above the average across all hotel types in the County (estimated at \$200 / night).

- 3. Even without any TOT revenue, the Project would still generate a positive net impact on the City’s General Fund budget.**

Non-TOT General Fund revenues are expected to be between \$128,000 and \$132,000, about \$40,000 to \$44,000 greater than the expected \$88,000 in General Fund expenditures (attributable primarily to increased demand on services provided by the City Police and Public Works departments). This is

partially due to the projected Barlow Hotel property assessed value, estimated to be about \$35 million. At such a valuation, the City's General Fund would receive about \$54,000 annually as its share of the 1 percent property tax. Furthermore, because the proposed Barlow Hotel would be integrated within a popular retail and dining district, the City can expect to receive an estimated \$32,200 to \$36,200 in additional sales tax revenue.

4. The EPS estimated annual General Fund revenues generated by the Barlow Hotel, while substantial, fall well below the projections provided by the Applicant, primarily due to their more aggressive assumptions about the hotels' operating characteristics and value.

The applicant supplied a memo prepared by their consultants (RRC Associates) showing the Barlow Hotel generating over \$2 million in TOT, sales tax, and net new property tax, compared to the \$973,000 calculated by EPS for the same categories. The large discrepancy stems from the generally aggressive assumptions used by RRC for room rates, visitor spending, and property valuation. For example, RRC assumed an average room rate of \$575 per night (compared to \$350 per night for EPS), well above the average for luxury hotels in the County (about \$370 per night) and almost 3 times higher than the County average for all hotels (about \$200 per night). Meanwhile, RRC's assessed value assumption (used to calculate property tax) of about \$1.1 million per room (compared to \$427,000 for EPS), is significantly higher than even the most upscale properties in Sonoma County. Finally, RRC assumed that hotel guests will spend about \$500 per day in Sebastopol on taxable retail, (compared to \$70 by EPS), a level that will be difficult to achieve, even with the Barlow Market's more upscale options, given that guests are likely to patronize options throughout the County and beyond.

Fiscal Impact Methodology

This section describes the methodology and key assumptions used to calculate the fiscal impact of the proposed Barlow Hotel on Sebastopol's General Fund budget once fully operational. The fiscal impact analysis identifies and estimates specific annual General Fund revenues (e.g., sales, property, and hotel taxes) and expenditures (e.g. from additional City services) that would likely be generated by the hotel.

Barlow Hotel "Service Population"

"Service Population" is a concept that allows the fiscal impacts of both residents and employees to be estimated, acknowledging that employees who work but do not live in the City do not require City services to the same degree residents. An employee is only likely to create demands on the City's public services during work hours and therefore has a lower impact than a resident who spends most of their time in the City. In a fiscal impact analysis, the relative impacts of employment and population are compared and used to estimate the City's service population. **Table 3** provides data on the City's existing population, jobs, and service population.

Table 3 City of Sebastopol Demographic Assumptions

Item	Sebastopol Total	Source
Population	7,295	Department of Finance 2024
Primary Jobs	4,277	LEHD OnTheMap 2022
Service Population	8,997	Appendix Table A-1

Source: California Dept. of Finance; Census ACS; LEHD; Economic & Planning Systems

The citywide estimates of population and jobs in Sebastopol are used to estimate the Project’s service population at buildout, as shown in **Table 4**. For the purpose of estimating fiscal impacts, a hotel guest at the Barlow Hotel is assumed to have the same service impact as a resident in Sebastopol, while an employee is estimated to have 0.4 of the service impact, based on current job commute patterns (calculated in Appendix Table A-1).

For the baseline scenario, the number of full-time equivalent jobs generated by the current industrial / office use is estimated assuming an employment density assumption of 0.4 workers per 1,000 square feet, matching the estimate that the City has assumed for industrial land uses in nexus studies. This results in a total baseline employment of 13. Applying the employee-to-resident ratio of 40 percent results in a final baseline service population of 5.

The population of the proposed hotel is comprised of hotel guests and employees, plus employees serving the retail portion of the site. For hotel guests, EPS assumes 1.25 occupants per room and applies an occupancy rate of 70 percent. Employee density assumptions are 0.8 employees per room and 1.82 employees per 1,000 square feet, as defined by the City in its development impact fee nexus study. In total, the Project is estimated to generate a service population of 82, for a net increase of 87 over the baseline.

Table 4 Program Description and Service Population

Program	Total ¹	Estimated Total Population ²			Service Population Equivalency ³	Service Population
		Assumption	Occupancy Rate	Employees or Guests		
Existing						
Industrial	31,571 sq.ft.	0.4 employees/1,000 sq. ft.	100%	13	40%	5
Proposed Project						
Hotel	83 rooms	1.25 occupants/room	70%	73	100%	73
		0.8 employees/room	70%	46	40%	19
Retail	4,311 sq.ft.	1.82 employees/1,000 sq. ft.	95%	7	40%	3
Total				127		92
Net New				114		87

[1] Proposed development program provided in applicant submittal. Existing use sourced from CoStar. See Table 3.

[2] Employment density assumptions from impact fee nexus study completed by Harris & Associates for the City of Sebastopol (2021). Hotels occupants per room assumption from EPS. Hotel occupancy rate estimated based on the 12-month occupancy rate for comparable luxury boutique hotels in Sonoma County.

[3] Service population is calculated by adding total residential population and 40 percent of in-office employment, per Appendix Table A-1. It represents a measure of public service demand in which employees are given a fraction of the weight of residents because of more modest service demands. Hotel guests are assumed to have the same population equivalency as a resident while staying in Sebastopol.

Sources: City of Sebastopol; Harris & Associates; Costar; Economic & Planning Systems.

Average Revenue/Expenditure Approach

There are two common ways to estimate General Fund revenue and expenditures in a fiscal impact analysis. The first method, the average revenue or expenditure approach, calculates average revenues or expenditures per the City’s current service population and applies that factor to the project’s anticipated growth in service population. For this analysis, revenues and expenditures use the City’s FY 2024-25 Adopted Budget.

Case Study Approach

The second method is a case study approach that incorporates specific assumptions or estimating factors of the development program. Revenue items estimated using a case study approach in this analysis include property tax, sales tax, transient occupancy tax, and business license tax.

Fixed vs. Variable Expenditures

Most City departments operate with some fixed amount of overhead that does not vary as the City’s service population grows or contracts. For example, even as the City grows, the City only needs one City Manager or one City Clerk. In projecting General Fund expenditures, EPS applies a percent variable factor to each General Fund department to estimate the project’s likely impact on public service costs.

EPS applies a percent variable factor to departmental expenditures to represent the proportion of expenditures that are assumed to vary and therefore would scale with increases in service population. Expenditures assumed to be fixed would include overhead costs, director salaries, or other costs that would not scale with service population and

therefore would be unaffected by new developments such as the Project. Typically, departments with more administrative functions have more fixed operating costs and therefore lower variable expenditures than those that provide citizen-facing services or infrastructure.

Not Impacted

Some budget items are not estimated because their revenues or expenditures are not expected to be directly or materially impacted by the Project. These include items such as intergovernmental revenues and interest revenues, as further detailed in **Table 5** and **Table 11**.

General Fund Revenues

This section describes the methodology and assumptions used for each revenue item estimated in this analysis. **Table 5** below displays a summary of Sebastopol's General Fund revenue items based on the adopted FY 2024-2025 budget, with details on how each impacted revenue item is estimated. Several General Fund revenue items are not forecasted because the Project is not expected to affect them on an annual basis. For example, the Project will generate real property transfer taxes as a one-time revenue, so its impact is not considered for this analysis.

Charges for Services are the cost recovery revenues in the General Fund that directly offset the cost to the City of providing specific services for the user. These revenues are not forecasted for the Project but netted out of General Fund expenditures in **Table 11**.

Table 5 City of Sebastopol FY 2024-25 General Fund Revenue Summary

Description	FY 2024-25		Impact Estimating Factors	Table Reference
	Adopted Budget			
	Gen. Fund Revenues			
Property Tax	\$2,595,000		16.83% of 1% of base assessed value (post-ERAF)	Table 6
Property Tax in Lieu of VLF	\$1,025,000		2.07% of Citywide assessed value increase	Table 6
Sales Taxes	\$4,563,925		1.75% of estimated taxable sales	Table 7
Transient Occupancy Tax	\$519,000		12% of gross room revenue	Table 8
Licenses & Permits	\$1,442,500			
Business Licenses	\$140,000		\$3.00 per room	Table 9
Business License Late Fees	\$2,500		Not estimated	
Building Permits	\$1,300,000		Not estimated	
User Taxes	\$887,175		\$98.60 per service population	Table 10
Franchise Fees	\$502,250		\$55.82 per service population	Table 10
Fines & Special Assessments	\$66,700		\$7.41 per service population	Table 10
Real Property Transfer Tax ¹	\$40,000		Not estimated	
Intergovernmental Revenues	\$22,890		Not estimated	
Interest & Rents	\$132,250		Not estimated	
Charges for Services ²	\$136,800		Not estimated	
Miscellaneous Revenue	\$183,225		Not estimated	
Cost Allocation Plan	\$1,761,797		Not estimated	
Transfers In	\$425,951		Not estimated	
Total Revenues	\$14,304,463			

[1] While the City will receive transfer tax revenue from the sale and transfer of the property, it is a one-time revenue source and therefore not estimated with annual fiscal impacts.

[2] Includes fees charged for cost recovery of planning, public works, and police services and netted out from General Fund expenditures in **Table 11**.

Source: City of Sebastopol FY 2024-25 Budget; Economic & Planning Systems

Property Tax

Property taxes are based on the assessed value (AV) of land and project improvements. **Table 6** shows the calculations of property tax and property tax in-lieu of vehicle license fees (VLF) revenue. EPS obtained the AV of the existing industrial building from the Sonoma County Assessor’s Office. The current AV of the land parcel is \$3.3 million.

EPS uses a capitalized income approach to estimate a value for the proposed hotel, based on assumptions from comparable boutique luxury hotels in Sonoma County, detailed in Appendix Table A-2. The AV of the Project’s development is estimated to be about \$35 million (about \$427,000 per room), or an increase of \$32.1 million over the current level. Sonoma County currently collects property tax based on 1.0 percent of the assessed value, and Sebastopol receives 16.83 percent of the property tax revenue after accounting for the ERAF-shift. This share is assumed fixed going forward. The resulting property tax revenue is around \$54,000, compared to \$5,600 for the existing office. This is almost ten times more property tax revenue than the existing land use.

It is worth noting that the Applicant’s consultant (RRC Associates) provided an estimate of the Barlow Hotel’s expected assessed value of about \$90.3 million (or about \$1.1 million per room), significantly higher than the EPS assumption. RRC did not provide back

up data supporting this assumption and the value is significantly higher than even the most upscale hotel properties in Sonoma County.

Table 6 Property Tax and Property Tax In-Lieu of VLF Estimate

Item	Assumption	Existing Industrial/ Flex Facility	Proposed Barlow Hotel
Property Tax			
Assessed Value (Land and Improvements) ¹	See Footnote.	\$3,304,913	\$35,416,771
Property Tax Revenue	1.0% Base Property Tax Rate	\$33,049	\$354,168
Sebastopol City General Fund Revenue	16.83% Allocation to General Fund²	\$5,561	\$59,595
Net New Property Tax			\$54,034
Property Tax In-Lieu of VLF			
Existing Citywide Property Tax In-Lieu of VLF ³	\$1,025,000		
Citywide Assessed Value ⁴	\$1,713,621,000		
Project Site Net Assessed Value Increase ⁵		0.19%	2.07%
Net Property Tax In-Lieu of VLF Revenue⁶		\$1,977	\$21,184
Net New Property Tax In-Lieu of VLF			\$19,208

[1] See **Appendix Table A-2** for estimation of proposed project AV. Existing FY 2024-25 AV received from Sonoma County Assessor's Office.

[2] Post-ERAF allocation derived by taking the base 19.7% allocation to Sebastopol's General Fund for TRA 005-014, less 17.7% for ERAF shift derived from \$2.5M total Sebastopol ERAF tax revenue divided by \$17M in total city property tax collected in FY2024.

[3] See **Table 5**.

[4] FY 2024-25 Locally Assessed Value per California State Board of Equalization.

[5] Calculated by dividing the current and proposed assessed values by the citywide assessed value.

[6] Calculated by multiplying existing property tax in-lieu of VLF by the project's proportionate increase to the Citywide assessed value.

Sources: City of Sebastopol; Sonoma County Assessor's Office; California State Board of Equalization; Economic & Planning Systems

Property Tax in Lieu of VLF

The Barlow Hotel would also increase City revenues from property tax in-lieu of vehicle license fees (VLF), since this general fund source also increases with assessed value (AV). In 2004, the State of California adjusted the method for sharing VLFs with local jurisdictions. State budget changes replaced the VLF with property tax, which grows proportionate to increases in the total AV of cities and towns. Property tax in-lieu of VLF is calculated by taking the percent increase that the proposed project adds to the City's AV and applying that percentage increase to the amount of property tax in-lieu of VLF collected in the most recent year. Assuming no other assessed value growth, the Project would increase the City's current assessed value by 2.07 percent and result in \$21,100 revenue, or \$19,200 net new (**Table 6**).

Sales Tax

Sales tax generation for the Project is based on estimates of taxable sales generated by the new population in the City attributable to the Project. Therefore, Sebastopol would receive sales tax revenue from the spending activity of both hotel guests and employees of the proposed Project. To forecast new sales, EPS estimate spending on taxable items, and the portion of spending captured in the City. Overall, EPS estimates the proposed Barlow Hotel to generate between \$32,200 to \$36,200 in sales tax revenue for the City (**Table 7**).

For employees in both the baseline and proposed development, sales tax is derived from an estimate of the annual taxable spending of in-office workers. EPS uses inflation-adjusted worker spending data from an International Council of Shopping Centers (ICSC) survey for "Suburban Limited" geographies. Taxable spending is estimated at \$71 spent per employee per week for 48 work weeks. EPS estimates a 50 percent capture rate from worker retail sales. This results in around \$485 in sales tax revenue from workers in the baseline use and \$2,100 from the proposed hotel.

For hotel guests, taxable spending is based on estimates from the Sonoma County Economic Development Board survey on travel impacts in the region. Taxable spending is estimated at \$76 per person per day. This is applied to an average hotel guest population of 73 guests per day for 365 days. The capture rate for hotel guest spending is estimated at 75 percent, higher than the worker capture rate, due to the hotel's proximity to the many shopping and dining options at the Barlow Market.

The City's General Fund currently receives sales and use tax revenue equal to 1.75 percent of taxable sales (1 percent from the State's 7.25 percent levy, and additional 0.75 percent in previously passed citywide taxes). In 2024, voters passed Measure U, which adds an additional 0.5 percent to fund citywide services. However, the City may only be to levy up to 0.25 percent to remain within the legally allowable limit on local sales taxation; the revenue may be split with the County, which also passed its own sales tax in 2024. It is pending review by the County and State.

It's worth noting the estimates provided by the Applicant's consultant (RRC Associates), which suggest significantly higher spending by hotel guests on taxable retail items in Sebastopol than EPS. In particular, the RRC estimates guests will spend over \$1,000 per occupied room night. However, the supporting documentation for this assumption includes numerous items that are not taxable (including room costs). Even when room costs are excluded, the RRC's estimates of \$500 in retail spending per occupied room night captured in Sebastopol will be difficult to achieve given Sebastopol's retail economy, even with the Barlow Market's more upscale options, and the fact that guests are likely to patronize options throughout the County and beyond.

Table 7 Sales Tax Estimate

Item	Assumption	Existing Industrial/ Flex Facility	Proposed Barlow Hotel
Worker-Generated Retail Sales			
Employee Population ¹	See Table 4.	13	54
Weekly Taxable Retail Spending ²	\$71 per employee per workweek	\$897	\$3,832
Annual Worker Taxable Retail Spending	48 working weeks per year	\$43,068	\$183,934
Total Citywide Captured Worker Generated Retail Spending	50% of Retail Expenditures ³	\$21,534	\$91,967
Hotel Guest Generated Retail Sales			
Hotel Guest Population			73
Total Taxable Spending ³	\$76 per person per day		\$5,545
Annual Hotel Guest Taxable Spending	365 days per year		\$2,023,746
Total Citywide Captured Retail Spending	75% of Retail Expenditures ³		\$1,517,810
Total Citywide Retail Spending		\$21,534	\$1,609,777
Base Retail Sales Tax Revenue⁵	1.75% of Taxable Sales	\$377	\$28,171
Measure U Sales Tax Option A ⁶	0.50% of Taxable Sales	\$108	\$8,049
Measure U Sales Tax Option B ⁶	0.25% of Taxable Sales	\$54	\$4,024
Total Sales Tax Generated			
Measure U Sales Tax Option A		\$485	\$36,220
Measure U Sales Tax Option B		\$431	\$32,196

[1] Includes employee count for both hotel and retail portions of the proposed development.

[2] Based on ICSC survey on office worker spending for Suburban Limited geography, adjusted to present-day dollars.

[3] EPS assumption.

[4] Based on visitor spending survey data collected by the Sonoma County Economic Development Board (2023), adjusted to present-day dollars.

[5] Includes 1% Bradley-Burns base sales tax rate and 0.75% in additional citywide taxes.

[6] Measure U, passed in Sebastopol in November 2024, adds a half-cent sales tax on all taxable spending in the city. Pending review by the County and State, the City may only be able to levy up to a quarter-cent tax to remain with a legally allowable limit on local sales taxation. The options consider the two possible scenarios for sales tax revenue generation in Sebastopol.

Source: City of Sebastopol; Sonoma County Economic Development Board; International Council of Shopping Centers; Economic & Planning Systems

Transient Occupancy Tax

The City collects transient occupancy tax on the revenue the hotel earns from room rentals based on a rate of 12 percent. EPS estimates that the Barlow Hotel's room rates to be approximately \$350 per room per night, with an average annual occupancy rate of 70 percent. This would generate TOT revenue of \$891,000 per year (**Table 8**).

Table 8 Transient Occupancy Tax Estimate

Item	Assumption	Proposed Barlow Hotel
Total Hotel Rooms	<i>a</i>	83
Average Daily Rate (ADR) ¹	<i>b</i>	\$350
Occupancy Rate ²	<i>c</i>	70%
Annual Hotel Room Revenues	$a * b * c * 365$	\$7,422,275
General Fund TOT Revenue	12% of Revenue ³	\$890,673

[1] EPS estimate based on ADR rates from comparable luxury-class hotels in Sonoma County.

[2] Occupancy rate for Sonoma County luxury-class hotels, retrieved from Costar.

[3] City of Sebastopol Municipal Code Ch. 3.12

Source: City of Sebastopol; CoStar; Economic & Planning Systems

Ultimately, the average room rate for the Barlow Hotel will depend on market conditions and its competitive position with the regional. Room rates and occupancy rates vary greatly depending on project execution, market conditions, and seasonality. To reflect this potential variability, EPS prepared a sensitivity analysis of the estimated TOT revenue the City would receive based on different room rate and occupancy assumptions, as shown in **Figure 1**. For example, if occupancy rates averaged 75 percent, as they did pre-pandemic in 2019, then a \$300 room rate would generate \$818,000 in TOT revenue. By comparison, an average annual room rate of \$350 per night with a 60 percent occupancy rate would generate \$763,000 in annual TOT revenue.

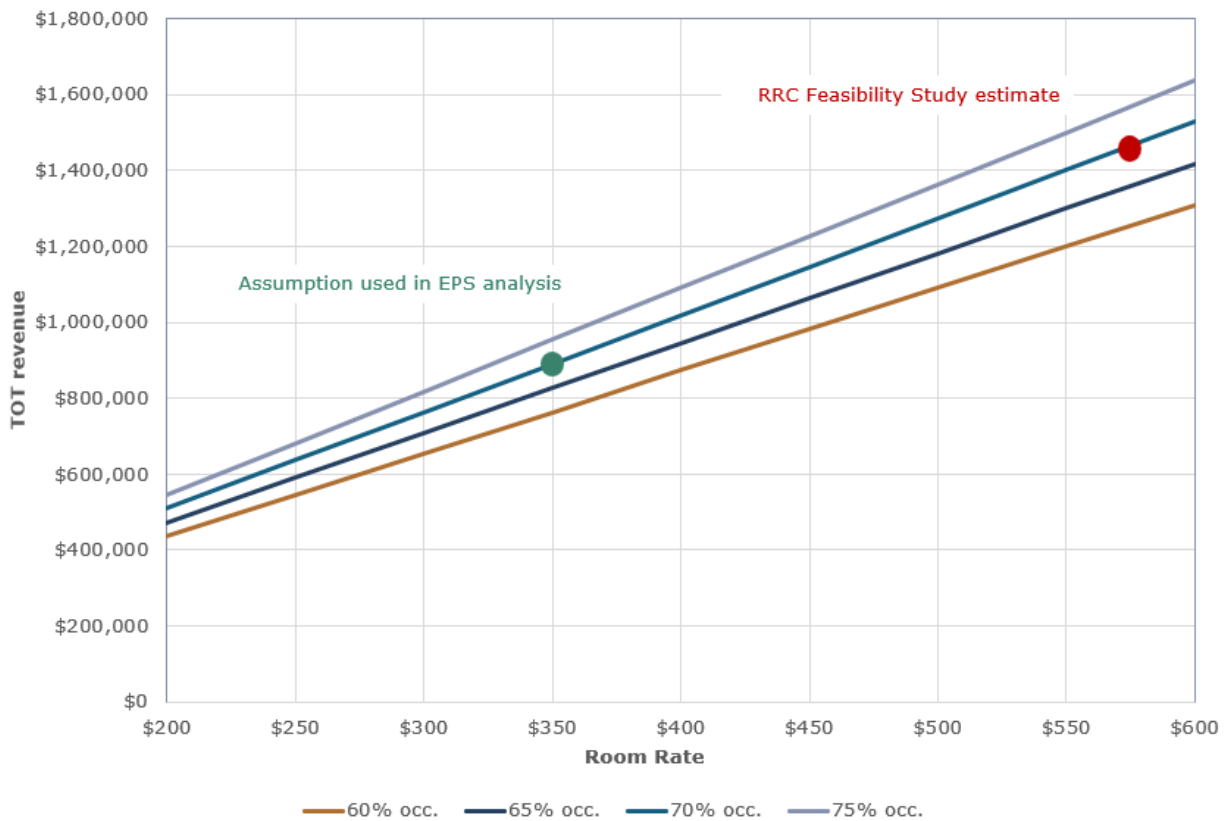
Based on rates at comparable downtown-area boutique hotels in the county, EPS uses a room rate of \$350 and 70 percent occupancy rate in this analysis, as illustrated in **Figure 1**. These assumptions, while more conservative than those provided by the Applicant, still suggest a more optimistic outlook than the current hotel market countywide. Across all Sonoma County hotel properties, room rates currently average \$200 per night with 62 percent occupancy.² For luxury-class hotels in the county, room rates are currently averaging \$372 per night with 60 percent occupancy.

It is worth noting that EPS estimates are well below those provided in a study submitted to the City by RRC on behalf of the Applicant. This study estimated the Barlow Hotel

² As reported by Costar in February 2025 for hotel properties in Sonoma County. Estimates reflect the 12-month performance trend.

would achieve an average daily rate (ADR) of \$575 and occupancy rates of 70 percent. EPS was unable to independently verify or replicate these estimates and the RRC study does not provide detailed documentation. However, EPS review of this study suggests that these estimates are based on luxury hotel properties in Sonoma County with different amenities and room formats than the proposed hotel's. For example, in Sonoma and Napa counties, vineyard resort properties that are situated in more rural settings and offer villa-style accommodations generally attract higher room rates than upscale hotels in downtown settings.

Figure 1 Barlow Hotel TOT Revenue Scenarios



Source: Economic & Planning Systems, RRC Associates

Business License Tax

The Project is expected to pay an annual business license tax, which for hotels includes a base rate of \$60 for the first four rooms and \$3 for each additional room, up to a maximum of \$112.50. The retail portion of the Project for an estimated seven employees would pay a tax of \$135. Combined, this amount is \$308 per year, compared to an estimated \$200 paid by the existing use (**Table 9**).

Table 9 Business License Fee

Category	Assumption	Existing Industrial/ Flex Facility	Proposed Barlow Hotel
General License¹			
Employee Population	See Table 4.	13	7
Fee			
1 to 3 persons	\$90		
4 to 7 persons	\$135		\$135
8 to 14 persons	\$200	\$200	
15+ persons	\$140		
Rental Units (incl. Hotels)²			
Hotel Base Fee (first four rooms)	\$60		\$60
Additional Fee per Room	\$3		
Number of Additional Rooms	79		
Additional Fee Based On Room Count			\$237
Maximum of \$112.50	\$112.50		\$113
Total Annual Business License Fee Revenue		\$200	\$308

[1] General License Business License Fee applies to retailing, wholesaling, manufacturing, processing, and services. For the proposed project, the fee is based on employee count of the retail portion only.

[2] For rental units in excess of four units, the fee is \$3 per additional room not to exceed a total of \$112.50. For the proposed project, the maximum additional fee is added to the hotel base fee and the General License business fee.

Source: City of Sebastopol; Economic & Planning Systems

Other Revenues

User taxes, franchise fees, and fines are calculated using the average revenue approach. Together, these are estimated to be around \$162 per service population (**Table 10**). The Project would generate a combined \$15,000 from these other revenues, compared to \$810 in the baseline use.

Table 10 Other Service Population-based General Fund Revenue Estimates

Item	FY 2024-25 GF Revenues ¹	Assumption / Estimating Factor	Existing Industrial/ Flex Facility	Proposed Barlow Hotel
City Service Population ²		8,997 Service Pop.		
Project Service Population		See Table 4.	5	92
User Taxes	\$887,175	\$98.60 per service population	\$493	\$9,072
Franchise Fees	\$502,250	\$55.82 per service population	\$279	\$5,136
Fines & Special Assessments	\$66,700	\$7.41 per service population	\$37	\$682
Total		\$161.84 per service population	\$809	\$14,889

[1] See Table 5.

[2] See Table 2.

Source: Economic & Planning Systems

General Fund Expenditures

This section describes the methodology and key assumptions for calculating General Fund expenditure items. All Departments consist of both fixed and variable costs. While fixed costs are independent of new development, variable costs are assumed to increase based on added growth in the City. Only variable costs are used to project the General Fund expenditures in this analysis.

Table 11 shows the City's FY 2024-25 General Fund Expenditures by category and its associated percent variable assumption, which determines the cost per service population. This cost is applied to the Project's anticipated service population to estimate its annual General Fund expenditures in **Table 12**. Some expenditures are not impacted as they are not expected to change with service population. For example, EPS assumes that most hotel guests will not use City services like the Senior Center or Ives Pool. Therefore, these costs are not impacted by the project's service population growth. Fire & Prevention expenditures are also not estimated as the City is currently undergoing fire district consolidation; thus, future fire costs will be separated from the City's budget.

Table 11 City of Sebastopol FY 2024-25 General Fund Expenditures Summary and Estimates

Item	FY 2024/25 Adopted GF Expenditures			Percent Variable ²	Annual Variable Expenses	Estimating Factors	Per Service Pop. GF Expense
	Total	Offsetting ¹	Net				
General Government	\$3,413,104	\$6,000	\$3,407,104	25%	\$851,776	8,997 Service Pop.	\$94.67
City Council	\$198,625		\$198,625				
City Manager	\$698,885		\$698,885				
City Attorney	\$647,900		\$647,900				
City Clerk	\$430,771		\$430,771				
Finance	\$1,436,923		\$1,436,923				
Planning	\$616,426	\$40,000	\$576,426	75%	\$432,320	8,997 Service Pop.	\$48.05
Building	\$302,220		\$302,220	75%	\$226,665	8,997 Service Pop.	\$25.19
Engineering	\$553,020	\$31,000	\$522,020	75%	\$391,515	8,997 Service Pop.	\$43.51
Police	\$5,366,488	\$31,300	\$5,335,188	100%	\$5,335,188	8,997 Service Pop.	\$592.97
Public Works	\$1,769,079	\$7,500	\$1,761,579	80%	\$1,409,263	8,997 Service Pop.	\$156.63
Fire & Prevention ³	\$1,535,910		\$1,535,910	-	-	not impacted	-
Senior Center ⁴	\$41,038		\$41,038	-	-	not impacted	-
Community Center ⁴	\$169,724		\$169,724	-	-	not impacted	-
Ives Pool ⁴	\$297,301		\$297,301	-	-	not impacted	-
Non-Departmental	\$191,645		\$191,645	-	-	not impacted	-
Debt Service Payments	\$446,094		\$446,094	-	-	not impacted	-
Transfers Out	<u>\$300,000</u>		<u>\$300,000</u>	-	-	not impacted	-
Total	\$15,002,049	\$115,800	\$14,886,249				\$961.03

[1] Offsets applicable Charges for Services shown in **Table 5**, including finance fees, planning fees, public works, and police services.

[2] The variable percents included within this column represent the proportion of department expenditures that are not assumed to be fixed and therefore would scale with increases in service population. Expenditures that are assumed to be fixed would include overhead costs, director salaries, and other costs that would not scale with service population.

[3] Not estimated due to future fire district consolidation.

[4] EPS assumes that hotel guests will not use these City services and costs will not be impacted by service population growth.

Source: City of Sebastopol FY 2024-25 Budget; Economic & Planning Systems

Table 12 General Fund Expenditures Estimates

Item	Factors Applied to Estimate Project Expenditures	Existing Industrial/ Flex Facility	Proposed Barlow Hotel
Service Population	See Table 4.	5	92
Estimated Expenditures			
General Government ¹	\$94.67 per service population ²	\$473	\$8,710
Planning	\$48.05 per service population ²	\$240	\$4,421
Building	\$25.19 per service population ²	\$126	\$2,318
Engineering	\$43.51 per service population ²	\$218	\$4,003
Police	\$592.97 per service population ²	\$2,965	\$54,553
Public Works	<u>\$156.63</u> per service population ²	<u>\$783</u>	<u>\$14,410</u>
Total General Fund Expenditures	\$961.03 per service population²	\$4,805	\$88,415

[1] General Government is EPS-defined and includes City Council, City Manager, City Attorney, City Clerk, and Finance.

[2] See **Table 11.**

Source: Economic & Planning Systems

General Government

In Sebastopol, the General Government category includes the following functions, as defined by EPS:

- City Attorney
- City Clerk
- City Council
- City Manager

New development of the Project’s scale typically affects administrative and legislative government costs by only a fraction of these departments’ operating budgets. As a result, EPS assumes that 25 percent of the cost of General Government services is variable and affected by growth in service population. This yields a per service population estimate of about \$94.67. The resulting expenditure for General Government departments is therefore estimated at about \$8,700 annually at Project buildout compared to about \$500 under the baseline.

Planning, Building, and Engineering

These departments provide Sebastopol with services like development review, building code compliance, and engineering support. For the Planning, Building, and Engineering departments, EPS assumes that their costs are 75 percent variable and yield a per-service population estimate of the following:

- Planning: \$48.05
- Building: \$25.19
- Engineering: \$43.51

In total, these expenditures at buildout sum to about \$10,700 for the proposed Project compared to about \$600 under the baseline.

Police

Sebastopol's Police Department provides a number of essential public safety services. The Police Department receives the largest General Fund allocation of \$5.4 million in the FY 2024-25 budget. While there are some fixed administrative services, police costs are largely expected to scale closely with population growth. Therefore, the Police Department receives a greater percent variable expenditure estimate of 100 percent. Using the per-service population estimate of \$592.97, Police expenditures at buildout are projected to be \$55,000. The baseline scenario has an estimated \$3,000 in Police costs.

Public Works

Public Works provides maintenance of streets, parks, and parking lots. The Department's costs are assumed to scale closely with changes in service population and are therefore given a variable expenditure assumption of 80 percent. Additional population attributable to the Project will add additional wear on Public Works' maintained infrastructure and facilities.

The Public Works department receives approximately \$1.8 million from the General Fund. This total is multiplied by the 80 percent variable assumption, resulting in an annual per-service population expenditure of \$156.63. This equates to an estimated \$783 in annual General Fund expenditure under the baseline, increasing to \$14,400 under Project buildout.

Net Annual Fiscal Impact on General Fund

Based on the assumptions and analysis described above, development of the proposed Barlow Hotel is estimated to result in annual net new fiscal revenue of approximately **\$926,000** to **\$930,000**, depending on the Measure U sales tax rate. Under a 0.5-cent sales tax scenario (Option A in **Table 13**) the hotel is only expected to generate about \$4,000 more than the 0.25-cent sales tax scenario (Option B). Rather, it is the addition of TOT from the hotel project that contributes most of the new General Fund revenue, around 87 percent of the total revenue generated by the Proposed project. Among General Fund costs, Police make up the greatest portion (62 percent), followed by Public Works (16 percent).

Table 13 Detailed Summary of Fiscal Impacts (2025\$)

General Fund Revenues and Expenditures	Existing Industrial/ Flex Facility	Proposed Barlow Hotel
<u>Annual General Fund Revenues</u>		
Property Tax	\$5,561	\$59,595
Property Tax In-Lieu of VLF	\$1,977	\$21,184
Sales and Use Tax (Option A)	\$485	\$36,220
Option B	\$431	\$32,196
User Taxes	\$493	\$9,072
Transient Occupancy Tax	\$0	\$890,673
Franchise Fees	\$279	\$5,136
Licenses & Permits - Business Licenses	\$200	\$308
Fines & Special Assessments	\$37	\$682
Total Annual General Fund Revenues (Option A)	\$9,032	\$1,022,869
Option B	\$8,978	\$1,018,845
<u>Annual General Fund Expenditures</u>		
General Government ¹	\$473	\$8,710
Planning	\$240	\$4,421
Building	\$126	\$2,318
Engineering	\$218	\$4,003
Police	\$2,965	\$54,553
Public Works	\$783	\$14,410
Total Annual General Fund Expenditures	\$4,805	\$88,415
Annual General Fund Net Impact (Option A)	\$4,227	\$934,455
Option B	\$4,173	\$930,430
Net New GF Fiscal Impact from Project (Sales Tax Option A)		\$930,228
Option B		\$926,258

[1] Option A adds a half-cent sales tax in the City of Sebastopol. Option B adds a quarter-cent sales tax.

[2] General Government includes City Council, City Manager, City Attorney, City Clerk, and Finance.

Source: Economic & Planning Systems

APPENDIX A

The Economics of Land Use



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Appendix Table A-1 Service Population Factors based on Resident-to-Employee Equivalencies

Item	Existing		Weight ²	Weighted Average	
	#	%			
Employment Status of Sebastopol Residents¹	<i>Formula: a = b * 7,295</i>		<i>b¹</i>	<i>c</i>	<i>= b * c</i>
Not in Labor Force	4,345	59.6%	100%	59.6%	
Employed in the City ³	331	4.5%	50%	2.3%	
Employed Outside of the City	<u>2,619</u>	<u>35.9%</u>	67%	<u>24.1%</u>	
Total Residents	7,295	100.0%		85.9%	
Residence Status of Sebastopol Employees¹	<i>Formula: a = b * 4,277</i>		<i>b¹</i>	<i>c</i>	<i>= b * c</i>
Live in the City ³	331	7.7%	50%	3.9%	
Live Outside the City	<u>3,946</u>	<u>92.3%</u>	33%	<u>30.3%</u>	
Total Jobs	4,277	100.0%		34.2%	
Employee to Resident Equivalency Factor⁴				(34.2% / 85.9%) =	39.8%
Service Population Calculation					
Amount Attributable to Residents (@ 100%)	7,295	81.1%			
Amount Attributable to Employees (@ 39.8%)	<u>1,702</u>	<u>18.9%</u>			
Total Service Population	8,997	100.0%			

[1] Distribution and total jobs based on data from U.S. Census (OnTheMap 2022). Total residents based on 2024 estimates provided by DOF in Table E-5.

[2] Represents EPS estimate of how various types of residents and employees relate to each other in terms of demand for City Services.

[3] The number of residents who are employed in the City and the number of employees in the City who are residents are the same, representing the same group of unique individuals. This group is reflected both in the Total Residents and the Total Jobs to demonstrate the composition of the totals, with their weighting split evenly between the resident and employee groups.

[4] Equals weighted average of residents divided by weighted average of employees.

Sources: LEHD OnTheMap 2022, Department of Finance, and Economic & Planning Systems, Inc.

Appendix Table A-2 Estimated Assessed Value for Proposed Barlow Hotel

Item	Assumption/Source	Total
Number of Rooms	83 rooms	
Gross Potential Room Revenue ¹	\$350 ADR	\$10,603,250
(less) Vacancy ²	30% average vacancy	<u>(\$3,180,975)</u>
Net Room Revenue		\$7,422,275
Restaurant and Retail Square Footage	4,311 sq. ft.	
Restaurant and Retail Revenue ³	\$250 per sq. ft.	\$1,077,750
(less) Operating Expenses ⁴	70% of room & retail revenue	(\$5,950,018)
Total Annual Net Operating Income		\$2,550,008
Total Proposed Development New Assessed Value	7.20% Cap Rate ⁵	\$35,416,771
AV per room		\$426,708

[1] EPS estimate based on ADR rates from comparable luxury hotels in Sonoma County. See **Table 8**.

[2] See **Table 4**.

[3] EPS assumption.

[4] EPS assumption.

[5] Cap rate for upscale and luxury hotels in Sonoma County as reported by Costar.