

# Capitola City Council

## Agenda Report



**Meeting:** February 27, 2025  
**From:** Finance Department  
**Subject:** FY 2024-25 Mid-Year Budget Report

**Recommended Action:** Receive the Fiscal Year 2024-25 Mid-Year Budget Report and adopt a resolution amending the Fiscal Year 2024-25 Budget.

**Background:** The Fiscal Year (FY) 2024-25 Mid-Year Budget Report provides an update on the City's financial status as of December 31, 2024, and recommends budget adjustments for FY 2024-25 that better reflect current projections. The City's major revenue sources are currently tracking slightly below budget projections while General Fund expenditures are slightly ahead of projections but are expected to end the year at or below budget.

The City ended FY 2023-24 slightly ahead of budget estimates returning approximately \$126,000 to the General Fund balance. The estimated June 30, 2025, General Fund balance consists of:

Employee Down Payment Assistance Program	\$ 100,000
Operating Contingency Balance	528,931
Additional FY 2023-24 General Fund resources	126,000
<b>Total Balance</b>	<b>\$ 754,931</b>

**Discussion:** General Fund revenues are performing as budgeted. Sales tax revenue is slightly above budget projections while TOT are slightly behind projections. Based on communication with several short-term rental operators, staff believes that the slowing of TOT revenue is due to a reduction in rental rates and not a reduction in occupancy rates. All other General Fund revenues are performing as projected and as expected, showing signs of leveling off following the growth experienced over the last few years. Expenditures are tracking consistently with the FY 2024-25 Amended Budget.

### Revenues

The FY 2024-25 adopted budget included approximately \$8.5 million of sales tax revenue, which is approximately 3.5% above receipts in the prior fiscal year. At the mid-point of this fiscal year, sales tax receipts are above budget projections by \$87,000 (2.1%) following a strong 2nd quarter performance over the holiday season.

In November 2024, Capitola voters approved Measure Y, a one-half percent (0.50%) district sales tax, and repealed Measure F, which was a one-quarter percent (0.25%) district sales tax. Measure Y will become effective April 1, 2025, and result in an estimated increase in sales tax revenues of \$277,000 for the remainder of the fiscal year. The estimated annual increase in sales tax revenue beginning in FY2025-26 from Measure Y is \$1.1 million.

Property tax revenues are slightly above budget estimates while TOT is slightly below budget estimates. All the other revenues are tracking within budget expectations for this point in the fiscal year. At the midpoint of the fiscal year the City has received 49% of budgeted revenues and staff anticipates that revenues will end the year close to budget projections.

Expenditures

City departments have consistently maintained expenditures within the adopted budget. Through December, the General Fund has expended 61% of the budget while being 50% through the year. The primary reason is that the City prepaid the annual \$2.6 million Unfunded Actuarial Pension Liability (UAL) in July 2024, as opposed to making monthly payments, resulting in savings of approximately \$85,000. This results in personnel costs showing higher as a percentage of the budget as the payment is amortized over the course of the year.

The passage of Measure Y in November 2024 also resulted in an increase in personnel costs due to contingent salary increases negotiated by the various labor groups. The estimated increase in personnel costs for the remainder of the fiscal year is \$226,400, while the estimated annual cost is \$452,800.

Budget Amendments

During the FY 2024-25 budget hearings the Council requested to revisit the City Hall Phase II study, which is estimated at \$67,000 but remains unfunded. Staff is recommending including the City Hall Phase II study discussion as part of the FY 2025-26 budget hearings following the adoption of the City’s strategic plan.

Due to the passage of Measure Y, staff is requesting a budget amendment in the General Fund to increase sales tax revenues and personnel expenditures as follows:

Revenue	
Amount	Description
\$277,000	Sales Tax Revenue – Measure Y
Expenditures	
\$ 227,000	Personnel – Labor MOU’s Contingencies – Measure Y

Fiscal Impact: If approved, the requested budget amendment would increase the June 30, 2025, estimated General Fund balance to approximately \$804,931 an increase of \$50,000 from previous estimates.

Attachments:

1. Resolution
2. Budget Amendment

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Julia Gautho, City Clerk; Samantha Zutler, City Attorney

Approved By: Jamie Goldstein, City Manager