

Capitola City Council

Agenda Report



Meeting: May 15, 2025

From: Finance Department

Subject: Proposed Fiscal Year 2025-26 Budget

Recommended Action: Receive the proposed budget, provide staff direction, and continue budget deliberations to the next budget meeting scheduled for May 29, 2025.

Discussion: The City of Capitola proposed Fiscal Year (FY) 2025-26 and FY 2026-27 Budget is a two-year financial plan. This plan incorporates the use of available resources programmed toward City Council goals and key projects. The proposed budget was prepared based on a combination of known factors, such as increases in CalPERS (Public Employees' Retirement System) costs, and conservative estimates for both revenues and expenditures.

The budget is the City's operating plan and a primary mechanism by which the Council's goals and vision for the City are transmitted to staff for implementation. In March 2025, Council adopted the City's first five-year Strategic Plan. In addition to the new Mission and Vision Statement, the Plan includes the following six priorities: Accountable Government, Attainable Housing, Community Safety, Economic Opportunity, Healthy Families, Community, and Environment, and Sustainable Infrastructure.

The document is organized to present information in several ways. General Fund revenues and expenditures are shown to provide information about longer-term patterns and overall fiscal stability, then revenues and expenditures for the City's various departments are shown to provide additional detail and information about the City's programs and projects.

Overall, the FY 2025-26 proposed budget is structurally balanced, including projections for FY 2026-27. However, current financial forecasts show that the budget becomes unbalanced beginning in FY 2027-28, primarily due to increases in the City's CalPERS Retirement Unfunded Actuarial Liability. The FY 2025-26 budget maintains services for residents of Capitola and considers the recently adopted Strategic Plan's six priorities. Nevertheless, the City must also remain focused on the long-term budget picture, which includes unpredictable CalPERS costs, and a challenging economy in coming years.

Staff is presenting a proposed FY 2025-26 Budget that is structurally balanced and forecasted to remain so for the next fiscal year. During this first budget meeting, some of the key discussion points are as follows:

- **Measure Q Revenue:** Also known as the Santa Cruz County Water and Wildlife Protection Initiative, the City will receive \$200,000 annually. Staff is proposing to utilize \$150,000 to fund two new Public Works parks maintenance positions.
- **Measure S Revenue:** The construction of the Capitola Branch Library, completed in 2022, utilized \$856,000 of General Fund resources. Revenues from Measure S are exceeding projections. As a result, Capitola is scheduled to receive \$165,000 annually for the next 21 years. The proposed budget includes the first repayment to the General Fund. A full

repayment of the General Fund costs of the Library's construction will take approximately 5 ½ years.

- **Parking Pay Station Strategy:** In this budget cycle, staff proposes gradually reducing funding for the maintenance and repair of parking pay stations over the next several years; while increasing promotion and support for digital payment options. The long-term goal is to retain a limited number of strategically placed pay stations, while expanding public education and outreach around digital options. Initial steps will include improved signage and instructions, as well as the implementation of a new web-based payment platform.
- **Countywide Radio Project:** The FY 2025-26 Budget proposes using general fund and restricted SLEF funding to fund the City's portion of the major countywide public safety radio upgrade project, known as RING. The project will facilitate high-quality radio frequency across Santa Cruz County and increase interagency law enforcement collaboration.
- **Administrative Services Department:** Staff proposes reorganizing the Finance Department into the Administrative Services Department, consolidating the Human Resources (HR) and Information Technology (IT) Divisions, currently within the City Manager Department, with Finance. With this new structure, the City Manager remains the Personnel Officer, with the ability to designate these duties to other staff as needed. No salary adjustments or additional costs are proposed as part of this reorganization.

Staff estimates the General Fund balance on June 30, 2026, will be approximately \$688,000 with \$100,000 designated for the employee downpayment assistance program. This estimated balance is subject to change depending on the actual results of operations during FY 2024-25.

The draft budget (Attachment 1) has been distributed and is available for public viewing on the City's website.

Attachments:

1. Proposed FY 2025-26 Budget
2. FY 2025-26 Budget Goals by Strategic Plan Priority

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Julia Gautho, City Clerk

Approved By: Jamie Goldstein, City Manager