

# Capitola City Council

## Agenda Report



**Meeting:** May 19, 2022

**From:** Finance Department

**Subject:** Presentation of the Proposed Fiscal Year 2022-23 Budget for the City of Capitola and the Capitola Successor Agency

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**Recommended Action:** Acting as the City Council and Successor Agency, receive the proposed budget, provide staff direction, and either: 1) Continue budget deliberations to the next scheduled joint budget hearing on June 1, 2022, or 2) Direct staff to prepare the documents for final budget adoption at a regular meeting in June and cancel future planned budget hearings.

**Discussion:** The City of Capitola proposed Fiscal Year (FY) 2022-23 and FY 2023-24 Budget is a two-year financial plan for the City as outlined by Administrative Policy III-3: Financial Management Policies. This year, the plan incorporates the use of additional 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.

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 2022-23 proposed budget reflects a local economy that is recovering from the fiscal impacts associated with the COVID-19 pandemic. The budget maintains services for residents of Capitola while simultaneously returning essential expenditures as much as possible. Nevertheless, the City must also remain focused on the long-term budget picture, which includes continuing CalPERS cost increases, and a challenging economy in coming years.

This second budget hearing will provide an overview of the City's proposed Capital Improvement Program (CIP), Attachment 1, as well as a focused discussion on the following items that were identified by City Council during the special budget hearing on May 4, 2022.

### *Items Identified on May 4:*

#### 1) Staffing:

The proposed budget includes returning the frozen Police Officer position, the partially filled Administrative Records Analyst position, and Receptionist position, as well as adding one three-quarter time Recreation Coordinator/Lifeguard and one full-time Development Services Technician. The proposed budget maintains frozen vacancies for one three-quarter time position and three partially filled positions (representing a total of one and three-quarters (1¾) equivalent positions).

## 2) Restricted Transient Occupancy Tax Revenue – Early Childhood & Youth Programs

The Early Childhood and Youth Program (ECYP) is estimated to receive \$61,000 of restricted Transient Occupancy Tax (TOT) revenues in addition to the estimated June 30, 2022, ending fund balance of \$51,000. The first draft of the proposed budget reported a fund balance of \$68,000, however, that did not consider \$30,000 of anticipated expenditures expected to be incurred prior to June 30, 2022. The proposed budget currently has a placeholder in the Community Grant Program to utilize the \$61,000 of revenue for ECYP community grants, however staff has not programmed any of the \$51,000 estimated fund balance. Staff seeks direction on:

- a) Utilization of \$61,000 estimated revenue; either within the Community Grant program or other ECYP related expenditures
- b) How to program the \$51,000 fund balance; identify potential uses in Recreation and/or maintaining a target fund balance
- c) Creating a policy regarding a target fund balance, if any, and the use of restricted ECYP funding within the community grant program and/or recreation division

## 3) General Fund Balance

The estimated general fund balance on June 30, 2023, is \$1.3 million. Traditionally, the City has maintained a target general fund balance of \$500,000 (this was increased to \$750,000 during the pandemic). In addition to the general fund balance, the City Council established a COVID stabilization account of \$600,000 to mitigate the fiscal impacts associated with the pandemic. Now that the recovery from the pandemic is well under way, City Council has converted the COVID stabilization account into a Resiliency Account with a balance of \$385,000.

During the first budget hearing on May 4, staff recommended maintaining the \$1.3 million fund balance as well as the \$385,000 resiliency account until the City is notified of the status on our federal grant request for the Wharf Project and completes discussions with Soquel Union Elementary School District regarding the community center lease. Staff anticipates the outcome of the grant application, and the conclusion of community center discussions will be known in fall/winter of 2022 and suggests revisiting the fund balance during the mid-year budget report. Staff seeks direction on:

- a) Does Council support holding onto the majority of fund balance at this time until the community center lease is resolved, and wharf project funding known?

### *Minor Amendments:*

Minor budget amendments discussed during the special budget hearing on May 4, 2022, include increasing general fund revenue by \$60,000 and a net increase to expenditures of \$31,000. These minor amendments result in an increase of \$29,000 to the estimated June 30, 2023, general fund balance and are detailed below:

- Village parking revenue: increase \$60,000 – include anticipated revenue for 25 parking spaces currently used for temporary outdoor dining. Modifications to the outdoor dining program in June 2022 will have a revenue impact of approximately \$60,000 for 24 parking spaces that will be dedicated to temporary outdoor dining.
- Police Department staffing: increase \$31,750 – the first draft of the proposed budget erroneously programmed one and three-quarter Record Technicians and one half-time Administrative Analyst position in the Police Department. This is not representative of the current staffing level and resulted in the proposed budget to be under stated by

approximately \$31,750. The staffing should have been budgeted for one and three-quarter Record Technicians and one full-time Administrative Analyst.

- City Council training: increase \$7,000 – increase City Council Training & Memberships back to pre-pandemic amount of \$2,000 per City Council member.
- Implicit Bias Training: increase \$5,000 – add implicit bias training to the personnel division budget within the City Manager’s Department. This will provide funding for ongoing biannual implicit bias training for elected officials and staff to meet City Council goals, and resources for other training opportunities.
- Community Grants: decrease \$30,000 – moved eligible Homeless Action Partnership homeless shelter costs to successor agency housing special revenue fund.
- Art and Cultural: increase \$1,500 – increase contract services to include begonia event.
- Universal Design Play Structure: move \$150,000 from Library TOT lot to the Jade Street Community Center playground – pending formal Council direction.

*FY 2022-23 Council Goals:*

The table below shows funding allocated to the FY 2022-23 City Council goals:

<b>Project</b>	<b>Funding</b>
Wharf Rehabilitation	\$1,500,000
Community Center Repairs	150,000
Universal Park Design	150,000
Local Hazzard Mitigation Projects:	
Study City Hall options	50,000
Stockton Bridge reinforcement project	350,000
Bluff / Cliff Drive study	50,000
Noble Gulch engineering feasibility analysis	50,000
Fire risk reduction (eucalyptus groves)	50,000
Minimal City Hall maintenance	100,000
EV charging stations	20,000
Bike / Pedestrian safety projects	100,000
Peery Park Bridge maintenance	50,000
Internal staff projects	50,000
Deposit in CalPERS Retirement Trust	500,000
Establish Resiliency Fund	385,000
<b>Total</b>	<b>\$3,555,000</b>

*Additional Items:*

Additional items identified by the City Council during the first budget hearing include the following:

- Topics to be presented during the budget hearing on May 19:
  - Explanation of the impact of online sales tax
  - Explanation of Monterey Bay Area Self Insurance Authority (MBASIA) cost increase
  - Potential ECYP uses in Recreation
  - Update on recreation / youth programming at the Library
  - Use of Restricted TOT by Capitola Soquel Chamber of Commerce and the BIA
  - Information about universal design play structure
- Topics with further information attached to this report:

- Detail of Contingency and Emergency Reserve calculations (Attachment 2)
- Report on Measure F revenues and expenditures (Attachment 3)
- Other:
  - A report on City's liability risk related to American Disability Act (ADA) improvements will be provided in a Council memo from the City Attorney
  - City Council Compensation will be agendized for the July 2022 regular Finance Advisory Committee meeting

The Proposed FY 2022-23 Capital Improvement Program (CIP) includes updates on \$2.7 million of projects currently under construction and \$4.7 million of ongoing projects funded in prior years. In addition, the proposed CIP includes \$2.8 million of additional funding for City Council key projects including the pavement management program.

The draft budget has been distributed and is available for public review in the City Hall lobby, as well as on the City's website.

FISCAL IMPACT: The goal of these deliberations is determining the allocation of funds to maintain a balanced budget, provide for essential City services, and support priority projects.

Attachments:

1. FY 2022-23 Capital Improvement Program
2. Summary of Contingency & Emergency Reserve calculations
3. Summary of Measure F revenues & expenditures

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