

Finance Advisory Committee

Agenda Report



Meeting: December 11, 2025

From: Administrative Services Department

Subject: Interest Rate for Tenant's Security Deposits

Recommended Action: Adopt a resolution setting the interest rate for tenants' security deposits for 2026 at zero percent (0%).

Background: The City Council adopted Ordinance No. 804 on February 12, 1998, adding Chapter 5.48 to the Municipal Code, requiring interest on security deposits for residential rental properties. Resolution No. 2948 set the interest rate for 1998 at 2%, which became effective March 14, 1998.

It was the City Council's practice to set its interest rate for tenant security deposits consistent with the amount set by the Board of Supervisors of Santa Cruz County. However, starting in 2011, after the County set the rate at an extremely low level, the City Council determined the administrative burden of computing interest rates of around 0.01% was not worth the minor benefit to renters.

For example, 0.01% interest on a \$3,000 security deposit would total 30 cents a year. Therefore, the City's interest rate has been set at 0% since January 2011. A history of interest rates since the adoption of the implementing Ordinance is included with this report as Attachment 1.

Discussion: Pursuant to Municipal Code Section 5.48.025, "on or before December 31 of each year, the City Council shall set the minimum interest rate (for tenant security deposits) for the next calendar year."

The City's Finance Director has completed a survey of annual simple interest rates on passbook savings accounts among the largest banks, in accordance with the Capitola Municipal Code, finding the average interest rate is 0.01%. Based on past practice, staff recommends adoption of an interest rate of 0%.

Staff realizes most banks offer much better products for savings than traditional passbook savings accounts (which are becoming obsolete) and that there is a need to reevaluate the City's role in setting tenant deposit interest rates, as well as how interest rates are calculated. The Finance Advisory Committee has this item on their list of topics for discussion during 2026.

Upon adoption of the proposed resolution, staff will publish a notice (Attachment 3) in the Santa Cruz Sentinel and share information regarding the interest rate on our City website.

Fiscal Impact: There is no fiscal impact to the City related to this item.

Attachments:

1. Historical Interest Rates
2. Proposed Resolution
3. Notice

Report Prepared By: Kathryn Rose Haney, Account Clerk

Report Reviewed By: Julia Gautho, City Clerk; Marc Tran, City Attorney; Jim Malberg, Administrative Services Director

Report Approved By: Jamie Goldstein, City Manager

