

Capitola City Council

Agenda Report



Meeting: March 1, 2022

From: Finance Department

Subject: Fiscal Year 2022-23 Budget Principles and Goals

Recommended Action: Adopt the Fiscal Year (FY) 2022-23 budget principles and goals and identify related key projects and programs.

Background: Each year the City prepares and adopts an annual budget. The annual budget drives the City's operations and gives City Council direction to the City Manager regarding day-to-day functions. The budget not only outlines the City's financial plan, but also establishes the framework in which the City will provide services to the community. Principles and goals identified in the budget establish metrics against which actual performance can be measured.

Discussion: To ensure the prepared draft budget is consistent with the Council's direction, the City adopts budget principles and goals for each upcoming fiscal year. While the budget principles and goals provide an overarching guide to budget development, the Council can provide more specific direction by identifying key projects/programs. The key projects/programs for the City Council can be specific projects (such as the library or wharf), planning efforts (such as obtaining Coastal Commission certification of zoning ordinance), or service changes (such as implementing changes from the Recreation Strategic Plan).

One important reason to adopt budget principles and identify key projects is to increase focus on the Council's overall priorities and help to clearly articulate those priorities to Capitola residents and other stakeholders. Staff suggests that the Council identify five or six key projects for the upcoming fiscal year that are consistent with the overall budget principles and goals. At the hearing, staff can help facilitate a Council dialog to develop these projects. Then in preparing the draft budget, staff will integrate the budget principles and key projects, including attainable goals and metrics associated with each key project.

The intent of this item is to discuss Council's priorities heading into budget development. The proposed budget principles serve as the high-level policy for the budget development, but the key projects allow for more concrete short-term priorities to be developed.

General Budget Principles

The City of Capitola prioritizes the following budget principal categories:

- Fiscal Policy Principles
 - Maintain a balanced budget that ensures ongoing expenditures can be met with ongoing revenues
 - Use one-time revenues for one-time expenditures
 - Ensure the budget plans for future cost increases and attainable revenue projections
- Public Service Principles
 - Maintain, and improve upon, the transparency of City operations and accessibility of government
 - Recognize the high priority the community places on the public's safety

- Analyze future service level increases with their long-term financial impacts to ensure financial stability
- Public Improvement Principles
 - Maintain the City’s infrastructure by providing maximum funding for the pavement management system
 - Maintain and improve Capitola’s natural resources and sustainable green programs
 - Ensure maintenance and cleanliness of City facilities, sidewalks, and streets

Fiscal Year 2021-22

City Council identified preliminary FY 2021-22 Budget Principles and Goals on February 25, 2021, then formally adopted them during the budget process. The status of the adopted FY 2021-22 workplan is as follows:

Fiscal Policy and Public Service	
Budget Goal / Key Project	Status
Develop options for Council consideration to address rising CalPERS costs	Ongoing
Work with the Finance Advisory Committee to identify future revenue options	Ongoing
Continue working with Capitola Mall ownership group to redevelop the mall	On hold due to COVID-19 pandemic
Work towards Coastal Commission certification of zoning code update	Completed, May 2021
COVID-19 Response	<ul style="list-style-type: none"> • Administer CDBG Grant funds – <i>ongoing</i> • Collaborate with regional partners on State Rental Assistance Program – <i>ongoing</i> • Maintain City Hall operation protocols to ensure health and safety of public and staff – <i>ongoing</i> • Worked with local restaurateurs to establish parameters for temporary COVID-19 outdoor dining – <i>Complete</i>
Transition from COVID-19 response back to normal operations, monitor revenue impacts from COVID-19 quickly	Continue to modify health & safety protocols at all City facilities based on information from the CDC, State, & County. Continually monitoring revenues & expenditures.
Explore grant opportunities for public safety, CIP and environmental policies and outreach programs, CDBG, Generator, etc.	CDD - Active CDBG application under review that would cover 3 years of food assistance. PD – received tobacco grant, applying for alcohol grant
Review parklets in Village (outdoor dining), <ul style="list-style-type: none"> • Review village hotel parking permits & Village parking rates on completion of outdoor dining 	Sidewalk and Street Dining Ordinance adopted in December 2021. Currently under Coastal Commission review
Make available free feminine hygiene for all public restrooms	Complete
Expand emergency response planning and pursue grants for City Hall generator	\$300,000 grant received for emergency power at City Hall – <i>project in progress</i>

Have City Council create and set priorities for community grants	Will be presented to City Council in April 2022
Seek partnership with school district regarding soccer field	City and School District have been working toward a revised agreement for Community Center and Jade St Park. Since COVID is having a large impact on School District this year, the soccer field has taken a back burner while agreement is finalized.
Partnership with Scotts Valley regarding recreation summer programs / services	Scotts Valley City Council elected to work with a non-profit partner to provide their summer program while they conduct an evaluation of their Recreation Division.
Update Admin Policies	On-going
Monterey Park picnic tables	To be completed by June 30, 2022
Signage from Pac Cove lots to beach & village	Completed
Implicit Bias training for staff	Will be completed by June 30, 2022
Prioritize affordable housing and building community relationships	Update Inclusionary Housing Ordinance, Completed Affordable Housing Nexus Study and Feasibility Study, Adopted new Affordable housing in-lieu fees and impact fees.

Public Improvements		
CIP Project	Project Status	Funding Status
41 st Ave. Adaptive Signal Control	In construction	Grant funded
Monterey & Park Railroad Station Park & Pathway	Pathway in design	Pathway funded, RTC funding to follow
Pavement Management Program	On-going – in construction	Funded annually
Rispin Park	Bid in late spring 2022	Fully funded
Utility Undergrounding	Working with PG&E	Funded
Roundabout Design at Capitola Ave & Bay Ave	TBD following completion of utility undergrounding	Pre-design and outreach funded
Wharf Improvement	Phase I completed; phase II to be bid in summer 2022 pending City Council direction	\$4.7 million available. Cost estimate for full project \$7 million
Capitola Ave. Sidewalk	Completed	Funded
Clares Pedestrian Improvements	In design – bid spring 2022	Funded
Flume Rehabilitation	Completed	Funded
Library	Completed	Funded
Jetty Rehabilitation	Completed	Funded

Looking Ahead to Fiscal Year 2022-23

During the FY 2021-22 mid-year budget update staff identified approximate amounts of one-time funding and ongoing funding available for budget planning. Looking ahead to FY 2022-23, staff has tentatively identified the following revenue that could be utilized for City goals.

Item	Amount
General fund balance	\$2.4 million (one-time) ¹
Additional American Rescue Plan funding	\$250,000 (one-time)
FY 2022-23 Measure F revenues	\$1.1 million (ongoing through FY 2026-27)
Additional unallocated ongoing revenues	\$385,000
FY 2022-23 revenues and expenditures	TBD during budget process
Expected minimum total available	\$4.135 million

In general, staff recommends the City maintain a minimum Fund Balance of approximately \$500,000, however with the increased uncertainty associated with the current economic climate, staff suggests a minimum fund balance of approximately \$750,000. That would leave approximately \$3.4 million available to allocate to Council priorities at this time.

Staff has identified potential goals for the coming fiscal year. These efforts are singled-out because they will likely involve significant funding, staff resources, community input, or multijurisdictional coordination if Council determines to prioritize them as goals for FY 2022-23.

Recommended FY 2021-22 ongoing goals to carryover to FY 2022-23: (These projects generally involve significant staff time, but have limited budget impacts)

- Develop options for Council consideration to address rising CalPERS costs
- Work with the Finance Advisory Committee to identify future revenue options
- Continue working with Capitola Mall ownership group to redevelop the mall
- COVID-19 Response
- Transition from COVID-19 response back to normal operations, monitor revenue impacts from COVID-19 quickly
- Explore grant opportunities for public safety, CIP and environmental policies and outreach programs, CDBG, Generator, etc.
- Complete parklets in Village (outdoor dining),
 - Review village hotel parking permits & Village parking program upon completion of outdoor dining
- Have City Council create and set priorities for community grants
- Seek partnership with school district regarding soccer field
- Update Admin Policies
- Prioritize affordable housing and building community relationships and projects
- Complete previously approved and funded CIP projects

In addition to the recommended ongoing goals listed above, new potential budget goals for FY 2022-23 include:

¹ Includes \$600,000 in COVID Reserve account

Fiscal and Public Service – in general these items require limited budgetary allocations but involve significant allocations of staff time to complete.

- Housing Element Update (funded with special revenue)
- Enhance community outreach
- Launch regional bikeshare program
- Update comprehensive city fee study
- Consider potential ballot measures for 2022
- Memorial bench replacement program
- Implement bike patrol for Parking Enforcement Officers
- Update special event permit process

Staff anticipates these projects could be completed with a budget allocation of \$50,000.

Potential Public Improvements and Fiscal Goals – in general these projects require both staff time and significant budgetary allocations to complete. The table below suggests rough project cost ranges for each potential project

Item	Amount
Wharf Rehabilitation Project	\$2.3 million required for full funding. Project can be scaled to match budget allocation
Community Center	Significant facility needs. Complete building renovation costs likely \$1-2 million. Addressing near-term needs \$150,000 - \$400,000
Local Hazzard Mitigation Projects	
Funding to study City Hall options	\$50,000 - \$75,000
Stockton Bridge reinforcement project	\$350,000 - \$4 million
Bluff / Cliff Drive study	\$50,000
Noble Gulch engineering feasibility analysis	\$50,000
Fire risk reduction (eucalyptus groves)	\$20,000 - \$100,000
Minimal City Hall maintenance	\$100,000
McGregor Sidewalk	\$750,000 - \$1 million
Climate action plan projects	
Charging stations	\$10,000 each
Roundabout at Bay/Cap Ave	\$1.5 million
Bike/Pedestrian safety projects	\$50,000 +
Peery Park Bridge maintenance	\$100,000

Bike Park renovation	Potentially grant/donation funded
Allocate funding to Calpers Trust	\$1 million to reach funding target
Pavement management	Varies

In addition, Staff is also seeking input from City Council for potential budget goals that are not listed above.

Fiscal Impact: The annual review and revision of Budget Principles and key projects is the first step in the budget process. The Budget Principles clearly articulate the City's financial management strategies. Staff will incorporate the City Council budget goals into the 1st draft of the proposed FY 2022-23 budget at which time City Council can prioritize the goals based on available resources.

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Chloé Woodmansee, City Clerk

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