

Capitola City Council

Agenda Report



Meeting: March 6, 2024

From: City Manager Department

Subject: Fiscal Year 2024-25 Budget Principles & Goals

Recommended Action: 1) Review budget principals; 2) Review progress and status of Fiscal Year 2023-2024 budget goals; 3) Provide direction to staff regarding potential amendments to Fiscal Year 2023-24 Budget; 4) Prioritize goals related to key projects/programs for Fiscal Year 2024-25.

Background:

General Budget Principles

As outlined in Administrative Policy III-3: Financial Management (Attachment 1), 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

Annual Budget

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.

Attachment 2 outlines the status of the Fiscal Year (FY) 2023-24 budget goals.

Discussion: To ensure the prepared draft budget is consistent with the City Council's direction, the City adopts budget principles and goals for each upcoming fiscal year. One important reason to adopt budget principles and identify key projects is to increase focus on the City Council's

overall priorities and help to clearly articulate those priorities to Capitola residents and other stakeholders.

As staff begins preparation for upcoming budget years, both ongoing and one-time revenue along with employee bandwidth is considered. Attachment 3 is a financial projection model to provide information on ongoing revenues and expenditures. An estimated June 30, 2024 General Fund balance summary is provided in the table below.

FY 2022-23 City Council Goals	\$400,000
Employee Down Payment Assistance Program	\$100,000
Future Capital Improvement Projects (allocated \$369,000 to wharf Feb. 26, 2024)	\$585,000
Operating Contingency Balance (allocated \$430,000 at mid-year Feb. 22, 2024)	\$116,000
Total Fund Balance	\$1,201,000
Historic Fund Balance Target Level	\$500,000
Total Available Fund Balance	\$701,000

In past years, staff has provided a detailed list of formerly identified projects and goals, their status, and an additional list of potential projects to be added at City Council discretion. In the past, staff has recommended the City Council identify five or six key projects to include as priorities in the coming fiscal year. However, the City has several ongoing high-priority, high-effort, and high-cost projects underway that limit staff's ability to start and complete new projects not previously identified. In addition to the projects underway, the City is in the process of labor negotiations with all employee groups, which will have an impact on both short- and long-term funding.

Attachment 4 shows current and upcoming potential projects organized by department, the required staff effort, and funding estimates and sources. The attachment also includes previously identified projects, shown in gray, which staff is not recommending for next Fiscal Year due to staffing and budgetary constraints.

If the City Council identifies additional priorities, projects or goals items included on the list may need to be paused or pushed to the next fiscal year or beyond. At the meeting, City Council may re-prioritize financial resources and staff time to accomplish new or different goals.

Fiscal Impact: The annual review 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 first draft of the proposed FY 2024-25 budget, at which time the City Council can prioritize the goals based on available resources.

Attachments:

1. Administrative Policy III-3
2. Status Report on FY 2022-23 & FY 2023-24 City Council Goals
3. Financial Projections
4. Current and Upcoming Projects

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