

# Capitola City Council

## Agenda Report



**Meeting:** February 12, 2026  
**From:** Administrative Services Department  
**Subject:** Update on Measure Y Sales Tax

Recommended Action: Receive a report on Measure Y Sales Tax and provide staff with direction.

Background: Measure Y is a one-half percent sales tax that was passed by Capitola voters in November 2024, replacing Measure F, a one-quarter percent sales tax that was set to expire in December 2027. Per California Department of Tax and Fee Administration (CDTFA) procedures, Measure Y became effective on April 1, 2025, the 1<sup>st</sup> of the month at least 110 days following the certification of ballot results in December 2024, and sunsets in December 2035.

Measure Y receipts for the 4<sup>th</sup> quarter of Fiscal Year (FY) 2024-25 (April–June) totaled \$574,709; of which, approximately \$287,000 was new revenue and \$287,000 replaced Measure F budgeted revenue.

During the mid-year budget review in February 2025, staff advised Council that Measure Y revenues for FY 2024-2025 were estimated at \$277,000, with approximately \$227,000 utilized for market adjustments to employee salaries that were contingent upon the passage of Measure Y. As mentioned above, actual Measure Y revenue totaled \$287,000 for FY 2024-2025, leaving \$60,000 in new revenue in FY 2024-2025.

FY 2024-25 Bradley Burns 1% sales tax was approximately \$151,000 below budget projections, and the \$60,000 of additional Measure Y revenue partially offset this revenue shortfall.

Discussion: The adopted FY 2025-26 Budget included approximately \$1.6 million increases to both revenues and expenditures above the prior year. Measure Y accounts for \$1.1 million of the revenue increase, and personnel costs account for approximately \$1.1 million of the increase in expenditures. The personnel cost increases are a result of a combination of negotiated salary adjustments (which were contingent on the passage of Measure Y), a higher than anticipated increase to the CalPERS UAL annual payment, negotiated cost-of-living adjustments (COLA's), and regular salary step increases.

The table below is the Measure Y summary that was presented to the City Council during the public hearing at the May 29, 2025, budget workshop. A copy of the relevant presentation slides from that hearing is attached.

Item	Amount	Notes
Measure Y Estimated Revenue	\$1,122,140	\$17,079 remaining
Increase in Personnel Costs	\$1,105,061	
One-time Equity Adjustment	\$347,720	Negotiated with labor groups

Benefit Increase	\$ 101,489	Negotiated with labor groups
Cal PERS Unfunded UAL	\$ 343,262	\$756,000 increase of last 2 FY's
Cost of Living Adjustment	\$312,590	Negotiated with labor groups

To date, the City has received one full quarter of Measure Y revenues in FY 2025-26. First quarter (July-September) Measure Y revenues totaled \$556,597, which was slightly below budget, while second quarter receipts to date total \$353,369, slightly above prior year receipts. The City will receive the “true-up” payment for the second quarter (October-December) in late February. Expenditures associated with the increased personnel costs are tracking on budget.

As a reminder, sales tax receipts are received from the CDTFA two months in arrears, meaning that the January receipt is for November sales tax revenue, and we will receive the December payment in late February. The first two payments each quarter are estimates based on prior year receipts and current year economic data. The third and largest payment each quarter is the true-up payment that provides actual revenue based on actual sales activity. Since this is the first full year of Measure Y being effective and there is no historical data, the Measure Y estimated payments are based on Measure F's prior year activity.

In the past few fiscal years, the first quarter sales tax receipts have fluctuated more than has been seen in previous years. Staff recommends waiting until the second quarter receipts are in before making any budget amendments. Staff will provide the final second quarter Measure Y receipt data and recommendations, if any, during the mid-year budget review on February 26<sup>th</sup>.

Fiscal Impact: None

Attachments:

1. May 29, 2025, Budget Workshop Measure Y Slides

Alignment with 2025-2029 Strategic Plan Priority: Accountable Government

Report Prepared By: Jim Malberg, Administrative Services Director

Reviewed By: Julia Gautho, City Clerk; Marc Tran, City Attorney

Approved By: Jamie Goldstein, City Manager