

Agenda Report



MEETING DATE: Tuesday, June 11, 2024

TO: City Council

FROM: ADMINISTRATIVE SERVICES DIRECTOR DURAN

SUBJECT: RECOMMENDED ANNUAL BUDGET FOR FISCAL YEARS 2024-25 AND RELATED ACTIONS

Link to Budget: <https://www.watsonville.gov/426/Budgets>

RECOMMENDED ACTION:

It is recommended that the City Council and Successor Agency and Successor Housing Agency Boards of the City of Watsonville review the proposed FY 2024-25 Budget Plan and take the following actions and any appropriate motions:

Appropriate motions if any:

DISCUSSION:

The City Council and Successor Agency and Successor Housing Agency Board of the City of Watsonville will consider the following actions at its June 25, 2024, meeting:

- 1) Resolution adopting the FY 2024-25 Budget Plan, providing certain transfers of funds & approve the Five-Year Capital Improvement Program
- 2) Approve a resolution adopting a Hydrant Meter Deposit
- 3) Approve a resolution adopting a Commercial Container Contamination Fee
- 4) Resolution establishing the "Total Annual Appropriations" pursuant to State Constitution Article XIII-B for Fiscal Year FY 2024-25 (Proposition 4 GANN spending limit)
- 5) Ordinance instructing Santa Cruz County to levy and collect property tax on taxable property within the City of Watsonville for fiscal year beginning July 1, 2024, to June 30, 2025, at the levy rate of 0.077% and allocating proceeds to the Retirement Fund
- 6) Successor Housing Agency Resolution authorizing the expenditure of low and moderate-income housing funds.
- 7) Successor Agency Resolution finds that the use of taxes allocated from the Watsonville 2000 Redevelopment Project outside the project area will be of benefit to the project area.

DISCUSSION:

Table 1: Fiscal Year FY 2024-25 Budget Summary

FUND ANALYSIS SUMMARY							
	<i>General Fund Total</i>	<i>Special Total</i>	<i>Debt Total</i>	<i>Enterprise Total</i>	<i>Internal Total</i>	<i>Private Trust Total</i>	<i>Total All Funds</i>
Projected Resources 2024-25							
Revenues	60,516,653	30,214,953	-	89,340,581	23,711,133	1,168,105	204,951,425
Transfers In	4,497,355	93,195	466,994	-	-	-	5,057,544
Total Gross Resources	65,014,008	30,308,148	466,994	89,340,581	23,711,133	1,168,105	210,008,969
Projected Expenditures							
Operations	59,852,229	15,047,873	-	58,420,554	23,739,266	77,562	157,137,484
Capital	18,754,853	22,954,253	-	59,871,123	1,082,382	-	102,662,611
Transfers Out	135,139	4,622,381	-	285,056	-	14,968	5,057,544
Debt Service	-	-	466,994	1,255,524	-	1,075,575	2,798,093
Total Gross Uses	78,742,221	42,624,507	466,994	119,832,257	24,821,648	1,168,105	267,655,732

Budget appropriations for fiscal year 2024-25 are \$267,655,732.

The City is in its second year of a 2-year budget plan. This report was prepared to provide new and updated information. This allows for an expedited budget review and adoption process that includes the February mid-year review. We are presenting a budget that will provide for proposed budget savings to present a balanced General Fund budget. Table 2 below provides a summary of the proposed savings in the General Fund. This is a balanced budget that maintains Council approved reserves.

City Charter. Under the Charter of the City of Watsonville, sections 1103-1105 instruct that the City Manager must prepare and present a proposed budget for the ensuing fiscal year at least 30 days prior to the beginning of next fiscal year. The Charter requires the budget to include:

- An itemized statement of estimated income and revenues from all sources for the year that the budget is to cover.
- An itemized statement of the proposed expenditures recommended by the City Manager for each office, department, or agency for the year which the budget is to cover.
- The probable amount required to be levied and raised by property taxation; and
- Other information the City Manager may deem essential, or as the Council may require.

The Charter requires that “the Council shall proceed to consider the proposed budget and may increase, decrease or omit any item or insert new items therein.” It further requires that a public hearing be held, grants the authority for Council to make any final modifications and then requires that prior to the beginning of the ensuing fiscal year, “the Council shall adopt the budget with revisions, if any.”

General Fund

We have reviewed the previously budgeted revenues and expenditures that were presented in our biannual budget FY 23/24 through FY 24/25. In FY 24/25, despite increases in revenues, our operational expenditures surpassed the growth of revenues. The City experienced increased revenues exceeding the originally budgeted biannual amount by approximately \$812k. However, ongoing operational costs rose by \$2.3MM. This required us to review expenditures and identify budget savings to propose a balanced budget. Staff recommends that the City Council direct staff to take the necessary actions as outlined in the draft budget and implement the recommended expenditure savings measures.

We are experiencing operational expenditures that are exceeding our initial budget projections. The increased costs are in several areas, specifically salaries, insurance costs, CalPERS Unfunded Liability, legal and other contract services.

- The rise in salaries also increased the costs of insurance and retirement.
- Unfunded liability estimates are provided by CalPERS and are used in the budget preparation. In July 2022, those were provided, assuming that the investment return rate by CalPERS would be 6.8%. However, the revised amount now payable for the upcoming fiscal year is with the investment rate of return of -6.1%. Annual payment on the **Unfunded Accrued Liability (UAL)** is the amortized dollar amount needed to fund past service credit earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date. The Unfunded PERS liability costs are anticipated to remain high until 2032. At this point, there should be some relief as the PEPPRA formula provides for some relief in costs.
- The proposed increase in legal costs is to align these expenditures with a more realistic budget. In previous years, we've had to request additional legal budget appropriations during the mid-year review.
- Other contract services include the Animal Shelter and 911 JPA increased costs.
- A one-time \$250,000 appropriation for upcoming ballot question costs to the County.

The increase in costs that exceeded the budgeted revenues is approximately \$1.6MM. We are planning for the \$250,000 budget estimate for ballot questions as a one-time cost and are therefore not including that amount in our budget savings plan.

The General Fund's 2024/25 proposed balanced budget includes a hiring pause for some vacant positions until the mid-year review of this budget. It also includes continuing to fund four filled positions with ARPA funds throughout the entire fiscal year. We are also eliminating two approved vacant budgeted positions that have remained unfilled since their approval. These three actions will provide enough budget savings to provide a balanced Budget Plan for the City's General Fund.

Our recommended savings plan encompasses the following budget reductions:

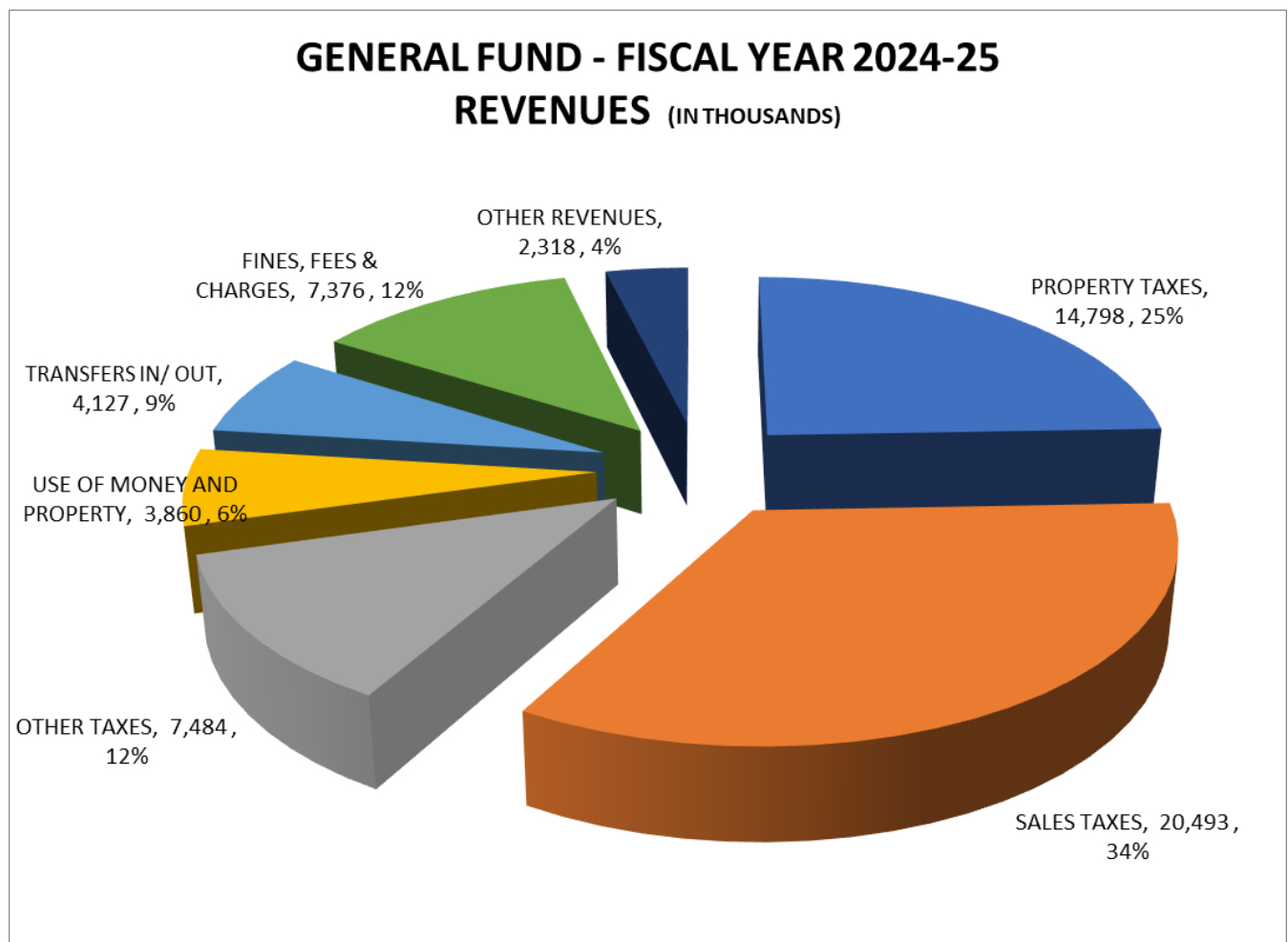
Table 2: Proposed Budget Savings

Amount	Explanation
200,000	ARPA, changed ruling and allows staff through 12/2026
886,160	Hiring Pause
Removal of positions with fund balance	
144,839	Redevelopment Manager
93,841	Parking Control Officer
1,324,840	TOTAL

Revenues:

The following chart illustrates the composition of revenues in the general fund for FY 2024-25.

Chart 1: General Fund Revenues by Type for Fiscal Year 2024-25



Property Tax- We are budgeting base property tax to be 4% higher than the estimated collections for FY 2023-24, resulting in a total of \$14,797,577. Property taxes are collected based on County Assessor rolls that were formally closed in January 2024. At that time, the normal Prop 13 assessed CPI growth was 1.3%, less the maximum allowed 2%.

Over the past few years, sales tax has experienced robust growth. In this upcoming fiscal year car sales are our biggest driver to a higher increase in this revenue. We expect an increase of 5.8 percent over the collections of fiscal year 23/24. The table below shows the City's share of the County's 9.75% sales tax:

Table 3: Breakdown of County of Santa Cruz sales tax.

City of Watsonville	
Sales Tax Breakdown (effective April 1, 2023)	
State General Fund	3.9375%
City General Fund (Bradley-Burns)	1.0000%
City of Watsonville Transaction Use Tax (R)	0.5000%
City of Watsonville Transaction Use Tax (L)	0.2500%
City of Watsonville Transaction Use Tax (Y)	0.5000%
County Public Safety (Prop 172)	0.5000%
County Realingment (Mental Health/Welfare/Public Safety)	1.5625%
County Transportation Fund	0.2500%
Santa Cruz County Measure (R)	0.2500%
Santa Cruz Metropolitan Transit District	0.5000%
Santa Cruz County Regional Transportation - SCCRTC	0.5000%
Total Rate	9.7500%

Sales Tax – The category of sales represents 34% of General Fund revenues, following the passage of Measure R. Additionally, the City is also supported by sales tax in various special funds including the Library, the Measure Y Public Safety Sales tax, and Measure D transportation. Similar assumptions discussed in this report also affect each of these funds.

Hotel Tax – Hotel tax represents a relatively smaller proportion of the City's overall revenue mix. Hotel tax is projected to grow about 3% next fiscal year 2024-25.

Utility User Tax- Utility User Tax represents about 6.1% of General Fund revenues. This tax stream tends to be more stable as it is a tax on telecommunication services, electricity, gas, and water. This revenue has been basically flat in the current year, and we are expecting normal growth of 3% in the next budget year.

Community Development Department Revenues – The Community Development Department charges fees for various services, such as inspections, plan checks, and permit issuance. The department is expected to meet its revenue budget in the current fiscal year. Nevertheless, in the next fiscal year we are projecting modest increases in their departmental revenue. Interest rates should start seeing some decreases, so it is expected that construction and development will see some stronger numbers than in previous years. Additionally, the department is currently experiencing a high workload due to two major projects: the general plan and the housing element. The general plan update involves revising the long-term vision for the community's development, while the housing element specifically addresses housing needs and policies.

Parks and Community Services Revenues – The Parks and Community Services Department is projecting modest increases in their departmental revenue. The Parks and Community Services Department brings exceptional value, particularly through its low-cost services for our residents, especially children and seniors. The department has partnered with the Pajaro Valley Unified School District and is collaborating with the school district to leverage resources to better serve the community. Parks broke ground earlier this month on the Ramsay Renaissance project, and we will have a much-improved park space when we finalize this project.

Other General Fund revenues comprise smaller portions of the overall revenues, and we are projecting fewer fluctuations. This includes business licenses and parking permits, franchise fees, lease revenues, and interest. Each item was analyzed on its own. The budget does assume the use of \$9,429,387 of American Rescue Plan Act (ARPA) funds over the next fiscal year. There are many parts of the budget that we believe will be eligible to be covered by ARPA funds, but we are specifically utilizing the funds to assist us in fixing streets and potholes, Ramsay Park, wayfinding, economic development, and position restoration. It is important to highlight that these funds must be obligated and allocated for specific purposes by December 2024. The ARPA funds give us a unique opportunity to address pressing community needs and invest in our City.

Table 4 below summarizes all the revenue categorized by type described above.

Table 4: General Fund Revenue Summary

General Fund Estimate Expenditures and Revenues					
Fiscal Year Ending June 30, 2025					
Department	Actuals FY 2023	FY 2024 Budget	FY 24 Projection	FY 25 Budget	
Revenues:					
Property Tax	13,530,558	14,188,665	14,255,398	14,797,577	
Sales Tax-General	14,817,434	14,020,907	14,023,852	14,974,566	
Hotel Room Tax	1,536,839	1,500,000	1,804,252	1,600,000	
Utility User Tax	4,358,302	4,268,320	4,268,320	4,400,000	
Transfers In	4,122,071	4,423,954	3,993,020	4,264,868	
Measure R	344,323	5,205,309	5,205,309	5,518,000	
Total Revenues	38,709,527	43,607,155	43,550,151	45,555,011	
ODD	1,740,264	2,116,800	2,116,800	2,355,600	
Police	1,271,080	1,597,100	1,437,921	1,707,297	
Fire	793,626	509,592	450,157	509,592	
PW	64,075	287,000	46,347	522,742	
PCS	617,301	957,066	696,454	960,363	
Other	14,497,683	9,246,926	9,238,478	8,981,717	
Total GF Revenue	57,693,557	58,321,639	57,536,309	60,592,322	

Expenditures and Revenues

The city expenditures are projected to grow faster than revenues. In prior years, Watsonville was already dealing with structural shortfalls in its budget. This was primarily driven by increasing costs of unfunded actuarial liabilities (UAL) related to retirement costs. Unfunded actuarial liabilities refer to the difference between the projected obligations of the pension plan and the assets set aside to fund those obligations. Though this is still a major driver for the increased costs, salaries and insurance have also seen steep increases. The City received a 12% increase in Worker's Compensation, Liability, and Health Insurance.

The City has demonstrated prudent fiscal planning, and we have remained focused on maintaining reserves and anticipating future needs. Because of this, we implemented a hiring pause of many vacant positions, followed by eliminating two (2) new, unfilled positions that were approved by the Council at the mid-year budget update utilizing fund balance. By prudently working with our departments, we are better prepared to address unforeseen circumstances or financial challenges that may arise. We are also proactively planning for certain adjustments that must be made to accommodate cost-of-living adjustments (COLAS), increased benefits costs, and contractual obligations.

The City is also facing uncertainty with Measure R Funds. There is a proposal on the November 2024 ballot sponsored by the California Business Roundtable that, if passed, would require any new state or local tax to be approved by voters (retroactive to January 1, 2022) if it did not meet certain requirements. Unfortunately, this includes Measure R. If successful, the ballot measure would require the governing body to approve all new taxes by a two-thirds vote. Measure R would be repealed and would need to be re-voted on, and this time, instead of needing a majority of the voters, would require 2/3 of votes or 66%.

The threat of losing this revenue prevented the City from issuing bonds for the Ramsay construction project, City Plaza, and the Rolling Hills Use Agreement. We have previously presented the information to the Council at their approval of the Ramsay construction contract at the March 26th City Council meeting. Due to the uncertainty of the measure, the City Council opted not to issue bonds as it would commit the general fund to the debt service payment. After November and the fate of Measure R is determined we will take appropriate steps to address these capital needs based on Council direction.

We have also not added any new personnel positions as, at this time, we have not been able to identify ongoing revenues that would be able to pay for the ongoing costs of new positions. Instead, our Library Department will use its personnel budget to fund temporary salaries to implement its planned programming. Also, we have budgeted most of the fund balance and current operational revenue to continue funding the programs already underway and on capital dollars to be spent on Ramsay Park and streets projects.

Salaries— Salaries and benefits make up 75% percent of General Fund operating expenditures and therefore represent the greatest cost increase. There is an increase of 0.5 position proposed across all funds, in the library fund. The budget also reflects both actual and expected contractual raises for all bargaining units.

Table 5: Proposed new positions

Proposed position addition			
	<u>Library Fund</u>		
	Librarian	0.5	
	Total	0.5	

Unfunded Actuarial Liability (UAL) – The City’s UAL costs pose an ongoing challenge. The upcoming FY 2024-25 UAL costs will represent 13% of the general fund operating budget. The total of \$6,403 million represents a \$912 thousand increase from the prior year. Costs are projected to increase every fiscal year until about 2032. At this point, there will be some relief as a result of a new retirement formula the City implemented in FY 2013, known as the California Public Employees’ Pension Reform Act (PEPRA). The fact that the UAL costs are expected to represent 13% of the general fund operating budget suggests a significant portion of the city’s financial resources will be allocated to addressing the liability. We have a CalPERS smoothing reserve of \$1 million fully funded in our fund balance reserves to help mitigate the impact of future UAL costs on the city’s budget.

Other Benefits—Other benefits such as normal retirement costs, social security, and Medicare are expected to rise at similar rates to salaries. Our health insurance broker recently provided information that after several years of minimal or no increases in healthcare costs, there will be a significant rise of approximately 12 percent in the upcoming calendar year.

Other non-position costs—Citywide non-position impacts on the general fund are mainly for rate increases in the JPA contract with the county for 911 and Animal Shelter services. Also, ballot questions for the November election are projected at \$250,000, and migration to the Cloud with the general fund share at about \$85,000.

Select Department Changes

All departments are impacted by the citywide impacts described above. Table 6 shows the proposed General Fund operating budget by department.

Table 6: General Fund Operating Budget by Department

Below is the graph that shows the breakdown of the General Fund expenditures:

Expenditures	Actuals FY 2023	FY 2024 Budget	FY 24 Projection	FY 25 Budget
City Council	82,884	121,513	102,417	296,825
City Manager	1,862,370	1,975,335	1,884,045	1,861,960
City Clerk	883,076	797,948	703,087	1,800,667
Community Development	3,119,652	3,096,837	3,096,837	3,229,808
Finance	1,518,037	1,822,539	1,556,073	1,898,810
Human Resources	818,498	877,447	868,563	935,927
Social Services	237,398	279,415	267,334	279,415
Parks & Community	5,402,103	6,035,860	5,405,208	6,009,647
Fire	8,784,112	8,720,387	9,279,412	9,239,593
Library	541,684	578,164	578,164	624,584
Non-Department	8,470,645	3,831,117	3,129,474	2,904,728
Police	20,597,580	22,551,283	22,768,455	24,001,089
Public Works	1,665,179	2,325,954	1,805,039	2,204,423
Measure R	-	5,467,200	902,150	3,177,041
Total Depts	53,983,219	58,481,000	52,346,259	58,464,517

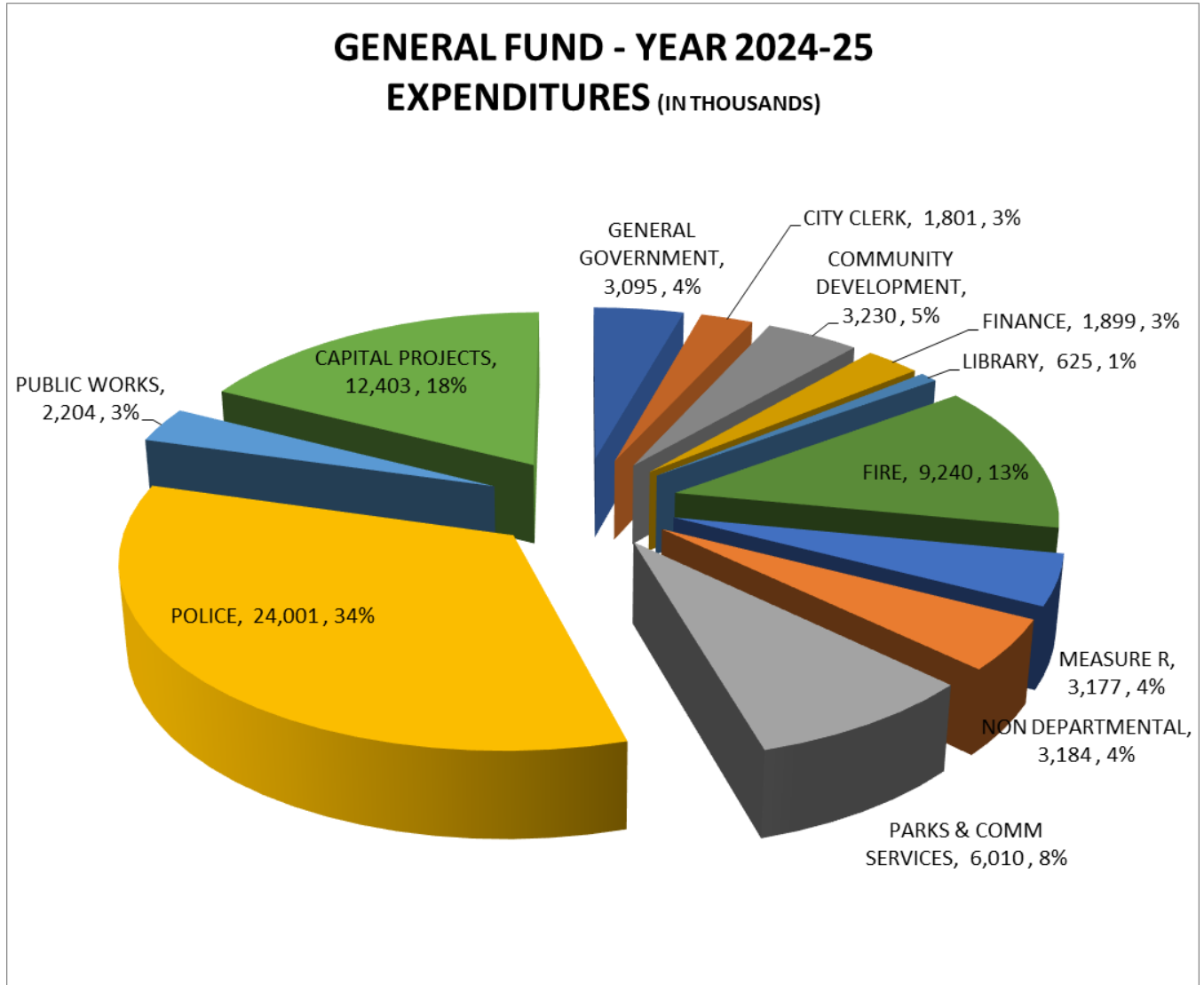
Graph 2: General Fund Expenditures by Type

Community Development Department—As mentioned in the revenue section above, the Community Development Department is actively engaged in two major projects: the City's new general plan update and housing element. Despite their workload, demand for their services has not decreased throughout this past year.

Parks and Community Services Department- The Parks and Community Services Department offers a wide array of services and programming for our community. The science workshop program is also a program that PCS offers; this helps better leverage our combined child programming resources. In addition to the ongoing projects and programs mentioned earlier, the department is actively involved in the Ramsay Renaissance Park Improvements. Bothman Construction was awarded the contract at the March 2024 meeting. Construction is slated to begin later in the summer. The park's grand opening is expected in September 2025. These efforts demonstrate the City's and department's commitment to enhancing recreation facilities and providing inclusive and enjoyable spaces for our community.

Other General Fund Operational Changes- As discussed, most of the increases in the table above reflect increased costs of doing business and increases in salary and benefits for existing employees.

Chart 2: General Fund Expenditures by Department for Fiscal Year 2024-25



Five Year Outlook

Our five-year projection assumption assumes that there will be no new programmatic changes. It provides a snapshot of the projected costs if we maintain our current operations and do not introduce new programming. To that end, it takes our annual budget produced and described above and adds some assumed inflationary factors to the revenues and expenses. This will be refined and updated each year as information becomes available, as economic conditions change, new priorities arise, and decisions are made to keep the City's budget in balance. Table 7 reflects the General Fund's five-year outlook with major assumptions described below.

Table 7: General Fund Five-Year Outlook

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2027/28
Revenue	60,592,322	61,861,215	63,213,362	64,653,773	66,083,282
Expenses	70,867,827	64,633,019	66,909,156	69,180,170	71,867,616
Revenue less Expense	(10,275,505)	(2,771,804)	(3,695,794)	(4,526,397)	(5,784,335)
Net Deficit	(10,275,505)	(2,771,804)	(3,695,794)	(4,526,397)	(5,784,335)

Property Tax: Based on historical averages, we are projecting a 3% increase in each year.

Sales Tax: The FY 2024-25 sales tax is expected to increase by 5.8% over the last fiscal year. In the following years, past the current proposed budget, we have received estimates from our sales consultants as to our percentage growth increases, assuming some normal growth.

Other Non-Department and Departmental Revenues: These are projected to grow between 2% and 3% for each of the out years, assuming some normal inflation.

Salaries: In the last three years, we assume salaries have grown gradually, at 2%.

Retirement Costs: The normal cost portion of our retirement is anticipated to grow at the same rate as our salaries. Our portion of the unfunded liability is based on the most recent actuarial reports from CalPERS. The actuarial report shows our annual liability increasing in the budget year included.

Health Benefits – While Watsonville has seen little to no increases in our health insurance costs in recent years, we knew it was an anomaly in the industry and among our peer cities. This trend has changed and we experienced a 12 percent increase in this current calendar year with additional increases expected in the upcoming calendar year which are planned for in this budget.

Utilities – We assume the newly adopted rate increase schedule for the Public Utilities of 1% for Water, 7.5% for Wastewater, and 5% for Solid Waste.

Other Non-Personnel Costs – We assume these costs will increase by 3%, an assumed proxy for CPI.

Operating Capital- In our 5-year capital plan, we are budgeting capital just over \$9.8 million in FY 2024-25. The City has quite a bit of unfunded capital needs. We continue to look for outside funding sources to meet those needs. However, budgeting a realistic amount of capital to maintain our facilities is imperative to preventing projects from becoming larger and more expensive replacement projects.

Select Special Revenue Funds

Table 8: Select Special Revenue Funds

	<u>0250</u>	<u>0262</u>	<u>0305</u>	<u>0306</u>	<u>0309</u>	<u>0310</u>	<u>0312</u>
	LIBRARY	ARPA FUND- AMERICAN RELIEF PLAN	GAS TAX	SB 1 - GAS TAX FUNDING	PARKING GARAGE	SALES TAX MEASURE Y	MEASURE D - TRANSPORTATION FUND
Projected Resources 2024-25							
Revenues	4,636,759	8,988,031	1,413,546	1,100,000	162,000	5,539,100	1,030,000
Transfers In	-	-	-	-	93,195	-	-
Total Gross Resources	4,636,759	8,988,031	1,413,546	1,100,000	255,195	5,539,100	1,030,000
Projected Expenditures							
Operations	4,468,298	622,037	1,050,395	-	178,948	5,723,530	-
Capital	550,000	8,807,350	1,230,351	3,423,540	-	1,996,716	5,308,966
Transfers Out	163,474	-	-	-	1,584	-	-
Debt Service	-	-	-	-	-	-	-
Total Gross Uses	5,181,772	9,429,387	2,280,746	3,423,540	180,532	7,720,246	5,308,966
Surplus / (Shortfall)	(545,013)	(441,356)	(867,200)	(2,323,540)	74,663	(2,181,146)	(4,278,966)
Total Available Funds 6/30/2025	1,576,435	11,558,644	(117,200)	426,460	74,663	268,854	(278,966)

Library Fund

The Library fund is supported through a county-levied special sales and use tax. As such, we expect its revenues to return to normal and follow the sales tax patterns described above. The library is proposing to utilize some of its accumulated fund balance for building improvements to the library restroom facilities and painting the library. They are also increasing their workforce by converting one half-time employee into a full-time employee. This will enable the library to expand its service, offering to better cater to the needs of our citizens.

ARPA

We have budgeted to use the remaining American Rescue Plan Act (ARPA) funds to support improvements in streets, investment in economic development to continue to grow and diversify our revenues, Ramsay Park, and position restoration, just to name a few. We will continue to monitor the spending of these funds as the deadline to commit and obligate the use of these funds is approaching, December 31, 2024. The funds must then be fully spent down, two years later, December 31, 2026. We will work with the various departments on developing a contingency plan.

Gas Tax and SB1

The gas tax is expected to be relatively flat in this budget. These funds pay for roadway projects and include some staff and material costs for regular maintenance of the streets. The Public Works department has been very successful in recent years in receiving grants for transportation projects in addition to these special revenue funds.

Measure Y

In March 2020, Watsonville voters overwhelmingly voted to pass Measure Y and renew the existing half cent public safety sales and use tax. This tax allows Fire, Police and Parks departments to increase their expenditures on their respective operating budgets. The Fire

and Police Department can fund positions, other operating expenditures, and capital with these funds. The Parks department can fund repairs, staffing and other operating costs with their allocation. Fire and Police are also proposing to use their accumulated balances to purchase specialized equipment for their departments and invest in some building maintenance and repairs. Though it is expected that at the end of this budget year, the Police Department will have spent down all of their spendable fund balances on capital and will need general fund support in future years to come.

Select Enterprise Funds

Table 9: Select Enterprise Funds

	<u>0710</u>	<u>0720</u>	<u>0730</u>	<u>0740</u>	<u>0741</u>	<u>0789</u>
	WASTE WATER	WATER	AIRPORT	SOLID WASTE	LANDFILL CLOSURE	FIBER OPTIC FUND
Projected Resources 2024-25						
Revenues	36,109,971	26,473,508	4,271,382	22,403,870	-	81,850
Transfers In	-	-	-	-	-	-
Total Gross Resources	36,109,971	26,473,508	4,271,382	22,403,870	-	81,850
Projected Expenditures						
Operations	18,837,126	18,215,455	4,238,345	16,804,739	247,761	77,128
Capital	22,726,294	25,031,161	304,000	3,117,590	8,692,078	-
Transfers Out	202,513	31,651	5,056	45,836	-	-
Debt Service	485,078	13,888	23,037	733,521	-	-
Total Gross Uses	42,251,011	43,292,155	4,570,438	20,701,686	8,939,839	77,128
Surplus / (Shortfall)	(6,141,040)	(16,818,647)	(299,056)	1,702,184	(8,939,839)	4,722
Total Available Funds 6/30/2025	4,821,784	11,667,630	200,944	15,918,434	-	279,722

The Utility Enterprises of Wastewater, Water, and Solid Waste are proposing minimal changes to their operating budgets. The Council approved a five-year rate schedule that is still in place during this budget. This budget year is in fact the last year of that rate schedule and they will be embarking on a new study. The rising costs of the Utility funds is primarily attributed to the growing expenses associated with capital improvement projects, the costs of materials and supplies, and in the case of Solid Waste, the cost of disposal contracts, rather than personnel-related cost increases as seen in the general fund. The Main Switchgear and Energy Recovery Electrical System Improvement and the continuation of the work for the reopening of the Landfill are two of the biggest drivers for these increases in spending for the Enterprise Funds.

The Airport fund is supported through three revenue streams, leasing of properties to aeronautical and non-aeronautical commercial businesses, leasing of aviation storage units, and aviation fuel sales. The department is expecting revenues to improve in the budget

cycle. The Airport is committing a portion of its special events budget to community outreach efforts by partnering with local schools, community non-profits and emergency services groups.

Five-Year Capital Improvement Plan

The Five-Year Capital Plan helps the City prioritize its funding and planning for longer term structural needs. This year, all departments submitted a comprehensive list of all capital needs and projects. Departments were encouraged to submit all their known capital needs knowing that the City may not be able to fund all projects. The list will inform the City of its capital needs. Several departments have recently been through Master Planning processes which formed their requests. Furthermore, the Public Works and Utility department has recently completed a comprehensive facility study. The study identified most of the City's buildings and their maintenance and repairs needs.

The prioritization and decision process differed depending on funding source. For the General Fund, this year's guiding principles were:

- 1) To fund projects that aligned with City Council's strategic priorities as much as possible to create efficiencies by collaborating across the City.
- 2) To match or sync up with grant or other funding activities occurring at the same time; and
- 3) Projects required by changes in law or operational necessity.
- 4) Maximize the use of fund balance from other available funds to preserve General Fund for projects with no other funding options.

Based on the above criteria, the General Fund has a high priority on streets, including pothole repairs and striping. New funding in the General Fund is \$4,209,820 in FY 2024-25, this number also includes an additional \$1,297,000 for the Ramsay Renaissance Project. The General fund's capital expenditure is about \$10MM. Most of the funding is for Parks projects this year, particularly Ramsay Park. The majority is the re-appropriation of funds for prior commitments to this project. Also included in the reappropriation are the costs for the City's General Plan. This capital plan invests over \$12.8 million into Ramsay Park (including ARPA funds). The work on the Ramsay project is slated to start in August 2024. We have already broke ground on this project. The project will include a full-sized turf soccer field, proposed trail, picnic areas, and an all-inclusive playground amongst many other improvements.

Most capital projects are not General Fund and will be managed by the Public Works and Utilities Department. Both the Wastewater and Water enterprises have previously completed comprehensive master plans last year which informed their proposals.

Wastewater Fund

In Fiscal year 2024/25, the two larger recommended projects are the Main Switchgear and Energy Recovery Electrical System Improvements \$10MM in FY 2024-25. The main electrical switchgear and backup generation system that provides power and emergency backup power to all equipment in the wastewater treatment plant is nearing the end of its useful life. This critical equipment was identified in the Wastewater Treatment Plant (WWTF) Hazard Assessment as vulnerable to flood and seismic hazards. This project will replace this critical equipment and mitigate future flood or seismic hazards so the WWTF will continue to provide safe and effective wastewater treatment for the communities it serves. We are also planning to spend about \$1.65MM on the Levy Embankment Stabilization Project. This project will install sheet piles in

the Pajaro River Levee section that borders the Wastewater Treatment Plant to help stabilize the levee embankment and reduce seepage to protect one of the City's most valuable assets in the case of Pajaro River flooding. This project also includes estimated costs for relocating the WWTP electrical service which is currently located on the levee.

Water Fund

In Fiscal Year 2024/25 the Water Fund is proposing a \$1.5MM project to Construct a new Water Well #4. The City needs to invest in new wells to improve water system reliability by providing additional water sources that will supplement the existing wells, some of which are nearing the end of their useful life. Additionally, in Fiscal Year 2024-25 they are proposing to spend \$2MM on the Chromium-6 project. The State is in the process of updating the regulation limits for Chromium-6. Depending on the final regulation limit issued by the State, several of the City's existing well sites may require additional treatment to meet these new regulatory limits. This project will provide Chromium-6 treatment technology at wells 2,3,7,14,17 &18 to meet regulatory compliance.

They are also proposing other projects that will repair or improve reservoirs, water meter main replacements and various other projects.

Solid Waste.

The Solid Waste capital program is largely driven by the costs of opening landfill cells. This is a carryforward project to open a new landfill cell in 2024. Also being planned are the purchase of two new collection vehicles at about \$1.1MM.

Transportation

To make the best use of limited road repair and maintenance funding, staff hired a consultant to prepare a five-year Pavement Management Plan (PMP) and to provide a Pavement Program Manager (PPM) services for the PMP. The PMP will assess the condition of all city roads, review financial resources, and propose a five-year roadway repair and maintenance schedule that current funding levels will allow. Along with road conditions and finances, the plan will consider utility replacement projects, equity, community input, and grouping similar projects to reduce construction costs.

The PPM will be an extension of city staff and manage the projects proposed by the PMP. This includes coordinating design, managing construction, and ensuring proper inspection and testing of each project. Transportation projects include the major arterial roads with more traffic and tend to deteriorate quicker than lesser-traveled roads. Sidewalks and pedestrian or bike trails also show wear due to age. Streetlights, traffic lights, striping, and signage must be maintained and updated to use new and more effective technology following industry best management practices. Other factors, such as increased population or new state or federal mandates, may require upgrading or expanding facilities. The firm will be developing a five-year Pavement Management Program, the scope of work shall include:

1. Project Management.
2. PMP Audit & Update: Create database for new and existing street information.
3. Pavement Condition Survey: Collect field data of road conditions.

4. Budget Analysis: Identify funding and consider budget scenarios.
5. GIS Segmentation/Maps Generation: Integrate existing and new street data.
6. Prepare draft & final report.
7. Community Engagement: Participate in public meetings to present and discuss PMP.
8. Training for City staff: Train staff on road analysis and StreetSaver program.
9. ADA Curb Ramp Analysis: Assess the condition of curb ramps that may require repair as part of pavement projects.

Funding comes from many sources, and each has its own requirements. Four of the sources, Gas Tax, Measure D, SB1 and Measure R and have similar requirements and can be used on design and construction of transportation projects that include road repair and rehabilitation, traffic signals, safety improvements and bicycle and pedestrian improvements. The City also secures grant funding through local, State and Federal sources that is awarded on a competitive basis. These grants often focus on an area, such as safety, pedestrian facilities, bicycle facilities or reducing pollution. Another source of funding is developer fees, which are collected for specific improvements in an area and use restricted to that purpose.

The number and size of projects identified in the PMP will be determined by available funding. Currently, Watsonville receives approximately \$3.5 million annually from Gas Tax, SB1 and Measure D to fund all transportation work and projects. Approximately \$1 million of this is used for staffing, operations, and maintenance costs. Grants also provide one-time funding for specific projects.

Unfunded Capital Needs

Despite a plan which expects to fund over \$35.7 million of Capital new projects next budget year, we still have over \$50 million of unfunded capital projects. The majority of these are not for “wish list” items but for basic maintenance and updates to our facilities and equipment, as identified in our facility’s plan. Capital investment was neglected after the 2008 recession and has left the City with a backlog of needs to our police and fire stations, our parks, our community buildings, and our sports facilities. We will continue to seek grants and other funds to invest in our capital assets, and potentially look to Federal infrastructure funding that we hope will come our way.

FUND NAME	2024/25	2025/26	2026/27	2027/28	2028/29
GENERAL FUND	1,857,220	9,228,000	7,905,000	4,327,400	4,835,000
MEASURE R	2,352,600	3,300,000	900,000	1,000,000	1,100,000
TOTAL GENERAL FUND	4,209,820	12,528,000	8,805,000	5,327,400	5,935,000
SPECIAL REVENUE FUNDS					
CDBG	560,000	-	-	-	-
CIVIC CENTER	289,000	75,000	75,000	75,000	75,000
LIBRARY	280,000				
GRANTS	642,000	10,541,000	6,863,000		
CANNABIS	35,000	-	-	-	-
GAS TAX	555,000	555,000	555,000	555,000	555,000
SB1	1,325,000	1,325,000	1,325,000	1,325,000	1,325,000
MEASURE Y	875,000	1,868,000	895,000	725,000	1,085,000
MEASURE D	1,290,870	1,214,000	1,214,000	1,214,000	1,214,000
UNDERGROUND UTILITY	250,000	-	-	350,000	-
STORM DRAIN	400,000	70,000	2,000,000	-	-
CITY-WIDE TRAFFIC		900,000	-	-	-
MANABE OW IMPACT FEE		190,000			
TOTAL SPECIAL REVENUE FUNDS	6,501,870	16,738,000	12,927,000	4,244,000	4,254,000
ENTERPRISE FUNDS					
AIRPORT	239,000	878,000	345,000	1,437,000	2,470,500
WASTEWATER	12,934,243	26,360,408	14,725,900	1,989,454	450,000
WATER	10,263,374	21,939,070	19,035,743	30,906,045	21,873,996
SOLID WASTE	1,251,000	745,808	931,738	1,319,502	928,949
INFORMATION TECHNOLOGY	330,000	-	-	-	-
TOTAL ENTERPRISE FUNDS	25,017,617	49,923,286	35,038,381	35,652,001	25,723,445
TOTAL	35,729,307	79,189,286	56,770,381	45,223,401	35,912,445

STRATEGIC PLAN: the case of Pajaro River flooding. This project also includes estimated costs for relocating the WWTP electrical service which is currently located on the levee

4-Fiscal Health

Budget Legislation

Each year the passage of the budget requires the passage of a few legislative items. Below is a listing of each of those items along with a brief description. Today's action:

The following shall be requested to be adopted at the June 25, 2024, council meeting.

That the Joint City Council, the City Council in its capacity as the Housing Successor Agency shall:

- 1) **Budget and CIP:** approve a resolution adopting the FY 2024-25 Budget, providing certain transfers of funds and approve the Five-Year Capital Improvement Program, as highlighted and summarized above.

That the City Council shall adopt the following resolutions or ordinances:

- 2) **Hydrant Meter Deposit:** Approve a resolution adopting a Hydrant Meter Deposit in the amount of \$4,783.

Commercial Container Contamination Fee (1 yard-40 yards): Approve a resolution adopting a new contamination fee as required by SB 1383, which states that jurisdictions to ensure compliance with the guidelines established by allowing jurisdictions to enforce policies by imposing penalties on customers. The purpose of these penalties is to ensure proper disposal by customers and a cleaner waste stream which will help avoid higher disposal costs. The processors will assess higher fees if our loads contain high volumes of prohibited materials, the following are the proposed fees:

- a) 1st offense – 25% of monthly container fee
- b) 2nd offense - 50% of monthly container fee
- c) 3rd offense - 100% of monthly container fee

- 3) **Gann Limit:** Resolution establishing the “Total Annual Appropriations” pursuant to State Constitution Article XIII-B for Fiscal Year FY 2024-25 (Proposition 4 GANN spending limit) as shown in Attachment 4; and
- 4) **Property Tax levy:** That the City Council adopt an ordinance to instruct Santa Cruz County to levy and collect property tax on taxable property within the City of Watsonville for fiscal year beginning July 1, 2024, to June 30, 2025, at the levy rate of 0.077% and allocating to the Retirement Fund; and

That City Council in its capacity as the Housing Successor Agency

- 5) **Expenditures of housing funds:** That the Housing Successor Agency shall adopt a resolution to authorize the expenditure of low and moderate-income housing funds for planning and general administrative costs for the purpose of producing, improving, and preserving the community's supply of low and moderate-income housing; and
- 6) **Redevelopment Project:** Find that the use of taxes allocated from the Watsonville 2000 Redevelopment Project for producing, improving, and preserving the supply of low and moderate-income housing outside the project area will be of benefit to the project area.

STRATEGIC PLAN:

The current balance budget meets Strategic Plan goal Number 2 of fiscal health by presenting a balanced budget, preserving the General Fund Reserve, and looking ahead to ensure the long-term financial health of the City.

FINANCIAL IMPACT:

Appropriate Fiscal Year 2024-25 spending of \$267,655,732.

ALTERNATIVES:

The City Council may direct staff to present different alternatives for the budget or make changes to the current recommendation.

ATTACHMENTS:

- 1) Proposed FY 2024-25 Budget
(<https://www.watsonville.gov/DocumentCenter/View/23447/Budget-FY-24-25-Draft->)