



**Watsonville**  
CALIFORNIA

## CITY COUNCIL AGENDA REPORT

**MEETING DATE:** Tuesday, June 24, 2025  
**TO:** CITY COUNCIL  
**RECOMMENDED BY:** ADMINISTRATIVE SERVICES DIRECTOR DURAN  
**APPROVED BY:** TAMARA VIDES, CITY MANAGER  
**SUBJECT:** RECOMMENDED BUDGET FOR FISCAL YEARS 2025-27 AND RELATED ACTIONS

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### RECOMMENDATION:

Staff will present the proposed Budget Plan for Fiscal Years 2025-2027, including a 5-year Capital Improvement Plan.

It is recommended that the City Council and Successor Agency, and Successor Housing Agency Boards of the City of Watsonville review the proposed FY 2025-26 and FY 2026-27 Budget Plan and take the following actions and any appropriate motions:

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### DISCUSSION:

Appropriate motions:

The City Council and Successor Agency and Successor Housing Agency Board of the City of Watsonville will consider the following actions at its June 24, 2025, meeting:

- 1) Approve a resolution adopting the Fiscal Year 2025-26 Budget, including the associated transfers of funds and approve the Five-Year Capital Improvement Program and position changes as highlighted and summarized in the staff report.
- 2) Resolution establishing the "Total Annual Appropriations" pursuant to State Constitution Article XIII-B for Fiscal Year FY 2025-26 (Proposition 4 GANN spending limit)
- 3) 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, 2025, to June 30, 2026, at the levy rate of 0.077% and allocating proceed to the Retirement Fund
- 4) Successor Housing Resolution authorizing the expenditure of low and moderate-income housing funds.

- 5) 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.
- 6) Approve a resolution adopting various rates and fees at the Airport
- 7) Approve a resolution adopting facility rental fee schedule for the Parks and Community Services Department

**Table 1: Fiscal Year FY 2025-26 and Fiscal Year 2026-27 Budget Summary**

<b>FUND ANALYSIS SUMMARY</b>							
	<i><b>General Fund Total</b></i>	<i><b>Special Total</b></i>	<i><b>Debt Total</b></i>	<i><b>Enterprise Total</b></i>	<i><b>Internal Total</b></i>	<i><b>Private Trust Total</b></i>	<i><b>Total All Funds</b></i>
Projected Resources 2025-26							
Total Resources	105,214,742	28,543,299	1,786,993	88,417,440	24,117,936	419,145	248,499,555
Total Uses	122,579,258	42,374,041	1,786,993	116,508,357	25,777,588	494,660	<b>309,520,897</b>
Surplus / (Shortfall)	(17,364,516)	(13,830,742)	-	(28,090,917)	(1,659,652)	(75,515)	(61,021,342)
Projected Resources 2026-27							
Total Resources	71,823,206	21,114,151	286,161	96,625,721	25,115,663	419,145	215,384,047
Total Uses	74,922,372	21,610,044	144,521	93,091,558	26,112,585	422,883	216,303,963
Surplus / (Shortfall)	(3,099,166)	(495,893)	141,640	3,534,163	(996,922)	(3,738)	(919,916)

Budget appropriations for fiscal year 2025-26 are \$309,520,897, including a \$122,579,258 General Fund. It includes 420.25 full-time equivalent (FTE) positions across 12 departments that provide a range of public safety, infrastructure and support services. We are requesting a new staff member from the Water Fund, the position requested is Water Operations Supervisor. We are also proposing/including staffing reduction of 16.75 across all funds.

The proposed budget for the City of Watsonville is a balanced financial plan developed for a two-year planning period. It reflects our continued commitment to fiscal responsibility while focusing on the delivery of essential services to our community. The budget aligns available resources with the City Council's priorities and strategic goals, supporting public safety, infrastructure and community programs. As a planning document, it provides a framework for maintaining services levels, promoting long-term financial sustainability, and ensuring the well-being of Watsonville residents.

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 vacant positions removed to balance the General Fund. This is a balanced budget that maintains Council approved reserves.

This budget report was prepared to provide new and updated information. This allows for an expedited budget review and adoption process. We are presenting a budget that will provide for proposed budget savings to present a balanced General Fund budget. This is a balanced budget that maintains Council approved reserves. Today, the City Council is conducting a second study session on the proposed budget for the next fiscal year and is considering it for adoption.

Our revenues have increased from the draft budget to this final document in the amount of \$1,747,174, this revenue is made up of grant revenue and an operating transfer in. Additionally, the appropriation

requests have decreased by \$6,610,484. Primarily these decreases are due to a reduction in carryforward capital project funding needs. A detailed line-item explanation of each of these changes requested is included as “Exhibit B”, this document represents our “technical changes”. This document includes the identified changes from the draft budget document to the final budget document. Most of the line items requested in this document stem from the CIP carryover projects and their respective grant revenue line items.

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 before the beginning of next fiscal year. The Charter requires the budget to include:

- a) An itemized statement of estimated income and revenues from all sources for the year that the budget is to cover.
- b) An itemized statement of the proposed expenditures is recommended by the City Manager for each office, department, or agency for the year which the budget is to cover.
- c) The probable amount required to be levied and raised by property taxation; and
- d) 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 before to the beginning of the ensuing fiscal year, “the Council shall adopt the budget with revisions, if any.”

### **General Fund**

While the City is experiencing slowing or moderate growth in its major General Fund revenue sources, this growth is outpaced by rising costs, particularly in the areas of salaries, employee benefits and contractual services. These rising costs continue to place significant pressure on the City’s financial resources. As we put this budget together, we recognize that uncertainty with inflation, interest rates, unpredictability stemming from larger economic uncertainty and threats to federal funding are of concern. To present a balanced budget, staff conducted a thorough review of all authorized positions that had been vacant since the start of our last fiscal year budget process and were on a temporary hiring pause and have made a reduction in those positions. These difficult but prudent decisions were made to ensure the City remains fiscally responsible while continuing to provide essential services to the community. This budget has reduced 14 vacant positions across several departments.

All of our labor agreements, apart those of our Service Employees International Union (SEIU) group, were up for negotiations at the same time this year. As part of our last contract with some of the labor groups, the City did conduct a comprehensive salary survey for most positions. The proposed budget includes cost-of-living adjustments (COLAs) and limited equity adjustments as a way to recognize and value the hard work and dedication of our employees and support the retention of professional talent.

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

contract services. Rising pension liabilities are due to the underperformance of the Public Employee's Retirement System (CALPERS) investment earnings.

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 June 2023, 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 5.8%. 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 which point, there should be some relief as the PEPR 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.

Pursuant to City Council directions and in coordination with our City Manager's Office, we executed a targeted expenditure reductions – consisting of a 1% baseline operational cuts across multiple general fund departments and reduction of select vacant positions. These structural adjustments generated the necessary budgetary savings to sustain departmental service levels and strategic growth initiatives while still preserving a balanced General Fund with no deficits.

**Table 2 – Vacant General Fund Positions Reduced to Balance Budget**

<u>Position</u>	<u>Department</u>	<u>Number of FTE</u>
Assistant City Manager	City Manager	1
Custodian	Public Works	1
Assistant Finance Director	Finance	1
IT Analyst II	Innovative Technology	1
Development Review Tech	Community Development	1
Police Officer	Police	2
Recreation Coordinator	Police	1
Police Clerk II	Police	1
Fire Inspector	Fire	1
Sr Admin Analyst	Parks and Recreation	1
<b>Totals</b>		<b>11</b>

Additional vacant positions were eliminated in the Grants and Housing Funds due to the associated grant funding ending. These reductions reflect positions that were unfunded because of the expiration of their respective special funding sources.

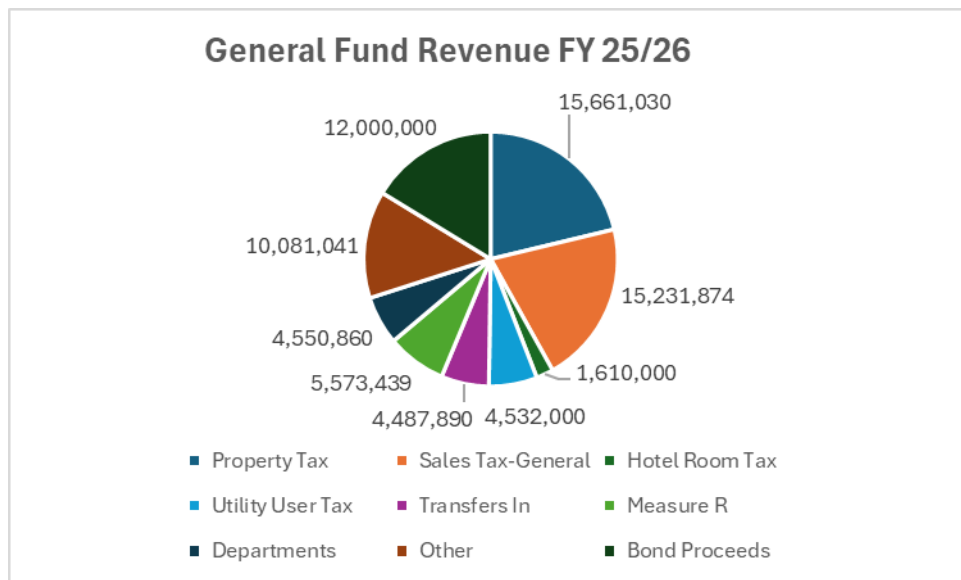
**Table 3- Grant and Housing Funds Positions Reduced due to Funding Ending**

<u>Position</u>	<u>Department</u>	<u>Number of FTE</u>
Recreation Specialist	Parks and Recreation	1
Program Coordinator	Police	1
Administrative Analyst	Community Development	1
<b>Totals</b>		<b>3</b>

**Revenues:**

The following chart illustrates the composition of revenues in the General Fund for FY 2025-26.

**Chart 1: General Fund Revenues by Type for Fiscal Year 2025-26**



Property Tax- We are budgeting base property tax to be 3.6% higher than the estimated collections for FY 2024-25 resulting in a total of \$14,943,741. Property taxes are collected based on County Assessor rolls that were formally closed in January of 2025. Normal Prop 13 assessed CPI growth maximum allowed is 2% but we have continued to see modest growth and properties changing hands and this is increasing our property tax base.

Sales Tax – The category of sales represents 34% of General Fund revenues, which has positioned itself as our top General Fund revenue source. This is due to the passage of Measure R. Measure R adds a ½ cent sales tax that is a true showing of our communities forward thinking and strong support to fund key community priorities, which include streets and roads, libraries and parks. Additionally, the City is also supported by sales tax in various special funds including the Library, Measure Y Public Safety Sales tax, and Measure D Transportation Tax. Similar assumptions discussed in this report also affect each of these funds.

Over the past few years, sales tax has experienced robust growth. However, in the upcoming year, we are projecting modest increases. We cannot continue to assume the increases above budget we have been receiving, as nationwide car sales are slowing, uncertainty with tariffs, and the lower economy in general will start to affect this revenue stream. The table below shows the City’s share of the County’s 9.75% sales tax:

**Table 4: Breakdown of Santa Cruz sales tax.**

<b>City of Watsonville Sales Tax Breakdown (effective April 1, 2023)</b>	
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%
<b>Total Rate</b>	<b>9.7500%</b>

Hotel Tax – Hotel Tax represents a relatively smaller proportion of the City’s overall revenue mix. Hotel Tax is projected to grow by about 3% next fiscal year 2025-26.

Utility User Tax- Utility User Tax represents about 6.8% 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 check, and permit issuance. The department is expected to see lower than budgeted revenues in the current year. They are further planning for decrease planning permit revenues due to several factors, including few projects in the planning pipeline, reduced revenues from the streamlined approval process for infill projects downtown (involving only an Administrative Design Review Permit [~\$4,000 per project] and streamlined environmental review because of the adopted Downtown Watsonville Specific Plan and associated EIR. Furthermore, anticipated cooling market conditions and reduced new housing starts because of increased construction costs and uncertainty with tariffs on lumber and building materials.

Parks and Community Services Revenues – The Parks and Community Services Department is projecting modest increases in their departmental revenue over their current fiscal year collections. 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 and in this way are leveraging resources to better serve the community. Parks staff are busy working on the Ramsay Park Renaissance Project and we will have a very much improved park space when we finalize this project. This budget does include a lease revenue bond issuance of \$12MM to help fund the Ramsay Park and Plaza

Improvement project upgrades. We are using legally available general funds including Measure R for this issuance.

Other General Fund revenues make up smaller portions of the overall revenues and we are projecting fewer fluctuations. This includes items like 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 \$7.9MM of American Rescue Plan Act (ARPA) funds over the next fiscal year. We are using those funds to help fund the Ramsay Park Renaissance Project. At 26 acres, Ramsay Park is the City’s largest park and is often considered the community’s hub for recreation. The last major renovations to the site were completed over 30 years ago, bringing in new play structures and a ballfield, with the skatepark and pump track added in the past decade. It is important to highlight that these funds must be spent for its specific purpose by December 2026. The ARPA funds present us with a unique opportunity to address a pressing community call for reinvestment of this key space is demonstrated by a two-decade-long conversation with the community through countless meetings with hundreds of residents over three state grant applications that ultimately went unfunded, especially regarding improvements to the soccer field and play areas.

Table 5 below summarizes all the revenue categorized by type described above.

**Table 5: General Fund Revenue Summary**

	<b>Actual</b>	<b>Projected</b>	<b>Budget</b>	<b>Budget</b>
<b>Revenue</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
Property Tax	14,788,668	14,943,741	15,661,030	15,786,150
Sales Tax-General	15,936,386	15,596,717	15,231,874	15,693,891
Hotel Room Tax	1,412,314	1,450,000	1,610,000	1,620,000
Utility User Tax	4,675,775	4,769,979	4,532,000	4,650,000
Transfers In	3,993,020	4,249,900	4,487,890	4,587,890
Measure R	\$6,190,360	5,403,984	5,573,439	5,625,000
<b>TOTAL</b>	<b>46,996,523</b>	<b>46,414,321</b>	<b>47,096,233</b>	<b>47,962,931</b>
General Fund	46,996,523	46,414,321	47,096,233	47,962,931
CDD	2,376,587	1,781,992	1,706,400	1,708,400
Police	1,608,643	1,441,599	1,707,297	1,707,297
Streets	44,078	82,122	262,000	262,000
Parks	766,243	627,513	875,163	875,163
Other	15,994,626	10,795,722	10,081,041	10,320,739
Bond Proceeds	-	-	12,000,000	-
<b>TOTAL</b>	<b>67,786,700</b>	<b>61,143,269</b>	<b>73,728,134</b>	<b>62,836,530</b>

## Expenditures

The City is facing a situation where 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 costs have also seen steep increases. We received a 12% increase in Worker's Compensation, Liability and 4.8% Health Insurance rate increases. The City has demonstrated prudent fiscal planning and remained focused on maintaining reserves and anticipating future needs. We have reduced our workforce by 14 positions across our departments. We have been prudently working with our departments; we are better prepared to address unforeseen circumstances or financial challenges that may arise. We have implemented a 1% operating budget reduction as well. These two efforts have helped the City to be able to have a balanced budget with no deficits. We are also proactively planning for certain adjustments that must be made to accommodate cost-of-living adjustments, (COLAS), small equity adjustments, increased benefits costs, and contractual obligations.

With the passage of Measure R, we were able to leverage the funds and work on issuing a Lease Revenue Bond. Currently we are working with a financial advisor that tells us that a \$12MM bond



issuance would cost us \$1.5 MM annual debt service payment for 10 years. We have already met with the rating board S&P and brought for your approval the issuance of this bond. We are excited that the \$8.5MM will fully help fund the remainder of the Ramsay Renaissance Park Project and provide \$3.5MM for the City Plaza renovation.

Additionally, this revenue source has added about \$350k for Library operations and \$1.4MM for additional Parks programming. On the other hand, Parks has been able to offer more programming for seniors and youth, seniors, Teen Action Council and added special events. Also, we have budgeted most of the fund balance and current operational revenue to fund our Library Rooftop project, the citywide Street Lights and a Trails annual project.

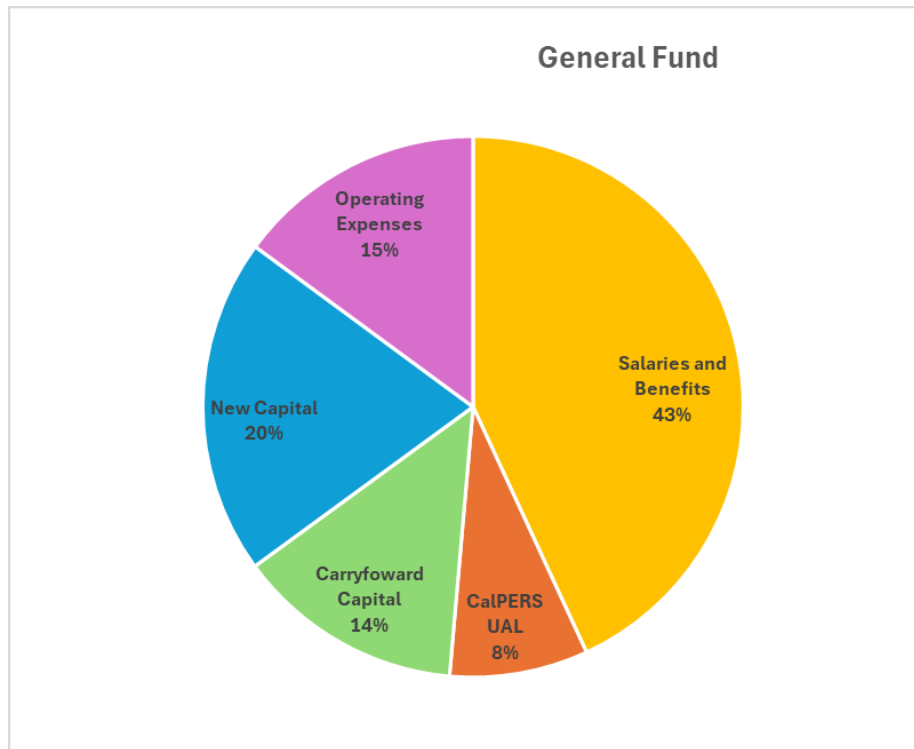
Table 6 below summarizes General Fund proposed budget that includes Measure R funds.

**Table 6: General Fund proposed budget that includes Measure R funds**

<b>Proposed Measure R Budget FY 25/26</b>	
<b><u>Operations</u></b>	
Parks	1,419,650
Library	\$350,000
Financing	1,500,000
Capital Library	2,600,000
Capital Public Works	2,200,000
<b>Totals</b>	<b>8,069,650</b>

Salaries– Salaries and benefits make up 51% percent of General Fund operating expenditures and therefore represent the greatest cost increase. The budget also reflects both actual and expected contractual raises for all our bargaining units. While salaries typically account for approximately 75% of the General Fund expenditure, this proportion appears reduced in the current fiscal year due to significant investments (\$28.2MM) in capital projects funded by Measure R and Bond Proceeds. Measure R is part of the General Fund and is therefore included with General Fund totals.

**Graph 2: General Fund Expenditures Breakdown**



Unfunded Actuarial Liability (UAL) – The City’s UAL costs pose an ongoing challenge. In the upcoming FY 2025-26 UAL costs will represent 8% of the general fund operating 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 has recently provided information that after several years of minimal or no increases in healthcare costs, there will be a 4.8 percent rate increase in the current calendar year.

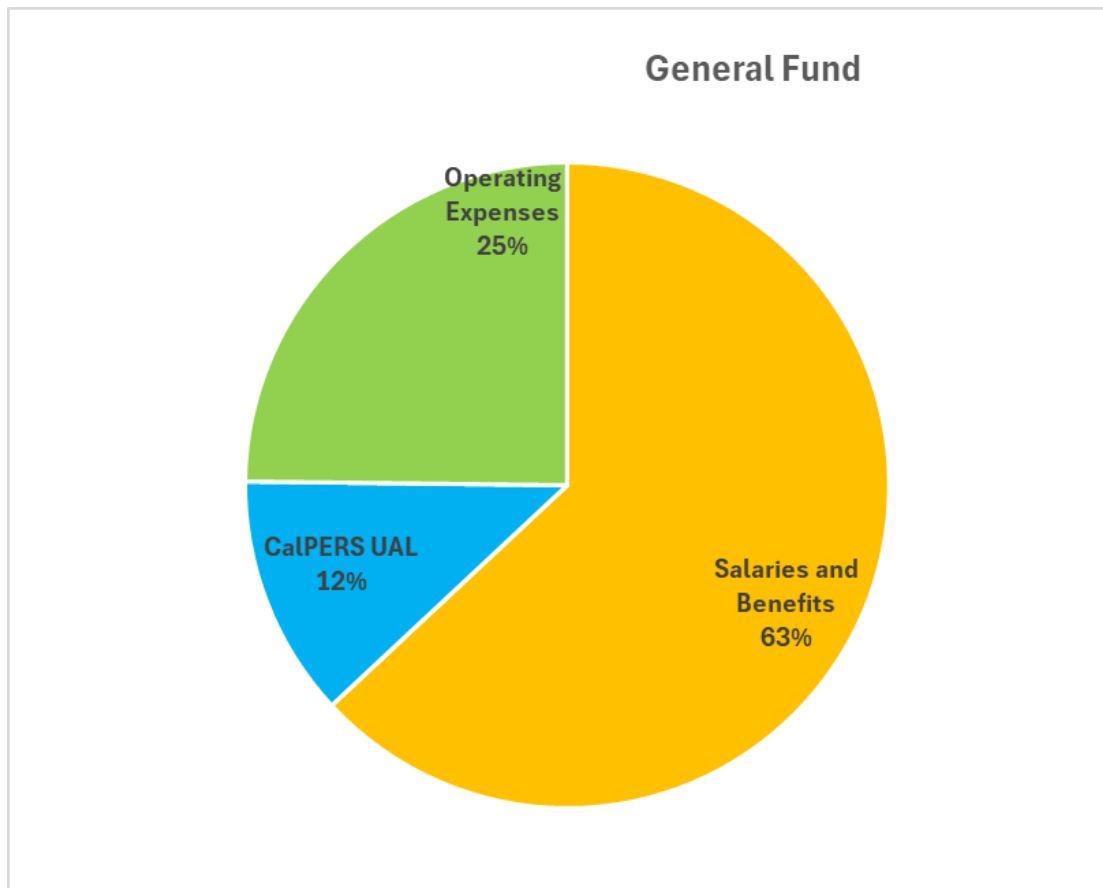
Other Non-Position Costs –Other citywide non-position impacts on the General Fund are mainly rate increases and the JPA contract with the county for 911 and Animal Shelter Services. We are also expecting an unknown cost for the public safety radio system upgrade.

**Table 7: General Fund Operating Budget by Department**

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

<b>Expenditures</b>	<b>Actual 2024</b>	<b>Original 2025</b>	<b>Budget 2026</b>	<b>Budget 2027</b>
City Council	125,142	296,825	222,385	224,740
City Manager	1,831,926	1,861,960	1,849,053	1,943,845
City Clerk	732,570	1,196,910	841,968	872,677
City Attorney	163,010	603,757	703,262	703,262
Community Development	3,086,169	3,229,808	2,821,973	2,984,845
Finance	1,564,016	1,898,810	2,003,388	2,110,801
Human Resources	894,256	913,185	1,099,108	1,161,101
Social Services	239,436	279,415	235,000	250,000
Parks & Community Services	5,697,669	7,336,688	7,794,136	8,083,314
Fire	9,344,775	9,239,593	9,434,479	9,893,285
Library	454,088	943,584	887,789	945,154
Non-Department	3,827,378	2,904,728	2,717,042	2,774,248
Police	22,539,380	24,866,361	24,741,722	26,133,627
Public Works	1,754,656	1,373,247	2,224,056	2,321,667
<b>Total Depts</b>	<b>52,254,471</b>	<b>56,944,871</b>	<b>57,575,361</b>	<b>60,402,566</b>

**Graph 3: General Fund Operational Expenditures by Type**



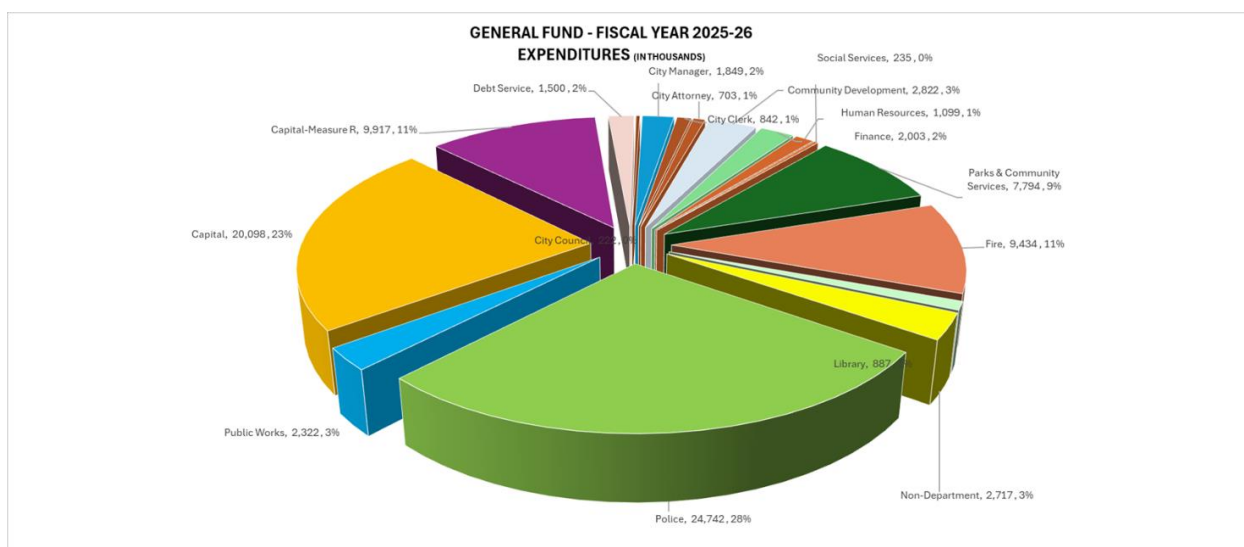
Approximately 75 percent of the City of Watsonville’s operating revenues are allocated to personnel costs across all departments. The largest share supports Public Safety services, followed by Parks & Community Services and lastly the City’s Internal Support Departments.

Community Development Department – The Community Development Department is actively engaged in two major projects: in getting the City’s new general plan update and housing element to the finish line. They are further planning for a decrease in planning demands, including few projects in the planning pipeline and it is anticipated cooling market conditions and reduced new housing starts because of increased construction costs and uncertainty with tariffs on lumber and building materials.

Parks and Community Services Department- The Parks and Community Services (PCS) 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. PCS grew programs and community participation through the addition of Measure R funds. They added programming for youth, seniors, Teen Action Council and added special events. In addition to the ongoing projects and programs mentioned earlier, the department is also actively involved in the Ramsay Renaissance Park Improvements. Bothman Construction was awarded the contract at the March 2024 meeting. Construction is in full swing, in fact we just negotiated additional funding through a lease revenue bond we are issuing leveraging general funds including Measure R funds. The park’s grand opening is expected in late 2025. The department is also working on the design for the City Plaza renovation. These efforts demonstrate the City’s and department 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 the increased costs of doing business and increases in salary and benefits for existing employees.

**Graph 4: General Fund Operational Expenditures by Department for Fiscal Year 2025-26**



## 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 were to maintain our current operations and not introduce new programming. To that end it takes our annual budget produced and described above and adds some assumed inflationary factors to both the revenues and expenses. This of course will be refined and updated each year as information becomes available, as economic conditions change, as new priorities arise, and as decisions are made to keep the City's budget in balance. Table 8 reflects the General Fund's five-year outlook with major assumptions described below.

**Table 8: General Fund Five-Year Outlook**

	<b>FY 2025/26</b>	<b>FY 2026/27</b>	<b>FY 2027/28</b>	<b>FY 2028/29</b>	<b>FY 2029/30</b>
<b>Revenue</b>	73,728,134	62,774,170	63,837,515	65,406,293	66,810,561
<b>Expenses</b>	89,091,290	64,847,566	66,659,643	68,526,082	70,448,515
<b>Revenue less Expense</b>	(15,363,156)	(2,073,396)	(2,822,128)	(3,119,790)	(3,637,954)

Property Tax: Based on historical figures we are projecting a 3% increase in each of the out years.

Sales Tax: FY 2025-26 sales tax is expected to have a 3.6% increase 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: Are projected to grow between 2% and 3% for each of the out years assuming some normal amount of inflation.

Salaries: In the last three years we assume salaries have grown very 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 industry and among our peer cities. The City of Watsonville has recently been informed that after several years of minimal or no increases in healthcare costs, there will be a moderate increase of approximately 4.8 percent in the upcoming calendar year. We have planned such an increase in the next fiscal year as the increase is effective at the beginning of the calendar year.

Utilities – We will be working on a new rate fee study in the upcoming fiscal year but have used the previous 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 approximate for CPI.

Operating Capital- In our 5-year Capital Plan, we are budgeting capital for just over \$20.1 million in FY 2026-27. 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 9: Select Special Revenue Funds**

	2 SPECIAL REVENUE FUNDS					
	0250	0262	0305	0306	0310	0312
		<u>ARPA FUND- AMERICAN RELIEF</u>		<u>SB 1 - GAS TAX</u>	<u>SALES TAX</u>	<u>MEASURE D -</u>
<b>Projected Resources 2025-26</b>	<b><u>LIBRARY</u></b>	<b><u>PLAN</u></b>	<b><u>GAS TAX</u></b>	<b><u>FUNDING</u></b>	<b><u>MEASURE Y</u></b>	<b><u>TRANSPORTATION FUND</u></b>
Revenues	4,699,264	7,891,503.00	1,455,601.00	1,100,000.00	5,212,100	1,178,000
Transfer In	25,940					
Total Gross Resources	4,725,204	7,891,503	1,455,601	1,100,000	5,212,100	1,178,000
Operations	4,569,883	-	1,084,038.00	-	5,435,589	-
Capital	386,000	7,891,503.00	1,285,094.00	4,446,374.00	1,940,630	5,700,525
Transfer Out	180,648		-		-	
Debt Service					-	
Grand Total	5,136,531	7,891,503	2,369,132	4,446,374	7,376,219	5,700,525
Surplus / (Shortfall)	(411,327)	-	(913,531)	(3,346,374)	(2,164,119)	(4,522,525)

### Library Fund

The Library Fund is supported through a County levied special sales and use tax, Measure R funds, and General Fund. As such, we expect its revenues to return to normal levels and follow the sales tax patterns described above. The Library proposes utilizing some of its accumulated fund balance in their special revenue fund for building improvements, upgrading the AV in the meeting rooms and adding pillar booths. This will enable the library to expand its service, offering to better cater to the needs of our citizens.

### ARPA

We have budgeted and obligated the remaining American Rescue Plan Act (ARPA) funds to support improvements at the Ramsay Park Renaissance project. This fund provided us with opportunities to fund streets, council chamber upgrades, youth job training, Summer in the City Program and position restoration, just to name a few. We will continue to monitor the spending of these funds as the deadline to fully spend down these funds is December 31, 2026.

### Gas Tax and SB1

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 approved Measure Y, renewing the existing half-cent public safety sales and use tax. This renewal has provided continued support for essential city services, particularly in the Fire, Police and Parks departments, by allowing for increased expenditures and expanded budgets. The Fire and Police Departments can fund positions, other operating expenditures, and some capital with these funds. The Parks Department can fund repairs, staffing and other operating costs with their allocation.

Both Fire and Police are now facing limitations in capital funding capacity. As a result, ongoing support from the General Fund will be necessary to meet future capital investment needs. In the current fiscal year, the City is planning to purchase a new tiller truck using a portion of the remaining spendable fund balance. The General Fund will assume responsibility for the associated debt service payments in future years, ensuring the department can maintain its critical emergency response capabilities.

#### Select Enterprise Funds

**Table 10: Select Enterprise Funds**

	4 ENTERPRISE FUNDS					
	0710	0720	0730	0740	0741	0789
<b>Projected Resources 2025-26</b>	<b><u>WASTE WATER</u></b>	<b><u>WATER</u></b>	<b><u>AIRPORT</u></b>	<b><u>SOLID WASTE</u></b>	<b><u>NDFILL CLOSURE</u></b>	<b><u>USER OPTIC FUND</u></b>
Revenues	36,232,690	27,174,548	4,636,463	20,231,889		141,850
Transfer In						
<b>Total Gross Resources</b>	<b>36,232,690</b>	<b>27,174,548</b>	<b>4,636,463</b>	<b>20,231,889</b>	<b>-</b>	<b>141,850</b>
Operations	19,544,209	18,656,764	4,346,395	16,883,985	150,761	77,443
Capital	20,810,995	31,198,256	171,000	2,990,055	630,545	
Transfer Out	202,513	31,651	5,056	45,836		
Debt Service	182,013	4,118	28,796	547,966		
<b>Grand Total</b>	<b>40,739,730</b>	<b>49,890,789</b>	<b>4,551,247</b>	<b>20,467,842</b>	<b>781,306</b>	<b>77,443</b>
Surplus / (Shortfall)	(4,507,040)	(22,716,241)	85,216	(235,953)	(781,306)	64,407

The Utility Enterprise Funds of Wastewater, Water, and Solid Waste are proposing minimal changes to their operating budgets. In this upcoming fiscal year, they will be embarking on a new five-year rate study. The study will evaluate the need for additional resources to support several upcoming capital projects that are expected to be significant in cost. The rising costs within the Utility Enterprise Funds are primarily driven by increasing capital improvement expenses, the costs of materials and supplies, and in the case of Solid Waste, the cost of disposal contracts, rather than personnel-related cost increases typically seen in the General Fund.

The Enterprise Funds are also adding one position and removing some positions. This will help their operations run more smoothly. The table below shows the position they are adding and the positions they are removing from the budget.

**Table 11: Enterprise and Internal Service Fund Proposed Personnel Adjustments**

Position	Department	Status	Number of FTE
Water Operations Supervisor	Water	Addition	1
Integrated Waste Worker	Solid Waste	Removal	1
Fleet and Warehouse Coordinator	MSC Internal Services	Removal	1

The Water Fund is preparing to pursue a 4.5MM State Revolving Fund (SRF) loan to finance upcoming compliance requirements related to Chromium-6 regulations. Simultaneously, the Wastewater Department will be initiating the replacement of the Main Switchgear and Energy Recovery Electrical System Improvements. These two major initiatives represent the primary drivers contributing to increased budgetary needs with the enterprise funds. Our Solid Waste Division was able to reopen Landfill Cell IV in the current fiscal year after a seven-year closure, unveiling two new areas that will give the city its own waste facility for about 75 years. This project is a major milestone in sustainable waste management. Reopening the landfill strengthens the City's ability to manage waste locally, keeping costs down for residents and ensuring a more sustainable future.

The Airport Fund is supported through three revenue streams, leasing 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 and offering the 4<sup>th</sup> grade field trip, community non-profits and emergency services groups. They are also planning a Fire in the Sky event in September 2025.

### **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 prioritized finishing the Ramsay Renaissance Park Project and the City Plaza Renovation projects. New funding in the General Fund is \$13MM in FY 2025-26, which includes an additional \$8.5MM for the Ramsay Renaissance Project and \$3.5MM for the City Plaza Project. The City is issuing lease revenue bonds in the amount of \$12MM to be able to complete these projects. The General fund's capital expenditure also includes funding for police vehicles, body worn cameras and flock cameras. We are also proposing to fund \$159k towards the financing of a fire tiller-truck for our Fire Department. Also, included in the reappropriation are the costs for the City's General Plan, Wayfinding and Ramsay Park. We are hoping to complete Ramsay Park by the end of 2025 and re-open for our community's use. Measure R is proposing to fund the Library Rooftop Project at \$2.6MM and the Citywide Streetlights project at \$1.9MM.

Most capital projects are not General Fund and will be managed by the Public Works and Utilities Department. Both the Wastewater and Water Enterprise Funds 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 \$15MM in FY 2025-26. 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 \$1.35MM on sewer pump improvements at the lift station at Pajaro Dunes. We also are budgeting for a fencing project and reappropriating \$1.0MM for a Headworks Project.

### **Water Fund**

In Fiscal Year 2025/26 the Water Fund is proposing to spend \$4.5MM on a project to work on water main replacements. Water mains are pipes that supply drinking water to homes and businesses. As they age, they become corroded and can break, causing problems for communities. The City invests to improve water system reliability. Additionally, in Fiscal Year 2025-26 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, RWTF Electrical Improvements, water meter main replacements and various other projects.

### **Solid Waste.**

The Solid Waste Capital Program is a bit smaller than in years past as they completed the reopening of Cell IV in April 2025. The proposed planned purchases are collection vehicles, street sweepers, and fuel trailers at about \$1.0MM. They will also be working on some building improvements and are proposing to spend \$300k for FY 25/26.

### **Grant Funds**

The City has been successful in obtaining a \$10.5MM grant to construct a pedestrian bridge over SR 1, install sidewalk and reconfigure bike lanes on Harkins Slough Rd. and modify Harkins Slough Rd/Green Valley Rd/Silver Leaf Dr intersection to improve bicycle and pedestrian access. Also, at Pajaro Valley High School and at feeder schools and various locations within the high school attendance area install high visibility crosswalks, curb extensions, upgrade curb ramps and improve bicycle facilities and provide pedestrian and bicycle safety training.

### **Transportation Funds**

Funding comes from many sources, and each has its own requirements. Four of the sources, Gas Tax, Measure D, SB1 and General Funds in the form of Measure R 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 our recent Pavement Management Plan will be determined by available funding. Currently, Watsonville receives approximately \$3.5MM 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. We are planning to spend \$3.7MM on pavement repair in fiscal year 25/26.

### **Unfunded Capital Needs**

Despite a plan which expects to fund over \$60.5 million of new Capital projects next budget year, we still have many 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.

### **Table 12: Capital Improvement Program by Funding Source**

Capital Improvement Plan Summary						
	FY25/26 Requests	Carryforwards	2026/27	2027/28	2028/29	2029/30
GENERAL FUND	\$ 13,126,062	\$ 6,995,137	\$ 3,096,062	\$ 4,458,062	\$ 9,426,062	\$ 1,571,062
MEASURE R	\$ 4,800,000	\$ 5,185,488	\$ 400,000	\$ 300,000	\$ 300,000	\$ 300,000
COMPUTER REPLACEMENT FUND	\$ -	\$ -				
<b>TOTAL GENERAL FUND</b>	<b>\$ 17,926,062</b>	<b>\$ 12,180,625</b>	<b>\$ 3,496,062</b>	<b>\$ 4,758,062</b>	<b>\$ 9,726,062</b>	<b>\$ 1,871,062</b>
<b><u>SPECIAL REVENUE FUNDS</u></b>						
CDBG	\$ 225,000	\$ -	\$ -	\$ -	\$ -	\$ -
CIVIC CENTER	\$ 445,000	\$ 1,010,435	\$ 1,035,000	\$ 75,000	\$ -	\$ -
LIBRARY	\$ 106,000	\$ 280,000	\$ -	\$ -	\$ -	\$ -
GRANTS	\$ 10,541,000	\$ 16,626,633	\$ 6,863,000	\$ -	\$ -	\$ -
ARPA	\$ -	\$ 7,891,503				\$ -
PARKS DEVELOPMENT	\$ -	\$ 89,712	\$ -	\$ -	\$ -	\$ -
GAS TAX	\$ 555,000	\$ 730,094	\$ 555,000	\$ 555,000	\$ 555,000	\$ 555,000
SB1	\$ 3,725,000	\$ 721,374	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000
MEASURE Y	\$ 514,000	\$ 1,426,630	\$ 1,198,614	\$ 1,164,000	\$ 500,000	\$ 115,000
MEASURE D	\$ 1,750,000	\$ 3,950,525	\$ 1,180,000	\$ 1,180,000	\$ 1,180,000	\$ 1,180,000
EAST HIGHWAY	\$ -	\$ 321,000	\$ -	\$ -	\$ -	\$ -
UNDERGROUND UTILITY	\$ -	\$ 287,171	\$ -	\$ 350,000	\$ -	\$ -
STORM DRAIN	\$ 70,000	\$ 400,000	\$ 2,000,000	\$ -	\$ -	\$ -
PARK LAND IMPACT	\$ -	\$ 24,120	\$ -	\$ -	\$ -	\$ -
CITY-WIDE TRAFFIC	\$ 900,000	\$ 70,468	\$ -	\$ -	\$ -	\$ -
PUBLIC FACILITIES	\$ -	\$ 11,603	\$ -	\$ -	\$ -	\$ -
FIRE IMPACT	\$ 82,000	\$ -	\$ -	\$ -	\$ -	\$ -
MANABE OW IMPACT FEE	\$ 190,000	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL SPECIAL REVENUE FUNDS</b>	<b>\$ 19,103,000</b>	<b>\$ 33,841,268</b>	<b>\$ 14,156,614</b>	<b>\$ 4,649,000</b>	<b>\$ 3,560,000</b>	<b>\$ 3,175,000</b>
						\$ -
<b><u>ENTERPRISE FUNDS</u></b>						\$ -
AIRPORT	\$ 80,000	\$ 91,000	\$ 887,200	\$ 420,000	\$ 1,587,000	\$ -
WASTEWATER	\$ 10,015,000	\$ 10,795,994	\$ 8,050,000	\$ 19,589,454	\$ 18,225,900	\$ 7,550,000
WATER	\$ 10,510,145	\$ 20,688,111	\$ 19,310,402	\$ 19,588,106	\$ 29,978,158	\$ 11,287,632
SOLID WASTE	\$ 1,290,000	\$ 1,700,055	\$ 1,580,808	\$ 935,808	\$ 1,500,000	\$ 100,000
LANDFILL CLOSURE	\$ 300,000	\$ 330,546	\$ 200,000	\$ 100,000	\$ 100,000	\$ 100,000
INFORMATION TECHNOLOGY	\$ 840,000	\$ 410,552	\$ 340,000	\$ 340,000	\$ 340,000	\$ 200,000
<b>TOTAL ENTERPRISE FUNDS</b>	<b>\$ 23,035,145</b>	<b>\$ 34,016,258</b>	<b>\$ 30,368,410</b>	<b>\$ 40,973,368</b>	<b>\$ 51,731,058</b>	<b>\$ 19,237,632</b>
						\$ -
<b>TOTAL CIP</b>	<b>\$ 60,064,207</b>	<b>\$ 80,038,151</b>	<b>\$ 48,021,086</b>	<b>\$ 50,380,430</b>	<b>\$ 65,017,120</b>	<b>\$ 24,283,694</b>

## **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 24, 2025, 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 Fiscal Year 2025-26 Budget, including the associated transfers of funds and approve the Five-Year Capital Improvement Program and position changes as highlighted and summarized in the staff report.

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

- 2) **Gann Limit:** Resolution establishing the “Total Annual Appropriations” pursuant to State Constitution Article XIII-B for Fiscal Year FY 2025-26 (Proposition 4 GANN spending limit) as shown in Attachment 4; and
- 3) **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, 2025, to June 30, 2026, at the levy rate of 0.077% and allocating to the Retirement Fund; and
- 4) **Airport fees:** Approve a resolution adopting various rates and fees at the Airport as shown in Attachment 2. The airport periodically updates its rates and fees based on inflation, comparison with other airports, limits set by the FAA, and operational revenue requirements. It has been two years since the airport has adjusted its rates and fees.
- 5) **Facility Rental Fees at Parks and Community Services:** Approve a resolution adopting facility rental fees at the PCS department as shown in Attachment 3. The Parks and Community Services Departments offer a variety of indoor and outdoor facilities for the public to rent. Facilities include community rooms, picnic areas, tennis courts, a car wash station and sports fields.

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

- 6) **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
- 7) **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 2025-26 spending \$309,520,897.

## ALTERNATIVE ACTION:

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

the current recommendation.

**ATTACHMENTS AND/OR REFERENCES (IF ANY):**

- 1) Budget 25.26 Corrections after draft budget publication