



Agenda Report

MEETING DATE: Tuesday, June 22, 2021

TO: City Council, Successor Agency, and Successor Housing Agency

FROM: ADMINISTRATIVE SERVICES DIRECTOR CZERWIN

SUBJECT: PROPOSED FY 2021-22 AND 2022-23 BUDGET AND RELATED ACTIONS

STATEMENT OF ISSUES:

Review and adoption of the proposed FY 2021-22 and FY 2022-23 Biennial Budget and related actions

RECOMMENDED ACTION:

It is recommended that the Council and Successor Agency and Successor Housing Agency Boards of the City of Watsonville review the proposed FY 2021-22 and FY 2022-23 Biennial Budget plan and take the following actions:

- 1) Resolution adopting the FY 2021-22 and FY 2022-23 Biennial Budget plan, providing certain transfers of funds & approve the remaining four years of the Five-Year Capital Improvement Program
- 2) Resolution authorizing the creation of a CalPERs smoothing reserve of \$1 million from available fund balance
- 3) Resolution continuing the Voluntary Time-Off program for Fiscal Year 2021-22 allowing employees to reduce their work week while maintaining current health benefit levels while prorating other benefits; and
- 4) Resolution adopting various rates and fees at the Airport
- 5) Resolution adopting facility rental fee schedule for the Parks and Community Services Department
- 6) Resolution establishing the "Total Annual Appropriations" pursuant to State Constitution Article XIII-B for Fiscal Year FY 2021-22 (Proposition 4 GANN spending limit)
- 7) Ordinance adoption instructing Santa Cruz County to levy and collect property tax on taxable property within the City of Watsonville for fiscal year beginning July 1, 2021 to June 30, 2022 at the levy rate of 0.077% and allocating proceed to the Retirement Fund
- 8) Successor Housing Resolution authorizing the expenditure of low and moderate-income housing funds
- 9) Successor Agency Resolution find 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:

Budget Highlights

The Budget for Fiscal Year 2021-22 and FY 2022-23 for the City of Watsonville totals \$184,133,519 and \$180,290,587 million respectively as summarized in Table 1 below.

Table 1: Fiscal Year 2021-22 and FY 2022-23 Budget Summary

	GENERAL FUND	Total Special Revenue Funds	Total Internal Service Funds	Private Trust Fund	Total Enterprise Funds	Debt Service Fund	Total All Funds
FY 2021-22							
Total Resources	47,376,666	23,246,937	18,784,422	2,012,247	58,315,161	832,765	150,568,198
Total Uses	51,059,554	33,671,653	19,762,652	2,012,247	76,794,646	832,767	184,133,519
Surplus / (Shortfall)	(3,682,888)	(10,424,716)	(978,230)	-	(18,479,485)	(2)	(33,565,321)
FY 2022-23							
Total Resources	48,805,419	32,846,416	19,226,727	1,901,634	59,020,565	813,429	162,614,190
Total Uses	53,406,895	34,938,308	18,917,471	1,901,634	70,312,848	813,431	180,290,587
Surplus / (Shortfall)	(4,601,476)	(2,091,892)	309,256	-	(11,292,283)	(2)	(17,676,397)

The Covid-19 Coronavirus pandemic did not impact Watsonville nearly as much as we had anticipated at this time last year. This has left the City in a position to be cautiously optimistic as we prepared our budget. Across all funds, we are restoring some, but not all of the reductions from the prior year. Many funds have also accumulated one-time balances that we are able to use to address deferred capital and one-time needs. Watsonville is in better shape than many cities in the Monterey Bay Region, but prior structural deficits, increasing CalPERS liabilities, and long deferred maintenance needs require that we continue to proceed with caution as we emerge from the pandemic.

General Fund

The General Fund is projected to increase operating expenditures and revenues in the next two years and spend down on accumulated fund balance. Several years of growth prior to the pandemic, plus careful budgeting through this challenging year have resulted in a General Fund balance of nearly 35%, exceeding the City Council's policy of 20%. We are leveraging our strong reserve levels to make some significant investments in capital and one-time needs. We are also restoring the departments hardest hit by pandemic reductions, namely the Parks and Community Services Department and the Community Development Department. Other departments are being held mostly flat, aside from cost increases to salary and benefits, materials and contracts. This is allowing us to reset the General Fund budget to sustainable levels. Prior to the pandemic, the General Fund was facing structural deficits far into the future. As we rebuild our General Fund operations, we are being conscious not to create those same structural problems.

Revenues:

Property Tax- We are budgeting base property tax to be 3.6% above estimated FY 2020-21 collections for a total of \$13,278,103. Property taxes are collected based on County Assessor rolls that were formally closed in January of 2021. At that time, the normal Prop 13 assessed CPI growth was 1.3%, less maximum allowed 2%. However, we are expecting some of this lower than normal base assessment growth to be offset by increases in supplemental property taxes and deed transfers as pent up demand for home buyers has pushed property values up.

Sales Tax – Sales tax has been the most closely watched and most volatile during the pandemic. The worst quarter during this timeframe was the last quarter of FY 2019-20. Since then, sales tax has grown and surprised us each quarter with strong growth in auto sales and county pool allocations more than making up for losses in other areas such as fuel, restaurants, and hotels. We are expecting some of this strong growth to level off in FY 2021-22, expecting that auto sales will decrease slightly to more normal levels and that our allocations from the pools will also taper off as tourism related shopping returns to the rest of the county and decreases our share of the county pools. Nevertheless, we are expecting sales tax to grown by 2.5% in FY 2021-22 and 3.3% in FY 2022-23.

Sales Tax is 25% of General Fund revenue. The City also is supported by sales tax in a number of special funds including the Library, the Measure Y Public Safety Sales tax, and Measure D transportation. Each of these funds is likewise impacted by similar assumptions discussed later in this report.

Hotel Tax – Hotel tax is a much smaller percentage of the City's overall revenue mix. Nevertheless, this revenue stream was the most impacted by the pandemic. Projections for FY 2020-21 has us receiving only 58% of what was received in FY 2018-19. We are hopeful that with the June 15 reopening of the state and the new opening of the Hampton Inn on Lee Rd. that Hotel Tax will return to its FY 2018-19 level next fiscal year and then grown by 3% in FY 2022-23.

Utility User Tax- Utility User Tax represents about 8.7% of General Fund revenues. This tax stream tends to be more stable as it 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 each of the two budget years.

Community Development Department Revenues – The Community Development Department charges fees for many of its services including inspections, plan check, and permit issuance. The department has been incredibly busy during the pandemic and their revenues reflect that. Much of their expenditures that were initially cut in the FY 2020-21 budget were restored during mid-year budget adjustments to keep up with the volume of work. In FY 2021-22 budget, we are expecting this high level of work to continue and are growing their revenues accordingly. They are also working with consultants on several very large planning projects such as the mini warehouse proposal on Nielson Street and the Manabe Ow Specific Plan Area. Those developers will be paying the cost of the planning consultants and the department's revenues reflect those reimbursements.

Parks and Community Services Revenues – The Parks and Community Services Department was the hardest hit by the pandemic with much of their normal service offerings prohibited. It is only within the last few months that the department was able to restart somewhat normal recreation and sports activities. The June 15 state reopening should allow for even more. Despite the reopening, it will take time for the department to rebuild its staff and catalog of services; and furthermore, we expect some hesitancy from the public in participating in activities in the same pre-pandemic way. Therefore, we are expecting that FY 2021-22 revenues will still only about 80% of pre-pandemic levels but will be fully recovered by FY 2022-23.

Other General Fund revenues make up smaller portions of the overall revenues, and we are projecting fewer fluctuations. This includes items like business licenses, parking permits, and franchise fees lease revenues and interest. Each item was analyzed on its own and reviewing past experience. The budget does assume the use of \$442,000 of American Rescue Plan Act (ARPA) funds in each year. There are many parts of the budget that we believe will be eligible to be covered by ARPA funds, but we are specifically assuming this amount is being used to assist us in restoring programs and services to the Parks and Community Services Department.

Table 2 below summarizes all the revenue impacts described above.

Table 2: General Fund Revenue Summary

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Revenues	Actual	Projection	FY 22	FY 23
Property Tax	12,712,164	12,819,345	13,287,103	13,665,969
Sales Tax	10,842,869	11,779,093	12,080,264	12,484,443
Utility	4,264,876	4,012,088	4,132,451	4,256,424
Hotel	991,893	683,990	1,173,440	1,208,643
Transfer In	3,594,119	3,900,255	4,126,938	4,146,299
Other Revenues	5,101,302	4,315,015	4,947,812	5,067,229
	37,507,223	37,509,786	39,748,008	40,829,008
CDD	1,174,548	1,531,000	1,864,000	1,801,000
Police	1,662,061	902,402	1,302,000	1,322,020
Fire	314,800	1,439,444	469,200	489,051
PCS	674,906	481,623	791,250	1,062,500
PW	97,243	118,117	299,179	304,321
Other	3,117,521	3,332,856	2,903,031	2,997,522
Total GF Revenue	44,548,302	45,315,228	47,376,668	48,805,422

Expenditures

Even before the pandemic, Watsonville was facing structural shortfalls with expenditures projected to grow faster than revenues primarily driven by increasing unfunded actuarial liability (UAL) retirement costs. In response to the pandemic, over \$4 million was cut from the General fund operating budget including 20 positions. In order to achieve a more structurally

balanced budget most of those positions and reductions were not added back. Increases reflected in this budget are driven by increases to salaries and benefits for existing employees and increases in contracts, materials, and other inflationary items. The only exceptions include the Parks and Community Services and Community Development Departments as described below.

Salaries– Salaries and benefits make up 51% of General Fund operating expenditures and therefore represent the greatest increase in costs. It is also the area that was most greatly reduced during the pandemic and therefore the area most in need of restoration. The increases reflect new positions at the Parks and Community Services (PCS) department, the Community Development Department, and Public Works. It also reflects the restoration of furloughs taken by all non-sworn bargaining units, restoring temporary salaries to the PCS department, and restoring some employees who had voluntarily reduced their schedules back to full time. The budget also reflects both actual and expected contractual raises for all of our bargaining units.

Unfunded Actuarial Liability (UAL) – The City's UAL increases continue to be a challenge. In FY 2021-22 UAL costs will represent 10.5% of the General Fund operating budget. The total of \$4.9 million represents a \$765 thousand increase from the prior year. UAL costs are expected to continue to rise much faster than our revenues in each of the next 3 fiscal years, peaking in FY 2023-24. To help offset these increases we are proposing the creation of a CalPERS smoothing reserve of \$1 million. By using some of our accumulated one-time fund balance to pay for these large increases until we reach the peak we can reduce the impact to our operating funds.

Other Benefits – Other benefits such as normal retirement costs, social security, and Medicare are expected to rise at similar rates to salaries. The City of Watsonville has fared better than most cities in relation to health benefits in recent years with little to no increases. We are hopeful that trend will continue and have budgeted for 2.5% increase in health care costs in each of the budget years.

Other non-position costs – Other citywide non-position impacts to the general fund are minimal. We are budgeting for rate increases for Water, Sewer, and Solid Waste as proposed by the Public Works department and approved by the Council. Other items of not are increases to our JPA contract with the county for 911 and Animal Shelter services.

Select Department Changes

All departments are impacted by the citywide impacts described above. In addition, several departments had major programmatic changes that are highlighted and described below. Table 3 shows the proposed General Fund operating budget by department.

Table 3: General Fund Operating Budget by Department

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	% Increase
	Actual	Original Budget	Proposed Budget	Proposed Budget	from FY 2020-21
CITY CLERK	802,344	916,149	1,205,357	1,053,243	31.6%
COMMUNITY DEVELOPMENT	2,333,698	1,877,969	2,916,910	2,909,995	55.3%
FINANCE	1,579,219	1,590,665	1,711,099	1,778,653	7.6%
FIRE	7,538,289	7,150,127	7,956,138	8,306,447	11.3%
GENERAL GOVERNMENT	1,818,098	2,284,873	2,435,519	2,511,633	6.6%
INNOVATION & TECHNOLOGY	1,539,546	-	-	-	
LIBRARY	551,899	541,484	585,686	589,884	8.2%
NON DEPARTMENTAL	2,180,881	2,301,470	2,759,123	2,772,985	19.9%
PARKS & COMM SERVICES	4,363,873	3,408,817	5,216,337	5,622,022	53.0%
POLICE	18,398,200	18,951,725	20,278,271	21,141,109	7.0%
PUBLIC WORKS	1,428,184	1,410,113	1,625,627	1,668,240	15.3%
Total	42,534,231	40,433,392	46,733,866	48,402,612	15.6%

Community Development Department – As described above, the Community Development Department saw no slow down and actually experienced an increase in demand for their services throughout this past year. Their budget was increased several times during the current fiscal year in order to meet that demand and this budget reflects that annualization of those changes. It includes an increase of three positions for the FY 2020-21 original budget and increases to contract services. All of the increases of this department are paid for with their own expected revenue increases. If their revenues or demand for services decline, they will be expected to reduce their budget accordingly.

Parks and Community Services Department- The Parks and Community Service Department was drastically reduced in last year's budget. This year, we are happy to say the department is fully restored, along with additional funding. Parks staff and salaries were increased to maintain our parks and the city's landscaping needs. We have restored recreation and community services staff, so they can once again offer services. It will take some time for the department to rebuild and for the public to have confidence in participating in the same ways; therefore, you will see even larger increases for the department planned for the second year of the budget. We have also decided to move the Science Workshop program from the Public Works Department to PCS to better leverage our combined youth development and education programming resources. The department has also decided to reorganize its accounting structure to make it easier to understand and administer.

Other General Fund Operational Changes- As discussed, most of the increases reflected in the table above reflect increased costs of doing business and increases in salary and benefits for existing employees. A few other changes to acknowledge include: the cost of running upcoming 2022 elections and the redistricting process in the City Clerk's department; the

expected increase in costs for City Attorney services as our long standing City Attorney is set to retire; an additional facilities maintenance position in the Public Works Department to help maintain parks and recreation facilities; additional funds towards maintaining our sloughs and wetlands, and a contribution toward the public works environmental sustainability group.

Five Year Outlook

Our five-year projection assumes no new programmatic changes. It is a snapshot of “If we were to continue doing what we are doing, what would it cost.” To that end, the outlook takes the two-year 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 4 reflects the General Fund’s five-year outlook with major assumptions described below.

Table 4: General Fund Five-Year Outlook

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue	47,376,668	48,805,422	49,423,890	50,771,375	52,172,639
Expense	51,059,554	53,406,895	50,683,349	51,465,981	52,413,160
Revenue less Expense	(3,682,886)	(4,601,473)	(1,259,459)	(694,606)	(240,520)
Available One-Time Funds	3,682,886	4,601,473			
Net Deficit	-	-	(1,259,459)	(694,606)	(240,520)

Property Tax: Based on historical averages we are projecting 3.5% increase in each of the out years.

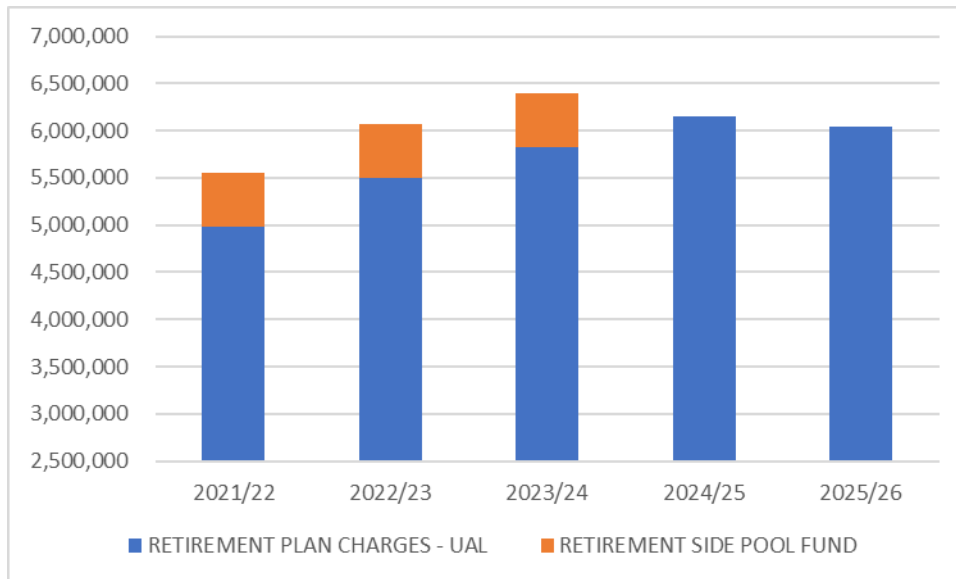
Sales Tax: FY 2021-22 sales tax is expected to level off as our pool shares readjust to a reopened economy followed by 3.5% economic recovery growth in FY 2022-23. The out years are assumed to grow at 3% similar to past trend and assuming some normal growth.

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 grow very gradually, at 2%.

Retirement Costs: The normal cost portion of our retirement is anticipated to grow at the same rate as our salaries. The unfunded liability of our portion is based on the most recent actuarial reports from CalPERS and is expected to peak in FY 2024-25. Furthermore, the city has a side loan to pay off UAL from the Tier II category safety employees which ends in FY 2023-24, allowing that money to be deployed towards other retirement liabilities. As shown in chart 1, we have a hump to get over in the next few years before our retirement costs are expected to become more manageable. This is why we are requesting the creation of a CalPERS smoothing reserve.

Chart 1: General Fund 5-Year Retirement Costs



Health Benefits – While Watsonville has seen little to no increases in our health insurance costs in recent years we know this is an anomaly in the industry and among our peer cities. As such, we do not expect this trend to continue and are assuming a 5% growth in health insurance costs in the out years.

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

Other Non-Personnel Costs – We assume these costs will increase by 2%, an assumed proxy for CPI

Operating Capital- After years of not factoring operating capital and maintenance into the 5-year plan, our target is to increase the amount of operating capital to just over \$1 million in FY 2023-24 and each of the out years according to the five-year CIP plan. The City has over \$30 million in 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 5: Select Special Revenue Funds

	0250- LIBRARY	0305-GAS TAX	0306-SB 1	0310- MEASURE Y	0790-IT ISF
Projected Fund / Cash Balance 6/30/2021	1,366,989	788,060	1,786,888	3,673,646	1,498,671
FY 2021-22					
Total Resources	3,705,459	1,276,440	1,046,279	4,440,577	3,497,761
Total Uses	3,968,429	1,812,256	2,381,984	5,845,354	4,475,991
Surplus / (Shortfall)	(262,970)	(535,816)	(1,335,705)	(1,404,777)	(978,230)
FY 2022-23					
Total Resources	3,782,752	1,314,339	955,000	4,571,836	3,602,694
Total Uses	3,899,344	1,232,264	300,000	4,989,417	3,293,438
Surplus / (Shortfall)	(116,592)	82,075	655,000	(417,581)	309,256
Projected Fund / Cash Balance 6/30/2023	987,427	334,319	1,106,183	1,851,288	829,697

Library Fund

The Library fund is supported through a county special sale and use tax. As such, we expect its revenues to return to normal levels and follow sales tax patterns described above. The library had planned to use its fund balance in order to make it through the pandemic. That wasn't necessary and now plan to spend some of that fund balance on a capital project to improve their restrooms. They are also adding back temporary salaries and increasing their book budget to prepare for reopening. The Library Department has also decided to reorganize their accounting structure for simplicity. They are combining what were previously separate codes for cannabis, Freedom branch, and the literacy program into their main Library code.

Gas Tax and SB1

The gas tax is expected to normalize as people return to the streets. These funds pay for roadway projects and also include some staff and material costs for regular maintenance of the streets. The transportation arm of 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 (G)

In March 2020, Watsonville voters overwhelmingly voted to pass Measure Y and renew the existing half cent public safety sales and use tax. Coming out of the Covid-19 Pandemic, sales tax has been stronger than anticipated and we are expecting this revenue stream to increase 3.8% over fiscal year 2020-21. This will allow all departments to increase their expenditure budgets. The Fire Department is requesting to add two firefighter positions. The Police

Department is requesting an administrative analyst and records clerk position along with increases to the mental health/CARE program and restoring salaries and contracts for the Caminos youth development program. The Parks and Community Services Department is increasing salaries for the operation of the youth center and for maintenance of the parks. 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.

Innovation & Technology – The Innovation and Technology (IT) Department was moved to its own internal service fund last fiscal year. Due to some vacancies and not being able to complete some large projects the fund is expected to begin this two-year cycle with a starting fund balance. Over the next few years the department is expected to use that balance to complete a number of large and needed technology projects for the City including, updating the audio and visual capabilities of our Council Chambers and Community Rooms, completing a security assessment, replacing our phone system, along with keeping up with regular server maintenance and upgrades and keeping up with the ever-increasing technological needs of running the City.

Select Enterprise Funds

Table 6: Select Enterprise Funds

	0730- AIRPORT	0710- WASTE WATER	0720- WATER	0740-SOLID WASTE	0741- LANDFILL CLOSURE
Projected Fund / Cash 6/30/2021	650,878	11,506,388	25,849,439	5,673,636	4,164,652
FY 2021-22					
Total Resources	3,951,476	16,530,385	21,569,685	16,031,004	150,761
Total Uses	3,874,938	24,145,737	30,908,840	16,942,027	841,361
Surplus / (Shortfall)	76,538	(7,615,352)	(9,339,155)	(911,023)	(690,600)
FY 2022-23					
Total Resources	3,721,731	17,110,953	21,905,221	16,050,049	150,761
Total Uses	3,721,731	18,014,791	29,848,277	15,894,525	2,751,761
Surplus / (Shortfall)	0	(903,838)	(7,943,056)	155,524	(2,601,000)
Projected Fund / Cash 6/30/2023	727,416	2,987,198	8,567,228	4,918,137	873,052

The Utility Enterprises of Wastewater, Water, and Solid Waste are proposing minimal changes to their operating budgets. The Council approved a new five-year rate schedule to take effect beginning July 1. Unlike the general fund, much of the cost increases in the Utility enterprises are not driven by personnel but by the cost of capital, the costs of materials and supplies, and in the case of Solid Waste, the cost of disposal contracts.

The Airport fund is supported through three revenue streams: leasing of commercial properties: leasing of Aviation Storage units: and aviation fuel sales. The department was

overly conservative in its budget approach in FY 2020-21 and is expecting revenues to improve in the budget cycle. As such they are adding back one position that they reduced and planning to tackle some capital projects that had been delayed. They also plan to begin offering unleaded fuel to pilots as an environmentally friendly fuel source not available at other nearby airports. The airport is committing a portion of its Special Events budget to community outreach efforts by partnering with local schools, organic farmers, and emergency services groups. The Airport is currently in the process of completing a master plan update that informs their capital and operations in future years.

Five-Year Capital Improvement Plan

The Five-Year Capital Plan helps the City prioritize its funding and planning for longer term structural needs. Last year, all departments submitted a comprehensive list of all capital needs and projects. This year represents an update to that five-year plan. Departments were encouraged to submit all their known capital needs knowing that the City may not be able to fund all projects but to inform the scope of need within the City. Several departments have recently been through Master Planning processes which informed their requests. Furthermore, the Public Works and Utility departments have recently completed a rate study and incorporated their capital plans into that study.

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

- 1) To group like projects together as much as possible in order 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 Parks projects this year, particularly Ramsay Park. This capital plan is investing over \$7 million into Ramsay Park and over \$10 million in Parks and Recreation Facilities in general. We are funding the design for all of the improvements included in the Ramsay Park Master Plan and the construction of the improvements to the main soccer field. We are hopeful that by funding the design for all these projects we will be "shovel ready" and able to take advantage of additional funding from grants, state and federal allocations, or community fundraising to complete the remaining elements in future years.

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

Wastewater Master Plan

In 2019, staff completed a Wastewater Master Plan to identify aging infrastructure needs and develop a capital improvement program. The Master Plan scope included the following:

- Treatment Facility Condition Assessment and Hazard Vulnerability: An assessment of the condition and natural hazard vulnerability of prioritized wastewater treatment plant infrastructure including a majority of the liquid and solids treatment facilities.
- Collection System Pump Stations Condition Assessment and Flooding Vulnerability: An assessment of needs, priorities, and timing of projects at 13 sanitary sewer collection system pump stations that were visually assessed by City staff.
- Capital Improvement Recommendations: Development and prioritization of future project recommendations with planning-level cost estimates for consideration with the City's Capital Improvement Plan (CIP).

The most significant project identified in the Wastewater Master Plan was the electrical system replacement project at the City's wastewater treatment facility, a \$17M project. Staff has completed the overall electrical system analysis, and has recently selected a design engineer to begin final design of this project, which is expected to go to construction in 2023 or 2024.

Additionally, a number of significant improvements will need to be made to our sewer pump stations, sewer lines, reinforcement of the river levee next to the treatment plant, and other upgrades within the treatment facility.

Water System Master Plan

In 2020, staff completed a Water System Master Plan that developed operational and maintenance recommendations and a capital improvement program that addresses aging infrastructure and future development needs. The Water System Master Plan scope included the following tasks:

- Condition Assessment and Hazard Vulnerability: An assessment of the condition and preliminary natural hazard vulnerability of most water infrastructure including 11 wells, 4 steel tanks, 2 distribution pump-station buildings and 2 earthen reservoirs.
- Future Water Demand Projections and Existing System Capacity: An evaluation of future water demand and related impact on existing system infrastructure capacity using a hydraulic model developed by City staff.
- Capital and Maintenance Improvement Recommendations: Development and prioritization of future project recommendations with planning-level cost estimates for consideration with the City's Capital Improvement Plan (CIP).

This Plan identified and prioritized over \$100M in projects that will need to be completed over the next 20 years to keep the City's water system reliable and up to modern standards. One of the key projects identified in that plan is a new water reservoir, a \$12M project. Staff has started design on this project, and hope to construct it in 2022.

A few other key projects identified in the Plan include:

- The regulation for chromium 6 is expected to be finalized next year, and if it is, we are prepared to construct this project in the next 3-5 years. The new estimate for construction is around \$28-30M.
- 2 miles of new water lines each year, based on a prioritized matrix including factors such as age of pipe, number of breaks in the line, and material the pipe is made of. The cost of this program is \$2M/year.

- A new water production well, which is currently under construction, a \$4M project.
- Upgrades to our electronic control system need to be completed, a \$700,000 project that was recently awarded by Council.

Solid Waste.

The Solid Waste capital program is largely driven by the costs of closing and opening landfill cells. Staff originally expected to close the landfill about three years ago, but as our community became better at recycling and diverting yard waste from their garbage cans, we were able to extend the life of our landfill several more years. Staff finally completed a partial closure of it in 2020, and will allow it to settle for two years before constructing a permanent cover on it in 2023, which is a \$3M project. We also plan to open a new landfill cell in 2023, which is a \$4M project.

Additional capital costs are driven by changes in regulatory requirements, such as preparing for the new State-mandated food waste collection program, and the cost of replacing garbage and recycling collection vehicles, at a cost around \$400,000 each.

Transportation

Transportation projects were selected for the Capital Improvement Program due to need and available funding. Need is typically based upon existing conditions and amount of use. Major arterial roads have more traffic and tend to deteriorate quicker than lesser-travelled roads. Sidewalks and pedestrian or bike trails also show wear due to age. Streetlights, traffic lights, striping and signage must be maintained and are 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 that facilities be upgraded or expanded.

Funding comes from many sources and each has its own requirements. Three of the sources, Gas Tax, Measure D, and SB1 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.

Key projects in the next two years include reconstruction of Freedom Boulevard from Alta Vista to Green Valley Road, parts of Green Valley Road, Bridge Street, and Pennsylvania Drive. The Department is also planning a City-wide street resurfacing project that will improve the surface condition and support the lifespan of several miles of streets throughout the City.

Unfunded Capital Needs

Despite a plan that expects to fund over \$125 million of Capital projects over the next four years, we still have over \$30 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, and improvements to the City’s most used parks. 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 7: Capital Improvement Program by Funding Source

	FY 2021/22	FY 2022/23	FY 2023-24	FY 2024-25	Total
General Fund	3,803,957	5,052,482	1,003,000	1,045,000	10,904,439
Grants	2,450,000	14,077,952	-	175,000	16,702,952
Transportation Funds	4,953,128	2,579,000	1,345,000	935,000	9,812,128
Airport	45,000	165,000	135,000	360,000	705,000
Water	5,588,540	13,278,868	4,082,667	25,449,241	48,399,316
Wastewater	4,864,468	2,501,448	18,905,861	1,530,881	27,802,658
Solid Waste / Landfill	743,300	3,594,582	4,218,302	81,182	8,637,366
Other	1,246,000	836,901	166,002	140,004	2,388,907
Total	23,694,393	42,086,233	29,855,832	29,716,308	125,352,766

Public Process

The 2021-2023 Biennial Budget was created with new levels of public engagement. By syncing the Council’s Strategic Plan and budget development processes, we were able to take advantage of those combined public outreach efforts. It began with a communitywide survey conducted in January and February with a total of 770 participants. The results of that survey were presented to council on March 23. Some key recommendations of that survey were:

- 1) Prioritize community safety improvements and crime reduction in strategic planning
- 2) Focus on Public Works projects on paving and repairing streets and roads
- 3) Focus retaining millennial and generation Z residents
- 4) Conduct follow up survey consistently

In March, we held two community Budget 101 educational sessions, and opened an online survey which asked three questions:

- “How would you spend \$100 thousand of ongoing money”
- “How would you spend \$1million of one-time money”
- “What else would you like to tell us”

The survey was available for three weeks and we received 63 responses, 47 whom indicated they were Watsonville residents, 16 were non-Watsonville residents or declined to state. Top responses to the first two questions fell into the following categories:

- Investment in Parks and Outdoor spaces
- Invest in Youth Programming
- Invest in our downtown and economic development
- And invest in streets safety cleanliness and beautification.

The final open-ended question was a bit more difficult to categorize but had similar themes. A new grouping of 10 respondents mentioned not growing or reducing our police budget.

Finally, we held a total of five virtual budget town hall meetings. These meetings were very open ended and conversational. Themes were similar to what was mentioned above with a strong desire to see investment in our youth through recreation and other programming. There was also discussion of wanting to see equity and targeted investments toward individuals or communities most in need. We heard requests to invest in our non-profit support partners, to look for ways to find non-sworn response to some types of police calls, to meet basic needs such as housing and food, and to really listen to the community.

The community input collected made clear that our residents want to see more investment on several fronts. This budget responds to and reflects the community input and priorities collected. We are in the process of completing our Downtown Watsonville Specific Plan, which will help drive economic revitalization; there is over \$23 million slated for transportation capital projects, additional support added to our outdoor maintenance crews, and as outlined above, great effort has been put towards restoring our Parks and Community Services Department. Clearly there is more that the public wants, but we believe this budget makes meaningful progress in areas that matter most to the community. The City is also undertaking a process to review policing through an Ad Hoc Committee on Policing and Social Equity. As we await results and recommendations of that committee process we have deliberately made very little changes to the Police budget.

We will continue to reach out to the community and gather input as we make analyze and create a plan to spend Watsonville's allocation of American Rescue Plan Act (ARPA). Watsonville has been allocated \$18.2 million from this federal relief package. Very little was programmed into this budget, mainly, as described above to help us restore the PCS department while their revenues remain low. The vast majority of these funds will come back to the Council later this summer after the guidance can be analyzed and a plan developed. The ARPA funding plan will include additional opportunities for community input and will continue to prioritize areas of greatest community need.

Budget Legislation

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

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 2021-22 Budget, providing certain transfers of funds and approve the Five-Year Capital Improvement Program, as highlighted and summarized above. Attachment 4 includes certain technical corrections made to the budget in the period from June 1 to June 15. These are primarily corrections for the previously approved capital project funds that expect to be carried forward to the next fiscal year and were not originally included due to timing of the adjustments. This list also includes some minor adjustments to LLMAD,

CDBG and housing funds, and corrections to the reorganization of the library department where the Freedom and Literacy organization codes are now included in the main library organization code.

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

- 2) **CalPERS Smoothing Reserve:** Approve a resolution establishing a CalPERS smoothing reserve in the amount of \$1 million using fund balance in excess of the minimum recommended of 20% reserve level. It is anticipated that approximately \$450,000 will be used in FY 2022-23 to pay for UAL increases in excess of the rate of normal revenue growth. Updates as the amount used, available, and needed for this reserve will be provided to Council at both mid-year and budget hearings each year until the reserve is exhausted or no longer needed. At which point council can act to dissolve the reserve and return it to other one-time expenses.
- 3) **Voluntary Time Off Program:** Adopt the resolution continuing the Voluntary Time-Off program for Fiscal Year 2021-22 allowing employees to reduce their work week by no more than 8 hours per week while maintaining current health benefit levels while prorating other benefits; 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 offers 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. In Fiscal Year 2018-2019 (the last full fiscal year prior to the COVID-19 pandemic that forced the closure of rental facilities/program), the City's recreation facilities were rented for private events for a total of 1,275 hours and generated \$159,435 in revenue. In that same Fiscal Year, direct maintenance and operational costs for these facilities was estimated at \$240,000. This does not include Departmental and City administrative costs or Capital Improvement Projects. It is noted that maintenance operations for recreation facilities has historically been, and continues to be, drastically underfunded.

The current fee structure was approved by the Council on June 13, 2006 with rental rates increasing by the Consumer Price Index each year. The current Facility Rental Fee Schedule outlines five Categories used to determine priority use of recreation facilities and associated fees. Parks and Community Services Department teammates often receive feedback that the current Facility Rental Fee Schedule is difficult to understand and navigate. Current fees are not uniformly discounted for non-profits, making the program difficult to administer

and for customers to understand. The equipment fees that are charged in addition to hourly rental rates is also often a source of frustration for customers.

Staff recommends that the City Council adopt the revised Recreation Facility Rental Fee Schedule that incorporates the following changes:

1. Adjust base rental fees as outlined in Attachment 3 and eliminate existing add on fees and annual CPI increase
2. Implement a uniform 40% fee reduction for non-profits from the rates established for private renters and apply this fee reduction to rentals for picnic areas and pavilions
3. Establish an additional 10% rental fee for non-residents, and
4. Establish fees for facilities not currently included in the rental schedule.

The recommended fee schedule has minor impacts to current facility rental fees and reduces fees for facilities that are currently above the market average. It is expected that revenues may increase with the implementation of a more user-friendly fee schedule. The Parks and Recreation Commission recommended that the Council adopt these fees during their meeting on May 3, 2021.

- 6) **Gann Limit:** Resolution establishing the "Total Annual Appropriations" pursuant to State Constitution Article XIII-B for Fiscal Year FY 2021-22 (Proposition 4 GANN spending limit) as shown in Attachment 4; and
- 7) **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, 2021 to June 30, 2022 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

- 8) **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
- 9) **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 2021-22 spending

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):

Proposed 2021-22 Budget [Available Online Here](#)

- 1) Technical Corrections from June 1 to June 15