



Agenda Report

MEETING DATE: Tuesday, June 28, 2022

TO: City Council

FROM: ADMINISTRATIVE SERVICES DIRECTOR CZERWIN

**SUBJECT: RECOMMENDED BUDGET FOR FISCAL YEAR 2022-23 AND
RELATED ACTIONS**

STATEMENT OF ISSUES:

Section 1103 of the City's Charter requires that at least 30 days prior to the beginning of the fiscal year, the City Manager present to the City Council the proposed budget for the following fiscal year. Sections 1104 and 1105 further outline the public hearing process and actions the Council may take before adopting the budget prior to the beginning of the fiscal year on July 1. On June 14, the Council held first of two noticed public hearings regarding the Fiscal Year 2022-23 budget. Today is the second public hearing.

RECOMMENDED ACTION:

- 1) Pass an ordinance increasing the compensation for each member of the City Council from \$607.75 to \$638.14, per month, as permitted by Government Code Section 36516; and
- 2) Pass an uncodified ordinance instructing Santa Cruz County to levy and collect property tax on taxable property within the City of Watsonville for fiscal year July 1, 2022 to June 30, 2023 at the levy rate of 0.077%, and allocating proceeds to the Retirement Fund; and
- 3) Approve a resolution establishing the total annual appropriations pursuant to California State Constitution Article XIII-B for the Fiscal Year 2022-23 (Gann Limit).

Staff recommends the Council take the following actions acting in its capacity as the City Council for the City of Watsonville and in its capacity as the Successor Agency of the former Redevelopment Agency of the City of Watsonville:

- 4) Approve a resolution adopting the final budget for the Fiscal year 2022-2023, providing for certain transfer of funds, and approving the Five-Year Capital Improvement Program for Fiscal Years 2022-23 to 2026-27; and
- 5) Approve a resolution finding that the use of former Redevelopment Agency Funds and other assets generated from the Watsonville 2000 Redevelopment project area for the purpose of improving, increasing, and preserving the community's supply of low and moderate housing outside the project area will benefit the project area; and

- 6) Approve a resolution finding that the use of funds from the low and moderate-income housing asset fund for planning and general administrative costs is necessary for the purpose of producing, improving, and preserving the community's supply of low and moderate-income housing.

DISCUSSION:

The City Council holds at least two public meetings to consider and adopt the annual City budget. At the first meeting, on June 14, 2022, the Council received a presentation on the budget, and introduced, for first reading only, two related ordinances: one increasing Council Member and Mayor compensation by the amount permitted by the Government Code; and one instructing the County to levy and collect certain property taxes. Today is the second public meeting hearing the Fiscal Year 2022-23 budget and related items.

Budget Highlights

The Budget for Fiscal Year FY 2022-23 for the City of Watsonville totals \$211,341,192 as summarized in Table 1 below.

Table 1: FY 2022-23 Budget Summary

	General Funds	Special Revenue Funds	Debt Service	Enterprise Funds	Internal Service Funds	Private Trust Fund	Total all Funds
Projected Resources 2022-23							
Revenues	48,560,784	18,997,561	-	60,928,894	20,222,676	4,623,883	153,333,799
Transfers In	5,821,244	143,195	814,198	150,761	-	-	6,929,398
Total Gross Resources	54,382,028	19,140,756	814,198	61,079,655	20,222,676	4,623,883	160,263,197
Interfund Transfer Adjustment							(29,454,991)
Total Net Resources							130,808,206
Projected Expenditures							
Operations	51,301,895	12,997,230	-	50,652,222	20,196,676	1,327,492	136,475,516
Capital	12,775,325	17,489,680	-	32,347,499	1,658,867	-	64,271,371
Transfers Out	180,956	4,703,184	-	435,817	-	1,609,441	6,929,398
Debt Service	-	-	814,198	859,695	-	1,686,950	3,360,843
Total Gross Uses	64,258,176	35,190,094	814,198	84,295,233	21,855,543	4,623,883	211,037,127
Interfund Transfer Adjustment							(29,454,991)
Total Net Uses							181,582,136
Surplus / (Shortfall)	(9,876,147)	(16,049,338)	-	(23,215,578)	(1,632,867)	-	(50,773,931)

Watsonville's finances remain on a steady path. For the most part, our revenue increases are able to match our expenditure increases. The high levels of inflation seen in the economy at large are impacting limited areas of our budget, both revenue and expenses. We do continue to see large year-over-year increases in CalPERS retirement costs, although those are

expected to begin decreasing in coming years. We also continue to have a backlog of unfunded capital needs and the inability to expand service levels in some areas requested by the public and our departments. The steady approach we have taken to budgeting in recent years has paid off in that our funds have the reserves needed to manage future economic shocks should they occur. There is also room for optimism in future years as the peak of CalPERS costs seems to be approaching. The Fiscal Year 2022-23 budget presented today reflects a fairly status quo budget with few changes from the previously proposed two-year budget presented last year.

General Fund

The General Fund is projected to increase operating expenditures and revenues in the next years and spend down on accumulated Fund Balance. Last year's biennial budget proposed a spend down of previous years' Fund Balance with a commitment to capital improvements at Ramsay park. The proposed budget is balanced operationally and results in proposed ending fund balances that will meet the City's policy of 20% reserves. There are some operational changes in some departments; most being entirely or partially funded by their own revenue changes. Other departments are being held mostly flat, aside from cost increases to salary and benefits, materials and contracts.

Revenues:

Property Tax- We are budgeting base property tax to be basically flat compared to the estimated FY 2021-22 collections for a total of \$13,544,545. Property taxes are collected based on County Assessor rolls that were formally closed in January of 2022. According to county projections, our overall assessed value is likely to rise by approximately 4.3%. However, that is expected to be offset by a reduced residual payment from former redevelopment areas due to increases in recognized obligation payment schedules. That reduction is a temporary situation due to new recognized obligations and we expect that in future years the residual receipts will increase once again.

Sales Tax – Sales tax is our revenue source most impacted by the current inflationary environment. It is expected to be essentially flat from predicted year end FY 2021-22 numbers. However, that is nearly 10% above the previously proposed FY 2022-23 budget. What we are seeing is a full recovery to pre-pandemic levels in all categories of sales tax. Furthermore, as expected, there are increases in both fuel and auto and transportation categories as prices have increased due to supply chain and world-wide events. This is also why we are projecting level amounts for next fiscal year as hopefully prices in both of those categories stabilize.

Sales Tax is 25% of General Fund revenue. The City also is supported by sales tax in a number of special funds including the Measure R 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, but was the revenue stream most impacted by the pandemic with FY 2020-21 receipts being only 65% of FY 2018-19 receipts. FY 2021-22 is on track to be our highest earning year yet despite the fact that two of our hotels were repurposed during the pandemic and are no longer serving as

hotels. During that time, the new hotel on Lee Road opened and is more than making up for that loss. We assume that FY 2022-23 will reflect slight growth over FY 2021-22 levels.

Utility User Tax- Utility User Tax represents about 8.2% 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 2% in the budget year.

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 recently and their revenues reflect that. Their FY 2021-22 revenues are expected to be their highest year yet, topping over \$2 million. Revenues in this department can be fairly volatile and are completely dependent on the development happening in the community, so while we are assuming an increase in revenue from the prior proposed FY 2022-23 budget, we are not assuming receipts will be quite as high as they are this year. The revenue increase will be used to fund some staffing and material increases in the department to help keep up with the demand for services. Should revenues fall, the department will also be expected to decrease expenditures.

Parks and Community Services Revenues – The Parks and Community Services Department has worked hard this year to restore its staffing and service offerings to the community after difficult pandemic times. However, due to continued use of the Ramsay Park Family Center as a COVID testing site, and now construction taking place in that area, they have not been able to completely return to their normal course offerings. We are looking forward to the return of special events and more sports and recreation offerings this upcoming year, but are keeping revenue expectations moderate and in line with pre-pandemic levels.

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 and by reviewing past experiences. Two items of note; first, the Finance Department recently completed an updated Cost Allocation Plan study which reviewed and updated how general fund administrative services are recovered by other funds as it is common practice to review and update these revenues every five years. Second, the transfers into the General Fund include a \$1 million one-time pass-through item as part of the newly recognized redevelopment obligations as discussed above under property taxes. This has a corresponding one-time million-dollar expense and neither is expected to repeat in future years. Table 2 below summarizes all the revenue impacts described above.

Table 2: General Fund Revenue Summary

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2022-23
Revenues	Actuals	Projection	Previously Proposed	Proposed Budget
Property Tax	12,585,390	13,433,085	13,665,969	13,544,545
Sales Tax	12,817,984	13,432,874	12,484,443	13,680,442
Utility	3,993,803	4,132,451	4,256,424	4,215,100
Hotel	766,626	1,173,440	1,208,643	1,400,000
Transfer In	4,711,893	4,126,938	4,146,299	5,631,717
Other Revenues	6,300,269	4,171,123	5,067,229	4,366,948
	41,175,965	40,469,911	40,829,008	42,838,752
CDD	1,628,324	2,044,748	1,801,000	1,959,056
Police	915,331	1,278,695	1,322,020	1,597,100
Fire	1,017,949	953,906	489,051	509,592
PCS	355,906	847,836	1,062,500	974,250
PW	149,947	274,493	304,321	391,785
Other	2,710,018	2,859,595	2,997,522	3,178,954
Total GF Revenue	47,953,440	48,729,184	48,805,422	51,449,489

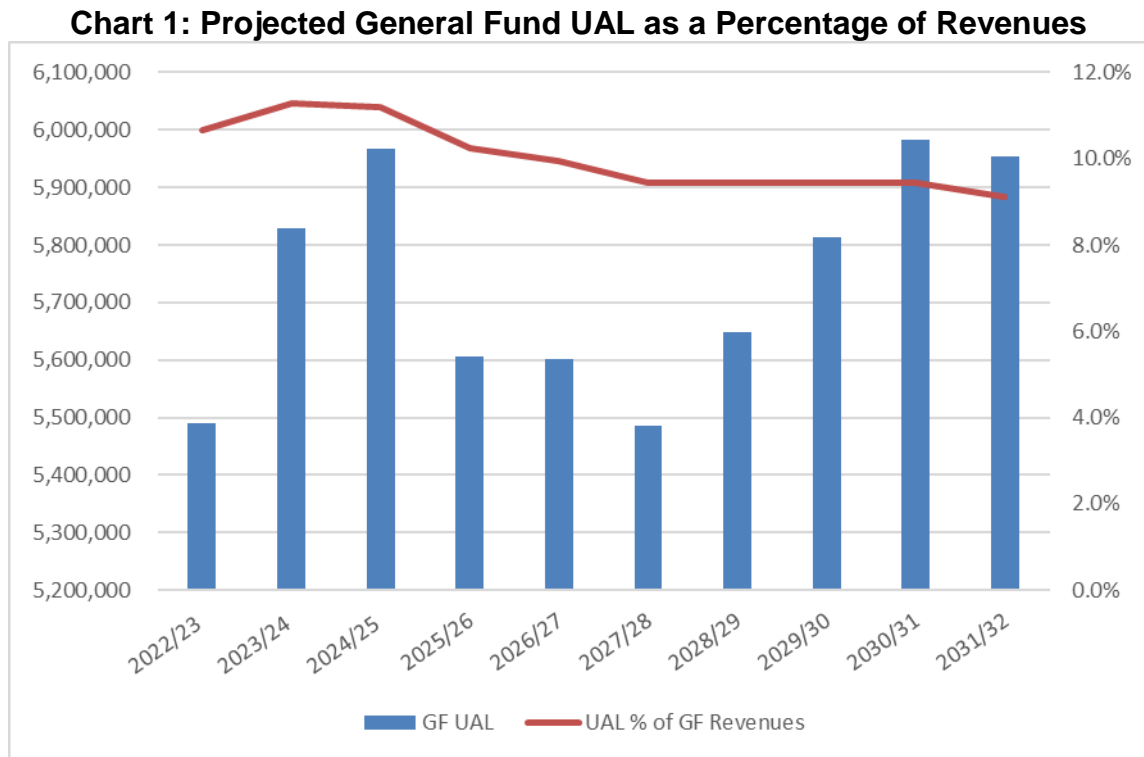
Expenditures

As discussed above, this is for the most part a status quo budget. This means that increases or decreases in expenditures are due to natural changes in costs due to contracts, benefits, or market prices but do not reflect a policy change in the way the City operates. The few exceptions or significant changes in costs are described below.

Salaries– Salaries, including contractual increases with existing employees and bargaining groups, makeup 50% of General Fund operating expenditures and therefore represent the greatest increase in costs. There are some department-specific changes to positions and salaries to be discussed in the departmental section below.

Unfunded Actuarial Liability (UAL) – The City's UAL increases continue to be a challenge. In FY 2022-23 UAL costs will increase by \$500,000. UAL costs will represent 12% of the General Fund operating budget. UAL costs are expected to continue to rise much faster than our revenues in each of the next three fiscal years, peaking in FY 2024-25. After that, we expect to see a gradual decline in UAL costs as both the effects of major policy changes in CalPERS begin to show their effects and as the results of the 21% investment returns from FY 2020-21 begin to roll in. However, returns in FY 2021-22 are rumored to be negative and will have a corresponding negative effect in future years. Nevertheless, we expect the UAL to

have a decreasing impact on our budget in future years. Meanwhile, we continue to analyze ways to smooth out the impact of the rises in the upcoming years. See chart 1 for the estimated General Fund UAL costs in the next ten years as percentage of projected General Fund Revenues.



Other Benefits –Normal retirement costs will see some interesting and hard to predict changes in future years. Generally, we see this cost ever so slightly declining as members of the classic retirement plan retire and are replaced by newer PEPRA employees with lesser retirement benefits. However, the 21% investment returns in CalPERS in FY 2020-21 triggered a policy change which will lower their presumed discount rate starting in FY 2023-24 which will in turn increase normal costs for all retirement groups that same year. Other salary-based benefits such as 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.

Other non-position costs – Other citywide non-position impacts to the General Fund are minimal. They include increases for Water, Sewer, and Solid Waste services according to the utility rate schedule, increases to City Attorney, fuel, and fleet costs. Other items include increases to our JPA contracts with the County for 911 and Animal Shelter services. Here you will also see the \$1 million pass through expense as described above.

Table 3: General Fund Expenses by Category

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2022-23
Expenditures	Actual	Revised Budget	Previously Proposed	Proposed Budget
SALARY	22,824,534	24,025,297	25,022,356	25,257,070
CalPERS UAL	4,347,908	5,553,068	6,069,875	6,055,594
CalPERS Normal Cost	2,610,413	2,987,961	3,122,410	2,989,986
OTHER BENEFITS	4,776,180	4,317,690	4,412,076	4,528,306
Total Salary and Benefits	34,559,035	36,884,016	38,626,717	38,830,956
Utilities	400,878	1,237,626	1,250,492	1,289,720
Contract Services	4,961,563	6,654,809	6,619,698	7,056,039
Materials and Supplies	671,025	912,288	925,188	1,111,527
Other Charges	2,325,997	727,937	704,183	2,215,295
Transfers Out	292,561	273,391	228,134	180,956
Capital	569,803	750,000	845,000	765,000
Carryforward		565,530		2,787,766
One-time Capital		3,053,957	4,207,483	4,207,483
Total Expenditures	43,780,862	51,059,554	53,406,895	58,444,742

Select Department Changes

All departments are impacted by the citywide impacts described above. In addition, several departments are proposing changes that are highlighted and described below.

Police Department – We are adding two Police Officer positions to the Police Department budget. PVUSD recently agreed to expand and return the School Resource Officer (SRO) program at both Pajaro Valley and Watsonville High Schools. One of those positions was added back to the Police Department budget at mid-year with the reinstatement of the pilot program. The second requested SRO position we are adding back now. This is cost neutral as it is paid for by revenue from the school district. The second officer position is an unfunded position, meaning the department has the position authority to hire, but not the funds. This is done in acknowledgment that the Police Department has regular turnover among its police officer positions and that there is a long lead time (often 18 months) between recruitment and when a new officer is able to serve on patrol due to training times. By increasing the department's position count it will allow them to recruit more and compensate for one or two positions that are vacant at any given time. With the addition of these two positions the department is still one police officer position lower than pre-pandemic.

Fire Department – The Fire Department is adding a civilian Fire Inspector position. The department is looking to add more consistency to its Fire Inspection program in line with the outside analysis of department operations conducted earlier this year. The cost of the position is expected to be partially offset by increases in inspection revenues.

Parks and Community Services Department- The Parks Department while not proposing many changes to its operating budget is proposing changes to some of its staffing in order to better recruit and retain staff and therefore provide better consistency and quality of services to the community. The department is increasing the minimum salary at which it will recruit temporary employees. It is also proposing to convert some of its temporary positions into full time benefitted positions providing both better employment and growth to our employees and a higher level of service to our community.

General Government- In this area we are seeing an increase to our City Attorney costs. As the City transitions from a model with essentially a full-time on-site attorney, to a contract, model we are seeing a rise in costs. This was somewhat expected. Both the departments and the City Attorney are working together to control the growth in this area.

Community Development Department – As described above the revenue section, the Community Development Department continues to see a high demand for its services. To meet that demand the department is moving half of a Principal Planner position back into its budget and is proposing to fund a temporary Assistant Planner position. All of the increases of this department are paid for with their own expected revenue increases. If their revenues or demand for services declines they will be expected to reduce their budget accordingly.

Public Works- The General Fund side of the Public Works Department includes costs associated with building and facility maintenance and costs related to streets and sidewalks not covered by special revenue funds. We have provided some increases in the facilities and maintenance area as our aging buildings and facilities require investment to help prevent even more expensive repairs in the future. We have also increased some contracts used for trail and slough maintenance.

Table 4: General Fund Operating Budget by Department

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2022-23
		Revised Budget	Previously Proposed	Proposed Budget
Expenditures	Actual			
Police	18,570,928	20,195,912	21,141,109	21,157,804
Fire	8,060,767	7,956,138	8,306,447	8,450,550
PCS	3,426,769	5,366,337	5,622,022	5,778,605
General Gov't	3,293,660	3,723,235	3,564,876	3,977,256
Non Dept	5,801,274	2,930,698	2,772,985	3,974,921
CDD	2,302,633	2,916,910	2,909,995	3,076,486
Finance	1,570,314	1,711,099	1,778,654	1,753,650
PW	1,299,439	1,625,627	1,668,240	1,900,571
Library	542,428	585,686	590,085	614,646
IT	(7,702)	-		
Total Depts	44,860,510	47,011,642	48,354,413	50,684,489
Capital	569,803	4,299,662	5,052,482	7,760,249
Total Expenditures	45,430,313	51,311,304	53,406,895	58,444,738

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 it takes the budget 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 5 reflects the General Fund’s five-year outlook considering the changes and assumptions described above.

Table 5: General Fund Five-Year Outlook

	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Revenue	51,449,489	51,706,049	53,276,228	54,777,452	56,372,690
Expense*	51,449,489	52,626,547	53,750,174	54,162,976	55,230,259
Net Difference	(0)	(920,499)	(473,946)	614,475	1,142,431

***Capital Funded by available Fund Balance**

Carryforward	2,787,766
Ramsay	4,207,483
	6,995,249

While the prospect of a nearly \$1.5 million deficit in the next two years may seem alarming, it is primarily driven by changes in CalPERS UAL costs as described above. That the outlook in years four and five is positive provides some real hope for the future. As discussed above

changes in UAL costs are driving both the deficit and the savings projections in the five-year outlook. As we continue to explore and analyze ways to smooth out or lower our costs in the next few years, including perhaps the use of \$1 million still on reserve for this purpose, I am optimistic that the City can achieve balanced budgets in future years without major reductions in costs and hopefully lead to an increased capacity to serve our community and address currently unfunded needs.

Select Special Revenue and Internal Service Funds

Library Fund

The Library fund is supported through a county special sales and use tax and a joint allocation of property tax from the County. The County has proposed an extension to the current JPA agreement for Fiscal Year 2022-23 which will likely result in an increase in revenue driven by sales tax patterns described above. The department is not proposing a significant operational change at this time. However, they are also proposing to transition temporary and part time positions to full time when opportunities arise from turnover. The fund is likely to add to its fund balance in FY 2022-23 and is looking to use some of that fund balance in future years for building renovations.

ARPA

The entire \$18.2 million American Rescue Plan Act (ARPA) allocation to the City of Watsonville was authorized on September 14, 2021, therefore the public will not see the full \$18.2 million included in this budget. We continue to follow the plan adopted last September and appropriate projects and contracts as needed. What you will find in this budget is carryforward of already begun ARPA projects, new appropriation for streets and safety projects, and a request for three positions. ARPA guidelines allow for the rehiring of government positions eliminated due to the pandemic. We have since used that money to restore a Recreation Supervisor position in the Parks and Community Services Department and are requesting to fund an additional Accountant II in the Finance Department and an Administrative Assistant II in the City Manager Department. Both departments have yet to restore higher level positions eliminated during the FY 2020-21 budget process and are finding their current staff being stretched thin as other departments and services have been restored. The costs of all three positions are assumed to move back into the General Fund in year FY 2024-25 of the five-year plan.

Gas Tax, SB, and Measure D

Despite the increase in gas prices, both the Gas Tax and SB1 funds will not see dramatic increases in revenues and formulas as both funds are built on a fixed price per gallon and not a percentage of sales. In fact, there is reason to believe that funding from these measures may decrease in future years with the increasing presence of electric vehicles. Measure D is somewhat different as it is based on a local county sales and use tax measure and therefore will increase with sales tax increases described above. The City now uses Gas Tax less for major construction projects and more for regular road maintenance and repairs. We have found that using our own crews and equipment allows us to be more responsive and efficient than contracting this workout. The project plan for SB1 and Measure D can be found in the capital plan. Both funds are carrying forward past projects not yet completed in addition to requesting funding for new projects. 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 (formerly G)

In March 2020, Watsonville voters overwhelmingly voted to pass Measure Y to renew the existing half-cent public safety sales and use tax. Tax receipts have been higher than expected this fiscal year, and as described above, we are expecting them to level off next year. All three departments made significant operational restorations last year and this coming year and are not proposing significant changes. Police and Fire are proposing to use their accumulated fund balance to invest in station repairs and special equipment for their departments.

Innovation & Technology – Since the creation of the IT Internal Service Fund, the department has had a number of position vacancies and therefore was not able to complete all budgeted projects and accumulated a fund balance. Going into the next fiscal year, the department is now near full staffing including a new director. The department is expected to work on a number of important projects next year including updating the audio and visual capabilities in the City Council Chamber and Community Rooms.

MSC (Fleet Management) – The Municipal Service Center or Fleet Management division was moved to its own internal service fund last year. Since then, this division has been perhaps the most impacted by inflation and supply chain issues. You will see significant increases to their fuel and supplies budget. They are funded by charging other departments for their services. This division is also under relatively new management and is implementing several software and operational changes to become more efficient and transparent to departments.

Table 6: Select Special Revenue and Internal Service Funds

	0250 - LIBRARY	0262 - ARPA FUND- AMERICAN RELIEF PLAN	0305 - GAS TAX	0306 - SB 1 - GAS TAX FUNDING	0310 - SALES TAX MEASURE Y	0312 - MEASURE D - TRANSPOR TATION FUND	0760 - MSC INTERNAL SERVICE FUND	0790 - INFORMATI ON & TECHNOLO GY ISF
Projected Resources 2022-23								
Revenues	4,065,849	-	1,314,339	955,000	5,184,351	971,903	3,411,647	3,410,335
Transfers In	-	-	-	-	-	-	-	-
Total Gross Resources	4,065,849	-	1,314,339	955,000	5,184,351	971,903	3,411,647	3,410,335
Projected Expenditures								
Operations	3,736,643	293,208	756,936	-	4,661,658	-	3,411,647	3,410,335
Capital	10,000	4,227,929	900,992	1,793,764	2,268,304	3,824,243	-	1,632,867
Transfers Out	159,283	-	-	-	286,307	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Total Gross Uses	3,905,926	4,521,137	1,657,928	1,793,764	7,216,269	3,824,243	3,411,647	5,043,202
Surplus / (Shortfall)	159,923	(4,521,137)	(343,589)	(838,764)	(2,031,918)	(2,852,340)	-	(1,632,867)
Projected Fund / Cash Balance 6/30/2022	1,266,693	17,752,778	553,816	1,818,282	3,323,825	3,264,859	133,673	2,136,620
Projected Fund / Cash Balance 6/30/2023	1,426,616	13,231,641	210,227	979,518	1,291,907	412,519	133,673	503,753

Select Enterprise Funds

The Utility Enterprises of Wastewater, Water, and Solid Waste are proposing minimal changes to their operating budgets. 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 Public Works and Utilities Department is proposing some internal reorganization of its administrative and engineering teams as a way to better track and allocate costs to each of the utilities.

The Airport fund is supported through three revenue streams, leasing of commercial properties, leasing of aviation hangars, and aviation fuel sales. The department is proposing minimal operational changes, as they are already a lean operation. You will see the increases in fuel costs reflected on both their expenditure and revenue side. They are expected to add to their growing fund balance in the next fiscal year in order to build reserves for future capital investments.

Table 7: Select Enterprise Funds

	0710 - WASTE WATER	0720 - WATER	0730 - AIRPORT	0740 - SOLID WASTE	0741 - LANDFILL CLOSURE
Projected Resources 2022-23					
Revenues	17,068,157	23,094,698	4,203,780	16,480,409	-
Transfers In	-	-	-	-	150,761
Total Gross Resources	17,068,157	23,094,698	4,203,780	16,480,409	150,761
Projected Expenditures					
Operations	15,675,261	15,356,433	4,052,802	15,337,009	150,761
Capital	8,947,019	18,238,344	60,000	1,682,904	3,419,232
Transfers Out	202,513	31,651	5,056	196,597	-
Debt Service	485,078	13,888	23,037	337,692	-
Total Gross Uses	25,309,871	33,640,316	4,140,895	17,554,202	3,569,993
Surplus / (Shortfall)	(8,241,714)	(10,545,618)	62,885	(1,073,793)	(3,419,232)
Projected Fund / Cash Balance 6/30/2022	10,806,713	26,958,860	201,585	4,956,979	3,960,291
Projected Fund / Cash Balance 6/30/2023	2,564,999	16,413,242	264,470	3,883,186	541,059

Five-Year Capital Improvement Plan

The Five-Year Capital Plan helps the City prioritize its funding and planning for longer term structural needs. The requests for carryforward this year are larger than the requests for new projects. Carryforwards are projects that have been authorized in the past but have yet to be completed for various reasons. This year, some of those reasons included staff shortages,

supply chain issues, and cost increases. This Capital Improvement Plan includes some major funding commitments that will have a lasting impact on the Watsonville community.

The General Fund share of our capital plan is comparatively little and generally pays for facility maintenance. Next year we are proposing to continue maintenance projects to a number of park facilities along with a continued commitment to the revitalization of Ramsay Park. We are also conducting a facilities assessment to help inform future CIP programs.

In the Utilities funds, engineering staff has had a busy year in getting over 11 total projects in the Water and Sewer enterprise fund CIP through the design process. Many of these projects will start construction at the end of the fiscal year or beginning of next year, all of which have a total construction value of over \$40,000,000. Highlights include:

- Green Valley Rd. and Freedom Blvd. Water and Sewer Improvements \$3,742,000 beginning construction breaks ground June 27th.
- Zone 2 Water Reservoir \$10,000,000 in design. Recently awarded \$5,000,000 IWRM grant

- WWTF Electrical System Hazard Mitigation Improvements Project \$16,000,000
- WWTF Levee Embankment Stabilization Project \$2,200,000 recently awarded FEMA/CalOES HMGP grant
- Completed the decking/cover and concrete project at Corralitos Filter Plant.
- PLC upgrade at Well 19 (complete) and Corralitos Filter Plant (expected completion August 2022)
- Zone 2 well installed (well housing and pump station expected completion in 22/23)
- Hames Reservoir interior coating/seismic retrofit (expected completion June 2022)
- Sydney and Jehl Avenue sewer, storm, and water improvements totaling \$1,328,000

The City's Water Services crews have also replaced over 1.1 miles of aging water main throughout the City this fiscal year and are on target to meet that goal next fiscal year as well, with the main project planned being the Silver Leaf, Green Meadow, and Green Valley Road area water main replacement.

The Solid Waste team is conducting the studies necessary to complete the closing of the Phase III at the landfill and preparing to open Phase IV which we believe will be a more efficient way of providing this service to our residents as opposed to the transportation and contract costs required to haul our trash to Monterey. In addition, the Solid Waste team is excited about the prospect of our first electric collection vehicle partially funded through two grants totaling \$550,000.

The Traffic division, funded through the gas tax, SB1, ARPA, Measure D, and grants is working on many projects. In particular they are looking forward to the construction of Freedom Blvd from Alta Vista Ave to Green Valley Rd. The work will include reconstruction of the roadway, including striping, pavement markings and signs; provisions for accessible sidewalks, installation of curb ramps and installation of a traffic signal at intersection of Freedom Boulevard and Sydney Avenue. They are also working on the design of Green Valley Road improvements from Freedom Blvd to the city limits. Improvements will include reconstruction of existing roadway, installation of a median island to encourage safer turning movements, removal and replacement of existing driveways and curb ramps that do not comply with existing accessibility standards, and restriping roadway to provide for bike lanes where none exist.

Unfunded Capital Needs

Despite a plan which expects to fund over \$149 million of capital projects over the next five years, we still have over \$37 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. We will continue to seek grants, financing opportunities, and other funds to invest in our capital assets.

Table 8: Capital Improvement Program by Funding Source

	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
General Fund	4,972,483	1,333,000	1,270,000	205,000	135,000
Grants	177,952	5,204,518	-	730,000	1,700,000
Transporation	2,115,000	3,737,000	4,225,000	3,225,000	3,000,000
Airport	60,000	55,000	25,000	125,000	-
Water	9,361,798	9,234,667	25,798,738	4,264,979	13,969,428
Wastewater	2,810,448	19,232,234	1,530,881	629,326	8,073,465
Solid Waste / Landfill	3,738,803	6,010,000	450,000	825,387	910,930
Other	4,997,547	1,560,000	1,770,000	860,000	990,000
Total	28,234,031	46,366,419	35,069,619	10,864,692	28,778,823

STRATEGIC PLAN:

The current balanced 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 2022-23 spending of \$210,341,192.

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) Proposed 2022-23 Budget:
<https://cityofwatsonville.org/DocumentCenter/View/19029/2022-2023-Draft-Budget>