

# City of Capitola Agenda

Mayor: Michael Termini  
Vice Mayor: Jacques Bertrand  
Council Members: Ed Bottorff  
Stephanie Harlan  
Kristen Petersen  
Treasurer: Peter Wilk



## JOINT BUDGET STUDY SESSION

### CAPITOLA CITY COUNCIL/SUCCESSOR AGENCY TO THE FORMER REDEVELOPMENT AGENCY

WEDNESDAY, MAY 30, 2018

6:00 PM

CITY COUNCIL CHAMBERS  
420 CAPITOLA AVENUE, CAPITOLA, CA 95010

*All correspondences received prior to 5:00 p.m. on the Tuesday preceding a City Council/Successor Agency Joint Budget Study Session will be distributed to Council/Agency Members to review prior to the meeting. Information submitted after 5 p.m. on that Tuesday may not have time to reach Council/Agency Members, nor be read by them prior to consideration of an item.*

*All matters listed on the Joint Budget Study Session of the City Council/Successor Agency Agenda shall be considered as Public Hearings.*

**1. ROLL CALL AND PLEDGE OF ALLEGIANCE**

Council/Board Members Kristen Petersen, Jacques Bertrand, Ed Bottorff, Stephanie Harlan, and Mayor Michael Termini

**2. ADDITIONAL MATERIALS**

*Additional information submitted to the City after distribution of the agenda packet.*

**3. ADDITIONS AND DELETIONS TO THE AGENDA**

**4. PUBLIC COMMENT**

*Oral Communications allows time for members of the Public to address the City Council/Successor Agency on any item not on the Agenda. Presentations will be limited to three minutes per speaker. Individuals may not speak more than once during Oral Communications. All speakers must address the entire legislative body and will not be permitted to engage in dialogue. All speakers are requested to print their name on the sign-in sheet located at the podium so that their name may be accurately recorded in the minutes. A MAXIMUM of 30 MINUTES is set aside for Oral Communications at this time.*

**5. CITY COUNCIL / SUCCESSOR AGENCY / CITY TREASURER / STAFF COMMENTS**

*City Council/Successor Agency/City Treasurer/Staff may comment on matters of a general nature or identify issues for staff response or future Council/Agency consideration.*

**6. CONSENT CALENDAR**

*All items listed in the "Consent Calendar" will be enacted by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Council votes on the action unless members of the public or the City Council request specific items to be discussed for separate review. Items pulled for separate discussion will be considered following General Government.*

*Note that all Ordinances which appear on the public agenda shall be determined to have been read by title and further reading waived.*

- A. Consider Approval of the May 16, 2018, Joint City Council/Successor Agency Meeting Minutes  
RECOMMENDED ACTION: Approve minutes.

**7. GENERAL GOVERNMENT / PUBLIC HEARINGS**

*All items listed in "General Government" are intended to provide an opportunity for public discussion of each item listed. The following procedure pertains to each General Government item: 1) Staff explanation; 2) Council questions; 3) Public comment; 4) Council deliberation; 5) Decision.*

- A. Continue Discussion of the Proposed 2018/2019 Fiscal Year Budget for the City of Capitola and the Capitola Successor Agency, with an Overview of the Capital Improvement Program  
RECOMMENDED ACTION:  
1. Receive a presentation on the FY 2018-19 proposed budgets,  
2. Provide staff direction on the proposed budgets,  
3. Determine whether or not to allow a new agency or organization to apply for the existing Community Grant Program for the upcoming grant cycle, and  
4. Continue budget deliberations to the next scheduled joint budget hearing on June 6, 2108.

**8. ADJOURNMENT**

**Note:** Any person seeking to challenge a City Council decision made as a result of a proceeding in which, by law, a hearing is required to be given, evidence is required to be taken, and the discretion

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in the determination of facts is vested in the City Council, shall be required to commence that court action within ninety (90) days following the date on which the decision becomes final as provided in Code of Civil Procedure §1094.6. Please refer to code of Civil Procedure §1094.6 to determine how to calculate when a decision becomes “final.” Please be advised that in most instances the decision become “final” upon the City Council’s announcement of its decision at the completion of the public hearing. Failure to comply with this 90-day rule will preclude any person from challenging the City Council decision in court.

**Notice regarding City Council:** The City Council meets on the 2nd and 4th Thursday of each month at 7:00 p.m. (or in no event earlier than 6:00 p.m.), in the City Hall Council Chambers located at 420 Capitola Avenue, Capitola.

**Agenda and Agenda Packet Materials:** The City Council Agenda and the complete Agenda Packet are available for review on the City’s website: [www.cityofcapitola.org](http://www.cityofcapitola.org) and at Capitola City Hall and at the Capitola Branch Library, 2005 Wharf Road, Capitola, prior to the meeting. Agendas are also available at the Capitola Post Office located at 826 Bay Avenue, Capitola. Need more information? Contact the City Clerk’s office at 831-475-7300.

**Agenda Materials Distributed after Distribution of the Agenda Packet:** Pursuant to Government Code §54957.5, materials related to an agenda item submitted after distribution of the agenda packet are available for public inspection at the Reception Office at City Hall, 420 Capitola Avenue, Capitola, California, during normal business hours.

**Americans with Disabilities Act:** Disability-related aids or services are available to enable persons with a disability to participate in this meeting consistent with the Federal Americans with Disabilities Act of 1990. Assisted listening devices are available for individuals with hearing impairments at the meeting in the City Council Chambers. Should you require special accommodations to participate in the meeting due to a disability, please contact the City Clerk’s office at least 24-hours in advance of the meeting at 831-475-7300. In an effort to accommodate individuals with environmental sensitivities, attendees are requested to refrain from wearing perfumes and other scented products.

**Televised Meetings:** City Council meetings are cablecast “Live” on Charter Communications Cable TV Channel 8 and are recorded to be rebroadcasted at 8:00 a.m. on the Wednesday following the meetings and at 1:00 p.m. on Saturday following the first rebroadcast on Community Television of Santa Cruz County (Charter Channel 71 and Comcast Channel 25). Meetings are streamed “Live” on the City’s website at [www.cityofcapitola.org](http://www.cityofcapitola.org) by clicking on the Home Page link “Meeting Video.” Archived meetings can be viewed from the website at anytime.



# JOINT BUDGET STUDY SESSION CAPITOLA CITY COUNCIL/ SUCCESSOR AGENCY AGENDA REPORT

MEETING OF MAY 30, 2018

FROM: City Manager Department

SUBJECT: Consider Approval of the May 16, 2018, Joint City Council/Successor Agency Meeting Minutes

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RECOMMENDED ACTION: Approve minutes.

DISCUSSION: Attached for review and approval are the minutes of the joint City Council/Successor Agency budget meeting of May 16, 2018.

ATTACHMENTS:

1. 5-16 joint draft minutes

Report Prepared By: Linda Fridy  
City Clerk

**Reviewed and Forwarded by:**

Jamie Goldstein, City Manager

5/25/2018

**DRAFT  
CAPITOLA CITY COUNCIL/SUCCESSOR AGENCY  
JOINT BUDGET STUDY SESSION MINUTES  
WEDNESDAY, MAY 16, 2018 - 6PM**

**1. ROLL CALL AND PLEDGE OF ALLEGIANCE**

Council Member Stephanie Harlan: Present, Council Member Ed Bottorff: Present, Mayor Michael Termini: Present, Vice Mayor Jacques Bertrand: Present, Council Member Kristen Petersen: Present.  
Treasurer Peter Wilk was present.

**2. ADDITIONAL MATERIALS - None**

**3. ADDITIONS AND DELETIONS TO THE AGENDA- None**

**4. PUBLIC COMMENT - None**

**5. CITY COUNCIL / SUCCESSOR AGENCY / CITY TREASURER / STAFF COMMENTS**

Treasurer Wilk noted the new external auditors are onsite this week. This audit focuses on assuring the legal use of the City's money and looks for fraud, one of many checks and balances the City has.

Council Member Bertrand, the City's Regional Transportation Commission representative, said he recently rode on the Marin Smart Train.

**6. CONSENT CALENDAR**

- A. Consider Approval of the January 11, 2018, Successor Agency Meeting Minutes  
RECOMMENDED ACTION: Approve minutes.

<b>MOTION:</b>	<b>ADOPT AS RECOMMENDED</b>
<b>RESULT:</b>	<b>ADOPTED [UNANIMOUS]</b>
<b>MOVER:</b>	Ed Bottorff, Council Member
<b>SECONDER:</b>	Kristen Petersen, Council Member
<b>AYES:</b>	Harlan, Bottorff, Termini, Bertrand, Petersen

**7. GENERAL GOVERNMENT / PUBLIC HEARINGS**

- A. Presentation of the Proposed 2018/2019 Fiscal Year Budget for the City of Capitola General Fund and the Capitola Successor Agency [330-05/780-30]  
RECOMMENDED ACTION: Receive the proposed budgets, provide staff direction, and continue budget deliberations to the next scheduled joint budget hearing on May 30.

City Manager Jamie Goldstein gave an overview of the status quo budget, noting it calls for no new net positions or revenue sources. Finance Director Jim Malberg provided details, saying current projections show this year ending with a \$1.034 million fund balance. Budget assumptions for FY 2018/2019 include slower growth. He noted that current year parking income was down due to staffing and projected numbers represent a return to "normal."

Attachment: 5-16 joint draft minutes (Approval of Minutes)

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MINUTES

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Sales tax remains the City's largest revenue source, and the top five tax generators represent 35 percent of the category's total income.

CalPERS UAL (Public Employee Retirement System Unfunded Actuarial Liability) costs are projected to increase significantly by FY 2024/2025. It represents half of the increase in personnel costs for FY 2018/2019.

Director Malberg added that the gap in the funding for the library construction has shrunk to an estimated \$36,000, pending bids.

Public Works Director Steve Jesberg provided an overview of capital projects: library construction, Measure F (wharf, jetty, flume), and Measure D road funds combined with a grant from the Regional Transportation Commission. Work also continues on several projects funded in prior years. There are only three purchases recommended in the equipment fund: a police vehicle, a concrete breaker, and a ditch witch to help manage storm drains. He warned that he expects to need another street sweeper in FY 2019/2020. In response to council questions, staff said contracting efforts with Green Waste for street sweeping have not been successful. Staff is also investigating different size sweepers.

Council members requested details on the home programs fund and housing trust funds at the next meeting. They would also like a sense of whether any new hotels may be planned, the potential impact of a cannabis tax, and the mall redevelopment timeline. City Manager Goldstein said in a recent discussion with Merlone Geier, representatives indicated it is still debating various options for moving forward with mall redevelopment.

Council Member Harlan asked about community grants and the possibility of using Watsonville's forms for simplicity. Assistant to the City Manager Larry Laurent noted that each city's two-year cycles don't match, but forms can be similar and shorter.

Council Member Harlan also confirmed that animal services costs are ramping up as part of rejoining the Joint Powers Authority.

City Manager Goldstein offered options for the fund balance with a strong recommendation to leave it intact to offset future shortfalls or contribute to the PERS Trust Fund. He noted that the PERS fund does earn some interest and it could offset pension cost increases. Treasurer Wilk confirmed the Finance Advisory Committee agreed with the approach of splitting the fund between these two options.

City Manager Goldstein said that for the 2018-19 fiscal year, staff's major projects will be:

- Develop options for Council consideration to address rising CalPERS costs
- Complete the cannabis regulatory framework
- Implement new a Neighborhood Watch Program
- Work toward Coastal Commission certification of zoning code update
- Continue working with Capitola Mall ownership group to redevelop the mall

The major capital projects are expected to be:

- Begin construction on Capitola Library with anticipated completion in FY 2019/20

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MINUTES

May 16, 2018

- Measure F: Construct jetty and flume projects, and complete schematic design for wharf
- Monterey and Park Avenue Pedestrian Pathway
- Rispin Park
- Street maintenance projects
  - Brommer Street – construction in fall 2019
  - Park Avenue Storm Repairs - unfunded
  - Slurry seal
- Sidewalk Projects
  - Park Avenue Sidewalks
  - 38th Avenue Sidewalk

Staff noted the Monterey and Park Avenue Path may be compromised due to costs if soils testing shows remediation is needed.

In public comment, Jack Digby suggested converting the Rispin mansion to a private residence and reducing pension benefits.

**CONTINUED: Next Joint Budget Hearing 5/30/2018 at 6 PM**

**8. ADJOURNMENT**

The meeting adjourned at 7:20 p.m.

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Michael Termini, Mayor/Chair

ATTEST:

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Linda Fridy, City Clerk/Secretary

Attachment: 5-16 joint draft minutes (Approval of Minutes)



# JOINT BUDGET STUDY SESSION CAPITOLA CITY COUNCIL/ SUCCESSOR AGENCY AGENDA REPORT

**MEETING OF MAY 30, 2018**

FROM: Finance Department

SUBJECT: Continue Discussion of the Proposed 2018/2019 Fiscal Year Budget for the City of Capitola and the Capitola Successor Agency, with an Overview of the Capitola Improvement Program

**RECOMMENDED ACTION:**

1. Receive a presentation on the FY 2018-19 proposed budgets,
2. Provide staff direction on the proposed budgets,
3. Determine whether or not to allow a new agency or organization to apply for the existing Community Grant Program for the upcoming grant cycle, and
4. Continue budget deliberations to the next scheduled joint budget hearing on June 6, 2108.

**BACKGROUND:** The Proposed Fiscal Year (FY) 2018/19 Budget and Planned FY 2019/20 Budget were presented to the City Council/Successor Agency at the May 16, 2018, joint budget meeting. Since that meeting, staff received sales tax numbers for January through March that show a decline of 4.8 percent from the same period last year. As a result, staff has reduced the revenue assumptions in the proposed and planned budget to reflect the new information. To offset those reduced revenue assumptions, staff has identified commensurate expenditure cuts to maintain a balanced budget.

**DISCUSSION:** The Proposed FY 2018/19 Budget is balanced and maintains existing service levels. The revised proposed budget includes a reduction of \$142,000 in estimated sales tax revenues from earlier projections, as well as approximately \$165,000 in estimated expenditure reductions. Specifically, contract service expenditures were reduced by \$93,000, the CalPERS Unfunded Actuarial Liability (UAL) expenditure was reduced by \$52,000 and overtime expenditures were reduced by \$10,000. In addition, Measure F expenditures were reduced to match Measure F sales tax revenue projections. Contract service reductions are highlighted in Attachment 1.

Staff also reduced the current estimated year-ending General Fund balance from \$1,034,000 to approximately \$900,000 due to reduced sales tax receipts. Staff recommends leaving this amount in fund balance to help manage cash flows and maintain flexibility to respond to future budget issues.

The Finance Advisory Committee (FAC) met on May 22 and also recommended leaving the



Joint CC & SA Mtg - Proposed 2018/2019 Fiscal Year Budget  
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General Fund balance intact to maintain cash liquidity and budget flexibility.

At the budget hearing on May 16, Council requested staff provide information related to the Community Grants program, the Home Program Reuse Fund, and options to address rising CalPERS (Public Employee Retirement System) costs.

#### *Community Grant Program*

The Capitola Community Grant program provides funding for more than 40 programs run by more than 30 organizations. Staff recommends following the process recommended by the 2015 ad-hoc subcommittee and adopted by the City Council for the Community Grant Program in FY 2016/17.

- Continue the two-year grant cycle.
- Separate the budgeting of the program from the allocation of funds.
- Council determines the budget for the program during budgeting process. (March-June)
- Council reviews applications and award grants after the budget is approved. (August-September)
- Budget the Community Grant Program at \$275,000 for Fiscal Years 2018/2019 and 2019/20.

The shared application previously hosted by the County of Santa Cruz is no longer available. Staff has designed an application for grantees very similar to the one used by the City of Watsonville.

In addition to the budgeted amount, staff is requesting Council direction whether to accept applications from new grantees for the upcoming two-year grant cycle.

#### *HOME Program Reuse Funds*

Under federal regulations, the HOME Reuse Fund balance of \$205,905 may be used for first-time home buyer loans, owner-occupied rehabilitation projects, or assistance with housing projects. Within a first-time home buyer program, the City can loan an income-qualified individual a silent second mortgage for the portion of the cost the buyers are unable to finance through a bank. Typically, the loans are structured that payment is not due until resale. The second option, owner-occupied rehabilitation projects, allows income-qualifying homeowners to apply for money to fund health and safety improvement projects. This, too, is typically structured as a silent second with a lien placed against the property. The homeowner must have equity in the home to qualify. Lastly, the City can use the funds toward an affordable housing project to fill a funding gap in partnership with a developer or non-profit.

#### *Options to Address CalPERS Rates*

Over the next five years, the City's net payment to CalPERS for the unfunded liability is currently projected to increase by \$1.2 million. Without a new revenue source, or a reduction in expenditure assumptions, staff estimates the City's core revenue sources would have to grow at approximately 6.5 percent each year just to cover the increased CalPERS payment and inflation<sup>1</sup> in other City expenditures over that time frame.

As it is unlikely that the City's sales tax will grow at that rate over the next five years, the following is an initial list of options to grow City revenue.

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<sup>1</sup> Assuming 3% a year inflation

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- Cannabis tax. Staff estimates a single retail marijuana establishment could generate approximately \$200,000 to \$300,000 in annual revenue to the City, depending on the City's tax rate and an establishment's sales volume.
- New hotel. Staff estimates a new hotel, depending on location and quality, would generate \$4,000 to \$8,000 per room, or \$300,000 to \$600,000 annually for a 75-room hotel.
- Hotel tax. An increase to the Transient Occupancy Tax (TOT) rate would generate approximately \$150,000 annually for each one percent of increase.
- Sales tax. Each 0.25 percent of sales tax generates approximately \$1 million annually in revenue. However, given retail sales trends, it is unclear if that amount will grow over time commensurate with inflation.

Other options for consideration include conducting a new fee study and an evaluation of contract services. The fee study will evaluate if our current fees are providing an adequate level of cost recovery for City services. An evaluation of contract services would seek savings opportunities for either contracting for services that are currently performed in-house or to eliminate contracted services that could be performed more efficiently by city staff.

Other expenditure reductions can also help to close the long-term funding gap, but would be dependent on City Council priorities as the cost savings would generally come with declines in service levels requiring careful consideration.

Staff recommends Council provide initial feedback regarding these concepts during the budget hearings, but continue to evaluate options to address CalPERS costs throughout the next fiscal year. In addition, the June 14 City Council agenda will include a discussion of potential ballot items for the November 2018 election.

The draft budget with revisions has been distributed and is available for public review in the City Hall lobby, as well as on the City's website.

FISCAL IMPACT: The goal of these deliberations is determining the allocation of funds to maintain a balanced budget, provide for essential City services, and support priority projects.

ATTACHMENTS:

1. Contract Services suggested changes

Report Prepared By: Jim Malberg  
Finance Director

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May 30, 2018

**Reviewed and Forwarded by:**



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Jamie Goldstein, City Manager

5/25/2018

**SUGGESTED CHANGES TO CONTRACT SERVICES**

<b>Department</b>	<b>Contract Description</b>	<b>FY 18/19 Proposed</b>	<b>Revised Budget</b>	<b>Savings</b>
City Council	Gen/Admin United Way	\$ 1,000	\$ -	\$ 1,000
City Council	Gen/Admin Contracts - General, Legal Notices	8,000	5,000	3,000
City Manager	Gen/Admin Contracts - General	7,000	5,000	2,000
City Manager	Environ. Svcs - Cntrl Cst Recycling Media	5,000	1,000	4,000
City Manager	Environ. Svcs Recycling-NB Middle Schl	1,000	-	1,000
City Manager	Contract Svcs. Unanticipated Events	10,000	8,000	2,000
Personnel	CS-Gen/Admin Contracts - general	4,000	2,000	2,000
Finance	Gen/Admin Contracts - General	5,000	3,400	1,600
Finance	Legal Svcs Dissolution Legal Fees	500	-	500
Finance	Fin Svcs Financial Consultant	2,500	-	2,500
Finance	Fin Svcs OPEB Valuation	6,500	4,000	2,500
Law Enforcement	Police Svcs SCC-Booking fees	10,000	5,000	5,000
Law Enforcement	Prop & equip Equipment repairs & maintenance	16,000	12,500	3,500
Law Enforcement	Police Svcs Investigation and hearing svcs	500	-	500
Streets	PW & Trans. Soquel Crk monitoring-fish	42,500	37,500	5,000
Streets	PW & Trans. PW Engineering services	36,000	30,000	6,000
Streets	Other contract services Unanticipated events	10,000	5,000	5,000
Streets	PW & Trans. Soquel Crk monitoring-water qual	35,000	30,000	5,000
Streets	PW & Trans. CA NPDES-storm water mgmt prog	65,000	55,000	10,000
Facilities	Prop & equip Comm - T-1 line	14,000	7,500	6,500
Facilities	Prop & equip Equipment repairs & maintenance	11,000	5,000	6,000
Fleet	Prop & Equip Equipment Repair and Maint.	10,000	5,000	5,000
Planning	Gen/Admin Contracts - General	10,000	5,000	5,000
Planning	Info Tech Contracts Geo info systems	6,600	-	6,600
Recreation	Gen/Admin Contracts - General	5,500	3,500	2,000
<b>Grand Total</b>		<b>\$ 322,600</b>	<b>\$ 229,400</b>	<b>\$ 93,200</b>