

May 3, 2007  
 Capitola, California

**CAPITOLA CITY COUNCIL**

**MINUTES OF A SPECIAL JOINT BUDGET STUDY  
 SESSION OF THE CAPITOLA CITY COUNCIL AND  
 REDEVELOPMENT AGENCY [330-05/760-25]**

Mayor/Chairperson Termini called the Special Joint Budget Study Session of the Capitola City Council and the Redevelopment Agency of Thursday, May 3, 2007, to order at 6:04 p.m. in the Capitola City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

**1. ROLL CALL**

**PRESENT:** Council Members/Directors Bob Begun, Kirby Nicol, Ron Graves, Sam Storey, and Mayor/Chairperson Michael Termini [*Note: Council Member/Director Graves arrived at 6:10 p.m.*]

**ABSENT:** None

**OTHERS:** City Treasurer Tony Gualtieri and Redevelopment Agency Treasurer Sean Saldavia

**STAFF:** City Manager/Executive Director Rich Hill, Community Development Director/Deputy Executive Director Juliana Rebagliati, Finance Director Lauren Lai, Public Works Director Steven Jesberg, Chief of Police Rick Ehle, Building Official Daniel Kostelec, Assistant to the City Manager Lisa Murphy, Museum Coordinator Carolyn Swift, and City Clerk/Secretary Pamela Greeninger

**2. ORAL/COUNCIL COMMUNICATIONS – None**

**3. BUSINESS**

**A. Public Employee Retirement System (PERS) Unfunded Liability Refinancing. [340-20]**

Finance Director Lai introduced the city's Financial Advisor, Emily Wagner, who summarized the written agenda report and responded to questions of council members. She said that overall she felt the DELFA proposal was in line with the parameters given by the Council. If approved tonight, Ms. Wagner said the next step would be to come back to the Council on or about May 30 with the final bond documents for approval.

Council Member Graves arrived during discussion of this item at 6:10 p.m.

Mayor Termini said he doesn't remember a prepayment option being requested by the Council for the 10-year option. Ms. Wagner said it wasn't in the request; however, DEPFA included it in their proposal.

**ACTION:** Council Member Begun moved, seconded by Council Member Nicol, to approve the private placement of the Pension Obligation Bond (Bonds) with DEPFA Bank as set forth in DEPFA's proposal dated April 11, 2007, and directed staff and the finance team to prepare the necessary documents to complete the sale of the Bonds to DEPFA Bank.

Under discussion of the motion, Council Member Storey commented on the Agenda Report, the first bullet-point under Background, which says the "City is to use \$1M of its *reserves* to pay off a portion of the PERS Side fund balances..." Council Member Storey said he does not recall specifying that the \$1M would come from reserves, but that the council had left it to staff to recommend where that \$1M would come from. Finance Director Lai said the reference to reserves in the agenda report was a general term. She said that staff would be delineating its proposal for the \$1M during the budget presentation.

3. A. BUSINESS (Continued)

Council Member Storey said he supports this motion, although he originally voted against this structure of the payoff.

Council Member Graves apologized for arriving late; however, he had a Sanitation District meeting tonight.

Mayor Termini called for the vote after council discussion. The motion carried on the following vote: AYES: Council Members Begun, Nicol, Graves, Storey and Mayor Termini. NOES: None. ABSENT: None. ABSTAIN: None.

**B. Presentation of the Proposed 2007-08 FY Budget for the General Fund, Redevelopment Agency, and Five-Year Capital Improvement Program (CIP). [330-05/760-25/330-20]**

Mayor/Chairperson Termini introduced this item and asked for opening comments from the City Manager.

**1) Opening Comments by City Manager**

City Manager Hill said this is the time staff presents the palate of city services for the upcoming fiscal year. He summarized the budget message contained in the Proposed Budget and future impacts to the city's budget from the Rispin Project, Public Obligation Bonds to fund the PERS unfunded liability, Measure P funds, economic development, federal mandates for communications and a stormwater management plan, etc. He commented that the Rispin Project and General Plan Amendment would consume the Community Development Department in the next fiscal year. City Manager Hill highlighted some of the significant departmental issues, and he thanked staff for all their work in the budget preparation.

**2) Overview of Proposed Budget by Finance Director**

Finance Director Lai thanked the council and the treasurer for their input during the past year, which has assisted staff in preparing the proposed budget.

**a) Proposed 2007-08 FY General Fund Operating Budget**

Utilizing a PowerPoint Presentation Finance Director Lai provided a summary of the 2007-08 FY Proposed Budget and responded to questions. She said the proposed budget maintains services at current levels and that Measure P revenues remain critical. Finance Director Lai advised there are two new sections in the budget; i.e., Multi-Year History and Boards & Commissions.

Finance Director Lai also alerted the city council/agency directors to additional information provided at the meeting pertaining to "Amendments Presented to Council: 5/3/07," and she asked that members replace pages 41 and 153.

**3) DEPARTMENTAL PRESENTATIONS**

Assistant to the City Manager Murphy introduced the departmental presentations. (Note: Each department, in making its presentation, used a PowerPoint Presentation.)

**Art and Cultural Commission (Page 122)**

Assistant to the City Manager Murphy summarized the proposed Art & Cultural Commission budget and discussed the revenues and expenditures for the various programs, including the Twilight Concerts and Art at the Beach. She also discussed the Public Art Fund.

B. 3) DEPARTMENTAL PRESENTATIONS (Continued)

**Museum (Page 120)**

Assistant to the City Manager Murphy provided a brief overview of the Museum's budget. David Shoaf, President of the Museum Board of Trustees, then highlighted the board's accomplishments, including the increased number of hours the Museum is open, the addition of the cabin which increased the overall square footage by 50%, and said there were over 350 volunteer hours, and over 3000 new hits on the Museum's website. Mr. Shoaf responded to questions of council members.

**City Council (Page 80)**

Assistant to the City Manager Murphy then reviewed the City Council's proposed budget and provided an overview of the past 5 years. She reviewed the various categories that contribute to the Council's budget, including contract services for the Chamber of Commerce, Santa Cruz Conference & Visitors Council (CVC), Begonia Festival, etc. She noted there is an unfunded request from the CVC for an additional \$11,200.

**City Manager/Personnel (Page 82-87)**

Assistant to the City Manager Murphy provided an overview of the City Manager Department budget including Administration & Personnel.

Assistant to the City Manager Murphy then provided information on a new division to the City Manager's Department, i.e., **Boards, Commissions and Committees**, found on **Pages 88-89**. She said staff spends a great deal of time administering the city's various advisory bodies and that by including this information in the budget, staff can account for that time and those staffing costs. Assistant to the City Manager Murphy and staff representatives for various committees responded to questions and comments from council members.

**PEG Fund (Public Education & Government) (Page 156)**

Assistant to the City Manager Murphy commented on the PEG funds and the use of those funds for Community Television to telecast and record meetings.

**City Attorney (Page 90)**

Assistant to the City Manager Murphy provided an overview of the City Attorney's proposed budget. Council Member Storey said he would like a copy of the Revenue & Expenditure slide. Finance Director Lai referred the council to page 66, which delineates all contracts. Assistant to the City Manager Murphy also commented on the Mobile Home Park Administration Service Fee program.

**Recreation Department (Page 118)**

Assistant to the City Manager Murphy said there is a revised page 41, Composite of Recreation Fees, in the handout to replace that page in the budget document. She provided an overview of the Recreation Department budget and responded to questions of council members.

**Building Department (Page 94)**

Building Official Daniel Kostelec provided an overview of the building department revenues including, building permits and plan check fees, and said they have reached a plateau. Because their budget is small, he said they are susceptible to under-budgeting if there were a major project. He said if the senior housing project on Bay Avenue comes in, revenues could increase. Building Official Kostelec also said he is recommending the purchase of the PDA be carried forward to the next fiscal year.

B. 3) DEPARTMENTAL PRESENTATIONS (Continued)

**Finance Department (Page 92)**

Finance Director Lai provided an overview of the departmental budget and discussed the recommended increase in personnel to handle the Mobile Home Park Administration Service fee. She also explained staff's recommendation to add an Account II position and to move Lonnie Wagner into that position. She summarized the Finance Department highlights anticipated in the 2007-08 fiscal year and responded to questions from council members regarding the new financial system.

**Internal Service Funds (126)**

Finance Director Lai summarized the various internal services and responded to questions of council members. City Manager Hill commented on replacement of vehicles.

**Other Funds (Page 167)**

Finance Director Lai provided an overview of the city's Other Funds itemized on Page 167 of the proposed budget, including the Compensated Absences Fund, Emergency Reserves, Contingency Reserve, and Open Space Purchase Fund.

**Multi-Year Assets & Obligations (Page 176)**

Finance Director Lai reviewed the city's assets and obligations beginning on Page 176 of the proposed budget. She then summarized the PERS Unfunded Liability Refinancing Strategy where the city hopes to save \$3.5M. She itemized the specific funds and amounts that staff is recommending the \$1M down payment come from, as stated on Page 182, and responded to questions from council members.

**Redevelopment Agency Operating Fund (page 207-236)**

Finance Director Lai provided an overview of revenues and expenditures for the Redevelopment Agency operating fund and responded to questions of Agency Directors. There was discussion regarding a prior RDA cash flow report and the difference in the percentage of tax increments.

Daniel Kriege, representing Habitat for Humanity, commented on the Redevelopment Agency's low- and moderate-income housing funds and in-lieu fees. He was informed that the community development director would be addressing that item in her presentation.

**Community Development Department (Page 96)**

Community Development Director Rebagliati reviewed the various services provided by the Community Development Department (CDD), which include staffing to the Council, Redevelopment Agency, Planning Commission, Architectural and Site Review Committee, Capitola Commission on the Environment and General Plan Update Committee.

Community Development Director Rebagliati then discussed Community Development Special Revenue Funds (**Pages 148 and 158-166**) including: Community Development Block Grants (CDBG); Community Development Block Grant Housing Program Loan Fund; HOME Program Reuse Fund; Affordable Housing In-Lieu Fee, HOME Grant and General Plan Maintenance Fee. She responded to questions of council members/directors.

B. 3) DEPARTMENTAL PRESENTATIONS (Continued)

**RDA Low & Moderate Income Housing Fund (Page 237)**

Community Development Director/Deputy Executive Director Rebagliati commented on the administration and professional services for administering the Redevelopment Agency Housing Program.

She also commented on the rehabilitation programs and noted that although the Bay Avenue Apartments are included in the budget, they may not be encumbered in the next fiscal year.

Community Development Director Rebagliati reviewed the ongoing Housing Subsidy Programs, including Emergency Housing Assistance Program, Security Deposit Program, First-Time Homebuyers Program, Loma Vista & Wharf Road Manor Rent Subsidies, and Wharf Road Manor Acquisition.

The City Council took a short break at 9:04 p.m. and reconvened at 9:12 p.m.

**Public Works Department (Page 108-117)**

Public Works Director Jesberg provided an overview of the Public Works Department budget, which includes four divisions: Streets, Parks, Facilities and Fleet Maintenance, and he summarized the proposed budgets for each division. He said \$50,000 has been allocated for new carpeting at the library and for painting and related repairs to City Hall. He commented on additional maintenance needed for the Bandstand. Public Works Director Jesberg said 85% of the fleet budget is for gasoline for the vehicles.

**Gas Tax Fund (Page 153)**

Public Works Director Jesberg commented that staff has heard from the State that the City will realize an additional \$33,400 in revenue from Prop 42 funds. He said the additional information provided tonight by the Finance Director includes a Revised pg 153 for Gas Tax.

**Wharf Fund (154)**

Public Works Director Jesberg briefly summarized the Wharf Fund and the proposed utility upgrade for a fire hydrant contained in the proposed budget.

Council Member Begun commented on the Wharf Fund. He also said he has received complaints regarding the Wharf and Esplanade Park restrooms.

Council Member Graves said he was appointed to the Wharf Group, but the group has yet to meet. He then offered ideas for items of discussion by group members, including review of Wharf lease agreements and placement of a fire hydrant at end of wharf. Council Member Graves said he has concerns about locating a fire hydrant there.

Council Member Begun suggested a meeting be held on May 22. Public Works Director Steve Jesberg said he would contact the wharf business owners and schedule a meeting.

**Developer Fee (155)**

Public Works Director Jesberg commented on development fees for three projects: Kaufman & Broad (Francesco Circle Maintenance), Home Depot and County of Santa Cruz (41<sup>st</sup> Avenue Overpass), and Barry Swenson Builder (Clares Street Traffic Calming for Rispin project).

B. 3) DEPARTMENTAL PRESENTATIONS (Continued)

**Police Department (Page 98)**

Chief of Police Ehle provided a comprehensive review of the Police Department budget. He said there is an overall departmental increase of 2.5% and discussed staffing, contract services, materials and supplies. He also discussed the impact of the department's assumption of Animal Services. Chief of Police Ehle reviewed the proposed expenditures and revenues for each of the four programs in the Police Department budget, including Law Enforcement, Parking Enforcement, Lifeguards and Animal Services. He commented on grants, the Citizen Emergency Response Team, the Supplemental Law Enforcement Fund, and the Santa Cruz County Enforcement Team.

In closing, Chief of Police Ehle commented on the anticipated federal mandate Narrow Banding requirement that is expected to be about \$1M. He also said the Police Department anticipates expenditures of approximately \$40,000-60,000 in 2009 for the CAD Upgrade and in 2010 for a new RMS (Records Management System).

Council Member Nicol asked if the city could get Homeland Security money for the Narrow Banding mandate. Chief of Police Ehle said the Chiefs' group has met with Sam Farr and has asked for assistance.

Council Member Begun asked about fluctuation in booking fees, and Chief Ehle explained. Finance Director Lai also referred council members to page 48, which addresses booking fees.

4) **Five-Year Capital Improvement Program [330-20]**

Public Works Director Jesberg summarized Measure P funding used through 2009-10 for CIP projects. He discussed newly programmed projects including preliminary work for citywide streetlight acquisition, Beulah house demolition & temporary offices, and Jewel Box traffic calming. He said \$39,000 had been budgeted for a skate park, which will be removed and reallocated to other projects.

Public Works Director Jesberg then discussed projects that have been delayed or moved to unprogrammed status. He has added a new project, reconstruction of tennis courts, to the unprogrammed projects.

Public Works Director Jesberg reviewed the various projects that have been completed in 2006-07, the contracts proposed for 2007-08, as well as future programmed projects for future fiscal years.

He summarized the recommended changes to the proposed Capital Improvement Program as itemized on the additional material provided at the meeting tonight as follows:

- Remove Skate Park Development Project (\$39,000)
- Increase funding to Streetlight Acquisition by \$5,000
- Increase 2007-08 Pavement Management Program funding by \$14,000
- Create new CIP project - Esplanade Traffic and Parking Improvements (Allocate \$20,000)

5) **Public Comment/Discussion**

At 10:10 p.m. Mayor Termini asked if there were any comments from public regarding the proposed budget. There were none.

Council Member Storey asked about the anticipated savings from new streetlights. Public Works Director Jesberg said the city would save about \$30,000 year on its utility bill but would contract out for \$8,000. Council Member Nicol asked if PG&E owns the streetlights. Public Works Director Jesberg said the City would only own the light fixtures.

Council Member Nicol asked if staff felt the 47<sup>th</sup> Avenue traffic calming project would actually be constructed next fiscal year. Public Works Director Jesberg said he has met with Ron Marquez, and staff anticipates it can be completed next year.

Finance Director Lai said the next budget study session would be held on Wednesday, May 16, 2007, at 6 p.m.

**5. ADJOURNMENT**

The meeting was adjourned at 10:16 p.m. to a Special Joint Meeting of the City Council and Capitola Redevelopment Agency to be held on Wednesday, May 9, 2007, regarding the Rispin Mansion Project in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

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Michael Termini, Mayor

ATTEST:

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Pamela Greeninger, City Clerk

**APPROVED BY THE CITY COUNCIL/REDEVELOPMENT AGENCY DIRECTORS ON 6/14/07  
AS SUBMITTED.**