

CITY OF CAPITOLA
CITY COUNCIL

May 23, 2012
Capitola, California

**MINUTES OF SPECIAL JOINT MEETING
CAPITOLA CITY COUNCIL/SUCCESSOR AGENCY
TO THE FORMER REDEVELOPMENT AGENCY
JOINT BUDGET STUDY SESSION**

6:00 P.M. – OPEN SESSION

CALL TO ORDER

Mayor Termini called the Special Budget Study Session of the Capitola City Council and the Successor Agency to order at 6:05 p.m. on Wednesday, May 23, 2012, in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

1. ROLL CALL AND PLEDGE OF ALLEGIANCE:

PRESENT: Council Members Stephanie Harlan, Dennis Norton, Kirby Nicol, Sam Storey, and Mayor Michael Termini

ABSENT: None

OTHERS: City Treasurer Jacques Bertrand

STAFF: City Manager Jamie Goldstein, Interim Community Development Director Susan Westman, Public Works Director Steve Jesberg, Finance Director Tori Hannah, Police Chief Rudy Escalante, and City Clerk Susan Sneddon

2. PUBLIC COMMENT (none provided)

3. GENERAL GOVERNMENT

A. Presentation of the proposed 2012/2013 Fiscal Year Budget for the City of Capitola General Fund, the Capitola Successor Agency, and an overview of the unfunded Capital Improvement Program (CIP). [330-05/780-30]

City Manager Goldstein provided a summary of revenue declines and results of the dissolution of the Redevelopment Agency. He stated that in March 2012 the City Council directed staff to defund a number of programs in the proposed Fiscal Year 2012/2013 Budget; however, the budget contains approximately \$300,000 in unallocated funds.

3. GENERAL GOVERNMENT (continued)

Finance Director Hannah reviewed the City's Fiscal Year 2011/2012 General Fund finances, including some significant changes in cash flow. She stated that in Fiscal Year 2011/2012 staff is estimating a fund balance of \$262,000, primarily due to the unanticipated revenues (Administrative Allowance) from the dissolution of the Redevelopment Agency. She stated that in the proposed Fiscal Year 2012/2013 Budget \$299,000 is allocated for Council discretionary funds, and \$322,000 in Fiscal Year 2013/2014. She reviewed the projected Fiscal Year 2012/2013 sales tax increase, which is primarily based on a 2 percent increase and \$350,000 additional sales tax revenue resulting from the opening of the Target store later this year. She reviewed significant changes to the City's revenue and expenditures for Fiscal Year 2012/2013; the unallocated funds in the proposed Fiscal Year 2012/2013 Budget of a five-year replacement schedule for the City's reserves based on the City's Financial Management Policy, plus the unallocated Capital Improvement Projects (CIP), community groups, Capitola/Soquel Chamber of Commerce, Santa Cruz County Visitors Center, etc. She noted that \$266,000 in unallocated funds is from the one-time sources of the land sale (\$85,000) and PERS credit (\$181,000). It is anticipated that the City's General Fund will be \$42,000 by the end of Fiscal Year 2011/2012, primarily due to the additional Redevelopment Agency Administrative Allowance. The Contingency Reserve is estimated to have an ending balance of \$400,000. She stated that all internal loans have been repaid, leaving a cash balance of approximately \$305,000. Staff is projecting a total balance of available funds on average will be \$1.5 million.

City Manager Goldstein noted that the City's annual expenditures are processed on a relatively even basis; except the revenues are not spread out evenly through a given year. He stated that this has resulted in the City having to operate on a fine line in order to finance operations.

Finance Director Hannah provided an overview of the City's Fiscal Year 2012/2013 program funding for each City department and the key revenue sources (noting that 73 percent of the revenues are from taxes). In addition, she reviewed the Fiscal Year 2012/2013 proposed expenditures by the following categories: Personnel, contract services, training, supplies, grants and subsidies, capital overlay, and internal service fund.

City Manager Goldstein reviewed some of the following budgetary uncertainties and assumptions given the City's current level of reserves in the proposed Fiscal Year 2012/2013 Budget: (1) Target store opening; (2) 2 percent growth in transitional occupancy tax and sales tax growth; (3) \$250,000 for Successor Agency Administrative Allowance; (4) \$50,000 budget for litigation in addition to the contract for City Attorney fees; (5) \$110,000 for the Mobilehome Rental Assistance Program on the City's Enforceable Obligation Schedule (denied by the California State Department of Finance). He stated that the proposed budget assumes no recovery from Lexington Insurance (the City's first party insurance carrier); the City is pursuing legal action to recover costs associated with the March 2011 flood incidents. There is no repayment of the \$618,000 loan from the City to the Redevelopment Agency (which the California

3. GENERAL GOVERNMENT (continued)

State Department of Finance disallowed). He stated that the \$299,000 of unallocated funds is primarily due to one-time funding sources (McGregor property sale and closing out the PERS fund). He noted that the slurry seal contract (budgeted in previous fiscal year) should go to construction this fall.

Mayor Termini opened this item for public comments.

Willis O’Sullivan, Human Care Alliance representative, asked why the Community Grant Program is called the “former” Community Grant Program.

Mayor Termini responded that at mid-year in Fiscal Year 2011/2012 the Council voted to fund the City’s reserves instead of funding the Community Grant Program.

Mayor Termini closed this item for public comments.

Council Member Nicol provided a handout and summarized the City’s historic perspective beginning Fiscal Year 2002/2003 to present: The City has on average maintained a balanced budget; staff and Council during this time period have been responsible in their budgeting integrity. He stated that an anomaly has occurred in governments throughout the country in that they do not live within their means with regard to payroll. He stated that in Fiscal Year 2002/2003 the City had \$5.5 million in payroll with revenues of \$10.3 million; the City was spending 53 percent of the total gross revenues. In Fiscal Year 2012/2013 the City is realizing \$12.1 million in anticipated revenues, and the payroll is \$7.5 million. He stated that over a 10-year period the City realized a 17 percent rise in revenues, but payroll expense has increased 36 percent; the fulltime equivalent staff levels have declined from 69.6 percent to 61.7 percent, due to the City cutting back the number of staff. But because of the contracts traditions, etc., the City’s overall costs have increased dramatically. He stated that the City’s trend in the level of payroll expenses is not sustainable. The City should be aware of: One-time expenses (the City is down \$1.4 million); the replenishment of reserves over a five-year period needs to be a high priority; a cash-flow situation requiring the City to borrow funds to meet operating expenses. He stated that the City has infrastructure-deferred maintenance in the amount of approximately \$3 million; there are still unknowns with the Redevelopment Agency dissolution and ongoing expenses – unfunded CIP’s (\$1 million), deferred operating expenses (\$850,000), and the City’s pavement management. He stated that the City needs to commit to a balanced budget, to remember the City’s mandate as a government entity to have clean and safe streets, maintain law and order, pavement management, and other public works projects. He recommended decreasing the City’s expenses. A one-quarter percent sales tax increase will generate \$900,000 per year starting in 2013. The City should exhibit to the business community a business friendly posture; fast track any projects that offer some prospect of revenue enhancement; and encourage developers during a time when development is a risky proposition. He suggested eliminating a staff position and go to a 36-hour work week (Monday through Thursday from 8 a.m. to 5:00 p.m.), freezing vacation cash-out, and outsourcing casual labor.

3. GENERAL GOVERNMENT (continued)

Council Member Norton suggested that the City add park and roadside improvement fees to the development impact fees.

Public Works Director Jesberg stated that development impact fees are to help fund any new construction or needed expansion of offsite capital improvements; they are not intended to help fund an existing infrastructure.

Interim Community Development Director Westman responded that planning in the Community Development Department typically runs about 50 percent less than receipts because many of the services that planning provides at the counter are not chargeable. She suggested looking into the process in how the fees are calculated to see if some additional revenue could be generated, reviewing staff times and the associated costs.

Council Member Storey agreed with Mayor Termini's suggestion and asked to also include a review of the Recreation Department's fees. He stated that the Recreation Department should be 100 percent self sufficient; the department is pulling 9 percent of its expenses from the General Fund.

After Council discussion it was the consensus of the City Council to examine raising the City's fees for recreation, planning and new development.

City Manager Goldstein stated that the Recreation Department fees have been raised relatively significantly over the last several fiscal years. The current cost recovery for the Recreation Program is 91 percent. He suggested that he request the Recreation Manager to examine fees and report to Council. He stated that state law (Assembly Bill 1600) provides requirements for development impact fees. He stated one of the challenges with AB 1600 is that an overall CIP plan is required, and the costs are prorated out for a new development project. He stated another option is for the City to pursue a development agreement where staff negotiates with a developer on a specific project. However, it may end up being a "push-pull" situation whereby either the developer pays their fair share, or staff may be overly assessing the development project.

Council Member Storey requested a breakout of the sources of funds for the CIP projects to show the source of the funds and the scheduled timing of the particular projects.

Mayor Termini opened this item to the public.

Kathleen Johnson, Advocacy Inc., requested clarification regarding "Charges for Services" as listed in the draft budget.

Mayor Termini replied that "Charges for Services" are for the Recreation Budget.

3. GENERAL GOVERNMENT (continued)

Laurie Hill, Begonia Festival volunteer, provided a brief overview of the annual Begonia Festival expenses and requested clarification of the special event permit expense.

City Manager Goldstein responded that the draft Fiscal Year 2012/2013 budget includes an estimate of all proposed City special event permits.

Sandy Erickson, Capitola resident, stated that the City mismanagement has occurred in the past and that the Council should look at the 36 percent increase in personnel cost and consider contracting some of the work.

Mayor Termini closed this item to the public.

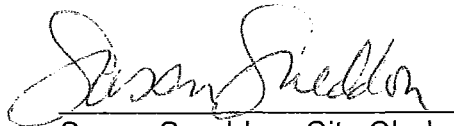
8. ADJOURNMENT

Mayor Termini adjourned at 8:32 p.m. to the next Regular Meeting of the City Council to be held on Thursday, May 24, 2012, at 7:00 p.m., in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.



Michael Termini, Mayor

ATTEST:


_____, CMC
Susan Sneddon, City Clerk

MINUTES WERE UNANIMOUSLY APPROVED ON JULY 12, 2012