

\$1 million surplus in city's budget

Economic report scheduled for Tuesday's City Council meeting

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In the face of gloomy budget forecasts, the Watsonville Finance Department is reporting a budget surplus worth more than \$1 million dollars for the current fiscal year.

Citing higher-than-expected revenues and lower expenses, a memorandum authored by Administrative Services Director Eric Frost reports the city of Watsonville is in good economic health for 2002/2003.

The memorandum will be presented at Tuesday's Watsonville City Council meeting, where Frost will recommend continuing cost-saving policies.

The report's optimistic outlook hinges on one very important variable — that Governor Gray Davis does not go through with his plans to cut the Vehicle License Fee backfill, a source of revenue worth near-

ly \$2 million to the city. Frost wrote that this projection assumes that the governor's proposal "is not passed by the legislature this year."

Davis has vowed to veto a law backed by the California State Senate and the Assembly that would nearly triple the VLF. Lowered during tax cuts in 1998, the state promised local governments it would make up the difference in lost revenues from the reduced VLF. Earlier this month the governor proposed slashing the reimbursements to reduce the massive state deficit.

In his mid-year report, Frost writes a surplus in "charges for services" revenue offset an under-performance by the city's utility and property taxes. Frost wrote the more than \$1 million surplus is "driven by new housing developments."

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Lower operating expenditures also contributed to the surplus, saving the city almost \$100,000. The Watsonville Fire and Police departments actually exceeded their budgets by nearly \$436,000 combined. Surpluses totaling \$532,000 by the Community Development, Public Works and Parks and Recreation Departments kept the city out of the red.

Frost's forecast for the next two fiscal years predicts a much gloomier financial situation, with the city facing annual \$4 million deficits. Almost half of that loss is attributed to diminishing state funds.

In the report, Frost said the governor might go through with his plan to slash the VLF backfill but called the \$1.9 million loss from the cut a "worst-case scenario."

"However, even if the VLF is not taken from cities," writes Frost, "the state appears willing to take something from local governments to solve their budget crisis."

Frost wrote the remaining deficits would come from increased costs in the city's public employment retirement contributions as well as increased labor costs. Frost recommends preparing "alternatives" to deal with the issues, as well as a hiring freeze and an expenditure review.

"The alarm must be sounded for the General Fund," wrote Frost. "The next several months are cru-

cial in addressing what is a crisis for all local governments in Watsonville."

At Tuesday's meeting, the City Council will also look at:

- Approving an agreement with the Pajaro Valley Unified School District and Watsonville Wetlands Watch for the construction of a Wetlands Education and Resource Center at the new Pajaro Valley High School. The WERC would consist of a specially designed science classroom/laboratory and a covered outdoor teaching area. The Council will be asked to approve an appropriation of \$150,000 to the YouthBuild program for construction work on the site and an additional \$84,564 to ATI architects to design the facility.

- Issuance of multi-family revenue bonds worth \$12,000,000 to finance the acquisition and construction of the Vista Montaña Apartments, a 132-unit multifamily rental development.

- Amendment of the Watsonville 2005 General Plan in accordance with Measure U, which passed in November 2002.

- Transfer of 6,800 square feet of surplus property on the southern side of Second and Main Streets from the city of Watsonville to the Redevelopment agency.

- Application to the Joe Serna, Jr. Farm Worker Housing Grant from the State of California Department of Housing and Community Development. Worth over \$900,000, the grant would supplement the city's first-time homebuyer program.