



City Council AGENDA REPORT

DATE: 05/23/2024

AGENDA OF: 06/11/2024

DEPARTMENT: Finance

SUBJECT: Fiscal Year 2025 Proposed Budget Adoption (FN)

RECOMMENDATION: Motion to:

1) Adopt a resolution adopting the Fiscal Year (FY) 2025 Budget including the Capital Investment Program (CIP), effective July 1, 2024; authorize the City Manager to allocate within the applicable funds the FY 2025 Schedule of Administrative Budget Changes to the appropriate accounting classifications and to approve related and applicable transfer in/out between funds; and authorize the Finance Director to create additional appropriations to provide for commitments carried over from the prior fiscal year, including contract and purchase order encumbrances and unexpended project balances, so long as there is a sufficient fund balance to finance these commitments; and

2) Accept the Water Commission's recommendations regarding the Water Department's FY 2025 Operating and Capital Investment Program (CIP).

BACKGROUND: The City Charter requires the City Manager to annually prepare the proposed budget for the start of the new fiscal year and transmit it to the Council at or before the first Council meeting of June. The FY 2025 Proposed Operating Budget and Capital Investment Program were posted to the City's website on May 17, 2024. Both documents can be accessed online at www.cityofsantacruz.com, or at the City Clerk's Office at 809 Center Street, Room 9, and at the Downtown Library. The Final Adopted Budget and CIP will be published online on the City's Budget webpage, after all the approved changes have been made.

The Water Commission annually reviews the budget for the City of Santa Cruz Water Department and makes recommendations to the City Council. The Commission met on June 3, 2024, at a publicly noticed meeting and performed a detailed review of the Water Department's budget. Attached are the Commission's recommendations and details of the Operating and CIP budget.

DISCUSSION: The FY 2025 Proposed Budget was presented to Council on May 28, 2024, with a Citywide budget totaling \$431,697,876, including \$150,623,782 in the General Fund, and \$113,379,497 in the CIP.

The City's focus for the FY 2025 budget aligns with the new Citywide Strategic Plan 2023-2028 that was adopted by Council on August 8, 2023. The FY 2025 budget is also the first fully post

pandemic budget with no state or federal financial assistance. As the City moves on from the pandemic, a focus has been placed on our downtown and business revitalization plan. The City is actively reinvesting in the downtown area and all business districts. New construction is underway, adding affordable and market rate housing as well as new retail and restaurant spaces. The City is also focusing on infrastructure while creating a green economy and workforce. Planning for more parks and open spaces improvements to existing structures is also integral to this focus area.

The City will maintain this focused approach while continuing to address major fiscal concerns. Rising liability insurance costs, an aging Enterprise Resource Planning (ERP) system that nears end-of-life, and rising employee benefit costs add pressure to the already compacted budget.

Increased demand for City services and the implementation of important Council priorities have strained the City's fiscal capacity. The City completed a Long-Range Financial Plan (LRFP) to aid in ensuring a sustainable financial outlook. Presented to Council on November 28, 2023, the plan details the General Fund fiscal forecast and suggests budget strategies to address the fiscal gap in future years. The Council Ad Hoc Budget and Revenue Hoc Subcommittee continues to look at and recommend next steps to the Council.

Given these financial circumstances, General Fund departments were directed to maintain a status quo operating budget and absorb any increased operating costs. Consideration was given to contractual services and the impact of inflation costs on those services, and departments were given budget to cover those costs. General Fund departments were not required to absorb increases to salaries from negotiated memorandum of understanding (MOU) increases nor non-operating expenditures, such as liability insurance and internal cost allocation plan charges. These were absorbed by the General Fund.

Throughout the budget hearing, the City Manager and Finance Director shared with Council the FY 2025 budget, position requests, budget strategies identified from the LRFP, and the CIP. The proposed budget document, "Personnel Profile" articulates how the position requests will increase operational efficiency and provide departments with improved capacity to implement programs and services.

The Council was presented with a FY 2025 CIP budget proposal, which followed the prior year theme for the General Fund CIP: to pause, prioritize and plan. The General Fund has paused many new funding for projects. Departments were asked to review all active projects and prioritize funded projects and complete these projects before considering new ones. Finally, departments were tasked with determining if current, active projects were moving forward or not. If not moving forward, the funding for these projects was reallocated to projects in immediate need of funding. Although the General Fund provided no new CIP funding to the FY 2024 budget, \$25.6M was expended on CIP projects and an additional \$15.5M was encumbered. There is still over \$100M in funded projects in the queue to be completed.

The FY 2025 Annual Budget furthers the City in its steps towards meeting its Health in All Policies (HiAP) goals. The ways in which the City's departments work and endeavor to meet HiAP goals is displayed in the budget document, with accomplishments, goals, performance measures, and workload indicators that are connected to HiAP pillars marked with an icon for equity, public health, and sustainability. This year, City staff took the next step in furthering equity in budgeting by utilizing HiAP goals to inform the CIP prioritization process. The CIP

projects that had a moderate or substantial impact on furthering HiAP goals were given additional points in the scoring process, which made them a larger contender in the event the General Fund can provide additional funding for the CIP.

Finally, attached is a list of minor adjustments and administrative budget corrections (Exhibit A) that were submitted after the proposed budget submission. Edits to the budget book (such as grammar and typos) will be reflected in the published adopted budget book, though they are not outlined here as they are non-substantive in nature.

FISCAL IMPACT: The FY 2025 Adopted Budget includes \$434,662,135 of total appropriations. Included in the operating budget is the City's primary General Fund of \$151,420,135 which supports our day-to-day administrative, public safety, planning, development, roads, traffic, parks, and other operations.

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Approved By:
Matt Huffaker
City Manager

ATTACHMENTS:

1. RESOLUTION.DOCX
2. EXHIBIT A - SCHEDULE OF ADMINISTRATIVE BUDGET CORRECTIONS.PDF
3. WATER COMMISSION FY 2025 BUDGET RECOMMENDATION LETTER TO CITY COUNCIL.PDF