

City of Santa Cruz FY 2019 Budget



# Budget 101 Community Forum

**Proactive Preservation through Unprecedented Times**

**Thursday, May 31 7:00pm - 8:30pm**  
Police Community Room - 155 Center St, Santa Cruz

<u>City Council Budget Ad-Hoc Committee</u>	<u>City of Santa Cruz Staff</u>
Mayor David Terrazas	Martín Bernal, City Manager
Vice Mayor Martine Watkins	Marcus Pimentel, Finance Director
Councilmember Sandy Brown	



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## Budget 101 Community Forum Agenda


7:00 - Welcome by Mayor David Terrazas

7:05 - Committee goals (Vice Mayor Watkins & Councilmember Brown)

7:10 – 7:30 Staff Presentation

- Unprecedented government finances during robust economic growth
- Santa Cruz budget and staffing comparisons
- Demystifying the Full City Plus service model
- 2013 through 2023: Recap of City’s fiscal strategies

7:30 – 8:30 Listen, Questions, and Comments



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## New approaches to our fiscal challenges

- Creation of the City Council Ad-Hoc Budget Committee
- Deployment of internal Action Lab model
- Listening and engagement through a diverse Community Focus Group
- Various stakeholder presentations
  - Chamber of Commerce, Santa Cruz Business Council, Santa Cruz Neighbors
- Community Budget 101 Forum
- Frequently Asked Questions
- Budget Redesign
  - Budget in Brief with new summary of key changes



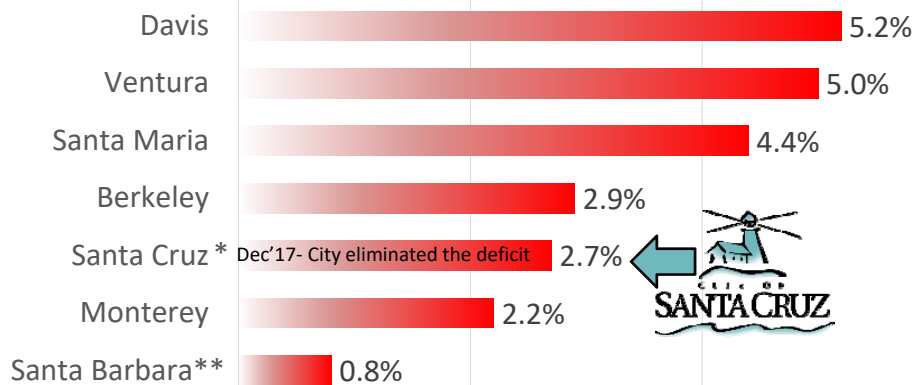
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## We're not alone

(FY 2019 data not yet available)

### FY 2018 Adopted Budget Deficit Projections

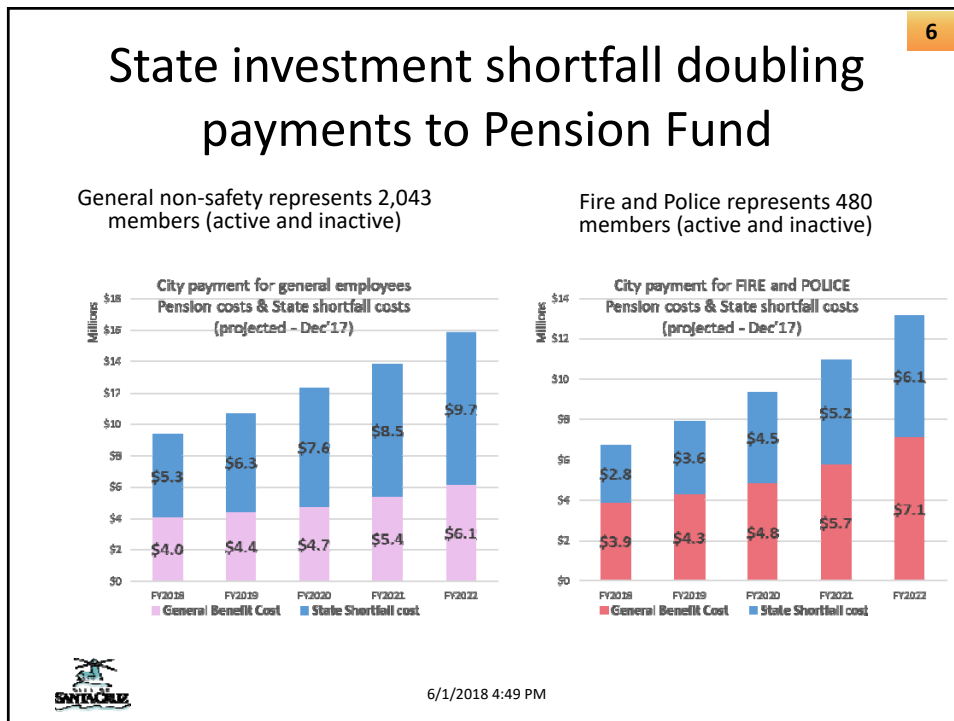
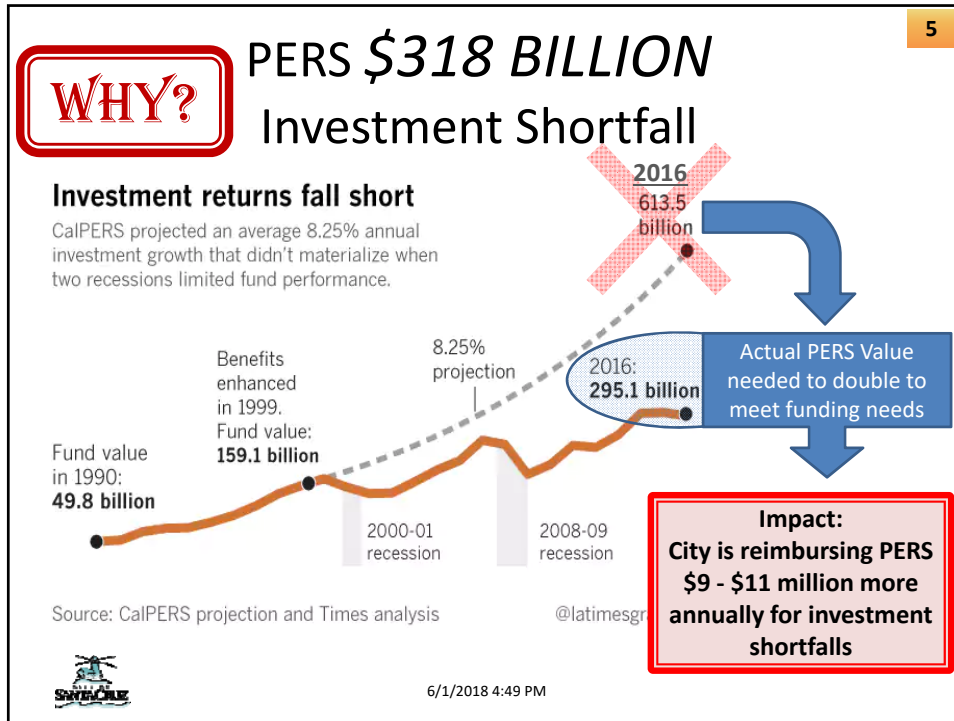


\* City adopted changes in Dec 2017 to eliminate the 2.7% projected gap

\*\*Santa Barbara was 0.8% after \$1.9 million in budget balancing measures



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## Declining & Eroding Revenues

Demographics & new economic models are permanently eroding our revenue

### Sales Tax



- Online sales non-taxable
- Cities with distribution centers receive sales tax
- Tangible items now a download
- Pressure on limited consumer dollars
- Aging baby-boomers shifting spending to non-taxable health care & services

### Gas Tax


- Ride sharing reduces fuel sales
- Fuel efficiency & electric cars reduces fuel sales

### Franchise & Utility

- Online streaming replacing cable/dish services
- Landline phones are vanishing

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## Recognition of City Fiscal Leadership


- GFOA Awards
- AA+ Bond Rating
- Pension Reforms
- Fiscal success
- Financial Planning

## Already met all Jan'2018 League of Ca. Cities recommendations

- Develop plan to pay down liability
- Consider local ballot measures
- Create pension rate stabilization
- Change in Service Levels
- Use Bargaining to increase Employee payments
- Issue Pension Obligation Bond

All already implemented by City of Santa Cruz

Santa Cruz has AA+ S&P rating!



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# Budget 101 Community Forum

## City Comparison



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Preliminary  
Summary of  
Results

### City Comparison Project By Management Partners

- City contracted with industry leader for independent municipal research
- Pilot project to collect and identify initial comparison metrics

**DRAFT**

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Management Partners 


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Peer Demographics

DRAFT

## Seven Peers Identified

City	Median Income
Napa	\$71,087
Ventura	\$70,541
Berkeley	\$70,393
Monterey	\$68,511
Santa Barbara	\$66,916
<b>Santa Cruz</b>	<b>\$62,471</b>
Davis	\$57,683
Santa Maria	\$51,939



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Preliminary Summary of Results

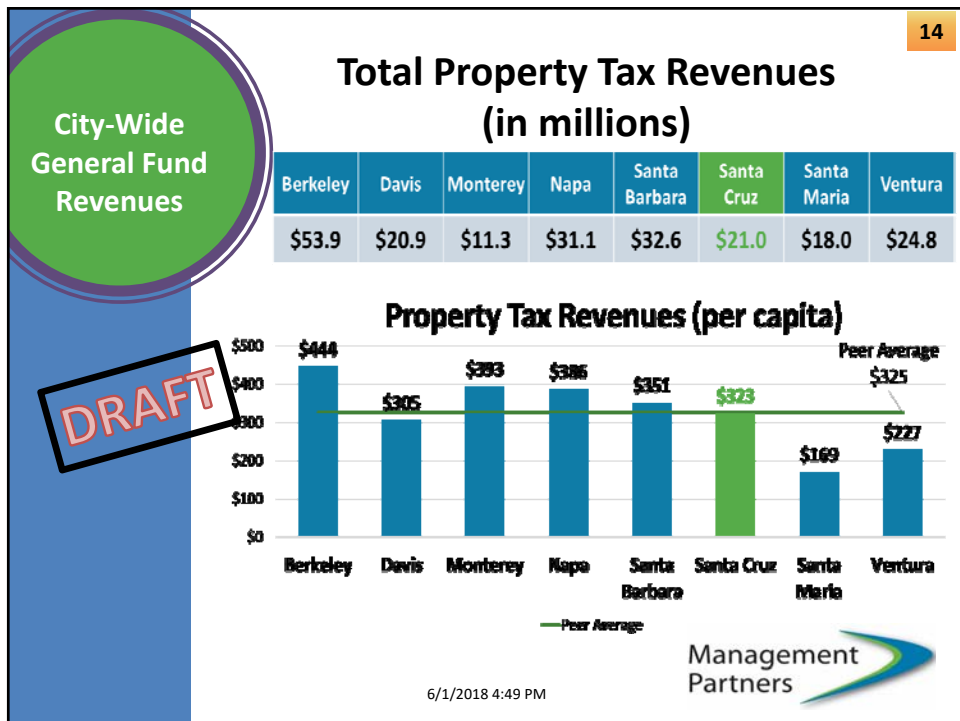
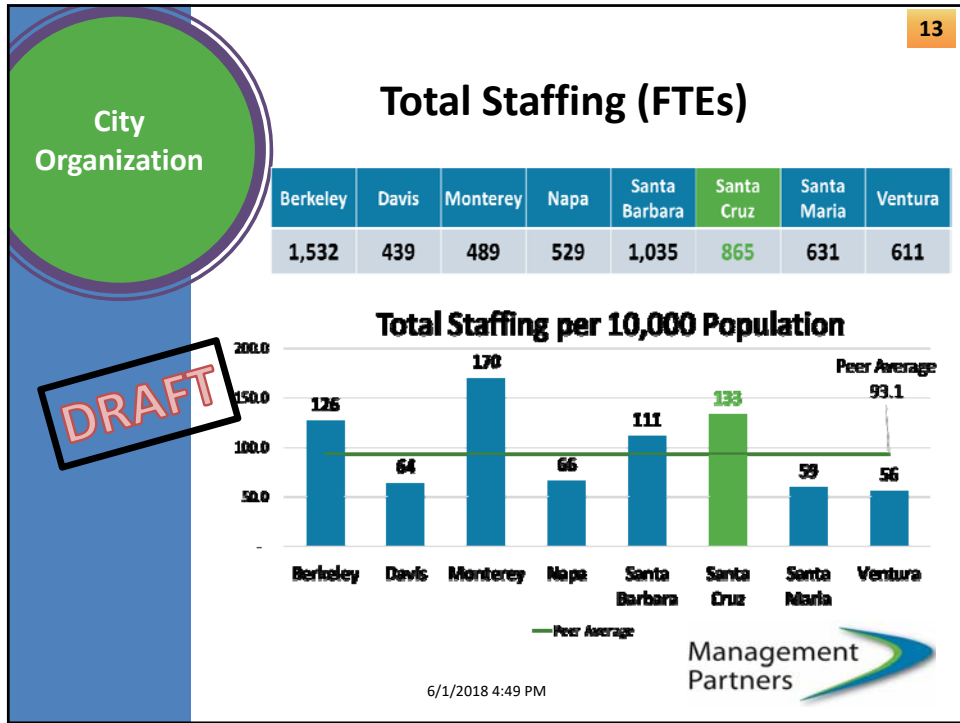
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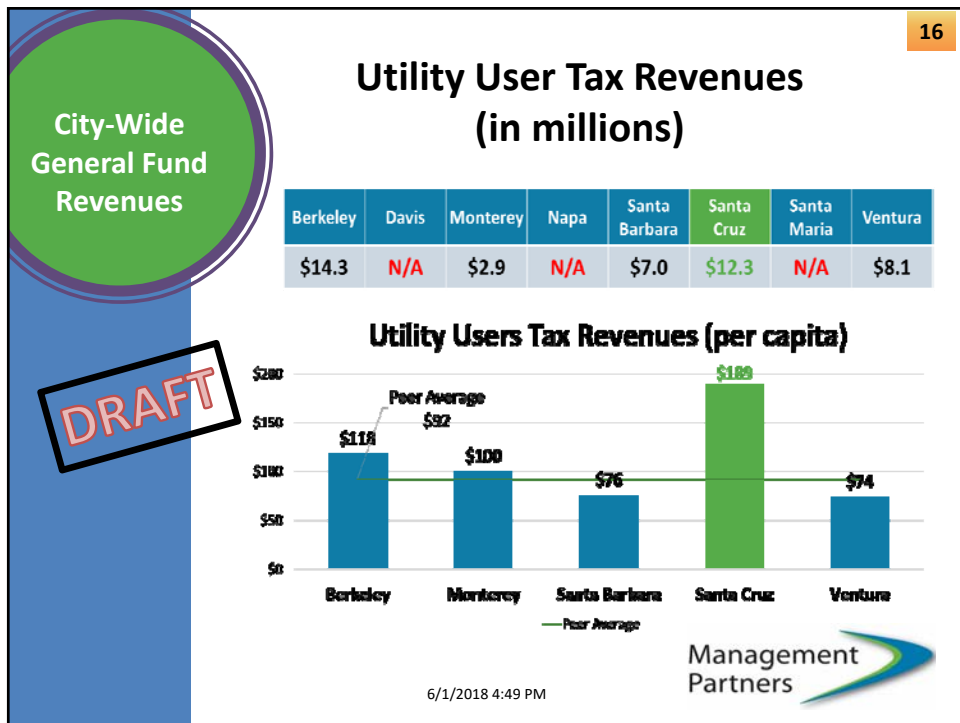
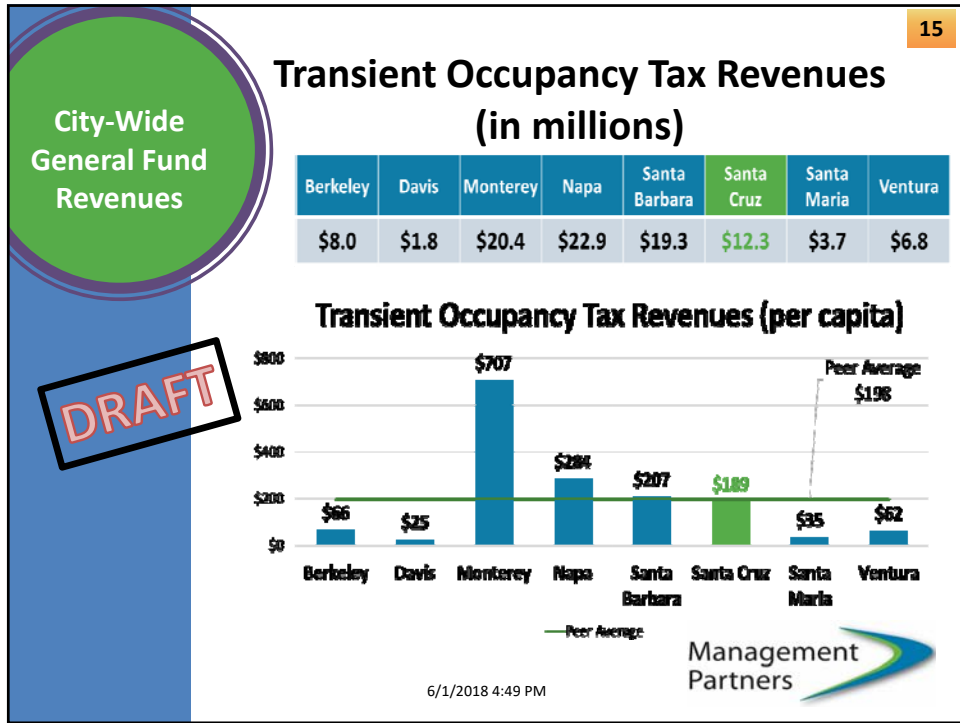
## Preliminary take-aways thus far

- **Property, sales and transient tax revenue are on par**
- **Business License tax far below peers**
  - Utility User Tax is above peers
- **Police, Fire, and Parks & Recreation staffing on par or slightly below peers**
- **Administrative staffing one of the lowest**
  - City Manager, Human Resources, Finance and Information Technology
- **More data yet to come**

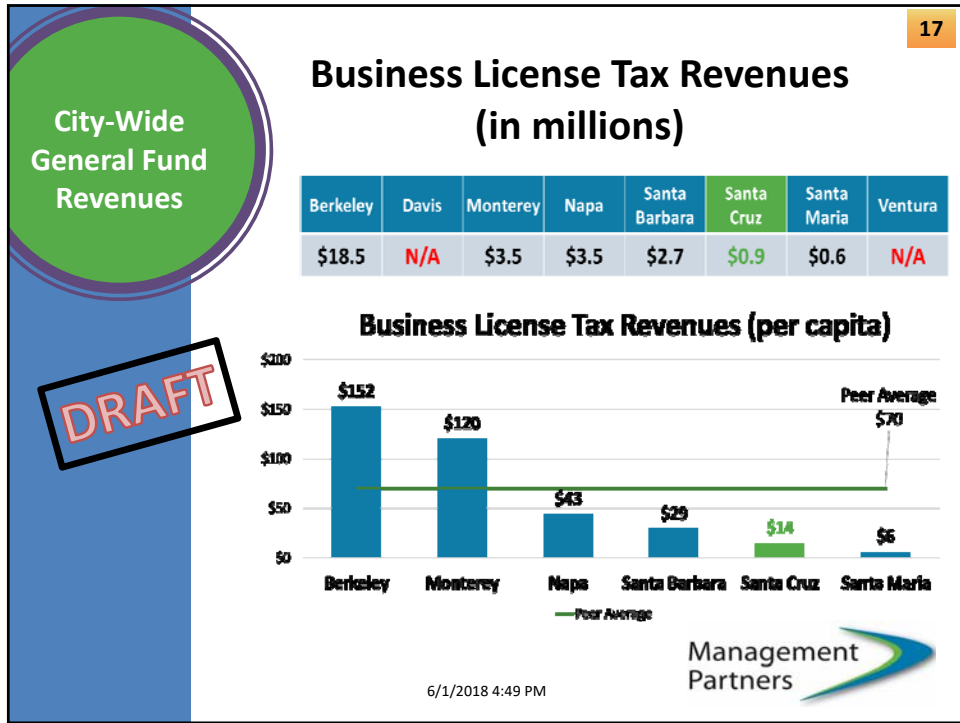


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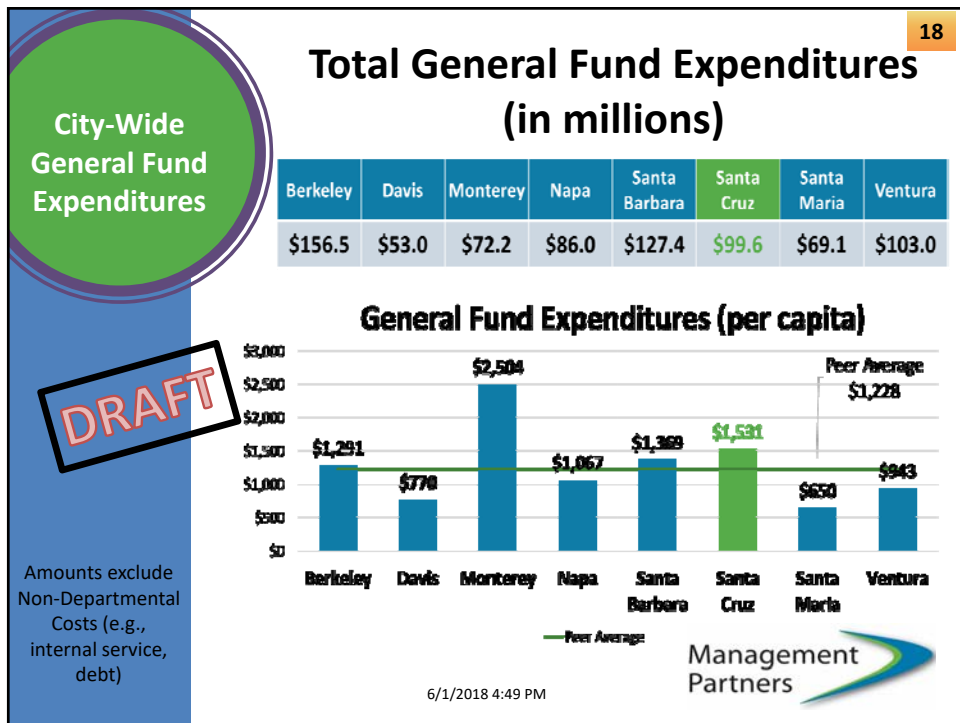






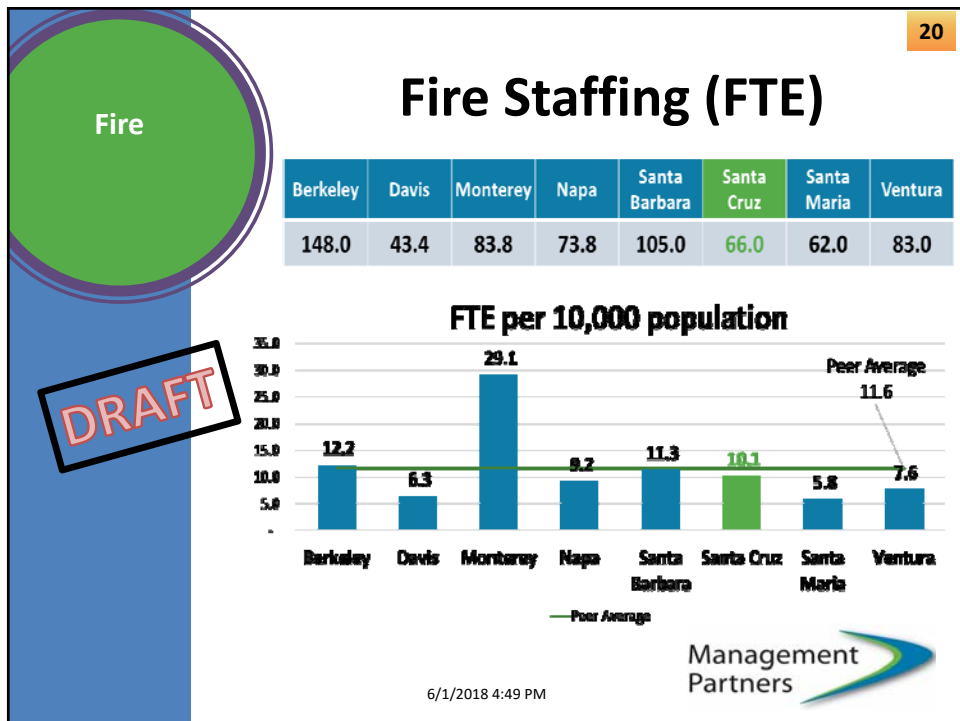
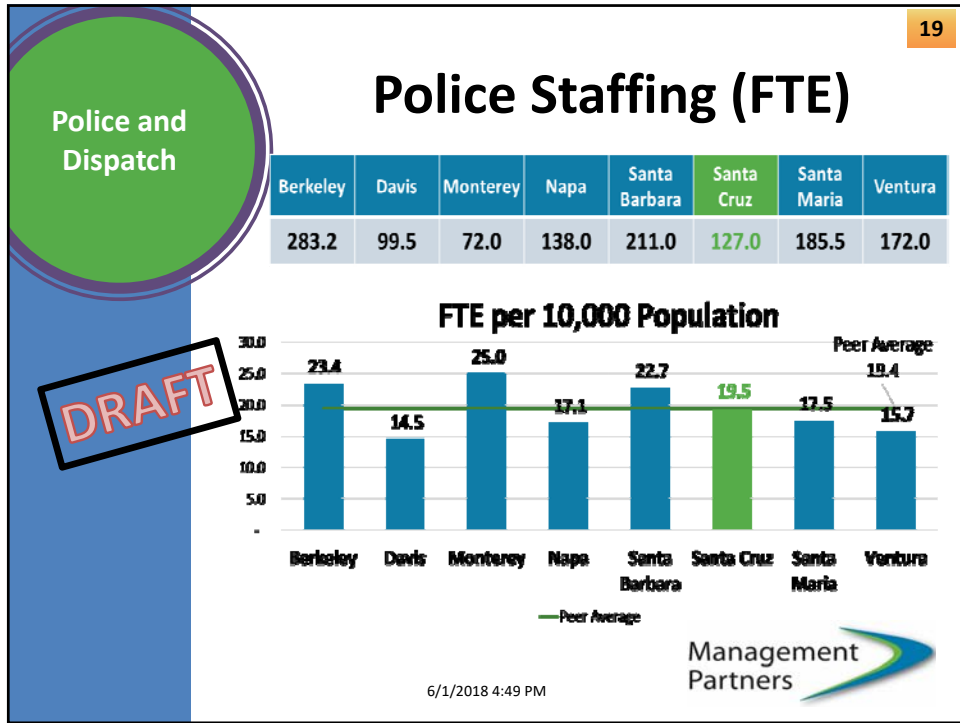


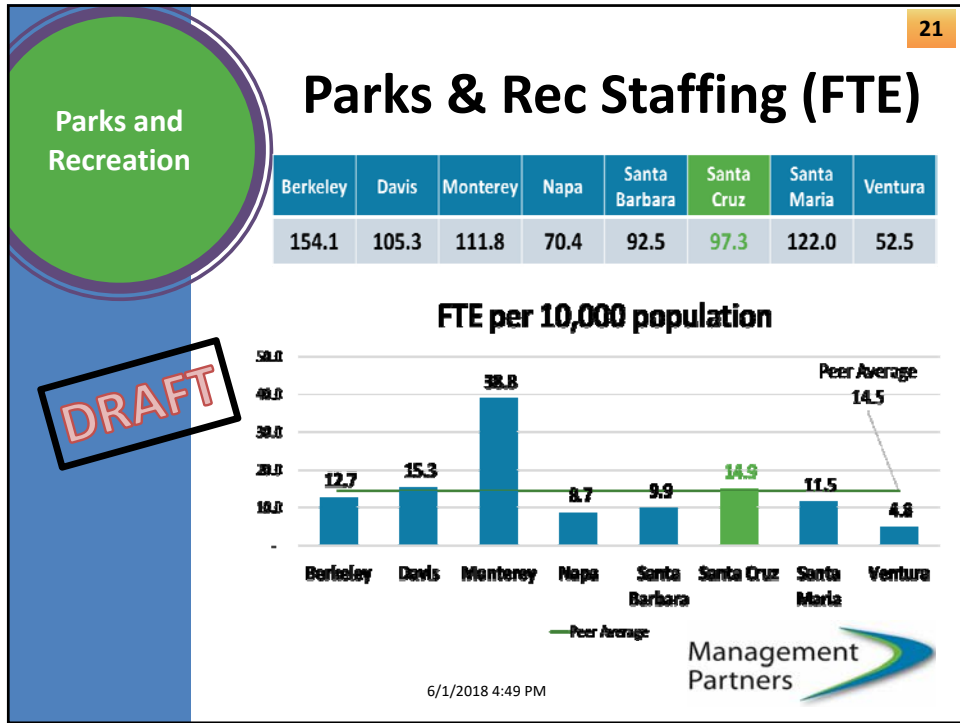
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Amounts exclude Non-Departmental Costs (e.g., internal service, debt)





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# Budget 101 Community Forum

## City of Santa Cruz – A Service Plus provider

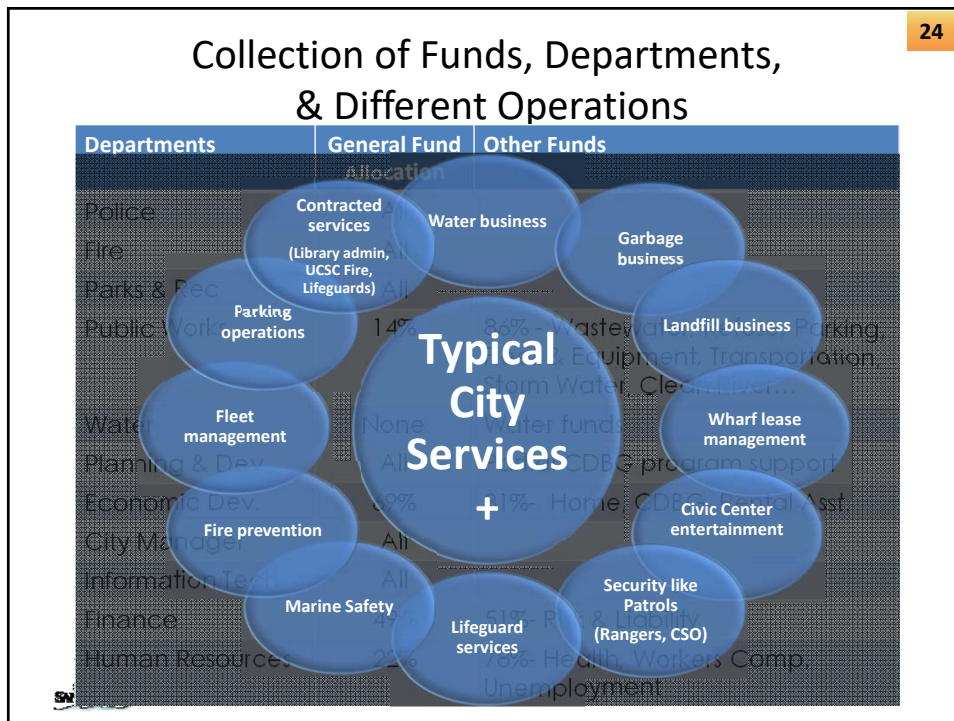


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### Collection of Funds, Departments, & Different Operations

Departments	General Fund Allocation	Other Funds
Police	All	
Fire	All	
Parks & Rec	All	
Public Works	14%	86% - Wastewater, Refuse, Parking, Fleet & Equipment, Transportation, Storm Water, Clean River...
Water	None	Water funds
Planning & Dev.	All	Partial CDBG program support
Economic Dev.	69%	31%- Home, CDBG, Rental Asst.
City Manager	All	
Information Tech.	All	
Finance	49%	51%- Risk & Liability
Human Resources	22%	78%- Health, Workers Comp, Unemployment



## Examples of General Fund Services

Fire- ~9,100 Calls for Service	Police- ~103,000 Calls for Service	Parks & Recreation	Public Works
56% - Medical	10,466- Reports written	43 Parks & 4 Beaches maintained	2.7 Million sq ft of road overlay/seals
2%- Fire	3,813- Arrests	903 Classes offered	1,258 street signs installed or repaired
25% - Good intent	5,694- total Citations	+7,300 facility rentals	28,063 feet of stormwater pipes cleaned
14% - False alarm & service		1,704 Acres of parks	1,513 facility maint. calls

- Economic Development- Assisted over 300 businesses; assistance to over 1,300 and monitored over 800 affordable housing units; abated over 52,000 sq ft of graffiti
- Library (system wide)- over 1.7 million items checked out



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## Major City-wide Fees & Taxes

- Fee for Services. Include Enterprise & Internal Service Funds.
- Core 3: Water, Refuse and Wastewater
- Unique: Parking, Golf Course, Landfill & Risk
- General Tax supported. Includes General Fund and other tax supported operations
- Public safety, road and infrastructure improvements, parks & recreation
- Community and business development
- Libraries, animal shelter and community programs & services
- General administrative and city support services (like your Finance department)



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## Other restricted revenues

- Restricted Revenue. Special Revenue funds.
- Gas tax, Traffic Impact, Clean Rivers..., Parks tax
- Housing , Community Development Block Grants
- ED Trust, Reserves, Traffic Offender, Narcotics Asset Seizures
  
- 3rd party trustee. Fiduciary funds.
- County-wide Library JPA
- Successor Agency (former RDA)
- Restricted donations like various “Friends of...” groups



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**General Fund –  
Supported primarily by  
taxes and fees**



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## Projecting modest hit from an economic slowdown in 18 months

**Warnings of slowdown (national & regional)**

- Escalating housing markets
- Increased personal debt & low savings rate
- Consumer interest rate increases
- State historically a threat
- Federal Gov. now a threat

### Longest periods of U.S. Economic Expansion

(Bureau of Economic Research - Data since 2004)

1	1991 - 2001 (10.0 years)
2	July '09 - May '18 (8.9 years)
3	1961 - 1969 (8.8 years)
4	1982 - 1990 (7.7 years)
5	1938 - 1945 (6.6 years)
6	2001 - 2007 (6.1 years)
7	1975 - 1980 (4.8 years)

A long recovery is reasonable after the Great Recession... but ...

At 8.9 years, we've long passed the typical ~5 year recovery period

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## Declining & Eroding Revenues

Demographics & new economic models are permanently eroding our revenue

DUPLICATE SLIDE

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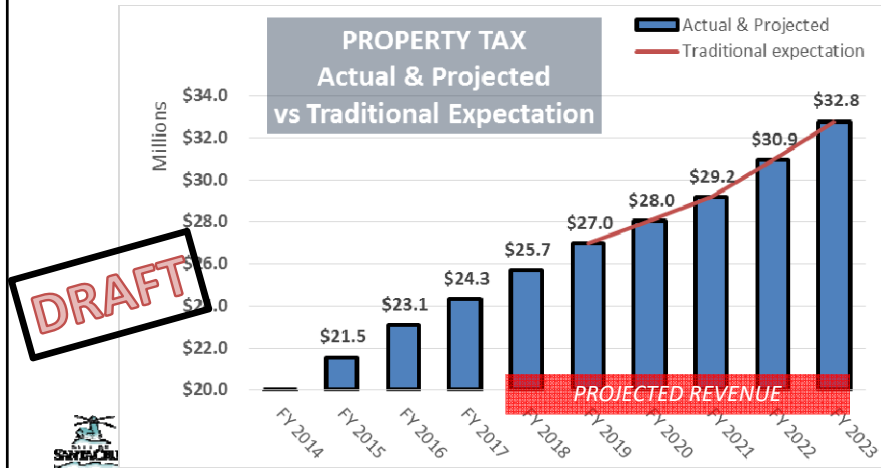
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## Declining & Eroding Revenues

Property Tax – Largest and most stable

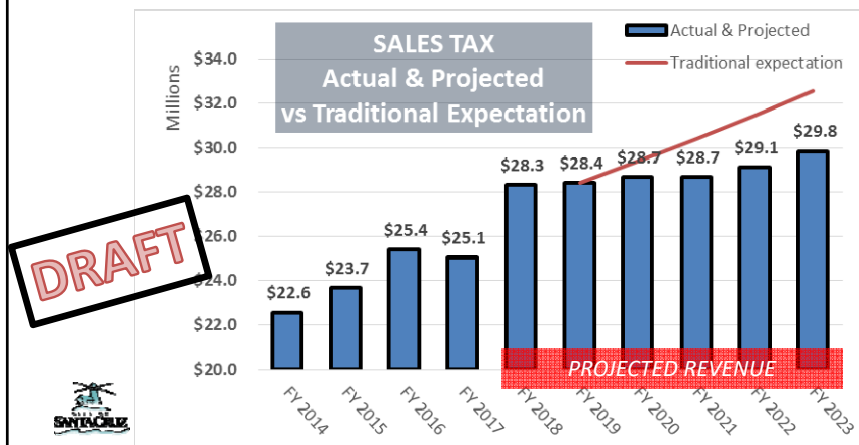
- Projected and expected are in alignment



## Declining & Eroding Revenues

Sales Tax – 2<sup>nd</sup> Largest and tax base is threatened

- FY 2017 drop is concerning; but projections indicate recovery
- Out year's threatened by changes & expected recession

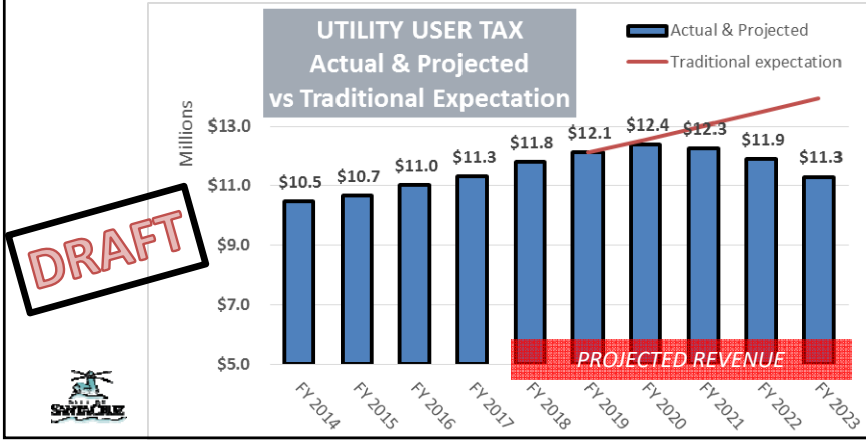




## Declining & Eroding Revenues

Utility User Tax – 3<sup>rd</sup> Largest and in danger

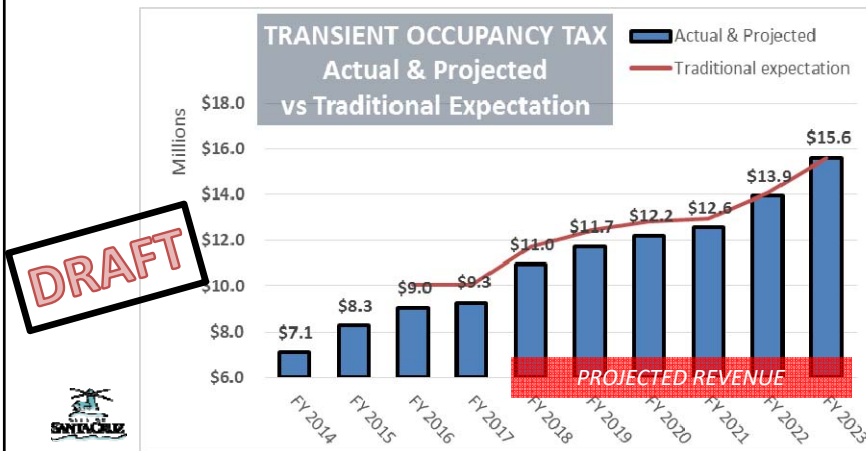
- Taxes on TV, phones & electricity are expected to decline rapidly in the next 5 years






## Declining & Eroding Revenues

Transient Occupancy Tax – 4<sup>th</sup> largest, growing, with short-term challenges

- Vacation rentals appear to impact tax growth
- Compliance efforts are expected to reduce the leakage



### Examples of General Fund Revenue Volatility

	Sales Tax	Transient Tax	Parking meter & parking fines	Very reactionary to changes in the economy; can impact revenue in months
	Admission Tax	Charges for Services		Moderate change when the economy changes; impacts could be delayed 12-18 months
	Property Tax	Utility Users Tax	Franchise Tax, Cannabis Tax	Very slow change even during fluctuating economy, slow and gradual changes; very predictable.

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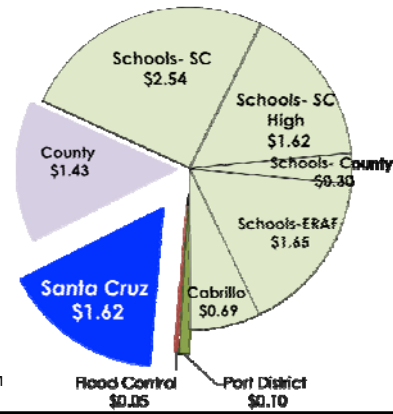


### Property Tax 16-cents per \$1 tax

- The City gets appx 16-cents from every \$1 dollar in tax paid
- Annual growth capped at 2% maximum amount (some year's State sets a lower limit)

#### Property Tax

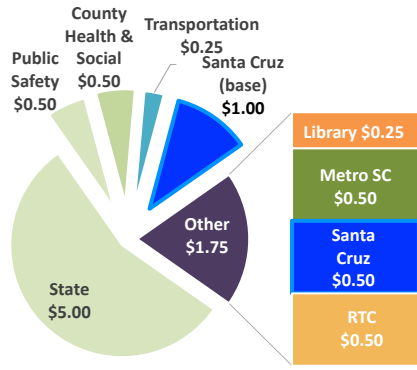
For every \$1,000 in value:  
\$1.62 annually to City;  
\$8.38 to Schools and other



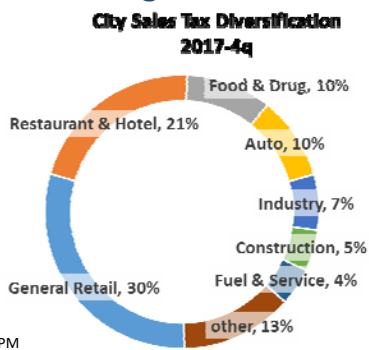
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## 9.0% Sales Tax 1.5% to City



- The City gets \$1.50 for every \$100 dollar in consumer purchases
- It is a diversified tax base
- But lots of pressure shrinking the tax base



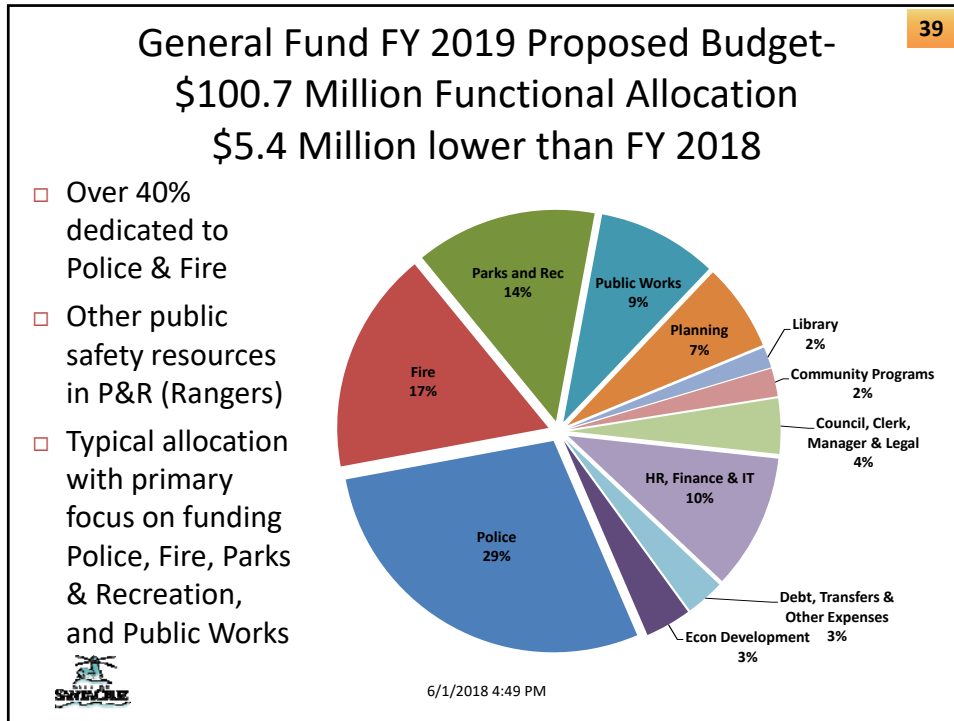
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General Fund –  
Reducing operations while  
prioritizing services

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## FY 2019 Budget Reductions

- 3<sup>rd</sup> Year with No General Fund Capital Investments

**Storm Drain Improvements  
(Prevent repeat event)**

Water & May Ave – Dec 2014

**West Cliff Revetment Repair  
(Prevent Feb 2016 repeat event)**

**Wild Land Fire Engine**

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## FY 2019 Proposed Budget Summary of Reductions

A detailed summary of the proposed budget reductions was included in the City Council's May 22<sup>nd</sup> agenda.

This information report is available online and provides detail by department.

- **Goal: Reset General Fund with 5% reductions & changes**
  - \$568k – reduced planned vehicle replacements
  - \$101k – eliminate City Hall security patrols
  - Unfunded General Fund capital investment projects
  - Denied requested services support
  - Reduction of Community Programs CORE funding to match the 5% General Fund realignment target



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## FY 2019 Proposed Budget Summary of Reductions *(continued)*

- Other departmental reductions:
  - (\$153k) City Manager – reduce legal & eliminated a position
  - (\$130k) Economic Development – City arts reduction
  - (\$109k) Finance Department – reduced external analysis and savings from counter consolidation
  - (\$43k) Human Resources – reduced certain external support
  - (\$123k) Information Technology Department – reduce support services
  - (\$85k) Parks & Recreation – Increase Golf and other fees; golf, wharf reductions and other temp staffing reductions
  - (\$148k) Fire Department – Reduce Overtime & increase mutual aid reimb.
  - (\$488k) Police Department- Move juvenile diversion to County & reduced planned building maintenance
  - (\$253k) Planning Department – Eliminated position
  - (\$334k) Public Works – various support and project reductions; including reduction of some pedestrian and bike support



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Continuing fiscal reforms,  
service efficiencies, cost  
recovery and community  
support



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