
Focus Group – Frequently Asked Questions (FAQ)

Q: Where is the revenue coming from in the General Fund?

General Fund revenue is made up of several sources. The largest piece, taxes, is comprised of 75% revenue (Property Taxes, 22%; Sales Tax, 20%; Utility Tax, 12%; Transient Occupancy Tax, 12%; and Other Taxes, 9%). Other pieces of the budget include charges for services (17%), use of money & property (4%), fines & forfeitures (2%), licenses & permits (1%), and other revenues (1%).

Q: Please explain General Fund vs. Enterprise Fund and are there any funds outside the General Fund that impact the General Fund?

The General Fund is the primary operating fund of the City. All revenues that are not allocated by law or contractual agreement to a specific fund are accounted for in the General Fund. The revenue sources in the General Fund can be utilized for any legitimate governmental purpose.

The City has five enterprise funds: Water, Wastewater, Storm Water, Refuse, and Parking. These funds generate their own revenue through fees to support their operating and capital needs.

Enterprise Funds and General Funds cannot be commingled. With the passage of Proposition 218 in November 1996, restrictions on use of fees make it illegal for Enterprise Funds to be used for General Fund purposes.

Q: Regarding long-term assumptions about declining revenues, will they level out, or not? How are estimates determined?

Annual increases to revenues such as Property Tax are expected to remain in a 2% to 4% growth pattern. However, growth could be restrained by the next economic slowdown..

The General Fund's other top three revenue sources are likely to face declines (Utility Users Tax), very modest to no growth (Sales Tax), and modest growth in Transient Occupancy Tax from the re-opening of hotels and future planned development by FY 2023 around La Bahia. Estimates are determined by a combination of historical data (trending), known future changes (i.e. completion of a new hotel -TOT revenue) on the horizon, and input from consultants.

Q: What is the unfunded list?

The "Unfunded List" refers to a list of Capital Investment Program projects that will be proposed, once funding has been identified, and staff resources are available. The City of Santa Cruz has identified these projects and prioritized a portion of them based on the City's strategic goals.

Q: Why is my city having trouble now?

Short-term expenditure increases can be attributed to increases to the State for the pension investment shortfalls (3 out of the last 6 years investment returns in this strong economic market were far below 7.5% expected returns; hitting 0.1%, 2.4%, and 0.6%). Long-term revenue decreases can be attributed to the shrinking tax bases (i.e. non-taxable online alternatives) and the changes in consumer spending (shifting from buying goods to buying services- health, travel, streaming, downloads and consumer experiences).

Q: Is the city exploring how are we going to capture that lost revenue (from Sales Tax)?

Yes, Measure S (increase in sales tax rate) will attempt to offset the loss of sales tax revenues due to the change in spending patterns such as an increase in service (not taxable) purchases and a decrease in supply purchases (taxable). The City is also very active with the League of California Cities in pushing for reforms in having online taxable sales flow back to Santa Cruz, and pushing for elimination of exemption for certain online sales. Local efforts have been underway in identifying and re-capturing lost Transient Occupancy Tax revenues.

Q: How can we create new revenue? Can we leverage technology?

The City is actively looking at new revenue sources including eliminating the subsidies for certain fees for services, as any fees were historically subsidized by other taxes. We also rolled out new online payment options for Business License and recently Transient Occupancy Taxes.

Q: Enterprise – How much allocation for IT Services, etc. How much does the Enterprise pick up for service costs provided by the General Fund?

The General Fund does allocate costs to the Enterprise Funds and Internal Service Funds for administrative services (HR, Finance, IT, City Manager, City Attorney) through its cost allocation plan. The Administrative Services personnel budget makes up only 14% of the General Fund budget. About 8% of personnel costs are recuperated through this plan. The largest portion of the General Fund's personnel budget is Public Safety, Parks & Recreation, Public Works, and Planning; none of which is able to be recovered through the cost allocation plan.

Q: I think I do pay sales tax with Amazon. Doesn't the City get it?

Even though for those limited times when Amazon charges your City rate for sales tax, it goes into our County or another County's "pool" and only a proportional share of the total is distributed back to the City. In other words, the sales tax you pay on the Amazon website is allocated to another County or is shared with Santa Cruz County and other cities within the County. Furthermore, 3rd party retailers on Amazon do not collect sales tax.

Q: Regarding pensions, who is managing it? And what is the plan to correct average market returns? And what (local) measures are being considered for new staff and the pensions that are in place?

The CalPERS public pension fund is managed by the State and their investment office. The City of Santa Cruz has no authority over how the pension fund is invested. The League of California Cities is actively looking at solutions for cities to deal with this pension issue.

The City of Santa Cruz introduced a tiered retirement system for new employees back in 2011 and added a third tier in 2013. As a result, new employees are entered into the pension system at the lowest tier and pay more into their retirement than those in higher tiers.