

City of Santa Cruz FY 2019 Proposed, Balanced Budget

*Fiscal 2023 sustainability strategy
Proactive fiscal sustainability through unprecedented times*

CITY COUNCIL BUDGET HEARING

Wednesday, June 6, 2018

10am-4pm City Council Chambers

David Terrazas, Mayor

Martín Bernal, City Manager

Marcus Pimentel, Finance Director





New approaches to our fiscal challenges

- Creation of the City Council Ad-Hoc Budget Committee
 - Mayor Terrazas, Vice Mayor Watkins, Councilmember Brown
- 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 on City Budget
- Budget Redesign
 - Budget in Brief with new summary of key changes



Budget Hearing Agenda

10:00 – Introduction by Mayor Terrazas and City Manager Bernal

10:15 – Proposed Budget Overview with General Fund concentration

11:30 – Council Questions

12:30 – Lunch Break (30 minutes)

1:00 – Public Comments

2:30 – 4:00 City Council discussion and direction for June 12, 2018 Adopted Budget



Hearing Process

- Hold questions until the end of Staff's presentation
 - Budget Overview then Council questions
 - City Comparison then Council questions
- At the end of each presentation or after public comments, a Council Member may verbally request to add a topic for the 2:30 discussion & direction period
- Council Direction starts at 2:30
 - Approve Motion to make changes to the Proposed Budget
 - Changes have to be funded or offset to maintain a balanced budget



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Local Government's unprecedented challenges during national economic recovery

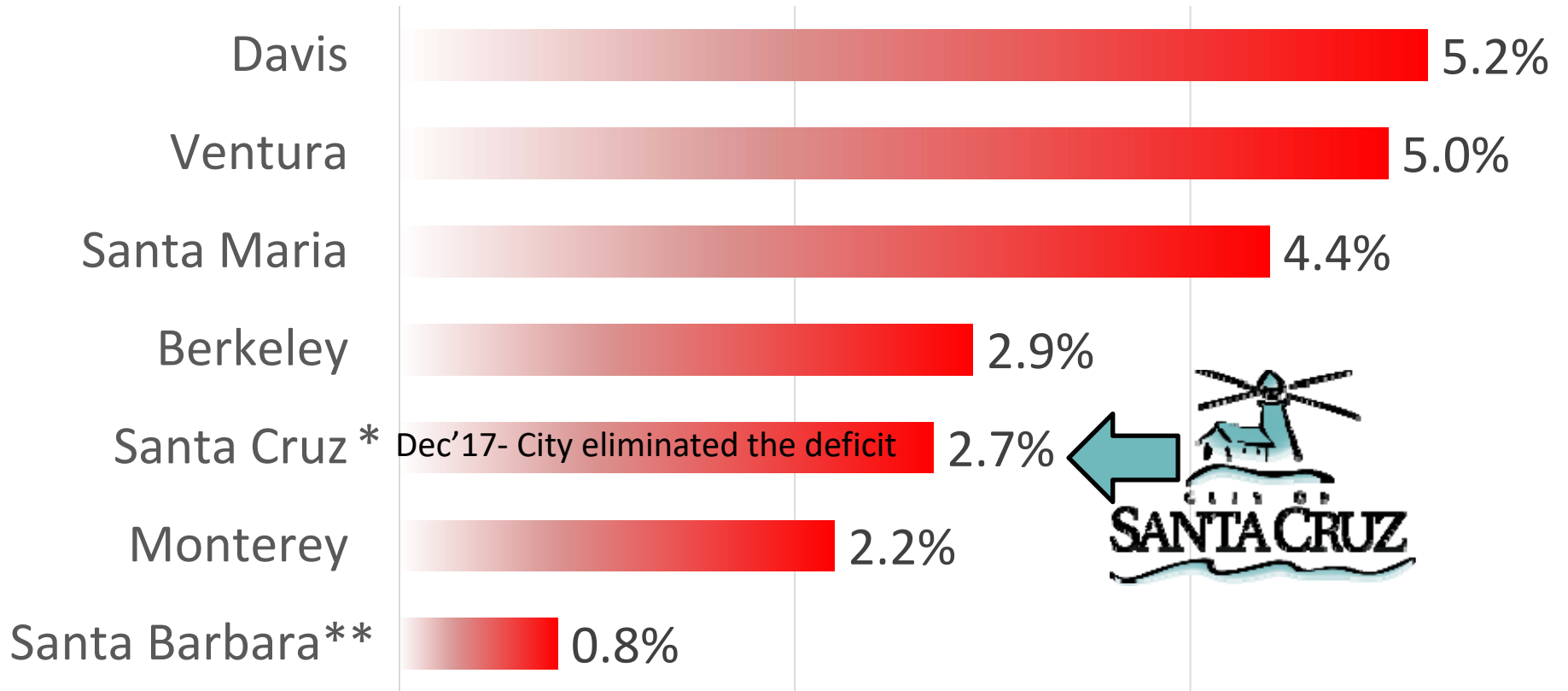


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We're not alone

(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



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

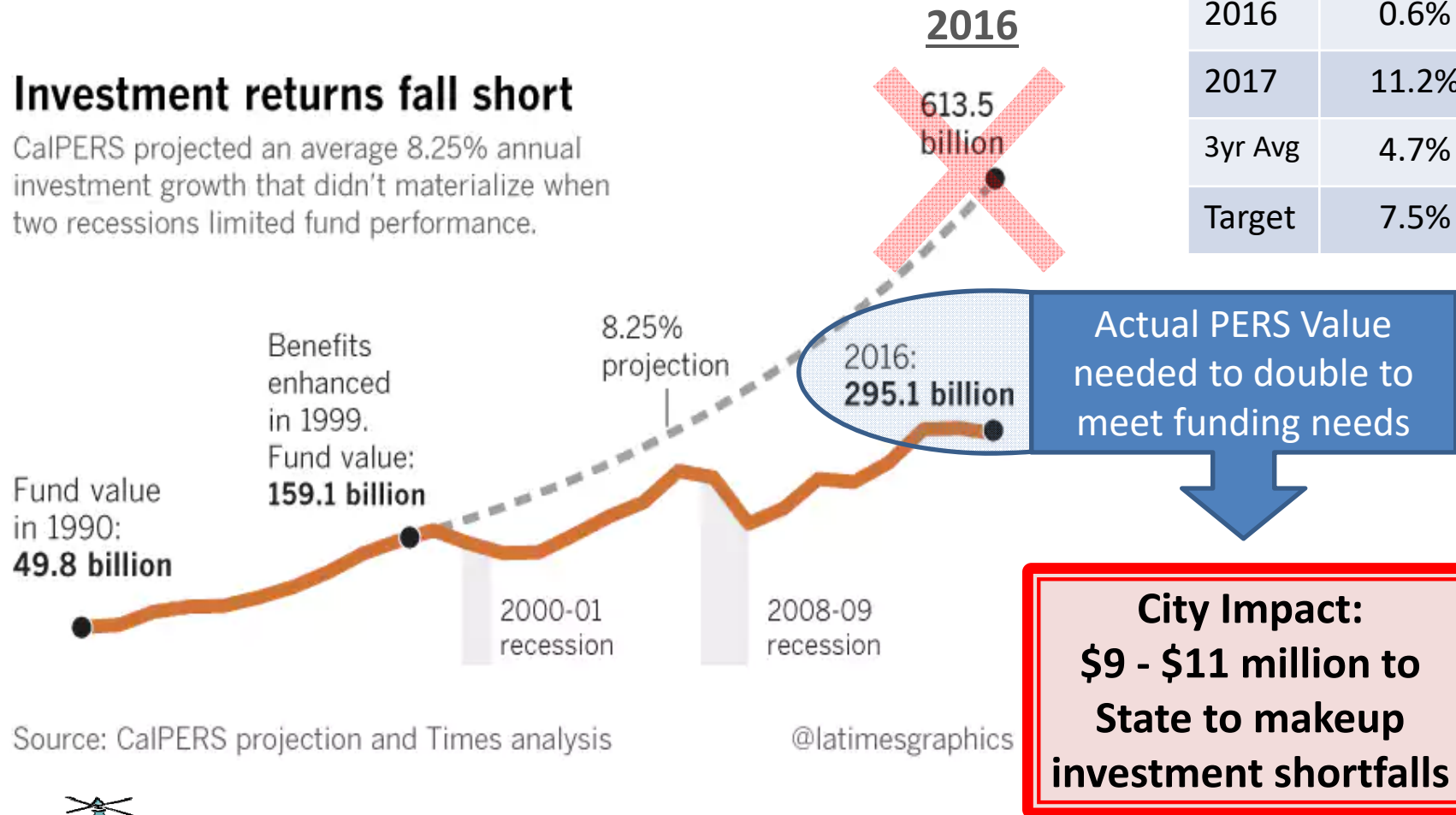


PERS \$318 BILLION Investment Shortfall

PERS Year	7.5% Expected Return
2015	2.4%
2016	0.6%
2017	11.2%
3yr Avg	4.7%
Target	7.5%

Investment returns fall short

CalPERS projected an average 8.25% annual investment growth that didn't materialize when two recessions limited fund performance.



Source: CalPERS projection and Times analysis

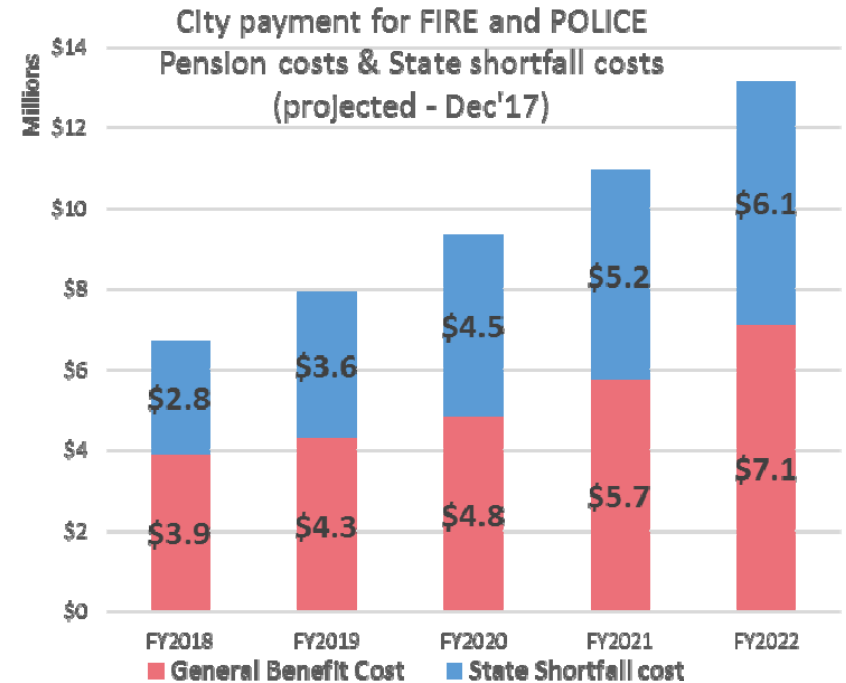
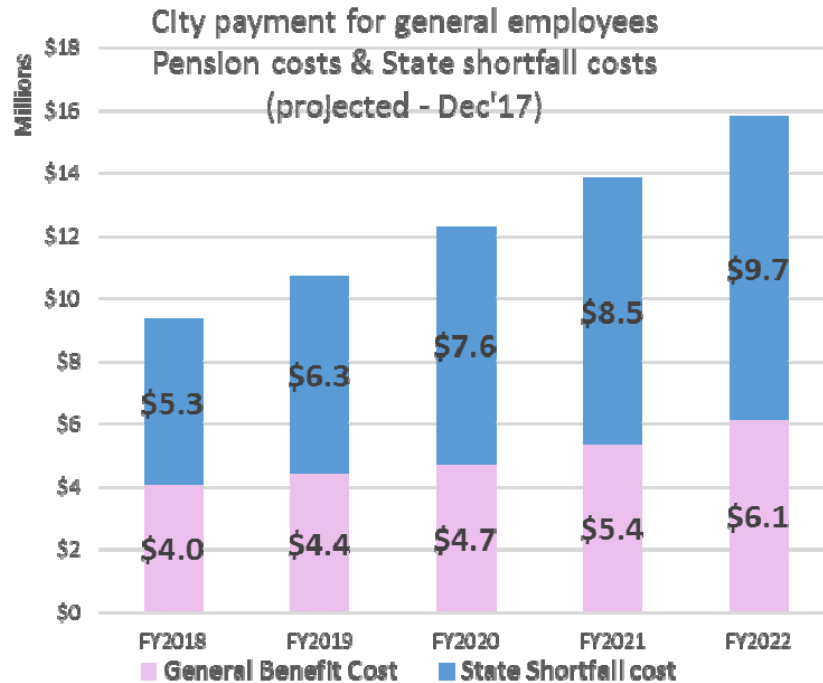
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State investment shortfall doubling payments to Pension Fund

General non-safety represents 2,043 members (active and inactive)

Fire and Police represents 480 members (active and inactive)



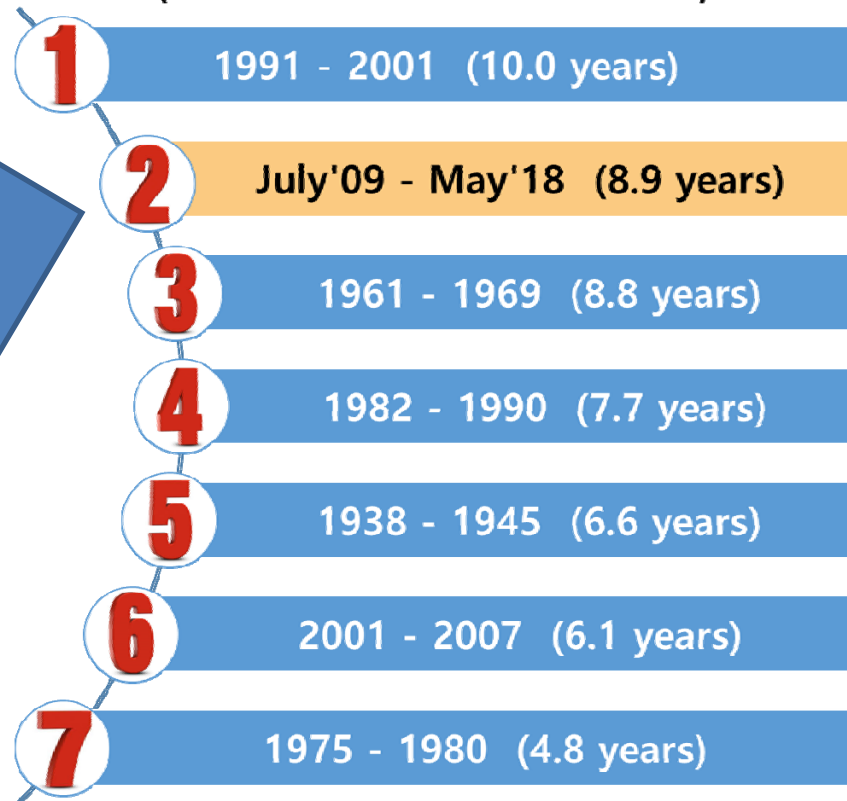
Projecting modest hit from an economic slowdown in 18 months

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

(National Bureau of Economic Research - Data since 1854)



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

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



Recognition of City Fiscal Leadership

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

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

- 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

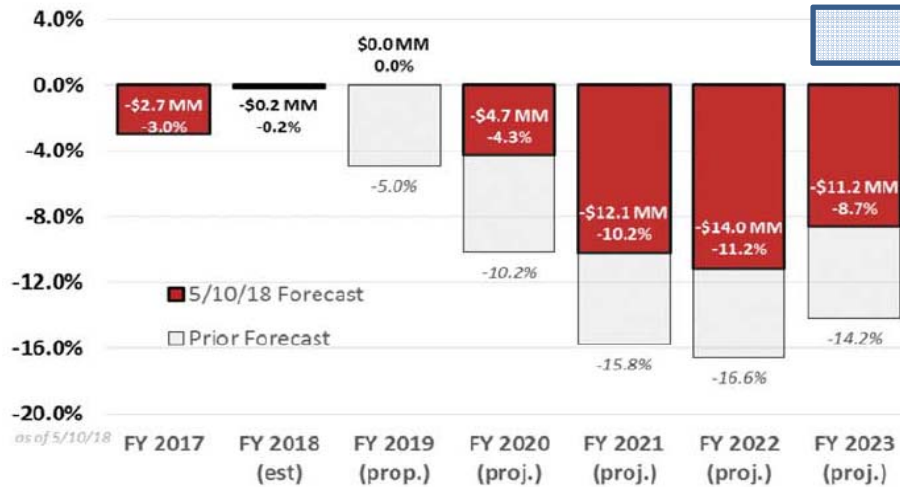
All already implemented by City of Santa Cruz



Santa Cruz has AA+ S&P rating!

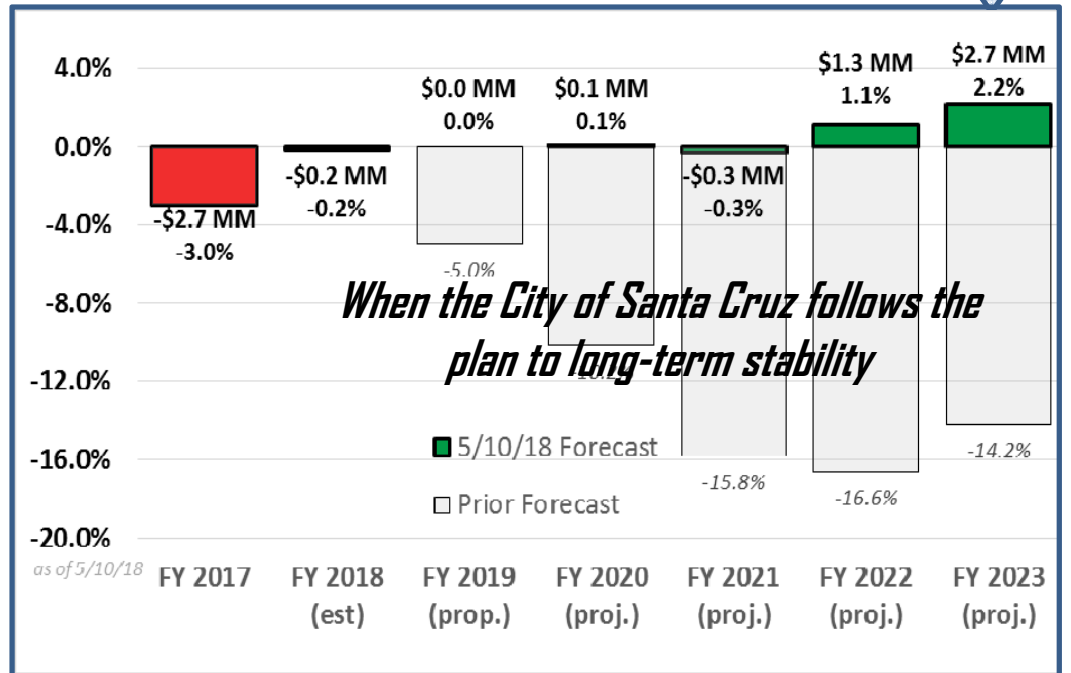
City's "Fiscal 2023" Sustainability strategy

General Fund forecast improved with FY 2019 actions



Main Strategies include:

- Resetting General Fund up to \$9 million
- Reduce pension debt
- Next phase Fee Study
- Re-engineer service delivery & operational review (Action Labs)
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General Fund – Reducing operations while prioritizing services

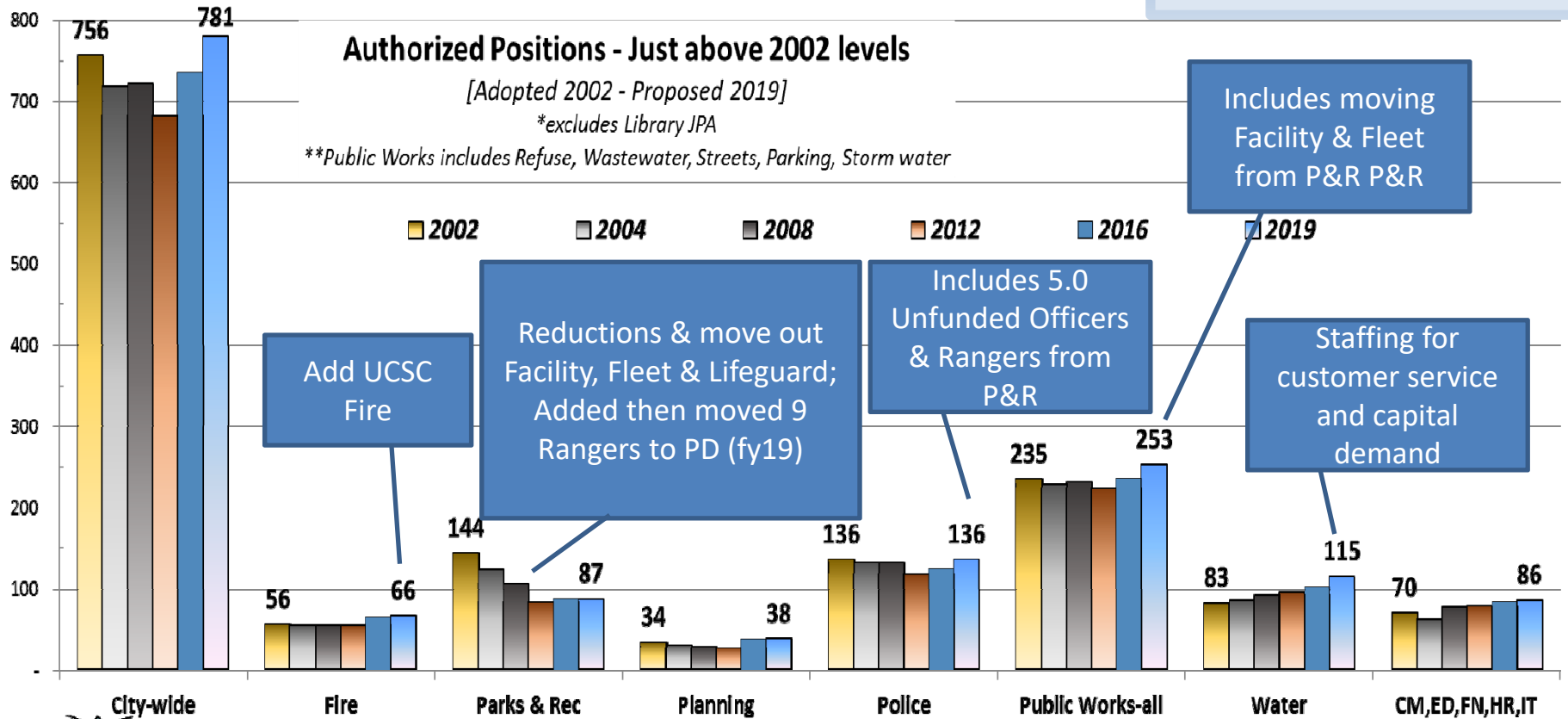


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City's FTE Count Still below 1990 levels

- After adjusting for 15 FTE for UCSC & PD unfunded, only 10 increases since 2002 (FY2019: 781-15= 766).

2019 "NET" Positions
4.00 Net added
2- Water
3- PW
<1>- Planning
9 - PD (ranges from P&R)
<9>- P&R (rangers to PD)



General Fund Budget Highlights

- Proposed Budget is not negatively impacted by Measure S (Sales Tax)
 - If passes, it would fund Capital Investment Projects
- General Fund- Down \$5.4 million over FY2018 Adopted Budget... a few budgetary increases
 - Community services- up \$238k over FY 2018- largely shelter funding
 - Police- Ranger budget moved from P&R to PD
 - Library JPA- mandatory increases
 - City Attorney- increase in demand for services- same cost structure

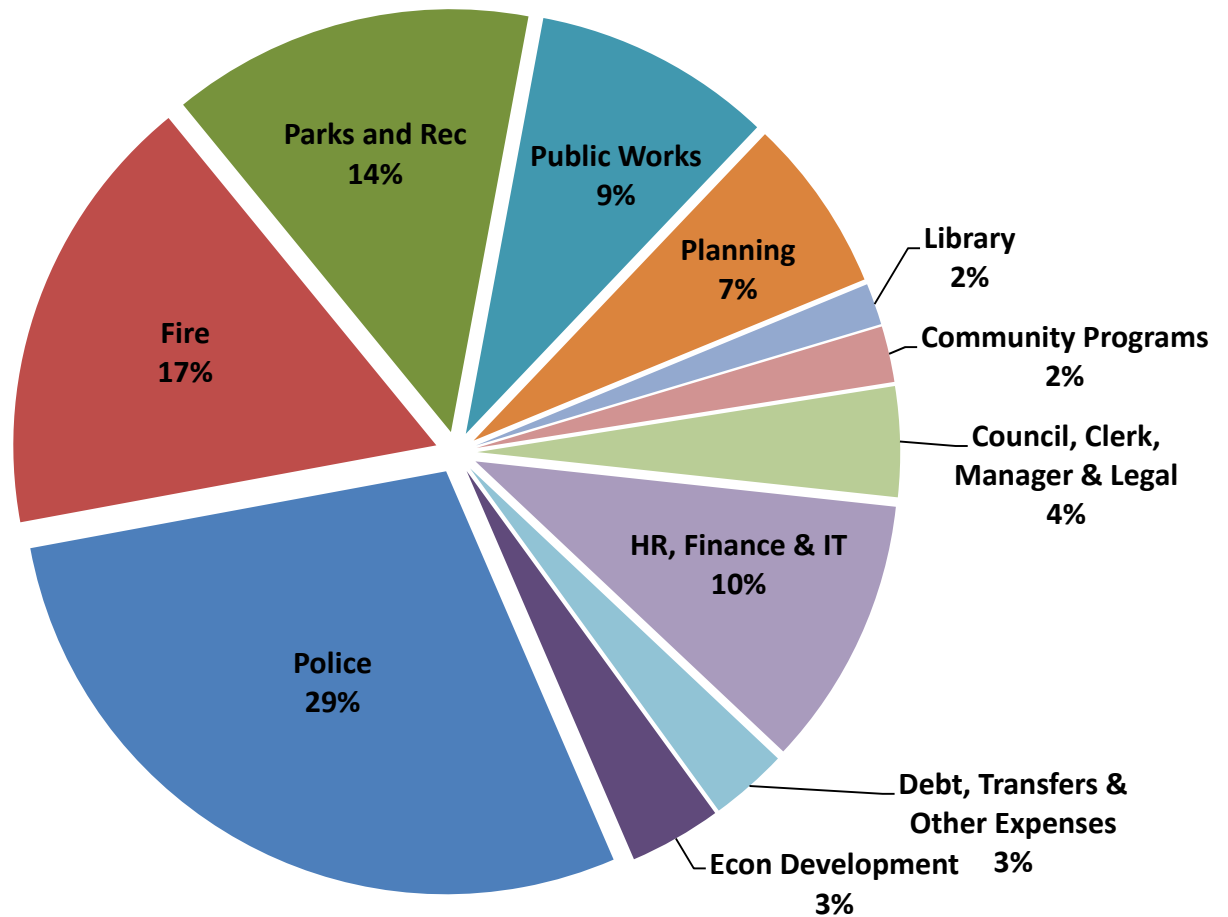


General Fund FY 2019 Proposed Budget-

\$100.7 Million Functional Allocation

\$5.4 Million lower than FY 2018

- Over 40% dedicated to Police & Fire
- Other public safety resources in P&R (Rangers)
- Typical allocation with primary focus on funding Police, Fire, Parks & Recreation, and Public Works



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FY 2019 Budget Reductions

- 3rd Year with No General Fund Capital Investments
 - Priority Level 1 projects would be funded with passage of Measure S

Storm Drain Improvements (Prevent repeat event)



West Cliff Revetment Repair (Prevent Feb 2016 repeat event)



Will be funded with
Measure S passage



FY 2019 Proposed Budget Summary of Reductions

A detailed summary of the proposed budget reductions was included in the City Council's May 22nd 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



FY 2019 Proposed Budget

Summary of Reductions *(continued)*

- Other departmental reductions:
 - (\$488k) Police Department- Move juvenile diversion to County & reduced planned building maintenance
 - (\$344k) Fire Department – Reduce overtime & increase mutual aid reimbursements
 - (\$310k) Parks & Recreation – Increase across the board fees that includes golf, evenly disbursed reductions across all activities
 - (\$334k) Public Works – various support and project reductions; including reduction of some pedestrian and bike support
 - (\$253k) Planning Department – Eliminated position & other reductions
 - (\$153k) City Manager – reduce legal & eliminated a position
 - (\$130k) Economic Development – City Arts funding reduced but work will continue using current project funding; other reductions include moving staff to support housing crises
 - (\$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



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City Council Ad-Hoc Committee

City of Santa Cruz Comparisons



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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



City of Santa Cruz FY 2019 Budget

Budget 101 Community Forum

General Fund –
Supported primarily by
taxes and fees



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Declining & Eroding Revenues

DUPLICATE
SLIDE

Demographics & new economic models are permanently eroding our revenue

Sales Tax

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Franchise & Utility

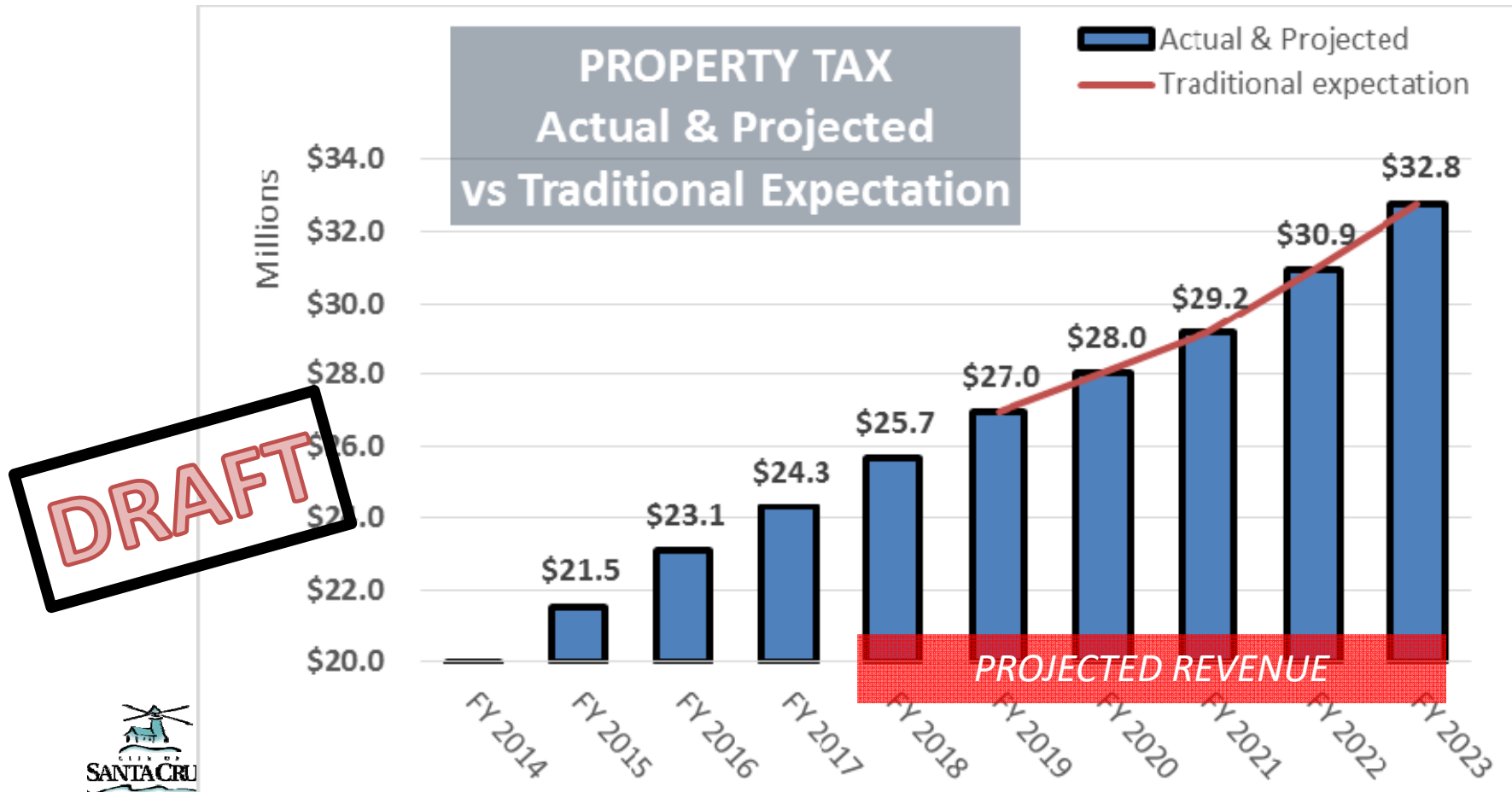
- Online streaming replacing cable/dish services
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Declining & Eroding Revenues

Property Tax – Largest and most stable

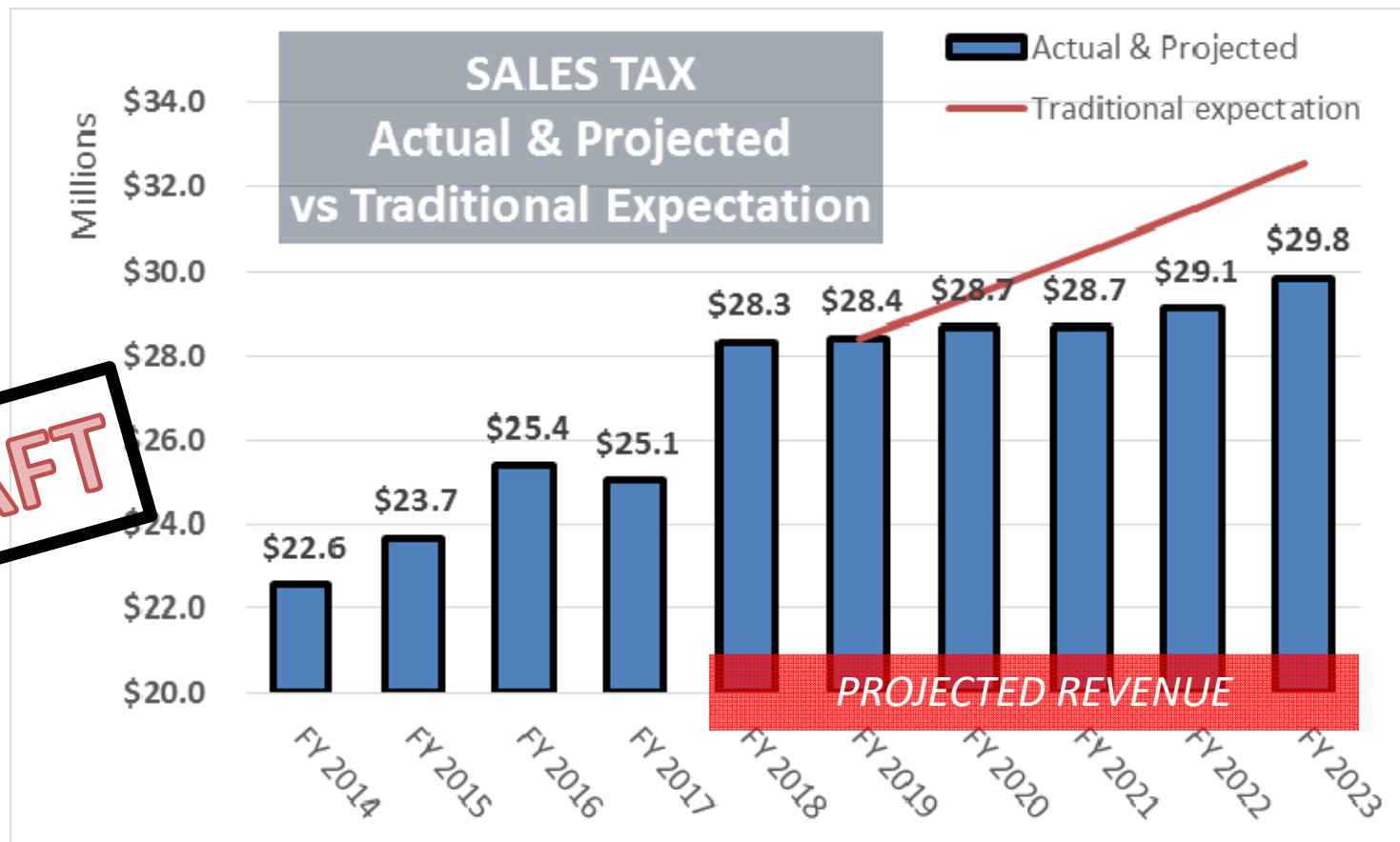
- Projected and expected are in alignment



Declining & Eroding Revenues

Sales Tax – 2nd Largest and tax base is threatened

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



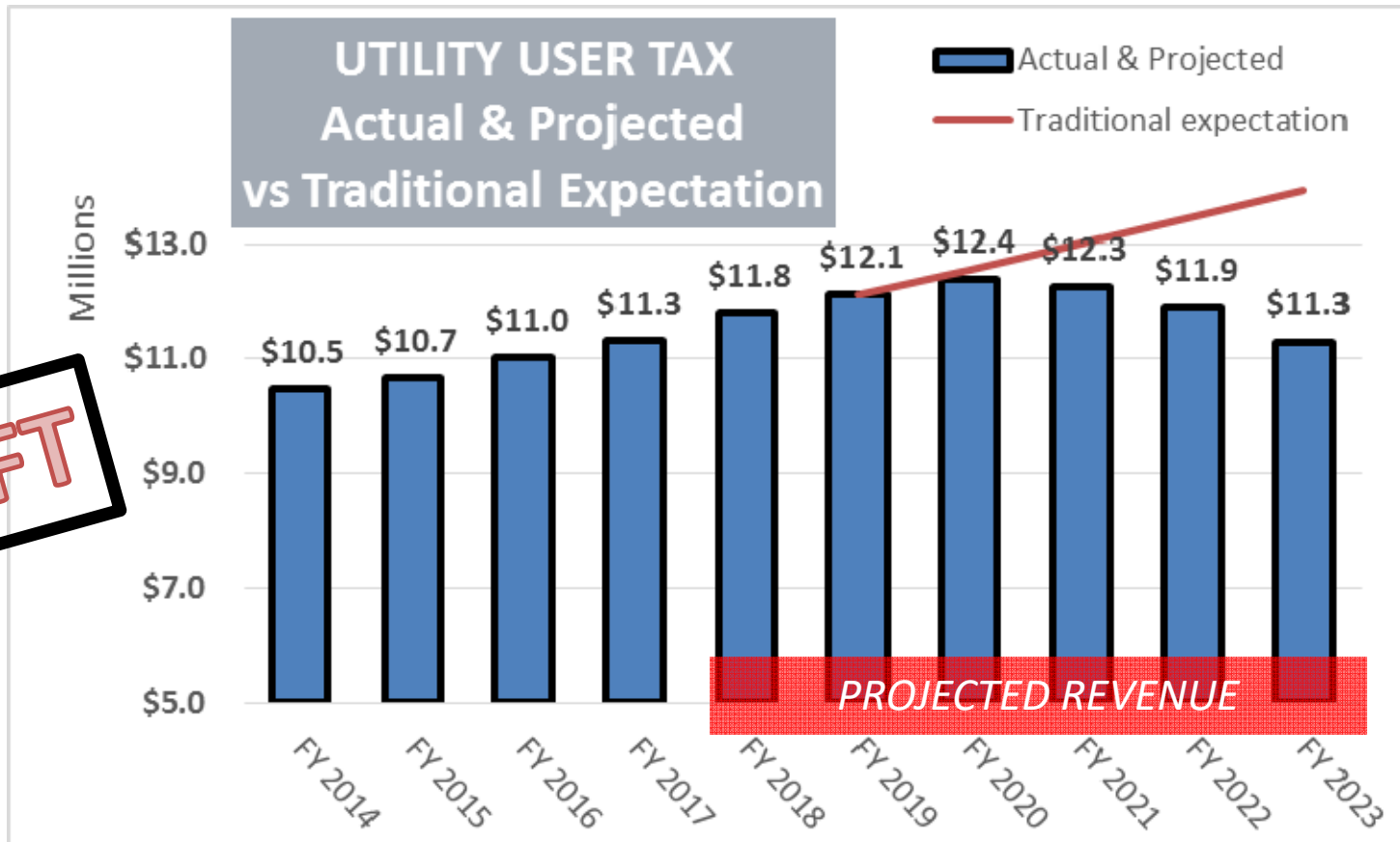
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Declining & Eroding Revenues

Utility User Tax – 3rd Largest and in danger

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



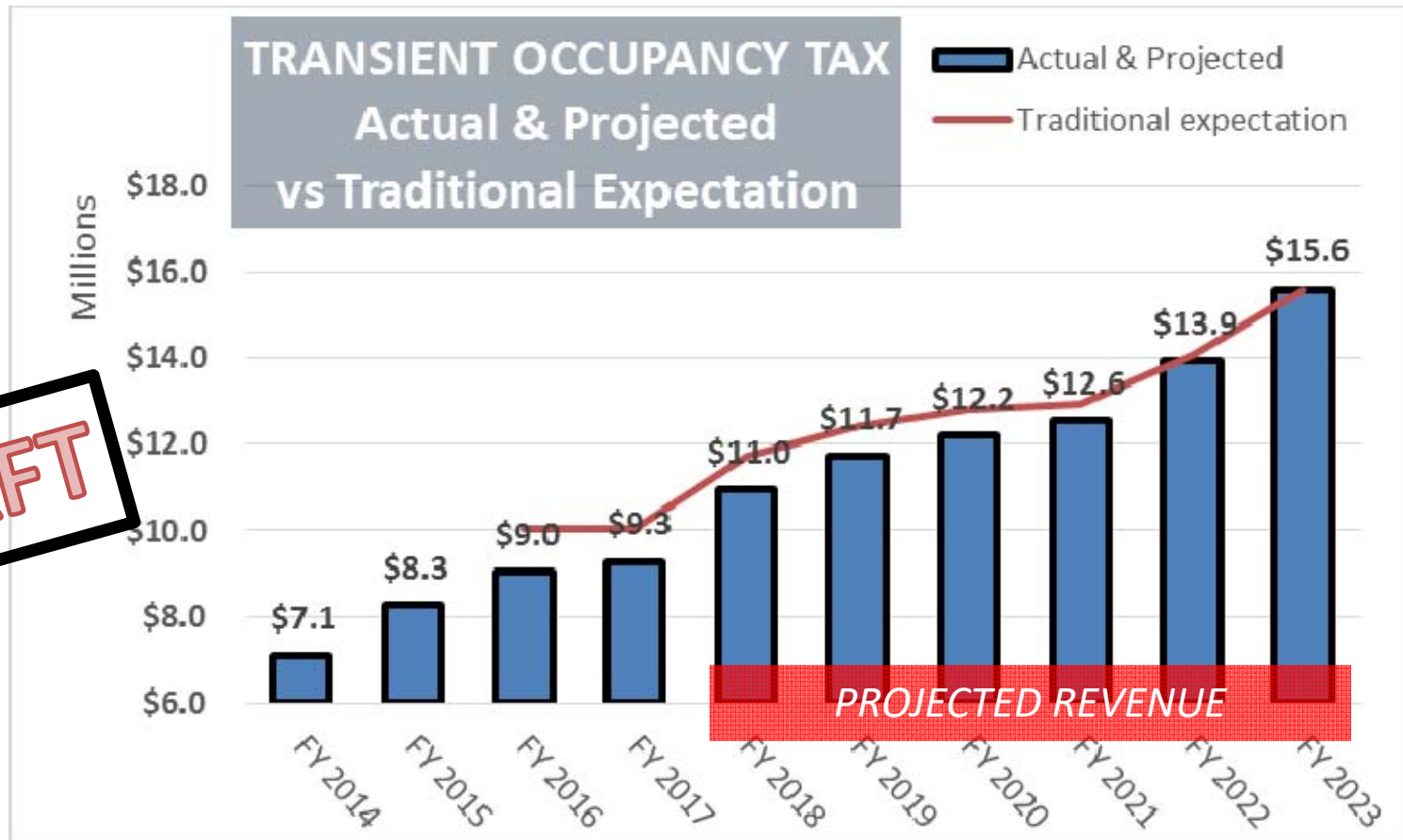
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Declining & Eroding Revenues

Transient Occupancy Tax – 4th largest, growing, with short-term challenges

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



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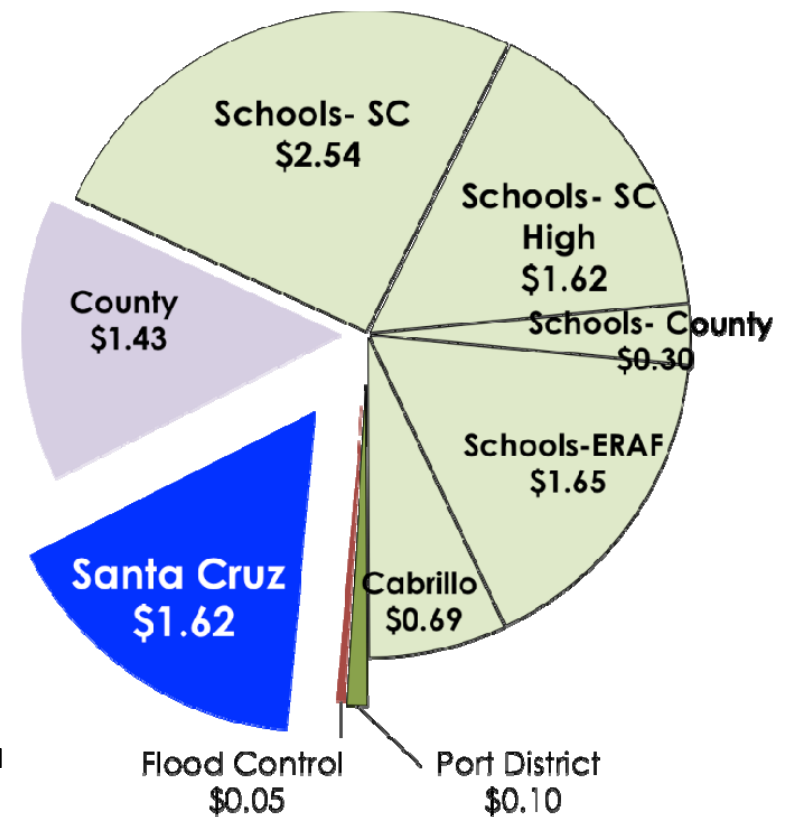
Property Tax

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)

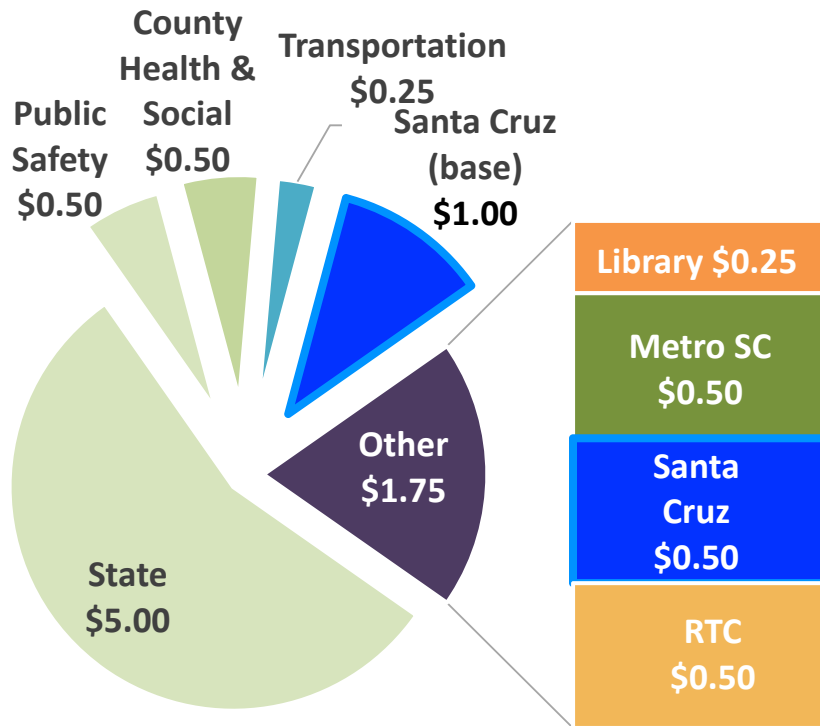
Property Tax

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



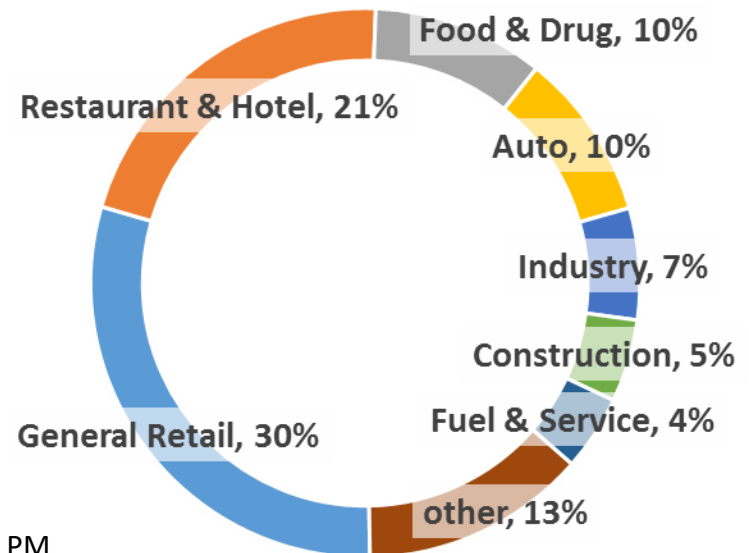
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9.0% Sales Tax 1.5% to City



- 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

**City Sales Tax Diversification
2017-4q**



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



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We listened

[Government](#) » [City Departments](#) » [Finance](#) » [City Budget](#) »

Fiscal Year 2019 Proposed Budget

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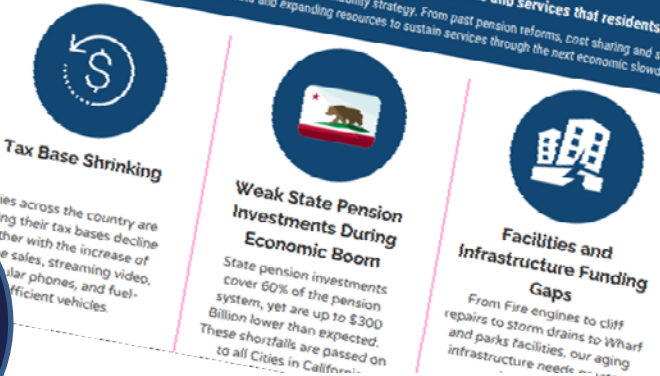
[FY 2019 Budget Frequently Asked Questions \(FAQ\)](#)

[FY 2019 City of Santa Cruz Budget 101 Community Forum](#)

[FY 2019 Budget in Brief \(one single PDF\)](#)

[FY 2019 City of Santa Cruz Proposed Budget \(one single PDF\)](#)

[FY 2019 Summary of Changes Memo](#)

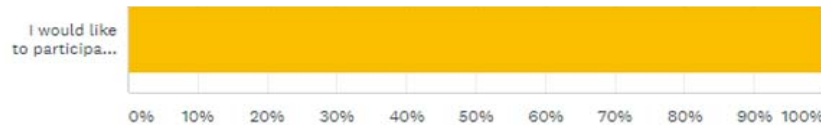


Focus Group – Frequently Asked Questions (FAQ)

Q10

Customize

Would you like to participate again in the next budget related Community Focus Group?



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?





City Staff Action Lab



- 60 City staff members participated
 - Members grouped into 6 teams; each team provided one of three prompts to consider
 - Program or operational evaluations & opportunities
 - New resource options or expanding current revenues
 - Long-term solutions for \$20 million financial threat
 - Each team selected a leader and were assigned a senior mentor and team facilitator
 - 67 options identified for the next Action Lab prioritization efforts (Fall 2018)



Focus Group

- Goal: Solicit feedback to align budget with community expectations
- Ad-Hoc Budget Committee identified community segments to bring balanced & diverse input
 - Community (general)
 - Neighborhood
 - At large members
 - Groups & Non-profits
 - Business
 - A government member
- City Council recommended participants
 - City Council Ad-Hoc Budget Committee sent 28 invitations with goal of 20 participants
- 18 members volunteer their time
 - Common feedback was to do more advanced work; tell our story; present more data and information about what is being done and value of investments
 - Frequently Asked Questions document created from feedback
 - 88% participants rated the session Excellent to Very Good
 - 100% thus far expressed a desire to return
- Of many outcomes- one is to start budget season & outreach 3 to 6 months sooner



Stakeholders & Budget 101 Partnership

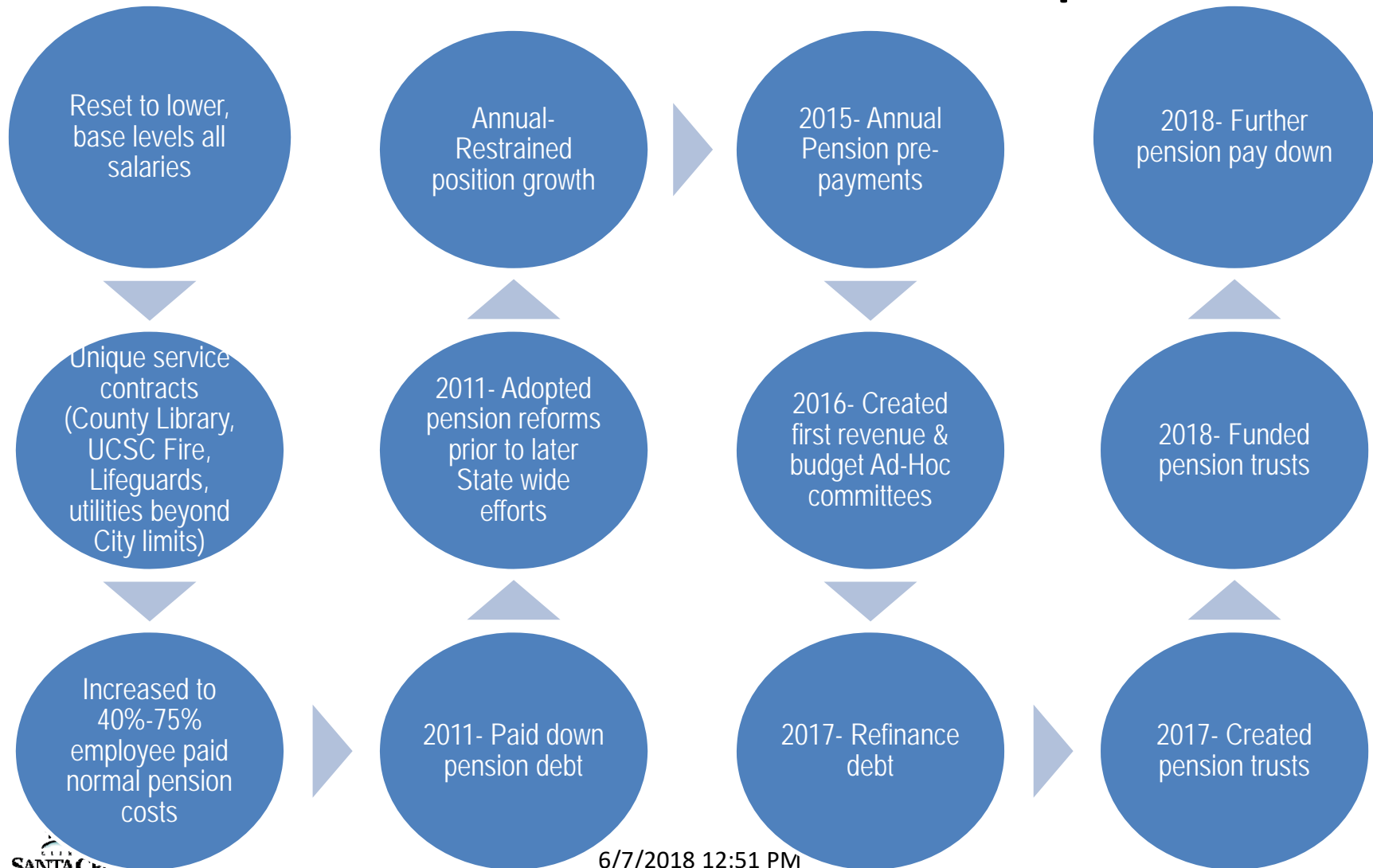
- Budget outreach efforts:
 - Santa Cruz Neighbors
 - Chamber of Commerce
 - Santa Cruz Business Council



- Partnership with Santa Cruz Neighbors to host Budget 101 Community Forum
 - 19 community members in addition to staff
 - Led by Mayor and Finance Director

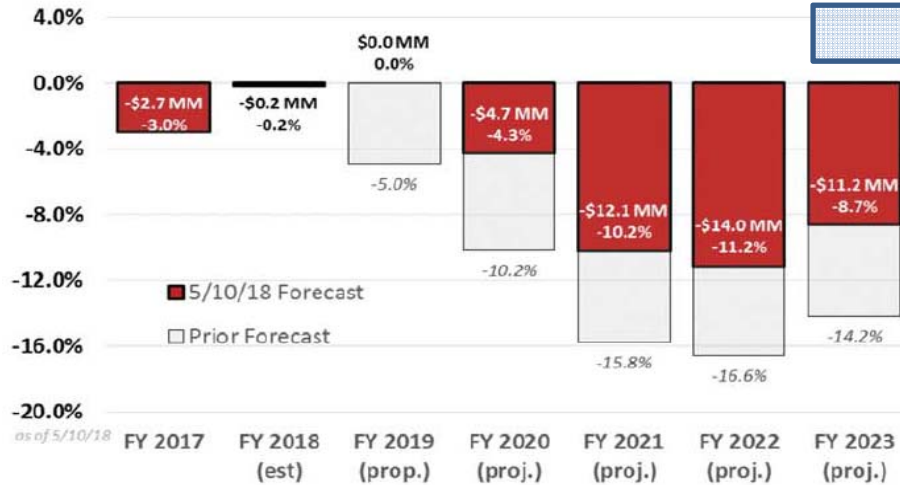


City of Santa Cruz examples of fiscal reforms and leadership



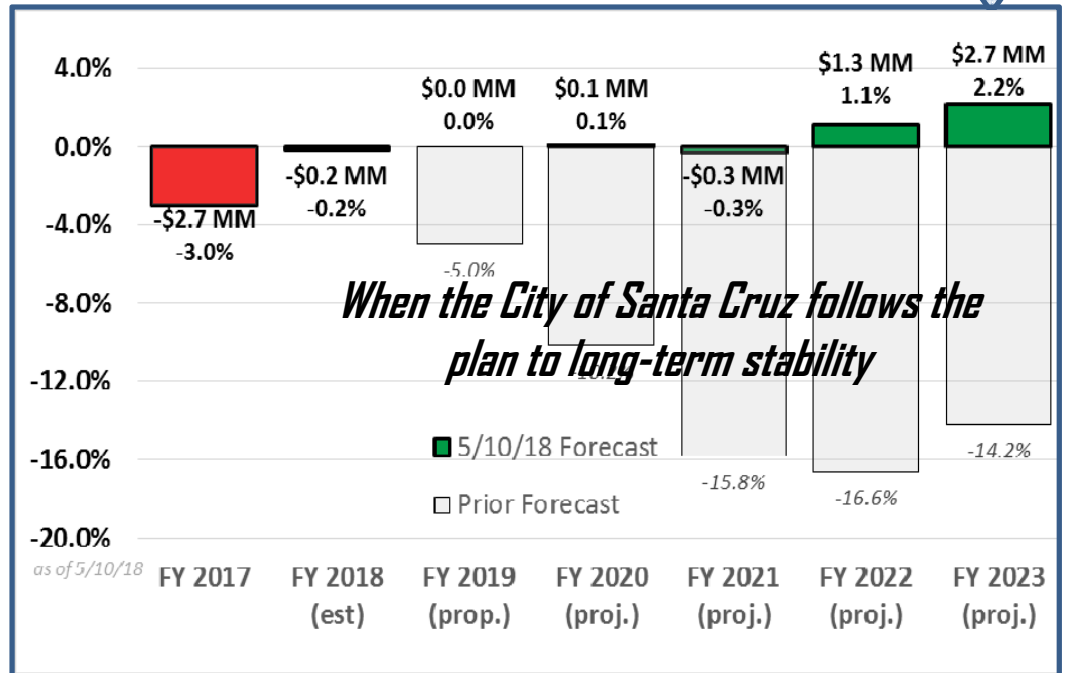
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End - Questions

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