



CITY MANAGER'S BUDGET MESSAGE

Martín Bernal

June 12, 2018

To the Honorable Mayor and Members of the City Council:

It is once again my honor to present you with the Adopted Fiscal Year (FY) 2019 Annual Budget for the City of Santa Cruz. We remain focused on the City's Strategic Vision to enhance:

- Environmental sustainability and well-managed resources;
- Community safety and well-being;
- Economic vitality;
- Organizational health;
- Financial stability;
- Reliable and forward looking infrastructure and facility; and
- Engaged and informed community.

Last year, the City Council took the City's Strategic Vision goals and adopted a two-year Work Plan in order to target priority and resources on the most critical needs facing our community. The Work Plan focuses on implementing specific actions in three critical areas as follows:

- Increasing Housing Availability and Affordability
- Enhancing Community Safety and Well-being
- Delivering 21st Century Infrastructure

We have completed the first year and have made significant progress. Highlights and accomplishments are presented below.

Budget Overview

The Annual FY 2019 Budget totals \$264.6 million. This includes an operating budget of \$221.8 million and capital project budget of \$42.7 million (now includes \$1.5 million from the passage of Measure S on June 5, 2018). The major operations included in the FY 2019 operating budget are the City's General Fund of \$102.2 million, which supports our day-to-day public safety, roads, traffic, and parks operations; and the operations and capital budgets of the Water Fund (\$54.5 million); the Wastewater Fund (\$26.0 million); and the Refuse Fund (\$23.1 million).

As the Council is well aware, we continue to project increasing, General Fund budget deficits over the next five fiscal years. The reasons behind these projected deficits are not of our own making. Cities are at the mercy of the California retirement system which has imposed significant rate increases in order to address investment earnings shortfalls. The local government finance structure needs to be modernized in order address deteriorating revenues from online sales and other structural economic changes. Local control of finances has also been progressively hampered through voter initiatives and State legislation. Moreover, there are renewed efforts to create additional obstacles for cities to make their own decisions about what their residents want to fund, as was the case with the California Business Round Table initiative that qualified for the November 2018 ballot that would have dangerously limited, retroactively to January 2018, our ability for local voters to create or increase any taxes. This business group, led by big soda, subsequently used this measure to negotiate the approval of AB 1838 by the California Governor and Assembly that restricts until January 2031 any local agency from to tax sugar sweetened beverages or other "groceries". There is also an attempt to repeal Senate Bill 1 which is currently funding critical transportation and road improvements.

Despite these conditions, the City has been a model of fiscal responsibility as evidenced by our exemplary fiscal practices and excellent bond rating. And is why we have developed a Fiscal Sustainability Strategy. The strategy relies on two overarching principals: transparency and progressive action. With respect to transparency, we have developed credible budget projections and clearly outlined the reasons that affect expenditure and revenue trends. With respect to progressive action, we have and will continue to implement measures to respond to our fiscal realities including adjusting our spending and maximizing revenues.

We have continued the strategy by implementing a balanced Fiscal Year 2018 Budget which required addressing a \$2.7 Million deficit. This Adopted FY 2019 budget was developed to eliminate a projected \$5.5 million deficit. The Council also took action by placing a measure on the June Ballot (Measure S) that, after being approved by the voters, funded the majority of the General Fund's FY 2019 Capital Investment Projects. This measure will generate approximately \$3 million in annual revenue, with up to an expected \$1.8 million in the first, partial year. This additional \$ 3 million, along with other actions by the City Council, helped reduce the projected future gaps, down to a high of \$8.1 million in Fiscal Year 2022. The City Council Ad-Hoc Revenue Committee also explored other revenue enhancements in line with the Fiscal Sustainability strategy. But this committee will not move anything forward for November 2018 due to last minute State legislation that restricted local agencies from implementing taxes on sugar sweetened beverages.

There is no doubt that the next several fiscal years will be financially difficult. This is unavoidable and something that most California cities are experiencing. I am confident that with our proactive approach and strong leadership we will get through this difficult period, sustaining our sound fiscal position and responding to the needs of our community to improve the quality of life in the City of Santa Cruz.

Our Fiscal Years 2018-2019 Work Plan

As we move into the second year of the City Council Adopted Work Plan it is important to reflect on what has been accomplished. The City is blessed with an ambitious and engaged community as well as a highly competent and dedicated staff. Significant progress has been made on these highly challenging and pressing issues.

Increasing Housing Availability and Affordability

A considerable effort was made in the last year by City Council and its Housing Blueprint Subcommittee to engage with a wide representation of the community. There was no shortage of ideas to help the City address the lack of affordable and workforce housing. The City Council moved forward with several significant policy decisions including the adoption of the (1) Downtown Plan Amendments, (2) short-term vacation rental ordinance, (3) interim rent freeze/just-cause ordinance, and (4) placement of an advisory university growth measure of the June 2018 election (Measure U).

Work continues to hone-in on additional City action to protect and preserve housing and support community vitality including (1) Accessory Dwelling Unit (ADU) development and permitting, (2) affordable housing incentives and funding, (3) inclusionary and affordability requirements, and (4) development of a Downtown affordable housing project at the Metro bus station.

A community-led effort is also underway to develop a potential, county-wide parcel-based, revenue measure, anticipated for the November 2018 ballot. This measure, if approved, would provide funding to support affordable housing rental development and preservation, facilities to address homelessness, and programs facilitating homeownership.

Enhancing Community Safety and Well-being

As I noted in last year's budget message, community safety and well-being in Santa Cruz and much of California is largely defined by the increasing levels of nuisance crime and anti-social behavior, which in turn is related to a significant increase in the number of the mentally ill and drug addicted persons in our community, many of whom are also homeless. This is further compounded by the State's inadequate health and human services and criminal justice systems.

Our Santa Cruz Police Department (SCPD) officers spend much of their time responding to nuisance crimes and anti-social behaviors especially in the Downtown, parks, and open spaces. With the appointment of Police Chief Andy Mills came the opportunity for a fresh examination of policing practices in Santa Cruz, including a comprehensive police and ranger staffing study that

was presented to Council in March of this year. Together with his staff and with input from the community, Chief Mills has quickly implemented changes to improve our effectiveness. The department has been reorganized around five Neighborhood Policing Teams assigned to zones within the City of Santa Cruz. The Neighborhood Policing Teams will put more SCPD officers on the streets to increase community policing and activate crime-fighting strategies. SCPD officers are an integral part of their neighborhoods and, in partnership with the community, look to tackle the underlying causes of crime and safety issues and put sustainable solutions in place.

Another noteworthy change, beginning in May, is the shift to a 4/11-3/12 police staffing schedule, which will have more officers on the street on each shift. Another advantage of this schedule is that it provides overlap to reduce overtime and avoids having to call people back to work from well-earned days off.

However, our Police response is only a minor temporary treatment to the health and criminal justice crisis that we are facing. It will not address the root cause of our societal ills. Nonetheless, the City has focused on doing what we can in partnership with the County, business, and non-profit sectors to manage the homeless crisis as best we can. Amazing progress has also been made to implement the Homelessness Coordinating Committee Recommendations including the (1) implementation of a homeless jobs engagement program (Downtown Streets Team), (2) increased homeless outreach, (3) secure storage, (4) additional hygiene resources, (5) creation of homelessness information and resource page on City website, and (6) increasing shelter capacity.

Another success in the last year was the abatement of several large encampments (Post Office and San Lorenzo Park benchlands) and more significantly the creation of the River Street Camp which is the first phase of a three-phased plan to increase shelter capacity and to assist individuals with transitioning out of homelessness. The River Street Camp provides a safe, fully-staffed and service-linked camping location for about 50-60 individuals and Phase 2, an Interim Homeless Facility, is under active development. Phase 3 is the establishment of permanent regional Navigation Centers. We now need to shift our efforts to greater public awareness and state and federal advocacy of support and resources for homelessness, to implement policy changes and provide resources to address improve our health and human services and criminal justice systems.

Delivering 21st Century Infrastructure

As I have noted for several years, we continue to struggle to adequately fund capital infrastructure and particularly General Fund supported infrastructure which included building facilities, storm drain systems, fire apparatus, and our parks system.

Nonetheless, we have made progress in a number of areas thanks to our local voters that passed our own Measure H and the recently approved County-wide transportation Measure D. These measures have provided funds for road, bicycle, and transportation system improvements. Noteworthy projects are the rail trail, Branciforte Creek Bridge, and numerous road resurfacing and

improvements around the City, including the addition of bicycle green lanes.

One of the City's largest capital investments in terms of scale and dollars is the ongoing improvements to our water system. We have embarked upon a multi-million dollar (\$300 million over the next ten years) program to rehabilitate, upgrade, and replace critical water system infrastructure.

While the City and Cruzio were unable to move forward with a Citywide fiber project, the development of a fiber network has continued largely through private sector investments. Cruzio in particular has made a significant commitment to develop a fiber network in the Downtown and is currently in active construction. Other telecommunications vendors have been installing fiber throughout the city at an increasing pace. It is important to point out that this deployment is selective and City investment may be required in areas of the City where private investment is not occurring or insufficient. The City has also implemented the Pave Once/Dig Once policy which requires notice and invitation for other companies to access City streets for fiber infrastructure if a street opening is planned.

With voter approval of the 2016 Library Bond Measure, \$23 million is available to develop a modern and up-to-date Downtown Library. The current Downtown Library has not been significantly upgraded since 1966 and is in desperate need of modernization. The bond funds must be spent within an eight year period and so it is imperative that the decision process proceed comprehensively and expeditiously. Accordingly, from July through December 2017, a community Downtown Library Advisory Committee (DLAC) convened to explore national library trends including current and future library services and assess community needs and library conditions. The DLAC was to return to the City Council with recommendations on programmatic scope of Downtown Library services, the feasibility of co-locating administrative offices with the Downtown Branch and evaluation of the site options. The DLAC concluded its work and presented recommendations. The final report is here: (https://www.santacruzpl.org/files/measure_s/document/FINAL_DLAC_Report_with_Appendices.pdf). The City Council will hear and discuss the DLAC recommendations at a June 2018 meeting.

City staff has also been working proactively with the Santa Cruz Community Farmers' Market to explore moving the Farmers' Market to a permanent location on the City parking lot on Front Street between Soquel Drive and Cathcart Street. Initial site analysis is promising and both parties are encouraged that the new location has the potential to provide improved functionality, permanency, and growth for the Farmer's Market while additionally providing a new public space for the broader community.

Conclusion

With such a dedicated and engaged community, Santa Cruz is constantly innovating and progressing. It is important to reflect on the incredible amount of work and progress that has been made on the City Council's priorities and the day-to-day functions and services. We are blessed to

have a highly competent staff that is committed to public service and our City. We should take pride in and celebrate our accomplishments.

We do face significant challenges that are not going to be solved overnight, housing affordability and homelessness in particular. However, we have not been afraid to confront them and we are making progress. Nonetheless, we also need to exercise patience as our efforts do take time to achieve meaningful results. It is also important that we be clear and set reasonable expectations for what can actually be accomplished.

Acknowledgements

I would like to extend my appreciation to our Finance Director, Marcus Pimentel, his team, as well as our department heads and their staff that helped develop and bring the proposed budget to you. I also want to acknowledge and express my appreciation to the wide array of employees involved in the budget process this year. With Marcus' leadership, additional feedback was incorporated into the budget process through the use of Action Labs. The Action Labs brought together employees throughout the City organization to review our budget and develop recommendations to increase efficiency, reducing expenditures, and enhance revenue. The goal was to bring forward a balanced budget that addressed the \$5.5 million deficit as well as strategies for future budgets. Finally, I want to thank the City Council and their many Ad-Hoc Committees for your patience and support and very much appreciate the difficult deliberations and decisions before you in the coming years.

Sincerely,

A handwritten signature in blue ink that reads "Martín Bernal". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Martín Bernal
City Manager