

# City of Santa Cruz FY 2020 City Council Study Session

*Proactive fiscal sustainability through unprecedented times*

NOTE: Content  
may be updated  
for the 2/12/19  
Study Session

## City Council Study Session – Part I of III Governmental Trends

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# Why now...

## Prepare for May's budget hearing & adoption

Support engagement of upcoming fiscal discussions

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### How...

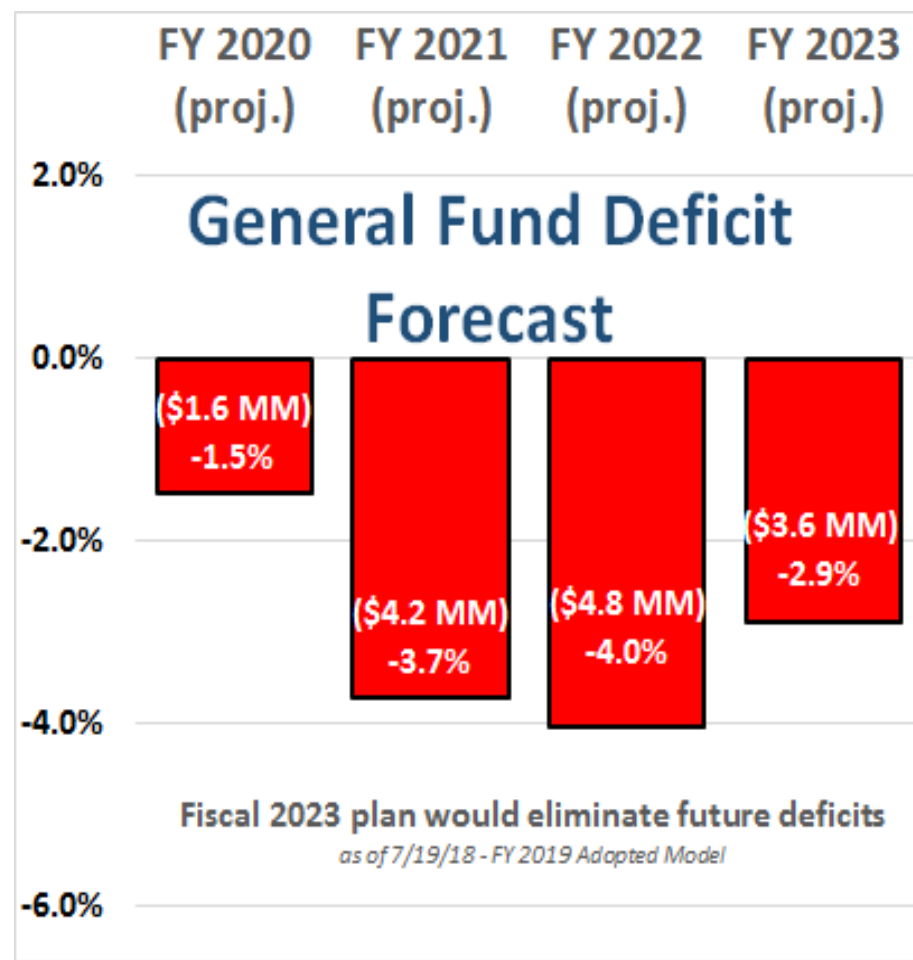
- First of three Study Sessions
- Release of the FY 2020 Budget
- Reference materials from City webpage and enhanced online tools



# Why...

## consider *reductions* in an economic boom?

- Local government is not in a boom cycle
- State to double “again” government pension payments
  - Cities must backfill for state pension investment shortfalls
- Decreasing tax bases (sales tax, utility users tax, gas tax, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels
  - No “disaster contingency” reserves
  - Only 10% General Fund reserve available



# Why...

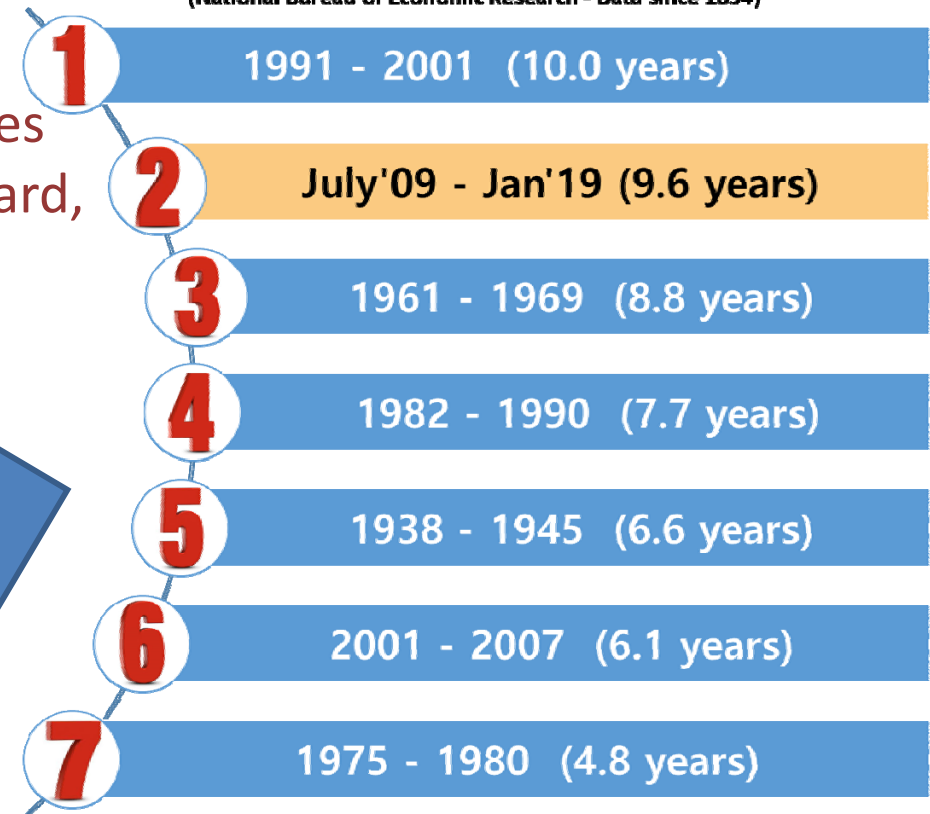
## Projecting economic slowdown in next 12 months

### Why we feel a slowdown is coming

- Regional housing crises
- Economy MUST see continued increases in consumer spending (70% of GDP <sup>\*Oct 2018</sup>)
- Consumers will have less as interest rates rise & their debt increases (car, credit card, school debt, housing, etc.)
- Federal and State gov. threats (impact fee, Sanctuary City, etc.)

### 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 ...

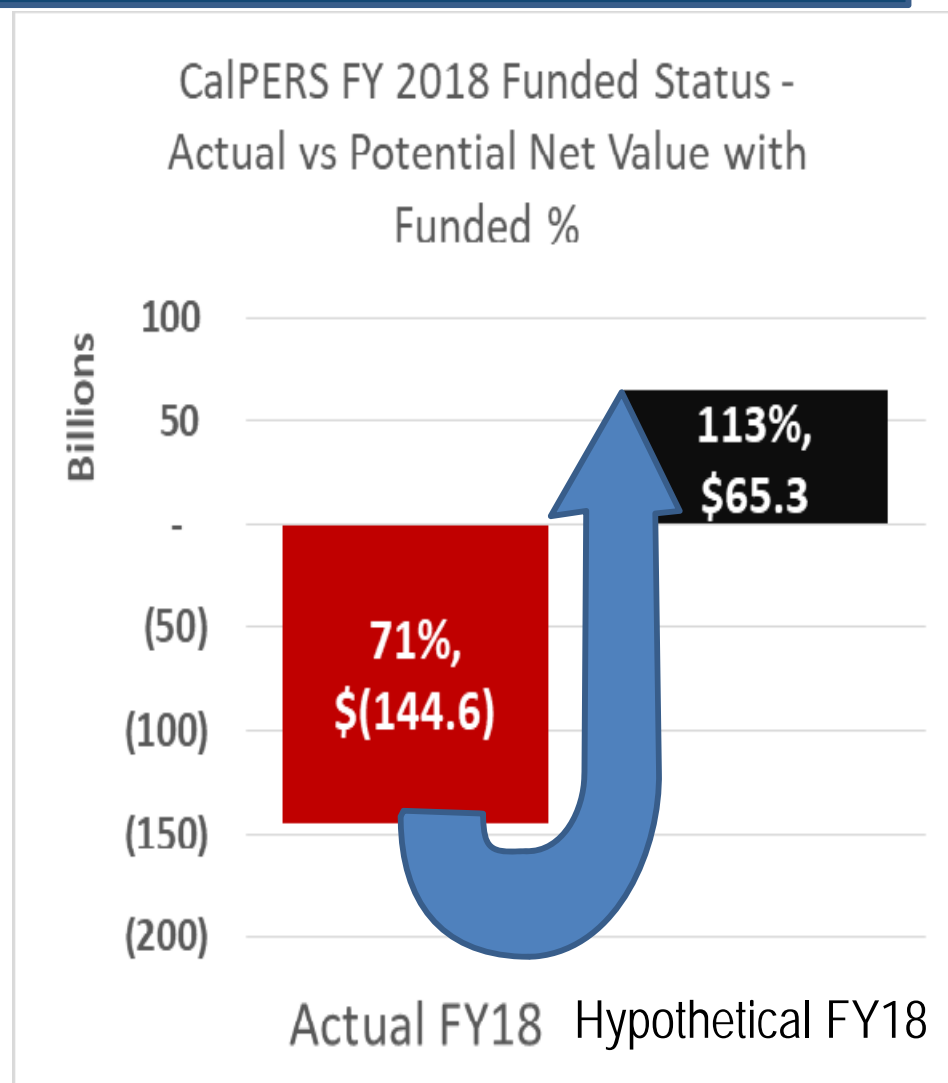
At 9.6 years, we've long passed the typical ~5 year recovery period



# Why... ..

## Pension investment shortfalls

- CalPERS choice resulted in lower investment earnings
- When earnings are shot, cities pickup the difference
  - CalPERS is only 71% funded; or <\$144.6> Billion short
  - Since 2012, our pension costs will increase 200% by mid-2020's
  - IF... they earned just the mid point of the market, we would have NO increases
  - AND... they would be fully funded with \$65.3 Billion in extra cash
  - NOTE: This is a hypothetical comparison using the average rates of return of seven major market indexes (S&P, Dow, Morningstar, etc.)



# Why... Declining & Eroding Revenues

CONCERN: Long Term  
Changes

Demographics & new economic models are permanently eroding our revenue

## Sales Tax

Tangible items now a download (games, music, 3D printers, software)

Pressure on limited consumer dollars

Aging baby-boomers shifting spending to non-taxable health care & services

Law still playing catchup for online sales

## 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





# Why...

We are facing higher risks and occurrences of emergency failures and large project cost increases: The General Fund needs a dependable, ongoing CIP funding source

Harvey West Ballfield Lighting



Storm Drain Improvements  
(Prevent repeat event)



West Cliff Revetment Repair  
(Prevent Feb 2016 repeat event)



Civic Auditorium Roof Repair



Corp Yard Solar Expansion



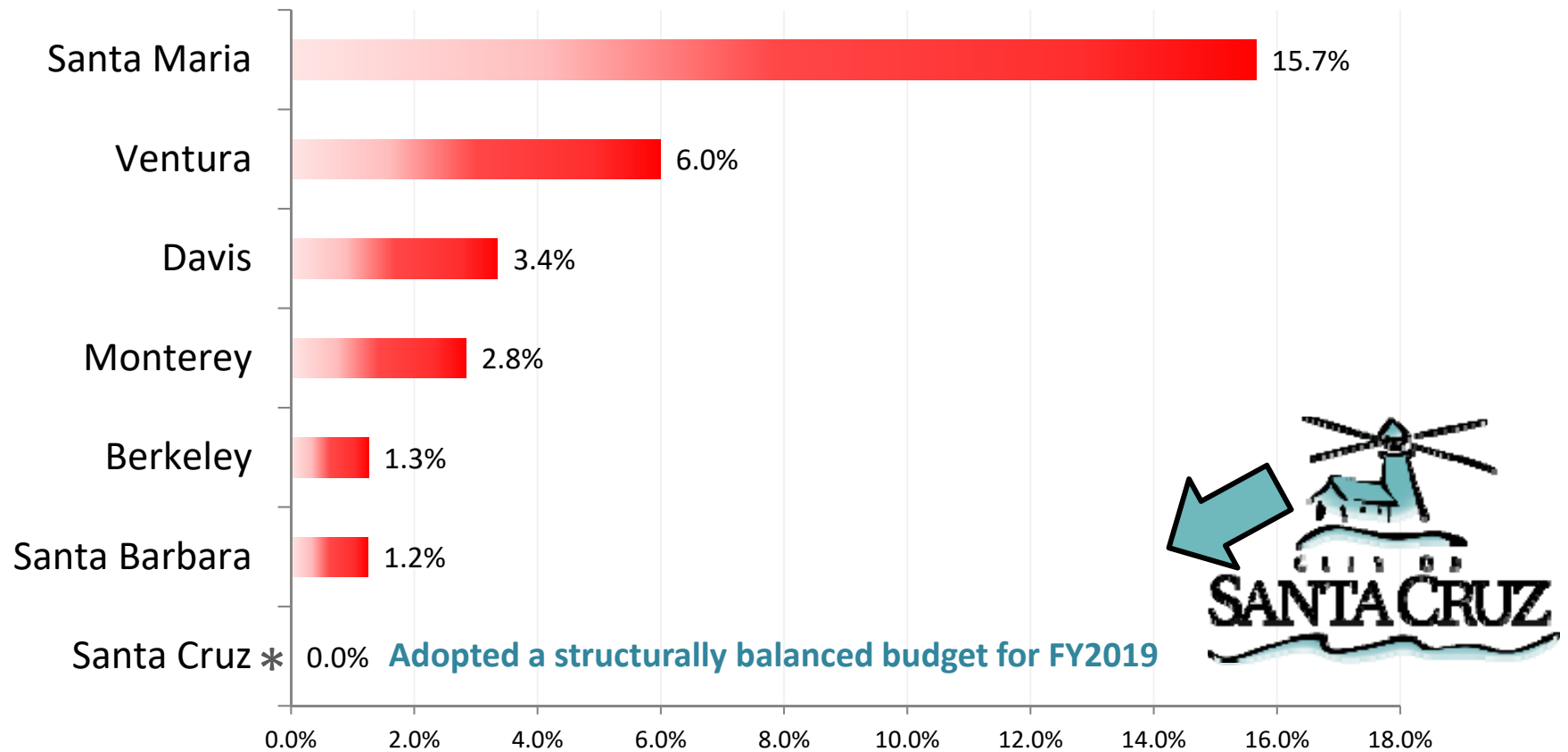
Seabright Beach Metal Pipe Replacement



We're not alone

Santa Cruz is the only City in our fiscal comparisons with a General Fund budget that is fully funded without using one-time reserves

### FY2019 Adopted



\* Ongoing resources equals ongoing costs. Some agencies "deficits" were calculated to remove the use of one-time resources to fund on-going costs. Data as of February 2019.





# Recap of fiscal challenges

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## Recap...

- Local government is not in a boom cycle
- State to double “again” government pension payments
- Decreasing tax bases (sales, utility users, gas, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels



Fiscal Strategy  
Successes from  
2019

- Completed City Comparison Project By Management Partners



- Affirmed basic, current Financial Policies
- Created the City “Budget Focus” team
- Created the award winning Action Lab program
- Developed and repeated a Budget 101 workshop model

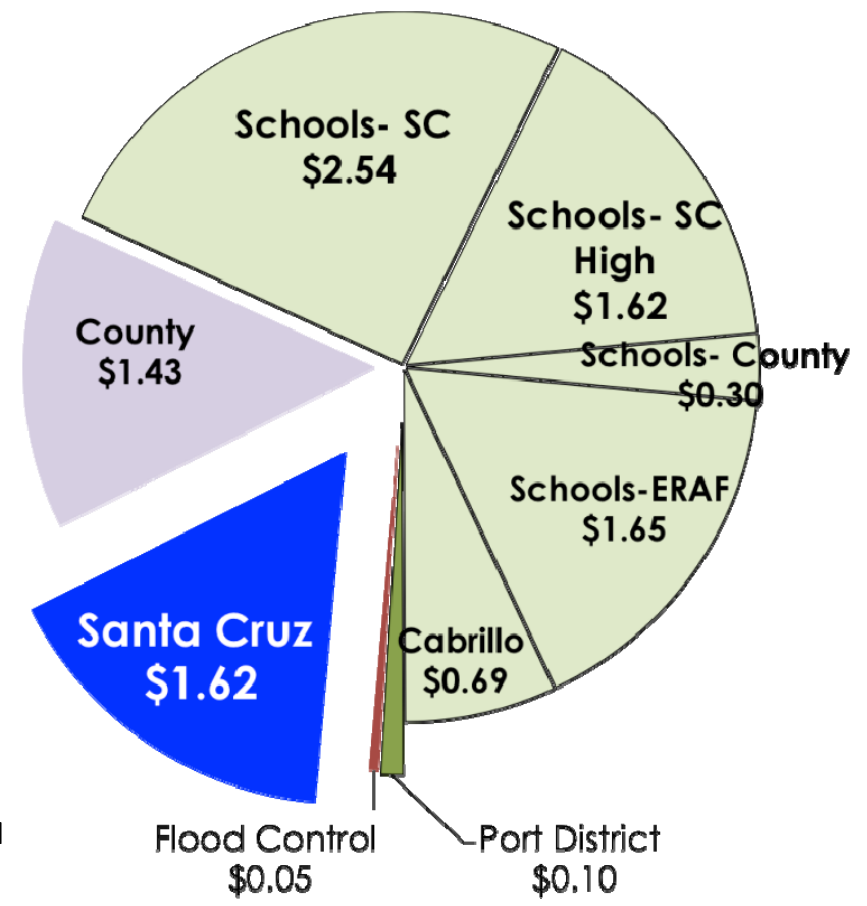
# City's Property Tax share

# 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)

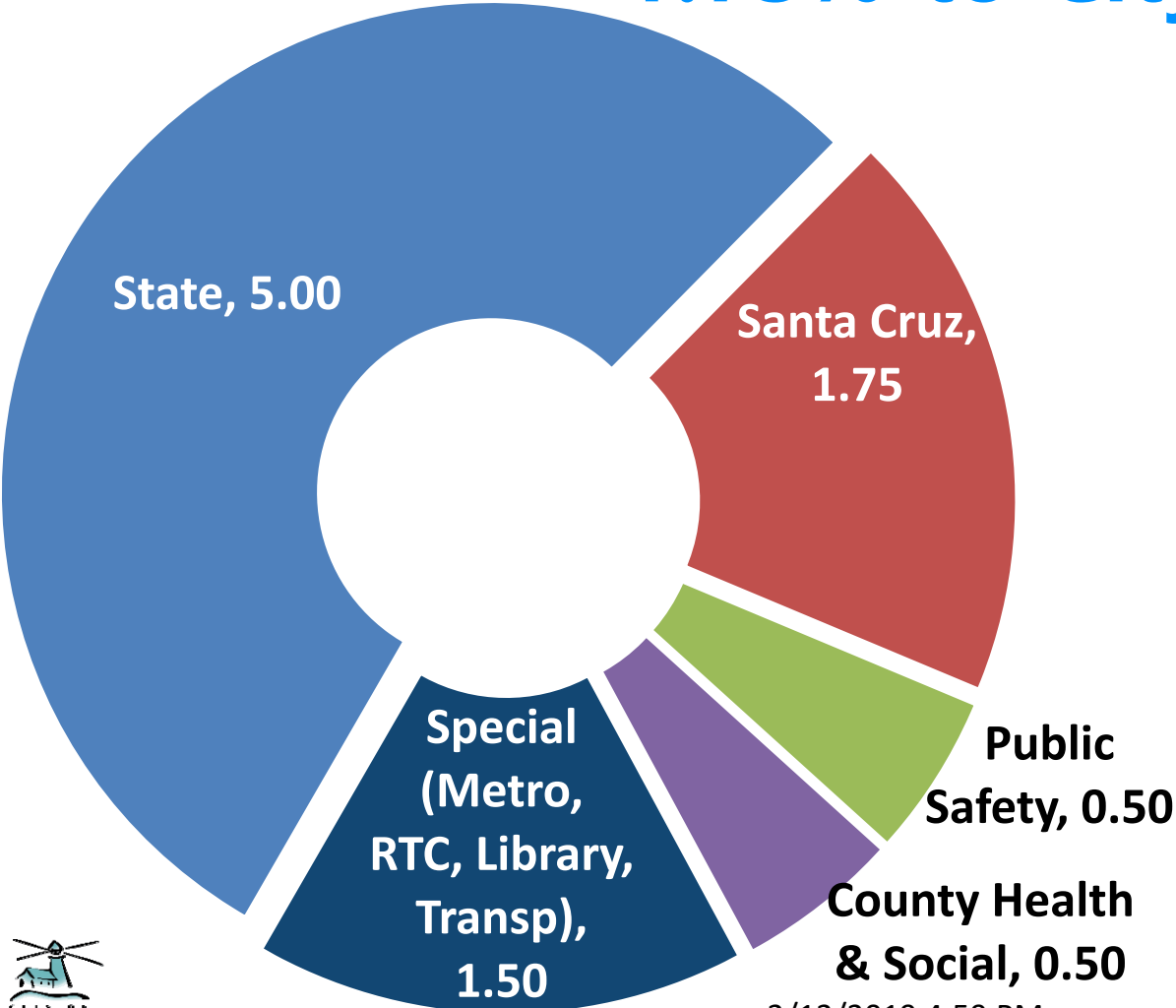
## Property Tax

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



City's Sales Tax share

# 9.25% Sales Tax 1.75% to City



- The City gets \$1.75 for every \$100 dollar in consumer purchases
- BIG State reforms are needed to expand the taxable base (i.e., services, downloads, streaming products)
- Very modest reforms may come to capture some online sales (April 2019) & to use some situs based distributions (possible in 2019)



# Examples of General Fund Revenue Volatility

(as compared to changes in the economy)



|           |               |                               |
|-----------|---------------|-------------------------------|
| 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.





# Examples of new approaches

- Creation of the City Council Ad-Hoc Budget Committee
  - Mayor, Vice Mayor, & Councilmember
- Completed the **award winning** Action Lab - Phase I
  - Kickoff Action Lab – Phase II



- Creating a diverse Community Focus Group
- Fiscal listening tour (Chamber of Commerce, Santa Cruz Business Council, Santa Cruz Neighbors, etc.)
- Community Budget 101 Forum
- **Frequently Asked Questions** on City Budget
- Budget document redesign with service measures



# What actions are we taking...

## Fiscal 2023 Sustainability Strategies

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- Major strategies over the next 12 to 18 months:
  - Reduce pension debt by annual prepayments
  - Next phase of the fee study- building fees
  - Re-engineer service delivery & operational review (Action Labs)
  - Up to \$5.0 Million more in new revenue (Ballot measures or otherwise)
    - Next to explore ways to fund CIP and Capital Equipment
- Continue with Action Lab research and recommendations
  - Over 60 Actionable Concepts to explore
    - Done: Sales tax increase, parking meter increases, reduce First Alarm, increase tax audits
    - Next to research other ways to fund CIP and Capital Equipment: Public Safety development impact fee, “hotel” tax increase to fund CIP, real estate transfer tax increase, investment portfolio review, overtime review, etc.



# What...

## can we do about State pension shortfall?

- ✓ Already exceeded League of California Cities White Paper recommendations
  - ✓ High level of employee cost sharing
  - ✓ Paid down side fund
  - ✓ Pension trusts
  - ✓ Trust funding
  - ✓ Issue Pension Bonds
  - ✓ Reduce operating costs
- ✓ Began increased payments to reduce ~7% pension debt
- Schedule an Pension study session**
- Aggressively fund Pension Trusts
- Aggressively pay down pension debt
- Advocate for CalPERS to expand to reasonable and appropriate higher yield investments
- Support League's committee on Pensions
- ... and more to come

# Major Council Budget Responsibilities

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- Adopt the annual, city-wide operating budget prior to July 1<sup>st</sup> with a structurally balanced budget
- Adopt Year 1 of the multi-year Capital Investment Program (CIP)
- Approve budget changes for:
  - Any NEW operating or CIP appropriations (except for previously Council approved grants up to \$50k)
  - Transfers between City funds or between Departments
  - Transfers greater than \$50k between major expense categories (i.e., Personnel, Services/Supply, Capital, Debt)



# Other Major Council Fiscal Responsibilities

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- ***Fiscal steward for the City's long-term sustainability***
- Approve any contract over \$100,000
- Accept donations over \$50,000
- Approve liability claims \$30,000 or more
- Approve fee increases
- Approve the City's investment policy
- Set the City's Living Wage requirement
- Oversee the City's Public Trust Fund usage
- Approve Grant applications for new projects/programs
- Approve use of Cannabis funded "Children's Fund"



# Recap & what's coming next

## Recap...

- Local government is not in a boom cycle
- State to double “again” government pension payments
- Decreasing tax bases (sales, utility users, gas, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels

## What... is next?

- Feb 26<sup>th</sup> Council -City Financial Study Session
- March 12<sup>th</sup> Council- Capital Investments Study Session
- Engage Budget Focus Group
- Timeline and locations for Budget 101
- April 22<sup>nd</sup>- City comprehensive Budget and CIP released
- May 8<sup>th</sup> Council- Budget Hearing and direction
- May 28<sup>th</sup> Council- Budget Adoption



# Council options for Feb 26<sup>th</sup> Mid-Year Study Session Part II

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- Direction to schedule a pension study session
  - Review impacts, long-term forecast, actions to take
- Mayor to appoint a Council Ad-Hoc Committee on Capital needs review and resource options
- Council direction to CalPERS Board and Investment Committee-
  - return to smarter strategies to improve investment
- Support the current Budget Ad-Hoc Committee

