

City of Santa Cruz FY 2020 City Council Study Session

Proactive fiscal sustainability through unprecedented times

City Council Study Session – Part III of III Capital Investment Program

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March 12, 2019 (Agenda Item # 16)



Why now... no action

Review FY2019 future demands (unfunded projects)

Prepare for May's budget hearing & adoption

Support engagement of upcoming fiscal discussions

What's Next...

- April release of the FY 2020 Budget
- Reference materials from City webpage and enhanced online tools
- Community engagement
- May 8th Budget Hearing

Part III – Capital Investment Program growing liability

Agenda

Recap prior part I & II sessions

Capital Investment Program (CIP)

Future strategies



CIP review...

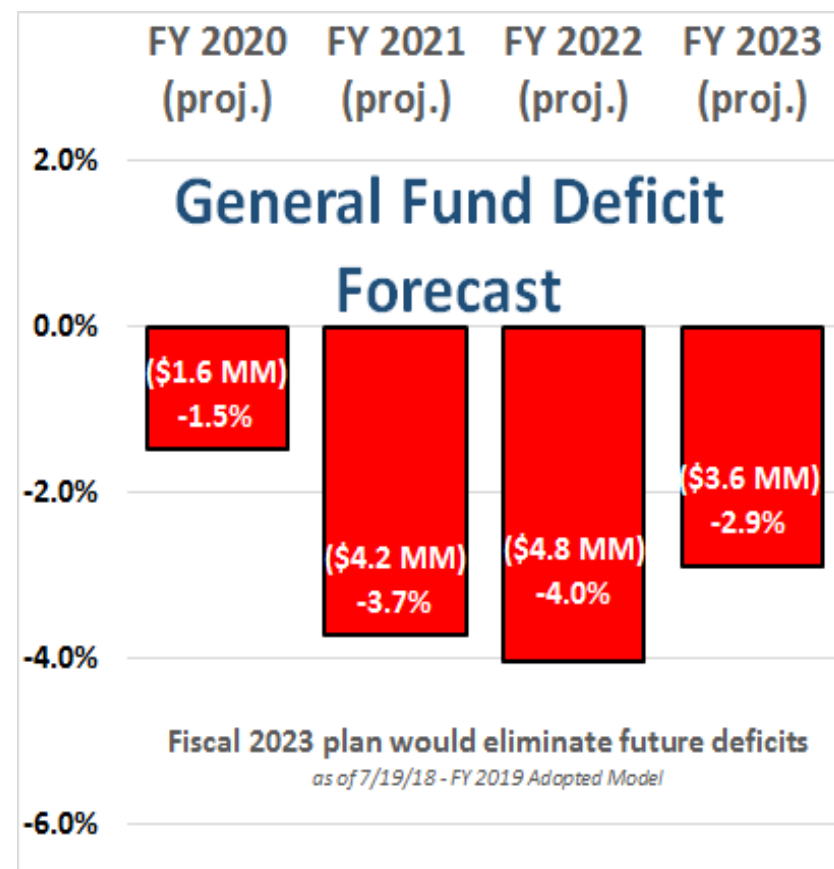
- Review CIP Budget Document
- Examples of millions in funding shortfalls
- Future General Fund funding?



Why...

consider *reductions* in an economic boom?

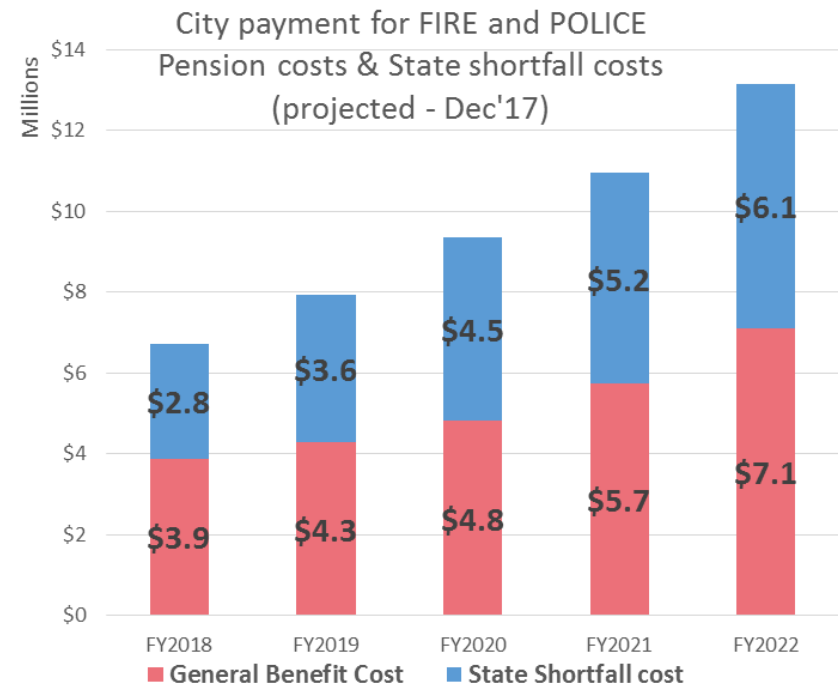
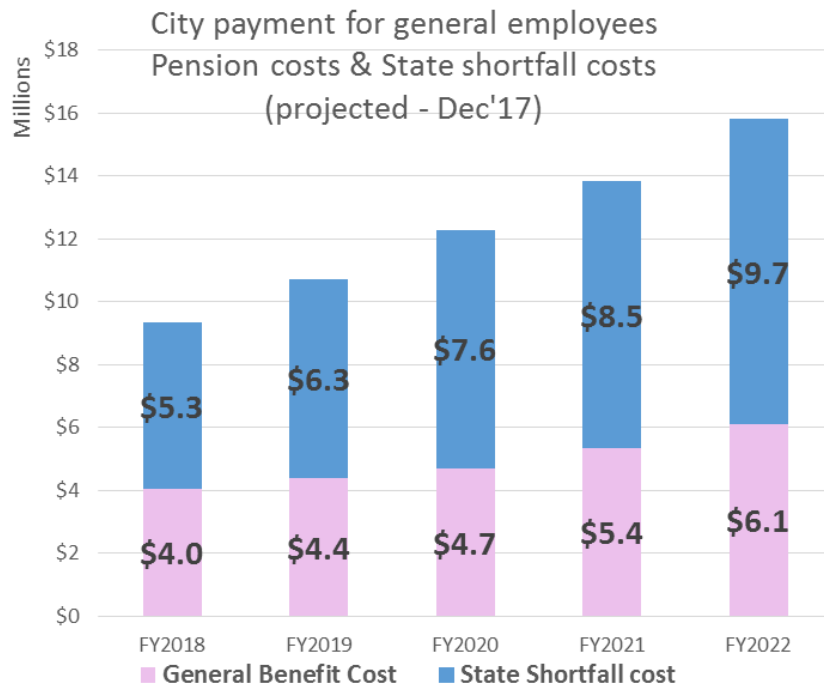
- Local government is not in a boom cycle
- State to double “again” government pension payments
 - Cities must backfill for state pension investment shortfalls
- Decreasing tax bases (sales tax, utility users tax, gas tax, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels
 - No “disaster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



The State's investment shortfall will double City's Pension Fund payments

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

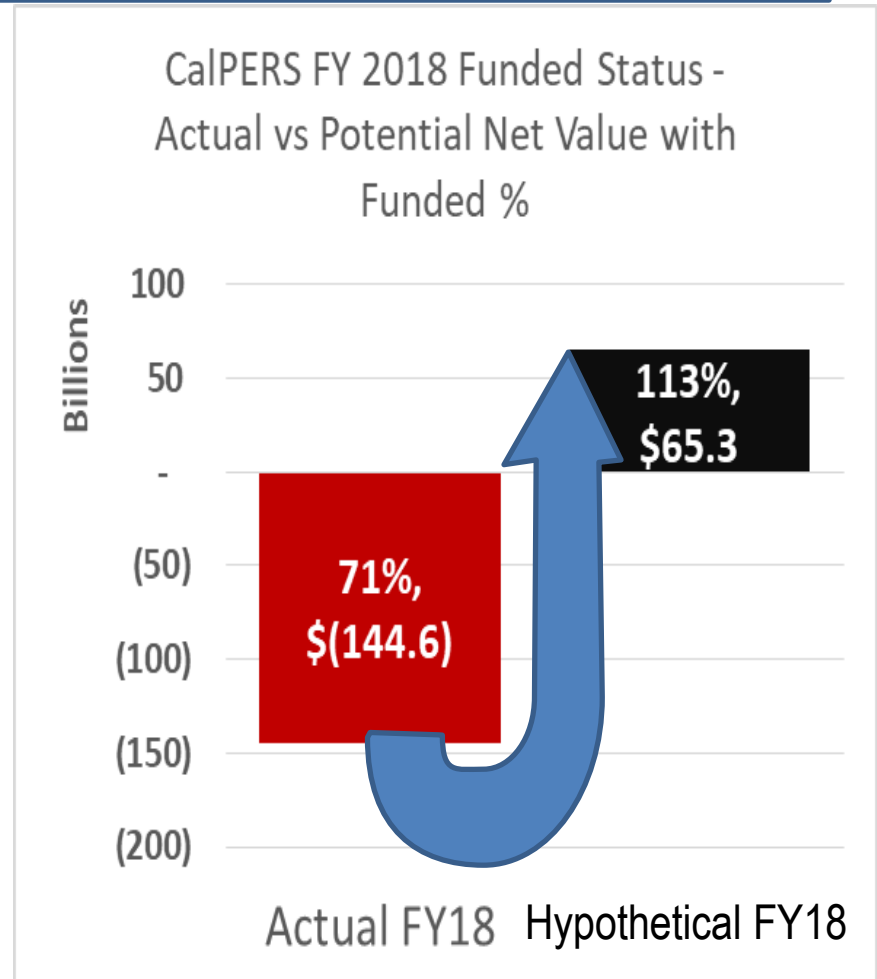
Fire and Police represents 480 members (active and inactive)



Why... ..

Pension investment shortfalls

- CalPERS choice resulted in lower investment earnings
- When earnings are short, 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

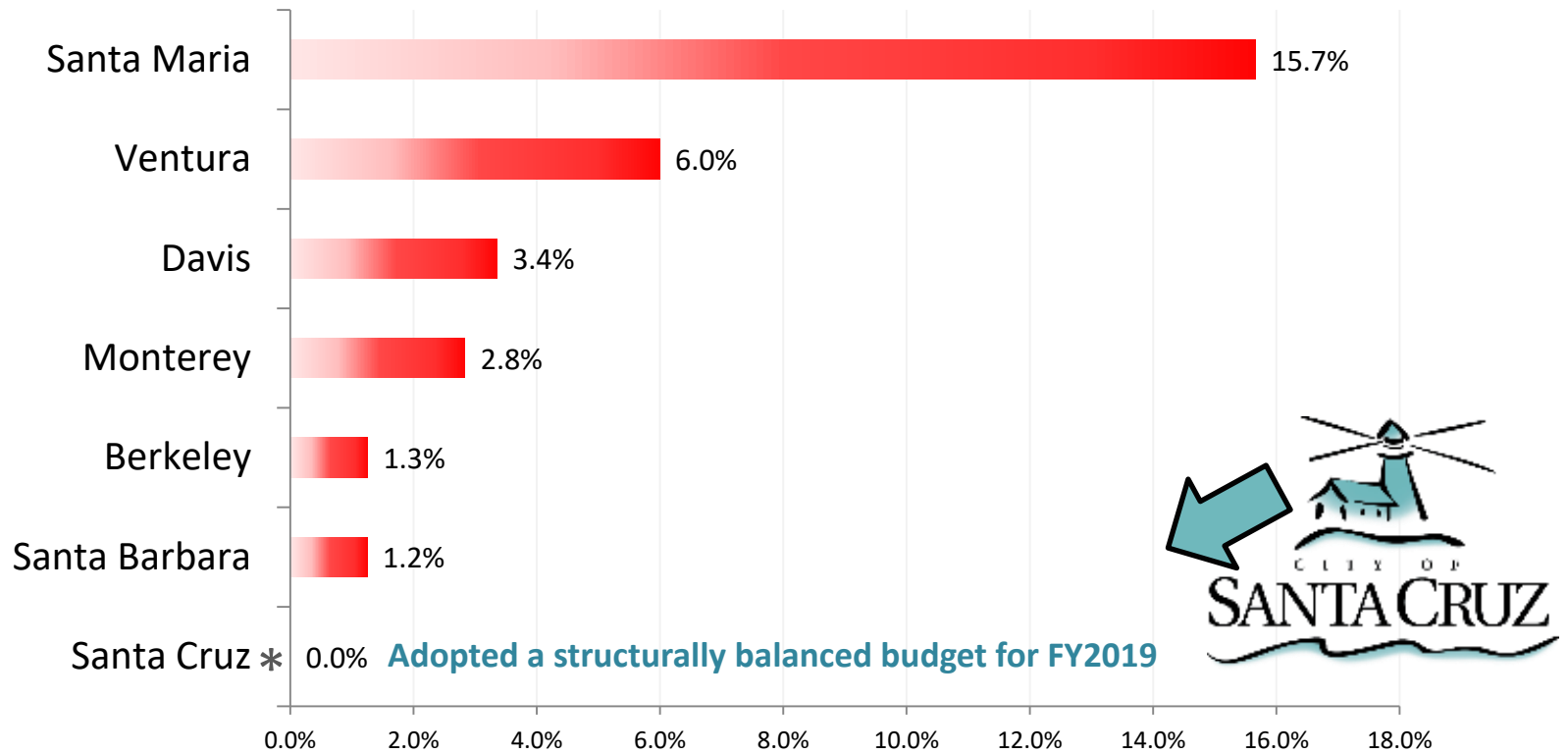
Landline phones are vanishing



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.



Capital Investment Program

- Review CIP Budget Document
- Massive funding gaps
- Examples of lack of investments
- Prescription to Fiscal Health

Budget Document

2019 Annual Budget

City of Santa Cruz, California
July 1, 2018 - June 30, 2019

GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Santa Cruz
California**

For the Fiscal Year Beginning
July 1, 2018

Christopher P. Morill
Executive Director

Budget Document – CIP Overview

Guide to the Capital program

Climate Action Plan projects

Over \$300 Million in Unfunded Projects

Maps of projects

Projects that Support the City's Climate Action Plan

Project Name	Project No.	FY 2018 Estimated Project Cost
Solar PV Expansion at Corp Yard	c101901	-
Solar PV at the Landfill	c101902	-
Solar PV Installation at DeLaveaga Park	c101903	-
Electric Vehicle Charging Station Expansion in Public City Parking Lots	c101904	-
CEC	c211601	7,642
CEC	c211604	8,253
CEC	c211609	2,686
Walk	c301901	-
	c301908	-
Pedestrian Bridge	c401001	877,862
Rail Trail) Segment 7	c401413	3,100,000
	c401513	82,058
ation Infill	c401615	605,845
cted – Turns and Streetlights	c401616	332,105
ool Crossing Improvements	c401617	1,345,239
ic Retrofit and Barrier Rail	c409321	8,312,253
vements	c401103	648,110
Rail Trail) Segment 7	c401413	6,920,231
Improvements & Studies	c401008	250,000
Conversion	c401204	1,767,650
ts	c401801	982,200
Rail Trail) Segments 8 & 9	c401804	-
il Connector	c401805	-
d Sidewalk	c401806	-
estle Trail Widen	c401807	1,550,000
lacement Program	c401812	75,000
ont to Second	c401902	-
Improvements	c401904	-
Improvements	c401905	-
Improvements	c401906	-
oment	c401909	-
hting	c401910	-
	c511704	110,000
	c601501	237,624
s Bay Heaters CEC	c610609	12,821
ge CEC	c601613	4,292
ce - CEC	m609195	238,931
ucture	c701603	44,400
ations/Construction	c701607	102,888
	c701611	137,126
	c701612	46,380
Projects that support the Climate Action Plan Totals:		27,801,596

		ESTIMATED TOTAL
1	Priority level 1:	
c211902	Fire Station 1 Traffic Alerting & Warning Lights	110,000
c211910	Fire Engine (Wild Land Engine)	410,000
c401501	West Cliff Revetment Repair	250,000
c401901	Ladera Drive Storm Drain Improvement	350,000
c601303	IT Five Year Strategic Plan	440,628
	Total Priority Level 1 Unfunded Projects:	1,560,628
2	Priority level 2:	
c211908	Fire Station 3 Rear Expansion-Apparatus Bay	350,000
c401505	Chestnut Street Storm Drain Replacement	250,000
c401507	Bay Drive Storm Damage Repair	200,000
c401803	Seabright Beach CMP Replacement	170,000
m609195	Public Facilities - Maintenance - CEC	200,000
	Total Priority Level 2 Unfunded Projects:	1,170,000
3	Priority level 3:	
c211901	Fire Station 1 (Downtown) Rear Driveway	24,000
c211907	Fire Station 3 Front Driveway project	30,000
c601504	City Hall Campus Emergency Generators	75,000
	Total Priority Level 3 Unfunded Projects:	129,000
	Total General Fund Unfunded Projects:	2,859,628

* These projects are now funded with the passing of Measure S.

(CIP Budget 2 of 4 next: Funding Gaps)



Budget Document

Guide to the Capital program

- How to understand the program
- Key terms
- Following the numbers (prior year carryovers, proposed, future timelines)
- Structure of the program budget

Summary of project categories

- Typical funding sources
- Typical type of projects within each fund

Adopted Capital Investment Program Budget Fiscal Years 2019 - 2021

Fund	Primary Funding Source	Major Project Types
Governmental:		
Capital Improvement Fund-General	Grants, share of transient occupancy tax, General Fund subsidy	Storm drains, transportation, government, buildings, parks, playgrounds, wharf, sidewalks, utility undergrounding, and lighting
Capital Improvement Fund - Arterial Streets and Roads Fund	Measure H, Gas Tax, Measure D & Grants	Transportation
Clean Rivers, Beaches, and Ocean Tax Fund	Tax assessments	Environmental, education
Community Development Block Grant (CDBG) Fund	Grants	Housing and Community Development
Gas Tax Fund	State gasoline tax	Transportation
2016 Transportation Measure D	Sales tax	Transportation
Parks and Recreation Fee Fund	Subdivision developer impact fees	Parks, playgrounds, community centers, and other Parks and Recreation facilities
Parks and Recreation Facility Tax Fund	Residential construction excise tax	Parks, playgrounds, community centers, and other Parks and Recreation facilities
RDA/SA-Redevelopment Obligation Retirement Fund	Property Tax	Successor Agency Funds
RDA/SA - Low/Mod Income Housing Funds	Property Tax	Affordable Housing Construction
RDA/SA-Capital Projects Fund	Property Tax	Street improvements, property rehabilitation, economic development, and other capital improvements
RDA/SA-Capital Projects-Admin	Property Tax	Administrative Costs of Successor Agency.
RDA/SA-Capital Projects-Del Mar Theater	Property Tax	Property management, maintenance and capital improvements to the Del Mar
SA City Low/Mod Income Housing Funds	Property Tax	Housing and Community Development
Enterprise:		
Water Fund	User Fees	Water system infrastructure
Water Fund - SDC	User Fees	Water system Development
Wastewater Fund	User Fees	Wastewater system infrastructure
Refuse Fund	User Fees	Sanitation, recycling and landfill infrastructure
Parking Fund	User Fees	Downtown parking district facilities, including parking lots and structures
Storm Water Fund	Storm water fees	Flood control facilities
Storm Water Overlay Fund	Storm water fees	Flood control facilities



Budget Document

Capital Investment Program Budgets

- Recommended projects grouped by Department then Fund
- Within the department, grouped by New then Existing (previously approved projects)

City of Santa Cruz Adopted Capital Investment Program Budget (by department) Fiscal Years 2019 - 2021							
Fire (NEW)				311- General Capital Improvement Fund			
Fire Station 1 Traffic Alerting & Warning Lights							
Project Description: Flashing lights, signage, and striping to protect Firefighters who are in street backing up the Fire Engine in front of Station 1. (Priority level 1 unfunded FY19 project - This project is now funded and requires \$110,000 from the General Fund).							
Fiscal Year 2018							
	Prior Year	Budgeted	Estimated Actuals	FY 2019 Adopted	FY 2020 Estimate	FY 2021 Estimate	Total 2019 - 2021
Project # c211902							Account # 311-21-00-9610-57305
Project Cost Estimate:	-	-	-	110,000	-	-	110,000
Project Funding Estimates:							
From General Fund	-	-	-	110,000	-	-	110,000
Net Project Cost Estimates:	-	-	-	-	-	-	-

Each project includes:

- Project Name & Description
- Prior year totals
- Current year budget & estimated actual
- Proposed Budget for Next Year
- Out year project cost estimates
- "Net Project Cost" to each applicable fund

MB Sanctuary Scenic Trail (Rail Trail) Segments 8 & 9							
Project Description: This ATP Cycle 3 project includes funding for the design and environmental review of the rail trail segments 8 & 9, between the Wharf Roundabout and 17th Avenue. The proposed 2.18 mile trail is within the City and County of Santa Cruz and will be a joint project for the purpose of this grant. A non-infrastructure component for safety, education and encouragement is included in the funding. The Land Trust of Santa Cruz County is providing the local match to this approved grant. Future Measure D funding is allocated to matching grants for construction. A grant application for construction has not been submitted.							
Fiscal Year 2018							
	Prior Year	Budgeted	Estimated Actuals	FY 2019 Adopted	FY 2020 Estimate	FY 2021 Estimate	Total 2019 - 2021
Project # c401804							Account # 311-40-64-9330-57307
Project Cost Estimate:	-	-	-	4,669,000	-	28,000,000	32,669,000
Project Funding Estimates:							
Measure D - SCCRTC	-	-	-	-	-	2,000,000	2,000,000
Transfer from 2016 Trnsp Measure D	-	-	-	-	-	1,000,000	1,000,000
Federal capital grants	-	-	-	3,169,000	-	25,000,000	28,169,000
Local capital grant-SC County Land Trust	-	-	-	1,500,000	-	-	1,500,000
Net Project Cost Estimates:	-	-	-	-	-	-	-



Risks from underfunded program...

The Capital Investment Program is <\$300 million> under funded

The General Fund's CIP will require a dependable funding source

Harvey West Ballfield Lighting



Storm Drain Improvements
(Prevent repeat event)



Water & May Ave – Dec 2014

West Cliff Revetment Repair
(Prevent Feb 2016 repeat event)



Civic Auditorium Roof Repair



Corp Yard Solar Expansion



Seabright Beach Metal Pipe Replacement



FY2019 CIP Unfunded

Civic Auditorium



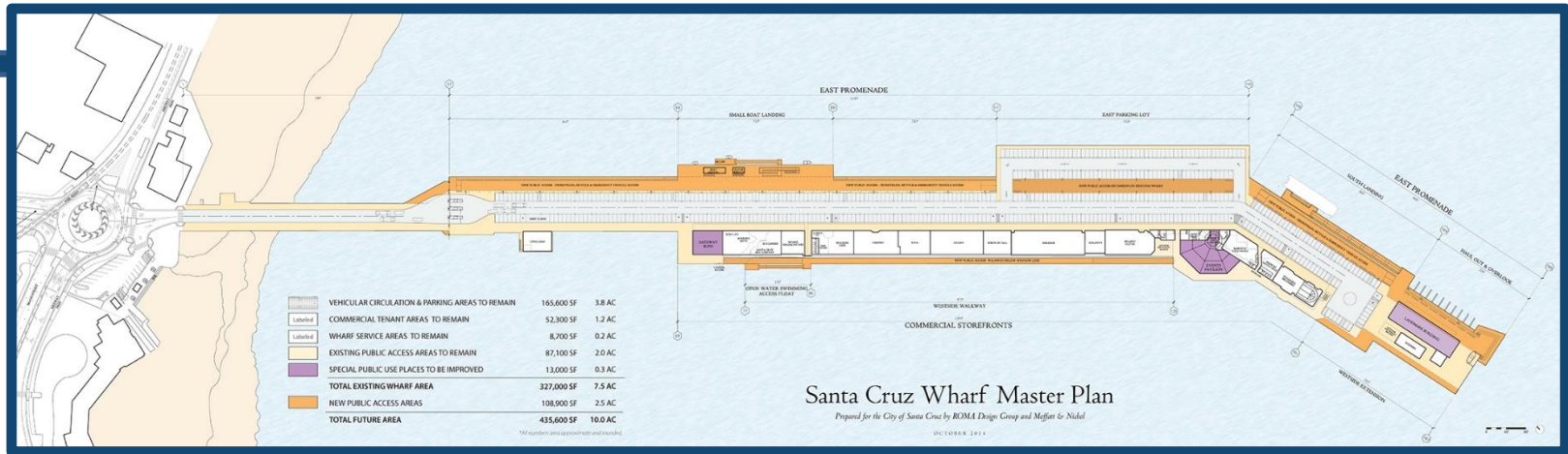
Current Allocation \$- 0 -

Unfunded placeholder \$ 2 million

Full Project over \$20 million

FY2019 CIP Unfunded

Wharf Project



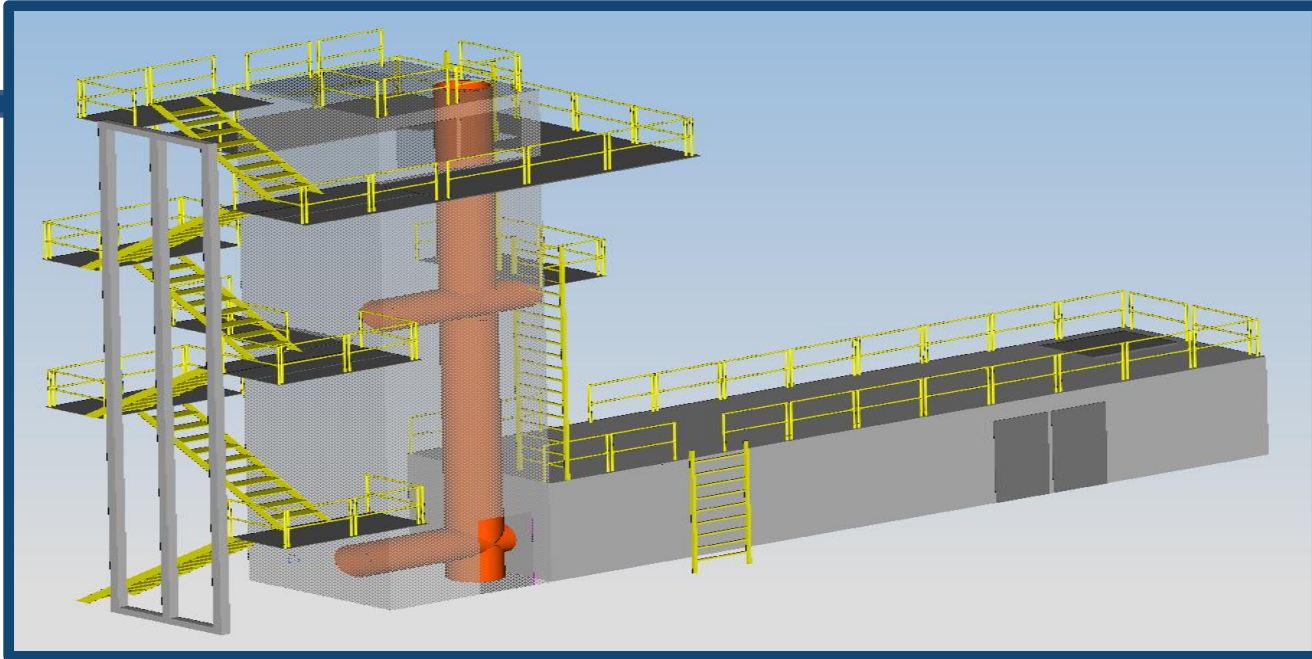
Current Allocation \$- 0 -

Unfunded placeholder \$ 1 Million

Full Project over \$20 million

FY2019 CIP Unfunded

Fire Training Center



Current Allocation \$- 0 -

Unfunded placeholder \$ 2 million

FY2019 CIP Unfunded

Pogonip Clubhouse Renovation



Current Allocation \$- 0 -

Unfunded placeholder \$ 5 million

FY2019 CIP Unfunded

MB Sanctuary Scenic Trail Segment 9



Current Allocation \$- 0 -

Unfunded placeholder \$ 11.9 million



FY2019 CIP Unfunded

Other City Solar PV Projects

Example: Corp Yard Solar Project



Current Allocation \$- 0 -

Unfunded placeholder \$ 1.6 Million

FY2019 CIP Unfunded

West Cliff Drive Revetments



Current Allocation \$- 0 -

Unfunded placeholder \$ 4 million

FY2019 CIP Unfunded

Storm Drain Master Plan Projects



Current Allocation \$- 0 -
Unfunded placeholder \$ 5 million



FY2019 CIP Unfunded

Ocean Street Improvements

OCEAN STREET AREA PLAN

CITY OF SANTA CRUZ



JANUARY 28, 2014

Current Allocation \$- 0 -

Unfunded placeholder \$ 6 million

FY2019 CIP Unfunded

Examples of other unfunded projects

Active Transportation Plan

Current Allocation \$- 0 -

Unfunded placeholder \$ 135 million

Street Overlay and Reconstruction

Current Allocation \$- 0 -

Unfunded placeholder \$ 30 million

Facilities Master Plan

Current Allocation \$- 0 -

Unfunded placeholder \$ 30.5 million



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.)
- Lack of CIP funding
- Projected economic slowdown
- Unreasonably low reserve levels given looming recession and environmental disaster risk factors

What... is next?

- Engage Budget Focus Group
- Timeline and locations for Budget 101
- April 22nd- City comprehensive Budget and CIP released
- May 8th Council- Budget Hearing and direction
- May 28th Council- Budget Adoption

Council considerations

- No Action
- Provide future guidance on creating dependable, on-going funding for:
 - major Capital equipment (ex., Fire fleet)
 - General Fund Capital Investment Projects

Questions?