

# City of Santa Cruz Budget Hearing - FY 2020 "Proposed" Budget

*Proactive fiscal sustainability through unprecedented times*

**CITY MANAGER'S FISCAL YEAR 2020 BUDGET MESSAGE**

**To the Honorable Mayor and Members of the City Council:**  
With my great appreciation to the many City staff members who help in the development, I submit to the City Council and Santa Cruz Community Development Center (FY) 2020 Proposed Budget. Building on our Fiscal Sustainability Plan, the budget used in developing this budget were to present a balanced budget and expenditure estimates; to do the best job possible of providing levels of service to the community; and to implement the City's Work Plan.

The Proposed FY 2020 Budget can be characterized as a balanced budget. Thanks to both community support for Measure A and prudent financial planning, Santa Cruz is in better financial shape than in the complexity of our needs.

**FISCAL YEAR 2019-2020 BUDGET IN BRIEF**

Citywide Staff

Police	21
Fire	97.83
Public Works	87.25
Police	136
Public Works	252.7
Water	117.25

**Community Data FY 2020 Budget**

Santa Cruz Population 66,454

**Gender**

- Male 49%
- Female 51%

**Ethnicity**

- White 64%
- Hispanic or Latino 21%
- Black or African American 1%
- American Indian and Alaska Native 0.3%
- Asian 9%
- Native Hawaiian and Other Pacific Islander 0.1%
- Some other race 0.3%
- 25-44 (24%)
- 65+ (15%)
- 15-24 (31%)
- 25-44 (22%)

**Department Description**

The Parks and Recreation Department provides parks, community facilities, open spaces, and innovative programs for children, teens, adults, and seniors. We are committed to providing the community with safe, healthy, and exciting programs and facilities.

The Parks and Recreation Department's primary objective is to provide environments, experiences, and programs that enrich lives and build a healthy community.

**FY2019 Accomplishments**

**Environmental Sustainability & Well Managed Resources**

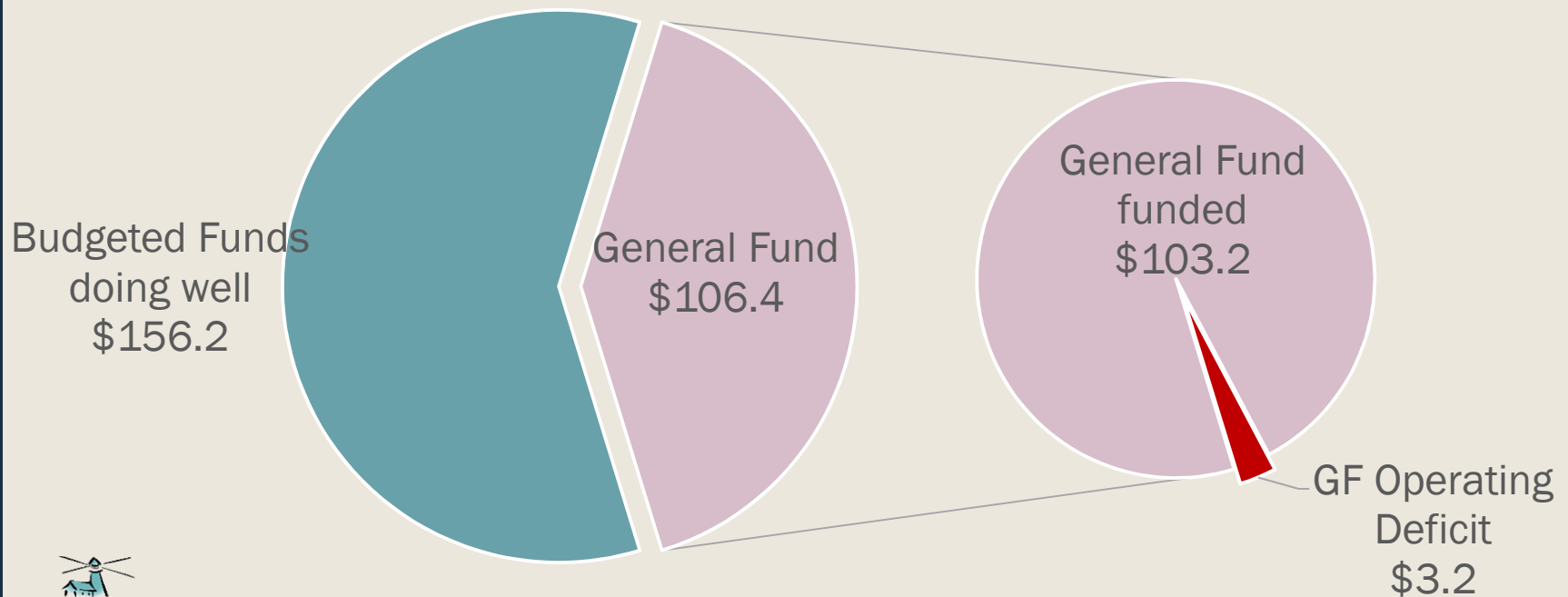
Category	FY18	FY17	FY16
Participants in programs, classes, and events	119,000	119,000	127,000
Reservations administered and accommodated for facility, field, court, and picnic areas	6,445	3,284	6,331
Acres of park land maintained and operated	1,700	1,700	1,700
Square footage of facilities maintained and operated	169,000	169,000	169,000

Martin Bernal, City Manager  
 Marcus Pimentel, Finance Director  
 Tracy Cole, Principal Management Analyst (Budget)

# Hearing Goal: Receive Public & Council Guidance

## Majority of Budget Stable vs General Fund Caution

### FY2020 Proposed Budget (in millions)



# Major General Fund Problems

## Decade of Deficits, Deteriorating CIP, Insufficient Reserves

- General Fund Deficits: 8 out of 10 deficits FY 2015 - FY 2024
  - *Recession will come*
  - *Now would be the time to build up reserves with planned surpluses to sustain operations in a down-turn*
- General Fund's total available reserves gone in 2 years
  - *\$11.4 million (Fy2018) to \$7.6 million (Fy2020) to \$-0- (Fy2022)*
  - *Includes all Public Trust and Econ. Dev. Trust funds*
- General Fund CIP should be \$3 million to \$5 million minimum

# Why Now: Guide General Fund FY 2020 solutions

Discussion may continue May 14<sup>th</sup>, May 28<sup>th</sup> & conclude June 11<sup>th</sup>

## General Fund

- 1) \$3.2 Million in Budgetary Solutions
- 2) Plan for CIP funding
- 3) Build up reserves

## Agenda

- Budget document review
- Review Funds fiscally sound
- Review Capital Investment Program
- General Fund
- Public Comment & Council Direction



# Budget Document

City Manager Strategic Message

## CITY MANAGER'S FISCAL YEAR 2020 BUDGET MESSAGE



## FISCAL YEAR 2019-2020 BUDGET IN BRIEF

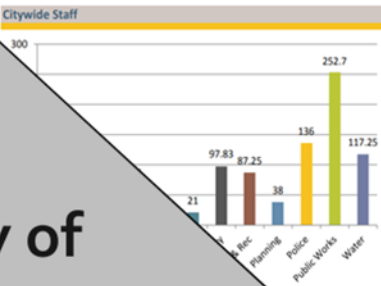


The City of Santa Cruz to over 63,000 reside 5,000 businesses and between 3-4 million vis year. With its fantastic mild temperatures at famous Beach Boardw Cruz is one of the most destinations along the coast.

Improved "Budget in Brief"

To the Honorable Mayor and Members of the City Council: With my great appreciation to the many City staff members who help development, I submit to the City Council and Santa Cruz Commu (FY) 2020 Proposed Budget. Building on our Fiscal Sustainabi used in developing this budget were to present a balanced b and expenditure estimates; to do the best job possible of p levels of service to the community; and to implement C City's Work Plan.

The Proposed FY 2020 Budget can be charact Thanks to both community support for Meas financial planning, Santa Cruz is in better complexity of our needs.



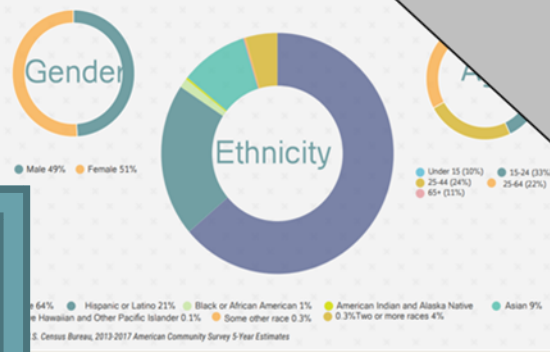
This Proposed represents a balanced budget that echoes our continued commitment to safeguarding service and resources to the City's changing needs. By practicing fiscal prudence, the expenditures and revenues presented provide key services, such as Police and Fire, but also necessary services from our Water Department and Public Works Department.

Despite rising pension and personnel costs, the budget is balanced and preserves existing service levels the residents of Santa Cruz expect and deserve.

# City of Santa Cruz California 2020 Annual Budget July 1, 2019- June 30, 2020

## Community Data FY 2020 Bu

Santa Cruz Population 66,454



## Department Description

The Parks and Recreation Department provides parks, community facilities, open spaces, and innovative programs for children, teens, adults, and seniors. We are committed to providing the community with safe, healthy, and exciting programs and facilities. The Parks and Recreation Department's primary objective is to provide environments, experiences, and programs that enrich lives and build a healthy community.

## FY2019 Accomplishments

Environmental Sustainability & Well Managed Resources

## Workload Indicators

Participants in programs, classes, and events	
FY18	119,000
FY17	119,000
FY16	127,000

Reservations administered and accommodated for facility, field, court, and picnic areas	
FY18	6,445
FY17	3,284
FY16	6,331

Acres of park land maintained and operated	
FY18	1,700
FY17	1,700
FY16	1,700

Square footage of facilities maintained and operated	
FY18	169,000
FY17	169,000
FY16	169,000

Visual Community Profile

NEW Workload Indicators



# What you need to know & where to find it

## City Manager Message, Finance Director Overview, Positions & Debt

- City Manager Message: Big picture strategies
- Finance Director's Overview
  - *Budgetary challenges & forecasts*
  - *What is changing (i.e., no new General Fund CIP or Position cost increases)*
  - *Proposed General Fund Budget Solutions*
    - Reductions and new resources
- Personnel Narrative (Pg 31-32) & Personnel (Index pg 1-7)
- Debt & Pension Liability (Pg 24-27)



# Work Load Indicators

## Laying groundwork for Performance Measures

- Departmental work load indicators
  - Build future performance measures to support Council’s new Strategic Plan
  - Align timeframe of Strategic Plan to multi-year Adopted Budget to support Strategic Plan
- Department’s choose 3 to 5 indicators
  - Will test with Council & community outreach
- Examples
  - Fire: Number of emergency calls
  - Police: Calls for service & reports written
  - Parks & Rec: No. of participants in programs
- Examples (cont.)
  - Econ Dev: Number of affordable units monitored
  - Finance: General Fund forecast accuracy
  - IT: Number of help desk tickets
  - Library: Number of visitors
  - Planning: Building Permits issued
  - PW: Garbage carts emptied; Treatment Plan self-powered %; Pot holes filled
  - Water: Number customers contacting SCMU staff



# Budget Document

## Finance

### DEPARTMENT SUMMARY

3 Years of Data

Budget allocated by category, activity, and fund

Incoming revenue

NET cost to the General fund

Authorized permanent positions

	Fiscal Year* 2018 Actuals	Fiscal Year 2019			Fiscal Year 2020 Request	
		Adopted Budget	Amended* Budget	Estimated Actual		
<b>EXPENDITURES BY CHARACTER:</b>						
Personnel Services	3,262,518	3,797,152	3,797,152	3,455,676	4,131,768	
Services, Supplies, and Other Charges	2,964,051	4,499,831	5,336,062	4,858,362	4,659,035	
Capital Outlay	364	10,000	25,444	-	1,079,250	
<b>Total Expenditures</b>	<b>6,226,933</b>	<b>8,306,983</b>	<b>9,158,659</b>	<b>8,314,038</b>	<b>10,828,854</b>	
<b>EXPENDITURES BY ACTIVITY:</b>						
Finance	1241	3,617,127	4,066,604	4,108,168	3,623,556	4,320,697
Subtotal General Fund		3,617,127	4,066,604	4,108,168	3,623,556	4,320,697
Finance	1241	22,767	15,500	15,500	47,179	35,000
Subtotal Other General Funds		22,767	15,500	15,500	47,179	35,000
Liability Insurance	7821	2,587,039	4,224,879	5,034,990	4,643,303	4,460,606
Equipment Lease Program-Gen Fund	7861	-	-	-	-	637,685
Vehicle Lease Program-Gen Fund	7862	-	-	-	-	1,374,866
Subtotal Other Funds		2,587,039	4,224,879	5,034,990	4,643,303	6,473,157
<b>Total Expenditures</b>		<b>6,226,933</b>	<b>8,306,983</b>	<b>9,158,659</b>	<b>8,314,038</b>	<b>10,828,854</b>
<b>RESOURCES BY FUND</b>						
General Fund	101	1,174,574	1,195,556	1,195,556	1,178,556	1,230,412
Liability Insurance	842	4,571,090	4,486,943	5,086,943	4,605,435	3,960,333
<b>Total Resources</b>		<b>5,745,664</b>	<b>5,682,499</b>	<b>6,282,499</b>	<b>5,783,991</b>	<b>7,988,407</b>
<b>Net General Fund Cost</b>		<b>(2,442,554)</b>	<b>(2,871,048)</b>	<b>(2,912,612)</b>	<b>(2,445,037)</b>	<b>(3,090,285)</b>
		<b>FY 2018</b>			<b>FY 2019</b>	<b>FY 2020</b>
<b>TOTAL AUTHORIZED PERSONNEL:</b>		30.00			32.00	32.00





# CIP Budget Document

City of Santa Cruz  
Proposed Capital Investment Program Budget (by department)  
Fiscal Years 2020 - 2024

**Parks and Recreation (NEW)**

**311- General Capital Improvement Fund**

1

**Cliff Street Walkway Retaining Wall**

**Project Description:**  
Replace badly deteriorated wooden retaining wall on the Cliff St. walkway with concrete wall that will be more stable and aesthetically pleasing. Currently portions of the wall have collapsed and are being propped up.

Project # c302002	Prior Year	Fiscal Year 2019		FY 2020 Estimate	FY 2021 Estimate	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	Total 2020 - 2024
		Budgeted	Estimated Actuals						
Project Cost Estimate:	-	-	-	40,700	-	-	-	-	40,000
Project Funding Estimates: Parks and Rec Facilities Tax Fund	-	-	-	40,000	-	-	-	-	40,000
<b>Net Project Cost Estimates:</b>	-	-	-	-	-	-	-	-	-

2

3

4

5

6

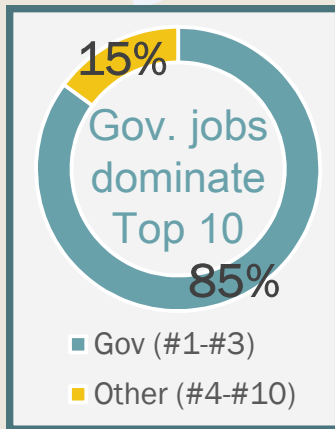
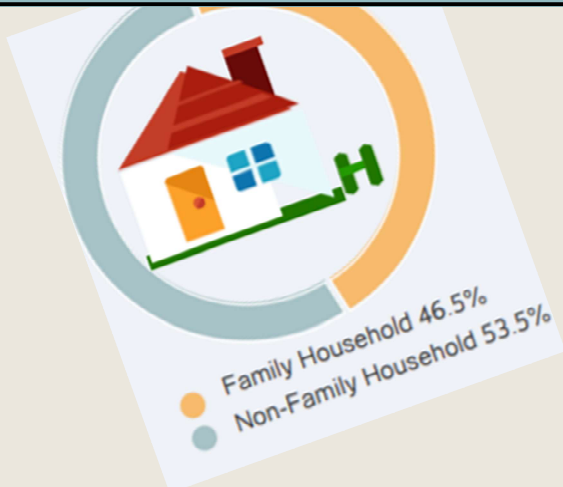
Each project includes:

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

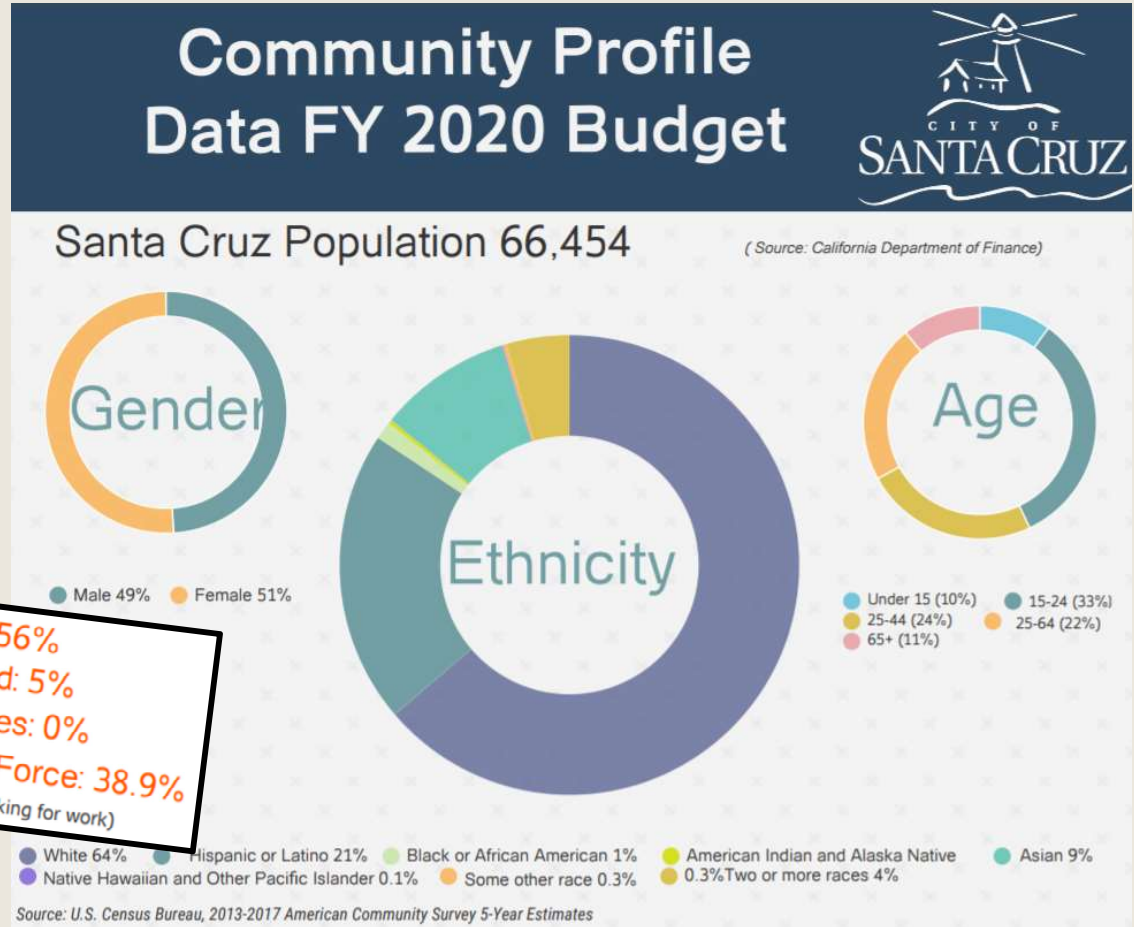


# Community Profile Visually Upgraded

## Population data, Education, Jobs, Housing, Transit, Amenities



**Employed: 56%**  
**Unemployed: 5%**  
**Armed Forces: 0%**  
**Not in labor Force: 38.9%**  
(e.g. students not looking for work)



# Debt and Positions

Pension debt grew 12%; No General Fund position growth

## Personnel Profile – Overview of Changes

Each year, City Council establishes an authorized position list (by department) through the budget adoption process. For FY 2020, there will be a .50 FTE (full-time equivalent) decrease to the total positions within the General Fund and a net 6.50 FTE increase to the total positions proposed within Enterprise and other funds as compared to the FY 2019 amended budget. For the independent Library JPA, there is a net change of 5.0 FTE net increase in positions. Following is a summary of the position changes:

Personnel Narrative (Pg 31-32) & Personnel (Index pg 1-7)  
5 Library System, 4 Water, and 2 Resource Recovery (11 total added)

### AUTHORIZED POSITIONS

DEPARTMENT / Positions	FY 2018	FY 2019	FY 2019	FY 2019	FY 2020	FY 2020
	Amended Budget	Requested Changes	Adopted Budget	Amended Budget	Requested Budget	Requested Change From FY 2019 Amended
<b>Water (continued)</b>						
Water Meter Supervisor	1.00		1.00			1.00
Water Meter Technician	1.00		1.00			1.00
Water Quality Chemist I/II/III	2.00		2.00			2.00
Water Quality Manager	1.00		1.00			1.00
Water Treatment Operator II/III/IV	8.00		8.00		1.00	9.00
Water Trtmt Sup IV/V-Chief Plant Opr	1.00		1.00			1.00
Watershed Compliance Manager	1.00		1.00			1.00
	<u>113.25</u>	<u>1.00</u>	<u>114.25</u>	<u>-</u>	<u>3.00</u>	<u>117.25</u>
<b>Total Positions Authorized</b>	<b>868.78</b>	<b>8.00</b>	<b>876.78</b>	<b>(2.00)</b>	<b>11.00</b>	<b>885.78</b>

### CITY OF SANTA CRUZ FY 2020 ANNUAL BUDGET Pension Obligations (C) Comparative Summary of Total Obligations

Description	FY 2018 Budget Balance as of Reporting Date	Percentage of Total Debt	FY 2019 Budget Balance as of Reporting Date
<b>City-wide Debt before Pension</b>	112,755,016		100,030,280
<b>Less: Pension Obligation Bonds</b>	(11,100,000)		(8,685,000)
<b>Net City-wide Debt before all Pension costs</b>	<u>101,655,016</u>	<b>32.3%</b>	<u>91,345,280</u>
<b>Pension Obligation Bonds</b>	11,100,000		8,685,000
<b>City-wide Unfunded Pension Liability</b>	183,394,580		209,500,228
<b>City-wide Pension Obligations</b>	<u>194,494,580</u>	<b>61.8%</b>	<u>218,185,228</u>
<b>Other future obligations without annual debt service</b>			
Compensated absences	1,719,932		1,755,751
Claims and judgments	9,931,581		9,931,581
Landfill closure	7,118,649		7,449,025
<b>Other future debt obligations</b>	<u>18,770,162</u>	<b>6.0%</b>	<u>19,136,357</u>
<b>TOTAL OBLIGATIONS</b>	<u>314,919,758</u>		<u>328,666,865</u>

\$328 Million in total City Debt  
\$218m pension; \$33m Water; \$25m Successor RDA;  
\$32m General Fund; \$9.7m other Enterprise



# FY 2020 Proposed Budget

Most funds are stable with different levels of long-term funding.

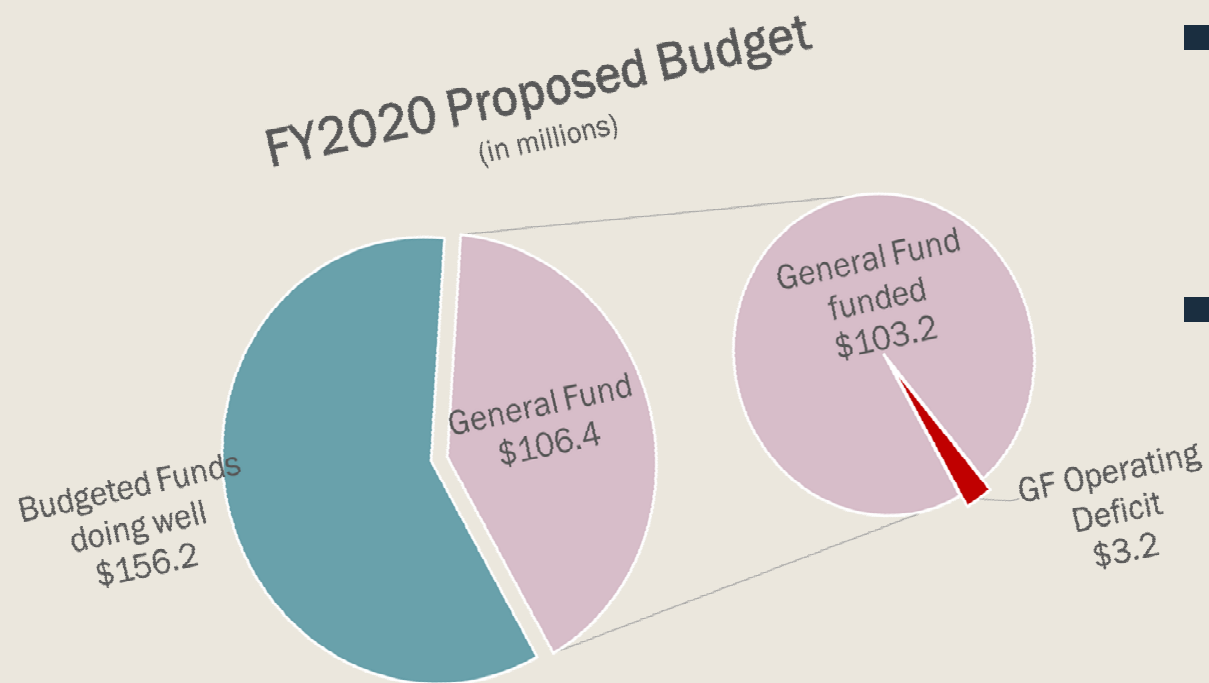
However, most still are not sufficient for capital investment needs.

- Water Fund
- Resource Recovery Fund
- Wastewater Fund
- Municipal Wharf
- Housing & Community Development Fund
- Low & Mod Housing Fund
- Parking Fund
- Storm Water
- Library (separate JPA)

(Stable Budget 1 of 2; *next CIP*)

## Other Funds:

Discussion may continue May 14<sup>th</sup>, May 28<sup>th</sup> & conclude June 11<sup>th</sup>



- Within \$262.6 Proposed Budget, only \$3.2 million is a short-term problem.
- Unfunded CIP impacts all operations, with greater challenge in the General Fund

# FY 2020 Proposed Capital Investment Program Budget

However, most still  
are not sufficient for  
capital investment  
needs.

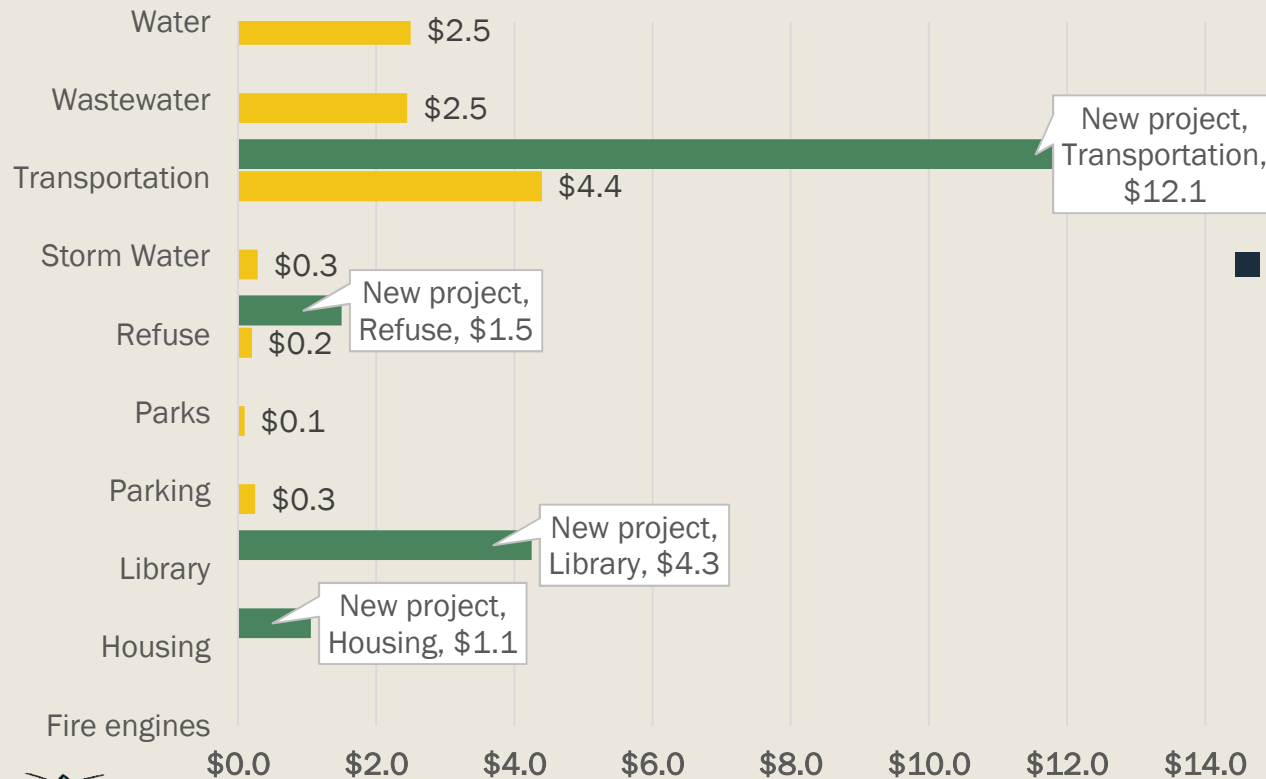
- \$2.67 million more of General Fund projects added to unfunded list
- Total \$310.2 million in unfunded, identified projects
- Water: million
- Wastewater: \$3.25 million
- Scenic Trail: \$9.9 million
- Solar PV : \$0.4 million
- Library: \$4.2 million
- \$2.6 million direct roadway projects
- Refuse: \$1.7 million

*(CIP Budget 1 of 2; next Gen Fund Deficit)*

# CIP by Type

Discussion may continue May 14<sup>th</sup>, May 28<sup>th</sup> & conclude June 11<sup>th</sup>

FY 2020 Project Funding by Type (existing asset or new asset) (in Millions)



- Within \$262.6 Proposed Budget, only \$3.2 million is a short-term problem.
- Unfunded CIP impacts all operations, with greater challenge in the General Fund



# General Fund

## Current and future Deficits

Targeting \$3.2 Million in adopted budget solutions by June 11, 2019

5/8/2019 8:58 AM

- FY 2020 Projected Deficit was \$1.6<sup>16</sup> million
  - *Plus... additional for labor negotiations*
  - *Plus... Council and Committee support*
  - *Plus... 911 Center system*
  - *Plus... liability claims*
  - *Plus... other support services*
- Budget Council Meetings possible
  - *April-May Dept presentations*
  - *Special study session (tbd)*
  - *May 8 Hearing*
  - *May 14<sup>th</sup> Regular Council*
  - *May 28<sup>th</sup> Regular Council*
  - *June 11<sup>th</sup> Adoption Council*

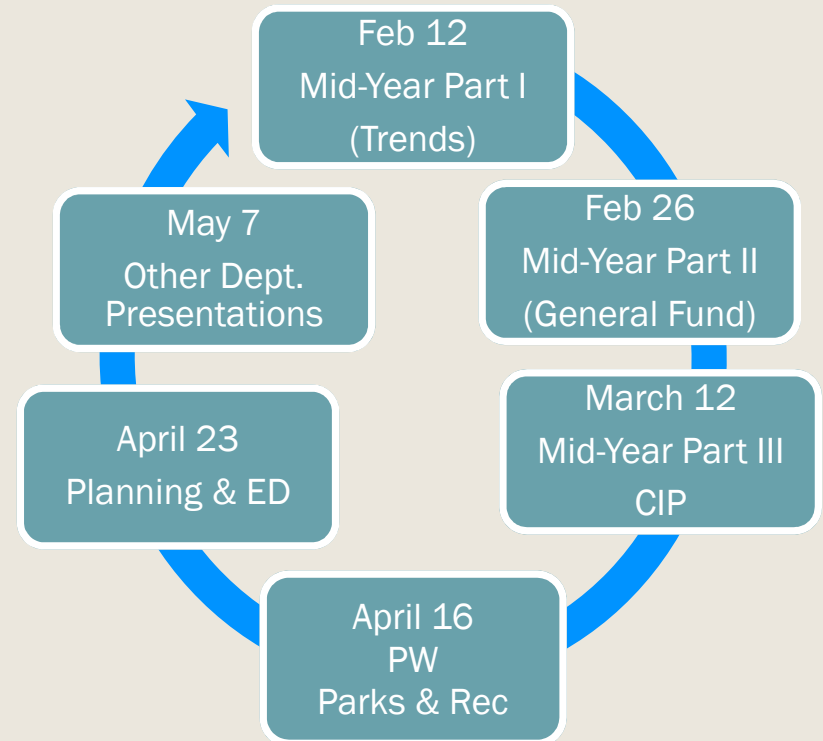
*(GF Deficit 1 of 7; next FY20 Solutions)*



## How we prepared for today

- Fiscal 2023 Sustainability Plan
- Action Labs 2018 & 2019
- 2018 Budget Ad-Hoc Task Force, Ad-Hoc Revenue Committees, Focus Group and Fall 2018 Budgetary guidelines
- 2019 Budget Ad-Hoc Task Force
- Council one-on-one meetings
- 3-part Mid Year budget series
- Departmental operating and budget Council presentations

### City Council 2019 Presentations

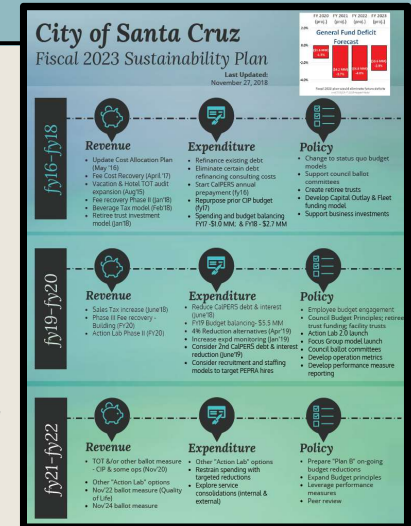


*(GF Deficit 2 of 7; next FY20 Solutions)*

# Fiscal 2023 Sustainability Plan

## Our roadmap to supporting community services and strategic investments

- Over \$14 million in General Fund budgetary solutions to date
  - Change base budgeting plus sustainable budget reductions
  - Measure S Sales Tax
  - Cost allocation plan update & fee and cost recovery plan
  - Retirement pension trusts, expanded tax compliance program, debt refinance and additional principal payments



- NEXT: Strategies to fund community capital investments and capital equipment

- Complete Action Lab 2019 process
- Evaluate other "next in line" items from 2018 Action Lab
- Support ballot measure analysis
- Community engagement on solutions



# Why Now: Recession is probable

## June 11<sup>th</sup> Adoption: Guide General Fund FY 2020 solutions

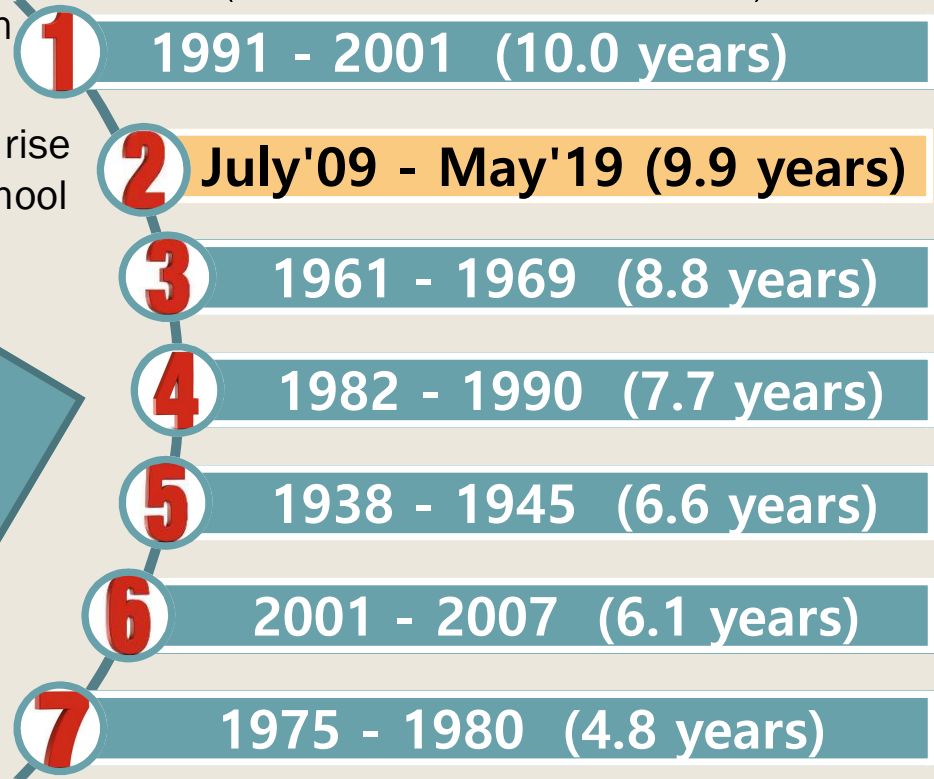
### Why we feel a slowdown is coming

- 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.)

A long recovery is reasonable after the Great Recession... but ...  
At 9.9 years, we've long passed the typical ~5 year recovery period

### Longest periods of U.S. Economic Expansion

(National Bureau of Economic Research - Data since 1854)



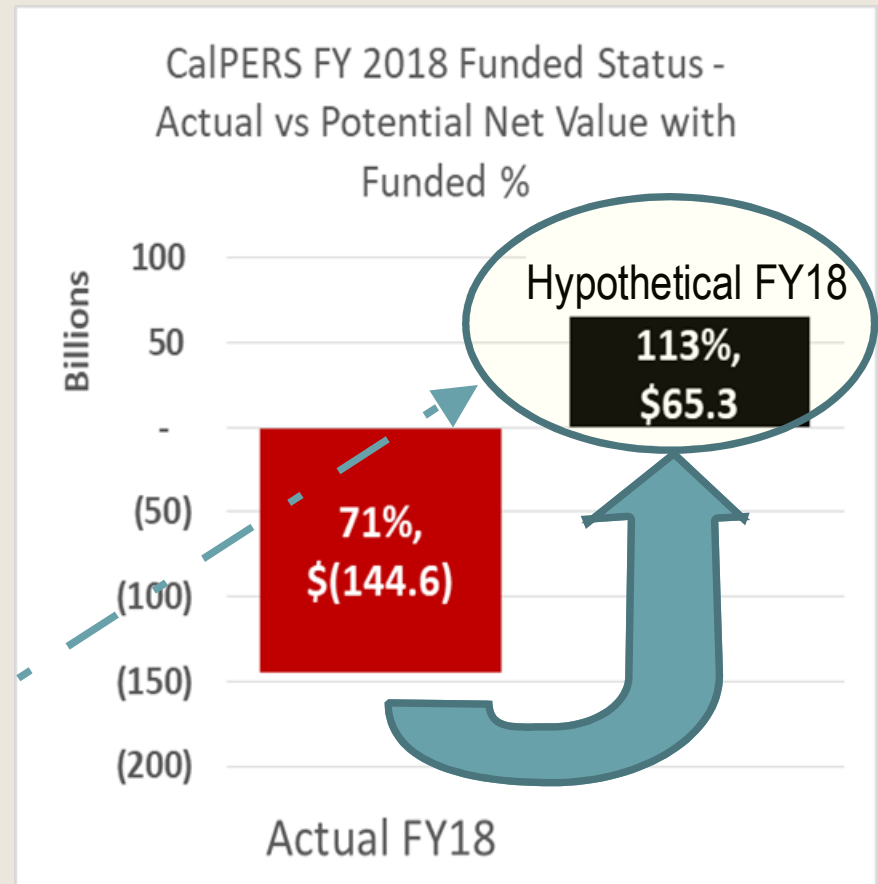
(GF Deficit 4 of 7; next FY20 Solutions)

# Why Now: State Pension Investments low

## “What if” State Pension Investments followed average market returns?

- 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.)



(GF Deficit 5 of 7; next FY20 Solutions)

# Why Now: Tax bases are eroding

## June 11<sup>th</sup> Adoption: Guide General Fund FY 2020 solutions

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

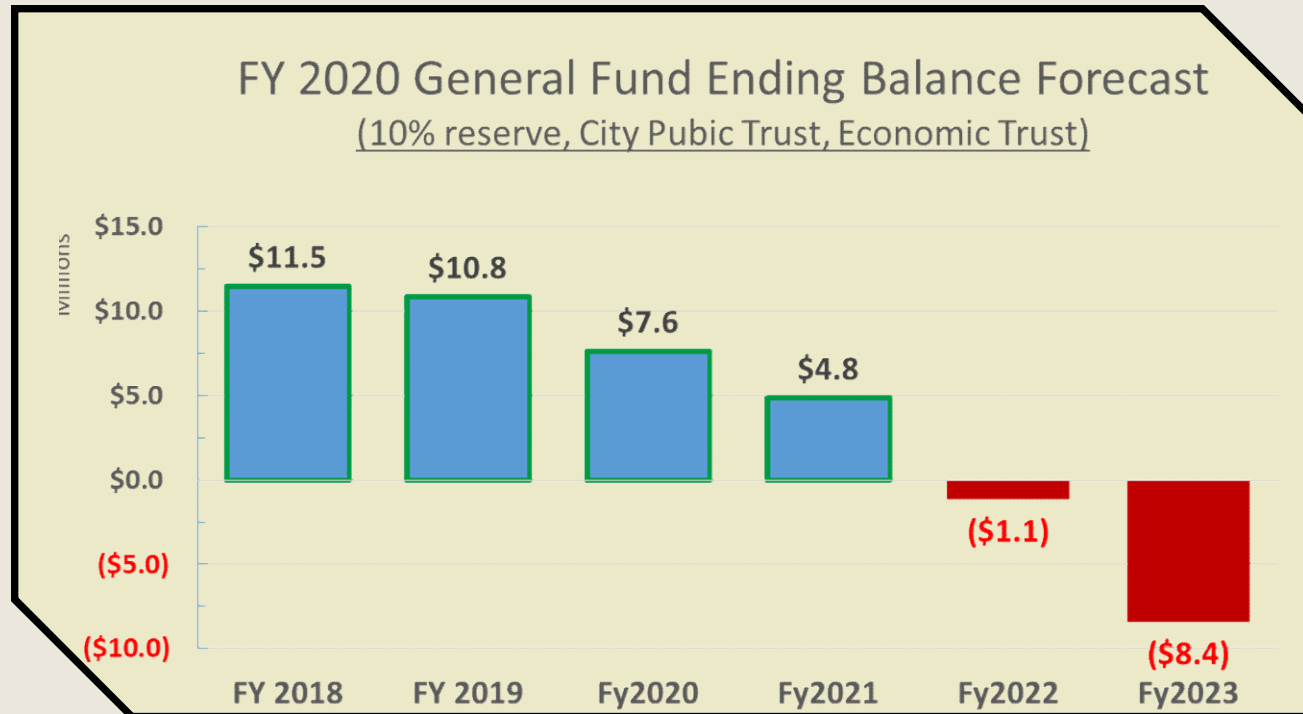
Online streaming replacing cable/dish services

Landline phones are vanishing



# General Fund reserves would be gone by FY2022

Now is the time to build up, not liquidate

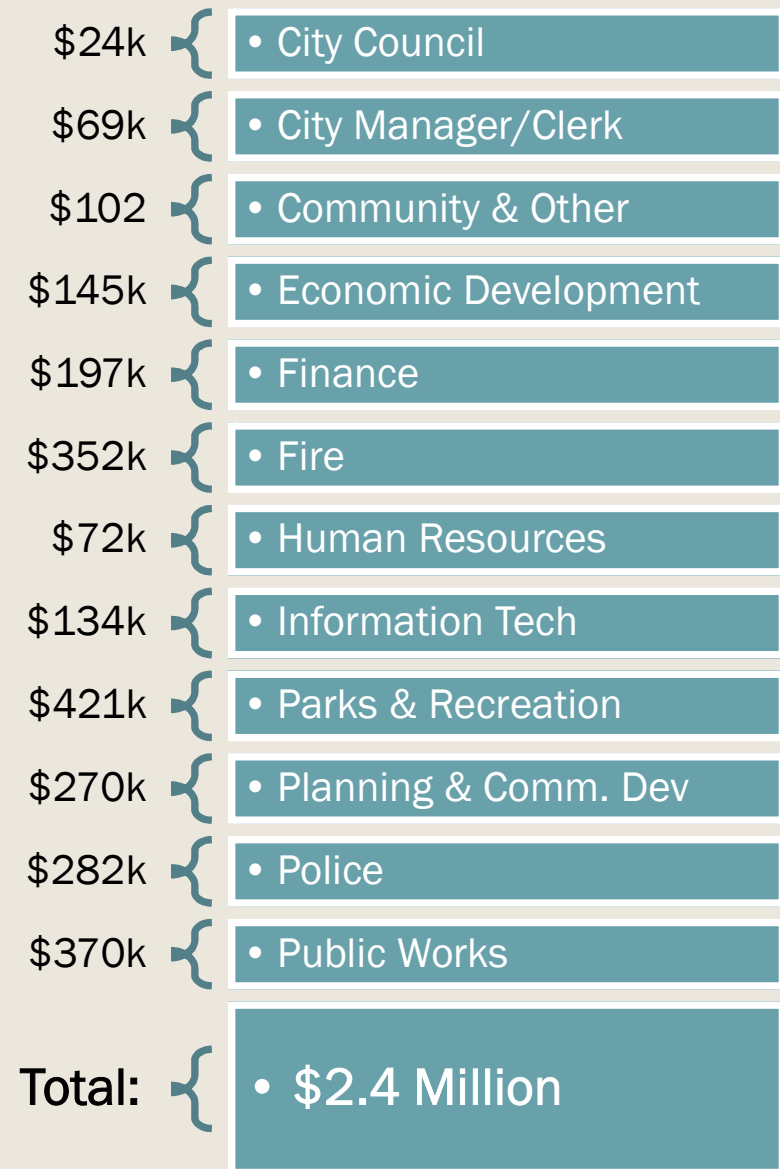


- NO Disaster Contingency Fund (flood, fire, earthquake)
  - *Like your own backup savings account*
- NO Operating Reserve (one-time urgent or opportunity uses)
  - *Your extra cash in the checkbook for unexpected times*

# General Fund

## Budget Solutions

Targeting \$3.2 Million in adopted budget solutions by June 11, 2019



(FY20 Solutions 1 of 4; next ACTIONS)

## Budget Reductions: Community Safety

### ■ Police & Fire

- *Explore “first responder” fee*
- *Reduce private security patrols*

NOTE: Due to staffing shortages and the significant reductions in services that would be required, no additional Public Safety reductions were recommended.

### ■ Public Works- Operations & Engineering

- *Reduce support for emergency or higher priority engineering services*
- *Reduce resources to explore energy projects*
- *Reduce flood control maintenance, including surrounding vegetation control*

### ■ Public Works- Parking & Traffic

- *Increase parking meter rates- Beach Area*
- *Increase parking meter rates- Residential & guest permits*
- *Reduce “Street Smarts” outreach campaign*
- *Reduce funding for bike and pedestrian crossing*



## Budget Reductions: Community Support

### ■ Economic Development

- Reduce Façade program
- Reduce Graffiti contract
- Reduce Public Art
- Reduce temp & contractual staffing

### ■ Planning & Comm. Development

- Reduce contracted staffing support
- Reduce public counter, email, and phone support
- Reduce programs that trigger specialized legal support

### ■ Parks & Rec

- Delay Wharf & Museum maint.
- Reduce parks fencing support & maint.
- Reduce water until “brown” out area’s
- Eliminate youth Museum programs
- Reduce staff & temps for trails, sports officials, summer camp
- Reduce trail & related cleanup
- Eliminate summer ads & bus trips

## Budget Reductions: Community & Internal Support

### ■ Finance, HR & IT

- *Eliminate Leadership SC program*
- *Reduce class studies & recruitment outreach*
- *Reduce on-site cash pickup*
- *Expand credit card cost recovery*
- *Staffing reductions*
- *Reduce or eliminate helpdesk*
- *Reduce Finance space lease rates*

### ■ Community support

- *Reduce Community Programs funding*
- *Reduce CPVAW budget*
- *Reduce homelessness coordinating committee funding*
- *Reduce HOPES support*
- *Reduce "open streets" donation*

### ■ Council, Clerk & City Manager

- *Reduce State legislative strategist*
- *Reduce communication & outreach*
- *Reduce travel & training (Council and staff)*
- *Eliminate special projects & services (Council)*

# Actions & what's coming next

## Guidance...

- Are there any sacred services or revenues to avoid within the initial General Fund budget solution list?
- Are there other components of the budget you want to go deeper into prior to our June 11<sup>th</sup> budget adoption?
- Are there Council requested additions or changes for the FY2020 General Fund budget?

## What... is next?

- Consider forming a City Council revenue subcommittee
- May 28<sup>th</sup> full budget solutions reviewed & finalized
- June 11<sup>th</sup> final budget adoption
- Schedule a special Budget council session
- Engage Budget Focus Group
- Set date and location for Budget 101 outreach