

Introduction

The City of Santa Cruz is located on the northern part of the Monterey Bay, approximately 75 miles south of San Francisco and 30 miles west of San Jose. Incorporated in 1866, it received its first charter in 1876. The City currently operates under the provisions of a charter approved by the voters in 1948 and subsequently amended from time to time.

Santa Cruz is the county seat for the County of Santa Cruz. It has an area of 12 square miles and an estimated population of 66,454. Santa Cruz is the home to the University of California, Santa Cruz (UCSC), which opened in 1965 and has a current enrollment of 19,457 students. The City's major industries include tourism, manufacturing, and technology.

Government/Services

The City of Santa Cruz operates under the council-manager form of government.

Policy-making and legislative authority are vested in a seven-member governing council, consisting of the Mayor, Vice Mayor, and five Councilmembers who are elected on a non-partisan basis. Councilmembers serve four-year staggered terms, with either three or four Councilmembers elected every two years. Councilmembers may serve no more than two terms consecutively. The Mayor is selected by a majority of the City Council and serves a one year term. The City Council is responsible, among other things, for passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager, City Clerk, and City Attorney. In 2011, the City Manager was designated as the City Clerk.

The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the city, and for appointing department heads.

The City provides a broad range of services including police and fire protection; construction and maintenance of streets, parks, flood control, and other infrastructure; a wharf facility; and recreational and cultural activities including a performing arts center and human services programs. It operates four municipal utilities, including water, wastewater, storm water, and refuse collection/landfill operations, as well as enterprise operations for parking facilities. The water utility provides water service beyond the municipal boundaries and has a total service population of approximately 98,000.

Before the February 1, 2012 elimination of the City's legally separate Redevelopment Agency, the City elected to serve as the successor agency for the Redevelopment Agency's operations, including housing operations. As the successor agency, the City is responsible for winding down operations, paying off debt service, and completing certain remaining infrastructure construction and community development activities as included in the Recognized Obligation Payment Schedule (ROPS).

Many major public services delivered within the City's boundaries, such as education and public transportation, are provided by other public agencies. Library services are provided through a Joint Powers Authority agreement that includes the cities of Santa Cruz, Capitola, and Scotts Valley and the County of Santa Cruz.

Expenditures

Appropriations provide for expenditures that will be incurred and encumbrances that will be established during the fiscal year. Council policy establishes appropriation control at the department and fund level. Changes in appropriations within the same department and fund may be approved by the City Manager, except that transfers greater than \$50,000 between major expense categories (e.g., personnel services, services and supplies, or capital outlay) must be approved by Council. The City Manager is also authorized to accept and appropriate donations and grants of up to \$50,000 for projects and programs previously approved by the City Council. All transfers between funds must be approved by Council.

Major Revenue Sources

The City's major revenues sources are credibly projected using a combination of an analysis of historic trends, current and future indicators, and external sources like the County of Santa Cruz, the State Budget, State Legislative Analysis Office, League of California Cities, and sales tax consultants.

Taxes

The City's major tax revenues include property tax, sales and use taxes, and transient occupancy (hotel) tax. The Financial Summaries section of this document includes charts showing revenue history.

As with other charter cities in California, the City of Santa Cruz has limited ability to set tax rates. The State constitution, under the provisions of Proposition 13 passed by the voters in 1978, establishes a maximum rate for property tax and limits the growth of assessed value. The constitution sets the limit for increases of the property tax rate to 2% per year, but upon sale, market value becomes the assessed value. The property tax collected is allocated among the jurisdictions in the City's tax rate areas based on criteria established by the State legislature. The rates and tax base of two of the City's other general revenues, sales and use tax and motor vehicle in lieu fees (VLF), are also controlled by the Legislature.

Changes to existing local taxes and any new taxes require voter approval. Taxes used for general purposes are subject to approval by a simple majority of voters while taxes levied for specific purposes require a two-thirds majority of voters. Assessments must be approved by a majority vote with voting rights apportioned based on the amount of the assessment. Property-related fees require public majority protest procedures and property-related fees for services other than water, wastewater, and refuse must also be approved by a majority of property owners or two-thirds of the electorate.

Recent ballot measures approved by City voters include the following:

- June, 2018—Measure S. Increased the local Sales Tax from 9.00% to 9.25, the maximum allowed by the state.
- November, 2016—Measure D. County Transportation Tax. Impose a half-cent sales tax for 30 years for safety, pothole repair, traffic relief, and transit improvement.

Major Revenue Sources (continued)

Recent ballot measures approved by City voters include the following (continued):

- November, 2016 —Measure L. Cannabis Business Tax. Impose a tax of no more than 10% on gross receipts of cannabis (marijuana) businesses in the city.
- June, 2016—Measure S. Community Facilities District Library Bond. Authorize parcel tax on real property and authorize bonds to be issued by the Santa Cruz Libraries Facilities Financing Authority.
- November, 2012—Measure Q. Increased the Transient Occupancy Tax from 10.0% to 11.0%, effective in July, 2013.
- November, 2010—Measure H. Increased the Utility Users Tax from 7.0% to 8.5%, effective in spring, 2011.

Fees & Charges for Services

Fees for services, the City's next largest major revenue source, are subject to requirements that they be set at levels that do not exceed the reasonable costs of providing services. Fund balances generated by differences between fee revenue and related expense are retained and designated for services and facilities that benefit fee payers.

Budget Basis – Basis of Accounting

The City Council adopts a structurally balanced budget—one that supports financial sustainability multiple years into the future. The City uses a modified accrual basis of accounting in preparing the budget for both Governmental and Proprietary funds. The modified accrual basis is consistent with how the Governmental Funds are reported in the City's Comprehensive Annual financial Report (CAFR) fund statements; however the Proprietary Funds (Enterprise and Internal Service Funds) are reported on a full accrual basis in the annual report. Fiduciary Funds (Trust and Agency Funds) are not reported in the annual budget. However, the City does provide an Agency Summary of the Redevelopment Successor Agency (Trust Fund) as a supplement to the Economic Development Department's schedules.

Under "modified accrual basis," amounts are recognized as revenue when earned, so long as they are collectible within two months after the end of the fiscal period to be used to pay liabilities of the current period. Encumbrances that are outstanding at year-end are re-appropriated in the next year.

Budget Preparation and Review Process

Under the City Charter, the fiscal year of the City begins on the first day of July of each year. The City Manager is responsible for preparing the annual budget and submitting it to the Council for adoption.

As part of the budget process, all City departments submit budget requests for the next fiscal year. These requests are consolidated by the Finance Department and reviewed by the City Manager to ensure that requests and departmental objectives are consistent with the City's overall goals. The City Manager then presents to the City Council a structurally balanced budget—one that supports financial sustainability multiple years into the future. As required by the Charter, this budget is transmitted to the City Council and made available to the public for review no later than the first Council meeting in June. A public hearing is conducted in May, before final adoption of the budget by the City Council no later than the first regular Council meeting in June to allow the new budget to be integrated into the City's financial system for July 1.

Any new appropriation or appropriation transfer between funds or departments requires approval by the City Council. The City Manager is authorized to approve appropriation transfers within any department and the appropriation of grants, donations, and contributions under \$50,000 for projects and programs previously approved by Council. Expenditures may not exceed appropriations at the department and fund level.

The City Council receives requests for amendments to the budget as needed, and reviews budget results mid-year and at budget adoption. The ongoing review and long range planning focus for financial management provides numerous opportunities to identify and respond to changes in revenues and expenditures and in community priorities.

The Annual Budget Process Calendar illustrated on the following page shows the relationship between City residents, City Council, and City Administration in developing the City's Annual Budget.



Santa Cruz Harbor

Introduction

Fiscal Year 2020 Budget Preparation and Review Process Calendar:

Month	Residents	Mayor & City Council	City Administration
Oct.	Input on budget priorities and direction through direct contact with Mayor and City Council, community surveys and meetings		Budget schedule and guidelines provided to Departments. Capital Investment Program (CIP) preparation begins.
Nov.	↓	Review and approval of CAFR providing an understanding of the fiscal status and condition of the City	Presentation of prior year financial results to City Council and community (CAFR)
Dec.		↓	CIP strategic planning and review. City Manager Approved CIP posted to Internet.
Jan.		On-going discussions of budget priorities based on input from community and staff	Fiscal Year 2019 year-end estimates and Fiscal Year 2020 department requests due to Finance Department
Feb.		↓	Department meetings with City Manager & Finance to review Fiscal Year 2020 requests. CIP study session.
Mar.		↓	↓
Apr.	Community meeting	Department Budget Hearings and Discussions, review and approval of Final Capital Investment Program (CIP)	Presentation of Final Capital Investment Program (CIP) to City Council and community Proposed Budget completed and made available online
May	Department Budget Hearings open to the public	Changes made per direction from Council and Council adoption of Fiscal Year 2020 Annual Budget	Changes made per direction from hearings and Final Budget Adoption

Fund Structure

The following is a listing of the funds included in the City's Adopted Budget, with each major fund identified. Descriptions of each of the City's active funds, with a detailed presentation for FY 2018 actual expenditures and revenues; FY 2019 beginning fund balance, adopted and amended budgets, year-end estimates, and ending fund balance projections; and FY 2020 beginning fund balance, adopted expenditures and revenues, and ending fund balance projections can be found in the "Estimated Available Fund Balance Projections" section of this document. Funds are listed in order of their fund number as found in the Estimated Available Fund Balance Projections section which can be found in the Financial Summaries of this document.

Governmental Funds

Most of the City's programs and functions are provided and financed through the following governmental funds, which are focused on the acquisition, use and balances of the City's expendable financial resources and the related current liabilities. Governmental Funds use the modified accrual method of accounting and are focused on financial position, rather than on determining net income.

General Funds

General Fund – *Major Fund*

- Primary General Fund
- Code Enforcement/Civil Penalties
- Municipal Wharf Fund
- General Plan Update Reserve Fund
- Green Building Educational Resource Fund
- Civic Equipment Maintenance/Replacement
- Co-op Retail Management
- Kiosk Maintenance
- Street Tree Fund
- City Public Trust Fund
- City Stabilization Reserve
- Carbon Reduction Fund
- Economic Development Trust Fund
- Unemployment Insurance
- Housing In-Lieu Program
- DeAnza Hardship Fund Contributions
and Donations (2)
- Interest Holding

Special Revenue Funds

- Police Special Revenue Funds
 - Supplemental Law Enforcement Services
 - Traffic Offender
 - Police Asset Seizure
 - Asset Seizure/Youth Crime Prevention
- State and Highway Funds

Gasoline Tax – ***Special Revenue Funds (continued)***
Traffic Congestion Relief

Traffic Impact Fee Fund
Clean River, Beaches & Ocean Tax Fund
Parks and Recreation Funds
 Parks Quimby Act Funds (4)
 Parks & Rec Tax Combined Fund
Housing and Community Development Funds
 HOME Funds (3)
 Community Development Block Grant
 Red Cross Housing Reconstruction Loan Repayment
 First Time Home Buyers (2)
 Affordable Housing Trust Fund
City Housing Successor Agency Funds (2)
Transportation Development Act

Capital Investment Funds

Capital Project Fund – ***Major Fund***
 General Capital Investment Projects
 Capital Investment Public Art Fund
 Sidewalk Construction In-Lieu Fund
 Street Maintenance, Rehabilitation and Improvements
 Wharf Tenant Capital Improvement Contributions
 SC Street Improvements – Harvey West

Debt Service Funds

GO (General Obligation) Bonds
Lease Revenue Bonds

Proprietary Funds

The City's Proprietary Funds include both Enterprise and Internal Service Funds. Enterprise Funds are similar to private sector enterprises in that the costs of providing services are recovered through financing and/or user fees and charges rather than through taxes or similar revenues. Internal Service Funds are used to report on activities that provide goods or services to other funds or departments in the City on a cost-reimbursement basis.

Enterprise Funds

Water Fund – ***Major Fund***
 Water
 Water Rate Stabilization
 Water Public Art
 Water System Development Fees
 Water Emergency Reserve
 Water June Beetle Endowment

Wastewater Fund – **Major Fund (continued)**

Wastewater
Wastewater Public Art

Refuse Fund – **Major Fund**

Refuse Fund
Refuse Landfill Closure
Refuse Landfill Post Closure Maintenance
Refuse Public Art

Parking Fund – **Major Fund**

Parking
Parking Public Art

Storm Water Fund – **Major Fund**

Storm Water
Storm Water Overlay
Storm Water Public Art

Internal Service Funds

Equipment Operations
Information Technology
Insurance Internal Service Funds
Workers' Compensation Insurance
Liability Insurance
Group Health Insurance



West Lake Park

Introduction

Department and Fund Relationship

The City's Annual Budget is organized by the Department Summary—showing expenditures by character, expenditures by activity (program), and resources by fund. Following the Department Summary is the Activity Summary—showing expenditures by activity and activity resources by revenue category for each of the department's programs. A portion of the City's General Fund supports all departments except for the Water Department. That specific percentage of General Fund support is identified in the "Percentage of Primary General Fund Budget" chart shown on the Budget at a Glance page located before the Department Summary page.

The following list shows the relationship between the Department, their supporting fund(s) and the fund's support to the City services provided by the Department:

Department	Fund(s)	City Service Support
City Attorney	General Fund	City Administration
City Council	General Fund City Public Trust Fund	City Administration Community Development
City Manager	General Fund	City Administration
City Non-Department Development	General Fund Kiosk Maintenance Fund Transportation Development Act Fund	City Administration Economic Development Community
Economic Development	General Fund Co-Op Retail Management Kiosk Maintenance Fund Home Rehabilitation Fund Home Acquisition Projects Fund Home Investment Partnership Comm. Development Block Grant Fund CalHome – FTHB Revolving Fund Affordable Housing Trust Fund	Economic Development Economic Development Economic Development Community Development Community Development Community Development Community Development Community Development Community Development
Finance	General Fund Liability Internal Service Fund City Stabilization Reserve Equipment Internal Service Fund	City Administration Public Safety/Risk Services City Administration City Internal Services
Fire	General Fund	Public Safety
Human Resources Services	General Fund Workers Comp Internal Service Fund	City Administration City Administration/Risk
Information Services	General Fund Information Technology Service Fund	City Administration City Internal Services
Parks and Recreation	General Fund Municipal Wharf Fund Civic Equipment Maintenance Fund Parks Quimby Tax Funds Parks Tax Fund	Community Development Community Development Community Development Community Development Community Development

Department and Fund Relationship (continued)

<u>Department</u>	<u>Fund(s)</u>	<u>City Service</u>
Planning & Community Development Development	General Fund	Community
	Code Enforcement	Public Safety
	General Plan Update Fund	Community Development
	Green Building Education Fund	Community Development
Police	General Fund	Public Safety
	Supplemental Law Enforcement Fund	Public Safety
	Traffic Offender Fund	Public Safety
	Police Asset Seizure Fund	Public Safety
Public Works	General Fund	Community Development
	Municipal Wharf Fund	Community Development
	Gasoline Tax Fund	Community Development
	Traffic Impact Fund	Community Development
	Clean River, Beaches, Oceans	Community Development
	Wastewater Enterprise Funds	Public Utility Services
	Refuse Enterprise Funds	Public Utility Services
	Parking Enterprise Funds	Community Development
	Storm Water Enterprise Funds	Community Development
	Water	Water Enterprise Funds

