Finance Director's Overview
(5/23/19)

Proposed FY 2020 Budget

CITY OF SANTA CRUZ

FY2020
PROPOSED BUDGET
$3.2 TO $3.8 MILLION IN SOLUTIONS TO FULLY FUND GENERAL FUND

FISCAL 2023 SUSTAINABILITY PLAN

FY 2016-2018
$ 9.3 MILLION SAVED

FY2019
$4.6 MILLION SAVED

1 SERVICE & COST DEMANDS

Housing-related sevices and expectations are growing

Other service expectations increasing

2 CAPITAL INVESTMENT LIABILITY

Fire engines & storm drain improvements joined the long list of unfunded facility and other capital projects

4 POINT OF NO RETURNS

Taxpayers on the hook for state pension system choice of politics over investment returns

3 TAX BASE DECLINES

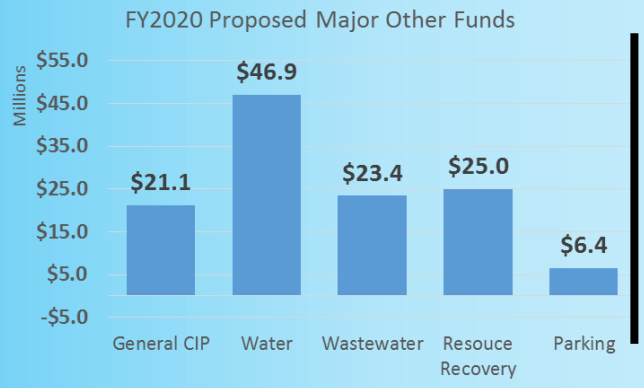
Sales tax base continues to decline as the State delays reforms.

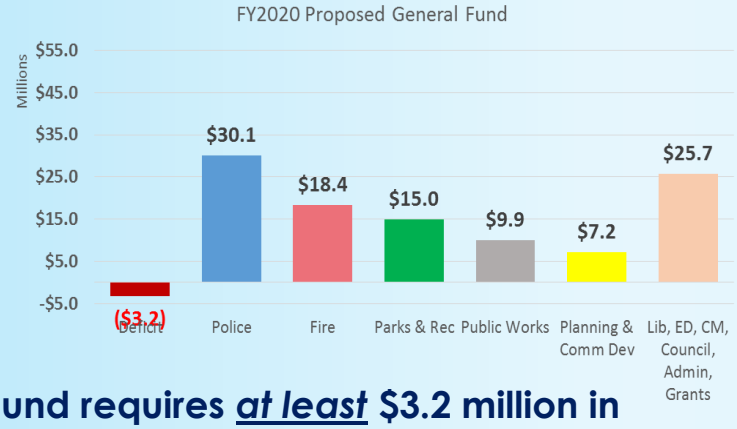
Other tax bases that funds core services also declining.

4 BACKFILL PENSION INVESTMENTS

Poor State investment returns result in another doubling of costs. Reforms are helping but not quickly enough.

The $262.6 million FY2020 Proposed Budget is reflective of the decades of forward-looking fiscal strategies and, except for the General Fund, provides for critical investments to serve our community.





However, the FY2020 General Fund requires *at least* $3.2 million in budgetary solutions before considering costs for infrastructure & capital investments, or additional community services.

To present a Proposed Balanced General Fund Budget, staff have $3.2 million in proposed service and cost reductions and new revenue options to rebalance the FY 2020 General Fund budget. However, an additional $580,000 in solutions may be needed to offset new required and requested budgetary increases. This is detailed later in this report.

During the May 8, 2019 City Council Budget Study Session, an initial package of $2.4 million in proposed budget solutions was previewed by the City Council for initial feedback. While these solutions were not presented for final direction, there was general support by the City Council for nearly $2.0 million of the solutions. Staff used the public and City Council feedback to identify and create the proposed $3.2 million in General Fund budget solutions summarized in this report. They limited the impact on reductions to Fire, Parks & Recreation, and Police.

The solutions included both cost and service reductions (like graffiti abatement, employee training, facility maintenance, and browning out grass & vegetation), as well as options to increase revenue (further study of a first responder fee, further study of increasing Golf fees, expanded cost recovery of credit card fees, and increases for parking).

FY 2020 was a landmark year

The FY 2020 year has emerged in our prior forecasts as the proverbial "fiscal cliff" with deficits ranging between $7 million and $12 million. Due to commitment to the City's Fiscal 2023 Sustainability Strategies, these deficits were reduced down to $1.6 million at the start of this budget season but now stand at $3.2 million.

Our forecasts still indicate ongoing out-year deficits, due in large part to: (1) higher levels of cost and service demands; (2) increasing need for emergency capital investments; (3) declining revenue tax bases; and (4) sub-performance of the State Pension investments.

1 Service & cost demands

The City continues to face challenging economic conditions where costs of services continue to increase while the revenue required to support those increases is falling short. As referenced in the City Manager's Message, the City is making big investments to retain employees by covering retirement and health care cost increases while providing employees with resources to remain competitive in the market and provide cost-of-living adjustments.

In addition, there continues to be increased demand and pressure on city operations due to the housing crisis and those living without shelter. While the City is grateful for the State's participation in and funding towards finding local solutions, the demand for housing and basic human services has overwhelmed the County, resulting in demand for City resources. With respect to services for unsheltered persons, staff are developing systems to reasonably report on the cost of providing these services.

Finally, there are some additional fiscal impacts to the City under State proposed bills and within the Governor's budget goals. Staff will continue to monitor these closely as these impacts can influence road funding, as well as create more unfunded mandates or move local control to the State.

2 Capital investment liability

As reviewed in the 3rd part of the FY 2019 Mid-Year Report and highlighted in the "Unfunded" section of the FY2020-FY2024 CIP, the City's capital demand has increased over $310 million, yet the General Fund is poised to have another year without a dedicated CIP funding source. This will further delay projects like West Cliff Drive erosion protection and various storm drain projects that otherwise would have already been funded. There are also other community investments for projects like Wharf or Civic Auditorium upgrades, or setting aside funding for the replacement of our aging Fire fleet.

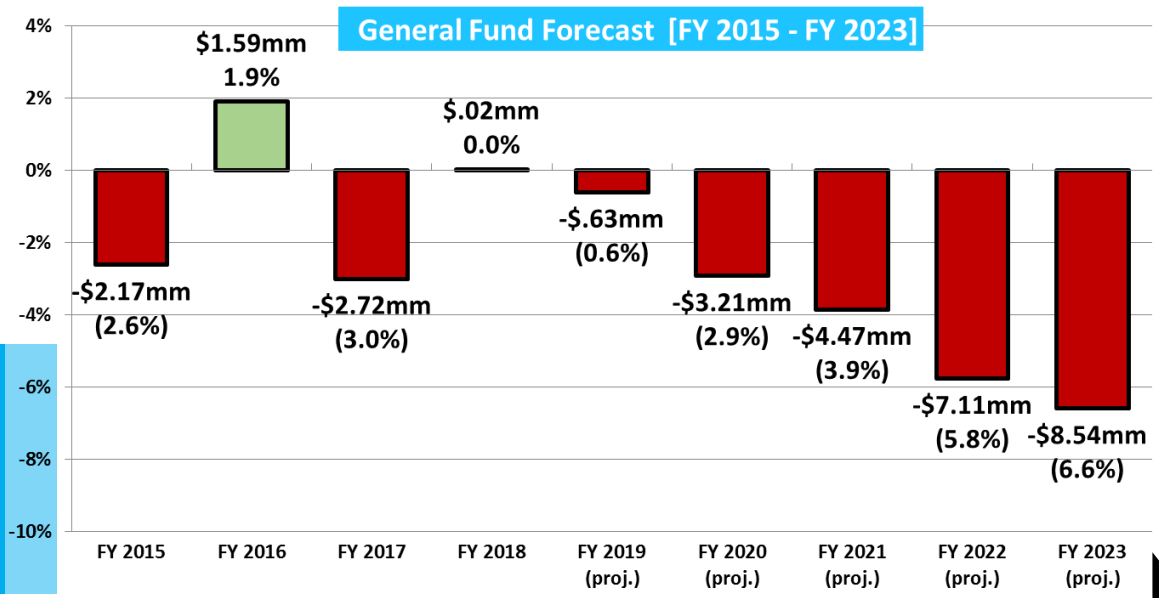
3 Tax base declines

As chronicled in the recent FY 2019 mid-year Council reports and prior budget messages, three of the City's top tax bases are eroding. Sales and utility taxable goods are falling into untaxed "service"-like categories (downloads & streaming) while previous declines in gas prices and fuel efficiency have impacted sales tax on gasoline. Locally, the Transient Occupancy Tax base has been eroding by online booking companies that still refuse to be responsible to collect and report on tax collections. However, staff have been successful in identifying and collecting on many of these properties locally.

4 Backfill pension investments

The General Fund is on pace for a second doubling of CalPERS pension costs, driven by Great Recession losses and subsequent market underperformance by the State pension investment fund. As noted in the May 8, 2019 Budget Hearing presentation, if the State had earned their historical averages or average returns from various index funds, the pension system would be fully funded. Instead, the City has seen its share of investment shortfalls increase by over 1,700% since the early 2000s.

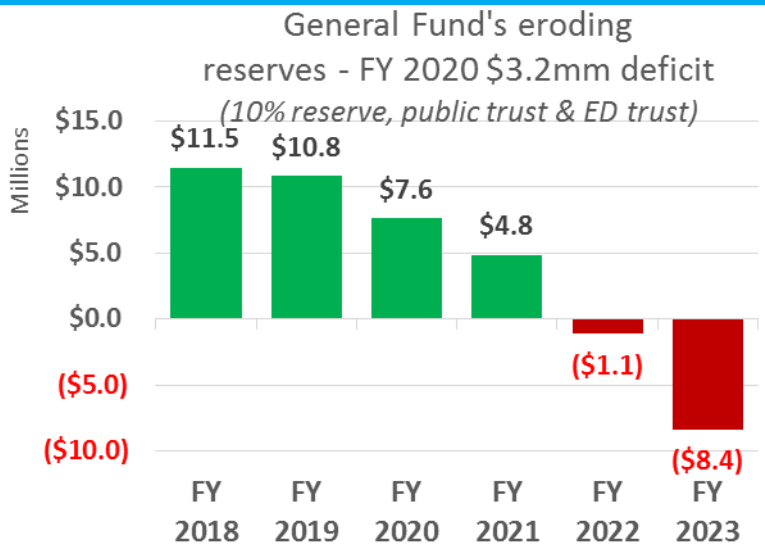
This chart illustrates the fiscal challenges facing the General Fund and highlights the need for continued, decisive action to stabilize services.



General Fund

The Threat to Years of Unbalanced Budgets

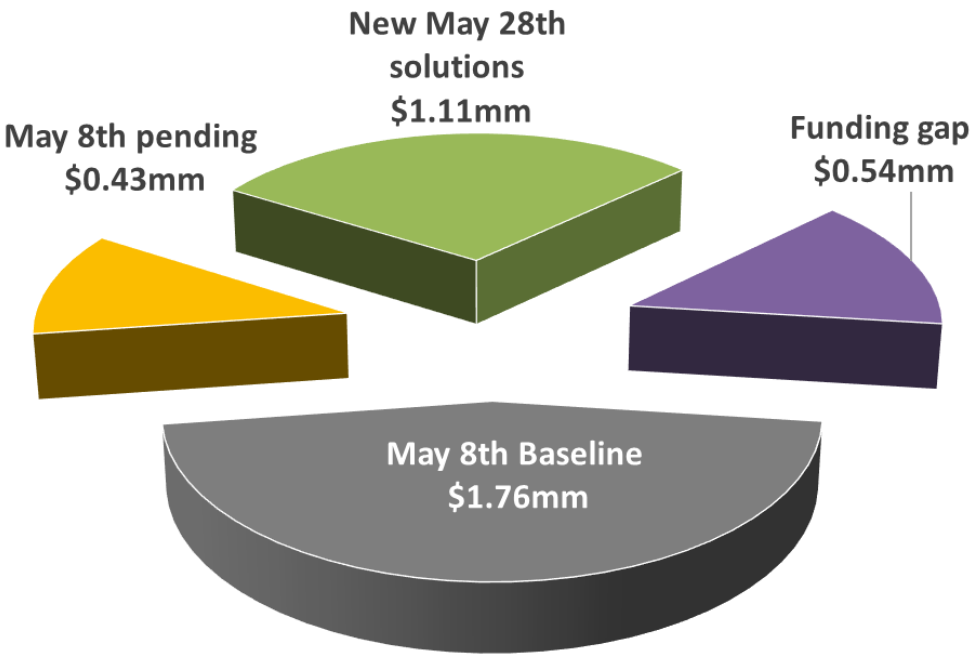
Without solutions to fully fund the FY2020 Budget and future General Fund deficits, the General Fund's 10% reserve, public trust, and economic development trusts are gone by FY 2022.



The General Fund's Proposed FY 2020 Budget of $106.4 million will require $3.2 million in budget solutions detailed in the following section. With the high likelihood of future deficits, it is imperative that the bulk of these moderate solutions be implemented to alleviate pressure on future service reductions and to position the General Fund to build up cash reserves for the coming economic slowdown and continued increases to backfill the pension fund investment shortfalls. The City Council will be asked to take action on May 28, 2019 to approve the bulk of the solutions so staff can prepare for a July implementation and the June 11, 2019 Budget Adoption.

Solutions to fully fund FY 2020 General Fund

$3.3 Million of solutions towards $3.9 Million required to fully fund FY 2020 General Fund (5/28/19 - includes all potential additions)



As summarized in the pie chart above and table below, from the City Council feedback during the May 8, 2019 budget hearing, staff have identified $1.76 million in reasonably bearable solutions, with $428,000 in solutions requiring additional discussion (such as Police private alarm reductions). Since that hearing, staff have further researched the initial proposals and have developed $1.1 million in new recommended solutions. Together, these total $3.3 million in solutions to help offset the peaking $3.9 million necessary to fund the FY 2020 General Fund budget (the $3.9 million includes additions summarized in this report).

Starting on the next page is a detailed list of the budget solutions grouped by their type (baseline, May 8th pending, and new May 28th). Each solution listed includes a general impact narrative, comments about the level of reduction within the context of the program, and the lead department. In addition, each has an illustrative impact graphic of either a strongly recommended "green checkmark," a to be further discussed "yellow question mark," or a not recommended "red x". The goal of this ranking is to help the City Council and public understand the level of impact of each item.

	May 8th Baseline	May 8th pending	New May 28th solutions
Council & Community	$ 110,000	$ 63,000	$ 12,000
Admin departments	437,000	-	263,300
Economic Dev. with Planning	385,000	30,000	222,000
Fire	264,000	-	-
Police	-	237,000	-
Parks & Recreation	282,000	83,000	285,000
Public Works	281,000	15,000	322,350
	$ 1,759,000	**$ 428,000**	**$ 1,104,650**
Solutions towards funding FY 2020 General Fund budget			**$ 3,291,650**

The following table lists the May 8th solutions that appear to require more consideration by the City Council. The "Bearability" rating is a composite visual of how bearable the solution is to the community, city operations, and long-term sustainability, with a heavier weight on those with the least impact on the community. Staff rated each solution and banded solutions into three categories: ✓-bearable or one that should have the least impact; ?-those that are bearable but are impactful; and ✗-those staff still recommends but are very impactful.

Ref	Solutions requiring more consideration	Primary impacts	% of total service	Lead department	Bearability rating	Solution value $428k
A1	*First Alarm Contract Elimination*	Elimination of special neighborhood patrols on Northern Ocean St., the Wharf, & Harvey West Park. Maintain Prisoner Watch & Special Event coverage contract	84% reduction in contract services	*Police*	✓	237,000
A2	*Community Programs*	This is a 4% reduction to correspond to the departments cuts. Total budget is $1.18 million	4% reduction in total budget	*City Manager*	?	47,000
A3	*Reduce Trails Crew & Interns*	Reduces both programs; fewer teens hired in the summer	50% of budget	*Parks & Recreation*	✓	41,000
A4	*Reduction in Public Art Funding*	It may be necessary to reduce public art installations to beautify downtown, support for Artists Network, Mural Matching Grant program. Project budget carryforward balances from the current year will mitigate the impact to this program for one year	30% of new FY20 appropriation	*Economic Development*	✓	30,000
A5	*Eliminate Youth Museum Programming*	Eliminates funding of Natural History Museum youth programs in Pogonip	100% of budget	*Parks & Recreation*	?	20,000
A6	*Reduce Street Smarts Campaign*	This would greatly reduce Street Smarts programming and outreach. Staff would explore partnerships to sustain it	Reduce from $30k to $15k	*Public Works*	✓	15,000
A7	*Reduce classes offered*	Reduction in number of classes offered	6% of budget	*Parks & Recreation*	✓	14,000
A8	*Reduce homeless camp clean-ups*	Reduction in resources available for homeless camp clean-ups in parks and open spaces	Reduction is 10% of budget	*Parks & Recreation*	✓	8,000
A9	*Reduce Meetings and Travel*	This would halve the ability of the Council to attend trainings or conferences	Leaves half the budget, ($7k)	*City Council*	✓	8,000
A10	*Reduce Open Streets Budget*	This program is managed by a local organization that closes West Cliff Drive and encourages participants to bike and walk on the street and engage in education and community events. The community members have responded favorably. This would put pressure on private funding to maintain this event	This would halve the budget, leaving $7k	*City Council*	?	8,000
					TOTAL	$428,000

The following schedule includes new staff recommendations generally in line with the City Council's preferences indicated on May 8, 2019. However, to arrive at another $1 million in budget solutions requires more substantial, proposed changes. These are sorted by total value of the solution. As a reminder, the "Bearability" rating is a composite visual of how bearable the solution is to the community, city operations, and long-term sustainability, with a heavier weight on those that least impact the community. Staff rated each solution and banded solutions into three categories: ✅-bearable or one that should have the least impact; ❓-those that are bearable but are impactful; and ❌-those staff still recommends but are very impactful.

Ref	New recommended solutions	Primary impacts	% of total service	Lead department	Bearability rating	Solution value $1.1 mm
B1	*Further consultant funding reductions (Tier 2)*	Reduces consultant support in Building & Safety, Current Planning, and Advance Planning divisions. Certain long-range planning initiatives would likely need alternative funding sources. Certain Building service times could be affected	Tiers 1 & 2 would decrease consultant funding by 50% across the Building & Safety, Advance Planning, and Current Planning Divisions.	*Planning & Community Dev*	✅	100,000
B2	*Increase revenue from wharf tenants & facility fee increases*	Modest increases to Wharf tenant leases over time. In addition, users of Parks and Recreation facility would see higher facility rental fees from the last phase of the facility fee increase	Increase represents 7% of related revenue	*Parks & Recreation*	✅	150,000
B3	*Eliminate funding for Network & System Administration position*	This significantly impacts operational response times (e.g., email issues, network troubleshooting), recurring database administration and upgrades, and security response ability. It also reduces headcount for projects such as PD in car video, Parking garage infrastructure replacement, security program rollout, and PCI compliance	This would eliminate 1 of 3 positions that serve the entire City. Reduction of 8% of budget	*Information Technology*	❓	144,000
B4	*Reduce Vegetation Management to baseline before urban interface*	Eliminates risk reduction work done at the urban interface	100% of budget designated for urban interface work	*Parks & Recreation*	✅	75,000

Ref	New recommended solutions (cont.)	Primary impacts	% of total service	Lead department	Bearability rating	Solution value $1.1 mm
B5	*Reduction in Professional & Technical Services, Outside Planning support, Outside Legal Services*	Reduce funding for specialized security patrols (like the Tannery), geotechnical studies and appraisals for easements and City real estate transactions, financial analysis and contract development for affordable housing projects	16% of total budgeted for these services	*Economic Development*	✓	65,000
B6	*Further reduce water service with brown-outs (Parks, Golf)*	Browning out designated turf areas	Reduction is 4% of department's water budget	*Parks & Recreation*	✓	60,000
B7	*Reduce ED Programs & business development services*	Reduce funding for tenant attraction & retention programs, support for employment and business development services, and for UCSC joint economic initiatives	22% of total budget for services.	*Economic Development*	?	57,000
B8	*Reduce recruitment & investigations support*	HR will reduce executive recruitments, investigations conducted by a third party	11% cut to the Administration budget	*Human Resources*	✓	40,000
B9	*Reduce Homeward Bound*	This program exceeds its budget annually. This would not only reduce planned funding but require a "hard stop" once funding is used. However, the County may be able to provide additional funds within their Homeward Bound program	Retains $5k for HSC; $20,000 for City	*City Manager/ Clerk*	?	25,000
B10	*Reduce street maintenance & sidewalk repair*	Reduces ability to purchase materials to repair streets and sidewalks	13% decrease in materials acquisition ability	*Public Works*	?	25,000
B11	*Reduce outside vendor vehicle repairs*	Ultimately increases vehicle downtime as ability to outsource certain repairs is restricted	5% decrease despite increasing costs	*Public Works*	✓	25,000
B12	*Raise fuel rates*	Increases rates to more closely reflect market costs	Small increase in revenues ~3%	*Public Works*	✓	25,000

Ref	New recommended solutions (cont.)	Primary impacts	% of total service	Lead department	Bearability rating	Solution value $1.1 mm
B13	*Relocate Finance to Union-Locust*	Relocation is recommend by staff and impacts would be positively offset by new consolidated Planning counter	Full elimination of City's lease with Ecology Action, offset by lost revenue from County Library system lease.	*Finance*	✓	24,300
B14	*Reduce maintenance - building remodeling*	Reduces ability to perform preventative maintenance and building remodeling such as workspace maximization reconfiguration	14% decrease in allowable expenses for these efforts	*Public Works*	?	20,000
B15	*Reduce contractor services at facilities*	Reduces ability to utilize contractors to perform facility maintenance and repairs that cannot be performed in-house	31% decrease in allowable expenses	*Public Works*	✓	20,000
B16	*Reduce or eliminate building repairs and upgrades*	Reduces ability to repair and upgrade City facilities including public use facilities. Examples include HVAC, plumbing, paint, doors/windows, electrical work, etc.	9% decrease in ability to fund repairs and upgrades	*Public Works*	?	20,000
B17	*Reduce street maintenance and sidewalk repair*	Reduces ability to fund street maintenance and sidewalk repair projects Citywide	13% decrease in ability	*Public Works*	?	20,000
B18	*Reduce street maintenance & sidewalk repair*	Reduces vegetation removal from auto, bike and pedestrian thoroughfares and fencing request/needs capabilities	Reduces total budget by 14%	*Public Works*	?	20,000
B19	*New small cell utility permit*	Increases revenue with new "small cell" permit fee	Increases Engineering revenues by 5%	*Public Works*	✓	20,000
B20	*Delete Smarking in the General Fund area*	Reduces ability for analysis of parking data in the General Fund area	50% decrease	*Public Works*	✓	17,250
B21	*Position Cost Allocation change*	Justified change to Transportation Coordinator cost allocation based on project work	Cost shift - greater focus on downtown TDM	*Public Works*	✓	17,000

Ref	New recommended solutions (cont.)	Primary impacts	% of total service	Lead department	Bearability rating	Solution value $1.1 mm
B22	*Reduce traffic signal maintenance*	Less contracted traffic signal and pedestrian crossing signal repairs result in increased down time and less scheduled proactive maintenance ability	13% reduction in allowable maintenance expenditures	*Public Works*	?	15,000
B23	*Reduce street maintenance & sidewalk repair*	Also reduces vegetation management City streets, sidewalks, and bikeway and less requested fencing capacity	22% decrease in ability to fund repairs	*Public Works*	?	15,000
B24	*Transfer some tire costs to departments' budgets*	Transfers increased tire costs to departments through fleet service charges will attempt to push replacements as safety allows	Percentage decrease of 7% borne by other depts. & enterprise ops	*Public Works*	✓	15,000
B25	*Eliminate employee holiday luncheon*	This would entirely eliminate the annual employee appreciation event that is predominantly run by volunteers and has over 500 participants	Full elimination	*City Council*	✓	12,000
B26	*Eliminate HR's direct staff training*	Reduces succession development and staff efficiencies	Eliminate all non-required training. Equivalent to 2%	*Human Resources*	?	10,000
B27	*ReduceCommunity Liaison Program*	Reduces the number of hours available from up to 20 hours per week to 15 hours per week	25% reduction in budget	*City Manager/ Clerk*	?	10,000
B28	*Reduce engineering services and outside contractors*	Reduced ability to service and repair City facilities	Represents 7% decrease to funding abilities from this object	*Public Works*	✓	10,000
B29	*Defund half of bus pass subsidy*	Use Carbon Fund contribution to substitute the General Fund cost	No reduction to subsidized passes	*Public Works*	?	10,000
B30	*Misc. reductions*	Extremely tight misc. service & supplies budgets for Administrative purposes may cause certain supply & service shortfalls at year end	Reduces discretionary services and supplies by 36%	*Public Works*	✓	6,000

Ref	New recommended solutions (cont.)	Primary impacts	% of total service	Lead department	Bearability rating	Solution value $1.1 mm
B31	*Reduce contract with Police Auditor*	Reduces $55,000 annual contract by $5,000, resulting in fewer hours of services provided, and up to two fewer visits to Santa Cruz (usually two-three onsite visits per month).	Retains $5k for HSC; $20,000 for City	*City Manager/ Clerk*	✓	5,000
B32	*Reduce Climate Action Budget*	Reduce a modest amount of outside program support	Retains $15,000 for programming and travel	*City Manager/ Clerk*	?	5,000
B33	*Reduce street lighting maintenance*	Less ability to handle unanticipated street light repairs	Reduces this budget item by 52%	*Public Works*	?	10,000
B34	*Decrease software maintenance services*	Reduces ability to service certain specialty software programs such as AutoCad and GIS mapping software programs	Cuts this budget expenditure in half	*Public Works*	✓	5,000
B35	*Delay some parking office building repairs*	Certain small repairs delay may require more effort to repair in future years	Leaves just $400 for repairs	*Public Works*	?	2,100
B36	*Decrease computer and misc. supplies*	Eliminates flexibility in five objects to handle slightly higher than average costs	38% reduction to these five objects	*Public Works*	✓	5,000
				TOTAL		$1,104,650

Before reviewing the baseline proposals from the May 8th Budget Hearing, there were several City Council and operationally requested proposals that would increase the General Fund's FY 2020 budget. The first set represents additions that would have otherwise been planned additions into the Proposed Budget, but were not known until after the Proposed Budget had been finalized for production. The second grouping are additions requested on May 8, 2019 by the City Council for further consideration.

Ref	FY 2020 General Fund suggested budget addition	Purpose of change	Amount to add
C1	Increase City-wide and Library JPA labor costs across all City & Library accounts (General Fund portion shown here)	Required	595,000
C2	Allowance for increase in general liability claims for incurred but not yet finalized claim(s)	Required	500,000
C3	Increase City Attorney budget for service requests beyond historical levels (minimum $300k; may ultimately require $600k)	Required	300,000
C4	Placeholder cost to support the Rental Housing Task Force	As needed	250,000
C5	Add new, anticipated support for 2020 Census	As needed	40,000
C6	Add support for Climate & Energy Action Plan 2030 funding	As needed	33,800
C7	Add Community TV contract increase due to longer meetings	Required	30,000
C8	Decrease for possible changes from CDBG allocations	Expected	(60,000)
	Subtotal operating increases		**1,688,800**
C8	Reduce expected Cannabis Business Tax revenue based on City Council request to be considered May 28, 2019	Expected	200,000
C9	Add $20k support each: (1) Health in All Policies; (2) Strategic Planning; (3) Community Advisory Committee on Homeless	As needed	60,000
C10	Placeholder for City Council temporary assistant staffing	To be considered	175,000
C11	Increase to supplement $30k allocation for Tenant's Legal Services	To be considered	30,000
C12	Placeholder to support UCSC LRDP advocate	To be considered	60,000
C13	Increase Heritage Tree budget	To be considered	25,000
C14	More support to Meals on Wheels (additional payments or rent subsidy)	To be considered	12,000
C15	Open Streets- restore FY20 $8k reduction (back to $15k in funding)	To be considered	8,000
C16	Allocate support funding to Janus	To be considered	5,400
C17	Allocate support funding to Project Homeless Connect	To be considered	5,000
C18	Return to City Council with options to reopen Harvey West Pool and fiscal impact	To be considered	-
	Subtotal council considerations		**580,400**
	TOTAL FY2020 POSSIBLE GENERAL FUND ADDITIONS		**$2,269,200**

Baseline solutions already planned for implementation

Following are the baseline proposals that have been moved into the first priority of budget solutions to help fund FY 2020 General Fund. These represent items that staff would have already built into the City Manager's Proposed Budget or would have already planned a process to further research the proposal (like the First Responder Fee). As a reminder, the "Bearability" rating is a composite visual of how bearable the solution is to the community, City operations, and long-term sustainability, with a heavier weight on those that least impact the community. Staff rated each solution and banded solutions into three categories: ✅-bearable or one that should have the least impact; ❓-those that are bearable but are impactful; and ❌-those staff still recommends but are very impactful.

Ref	Baseline solutions ready to build into FY 2020 funding	Primary impacts	% of total service	Lead dept.	Bearability rating	Solution value $1.76 mm
D1	*Substantial Reductions to consultant funding*	Reduces consultant support in Building & Safety, Current Planning, and Advance Planning divisions. Certain long-range planning initiatives could need alternative funding sources. Building service times could be affected in some instances.	Decrease from $310k to $205k in Building & Safety, from $335k to $180k in Advance Planning, & from $95k to $85k in Current Planning	*Planning & Community Dev*	❓	270,000
D2	*Expand credit card cost recovery fee to all credit card payments*	3% fee added to customers choosing to pay with credit cards	100% of all credit	*Finance*	✅	217,000
D3	*Severe consultant funding reductions (Tier 3)*	Reduces consultant support in Building & Safety, Current Planning, and Advance Planning divisions. Certain long-range planning initiatives would need to be delayed or would need alternative funding sources. Certain Building service times will be affected. Tiers 1, 2, & 3 would decrease consultant funding by 73% across the Building & Safety, Advance Planning, and Current Planning Divisions.	Tiers 1, 2, & 3 would decrease consultant funding by 73% across Building & Safety, Advance Planning, and Current Planning	*Planning & Community Dev*	❓ ❌	170,000

Ref	Baseline solutions ready to build into FY 2020 funding (cont.)	Primary impacts	% of total service	Lead dept.	Bearability rating	Solution value $1.76 mm
D4	*Increase beach area meter rates up to 24%*	This would bring meter rates up closer to private parking options in the beach area and is within the City Council's control up to 24% per year.	9.88% increase	*Public Works*	✓	137,000
D5	*Reduce PACT/HOPES Santa Cruz County contract*	Most of the PACT/HOPES budget is dedicated to substance abuse treatment. However, a joint City/County program and/or the County may fund needed treatment dollars through Expanded Drug-MediCal or other state pass-through programs. This is a modest reduction as there would still be a significant amount of services available.	Would reduce total $300k budget to $198k (1/3 reduction)	*Community*	✓	102,000
D6	*Enact first responder fee*	Will require more research. 75% of all Fire responses are for medical emergencies. These medical responses are using the FD, which is a community benefit, for their personal need. Conceptually, would allow for billing of commercial medical insurance for services provided.	n/a (new program)	*Fire*	✓	264,000
D7	*Extend useful life for computers and laptops*	This would increase security risks by delaying move to Windows 10 and remaining with Windows 7 that is past end of life.	For FY20, this defers 63% of the laptops to be replaced and 22% of the desktops. In total, IT reductions are 8% of its budget.	*Information Technology*	✓	84,000
D8	*Reduce Wharf Facility Maintenance Materials*	Deferred facility maintenance	67% of budget designated for maintenance materials	*Parks & Recreation*	?	67,000

Ref	Baseline solutions ready to build into FY 2020 funding (cont.)	Primary impacts	% of total service	Lead dept.	Bearability rating	Solution value $1.76 mm
D9	*Reduce facility maintenance and remodeling*	Reduction in professional design services; contracted building maint & improvement, such as roofing, painting, & emergency repairs; and replacement of obsolete or substandard fixtures and equipment	Would reduce total budget from $365k to 302k, a 17% reduction	*Public Works*	✔	63,000
D10	*Reduce support for fencing, parks, etc.*	Reduced contracts for fencing, irrigation, tree work, and park improvements	Reduction is 9% of budget	*Parks & Recreation*	✔	52,000
D11	*Reduce Flood Control and Vegetation Management*	Defer sidewalk and storm drain inlet repairs; reduce vegetation management to emergency-only, defer street striping maintenance and sign repairs and upgrades	Would reduce total budget from $220k to $169k, a 23% reduction	*Public Works*	?	51,000
D12	*Reduce Temporary Staff*	Reduced coverage for staff to fill in for vacancies, specialized assignments, and the loss of those with significant gaps in historical knowledge	22% of budget	*Economic Development*	?	40,000
D13	*Further reduce water service by more brown-outs (Golf)*	Browning out designated turf areas	Reduction is 5% of Golf water budget	*Parks & Recreation*	✔	40,000
D14	*Shut down IT Help Desk in January 2020*	Immediate support would only be available on a limited basis and overall ticket response time would be delayed (technology issues, moves, employee setup, etc.) IT personnel would be taxed because of larger workloads	Eliminates 20% of IT staffing to do help desk & field tech services. The Help Desk solves 45% of all tickets/ year. Reductions are 8% of budget	*Information Technology*	?	37,000
D15	Eliminate all special studies ($26k) & funding Leadership Santa Cruz	Any request for special classification studies will not be conducted unless HR staff is available; eliminate all Leadership Santa Cruz by General Fund departments.	This is an 11% cut to the Administration budget	*Human Resources*	✔	31,000

Ref	Baseline solutions ready to build into FY 2020 funding (cont.)	Primary impacts	% of total service	Lead dept.	Bearability rating	Solution value $1.76 mm
D16	Reduction in Facade Improvement Program	Reduction of 2-3 Facade Improvement grants to local business owners to promote business development & beautification in targeted areas.	Would retain 70% of budget for projects	*Economic Development*	✓	30,000
D17	Reduce Vegetation Management	Reduced resource management for greenbelts, trails, storm water, watersheds, erosion control, and invasive plant removal	Reduction is 22% of budget	*Parks & Recreation*	✓	30,000
D18	*Reduce Sports Officials & Summer Camp Temps*	Staff reduction which would eliminate one week of camp, Reduction in officials assigned to leagues; quality and safety of play reduced	Reduction is 8% of Sports budget and 4% of Youth budget	*Parks & Recreation*	✓	27,000
D19	*Reduction in Graffiti Abatement Contract*	Reduction could lead to delays in graffiti removal	This is 18% of the total estimated contract cost (includes a 5% anticipated increase for FY20)	*Economic Development*	?	25,000
D20	Reduce Repair Services & Materials	Reduces repair services, operational equipment and maintenance, construction and facility materials, signs, tools, and repair parts	Reduction is 37% of budget	*Parks & Recreation*	?	24,000
D21	*Raise residential & guest permit fees*	This could include options discussed during the May 8th City Council session including tiered pricing to increase annual rates for additional vehicles	8.90% increase	*Public Works*	✓	23,000

Ref	Baseline solutions ready to build into FY 2020 funding (cont.)	Primary impacts	% of total service	Lead dept.	Bearability rating	Solution value $1.76 mm
D22	*Reduce Landscape Materials*	Reduce maintenance and upgrades to park landscapes	Reduction is 40% of budget	*Parks & Recreation*	?	22,000
D23	*Reduce Communications and Community Outreach Budget*	Would reduce support for programs like State of the City and City Hall to You. This would hinder planned enhancements by curtailing the amount of outreach, the size of any event, & the professional appearance of our documents. This program is in a transitional period and so a reduction will not yield a tangible decrease in current services - but it prevents future work from occurring.	Would reduce total $50k budget to $30k	*City Manager/ Clerk*	?	20,000
D24	Reduce property management building maintenance	Would limit funds available for repairs and planned maintenance projects of City-owned properties leased to retail tenants that generate rental income for the General Fund.	Reduction is 17% of budget	*Economic Development*	✓	20,000
D25	*Reduce Legislative Strategist Contract (Sacramento)*	A reduction would trigger a renegotiation of the current contract. We have been interested in looking at this contract as we think there could be room to reduce or rebid.	This would reduce the current contract from $105k to $90k	*City Manager/ Clerk*	✓	15,000
D26	*Eliminate preventative maintenance for most Uninterruptible Power Supplies (UPSs)*	Would increase risk from downtime for networks, applications and file shares due to power failures. Maintenance would remain for larger data centers - City Hall and PD.	Eliminates all preventative monitoring of small form/ factor UPSs. IT reductions are 8% of IT budget	*Information Technology*	✓	14,000
D27	*Eliminate July and Special Event ads and bus trip*	Eliminates commercial advertising of July Is and Special Event promotions, and eliminates one summer bus trip	Reduction is 61% of Events budget and 7% of Youth budget	*Parks & Recreation*	✓	13,000

Ref	Baseline solutions ready to build into FY 2020 funding (cont.)	Primary impacts	% of total service	Lead dept.	Bearability rating	Solution value $1.76 mm
D28	*Relocate finance to alternative, lower-cost location*	Relocation is recommend by staff and impacts would be positively offset by new consolidated Planning counter	Full elimination of City's lease with Ecology Action, offset by lost revenue from County Library system lease.	*Finance*	✓	12,500
D29	*Eliminate the Council Special Projects and Services*	This reduction would eliminate a flexible fund for unexpected expenses. This account is rarely used and should have little impact. However, some members of the Council have looked disfavorably upon reductions to its budget in the past.	$5,500 remains in the Council's budget for miscellaneous expenses	*City Council*	✓	8,000
D30	Reduce safety supplies and training	Reduces safety clothing, equipment, training, uniforms, and program and office supplies	Reduction is 12% of budget	*Parks & Recreation*	✓	7,000
D31	*Reduce corporation yard project management & design*	This would reduce Corp Yard Storm Water Pollution Prevention Program (SWPPP) This reduction would require postponing mitigation measures to "hot spots" previously identified.	Further reduces above funding to $295k to an aggregate 19% reduction	*Public Works*	✓	7,000
D32	*Reduce by 25% armored car pickup*	Expose customers and City staff to cash risks	About a 1/3 reduction of total, daily armored car services	*Finance*	?	6,500
					TOTAL	$1,759,000

Below the line options

There were five alternative budget solutions that are not yet ready for discussion and/or that may ultimately not be recommended. They are disclosed below for full disclosure if circumstances change.

Baseline solutions ready to build into FY 2020 funding (cont.)	Primary impacts	Lead dept.	Bearability rating	Solution value $160k
Reduce Consultants & Technical Services	Reduction in consultant services; reduces opportunities for Dept grants and to respond to Dept service needs	*Parks & Recreation*	✖	55,000
Reduce Community Programs funding	This would bring the total Community Programs reduction to 8%, to correspond to the departments cuts. Total budget is $1.18 million.	*City Manager*	✖	47,000
Reduce Engineering Services for emergency or urgent customer requests	Reduces support for emergency and other unanticipated engineering, geotechnical, structural and other professional services for events that impact infrastructure and are not budgeted for. It may also impact the public's access and use of the infrastructure for a longer period of time.	*Public Works*	✖	30,000
Reduce Street Smarts funding	This would greatly reduce Street Smarts programming and outreach. Staff would need to explore partnerships to sustain its value.	*Public Works*	✖	18,000
Eliminate meter hood replacement	This would eliminate for one year replacement of parking meter hoods whose digital displays become "cloudy" or are damaged.	*Public Works*	✖	10,000
			TOTAL	$160,000

Fiscal 2023 Sustainability Plan

$13.9 Million Gained

Future year gaps have shrunk

But more work is required to mitigate growing deficits

Starting formally in FY 2016, the Finance Department, in partnership with the City Manager's Office and other City leaders, developed the Fiscal 2023 Sustainability Plan. The primary objective was to develop a potential roadmap to proactively restructure the General Fund's fiscal outlook with the goal of eliminating the deficits projected through Fiscal Year 2023. This last year was targeted due to expected fiscal relief from the retirement of long-term pension debt, the completion of various large-scale development projects, and that the steep increases in costs to backfill the California pension investment funds would start to level out.

FY 2016 - FY 2018 Major Solutions

- $6.7 million in base budget reductions
- $1.6 million in updated cost plans and fee recovery
- $360k in pension cost savings by Trust earnings and advanced payment

FY 2019 Major Solutions

- $2.8 million in base budget reductions
- $1.6 million in new sales tax ($3.3 million annually)
- $370k in pension cost savings by liability pay-down

FY 2020 - FY 2023 Possible Major Solutions

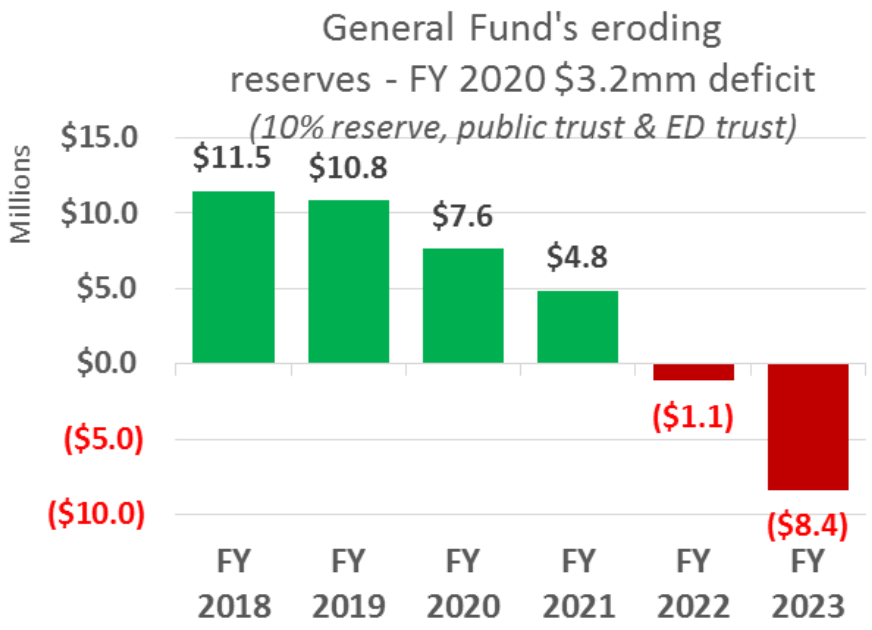
- Action Lab 2.0
- Budget Reductions
- Phase III Cost Recovery - Building
- Further Reduce Pension Costs
- 2020 Ballot Measures

General Fund Declining Reserves, Trusts, and Climate Resiliency Fund

Without solutions to fully fund the FY2020 Budget and future General Fund deficits, the General Fund's 10% reserve, public trust, and economic development trusts are gone by FY 2022. In addition, the General Fund does not currently hold flexible cash balances that can be applied to immediate needs without pulling from reserves or trust balances. For example, if the City had a sufficient Climate Resiliency Fund, it would be able to sustain itself during a disaster, given the increasing risk of disasters due to climate change. Reserves could also be a resource to help fund any immediate and/or significant capital need or to mitigate a potential asset failure.

The City's policy identified a goal of a 5% contingency balance to address any of these situations. However, no progress has been made to achieve that goal.

The charts below summarize the existing balances as of the last completed, audited financial statements and the projected decline of the General Fund reserves.



Audited General Fund Balances	at 6/30/18
Primary reserve (10%)	$ 4,215,019
City Public Trust	$ 4,263,232
Economic Development Trust	$ 2,998,292
Total	$ 11,476,543

Frequently Asked Questions

Q: Where is the revenue coming from in the General Fund?

General Fund revenue is made up of several sources. The largest piece, taxes, accounts for of 75% of total revenue (Property Taxes, 22%; Sales Tax, 20%; Utility Tax, 12%; Transient Occupancy Tax, 12%; and Other Taxes, 9%). Other pieces of the budget include charges for services (17%), use of money and property (4%), fines and forfeitures (2%), licenses and permits (1%), and other revenues (1%).

Q: Please explain General Fund vs. Enterprise Fund and are there any funds outside the General Fund that impact the General Fund?

The General Fund is the primary operating fund of the City. All revenues that are not allocated by law or contractual agreement to a specific fund are accounted for in the General Fund. The revenue sources in the General Fund can be utilized for any legitimate governmental purpose. The City has five enterprise funds: Water, Wastewater, Storm Water, Refuse, and Parking. These funds generate their own revenue through fees to support their operating and capital needs. Enterprise Funds and General Funds cannot be commingled. With the passage of Proposition 218 in November 1996, restrictions on use of fees make it illegal for Enterprise Funds to be used for General Fund purposes.

Q: Regarding long-term assumptions about declining revenues, will they level out, or not? How are estimates determined?

Annual increases to revenues such as Property Tax are expected to remain in a 2% to 4% growth pattern. However, growth could be restrained by the next economic slowdown. The General Fund's other top three revenue sources are likely to face declines: Utility Users Tax, very modest to no growth; Sales Tax; and modest growth in Transient Occupancy Tax from the re-opening of hotels and future planned development by FY 2023 around La Bahia. Estimates are determined by a combination of historical data (trending), known future changes on the horizon (i.e. completion of a new hotel -TOT revenue), and input from consultants.

Q: What is the unfunded list?

The "Unfunded List" refers to a list of Capital Investment Program projects that will be proposed, once funding has been identified and staff resources are available. The City of Santa Cruz has identified these projects and prioritized a portion of them based on the City's strategic goals.

Q: What is the long-term plan to deal with deferred maintenance? Aren't you just going to end up with more emergency spending to fix things that break?

The City has prioritized budget allocations to fully fund core capital equipment needs as well as leveraged grants and restricted funding for investments in areas like our community parks. In addition, with the increased funding for transportation, the City is making progress on investments in our road and bikeways. The City will also follow policies that prioritize one-time revenues from property sales (like Skypark) to be set aside for future capital projects. However, the size of our unfunded list will require a dedicated funding source that can be used to fund projects like Civic Auditorium remodel, Wharf investments, as well as fund the planned replacement for our fire engines.

Q: Why is my city having trouble now?

Short-term expenditure increases can be attributed to increases from the State for pension investment shortfalls (3 out of the last 6 annual investment returns in this strong economic market were far below 7.5% of expected returns; hitting 0.1%, 2.4%, and 0.6%). Long-term revenue decreases can be attributed to shrinking tax bases (i.e. non-taxable online alternatives) and the changes in consumer spending (shifting from buying goods to buying services: health, travel, streaming, downloads, and consumer experiences).

Q: Is the City exploring how (are we going) to capture that lost revenue (from Sales Tax)?

Yes, with the passage of Measure S in June 2018 (.25% increase in the sales tax rate), the City was able to offset the loss of sales tax revenues due to changes in spending patterns such as an increase in service (non taxable) purchases, and a decrease in supply purchases (taxable). The City is also very active with the League of California Cities in pushing for reforms that have online taxable sales flow back to Santa Cruz, and pushing for elimination of exemption for certain online sales.

Q: Measure S was supposed to solve the City's budget problems. So why is the deficit increasing instead of decreasing?

Measure S was critical in stabilizing our operating costs, but the City does not yet have a dependable funding source for facility and infrastructure (see our current unfunded capital list in the budget). In addition, the City continues to bear a larger proportional share of costs related to our local housing shortage and the support of those experiencing homelessness. The City also continues to see increasing trends of our front-line and professional staff leaving for better pay or areas with lower housing costs, causing higher-than-expected upward pressure on compensation.

Q: How can we create new revenue? Can we leverage technology?

The City is actively looking at new revenue sources including eliminating the subsidies for certain fees for services, as these fees were historically subsidized by other taxes. We also rolled out new online payment options for Business Licenses and recently, Transient Occupancy Taxes.

Local efforts have been underway in identifying and re-capturing lost Transient Occupancy Tax revenues.

Q: Enterprise – How much allocation for IT Services, etc.? How much do the Enterprise Fund pick up for service costs provided by the General Fund?

The General Fund does allocate costs to the Enterprise Funds and Internal Service Funds for administrative services (HR, Finance, IT, City Manager, City Attorney) through its cost allocation plan. The Administrative Services personnel budget makes up only 14% of the General Fund budget. About 8% of personnel costs are recuperated through this plan. The largest portion of the General Fund's personnel budget is Public Safety, Parks & Recreation, Public Works, and Planning; none of which is able to be recovered through the cost allocation plan.

Q: I think I do pay sales tax with Amazon. Doesn't the City get it?

Even though for those limited times when Amazon charges your City rate for sales tax, it goes into our County or another County's "pool" and only a proportional share of the total is distributed back to the City. In other words, the sales tax you pay on the Amazon website is allocated to another County or is shared with Santa Cruz County and other cities within the County. Furthermore, 3rd party retailers on Amazon do not collect sales tax.

Q: Regarding pensions, who is managing it? And what is the plan to correct average market returns? And what (local) measures are being considered for new staff and the pensions that are in place?

The CalPERS public pension fund is managed by the State and their investment office. The City of Santa Cruz has no authority over how the pension fund is invested. The League of California Cities is actively looking at solutions for cities to deal with this pension issue. The City of Santa Cruz introduced a tiered retirement system for new employees back in 2011 and added a third tier in 2013. As a result, new employees are entered into the pension system at the lowest tier and pay more into their retirement than those in higher tiers.

Q: What's the City's long term-plan to deal with escalating retirement costs?

The City developed the Fiscal 2023 Sustainability Plan and will be updating it during this coming budget season. The source of the escalating payments is the debt owed to the State to backfill for State Pension investment shortfalls. The total allocated to the City is projected at $170 million with an approximate 7.25% interest rate.

First, City staff are actively engaged with CalPERS through the League of California Cities Revenue and Taxation Committee, which supported more CalPERS recent reforms that resulted in shortening the payback period, thereby reducing interest costs on the debt owed to the State.

Second, the City Council directed that staff advocate and support State Pension efforts to return their investment earnings to prior historical levels. Based on high level analysis, if the Pension Investments had earned returns equal to their historical averages during a recovery period, or what broadly-used investment funds have earned during this current recovery period, the entire $170 million debt allocated to the City would be gone.

Third, the City is on schedule to fully pay off in June 2022 $24 million in debt related to Public Safety pensions.

Fourth, the City is making extra principal payments to significantly reduce future interest costs. By the end of FY 2020, the City will have saved over $1 million in interest.

Fifth, the City has established restricted, retiree investment funds to build up cash towards future payments, and to allow the City to increase the expected rate of return from 2%+ to nearly 5%.

Sixth, the City has taken advantage of annual pre-payment programs to reduce the current year's payroll pension costs. Instead of making payments throughout the year, the City receives a 6% discount by making a single payment at the beginning of the year.

Q: Why is the City spending so much on people experiencing homelessness?

The City is not alone. Communities across the country are struggling with funding programs and services to help those experiencing homeless. Fortunately, the State of California made a historical commitment and allocated a portion of its budget surplus towards nearly $10 million in one-time funding for our County.

Q: Is the City going to cut jobs? Is the City going to have to do layoffs?

No. The City's Fiscal 2023 Sustainability Plan is based on the premises of retaining current service levels, as well as allowing for fiscal flexibility to provide for strategic investments.