

# INTRODUCTION

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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 from 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 60,955 as of January 2012. Santa Cruz is the home to the University of California, Santa Cruz (UCSC), which opened in 1965 and has a current enrollment of over 16,000 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 and a golf course. The water utility provides water service beyond the municipal boundaries and has a total service population of approximately 90,000.

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 Payment 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.

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## **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, and a final City Manager recommended budget showing estimated revenues and expenditures is prepared. 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 June, before final adoption of the budget by the City Council no later than the first regular Council meeting in July.

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 monthly financial status reports, 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.

## **Budget Basis – Basis of Accounting**

The City Council adopts a balanced budget annually, in which current expenditures are funded from current revenues plus available fund balance or reserves as needed and appropriate.

The City budgets using the modified accrual basis. Under “modified accrual,” amounts are recognized as revenue when earned, so long as they are collectible within two months to be used to pay liabilities of the current period. Encumbrances that are outstanding at year-end are reappropriated in the next year.

## **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.

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## Revenue

### 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, sewer, 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:

- November, 2010—Measure H. Increased the Utility Users Tax from 7.0% to 8.5%, effective in spring, 2011.
- November, 2008—Measure E. Clean River, Beaches and Ocean special parcel tax. Imposed a parcel tax to be used to protect public health and wildlife habitat in the river, bay, and ocean.
- November 2006—Measure H. Increased the local transactions and use tax from the 0.25% authorized by Measure F in March, 2004, to 0.5%, and removed the sunset clause.
- August 2005—Measure X. Water, Sewer, and Refuse franchise taxes imposed to replace comparable franchise fees that had been discontinued because they were determined to be taxes rather than fees.
- March, 2004—Measure F. Increased local transactions and use tax by 0.25%, with a sunset clause to end the additional tax after five years.

In addition, in August, 2008, a measure (Measure T—9-1-1 Emergency Response Tax) was placed on the ballot to replace the emergency response fee that had been found to be a tax rather than a fee through an appellate court ruling pertaining to Union City, California. The measure failed by a narrow margin.

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The City's transient occupancy tax was in place prior to the requirements for voter approval of all taxes, and has not been amended since.

## Fees

Fees for enterprise services 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.

## Assumptions – Key Revenue Estimates

**Property Tax:** For current secured taxes, the budget assumes that property tax receipts will be approximately the same as the FY 2012 year-end estimate, with the addition of \$841,000 from the Redevelopment Property Tax Trust Fund.

**Sales Tax:** Sales tax and local transactions & use tax estimates are based on an analysis of State, regional, and local economic trends. Increases of less than 1% were included based on analysis of current market conditions and affirmed by estimates from the City's external sales tax professionals. Estimates will be re-evaluated at mid-year to reflect changes in the local economy and new retailers (see budget message).

**Transient Occupancy Tax:** The total amount of TOT in FY 2013 is expected to be about \$100,000 higher than the amount estimated for FY 2012. As in FY 2012, the General Capital Improvement Projects (CIP) Fund is receiving \$820,000, with the balance to the General Fund. Estimates will be re-evaluated at mid-year to reflect changes in the local economy and from new attractions and a new hotel (see budget message).

**Utility Users Tax:** Estimates assume that there would be a similar pattern to utility users tax receipts in FY 2012. This is historically a stable revenue source with minimal fluctuations, factoring out changes from voter approved amendments.

**Enterprise Fund Service Charges:** Estimates for service charges were prepared using anticipated levels of service and approved fee schedules.

# GUIDE TO THE DOCUMENT

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## Document Organization

### Financial Summaries

This section of the budget document gives the reader an overall picture of the City and the budget.

***Recap of Funds*** provides information about the resources available (beginning fund balance, revenues, and transfers) and the extent to which they will finance our requirements (operating and capital expenditures).

***Summary of Projected Revenues and Other Financing Sources by Fund Type*** provides information about each revenue source, both from an historical perspective and the future projected amounts.

***Expenditure Summary by Fund Type*** provides information about the operating budget for each fund including total Operating Budget, Debt Service, and Capital Outlay.

***Summary of Interfund Transfers*** provides detailed information about various fund transfers that appear in the *Recap of Funds*.

***Revenues and Other Financing Sources-General Fund*** provides information about each General Fund revenue source, both from an historical perspective and the future projected amounts.

***Operating Expenditures by Department-General Fund*** provides information about each General Fund account both from an historical perspective and the future projected amounts.

***General Fund Budget Net of Program Revenues*** provides information about total expenditures, how much of those total expenditures are financed with program revenues and other allocated sources, and the resulting net amount of expenditures which need to be supported by taxes and other general revenues.

### Personnel Profile

This section includes information about authorized personnel for all departments. It provides information about positions by department, including all positions in the department, supported by all funding sources. It shows the positions in the department when the FY 2012 budget was adopted, authorized positions at the end of FY 2012, and positions included in the adopted budget for FY 2013.

The Personnel Profile includes each department's authorized positions, including those that are funded by other departments. The positions listed here are in some cases different from what is listed in the Personnel Funded sections shown in each activity. The Personnel Funded sections show all of the positions or portions of positions funded through the activity, which may include positions authorized in another department.

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## Department Summaries

These sections of the budget provide a description of each department, including FY 2012 accomplishments and goals for FY 2013. It shows the total *expenditures by character* for each fiscal year: FY 2011 actual expenditures, FY 2012 amended budget, FY 2012 year-end estimate (estimated actual), and the adopted budget for FY 2013. In addition, the original adopted budget total for FY 2012 is shown below the amended budget total; the amended budget includes supplemental appropriations made after the original budget adoption and encumbrances carried forward from the prior fiscal year. The *expenditures by activity* section displays the same information by activity and fund, and *resources by fund* displays the funding sources by fund. The *total personnel funded* line shows the total number of positions funded by the department.

## Activity Summaries

The activity summaries provide descriptions of each of the activities displayed in the *Department Summary* section and the budgeted *expenditures by character* for that activity. The *personnel funded* section shows the specific positions or portions of positions funded in the activity.

## Capital Outlay

The capital outlay section lists the specific capital equipment items that are funded in the capital outlay accounts in the expenditure detail section of each activity and department.

## Capital Improvement Program

The Capital Improvement Program identifies major capital projects by funding source.