

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 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 64,632. Santa Cruz is the home to the University of California, Santa Cruz (UCSC), which opened in 1965 and has a current enrollment of 17,866 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 94,900.

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 conservatively projected using a combination of professional consultants' projections and an analysis of historic, current and future indicators.

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:

- 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.
- 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.

Major Revenue Sources (continued)

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

- 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.

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 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.

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.

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Fiscal Year 2017 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		
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		↓	↓
Jan		On-going discussions of budget priorities based on input from community and staff	Budget schedule and guidelines provided to Departments
Feb		↓	
Mar			Department meetings with City Manager & Finance to review Capital Improvement Program (CIP) and Fiscal Year 2017 requests Draft Budget and Draft CIP posted online
Apr	↓	↓	Continued Capital Improvement Program (CIP) strategic planning and review
May	Department Budget Hearings open to the public	Department Budget Hearings and Discussions, review and approval of Final Capital Improvement Program (CIP)	Presentation of Final Capital Improvement Program (CIP) to City Council and community Proposed Budget completed and made available online
Jun	Department Budget Hearings open to the public	Changes made per direction from Council and Council adoption of Fiscal Year 2017 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 2015 actual expenditures and revenues; FY 2016 beginning fund balance, adopted and amended budgets, year-end estimates, and ending fund balance projections; and FY 2017 beginning fund balance, adopted expenditures and revenues, and ending fund balance projections can be found in the "Estimated Available Fund Balance Projections" section beginning on page 499 of this document. Funds are listed in order of their fund number as found on the Recap of Funds schedule which can be found in the Financial Summaries section on page 481.

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
- 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
 - Traffic Congestion Relief

Special Revenue Funds (*continued*)

- 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 Improvement Funds

- Capital Project Fund – *Major Fund*
 - General Capital Improvement Projects
 - Capital Improvement 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*
 - Wastewater
 - Wastewater Public Art

Enterprise Funds (*continued*)

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

Insurance Internal Service Funds

Workers' Compensation Insurance

Liability Insurance

Group Health Insurance

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	General Fund Kiosk Maintenance Fund Transportation Development Act Fund	City Administration Economic Development Community Development

Introduction

Department and Fund Relationship (continued)

Department	Fund(s)	City Service
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 Administration Public Safety/Risk Services
Fire	General Fund	Public Safety
Human Resources	General Fund Workers Comp Internal Service Fund	City Administration City Administration/Risk Services
Information Services	General Fund	City Administration
Parks and Recreation	General Fund Municipal Wharf Fund Civic Equipment Maintenance Fund Parks Quimby Tax Funds Parks Tax Fund Golf Course Fund	Community Development Community Development Community Development Community Development Community Development Community Development
Planning & Community Development	General Fund Code Enforcement General Plan Update Fund Green Building Education Fund	Community Development Public Safety Community Development Community Development
Police	General Fund Supplemental Law Enforcement Fund Traffic Offender Fund Police Asset Seizure Fund	Public Safety Public Safety Public Safety Public Safety
Public Works	General Fund Municipal Wharf Fund Gasoline Tax Fund Traffic Impact Fund Clean River, Beaches, Oceans Wastewater Enterprise Funds Refuse Enterprise Funds Parking Enterprise Funds Storm Water Enterprise Funds Equipment Internal Service Fund	Community Development Community Development Community Development Community Development Community Development Public Utility Services Public Utility Services Community Development Community Development City Internal Services
Water	Water Enterprise Funds	Public Utility Services

Guide to the Document

Document Organization

Primary General Fund Budget and General Tax Trends

This section of the budget document focuses on the City's primary general fund and general tax revenues.

Primary General Fund Budget Net of Program Revenues and Charts 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.

Primary General Fund Budget and General Revenues Tax Trends and Charts provide historical and comparative information about the City's Tax Revenues.

City Debt Obligations

This section includes information about the City's debt obligations, future planned obligations, and unfunded liabilities (Pensions, Other Post Employment Benefit Obligations, and unfunded capital and infrastructure). Included within the schedules are the City's outstanding debt and current and future debt service payments. Lastly, a legal debt schedule is presented as of Fiscal Year 2015 (most current assessed City of Santa Cruz real and personal property value).

Personnel Profile

This section includes information about authorized position counts for all departments. It provides information about positions by department, including all positions in the department, supported by all funding sources. The schedule is displayed by the authorized positions in the department for the FY 2016 Adopted budget, authorized positions currently in the FY 2016 amended budget, the positions included in the Adopted budget for FY 2017, and the change from the FY 2016 amended budget to the FY 2017 Adopted. The Personnel Profile includes each department's authorized positions, including those that are funded by other departments and those positions that are authorized but not funded.

Department and Activities

This section of the budget provides a description of the department and the total *Expenditures by Character* for the FY 2015 Actual Expenditures, the FY 2016 Adopted Budget, the FY 2016 Amended Budget, the FY 2016 Estimated Actual, and the FY 2017 Adopted Budget. The amended budget includes supplemental appropriations made after the original budget adoption and the 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 total funding sources by fund followed by the Net Primary General Fund cost. The *Total Authorized Personnel by Department* line shows the total number of positions authorized by the department.

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 Outlay expenditures should eventually be classified as Capital Assets in the City's Comprehensive Annual Financial Report (CAFR). Capital Assets are defined by the City as assets having an estimated useful life in excess of one year, and an initial, individual cost in excess of the capitalization thresholds described below:

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Capital Outlay (continued)

Infrastructure	\$ 25,000
Buildings and lease improvements	10,000
Land improvements	10,000
Machinery and equipment	5,000
Intangibles	5,000

Capital Improvement Program

The Capital Improvement Program identifies major capital projects and funding sources. A project is considered a Capital Improvement project if it is undertaken to acquire a capital asset (construction of public building, street improvements, fire trucks), will have a long service life and is nonrecurring, or is an expensive project or considered major. A more detailed guide is included in the introductory section of the Capital Improvement Program Budget document.

Financial Summaries

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

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

Summary of Projected Expenditures and Other Financing Uses by Fund Type provides information about the operating budget for each fund including total Operating Budget, Debt Service, and Capital Outlay.

Summary of Transfers (between funds) provides information about various fund transfers that appear in the *Recap of Funds*.

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

Summary of Operating Expenditures by Department-Primary General Fund provides information about each General Fund account both from a historical perspective and the future projected amounts.

Debt Service Obligations Status and Schedules provides an overview and status of the City's debt obligations.

Estimated Fund Balance Projections

For budgeting purposes, ending estimated fund balance is defined as a fund's current ending assets less its current ending liabilities. The Estimated Fund Balance Projections beginning on page 499 present the beginning and ending estimated fund balance available for appropriation for each fiscal year. Each fund is displayed on a separate page showing the name of the fund, the fund number, and fund description, along with expenditures and revenues summarized by their major categories.

Acronyms and Glossary

The Glossary and Acronym sections provide definitions to many of the terms used throughout the document. The Acronyms section provides definitions to many of the acronyms used throughout the document.