



**City of Santa Cruz, California**  
*Celebrating 150 Years of Community Service*

**FY 2017 MID YEAR REVIEW**






**February 28, 2017**  
 1:30 - Agenda Item 20

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 Finance Director

3/8/2017 version 02240742

## Grabbing the Opportunity to ... serve & be remembered

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-  **GOAL:** Avoid reactive and immediate cuts in out-years
  - o Reserve bulk of new revenue to offset large gaps
  - o May be opportunity to fund one-time investments
  
-  **Unique opportunity** to be remembered for “Building today our fiscal bridge”; to serve our community tomorrow
  - o By 2020, we’re facing an \$8.2 million gap, despite strong revenue growth
    - o Forecasts include only minimal, core position and facility/fleet maintenance
    - o Slowing revenue growth is offset by stronger increases in pensions & health
  - o New economy is shrinking core “local” sales & gas tax revenues
  
-  **Our story is shared** throughout California
  - o Higher pension costs to make up for CalPERS losses
  - o Infrastructure maintenance & replacement costs are escalating
  - o Growth is there but slow

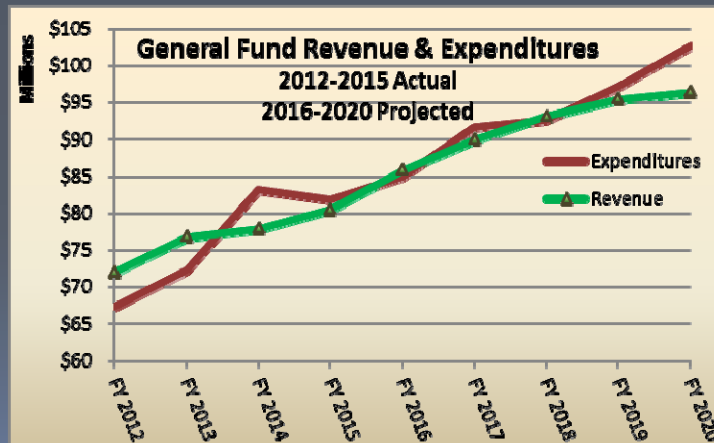
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## Direction of General Fund expenditures & revenue

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### Expenditure growth outpacing revenue growth

- Economic slowdown probable near FY2020, despite projected addition of 3 new hotels



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## History suggests a recession/slow down is approaching

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

(National Bureau of Economic Research - Data since 1854)

1	1991 - 2001 (10.0 years)
2	1961 - 1969 (8.8 years)
3	July 2009 - March 2017 (7.8 years)
4	1982 - 1990 (7.7 years)
5	1938 - 1945 (6.6 years)
6	2001 - 2007 (6.1 years)
7	1975 - 1980 (4.8 years)
avg	Average Economic Expansion 1945 - 2009 (4.8 years)

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### Recovery still moving forward

- Could continue for another year or two due to Great Recessions long and deep impact

### But Warning signs for FY2018 slowdown

- Federal Reserve intent on raising interest rates thru 2017
- Consumer spending is not stable
- Regionally, signs of another speculative housing market (possible bubble)
- Nationally, infrastructure will require additional funding sources (higher taxes)
- Trump Economic Impacts could go either way: Good for business; risky for Sanctuary agencies

## Health & Pension aggressive growth trends; \$9.4 million annual increase by FY 2020

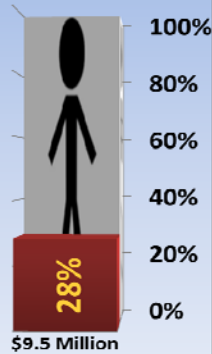
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FY 2004 General Fund  
wages- \$33.9 million

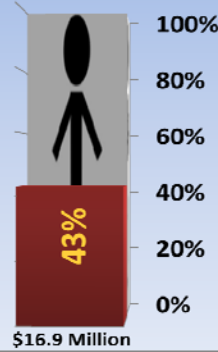
FY 2015 General Fund  
wages- \$39.3 million

FY 2020 General Fund  
est. wages- \$45.1 million

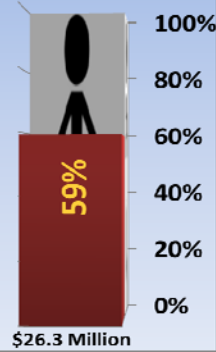
Health & Pension  
Percent of Wages  
2004



Health & Pension  
Percent of Wages  
2015



Health & Pension  
Percent of Wages  
2020



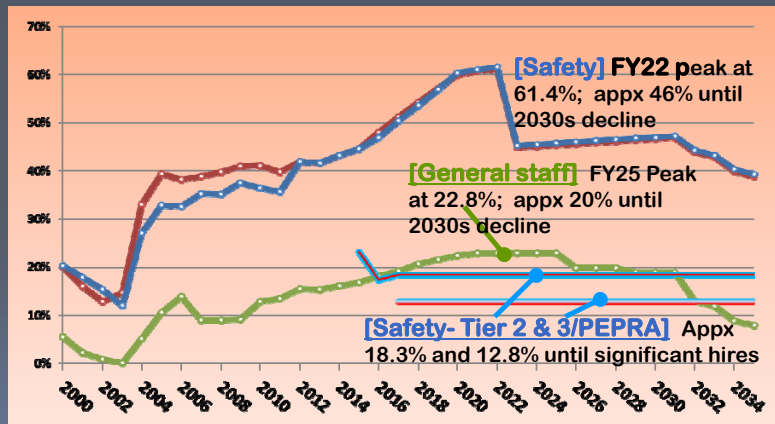
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## Possible future of pension costs

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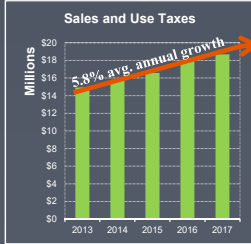
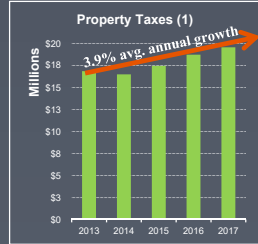
In just 6 years (FY 2022), pension rates may peak near 60% of payroll for safety and 25% of payroll for non-safety

- o City had already built in the recent CalPERS increase



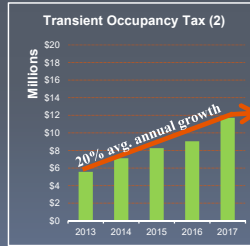
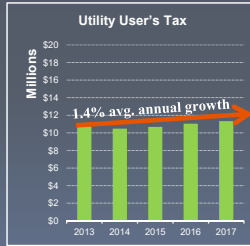
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# Breakdown of Big 4 Taxes



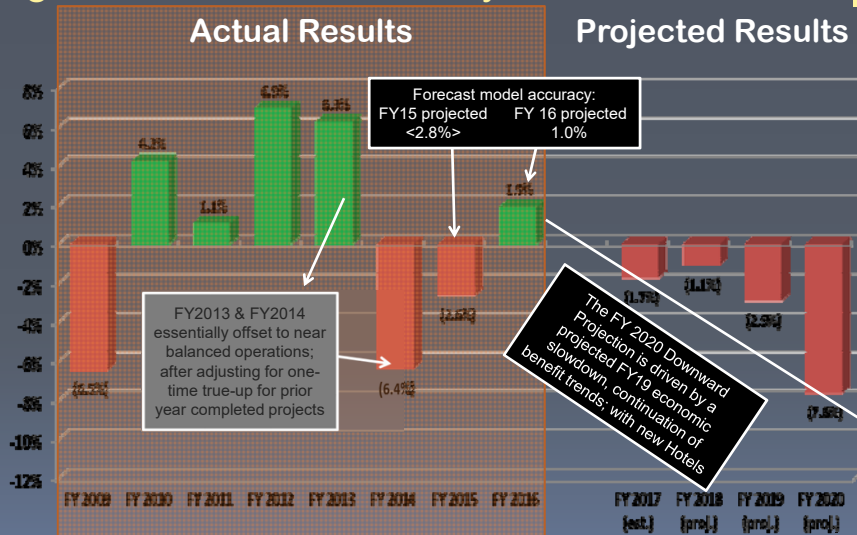
- Property Tax (#1)**
  - Growth rate is sustainable
  - Property values likely to keep increasing
- Sales Tax (#2)**
  - 2.5% to 4% future growth, any more not realistic
  - Will be impacted quickly by any slowdown & continued decrease in taxable sales

- Utility Users (#3)**
  - Growth impacted by energy and utility consumption & rate increases
  - Net revenue gain from Water rates (\$250k)
  - Gain eliminated by increase in General Fund water costs
- Transient (Hotel) Tax (#4)**
  - Growth trends will transition down to mere 4%
  - Current year may see \$1 million loss from rain and related damage



(1) Includes Redevelopment tax increment only until Fiscal Year 2011-12, due to redevelopment agency dissolution.  
 (2) Includes new 11% rate effective July 2013; FY 2015 & FY 2016 vacation rental identification and compliance program 3/8/2017

# The New Recovery model- slow & steady growth ALL consumed by cost increases



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## FY 2017 Unfunded Capital Projects

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A multifaceted strategy is underway to leverage debt, alternative funding and possible ballot measure(s) to reduce the level of unfunded projects (includes Council's Quality of Life committee).

Unfunded Project Categories	Amount (in millions)	Major unfunded projects	Amount (in millions)
Transportation	\$ 134.9	Facility Master Plan projects	\$ 30.5
Parks & Recreation (Civic, Wharf)	57.7	Street overlay & construction	\$ 30.0
Facility Master Plan projects	30.5	Downtown Parking structure	\$ 30.0
Parking	30.0	Civic Auditorium	\$ 22.0
Storm Drains	10.6	Wharf improvements	\$ 29.2
Other (Fire, Citywide)	10.9	Streets Master Plan- Schools	\$ 18.0
<b>Total Unfunded</b>	<b>\$ 274.6</b>	State Route 1 Bridge	\$ 16.0
		MB Sanctuary Scenic Trail	\$ 11.9
		Bikeway projects	\$ 10.0

3/8/2017 (\*) Downtown parking structure is being evaluated for Enterprise funded debt issuance in partnership with the construction of a new downtown Library Branch

## Capital Project Funding Sources

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Balances for illustration only; based on June 2016 data as published in the FY2017 Budget

Source (examples)	Level of discretionary (authoritative body)	June 2016 Estimates
General Fund	No legal restriction (Council)	\$ <0.46 MM> (1)
Gas Tax	Only road improvements or maintenance (State)	\$ <4.39 MM> (2)
City road projects (Measure H)	Street maintenance & rehabilitation (Voters)	\$ 0.6 MM (3)
Public Trust	Council policy for capital improvement needs (Council)	\$ 2.61 MM
Economic Development Trust	Economic development initiatives (Council)	\$ 0.38 MM
Traffic Impact	Mitigation of development (State)	\$ <0.46 MM> (4)

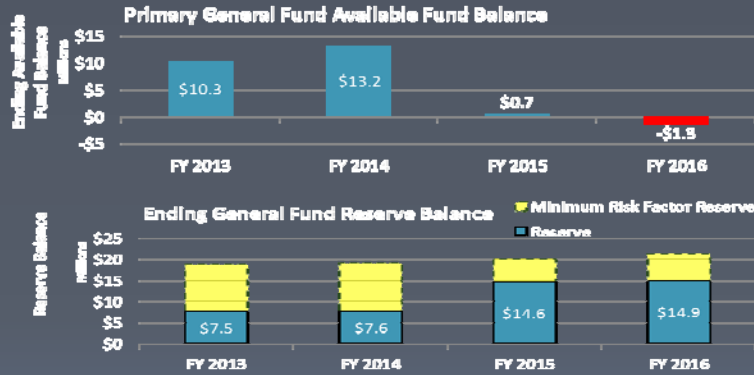
(1) Budget would rely on using reserves to fund this deficit  
 (2) Fund is significantly over committed; but project s may not mature as quickly or other funding sources may be identified.  
 So actual balances are expected to remain positive.

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(3) (3) \$14.3 Million in 2015 Bonds for roads has been entirely used and/or pledged; balance is net annual sales tax  
 (4) Fund is over committed; but project s may not mature as the budget allows so actual balances are expected to remain positive.

## General Fund Reserve & Available Balance

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- o FY 2015- Used \$6.3 million to fund one-time projects, contracts & reserve for pensions
- o FY 2015- Established 2-month official reserve
- o FY 2017- Planned move of 0.8-month from 2-month reserve to pension trust

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## Required FY 2017 Budgetary adjustments





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FY 2017 Mid-Year Necessary Adjustments	Fund Source	One-Time Amount	Recurring Amount
911 Dispatcher Center increased charges	General Fund	-	80,000
Affordable Housing community outreach	General Fund	10,000	-
Assistant Engineer I/II (new)	General & Waste Water	-	81,720
San Lorenzo Riverwalk Safety Plan investments	General Fund	118,345	95,665
Uniform Allowance for PD	General Fund	80,000	-
Associate Planner I/II (replace existing)	Clean River...	-	13,488
Branciforte Gates	Storm Water	19,746	-
Compensation & Classification implementation	Various funds	-	252,049
Corp Yard Seismic Improvements (report all costs in CIP)	CIP (funding from W.Comp & Enterprise funds)	1,400,000	-
Cowell Beach Working Group	Clean River...	30,000	-
Delaveaga Clubhouse	Public Trust (loan)	300,000	-
Funding for Carbon Fund Projects	Energy Efficiency...	71,200	-
Measure E Interfund Labor	Clean River...	45,000	-
Various Water Department mid-year changes	Water	258,095	60,477
Water during pipeline repair	Water	60,000	-
Wharf Insurance Allocation	Wharf	68,500	-

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## Grabbing the Opportunity to ... serve & be remembered


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-  Current year facing nearly \$2 million deficit (with recommend additions)
  - o Would require use of one-time reserves and plan to restore reserves
-  Additions to the General Fund include \$419k combined with \$212k estimated recurring (i.e., growth in base budget)
  - o Largest General Fund change is prior funding for San Lorenzo Riverwalk safety measures (\$214k)
-  Future cost pressures will outpace projected revenue
  - o Including assumption of economic slowdown by FY 2019; planned increases in Pension and Health Care; minimal capital investment
-  FY 2020 gap currently projected at \$8.3 Million
  - o Active measures can reduce that by \$2 Million
  - o Need for Fiscal Bridge to FY 2023

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## Major Budget Considerations and Requests already for FY 2018

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 Monterey Bay Housing Trust (MBHT) (General Fund/One-Time)	\$300,000
 Community Programs Funding Increase (General Fund/On-going)	\$250,000
 Downtown Streets Team (General Fund and Refuse Fund/On-Going)	\$300,000
 Storm Damage (General Fund and Water Fund/One-Time)	\$4 to \$5 Million
 Downtown Library Project Gap (General Fund/One-Time)	\$3 to \$5 Million

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## Recommendation

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 Motion to accept the FY 2017 Mid-Year report on General Fund's financial status & preliminary forecast

 Motion to approve & authorize the recommended budgetary expenditure additions detailed in the Agenda Report

- o General Fund - \$419,536 (\$212k on-going)
- o Water Enterprise Fund - \$701,018
- o Worker's Compensation - \$1,135,104
- o Other funds - \$788,627

 Motion authorizing the City Manager to allocate within the applicable Fund the budgetary changes to the appropriate accounting classification and approve related transfer in/out

 Questions?

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## FY 2018 - Budget Timeline

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	Major Process	Who
Jan 10 <sup>th</sup>	Pension Obligations Trusts established	Council
Feb 28 <sup>th</sup>	Mid-year Report & Debt refinance	Council
Jan-March	Budget meetings with staff Departments submit budget recommendations Fee cost recovery implemented	Staff
March-May	Analyze new revenue data Conclude budget scenario development Evaluate impacts from California revised budget	Staff Staff Staff
April 25 <sup>th</sup>	FY 2018-2020 Proposed CIP Plan	Council
May 5 <sup>th</sup>	Proposed FY 2018 Budget released publically	Staff
May 23-25 <sup>th</sup>	FY 2018 Budget Hearings	Council
<b>June 13<sup>th</sup></b>	<b>FY 2018 Budget Adoption</b>	<b>Council</b>

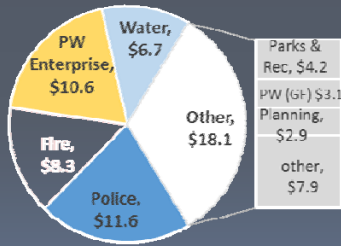


# FY 2016 Personnel Cost Allocations

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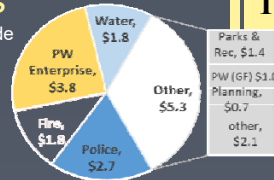
- Salary - \$55.4 Million city-wide
  - Police – 21%; Fire 15%
  - Enterprise ops- 31%
  - Other – 33%

## FY 2016 Salary Allocation



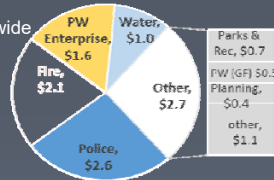
- Health - \$16.8 Million city-wide
  - Police – 18%; Fire 12%
  - Enterprise ops- 36%
  - Other – 34%

## FY 2016 Health Cost Allocation



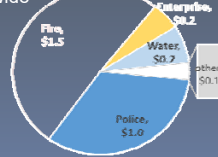
- Pension – \$10.7 Million city-wide
  - Police – 26%; Fire 21%
  - Enterprise ops- 26%
  - Other – 27%

## FY 2016 Pension Cost Allocation



- Overtime – \$2.9 Million city-wide
  - Police – 33%; Fire 51%
  - Enterprise ops- 13%
  - Other – 3%

## FY 2016 Overtime Allocation

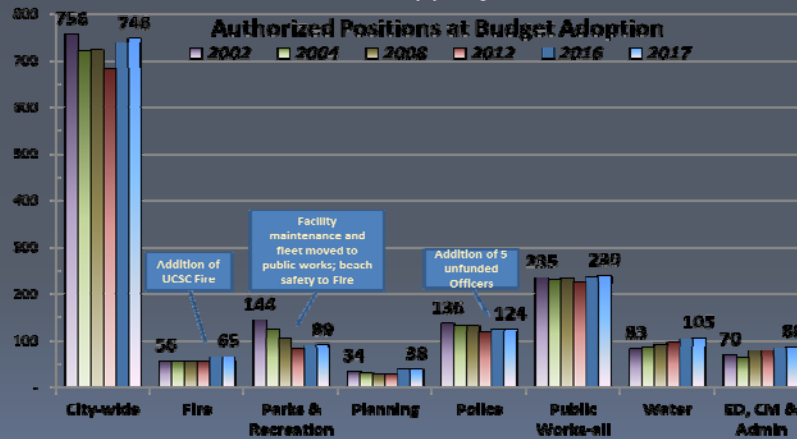


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# Staffing levels still below 2002 levels

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- Service levels and expectations have increases significantly
  - Internet, email & social media were very young in 2002



\*Authorized Budgetary Positions excludes the separate Santa Cruz Public Libraries JPA  
 \*\*Public Works Includes Refuse, Wastewater, Streets, Parking & Storm water

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## Early Pillars of the Fiscal Bridge

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### Actual and potential revenue enhancements

- o Library approved tax to fund new Downtown project
- o RTC ½-cent Sales Tax starts in April 2017 (\$1.0 million annually)
- o Fee Study implementation (\$500k+ annually)
- o Pension Trust (\$200k+ annually)
- o CalPERS pension annual prepayment (\$200k+ annually)
- o Hotel & Vacation rental audits (\$150k+ annually)
- o Debt refinance of lease revenue bonds (\$100k annually)

### External enhancements

- o Business development (Hotels, La Bahia, retail)
- o Retail cannabis tax in-flow April 2018

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