



CITY MANAGER'S BUDGET MESSAGE

Martín Bernal

June 12, 2018

To the Honorable Mayor and Members of the City Council:

It is once again my honor to present you with the Adopted Fiscal Year (FY) 2019 Annual Budget for the City of Santa Cruz. We remain focused on the City's Strategic Vision to enhance:

- Environmental sustainability and well-managed resources;
- Community safety and well-being;
- Economic vitality;
- Organizational health;
- Financial stability;
- Reliable and forward looking infrastructure and facility; and
- Engaged and informed community.

Last year, the City Council took the City's Strategic Vision goals and adopted a two-year Work Plan in order to target priority and resources on the most critical needs facing our community. The Work Plan focuses on implementing specific actions in three critical areas as follows:

- Increasing Housing Availability and Affordability
- Enhancing Community Safety and Well-being
- Delivering 21st Century Infrastructure

We have completed the first year and have made significant progress. Highlights and accomplishments are presented below.

Budget Overview

The Annual FY 2019 Budget totals \$264.6 million. This includes an operating budget of \$221.8 million and capital project budget of \$42.7 million (now includes \$1.5 million from the passage of Measure S on June 5, 2018). The major operations included in the FY 2019 operating budget are the City's General Fund of \$102.2 million, which supports our day-to-day public safety, roads, traffic, and parks operations; and the operations and capital budgets of the Water Fund (\$54.5 million); the Wastewater Fund (\$26.0 million); and the Refuse Fund (\$23.1 million).

As the Council is well aware, we continue to project increasing, General Fund budget deficits over the next five fiscal years. The reasons behind these projected deficits are not of our own making. Cities are at the mercy of the California retirement system which has imposed significant rate increases in order to address investment earnings shortfalls. The local government finance structure needs to be modernized in order address deteriorating revenues from online sales and other structural economic changes. Local control of finances has also been progressively hampered through voter initiatives and State legislation. Moreover, there are renewed efforts to create additional obstacles for cities to make their own decisions about what their residents want to fund, as was the case with the California Business Round Table initiative that qualified for the November 2018 ballot that would have dangerously limited, retroactively to January 2018, our ability for local voters to create or increase any taxes. This business group, led by big soda, subsequently used this measure to negotiate the approval of AB 1838 by the California Governor and Assembly that restricts until January 2031 any local agency from to tax sugar sweetened beverages or other "groceries". There is also an attempt to repeal Senate Bill 1 which is currently funding critical transportation and road improvements.

Despite these conditions, the City has been a model of fiscal responsibility as evidenced by our exemplary fiscal practices and excellent bond rating. And is why we have developed a Fiscal Sustainability Strategy. The strategy relies on two overarching principals: transparency and progressive action. With respect to transparency, we have developed credible budget projections and clearly outlined the reasons that affect expenditure and revenue trends. With respect to progressive action, we have and will continue to implement measures to respond to our fiscal realities including adjusting our spending and maximizing revenues.

We have continued the strategy by implementing a balanced Fiscal Year 2018 Budget which required addressing a \$2.7 Million deficit. This Adopted FY 2019 budget was developed to eliminate a projected \$5.5 million deficit. The Council also took action by placing a measure on the June Ballot (Measure S) that, after being approved by the voters, funded the majority of the General Fund's FY 2019 Capital Investment Projects. This measure will generate approximately \$3 million in annual revenue, with up to an expected \$1.8 million in the first, partial year. This additional \$ 3 million, along with other actions by the City Council, helped reduce the projected future gaps, down to a high of \$8.1 million in Fiscal Year 2022. The City Council Ad-Hoc Revenue Committee also explored other revenue enhancements in line with the Fiscal Sustainability strategy. But this committee will not move anything forward for November 2018 due to last minute State legislation that restricted local agencies from implementing taxes on sugar sweetened beverages.

There is no doubt that the next several fiscal years will be financially difficult. This is unavoidable and something that most California cities are experiencing. I am confident that with our proactive approach and strong leadership we will get through this difficult period, sustaining our sound fiscal position and responding to the needs of our community to improve the quality of life in the City of Santa Cruz.

Our Fiscal Years 2018-2019 Work Plan

As we move into the second year of the City Council Adopted Work Plan it is important to reflect on what has been accomplished. The City is blessed with an ambitious and engaged community as well as a highly competent and dedicated staff. Significant progress has been made on these highly challenging and pressing issues.

Increasing Housing Availability and Affordability

A considerable effort was made in the last year by City Council and its Housing Blueprint Subcommittee to engage with a wide representation of the community. There was no shortage of ideas to help the City address the lack of affordable and workforce housing. The City Council moved forward with several significant policy decisions including the adoption of the (1) Downtown Plan Amendments, (2) short-term vacation rental ordinance, (3) interim rent freeze/just-cause ordinance, and (4) placement of an advisory university growth measure of the June 2018 election (Measure U).

Work continues to hone-in on additional City action to protect and preserve housing and support community vitality including (1) Accessory Dwelling Unit (ADU) development and permitting, (2) affordable housing incentives and funding, (3) inclusionary and affordability requirements, and (4) development of a Downtown affordable housing project at the Metro bus station.

A community-led effort is also underway to develop a potential, county-wide parcel-based, revenue measure, anticipated for the November 2018 ballot. This measure, if approved, would provide funding to support affordable housing rental development and preservation, facilities to address homelessness, and programs facilitating homeownership.

Enhancing Community Safety and Well-being

As I noted in last year's budget message, community safety and well-being in Santa Cruz and much of California is largely defined by the increasing levels of nuisance crime and anti-social behavior, which in turn is related to a significant increase in the number of the mentally ill and drug addicted persons in our community, many of whom are also homeless. This is further compounded by the State's inadequate health and human services and criminal justice systems.

Our Santa Cruz Police Department (SCPD) officers spend much of their time responding to nuisance crimes and anti-social behaviors especially in the Downtown, parks, and open spaces. With the appointment of Police Chief Andy Mills came the opportunity for a fresh examination of policing practices in Santa Cruz, including a comprehensive police and ranger staffing study that

was presented to Council in March of this year. Together with his staff and with input from the community, Chief Mills has quickly implemented changes to improve our effectiveness. The department has been reorganized around five Neighborhood Policing Teams assigned to zones within the City of Santa Cruz. The Neighborhood Policing Teams will put more SCPD officers on the streets to increase community policing and activate crime-fighting strategies. SCPD officers are an integral part of their neighborhoods and, in partnership with the community, look to tackle the underlying causes of crime and safety issues and put sustainable solutions in place.

Another noteworthy change, beginning in May, is the shift to a 4/11-3/12 police staffing schedule, which will have more officers on the street on each shift. Another advantage of this schedule is that it provides overlap to reduce overtime and avoids having to call people back to work from well-earned days off.

However, our Police response is only a minor temporary treatment to the health and criminal justice crisis that we are facing. It will not address the root cause of our societal ills. Nonetheless, the City has focused on doing what we can in partnership with the County, business, and non-profit sectors to manage the homeless crisis as best we can. Amazing progress has also been made to implement the Homelessness Coordinating Committee Recommendations including the (1) implementation of a homeless jobs engagement program (Downtown Streets Team), (2) increased homeless outreach, (3) secure storage, (4) additional hygiene resources, (5) creation of homelessness information and resource page on City website, and (6) increasing shelter capacity.

Another success in the last year was the abatement of several large encampments (Post Office and San Lorenzo Park benchlands) and more significantly the creation of the River Street Camp which is the first phase of a three-phased plan to increase shelter capacity and to assist individuals with transitioning out of homelessness. The River Street Camp provides a safe, fully-staffed and service-linked camping location for about 50-60 individuals and Phase 2, an Interim Homeless Facility, is under active development. Phase 3 is the establishment of permanent regional Navigation Centers. We now need to shift our efforts to greater public awareness and state and federal advocacy of support and resources for homelessness, to implement policy changes and provide resources to address improve our health and human services and criminal justice systems.

Delivering 21st Century Infrastructure

As I have noted for several years, we continue to struggle to adequately fund capital infrastructure and particularly General Fund supported infrastructure which included building facilities, storm drain systems, fire apparatus, and our parks system.

Nonetheless, we have made progress in a number of areas thanks to our local voters that passed our own Measure H and the recently approved County-wide transportation Measure D. These measures have provided funds for road, bicycle, and transportation system improvements. Noteworthy projects are the rail trail, Branciforte Creek Bridge, and numerous road resurfacing and

improvements around the City, including the addition of bicycle green lanes.

One of the City's largest capital investment in terms of scale and dollars is the ongoing improvements to our water system. We have embarked upon a multi-million dollar (\$300 million over the next ten years) program to rehabilitate, upgrade, and replace critical water system infrastructure.

While the City and Cruzio were unable to move forward with a Citywide fiber project, the development of a fiber network has continued largely through private sector investments. Cruzio in particular has made a significant commitment to develop a fiber network in the Downtown and currently in active construction. Other telecommunications vendors have been installing fiber throughout the city at an increasing pace. It is important to point out that this deployment is selective and City investment may be required in areas of the City where private investment is not occurring or insufficient. The City has also implemented the Pave Once/Dig Once policy which requires notice and invitation for other companies to access City streets for fiber infrastructure if a street opening is planned.

With voter approval of the 2016 Library Bond Measure, \$23 million is available to develop a modern and up-to-date Downtown Library. The current Downtown Library has not been significantly upgraded since 1966 and is in desperate need of modernization. The bond funds must be spent within an eight year period and so it is imperative that the decision process proceed comprehensively and expeditiously. Accordingly, from July through December 2017, a community Downtown Library Advisory Committee (DLAC) convened to explore national library trends including current and future library services and assess community needs and library conditions. The DLAC was to return to the City Council with recommendations on programmatic scope of Downtown Library services, the feasibility of co-locating administrative offices with the Downtown Branch and evaluation of the site options. The DLAC concluded its work and presented recommendations. The final report is here:

(https://www.santacruzpl.org/files/measure_s/document/FINAL_DLAC_Report_with_Appendices.pdf). The City Council will hear and discuss the DLAC recommendations at a June 2018 meeting.

City staff has also been working proactively with the Santa Cruz Community Farmers' Market to explore moving the Farmers' Market to a permanent location on the City parking lot on Front Street between Soquel Drive and Cathcart Street. Initial site analysis is promising and both parties are encouraged that the new location has the potential to provide improved functionality, permanency, and growth for the Farmer's Market while additionally providing a new public space for the broader community.

Conclusion

With such a dedicated and engaged community, Santa Cruz is constantly innovating and progressing. It is important to reflect on the incredible amount of work and progress that has been made on the City Council's priorities and the day-to-day functions and services. We are blessed to

have a highly competent staff that is committed to public service and our City. We should take pride in and celebrate our accomplishments.

We do face significant challenges that are not going to be solved overnight, housing affordability and homelessness in particular. However, we have not been afraid to confront them and we are making progress. Nonetheless, we also need to exercise patience as our efforts do take time to achieve meaningful results. It is also important that we be clear and set reasonable expectations for what can actually be accomplished.

Acknowledgements

I would like to extend my appreciation to our Finance Director, Marcus Pimentel, his team, as well as our department heads and their staff that helped develop and bring the proposed budget to you. I also want to acknowledge and express my appreciation to the wide array of employees involved in the budget process this year. With Marcus' leadership, additional feedback was incorporated into the budget process through the use of Action Labs. The Action Labs brought together employees throughout the City organization to review our budget and develop recommendations to increase efficiency, reducing expenditures, and enhance revenue. The goal was to bring forward a balanced budget that addressed the \$5.5 million deficit as well as strategies for future budgets. Finally, I want to thank the City Council and their many Ad-Hoc Committees for your patience and support and very much appreciate the difficult deliberations and decisions before you in the coming years.

Sincerely,

A handwritten signature in blue ink, reading "Martín Bernal". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Martín Bernal
City Manager



FINANCE DIRECTOR'S OVERVIEW

\$264.6 million Total Budget

\$41.2 million Capital- initial

\$ 1.5 million Capital- Measure S

\$102.2 million General Fund

Balanced FY 2019 Budget

This FY 2019 Annual Budget represents another pillar of our five-year fiscal sustainability plan (referred to as our fiscal bridge project). This budget plan continues the City's proactive traditions to insulate our community against a looming but credible economic slow-down and state-wide government funding crises.

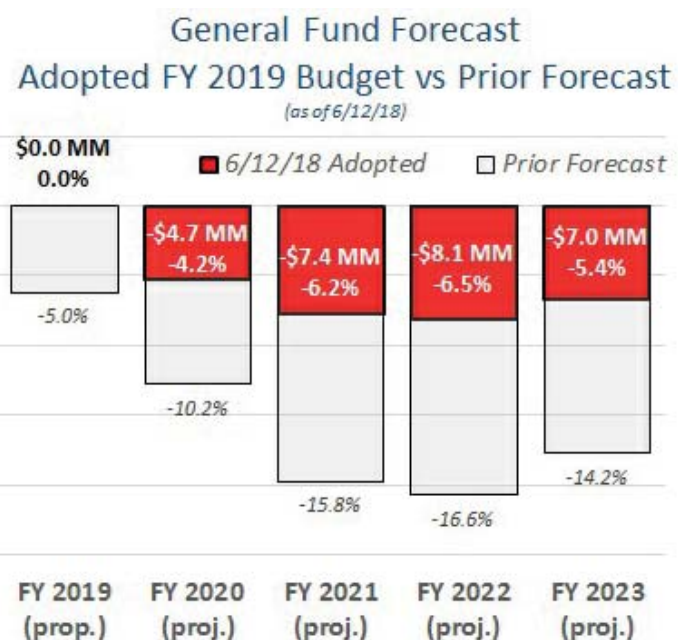
We are therefore proud of this FY 2019 Adopted Budget as it has balanced our General Fund operations and has reduced the General Fund's gaps in our out years.

To get to this point, City staff crossed departmental lines to develop this reduced budget in accordance with our long-term sustainability plan.

These staff were the City's budget leads, supervisors, managers, and department heads from the General Fund's largest departments (Police, Fire, and Parks and Recreation), from operational departments like Public Works, Planning & Community Development, and Economic Development, to smaller, support

departments like City Manager, Information Technology, Human Resources, and Finance. Staff from Public Works and Water enterprise operations also brought valuable insight to inform our path forward. Ultimately, we are thankful to the City Council for their leadership and the community for their trust and support.

The output was a budget plan that eliminated the General Fund's \$5.5 million funding gap (equivalent to 5%), preserved core service level expectations, and, in alignment with the long-term plan, already significantly reduced the future funding gaps previously projected (FY 2022 16.6% gap was reduced to 6.5%) to move us further along our plan to offset the entire projected gaps.



Unprecedented Financial Time

During this booming economic recovery, Cities across the State are facing unprecedented, financial challenges from similar, looming, fiscal threats. From Davis to Berkeley, from Monterey to Santa Maria, from Santa Barbara to Ventura, we share similar themes, such as a lack of housing, demand for greater social services, tax revenue deterioration, State pension investment shortfalls, and the need for significant infrastructure investments.

For the City of Santa Cruz, a mile marker on our long-term financial bridge occurred in February 2018, when the City Council formally adopted a declaration of fiscal emergency to place Measure S on the June 2018 ballot. Measure S would increase the City's sales tax rate by 0.25% to the State cap of 9.25%.

Like prior actions in 2005 and 2008, this action was motivated for the primary purpose of placing a tax measure on a ballot where there are no Council Members up for election. In this case, the City Council wanted to avoid competing with a significant, count-wide, housing ballot measure planned for November 2018. However, the basis of the fiscal emergency is sound and in alignment with the City's long-term financial strategy to take bold and smart action now to plan for future challenges.

By the 9th year of a typical recovery period, local government revenues would be typically thriving, portfolio investment returns would be accumulating large gains, and Federal and State programs would be pushing increased support to local communities.

However, during these past 9 years, a new and dangerous paradigm has emerged. Instead of thriving revenue growth, many of the City's primary revenues are experiencing only modest growth while their tax bases are shrinking.

Instead of strong portfolio returns, the Federal Agency bond market has held steady, far below the 4% to 6% prior recovery period rates. The State's Pension Investment Fund in the prior two boom cycles saw average returns of greater than 15%; but in this 8-year strong bull market it is hitting a poor 10% average, while other index funds are enjoying significantly greater returns.

And while the State's income based tax structure is producing large surpluses, neither the State nor Federal government is allocating significantly new resources to local government programs.

Meanwhile, for a 150+ year-old City, much of our infrastructure is in need of considerable investment. But, this recovery period has not provided the typical additional resources that would be used. To this point, the General Fund would now be in its third Budget Year without any planned capital investment funding.

With support by the City Council, City staff have been closely following and forecasting the impacts of these trends. And, as far back as the February 2014 mid-year report, the City's long-term forecast models were indicating this time period to be the start of increasing General Fund projected deficits. In fact, the 2014 model's deficit projection for FY 2018 was nearly perfect, projecting a deficit of <2.2%> (the actual FY 2018 adopted deficit was <2.6%>).

A Modern Fiscal Strategy

This unprecedented financial time for local government requires a new game plan, one that requires long-term commitment and restraint. Contrary to historical budget planning that focused largely on how to financially navigate the next one or two years, the City Council has continued to support their Fiscal Sustainability Strategy that includes taking aggressive action early, to provide for meaningful, compounding savings for greater future flexibility.

This blueprint includes three major strategies: First, reset the General Fund net costs by FY 2020 with upwards of a 7.5% to 8.0% reduction in today's budget dollars. Second, accumulate resources to pay down high-rate debt while strategically evaluating service models and prior operating practices, and identifying opportunities to eliminate unintended subsidies. And third, have the City Council explore ballot measure options to increase tax resources by \$8 million.

Some results and past successes of this plan to build on included:

- Submitted for voter consideration the Measure S ballot (0.25% Sales Tax increase; equivalent to 25-cents for every \$100 spent)
- Eliminated and reduced consulting and legal costs for most debt issues (Road and Water as recent examples)
- Took advantage of pre-payment discounts, especially for CalPERS
- Refinanced and paid down prior debt
- Maximized investment portfolio with Section 115 trust plans
- Adopted a cost-recovery policy and phased out certain subsidies
- Built an internal audit program for transient occupancy tax
- Invested in a tax compliance program
- Reduced operations and other changes to eliminate the projected FY2018 \$2.7 million deficit
- Reduced operations and other changes to eliminate the projected FY2019 \$5.5 million gap
- Budget award recognition by GFOA

As a validation of these current and past efforts, Standard and Poor's in April maintained the City's bond rating at AA+, the highest in Santa Cruz County and among the highest for Cities in the State.

To support the financial plan, the City consider new budget development approaches that included the pilot test of a new Action Labs model. Here, lead budget managers from across the City met for several days to consider near-term, mid-term and long-term options to build into the fiscal strategy. In total, 67 concepts were identified and will be studied further within the second phase of the Action Lab process, with 10 prioritized for consideration during FY 2019.

In addition, the City Council established the Council Budget Ad-Hoc Committee, led by Mayor David Terrazas, with Vice Mayor Martine Watkins and Council Member Sandy Brown. This committee led to the growth of the former "Budget in Brief" schedule into an entirely new Budget document meant to provide key reference points for the City Council and Community. They also supported the development of a community focus group to ensure future budget documents, processes, long-term financing strategies, and outreach efforts are in alignment with community expectations. Another outcome was the development of new outreach tools, expanded communication strategies to meet with interested stakeholders and community groups, and the return of a community budget meeting, the May 31st Budget 101 Community Forum.

The Four Major Financial Trends

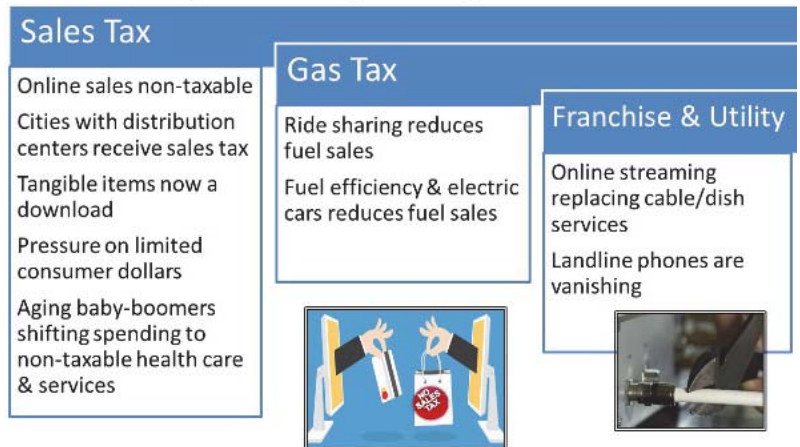
As introduced earlier, in addition to demands for services like housing, homeless, and other safety net systems, there are four unique financial trends currently overlayed on top of this period of economic growth: tax revenue deterioration, State pension investment shortfalls, core cost increases, and the need for significant infrastructure investments.

1

Revenue declines. The single largest threat to long-term financial sustainability of local governments are declining tax bases of traditional revenue, such as Sales Tax, Utility Users Tax, and Transient Occupancy Tax.

- Sales Tax. As more sales are conducted online without collecting sales tax, or the tax does not flow to where the customer lives, the impact to the City could be an annual decline of \$2 million annually (based on historically normal collections during an economic boom).

Demographics & new economic models are permanently eroding our revenue



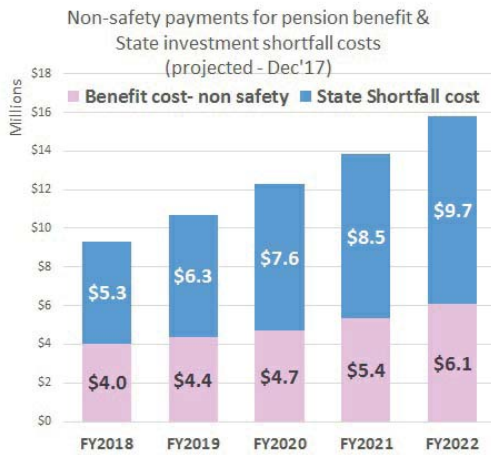
- Utility User Tax. Declines are coming from consumers switching to non-taxable streaming TV and video services and choosing to cancel their land-line phones.
- Transient Occupancy Tax. Another well-discussed but continuing impact is the expansion of online, residential vacation rental, with many still bypassing local regulation and tax requirements. Efforts continue to be expanded to educate and bring these operations under compliance.

2

State investment losses. CalPERS, the State's pension fund, relies on investment growth to pay for 60% of the public safety and general employee retirements costs. When their investments underperform, cities are obligated to make up the difference.

In the last three years, the general market outperformed CalPERS' investment returns by nearly double. If CalPERS had been closer to market indexes, they would have gained an additional \$30+ billion. And in 3 of the last 6 years, their returns fell massively below their 7.50% target, with returns of 0.1%, 2.4% and 0.6% (2012, 2015, and 2016 respectively).

As a broader example, by 2016, CalPERS missed their investment target by over \$300 billion (their expected value was \$613 billion but their actual value was only \$295 billion), according to a study published in the LA Times.



An unfortunate outcome of these poor investments is the State pension systems allocation of these shortfalls to cities throughout the State (and any other member district or agency).

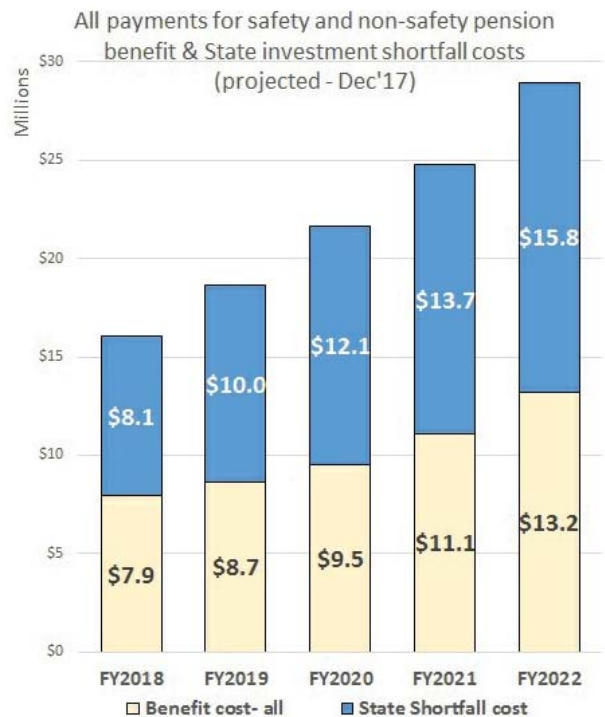
The table on the left shows for all the City's non-safety plan members (2,043 active & retired) the steep, annual increases in the payments to the state to back fill for their investment shortfalls (from \$6.3 million in FY 2019 to \$9.7 million by FY 2022).

And, when layering in the City's Fire and Police pension plans, the total impact of this investment shortfall cost becomes even more challenging.

By comparison, for FY 2019, the \$6.3 million State shortfall for non-safety grew to \$10.0 million with the addition of 480 Fire and Police members (active & retired).

The modest silver lining for these costs is that they are projected to peak in the mid-2020s and could start small declines by the beginning of the 2030s.

In addition, the City was an early adopter of pension reforms along with agreements where employees pick up a large percentage of the normal benefit cost.



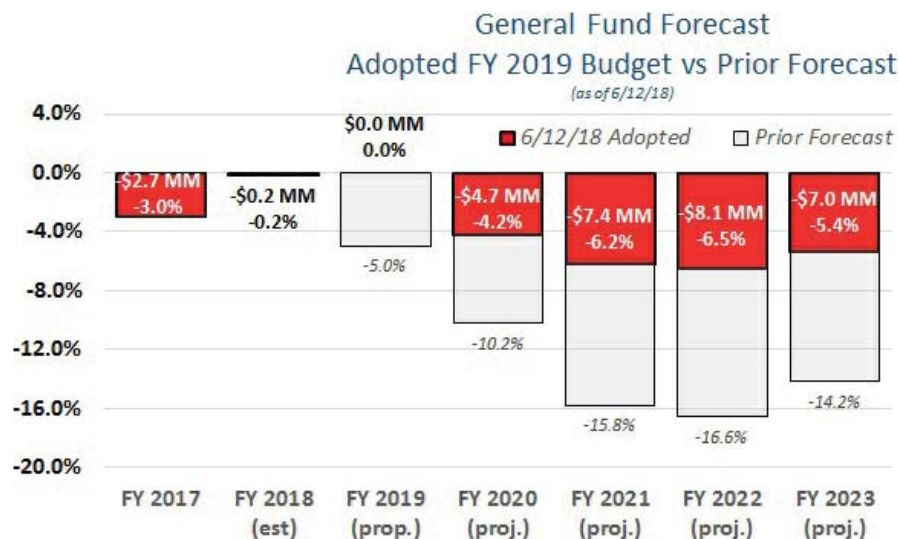
3 Increases to core costs. The City's cost for projects, supplies, and services are quickly increasing as government serving industries pass along increases in their materials and labor. Additionally, other general costs, such as software maintenance, general utilities, and water costs are also on new, steeper increase trends. These core cost increases are in addition to other, normally rising cost increases, such as the City's share of health care premiums.

4 Infrastructure decay. Like most US cities, Santa Cruz's infrastructure is decades old and much of it has outlived its useful life. While some infrastructure needs can be deferred, critical infrastructure like roads, storm drains, and some City buildings must be replaced or rehabilitated.

The City expects to continue to have unexpected infrastructure repairs costs from decaying infrastructure and facilities, and from impacts from climate change. Recently, water pipe breaks, the loss of portions of the cliff along West Cliff Drive, roadway failing along our greenbelts, unexpected cost increases for projects like the Corporation Yard, and the 2017 FEMA storms highlight the cost impact of an aging infrastructure.

General Fund Forecast Improves

With all the City's efforts leading to this balanced budget, the out-year gaps in our forecast model have reduced such that the former FY 2022 gap of 16.6% has been lowered to 6.5%. But, this is still a significant gap that will require continued adherence to the City's long-range financial plan.



As with any forecast, it is important to highlight the design criteria of the forecast. In our case, our model was designed to produce what we believe to be the most likely outcome, based on historical trends and credible future assumptions. Some of the high-level assumptions in our forecast are that the City will:

- ✓ Maintain current service levels and programs;
- ✓ Experience increases in costs, such as capital investment, equipment replacement, and related personnel costs;
- ✓ Continue for the 3rd year with no funding for capital investments; but with funding returning to a modest \$1.5 million in FY 2020;
- ✓ Be required to make payments to CalPERS for their investment shortfalls, that by FY 2022, reach \$16 million annually for the City and over \$10 million annually for the General Fund;
- ✓ Continue to see annual revenue growth, albeit smaller tax growth due to the declining revenue base and a 3-year economic slowdown starting in late FY 2019;
- ✓ Not be able to fund any of the City's estimated \$300 million of unfunded infrastructure and facilities;
- ✓ Benefit from fees and taxes from planned development projects that will continue for the next 24 months, including new housing, businesses, and remodel of hotel properties; and
- ✓ By FY 2023, see major developments like a new La Bahia project will be complete, the final payment of 2010 public safety pension debt will be made, and recovery will begin from a 3-year economic slowdown.

Some specific major assumptions are disclosed in the table to the right.

Again, our forecast is reflective of what we believe to be the most likely to occur. The model would worsen from unexpected events like: disasters such as the 2017 winter storms; road or cliff failures; a worse-than-expected economic slowdown; or more declines to our tax base.

Category	FY2019 - FY2023 Range of Change
Property Tax	4.0% - 6.3%
Sales Tax	1.0% - 5.0%
Transient Occupancy Tax	3.0% - 12.0%
Utility Users Tax	3.0% - 4.0%
Pension benefit- Public Safety	10.6% - 31.1%
Pension shortfall- Public Safety	12.1% - 27.7%
Pension benefit- General Employees	7.7% - 13.7%
Pension shortfall- General Employees	11.5% - 20.1%
Health Care	6.0% - 8.0%

An Engaged Community

This FY 2019 Adopted Budget is the product of the hard work of so many dedicated and engaged stakeholders within the community and within City staff.

The overall process was initially guided with the Community and City Council needs in mind and was later modified by input from the community, City Council, and the City Council's Budget Ad-Hoc Committee, led by Mayor David Terrazas and included Vice Mayor Martine Watkins and Councilmember Sandy Brown.



The actual Budget development process began in early January 2018 with simultaneous processes: the traditional budget development by departments and their talented budget teams; the new employee Action Labs; and the establishment of a Council Budget Ad-Hoc Committee and a Council Revenue Committee. With the support of so many and guided by such diverse input, this balanced budget was developed. While we're proud of presenting a balanced budget, we're more proud of the continued growth in the high production quality of the document itself, the inclusion of diverse input, and plans for expanded outreach efforts and development of new reporting formats.

This year we introduced the expanded Budget in Brief edition that brings together key documents the community and our elected officials may want to refer to over the years. Second, we developed new outreach tools and communication strategies to meet with interested stakeholders and community groups, including the May 31st Budget 101 Community Forum. Third, we've embarked on creating a diverse Budget Focus Group to ensure future budget outreach, processes, and budget reporting are aligned with and support long-term financial sustainability and community expectations.

And though there remains more work to be done in the coming months to build on our FY 2019 successes, it is important to acknowledge today the outstanding, cross-departmental work of City staff.

Starting with the leadership and initial guidance by our City Manager Martin Bernal and Assistant City Manager Tina Shull, and the City's Department Head team, we developed an inclusive approach to support each of the City's strategic goals through long-term financial strategies. The ultimate goal of these strategies is to ensure we sustain the services the community expects and plan for additional investments in services and future capital needs.



We were supported by talented City staff including department heads and their dedicated budget financial teams, by those participating in the new Action Lab sessions, and by other staff in the City Clerk and City Manager's offices who together helped pull together the balanced FY 2019 Budget.

And, beyond these dedicated staff, there was a smaller team who were involved at every development stage of these processes, up through the day we finalized and published this FY 2019 budget document. The team was led by Cheryl Fyfe, Assistant Finance Director and by interim budget leads Elizabeth Millwee, Buyer II and Tracy Cole, Accountant II/temporary Principal Management Analyst. Key contributors included Raymond Chin, Finance Manager; Lisa Saldana, Senior Accountant; Nick Gong, Accountant II; Michael Manno, Accountant I; Jessie Soto, Administrative Assistant III; Cathy Bonino, Principal Human Resources Analyst; Lisa Murphy, Human Resources Director; Denise Reid, Accounting Services Supervisor; and Natalia Duarte, Accounting Technician.

Because of all of these collective efforts, along with the support of other Finance Department members, we are confident in our current financial plan, we trust that the City will again be recognized with receipt of the Distinguished Budget Presentation Award from the national Government Finance Officers Association, and we are inspired to build more inclusive and engaging future budget processes.

Marcus Pimentel, Finance Director

Summary of Changes for the Adopted FY 2019 Budget

This narrative emphasizes the budget reductions that were made to achieve a balanced FY 2019 Proposed Budget. It was created as an FYI for the City Council's May 22, 2018 City Council Meeting, and to support the May 31, 2018 Budget 101 Community Forum and the subsequent June 6, 2018 City Council budget hearing.

In addition to reductions, it is important to note that the passage of Measure S by voters on June 5, 2018 did not impact the FY 2019 operations, but rather allowed for the funding of previously unfunded, priority capital investment projects within the General Fund. These projects included the replacement of Fire's 2001 wild land, off-road fire suppression vehicle, Ladera Drive storm drain improvements, West Cliff Drive revetment repairs, and investment in core IT systems.

Measure S increased the City's sales tax rate by 0.25% to the State cap of 9.25%; which equated to a 25-cent increase for every \$100 of taxable purchases.

In line with the theme of the City Manager's Budget Message and Finance Director's Overview, this budget was based on a long-term fiscal sustainability strategy. The strategy relies on two overarching principals: transparency and progressive action.

To expand transparency, the City partnered with City Council members to meet with community groups and review the City's overall budget status and financial challenges. These groups have included organizations like the Chamber of Commerce, the Santa Cruz Business Council, and Santa Cruz Neighbors. The public outreach continued with the May 23rd Community Budget Focus Group and the May 31st Budget 101 Community Forum.

Benefit of a Balanced FY 2019 Budget

As part of the progressive actions, City staff, along with the support of the City Council, have focused on taking quick actions to balance the City's operating budget, in order to strategically build up early resources and provide compounding savings. These efforts were supported by a first ever Action Lab program that brought together budget leads from across the City to work together on various solutions and budget considerations. Together, with the passage of Measure S, these early initiatives included in the adopted FY 2019 budget, the future FY 2022 gap has already decreased according to plan from \$23.2 million down to an estimated \$8.1 million.

More efforts will be required to offset the primary four financial challenges of economic growth: tax revenue deterioration, State pension investment shortfalls, core cost increases, and the need for significant infrastructure investments. But, following the current financial plan, this future funding gap would be overcome by a combination of an additional ballot measure(s) and further operational efficiencies or new resources, including those from the Action Labs and community feedback.

Please refer to the Finance Director's overview for more information.

Summary of operational changes

The following section provides details on the major changes required to adopt a balanced FY 2019 Budget.

- ✓ Reduced vehicle requests by \$568,200. City fleet and budget management teams combined to delay the replacement of vehicles supporting our Parks and Recreation and Police departments. Among the list of vehicles not recommended for replacement, are two maintenance vehicles for Parks and Recreation, dating back to 1999 and four (4) Police patrol vehicles that are over ten years old. The impact of this decision to forego this expenditure in FY 2019 may result in increased maintenance costs of these older vehicles as well as lose out on the benefit of newer fuel efficient vehicles.
- ✓ Elimination of City Hall Security Patrol to save \$101k annually. Over the past few years the City has contracted with First Alarm Security to patrol specific areas around City Hall and the downtown Library. All other factors remaining constant, the patrols are more meaningful for the Library than City Hall, which could be aided by existing Rangers.
- ✓ Unfunded \$1.3 million of otherwise essential, priority level two and three General Fund capital investment projects (level one projects were funded with the passage of Measure S).
- ✓ Denial of requested increases in General Fund positions and limiting enterprise funds to adding only two (2) positions (to support Water Loch Lomond and other facilities, Wastewater operations, and Parking fund operations).
- ✓ Transfer of Rangers from Parks and Recreation to the Police Department to better leverage support resources.
- ✓ Full restoration of the previously proposed 5% reduction of Community Programs CORE funding; and addition of \$45k for a one-time only Set Aside program supplement.
- ✓ Continued status quo support for the North County Winter Shelter program (City of Santa Cruz allocation: \$171,448) plus an additional \$100,000 placeholder to support planning and implementation of Phase II and III of the year-round shelter and day services center.

Detailed changes by operations

The following section provides more department level details on their proposed budget solutions (listed alphabetically by department name).

- City Manager and City Clerk – (\$153K). This office made reductions to contracted legal services (\$75,000), removed a limited-term employee from the PACT program, and made cuts to miscellaneous supplies and services. It also included mandatory increases in the Animal Services Authority JPA contract. However, it may require additional FY 2019 budget depending on the final, allocated costs for the November 2018 election.
- Community Programs +\$101,755. During the June 6, 2018 budget hearing, the City Council restored the entire \$56,755 of planned reductions to CORE contracts and funded an one-time \$45,000 in Set Aside funding for other programs. This amount was funded by equal amount of reductions from City Manager, Economic Development, Planning, and Police departments.
- Economic Development (\$160k). A significant impact is the reduction to the City Arts program funding of Arts Management & Promotion, Graphic Traffic Signal Boxes, Mural Matching Grants and Rail Trail Arts Projects of approximately \$72,000. In addition, the Santa Cruz Arts Council grant program funding has been reduced in alignment with reductions to other Community programs. In a move toward sustainability the General Fund will be relieved of a portion of staffing costs, charging them directly instead to various HUD and other housing funds to support the significant City focus on developing solutions to the current housing crisis. Finally, the Motel Façade improvement program was reduced by \$30,000.
- Finance – (\$109k). This reduction came from shifting consulting services, like property tax analysis, inward to existing internal staff. Other reductions were related to savings from consolidating counter operations with the Planning Department, such as the elimination of counter alarms and certain cash pickups and reductions in temporary staffing to provide interim coverage. Other eliminations included reduction in printing services (such as hard copies of the annual budget). These impacts will put more efforts on limited staffing resources, risking delays in new and/or unexpected service requests.
- Human Resources – (\$43k). This was accomplished by reducing personnel services, miscellaneous services and supplies, and noncapital computer equipment. Additionally, the department changed the allocation of the expenditures of some of their personnel to align with the functions of the role.
- Information Technology – (\$123k). IT has made budget cuts among 14 different objects of their budget. The most significant among these are cuts to other professional and technical services (reduction of \$49,250), software purchases (\$15,000), building and facilities (\$9,411), and computer equipment (\$8,421). Additional cuts to training, temporary charges, overtime, travel and meetings (\$3,000) and other smaller reductions, helped IT to reach their reduction target. However, the department's budget did include the addition of approximately \$120,000 for body cameras, included in hardware and software maintenance costs, resulting in a net increase of approximately \$43,000 for the IT Department in total.

The impact of these reductions is the need to focus on “must have” new initiatives while having to say no to lower priority items –

items which may be impacted include enterprise reporting, disaster recovery and continuity of operations updates, long-term technology strategy and planning and network/other security audits by external vendors. Additional impacts will be slowing down various networking projects, server updates, and PC/client changes; slowing down equipment replacement (storage, conference rooms, infrastructure, telephones, cameras, etc.); and reducing software purchases for the replacement of Microsoft licensing and other new software needed on an ad hoc basis for such things as PC scrubbing, network investigations and server audits.

- Parks and Recreation – (\$310k in reductions with \$225k in revenue). In an effort to maintain core services, the department reviewed their budget comprehensively to make a high number of smaller budget reductions and an increase in budgeted revenue. Department-wide fee increases will result in an additional \$125,000 and an increase in golf course fees will result in an additional \$100,000 in revenue. Among the most significant budget reductions, are the reductions to other professional and technical services (\$59,000), with \$30,000 of that amount reduced from the golf course budget, facilities maintenance materials, operating and maintenance building materials at the municipal wharf (\$24,500), and temporary employee costs (\$38,000), with \$20,000 from the Parks Ranger program.. Less significant reductions were made to dues and memberships, software maintenance, security patrols, construction materials, landscaping maintenance materials, vehicle maintenance costs-outside, uniform maintenance, chemicals, sign materials, travel and meetings, books and periodicals, and medical supplies among other items.
- Fire – (\$344k in reductions with net \$196k in revenue). The reductions will trim operational and support budgets across all of Fire. Some of the larger impacts include planned reduction in overtime of \$100k, with a plan for the department to receive up to an additional \$360k in additional State and local mutual aid cost recovery. Changes within Cal Fire now allow for regional mutual aid responses to be reimbursed to responding agencies. And while this will increase certain overtime staffing costs for our responders, the net reimbursements are still expected to reach \$160k after full staffing cost recovery from the additional amounts provided for vehicle, equipment, and administrative overhead cost recovery. In addition, the department expects to increase the level of Fire Inspection services by another \$60k. Other reductions include reductions of capital outlay (\$12k), eliminating ineffective security patrols of Fire Station 1 and administrative building (\$12k), and other changes expected to marginally impact operations (\$20k in telecom, \$8k in fuel and \$8k in an expected radio grant).
- Police – (\$530k). The department achieved significant operational savings from the transfer of the Juvenile Diversion program from the City back to the County (\$124k); and other operating reductions, such as reduction of the 911 center Joint Powers Authority planned costs, planned building maintenance services (\$31k), staffing support services (\$30k), equipment and supply purchases (\$13k), and the expected reduction in jail surcharge fees (\$70k). This last item is an administrative budget adjustment to the expected level of jail fees and is not driven by any operating policy change. In addition to the reductions, the department budget was increased by \$932k from the transfer of Parks and Recreation Rangers to Police. This transfer was entirely within the General Fund so it had no impact on the overall General Fund Budget.

- Planning – (\$283k). In Planning, budget reductions will constrain resources, limit community outreach, increase review time, and reduce the overall flexibility of the department. Staffing reductions of \$188,800 made up two-thirds of the reductions. In the Advanced Planning and Current Planning Divisions, the reduction in temporary personnel services will likely result in an increase in review and implementation time for certain programs and projects. Reductions in other funding areas will limit the department's ability to use outside consultants for Environmental Impact Review (EIR) work. The department will have budgetary restraints with legal services relating to plan and amendment review. Reductions to general planning support will negatively impact courier services, small office renovations, ergonomic accommodations for staff, record scanning and digitizing services, business process review and refinement, and architecture needs for building remodel. Overall, reductions at this level will limit the department's ability to implement a department strategic plan, conduct additional outreach activities, and limit the department's ability to implement improvements.
- Public Works – (\$334k). While the operating reductions will have an impact to department operations, the inability to provide additional staffing resources will slow down existing capital projects by delaying project design, review, and/or construction support, and delay new approved projects from getting underway. As an example, the department has secured over \$22 million in transportation project grant funding since 2011. Another notable impact is a \$20k (or 28%) reduction in maintenance of pedestrian and bike systems, that will limit the department's ability to be responsive to public requests for maintenance of our City's pedestrian and bike system, as well as improvements to said system. The funding is used for small maintenance and safety projects such as sidewalk infill and various striping improvements. These requests are often channeled to Traffic Engineering via the City Council.

Public Works, like Parks, reduced their budget for Facilities objects such as building operations & maintenance, training, and facilities maintenance materials that will restrict the department's ability to keep projects moving forward, such as the Annex Remodel and the Golf Lodge Remodel. Unexpected expenses in these projects have been covered by Public Works Operations using budget in objects such as those named above – often time to assist other General Fund departments that do not have any funding remaining to pay for such costs to their facilities. In some cases, this may cause delay or stoppage to progress on projects. The same pressures are expected to limit our ability to perform routine and as-needed repairs such as urgent repairs to roofs (Civic Auditorium and the Lifeguard Office are examples), and other structural needs without going back to Council to request additional funding.

Evaluation and Prioritization of FY 2019- FY 2021 Capital Investment Program Projects

The Capital Investment Program (CIP), formerly known as the Capital Improvement Program, is published every year as a short-range plan. The CIP identifies opportunities for the City to invest in infrastructure and other larger capital needs like larger equipment (fire truck). Additionally, the CIP identifies the funding sources needed to support these investments throughout the City.

The current Capital Investment Program Budget for FY 2019-FY 2021 includes \$43.7 million in Citywide projects; largely enterprise fund, parks special tax fund, and transportation funded projects. Projects included in the CIP Budget include road repairs and enhancements, upgrades, and repairs of aging City-owned building and structures, improvements to city parks, and equipment and upgrades for public safety.

However, due to the General Fund's current fiscal position, only \$1.56 million of the \$2.86 million in priority projects were funded due to the passage of Measure S.

All requested projects were evaluated based on four criteria: the fiscal impact, if applicable, the specific impact of the project on the General Fund, the project's alignment to the Climate Action Plan, and the project's alignment with the City of Santa Cruz Strategic Plan.

For the General Fund, based on final rankings, the requested projects were prioritized and grouped into three tiers, with \$1.56 million of top tier projects that included:

- Fire Station 1 Traffic Alerting & Warning Lights - \$110k
- 2001 Fire Engine replacement (Wildland Fire Engine) - \$410k
- West Cliff Revetment Repair - \$250k
- Ladera Drive Storm Drain Improvement - \$350k
- IT Five Year Strategic Plan - \$441k

On top of the funded projects remains approximately \$300 million in projects currently unfunded. Transportation improvements make up 82% (\$242 million) with 10% (\$31 million) in citywide improvements like the facilities master plan. Parks and Recreation projects and storm drain improvement projects make up approximately 4% each.



City of Santa Cruz, CA

Budget Dashboard

Fiscal Year 2019 Budget

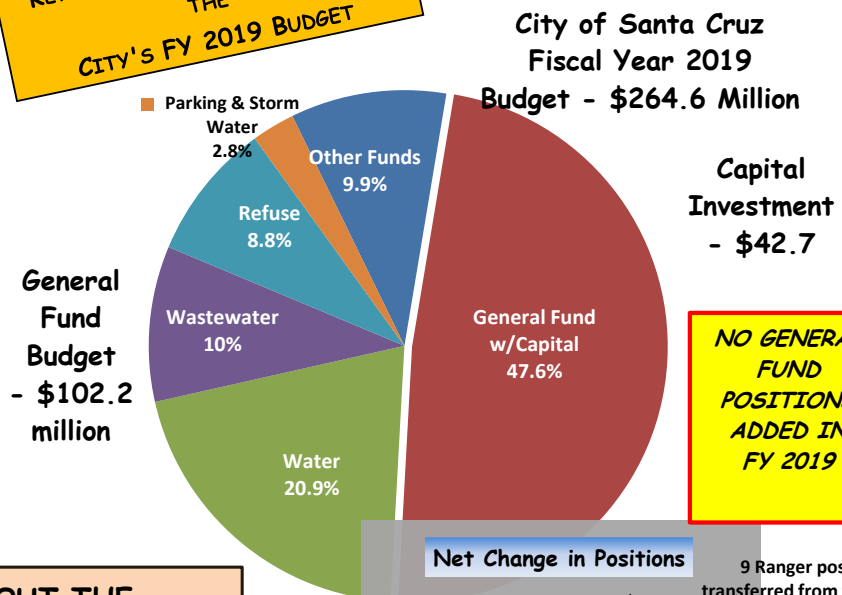
Introduction

The annual operating budget document serves as the City's statement of programs and services for the next fiscal year. This Budget Dashboard is a snapshot of the Primary General Fund budget. The City of Santa Cruz is a full service City. As such, about half the City's General Fund operations support public safety, road maintenance, and parks and recreation. The remaining functions are fee-for-service Enterprise operations, such as water, wastewater and refuse, or other funds with restricted uses, such as gas, clean river & beaches and parks taxes, and liability programs.

"There is no doubt that the next several fiscal years will be financially difficult. This is unavoidable. I am confident that with our proactive approach and strong leadership we will get through this difficult period sustaining our sound fiscal position and responding to the needs of our community to improve the quality of life in the City of Santa Cruz."

– Martin Bernal, City Manager

KEY FINANCIAL INDICATORS OF THE CITY'S FY 2019 BUDGET

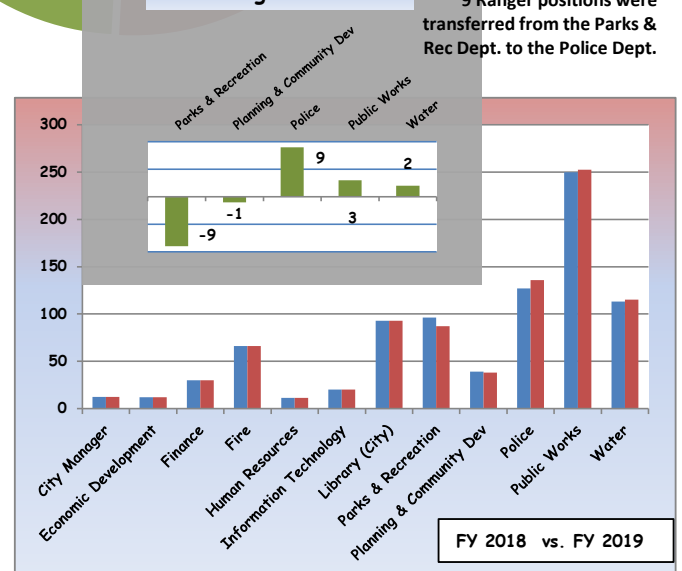


QUICK FACTS ABOUT THE CITY OF SANTA CRUZ

	Santa Cruz City Population	65,070
	UCSC Student Population	18,063
	Longest Wharf on West Coast	2,745 ft.
	Paved Streets City maintains	136 miles
	Parks acreage City maintains	1,704
	Santa Cruz City General	AA+

Net Change in Positions

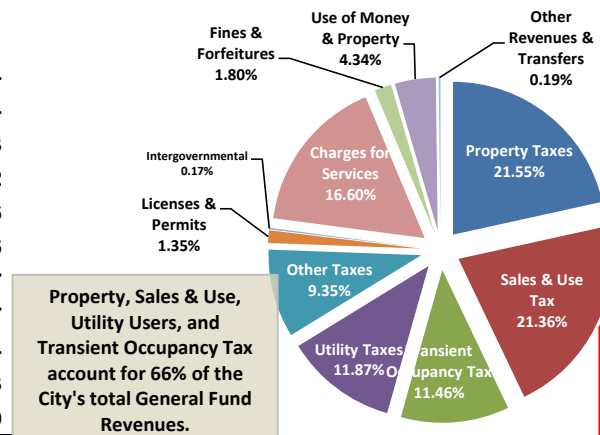
9 Ranger positions were transferred from the Parks & Rec Dept. to the Police Dept.



General Fund Fiscal Year 2019 Budget

Revenues (in millions)

Property Taxes	\$	22.04
Sales & Use Tax		21.84
Utility Users Tax		12.13
Transient Occupancy Tax		11.72
Other Taxes		9.56
Licenses & Permits		1.36
Intergovernmental		0.17
Charges for Services		16.97
Fines & Forfeitures		1.84
Use of Money & Property		4.43
Other Revenues & Transfers		0.19
	\$	102.27



Property, Sales & Use, Utility Users, and Transient Occupancy Tax account for 66% of the City's total General Fund Revenues.

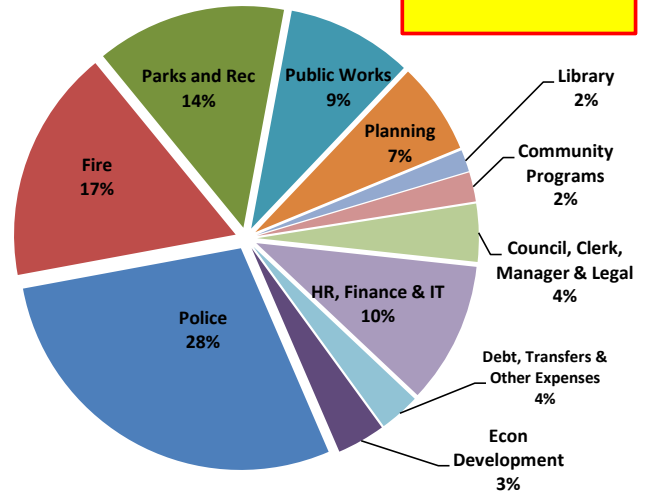
General Fund FY 2019 Adopted Budget
\$102.28 Million Functional Allocation

**\$1.56M IN
GENERAL FUND
CAPITAL
INVESTMENT
IN FY 2019**

Expenditures (in millions)

Council, Clerk, Manager & Legal	\$	4.90
Community Programs		2.21
Debt, Transfers, Other Expenses		3.93
Economic Development		3.51
Fire & Police		45.86
HR, Finance & IT		10.38
Library (City)		1.60
Parks and Recreation		13.95
Planning		6.70
Public Works		9.23
	\$	102.27
Net GF Projected cost:	\$	0.00

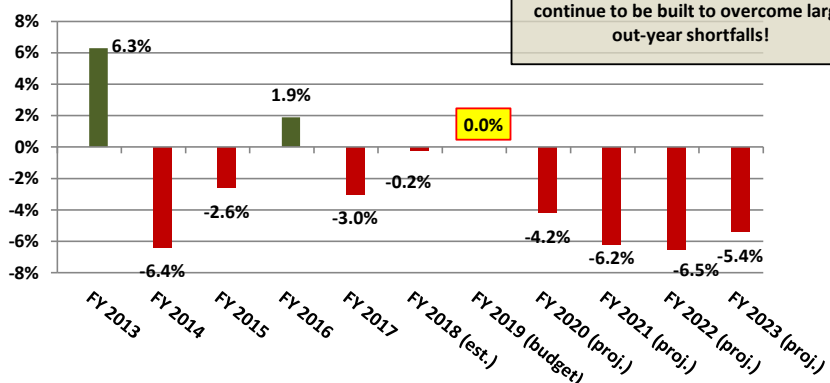
**NO GENERAL
FUND
POSITIONS
ADDED IN
FY 2019**



GENERAL FUND LOOKING FORWARD

Primary General Fund Projection ~

Fiscal models continue to affirm the pattern of severe shortfalls beginning in FY 2020, with recovery starting in FY 2022 towards balanced operations. Most concerning is these trends become worse as capital needs (currently \$2.9 million unfunded) continues to escalate.



Fiscal sustainability bridge must continue to be built to overcome large out-year shortfalls!

**BALANCED FY 2019
GENERAL FUND**

"This FY 2019 Annual Budget represents another pillar of our five-year fiscal sustainability plan (referred to as our fiscal bridge project). This budget plan continues the City's proactive traditions to insulate our community against a looming but credible state-wide municipal financial crisis." - Marcus Pimentel, City of Santa Cruz Finance Director

Introduction

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

Santa Cruz is the county seat for the County of Santa Cruz. It has an area of 12 square miles and an estimated population of 65,070. Santa Cruz is the home to the University of California, Santa Cruz (UCSC), which opened in 1965 and has a current enrollment of 18,063 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 96,595.

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:

- June, 2018—Measure S. Increased the local Sales Tax from 9.00% to 9.25, the maximum allowed by the state.
- November, 2016—Measure D. County Transportation Tax. Impose a half-cent sales tax for 30 years for safety, pothole repair, traffic relief, and transit improvement.
- November, 2016 —Measure L. Cannabis Business Tax. Impose a tax of no more than 10% on gross receipts of cannabis (marijuana) businesses in the city.

Major Revenue Sources (continued)

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

- June, 2016—Measure S. Community Facilities District Library Bond. Authorize parcel tax on real property and authorize bonds to be issued by the Santa Cruz Libraries Facilities Financing Authority.
- November, 2012—Measure Q. Increased the Transient Occupancy Tax from 10.0% to 11.0%, effective in July, 2013.
- November, 2010—Measure H. Increased the Utility Users Tax from 7.0% to 8.5%, effective in spring, 2011.
- 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.

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.

Fiscal Year 2018 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			Capital Improvement Program (CIP) preparation begins. Fiscal Year 2017 year-end estimates and Fiscal Year 2018 department requests due to Finance Department
Mar			Department meetings with City Manager & Finance to review Capital Improvement Program (CIP) and Fiscal Year 2018 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 2018 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 2016 actual expenditures and revenues; FY 2017 beginning fund balance, adopted and amended budgets, year-end estimates, and ending fund balance projections; and FY 2018 beginning fund balance, adopted expenditures and revenues, and ending fund balance projections can be found in the "Estimated Available Fund Balance Projections" section of this document. Funds are listed in order of their fund number as found on the Recap of Funds schedule which can be found in the Financial Summaries of this document.

Governmental Funds

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

General Funds

General Fund – *Major Fund*

- Primary General Fund
- Code Enforcement/Civil Penalties
- Municipal Wharf Fund
- General Plan Update Reserve Fund
- Green Building Educational Resource Fund
- Civic Equipment Maintenance/Replacement
- Co-op Retail Management
- Kiosk Maintenance
- Street Tree Fund
- City Public Trust Fund
- City Stabilization Reserve 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 (continued)**

Wastewater
Wastewater Public Art

Refuse Fund – **Major Fund**

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

Parking Fund – **Major Fund**

Parking
Parking Public Art

Storm Water Fund – **Major Fund**

Storm Water
Storm Water Overlay
Storm Water Public Art

Internal Service Funds

Equipment Operations
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

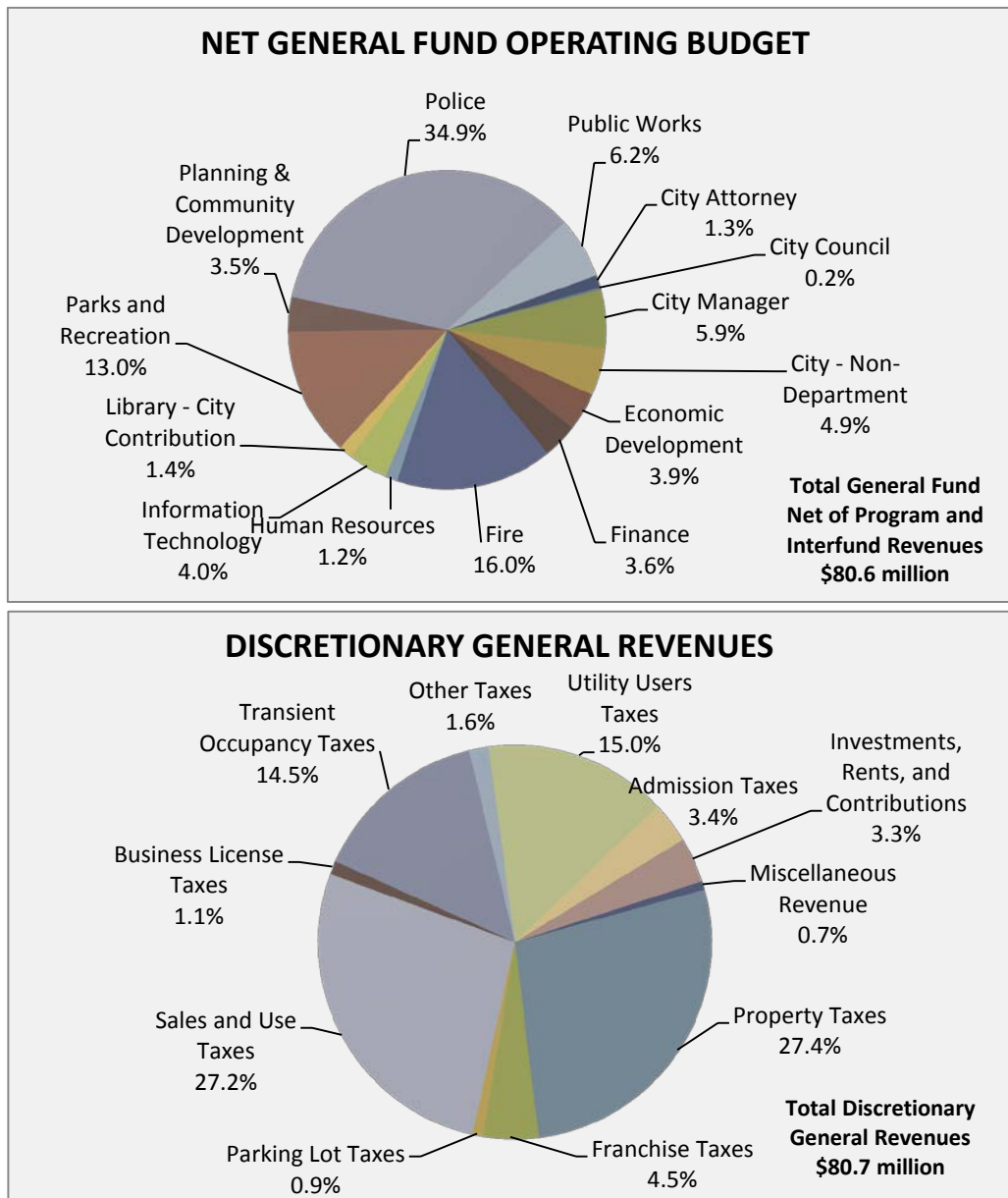
Department and Fund Relationship (continued)

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	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

Primary General Fund Budget and General Revenues

FISCAL YEAR 2019 ADOPTED

The charts below present different perspectives for the Primary General Fund. The top chart represents the spending side and shows the net operating cost (budgeted appropriations less budgeted revenues) of the departments in the fund. Public safety (Police and Fire) accounts for most of the spending in the fund at 50.9%. The bottom chart represents the funding side and shows the discretionary revenues received by the fund. These are general revenues that are not specifically tied to departments, and are the main revenues that fund the City's core services such as Police, Fire, Administration, and Parks & Recreation. Most of the discretionary funding comes from taxes, with Sales Tax and Property Tax comprising the largest portion at approximately 54.6% combined.



Primary General Fund Budget Net of Program Revenues

FISCAL YEAR 2019 ADOPTED

General Fund Departments/Programs	Expenditures and Other Uses	Program Revenues	Interfund, Interagency Sources	Net (Expenditure) Revenue and Changes in Fund Balance	% of Net GF Cost
City Attorney	1,131,688	-	110,372	(1,021,316)	1.3%
City Council	395,612	-	197,055	(198,557)	0.2%
City Manager	5,587,432	22,400	845,994	(4,719,038)	5.9%
City - Non-Department	3,933,476	-	-	(3,933,476)	4.9%
Economic Development	3,517,029	389,500	-	(3,127,529)	3.9%
Finance	4,066,604	17,000	1,178,556	(2,871,048)	3.6%
Fire	17,123,565	4,223,000	-	(12,900,565)	16.0%
Human Resources	1,617,056	-	632,102	(984,954)	1.2%
Information Technology	4,706,469	-	1,469,563	(3,236,906)	4.0%
Library - City Contribution	1,600,000	-	462,438	(1,137,562)	1.4%
Parks and Recreation	13,950,142	3,441,050	-	(10,509,092)	13.0%
Planning & Community Development	6,696,633	3,857,650	-	(2,838,983)	3.5%
Police	28,726,258	547,875	-	(28,178,383)	34.9%
Public Works	9,225,382	4,041,425	183,719	(5,000,238)	6.2%
Total General Fund	\$ 102,277,346	\$ 16,539,900	\$ 5,079,799	\$ (80,657,647)	100%

General Revenues and Other Unallocated Sources:

Taxes:

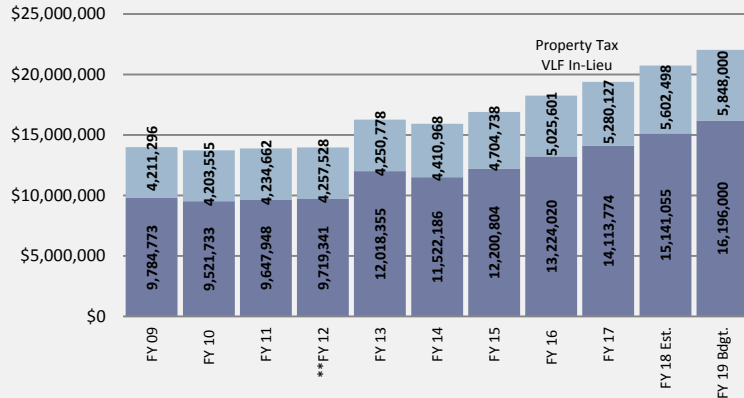
Property Taxes	22,044,000
Sales and Use Taxes	21,844,628
Business License Taxes	926,000
Franchise Taxes	3,652,000
Utility Users Taxes	12,136,000
Transient Occupancy Taxes	11,722,000
Admission Taxes	2,750,000
Parking Lot Taxes	726,000
Other Taxes	1,295,000
Total Taxes	77,095,628

Intergovernmental	54,000
Investments, Rents, and Contributions	2,980,819
Fines and Forfeitures	227,000
Charges For Services and Other Miscellaneous	300,200
Total General Revenues and Other Unallocated Sources	80,657,647
Change in Fund Balance	-
Estimated Fund Balance - Beginning of Year	(1,849,608)
Estimated Fund Balance - End of Year	\$ (1,849,608)

Primary General Fund Budget and General Revenues

FISCAL YEAR 2019 ADOPTED

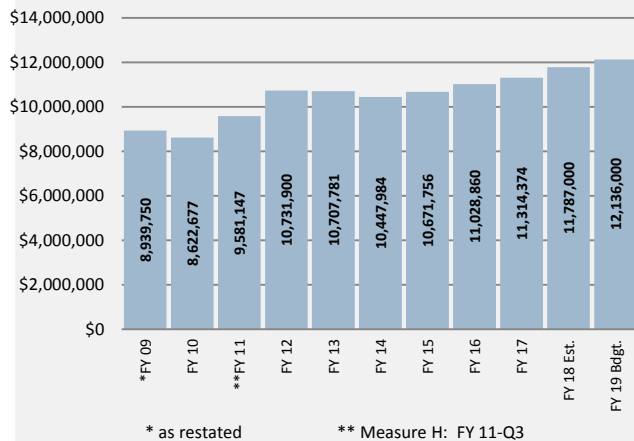
Property Tax Trend



** Starting FY 2012, amounts include additional \$\$ from dissolution of redevelopment agencies.

Property and Sales taxes are the two largest sources of tax revenues for the City's primary General Fund. Property taxes and sales taxes account for approximately 29% and 27%, respectively, of the fund's total estimated tax revenues for fiscal year 2018.

Utility Users Tax Trend

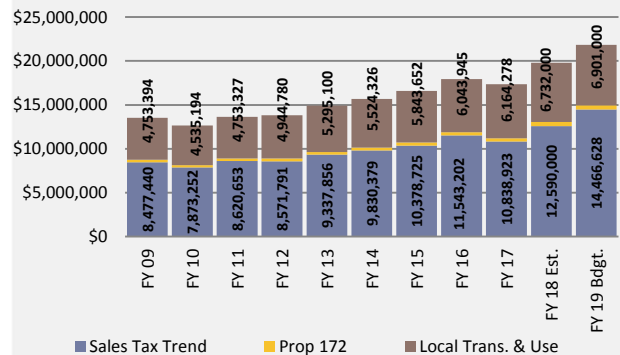


* as restated

** Measure H: FY 11-Q3

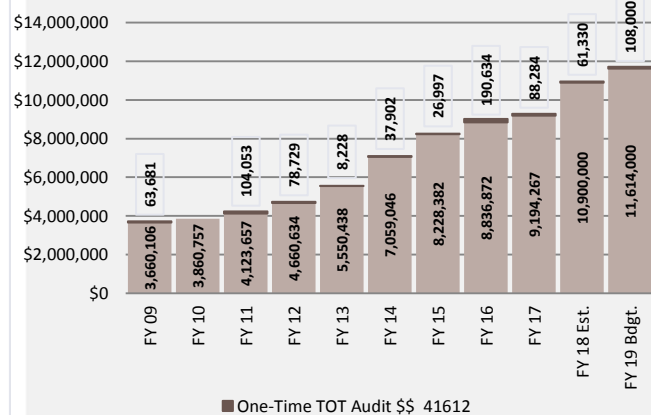
Utility users taxes are imposed on all utility services within the City limits at a rate of 8.5% of taxable services. Transient occupancy taxes are levied at a rate of 11% on all individuals occupying dwellings for 30 days or less. They each accounted for 16% and 15%, respectively, of the fund's total estimated tax revenues for fiscal year 2018.

Sales Tax Trend



Note: Sales Tax rate increased from 9% to 9.25% in FY 2019.

Transient Occupancy Tax Trend



■ One-Time TOT Audit \$\$ 41612

Note: Transient Occupancy Tax rate increased from 10% to 11% in FY 2014.

Debt Service Obligations

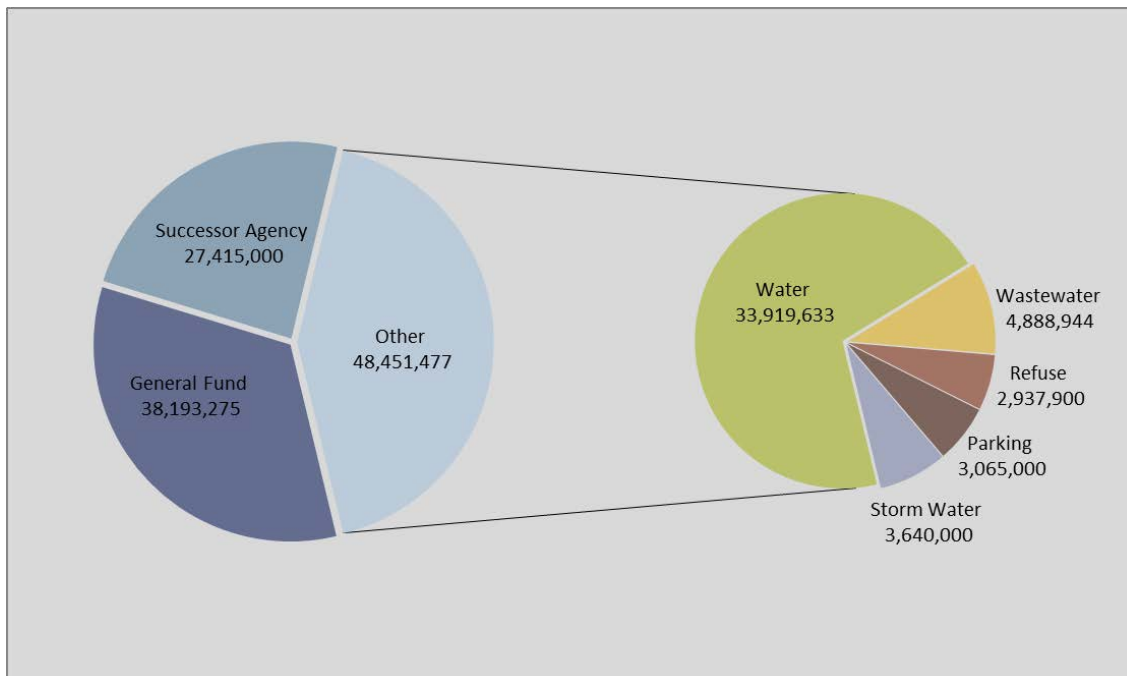
OVERVIEW

The City of Santa Cruz debt service obligations include revenue bonds, general obligation bonds, pension obligation bonds, loans, leases, and former Santa Cruz Redevelopment Agency debt, transferred to the Successor Agency Trust (Resolution NS-28,450 dated January 24, 2012). Also included are the State of California Public Employees' Retirement System (PERS) and other post-employment benefits (OPEB) liabilities. All debt issuance is approved by the Santa Cruz City Council subject to the City's legal debt limit.

- *Revenue Bonds* – issued to purchase or construct assets owned by the City and the City pledges income resulting from the asset or enterprise to pay the debt service.
- *General Obligation Bonds* – issued to finance various public improvements in the City for which the main security for repayment is property taxes.
- *Pension Obligation Bonds* – issued by the City to pay its commitment to the pension fund in which its employees are members.
- *Santa Cruz Redevelopment Successor Agency Debt* – debt issued to finance redevelopment activities in accordance with California Community Redevelopment Law. With the dissolution of Redevelopment Agencies, the principal source of debt repayment is from property tax revenues of the Successor Agency to the Redevelopment Agency.

DEBT STATUS

The graph below estimates outstanding debt obligations, excluding pension, of \$27,415,000 in RDA Successor agency debt, \$38,193,275 in the General Fund, and \$48,451,477 in the City's Enterprise funds for a total outstanding debt obligation of \$114,059,752 at the end of the fiscal year.



Debt Service Obligations

FY 2018 DEBT ISSUES

The following debt issues have been completed in FY 2018:

- Library Bonds – On June 7, 2016, the voters of Santa Cruz approved Measure S, a parcel tax for the County Library System’s \$67 million bond measure to improve the entire library system. In June 2017, the Santa Cruz Libraries Facilities Financing Authority issued bonds in the amount of \$21,170,000. New branches are planned to be built in Scotts Valley and in Downtown Santa Cruz. Also planned are complete renovations of the Capitola and Live Oak branch locations.

FY 2019 PLANNED DEBT ISSUES

The following are planned debt issues for the FY 2019:

- The Water Department will be instituting a Revolving Line of Credit to meet short-term cash flow needs and enable the Department to meet all of its financial targets. Additionally, the Department is pursuing two Drinking Water State Revolving Fund loans totaling \$70 million. The anticipated approval process will take 9 to 12 months and a small amount funds may be received at the end of FY 2019.

FY 2018 PERS AND OPEB LIABILITIES

The City of Santa Cruz participates in PERS to provide pension benefits for past, current and future employees. In addition it provides modest, capped health retiree obligations as required by the CalPERS health program and as negotiated locally by City employees.

CITY OF SANTA CRUZ
FY 2019 ANNUAL BUDGET
Debt Service Obligations
(A) Summary of Changes in Long-Term Debt

Description	Maturity Date	Balance June 30, 2017	Additions to Debt	Principal Paydown and Maturities	Balance June 30, 2018	Balance	
						Due Within One Year	Due in More Than One Year
<u>GENERAL LONG TERM DEBT</u>							
2017 Refunding Lease Revenue Bonds 2007	11/1/2037	5,265,000	-	125,000	5,140,000	165,000	4,975,000
2017 Refunding Lease Revenue Bonds Ser B	11/1/2031	2,420,000	-	-	2,420,000	140,000	2,280,000
2010 Pension Obligation Bonds	6/1/2022	13,295,000	-	2,195,000	11,100,000	2,415,000	8,685,000
2009 General Obligation Refunding Bonds	9/1/2029	5,475,000	-	270,000	5,205,000	290,000	4,915,000
2012 Golf COP Refunding Loan	5/1/2029	2,287,117	-	156,094	2,131,023	161,605	1,969,418
PG&E Loan - LED Streetlights (Interest free)	1/1/2023	138,798	-	24,953	113,845	24,953	88,892
ZION Bank Loan - Homeless Shelter Project	1/1/2021	201,170	-	48,634	152,536	49,723	102,813
I-Bank Arterial Streets and Roads Loan	8/1/2024	11,494,488	-	1,352,050	10,142,438	1,375,440	8,766,998
California Energy Commission Loan	12/22/2033	1,788,433	-	-	1,788,433	38,702	1,749,731
Total General Long Term Debt		42,365,006	-	4,171,731	38,193,275	4,660,423	33,532,852
<u>ENTERPRISE DEBT</u>							
2014 Water Refunding Revenue Bonds	3/1/2036	9,835,000	-	410,000	9,425,000	410,000	9,015,000
I-Bank Water Infrastructure Loan	8/1/2046	25,000,000	-	505,367	24,494,633	521,742	23,972,891
Total Water Liabilities		34,835,000	-	915,367	33,919,633	931,742	32,987,891
2013 Wastewater Refunding Bonds	11/2/2022	8,433,488	-	3,544,544	4,888,944	3,616,374	1,272,570
Total Wastewater Liabilities		8,433,488	-	3,544,544	4,888,944	3,616,374	1,272,570
2009 Refuse Refunding Loan Agreement	10/1/2023	1,632,000	-	219,100	1,412,900	229,900	1,183,000
2010 Enterprise Revenue Bonds	10/1/2021	1,875,000	-	350,000	1,525,000	365,000	1,160,000
Total Refuse Liabilities		3,507,000	-	569,100	2,937,900	594,900	2,343,000
2017 Parking Refunding LRB	11/1/2028	3,350,000	-	285,000	3,065,000	235,000	2,830,000
Total Parking Liabilities		3,350,000	-	285,000	3,065,000	235,000	2,830,000
2014 Storm Water Refunding Revenue Bonds	10/1/2028	3,945,000	-	305,000	3,640,000	310,000	3,330,000
Total Storm Water Liabilities		3,945,000	-	305,000	3,640,000	310,000	3,330,000
Total Enterprise Debt		54,070,488	-	5,619,011	48,451,477	5,688,016	42,763,461
<u>SUCCESSOR AGENCY TRUST</u>							
2004 RDA TAB Merged	10/1/2031	3,570,000	-	175,000	3,395,000	180,000	3,215,000
2011 Housing TABS Series A	10/1/2024	5,695,000	-	565,000	5,130,000	600,000	4,530,000
2011 Taxable TABS Series B	10/1/2026	15,105,000	-	1,110,000	13,995,000	1,185,000	12,810,000
2011 Tax-Exempt TABS Series C	10/1/2026	5,320,000	-	425,000	4,895,000	450,000	4,445,000
TOTAL Successor Agency Trust		29,690,000	-	2,275,000	27,415,000	2,415,000	25,000,000
SUBTOTAL DEBT BEFORE PENSION		126,125,494	-	12,065,742	114,059,752	12,763,439	101,296,313

CITY OF SANTA CRUZ
FY 2019 ANNUAL BUDGET
Pension Obligations
(B) Summary of Funding Progress

Description	Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Unfunded Percentage of Assets	Prior Valuation Unfunded Liability
<u>Public Employees' Retirement System (PERS)</u>						
Miscellaneous employees	6/30/2016	265,465,893	357,092,247	91,626,354	74.3%	72,411,105
Safety	6/30/2016	165,186,236	223,512,475	58,326,239	73.9%	44,902,753
Total PERS Obligations		430,652,129	580,604,722	149,952,593	74.2%	117,313,858
<u>Other Post Employment Benefits (OPEB)</u>						
All employees	6/30/2016	-	33,441,987	33,441,987	0.0%	20,005,630
Total OPEB Obligations		-	33,441,987	33,441,987	0.0%	20,005,630
SUBTOTAL PENSION		430,652,129	614,046,709	183,394,580	70.1%	137,319,488

CITY OF SANTA CRUZ
FY 2019 ANNUAL BUDGET
Pension Obligations
(C) Comparative Summary of Total Obligations

Description	FY2017 Budget Balance as of Reporting Date	Percentage of Total Debt	FY 2018 Budget Balance as of Reporting Date	Percentage of Total Debt
City-wide Debt before Pension	126,125,494		114,059,752	
Less: Pension Obligation Bonds	(13,295,000)		(11,100,000)	
Net City-wide Debt before all Pension costs	112,830,494	40.3%	102,959,752	32.7%
Pension Obligation Bonds	13,295,000		11,100,000	
City-wide Unfunded Pension Liability	137,319,488		183,394,580	
City-wide Pension Obligations	150,614,488	53.8%	194,494,580	61.8%
Other future obligations without annual debt service				
Compensated absences	1,487,704		1,665,779	
Claims and judgments	8,314,017		8,520,761	
Landfill closure	6,729,962		6,823,521	
Other future debt obligations	16,531,683	5.9%	17,010,061	5.4%
TOTAL OBLIGATIONS	279,976,665		314,464,393	

Each year, City Council establishes an authorized position list (by department) through the budget adoption process. For FY 2019, there will be no change to the total positions within the General Fund and a net 4.00 FTE (full-time equivalent) positions adopted to be increased in Enterprise and other funds as compared to the FY 2018 amended budget. For the independent Library JPA, there is no net change in positions. Following is a summary of the position changes.

City Manager – No net change. A 1.0 FTE Assistant to the City Manager position was added and a 1.0 FTE Deputy City Manager position was deleted to help fund that position. The position change was done to better serve the current operational needs of the department and resulted in no net change in positions for the City Manager Department.

Economic Development – No net change. In the initial phase of a budget neutral department reorganization, a 1.0 FTE Development Manager position was deleted due to staff retirement and a 1.0 FTE Business Liaison position was added. This is a new classification. The scope of this position will be to work closely with local businesses, to recruit potential businesses, to provide assistance to businesses navigating the start-up process and to serve as a single point of contact for businesses in the permitting process.

Finance – No net change. A 1.0 FTE Principal Management position was added in the Accounting Division to meet city-wide budget support needs and a 1.0 FTE Accounting Assistant II position was added in the Accounting Operations Division to help support staff with the retirement of the Finance Manager position that oversees the Division. A 1.0 FTE Accountant I position and a 1.0 FTE Finance Manager position will be deleted to help fund these positions.

Library JPA – No net change. For the independent Library JPA, two positions were reclassified. A 1.0 FTE Building Maintenance Worker I position was reclassified to a Building Maintenance Worker II and a 1.0 FTE Management Analyst position was reclassified to a Principal Management Analyst. These reclassifications were needed because of the current demands and higher expertise needed in those positions and resulted in no change in positions for the Library Department. As the City merely provides administrative services to the independent Library JPA, these positions do not impact costs or position counts for the City and are contingent upon being approved by the Library JPA Board.

Parks and Recreation – Transferred out of 9.0 FTE. Three 1.0 FTE Senior Ranger positions, one 1.0 FTE Ranger I position and five 1.0 FTE Ranger II positions were transferred to the Police Department for better operational efficiency.

Planning and Community Development – Reduction of 1.0 FTE. As part of the department's budget reduction plan, a vacant 1.0 FTE Administrative Assistant II position was deleted through a planned restructure of counter services.

Police – Transferred in 9.0 FTE. A 1.0 FTE Police Crime Analyst position was added to meet the needs of the Neighborhood Policing Model utilized by the Police Department and a 1.0 FTE Community Service Officer position was deleted to help fund this new position. The Police Crime Analyst is a new classification. Also, three 1.0 FTE Senior Ranger positions, one 1.0 FTE Ranger I position and five 1.0 FTE Ranger II positions were transferred from the Parks and Recreation Department for better operational efficiency.

Public Works – Increase of 3.0 FTE. A 1.0 FTE Environmental Microbiologist I position was added in the Wastewater Division to provide additional support and expertise in wastewater and storm water analysis to meet regulatory obligations. Two 1.0 FTE Service Field Crew Leader positions were added in the Parking Services Division because the current supervisory structure is not adequate to meet the 24/7 operational needs of the division.

Water – Increase of 2.0 FTE. A new 1.0 FTE supervisory position, similar to the WW Facilities Mechanical Supervisor, was added in the Water Production Division in preparation for retirement and succession planning in the division. The actual classification will be determined later with Human Resources Department assistance. Two 1.0 FTE Senior Ranger positions were added in the Water Recreation Division to increase staff supervision at Loch Lomond. One of the new Senior Ranger positions added is a reclassification of a vacant Ranger II position. A 1.0 FTE Assistant Engineer II position was added in the Water Engineering Division to meet the more complex workload of the division currently and a 1.0 FTE vacant Engineering Technician position was deleted to help fund this new position.

The Personnel Authorization schedule beginning on page INDEX – 99 is a classification listing of the City’s authorized positions by Department:

RESOLUTION NO. NS-29,410

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ ADOPTING A
BUDGET FOR FISCAL YEAR 2019

BE IT RESOLVED, by the City Council of the City of Santa Cruz, that the budget of the City of Santa Cruz for Fiscal Year (FY) 2019, as proposed in that certain document entitled "City of Santa Cruz Proposed Annual Budget Fiscal Year 2019," on file with the City Clerk, is hereby adopted for FY 2019, effective July 1, 2018.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SANTA CRUZ AS FOLLOWS:

- 1) That the Priority Level 1 Unfunded Capital Investment Program projects that were contingent on the passage of Measure S in the June 5, 2018 election be fully appropriated.
- 2) That the Finance Director is authorized to create additional appropriations in order to provide for necessary commitments carried over from the prior fiscal year, including contract and purchase order encumbrances and unexpended project balances, so long as there is a sufficient fund balance to finance these commitments.
- 3) That the City Manager is authorized to approve actions necessary, including borrowing internally to pay down up to \$8 million of CalPERS unfunded obligations.
- 4) That the City Manager is authorized to make by June 30, 2018 the necessary FY 2019 General Fund reductions and budget adjustment to maintain a balanced budget for the restoration of the \$56,755 of the 3-year CORE contracts and the one-time \$45,000 set aside funding.

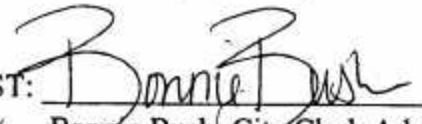
PASSED AND ADOPTED this 12th day of June, 2018, by the following vote:

AYES: Councilmembers Mathews, Chase, Noroyan; Vice Mayor Watkins;
Mayor Terrazas.

NOES: Councilmember Krohn.

ABSENT: Councilmember Brown.

DISQUALIFIED: None.

ATTEST: 
Bonnie Bush, City Clerk Administrator

APPROVED: 
David Terrazas, Mayor