

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.