

City Manager's Message

Dear Mayor, Councilmembers, and Santa Cruz Community,

In accordance with the City Charter, I am presenting the City of Santa Cruz's Fiscal Year 2025 Operating Budget and Fiscal Year 2025 Capital Budget for your consideration.

The budget reflects our values as an organization and serves to operationalize the City Council's priorities set forth in your 2023-2028 Citywide Strategic Plan. As we officially emerge from the financial uncertainty of the COVID-19 pandemic and return to pre-pandemic economic trends, our General Fund continues to struggle to keep pace with increasing expenses and growing community demand for services. Despite those fiscal constraints, I am proud to present a budget that continues our organization's longstanding tradition of excellence, innovation, and strategic planning.

With the exception of budget increases due to contractual obligations and inflationary increases, the Fiscal Year 2025 Budget is otherwise largely status quo, resulting in a total budget of \$434.5M including a Capital Investment Program Budget of \$114.8M. The City's General Fund of \$151.4M further invests in high-quality services for the community and advances the City Council's priorities.

The General Fund budget for Fiscal Year 2025 is a balanced budget. City policy requires the adopted budget to be balanced. However, maintaining the ongoing operations is not sustainable over the long term. We will need to continue exploring opportunities for additional cost recovery, operational efficiencies, and new revenue sources, as outlined in our long-range financial plan.

Reflecting on Key Milestones

Progress on Housing

Fiscal Year 2023 was a year of accomplishments, resiliency, and long-range strategic planning. Santa Cruz continued to be a leader in addressing our state's housing crisis, with the enthusiastic certification of our 6th Cycle Housing Element and successful completion of the 5th Housing Element Cycle, including exceeding all State mandated housing targets. One of only 6% of all jurisdictions across the State to do so. Santa Cruz's efforts were acknowledged by the State of California with a "Prohousing Designation," making us eligible for additional grants and funding incentives.

In addition to the excellent work on the housing front, our Planning and Community Development team processed over 1,650 building permits in 2023, marking another strong year of development activity.



Resiliency and Long-Range Strategic Planning

Our region was hit hard by the 2023 atmospheric river events and, later, the 2024 Winter storms, and our departments invested significant time and resources on recovery efforts. This work included several major infrastructure repair projects, including repairs along West Cliff Drive. The long-anticipated effects of climate

change and resulting sea level rise are taking their toll on our coastline. In response, the City Council and staff recognized the need to look long-term and initiated a robust community engagement and planning effort that culminated in creating the 50-Year Community Vision for West Cliff, one of the first of its kind in California.

Upstream Solutions to our Homelessness Crisis

As we enter year three of our Homelessness Response Action Plan, our Homelessness Response Team and City departments are making progress connecting those living unhoused in our community with services and onto a pathway to stable housing. Collectively, our programs have served over 776 people and connected 121 with stable housing. With more than 960 affordable housing units in the pipeline, Santa Cruz is leading the way in efforts to address our housing and homelessness crisis.

Affordable Housing and Economic Recovery

Our Economic Development and Housing team has worked hard this past year with several exciting, affordable housing projects and key business support efforts.

After years of planning, redevelopment of the downtown Metro Transit Center is well underway, with the completion of Pacific Station South on the horizon and Pacific Station North now started, providing a total of 164 100% affordable housing units. We also celebrated the recent completion of the Cedar Street Apartments, another 100% affordable housing project providing 64 family residences. Lastly, the City Council approved all entitlements for the Downtown Library and Affordable Housing Project, paving the way for breaking ground in early 2025.

On the business front, the Department also successfully completed a permanent Outdoor Dining



and Parklet Ordinance and is working towards the completion of outdoor dining requirements for private businesses. Through proactive business support efforts, we continue to see continued economic recovery and investment in our downtown, with the addition of over 40 new businesses and a significant reduction in the overall downtown retail vacancy rate to just 6%.

Investments in Infrastructure

The Water Department is in the midst of a once-in-a-generation capital infrastructure modernization and replacement effort, with over \$310M in active projects underway for FY 2025-2029. This work focuses on improving water supply resiliency for our community over the long term. Projects include:

- A comprehensive modernization of the Graham Hill Water Treatment Plant,
- Replacement of our Newell Creek Pipeline from the Loch Lomond Reservoir to the Treatment Plant,
- And many other facility and infrastructure upgrades.

Similarly, Public Works has been busy with several major infrastructure projects, including storm recovery projects like completing three infill walls along West Cliff Drive and replacing the Bethany Culvert, which will be completed later this year. Additionally, Public Works will complete Segment 7 Phase II: Bay/California to Pacific Avenue of the Coastal Rail Trail, and launched the first regional bike share program.

Supporting an Active and Thriving Community

In 2023, our Parks and Recreation Department had nearly 100,000 participants in their programs, classes, and events. They also helped to facilitate more than 10,000 facility rentals, removed 330 tons of refuse citywide, and 115 tons of green waste. Aside from the great work happening day-to-day to offer world class recreation programs and parks facilities, the Department completed significant long-range planning efforts and capital projects, including robust community engagement around the San Lorenzo Park Redesign process. The Department also set forth important policy changes, including removing gender-based rules in adult sports leagues.

Ensuring the Public Health, Safety and well-being of our community

Our Fire and Police Departments continued to make the safety of our community a top priority. The Fire Department welcomed two new fire apparatuses, representing a major investment in the department's infrastructure and equipment. Fire Department Command Staff played a critical role in managing our Emergency Operations Center during the 2023 and 2024 storm events, our Fire Fighters responded to over 9,500 emergency calls for service, and our lifeguards with the Marine Safety Division has 146,000 contacts with the public last year. Our Police Department made significant progress filling critical Police Officer vacancies, allowing the Department to redeploy a Downtown and Traffic Safety Units, as well as dedicate two full-time Community Service Officers and a Sergeant to support the Homelessness Response Team's work in the field. In total, the Department responded to 81,606 calls for service in 2023 and completed over 22,000 reports.

High Performing Organization

In addition to the many outward facing accomplishments, our internal service departments, including Human Resources, Information Technology (IT), and Finance and Risk Management had several milestones worth celebrating. We hired a full-time Safety Officer to support the work of our Risk Management Division and expand our commitment to the safety of our employees. Finance led the charge in updating our 10-Year Long Range Financial Forecast, completed our first Popular Annual Financial Report (PAFR), and received the Government Finance Officers' Association (GFOA) Award of Excellence in Financial Reporting and the Distinguished Budget Presentation Award. To better support our highly valued employees, HR is focusing on strategic process improvements in our compensation and classification area and revamping the City's workers compensation processes, including the complete implementation of the 2021 Citywide Compensation Study. HR also processed 2,400 job applications and supported over 200 recruitments in 2023.

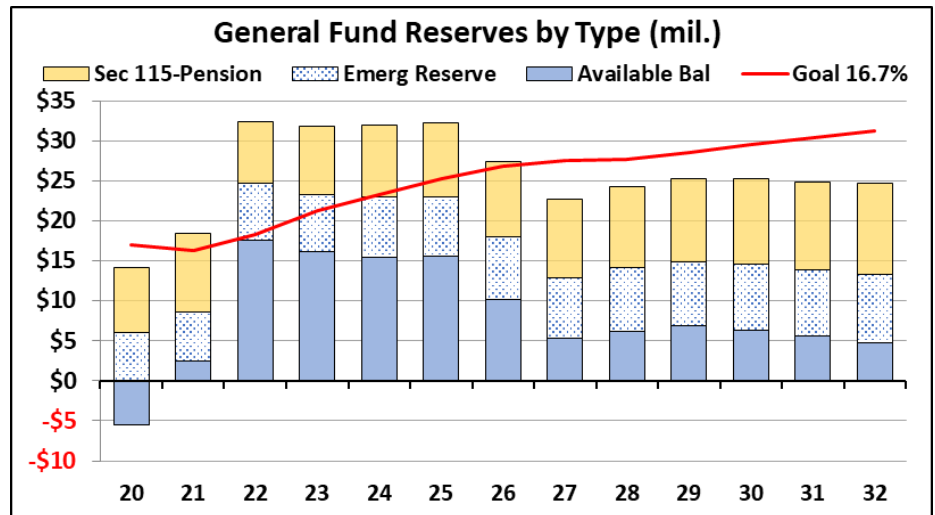
This year, we've implemented a revamped Citywide Communications team model, a significant shift in our past approach to communications. We've adopted a more holistic, citywide perspective by integrating Community Relations Specialists from various departments into the City Manager's Office. This strategic move has allowed us to enhance our City Manager Weekly Updates, now reaching a broader audience of community subscribers. Furthermore, our team has diligently expanded our social media presence, fostering increased engagement and outreach. We're actively involved in shaping a comprehensive Citywide communications strategy, spanning from community outreach initiatives to website content management. With ongoing improvements in the pipeline, we're committed to fostering more robust connections and delivering vital information to our community.

Lastly, IT completed 6,000 help desk requests, processed 2,800 requests through the Community Request for Service Portal (CRSP), maintained network availability of 99.97%, and are leading several citywide application deployments, including a new Enterprise Resource Planning application for all City Departments.

Long-Range Financial Planning

Financial Sustainability and Transparency is a key focus area for the City of Santa Cruz's Strategic Plan for 2023-2028. The specific strategy to reach this outcome is to ensure the City is on a strong financial trajectory, through planful investments and revenue development. This requires a long-range analysis of the City's financial status and the budget strategies that can be taken to continue down a strong financial path. In 2023, with input from the City Council and the community, we developed an updated 10-year Citywide Long-Range Financial Plan (CWLRF) The CWLRF demonstrates the financial impact of future budget options available to the City. The overall outcome of conducting a long-range financial planning process will help the entire City determine solutions for both current and long-term financial issues and opportunities. The chart to the right further underscores that without additional revenue solutions or changes to expenditures we will stay below our reserve goal.

With the support of the City Council, a sales tax measure increase was identified as a near term revenue solution. Following robust community and stakeholder engagement, as part of the March 2024 Primary Election, Santa Cruz voters resoundingly supported Measure L, a half-percent (.5) sales tax increase. This new funding stream will generate approximately \$8M annually and help to preserve essential General Fund services in the future. While this is a significant and substantive new funding stream, it is not enough to sustain the General Fund operations on its own in the future. We will need to continue exploring other solutions to improve our long-term trajectory.



Fiscal Year 2025 General Fund Budget Highlights

Revenues	Expenditures	Additions to the Budget
Tax revenues - \$104.6M	Personnel services - \$88.3M	Contractual increases - \$775k
Other revenues - \$46.8M	Services and supplies - \$54.8M	EP&L software - \$500k
Total -- <u>\$151.4M</u>	Capital, debt, transfers - \$8.3M	Deferred maintenance - \$152k
	Total -- <u>\$151.4M</u>	Compliance/Legal - \$78k
		Other - \$76k
		Total -- <u>\$1.6M</u>
		New General Fund positions - <u>\$766k</u>
<i>Sales tax has now surpassed property tax and the largest tax revenue for the City.</i>	<i>Departments submitted status quo budgets, but necessary additions to the budget, the ending of one-time state and federal funding, and an on-going commitment to invest in staff resulted in a rise in costs.</i>	<i>Strategic thinking allowed the City to bring on new staff and maintain services in spite of high supply costs and inflationary pressures.</i>

Fiscal Year 2025 Capital Outlay Highlights

The FY 2025 Capital Outlay represents significant investments in our capital infrastructure and facilities across all City Departments, advancing critical projects from storm recovery efforts on West Cliff Drive to replacement of the Newell Creek Pipeline and major upgrades at the Graham Hill Water Treatment Plant. We also have \$202.2M in unfunded or underfunded capital needs and we will need to continue leveraging state and federal grants, as well as exploring creative financing models such as enhanced infrastructure financing districts and other tax increment funding tools.

Key Investments Include:

- Pac Station North
- Murray Street Bridge
- West Cliff Drive stabilization
- Storm Damage Repairs on the Wharf
- Rail Trail segments 8 and 9
- Wastewater Treatment Facility Electrical Upgrades

In Closing

While continued uncertainties and unknowns are ahead, the FY 2025 Budget offers the Council, City Staff, and the community a sense of optimism as we look ahead to 2025. This budget is a testament to our shared priorities and the robust City services that our community expects, achieved through mindful fiscal strategies and careful planning. It is a significant step forward in advancing the City Council's 2023-2028 Strategic Priorities, enhancing organizational resilience, and supporting innovative services, all while maintaining fiscal stability. We are committed to working with our dedicated City Staff to implement this ambitious financial plan in the year ahead for the betterment of our community.

Acknowledgments

I would like to thank the City Council for your leadership, support, and strategic policy direction. I'd also like to thank our Executive Leadership Team of Department Heads, our Department Budget Leads, and the many City Staff who collaborated and contributed to the FY 2025 Budget.

A citywide budget of this magnitude necessitates countless hours of teamwork, collaboration, and patience. I want to extend a special thank you to the members of our Finance Team – Elizabeth Cabell, Marisol Gomez, Tracy Cole, and Emily Burton. Your unwavering dedication, expertise, innovative thinking, and adaptability were instrumental in navigating the complex and ever-evolving process of building a citywide \$434.5M budget. I also extend my gratitude to Assistant City Manager, Laura Schmidt, whose leadership, support, and strategic direction were indispensable throughout the process.

Finally, a big thank you to our City Staff, who serve our community with passion, dedication, and a heart for service every day.

Respectfully Submitted,

Matt Huffaker



City Manager