

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 2026 Operating Budget and Fiscal Year 2026 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. The last several fiscal years have required increased creativity and resilience, as we navigated the volatility of the pandemic, the impacts of post-pandemic inflation, and the ripple effects of rising interest rates and cost of living. Throughout these challenges, we have continued to develop thoughtful, innovative, and balanced budgets and the proposed Fiscal Year 2026 is no exception.

As our economy began to stabilize following the volatility of the pandemic, we now face new challenges with shifting federal economic policies that are creating growing uncertainty in the national and local economy. This uncertainty is further compounded by the Trump administration's unprecedented shrinking of the federal government and elimination of critical federal funding programs. Despite those challenges, we are fortunate to have a number of exciting new projects underway that will serve to strengthen our local economy and the quality of life of our community, including the La Bahia Resort and Spa, the Downtown Library and Affordable Housing Project, Pacific Station North redevelopment, and the River/Front housing project.

In the midst of these uncertain times, I am proud to present a budget that continues our organization's longstanding tradition of excellence, creativity, and strategic planning.

Except for modest budget increases of about 2.5% of discretionary budgets, the Fiscal Year 2026 Budget is otherwise largely status quo, resulting in a total budget of \$533.8M including a Capital Investment Program Budget of \$110.2M. The City's General Fund of \$158.9M further invests in high-quality services for the community and advances the City Council's priorities.

The General Fund budget for Fiscal Year 2026 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

The City's commitment to build strong partnerships and work with local developers, community groups, and stakeholders, to realize shared development goals saw great progress since Fiscal Year 2024. The Planning and Community Development Department continued to build on its successes, with FY 2025 projecting to be another year of progress. In addition to the department's strong contributions to advancing housing initiatives, the Building and Safety team demonstrated a continued commitment to supporting development and facilitating economic growth as it processed over 2,000 building permits. The Current Planning team successfully managed the review and approval of five major development projects totaling 747 residential units, including 214 affordable units. The Code Compliance and Rental Inspection Team completed 2,600 inspections, with 600 for code and 2,000 for rent. The Advance Planning team drafted and adopted policy updates to support the City's Housing Element objectives and conform to State law, and they progressed in updating the Local Coastal Program and completing Downtown Plan Expansion project.

Resiliency and Long-Range Strategic Planning

Major accomplishments in Fiscal Year 2025 included advancing key climate goals through delivery of the updated West Cliff Roadmap and development of the Climate Action Plan 2030 Implementation Workplan.

In December of 2024, we lost a section of our Santa Cruz Wharf during a high wave event. Thanks to City staff and first responders' swift actions and coordination, all individuals involved were safely rescued, and no injuries were reported. Staff across the City stepped in to support recovery efforts to address the damage and ensure the safety of our community. Beyond the immediate efforts of our Fire Department, OES Manager, Communications Team, and Parks and Recreation Departments, additional City staff helped the City weather that storm and emerge stronger for it. As part of this work, our City departments led the charge in developing a first-of-its-kind Coastal Infrastructure Monitoring Group comprised of



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regional and state partners, including NOAA, State Parks, the Coast Guard, and the Harbor District to help support informed decision making when major events threaten our coastline in the future.

Economic Development's Infrastructure and Property Management Team helped the financial stability and recovery of City tenants and Finance's Risk Team and Purchasing Division facilitated the financing and procurement needed to remove debris from across Monterey Bay and helped to ensure a safe and expedited reopening of the wharf. Moving forward, Parks and Recreation staff and the City Council are working to remedy additional damage sustained by the Wharf and develop a comprehensive response to help safeguard this iconic landmark.

Upstream Solutions to our Homelessness Crisis

As we implement our 2024 Homelessness Response Strategic Plan, our Homelessness Response Team and City departments are making progress connecting those living unhoused in our community with services and a pathway to stable housing. Significant funding was secured in Fiscal Year 2025 to support the City's homelessness response, including a \$4.3M Encampment Resolution Funding (ERF) grant, a \$2M state budget earmark to support the City's ongoing shelter programs, and a \$500,000 Pro-Housing Initiative Program (PIP) grant, which will provide rental assistance and prevent evictions in partnership with the Community Action Board of Santa Cruz County, Inc.

Affordable Housing and Economic Recovery

The Housing Division in the Economic Development and Housing Department (EDH) assisted with the leasing of 205 recently completed affordable units, assisted with financing for the new 121 permanently supported housing unit project at 119 Coral Street, and supported programs serving +29,000 residents and six community infrastructure projects in Fiscal Year 2025. The Infrastructure and Property Management Team further helped the Public Works team purchase the Awe Sum Organics building on Locust Avenue, closed the sale and transfer of the City-owned Skypark property to the City of Scotts Valley and is finalizing the acquisition of 877 Cedar. EDH initiated the process to consider and establish an Enhanced Infrastructure and Financing District to help fund needed infrastructure in the downtown and downtown expansion areas. Also, during FY 2025, EDH received approximately \$33.5M in Affordable Housing and Sustainable Communities Grant funding for the Downtown Library Affordable Housing Project; construction is expected to begin by June 2025. EDH is also currently administering over \$45M in grant funding for Housing and infrastructure projects.

The Business Services Team expanded efforts for strategic programming to support the recovery and activation of City businesses and retail sectors, including revitalizing alleys to attract more families and activities, addressing empty storefronts, expanding the Downtown Pops! Program, and exploring business

FY 2026 Budget improvement districts. The Arts & Culture Division activated new Rail Trail Segment 7 with new mural and sculpture installations. Staff coordinated installation and sponsorship support for ten traffic signal box murals to commemorate the SC Pride Parade 50th Anniversary.

Investments in Infrastructure

In FY 2025, the Public Works Department continued to prioritize modernization planning and implementation with a focus on cost recovery. This included two significant fee studies, including the General Fund development and permit fee increases that were recently approved by the City Council and implemented in the latter half of FY 2025.

Transportation Engineering staff engaged with the community to gather feedback on proposed traffic improvements for the Bay Corridor and worked with Engineering on the completion of Segment 7 Phase II of the Coastal Rail Trail. Parking, Street Maintenance and Transportation Engineering supported the relocation of the downtown Farmer's Market, in collaboration with the Economic Development team. West Cliff storm damage repairs are nearing completion and mitigation efforts are underway. Engineering also awarded the Murray Street Bridge seismic retrograde and roadway improvement project, with construction now underway. Public Works worked closely with the Human Resources Department to effectively reduce the number of vacant positions from 3% to 2% over the last year.

The Water Department continues to implement a robust capital investment program valued, in FY 2025, at \$88.6M. There are 41 active projects, 9 of which are in construction, and the department has secured over \$333M in low-interest loans and grant financing. Several highlights include:

Total Active Projects 41	Projects in Construction 9	Projects in Design 4	Active Funding Agreements 13	Prior Year Completed Projects 22
FY 2025 Adjusted Budget \$88.6M	Estimate Spend for FY 2025 \$44.2M	Total Amount of Grant Awards \$15.3M	Total Amount of Loan Agreements \$318.4M	Cost of Completed Projects \$55.4M

Supporting an Active and Thriving Community

Our Parks and Recreation Department remains a vital economic driver for the City, attracting visitors and enhancing the quality of life for residents. In FY 2024, the department engaged over 110,000 participants in recreational activities, demonstrating its ability to provide valued, sought-after services. This included popular new community classes like "Open Skate" at the Civic and the PRIDE Picnic at Laurel Park, fostering inclusivity and community engagement. Significant Cowell Beach accessibility updates were also completed. Critically, the department's stewardship of popular destinations like the Wharf and beaches, which saw over

2.7 million visits, directly fuels the local tourism industry. Lastly, the Department recently received the California Coastal Commission's approval of an updated 2025 Beach Management Plan that, for the first time, included new policies that ensure equitable access to the City's beaches, including the elimination of permit requirements for nonprofits and tribal groups. Over the coming year, the Department will also continue to advance important long-term planning efforts, including the completion of the Harvey West Park Design and Programs Assessment.

Ensuring the Public Health, Safety, and Well-Being of our Community

The Fire Department made significant enhancements to public safety through its emergency response, preparedness, and fire prevention efforts. The Department and OES prioritized community outreach and engagement through firesafe council events, townhalls, and wildfire awareness initiatives and developed a City Wildfire Resiliency Plan in collaboration with the Parks, Public Works, and Water Departments. The Fire Department responded to the Wharf collapse and managed recovery efforts, including supporting debris removal efforts and filing for FEMA cost reimbursement. The Department provided support for out-of-county strike teams for wildland fires, including the Eaton, Hughes, and Park fires. Health and wellness initiatives continued to be prioritized for our fire fighters through MRI cancer screenings, replacement of turnouts to options that are carcinogen-free, and work with a local physical therapist to reduce injury and increase fitness. The Department participated in a multi-departmental team to purchase a Fire Engine, develop an apparatus replacement fund, and conduct studies to bolster revenue sources. Lastly, the CMO and Fire Department collaborated on a Standard of Cover and Community Risk Assessment Study to take a fresh look at the Department's operations and future needs.

The Santa Cruz Police Department (SCPD) made significant strides in enhancing public safety, strengthening community partnerships, and modernizing operations. SCPD expanded its community engagement programs in traffic safety and mental health crisis response. The Department also leveraged technology-driven policing, implementing new automated license plate readers, body-worn camera and Taser upgrades, unmanned aircraft systems, and a digital forensic analyst position to enhance officer response, investigative capabilities, and accountability.

Significant efforts are being made to address ongoing recruitment and retention deficiencies to strengthen the department's workforce and improve the level of service to the community. Additional part-time staff have been hired, focusing solely on officer recruitment and implementing data-driven strategies. An improved career ladder framework within the civilian sectors (Property & Evidence, Records and Administration) provides a clear pathway for advancement and enhances operational efficiency.

High Performing Organization

In addition to the many outward facing accomplishments, our internal service departments, including Human Resources (HR), Information Technology (IT), and Finance and Risk Management had several milestones worth celebrating. Over the past fiscal year, HR completed a comprehensive collection of staff feedback on workplace culture as part of the Culture as a Competitive Advantage project. Through surveys, focus groups, and direct input, employees shared valuable insights on key areas such as recognition, compensation, new hire orientation, workplace flexibility, and internal collaboration. This feedback provides a strong foundation for the City's approach to enhancing employee experience and organizational effectiveness.

IT successfully completed enhancements to physical access security for four major City worksites, upgraded key infrastructure within the City Hall Data Center, and deployed multiple internal tools that will benefit services Citywide. The Department has maintained high network availability and efficiently restored the entire City's online operations within four hours following the global CrowdStrike outage. Critically, IT spearheaded the process in which final vendors have been selected, and the implementation process has commenced, for a new citywide Utility Billing, Cashiering, and Enterprise Resource Planning software.

The Finance Department was proud to earn the Award for Outstanding Popular Annual Financial Reporting following its first-ever publication of the Popular Annual Financial Report (PAFR) for FY 2023. This means the Finance Department won the coveted "Triple Crown" award from the Governmental Finance Officers Association, having earned an award for its Annual Budget, Annual Comprehensive Financial Report, and Popular Annual Report. This year, the Department took a large step towards owning the development of the Annual Comprehensive Financial Report. In the past, the City's auditors produced this document, but it is anticipated that the Accounting Division will draft this in FY 2026. This will be a large undertaking and will result in savings for the department and City.

In Fiscal Year 2025, the City Manager's Office finalized a citywide rebranding initiative and onboarded new Councilmembers and commissioners to ensure strong, informed leadership across the organization. The CMO also supported efforts to establish a Sugar Sweetened Beverage revenue measure, led efforts to develop the award winning 5-Year West Cliff Roadmap, and advanced several key climate and sustainability initiatives including completion of the 2025-2030 Local Hazard Mitigation and Climate Adaptation Plan 5 Year Update, and the formation of the City's first Climate and Sustainability Committee.

Fiscal Year 2025 Capital Investment Program (CIP) Highlights

The following CIP projects across the City were completed in FY 2025:

- Main Beach Restrooms

- Sergeant Derby Park Playground
- Civic Water Main Replacement
- Surf Museum Cupola Restoration
- London Nelson Roof Repairs
- Civic Auditorium Handrails
- Driving Range Outdoor Safety Improvements
- New Septic System at DeLaveaga Park
- Monterey Bay Sanctuary Scenic Rail Trail – Segment 7, Phase 2



Progress made in FY 2025 on CIP projects included:

- Awarded the contract for Active Transportation Plan Update
- Began construction of Murray Street Bridge
- West Cliff Drive Stabilization construction nears completion, which will be followed up with roadway and pathway paving
- Approved striping plans for the Downtown Intersection Improvements on Front Street
- Concrete Tanks Replacement project at the Graham Hill Water Treatment Plant is nearly 70% complete
- Furthered implementation of water supply augmentation by contracting for construction of an Aquifer Storage and Recovery well at Beltz Well 12
- Initiated design for an Aquifer Storage and Recovery well at Beltz Well 8
- Completed pilot test and prepared Summary of Operations Report for the piloting of Aquifer Storage and Recovery at Beltz Well 9
- Initiated the construction of the University Tank 4 Replacement Tank Project, Newell Creek Pipeline Replacement Project between Felton and Graham Hill

Water Treatment Plant, Santa Cruz-Scotts Valley Intertie Project, and Beltz 12 Ammonia Removal Improvements Project

- Substantially completed design of the Climate Resilient Santa Cruz: Graham Hill Water Treatment Plant Improvement Project and began Guaranteed Maximum Price negotiations with the Design Builder

Changes in Service Levels to Expect in FY 2026

Citywide services will increase in the following ways in FY 2026:

City Manager's Office

- Expanded CORE contracts to enhance community support programs
- Leadership and professional development for Citywide staff
- Strengthened communication and feedback channels
- Strengthened workplace culture initiatives to boost morale, retention, and productivity

Economic Development and Housing

- More affordable housing creation
- Diversification of Arts funding
- Restoration of Arts programming
- Downtown Pops! Program Expansion
- New paseos and alleyway rehabilitation

Internal Service Departments

- The Finance Department staff will review all City Council agenda items to ensure an accurate portrayal of the fiscal impact of recommendations
- Commencement of Sugar-Sweetened Beverage tax collection
- Increases in Cybersecurity and systems monitoring
- Increase in IT resources available to Public Safety departments
- Negotiation of Memoranda of Understanding for the City's bargaining groups
- Establishment of an enhanced employee recognition program
- Improved data management with implementation of new Citywide Enterprise Resource Program (ERP)

Parks and Recreation

- The Harvey West pool will be operational
- Improved service levels in Urban Forestry
- Anticipated expansion of Open Space management with new Measure Q funds

Planning Department

- 24-hour online portal access to submit applications, schedule inspections, and make secure online payments through the implementation of a Land Management Software
- Improved efficiency and enhancing transparency in the development review process with the implementation of a digital permitting system in Building and Safety

Public Works Department

- Expanded customer and permit service levels with continuing full office hours and increased staff availability from the Public Works Department
- Enhanced overnight enforcement of safety parking violations
- Enhanced enforcement of Oversized Vehicle ordinance
- Enhanced enforcement of overnight residential parking districts
- Additional community engagement and responsiveness to transportation and housing policy challenges from the Transportation Engineering division

Public Safety Departments

- Enhanced Marine Safety Division response and services
- Transitioning the Emergency Reporting System to meet reporting requirements
- Community wildfire protection and out-of-county strike team response will improve with deployment of a Type 6 Wildland Engine
- Wildfire protection will be enhanced through the City Wildfire Resiliency Program

Water Department

- AMI water meters, now fully implemented across the City, allows customers and the Water Department to monitor water usage in real time, helping identify leaks early
- Implementing the Utility Customer Assistance Program will help income-qualifying customers by applying a \$25 monthly bill credit

The following limitations will be placed on services in FY 2026:

Internal Service Departments

- Reprioritization of physical access security projects in favor of cybersecurity
- Pause on the onboarding and implementation of new applications in favor of ongoing high-lift implementations

Parks and Recreation

- Increased litter and encampments will create challenges in open spaces and parks
- Reduced external administrative functions from the Parks and Recreation Department due to project workloads caused by new system implementations
- Possibility of unplanned, catastrophic failures in the park system due to extensive deferred maintenance

Public Works Department

- Increased development downtown requires wastewater and stormwater collection system evaluation and upgrade
- Access to maintain smaller collection system pump stations on the wharf, in alleyways, the golf course, and other smaller access points are limited, as they require upgraded equipment

Water Department

- Limited ability to fulfill customer and developer requests due to lengthy and difficult recruitments

In Closing

While continued uncertainties and unknowns are ahead, the FY 2026 Budget offers the Council, City Staff, and the community a sense of optimism as we look ahead . 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 2026 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 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 \$534M budget. I also extend my gratitude to Assistant City Manager, Michelle Templeton, 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

A handwritten signature in black ink, appearing to read "M. Huffaker", with a stylized, cursive script.

City Manager