

Assignment of the Fund Balance of the Primary General Fund

Following the City of Santa Cruz's financial and budgetary policies and in alignment with best fiscal practices, the estimated ending fund balance for the Primary General Fund is set aside for specific purposes, as is the case with the pension reserve and the emergency reserve, and the remaining is unrestricted fund balance.

Pension Reserve

This reserve is restricted. Appropriations require resolution from the City Council and can only be used to cover costs associated with employee pension benefits.

Emergency Reserve

This reserve is used for sustaining General Fund operations in the case of a public emergency such as a natural disaster, economic recession, or other unforeseen catastrophic event. The use of this reserve requires resolution from City Council.

Unrestricted Fund Balance

These funds are set aside to cover unexpected operational and one-time needs. This is made up of committed and assigned fund balance.

After FY 2025 closes, the new audited balance of these portions of the fund balance for the Primary General Fund will be known.

Explanation of Fund Balance Change Over 10%

It is considered best practice to provide an explanation of the change in fund balance if this change is greater than 10%. As can be seen on the previous page, the following funds are anticipating a greater than 10% change, so an explanation for this is as follows:

The Primary General Fund will see a reduction in its fund balance of 125%. This is due to the reintroduction of a General Fund transfer to invest in Capital Investment Program (CIP) projects. After deferring this additional infusion of funds for the past two fiscal years, the City's assets need development and this one-time use of past revenue sources in the fund balance will reap long-term benefits.

The Gasoline Tax Fund has a planned 42% decrease in fund balance in FY 2026. This is in large part due to the large, anticipated costs for Murray Street Bridge Seismic Retrofit CIP project (c409321) in FY 2026, which currently is underfunded because it is awaiting reimbursements from the Federal Highway Administration. This fund currently has a negative fund balance due to this project. The plan for FY 2026 is that this project will move to the General CIP Fund, Fund 311, as the project has multiple funding sources, not just Gasoline Tax.

The City is undertaking a grant anticipation note to cover the timing gap between the submission of invoices for reimbursement and the actual receipt of the reimbursement. With this project in Fund 311, and after deploying the funds from the grant anticipation note to the outstanding revenues for the project, the Gasoline Tax Fund will reflect a positive fund balance.

Transportation Measure D Fund will have a 75% increase in fund balance as projects ordinarily receiving Measure D funds are diverted to other funds or deferred. Measure D funds will be set aside to fund construction of the remaining Monterey Bay Sanctuary Scenic Trail (Rail Trail) segments (c401804) within the City limits.

The Traffic Impact Fee- Citywide Fund will have a 31% decrease in its fund balance in large part due to a \$1M transfer to the Gas Tax project, Downtown Intersection Improvements, c401903. This project will be \$5.7M in total and is a response to deficiencies identified at three intersections in the downtown area, to where the Santa Cruz Metro operations are being relocated, and affordable housing developments have been developed recently.

The Clean River, Beaches Fund will similarly have a decrease in its fund balance, which will be reduced by 31% in FY 2026. The Public Works Department made personnel changes in the FY 2026 budget cycle to align the cost of positions more accurately with the work performed, and this resulted in less costs to this fund from an Associate Planner II (a reduction of 25%) and 10% of the costs of a new Senior Professional Engineer position. While this will result in improved accuracy, and the new position will be able to support flood control systems and address health and safety issues related to environmental review, this position will result in a net, higher cost to the fund.

The fund balance for the Housing and Community Development Funds will increase by 11% due to an infusion of \$2.4M in revenues from the sale of the City's property at 302 and 326 Front Street.

The Capital Projects Funds will have an increase in fund balance of 38% in large part because Fund 317, the Street Maintenance and Rehabilitation Fund, has an anticipated \$962k surplus in FY 2026. The transfer planned to this fund from the General Fund was not fully budgeted since this fund has expenditures from past unfunded projects. The transfer will help bring Fund 317 into a positive fund balance.

Internal Service Funds will see a 13% increase in fund balance at the end of FY 2026 due to a surplus in the Group Health Fund 843 of \$1.47M and a surplus in the Unemployment Insurance Fund 844 of \$0.8M. These fund balances are being allowed to build up in the 2026 fiscal year to be able to cover large, unanticipated claims in the future.