

City of Santa Cruz Interim Recovery Plan

November 2020

DRAFT

November 12, 2020



Prepared for the City of Santa Cruz by Management Partners



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Overview



The City of Santa Cruz is facing a long-term fiscal gap and City leaders recognize that the next 12 to 18 months are critical for recovery. During this period, particular attention will be needed in developing a plan that will put the City on a path toward sustainability.

An **Interim Recovery Plan Council Committee** has provided leadership for this effort. On October 29, 2020, the Council conducted a workshop to identify its priority areas of focus during the next 12 to 18 months so that the budget can be stabilized.

Interim Recovery Plan Objectives

There are **three key objectives** for the interim recovery plan, as detailed below.

1. Establish **priority areas of focus** for the Council's and staff's attention over the next 12 to 18 months. The intent is that with these areas of focus, less attention will be given to other services and projects given constrained resources and the need to address the highest priority of financial recovery.
2. Identify **key metrics for tracking recovery**. These are to be a set of meaningful metrics that will indicate recovery. The selected metrics are shown in another section of this report.
3. Create a **framework for making decisions about new work, services or projects** during this period so that Council members and staff can prioritize time and resources on the priority focus areas. The agreed upon framework is provided in another section in this report.

The City Council has established the following five **guiding principles** for the Interim Recovery Plan.

- Responsiveness and Nimbleness
- Risk Awareness and Mitigation
- Creative Pursuit of All Funding
- Community Engagement
- Health in All Policies: *Equity, Sustainability, Public Health*

Input for this Interim Recovery Plan was provided by members of the City Council, executive team and community.

Financial Context

The City is facing a **long-term fiscal gap** that averages over \$10 million per year which would have fully depleted reserves by the end of FY 2020-21 if not addressed. The Council has made budget reductions in the amount of \$5.175 million for FY 2020-21 to partially reduce the gap. These reductions are a combination of one-time and ongoing cost savings. More budget changes will be needed to bring expenditures in alignment with revenues in FY 2021-22.

This deficit is largely a result of the COVID-19 pandemic recession, although there was a structural gap between expenditures and revenues prior to the current recession. The City is now relying significantly on reserves to fund operations which is not sustainable. Future growth in key expenditure areas, including employee compensation and pension costs, are outpacing anticipated growth in already insufficient revenues.

Worsening the outlook are steep declines in economically volatile (elastic) revenue sources such as sales tax and transient occupancy tax that have taken a significant hit as a result of the COVID-19 pandemic recession. Revenue losses anticipated from the recession are estimated to be \$23.9 million from March 2020 to FY 2024-25.

It is not presently known if additional Federal or State assistance beyond current CARES Act will be coming which could provide additional relief to the City. Any such assistance might only be one-time in nature but could help mitigate possible future impacts to restore the City's reserves in the long term.

FY 2020-21 Budget Reductions. Key reductions approved by the City Council for FY 2020-21 are listed below.

- Elimination of vacant positions (net 18 deleted)
- Reorganization of Ranger program, including eliminating Ranger positions
- Early retirement incentives accepted by 26 city staff members
- Elimination of Community Set Aside Grants
- 25% reduction of the Worker's Compensation rates charged for each position and a one-time FY 2020-21 Worker's Compensation Fund rebate
- Reduction in transfer of transient occupancy tax to the Economic Development Trust Fund
- Adjustment of equipment replacement schedules
- Reduction of contract costs

Attachment A contains additional information about the City's financial outlook.

Priority Areas of Focus



The City Council has identified three priority areas of focus for the 12 to 18 months of the Interim Recovery Plan. They are listed below.

A **work plan** to implement these priority focus areas will be developed by City staff and presented to the Council.

Take actions to ensure short- and long-term fiscal sustainability

Invest in downtown and other business sectors

Improve and maintain infrastructure



Community input was sought through an online survey as part of the process. Highlights are provided in Attachment B.

Principles and Processes



The following principles and processes will be kept in mind as part of the Interim Recovery Plan, including:

- Make decisions consistent with the three pillars of **Health in All Policies (HiAP)**: *
 - ***Equity – Public Health - Sustainability***
- Foster opportunities and practices to accelerate a **green economy**
- Access State and Federal resources (such as CARES Act)
- Prioritize resources to those most in need
- Prioritize items in the Grand Jury reports
- Engage community in maintaining parks
- Focus on risk management
- Define core city services and prioritize them

*The City is establishing a community and well-being monitoring program to be adopted in early 2021 as part of the HiAP Year 1 implementation work plan.

Metrics for Tracking Recovery



The Interim Recovery Plan includes 10 metrics for tracking recovery. Criteria that were applied to a list of potential metrics as a way to narrow the choices for consideration were:

- Will the data **help measure recovery** in Santa Cruz?
- Is the City **currently tracking** these data?
- If the City isn't tracking the data, are they **readily available** from another source (e.g., state or regional organizations)?
- Are data available at least **quarterly**?
- Does the City have **direct influence** over the outcome?

Metrics are shown as percent change so City leaders can see either improvements or deterioration in what is being measured.

Metrics for Recovery

- Percent change in **business licenses issued**
- Percent change in **business license renewals**
- Percent change in **commercial vacancy rates**
- Percent change in **business closures**
- Percent change in **number of permits issued by type** (e.g., planning, building)
- Percent change in **new housing units (all types) permitted**
- Percent change in **transient occupancy tax revenues**
- Percent change in **sales tax revenues**
- Percent change in **admissions tax revenues**
- Percent change in **General Fund reserves**
- Percent change in General Fund **capital maintenance projects budgeted**
- Percent change in labor hours for **maintenance of parks and open space**
- Percent change in labor hours for **maintenance of recreation facilities**

Note: Metrics related to the green economy and jobs will be determined as part of the Climate Action Plan 2030 process.

Framework for Considering New Initiatives

Purpose

To enable the Council and staff to focus attention and resources on projects, programs and policies already approved and underway, and on the top priority areas of focus, a **framework for making decisions about new work, services or projects** during the interim recovery period has been created. The intent is that new items should be considered as part of the City's regular budget process, unless it is of a nature that it cannot wait. To aid in decision-making, a set of criteria is provided below.

Council Decision Criteria

Criteria for Considering Council-Initiated Requests

An **analysis** should be conducted unless something is an emergency. Requests must have **broad sponsoring support** as shown by three members of Council sponsoring the discussion of the proposed item and applying the balance of the applicable criteria below. The criteria are intended to apply to requests that would require **eight hours** of staff time or more. For requests less than that, the City Manager will make the determination as to how the request will be handled.

- **Consistent with Interim Recovery Plan** – Is the item consistent with IRP priorities? Does it relate to one or more of the priority areas?
- **Urgency** – Does the item represent an urgency which requires immediate action by Council? Where will the funding come from?
- **Fiscal Impact** – How much new funding or net revenue will be increased by the new item, taking into consideration staff time or other costs needed for the effort? What cost reductions would be realized by the new item?
- **Mandates** – Is the new effort a State or Federal mandate that cannot be deferred without risk to the City? Is funding available to implement?
- **City Resource Impact** – Does the new work require city staffing, facilities or other resources? What services, programs and/or projects will be delayed, deferred or defunded to allow the new item to move forward? If the new item is labor-intensive, what will be supplanted?

City Manager Actions

Guidance for City Manager Actions Regarding New Requests

The City Manager must be able to set limits and decline requests for research or new projects so that staff can stay focused on recovery and the top priorities. By Council Policy 6.9, requests specifically initiated by Councilmembers that will require more than eight hours of staff time must be approved by the Council.

Communicating with the Public



COVID-19 has changed much for every individual in our community, for our businesses, the University of California/Santa Cruz, homeowners and renters, people with all sorts of needs. It has dramatically changed the landscape for the City of Santa Cruz in what we can afford and how we need to think about our services.

It will be important for members of the Santa Cruz community to understand this changed fiscal environment for City services and how we will focus our attention over the next 12 to 18 months through the Interim Recovery Plan.

Suggestions for communicating with the public from members of Council and department heads include:

- ❖ Orient new members of Council and provide opportunity for their input
- ❖ Engage youth in listening sessions
- ❖ Engage with groups like the Chamber of Commerce, unions, contractors, workforce development board, academia, and cannabis community regarding partnerships
- ❖ Conduct targeted outreach, engagement and presentations
- ❖ Include information with water bills or send out a city mailer
- ❖ Engage leadership of community groups – convey that the city cannot do everything
- ❖ Convey a sense that the City will be okay and will rebuild
- ❖ Identify creative solutions (e.g., storytelling, promoting entrepreneurship), and personalize
- ❖ Coordinate with major projects and community events to avoid community fatigue on engagement and promote cross collaboration.

Conclusion



Interim Recovery Plan Team

City Council

Justin Cummings, Mayor

Donna Meyers, Vice Mayor

Katherine Beiers, Councilmember

Sandy Brown, Councilmember

Renee Golder, Councilmember

Cynthia Mathews, Councilmember

Martine Watkins, Councilmember

Martín Bernal, City Manager

Executive Staff

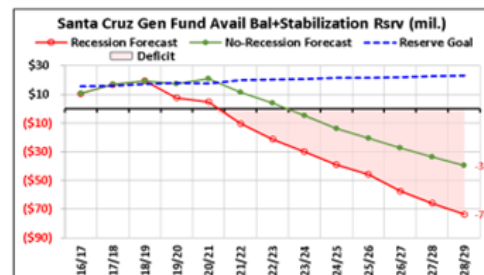
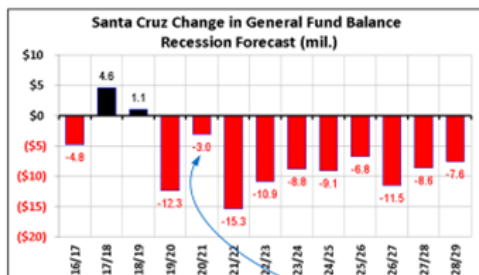
This Interim Recovery Plan intends to provide the focus we need as a City government so that we can harness our limited resources to take action steps toward financial sustainability.

Thank you to everyone who assisted with information gathering, and to the City Council for the direction provided for this Interim Recovery Plan.

Attachment A: Financial Information

Image 1 – Fiscal Context. The first two charts are from the financial forecast prepared by Management Partners and presented to the City Council in August 2020, prior to expenditure reductions approved by the Council in October 2020. As can be seen, the gap between anticipated revenues and expenditures is significant, and the City has a structural gap. During the Interim Recovery Plan period, the City will be working to bring the budget into alignment.

Fiscal Context



- Shortfalls ongoing
- FY 2020 budgeted revenues were \$9.7M higher than in current forecast; expense estimates generally on target

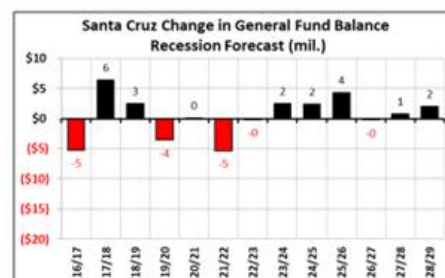
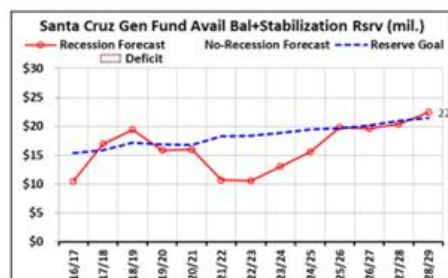
FY 2021 includes furloughs and early retirements for one year only, and \$795K CARES Act funding; no Prop. 15 in forecast

- Structural deficit even without recession
- Reserves will be depleted by end of FY 2022
- Immediate action is required



Image 2 – Updated Forecast. The following charts were presented by City staff to Council on October 8, 2020, the result of the extensive staff work to gather FY 2019-20 actuals, along with updated numbers for FY 2020-21 for items such as furloughs and early retirements. These charts include reductions in the amount of approximately \$5.175 million FY 2020-21.

Updated Forecast



- \$3.75M in ongoing savings* implemented starting in FY 2022
- Lowest fund balance estimated at 60% of goal
- Fund balance goal restored in FY 2026
- Restoration of \$2M in cuts in FY 2028

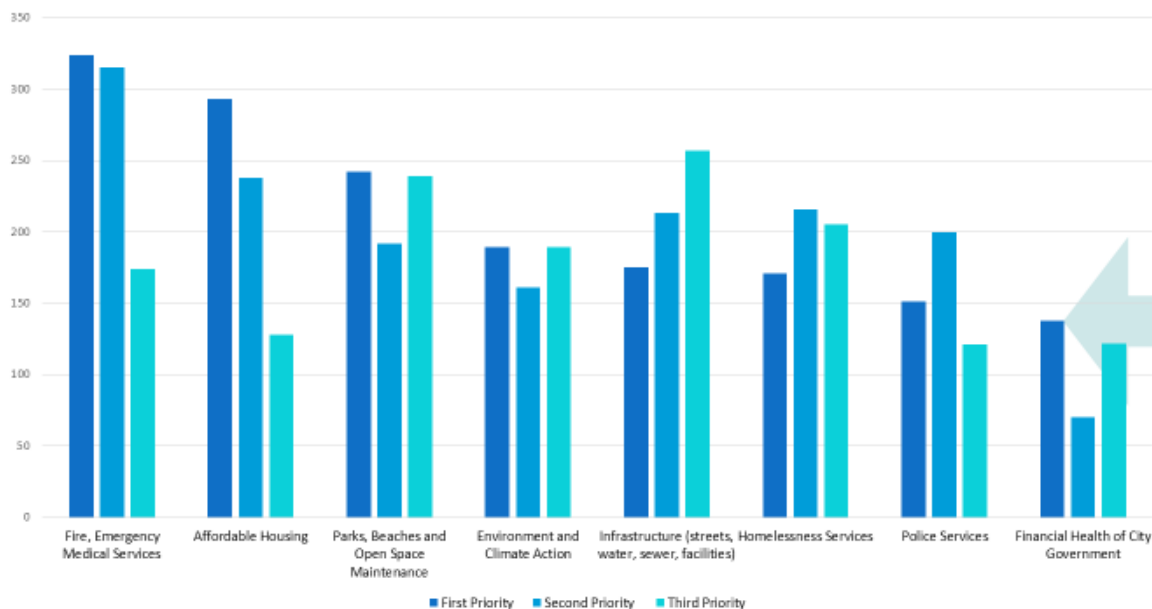
**Target savings must be ongoing and sustainable or future year estimates will not be met.*

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Attachment B: Community Survey Results

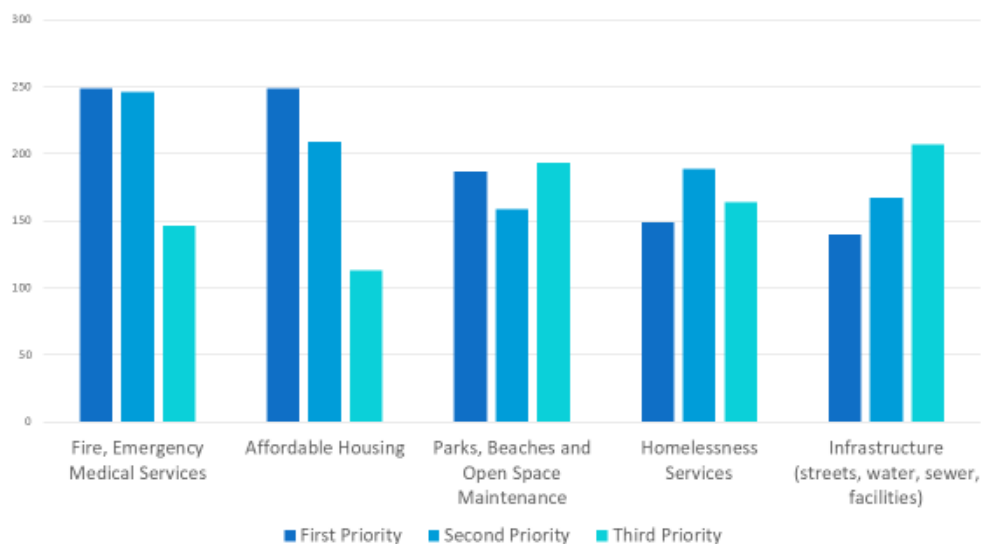
Community Survey – 1,835 Total Respondents



Top Five Priorities

- ✓ Fire and Emergency Medical Services
- ✓ Affordable Housing
- ✓ Parks, Beaches and Open Space Maintenance
- ✓ Environment and Climate Action
- ✓ Infrastructure

Residents, Businesses, Students – 1,492 Respondents



Top Five Priorities

- ✓ Fire, Emergency Medical Services
- ✓ Affordable Housing
- ✓ Parks, Beaches and Open Space Maintenance
- ✓ Homelessness Services
- ✓ Infrastructure

Attachment C: Significant Projects Underway

City departments provided the information shown below listing significant projects that are underway or authorized by Council that will require focused attention during the next 12 to 18 months. Some are from the recommended solutions section of the August 2020 Management Partners presentation to Council.

Table 1. Significant Projects Underway

Project Name	Major Milestones Planned for FY 2020-21 and FY 2021-22
Potential revenue measure	November 2021 – Election
FY 2010-21 Budget Stabilization	September – October 2020 Budget Adjustments December 2020 Checkpoint if Needed February 2021 Mid-year Adjustments
FY 2021-22 Financial Budget Solutions	December 2020 – Identify FY 2021-22 Focus Areas January 2021 – FY 2021-22 Budget Direction February 2021 – FY 2021-22 Budget Submissions February – April 2021 – FY 2021-22 Budget Review and Editing May 2021 – FY 2021-22 Budget Hearings June 2021 – FY 2021-22 Budget Adoption August 6, 2021 – City Revenue Measure Resolution Due for November 2021 Ballot November 2021 – Vote
Cost Recovery	Parks and Recreation Planning and Community Development
Analysis for Possible Re-organizations	Risk/Liability/Workers Comp Finance Human Resources Communications Homelessness Response Economic Development
Bluebeam	Started with Current Planning entitlement applications; future phases include Building Division plan check <ul style="list-style-type: none"> Multi-departmental effort to have plan sets submitted and reviewed digitally using Bluebeam software
Climate Action Plan 2030	This equity focused, community driven process is in the planning phase with RFP releasing December 1, 2020 for consultant services and soft launch with public in January 2020 with community survey. Project will be complete by close of calendar year 2021. Climate Action Plan process will identify the most cost effective pathway to carbon neutrality (year to be determined), focusing heavily on green economy and ED partnerships in addition to the essential components and near term implementation/funding. Has a nexus with HiAP and recovery. Youth, Frontline and Downtown groups are key stakeholders. Diverse and accessible engagement planned.
Community Benefits Strategy	In planning/analysis phase. Involves an initiative related to construction and skilled trades workforce development both for city and non-city construction work, and city and non-city utility type operational functions; also engagement of local contractors and business in city infrastructure projects
Downtown Plan Expansion	Sending grant application request to Council on 10/13/20
Objective Standards for Multi-Family Housing	Grant funded project must be mostly complete (other than Coastal Commission hearings) by end of 2021

Project Name	Major Milestones Planned for FY 2020-21 and FY 2021-22
Housing Element Update	Release RFP in 2021; grant funded project <ul style="list-style-type: none"> ▪ Mandated update by end of 2023
Building Fee Updates	Hope to get a consultant on board in next 6 months (or less)
Various Large Plan Check and Construction Projects	Varies by project <ul style="list-style-type: none"> ▪ Significant amount of construction activity is continuing with lots of big projects underway or about to begin
Various Large Planning Entitlements	Varies by project <ul style="list-style-type: none"> ▪ Significant amount of construction activity is continuing with lots of big projects underway or about to begin
Mixed Use Library Project	Owner's Rep Contract RFP/RFQ for Master Developer/Design Build Team Project Design and Financing Finalize Design and Start Construction <ul style="list-style-type: none"> ▪ Many housing projects counting on new parking added downtown
Metro Phase I Mixed Use Affordable Housing Project	Entitlements Final financing Construction
Parks Master Plan/EIR	October 2020
Wharf Master Plan EIR and Plan Approval	EIR approval Master Plan approval Grants submitted and underway
LCP Update and Resilient Coast Grant Work	Identifying policies and near term projects required for coastal resilience, completion targeted for circa March 2021. Climate Action Program and Public Works are actively pursuing funding for design and construction of coastal resilience projects.
Highway 1 and 9 Intersection	Out to bid in the fall, construction in the spring
Wayfinding Implementation	Sign installation (in progress) <ul style="list-style-type: none"> ▪ Should be completed in 6 months
Water Infrastructure Reinvestment	Graham Hill Water Treatment Plant Design Build Contract – last half of FY 2020-21
Water Rate Increase	5 year rate increase proposal, 218 process, to be implemented by June 30, 2022
Water System Development Charges Revision	Project to revise system development charges (connection fees) likely resulting in lowered connection fees for non-single family development – complete during FY 2020-21C
Garfield Park Library	Permit, Bid, Construct, Open
Branciforte Library	Permit, Bid, Construct, Open
Downtown Library	Plan, Design, Approve, Construction Documents