

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:

Other General Funds are expected to decrease their fund balance by 14% by the end of FY 2027. \$1.5M of the approximately \$5M deficit in this fund group is due to a planned usage of the City's Section 115 Trust fund to cover the increased PERS costs in FY 2027 due to higher employee salaries and an increase in the PERS Unfunded Actuarial Liability amount owed by the City.

The Gasoline Tax Fund has a planned 180% increase in fund balance in FY 2027. The expenditures are less than revenues for the upcoming fiscal year to account for the project expenditure budgets that will carry forward from FY 2026 into FY 2027. There are several large projects associated with Gas Tax with budgets that are carrying forward, such as the Murray Street Bridge construction project and the projects along West Cliff, so the Public Works department did not commit as much of the new Gas Tax revenues in FY 2027 to ensure those projects would be fully covered.

Transportation Measure D Fund will have a 29% increase in fund balance as Measure D funds are being set aside to fund construction of the remaining Monterey Bay Sanctuary Scenic Trail (Rail Trail) segments within the City limits.

The Traffic Impact Fee- Citywide Fund will have a 26% increase in its fund balance in FY 2027. The expenditures are less than revenues for the upcoming fiscal year to account for the project expenditure budgets that will carry forward from FY 2026 into FY 2027 that show the Traffic Impact Fee as a funding source.

The fund balance of the Road Maintenance Rehab Account is expected to increase by 76% in the upcoming fiscal year. This buildup of the fund balance is intentional to allow for the Public Works department to have a funding source for several projects in the foreseeable future. While the Murray Street Bridge construction project is currently on schedule and within budget, if extra funds do end up needed, this fund can assist in covering some of that gap. Additionally, as a number of projects downtown are completed, it is anticipated that paving projects will be needed, in which case RMRA funds will be used.

The Clean River, Beaches, and Ocean Fund will have a 10% decrease in FY 2027. This fund is supported by a dedicated parcel tax that provides stable annual revenue to reduce pollution, trash, and bacteria in local waterways and the ocean. In FY 2027, the Fund will support a Storm Drain Infrastructure Master Plan to assess system needs, regulatory requirements, infrastructure investments, and potential funding options.

The Parks and Recreation Funds are projected to have a 31% decrease in its fund balance in FY 2027. The fund balance built up over the years will be utilized to fund critical Parks and Recreation projects in the upcoming fiscal year as a method of reducing the under- and unfunded CIP project list that the department has.

Other Special Revenue Funds will see a 76% decrease in fund balance at the end of FY 2027 due to the planned use of Opioid Settlement Funds, which are required to be used for opioid remediation programs or activities. These funds have been received by the City in past years, but not yet used, so that built-up fund balance is now being programmed in FY 2027, in part to cover Homeless Response Specialist II positions in the City Manager's Office.

Capital Projects Funds is projected to decrease its fund balance by 26% in FY 2027. \$10M of the deficit in this fund group is due to funds previously received as Measure S drawdowns in Fund 316, for CIP- Santa Cruz Library, that will be transferred in FY 2027 to Fund 311 for the Downtown Library and Affordable Housing Project Phase III, c102715.