

Financial and Budgetary Policies

Overview

The City of Santa Cruz's annual budget development, approval, and revision process is governed by Finance Policies, which have been established through the City Charter, City Council policy, and Administrative Procedure Orders (APOs).

A listing of the relevant policies is as follows:

1. Budget Sections of the City Charter (1402, 1410, 1411, and 1412)
2. Budgetary Policy (Council Policy 12.3)
3. Transient Occupancy Tax (Council Policy 12.5)
4. Appropriation Control (Council Policy 12.6)
5. City of Santa Cruz Statement of Investment and Portfolio Policy (Council Policy 12.7)
6. Public Trust Fund (Council Policy 12.8)
7. Donations and Contributions (Council Policy 12.10)
8. City Wide Stabilization Arrangement (Two-Month General Fund Reserve) and Unfunded Obligation Stabilization Arrangement (Council Policy 12.13)
9. General Fund Surplus Policy (Council Policy 12.14)
10. Economic Development Stabilization Arrangement (Council Policy 12.15)
11. Cannabis Business Tax Increment Designated for a Children's Fund (Council Policy 12.16)
12. Grants – Council Review and Approval (Council Policy 14.3)
13. Debt Management Policy (APO Section I, #89)

The City Charter may be found at: www.codepublishing.com/CA/SantaCruz/. The entirety of City Council policies, including their full text, may be found at: www.santacruzca.gov/Government/City-Council/Council-Policy-Manual.

FY 2027 Budget Compliance with Financial Policies

While the City strives to always meet all the established financial policies, there are times when the financial circumstance it finds itself in may deem unreachable. The following table displays the degree to which the FY 2027 budget meets each of the financial policies with a rating of a red, yellow, or green traffic light. Red represents that the budget is not meeting the financial policy, yellow means the policy is being partially met, and green means that the financial policy is being fully implemented. If a policy is not rated as green, a note explaining the rating is provided.

The next section provides a summary of the different policies. In FY 2027, the City is proud to meet almost all its financial policies, except for the Citywide Stabilization Agreement. The City has not had sufficient surpluses in the past to build an unrestricted fund balance reserve equal to two months' operating expenditures. This is a continual goal for the City, though, and the long-range financial plan's revenue strategies, once fully implemented, are expecting to bolster the City's ability to reach the reserve goal outlined in its financial policies.

Financial Policy	FY 2025 Rating	FY 2026 Rating	FY 2027 Rating	Explanation
<i>Budget Sections of the City Charter</i>	●	●	●	
<i>Budgetary Policy</i>	●	●	●	
<i>Transient Occupancy Tax</i>	●	●	●	
<i>Appropriation Control</i>	●	●	●	
<i>City of Santa Cruz Statement of Investment and Portfolio Policy</i>	●	●	●	
<i>Public Trust Fund</i>	●	●	●	
<i>Donations and Contributions</i>	●	●	●	
<i>City Wide Stabilization Agreement and Unfunded Obligation Stabilization Arrangement</i>	●	●	●	There are less than two months' expenditures in the City Wide Stabilization Reserve.
<i>General Fund Surplus Policy</i>	N/A	N/A	N/A	There is no surplus planned for FY 2027.
<i>Economic Development Stabilization Arrangement</i>	●	●	●	A \$500,000 transfer is budgeted in FY 2027.
<i>Cannabis Business Tax Increment Designated for a Children's Fund</i>	●	●	●	
<i>Grants – Council Review and Approval</i>	●	●	●	
<i>Debt Management Policy</i>	●	●	●	

The City is proud that it has increased its compliance with its financial policies in comparison to FY 2025, when the rating system first began. This year, there is a budgeted transfer to the Economic Development Trust Fund to partially fulfill the obligation of this financial policy. Similar to in FY 2025 and FY 2026, the transfer is not fully funded as the obligation to meet the Budgetary Policy, which requires the adopted budget's revenues to equal its expenditures, is being prioritized over this policy, since a full transfer would have upset that balance.

Summary of Financial Policies

1. Budget Sections of the City Charter (1402, 1410, 1411, 1418, and 1412)

The following is a summary of core elements of the budget sections of the City Charter. For the full text of the City Charter, navigate to:

www.codepublishing.com/CA/SantaCruz/.

The City Manager annually submits to the City Council a detailed budget showing estimated revenues and expenditures of the City and all departments thereof for the ensuing fiscal year at or before the first regular meeting of the City Council in June of each year.

The City Manager and Director of Finance see that each department and officer of the city operates in accordance with the annual budget appropriations thereof, as nearly as may be. Any appropriation may be changed during the budget year by resolution of the City Council upon application of the appropriate department head or the City Manager. No department or officer may expend or contract for any expenditure of money in excess of the amounts appropriated for.

The City is bound by a provision in state law limiting indebtedness for cities in California to 15% of the total assessed valuation of all real and personal property within the city.

Upon the recommendation of the City Manager, or with the City Manager's consent, the City Council may transfer funds from the unbudgeted reserve to any department or office.

2. Budgetary Policy (Council Policy 12.3)

The following is a summary of core elements of the Budgetary Policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/123.pdf.

Development and adoption of the City of Santa Cruz budget conforms to the following high-level, best practice budgetary principles:

1. The City shall adopt an on-time, structurally balanced budget
2. The City shall develop the budget calendar to prioritize community engagement and education
3. Performance measures will be developed
4. One-time resources shall be matched with one-time spending
5. A long-term fiscal plan shall be developed and updated
6. Fees for services shall default to full cost recovery

The annual budget is a structurally balanced budget, where recurring revenues equal or exceed recurring expenditures. If spending is projected to outpace income, the City Manager presents strategies and the City Council shall, by resolution, make necessary changes in any appropriations. The City may transfer from reserves to fund operational gaps but may not do so to fund capital investment projects or non-General Fund operations.

The City builds each year's budget calendar with an emphasis on community engagement and outreach. The budget is presented to the City Council no later than the first meeting in June and is adopted no later than the first meeting in July.

The City's annual budget includes performance measures to support City strategic goals. The selected measures are useful, relevant, reliable, adequate, and consistently and efficiently collectable.

A core principle in adopting a balanced budget and developing a long-range financial plan is to fund ongoing operations with ongoing resources and hold one-time, short-term resources for building reserves for funding one-time or short-term expenses.

The City develops, revises, and updates long-term financial plans to include strategies to move toward predictable, long-term sustainable operations. The implementation and ongoing maintenance of this plan consists of: using multi-year forecasting on all major funds and operations to guide budgetary decisions; establishing reserves to meet planned funding targets; replacing core equipment and maintenance; reducing the cost of unfunded retirement liabilities; preserving the retirement systems; and meeting facilities replacement fund targeted contributions.

All General Fund fees for requested services, excluding certain Parks and Recreation fees, shall ultimately be set to reach full cost recovery and shall be reevaluated at least every five years.

3. Transient Occupancy Tax (Council Policy 12.5)

The following is a summary of core elements of the Transient Occupancy Tax policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/125.pdf.

A portion of the Transient Occupancy Tax revenues are allocated to the City's visitor-serving agency.

4. Appropriation Control (Council Policy 12.6)

The following is a summary of core elements of the Appropriation Control policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/126.pdf.

At the department level, there are three major expense categories: the 51000 series (personnel services); the combined 52000 series (services), 53000 series (supplies), 54000 series (other materials and services), 56000 series (other charges), and 57000 series (Capital Outlay); and projects (Capital Improvement projects). Transfers between major expense categories must be approved by the City Manager and transfers between funds or departments or between Capital Investment Projects above \$100,000 must be approved by City Council. Any revisions that increase the total budget appropriation of any department and fund must be approved by the City Council.

5. City of Santa Cruz Statement of Investment and Portfolio Policy (Council Policy 12.7)

The following is a summary of core elements of the Investment and Portfolio policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/127.pdf.

The City Council and the Investment Committee are annually rendered with a statement of investment policy from the Director of Finance, which can be updated and modified as appropriate. A quarterly report on the activities and investment strategy is submitted to the City Manager and the City Council by the Director of Finance on a quarterly basis. City funds will be managed in a prudent and diligent manner with emphasis on legality, safety of principal, liquidity, yield, and local benefits generated by investing in local financial institutions: in that order. This policy was updated on March 26, 2024.

6. Public Trust Fund (Council Policy 12.8)

The following is a summary of core elements of the Public Trust Fund policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/128.pdf.

A Public Trust Fund exists to fund 3-year Capital Improvement Program projects with the understanding that high-priority unfunded projects carry a price tag far more than the amount maintained in the Public Trust Fund. The principal of the Public Trust Fund shall be preserved and maintained to meet the capital improvement needs of the City. Interest earnings may be used on an annual basis, may be accumulated from year to year to fund larger objectives, may be used to retire indebtedness to accomplish larger objectives, or a combination of these alternatives. Neither the principal nor interest shall be used to meet operational needs of regularly occurring annual costs.

7. Donations and Contributions (Council Policy 12.10)

The following is a summary of core elements of the Donations and Contributions policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/1210.pdf.

From time to time, the City receives donations and contributions to support City projects and programs. For monetary donations less than \$50,000 per individual donation, the City Manager has the administrative authority to accept and appropriate such donation to be used for the donor's intended purpose. If the donation is greater than \$50,000, it is placed on a City Council agenda for review.

8. City Wide Stabilization Arrangement (Two-Month General Fund Reserve) and Unfunded Obligation Stabilization Arrangement (Council Policy 12.13)

The following is a summary of core elements of the Stabilization Arrangement policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/1213.pdf.

A portion of the City's fund balance is set aside in reserves in recognition that it is in the best interest of the citizens of the City of Santa Cruz to have uninterrupted public access and services. These reserves are designed to be used in the event of a sudden and unexpected drop in revenues and/or unforeseen emergencies, including



unanticipated expenditures of a nonrecurring nature or unanticipated adverse financial or economic circumstances that would lead to operating shortfalls. These reserves may be utilized only after exhausting the current year's budgetary flexibility and spending the current year's appropriated contingency.

The City has two designated reserves: the City Wide Stabilization Arrangement and the Unfunded Obligation Stabilization Arrangement. The City Wide Stabilization Arrangement reserve is for significant financial emergencies that are unforeseen and non-recurring. The funding level of these reserves will be maintained in an amount equal to, but may exceed, two-months of the current fiscal year's adopted total General Fund operating expenditure budget. The Unfunded Obligation Stabilization Arrangement may be spent for reasons of: paying down the General Fund unfunded obligations to other City funds; paying down pension obligation bonds; and transferring into a trust for unfunded post-employment health care obligations. In lieu of a pre-established, flat funding amount or percentage, the funding target for these reserves are determined by City Council based on the City Manager's recommendation after consideration of General Fund projections and available financial resources.

9. General Fund Surplus Policy (Council Policy 12.14)

The following is a summary of core elements of the General Fund Surplus policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/12-14.pdf.

The City prioritizes allocation of General Fund resources towards critical, core municipal services that are in alignment with the City Council's goals. In accordance with this principle, the City Council allocates any year-end operating surplus by replenishing any General Fund reserves up to their minimum level to maintain an available fund balance of 5% of the current fiscal year's operating expenditure budget. Any remaining surplus more than \$100,000 is allocated to funding the Capital Improvement Program, with a priority to roadway improvements, to reducing debt obligations, and to increasing service levels and/or personnel cost increases, in that order of priority.

10. Economic Development Stabilization Arrangement (Council Policy 12.15)

The following is a summary of core elements of the Economic Development Stabilization Arrangement policy. For the full text of the policy, navigate to: www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/12-15.pdf.

The City invests in economic development projects and initiatives to create jobs and provide tax revenue for the community and does so, in part, through the Economic Development Stabilization Arrangement. The funding is built up over time through annual operating transfers from the General Fund equal to the one percentage (1%) point increase in the Transient Occupancy Tax effective July 1, 2023 and of the annual Redevelopment Property Tax Trust Fund distribution, less the General Fund's portion of the net operating costs of the economic development activities within the Economic Development Department. Circumstances where the Stabilization Arrangement can be spent are:

1. As necessary to fund economic development project costs associated with infrastructure projects, business façade improvements, business retention initiatives, business recruitment incentives, and grant funding.
 2. As necessary to fund City of Santa Cruz staff costs to administer projects
- If an unforeseen and non-recurring event defined within the policy creates a significant financial difficulty for the City, the Stabilization Arrangement may be postponed.

11. Cannabis Business Tax Increment Designated for a Children's Fund (Council Policy 12.16)

The following is a summary of core elements of the Cannabis Tax policy. For the full text of the policy, navigate to: www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/1216.pdf.

It is the policy of the City Council that 12.5% of the City of Santa Cruz's audited total actual unrestricted revenues derived from the Cannabis Business Tax is designated for the creation and funding of a dedicated Children's Fund. The Children's Fund supports enhancement and expansion of evidence-based programs to prioritize access to early childhood development, prevention, and vulnerable youth programs.

Measure A, passed by Santa Cruz voters in 2021, increased the percent designated to the Children's Fund from 12.5% to 20%.



12. Grants – Council Review and Approval (Council Policy 14.3)

The following is a summary of core elements of the Grants policy. For the full text of the policy, navigate to:

www.santacruzca.gov/files/assets/city/v/1/cc/documents/council-policy-manual/general-government/143.pdf.

The City Manager has the administrative authority to accept and appropriate grants of up to \$100,000 in value on behalf of the City for projects and programs that have been previously approved by the City Council. Grants more than \$100,000 in value must be approved by the City Council. The City Manager's Office prepares a quarterly information report to the City Council with information on the status of all grants.

13. Debt Management Policy (APO Section I, #89)

The following is a summary of the core elements of the Debt Management APO.

In recognition that prudent management of the City's debt program is necessary to achieve cost-effective access to the capital markets and demonstrates a commitment to long-term financial planning, the issuance and administration of City debt meets key objectives:

- Maintain the City's sound financial position
- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve and maintain the highest reasonable credit rating

- Ensure full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with state and federal laws and regulations

The Director of Finance authorizes, manages, and coordinates activities related to the structure, issuance, and administration of the City's long-term and short-term debt. The Finance Department prepares an annual report to the City Council containing a summary of the City's current credit ratings, and outstanding and newly-issued debt. The City may utilize the following types of minimal debt obligations to finance long-term capital projects: assessment bonds; general obligation bonds; pension obligation bonds; enterprise revenue bonds; lease revenue bonds; refunding bonds; conduit financing bonds; Certifications of Participation; lease financing; bank/private loans; tax allocation bonds; City of Santa Cruz internal financing pool; and other obligations.

The purpose of debt may include integration with the City's Capital Improvement Plan, long-term debt to finance the purchase or improvement of land,

infrastructure, facilities or equipment, short-term debt as an interim source of funding in anticipation of long-term borrowing, refunding, and lease financing.

Aggregate debt service payments funded from General Fund sources shall be no greater than ten percent (10%) of primary General Fund revenues as reflected in the prior year's adopted budget.

