A G E N D A

Meeting of the
Scotts Valley City Council

Date: March 7, 2018
Time: 6:00 p.m.

CONTACT INFORMATION	MEETING LOCATION	POSTING
City of Scotts Valley 1 Civic Center Drive Scotts Valley, CA 95066 (831) 440-5600	City Council Chambers 1 Civic Center Drive Scotts Valley, CA 95066	The agenda was posted 3-2-18 at City Hall, SV Senior Center, SV Library and on the Internet at www.scottsvalley.org.

ELECTED OFFICIALS	CITY STAFF MEMBERS
Jim Reed, Mayor Jack Dilles, Vice Mayor Stephany E. Aguilar, Council Member Randy Johnson, Council Member Donna Lind, Council Member	Jenny Haruyama, City Manager Kirsten Powell, City Attorney Taylor Bateman, Community Development Director Steve Hammack, Interim Public Works Director Steve Walpole, Chief of Police Tracy Ferrara, City Clerk

MEETING NOTICE AND AGENDA PACKET MATERIALS

Notice regarding City Council Meetings:
The City Council meets regularly on the 1st and 3rd Wednesday of each month at 6:00 pm in the City Hall Council Chambers located at 1 Civic Center Drive, Scotts Valley, CA 95066.

Agenda and Agenda Packet Materials:
The City Council agenda and the complete agenda packet are available for review by 5:00 pm the Friday before the Wednesday meeting on the Internet at the City's website: www.scottsvalley.org and in the lobby of City Hall at 1 Civic Center Drive, Scotts Valley, CA. Pursuant to Government Code §54957.5, materials related to an agenda item, submitted after distribution of the agenda packet, are available for public inspection in the lobby of City Hall during normal business hours, Monday-Friday, 8am-12 pm and 1-5 pm. In accordance with AB 1344, such documents will be posted on the City's website at www.scottsvalley.org.

Televised Meetings:
City Council meetings are cablecast "Live" on Community Television of Santa Cruz County on Comcast Channel 25.

CALL TO ORDER 6:00 PM

PLEDGE OF ALLEGIANCE and MOMENT OF SILENCE

ROLL CALL

COMMITTEE REPORTS

Council members are appointed to committees which are either City committees or committees dealing with other jurisdictions. This portion of the agenda allows the committee member to present oral or written reports to the Council regarding their committee assignments. It also allows the Council to make comments and give the committee member direction, as required.

CITY MANAGER REPORT

PUBLIC COMMENT TIME

This is the opportunity for individuals to make and/or submit written or oral comments to the Council on any items within the purview of the Council, which are NOT part of the Agenda. No action on the item may be taken, but the Council may request the matter be placed on a future agenda.

ALTERATIONS TO CONSENT AGENDA

Council can remove or add items to the Consent Agenda.

CONSENT AGENDA

The Consent Agenda is comprised of items which appear to be non-controversial. Persons wishing to speak on any items may do so raising their hand to be recognized by the Mayor.

A. Approve City Council minutes of 2-7-18 and 2-21-18 (Special Closed Session Meeting)

B. Approve check register(s) dated 2-16-18

ALTERATIONS TO REGULAR AGENDA

Council can remove or add items to the Regular Agenda.

REGULAR AGENDA

Persons wishing to speak on any item may do so by raising their hand to be recognized by the Mayor.

1. Consideration of mid-year financial review for FY 2017/18 and direction for preparation of the FY 2018/19 annual budget (City Manager Haruyama)

2. Discussion of Preliminary Fiscal Sustainability Plan, including Budget Strategies Analyses and Scenarios (City Manager Haruyama)

3. Future Council agenda items
(This portion of the Regular Agenda allows the Council to determine items to be placed on a future agenda and to choose a date, if so desired.)

ADJOURNMENT

ADA NOTICE

The City of Scotts Valley does not discriminate against persons with disabilities. The City Council Chambers is an accessible facility. If you wish to attend a City Council meeting and require assistance such as sign language, a translator, or other special assistance or devices in order to attend and participate at the meeting, please call the City Clerk's office at (831) 440-5602 five to seven days in advance of the meeting to make arrangements for assistance. If you require the agenda of a City Council meeting be available in an alternative format consistent with a specific disability, please call the City Clerk's Office. The California State Relay Service (TTY/VCO/HCO to Voice: English 1-800-735-2929, Spanish 1-800-855-3000; or, Voice to TTY/VCO/HCO: English 1-800-735-2922, Spanish 1-800-855-3000), provides Telecommunications Devices for the Deaf and Disabled and will provide a link between the TDD caller and users of telephone equipment.

PROCEDURAL INFORMATION FOR THE PUBLIC

THE FOLLOWING IS THE PROCEDURE COUNCIL SHOULD TAKE IN APPROVAL OF A RESOLUTION:

1. Move the Resolution number for approval.
2. Second the motion.
3. Vote by body, a roll call vote is not required.

THE FOLLOWING IS THE PROCEDURE COUNCIL SHOULD TAKE IN INTRODUCTION/ADOPTION OF AN ORDINANCE:

1. Move the Ordinance number for introduction (or adoption).
2. Move the Ordinance be introduced by title only and waive the reading of the text.
3. Read the Ordinance title.
4. Second the motion.
5. Vote by body, a roll call vote is not required.

THE FOLLOWING IS THE PROCEDURE COUNCIL SHOULD TAKE IN PUBLIC COMMENT/PUBLIC HEARINGS:

Unless otherwise determined by the presiding officer of the meeting:

1. Three minutes allowed per individual to speak.
2. Five minutes allowed per individual representing a group of three or more.

❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖

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M I N U T E S

Meeting of the Scotts Valley City Council

Date: February 7, 2018

POSTING:
The agenda was posted on 2-2-18 at City Hall, the SV Senior Center, and the SV Library, and on the Internet at www.scottsvalley.org, by the City Clerk.

CALL TO ORDER 6:00 p.m.

PLEDGE OF ALLEGIANCE and **MOMENT OF SILENCE**

ROLL CALL

Present:	Mayor Reed	City Manager Haruyama
	Vice Mayor Dilles	City Attorney Powell
	Council Member Aguilar	Police Chief Walpole
	Council Member Johnson	Interim Public Works Director Hammack
	Council Member Lind	Community Development Director Bateman
		City Clerk Ferrara

COMMITTEE REPORTS

VM Dilles reported that he attended the Monterey Bay Division League of California Cities meeting in Monterey.

VM Dilles reported that he attended the Oversight Board for the Successor Agency of the Scotts Valley Redevelopment Agency meeting to approve the annual budget and recognized obligation payment schedule (ROPS). He stated that this will probably be the last meeting of this Board as the County-wide Board will go into effect July 1, 2018.

VM Dilles reported that he attended an AMBAG open house regarding a hearing on the 2040 Metropolitan Transportation Plan and its sustainable strategies.

VM Dilles reported that he attended a meeting of the Loneliness Committee, which is a part of the Seniors Council, where they are working on ways to help seniors who are living alone.

CM Johnson reported that he attended the Santa Cruz County Regional Transportation Commission meeting where they discussed the feasibility of rail.

CM Lind reported that she attended the Criminal Justice Council Executive Committee meeting, where they are working with local gang task force personnel to work together to provide support and services to address some of the challenges related to the increased youth violence in Santa Cruz County.

CM Lind reported that she attended a Senior Fraud and Crime Prevention Awareness that was presented by the Santa Cruz County District Attorney's Office at the Scotts Valley Senior Center.

CM Lind reported that the Santa Cruz Metropolitan Transit District Board met to discuss a federal grant that they are pursuing to help replace 9 of the 61 buses that need to be replaced.

Mayor Reed reported the Town Center Subcommittee met to hear proposals from two potential developers and the Subcommittee will be hearing from a third potential developer next week.

CITY MANAGER REPORT

Community Center Improvements: Improvements are underway at the Community Center – we will be modeling the kitchen, along with new appliances, counter tops, cabinets and flooring. Completion date is estimated to be March 2.

Scotts Valley Water District - Lane Closure on Bethany Drive: You may have noticed that part of Bethany Drive in front on Baymonte Preschool is closed and traffic is being detoured onto Tabor Way. The Scotts Valley Water District (SVWD) is completing work on their pump station which should be wrapped up by Friday, February 9, 2018.

Scotts Valley Police Department Body Camera Community Outreach Forum: As part of the FY 2018/19 City's Capital Improvement Program (CIP), the Police Department will be purchasing Body Worn Cameras (BWC). The Department has scheduled an outreach meeting with the community to provide information about BWC, answer questions, and solicit feedback before finalizing police departmental policy and procedures. The meeting will be held this Thursday, February 8, 2018 at 6 pm in the Council Chambers.

TIP-A-COP: Don't forget that Tip-a-Cop is this Friday, February 9, 2018 at Brunos Bar & Grill from 11:00 am – 3 pm. SVPD officers will act as "Celebrity Waiters," helping to spread awareness and raise funds for Special Olympics of Northern California.

Mount Hermon Road/Scotts Valley Drive Intersection Project: The Intersection Project is still on schedule to begin on the Monday, February 12, 2018. You may have seen message boards on the west end of Mount Hermon Road and on Highway 17 announcing the project. The traffic control plan will require some sidewalk closures; notices regarding detour routes will be posted a week prior to the closure.

Skypark Drainage: As part of this year's budget, Skypark fields will be undergoing some drainage improvements. Deep aeration is planned – where 8" plugs are pulled and simultaneously filled with sand. The project starts next Monday, February 12, 2018 and goes through the week.

Appointment of Taylor Bateman as Community Development Director: Last week, I permanently appointed Taylor Bateman as our Community Development Director.

PUBLIC COMMENT

Wendy Brannan, Scotts Valley resident, expressed concerns regarding what is needed to provide essential services in the City related to existing and future potential needs. She also stated that she believed the Town Center Subcommittee was required to post agendas and minutes.

Mayor Reed responded that the Town Center Subcommittee is a Project Specific Committee and not required to post agendas and minutes.

Chris Culligan, expressed concerns about the safety of massage parlors in Scotts Valley.

ALTERATIONS TO
CONSENT AGENDA

CM Aguilar requested that items C and D be moved to the regular agenda for discussion.

CM Johnson item G be moved to the regular agenda for discussion.

M/S: Aguilar/Dilles
To approve the Consent Agenda as amended moving items C, D, and G to the regular agenda for discussion.
Carried 5/0 (AYES: Aguilar, Dilles, Johnson, Lind, Reed)

Consent Agenda:

A. Approve City Council meeting minutes 1-17-18
B. Approve check register – 1-12-18, 1-26-18
E. Authorize the City Manager to apply for a Local Partnership Program Grant for the Glenwood Drive Active Transportation Project
F. Approve Resolution No. 1939 in response to the call for comments on the draft proposed five-year outer continental shelf offshore oil and gas leasing program for 2019 through 2024

ALTERATIONS TO
REGULAR AGENDA

CM Haruyama stated that the City Council had additional items related to items 4 and 5 on the Council dais that were received after the publication of the agenda.

M/S: Lind/Aguilar
To approve the Regular Agenda as amended moving items C, D, and G to the regular agenda for discussion.
Carried 5/0 (AYES: Aguilar, Dilles, Johnson, Lind, Reed)

REGULAR AGENDA

C. **Approve non-collection of fees for the Scotts Valley Educational Foundation (SVEF) for their 2nd Annual Touch a Truck event being held at Skypark on Sunday, April 29, 2018**

D. **Approve non-collection of fees for the Santa Cruz Chapter of the American Association of University Women (AAUW) for the use of the meeting room in the Scotts Valley Parks and Recreation building on March 17, 2018 for the AAUW to conduct interviews of 7th grade girls who aspire to attend the annual Tech Trek at Stanford University**

CM Aguilar requested that City staff evaluate our schedule of non-profit fees due to the large amount of requests we receive for non-collection of fees each year.

M/S: Aguilar/Johnson
To approve the non-collection of fees for the Scotts Valley Educational Foundation (SVEF) for their 2nd Annual Touch a Truck event being held at Skypark on Sunday, April 29, 2018.
Carried 5/0 (AYES: Aguilar, Dilles, Johnson, Lind, Reed)

M/S: Aguilar/Johnson
To approve the non-collection of fees for the Santa Cruz Chapter of the American Association of University Women (AAUW) for the use of the meeting room in the Scotts Valley Parks and Recreation building on March 17, 2018 for the AAUW to conduct interviews of 7th grade girls who aspire to attend the annual Tech Trek at Stanford University.
Carried 5/0 (AYES: Aguilar, Dilles, Johnson, Lind, Reed)

M/S: Aguilar/Johnson
To have City staff evaluate our schedule of non-profit fees due to the large amount of requests we receive for non-collection of fees each year.
Carried 5/0 (AYES: Aguilar, Dilles, Johnson, Lind, Reed)

Wendy Brannan, Scotts Valley resident, expressed concerns about approving the non-collection of fees and its impacts on the City's budget.

G. **Approve amendment to agreement between the City of Scotts Valley and Management Partners for financial and budget services**

CM Haruyama presented the written staff report and responded to questions from Council.

M/S: Johnson/Dilles
To approve the amendment to agreement between the City of Scotts Valley and Management Partners for financial and budget services.
Carried 5/0 (AYES: Aguilar, Dilles, Johnson, Lind Reed)

1. Oral Presentation: Santa Cruz Metropolitan Transit District (SCMTD) Annual Report from Alex Clifford, General Manager of the SCMTD

CM Haruyama introduced Alex Clifford, General Manager of the SCMTD.

Alex Clifford, General Manager of the SCMTD, presented the 2017 SCMTD Annual Report to the City Council and responded to questions from Council.

Wendy Brannan, Scotts Valley resident, questioned potential uses for the empty building at the Scotts Valley Transit Center and parking rules.

2. Oral Presentation: Marc Adato, Monterey Bay Community Power Update

Marc Adato, Monterey Bay Community Power (MBCP), gave a PowerPoint presentation to the City Council on the current status of MBCP, their next steps, and responded to questions from Council.

Victor Marani, stated that the City of Watsonville went to their voters to amend their utility user's tax to provide seniors, disabled, and low-income with a 100% exemption, and recommended that the City of Scotts Valley consider going to the voters to amend their utility user's tax to provide the same exemption provision to seniors, disabled, and low-income. He also stated that Monterey Bay Community Power may not be qualified as a utility provider, which he believes could call into question their ability to collect utility user's taxes.

3. Oral Presentation: Bob Langseth, Executive Director, Boys & Girls Club

Bob Langseth, Executive Director of Boys & Girls Club, gave an update on the status of the Scotts Valley Boys & Girls Club and responded to questions from Council. He stated that they have committed to having a grand opening ceremony on April 14, 2018.

4. **Consider modifying or rescinding Resolution No. 1938, supporting environmental health, including increased pedestrian and bicycle mobility as described in the Santa Cruz County Greenway Vision**

CM Haruyama presented the written staff report and responded to questions from Council.

Ryan Sorentero, Santa Cruz resident and mother lives in Scotts Valley, spoke in support of the City Council rescinding their support of Greenway until all factors are available for consideration.

Manu Koenig, Santa Cruz resident, spoke in support of the City Council upholding Resolution No. 1938 in support of Greenway.

Bill Cook, Santa Cruz resident, spoke in support of the City Council upholding Resolution No. 1938 in support of Greenway.

Cathy Marino, Santa Cruz resident, spoke in support of the City Council rescinding their support of Greenway until all factors are available for consideration.

Barry Scott, Friends of the Rail and Trail (FORT), spoke in support of the City Council rescinding Resolution No. 1938 in support of Greenway until all factors are available for consideration.

Alex Clifford, Santa Cruz Metropolitan Transit District (SCMTD), spoke in support of the City Council rescinding Resolution No. 1938 in support of Greenway until all factors are available for consideration.

Frank Kertai, Scotts Valley resident, spoke in support of the City Council rescinding Resolution No. 1938 in support of Greenway until all factors are available for consideration.

Gail McNulty, Executive Director of Greenway Santa Cruz County, spoke in support of the City Council upholding Resolution No. 1938 in support of Greenway.

Mark Mesiti-Miller, Friends of the Rail and Trail (FORT) Chair, spoke in support of the City Council rescinding Resolution No. 1938 in support of Greenway until the UCIS process is complete and all factors are available for consideration.

M/S: Reed/Johnson
To modify the title and final paragraph of Resolution No. 1938 as follows:
Title: RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SCOTTS VALLEY SUPPORTING ENVIRONMENTAL HEALTH, INCLUDING INCREASED PEDESTRIAN AND BICYCLE MOBILITY ~~AS DESCRIBED IN THE SANTA CRUZ COUNTY GREENWAY VISION~~; and final paragraph: NOW, THEREFORE, BE IT RESOLVED AND ORDERED that the City of Scotts Valley supports the complete and thorough study of all alternatives in the UCIS process, and efforts that enhance the local community's safety and health, including increased pedestrian and bicycle mobility of the kind ~~as~~ described in the Greenway plan, and encourages the ~~approval of the Greenway initiative~~ serious consideration of all alternatives on the existing rail corridor.
Failed 2/3 (AYES: Johnson, Reed; NOES: Aguilar, Dilles, Lind)

M/S: Aguilar/Dilles
To rescind Resolution No. 1938 and to bring this item back for consideration after receiving the results of the UCIS study.
Carried 3/2 (AYES: Aguilar, Dilles, Lind; NOES: Johnson, Reed)

5. Consideration of an agreement with Scotts Valley Hotel, LP to defer payment of developer impact fees for approved hotel at 5030 Scotts Valley Drive, APN 022-091-61

CM Haruyama presented the written staff report and responded to questions from Council.

Prakash Patel, gave some background information on the project, explained why they are asking for a deferral, and responded to questions from Council. He also requested that the numbers be verified.

CM Aguilar requested that the City of Scotts Valley be placed on the Deed of Trust as a subordinate. Mr. Prakesh agreed with the request to include the City as a subordinate on the Deed of Trust.

Victor Marani, spoke in support of the City approving this agreement and recommended that the numbers be verified.

M/S: Johnson/Aguilar
To terminate the June 20, 2016 Deferral Agreement with Merced Hospitality and rescind the Promissory Note as reflected as Exhibit A effective the day Scotts Valley Hotel, LP acquires the hotel, and approve the attached Deferral Agreement with Scotts Valley Hotel, LP, and to include in Section 2 that the City of Scotts Valley be placed on the Deed of Trust as a subordinate. In addition, both the rescission of the existing agreement and adoption of the new agreement will not be effective until the property transfers from Merced Hospitality to Scotts Valley Hotel, LP.
Carried 4/1 (AYES: Aguilar, Dilles, Johnson, Lind; NOES: Reed)

6. Consider adoption of the draft FY 2018/19 Council Goals

CM Haruyama presented the written staff report and responded to questions from Council.

M/S: Lind/Aguilar
To adopt the FY 2018/19 Council Goals as reflected on Attachment B of the City Council Goal-Setting Workshop Summary (Exhibit A).
Carried 4/1 (AYES: Aguilar, Johnson, Lind, Reed; ABSENT: Dilles)

7. Future Council agenda items

CM Aguilar requested a future agenda item regarding the undergrounding of microwave facilities.

VM Dilles requested a future agenda item to discuss fiber.

CONVENE TO CLOSED SESSION

The City Council convened to closed session at 9:52 p.m. to discuss the following items:

1. Pursuant to Government Code Section 54956.9, the City Council met in closed session to confer with their legal counsel regarding potential litigation – 1 case.

RECONVENE TO OPEN SESSION

The City Council reconvened to open session at 10:15 p.m.

REPORT ON ACTION TAKEN DURING CLOSED SESSION

Mayor Reed announced that there was nothing to report.

ADJOURNMENT The meeting adjourned at 10:15 p.m.

Approved: ______________________________
Jim Reed, Mayor

Attest:_________________________________
Tracy A. Ferrara, City Clerk

EXHIBIT A

Attachment B – Draft Goals and Priorities for FY 2018-19

The following set of goals and priorities were identified during the City Council's goal-setting workshop. Continuing items are shown in black font and new items are in red. The Council also added a new goal to emphasize the priority placed on maintaining a high quality of life for Scotts Valley residents. The goals and priorities presented in the table are considered draft until affirmed by Council at a future City Council meeting.

Goals	Priorities
Ensure Long-Term Financial Stability	Identify and recommend budget strategies, including revenue enhancements to maintain core services and reduce long–term obligations (Fiscal Sustainability Plan)*
	Complete the Citywide Fee Study
	Assess Feasibility of Reducing/Eliminating Non-Essential Services
	Engage and educate the community and staff on the City's fiscal outlook and long-term sustainability strategies
Encourage Business Development and Expand the City's Economic Base	Complete the General Plan update
	Facilitate the Development of the Town Center and other Complimentary Land Uses
	Explore business-friendly processes to expedite permitting processes (see Operational Initiatives Goal Below)
Implement Operational Initiatives to Enhance City Services (Operational Effectiveness)	Implement Customer-Focused Technologies to Streamline Complex Permitting Processes
	Complete the City's new website
	Develop a citywide strategic technology plan
	Explore policy guidelines for Council Standing and Project Specific Committees for increased effectiveness and transparency
Maintain Quality of Life for Residents	Maintain investment in public safety
	Research options to address housing affordability and related issues and identify best

	practices
	Conduct a review of City building design standards
	Facilitate development of Glenwood Open Space trail system for public use
	Explore creative solutions to address code enforcement issues

** This incorporates a full range of strategies to be considered as part of the FSP, including, but not limited to, preparing for a potential renewal of the Measure U Sales Tax measure, examining use of development impact fees, revisiting the City's short term rental policy, and expanding/updating the hotel and utility taxes]*

MINUTES

Special Closed Session Meeting of the
Scotts Valley City Council

Date: February 21, 2018
Time: 5:00 pm

CONTACT INFORMATION	MEETING LOCATION	POSTING
City of Scotts Valley 1 Civic Center Drive Scotts Valley, CA 95066 (831) 440-5600	City Council Chambers 1 Civic Center Drive Scotts Valley, CA 95066	The agenda was posted 2-16-18 at City Hall, SV Senior Center, SV Library and on the Internet at www.scottsvalley.org.

ROLL CALL	
ELECTED OFFICIALS PRESENT: Jim Reed, Mayor Jack Dilles, Vice Mayor Stephany E. Aguilar, Council Member Randy Johnson, Council Member Donna Lind, Council Member	**CITY STAFF MEMBERS PRESENT**: Jenny Haruyama, City Manager Kirsten Powell, City Attorney

CALL TO ORDER

The City Council meeting was called to order at 5:00 pm.

CONVENE TO CLOSED SESSION

CLOSED SESSION SUBJECT(S)

(1) Pursuant to Government Code Section 54956.9, the City Council met in closed session to confer with the legal counsel regarding anticipated litigation – 1 case (Schmal on behalf of Beam).

(2) Pursuant to Government Code Section 54956.9, the City Council met in closed session to confer with the legal counsel regarding existing litigation; Name of case: Otis-Taul vs. City of Scotts Valley, et al., Case No. 5:17-cv-00794-BLF.

(3) Pursuant to Government Code Section 54961, the City Council met in closed session to confer with the legal counsel regarding a liability claim (James Welch).

(4) Pursuant to Government Code Section 54956.8, the City Council met in closed session to confer with the legal counsel regarding real property negotiations; Location: 251 Kings Village Road, Scotts Valley, CA (Scotts Valley Community Theater Guild).

RECONVENE TO OPEN SESSION

The City Council reconvened to open session at 5:50 p.m.

REPORT ON ACTION TAKE DURING CLOSED SESSION

Mayor Reed reported that the City Council approved the denial of the claim in Item 1 (Schmal on behalf of Beam).

ADJOURNMENT

The meeting adjourned at 5:50 p.m.

Approved: ______________________________
Jim Reed, Mayor

Attest: ___________________________
Tracy A. Ferrara, City Clerk

CONSENT AGENDA ITEM B
DATE: 3-7-2018

Report Selection:

RUN GROUP... 021618 COMMENT... A/P AS OF FEB 16 2018

DATA-JE-ID	DATA COMMENT
W-02162018-831	A/P AS OF FEB 16 2018

Run Instructions:

Jobq	Banner	Copies	Form	Printer	Hold	Space	LPI	Lines	CPI	CP	SP	RT
L		01		CASCPRT04	Y	S	6	066	10			

BANK	VENDOR	CHECK#	DATE	AMOUNT	
BA	GENERAL CHECKING ACCOUNT				
000182	A SIGN ASAP	112559	02/16/18	2,384.25	
003597	ADAMS ASHBY GROUP, INC	112560	02/16/18	3,500.00	
003457	ADAMS/TROY	112561	02/16/18	1,172.83	
001626	AGUILAR/STEPHANY	112562	02/16/18	41.75	
000620	ALVAREZ/TONY	112563	02/16/18	26.14	
001670	AT &T	112564	02/16/18	3,377.97	
000097	AT&T	112565	02/16/18	157.53	
000021	BOWMAN & WILLIAMS	112566	02/16/18	1,777.50	
000437	BRASS KEY LOCKSMITH	112567	02/16/18	27.14	
002091	COMCAST	112568	02/16/18	323.30	
002091	COMCAST	112569	02/16/18	275.33	
002091	COMCAST	112570	02/16/18	167.62	
003588	CONDUENT BUSINESS SVCS,	112571	02/16/18	1,734.47	
000037	CRYSTAL SPRINGS WATER CO	112572	02/16/18	31.30	
000389	DASSEL'S PETROLEUM INC	112573	02/16/18	3,417.99	
001362	DUNCAN AUTO TECH	112574	02/16/18	85.08	
003500	ECOFERT,INC	112575	02/16/18	850.00	
000057	HACH COMPANY	112576	02/16/18	51.23	
001873	HARRIS/BUCK	112577	02/16/18	1,300.00	
001673	LINCOLN FINANCIAL GROUP	112578	02/16/18	1,373.48	
003470	LYONS/KATHLEEN B	112579	02/16/18	1,250.00	
003565	MANAGEMENT PARTNERS	112580	02/16/18	5,255.13	
000291	MBASIA	112581	02/16/18	10,801.47	
003584	MENDOZA/FERNANDO	112582	02/16/18	548.00	
000195	MESITI-MILLER ENGINEERIN	112583	02/16/18	2,047.87	
003570	MISSION COMMUNICATIONS,	112584	02/16/18	563.40	
001802	ONTRAC	112585	02/16/18	58.58	
003165	PHENOVA	112586	02/16/18	786.22	
000723	PIED PIPER INC./THE	112587	02/16/18	59.50	
003503	PURETEC INDUSTRIAL WATER	112588	02/16/18	203.41	
001585	RAFFO DMD/MICHAEL J	112589	02/16/18	124.60	
001919	SANTA CRUZ BEACH BOARDWA	112590	02/16/18	523.53	
001533	SANTA CRUZ COUNTY BANK	112591	02/16/18	6,664.92	
001533	SANTA CRUZ COUNTY BANK	112592	02/16/18	1,057.93	
000820	SANTA CRUZ/COUNTY OF	112593	02/16/18	5,000.00	
000319	SCOTTS VALLEY CAR WASH	112594	02/16/18	39.94	
000133	SCOTTS VALLEY SPRINKLER	112595	02/16/18	23.93	
000405	SILVERSTEIN/THOMAS	112596	02/16/18	3,205.45	
000143	SUMMIT UNIFORMS	112597	02/16/18	2,717.05	
000153	THOMSON REUTERS-WEST	112598	02/16/18	286.30	
003590	VARGAS ACADEMY OF GYMNAS	112599	02/16/18	1,224.30	
001106	VERIZON WIRELESS	112600	02/16/18	835.33	
003145	WAGE WORKS	112601	02/16/18	149.00	
003091	WESTERN TRUCK FAB	112602	02/16/18	37.82	
002021	ZOOM	112603	02/16/18	701.55	
	GENERAL CHECKING ACCOUNT			66,240.14	***

BANK	VENDOR	CHECK#	DATE	AMOUNT
REPORT TOTALS:				66,240.14

RECORDS PRINTED - 000107

FUND RECAP:

FUND	DESCRIPTION	DISBURSEMENTS
001	GENERAL	44,755.11
004	RECREATION	5,865.94
010	WASTEWATER OPERATIONS	9,321.33
019	AFFORDABLE HOUSING	3,500.00
028	SENIOR CENTER	36.26
112	DENTAL INS INTERNAL SERV	672.60
123	COMMUNITY FACILITY CENTER	41.03
150	GENERAL CAPITAL IMPROVEMENTS	2,047.87
TOTAL ALL FUNDS		66,240.14

BANK RECAP:

BANK	NAME	DISBURSEMENTS
BA	GENERAL CHECKING ACCOUNT	66,240.14
TOTAL ALL BANKS		66,240.14

City of Scotts Valley
CITY COUNCIL STAFF REPORT

DATE: March 7, 2018

TO: Honorable Mayor and City Council

FROM: Steve Toler, Budget and Financial Consultant

APPROVED: Jenny D. Haruyama, City Manager

SUBJECT: **MID-YEAR FINANCIAL REVIEW FOR FY 2017/18 AND DIRECTION FOR PREPARATION OF THE FY 2018/19 ANNUAL BUDGET**

SUMMARY OF ISSUE

This report provides an update of the City's current financial performance, including an overview of the year prior as reported by the FY 2016/17 Comprehensive Annual Financial Report (CAFR) and a Mid-Year Review for FY 2017/18 through December 31, 2017. This financial summary identifies mid-year revenue and expenditure trends for all City funds and a preliminary forecast for FY 2017/18 year-end fund balance.

This report also recommends that, subject to any further direction received from the City Council relative to the Fiscal Sustainability Plan discussions also on this evening's agenda, the City will prepare its FY 2018/19 annual budget and five-year financial forecast based on existing service levels as the elements from the Fiscal Sustainability Plan are pursued.

FY 2016/17 COMPREHENSIVE ANNUAL FINANCIAL REPORT RESULTS

On January 17, 2018, the City Council previously accepted the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2017. The City ended FY 2016/17 with $4.1 million in unassigned reserves in its General Fund, which equated to nearly 39% of annual operating expenditures. Available reserves in the Wastewater Enterprise Funds total $2.2 million at June 30, 2017. However, the Recreation Enterprise Fund had an accumulated deficit of nearly $54,000 as we started FY 2017/18. All other funds reported positive reserves available for appropriation as we began FY 2017/18. The CAFR indicated that tax revenues from sources such as property and real estate transfer tax, sales tax, and transient occupancy tax, as well as an increase in development activity in the City, provided continued growth in the City's revenue sources. These positive revenue trends were able to cover the increased costs of service delivery, which rose primarily due to increases in CalPERS rates and use of contractors to support the Planning/Building and Public Works functions to meet developer demands for service.

FY 2017/18 MID-YEAR FINANCIAL REVIEW THROUGH DECEMBER 31, 2017

During the first six months of FY 2017/18, revenues and expenditures are, for the most part, meeting expectations as originally anticipated in the adopted FY 2017/18 annual budget. Items of importance are noted below:

General Fund Revenues

- *Property taxes* – a continued strong real estate market is leading property tax revenues to exceed expectations due to better-than-anticipated assessed valuations and sales activity generating real transfer taxes. ***Property taxes are expected to exceed revenue projections by approximately $175,000***.

- *Sales taxes* – sales tax revenues related to the general 1% sales tax rate are tracking along with original expectations. However, sales tax revenues related to the City's local transactions and use tax rate of 0.5% under ***Measure U are tracking ahead of projections by approximately $100,000.***

- *Franchise taxes* – collections of franchise taxes from video service and solid waste providers are meeting budget expectations. The City expects franchise revenue from gas and electric services will meet expectations when it is received by the end of March 2018.

- *Transient occupancy taxes (TOT)* – TOT revenues are exceeding projections due to better-than-anticipated occupancy levels at the Hilton and Best Western. TOT revenues from 1440 Multiversity are also exceeding the City's original expectations. ***TOT revenues are expected to exceed revenue projections by approximately $75,000***.

- *Utility users taxes (UUT)* – UUT revenues are expected to meet budgeted projections by the end of the year based on current revenue trends.

- *Fees for services* – permit fees related to development activity are performing a bit below expectations as there are five significant development projects[1] that have not yet pulled final permits for construction. Nonetheless, it is reasonably expected that those projects will pull permits and pay the required permit and development impact fees that will allow the City to meet its original revenue projections.

General Capital Improvement Fund Revenues (Fund 150)

- *Grant Funds* – as the Mt. Hermon/Scotts Valley Drive intersection improvement project comes to a conclusion, the City is submitting reimbursements for grant funds totaling $348,000 from the Santa Cruz County Regional Transportation

1 The five significant development projects that have not yet pulled permits are: 1) Marriott Residence Inn; 2) Lennar Homes (six below-market rate condo units at 4303-b Scotts Valley Drive); 3) 4803 Scotts Valley Drive (mixed-use development with six apartment units); 4) Terrace Homes (19-unit residential development); and, 5) Dunslee Homes (25-unit residential development).

Commission. Those funds were not originally anticipated in the FY 2017/18 budget, and are expected to be received prior to June 30, 2018. ***Grant fund revenues will exceed original projections by this $348,000.***

General Fund Expenditures

- *General Government* – The City Council is expected to select a developer for the Town Center project. The City will enter into an exclusive negotiating agreement (ENA) with the selected developer to prepare the terms and conditions of the purchase. The City will need assistance from a consulting firm to participate in the negotiations, prepare any required analyses, and assist in drafting elements of the ENA. **An additional appropriation of $25,000 is recommended to cover expenses associated with the negotiation of the ENA with the selected developer on the Town Center project**.

- *Finance* – The City Manager has started the recruitment for the Administrative Services Director position that will oversee the Finance Department. In order to recruit and retain a qualified candidate for the position, **an additional appropriation of $25,000 is recommended to ensure a competitive salary.**

- *Police* – The Police Department budget is expected to **require additional appropriations totaling $132,100** for the following items:
    - **Police Training.** The original budget for police training was $45,700. The Chief had requested an additional $25,000 necessary to fund outside training opportunities for existing personnel so they could develop their skills and prepare to take on more responsibilities. Additionally, the department anticipated updating its in-service training program and technology. This request was inadvertently omitted from the final approved budget. **An additional appropriation for $25,000 is recommended to assure funding for these training activities.**
    - **Santa Cruz County Multi-Disciplinary Interview Center (MDIC)** - In July 2016, the City Council approved participation in and funding for a new multi-disciplinary interview center used by all law enforcement agencies in the county to interview victims of sexual assault. The fiscal contributions were authorized, but the budget was never adjusted to reflect the increased spending to support this contribution. **The annual contribution amount is $7,100, which is recommended as an additional appropriation**.
    - **Temporary Staffing.** During this fiscal year, the Department was short in its sworn officer staffing due to attrition which affected the department's ability to maintain service levels. The department hired a retired officer as a part-time School Resource Officer and another retired officer to provide part time patrol services to fill the gap. This cost was a one-time expense. The temporary school resource officer completed that role December 2017. The temporary patrol officer is expected to complete that role by June 2018. Both positions will be filled with full time employees during the next fiscal year. Although

these positions were filling vacant positions, due to the payout of leave balances, the Police Department budget will potentially fall short of its appropriated expenditures by $100,000. **An additional appropriation of $100,000 is recommended to ensure the department's expenditures for FY 2017/18 are fully funded.**

- *Public Works* – The City Manager has started the recruitment for the Public Works Director position that will oversee the Public Works Department and Recreation Division. In order to recruit and retain a qualified candidate for the position, **an additional appropriation of $25,000 is recommended to ensure a competitive salary**.

Police Facility Impact Fee Expenditures (Fund 027)

- *Radio Communications Antenna* – One of the main communication antennae is currently past its projected useful life. It has experienced four separate failures in the past fiscal year which has disrupted police radio service that connects the dispatch center to patrol cars. This item needs to be replaced as soon as possible to prevent future communication issues and additional costs of emergency repair bills. This is a one-time expense. The quote from the City's radio communications vendor, Telecommunications Engineering Associates, indicates an expenditure of just less than $26,000 in order to replace and improve the antennae's communications capabilities. **An appropriation of $26,000 is recommended to cover expenses for the replacement and upgrade of the police radio communications antenna**.

General Capital Improvement Fund Expenditures (Fund 150)

- *Public Works Department Roof Replacement (CIP 43)* – This capital improvement project (CIP) of $30,000 was intended to replace the roof of the public works modular where engineering is housed. There is also an unscheduled CIP project, Public Works Department Modular Replacement (CIP 53) in the five-year CIP plan to replace the modular buildings. Staff would like to explore a more comprehensive approach by developing a public works facilities master plan, while seeking options to mitigate potential fiscal impacts. Exploring these opportunities will require consulting assistance to develop plans and identify recommendations to fulfill those needs. The roof replacement needs has been mitigated with minor repairs and should be adequate given the mild winter. **Staff recommends that CIP 43 be retitled as Public Works Department Facilities Planning and Implementation Plan, and existing funds be used to develop a facilities master plan for the Public Works Department**.

FY 2017/18 GENERAL FUND YEAR-END FUND BALANCE PROJECTION

The following table summarizes the FY 2017/18 year-end fund balance projection, considering anticipated revenue and expenditure trends indicated earlier. It is anticipated that the FY 2017/18 General Fund will end the year with a net deficit of $417,200, which is an improvement to the originally forecasted deficit of $524,700 due to the improved revenue trends indicated earlier. The City's projected ending General Fund balance available for appropriations in future years is estimated to be $3,574,600, which is over

$975,000 higher than original expectations and is equivalent to 30% (3.5 months) of annual operating expenditures plus transfers out. This reserve level exceeds the City Council's target reserve policy of 17% (two months) of annual operating expenditures plus transfers out.

General Fund Reserves (Funds 1 & 6)	Adopted Budget – FY 2017/18	Projected Results – FY 2017/18
Opening Fund Balance at 7/1/2017	$ 3,124,200	$ 3,992,400
Estimated Revenues	10,993,100	11,343,100
Transfers In	260,000	260,000
Budgeted Expenditures	(11,117,047)	(11,360,200)
Transfers Out	(660,715)	(660,700)
Net Surplus (Deficit)	(524,662)	(417,800)
Ending Fund Balance at 6/30/2018	$ 2,599,538	$ 3,574,600

FY 2017/18 ANNUAL BUDGET DIRECTION

In a separate agenda item to this evening's Council meeting, the City Council will review a report prepared by Management Partners regarding a Fiscal Sustainability Plan that addresses the City's structural deficit and provides budget strategies for Council's consideration in resolving the structural deficit. In light of the $2 million fiscal gap that is identified in that report, staff recommends that the City Manager be directed to prepare a preliminary FY 2018/19 Annual Budget and Five-Year Financial Plan based on maintaining existing service levels, short of any direction provided by the City Council relative to the discussion of that Plan. The proposed budget will be developed within the framework of Council goals established for FY 2018/19.

It is proposed that the budget framework be centered around and include the following:

- *Five-Year Capital Improvement Project (CIP) Plan*
  The annual budget document will include an updated five-year CIP plan that will include a funding analysis for the proposed projects over a five-year period and a prioritization of projects using defined criteria that incorporates health and safety, legal/regulatory requirements, and quality of life considerations in the prioritization of those projects.

- *Five-Year Financial Plan*
  An updated five-year financial forecast will be prepared that incorporates the five-year CIP plan, operating cost projections, and revenue projections for each of the City's major funds (e.g., General Fund, Special Revenue Funds, Recreation and Wastewater Enterprise Funds). In addition, the forecast will include a 10-year General Fund forecast that covers the longer-term period being addressed by the City's Fiscal Sustainability Plan.

- *Reserve Policy*
  The General Fund target reserve policy of $17% (or two months) of annual operating expenditures plus transfers out will be used as a basis for evaluating reserve levels. In addition, the Wastewater funds will include the target operating cash reserve of 50% (or six months) of annual operating expenditures plus and $1 million emergency reserve for seismic/catastrophic events included in the Wastewater rate model that was prepared as part of the adoption of the three-year wastewater rates in August 2017.

- *Maintain Existing Service Levels*
  As City staff begins preparation of the annual operating budget, staff will assume that services will be maintained at existing levels.

- *Adding Services/Staffing Require Ongoing Revenue Sources*
  There will not be any expectation for adding services or employee positions unless there is an identified and reliable ongoing revenue source that will fully cover the costs of such services. However, given the anticipated loss of the Police Department's temporary School Resource Officer (SRO), staff may recommend that the position be converted to a full-time police officer. Any one-time service level changes that have one-time revenues, such as entitlement, plan check and inspection services related to development activity, may be proposed using contract services/employees.

- *Fiscal Sustainability Plan Budget Strategies*
  Depending upon the outcome of the City Council's consideration of the Fiscal Sustainability Plan, staff will incorporate any of the budget strategies that have an impact on FY 2018/19 budgeted operations in the preliminary budget.

BUDGET CALENDAR FOR FY 2018/19

The following milestones are presented as placeholders in preparing and adopting the City's FY 2017/18 Annual Budget.

Date (2018)	Meeting Forum	Milestone
March 7	Regular Meeting	Mid-Year Financial Report and Budget Direction; Fiscal Sustainability Plan
April 4	Regular Meeting	Fiscal Sustainability Plan (if necessary)
April 18	Regular Meeting	Five-Year CIP Plan; Review User Fee Study (#1)
May 2	Regular Meeting	Review User Fee Study (#2)
May 16	Regular Meeting	Preliminary Budget for FY 2018/19; Public Hearing on User Fees and Charges
June 6	Special Meeting	Review Non-Profit Funding Proposals

Date (2018)	Meeting Forum	Milestone
June 6	Regular Meeting	Public Hearing on Proposed FY 2018/19 Annual Budget
June 20	Regular Meeting	Budget Adoption
June 29	N/A	Budget Publication

FISCAL IMPACT

There is no fiscal impact as a result of accepting the attached report and providing direction to the City Manager for the preparation of the FY 2018/19 Annual Budget.

STAFF RECOMMENDATION

It is recommended that Council consider taking the following actions:

1. Accept the attached reports and information regarding the FY 2017/18 Mid-Year Financial Report through December 31, 2017
2. Approve Resolution No. 630.37.2 amending the FY 2017/18 Annual Budget
3. Provide direction to the City Manager regarding preparation of the FY 2018/19 Annual Budget

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City of Scotts Valley, California

Revenues - All Funds

Mid-Year Financial Review for the Six-Months Ended December 31, 2017

	FY 2016/17						FY 2017/18						
	Adopted Budget	Actual Year-End Totals	Over (Under) Projected Revenue Totals	Actual Totals for Six-Months Ended 12/31/2016	Actual Six-Month Totals as % of Adopted Budget	Actual Six-Month Totals as % of Year-End Actual	Revised Budget (Adopted + Add'l Revenue Sources Approved)	Actual Totals for Six-Months Ended 12/31/2017	Actual Six-Month Totals as % of Adopted Budget	Increase (Decrease) from Prior Year 6-Month Totals	Projected Year-End Revenues	Increase (Decrease) from Adopted Budget	Notes
General Fund Revenues													
Property taxes	$ 1,313,050	$ 1,668,060	27.0%	$ 666,155	50.7%	39.9%	$ 1,389,200	$ 702,241	50.6%	5.4%	$ 1,564,200	$ 175,000	(1)
Sales tax - General	$ 2,153,000	$ 2,078,070	-3.5%	$ 713,464	33.1%	34.3%	$ 2,258,000	$ 726,745	32.2%	1.9%	$ 2,258,000	$ -	(2)
Sales tax - Measure U	$ 1,182,000	$ 1,265,724	7.1%	$ 405,217	34.3%	32.0%	$ 1,239,000	$ 450,394	36.4%	11.1%	$ 1,339,000	$ 100,000	(2)
Franchise taxes	$ 970,000	$ 1,032,477	6.4%	$ 319,566	32.9%	31.0%	$ 1,010,000	$ 311,365	30.8%	-2.6%	$ 1,010,000	$ -	(3)
Transient occupancy taxes	$ 1,100,000	$ 1,218,063	10.7%	$ 374,411	34.0%	30.7%	$ 1,262,000	$ 467,840	37.1%	25.0%	$ 1,337,000	$ 75,000	(4)
Utility users taxes	$ 715,000	$ 747,585	4.6%	$ 295,157	41.3%	39.5%	$ 740,000	$ 306,675	41.4%	3.9%	$ 740,000	$ -	
Business license taxes	$ 328,000	$ 344,293	5.0%	$ 217,346	66.3%	63.1%	$ 361,700	$ 202,886	56.1%	-6.7%	$ 361,700	$ -	
Total Taxes	$ 7,761,050	$ 8,354,272	7.6%	$ 2,991,316	38.5%	35.8%	$ 8,259,900	$ 3,168,146	38.4%	5.9%	$ 8,609,900	$ 350,000	
Intergovernmental	$ 962,000	$ 1,035,560	7.6%	$ 510,838	53.1%	49.3%	$ 1,065,300	$ 547,653	51.4%	7.2%	$ 1,065,300	$ -	
Fees and services	$ 1,315,700	$ 1,665,552	26.6%	$ 563,689	42.8%	33.8%	$ 1,107,800	$ 470,617	42.5%	-16.5%	$ 1,107,800	$ -	(5)
Fines and forfeitures	$ 36,300	$ 37,680	3.8%	$ 14,113	38.9%	37.5%	$ 37,650	$ 13,544	36.0%	-4.0%	$ 37,650	$ -	
Investment earnings	$ 11,000	$ 20,816	89.2%	$ 6,562	59.7%	31.5%	$ 11,100	$ 6,000	54.1%	-8.6%	$ 11,100	$ -	
Other	$ 619,630	$ 1,259,034	103.2%	$ 670,095	108.1%	53.2%	$ 362,550	$ 238,767	65.9%	-64.4%	$ 362,550	$ -	
Total General Fund Revenues	$ 10,705,680	$ 12,372,914	15.6%	$ 4,756,614	44.4%	38.4%	$ 10,844,300	$ 4,444,728	41.0%	-6.6%	$ 11,194,300	$ 350,000	
General Capital Improvement Fund													
General Capital Improvements (Fund 150)	$ 672,930	$ 2,454	-99.6%	$ 314	0.0%	12.8%	$ 510,000	$ 500	0.1%	59.4%	$ 858,000	$ 348,000	
Special Revenue Funds - Development Impact Fees													
Drainage Construction (Fund 007)	$ 3,050	$ 12,906	323.1%	$ 6,683	219.1%	51.8%	$ 54,605	$ 10,366	19.0%	55.1%	$ 54,605	$ -	(5)
Traffic Impact Mitigation (Fund 008)	$ 23,500	$ 125,108	432.4%	$ 70,115	298.4%	56.0%	$ 174,600	$ 34,260	19.6%	-51.1%	$ 174,600	$ -	(5)
Park and Recreation Facilities (Fund 009)	$ 31,500	$ 107,779	242.2%	$ 81,058	257.3%	75.2%	$ 251,900	$ 54,573	21.7%	-32.7%	$ 251,900	$ -	(5)
General Facility Impact Fees (Fund 021)	$ 3,230	$ 7,182	122.3%	$ 5,242	162.3%	73.0%	$ 25,450	$ 17,005	66.8%	224.4%	$ 25,450	$ -	(5)
Police Facility (Fund 027)	$ 65,580	$ 24,795	-62.2%	$ 12,284	18.7%	49.5%	$ 102,800	$ 39,280	38.2%	219.8%	$ 102,800	$ -	(5)
Mt. Hermon Traffic Mitigation (Fund 051)	$ 170	$ 338	98.6%	$ 142	83.6%	42.1%	$ 170	$ 10,500	6176.5%	7287.1%	$ 170	$ -	
Library Impact Fees (Fund 086)	$ 5,730	$ 13,450	134.7%	$ 10,141	177.0%	75.4%	$ 36,150	$ 29,643	82.0%	192.3%	$ 36,150	$ -	(5)
Police Development Fees (Fund 315)	$ 550	$ 1,083	96.9%	$ 456	82.9%	42.1%	$ 900	$ 600	66.7%	31.6%	$ 900	$ -	
Total Special Revenue - DIF Expenditures	$ 133,310	$ 292,639	119.5%	$ 186,121	139.6%	63.6%	$ 646,575	$ 196,227	30.3%	5.4%	$ 646,575	$ -	
Special Revenue Funds - Non-DIF Funds													
Recycling/Environment (Fund 002)	$ 58,000	$ 66,864	15.3%	$ 5,037	8.7%	7.5%	$ 66,060	$ 5,000	7.6%	-0.7%	$ 66,060	$ -	
Gas Tax (Fund 003)	$ 251,640	$ 236,966	-5.8%	$ 125,082	49.7%	52.8%	$ 333,100	$ 116,552	35.0%	-6.8%	$ 333,100	$ -	
SMIP Fees (Fund 005)	$ 3,540	$ 15,330	333.0%	$ 3,933	111.1%	25.7%	$ 5,060	$ 5,059	100.0%	28.6%	$ 5,060	$ -	
Senior Center Designated Donations (Fund 018)	$ -	$ -	N/A	$ -	N/A	N/A	$ -	$ -	N/A	N/A	$ -	$ -	
Affordable Housing (Fund 019)	$ 98,000	$ 838,966	756.1%	$ 18,098	18.5%	2.2%	$ 38,860	$ 23,910	61.5%	32.1%	$ 38,860	$ -	
Lennar Funds (Fund 025)	$ -	$ -	N/A	$ -	N/A	N/A	$ -	$ -	N/A	N/A	$ -	$ -	
Senior Center Operations (Fund 028)	$ 70,450	$ 76,175	8.1%	$ 44,938	63.8%	59.0%	$ 70,850	$ 33,667	47.5%	-25.1%	$ 70,850	$ -	
STP Exchange Projects (Fund 031)	$ 90	$ 177	96.2%	$ 74	82.6%	42.1%	$ 711,000	$ -	0.0%	-100.0%	$ 711,000	$ -	(6)
Tree Replacement (Fund 033)	$ 350	$ 2,168	519.4%	$ 1,266	361.6%	58.4%	$ 610	$ 690	113.1%	-45.5%	$ 610	$ -	
Green Building Funding (Fund 035)	$ 26,230	$ 127,152	384.8%	$ 36,656	139.7%	28.8%	$ 101,400	$ 52,352	51.6%	42.8%	$ 101,400	$ -	

City of Scotts Valley, California

Revenues - All Funds

Mid-Year Financial Review for the Six-Months Ended December 31, 2017

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Disability Compliance (Fund 036)	$ 1,000	$ 1,298	29.8%	$ 745	74.5%	57.3%	$ 750	$ 670	89.3%	-10.0%	$ 750	$ -	
Pinewood Estates LMD (Fund 050)	$ 6,270	$ 6,179	-1.4%	$ 144	2.3%	2.3%	$ 6,270	$ -	0.0%	-100.0%	$ 6,270	$ -	(7)
Skypark LMD (Fund 077)	$ 41,750	$ 41,782	0.1%	$ 550	1.3%	1.3%	$ 41,750	$ 549	1.3%	-0.2%	$ 41,750	$ -	(7)
Skypark LMD Insurance (Fund 078)	$ 10,500	$ 12,153	15.7%	$ 1,320	12.6%	10.9%	$ 10,500	$ -	0.0%	-100.0%	$ 10,500	$ -	(7)
Library Facility Improvements Measure S (Fund 088)	$ 177,674	$ 178,087	0.2%	$ -	0.0%	0.0%	$ 165,050	$ -	0.0%	N/A	$ 165,050	$ -	(7)
Community Facility Center Operations (Fund 123)	$ 209,050	$ 116,213	-44.4%	$ 68,890	33.0%	59.3%	$ 91,350	$ 25,774	28.2%	-62.6%	$ 91,350	$ -	
Measure D Sales Tax for Transportation (Fund 155)	$ -	$ -	N/A	$ -	N/A	N/A	$ 240,100	$ 110,100	45.9%	N/A	$ 240,100	$ -	
Supplemental Law Enforcement Services (Fund 306)	$ 100,200	$ 100,592	0.4%	$ 36,486	36.4%	36.3%	$ 100,280	$ 51,523	51.4%	41.2%	$ 100,280	$ -	
Homeland Security Grant (Fund 316)	$ -	$ 2,234	N/A	$ 1	N/A	0.1%	$ 47,500	$ -	0.0%	-100.0%	$ 47,500	$ -	
EDG Revolving Loan (Fund 317)	$ -	$ 4	N/A	$ 2	N/A	42.1%	$ -	$ -	N/A	-100.0%	$ -	$ -	
Total Special Revenue Funds - Non-DIF	$ 1,054,744	$ 1,822,340	72.8%	$ 343,221	32.5%	18.8%	$ 2,030,490	$ 425,846	21.0%	24.1%	$ 2,030,490	$ -	
Debt Service													
Pension Obligation Bonds (Fund 026)	$ -	$ -	N/A	$ -	N/A	N/A	$ -	$ -	N/A	N/A	$ -	$ -	
COP Debt Service (Fund 066)	$ 3,060	$ 6,217	103.2%	$ 2,618	85.5%	42.1%	$ 4,100	$ 2,100	51.2%	-19.8%	$ 4,100	$ -	
Total Debt Service Funds	$ 3,060	$ 6,217	103.2%	$ 2,618	85.5%	42.1%	$ 4,100	$ 2,100	51.2%	-19.8%	$ 4,100	$ -	
Recreation Enterprise Fund													
Recreation Fund (Fund 004)	$ 990,000	$ 1,010,276	2.0%	$ 509,065	51.4%	50.4%	$ 1,022,000	$ 562,671	55.1%	10.5%	$ 1,022,000	$ -	
Wastewater Enterprise Funds													
Wastewater Operations (Fund 010)	$ 2,000,600	$ 1,877,993	-6.1%	$ 283,151	14.2%	15.1%	$ 1,909,000	$ 297,442	15.6%	5.0%	$ 1,909,000	$ -	
Tertiary Operating (Fund 011)	$ 108,150	$ 101,538	-6.1%	$ 56,827	52.5%	56.0%	$ 120,000	$ 60,000	50.0%	5.6%	$ 120,000	$ -	
Wastewater Capital Reserve (Fund 012)	$ 174,500	$ 66,516	-61.9%	$ 62,548	35.8%	94.0%	$ 467,600	$ 209,027	44.7%	234.2%	$ 467,600	$ -	
Wastewater Equipment Replacement (Fund 014)	$ 2,600	$ 4,837	86.1%	$ 2,077	79.9%	42.9%	$ 3,700	$ 2,000	54.1%	-3.7%	$ 3,700	$ -	
TTP District Reserve (Fund 015)	$ -	$ 8,744	N/A	$ 7,161	N/A	81.9%	$ 11,050	$ 5,525	50.0%	-22.8%	$ 11,050	$ -	
Total Wastewater Enterprise Funds	$ 2,285,850	$ 2,059,628	-9.9%	$ 411,764	18.0%	20.0%	$ 2,511,350	$ 573,994	22.9%	39.4%	$ 2,511,350	$ -	
Internal Service Fund													
Dental Insurance (Fund 112)	$ 70,150	$ 63,526	-9.4%	$ 31,002	44.2%	48.8%	$ 63,990	$ 32,705	51.1%	5.5%	$ 63,990	$ -	
Total - All Funds	$ 15,915,724	$ 17,629,995	10.8%	$ 6,240,718	39.2%	35.4%	$ 17,632,805	$ 6,238,770	35.4%	0.0%	$ 18,330,805	$ 698,000	

Notes:

(1) - Property taxes receipts for FY 2017-18 are trending positively and are expected to finish the year $175,000 higher than original projections.

(2) - Receipts of the general 1% sales tax amounts are currently expected to meet the original forecast. Revenues from the local 1/2% sales tax (Measure U) are trending positively and are expected to finish the year $100,000 higher than original projections.

(3) - Franchise taxes related to the solid waste franchise are trending a bit lower than projections, however this is being made up by higher than anticipated video franchise fees.
Gas and electric franchise fees are received annually in April. Revenues are currently expected to meet projections.

(4) - TOT revenues are currently beating projections that is believed will provide an additional $75,000 in revenues greater than forecast due to high occupancy rates and higher room rates than anticipated in the original forecasts.

FY 2016/17						FY 2017/18						
Adopted Budget	Actual Year-End Totals	Over (Under) Projected Revenue Totals	Actual Totals for Six-Months Ended 12/31/2016	Actual Six-Month Totals as % of Adopted Budget	Actual Six-Month Totals as % of Year-End Actual	Revised Budget (Adopted + Add'l Revenue Sources Approved)	Actual Totals for Six-Months Ended 12/31/2017	Actual Six-Month Totals as % of Adopted Budget	Increase (Decrease) from Prior Year 6-Month Totals	Projected Year-End Revenues	Increase (Decrease) from Adopted Budget	Notes

(5) - Permit fees and associated impact are trailing a bit behind forecast as the City is awaiting submittals for several more significant development projects for which permits are expected to be issued by June 30, 2018. Those projects include:
Marriott Residence Inn, Lundy Lane/Pinnacle (10 of 20 townhomes), 4303-b Scotts Valley Drive (6 below-rate market condos), Terrace (10 of 19 unit residential) and Dunslee (10 of 25 unit residential).
No revenues adjustments are recommended at the present time.

(6) - This represents grant funding for the Green Hills Road Pavement Rehabilitation Project (CIP 17). The project is being bid and will be constructed in the Spring/Summer. Funds will then be requested for reimbursement.

(7) - Revenues to fund the landscape maintenance districts and for Measure S Library Improvements will be received through the County in March through June 2018. Revenues are currently expected to meet projections.

RESOLUTION NO. 630.37.2

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SCOTTS VALLEY APPROVING AN AMENDMENT TO THE BUDGET FOR FISCAL YEAR 2017/18

WHEREAS, the City Council approved the Annual Budget for the City of Scotts Valley by Resolution 630.37 on June 21, 2017; and,

WHEREAS, staff has performed a Mid-Year Financial Review and has identified revenue and expenditure variances based on actual performance that is projected to impact the General Fund (Fund 001), General Capital Improvement Fund (Fund 150), Gas Tax Fund (Fund 003) and Police Facility Fund (Fund 027); and,

WHEREAS, it is estimated that FY 2017/18 revenues will exceed original budget estimates by a total of $350,000 for the General Fund (Fund 001) and $348,000 for the General Capital Improvement Fund (Fund 150); and,

WHEREAS, additional appropriations to cover various operating and capital improvement expenditures are required for the General Fund (Fund 001) totaling $207,100, the Gas Tax Fund (Fund 003) totaling $16,943, and the Police Facility Fund (Fund 027) totaling $26,000.

NOW, THEREFORE, BE IT RESOLVED AND ORDERED as follows:

1. That revenue estimates are increased by $350,000 for the General Fund (Fund 001) Annual Budget for FY 2017/18 as follows:
   - Property taxes — Increase $175,000
   - Sales taxes – Measure U — Increase $100,000
   - Transient Occupancy Taxes — Increase $75,000

2. That revenue estimates are increased by $348,000 for the General Capital Improvement Fund (Fund 150) Annual Budget for FY 2017/18 as follows:
   - Grant Revenue — Increase $348,000

3. That additional appropriations totaling $207,100 to the General Fund (Fund 001) Annual Budget for FY 2017/18 are approved as follows:
   - General Government (43) — $25,000
   - Finance (45) — $25,000
   - Police (51) — $132,100
   - Public Works – Engineering Division (71) — $25,000

4. That additional appropriations totaling $16,493 to the Gas Tax Fund (Fund 003) Annual Budget for FY 2017/18 are approved.

5. That additional appropriations totaling $26,000 to the Police Facility Fund (Fund 027) Annual Budget for FY 2017/18 are approved.

6. That the Public Works Department Roof Replacement (CIP 43) be retitled as "Public Works Department Facilities Planning and Implementation Plan," and that the existing funds totaling $30,000 in the General Capital Improvement Fund be used to develop plans and identify recommendations to address all of the facility needs to support the Public Works Department.

The above and foregoing resolution was duly and regularly adopted by the City Council of the City of Scotts Valley at a regular meeting held on the 7th day of March, 2018 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Approved: ______________________________
Jim Reed, Mayor

Attest: ______________________________
Tracy A. Ferrara, City Clerk

City of Scotts Valley
CITY COUNCIL STAFF REPORT

DATE: March 7, 2018

TO: Honorable Mayor and City Council

FROM: Jenny D. Haruyama, City Manager

SUBJECT: **DISCUSSION OF PRELIMINARY FISCAL SUSTAINABILITY PLAN, INCLUDING BUDGET STRATEGIES ANALYSES AND SCENARIOS**

SUMMARY OF ISSUE

As part of the FY 2017/18 Council Goals, staff was directed to begin work on a Fiscal Sustainability Plan (FSP) that could address the City's projected $2 million deficit by FY 2024/25. Over the past several months, staff worked with Management Partners, a management consulting firm to assist in the development of the FSP and update the City's long range General Fund financial forecast.

Part of this process included a Council workshop held in December 2017 to solicit input regarding various budget strategies. The strategies were developed based on a combination of factors, including Management Partners' experience about approaches other cities and counties throughout the state are taking as they consider options to address structural deficits. Additional ideas based on Scotts Valley's unique opportunities and organizational climate were identified. Employees were also engaged through focus groups and surveys.

Given the magnitude and timing of the budget deficit forecast, Management Partners worked with City staff to develop options or strategies to address the challenge. They were developed along a continuum that included:

- Revenue development,
- Expenditure control/cost shifts,
- Service delivery changes designed to reduce expenditures, and
- Service level reductions.

The City Council provided direction on strategies that it felt would be worthwhile to analyze, and strategies that the Council would prefer not to pursue. Council provided direction to the City Manager to analyze various expenditure control, service delivery change, and revenue enhancement strategies for consideration in a FSP. The Council indicated a strong preference to not reduce service or staffing levels.

During the workshop, Management Partners shared a summary of a ten-year forecast based on the forecast that was presented as part of the FY 2017-18 budget. Assuming Measure U was not renewed, the fiscal model indicated that the City's General Fund would have a structural deficit that would grow to over $2.4 million by FY 2026-27. Without corrective action, the City's General Fund Reserve would be depleted by FY 2022-23, the year in which the City's ½% local transactions and use tax (TUT) measure (Measure U) would expire.

The attached report by Management Partners assesses the feasibility of each strategy and outlines various scenarios and approaches. Within the report is an attachment (Attachment A) that analyzes each strategy, including fiscal impact, feasibility, and implications of implementation. Below is an executive outline of the report:

- **Feasibility Assessment.** This section discusses the factors used in determining the feasibility of each strategy and the feasibility tiers to which each strategy was assigned.

- **Budget Strategy Scenarios.** This section discusses four different scenarios that take varied approaches to solve the fiscal gap:
  - Budget Scenario 1: Strong Revenue Strategies
  - Budget Scenario 2: Mixed Approach – Moderate Revenues; Implement Expenditure Cost Shifts
  - Budget Scenario 3: Mixed Approach – Moderate Revenues; Implement Service Delivery Changes
  - Budget Scenario 4: Strong Operating Expenditure Reductions; Local TUT Measure Not Renewed

- **Attachment A – Detailed Strategies.** This attachment provides an analysis of each budget strategy scenario and is organized by four strategy types:

  - **Expenditure Controls/Cost Shifts.** Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.
  - **Service Delivery Changes.** Maintaining service levels by changing the way that services are delivered, either through contracting for services or insourcing services from other agencies.
  - **Revenue Enhancements.** Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.
  - **Service Level Reductions**. If the above strategy types do not yield sufficient fiscal savings to the General Fund, the City would need to explore service level reduction strategies in order to achieve fiscal sustainability.

FISCAL IMPACT

There is no fiscal impact associated with receiving the presentation by Management Partners. The financial strategies discussed as part of this report and subsequent direction provided by Council will help to address the City's long term structural deficit.

STAFF RECOMMENDATION

It is recommended that Council receive the presentation by Management Partners and provide staff direction on the mix of budget strategy options that it wishes to pursue to close the City's projected structural deficit. It is also recommended that Council direct staff to conduct any additional analyses as needed and return with a revised FSP for Council consideration as part of the FY 2018/19 budget development process.

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City of Scotts Valley
Fiscal Sustainability Plan
Budget Strategies Analysis and Scenarios

Steve Toler, Senior Manager

March 7, 2018

Management Partners

CITY OF SCOTTS VALLEY CALIFORNIA 1966

City Council Direction from December 5, 2017 Workshop

Revenue Enhancements	Expenditure Controls/Cost Shifts	Service Delivery Changes	Service Level Reductions
• Sales tax measure • User fees and charges • Transient occupancy tax • Business license tax • Utility users tax • *Solid waste franchise fees*	• Pension cost sharing • Health benefits contributions • Cost allocation to wastewater operations • ~~Fleet size reduction~~ • ~~Temporary work furloughs~~	• Adult/youth sports • Aquatics • Online service delivery • *Vehicle/fleet maintenance* • *Street and storm drain maintenance* • ~~Law enforcement~~ • ~~Public safety dispatch~~	• ~~Aquatics (eliminate)~~ • ~~Parks/landscape maintenance~~ • ~~Street and storm drain maintenance~~ • ~~Police patrol~~ • ~~Administrative support staffing~~

Strong preference to not reduce service or staffing levels

City Council Action Requested

- Review updated ten-year financial forecast
- Review budget strategies analyzed
  - Fiscal impacts
  - Feasibility
- Review packaged budget strategy scenarios
- Provide direction on recommended plan for implementation

Tonight's Presentation

1. Financial forecast review
2. Budget strategies
3. Strategy packages
4. Next steps

What is Scotts Valley's fiscal reality?

- Review fiscal environment
- Review forecast assumptions
- Review outcomes from the fiscal forecast

Current Fiscal Environment

Challenges in Common with Other Cities

- Facing large pension cost increases
- Deferred infrastructure/facilities maintenance and internal service needs
- Significant reduction in staffing after Great Recession
- Labor market pressures

Scotts Valley Differences

- Low property tax allocation (since Prop 13 in 1978)
- Measure U sales tax (0.5% rate expires in FY 2021-22)
- Retiree medical funded at 25% above the annual require contribution level
- Town Center development project (potential is unknown)

Key Forecast Assumptions

General

- **Recessions**: No recession assumptions built into long-range forecast (historical average – 5% revenue drop once every seven years, with 90% recovery within three years)
- **Inflation**: 2% (same as Federal goal and recent history)
- **Reserves**: Based on CAFRs through June 30, 2017 (Funds 001 and 006)

Revenues

- **Property Tax**: 4% annual growth based on FY 2017-18 projected collections, no significant development projects included in future years
- **Sales Tax**: 3% growth based on FY 2017-18 projected collections using HdL Companies estimates; assumes Measure U expires on 3/31/2022
- **Transient Occupancy Tax:** 3% growth based on FY 2017-18 projected collections; assumes Four Points Sheraton completed in FY 2018-19; assumes Marriott/Residence Inn completed in FY 2019-20
- **Other**: 3% growth in other key revenue categories (e.g., utility users tax, fees and charges, intergovernmental revenues)

Key Forecast Assumptions

Expenditures

- **Staffing levels**: No change (implications for future population/workload growth)
- **Compensation Adjustments**: Current MOUs through FY 2017-18, 3% COLA adjustments
- **Health Benefits**: Employee cost growth at 3%; retiree costs per latest study conducted by Total Compensation Systems, Inc. (TCS) in June 2016, funded at pay-as-you-go costs plus 25% of the difference between pay-go and annual required contribution into an irrevocable trust
- **Pensions**: Based on six-year CalPERS forecast (2016 valuation) with limited transition of employees from Classic to PEPRA benefit levels; assumes discount rate remains at 7%
- **Other Services and Supplies**: Averages 2% annual growth

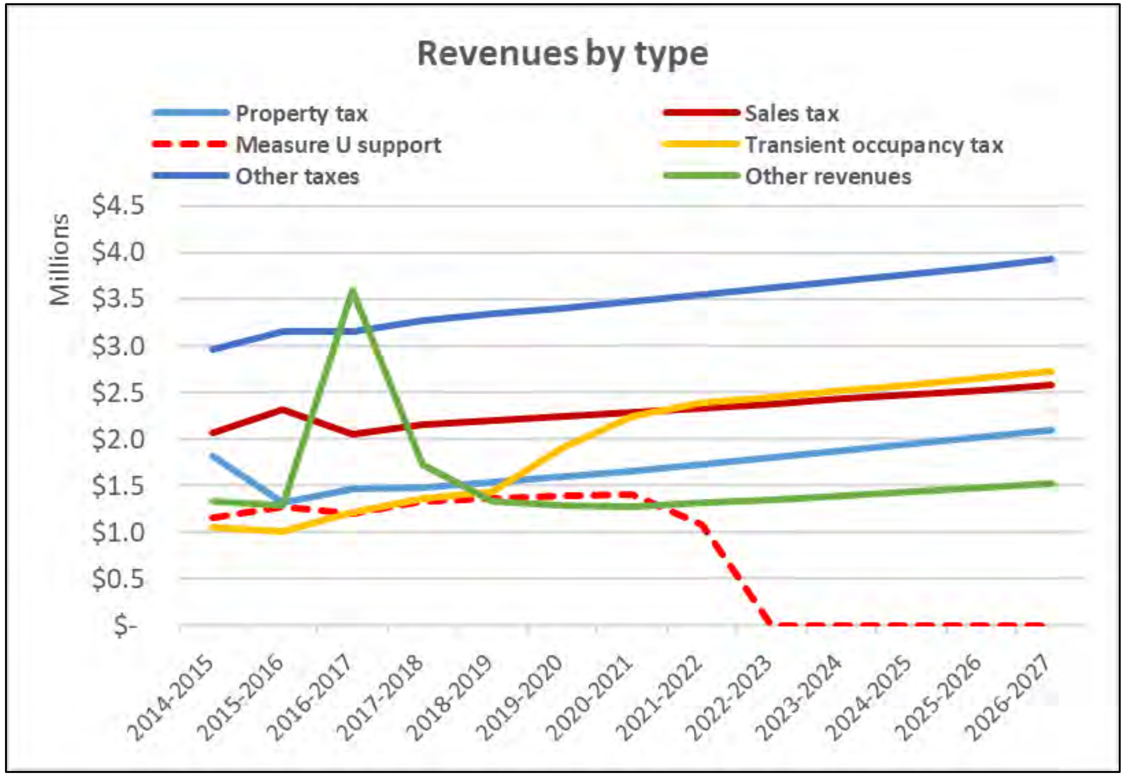
Key Forecast Assumptions

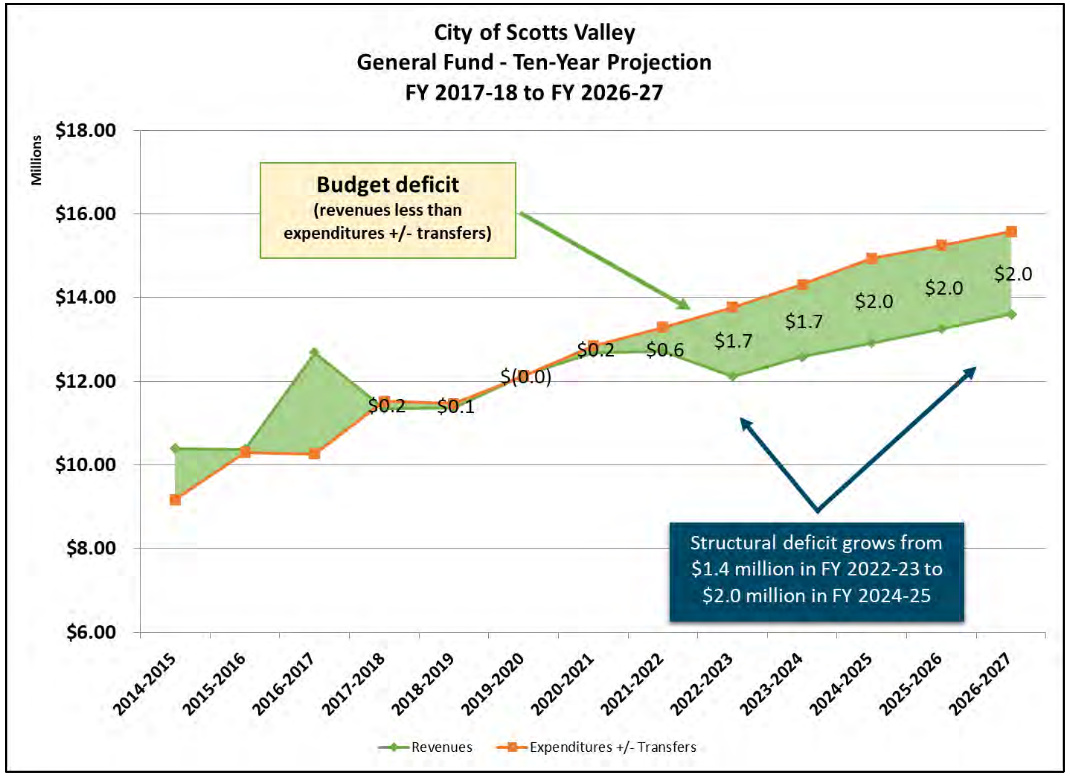
Expenditures

- **Unmet Needs**: Based on unfunded costs identified in FY 2017-18 budget process for ongoing equipment and facilities needs and fully funding OPEB obligations; assumes a three-year phase-in starting in FY 2018-19 to fully fund costs as follows:

Description	FY 2018-19	FY 2019-20	FY 2020-21 and thereafter
Information technology	$16,000	$32,000	$48,000
Other equipment	$30,000	$60,000	$91,000
Vehicles	$53,000	$106,000	$159,000
Building systems	$16,500	$33,000	$49,500
OPEB obligations	$115,000	$230,000	$350,000
Total	**$230,500**	**$461,000**	**$697,500**

Projected Revenues and Fiscal Gap

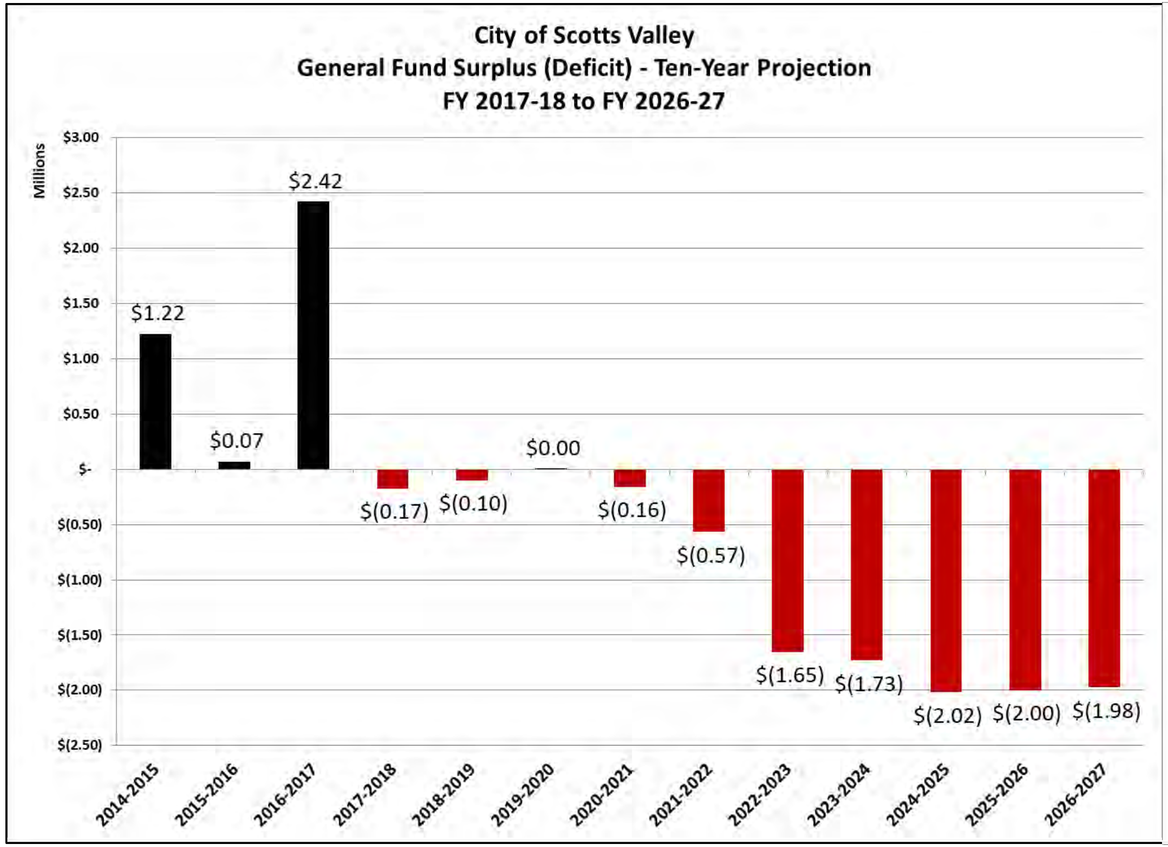


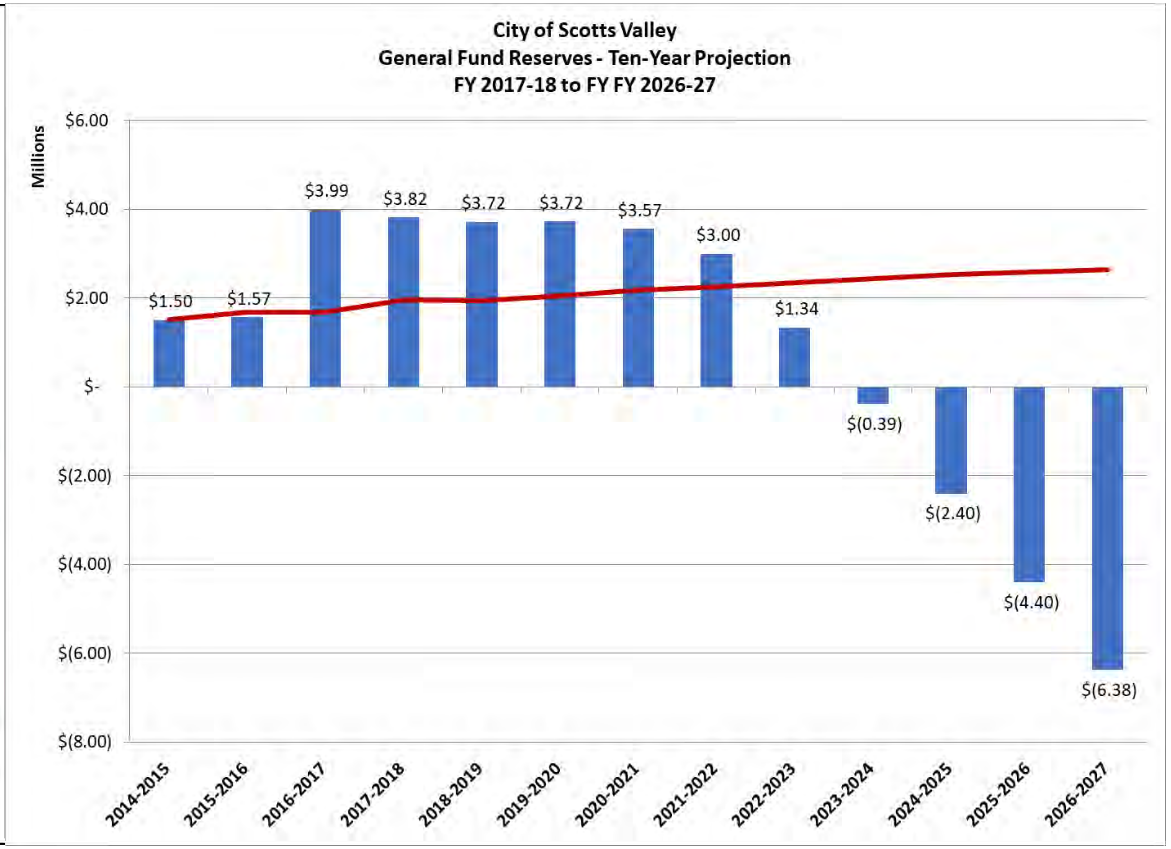


- TOT increases from new hotels
- Measure U sales tax ends FY 2021-22 assuming tax expires and is not renewed

- Existing revenues are not adequate to support projected expenditures

Result Is Structural Imbalance and Deficits Without Corrective Actions





- Annual shortfalls rise to $2.0M, with General Fund reserves depleted by FY 2023-24 without corrective actions

Two Primary Causes of Shortfall

- Cumulative shortfall rises steadily to $2.0M by FY 2024-25; this is the total gap that has to be closed over the entire forecast period
- Major contributing factors:
  - Loss of Measure U support of $1.4M tax revenue (after tax expires)
  - Pension costs increasing by $1 million through FY 2021-22, and up to $1.9 million by FY 2024-25, due to discount rate change from 7.5% to 7.0%

Alternative Outcomes

Potential Outcomes that Would Improve Forecast

- Higher employee vacancy rates (more vacant positions or vacancies for longer periods of time, but impact service delivery)
- PERS investment gains
- Measure U renewed/increased
- Stronger economic development

Potential Outcomes that Would Worsen Forecast

- PERS investment losses (or additional discount rate cuts)
- Recessionary losses
- Weaker sales tax growth
- Increased personnel costs
- Extreme events

Do you have any questions on the fiscal model?

Budget Strategy Types

A. Expenditure controls and cost shifts

- **Compensation changes require meet and confer labor negotiations**
- Intent is to maintain service levels by reducing cost of services

B. Service delivery changes

- **Requires case-by-case analysis of potential for savings**
- Intent is to maintain service levels through more cost-effective ways of delivering services

C. Revenue enhancements

- **New taxes require voter approval**
- Most fee increases are within Council budget authority to enact

D. Service level reductions

- **Within Council budget authority to enact**
- Lower staffing affects service levels

There are no strategy options that have not already been implemented in other jurisdictions.

Expenditure Controls and Cost Shifts

1. Pension Costs – Start/increase employee contributions

2. Health Benefits – Increase employee contributions

3. Cost Allocation Plan – Increase cost allocation to wastewater operations to fullest extent allowed

Pension Costs – Start/increase employee contributions

Background

- CalPERS contributions have increased significantly due to its underfunded status and changes in actuarial assumptions
- Discount rate reduction is expected to increase employer contributions by 68% by FY 2022-23

Considerations

- PEPRA allows City to impose cost sharing after good faith bargaining
- Any cost sharing with employees will reduce their net pay, which could impact competitive compensation in the marketplace
- Requires good faith bargaining

Impact

- Imposing **cost sharing under PEPRA** would save the City **$350,600 annually**
- A **3% cost sharing** arrangement with all employees would yield savings of **$162,000 annually**

Health Benefits – Increase employee contributions

Background

- City contributes toward healthcare needs of its current employees
- Total contributions by General Fund are $1.6 million per year
- Annual required contributions by General Fund to fund retiree medical are $655,000

Considerations

- Mandatory subject of bargaining
- Increasing employees' health care contributions could impact competitive compensation in labor market
- Having current employees contribute to retiree medical is unusual and would be met with significant resistance

Impact

- Having **employees contribute an additional $100 per month** towards their medical costs will save the General Fund **$54,000 annually**

Expenditure Controls and Cost Shifts: 3

Cost Allocation Plan – Increase cost allocation to wastewater operations to fullest extent allowed

Background

- General Fund support departments (e.g., city manager, city clerk, city attorney, finance) incur costs in support of wastewater enterprise operations
- Total cost allocations from General Fund to Wastewater Operating Fund are $256,200 per year

Considerations

- Independent cost allocation plan study being performed
- Cost allocation may be modified through annual budget adoption process
- Cost changes impact future wastewater rate studies

Impact

- Initial cost allocation plan study results indicate that the General Fund can increase its cost allocation to the Wastewater Operating Fund to $291,000, **shifting costs and resulting in General Fund savings of $34,800 annually**

Expenditure Controls and Cost Shifts
Fiscal Summary

Strategy	Approach	Fiscal Impact
1. Pension Costs – Start/increase employee contributions	• Share 3% across the board • Share allowed under PEPRA	$162,000 $350,600
2. Health Benefits – Increase employee contributions	• Increase employee medical contributions by $100 per employee	$54,000
3. Cost Allocation Plan – Increase cost allocation to wastewater operations to fullest extent allowed	• Increase cost allocation to wastewater operations	$34,800
TOTALS	• **Low** • **High**	**$250,800** **$439,400**

Service Delivery Changes

4. Adult/Youth Sports – Contract or implement shared services model

5. Aquatics – Contract, implement shared services model, or discontinue programs

6. Parks Maintenance – Contract or implement shared services model

7. Vehicle/Fleet Maintenance – Contract or implement shared services model

8. Street and Storm Drain Maintenance – Contract or implement shared services model

9. Online Permitting – Implement online service delivery for planning/building and public works permitting

Service Delivery Changes: 4

Adult/Youth Sports – Contract or implement shared services model

Background

- City provides range of adult and youth sports programs (e.g., basketball, softball, soccer, etc.)
- Annual General Fund subsidy reduced to $125,000 in FY 2017-18 through fee increases

Considerations

- Viable service sharing opportunities could be explored with local agencies, non-profits and private companies
- Savings generated through enhanced revenues and/or reduced program administration costs
- Existing staff could be reallocated to other programs

Impact

- Seek to **reduce General Fund subsidy totaling $15,000 annually** through shared services or concessionaire agreements

Service Delivery Changes: 5

Aquatics – Contract, implement shared services model, or discontinue programs

Background

- City provides aquatics programs at Siltanen Family Swim Center
- Annual subsidy reduced to $155,000 in FY 2017-18 through fee increases

Considerations

- Service sharing opportunities could be explored with local schools, agencies, or non-profit organizations
- Concessionaire agreement could increase cost effectiveness of operating program
- City will need to invest in swimming pool improvements in coming years

Impact

- Seek to **reduce General Fund subsidy totaling $50,000 annually** through shared services or concessionaire agreements
- Terminate program if no shared services or concessionaire agreement is viable, which would **eliminate annual General Fund subsidy of $119,000 in hard dollar costs annually**

Service Delivery Changes: 6

Parks Maintenance – Contract or implement shared services model

Background

- Parks maintenance is performed by one full-time maintenance worker and a 30% allocation of a maintenance supervisor
- Cities across California that have shifted to contract services have realized savings

Considerations

- The cost of city employees in maintenance areas are typically much higher than in the private sector, and are likely to increase over time due to pension cost increases
- Maintaining service levels require enforceable service agreement with contractor and appropriate oversight by city management
- May require meet and confer with bargaining groups

Impact

- Assuming same level of service as provided now with inhouse staff, **estimated savings are $15,000 annually**

Service Delivery Changes: 7

Vehicle/Fleet Maintenance – Contract or implement shared services model

Background

- City maintains 42 vehicles with one full-time chief mechanic and a 10% allocation of a maintenance supervisor
- Police and some wastewater vehicles are contracted to private repair shops
- Current fleet services annual budget is $154,800, with $149,000 consisting of employee costs

Considerations

- Performing updated fleet utilization/maintenance productivity study might yield 10% savings based on work in other cities
- Determine if shop labor rate is competitive with private industry
- Investigate wholesale sharing of services with regional agencies or contract out to private repair shop

Impact

- Contracting fleet maintenance services would produce General Fund **savings of $40,000 annually**

Service Delivery Changes: 8

Street and Storm Drain Maintenance – Contract or implement shared services model

Background

- General Fund total budget for street and storm drain maintenance is $411,000
  - Employee costs: $294,300, provided by two maintenance worker III positions and a 30% allocation of a maintenance supervisor
  - Street light utilities: $45,000
  - Contractual services: $26,000
  - Other services/supplies: $45,700

Considerations

- The cost of City employees in maintenance areas is typically much higher than in the private sector, and likely to increase over time due to rising pension costs
- Maintaining service levels require enforceable service agreement with contractor and appropriate oversight by city management
- May require meet and confer with bargaining groups

Impact

- Estimated cost savings for **contracting is $25,000 annually**

Service Delivery Changes: 9

Online Permitting – Implement online service delivery for planning/building and public works permitting

Background

- Planning, building and public works use spreadsheet and manual documents to track permitting processes
- Permit tracking system would be required to allow online permitting
- Current staffing levels are barely capable of meeting existing demand; temporary staffing or consulting services would be necessary to maintain services and implement solution

Considerations

- City may implement permit tracking with investment in software solution through budget approval and City Council approval of a contract/agreement/purchase order

Impact

- **No fiscal savings is assumed**
- Software and implementation services could cost at least $150,000
- Staffing efficiencies would provide increased service levels and staffing capacity to meet demand; impacts would be considered in future user fee studies, including technology replacement costs

Service Delivery Changes
Fiscal Summary

Strategy	Approach	Fiscal Impact
4. Adult/Youth Sports – Contract or implement shared services model	• Implement shared services or concessionaire agreement	$15,000
5. Aquatics – Contract, implement shared services model, or discontinue programs	• Contract with concessionaire • Terminate programs	$50,000 $119,000
6. Parks Maintenance – Contract or implement shared services model	• Contract for services with private vendor	$15,000
7. Vehicle/Fleet Maintenance – Contract or implement shared services model	• Contract for services with private vendor	$40,000
8. Street and Storm Drain Maintenance – Contract or implement shared services model	• Contract for services with private vendor	$25,000
9. Online Permitting – Implement online service delivery for planning/building and public works permitting	• Implement permit tracking system and online service delivery	None
TOTALS	• **Low** • **High**	**$145,000** **$214,000**

Revenue Enhancements

10. Local Transactions and Use Tax – Extend/make permanent the 0.5% tax
11. Local Transactions and Use Tax – Increase tax rate
12. Utility Users Tax – Expand covered utilities and/or increase the tax rate
13. Transient Occupancy (Hotel) Tax - Increase tax rate
14. Business License Tax – Increase tax rate
15. Solid Waste (Garbage) Franchise Fees – Increase rate on gross receipts
16. User Fees and Charges – Increase planning and building fees
17. User Fees and Charges – Increase public works fees
18. User Fees and Charges – Increase police fees
19. User Fees and Charges – Increase administrative fees
20. User Fees and Charges – Increase recreation fees

Revenue Increases: C2

Local Transactions and Use Tax – extend/make permanent the 0.5% tax

Background

- Existing local transactions and use tax (TUT) rate of 0.5% approved by voters in 2014; expires 3/31/2022
- Current revenue generated: $1.4 million annually

Considerations

- Requires majority vote at general election
- Can be enacted as limited duration (sunset period) or as permanent

Impact

- **Renewal** at the same 0.5% by 2020 **would yield $1.4 million** per year to General Fund
- Strong consideration should be given towards a permanent measure as City's long-range fiscal gap indicates the need for these revenues on a long-term basis

Revenue Increases: 11

Local Transactions and Use Tax – Increase tax rate

Local Transactions Use Taxes in Effect in Scotts Valley

Agency	Local TUT Rate	Effective Date	Expiration Date
Santa Cruz County Public Library Transactions and Use Tax	0.25%	4/1/1997	None
Santa Cruz County Transportation Transactions and Use Tax	0.50%	4/1/2017	3/31/2047
Santa Cruz Metropolitan Transit District	0.50%	1/1/1979	None
Scotts Valley Temporary Transactions and Use Tax	**0.50%**	**4/1/2014**	**3/31/2022**
Available combined tax rate under the cap	**0.25%**		
Maximum limit on Transactions and Use Taxes	**2.00%**		

Background

- State law limits local TUT measures at 1%, with a combined TUT limit of 2%
- Capacity of an additional 0.5% exists within caps

Considerations

- Requires majority vote in general election
- Increasing rate above current 0.5% may make passage more difficult

Impact

- **Increase to 0.625% (increase of 0.125%): $350,000 annually**
- **Increase to 0.75% (increase of 0.25%): $700,000 annually**

Revenue Increases: 12

Utility Users Tax – Expand covered utilities and/or increase the tax rate

Utility User Tax Revenue of County Agencies (FY 2017-18)

Jurisdiction	Utilities Subject to Tax	Utility Users Tax Rate	FY 2018 UUT Revenues	FY 2018 UUT Revenues per Capita
Capitola	N/A	N/A	N/A	N/A
Scotts Valley	**Electric, gas**	**4.0%**	**$742,000**	**$61**
Santa Cruz	Electric, gas, telephone (wired/wireless), video, solid waste/refuse	8.5%	$11,989,000	$184
Watsonville	Electric, gas, telephone (wired/wireless)	6.0% electric/gas; 5.5% telephone	$3,502,000	$66
County Average				**$125**

Background

- UUT may be enacted on electricity, gas, telephone (wired/ wireless), and video services
- Scotts Valley is one of three agencies out of 28 Bay Area/Central Coast cities with a UUT that does not include telecommunications services

Considerations

- Requires majority vote at general election

Impact

- Increasing the UUT rate to 6% would increase revenues **by $375,000 annually**
- Adding telecommunications services could generate additional revenues **of $425,000 annually**

Revenue Increases: 13

Transient Occupancy Tax (TOT) – increase tax rate

Transient Occupancy Tax Rates in Santa Cruz County (FY 2017-18)

Agency	Agency's TOT Rate	FY 2018 TOT Revenue	FY 2018 TOT Revenue per Capita
Capitola	10%	$1,506,300	$148
Scotts Valley	**10%**	**$1,294,000**	**$106**
Santa Cruz County	11%	$8,482,100	$62
Santa Cruz (city)	11%	$12,291,000	$188
Watsonville	11%	$989,100	$19
County Average			**$89**

Background

- Scotts Valley has a TOT rate of 10%, as does Capitola
- All other county agencies have an 11% TOT rate

Considerations

- Requires majority vote in a general election
- TOT measures typically fare better than other tax measures
- There is current regional interest in adjusting TOT rates.

Impact

- **Increase of 1% (to 11%)** in the TOT rate would generate **$240,000 annually**
- **Increase of 2% (to 12%)** in the TOT rate would generate **$480,000 annually**

Revenue Increases: 14

Business License Tax – Increase tax rate

Background

- Business license tax rate (per-employee rate) has not been updated in over 25 years
- Per capita revenue is currently above median for Bay Area/Central Coast cities between 10,000 and 25,000 population

Considerations

- Requires majority vote in general election
- Engagement will be required with business community

Impact

- **Increasing per-employee tax rates** to **add $5 to $10 per capita** revenue would require increases of 20% to 40%, generating additional revenues of **$70,000 to $140,000 annually**
- **Increasing per-employee tax rates based on changes in Consumer Price Index** from 1992 to date would require increases of 88%, generating additional revenues of **$330,000 annually**

Revenue Increases: 15

Solid Waste (Garbage) Franchise Fees – Increase rate on gross receipts

Background

- Franchise agreement with GreenWaste was extended through January 2022
- No legal limitation on franchise fee rate that can be levied on solid waste franchisee
- Scotts Valley franchise fee rate is the highest among other county agencies

Considerations

- Franchise agreement can be implemented by City Council action when agreement is renewed
- Increases would be passed along to consumers, which would increase their monthly garbage fees

Impact

- **Increasing the franchise fee rate by 2%** (to 22%) would generate additional revenues of **$60,000 annually**

Revenue Increases: 16, 17, 18 and 19

User Fees and Charges – Increase planning and building, public works, police and administrative fees

Background

- User fees for planning and building, public works, police, and administrative services have not been studied in many years
- User fees study and cost recovery analysis is being completed and will be presented to City Council in April and May 2018

Considerations

- City Council has authority to establish fees and charges up to full cost recovery
- Impact of increases in planning, building and public works fees on current and future development plans must be weighed against the need for City to appropriately fund its services

Impact

- Estimated revenue impacts are not currently available subject to completion of the user fee study and City Council direction

Revenue Increases: 20

User Fees and Charges – Increase recreation fees

Background

- User fees for recreation programs were analyzed in FY 2017-18 budget process
- General Fund is subsidizing most recreation programs
- City Council approved various fee increases in FY 2017-18 for aquatics (see strategy #5), parks and facility rentals

Considerations

- City Council has authority to establish fees and charges up to full cost recovery
- Impact on community programs and participation must be weighed against the need for City to appropriately fund its services

Impact

- Pending an updated cost recovery analysis, increases in rental fees and class enrollment improvements could **reduce the General Fund subsidy by an additional $30,000 annually**

Revenue Enhancements
Fiscal Summary

Strategy	Approach	Fiscal Impact
10. Local Transactions and Use Tax – extend/make permanent the 0.5% tax	• Extend the 0.5% tax rate (or make permanent)	$1,400,000
11. Local Transactions and Use Tax – Increase tax rate	• Increase TUT to 0.625% • Increase TUT to 0.75%	$350,000 $700,000
12. Utility Users Tax – Expand covered utilities and/or increase the tax rate	• Increase existing rate to 6% • Expand base to include telecommunications services	$300,000 $425,000
13. Transient Occupancy Tax (TOT) – increase tax rate	• Increase TOT rate to 11% • Increase TOT rate to 12%	$240,000 $480,000
14. Business License Tax – Increase tax rate	• Increase tax rates by 20% • Increase tax rates based on CPI by 88%	$70,000 $330,000
15. Solid Waste (Garbage) Franchise Fees – Increase rate on gross receipts	• Increase rate by 2%	$60,000
16-19. User Fees and Charges – Increase planning and building, public works, police and administrative fees	• Increase fees to full cost recovery	Undetermined
20. User Fees and Charges – Increase recreation fees	• Increase fees to reduce General Fund subsidy	$30,000
Total	• **Low** • **High**	**$2,450,000** **$3,425,000**

Service Level Reductions

D1. Take no action

D2. General Fund services and staffing reductions

Service Reductions: 21

Take no action

Background

- Projected annual deficit is $2.0 million by FY 2024-25
- General Fund reserves would fall below zero by FY 2023-24

Considerations

- City would need to consider impacts on ability to fund pension, postemployment benefit, and debt obligations
- General fund would be depleted by June 30, 2024

Impact

- City would have to consider severe fiscal consequences such as bankruptcy
- To continue serving the community, the following actions would be required:
  - Total General Fund operating costs of $2 million would be required by FY 2022-23, phased in starting in FY 2018-19
  - Workforce layoff of non-wastewater staff of nearly 25% would be required

General Fund Services and Staffing Reductions

Background

- Analysis of operating department budgets would be required to target expenditure reductions where other strategies are not viable or do not yield sufficient savings

Considerations

- Would likely require up to 15% workforce reduction to yield a 10% budgetary savings
- Most dramatic impacts would be to police and public works

Impact

- A **15% reduction in police and public works** departments would yield **annual General Fund expenditure reductions of $1,000,000**
- Evaluate reductions in other internal services fund operations (e.g., city manager's office, human resources, finance, information technology)

Service Level Reductions
Fiscal Summary

Strategy	Approach	Fiscal Impact
D1. Take no action	• General Fund would deplete its reserves by FY 2024-25; approach is not sustainable, but presented for discussion purposes	$ -
D2. General Fund services and staffing reductions	• Reduce operating budget by 15% in police and public works General Fund operations	$1,000,000
TOTALS		**$1,000,000**

Criteria Used in Evaluating Budget Strategies

Factors	Tier 1	Tier 2	Tier 3
Potential for community support	High	Medium	Low
Technical and operational ease of implementation	High	Medium	Low
Timing necessary for implementation	Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit	Timely implementation is possible, but less than moderately probable	Timely implementation is unlikely to meet timing required to resolve the structural deficit
Disruptive impact on service delivery	Low	Medium	High
Disruptive impact within City organization	Low	Medium	High
Overall fiscal impact	High, or combined with other recommendations; capable of resolving the structural deficit	Moderate to high fiscal impact	Low to moderate fiscal impact

Budget Strategy Tiers

Categories	Tier 1	Tier 2	Tier 3
Expenditure controls and cost shifts	3. Cost Allocation Plan – increase allocation to wastewater	1. Pension Costs – start/increase employee contributions 2. Health Benefits – increase employee contributions	None
Service delivery changes	7. Fleet Services	4. Adult/Youth Sports – contract or shared services 5. Aquatics – Contract, shared services, or discontinue 7. Vehicle/Fleet Maintenance – contract or shared services 9. Online Permitting – implement online service delivery for planning/building and public works	6. Parks Maintenance – contract or shared services 8. Street and Storm Drain Maintenance – contract shared services
Revenue enhancements	10. Local Transactions and Use Tax – extend/make permanent 13. Transient Occupancy Tax – increase tax rate to 11% or 12% 16. User Fees and Charges – planning/building 17. User Fees and Charges – public works 18. User Fees and Charges – police 19. User Fees and Charges - administrative	11. Local Transactions and Use Tax – increase tax rate to 0.625% or 0.75% 12. Utility Users Tax – expand or increase the tax rate 14. Business License Tax –increase tax rate 15. Solid Waste (Garbage) Franchise Fees – increase rate 20. Users Fees and Charges – increase recreation fees	None
Service reductions and eliminations	None	22. General Fund services and staffing reductions	21. Take no action

Do you have any questions on the budget strategies or strategy tiers?

Identifying Budget Strategies

Are there any other strategies that were not reviewed that should be considered?

Budget Strategy Scenarios

Budget Strategy Scenarios

Scenario 1 - Strong Revenue Strategies

- Local TUT (sales tax) – permanently extend rate at 0.5% (no later than November 2020 election)
- Transient Occupancy Tax- increase to 12% (no later than November 2020 election)
- User Fees and Charges – increase non-recreation fees to full cost recovery
- Restored capacity to fund General Fund services of $200,000 annually starting in FY 2021-22
- Capacity for infusion of $1.8 million for unfunded capital improvement projects

Scenario 2 - Mixed Approach — Moderate Revenues; Implement Expenditure Cost Shifts

- Local TUT – permanently extend rate at 0.5% (no later than November 2020 election)
- User Fees and Charges – increase non-recreation fees to full cost recovery
- Pension Cost Sharing – negotiate employee contribution of 3% by FY 2020-21
- Cost Allocation Plan – increase cost allocation to wastewater operations in FY 2018-19
- General Fund Cuts – expenditure reductions totaling $200,000 annually by FY 2026-27
- Capacity for infusion of $800,000 for unfunded capital improvement projects

Scenario 3 - Mixed Approach—Moderate Revenues; Implement Service Delivery Changes

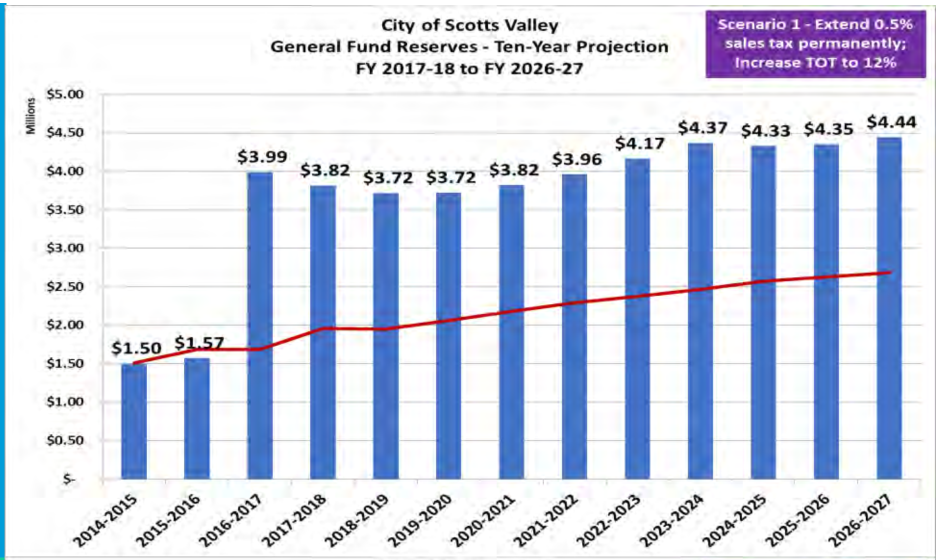
- Local TUT – permanently extend rate at 0.5% (no later than November 2020 election)
- User Fees and Charges – increase non-recreation fees to full cost recovery
- Vehicle/Fleet Maintenance – contract or shared services by FY 2020-21
- Adult/Youth Sports – contract or shared services by FY 2020-21
- Aquatics Program – eliminate subsidy by contracting service or discontinue programs by FY 2023-24
- General Fund Cuts – expenditure reductions totaling $190,000 annually over three years starting in FY 2024-25
- Capacity for infusion of $700,000 for unfunded capital improvement projects

Scenario 4 - Strong Operating Expenditure Reductions; Local TUT Measure Not Renewed

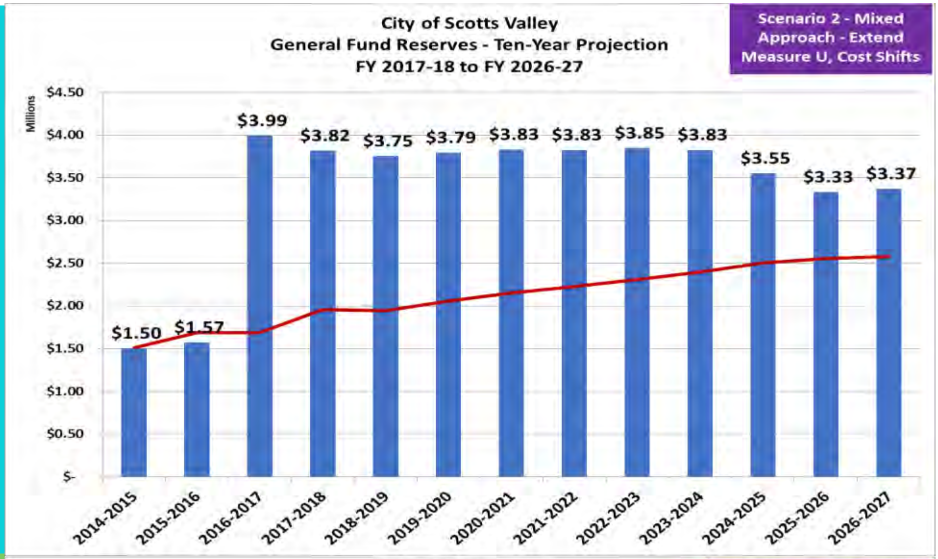
- Local TUT – not renewed (expires in FY 2021-22)
- Pension Cost Sharing – negotiate employee contribution of 6% by FY 2022-23
- Cost Allocation Plan – increase cost allocation to wastewater operations in FY 2022-23
- Vehicle/Fleet Maintenance – contract or shared services by FY 2022-23
- Adult/Youth Sports – contract or shared services by FY 2022-23
- Aquatics Program – eliminate subsidy by contracting service or discontinue programs by FY 2022-23
- General Fund Cuts – expenditure reductions totaling $1.47 million annually over three years starting in FY 2022-23

All Options Are Balanced Over Time

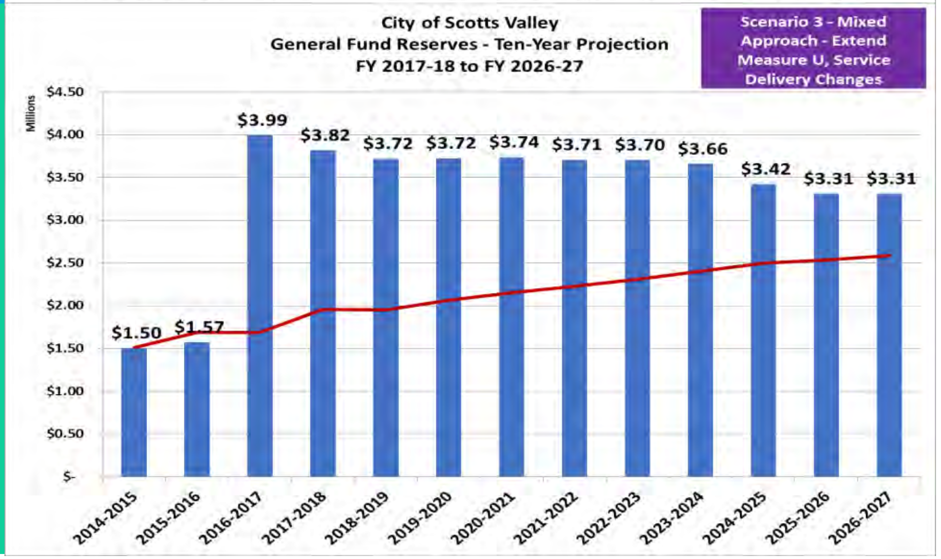
Scenario 1



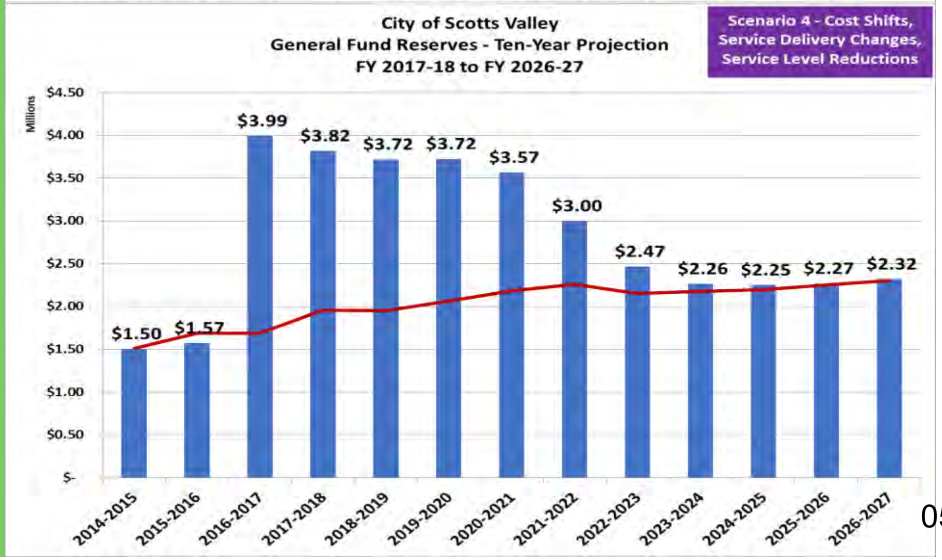
Scenario 2



Scenario 3



Scenario 4



Budget Strategies Selection

Based on the budget strategies discussion, and the budget scenarios presented, what combination of strategies should the City pursue to resolve its fiscal gap?

Next Steps

- **Management Partners**
  - Prepare summary of City Council direction from today's workshop and provide to staff (March 19)
  - Finalize Fiscal Sustainability Plan (April 4)
  - Incorporate Fiscal Sustainability Plan into preliminary FY 2018-19 Annual Budget and Five-Year Financial Forecast (no later than April 27)
- **City Staff**
  - Assign implementation action steps and deliverable dates to appropriate staff
  - Consider and implement any budget amendments to be incorporated into the FY 2018-19 Annual Budget for adoption (no later than June 6)
  - Conduct any additional analyses necessary to implement action items
  - Draft ordinance changes and schedule and conduct public hearings for any tax measures for November 2018 ballot (by July 31)

City of Scotts Valley
Fiscal Sustainability Plan
Budget Strategies Analysis
and Scenarios

Management Partners

THANK YOU!

Contact Information

Steve Toler | (650) 918-7017 | stoler@managementpartners.com

Management Partners

o:	Ms. Jenny Haruyama, City Manager
From:	Steve Toler, Senior Manager
Subject:	Fiscal Sustainability Plan – Budget Strategies Analyses and Recommendations
Date:	March 7, 2018

Executive Summary

Management Partners has been working with City staff during the past several months to prepare a fiscal sustainability plan. A workshop was conducted with the City Council on December 5, 2017, to allow the City Council to provide input into various budget strategies that were identified through interviews with employees and based on our experience in working with cities in fiscal sustainability/stabilization projects throughout the State. The City Council provided direction on strategies that it felt would be worthwhile to analyze, and strategies that the Council would prefer not to pursue. Council provided direction to the City Manager to analyze various expenditure control, service delivery change, and revenue enhancement strategies for consideration in a fiscal sustainability plan. The Council indicated a strong preference to not reduce service or staffing levels.

During the workshop, Management Partners shared a summary of a ten-year forecast based on the forecast that was presented as part of the FY 2017-18 budget. Assuming Measure U was not renewed, the fiscal model indicated that the City's General Fund would have a structural deficit that would grow to over $2.4 million by FY 2026-27. Without corrective action, the City's General Fund Reserve would be depleted by FY 2022-23, the year in which the City's ½% local transactions and use tax (TUT) measure (Measure U) would expire.

Given the magnitude and timing of the budget deficit forecast, Management Partners worked with City staff to develop options or strategies to address the challenge. These strategies are provided in Attachment A. They were developed along a continuum that included:

- Revenue development,
- Expenditure control/cost shifts,
- Service delivery changes designed to reduce expenditures, and
- Service level reductions.

Arraying ideas along such a continuum reflects the priority any organization would have for preserving service delivery to the maximum extent possible consistent with maintaining solvency.

The strategies were developed based on a combination of factors, including Management Partners' experience about approaches other cities and counties throughout the state are taking as they consider options to address structural deficits. We also identified ideas based on Scotts Valley's unique opportunities and organizational climate. Several dozen potential strategies were developed in the categories described above.

An important element in developing an appropriate package of strategies for a City is the size and timing of the forecast deficit. Given the size and timing of that forecast, City leaders need to implement significant revenue and expenditure adjustments relatively quickly. Absent such actions, there would almost certainly be the need to implement significant service level reductions of at least 15%, which represents the least desirable outcome. Such an approach might require positions to be left vacant, or even to consider layoffs, to preserve solvency. In addition, such actions are always disruptive to an organization and often affect operations for a long time.

Scotts Valley leaders must take action in the very near term to bring planned and considered deficit reduction strategies on line. Because revenue strategies often require voter approval, timing is a critical issue.

This memo consists of the following sections and attachments:

- **Feasibility Assessment.** This section discusses the factors used in determining the feasibility of each strategy and the feasibility tiers to which each strategy was assigned.
- **Budget Strategy Scenarios.** This section discusses four different scenarios that take varied approaches to solve the fiscal gap:
  - Budget Scenario 1: Strong Revenue Strategies
  - Budget Scenario 2: Mixed Approach – Moderate Revenues; Implement Expenditure Cost Shifts
  - Budget Scenario 3: Mixed Approach - Moderate Revenues; Implement Service Delivery Changes
  - Budget Scenario 4: Strong Operating Expenditure Reductions; Local TUT Measure Not Renewed
- **Attachment A – Detailed Strategies.** This attachment provides an analysis of each budget strategy scenario and is organized by four strategy types:
  - **Expenditure Controls/Cost Shifts.** Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.
  - **Service Delivery Changes.** Maintaining service levels by changing the way that services are delivered, either through contracting for services or insourcing services from other agencies.

- **Revenue Enhancements.** Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.
- **Service Level Reductions**. If the above strategy types do not yield sufficient fiscal savings to the General Fund, the City would need to explore service level reduction strategies in order to achieve fiscal sustainability.

Determining Feasibility

While all the strategies are technically feasible and have been implemented in other California settings, they are distinguished by differing levels of potential community support, complexity of implementation, implementation timing, and disruption to the organization relative to the financial return. Strategies deemed most feasible are solutions that can be implemented more readily and would be least disruptive to the organization.

Certain revenue changes such as tax measures require voter approval to implement and vary in terms of complexity and community support. Some have a greater impact on voters (e.g., local sales tax measures, business license taxes) while others have more of an impact on those from outside the city (e.g., transient occupancy taxes). While the community's receptivity to revisions to the City's utility users' tax (UUT) and business license tax is unknown, sales taxes and transient occupancy taxes have received support in the past. Increasing fees and charges to full cost recovery may help the City's structural deficit, but may have adverse impacts on residents and businesses. Voters are more likely to support measures when they know their tax dollars are being spent efficiently, requiring the City to review cost efficiencies prior to taking those measures to voters. These factors require careful consideration in determining the feasibility of revenue enhancements.

Proposed changes that impact the organization will take time because they may be the subject of mandatory bargaining with the City's labor groups. Substantial changes in service delivery methodologies or employee benefit programs should also be weighed against the reality that they might result in ongoing employee relations issues, which can impair more incremental change. Again, because the City has time, but not a lot of it, choices need to be made accordingly.

The strategies identified herein have been quantified to the extent possible, based on current information available to Management Partners and City staff. In many cases, they have been programmed into the financial forecast so City leaders can explore the cumulative impact of implementing any package of actions.

Based on these considerations, budget strategies were evaluated considering the set of criteria indicated in Table 1 below.

Table 1. Criteria Used in Evaluating Budget Strategies

Factors	Tier 1	Tier 2	Tier 3
Potential for community support	High	Medium	Low
Technical and operational ease of implementation	High	Medium	Low
Timing necessary for implementation	Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit	Timely implementation is possible, but less than moderately probable	Timely implementation is unlikely to meet the timing required to resolve the structural deficit
Disruptive impact on service delivery	Low	Medium	High
Disruptive impact within City organization	Low	Medium	High
Overall fiscal impact	High, or combined with other recommendation(s), sufficiently capable of resolving the structural deficit	Moderate to high fiscal impact	Low to moderate fiscal impact

An individual strategy may not necessarily meet all the criteria for each tier, but based on the overall evaluation of the strategy, it was then grouped into one of the three tiers, with Tier 1 strategies judged to be most feasible and Tier 3 strategies least feasible. A summary of strategies by type and tier is shown in Tables 2, 3 and 4. More detail on the strategies can be found in Attachment A of this memorandum.

Tier 1 strategies shown in Table 2 are the most feasible actions City leaders can take with significant impact in the near term and with low disruption. Strategies to generate additional revenue dominate Tier 1 because Scotts Valley has lower revenues in some areas relative to the region and/or the immediate area. One of the revenue enhancement strategies – extending or making permanent the local transactions and use tax – would require an election, so implementation timing would be important to consider. Additional revenues are not as disruptive to the City organization or service delivery relative to other approaches that directly impact employees and/or would impact services to residents.

Table 2. Tier 1 Strategies

Tier 1	Strategies
Expenditure Controls and Cost Shifts	3. Cost Allocation Plan – Increase cost allocation to wastewater operations to fullest extent allowable
Service Delivery Changes	7. Vehicle/Fleet Maintenance – contract or implement share services model

Tier 1	Strategies
Revenue Enhancement	10. Local Transactions and Use Tax – extend/make permanent the 1/2% tax 13. Transient Occupancy (Hotel) Tax – increase tax rate 16. User Fees and Charges – increase planning and building fees 17. User Fees and Charges – increase public works fees 18. User Fees and Charges – increase police fees 19. User Fees and Charges – increase administrative fees
Service Reductions and Eliminations	None

City leaders will need to seriously consider implementing some or all of the Tier 1 strategies during the 2018 to 2020 period and election cycles. In addition, the uncertainty associated with needing to place revenue measures on the ballot adds urgency to the consideration of these strategies.

Tier 2 strategies shown in Table 3 are considered moderately feasible to implement. Generally, these strategies will take more time to successfully implement and/or be more disruptive to the City organization or community residents via service delivery impacts. City leaders will probably have to consider some Tier 2 strategies, but the extent to which these will need to be fully implemented will depend on the level of success with Tier 1 strategies. The City will need to begin work on some of these strategies for two reasons: 1) Tier 1 strategies in total will not resolve the fiscal gap, and 2) they are needed as a fallback in case revenue strategies dependent on an election outcome are unsuccessful.

Table 3. Tier 2 Strategies

Tier 2	Strategies
Expenditure Controls and Cost Shifts	1. Pension Costs – start/increase employee contributions 2. Health Benefits – increase employee contributions
Service Delivery Changes	4. Adult/Youth Sports – contract or implement shared services model 5. Aquatics – Contract, implement shared services model, or discontinue programs 7. Vehicle/Fleet Maintenance – contract or implement shared services 9. Online Permitting – implement online service delivery for planning/building and public works
Revenue Enhancement	11. Local Transactions and Use Tax – increase tax rate to 0.625% or 0.75% 12. Utility Users Tax – expand covered utilities and/or increase the tax rate 14. Business License Tax –increase tax rate 15. Solid Waste (Garbage) Franchise Fees – increase rate on gross receipts 20. Users Fees and Charges – increase recreation fees
Service Reductions and Eliminations	22. General Fund services and staffing reductions

The Tier 3 strategies shown in Table 4 are considered the least feasible to implement in the City's environment. Generally, these strategies have either proven difficult to implement in other similar settings or would have a negative impact in the long term on the organization and community. To the extent the City is unable to generate enough revenue increases or expenditure reductions from other strategies, these more difficult options for maintaining solvency might need to be explored.

Table 4. Tier 3 Strategies

Tier 3	Strategies
Expenditure Controls and Cost Shifts	None
Service Delivery Changes	6. Parks Maintenance – contract or implement shared services model 8. Street and Storm Drain Maintenance – contract or implement shared services model
Revenue Enhancement	None
Service Reductions and Eliminations	21. Take no action – leads to unplanned, uncontrolled expenditure reductions to avoid insolvency

One strategy that is included for discussion purposes is taking no action. This is realistically not a viable option, because it would result in a condition of insolvency. The overwhelming majority of General Fund expenditures support personnel costs. When such a circumstance becomes imminent, the only thing a city can do is to leave positions vacant when employees retire or separate from employment (sometimes called a hard hiring freeze), and/or lay off employees to reduce costs and maintain solvency. This will have catastrophic impacts on the City's ability to serve the community. In extreme circumstances, a jurisdiction could be forced to consider or even file for bankruptcy protection, such as Stockton and San Bernardino. (In California, state law requires a number of actions in advance of any filing except in emergency situations.)

Acting now allows Scotts Valley leaders to plan and control the City's future. The City Council has clearly indicated that they are poised to implement the necessary strategies to proactively address the City's fiscal challenges. Developing a package of strategies in the form of a fiscal sustainability plan is the first step to that end.

Updated Ten-Year Financial Forecast

Key Changes from Ten-Year Forecast in December 2017

At its December 5, 2017 special meeting, the City Council received an updated ten-year financial forecast that indicated the long-term structural deficit for the General Fund would grow to $2.4 million by FY 2026-27. Since that time, we received updated revenue projections based on the City's mid-year financial review, which indicated stronger-than-anticipated revenue growth for the City's three largest tax sources - property taxes, sales taxes, and transient occupancy taxes

(TOT). These updated revenue projections were incorporated into the model. The projected year-end General Fund balance reserves were also updated and incorporated into the model.

In addition to revenue changes, the following items were included in the baseline forecast:

- **TOT from Four Points Sheraton Hotel.** The previous developer of the former Lexington Hotel on Scotts Valley Drive sold the property to Scotts Valley Hotel LLP in February 2018. The updated TOT projections from the new developer assume that the hotel will open in FY 2018-19. Based on prior TOT deferral agreements and the new projections, the City anticipates receiving TOT cash flow starting in FY 2018-19 of $150,000 that will grow to $675,000 by FY 2023-24 when the City starts collecting the full TOT amounts from the property. This has been incorporated into the forecast.
- **Funding Ongoing Equipment Replacement.** During the FY 2017-18 budget process, the City Council received a report regarding ongoing equipment replacement needs for which funds were not set aside The City Council chose to incorporate equipment replacement funding into its wastewater operations for purposes of including it in the wastewater rate calculations, but chose to not set aside funds for other equipment replacement needs. During the discussion regarding policy direction on this item, there was consensus that these ongoing unfunded replacement needs should be incorporated into the fiscal sustainability plan for consideration in funding its ongoing obligations. The annual impact to the General Fund totals $347,500. This has been incorporated into the forecast assuming a three-year phase in starting in FY 2018-19 (i.e., $115,500 in FY 2018-19, $231,000 in FY 2019-20, and $347,500 in FY 2020-21 and thereafter).
- **Funding Other Post-Employment Benefit Obligations.** During the FY 2017-18 budget process, City Council received a report regarding funding options for the City's other post-employment benefit (OPEB) obligations related to retiree medical. The City Council chose to begin funding 25% of the difference between the annual required contribution (determined in the 2016 actuarial study) and the pay-as-you-go amounts into an irrevocable trust that had previously been established. The unfunded gap, pending an updated actuarial analysis, totals approximately $350,000. This amount has been incorporated into the forecast assuming a three-year phase in starting in FY 2018-19 (i.e., $115,000 in FY 2018-19, $230,000 in FY 2019-20, and $350,000 in FY 2020-21 and thereafter).

Key Assumptions in the Updated Ten-Year Forecast

The following key assumptions have been incorporated into the ten-year financial forecast, which have been updated based on anticipated trends and/or are consistent with the trends included in the prior long-range forecast in the FY 2017-18 budget.

- **General assumptions**
  - **Recessions.** No assumptions have been built into the long-range forecast for future recessions. Based on our research, historically a modest recession is experienced in California and the United States once every seven years. The

Great Recession of 2007-2008 was an outlier in terms of the severity of its impact. Typical moderate recessions manifest in local government revenue reductions of approximately 5% within 18 months of the start of the recession, and typically find a 90% recovery of those lost revenues within 3 years. This has not been incorporated into the forecast. For Scotts Valley, such a recession would result in a reduction of annual revenues of approximately $600,000 in the first year of a recession, and a total of $1.1 million over four years from the start of a recession.

- **Inflation.** The model includes a 2% inflation assumption which is consistent with recent history and Federal level expectations.
- **General Fund Reserves**. General Fund reserves have been updated based on the latest projections from the mid-year financial review, with reserves expected to start at $6.9 million.

- **Revenue Assumptions**
  - **Property Tax.** Expected annual growth of 4% based on FY 2017-18 project collections. No assumptions have been made relative to significant development projects in the ten-year forecast. With an apportionment rate of just over 6%, development projects would have to exceed $150 million in assessed valuation to have a $100,000 impact on the General Fund.
  - **Sales Tax.** Sales tax projections have been updated based on the latest information from HdL Companies, the City's sales tax consultants. Annual sales tax growth of 3% is included in the model.
  - **Sales Tax from Measure U.** Sales tax revenues from the City's 0.5% local transactions and use tax is assumed to expire on March 31, 2022 in the baseline analysis.
  - **Transient Occupancy Tax.** A growth factor of 3% is included in the projections. Tax revenues from the 1440 Multiversity project is included in the model, as are TOT revenues from Four Points Sheraton starting in FY 2018-19 (see above) as well as the Marriott/Residence Inn hotel development starting in FY 2019-20.
  - **Other.** All other key revenue categories such as utility users tax, fees and charges, and intergovernmental revenues are expected to grow at a rate of 3% per year.
- **Expenditure Assumptions**
  - **Staffing Levels.** No changes in City staffing levels are anticipated in the model. This could have implications to the extent that development projects or other population shifts increase the workload and service expectations in Scotts Valley, but for purposes of this forecast there are no increases anticipated in staffing.
  - **Compensation Adjustments.** The provisions in the current memoranda of understanding with the City's labor groups are included through June 30, 2018 when all of the agreements expire. A placeholder assumption of 3% related to cost of living adjustments and other compensation changes have been included in the forecast.
  - **Health Benefits.** A placeholder increase of 3% per year for contributions to health benefit plans are included in the forecast. The City Council's decision to

fund 25% of the difference between the annual required contribution (ARC) and pay-as-you-go benefits has been incorporated into the baseline model, with the addition of fully funding the ARC obligation as indicated above.

- **Pensions.** Based on the six-year CalPERS forecast from the 2016 actuarial valuation, the forecast assumes a 68% increase in contributions over the next four years, with limited transition of employees from Classic to PEPRA benefit levels. A key assumption in this baseline forecast is that CalPERS maintain the discount rate at 7.0%, although the CalPERS Board has indicated the potential for future reductions in that rate which would have significant impacts on the City's costs.
- **Other Services and Supplies.** Average annual growth is expected to be 2% based on inflation as indicated above.

Budget Strategy Scenarios

Baseline Scenario Before Budget Corrections

Based on the City's mid-year financial review update, which is scheduled for March 7, 2018, the baseline financial forecast has been adjusted to reflect current revenue trends. The forecast indicates that the General Fund annual deficit will increase from $560,000 in FY 2021-22 to $2.0 million by FY 2024-25. While the forecast only projects 10 years, our experience with other agencies that have developed longer range forecasts is that the fiscal gaps begin to taper down starting in about FY 2027-28, with a 5-10% reduction in the gap each year for five years until it stabilizes in FY 2033-34. The largest driver that helps long-range deficit forecasts taper down employment costs over time is the transition from the CalPERS Classic Member formula to the reduced benefit formula under the provisions of the Public Employees' Pension Reform Act of 2012 (PEPRA).. We expect this trend would occur in Scotts Valley if a longer-range forecast were developed. Thus, we expect the City's fiscal gap will stabilize just below the $2 million level long-term.

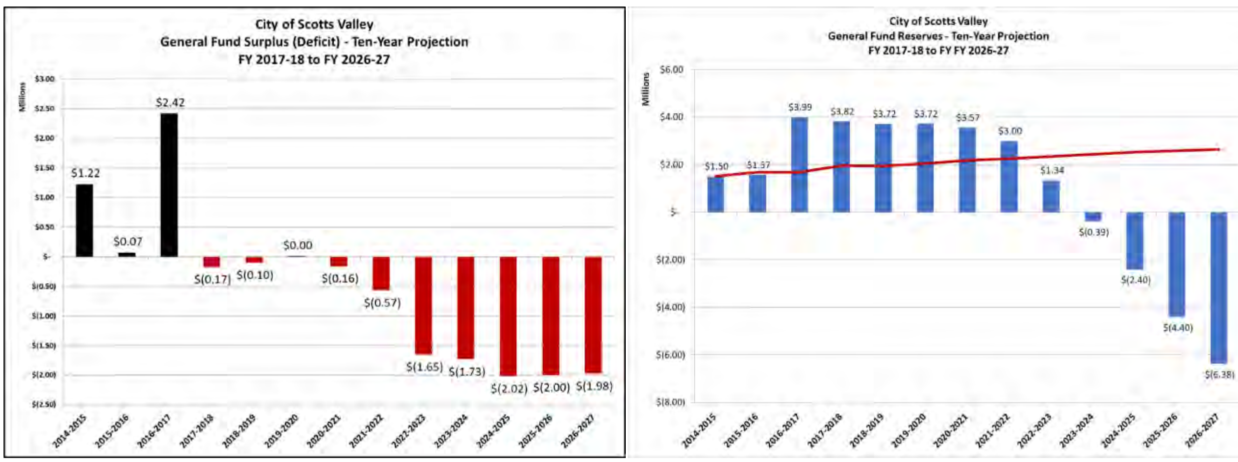
As indicated above, there are two significant assumptions that must be considered in evaluating the long-term fiscal gap that the City should focus on resolving:

1. **CalPERS Discount Rate**. The driving force in the City's long-term structural deficit is the recent change in the discount rate used by CalPERS' actuaries to determine local agency contribution requirements. The recent reduction from 7.5% to 7.0% that started in FY 2018-19 and will be fully implemented by FY 2022-23 are projected to increase the City's pension contributions by 68%. CalPERS indicates that a 7.0% discount rate is unsustainable, and current thinking is that the rate could be reduced even further to as low as 6.2%. **The forecast currently assumes no further discount rate reductions. We anticipate that a reduction in the discount rate to 6.5% would place an additional burden on the General Fund of approximately $1.2 million**.
2. **Future Recessions**. Recessions have occurred an average of every seven years since 1927. Budget impact on cities often lag official recessions by about 18-24 months. Based on our experience with other agencies throughout the State, moderate recessions reduce property taxes by 2% and sales taxes and building permits by 5% initially, with 90% of

that loss made up within three years. **The forecast currently makes no assumptions relative to future recessions. Incorporating a recession every seven years into the forecast would place an additional burden on the General Fund's fiscal gap of approximately $200,000.**

The City has established a minimum reserve target for its General Fund of maintaining undesignated reserves of not less than 17% of annual operating expenditures. This is consistent with the Government Finance Officers' Association (GFOA) recommended minimum reserve policy for General Funds of not less than two months (17%) of annual operating expenditures, considered by many to be a best practice. If Council takes no action and Measure U is not renewed, the model projects that General Fund reserves will fall below the City's reserve target of 17% by FY 2022-23, and below zero in FY 2023-24. These trends can be seen in Figure 1.

Figure 1. Historical and Projected General Fund Surplus/Shortfall and Reserves – Baseline Scenario



The primary causes of the shortfall are twofold:

1. Loss of the local transactions and use tax (Measure U) revenues totaling $1.4 million per year after the tax expires on March 31, 2022; and,
2. Pension costs increasing by 68% through FY 2022-23 due to the CalPERS discount rate change from 7.5% to 7.0%. This change is expected to increase the General Fund's contribution towards pensions by $1.9 million by FY 2024-25.

Development of Four Budget Scenarios

Management Partners has prepared a series of four scenarios for the City Council's consideration that address this fiscal gap. Each of these scenarios would allow the General Fund to maintain an appropriate level of reserves, ensuring the viability of the City's operations throughout the period included in the fiscal model.

The four budget scenarios developed within this report are provided as examples of the types of strategies that the City Council could consider to address the long-term fiscal gap. The

Council could choose any of these scenarios, or develop alternative scenarios, that include varying types of strategies that could resolve the fiscal gap.

The four scenarios included herein employ different strategies and make assumptions with respect to the timing of implementing each strategy. Table 5 summarizes these four scenarios.

Table 5. Budget Strategy Scenarios

Scenario	Description
Baseline Scenario Before Budget Corrections	• Maximum shortfall of $2 million • Deficit by FY 2021-22 • Assumes Measure U expires • Current staffing levels • CalPERS maintains 7% discount rate
Scenario 1 – Strong Revenue Strategies	• Extend permanently local TUT (sales tax) at 0.5% by November 2020 election • Increase TOT rate to 12% by November 2020 election to take effect no later than January 1, 2021 • Increase user fees and charges for planning/building, public works, police and administrative fees in FY 2018-19 • Restored capacity to fund General Fund services of $200,000 annually starting in FY 2021-22 • Provides capacity to provide infusion of $1.8 million one-time towards unfunded capital improvement programs (e.g., roadway improvements, parks infrastructure projects, facilities improvements)
Scenario 2 –Mixed Approach-- Moderate Revenues; Implement Expenditure Cost Shifts	• Extend permanently local TUT (sales tax) rate at 0.5% by November 2020 election • Increase user fees and charges for planning/building, public works, police and administrative fees in FY 2018-19 • Increase cost allocation to wastewater operations based on cost allocation plan analysis in FY 2018-19 • Implement a net cost sharing of pension costs with employees totaling 3% by FY 2020-21 • Implement General Fund expenditure reductions (as necessary) totaling $200,000 annually by FY 2026-27 • Provides capacity to provide infusion of $800,000 one-time towards unfunded capital improvement programs (e.g., roadway improvements, parks infrastructure projects, facilities improvements)

Scenario	Description
Scenario 3 – Mixed Approach - Moderate Revenues; Implement Service Delivery Changes	• Extend permanently local TUT (sales tax) rate at 0.5% in the November 2020 election • Increase user fees and charges for planning/building, public works, police and administrative fees in FY 2018-19 • Contract or implement shared services model for vehicle/fleet maintenance by FY 2020-21 • Contract or implement shared services model for adult/youth sports by FY 2020-21 • Contract, implement shared services, or discontinue aquatics program by FY 2023-24 • Implement General Fund expenditure reductions (as necessary) totaling $190,000 annually by FY 2026-27 • Provides capacity to provide infusion of $900,000 one-time towards unfunded capital improvement programs (e.g., roadway improvements, parks infrastructure projects, facilities improvements)
Scenario 4 – Strong Operating Expenditure Reductions; Local TUT Measure Not Renewed	• Local TUT (sales tax) measure is not renewed (expires in FY 2021-22) • Implement a net cost sharing of pension costs with employees totaling 6% by FY 2022-23 • Increase cost allocation to wastewater operations based on cost allocation plan analysis starting in FY 2022-23 • Contract or implement shared services model for vehicle/fleet maintenance by FY 2022-23 • Contract or implement shared services model for adult/youth sports by FY 2022-23 • Contract, implement shared services, or discontinue aquatics program by FY 2022-23 • Phase in General Fund operating expenditure reductions totaling $1.47 million over three years starting in FY 2022-23 • Provides no capacity to address unfunded capital improvement costs, further reductions to CalPERS discount rate, or future recessions

Budget Scenario 1: Strong Revenue Strategies

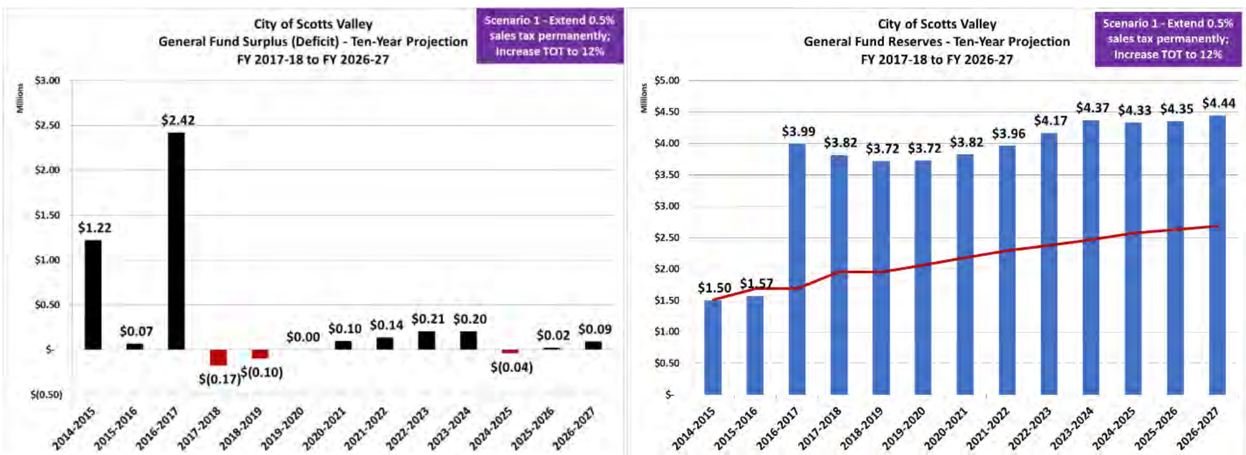
Scenario 1 includes the following budget strategies to resolve the fiscal gap. They are centered primarily around revenue enhancements.

- **Local Transactions and Use Tax (TUT).** Extend and make permanent the existing local TUT (Measure U) rate of 0.5%. Assuring fiscal sustainability requires this measure to be taken to voters and receive majority voter approval not later than the November 2020 election.
- **Transient Occupancy Tax (TOT).** Increase the TOT rate to 12% to take effect not later than January 1, 2021. This measure should be taken to voters in either November 2018 or November 2020.

- **User Fees and Charges.** Increase user fees and charges to at or near full cost recovery based on the pending results of the user fee/cost recovery study for planning, building, public works, police and administrative fees.
- **Restore Services.** Begin to restore General Fund services in an amount not to exceed $200,000 starting in FY 2021-22.

Implementing these strategies will eliminate the structural deficit and provide capacity for the General Fund to provide an infusion of funding of $1.8 million to cover current or future unfunded capital improvement programs, and/or to withstand any future recessions or further reductions to the CalPERS discount rate. These trends are shown in Figure 2.

Figure 2. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 1



Budget Scenario 2: Mixed Approach-- Moderate Revenues; Implement Expenditure Cost Shifts

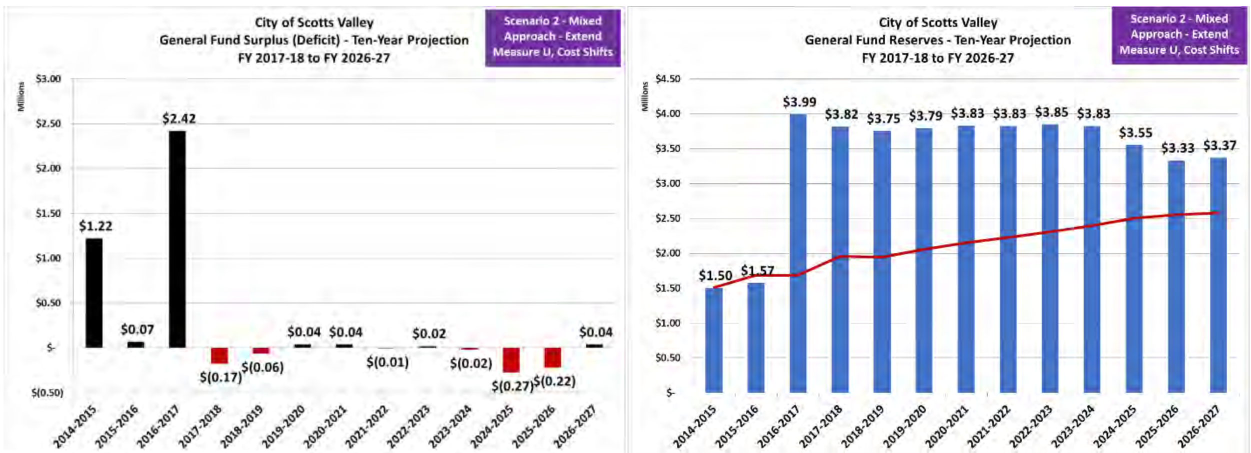
Scenario 2 includes the following budget strategies to resolve the fiscal gap. They take a balanced approach between revenue enhancements and expenditure cost shifts.

- **Local TUT.** Extend the existing local TUT (Measure U) rate of 0.5% and make the measure permanent. Assuring fiscal sustainability requires this measure to be taken to voters and receive majority voter approval not later than the November 2020 election.
- **User Fees and Charges.** Increase user fees and charges to at or near full cost recovery in FY 2018-19 based on the pending results of the user fee/cost recovery study for planning, building, public works, police and administrative fees.
- **Pension Cost Sharing.** Negotiate cost sharing of pension costs with employees contributing 3% towards pension costs by FY 2020-21.
- **Cost Allocation Plan.** Increase cost allocation to wastewater operations based on the cost allocation plan analysis to the fullest extent allowable by FY 2018-19
- **General Fund Expenditure Reductions.** Implement further cost reductions through any combination of additional expenditure cost shifts, service delivery changes, or other

reductions totaling $200,000 annually by FY 2026-27 if necessary based on future financial forecasts.

Implementing these strategies will eliminate the structural deficit and provide capacity for the General Fund to provide an infusion of funding for unfunded capital projects of $800,000 to cover current or future unfunded capital improvement programs, and/or to withstand any future recessions or further reductions to the CalPERS discount rate. These trends are shown in Figure 3.

Figure 3. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 2



Budget Scenario 3: Mixed Approach - Moderate Revenues; Implement Service Delivery Changes

Scenario 3 includes the following budget strategies to resolve the fiscal gap. They take a balanced approach between revenue enhancements, but exercise expenditure reductions in the form of service delivery changes rather than cost shifts.

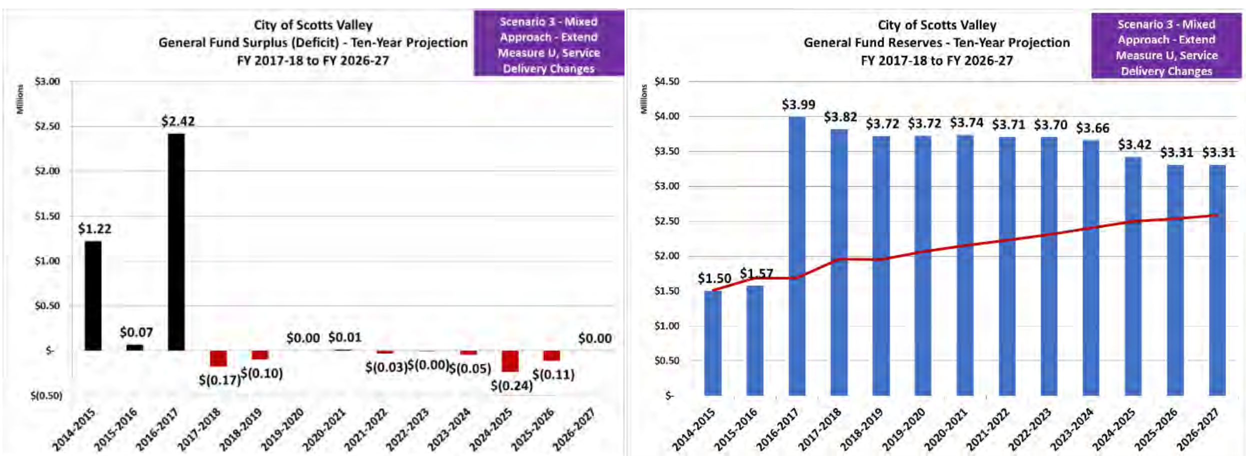
- **Local TUT.** Extend the existing local TUT (Measure U) rate of 0.5% and make the measure permanent. Assuring fiscal sustainability requires this measure to be taken to voters and receive majority voter approval not later than the November 2020 election.
- **User Fees and Charges.** Increase user fees and charges to at or near full cost recovery in FY 2018-19 based on the pending results of the user fee/cost recovery study for planning, building, public works, police and administrative fees.
- **Vehicle/Fleet Maintenance.** Contract or implement a shared services model for vehicle/fleet maintenance services currently performed by the Fleet Division by FY 2020-21.
- **Adult/Youth Sports.** Reduce or eliminate the subsidy for adult/youth sports programs by implementing a shared services model or contracting services to other non-profit or private organizations by FY 2020-21.
- **Aquatics Program.** Eliminate the subsidy for the aquatics program by contracting with a concessionaire to operate the program, through a shared services model with other

agencies, or by discontinuing the aquatics program by FY 2023-24. It should be noted that the forecast does not provide funding from General Fund sources for any future capital improvements associated with the swimming pool at Siltanen Park.

- **General Fund Expenditure Reductions.** Implement further cost reductions through any combination of additional expenditure cost shifts, service delivery changes, or other reductions totaling $190,000 annually implemented ratably over a three-year period starting in FY 2024-25 if necessary based on future financial forecasts.

Implementing these strategies will eliminate the structural deficit and provide capacity for the General Fund to provide an infusion of funding for unfunded capital projects of $700,000 to cover current or future unfunded capital improvement programs, and/or to withstand any future recessions or further reductions to the CalPERS discount rate.. These trends are shown in Figure 4.

Figure 4. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 3



Budget Scenario 4: Strong Operating Expenditure Reductions; Local TUT Measure Not Renewed

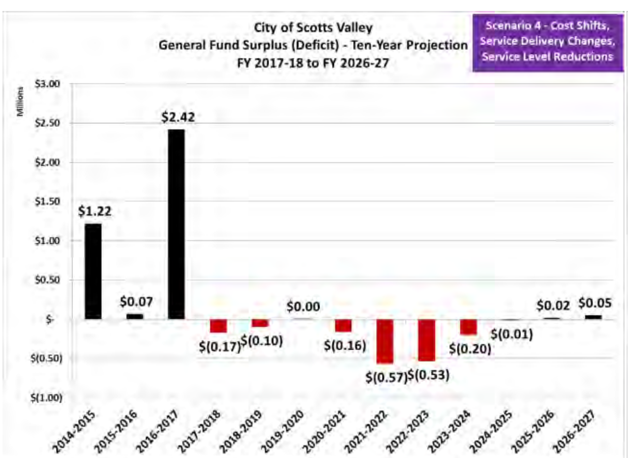
Scenario 4 would have the most significant negative impact on City services. It assumes that most revenue enhancement strategies are not able to be implemented, thus requiring significant cuts to General Fund operations.

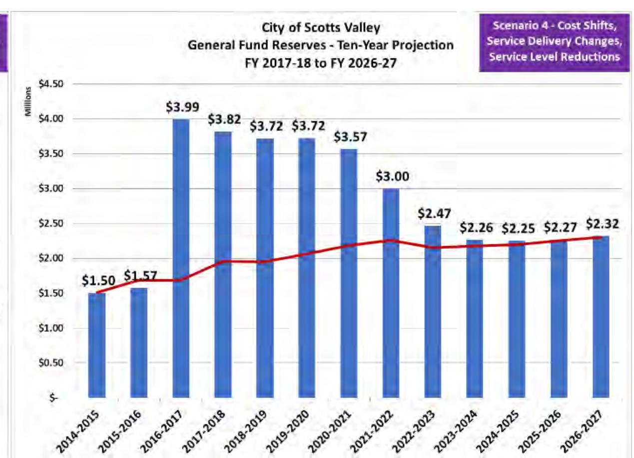
- **Local TUT.** The existing local TUT (sales tax) rate of 0.5% expires in FY 2021-22 and is not renewed, either due to a decision to not seek voter approval of an extension or voters not approving the measure in a future election.
- **Pension Cost Sharing.** Negotiate cost sharing of pension costs with employees contributing 6% towards pension costs by FY 2022-23.
- **Cost Allocation Plan** – increase cost allocation to wastewater operations based on the cost allocation plan analysis to the fullest extent allowable by FY 2022-23.

- **Vehicle/Fleet Maintenance** – contract or implement a shared services model for vehicle/fleet maintenance services currently performed by the Fleet Division by FY 2022-23.
- **Adult/Youth Sports** – reduce or eliminate the subsidy for adult/youth sports programs by implementing a shared services model or contracting services to other non-profit or private organizations by FY 2022-23.
- **Aquatics Program** – eliminate the subsidy for the aquatics program by contracting with a concessionaire to operate the program, through a shared services model with other agencies, or by discontinuing the aquatics program by FY 2022-23. It should be noted that the forecast does not provide funding from General Fund sources for any future capital improvements associated with the swimming pool at Siltanen Park.
- **General Fund Expenditure Reductions** – implement expenditure reductions totaling $1,470,000 annually, phased in over a three-year period starting in FY 2022-23 (i.e., $500,000 in FY 2022-23, $1,000,000 in FY 2023-24, and $1,470,000 in FY 2024-25 and thereafter). These reductions could be implemented using a variety of the expenditure controls/cost shifts, service delivery changes, or service level reduction strategies indicated in this report.

Implementing these strategies will result in a series of annual budget deficits from FY 2021-22 to FY 2024-25, but will resolve the structural deficit by FY 2025-26 maintaining the minimum level of reserves by Council policy. There would be no fiscal capacity for the General Fund to provide funding for unfunded capital improvement projects, withstand future recessions, nor address any future CalPERS discount rate reductions. These trends are shown in Figure 5.

Figure 5. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 4





Attachment A – Detailed Strategies

Expenditure Controls/Cost Shifts

1. Pension Costs – Start/increase employee contributions

STRATEGY TYPE: Expenditure Controls and Cost Shifts

IMPACT ESTIMATE

Our analysis using data from FY 2017-18 payroll records indicates that a 1% increase in the employee contribution for CalPERS classic members' pension costs in the General Fund would start at approximately $54,000 and increase in future years based on any changes in compensation subject to CalPERS contribution ("PERSable compensation"). Implementing a cost sharing arrangement with employees as allowed under the provisions of the Public Employees' Pension Reform Act of 2012 (PEPRA) would result in expenditure savings of $350,600, but would likely place a hardship in recruiting and retaining employees based on competitive compensation packages provided by other jurisdictions within the area. Negotiating a net 3% cost sharing arrangement with all employees would yield cost savings to the General Fund of approximately $162,000.

FEASIBILITY

Negotiating an increase in pension contributions with employees could be challenging as it will require agreement by the City bargaining groups. If there is not mutual agreement, an impasse and fact-finding process implemented prior to any imposition of would be required before changes could be imposed. There could be further impacts relative to competitive compensation in the marketplace for employees, particularly police officers and professional/management positions, given current public-sector labor market conditions.

BACKGROUND/ANALYSIS

Scotts Valley's full-time employees receive pension benefits through CalPERS. The benefit formula and the employees' required contributions for Classic Members (those that were CalPERS members prior to January 1, 2013) and PEPRA Members (those that joined CalPERS after January 1, 2013 or had a gap in CalPERS service greater than 6 months) are shown in Table 6.

Table 6. Scotts Valley Pension Plan Formulae and Contribution Rates for Classic and PEPRA Members – FY 2017-18

	Classic Member – Miscellaneous	Classic Member – Public Safety	PEPRA Member – Miscellaneous	PEPRA Member – Public Safety
Benefit formula	2.5% at 55	3.0% at 55	2.0% at 62	2.7% at 57
Required member contribution rate	8.0%	9.0%	6.25%	11.5%
Current employee contribution	0.0%	0.0%	6.25%	11.5%

One of the biggest challenges facing Scotts Valley and almost every other local jurisdiction in the state is skyrocketing costs for employee pension payments to CalPERS, and the several local pension systems. CalPERS is significantly underfunded (estimates in June 30, 2017 indicate an overall funded status of 68%). The City's Classic Member Plans as of the June 30, 2016 valuation (published in August 2017) indicate a funded status of 70.7% for its Miscellaneous Plan, and 71.6% for its Safety Plan.

CalPERS actuaries are in the process of making changes to several of its actuarial assumptions to try to close that gap, most notably the discount rate assumed on investments. CalPERS recently decreased the discount rate to 7%, which is being implemented starting in FY 2018-19 and will fully phase in by FY 2021-22. Further changes are expected in the coming years. In February 2018, CalPERS announced that it will reduce its amortization period for certain sources of unfunded liability from 30 years to 20 years. The impacts of this change will increase employer rates in the near term (through 2037), but would reduce employer contributions after that time as the unfunded obligations are paid down in a shorter period. The impact on Scotts Valley's rates specifically are presently unknown.

A solution used by several local agencies is to increase employees' contributions towards pension cost increases. This solution is divisive between agencies and their labor groups and will have an impact on competitive compensation between public agencies and competitiveness with private sector compensation. This places pressure on agencies to recruit and retain employees, which can ultimately impact service quality.

Agencies may collectively bargain in good faith with their bargaining units for a cost-sharing agreement. Under the provisions of PEPRA, beginning January 1, 2018, public agencies that have collectively bargained in good faith and completed impasse procedures will be able to unilaterally require classic members to pay up to 50% of the total normal cost of their pension benefit, with a cap of 8% for miscellaneous members and 12% for police officers.

For this analysis, if the agency were to implement unilateral cost sharing under PEPRA as discussed above, the estimated costs shifted to General Fund employees would total $350,600 as shown in Table 7.

Table 7. Calculation of Estimated Pension Cost Shifts to Employees under PEPRA

Bargaining Group	Miscellaneous Classic Members	Safety Classic Members
Current Employees' Contribution Rate	0%	0%
Total Normal Cost percentage for FY 2018-19	17.970%[1]	28,405%[2]
50% of normal cost	8.485%	14.202%
Contribution Cap	8%	12%

Bargaining Group	Miscellaneous Classic Members	Safety Classic Members
Increased Contribution Rate under PEPRA	8%	12%
Estimated Total PERSable Compensation	$2,487,000	$1,595,000
Estimated Cost Shift to Employees	$199,000	$191,400
Estimated General Fund Portion (%)	80%	100%
Estimated General Fund Portion ($)	$159,200	$191,400
Total General Fund portion	**$350,600**	

[1]Includes the employees' contribution portion of 8%.
[2]Includes the employees' contribution portion of 9%.

If, instead, the City were to negotiate a net 3% cost shift with employees through negotiations, the total estimated impact to the General Fund would be $162,000 per year.

2. Health Benefits – Increase employee contributions

STRATEGY TYPE: Expenditure Controls and Cost Shifts

IMPACT ESTIMATE

Shifting the cost for current medical contributions in an amount of $100 per month per employee would generate savings for the City in a maximum amount of over $54,000 per year. The impacts of creating a tiered retiree medical benefit program, whereby new employees would not be eligible for retiree medical benefits, is presently unknown without an actuarial analysis, but would take approximately 10 to 15 years to provide noticeable savings.

FEASIBILITY

Medical benefits are a mandatory subject of bargaining. Changing the benefit amounts would require a meet and confer process. All the City's contracts with bargaining groups expire June 30, 2018. Asking employees to contribute towards medical costs may impact the ability for the City to compete for labor in the marketplace; however other cities are also addressing the issue of continued rising medical costs. Furthermore, the impacts associated with health care reform at the federal level are currently unknown, which could have significant impacts on healthcare costs in the future that would require revisiting the proper allocation of healthcare costs between employer and employee.

BACKGROUND/ANALYSIS

City employees receive medical benefits in accordance with the provisions of memoranda of understanding between the City and their respective bargaining units. For all bargaining units, full-time employees receive medical benefits that are fully paid by the City.

The City's total contribution toward health benefits for FY 2017-18 is projected to be $1.9 million, of which $1.6 million is attributable to General Fund operations. If employees were required to pay a greater share of their medical benefits, this cost would be reduced. Based on 45 full-time employees attributable to General Fund departments, a contribution of $100 per month by each employee would yield a savings to the City of $54,000 to the General Fund. Employees would be eligible to make those contributions as pre-tax deductions, so the impact to each employee would be lessened based on their respective tax rates.

In addition, the City also provides retiree medical to employees upon retirement from the City based on provisions within each memoranda of understanding. Based on employment length with the City, the employee may receive up to between 33% to 75% of the PERS-CARE medical plan cost as a retiree medical benefit depending on the bargaining unit for which the employee was represented at retirement. The latest actuarial analysis of retiree medical benefits indicates an annual actuarial required contribution of $655,000. This figure is reduced by $305,000 in annual pay-as-you-go contributions for current retirees, leaving an unfunded balance of $466,000. The General Fund portion of this unfunded amount is $350,000.

It is not common for a city to levy a charge on employees for retiree medical benefits, as current employees do not feel it is their obligation to pay for benefits for retired employees. As such, most employers seek to mitigate these rising post-employment benefit costs by reducing or eliminating the benefit for future employees hired after a certain date. State law currently prohibits employers from eliminating such vested benefits from current employees, however there are court cases moving forward that will decide the extent to which employers are able to modify vested benefits unilaterally after the completion of a meet and confer process. The impact of closing the retiree medical benefit plan to future retirees would require actuarial analysis, however in our experience, the annual required contribution would fall as eligible employees retire or separate from service with the City and are replaced with employees that are no longer eligible for such a benefit. So long as the City continues to participate in the CalPERS medical benefits program, the City would be required to contribute a certain amount for retirees as they do for current employees. The minimum required contribution is currently set at $133 per month by state law. The fiscal savings from such an action would take about 10 to 15 years to be noticeable. This remains a viable option for the City to consider for the future, however the fiscal impact of such a decision is presently unknown without further actuarial analysis.

3. Cost Allocation Plan – Increase cost allocation to wastewater operations to fullest extent allowed

STRATEGY TYPE: Expenditure Controls and Cost Shifts

IMPACT ESTIMATE

The estimated fiscal impact of fully charging eligible costs to the wastewater operations is approximately $35,000 per year.

FEASIBILITY

Increasing the cost allocation from the General Fund to wastewater operations is within the purview of the City Council as part of the annual budget process, subject to a cost allocation plan that the City Manager or their designee develop based on eligible cost allocations. The impacts of any changes to the costs allocated to wastewater operations will need to be incorporated into the wastewater rate model. The resulting rates are subject to a public noticing process as required under Proposition 218. The City Council established fees for FY 2017-18 to FY 2019-20 in August of 2017. The fiscal impact of the identified increase would impact rates by approximately 1.5%.

BACKGROUND/ANALYSIS

The City allocated costs for such functions as city manager, city clerk, city attorney, finance, information technology and general administrative support to the Wastewater Operating Fund. Historically, the allocation has been based on an overhead percentage that was determined years ago. The cost allocation amount in the FY 2017-18 budget was $256,200, which reimburses the General Fund for administration and support of wastewater operating activities.

The City contracted with NBS to conduct a cost allocation plan analysis compliant with the provisions of *Title 2, Code of Federal Regulations, Part 225, Cost Principles for State, Local and Indian Tribal Governments* (formerly known as OMB A-87). The cost allocation plan is being finalized with NBS. However, preliminary results indicate that the General Fund is eligible to recover nearly $291,000 in annual costs. This would represent an increase in cost recovery of approximately $34,800.

Service Delivery Changes

4. Adult/Youth Sports – Contract or implement shared services model

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

Contracting administration and delivery of sports programs through either shared services agreements or concession agreements with non-profit or private service providers could reduce the General Fund subsidy by $15,000 annually, subject to determining options available to work with other agencies and/or program operators.

FEASIBILITY

Contracting for adult/youth sports recreational services could result in position reallocation or reductions. This would primarily affect seasonal/part-time employees which are not represented by any bargaining units. To the extent that represented employees are impacted, this would likely trigger a meet and confer item with the appropriate bargaining group and could cause bumping rights with other similar positions as provided in the City's personnel rules. If there are similarly skilled vacant positions in the City, it is possible to shift incumbents into those positions to fill vacancies and then eliminate the vacant positions. Another strategy is to implement this through attrition.

It should be noted that the existing memorandum of understanding with SEIU-represented employees includes a provision that no unit members would be laid off as a result of contracting out services. That agreement was extended for one additional year through June 30, 2018.

BACKGROUND/ANALYSIS

The City Council reviewed the cost recovery of its recreation services in June 2017. The cost recovery of the City's sports programs were analyzed and it was determined that costs were expected to exceed projected revenues by $132,000 for FY 2017-18. This represents a subsidy of 67% of annual costs.

The City Council approved increases for most sports program-related fees such as team sports and open gym ranging between 3% and 150%, but the largest revenue generating programs such as softball, basketball and soccer were increased approximately 10%. The increases would narrow the General Fund subsidy by approximately $7,500. It is common for cities in California to subsidize their sports recreation programs, however the extent to which they are subsidized is quite varied.

An option that several cities have implemented is to share services such as soccer, basketball and softball programs by having one agency administer the programs, revenues allocated based on field/facility usages in each jurisdiction, and a prorated allocation of costs based on revenue generation. In some cases, the programs will cross jurisdictional boundaries, where in other cases the leagues are run within the jurisdiction. Program administration models include 1) shared services arrangements with city, council or school districts; 2) contracted services with non-profit organizations such as local YMCA or Boys/Girls Clubs; or, 3) privatized programs through a concession agreement such as basketball leagues using city, school district or private facilities. The benefits for the cities are program enhancement with greater multi-jurisdiction participation and cost savings from reduction in seasonal and/or full-time staffing.

Scotts Valley could explore options for shared service delivery with Capitola and Santa Cruz as well as local non-profits/for-profits. Our experience with other agencies suggests cost reductions of approximately 15-25% by sharing services. For Scotts Valley, that could translate into improved cost recovery totaling $15,000 to $25,000, but that would require the reallocation of approximately 40% of a recreation coordinator position to other programs (e.g., school age recreation) or scaling back the position to a part-time position.

5. Aquatics – Contract, implement shared services model, or discontinue programs

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

Contracting administration and delivery of aquatics programs through a concession agreement with non-profit or private service providers could reduce the General Fund subsidy by $50,000 annually, subject to determining options available to work with other agencies and/or program operators. The City Council has expressed the desire to maintain service levels, but if a private operator is not identified to operate the program, the City should give due consideration to terminating its aquatics programs and direct community members to programs provided in Santa Cruz and Capitola. Terminating the program and repurposing the swimming pool facility could provide annual General Fund savings totaling $119,000.

FEASIBILITY

Contracting for the aquatics program could result in position reallocation or reductions. This would primarily affect seasonal/part-time employees which are not represented by any bargaining units. In the unlikely event that represented employees are impacted, this would likely trigger a meet and confer item with the appropriate bargaining group and could cause bumping rights with other similar positions as provided in the City's personnel rules. If there are similarly skilled vacant positions in the City, it is possible to shift incumbents into those positions to fill vacancies and then eliminate the vacant positions. Another strategy is to implement this through attrition.

It should be noted that the existing memorandum of understanding with SEIU-represented employees includes a provision that no unit members would be laid off as a result of contracting out services. That agreement was extended for one additional year through June 30, 2018.

BACKGROUND/ANALYSIS

The City Council reviewed the cost recovery of its recreation services in June 2017. The cost recovery of the City's aquatics program was analyzed and it was determined that costs were expected to exceed projected revenues by $119,000 for FY 2017-18. This represents a subsidy of 66% of annual costs. When the capital costs associated with maintaining and renovating the City's pool at Siltanen Park are included, the subsidy increases to $170,000 per year – a subsidy of 74% of annual costs.

The City Council approved increases for aquatics program-related fees such as swimming lessons and swim punch cards ranging between 16% and 40%. The increases narrowed the General Fund subsidy by approximately $15,000.

Aquatics programs tend to be one of more costly recreation programs provided by cities in California due to the extensive operating and capital improvement costs associated with operating swimming facilities. In most cases, cities choose to subsidize its operations as a recreational amenity important within the community as long as financial circumstances allow.

An option that several cities have implemented is to partner with high schools, higher education (community college or university), or non-profit/private swimming facility operators to provide such services rather than operate a city-provided swim facility. Another option is to privatize aquatics programs through a concession agreement where the City gets a percentage of revenues and provides the facilities at little/no cost to the contractor. Cost savings occur through from reduction in seasonal and/or full-time staffing.

Scotts Valley has previously used concessionaires to provide aquatics programs with mixed results and have taken back the program as a city operated program. The City could continue to explore options for other aquatics program operators to run the program. Approximately $98,000 of the cost of providing services comes from hiring seasonal employees as lifeguards and facility attendants. Contracting the aquatics program could reduce the subsidy by at least $50,000 annually based on our estimates.

Ultimately, any future renovation of the swimming pool will play a significant role in determining whether the City should continue to operate a swimming facility. The five-year capital improvement plan includes $16,400 in FY 2020-21 for resurfacing the City's swimming facility. The estimated renovation of the swimming facilities included in the full cost recovery model is $1,000,000. The City will need to determine whether it is able to continue to operate the swimming facilities or to repurpose them to another recreational use given the fiscal challenges facing the City.

6. Parks Maintenance – Contract or implement shared services model

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

Contracting for parks maintenance services might yield cost savings of $15,000 annually but the City would need to articulate a clear service level expectation in any contracted landscaping maintenance service agreement and closely manage the contract to assure service levels are maintained.

FEASIBILITY

Contracting for landscaping services is a viable alternative in parks and median landscaping service delivery, particularly because of differences in wages and benefits between private and public employers, but does not yield much in terms of long-term annual savings. Doing so would first require an analysis of local landscaping companies capable of serving the City's needs. A request for proposals (RFP) process would need to be conducted, and a scope of services would need to be developed that clearly defines service level expectations and consequences for failure to deliver. The City would need to retain management level staff to oversee and manage the contracts with third-party providers. Another alternative is to explore a shared service model with another local agency such as the cities of Santa Cruz and Capitola, or the County. It should be noted, however, that Scotts Valley's compensation rates are lower than most of these other agencies, and as such the fiscal savings would likely be mitigated.

Assuming viable companies/agencies exist, the City would need to meet with affected labor groups to discuss impacts, identify any requirements in existing MOUs or personnel rules.. If there are similarly skilled vacant positions in the City, it is possible to shift incumbents into those positions to fill vacancies and then eliminate the vacant positions. Another strategy is to implement this through attrition.

It should be noted that the existing memorandum of understanding with SEIU-represented employees includes a provision that no unit members would be laid off as a result of contracting out services. That agreement was extended for one additional year through June 30, 2018.

BACKGROUND/ANALYSIS

The cost of public employees is typically much higher in maintenance areas than in the private sector based on our experience and a review of the latest employment and wages data provided by the California Employment Development Department. With dramatic increases in CalPERS rates over the next five to ten years, that trend will only accelerate; therefore, savings from contracting will likely increase over time.

Scotts Valley's park maintenance activities are handled by one full-time Maintenance Worker I position, and 30% allocation of a Maintenance Supervisor. The Maintenance Worker I position has a maximum salary that equates to just over $22.15 per hour. These wages are low compared to other public sector agencies, which would yield little or no savings to the City in a shared service model. Table 8 presents a comparison of Scotts Valley's Maintenance Worker I position with a landscaping/groundskeeping worker position from the US Bureau of Labor Statistics' 2016 Occupational Employment Statistics Survey. It indicates that private sector landscape workers earn nearly 38% less than the City's equivalent position, and when factoring in profit margin for the private business owner, that difference narrows down to approximately 22%.

Table 8. Comparison of Scotts Valley Parks Maintenance Worker Wage and Benefits with Private Sector

Position	Source	Hourly Wage	Benefits Rate	Fully Loaded Compensation Rate	Typical Profit Margin	Net Cost
Maintenance Worker I	City of Scotts Valley	$22.15 (top step)	32.7%	$29.40	N/A	$29.40
Landscaping and Groundskeeping Worker	2016 Occupational Employment Statistics Survey (US Bureau of Labor Statistics) - Santa Cruz/Watsonville Metro Area	$15.20 (75th percentile)	20.0%	$18.25	25%	$22.80

Cities that have shifted to contract services have realized savings. However, cities must retain staff to provide contract oversight, special events maintenance services, weed abatement in the right-of-way, and miscellaneous cleanup work throughout the City.

It is estimated that the potential cost savings for a similar level of service for contracting parks maintenance services would be about less than $15,000 per year, assuming the private contractor would maintain existing service levels and the contract would continue to be overseen by the Maintenance Supervisor position.

7. Vehicle/Fleet Maintenance – Contract or implement shared services model

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

An initial estimate of $40,000 of annual cost savings assumes contracting fleet maintenance functions with local repair shops, however a more thorough analysis of the City's fleet utilization and productivity would identify potential savings in a contracted fleet maintenance service delivery model.

FEASIBILITY

Contracting for vehicle maintenance is a viable alternative in fleet service management, particularly because of capacities of private repair shops to handle routine maintenance and repair jobs on a timely basis. Calculating a shop labor rate and comparing it to the private sector might also identify opportunities for improving the cost effectiveness of the Fleet Division. Doing so would first require an analysis of local vehicle repair shops capable of serving the City's needs. A request for proposals (RFP) process would need to be conducted, and a scope of services would need to be developed that clearly defines service level expectations and consequences for failure to deliver. The City would need to retain management level staff to oversee and manage the contracts with third-party providers. Another alternative is to explore a shared service model with another local agency such as the cities of Santa Cruz and Capitola, or the County. It should be noted, however, that Scotts Valley's compensation rates are lower than most of these other agencies, and as such the fiscal savings would likely be mitigated.

The City would need to meet with affected labor groups to discuss impacts, identify any requirements in existing MOUs or personnel rules regarding layoffs and bumping rights. If there are similarly skilled vacant positions in the City, it is possible to shift incumbents into those positions to fill vacancies and then eliminate the vacant positions. Another strategy is to implement this through attrition.

It should be noted that the existing memorandum of understanding with SEIU-represented employees includes a provision that no unit members would be laid off as a result of contracting out services. That agreement was extended for one additional year through June 30, 2018.

BACKGROUND/ANALYSIS

Scotts Valley's fleet services consist of one full-time Chief Mechanic position, with a 10% allocation of the Maintenance Supervisor to oversee the function. The fleet division only provides basic maintenance services for non-police vehicles, totaling 42 vehicles. Police and some wastewater vehicle maintenance is contracted to private repair shops.

The fleet maintenance budget is comprised of $149,000 in salaries and benefits and $5,800 in operating expenses.

Conducting a fleet utilization study and fleet maintenance productivity analysis of the fleet is a common practice used by cities to periodically analyze the need for equipment and vehicles bought and maintained. Cities often own more fleet equipment than is optimal from an economic perspective, and it would be prudent for Scotts Valley to conduct this type of analysis. Based on our experience in conducting fleet utilization studies for other cities the size of Scotts Valley, a fleet utilization study is likely to identify that the City could reduce 10% of its fleet without significant ramifications in service levels. Moreover, performing a fully loaded shop labor rate calculation (including labor, parts and facilities use charges) for the services provided by the fleet division should be compared to shop labor rates from private sector repair shops. When calculated shop labor rates approach $90 to $100 per hour, it is often more cost effective for an agency to contract those services. Wholesale contracting of fleet services would require discussions with local repair shops to determine potential cost savings.

A precise estimate of cost savings is difficult to conduct without calculating the City's shop labor rates and analyzing vehicle service data that is beyond the scope of this project. However, it would not be unreasonable for the City to see cost savings of 25% or more by conducting a fleet utilization and productivity analysis. This is based on the work we have conducted with other cities and knowing the labor costs of the positions assigned to the City's fleet division operations. That would equate to a potential savings of nearly $40,000 annually.

8. Street and Storm Drain Maintenance – Contract or implement shared services model

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

Contracting for streets and storm drain maintenance services might yield cost savings of $25,000 annually but the City would need to articulate a clear service level expectation in any street and storm drain maintenance service agreement and closely manage the contract to assure service levels are maintained. The City would also need to address 24x7 response either in its contract with the service provider or through cross-training wastewater and/or parks maintenance staff to provide emergency response.

FEASIBILITY

Contracting for streets/storm drain maintenance services is an alternative in street maintenance services delivery, particularly because of differences in wages and benefits between private and public employers. Doing so would first require an analysis of roadway repair companies capable of serving the City's needs. A request for proposals (RFP) process would need to be conducted, and a scope of services would need to be developed that clearly defines service level expectations and consequences for failure to deliver. The City would need to retain management level staff to oversee and manage the contracts with third-party providers. Another alternative is to explore a shared service model with another local agency such as the cities of Santa Cruz and Capitola, or the County. It should be noted, however, that Scotts Valley's compensation rates are lower than most of these other agencies, and as such the fiscal savings would likely be mitigated.

Assuming viable companies/agencies exist, the City would need to meet with affected labor groups to discuss impacts, identify any requirements in existing MOUs or personnel rules.. If there are similarly skilled vacant positions in the City, it is possible to shift incumbents into those positions to fill vacancies and then eliminate the vacant positions. Another strategy is to implement this through attrition.

It should be noted that the existing memorandum of understanding with SEIU-represented employees includes a provision that no unit members would be laid off as a result of contracting out services. That agreement was extended for one additional year through June 30, 2018.

BACKGROUND/ANALYSIS

Scotts Valley's street maintenance operations consist of two full-time Maintenance Worker III positions, and a 30% allocation of the Maintenance Supervisor to oversee the function. The division performs routine maintenance on city streets and rights of way including storm drain cleanouts and sidewalk and pathway repairs. The division does not perform any significant roadway improvements as these are contracted through the annual streets CIP program.

The streets maintenance budget totals nearly $411,000, comprised of $294,300 in personnel costs and $116,700 in operating expenses. Of these operating expenses, $45,000 is power for street lights, and $26,000 for contractual service to supplement staff capacity.

The Maintenance Worker III position has a maximum salary that equates to just over $29.65 per hour. These wages are low compared to other public sector agencies, which would yield little or no savings to the City in a shared service model. Table 9 presents a comparison of Scotts Valley's Maintenance Worker III position with two private sector positions: 1) paving/surfacing/tamping equipment operator position, and 2) general maintenance and repair worker. The statistics for both of these positions originate from the US Bureau of Labor Statistics' 2016 Occupational Employment Statistics Survey. It indicates that private sector workers earn approximately 45% less than the City's equivalent position, and when factoring in profit margin for the private business owner, that difference narrows down to approximately 25%.

Table 9. Comparison of Scotts Valley Streets/Storm Drain Maintenance Worker Wage and Benefits with Private Sector

Position	Source	Hourly Wage	Benefits Rate	Fully Loaded Compensation Rate	Typical Profit Margin	Net Cost
Maintenance Worker III	City of Scotts Valley	$29.65 (top step)	86.4%	$55.25	N/A	$55.25
Paving, Surfacing and Tamping Equipment Operator	2016 Occupational Employment Statistics Survey (US Bureau of Labor Statistics) - Santa Cruz/Watsonville Metro Area	$26.90 (75th percentile)	20.0%	$32.28	30%	$42.00
Maintenance and Repair Workers, General	2016 Occupational Employment Statistics Survey (US Bureau of Labor Statistics) - Santa Cruz/Watsonville Metro Area	$26.15 (75th percentile)	20.0%	$31.40	30%	$40.80

Street maintenance costs have greater price volatility when compared to contracting for other types of maintenance services such as parks/landscaping or fleet maintenance. Most of the companies that provide this type of service focus on paving, grading, and street resurfacing projects. The pricing from these vendors is dependent upon the amount of construction in a region. During peak economic times like we are experiencing today, contractor costs are much higher due to the demand for roadway construction services, and as such costs could exceed those indicated in our projections above.

Most cities have chosen to retain streets maintenance positions as city functions even when they contract for other types of maintenance services such as fleet and parks/median maintenance.

These choices primarily relate to reliability for 24x7 response to reported issues and familiarity with city infrastructure. Those that have contracted for street maintenance services retain staff to provide contract oversight, special events maintenance services, and to address any issues that require immediate response such as downed trees, significant potholing, traffic diversions, or clogged storm drains in the midst of a storm.

There is the potential that the City could achieve savings of $25,000 to perhaps as high as $50,000, assuming the private contractor would maintain existing daytime service levels and that the contract would continue to be overseen by the Maintenance Supervisor position. However, the City might need to allocate the time of other maintenance staff (e.g., wastewater maintenance workers, parks maintenance workers, etc.) to address 24x7 response unless the contractor provides that response on an as needed basis, which would reduce those savings.

9. Online Permitting – Implement online service delivery for planning/building and public works permitting

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

There would be no fiscal savings as a result of implementing online services for planning/building and public works permitting. Any staffing efficiencies would provide better service levels and create additional capacity for staff to meet demand and address other lower priority needs. Any changes in costs would be included in a user fee study/cost recovery analysis which would adjust the fees and charges for affected service levels. The City would need to appropriate funds for the investment of permit tracking technology, which would require not just capital costs but implementation services and/or part-time assistance to backfill staff dedicated to implementation of the systems in order to maintain service levels.

FEASIBILITY

The City can implement a permit tracking solution through approval of the budget and any contracts/agreements/purchase orders by City Council action. Planning, building and public works engineering staff have no capacity to take on a permitting system project. Support would be required in the form of limited duration or part-time assistance to help backfill staff that must be part of the implementation team, or hire the services of a consultant to handle the majority of the work required for implementation.

BACKGROUND/ANALYSIS

The City currently uses a series of Excel spreadsheets, Word documents, and manual checklists to track the status and process of planning applications and building and public works permits. The lack of a permit tracking system makes it difficult for management to track and manage development projects, and to accurately track and report staff time on projects that are billable to customers. It is a best practice among local government community development and engineering departments to implement a permit tracking system.

Once a permit tracking system is in place, the City could then look at implementing an online permit application and status tracking system that the public could use to apply for and track the status of the approval process for their project. This would enhance services to the community and could reduce staff time necessary to respond to questions from developers and property owners about project status.

The City would need to conduct a request for proposal process to identify and select the system that is right for the City. Before implementing a permit tracking system, the City needs to review its existing processes and streamline them in preparation for system implementation. Upon selection of the vendor, implementation assistance would be required. Typically, agencies will assign staff to manage the implementation process and make key decisions that the vendor needs to properly configure the system. Scotts Valley will need to address this need by dedicating the appropriate resources to implement the system properly, whether through backfilling staff dedicated to the project, or hiring consulting services to manage and implement the solution with staff input.

Once the system is implemented, the City can then achieve efficiencies in processes and evaluate the impacts of those efficiencies, which typically come in the form of 1) faster turnaround times, 2) increased capacity to meet demand or work on other deferred projects (e.g., general plan amendments, advance planning, engineering projects), and/or 3) ability to implement staff reductions. Scotts Valley would likely realize the first two impacts, however currently staffing levels are so low in each of the three divisions that staffing reductions would not be a viable outcome of a permit system implementation.

In our experience with other cities of Scotts Valley's size, and given the lean staffing levels in planning, building and public works engineering, we estimate that the City would need to invest approximately $150,000 in software and implementation services. Cost savings for the General Fund would likely not be achievable, however long-term service levels and staff capacity would likely improve. Those improvements could be considered in future user fee study/cost recovery analyses and adjustments to the City's user fee structure, including technology replacement costs, could be implemented.

Revenue Enhancements

10. Local Transactions and Use Tax – Extend or make permanent the ½% local transactions and use tax (sales tax)

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE
A successor transaction and use tax (TUT) measure to either extend or make permanent the existing half-cent tax rate beginning in FY 2021-22, at the assumed current growth rate, would yield approximately $1.4 million per year.

FEASIBILITY
Local transactions and use taxes are considered a general tax and would require City Council approval to place on the ballot, and subsequent voter approval. We recommend that the measure not restrict expenditure of the funds on any specific services. Under this scenario, a simple majority (50% plus one) approval would be required at a general election at which council members are on the ballot. A special tax dedicated to a specific purpose, on the other hand, requires a two-thirds vote, but can be folded into any election, including non-council elections. Polling would need to be conducted to determine viability of a successor measure to extend the tax or make it permanent.

BACKGROUND/ANALYSIS
The City submitted a ½% TUT measure (Measure U) to voters in 2013 that was approved with a 75% "yes" vote. The measure had an eight-year sunset provision that expires on March 31, 2022. Annual revenues expected to be generated from the TUT measure total $1.22 million for FY 2017-18. Updated Measure U tax revenues indicate actual collections in FY 2017-18 will approach $1.32 million. Based on this updated forecast, annual revenues could increase to $1.4 million by the time the measure sunsets in FY 2021-22.

Some agencies have implemented local transaction and use taxes for longer terms or that are permanent. Based on an analysis conducted by the League of California Cities' fiscal consultant Michael Coleman in April 2017, 176 cities have approved transactions and use taxes. Nearly 20% of those measures are permanent taxes, while the rest had expiration periods ranging from 5 years to 25 years from the date of enactment. If City leaders decided to move forward with a successor tax measure, the measure could include a provision that makes the tax permanent or in effect for a much longer period. Longer periods require a bit more engagement with voters to pass them.

The City's fiscal gap is such that if it moves ahead with the various strategies identified in this report, it would need assurance that the tax would be in place by the time the sunset period expires. Voter approval with a successor measure would need to be on the ballot in either 2018, 2020 or 2022 for the City to have time to adjust its approach with severe cuts or other revenue options if voters turned down the measure. The magnitude of this strategy plays a significant role in resolving the $2.0 million budget gap. The City cannot risk having the sunset period lapse. We also suggest that polling various options would help gauge voter sentiments on extending the measure versus making it permanent.

11. Local Transactions and Use Tax – Increase local transactions and use tax (sales tax) rate

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

As indicated in Strategy 10, the existing ½% tax measure is expected to generate $1.4 million annually by FY 2022-23 when it expires. Increasing the rate by 0.125% (1/8%) would generate about $350,000 in additional revenue per year. If Scotts Valley increased the measure up to the regional limit of 0.75%, the additional revenue would be $700,000 per year. .

FEASIBILITY

As indicated in Strategy 10, this would be considered a general tax requiring voter approval at a general election and needing a simple majority (50% plus one) of those voting on the measure, or a two-thirds vote if dedicated as a special purpose tax. Placing an additional amount on top of the existing ½% rate might face greater resistance. Polling would be needed to determine feasibility of approval prior to going to the voters.

BACKGROUND/ANALYSIS

Background regarding local transactions and use taxes are provided in Strategy C2. The combined rate of all TUT taxes imposed in any area of the county may not exceed 2%.[1] The entities with TUTs that are in place affecting Scotts Valley are shown in Table 10.

Table 10. Local Transactions and Use Tax in effect in Scotts Valley as of December 31, 2017

Agency	Local TUT Rate	Effective Date	Expiration Date
Santa Cruz County Public Library Transactions and Use Tax	0.25%	4/1/1997	None
Santa Cruz County Transportation Transactions and Use Tax	0.50%	4/1/2017	3/31/2047
Santa Cruz Metropolitan Transit District	0.50%	1/1/1979	None
Scotts Valley Temporary Transactions and Use Tax	0.50%`	4/1/2014	3/31/2022
Available combined tax rate under the cap	0.25%		
Maximum limit on Transactions and Use Taxes	**2.00%**		

Source: CDTFA District Sales and Use Tax Rates (October 2017)

The City has the authority to submit a TUT measure to voters that can range from 1/8% to 1%, with or without an expiration date. If Scotts Valley were to proceed with a measure based on current tax rates in effect, it could increase its local TUT rate to 3/4%. Other jurisdictions that overlap Scotts Valley could enact a local TUT measure that erodes the available ¼%. Jurisdictions that seek to introduce measures that, when approved by the governing body, find the combined TUT rate exceeds the 2% limit would require legislative relief through the approval of the California State Legislature and the Governor. The California Department of

[1]California Revenue and Taxation Code 7251.1

Tax and Fee Administration (CDTFA) administers all such requests, but discussions with local state representatives are encouraged. The Legislature has historically been receptive to accommodate requests from local jurisdictions to exceed the 2% combined rate cap.

12. Utility Users Tax – Expand covered utilities and/or increase the tax rate

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Expanding the UUT to include telecommunications services (i.e., wired and wireless telephone services, video services) could possibly generate $425,000 to $600,000 in additional revenues each year. Increasing the utility users tax (UUT) rate to 6% would increase annual revenues by $375,000. A more precise impact analysis would need to be completed before pursuing a utility users tax measure.

FEASIBILITY

Increasing or expanding the existing UUT would require additional analysis, Council approval, and an affirmative vote by the electorate. Polling the electorate to determine viability would be prudent. A compelling argument can be made for increasing or expanding this tax based on revenues compared to similar cities along the Central Coast and the Bay Area. A UUT would be considered a general tax measure that would require a 2/3 majority of Councilmembers to place a measure on a ballot. The measure must then be approved by a simple majority (50% + 1) of voters at a regular election in which Councilmember positions are on the ballot.

BACKGROUND/ANALYSIS

The City approved a UUT in 1992 that levies a 4% utility users tax on revenues generated by all electricity and gas utility providers on properties within the City.[2] The projected annual UUT for FY 2017-18 totals $740,000.

Cities have the authority to impose UUTs on the consumption of utility services that may also include water, sewer, telephone (including cell phone and long distance), sanitation and cable television.[3] The rate of tax is determined by the local agency.

While Scotts Valley could look incorporating one or all of these additional utility services in its ordinance, the most prevalent UUT beyond electricity and gas is on telephone services. A total of 153 cities and counties impose a telephone UUT that, in total, covers nearly 50% of the population in California.[4] Tax rates range from 1% to 10%, with most cities levying a UUT rate between 5% and 7%.

The application on telephone services has been a topic of legal and legislative turmoil in the past 15 years due to changes in technology and federal law. Cities still retain the authority to impose a telephone UUT, but must exercise care in defining the services subject to the tax to address future technologies without triggering additional measures to be brought to voters.

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[2] Scotts Valley Municipal Code Chapter 3.35
[3] California Government Code Section 37100.5
[4] CaliforniaCityFinance.com Utility Users Tax Facts

In Santa Cruz County, both Santa Cruz and Watsonville have UUT ordinances that cover gas, electric and telecommunications services. Capitola does not have a UUT ordinance in place. Elsewhere in the state this form of revenue is quite common, especially in southern California. Among Bay Area and Central Coast cities of less than 50,000 population, 23 cities with a UUT in place cover gas, electric and telecommunications services, with only two agencies (Sand City and Pacifica) other than Scotts Valley that have a UUT only covering gas and electric services. Pleasant Hill has a UUT that only covers telecommunications. The list of cities with and without UUTs in place among Bay Area and Central Coast counties is shown in Table 11.

Table 11. Bay Area and Central Coast Cities with Population Less than 50,000 with and without UUT (and all cities within Santa Cruz County)

County	Utility Users Tax on Gas, Electric and Telecommunications	Utility Users Tax on Gas and Electric Only	Utility Users Tax on Telecommunications Only	Without any Utility Users Tax
Alameda	Albany, Emeryville, Newark, Piedmont	N/A	N/A	N/A
Contra Costa	El Cerrito, Hercules, Pinole, San Pablo	N/A	Pleasant Hill	Clayton, Danville, Lafayette, Martinez, Moraga, Oakley, Orinda
Monterey	Gonzales, Greenfield, King City, Monterey, Pacific Grove, Seaside, Soledad	Sand City	N/A	Carmel, Del Rey Oaks, Marina
San Mateo	East Palo Alto, Menlo Park, Portola Valley	Pacifica	N/A	Atherton, Belmont, Brisbane, Burlingame, Colma, Foster City, Half Moon Bay, Hillsborough, Millbrae, San Bruno, San Carlos, Woodside
Santa Clara	Los Altos	N/A	N/A	Campbell, Los Altos Hills, Monte Sereno, Morgan Hill, Saratoga
Santa Cruz (all cities)	Santa Cruz, Watsonville	Scotts Valley	N/A	Capitola
Solano	Benicia	N/A	N/A	Dixon, Rio Vista, Suisun City
Sonoma	Cloverdale, Sebastopol	N/A	N/A	Cotati, Healdsburg, Rohnert Park, Sonoma, Windsor

Per capita estimates of annual revenues generated from telephone UUT services range from $35 to $50, depending on the mix of commercial space in a community. Based on Scotts Valley's population, this would translate to a range of $425,000 to $600,000 of additional revenue per year. A more refined estimate would need to be developed using gross receipts information from potential utility providers to inform the tax rate ultimately included in a ballot measure.

Utility users tax rates of cities in Santa Cruz County and the revenues generated for each agency are presented in Table 12.

Table 12. Utility User Tax (UUT) Revenue of Agencies in Santa Cruz County

Jurisdiction	Utilities Subject to Tax	Utility Users Tax Rate	FY 2018 UUT Revenues	FY 2018 UUT Revenues per Capita
Capitola	N/A	N/A	N/A	N/A
Scotts Valley	Electric, gas	4.0%	$742,000	$61
Santa Cruz	Electric, gas, telephone (wired/wireless), video, solid waste/refuse	8.5%	$11,989,000	$184
Watsonville	Electric, gas, telephone (wired/wireless)	6.0% electric/gas; 5.5% telephone	$3,502,000	$66
		Average		***$125***

Source: Population data based on 2017 estimates by California Department of Finance; budget data as reported by the FY 2018 adopted budgets

Increasing the City's existing UUT rate is another possible solution. As indicate earlier, the typical UUT rate by other cities in California is within the 5% to 7% range. If the City were to increase the UUT rate to 6% with only electric and gas services being levied, annual revenues would increase by approximately $375,000.

UUT provides a diversified revenue stream. The City's current reliance on sales tax revenues can be volatile in periods of economic growth and recession. UUT revenues are generally more predictable and do not waiver as significantly during shifts in the economic environment. Increasing this revenue source, through either increases in the existing UUT rate, or diversifying further the UUT composition by adding telecommunications services (telephone and video), would provide the City with greater revenue sources that are less economically volatile.

13. Transient Occupancy (Hotel) Tax - Increase tax rate

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The estimated incremental annual revenues by increasing the TOT rate would be as follows:

- Increasing TOT rate by 1% (to 11%): $240,000
- Increasing TOT rate by 2% (to 12%): $480,000.

FEASIBILITY

TOT taxes are considered general taxes and require voter approval of a simple majority (50% plus one) in a general election in which council members are on the ballot. Implementing adjustments to the TOT rate would require additional analysis, Council approval, and an affirmative vote by the electorate. TOT tax measures generally seem to fare better with voters because the tax is almost always considered to be imposed on non-residents. Intense opposition will likely come from the local hotels, especially those that have a significant amount of business generated from conferences or contractual relationships with larger commercial clients who are more sensitive to taxes.

BACKGROUND/ANALYSIS

Scotts Valley's current TOT rate is 10%. The TOT rates for cities and the county in Santa Cruz County are shown in Table 13. The cities of Santa Cruz and Watsonville and the County of Santa Cruz have a TOT rate of 11%. Capitola and Scotts Valley's rates are both 10%.

Table 13. TOT Rates in Santa Cruz County

Jurisdiction	TOT Rate	FY 2018 TOT Revenue	FY 2018 TOT Revenue per Capita
Capitola	10%	$1,506,300	$148
Scotts Valley	10%	$1,294,000	$106
Santa Cruz County	11%	$8,482,100	$62
Santa Cruz (City)	11%	$12,291,000	$188
Watsonville	11%	$989,100	$19
		Average	***$89***

Scotts Valley's TOT revenues are expected to nearly double by FY 2022-23 with additional revenues expected from 1440 Multiversity, the Marriott Residence Inn, and the Four Points Sheraton (formerly the Lexington Hotel). With the addition of those sources, TOT revenues will increase to nearly $2.4 million, or $197 per capita based on existing population data.

If the City increased its TOT rate, the estimated long-term impacts of increasing the TOT rate for each 1% is shown in Table 14 based on the FY 2022-23 TOT revenue projections.

Table 14. Estimated Impact of Increasing the TOT Rate

Rate	Estimated Revenue	Estimated Impact
10% (Current)	$2,400,000	N/A
11%	$2,640,000	$240,000
12%	$2,880,000	$480,000
13%	$3,120,000	$820,000
14%	$3,360,000	$960,000

Increasing the TOT rate to 11% would put the City's rate equal to most other cities within the County. Increasing the rate to 12% would make Scotts Valley's TOT rate the highest in the County, yet would remain competitive to the extent that other agencies increase their TOT rates in the future.

14. Business License Tax – Increase tax rate

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Increasing the business license tax rate to generate an additional $5 to $10 per capita would require increases of approximately 20% to 40% in the per-employee rates. Such an increase would generate from $70,000 to $140,000 per year. Using changes in the consumer price index (CPI) as a basis for an increase, the per-employee rates would be increased by 88%, generating additional annual revenues of $330,000

FEASIBILITY

Implementing adjustments to the business license tax would require additional analysis, Council approval, and an affirmative vote by the electorate. A general tax, that is one not earmarked for any specific purpose, requires a majority vote of the electorate in an election that coincides with City Council election(s). A special purpose tax, for example one earmarked for public safety or for parks, etc., requires a two-thirds vote, but can be folded into any election, including non-Council elections.

BACKGROUND/ANALYSIS

Scotts Valley has a business license tax model that is based on the number of employees for each business. The tax structure has not been modified over the past 25 years. Business license tax revenue projections for FY 2017-18 totaled $360,000.

Table 15 shows that Scotts Valley is above the median of Bay Area and Central Coast cities with populations between 10,000 and 25,000 in terms of business license tax (BLT) per capita.

Table 15. BLT Revenue per Capita for Bay Area and Central Coast Cities with Populations Between 10,000 and 25,000

City	County	FY 2015 BLT Per Capita
1. **Emeryville**	Alameda	$725
2. **Hillsborough**	San Mateo	$58
3. **Piedmont**	Alameda	$46
4. **Sonoma**	Sonoma	$36
5. **Albany**	Alameda	$33
6. **El Cerrito**	Contra Costa	$30
7. **Capitola**	Santa Cruz	$28
8. **Scotts Valley**	Santa Cruz	$26
9. **Half Moon Bay**	San Mateo	$21
10. **Pacific Grove**	Monterey	$21
11. **Pinole**	Contra Costa	$18

City	County	FY 2015 BLT Per Capita
12. Healdsburg	Sonoma	$17
13. Millbrae	San Mateo	$15
14. Clayton	Contra Costa	$12
15. Hercules	Contra Costa	$7
16. King City	Monterey	$6
17. Dixon	Solano	$4
18. Greenfield	Monterey	$2
19. Lafayette	Contra Costa	N/A
20. Moraga	Contra Costa	N/A
21. Orinda	Contra Costa	N/A
	Median	***$21***

Source: As reported by the California Local Government Finance Almanac

Within Santa Cruz County overall, Scotts Valley is near the top of the County's per capita BLT revenue as shown in Table 16.

Table 16. BLT Revenue per Capita for Cities in Contra Costa County

City	FY 2015 BLT Per Capita
Capitola	$ 28.30
Scotts Valley	$ 26.09
Santa Cruz	$ 13.66
Watsonville	$ 8.91

Source: As reported by the California Local Government Finance Almanac

If Scotts Valley wanted to generate an additional $5 to $10 per capita BLT revenue, the City would need to increase its existing per-employee rate from $40 to between $48 and $55, which is estimated to generate additional revenue ranging from $70,000 to $140,000 per year.

Another approach to increase BLT revenues would be to assess the change in inflation, as measured by the consumer price index, since the BLT was last modified. It has been at least since 1992 that the BLT per employee rate was modified. Over the course of the last 25 years, CPI for the San Francisco-Oakland-San Jose Region has increased by 92%. If the City were to use CPI as a basis for increasing its BLT rates, that would generate an additional $330,000 in revenues, increasing the employee rate from $40 to $75.

The current structure based on number of employees considers business growth based simply on those which those businesses employ. Shifting from an employee-based BLT model to a gross receipts model is another option. Many cities use a gross receipts (or revenue) based approach, either exclusively or combined with an employee-based model, and establish a tax rate that is levied on the annual gross receipts of the business. Those tax rates vary widely by agency, but a typical range is between 0.5% and 2.0% per $1,000 of gross receipts. Transitioning to a gross receipts model would require significant research and analysis and could result in the need for increased staffing. The structure of the tax and the revenue that could be generated from such a shift is not estimable at this time as the City does not collect gross receipts information from its business license applicants.

15. Solid Waste (Garbage) Franchise Fees – Increase rate on gross receipts

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE
An increase in the franchise fee rate of 2% equates to approximately $60,000 in additional annual revenue to the City.

FEASIBILITY
Increasing the solid waste franchise fee is within the discretion of the City Council negotiating those fees with the service provider with the understanding that customers ultimately pay the franchise fees, which are delineated as such on their service bills. Scotts Valley's franchise rate is currently the highest in the County, which could make it more difficult from customers' perspectives to increase the fee to a higher amount. The rate would need to be increased in any successor agreement with GreenWaste.

BACKGROUND/ANALYSIS
The City's existing franchise agreement with GreenWaste Recovery for solid waste collection services includes a 20% franchise fee requirement to be paid monthly to the City by GreenWaste based on gross revenues. The solid waste franchise fee collected from GreenWaste Recovery is stipulated in its existing franchise agreement with the City. The agreement was recently extended through January 2022.

There is no legal limitation on what the City can negotiate with a solid waste provider in terms of franchise fees. However, since the fees are passed on to customers, a practical limitation exists in regard to the total costs of solid waste collection and disposal services that a customer will pay.

Franchise fees collected in FY 2016-17 under the agreement totaled $606,000, which equates to approximately $30,000 for every 1% of the franchise fee rate. These fees are deposited in the City's General Fund.

Table 17 presents the franchise fee rates charged by the County and the four cities within Santa Cruz County. Scotts Valley's franchise fee rate is the highest in the County. Other agencies are in the 10-12% range. Santa Cruz city provides collection services and levies a 12% franchisee tax that was approved by voters in 2010. In addition, they are the only agency in the county that charges an 8.5% utility users tax to solid waste customers. The combined tax burden on customers is 20.5%, which is just a bit higher than Scotts Valley. Watsonville does not charge a franchise fee for city-provided solid waste collection services.

Table 17. Solid Waste Franchise Fee Rates for Agencies in Santa Cruz County

Agency	Solid Waste Provider	Franchise Fee Rate
Capitola	GreenWaste Recovery	Not Provided
Santa Cruz (City)	City	12%[1]
Santa Cruz (County)	GreenWaste Recovery	10%
Scotts Valley	GreenWaste Recovery	20%
Watsonville	City	N/A

1 – The City of Santa Cruz, as provider of solid waste services for the City, collects this franchise fee as a tax that was approved by voters in 2005. The City also collects an 8.5% utility users tax in addition to the franchise tax.
Source: City websites and/or franchise agreement documents

Increasing the franchise fee rate would be a challenge politically given that the City's franchise fee rate is currently the highest within the County. In our experience, franchise fee rates for cities in California typically range between 8% and 25%. Scotts Valley's rates near the high end of that range.

For discussion purposes, if the City were to explore increasing the franchise fee rate to 22%, an increase in the rate by 2%, the increase would generate an additional $60,000 in annual revenues for the City's General Fund.

A lesser used fee levied on solid waste providers by other California agencies is a refuse vehicle impact fee in recognition of the wear and tear that large trucks place on city streets. These fees are typically included in a solid waste franchise agreement. Agencies including the cities of Campbell, Saratoga, Los Gatos, Livermore, and the counties of Sonoma and Napa have such fees in place. Refuse vehicle impact fees are based on a nexus study and then negotiated into the solid waste franchise agreement. Revenues collected range from $50,000 to $300,000 annually. Scotts Valley could introduce a concept such as this in its successor franchise agreement with GreenWaste but would need to perform the nexus study to determine the appropriate amount. The funds would go towards roadway improvements that would ultimately offload the General Fund from having to cover unfunded road improvements if the City were to find itself lacking sufficient revenues from Gas Tax, SB-1 roadway improvement funding, or Measure D transportation funds. These fees are typically included in the providers cost of service calculation that ultimately is eligible to be charged back to customers. No fiscal impact is assumed at the present time as this would require additional analysis.

16. User Fees and Charges – Increase planning and building fees

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City is currently conducting a user fee study and cost recovery analysis. The cost recovery analysis will be complete by early April. The City Council will discuss the results of its fee study on April 18 and May 2, which a focus on planning and building fees at its May 2 meeting. The fiscal impact will be determined at that time.

FEASIBILITY

The City Council has the authority to establish fees and charges for planning and building fees, which may be set at amounts based on a cost recovery analysis. Fee increase impacts will need to consider the impact on current and future development plans weighed against the need for the City to appropriately fund its services.

BACKGROUND/ANALYSIS

The City has made periodic adjustments to its fees and charges for planning and building services. In 2008 the City adopted tables 3a-3h of the California 1997 Uniform Administrative Code in to its schedule of fees and charges for building permit and plan check fees. Otherwise, planning and building fees have not been subject to a user fee study in many years.

The City contracted with NBS to perform an independent user fee study and cost recovery analysis of its fees and charges in October 2017. NBS is completing its analysis of the City's user fees and will be presenting its analysis to the City Council on April 18 and May 2 to receive direction on establishing new fees and charges for FY 2018-19.

Planning and building fees were expected to generate $930,000 in revenues in FY 2017-18. Total budgeted expenditures for planning and building were $1.28 million. Some of those costs relate to advance planning activities such as general plan updates and zoning amendments that do not relate to specific projects and, thus, may not be recoverable. NBS will be analyzing those costs to determine what costs may be recovered, and will compare that to the fees that are currently charged to determine the extent to which fees are not being recovered. The City will then need to determine the extent to which it expects full cost recovery of its planning and building services through fees and charges.

17. User Fees and Charges – Increase public works fees

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City is currently conducting a user fee study and cost recovery analysis. The cost recovery analysis will be complete by early April. The City Council will discuss the results of its fee study on April 18 and May 2; public works fees are anticipated to be discussed on April 18.. The fiscal impact will be determined at that time.

FEASIBILITY

The City Council has the authority to establish fees and charges for public works related fees, which may be set at amounts based on a cost recovery analysis. Fee increase impacts will need to consider the impact on current and future development plans weighed against the need for the City to appropriately fund its services.

BACKGROUND/ANALYSIS

The City has made periodic adjustments to its fees and charges for public works related services such as design review, general plan amendments, tentative maps, engineering plan reviews and encroachment permits. Otherwise, public works fees have not been subject to a user fee study in many years.

The City contracted with NBS to perform an independent user fee study and cost recovery analysis of its fees and charges in October 2017. NBS is completing its analysis of the City's user fees and will be presenting its analysis on public works related fees and charges to the City Council on April 18 to receive direction on establishing new fees and charges for FY 2018-19.

NBS will be analyzing public works department costs to determine what costs may be recovered, and will compare that to the fees that are currently charged to determine the extent to which fees are not being recovered. The City will then need to determine the extent to which it expects full cost recovery of its public works services through fees and charges.

18. User Fees and Charges – Increase police fees

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City is currently conducting a user fee study and cost recovery analysis. The cost recovery analysis will be complete by early April. The City Council will discuss the results of its fee study on April 18 and May 2; police fees are anticipated to be discussed on April 18.The fiscal impact will be determined at that time. However, it should be noted that total fees generated currently from police fees are less than $30,000. The fiscal impact is expected to be minimal.

FEASIBILITY

The City Council has the authority to establish fees and charges for police related fees (excluding fines and penalties), which may be set at amounts based on a cost recovery analysis.

BACKGROUND/ANALYSIS

The City has made periodic adjustments to its fees and charges for police related services such as permits for firearms, massage and tobacco retailers, alarm responses, and copies of police reports. Otherwise, police fees have not been subject to a user fee study in many years.

The City contracted with NBS to perform an independent user fee study and cost recovery analysis of its fees and charges in October 2017. NBS is completing its analysis of the City's user fees and will be presenting its analysis on police related fees and charges to the City Council on April 18 to receive direction on establishing new fees and charges for FY 2018-19.

NBS will be analyzing police department costs to determine what costs may be recovered, and will compare that to the fees that are currently charged to determine the extent to which fees are not being recovered. The City will then need to determine the extent to which it expects full cost recovery of its eligible police services through fees and charges.

19. User Fees and Charges – Increase administrative fees

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City is currently conducting a user fee study and cost recovery analysis. The cost recovery analysis will be complete by early April. The City Council will discuss the results of its fee study on April 18 and May 2; administrative fees are anticipated to be discussed on April 18.. The fiscal impact will be determined at that time. However, it should be noted that total fees generated currently from administrative fees are less than $10,000. The fiscal impact is expected to be minimal.

FEASIBILITY

The City Council has the authority to establish fees and charges for administrative related fees, which may be set at amounts based on a cost recovery analysis.

BACKGROUND/ANALYSIS

The City has made periodic adjustments to its fees and charges for administrative costs such as entertainment permits, returned check charges and photocopies of reports not subject to the Public Records Act. Otherwise, administrative fees have not been subject to a user fee study in many years.

The City contracted with NBS to perform an independent user fee study and cost recovery analysis of its fees and charges in October 2017. NBS is completing its analysis of the City's user fees and will be presenting its analysis on administrative related fees and charges to the City Council on April 18 to receive direction on establishing new fees and charges for FY 2018-19.

NBS will be analyzing costs incurred to provide various administrative services to determine what costs may be recovered, and will compare that to the fees that are currently charged to determine the extent to which fees are not being recovered. The City will then need to determine the extent to which it expects full cost recovery of its eligible administrative services through fees and charges.

20. User Fees and Charges – Increase recreation fees

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

An updated cost recovery analysis of recreation programs will be conducted in conjunction with the FY 2018-19 annual budget. The annual subsidy for recreation programs from the General Fund totaled $112,000. Further improvements to cost recovery of classes and facility rentals could reduce that subsidy by $30,000 through fee increases, which would require further evaluation.

FEASIBILITY

The City Council has authority to approve fee increases subject to a cost recovery analysis of its recreation programs. Fees for recreation programs typically have some form of General Fund subsidy, however the level of subsidy is unique to each community. Fees are typically established considering competitive pricing pressures from other local agencies, educational facilities and program providers, non-profit agencies and private service providers.

BACKGROUND/ANALYSIS

The City Council reviewed the cost recovery of its recreation services in June 2017. The initial analysis presented to the City Council is shown below in Figure 6, indicating that most programs were not achieving full cost recovery.

Figure 6. Initial Cost Recovery Projections for Recreation, Senior Center and Community Center Programs – FY 2017-18

	Recreation Fund							
	Aquatics	Classes	Recreation Facility Rentals	School Age Recreation	Sports	Total	**Senior Center**	**Community Center**
Hard Dollar Cost Model								
Projected revenues based on baseline projections	60,400	69,600	112,500	700,000	65,100	1,007,600	75,100	96,300
Less: Hard Dollar Costs	179,036	194,167	133,635	515,659	197,320	1,219,817	125,451	75,311
Net surplus (deficit) for each program	**(118,636)**	**(124,567)**	**(21,135)**	**184,341**	**(132,220)**	**(212,217)**	**(50,351)**	**20,989**
Percentage cost recovery	**34%**	**36%**	**84%**	**136%**	**33%**	**83%**	**60%**	**128%**
Fully Loaded Cost Model								
Projected revenues based on baseline projections	60,400	69,600	112,500	700,000	65,100	1,007,600	75,100	96,300
Less: Fully Loaded Costs	231,082	203,140	147,831	578,498	207,466	1,368,018	183,012	181,926
Net surplus (deficit) for each program	**(170,682)**	**(133,540)**	**(35,331)**	**121,502**	**(142,366)**	**(360,418)**	**(107,912)**	**(85,626)**
Percentage cost recovery	**26%**	**34%**	**76%**	**121%**	**31%**	**74%**	**41%**	**53%**

The City Council approved fee increases in all program areas other than school age recreation (which was achieving full cost recovery) and classes (instructing staff to seek increased enrollment). This left the aquatics program (see separate analysis in this document), parks rental fees, and facility rental fees for the Senior Center and Community Center. Parks rental fees were increased ranging from 10% to 20%, and facility rental fees were increased ranging between 10% and 25%. The net impact of these increases was to reduce the General Fund subsidy by $25,000 annually.

An updated cost recovery analysis will be performed as part of the FY 2018-19 budget process. Based on the FY 2017-18 analysis indicated above, the City could look to increase its fees to achieve full cost recovery, but would need to be mindful of fees charged by other providers to prevent a decrease in rentals. The total annual subsidy from the General Fund of recreation programs in the FY 2017-18 adopted budget was $112,200 after taking into consideration the increased fee revenue projections as indicated above. Pending an updated cost recovery analysis, we estimate that the General Fund subsidy could be reduced by another $30,000 through a combination of fee increases and enrollment improvements in classes.

Service Level Reductions

21. Take no action

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE
The fiscal impact of taking no action would leave the City's General Fund fully depleted of reserves by FY 2024-25, at which point the City would be forced to implement hiring freezes or layoffs. To avoid bankruptcy, they would need to total nearly $2 million, or just short of 15% of the General Fund's annual operating expenditures.

FEASIBILITY
The option of "doing nothing" is not feasible without forcing the City into bankruptcy proceedings. Cities that have done so have incurred costs of up to $20 million to get its debt obligations lifted. However, since the General Fund has very little debt obligations, even bankruptcy does not provide much relief. Moreover, the City would face litigation from creditors, employee groups, residents, and agencies such as CalPERS, risk insurance pools, and others. Ultimately, the City would be placed into a form of receivership by the state and would then be overseen by an appointed court to implement the necessary actions to allow the City to operate.

BACKGROUND/ANALYSIS
The fiscal model indicates that the City faces a structural deficit that would increase to an annual shortfall of $2 million by FY 2026-27. Reserves would be fully depleted by FY 2024-25.

Without taking any action, the City would face severe fiscal consequences, such as bankruptcy, which could mean significant reductions or full outsourcing of services, including police, parks, recreation, and public works. It would have negative impacts on economic development and quite possibly home prices. The City would face difficulties in recruiting and retaining its workforce as it would have a negative reputation in the labor market.

22. General Fund services and staffing reductions

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

If the combination of enacted expenditure controls, service delivery changes, and revenue enhancements do not resolve the City's $2 million fiscal gap, the City would have to implement General Fund service level reductions. An exhaustive analysis of department operations would be required. For purposes of this analysis, a 15% reduction in the police and public works departments would yield an annual expenditure savings to the General Fund of approximately $1,000,000. Additional savings might be identified through a review of administrative and internal service support operations (e.g., finance, human resources, administration, etc.). The actual amount of reductions necessary to close the fiscal gap will depend on the other strategies selected and the resultant fiscal impact of those measures.

FEASIBILITY

Given that Scotts Valley's General Fund budget consists of 76% personnel expenditures, achieving a 15% cost reduction in the departments indicated above would require significant reductions in positions. The average General Fund employee costs the City $147,000 per year (omitting the unfunded liability costs for pensions and retiree medical that remain regardless of the size of the workforce).

Based on this average, we estimate that to reduce total costs by $1 million the City would need to reduce its General Fund workforce by five positions if 75% of cuts came from personnel costs, or as many as seven employees if 100% of cuts came from personnel costs. This range represents 11% to 15% of the total General Fund workforce of 46 FTE. This would have dramatic impacts on police and public works services, which would bear the brunt of those service level reductions given their relatively high expenditure levels.

BACKGROUND/ANALYSIS

Service level reductions represent strategies that would be necessary if cost controls/shifts, service delivery changes, and/or revenue enhancement strategies do not generate sufficient savings to close the fiscal gap. Reducing service levels would require departments to review all expenditures, identify prioritized service levels, and develop a list of recommended reductions for City Manager and, ultimately, City Council approval, to achieve the necessary fiscal target. The analysis would require a thorough and common understanding of the City's core levels of service, legally or contractually required services, and clarity regarding its mission and values. In some cases, services may need to be viewed from a programmatic perspective so those that require cooperation from multiple departments receive special consideration.

We have estimated the fiscal impact based on current expenditures in the General Fund. For purposes of our analysis, we assume that a 15% General Fund expenditure reduction target would be implemented, and departments would then need to identify reductions in personnel, services and supplies, and ongoing capital needs to achieve the necessary reduction.

A 15% reduction in the police and public works departments would yield annual expenditure savings to the General Fund of approximately $1 million. Planning and Building could also be considered in the approach; however much of their operations are funded through self-supporting activities subject to fees and charges and would be expected to operate at full cost recovery if service level reduction strategies were required.

Reductions in administrative functions (i.e., City Manager's Office, human resources, finance, information technology) would likely not be achievable in the short term given the lean staffing currently in place. After the organization achieves stability under the new level of operations, there is the potential for an additional savings of perhaps $75,000, assuming a reduction in non-personnel costs that would be considered non-essential.