

City budget nears approval

Budget

Worse news is expected this fall

By DAN WHITE
SENTINEL STAFF WRITER

The City Council meets Tuesday to ratify a scaled-down 2003-2004 budget, incorporating \$1.5 million in cuts that have been made over the past few months.

But the worst is yet to come. City leaders warn that cuts in that budget are only the beginning, and far worse news will materialize in September due to a \$2 million deficit that could balloon to \$3 million if the state strips away more local funds.

Even under the "best-case scenario," according to City Manager Dick Wilson, the state could permanently reduce city revenue by \$700,000 annually while one proposal could take away more than \$3 million.

Vice Mayor Scott Kennedy said the council, in September, will likely be voting on another \$1.5 million in reductions to the roughly \$53 million general fund spending package, "and that is quite apart from what the state does. Between now and then there could be even worse

news from the state, but we don't know that yet."

Kennedy said he was surprised the City Council didn't slash far more over the past weeks, but "this is not a time to guess. The council didn't have the background preparation. It's better we do this thoughtfully and not on the fly."

The council realizes substantial cuts must happen soon, Kennedy said. But he said there are worries about the side effects of slashing certain services. For example, there has been talk that the Santa Cruz Civic Auditorium might be mothballed or reduced to being open a few nights a year, along with possible reductions or closings of the Harvey West Pool, Loudon Nelson Center and the Teen Center.

But the decision to roll back any major service is complicated, Kennedy said. "If you close the Civic, how does that affect revenues (such as sales tax and hotel room tax)? It could be devastating. We don't want to have a slash-and-burn approach and really regret what we did."

The budget crisis — said to be the worst in recent history — is blamed on a complex mess of factors ranging from public-employment retirement increases and the state budget deficit to much-lower-than-expected sales, utility and room tax revenues.

According to the Finance Department, major revenues were \$1.84 million lower than expected this year, with a \$325,000

Even under the 'best-case scenario,' according to City Manager Dick Wilson, the state could permanently reduce city revenue by \$700,000 annually while one proposal could take away more than \$3 million.

drop in sales tax, a \$120,000 drop in hotel tax, a \$1.3 million decrease in utility tax and a \$100,000 decline in other taxes. The dramatic utility tax drop is attributed largely to the city's dwindling manufacturing base.

While the city's revenues have decreased, fixed costs have gone up, said Finance Director David Culver. Even though \$2.2 million has been removed over the past year, Culver said spending is still set to increase roughly \$2 million because of increased employee retirement costs.

In addition, the city has faced unforeseen budget delays, due in part to the still-unsolved April arson attack on the City Hall's personnel wing.

Smoke infiltrated the main city building, forcing workers to replace ducts and ceiling tiles, while cleaning and rebuild-

7 2103
ing network servers. The damage and replacements, in addition to a switch to a new city accounting system, all contributed to a delay in preparing the budget, Culver said.

According to city leaders, the latest budget numbers are bleak even with the assumption the city will go ahead with a plan to enact an "emergency response fee" to generate an annual \$1.5 million to make up the costs of 911 services.

And there's also talk of new revenue sources such as a possible hike in fees levied to liquor outlets, which already generate about \$85,000 a year to the city. "It could be raised to another \$50,000 to \$75,000," Kennedy speculated.

In the very latest round of cuts, the City Council did not remove dramatic amounts of money from the budget — though the decision to chop \$85,000 to eliminate city-subsidized school-crossing guards has been controversial. Also, the City Council whittled its individual expense accounts in half to save 50 percent, or \$3,000, and pared the publicly subsidized tourist bureau's funding from \$390,000 to \$384,000 a year.

While the council will hold no meetings in August, members have agreed to work on budget preparation subcommittees during the break.

Contact Dan White at
dwhite@santa-cruz.com.