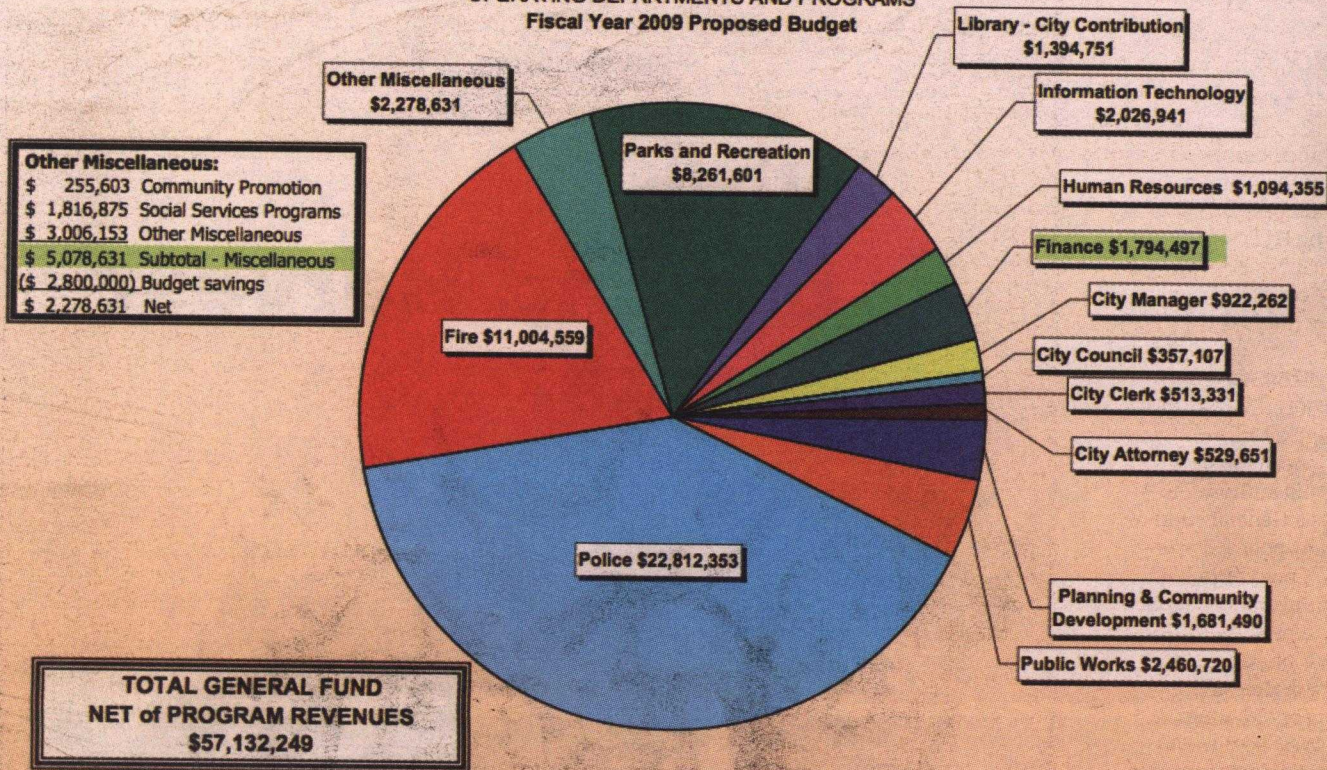


NET GENERAL FUND OPERATING BUDGET

TAX SUPPORTED SERVICES

OPERATING DEPARTMENTS AND PROGRAMS

Fiscal Year 2009 Proposed Budget



BEFORE THE FALL How the General Fund breaks down before 2009's cuts happen.

The City is Broke. Let's Fix It.

Why the Santa Cruz budget is in such dire shape, and more trouble might be ahead

BY CHRIS J. MAGYAR Unless someone steps forward with bags of money, the Santa Cruz Surfing Museum will close, the Santa Cruz Natural History Museum will close, the Beach Flats Community Center will close, the Harvey West Pool will close, the Teen Center will lose its building, several city workers will lose their jobs, and the rest of the city employees—including management and the city council—will see a 10 percent reduction in pay. And that's just the beginning.

The city has been slowly slashing budgets since 2002, but up until now, every cut has been invisible to the public, because they've come in the form of projects delayed or government jobs left unfilled. This phase of the budget cuts, dubbed Phase 9, is the first to reveal to the city's residents just how troubled the government's balance sheet is.

A total of \$6 million in cuts were proposed at the city council meeting on Dec. 9, and of those, \$4.2 million must be enacted by January. The pain doesn't end there, however, as another \$2 million or so is expected to be needed in spring if no new revenue is found. All of this is to stave off the complete depletion of the city's cash reserves—which it has been drawing upon to keep the government up and running—and the spectre of a bankrupt government, unable to issue paychecks to its employees or carry on any infrastructure projects.

"We can't operate on zero cash," City Manager Dick Wilson told the council, adding that the city spends about \$5 million a month. "Our trust fund is at an all-time low. I've been proposing budgets for 30 years and I've never seen a situation this bad." He added that the \$7 million in total cuts

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tip of the iceberg. The only way through this without absurdly painful closures is a magic new revenue stream, or a cadre of wealthy private citizens willing to step up and assume the burden of keeping some institutions open while the city regroups.

The General Fund is only one part of the city's overall \$206.6 million budget (about 40 percent). Nearly half of the budget is given over to what are called "enterprise funds," including water, sewer, trash, parking, and the golf course. These—in addition to a few general fund entities like the library and building inspections—are self-supported by their respective fees and dedicated taxes. For example, this November's Measure E was a dedicated tax (which was why it needed a 2/3 approval to pass), and will pay for state mandate stormwater monitoring. If the measure had not passed, that \$700,000 would have come out of the general fund, making the budget cut misery even worse.

Near the end of the meeting Councilmember Mike Rotkin went on a rant of possible people to blame for the problem—sweeping widely from the Republican Party to people who are fighting the La Bahia development—and mentioned that the state has put many cities in an uncomfortable position with a broken tax structure.

In the dust of the days after, Wilson agrees. "There are a lot of things they could do," he says of the state legislature, "but nothing they're going to do. I think cities and counties will be thrilled if they just don't make it worse." He says removing some of California's dependence

on the volatility of high-earner incomes, or crafting a new sales tax that applies to goods and services and internet purchases at a lower rate than the current goods-only tax, might solve some of the problems at both the state and local level. "But I don't think it's going to happen," he repeats. "For actual reform, you'd have to have a constitutional convention."

Looking under rocks for cash, there's an 8-acre parcel of land Santa Cruz owns in Scotts Valley, which that city's redevelopment agency expressed interest in purchasing, but Wilson says negotiations are stalled on that front. "This is not a time when anybody's buying land and doing big development," he says.

If anyone's eyeing the big slices of pie chart dedicated to enterprise funds, he says there's no legal way to simply increase parking ticket fees and dump the excess into the general fund to save a museum. "The way fees work, under the laws, they must be the actual cost of providing a direct service," he says. "Building fees pay for building inspections, they can't pay for anything else." Attempting to use a fee for general funding is what shot down the phone bill fee that was nominally for the 911 call center, but fed into the general fund. A tax to replace that fee was on a mail-in ballot last August, but failed by 200 votes. That tax, in some modified form, is the one most likely to appear on the June ballot as the city strives for more revenue.

But if we can't take fees to pay for general fund shortfalls, could some of the programs in the general fund become more like enterprise fund entities, using fees to support themselves?



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over the next year is a conservative estimate, and that he will be "thrilled" if that's all that's needed.

While the cuts aren't a reality yet, the council did approve a motion to have the staff explore the logistics of them, and bring a full report to the January meeting. The motion passed 5 to 2, with the re-elected Tony Madrigal and outgoing Ed Porter opposing. "It must be easy going off the council," re-elected Ryan Coonerty chided Porter for his vote. The council also unanimously passed a motion directing staff to look into a tax measure for the June ballot.

The laundry list was put together by a sub-committee of councilmembers Emily Reilly (who is termed out), Cynthia Matthews (appointed mayor later that evening), and Lynn Robinson. The cuts all come from the city's General Fund, which is the only area of the budget the council has full authority to alter. The proposed 2009 budget (pre-cuts) has a General Fund of \$57.1 million, which breaks down to 40 percent police, 20 percent fire, 14.5 percent parks and recreation, 4.3 percent public works, and the remaining 20 percent city administration. While there are significant cuts to administration and personnel—and police and fire were curtailed in many previous phases—it was parks and recreation that got the majority of the attention.

Closing the Surfing Museum, Natural History Museum, Beach Flats Community Center, and Harvey West Pool would save the city a total of \$572,000 annually. But residents were not sympathetic to the plight before the council. Surfing Museum advocates wondered how the council could close the building that serves as the city's logo, and which brings in 35,000 visitors a year; the Natural History Museum's advocates wondered how children would be educated about the importance of the environment they're growing up in; Beach Flats community members marched and rallied (with many banging drums and cheering from the front lawn due to overcrowding in the chambers) and pointed out that the community center has transformed the neighborhood from being a nest of drug dealers and gangs; and advocates of the pool—who were sadly under the impression that the council was only going to curtail the months of operation, not close the pool altogether—simply wondered how a beachside town could afford to not teach its children and residents how to swim.

SCRAPING FOR IDEAS

Ryan Coonerty, acting as mayor one last time repeatedly reminded the chambers that none of the cuts would be finalized for another month, and that the council welcomed any creative financing ideas, so long as they don't involve city money. Emily Reilly echoed the thought: "Santa Cruz isn't going away," she said. "Our ears are open. But your city government cannot provide for you right now."

While most of the speeches were of the beg-and-hope variety, a few concrete solutions were proposed at the meeting by the general public: A \$1 admission charge to the Surfing Museum; a swim-at-your-own-risk policy at the pool, eliminating lifeguards; sell unlimited pool rights to local gyms, to include in their memberships for an extra amount; parking meters on the beach side of the roads in Seabright; a maximum salary of \$100,000 for any government employee; a transportation audit of city vehicles to see how many could be eliminated by bicycle use; allowing the Boys & Girls Club to provide services in Beach Flats; and throwing up hands to allow in big box stores to increase sales tax revenue (an idea that, shockingly, garnered no boos, and a smattering of applause). A group of children from Beach Flats even took the initiative of gathering donations, and brought with them a canister full of \$147, which Coonerty accepted in a round of handshakes then deposited on a side table.

The depth of the budget problem looks too big for corner-cutting or out-of-the-box thinking, however. Councilmember comments continually pointed out that \$4.2 million is only the

BUDGET *CONT.*

This is the case with the library. But Wilson says it's unlikely the museums, community center, or pool will be able to charge enough to keep themselves fully afloat. The only one he expresses cautious optimism about is Harvey West. "It might be that for a summer program, the economics would be easier because heating costs are less."

PEOPLE PROBLEM

With all the rancor surrounding the facility closures, they represent a small part of the cuts that need to be made in Phase 9. The bulk of the money proposed will be coming out of employee salaries, in an attempt to avoid layoffs. The combination of the proposed closures and other cost-cutting measures will already lead to the elimination of 13 full-time positions and thousands of contract hours. The budget subcommittee recommended negotiating a furlough with the remaining workforce in order to save as many jobs as possible.

Essentially, every non-police, non-fire, and non-essential employee in the city would work a 36-hour week instead of a 40-hour week, with a concomitant 10 percent reduction in pay. The subcommittee also recommends increasing all employee out-of-pocket contributions to their retirement fund by 1 percent, and instituting a wage freeze regardless of scheduled adjustments. These measures together, if implemented in full, and taken together with executives agreeing to a 10 percent pay cut and wage freeze, would cut the necessary \$4.2 million.

But the wrinkle is the city council cannot simply decide to make these changes. It must negotiate them with the employees' bargaining units. The Service Employees International Union (SEIU) was at the Dec. 9 meeting in purple shirts, but rather than joining the general public's tone of frustration and hurt, stepped to the podium with the mildest rhetoric of the afternoon. While one speaker did caution that the city could not be proud of fighting off big box stores only to become "a Wal-Mart employer" in its own right, "finding savings on the lowest paid people," there was a stated intention to work with human resources on the problem,

Budget Cuts

| Cuts the city council can make by itself | Amount Saved |
|---|--------------------|
| Move Teen Center to Loudon Nelson | \$70,000 |
| Close Beach Flats Community Center | \$122,000 |
| Close Harvey West Pool | \$350,000 |
| Close Museums of Natural History and Surfing | \$200,000 |
| Layoff associate planner | \$60,000 |
| Layoff four custodians & subcontract | \$150,000 |
| Layoff two parks and recreation employees | \$200,000 |
| Cut city arborist to half-time | \$60,000 |
| Cut social services funding by 5 percent | \$180,640 |
| Reduce public works operating expenses | \$180,000 |
| Reduce administrative department expenses | \$150,000 |
| Defer 3 percent cost of living for executives | \$44,000 |
| Total | \$1,766,640 |

Personnel Cuts

| Only if employee union (SEIU) allows them: | Amount Saved |
|---|--------------------|
| Defer merit/step increases for all employees | \$1,097,000 |
| Defer scheduled salary adjustments | \$1,277,000 |
| Reduce non-essential employees hours 10% | \$1,526,000 |
| Increased employee retirement contribution 1% | \$357,000 |
| Total | \$4,257,000 |

and encouragement for the decision of the council and executives to participate in the 10 percent pay cut.

Because the employee side of the budget cutting is uncertain, the subcommittee recommended more than the necessary amount for this phase (though the total amount is within the necessary cutting by June). While the city stresses there's no way around the removal of funding for the facilities on the chopping block, there is a sliver of hope—if the employees agree to the full \$4.3 million of salary cutting measures—that the facilities could be left alone until spring, just to give the various community groups and organizations a little more time to put together their plans for government-free funding.