
FISCAL EMERGENCY AND MARCH 2020 SALES TAX MEASURE



FINANCIAL OVERVIEW: STATE OF THE BUDGET

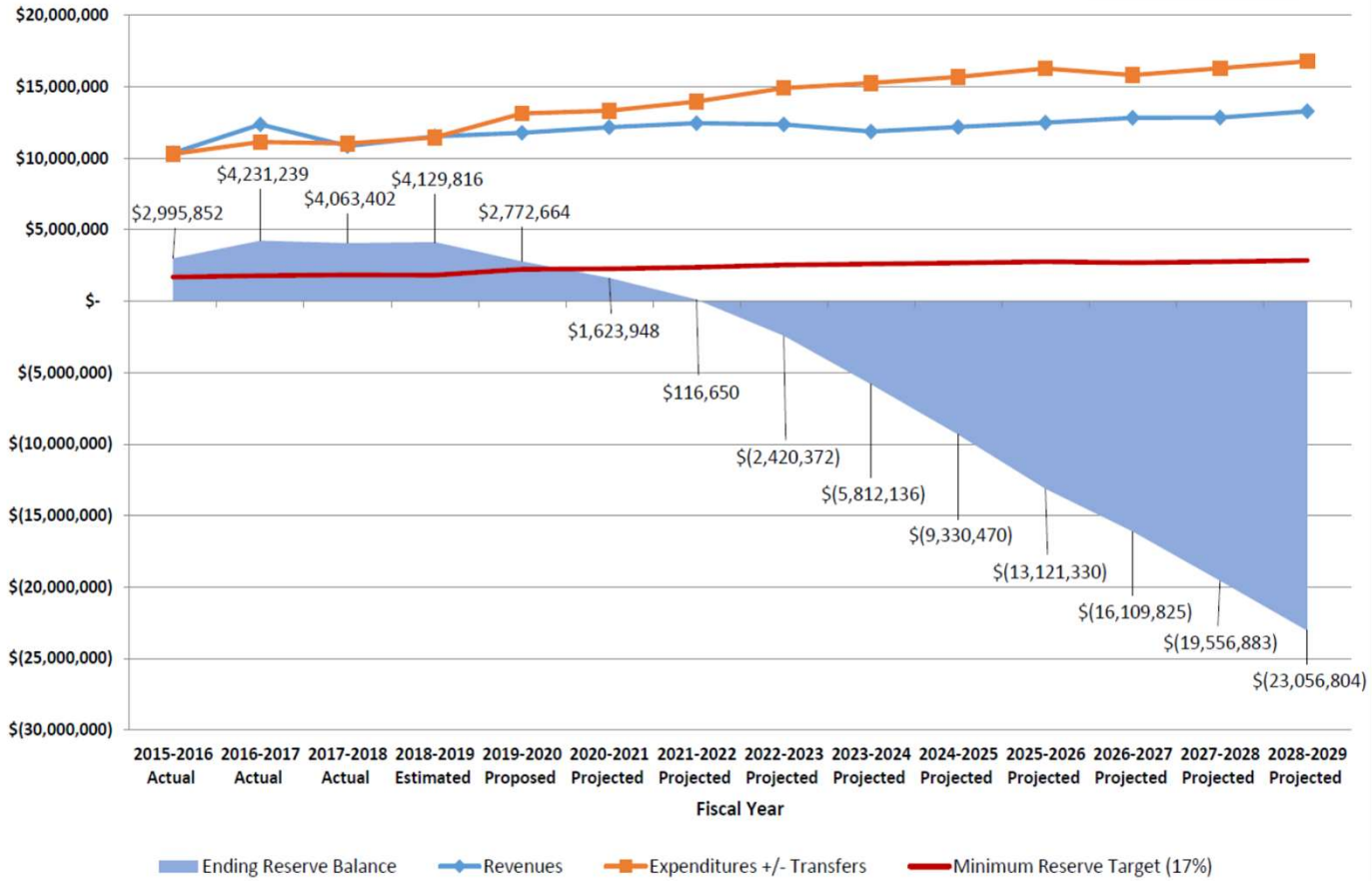
1. Current budget year: \$1-1.3 million deficit; drawdown of reserves
2. Next budget year: Dropping below 17% (two-month) reserve level
3. In three budget years (FY 2021/2022): Reserves depleted
4. In next five budget years, deficits range from \$1.15 to \$3.4 million
5. By FY 2023/2024, cumulative deficit projected at \$5.8 million

**General Fund Budget:
\$12.9 million**

The City is in a fiscal emergency. Without course correction, the City will be forced to make significant cuts.

City of Scotts Valley General Fund - Ten-Year Projection FY 2019-20 to FY 2028-29

Baseline Scenario:



BUDGET DRIVERS

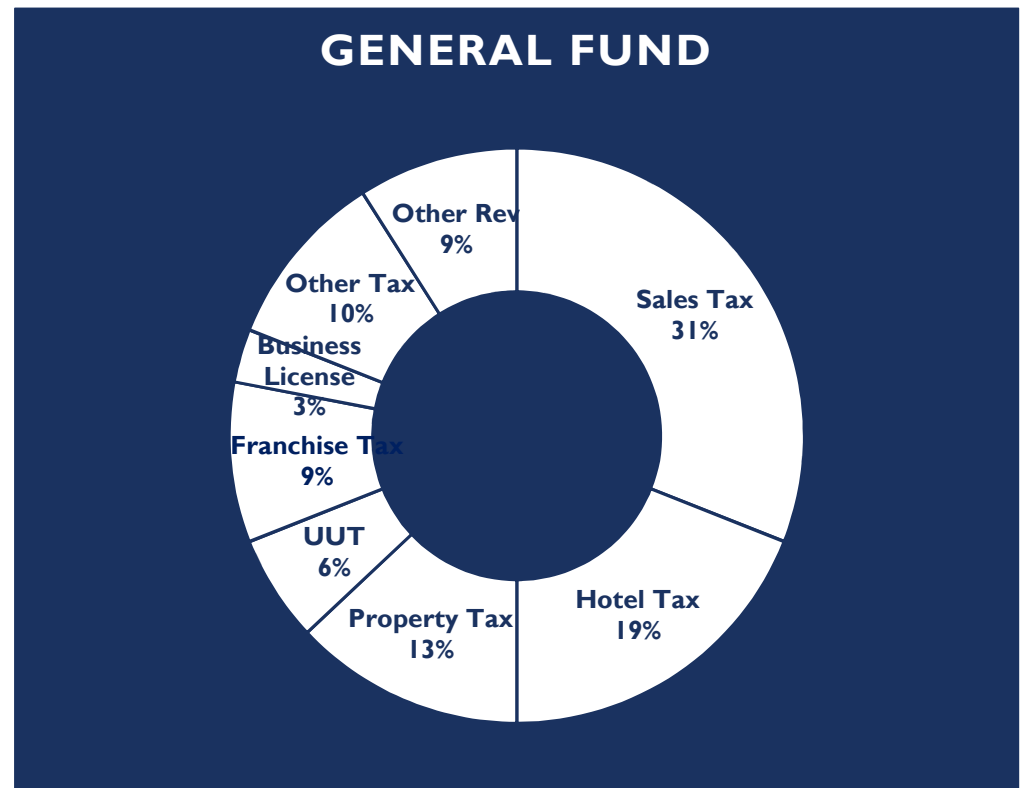
Expenditure Controls

Support Economic Growth

Revenue Enhancements

UNDERSTANDING OUR REVENUES

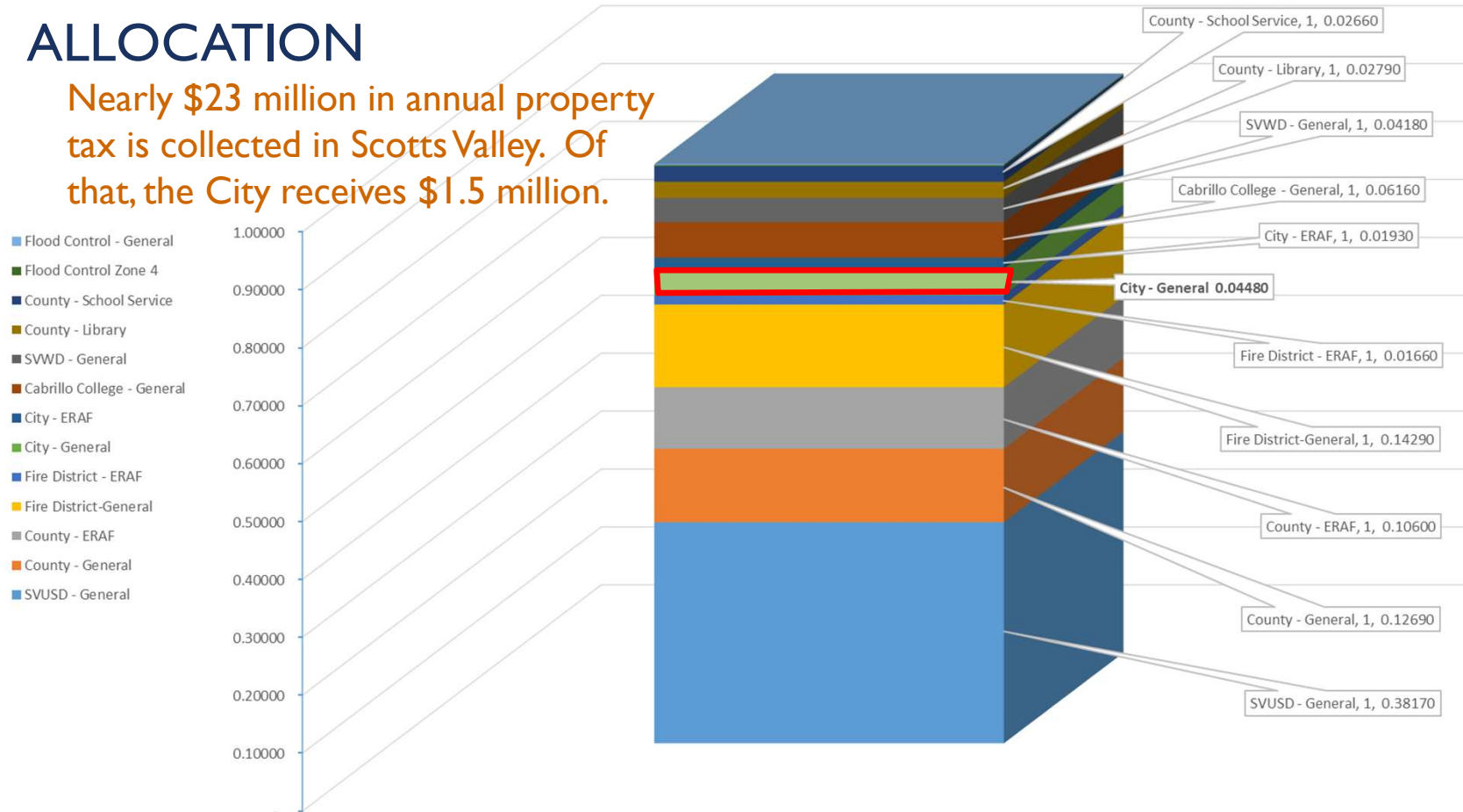
- Heavily reliant on sales and TOT (hotel) taxes
 - Sales Tax - \$3.6 million
 - TOT Tax – \$2.3 million
- Property Tax - \$1.5 million
 - Scotts Valley collects 6.5% (for a \$7,000 tax bill, Scotts Valley receives \$455)
 - Santa Cruz collects 16%
 - County of Santa Cruz collects 13%



PROPERTY TAX ALLOCATION

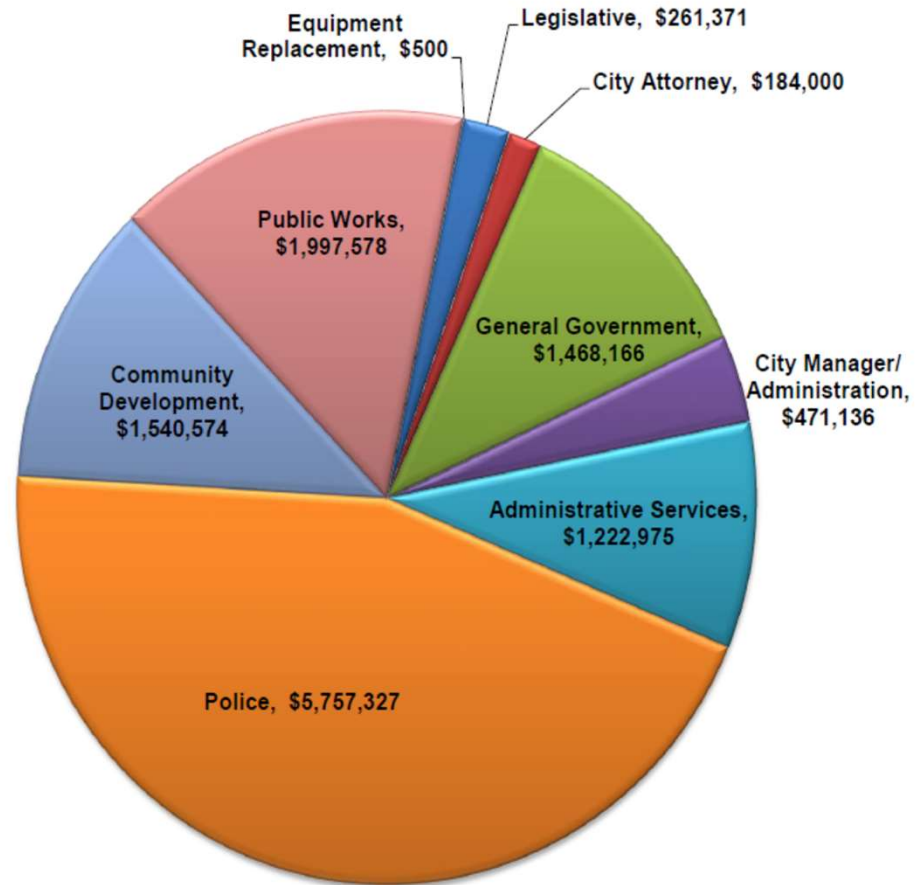
Nearly \$23 million in annual property tax is collected in Scotts Valley. Of that, the City receives \$1.5 million.

1% Property Tax Allocation



GENERAL FUND EXPENDITURES

General Fund Expenditures by Department FY 2019/20 Proposed



DECLINING STAFFING LEVELS

- Strong decline in staffing levels
 - FY 2003/2004 Budget – 76 Full-Time Positions
 - FY 2019/2020 Budget – 60.5 Full-Time Positions
 - TODAY – Staffing at 50.5

A 20% decrease in budgeted staff in 15 years

An effective workforce that is 34% less than 15 years ago

LOCAL CITY COMPARISONS

City (% of Prop Tax)	Population	General Fund Budget	Employees
Capitola (7.5%)	10,000	\$17.5 million	67.75
Scotts Valley (6.5%)	12,000	\$12.9 million	60.50
Santa Cruz (16%)	66,000	\$106 million	770.5
Watsonville (13%)	53,000	\$40 million	235.5

WHAT WE'VE DONE / IN PROGRESS

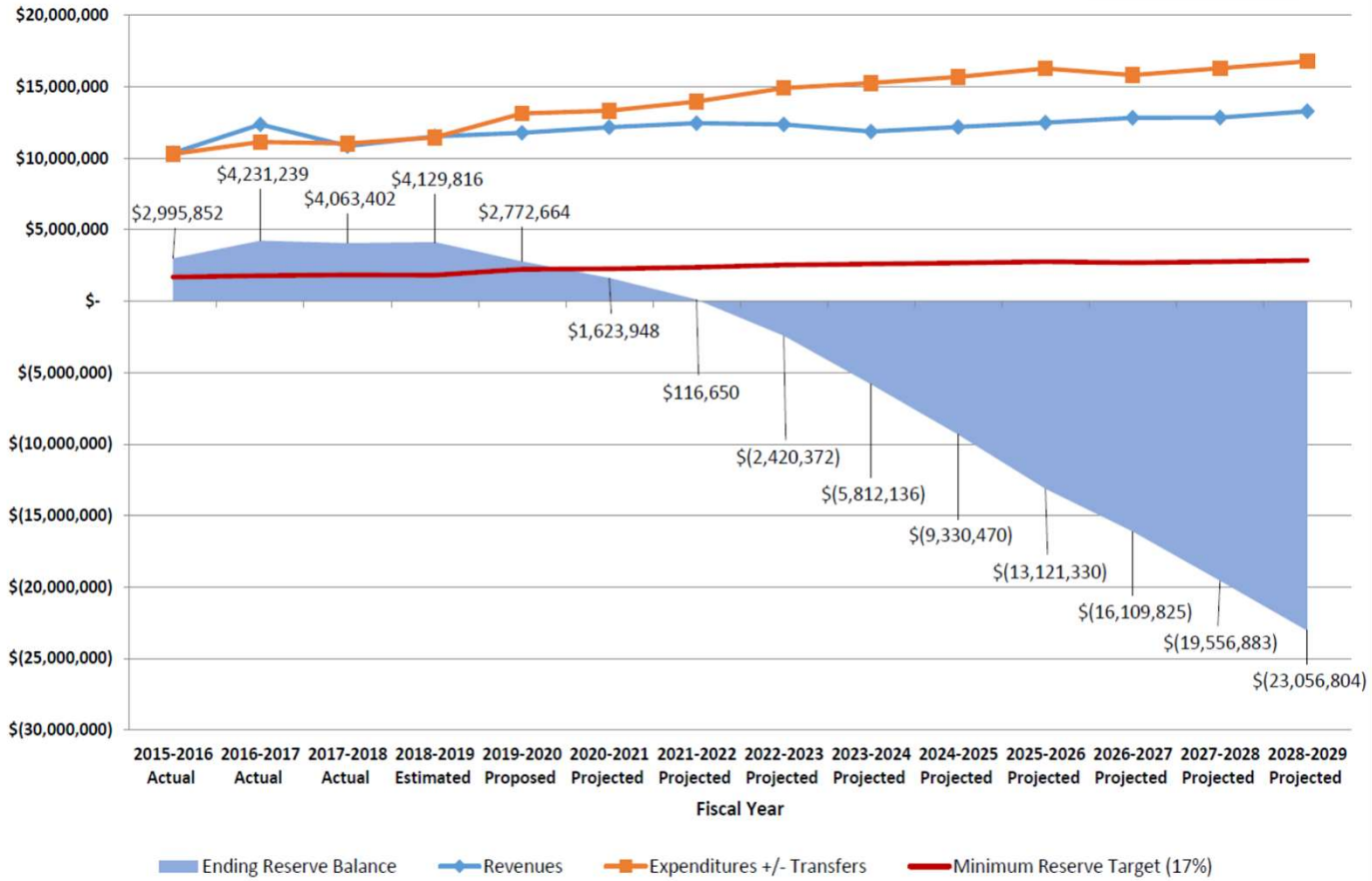
- Expenditure Controls/Cost Shifts
 - Reduced staff by 20%. Kept salaries flat.
 - Employees picking up share of pensions
 - Revise Cost Allocation of General Fund Services to Wastewater operations
 - Updated cost-for-services fees, reducing city subsidy
 - Tax collection audits to ensure fairness and correct collection
 - Service Delivery Changes
 - Outsourcing Vehicle Fleet Maintenance
 - Online Permitting
 - Refunded three Bonds (City debt) that will save the City over \$1,000,000 in interest through FY 2042/43
 - Adopted a Prepayment Policy that will save the City on future pension obligations through reduced interest payments
 - Shares a Building Official with the City of Capitola
- Economic Development
 - Added new hotels (Four Points, 1440 Multiversity)
 - Voters increased hotel tax to 11%

OUR FINANCIAL OUTLOOK WITHOUT ACTION

- General Fund deficit of \$5.8 million by the end of FY 2023/24
- Annual deficits ranging from \$1.15M to \$3.4M
- General Fund will be below 17% minimum reserve level by the end of FY 2020/21
- General Fund reserves will be at zero by the end of FY 2021/22
- Significant service cuts will be needed

City of Scotts Valley General Fund - Ten-Year Projection FY 2019-20 to FY 2028-29

Baseline Scenario:



ARTIFICIALLY LOW OPERATIONAL BUDGET

- City's expenditure budget does not reflect costs to provide status quo services
 - Recruitment and retention, especially in public safety
 - Technology is antiquated
 - Decaying public facilities
 - Low investment in community infrastructure
- Scotts Valley needs budget stability to shore up existing services just to *maintain* current level of services

Summary of Sales Tax Components

3.6875%	State	Goes to State's General Fund
0.25%	State	Goes to State's General Fund
0.50%	State	Goes to Local (Non-City) Public Safety Fund to support local criminal justice activities
0.50%	State	Goes to Local (Non-City) Health and Social Services
1.0625%	State	State for Local (Non-City) Revenue Fund
0.25%	Local	County Transportation Funds
1.00%	Local (City)	City (Scotts Valley) Operations
7.25%		Total State Base Sales Tax
<i>Local Transaction and Use Taxes</i>		
0.50%	Countywide	Metropolitan Transit District
0.50%	Countywide	Countywide Transportation
0.50%	Scotts Valley	City of Scotts Valley (Measure U)
0.25%	Countywide	Santa Cruz Public Libraries
1.75%		Total Local Transactions and Use Tax
9.00%		Total Sales Tax Rate in Scotts Valley

Of the total 9.00% sales tax collected in the City of Scotts Valley, the City government receives 1.50%.

That is equal to 1½ cents for every dollar spent.

LOCAL SALES TAX RATE CHANGE PROPOSAL: MARCH 2020 BALLOT

- Continue existing 0.50% (1/2 cent) and increase by 0.75% (3/4 cent)
- New rate of 9.75%
- Would raise \$3.3 million annually
- NO operational cuts would be needed
- Duration of 12 years to weather the most difficult times
- Considerations: Keeps sales tax for use in Scotts Valley. Non-residents pay sales tax.

City of Scotts Valley General Fund - Ten-Year Projection FY 2019-20 to FY 2028-29

SUT Scenario #2:
1.25% SUT - Mar 2020

