



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: County Administrative Office

Subject: 2024-25 General Fund Mid-Year Budget Report and adopt resolutions to amend the FY 2024-25 General Fund Budget

Meeting Date: February 25, 2025

Formal Title: Consider the General Fund Mid-Year Budget Report with updated estimates for Fiscal Year (FY) 2024-25 and updated General Fund forecast, adopt resolutions and approve realignments to amend the FY 2024-25 Budget, schedule public hearings for the Proposed FY 2025-26 Budget and Unified Fee Schedule, and take related actions

Recommended Actions

1. Accept and file the General Fund Mid-Year Budget Report with updated estimates for Fiscal Year (FY) 2024-25 and updated General Fund forecast;
2. Adopt resolutions to amend the FY 2024-25 Budget as follows:
 - a. Accepting unanticipated revenue in the amount of \$46,137 in the Capital Projects Fund from General Fund's Human Services Department for server room improvements;
 - b. Accepting unanticipated revenue in the amount of \$50,000 in the Davenport Sanitation District Fund from prior Board-directed funding in the Capital Projects Fund for a sanitation project;
 - c. Accepting unanticipated revenue in the amount of \$610,000 in the Zone 7A flood control district funds;
 - d. Accepting unanticipated revenue in the amount of \$36,872 in the Capital Projects Fund for the Capitola Library;
3. Approve realignments to amend the FY 2024-25 Budget as follows:
 - a. Transferring appropriations in the amount of \$883,495 from General Fund Contingency to Office of Response, Recovery, and Resilience (\$233,495) and Measure K allocations to Human Services Department's Housing for Health Division (\$200,000), Health Services Agency's Behavioral Health Division (\$400,000), and the Davenport Sanitation District (\$50,000);
 - b. Transferring appropriations in the amount of \$350,000 from Capital Projects Fund GL Key 197100 to an alternate Capital Project Fund GL Key 190199 for future Board-directed initiatives;
 - c. Appropriating funds in the amount of \$800,000 in the Information Services Department for the Road Fund's Soquel Buffered Bike Lane project;
 - d. Appropriating funds in the amount of \$112,980 in the County Service Area 11 Special Revenue Fund for previously approved fixed asset acquisitions;
4. Approve changes to the 2024-25 Fixed Assets schedule, and direct the County Administrative Officer to provide final approval of each fixed asset contained therein;

5. Authorize the County Administrative Officer to approve the Measure K \$400,000 transfer of appropriations from General Fund Contingency (131375) to applicable County department(s) or funds for investing in affordable and supportive housing projects in unincorporated areas;
6. Approve in concept the FY 2025-26 Measure K spending plan, as outlined in this report, and provide direction on housing-related uses;
7. Direct the Board Chair to send a letter to the State delegation regarding the County's low reimbursement rates for behavioral health services compared to neighboring counties;
8. Set April 29, 2025, as the beginning date for public hearings on the Proposed FY 2025-26 Budget;
9. Set June 10, 2025, as the date for public hearing on changes to the Unified Fee Schedule; and
10. Direct the Clerk of the Board to publish the notice of public hearings one time at least 10 days prior to the scheduled hearing date.

Executive Summary

This report provides an updated General Fund forecast, reflecting the County's evolving financial outlook. It serves as a bridge to the Proposed FY 2025-26 Budget, scheduled for presentation on April 29, 2025, followed by budget hearings in June 2025. Emerging fiscal challenges include underperformance in sales tax and federal reimbursement revenues, federal funding uncertainties, and anticipated reductions in County community health services. Staff recommends that the Board consider the FY 2025-26 Measure K spending plan, approve necessary budget adjustments, and schedule public hearings for FY 2025-26 budget deliberations.

Discussion

On September 24, 2024, the Board adopted the FY 2024-25 Budget with a balanced General Fund while maintaining 11.9% General Fund reserves, or \$98.1 million. The 2024-25 budget message emphasized the significant fiscal challenges faced from multiple disasters and the unprecedented need to borrow nearly \$90 million to finance recovery and repairs from the 2020 CZU fires and 2023 storms while we wait for Federal Emergency Management Agency (FEMA) reimbursements, as well as many new unfunded State mandates, such as the Community Assistance, Recovery, and Empowerment (CARE) Act and California Advancing and Innovating Medi-Cal (CalAIM). These challenges further stress the County's systematically underfunded status.

Despite these challenges, the County continues to reach exceptional levels of services and accomplishments, such as the opening of the South County Government Center, the launch of Age Well Santa Cruz County as our Master Plan on Aging, the 22% reduction in those experiencing homelessness, the reopening of the Recovery Center, and establishment of the County's first DNA laboratory.

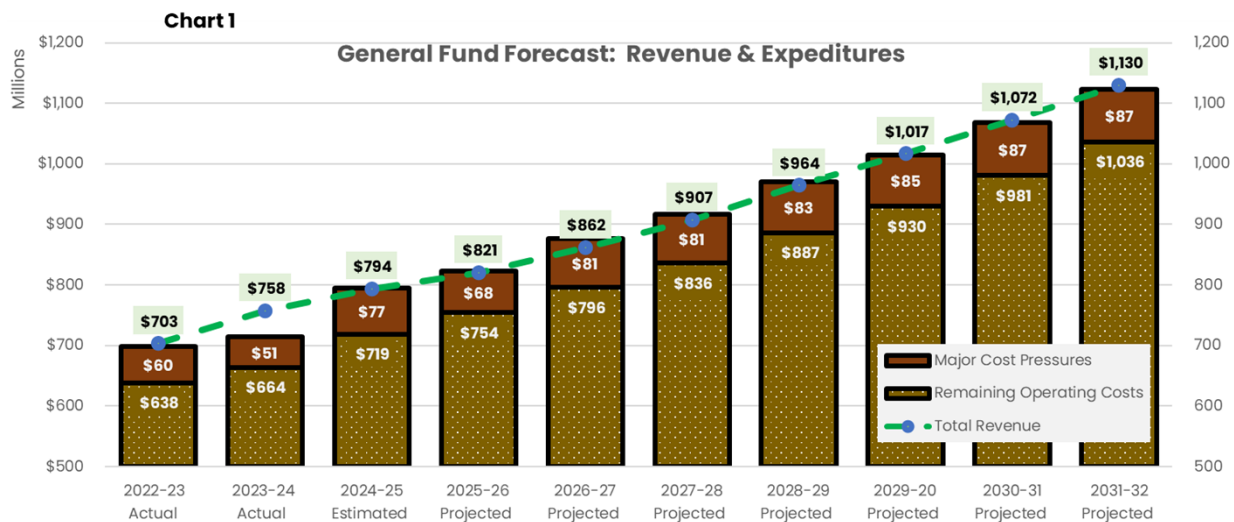
Following budget adoption, the Board set the 2025-26 budget hearing dates including April 29, 2025, June 3, 2025, June 4, 2025 and concluding on June 10, 2025. The County Administrative Office (CAO) issued departmental budget guidance, culminating in FY 2024-25 estimated actuals and department's submission of their FY 2025-26 budgets on February 6, 2025. Additionally, the Governor's Proposed FY 2025-26 Budget was released on January 10, 2025, with implications for county funding yet to be fully assessed as the State struggles with recovery from the devastating wildfires in Southern California and the frenetic pace of federal policy changes.

General Fund Forecast Through 2031-32

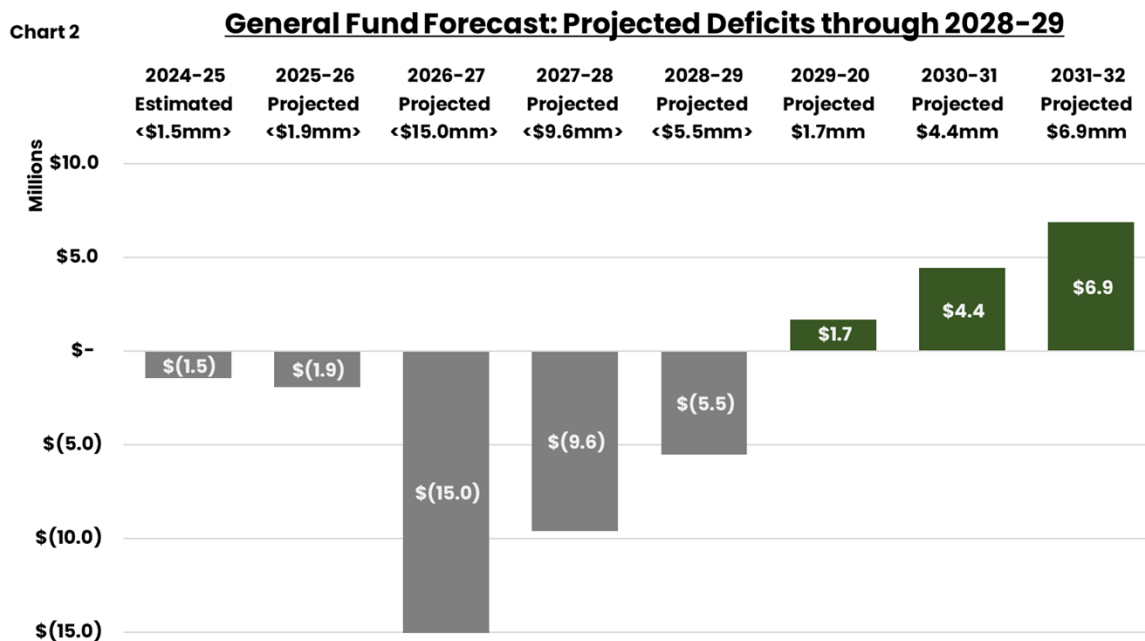
Staff updated the General Fund's forecast model with actual results from July through December 2024, while factoring in regional, state, and national economic indicators and a tentative allowance for potential federal funding reductions. The model currently assumes a low risk of recession over the next 12 months, supported by continued GDP growth and a decline in the Consumer Price Index (CPI). However, consumer confidence, retail sales, and personal savings rates have declined year-over-year, indicating potential economic headwinds.

Chart 1, General Fund Forecast: Revenue and Expenditures, and Chart 2, General Fund Forecast: Projected Deficits through 2028-29, illustrate that forecasted spending will outpace revenue growth until FY 2029-30. While the General Fund forecast margin of error grows the further the model projects, the model is indicative of the overall trend. The forecast does not yet specify federal program funding reductions but allows for up to \$10 million in lost revenue for FY 2025-26. Additionally, it does not account for projected deficits in the Health Services Agency's Behavioral Health and Health Clinic programs, discussed in the following section.

Projected General Fund tax revenues are expected to fall short of the FY 2024-25 budget by \$10.4 million, primarily due to the loss of \$5.1 million in FEMA COVID-19 reimbursements due to denials. While transient occupancy, sales, and property tax revenues show downward trends, only sales tax revenue is considered credible to fall below budget by approximately \$1.6 million. Staff will reassess these projections and recommend, if necessary, adjustments as part of the May 20, 2025, Board realignment actions. For further details, refer to the "Estimated 2024-25 General Fund Revenues and Trends" section.



The projected deficits have significantly decreased compared to last year's mid-year forecast. Previously, deficits for 2025-26 and 2026-27 were expected to reach \$23.5 million and \$35.2 million, respectively. They are now projected at \$1.9 million and \$15.0 million. This improvement is largely due to the passage of Measure K, which is expected to generate \$10.1 million in 2025-26, and the successful financing of disaster costs from the 2020 CZU Fires and 2023 Storms, eliminating nearly \$6.8 million in immediate costs.



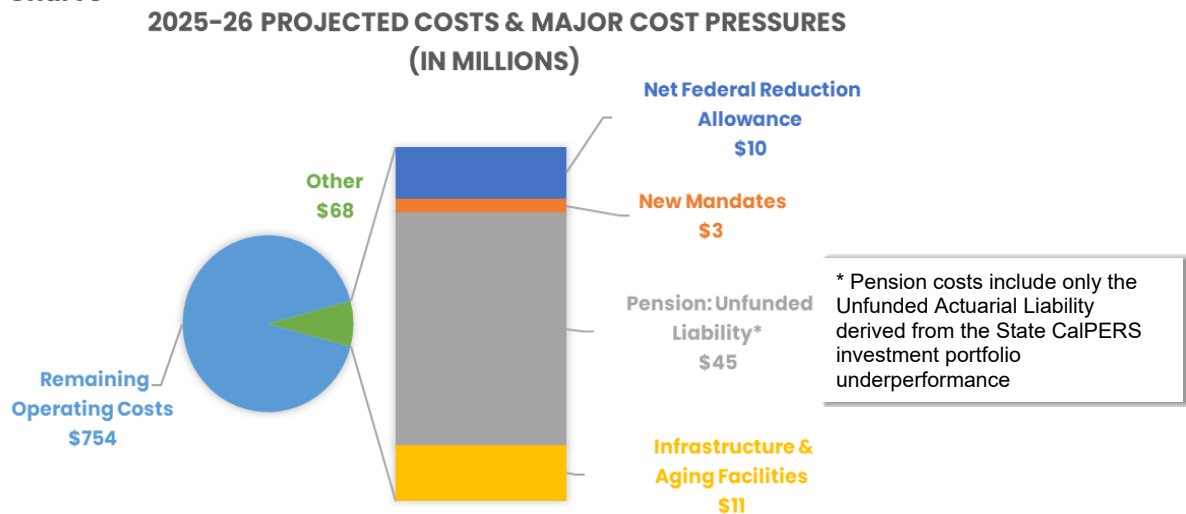
However, as shown in Chart 1 and further detailed in Chart 3, projected expenditures for 2025-26 continue to be driven by factors largely beyond the County's control, contributing to the deficit. These include:

- The potential continuation of certain program or service costs despite reductions in federal funding.
- Higher-than-anticipated infrastructure and road investments, including costs for aging County buildings and facilities.
- Unfunded service level increases mandated by the CARE Act, CalAIM, and other

new legislation.

- Rising pension liabilities due to the California Public Employees' Retirement System's underperforming investment portfolio.

Chart 3



Absent these cost pressures, the County would be in a stronger financial position, enabling it to address unmet community needs and better respond to federal funding reductions.

Table 1 below summarizes the key assumptions included in our forecast.

Table 1 General Fund Forecast Primary Assumptions			
Factor	Assumption	Factor	Assumption
Property Tax & Vehicle License Fees (1)	Growth from 3.60% to 5.23%	Operating costs (3)	3.9% to 5.8%
Sales Tax (2)	Growth from 2.0% to 4.4%	Instructure and facility capital maintenance and investments	\$10.7 to \$15.6 million
Transient Occupancy Tax	4.1% to 7.87%	Recent mandated increases	\$2.7 to \$3.6 million annually
Revenue loss from Federal Threats	\$5.0 to \$17.5 million	State's CalPERS Investment Portfolio	Rate of return will be at or above 6.8%
(3) Vehicle License Fees are received through State Property Tax payments from the State of California's 2004 "Triple Flip" tax swap (3) Includes the County base and voter approved district sales tax (Measure G & K) (3) Operating costs include major capital investments and maintenance			

State Pension Investment Underperformance

The County provides retirement benefits through the California Public Employees' Retirement System (CalPERS), which serves as a common investment and administrative agent for the County and other participating agencies. The County's

retirement costs are determined annually through CalPERS actuarial valuations and consist of two components: normal benefit costs and unfunded accrued liability (UAL). As of the most recent valuation, the County's UAL stands at \$657.2 million.

The normal cost represents the value of retirement benefits earned in a given year. Due in large part to the County's 2012 pension reforms and the enactment of the California Public Employees' Pension Reform Act (PEPRA) in 2013, these costs have begun to decline.

In contrast, the UAL cost primarily reflects repayments to CalPERS when its investment returns fall below the actuarial Discount Rate. For example, during the Great Recession, the CalPERS system dropped from being overfunded at 101% in June 2007 to just 61% funded by June 2009. Additionally, CalPERS periodically adjusts its projections based on new assumptions, such as its 2021 demographic study, which increased life expectancy estimates and raised future cost expectations.

Table 2 CalPERS Investment Performance and Impact on the County's Unfunded Liability		
Fiscal Year	CalPERS Investment Return Over / (under) Target Rate	County's UAL payment Increase / (Decrease)
2019-20	(2.30%)	4,200,000
2020-21*	14.30%	4,659,109
2021-22	(12.90%)	6,735,402
2022-23	(1.00%)	6,066,596
2023-24	9.3%	(12,342,174)
*Despite a strong CalPERS rate of return for 2020-21 that otherwise would have reduced the County's UAL, their updated demographic study pushed UAL levels higher		

Table 2: CalPERS Investment Performance and Impact on the County's Unfunded Liability summarizes the County's allocated share of UAL over the past five years, along with the interest rate charged by CalPERS as part of the UAL repayment. This interest rate is the Discount Rate. The table also compares CalPERS' actual investment returns against the assumed Discount Rate. When actual returns fall short, the County incurs additional UAL debt.

Health Services Agency: Significant Revenue Shortfall Expected for 2025-26

Based on preliminary assessments, the Health Services Agency (HSA) will require significant budget solutions and/or reductions to correct a projected gap of \$11-\$17 million in 2025-26. This gap does not include potential impacts from federal policy changes. Financial challenges result from Behavioral Health's lower reimbursement rates, new mandates, and low health center medical visits. Along with current year targeted solutions, the Proposed 2025-26 Budget will include structural solutions that reduce non-mandated County health programs and services to maintain mandated service levels.

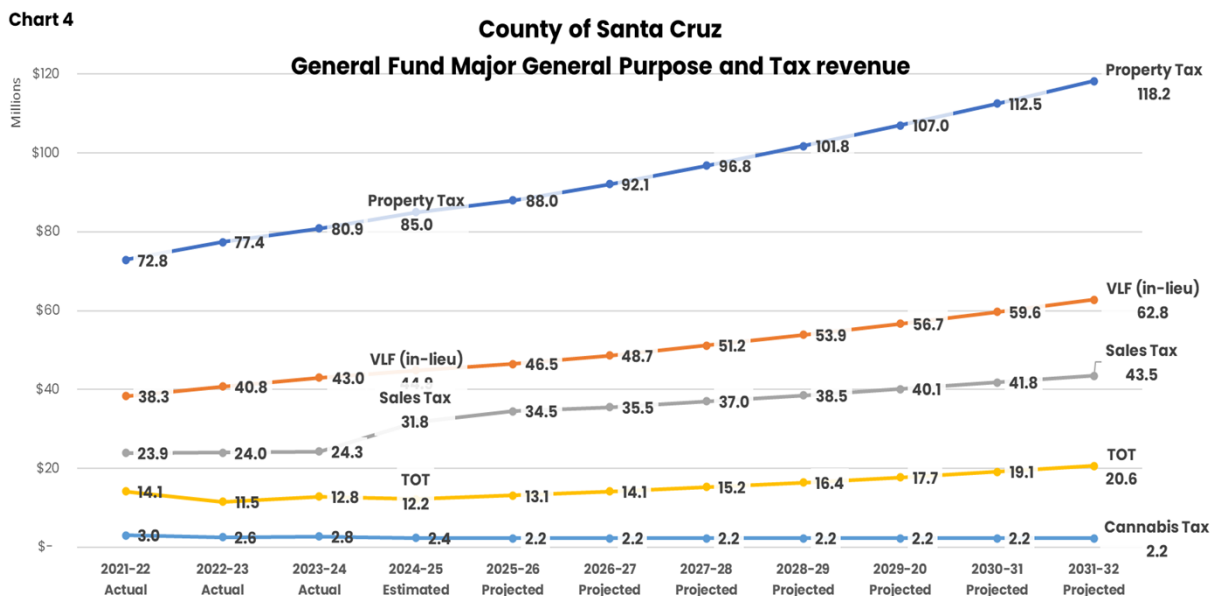
The Behavioral Health Division is projecting a funding shortfall approaching \$7-10 million due to changes in reimbursement calculations and restrictions on billable activities under CalAIM (California Advancing and Innovating Medi-Cal) Behavioral Health Payment Reform. Additionally, the division's reimbursement rates are notably lower than those in neighboring counties, making it difficult to remain competitive in recruiting and retaining staff and contracted services, further widening the funding gap. Staff request that the Board Chair send a letter to the State delegation regarding the County's low reimbursement rates for behavioral health services. A substantial reduction in Mental Health Services Act (MHSA) revenue—driven by a decline in the 1% tax on individuals earning over one million dollars and the diversion of MHSA funds—has intensified these financial pressures. As a result, the division must prioritize state-mandated entitlement services, limiting its ability to provide non-mandated programs.

The Health Centers Division is projecting a funding shortfall approaching \$4-7 million in the 2025-26. This is due to the combined impact of rising personnel costs and inflationary pressures on the cost of services and supplies. The division is actively working to mitigate these increased costs by focusing on improvements in clinical provider productivity.

More details will be presented in the Proposed 2025-26 Budget and during the first budget hearing on April 29, 2025.

Estimated 2024-25 General Fund Revenues and Trends

Revenues. The County's primary General Fund revenues meet our budget expectations. Discussed below are trends shown in Chart 4, County of Santa Cruz General Fund Major General Purpose and Tax revenue, through FY 2030-31. These are the General Fund's largest general purpose revenues that are available to finance County operations across the Public Safety and Justice, Health and Human Services, Land Use and Community Services, and General Government sectors.



Property Tax. Property tax is one of the most stable and dependable revenue bases but represents a flaw in the allocation methodology that results in the County receiving only 13.4 cents from every dollar of property tax paid. For FY 2024-25, property tax is estimated to reach \$85.0 million. This amount is not sufficient to fund the County's current operations, facility needs, 607 miles of unincorporated area roads, and almost annual disaster response. Property tax is expected to grow by \$4.1 million in FY 2024-25 with growth rates reaching 5.23% by FY 2027-28 from an expected improving housing market.

Vehicle License Fees (VLF). Following a similar theme as property taxes, VLF is a stable revenue base. And, due to the State's 2004 "Triple-Flip" that diverted the County's direct VLF to the State, the State has since provided VLF revenue to the County through State property tax payments and tied the growth of VLF to property tax growth. VLF is projected to grow by \$1.9 million in FY 2024-25.

Sales Tax. Sales tax revenue is one of the most variable general purpose revenues for the County, and has recently become more impacted from the \$5 million that is lost annually to other counties where major online distribution centers reside. Sales tax is projected to reach \$31.8 million in FY 2024-25 with the partial year addition of Measure K. However, if adjusting for the Measure K revenue increase, actual sales tax activity has slowed in 2024-25 larger than expected and could fall short of budget by \$1.6 million. The County partners with a sales tax audit company that has reported a slowdown in spending across their other California clients. Accordingly, this recent slowdown

required us to slightly reduce our forecasted growth rates to a range of 2.02-2.40% for 2025-26 and a 2.8-3.4% range for 2026-27.

Transient Occupancy Tax (TOT). TOT is an entirely local County revenue source but is also a highly variable from sudden market or consumer changes. FY 2024-25 revenue is trending to be down \$661,000 from the prior year based on collection trending from the first six months of this year. However, local indications from Visit Santa Cruz and the State's tourism regional forecast indicate that they expect FY 2024-25 and out years to see continued growth. Accordingly, staff will continue to monitor trends in the current year to determine if a reduction in project growth rates is warranted. Otherwise, we've left our forecast unchanged with growth rates at 4.1% reaching 7.87%.

Financial Consequences of Climate-Based Disasters

Since 2017, Santa Cruz County has experienced numerous federally declared disasters, including eight climate-driven disasters that caused hundreds of millions of dollars in damage to County infrastructure. Barring a shift in the speed at which local governments are reimbursed for the costs of disaster response and recovery, future County response will be limited by available resources and the pace of infrastructure recovery will be slowed. In addition, recent discussions on delaying federal disaster reimbursement to California local governments may severely impact the County's financial forecast. In May 2024, the County issued debt to finance \$89.1 million in costs paid by the County for the 2020 CZU Fires and 2023 Storms that remain unreimbursed. At that time, that County had \$125.3 million in unpaid claims from the Federal Emergency Management Agency (FEMA) and Federal Highway Administration (FHWA).

Table 3, County of Santa Cruz Federal Claims, illustrates that since May 2024, total unpaid federal claims have decreased by \$33.9 million to \$91.4 million. Most cash received came from COVID-19 reimbursements that accelerated at the end of FY 2024-25. However, the County expects that FEMA may remove nearly \$9 million of outstanding COVID-19 claims, that could reduce by \$5.1 million the 2024-25 Budget for General Fund reimbursements (\$6.7 million was expected).

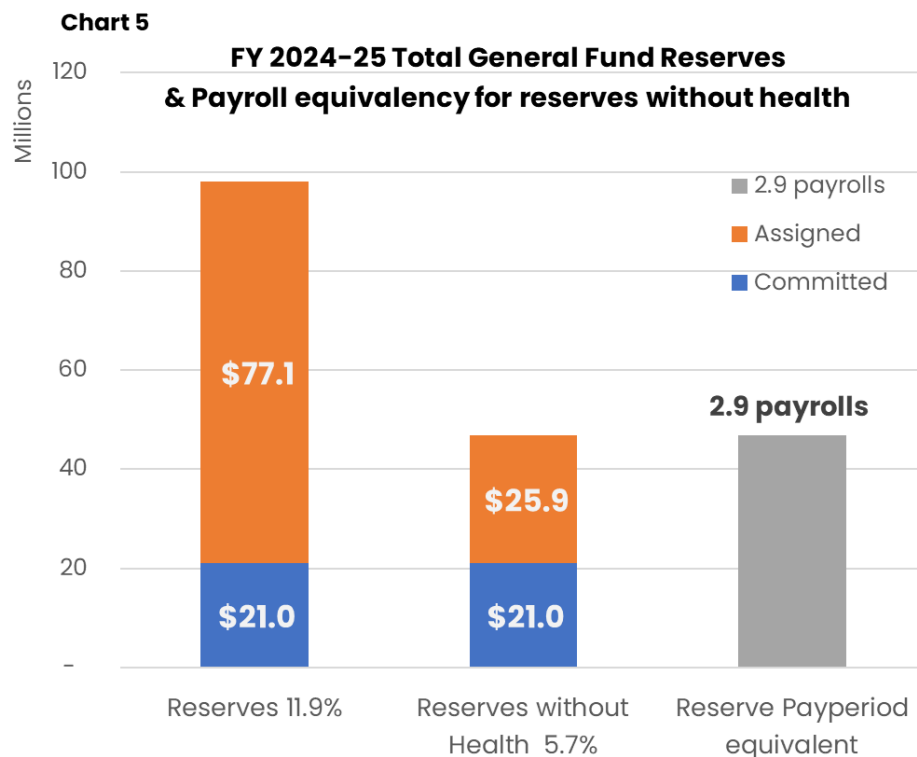
Table 3 County of Santa Cruz Federal Claims				
Disaster Event	Total Submitted (1)	Claims Unpaid	Cash Received	% Paid
2017 Storms ⁽²⁾	46,100,325	15,119,197	30,981,128	67%
COVID-19	61,998,213	10,649,127	51,349,086	83%
2020 CZU Fires ⁽³⁾	22,441,407	15,239,491	7,201,916	32%
2023 Dual Disasters ⁽⁴⁾	52,879,649	43,786,180	9,093,469	17%
2024 Disaster	6,584,543	6,584,543	-	0%
Totals	\$190,004,137	\$91,378,538	\$98,625,599	52%
(1) Total submitted includes Future Projects for 2023 Dual Disasters and 2024 Disaster (2) Cash received includes \$9.0 million Cal OES advance based on FEMA (3) Total submitted does not include \$4.4 million claim having to do with road damage not fixed (4) Cash received includes a Cal OES advance based on FEMA for Category A & B				

Given the magnitude and frequency of climate change-driven disasters that have

befallen the County and the fragility of County infrastructure and financial systems, as well as uncertainty about future reimbursements to local governments from the State and federal government, and the historic size of the 2024 disaster financing that pledged most of its remaining facility assets, the County will be unable to repeat such a financing again. Should the County find itself facing a similar situation again, and without new funding options, the County will be limited in its recovery unless future debt is supported by voter-approved property tax initiative(s).

General Fund Reserves and Contingency

The Adopted 2024-25 Budget's General Fund reserves at 11.9% reserve, as shown in Chart 5, FY 2024-25 Total General Fund Reserves. The chart illustrates how the General Fund relies on cash balances to be used by the County Health Services Agency for serving Medi-Cal populations. Without these balances, the reserve level will drop to just 5.7% and be unable to cover three payroll periods.



In FY 2024-25, the County started with a General Fund Contingency of approximately \$10.5 million in the Adopted Budget. Through Board actions taken between August and January, the Board approved transfers of appropriations totaling nearly \$1.1 million. This leaves a General Fund Contingency of approximately \$9.4 million before today's mid-year budget reductions of \$1.3 million. This includes \$1 million for winter storm damage response and \$1 million for housing-related uses from Measure K.

National, State and Local Economic Conditions

The national economy ended 2024 on a strong note, marked by stabilizing inflation, a resilient labor market, steady growth in consumer spending, and a banner year in equity markets. Despite the positive tone set for 2025, high debt costs, low savings rates, and uncertainty around the sequencing of policies by the new administration are among the

headwinds to future General Fund revenue growth. Table 4, Economic Indicators, provides a summary of key economic indicators that inform the General Fund forecast. Indicators highlighted in red or yellow signal risks that may increase costs or dampen revenue growth.

Table 4: Economic Indicators

Economic Indicators	Metric Type	Rate	Change from Prior Year
CalPERS Investment Return	2-Year % Chg.	7.6%	↑
Payroll Jobs: SCC	Annual % Chg.	-1.0%	↓
Unemployment Rate: SCC	Current Rate	5.8%	↑
30-Year Mortgage Rate	Current Rate	6.9%	↑
California GDP Growth	Annual % Chg.	3.6%	↑
US Retail Sales	Annual % Chg.	3.9%	↓
Consumer Confidence	Annual % Chg.	6.2%	↓
Producer Price Index	Annual % Chg.	3.3%	↑
Consumer Price Index	Annual % Chg.	2.9%	↓
Personal Savings Rate	Current Rate	4.4%	↓

The stock market delivered blistering gains in 2024, with the S&P 500 rising 25% and the NASDAQ climbing 33%, building on the recovery from 2023. Gradually cooling inflation and a resilient economy reassured investors after fears of a recession failed to materialize. This momentum helped drive CalPERS pension investments to a two-year average rate of return of 7.6% for FY 2023-24, a marked improvement from the -0.2% return of the previous period and slightly exceeding their expected 6.8% annual return. While this eased some pressure on employer rates, the lingering effects of prior shortfalls translates to higher contribution rates that will be phased in over the next three fiscal years and amortized over 20 years.

Though the labor market gradually cooled throughout 2024, the U.S. economy added 2.23 million payroll jobs, far exceeding expectations, with December alone contributing 256,000 jobs, reflecting a stable economy. The unemployment rate also finished the year better than expected, settling in at 4.1% in December, up from 3.8% the prior year. This strong labor market is likely to delay Federal Reserve interest rate cuts, which could sustain elevated borrowing costs for households and businesses.

In Santa Cruz County, payroll jobs decreased by 1.0% year over year, while California jobs experienced a slightly smaller decline of 0.7%. Despite these annual declines, the pace of job losses has moderated, with employment levels now hovering just below long-term averages. Rather than a sharp contraction, the labor market appears to be moving sideways, reflecting a broader trend of resilience across both the state and county.

The unemployment rate in Santa Cruz County ticked up by 0.1 percentage point, from 5.7% to 5.8%, signaling a tight labor market even as overall conditions softened slightly. In California, the unemployment rate rose by 0.4 percentage points, from 4.9% to 5.3%, still within a range consistent with gradual cooling rather than a rapid deterioration. This measured adjustment mirrors the national story, where the labor market has shown resilience despite cooling job growth.

For the County's General Fund, the stability of the labor market offers mixed implications. While slower job growth may temper revenue gains from sources like sales and income taxes, the absence of a sharper decline helps preserve overall economic stability and minimizes potential disruptions to local funding streams.

The Federal Open Market Committee (FOMC) maintained an elevated Federal Funds rate throughout most of 2024, leaving it at 5.33% for over a year before implementing three cuts beginning in September. These cuts brought the effective rate down to 4.33% by year-end. Strong economic performance and steady job gains, particularly in the last few months of 2024, have led most economists to scale back their expectations for rate cuts in 2025, now predicting only two to three reductions instead of four. December's robust jobs report further reinforced this sentiment, likely delaying the Fed's timeline for additional rate cuts until later in the year.

Mortgage rates remained stubbornly high in the 6-7% range, ending 2024 at 6.9%, despite three Federal Reserve rate cuts in the latter half of the year. This persistence reflects elevated long-term Treasury yields, driven by strong economic growth, steady labor market performance, and lingering inflationary pressures. While borrowing costs remain elevated, home sales in Santa Cruz County rebounded with an average annual growth rate of nearly 9% following two years of double-digit declines. As a result, home prices rose at an average annual rate of 7%, reversing the 7% decline seen the prior year. This recovery has been positive for property tax revenues tied to new transactions and developments. Although homes are staying on the market longer and sellers are increasingly adjusting prices to close sales, strong demand and an acute housing shortage should prevent a downdraft in prices, continuing to support property tax growth in the County.

With similar trends in the housing market locally and nationally, economic momentum in 2024 was driven by strong consumer spending and GDP growth. Third-quarter annualized GDP was revised upward to 3.1% nationally and 3.6% in California, reflecting solid economic performance bolstered by consumer spending. In December 2024, U.S. retail and food services sales rose by 3.9% year-over-year, resulting from sustained demand across sectors. Higher wage growth from a strong labor market has continued to fuel consumer spending, which accounts for nearly two-thirds of GDP. Despite higher borrowing costs and lingering inflationary pressures, households remain a key pillar of economic growth.

Consumer sentiment improved in December 2024, with the University of Michigan's Consumer Sentiment Index rising to 74.0, a 6.2% increase from December 2023, marking the highest level since April 2024. Despite this uptick, inflation remains a concern. The Consumer Price Index (CPI) rose 0.4% in December, leading to a 2.9% year-over-year increase, which is still above the Federal Reserve's 2% target. Similarly, the Producer Price Index (PPI) increased by 0.2% in December and 3.3% over the past

year, indicating persistent inflationary pressures. For Santa Cruz County, sustained inflation could lead to higher operational costs, potentially impacting budget allocations and financial planning.

The personal savings rate stood at 4.4% in November 2024, with a 12-month average of 4.8%, slightly above the prior year's 4.7% but well below the 2010s average of 6.1%. Savings have steadily declined from pandemic-era highs of over 14%, driven by government stimulus and restricted spending, to pre-pandemic levels. This decline reflects rising debt costs and reduces financial flexibility for consumers, leaving them more vulnerable to economic shocks. Lower savings rates and high living costs could limit discretionary spending, slowing sales tax revenue growth and straining households' ability to absorb rising costs or taxes.

County of Santa Cruz FY 2025-26 Proposed Budget

General Fund departments have recently submitted their requested FY 2025-26 budgets by February 6, 2025 due date. With the existing and emerging cost pressures discussed herein, the CAO directed that department budgets be submitted without requests for additional General Fund contributions.

The CAO and County Budget Manager will be validating budget submissions with the targeted release of the Proposed 2025-26 Budget to coincide with the first budget hearing on April 29, 2025.

Public deliberation of the Proposed 2025-26 budget will continue with departmental budget hearings on June 3, 2025 and June 4, 2025, concluding with the June 10, 2025, budget hearing, the 2025-26 last day and concluding actions, and the public hearing on the annual Unified Fee Schedule (UFS) update.

Following approval of June 4, 2025, last day and concluding actions, any FY 2025-26 directed changes and FY 2024-25 fiscal year-end adjustments will be compiled by the Auditor-Controller-Treasurer-Tax Collector and presented to the Board on September 30, 2025, as the Adopted Budget.

Measure K Spending Plan

On September 24, 2024, the Board approved the FY 2024-25 Measure K spending plan based on the previously established budget priorities (uses) for the County's Measure K half-cent sales tax. The \$7.5 million spending plan consisted of the following:

- \$1 million for environmental and parks capital projects, with \$200,000 set aside for each district;
- \$1 million for homelessness programs and services in unincorporated areas;
- \$1 million to General Fund restricted contingencies for housing-related uses in unincorporated areas;
- \$1 million to General Fund restricted contingencies for emergency road projects this winter;
- \$3.5 million to restore the General Fund Contingencies budget due to the threat of climate-driven disasters this winter and other potential emergencies.

In FY 2025-26, the Measure K half-cent sales tax will generate approximately \$10.1 million, reflecting an entire year of sales tax receipts. To be consistent with previously established priorities and our growing road needs, staff recommend the following FY 2025-26 Measure K spending plan:

- \$1 million for environmental and parks capital projects, with \$200,000 set aside for each district;
- \$1 million for homelessness programs and services in unincorporated areas;
- \$1 million for housing-related uses in unincorporated areas;
- \$2 million for unincorporated area road maintenance and repair. The County Administrative Officer will attempt to locate additional General Fund contributions for roads subject to the need to address other emerging issues and priorities, such as federal threats; and
- \$5.1 million to support essential services provided by the County's Public Safety and Justice, Health and Human Services, and Land Use and Community Services departments in unincorporated areas.

On March 26, 2024, the Board approved in concept appropriating \$1 million in the Human Services Department Housing for Health Division budget beginning in FY 2024-25. This was consistent with prior Board recommendations on the potential uses of additional revenue from Measure K and was included in the FY 2024-25 Measure K spending plan, as noted above. Funding will be used to leverage matching funding from city jurisdictions within the county, state, and federal grants to sustain shelter operations and programs over the long-term. In the absence of additional local funding commitments to cover the operational costs of temporary housing programs, the community will likely continue to experience a recurring cycle of programs opening and closing due to unstable funding sources and amounts.

In past items on Measure K, the Board has expressed an interest in prioritizing housing funding for a variety of uses including legal assistance for tenant protection, security deposits, behavioral health room and board expenses, and affordable and supportive housing projects. Due to critical immediate needs, the FY 2024-25 Measure K spending plan included setting aside \$1,000,000 in restricted General Fund Contingency for the following uses:

- \$200,000 for Housing Authority security deposits for units rented in unincorporated areas;
- \$400,000 for behavioral health room and board expenses in licensed residential facilities in unincorporated areas; and
- \$400,000 for investing in affordable and supportive housing projects in unincorporated areas.

For the Proposed 2025-26 Budget planning, staff requests Board input and direction on its highest priorities for these or other housing-related uses. With the HSA Behavioral Health Division facing dramatic budget reductions to solve for a \$11-17 million gap in the Proposed 2025-26 Budget, staff recommends and will include the continuation of at least \$400,000 to avoid certain cuts to behavioral health room and board expenses in licensed residential facilities.

The Road Fund has seen a decline in resources due to reduced gas tax revenues and increased storm damage and related debt service. Storm damage response will take place over the greater part of a decade during which time additional disasters will likely occur. The \$2 million appropriation from Measure K is an effort to increase road maintenance and resurfacing and major culvert repair and replacement. The Community Development and Infrastructure Department is developing a budget to maximize the use of this funding should the FY 2025-26 Measure K spending plan be approved in concept by the Board. The County Administrative Officer will attempt to locate additional General Fund contributions for roads subject to the need to address other emerging issues and priorities, such as federal threats.

Adjustments to 2024-25 Budget

Routinely, an early realignment of appropriations is necessary within the current year's budget to meet the expected year-end obligations or to provide offsetting adjustments to the budget. The following are a few adjustments as detailed in the attached AUD-60 and AUD-74 forms for various departments.

Office of Response, Recovery, and Resilience (OR3) – \$233,495. OR3, in collaboration with Real Property has been in the process of developing an alternate emergency only egress out of the Lompico Valley. Up to \$233,495 in funding is necessary to finance planning, negotiation, and related costs for easements over an existing road and private property. This will connect to a section of a previously obtained easement that connects to the County maintained road network. Once all easements are acquired the County can identify funds for construction of the evacuation route.

Human Services Department (HSD) - \$46,137. Human Services Department (HSD) Server Room requires minor improvements and are currently included in their 2024-25 Budget. The improvements meet the criteria to be classified as a Capital Project and must be transferred from the General Fund HSD budget to the Capital Projects Fund.

Information Services Department (ISD) - \$800,000. ISD funds were included in the Soquel Buffered Bike Lane Project to fund fiber and cable undergrounding. However, ISD errantly omitted in the 2024-25 Budget a transfer out to the Road Fund for the project.

Capital Projects - Library - \$36,872. The Capitola Library Friends have donated to install a solar panel project at the Capitola Library, requiring the acceptance of this revenue (191407-42372). The donation will be used, as needed, for the design, procurement, and installation of solar panels. The current vendor, Allterra, is designing this solar system so that the Library can be considered Net-Zero for energy use on an annual basis.

Parks County Service Area (CSA) 11 Projects - \$112,980. The Parks CSA 11 Special Revenue fund requires corrections to add appropriations for previously Board-approved fixed assets. On March 12, 2024, the Board approved HVAC improvements to the Simpkins Swim Center, but the appropriations were errantly left out of department requests for carryover into 2024-25 Budget. In addition, on June 4, 2024, the Board

approved the 2024-25 fixed asset list that included \$45,000 of CSA 11 funded fixed asset purchases whose appropriations were errantly omitted from the 2024-25 Budget.

Flood Control District - \$ 610,000. Community Development and Infrastructure includes the flood control districts that now require within Zone 7A funding for the preliminary design of flood mitigation projects. The fund balances within the Santa Cruz County Flood Control and Water Conservation District-Zone 0 and Pajaro Storm Drain Maintenance District-PSDMD funds will each transfer in \$305,000 for the Zone 7A \$610,000 budget for the project.

Measure K 2024-25 Plan Implementation. The 2024-25 Adopted Budget held certain Measure K amounts in the General Fund Contingency until contracts and uses were initiated. Following are reclassifications and realignments to:

- Transfer \$200,000 from Contingency appropriations to the HSD Housing for Health Division to amend an existing contract (25W4121) with the Housing Authority of the County of Santa Cruz (HACSC). Funds will be used to provide security deposits and other housing-related financial assistance for households in unincorporated areas of the County served by HACSC programs. The contract is being amended to reflect the new resources and additional scope of work associated with these dollars. The proposed additional funding for this contract was approved by the Board on September 24, 2024. HSD is requesting an effective date of October 1, 2024, for the amendment to help ensure full utilization of available Measure K and other funding during the current contract year. Future funding for this program will depend on future Measure K budget allocation decisions and the availability of state and federal funding sources to address this need.
- Transfer \$400,000 from Contingency appropriations to provide \$400,000 for HSA behavioral health room and board expenses in licensed residential facilities in unincorporated areas.
- To authorize the County Administrative Officer to approve a \$400,000 transfer from Contingency appropriations to applicable General Fund departments for investing in affordable and supportive housing projects in unincorporated areas.
- Reclass Measure K District 3 (\$150,000) and District 4 (\$200,000) appropriations from Fund 42 Capital Project Contingency to Fund 40 Capital Project Contingency.
- Reclass Measure K District 3 contribution intended from the General Fund Contingency (\$50,000) appropriations from Fund 42 Capital Project Contingency to General Fund Transfer Out to the Davenport Sanitation District.

Fixed Asset Substitutions. The Public Works Division of Community Development and Infrastructure 2024-25 Budget included Board approval for specific fixed asset purchases. Routinely, a substitution of fixed assets is required. As such, Public Works requests realignment to remove acquisition of a Pave Box off road vehicle, fleet telemetrics, and e-bikes to add five replacement vehicles and two copier/printers, for a net cost increase of \$631,737. See the attached 2024-25 Adjusted Fixed Assets schedule. DPW Fleet requested new vehicles as a recent assessment determined additional vehicles had reached their end of life sooner than expected. Vehicles reach their end of their life due to high mileage, lack of available parts for older equipment,

increasing repair costs from numerous failures for older units, and major mechanical issues that make further maintenance impractical.

Financial Impact

The General Fund will transfer out \$96,137, with \$46,137 from HSD to the Capital Projects Fund (GLKey 191507) and \$50,000 from General Purpose Revenue (GLKey 131220) to the Davenport Sanitation District fund (GLKey 625125).

The General Fund Contingency will be reduced by \$1,283,295 to a lower balance of \$7,107,282, with another \$1 million restricted for winter storm damage response. This is from Measure K transfers to HSA of \$400,000 (GLKey 363210), to HSD of \$200,000 (GLKey 391200), and to the Davenport Sanitation District of \$50,000 (transfer above). It is also reduced by a transfer to OR3 of \$233,495 (GLKey 186000) and pre-approval for a transfer to applicable departments for affordable and supportive housing projects (GLKeys to be determined) of \$400,000.

The Capital Projects fund will reclass \$350,000 from GL Key 197100 to 191099 and reduce by \$50,000 appropriations (GL Key 197100) for a board directed transfer out into the Davenport Sanitation District Fund. The Capital Projects Fund will receive \$36,872 for the Capital Library.

The Parks CSA11 Projects fund will appropriate \$112,980 from fund balance (GL Key 134910) for purchases of board approved assets of \$67,980 (GL Key 134910) for building HVAC improvements and \$45,000 (GL Key 134910) for equipment.

The Internal Service Fund for ISD (GL Key 060100) will be reduced by \$800,000 to transfer to the Road Fund project for Soquel Buffered Bike Lane project that already includes the \$800,000 as a funding source (GL Key 621100/P40670).

Within the flood control district funds, fund balances in the Santa Cruz County Flood Control and Water Conservation District-Zone 0 (GLKey 135462/P25220) and Pajaro Storm Drain Maintenance District-PSDMD (GLKey 622245//P24843) funds will each transfer \$305,000 into the Zone 7A (GLKey 622385/P27399) \$610,000 budget for the project.

Strategic Initiatives

Equity Framework - Plans, Policies & Budgets
Operational Plan - Operational Excellence

Submitted By:

Carlos Palacios, County Administrative Officer

Recommended By:

Carlos J. Palacios, County Administrative Officer

Artificial Intelligence Acknowledgment:

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.