



Fiscal Emergency FAQs

Fiscal Emergency

What is the fiscal emergency?

The City declared a fiscal emergency because its declining financial condition is worsening to the point of emergency. The City expects growing annual deficits of \$1 to \$3 million, as the cost of doing business is greater than the revenues coming into the City. Currently, to make up the gap, the City plans to draw down its emergency safety-net reserves. This does not address the imbalance in the budget and within three years, if the deficit is not corrected, the City's reserves will be completely depleted. After that, the City is projected to operate with growing, unsustainable debt reaching nearly \$6 million by Fiscal Year 2023/2024, which is nearly half of the total General Fund budget of \$12.9 million.

The City cannot operate with structural debt and would have to make deep service cuts to balance the budget. Declaring a fiscal emergency enables the City to place a tax measure on the March 2020 ballot so that the community can decide whether it wants the City to continue providing the same level of services, or not.

Why is the City in a fiscal emergency?

Scotts Valley operates with a lean budget that focuses on efficient delivery of essential, core city services. Scotts Valley is a very low-tax city, compared to other California cities. In particular, the property tax collected by the city – 6.5% – is one of the lowest. Overall, the City doesn't receive the same level of revenues than other comparable cities. This lower revenue base challenges the City to keep up with normal increases in the cost of operations.

In addition, there are a few notable threats to the City's financial outlook, which affect all California cities.

First, cities are challenged by a changing economy and consumer patterns that do not fit traditional revenue models. Shifts in the tax base such as online sales, more purchases of (non-taxable) services and fewer of (taxable) goods, and the rise of fuel efficiency and electric cars are creating revenue loss and uncertainty for governments.

Next, the cost of providing services grows each year and each year the improvement needs grow. Like all businesses, costs in construction, supplies and services, personnel and utilities are increasing for the City. This is compounded by growing need for capital investment—in our streets, storm drains, sidewalks, parks and public facilities. Many projects have been deferred for years due to budget shortfalls and the problems are reaching critical levels.

Third, cities are forced to backfill state investment losses with the statewide public retirement system, CalPERS. CalPERS funds and manages pensions for state and local government employees. Pensions are paid with a mix of investment returns and payments from public entities, like the City. During the Great Recession, CalPERS did not adjust investment earnings projections to realistic market levels. This resulted in significant losses and a gap between their actual investment revenues and what was paid out. CalPERS' solution was to require extra payments from local entities, like the City.

The City has undertaken all of the steps it can to address its funding shortfall without cutting back on services that residents tell us they want.

What is at risk?

The City cannot offer the same level of services if the deficit is not corrected. For years, the City balanced the budget with cuts and reductions in all parts of the City, while trying to insulate the police department. However, the City cut back extensively elsewhere and would have to also look to reductions in the police department, which makes up 45% of the General Fund budget, in addition to the other General Fund services, such as parks, infrastructure and storm drain maintenance, and emergency planning and response. This necessarily would affect the scope and quality of General Fund services that Scotts Valley could deliver.

What has the City done? Has every stone been turned?

The City has been in a budget-tightening mode for at least the past 15 years. Typically, City budgets are about 75% staffing, as city services are delivered by people. Therefore, the principal tool used by the City has been to reduce staffing. In the 2003-2004 budget, for instance, the City had 76 employees, which is 20% more than today's staffing level. Over the years, the City cut positions and left others unfilled to balance the budget. The reductions mostly occurred in the departments other than public safety. The City also held salaries nearly flat and employees are paying their share of pension costs.

For the past three years as the budget projections worsened, the City engaged in intensive Fiscal Sustainability Planning. This work examined revenues and carefully analyzed expenditures across the City. From information produced in workshops, public meetings and budget analysis, the Council developed a list of actions to reduce expenditures and enhance revenues.

On the cost control side, in addition to the staffing reductions, the City contracted out building and planning services, is exploring contracted fleet maintenance, and shares the Chief Building Official with the City of Capitola. The City also refinanced debt this past summer, which will result in net savings of over \$1 million. Finally, where the City can afford to do so, it makes smart financial management decisions to save money and decrease future obligations.

On the revenue side, the City updated its fee schedule to adjust cost recovery to over 80 percent for specific services requested of the City. The City also asked the voters to support a 1 percent hotel tax increase in 2018; this yields about \$250,000 annually in new revenues. The City supported the development of 1440 Multiversity and the Four Points Sheraton, which have helped the City budget and provided important amenities for Scotts Valley.

The City examined every corner of the organization before it placed Measure Z on the ballot. For more information about the City's Fiscal Sustainability Planning work, [click here to see the most recent update from May 2019](#).

Measure Z & Sales Tax

What is Measure Z?

Measure Z is a measure placed by the City on the March 3, 2020 ballot asking if voters wish to increase the local sales tax to support at-risk City services. Measure Z would eliminate the existing ½-cent sales tax and replace it with a 1¼ sales tax. The increase would be ¾ cents for a new rate of 9.75%.

This ¾-cent difference would raise \$2 million in new funds annually and would be deposited into Scotts Valley's General Fund.

Measures Z includes a sunset of 12 years, when it would automatically expire.

What would the new funds be used for?

Sales tax is deposited in the General Fund to pay for general city services. The police department and local dispatch make up 45% of the General Fund, in addition to public works such as streets, storm drain, sidewalk and parks maintenance and other supporting city services. The revenues from Measure Z would help prevent deep cuts in City services paid from the General Fund, with public safety being a significant portion of that.

What happens if the tax doesn't pass?

With direction from the City Council, the City will have to cut millions more in General Fund programs and services. Up to now, the City's cuts have been to components of the City other than public safety. With deficits in the range of \$1-3 million and compounding, the City would be forced to reduce public safety services, given the proportion of the police department of the City's General Fund budget (45%). We will be unable to keep SVPD just as it operates today unless a significant new revenue stabilizes the city. All of the General Fund services would be examined and reductions would be expected in parks, infrastructure and maintenance.

What items are charged sales tax?

Under state law, sales tax is charged on tangible, personal goods. Services are not taxed. Grocery items are not taxed. Prepared foods (at restaurants) and alcohol are taxed.

Link to California Department of Tax and Fee Administration Sales Tax Information:
<https://www.cdtfa.ca.gov/formspubs/pub452.pdf>

Who pays sales tax?

Anyone who purchases taxable goods in Scotts Valley pays the sales tax, not just residents of Scotts Valley.

It has been estimated that about 30 to 40 percent of the sales tax paid comes from non-residents. Scotts Valley provides shopping options for the greater region and for through-traffic on Highway 17. These visitors use City streets and services, including Scotts Valley's notable public safety. Thus, the sales tax is paid by a wider range of people, who all benefit from City services.

How much will this cost families on average each year?

Measure Z would generate a new $\frac{3}{4}$ of a cent for every dollar spent. If a family makes \$10,000 a year in taxable purchases, there would be an additional \$75 in sales tax with the new rate.

For a \$50 dinner at a restaurant, it would be 38¢ more.
For a \$100 purchase, it would be 75¢ more.

How is the sales tax spent in the City?

Sales tax revenue is deposited into the City's General Fund, which is the main account for basic city services, such as public safety, public infrastructure improvements and maintenance and general operating city services. The General Fund is 45% allocated to the police department and safety services.

What is the sales tax rate? Who gets it?

The current sales tax rate in Scotts Valley is 9.00%, the same as Capitola and the unincorporated County. In Santa Cruz and Watsonville, the rate is 9.25%.

The 9.00% sales tax in Scotts Valley is made up of a state sales tax portion (7.25%) and a local transactions and use tax portion (1.75%). Of the total 9.00% rate, the City of Scotts Valley receives 1.50%, which is one-and-a-half cents for every 9 cents collected. Translated into dollars, Scotts Valley receives 75 cents for every \$90 spent on taxable goods.

Here is a breakdown of the sales tax allocation in Scotts Valley:

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 Transactions and Use Taxes (1.75% total)</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
9.00%		Total Sales Tax Rate in Scotts Valley

Also, see: <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>

If the sales tax does not pass, could others get the tax instead of Scotts Valley?

If Measure Z does not pass, then the ¾-cent tax capacity is available for regional governmental bodies or organizations to seek. For instance, Scotts Valley shoppers currently pay 1.25% in local sales taxes from voter-supported regional measures for libraries, regional transportation and the bus system. These regional bodies could place a countywide tax measure on a future ballot to obtain the ¾-cent tax revenue, instead of it going to Scotts Valley.

How else will the City address the need for more revenue?

It's important to note that if Measure Z passes, it will not cure the City's budget challenge. Measure Z is significant in that it would prevent major cuts to core City services, but the City will need to continue to support growth in the local economy and look to other revenues streams to create a stable and thriving City government.

Economic development is an important component of a healthy city budget. The Council is actively working on initiatives to support a strong local economy, which helps businesses, residents, and the City. The City has a Council Economic Development Committee to focus on this topic. The Council recently established a Town Center Exploratory Committee with the Mayor and Vice Mayor to redouble efforts to create this envisioned downtown gathering place, rich with shopping and restaurants. The City Council designated the Vice Mayor to focus City efforts on the replacement of Kmart.

In the recent years, the City supported the 1440 Multiversity and Four Points Sheraton hotel projects which have added greatly to Scotts Valley's services and amenities and helped the City's budget. Additionally, the City is engaged in the approved Marriott Residence Inn project to construction. This 120-room hotel would bring in additional hotel taxes to support community services.

Also, the City will look to ensuring that existing taxes are being fully and fairly collected. We plan to audit our tax rolls to ensure we gather uncollected revenues.

How does the loss of Kmart and businesses like Scotts Valley Sprinklers hurt our needed revenue?

Kmart was one of our largest sales tax producers so this loss is significant. The loss of any business hurts the City's finances, particularly businesses such as Kmart and Scotts Valley Sprinklers.

The City Council considered this matter in December 2019 and appointed the Vice Mayor to spearhead the retail replacement and economic development strategy. The City is working to identify a desirable replacement that will add to Scotts Valley's retail amenities. This is significant in that the City did not have to act as the transaction is one between private parties. The City, however, did not want to be on the sidelines and so elected to get involved to help shape an outcome positive for the community.

City Budget, Revenues and Expenditures

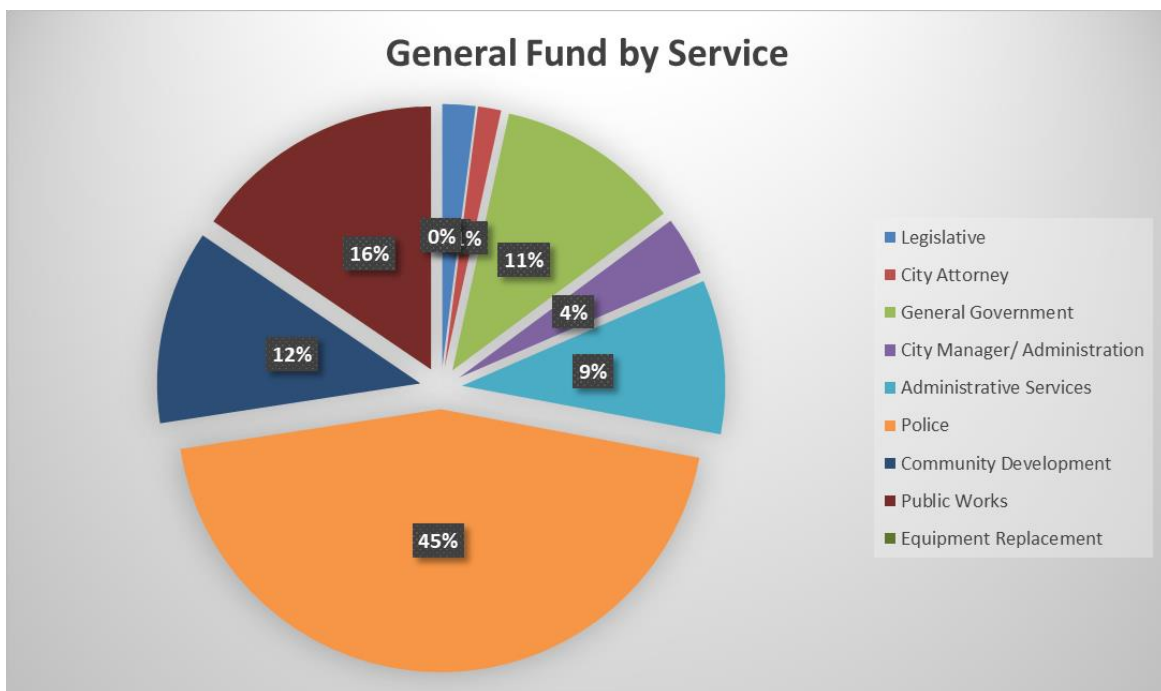
Where does the City gets its money?

Local governments mostly get their revenue from local taxes, such as property tax, hotel (TOT) tax, sales tax and utility users tax. In addition, cities receive funding from federal and state grants for programs or equipment. Cities charge fees for certain services, such as recreation programs and building permits, that directly cover the costs of those services.

Scotts Valley is heavily reliant on sales tax and hotel tax, which makes up 50% of its revenues (sales tax 31% and hotel tax 19%). Just 13% of its revenues come from property tax and 6% from utilities users tax. The remaining sources are franchise and business license taxes and other grant, fee or state sources.

What is the City's budget?

Scotts Valley has a \$12.9 million General Fund budget, which pays for general city services. The police department and local dispatch make up 45% of the budget, nearly \$6 million. The next largest department, 16% of the budget, is public works, which manages all of the streets, roads, parks, and public facilities. The remaining 39% of the budget is for planning, building, capital improvement projects and general city administrative services (finance, human resources, legal, risk management and administrative services).



The City's budget is developed in public through a five-month process with staff and the City Council. The budget process starts in February with final budget adoption in June.

For more information about the City's budget: <https://www.scottsvalley.org/184/City-Budget>

How does Scotts Valley's budget compare to others?

Scotts Valley has the smallest budget and staffing of any government in the county. The City supports a community of about 12,000 with a \$12.9 million General Fund budget and staff of 60 positions, nearly half of which are in the police department.

Santa Cruz's General Fund budget is \$106 million with 770 positions for a community of 66,000. Capitola's General Fund budget is \$17.5 million with 67 positions for a community of 10,000. For an over-the-hill comparison, Mountain View's budget is \$390 million with 690 positions for a community of 81,000.

How many staff work for the city?

About 15 years ago, Scotts Valley had 76 full-time positions. Since then, to cut the budget, the number of positions was reduced to 60, which is 20% fewer staff working at the city.

Police department – 28 positions (6 currently vacant)
Public Works – 10 positions (2 currently vacant)
Wastewater Treatment Plant – 6 positions (1 vacant)
Recreation – 5 positions
Community Development – 5 positions (3 currently vacant)
Administrative Services – 4 positions
City Manager and City Clerk – 2 positions

Currently, there are 12 vacancies.

How much are our police paid? Is it competitive?

Our police are the lowest paid in the County. An entry level police officer earns \$63,000 per year. In Santa Cruz, the salary is \$75,500 for an entry-level officer, about 20% higher. Elsewhere in the County, an entry-level officer can earn 30-40% more than Scotts Valley. In Mountain View, that same officer would earn \$112,000.

The Police Chief earns \$184,000. In the County, other Police Chiefs are paid: Santa Cruz (\$217,000), Watsonville (\$191,000), and Capitola (\$167,000). In Mountain View, the Police Chief earns \$298,000.

Even now, SVPD is having difficulty recruiting and retaining trained police officers as the Department is unable to pay a competitive wage. SVPD officers are paid below other agencies in the County.

How much are City staff paid?

Scotts Valley posts its salaries on its website: <https://www.scottsvalley.org/339/Salary-Schedules>. Generally, Scotts Valley employees are the lowest paid in the County, and much lower than over the hill.

Council Members in Scotts Valley receive a stipend of \$489 per month, which is established by State law.

The Scotts Valley City Manager is paid \$198,924. In the County, other cities managers are paid: Santa Cruz (\$233,628), Watsonville (\$214,200), Capitola (\$202,161). In Mountain View, the City Manager is paid \$310,076.

What is CalPERS?

CalPERS is the State retirement system that the City and most all State agencies contract with. The courts have ruled that agencies have a contractual obligation to continue the retirement benefits promised employees who have retired. In earlier years, CalPERS was very strong with good investments that had kept the costs low for members. However, several years ago, rates increased after poor investments and the economic crisis of 2008. There is no other viable retirement system available to agencies in California although steps were taken with pension reform that addressed issues for all employees hired since reform. Agencies need to offer a competitive pension system to be competitive in hiring and retention of qualified employees. CalPERS is still the best option available.

Can the CalPERS retirement system be canceled?

California cities have contractual obligations with CalPERS. The City of Scotts Valley would have to “buy out” its contractual obligation at a cost of tens of millions of dollars, which could feasibly bankrupt the City.

Property, Hotel and Other Taxes

What does the City collect in property tax?

The City receives a very low percentage of the property taxes collected in Scotts Valley. The City's portion is about 6.5%, which means that 93.5% goes elsewhere. For every dollar paid in property tax, the city receives 6.5 cents. A tax bill of \$5,000, for instance, provides \$325 to the City.

In total, the City receives \$1.5 million annually from the total \$23 million in property taxes collected in Scotts Valley.

What do other cities collect in property taxes?

The statewide average is 11.3%. Locally, the city of Santa Cruz receives 16%, Watsonville receives 13%, the County, 13%, and Capitola, 7.5%

Why does Scotts Valley only collect 6.5%? Can this be changed?

The local allocation of property taxes was set by Proposition 13 and a follow-up 1979 state law. That law fixed local allocations at what the cities, schools and districts were receiving at the time. Scotts Valley was a relatively new city in 1979 (13 years old) with a population of about 6,800, few services and light debt load. As a result, the Scotts Valley founders set up the city to be a low-tax city. In recent years, the City sued to increase its property tax allocation to get to the current rate of 6.5%. Now, despite the city's population growth and changes in services and financial structure, Scotts Valley is fixed at this low level.

Changing the property tax allocation would require a California Constitutional Amendment or a change in state law. Attempts to do so have been unsuccessful as any increase in one city's allocation means there is a trade-off with a corresponding decline to another entity's allocation. As the tax patterns have been set for over 30 years, any "losing" community and its elected representatives at the local and state levels have and would strongly oppose the change. Any changes to the tax allocation structure would require a 2/3 vote in the Legislature. It is generally accepted that the property tax allocation is highly unlikely to change.

There have been legal challenges to Proposition 13 but in 1992, the U.S. Supreme Court upheld the constitutionality of Proposition 13.

Where does the rest of the Property Tax go?

The 93.5% of property taxes that Scotts Valley doesn't receive goes to support local schools (38%), the County (23%), fire district (16%), Cabrillo College (6%), water district (4%), county-library system (3%) and county-school service (3%).

How much is collected in hotel tax and how does this compare?

Scotts Valley collects about 1/5 of its General Fund budget from hotel taxes. The current rate is 11%, which matches the rate in Santa Cruz and the County. Capitola and Watsonville's hotel tax rate is 12%.

What about a parcel tax?

A parcel tax is special tax on properties based on either a flat per-parcel rate or a variable rate. Only property owners in the City would pay a parcel tax. With a sales tax, anyone who purchases goods in the City of Scotts Valley pay, and thereby contribute to support general city services, police, streets, sidewalks, parks, that they benefit from.

What is the utility users tax and how does this compare?

The utility users tax, or UUT, is a tax on utility services. In Scotts Valley, the UUT is applied only to gas and electric utilities, and at a rate of 4%. This tax provides 6% of the City's total budget, about \$770,000.

In contrast, in Santa Cruz, the UUT rate is 8.5% and applies to a broader scope of utilities, including gas, electric, sewer, water, garbage and some communications. This tax raises \$12 million for Santa Cruz. In Watsonville, the rate is 6% and raises about \$4 million. The County and Capitola have no UUT in place.

How do Scotts Valley's taxes compare with neighboring cities?

City	Property Tax Allocation	Hotel Tax	Utility Tax	Admissions Tax	Sales Tax
Capitola	7.5%	12%	-	-	9.00%
Santa Cruz	16%	11%	8.5%**	5%	9.25%
Scotts Valley	6.5%	11%	4%*	-	9.00%
Watsonville	13%	12%	6%**	-	9.25%

*on gas and electric only

** on gas, electric, sewer, water, garbage some communications