

# City of Santa Cruz

## Service and Sphere of Influence Review

Administrative Version (February 7, 2024)

### Local Agency Formation Commission of Santa Cruz County

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## EXECUTIVE SUMMARY

### Introduction

This Service and Sphere of Influence Review provides information about the services and boundaries of the City of Santa Cruz (“City”). This report will be used by the Local Agency Formation Commission to conduct a statutorily required review and update process. The Cortese-Knox-Hertzberg Act requires that the Commission conduct periodic reviews and updates of Spheres of Influence for all cities and special districts in Santa Cruz County (Government Code Section 56425). It also requires LAFCO to conduct a review of municipal services before adopting sphere updates (Government Code Section 56430). The City’s last service review was adopted on January 9, 2019.

The municipal service review process does not require LAFCO to initiate changes of organization based on service review conclusions or findings; it only requires that LAFCO make determinations regarding the delivery of public services in accordance with the provisions of Government Code Section 56430. However, LAFCO, local agencies, and the public may subsequently use these determinations and related analysis to consider whether to pursue changes in service delivery, government organization, or spheres of influence.

Service and sphere reviews are informational documents and are generally exempt from environmental review. LAFCO staff has conducted an environmental review of the City’s existing sphere of influence pursuant to the California Environmental Quality Act (CEQA) and determined that this report is exempt from CEQA. Such an exemption is due to the fact that it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment (Section 15061[b][3]).

### City Overview

The City of Santa Cruz was incorporated as a town in 1866 under the laws of the State of California. It later became a city in 1876 and operates as a charter city pursuant to the laws of the State of California. The city limits encompass approximately 12 square miles and has a population estimated at 64,000. The City provides an array of services, including but not limited to, water, parks and recreation, law enforcement, and fire protection. A full review of all services is covered within this report. A vicinity map, depicting the City’s current jurisdictional and water service area, is shown as **Figure 1** on page 5.

### Sphere of Influence

Santa Cruz LAFCO adopted the City’s first sphere of influence on August 3, 1983. The current sphere includes areas outside the City’s jurisdictional boundary. The last sphere update in August 2022 expanded the sphere boundary to reflect the City’s water service area. LAFCO staff is recommending that the sphere boundary be reaffirmed, as shown in **Figure 9** on page 26.

## Key Findings

The following are key findings of the 2024 Service and Sphere of Influence Review for the City of Santa Cruz:

**1. The City provides multiple services to over 64,000 constituents.**

Santa Cruz provides a full range of services including but not limited to police and fire protection, water, sewer, street construction and maintenance. In 2020, the City's population was estimated to be 64,000. LAFCO staff projects that the City's population will reach approximately 79,000 constituents by 2040.

**2. The City provides water services beyond its jurisdictional boundary.**

Santa Cruz currently provides water services to approximately 96,000 people within 27 square miles, most of which extends beyond the city limits. Santa Cruz offers five types of water services: Agriculture Water, Retail Potable Water, Wastewater (Sewer), Water Treatment, and Water Conservation. At present, it has approximately 25,000 connections through 300 miles of pipeline.

**3. The City is financially stable.**

Santa Cruz has an annual budget of approximately \$200 million. Overall, the City has experienced an annual surplus in the three of the last five fiscal years. Only two fiscal years ended with a slight deficit: FY 2017-18 (\$6 million) and FY 2019-20 (\$473,000). Audited financial statements from 2018 to 2022 indicate that the City's annual surplus ranged from approximately \$12 million to \$54 million. The rise in net position is due to increased investment in capital assets for governmental and business type activities. As of June 30, 2022, the City was operating with a net position of approximately \$400 million.

**4. The City's fire department should explore ways to improve efficiencies.**

The Commission's 2021 countywide fire report noted that the City's fire department was experiencing some financial constraints based on LAFCO's analysis and the City's audited financial statements from FY 2014-15 to FY 2019-20. LAFCO encourages Santa Cruz to explore cost-saving opportunities and ways to improve the overall delivery of services within and surrounding the City by collaborating with neighboring local agencies. LAFCO is willing to help with this effort.

**5. The City has a transparent website.**

Santa Cruz has a robust website with an assortment of useful information regarding each of their 14 city departments. The website is also embedded with recent news and announcements, including information on how to stay connected with the City. Based on LAFCO's assessment, the City's website met 17 out of the 18 transparency benchmarks evaluated in this service review. Overall, the City has an exceptionally transparent website.

**6. The City's sphere of influence is larger than its jurisdictional boundary.**

The original sphere boundary for Santa Cruz was established in August 1983. At present, the current sphere goes beyond City limits and includes 10,800 parcels totaling approximately 4,900 acres. The last sphere update occurred in August 2022 which expanded the sphere boundary to reflect the City's water service area. LAFCO staff is not recommending any changes to its existing sphere at this time.

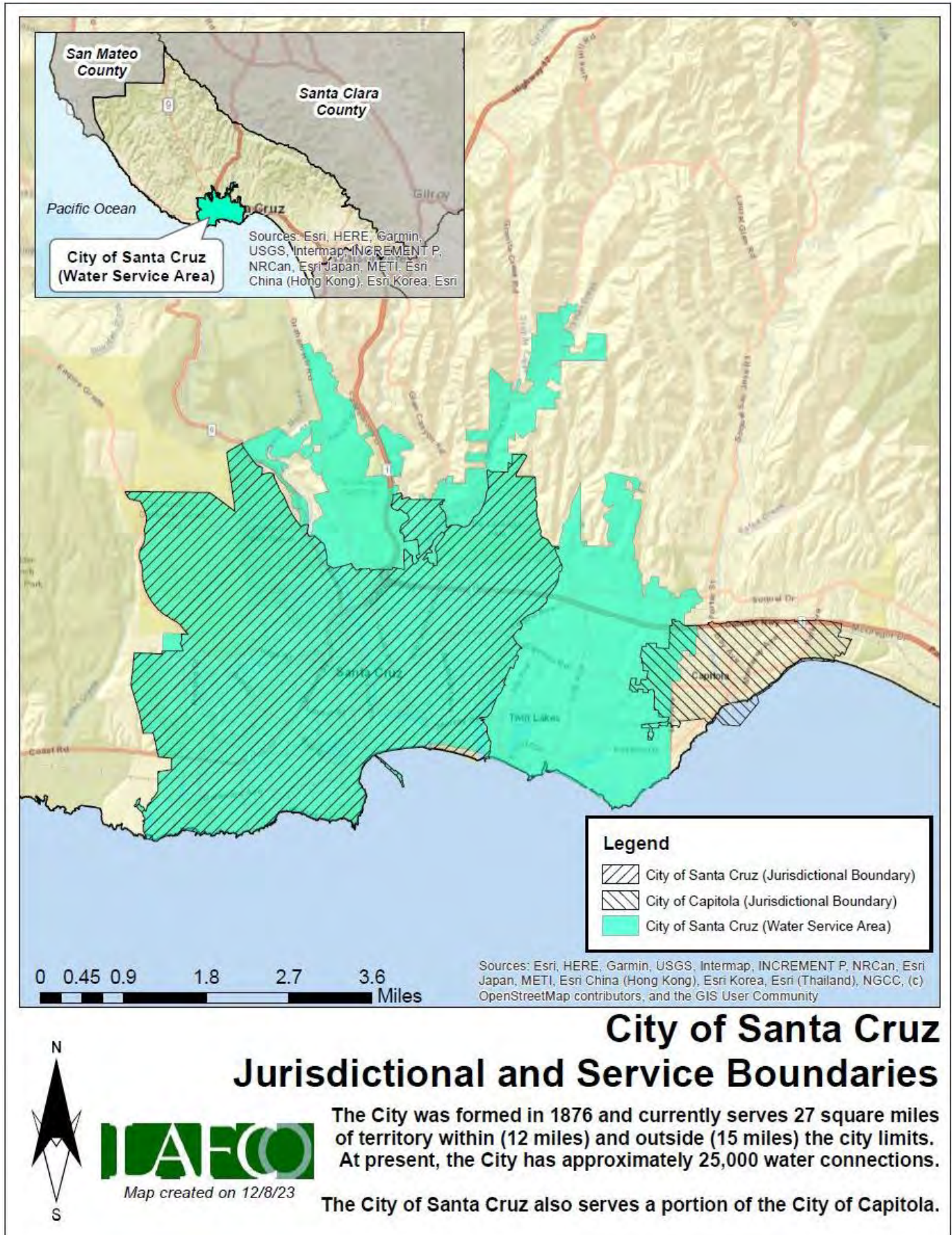
## **Recommended Actions**

Based on the analysis and findings in the 2024 Service and Sphere of Influence Review for the City of Santa Cruz, the Executive Officer recommends that the Commission:

1. Find, pursuant to Section 15061(b)(3) of the State CEQA Guidelines, that LAFCO determined that the sphere of influence review is not subject to the environmental impact evaluation process because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to CEQA;
2. Determine, pursuant to Government Code Section 56425, that LAFCO is required to develop and determine a sphere of influence for the City of Santa Cruz, and review and update, as necessary;
3. Determine, pursuant to Government Code Section 56430, that LAFCO is required to conduct a service review before, or in conjunction with an action to establish or update a sphere of influence; and
4. Adopt LAFCO Resolution (No. 2024-03) approving the 2024 Service and Sphere of Influence Review for the City of Santa Cruz with the following conditions:
  - a. Reaffirm the City's current sphere of influence;
  - b. Santa Cruz should consider analyzing the possible annexation of the existing extraterritorial service agreements and/or areas within their current sphere boundary as part of any future strategic plan or general plan updates;
  - c. Santa Cruz should explore shared services opportunities and other strategic partnerships with neighboring agencies, including but not limited to the Central Fire District. If the two agencies move forward with a feasibility study, staff encourages them to include LAFCO in the process; and
  - d. Direct the Executive Officer to distribute a copy of this adopted service and sphere review to the City of Santa Cruz and any other interested or affected agency identified in the service review.



Figure 1: Vicinity Map



## CITY OVERVIEW

### History & Background

The City of Santa Cruz was incorporated as a town in 1866 and as a city in 1876. At present, the city encompasses approximately 12 square miles with a population of approximately 64,000. The City is located on the northern part of the Monterey Bay approximately 74 miles south of San Francisco and 30 miles west of San Jose, as shown in the map on page 5. The City of Santa Cruz was founded in 1769 by Spanish explorer Don Gaspar de Portola, who, along with Father Junipero Serra, began land-based settlements in the area. Santa Cruz is the county seat for the County of Santa Cruz and is a charter city which operates under the provisions of a voter-approved charter.

Santa Cruz is home to the University of California, Santa Cruz which first opened in 1965 with 650 students. It now has a current enrollment level of approximately 17,000 undergraduate and 2,000 graduate students, and is the City's largest employer with approximately 8,000 employees. The main campus has over 2,000 acres overlooking the Monterey Bay National Marine Sanctuary. The City is also home to the historical Santa Cruz Beach Boardwalk and the Santa Cruz Warriors' basketball team from the NBA G League. Major industries include tourism, manufacturing, and technology. The City has experienced minimal growth since inception. **Appendix A** provides a timeline of all the boundary changes approved by LAFCO (37 boundary changes in total). The last LAFCO action involving the City was in November 2023 involving an extraterritorial service agreement to provide water services outside the city limits. At present, the City has a number of land use designations including single family residential, mixed-use village, community commercial, and open space. **Appendix B** provides the City's latest zoning map.

### Services & Operations

The City of Santa Cruz provides a broad range of services including police and fire protection, construction and maintenance of streets, parks, flood control and other infrastructure, a wharf facility, a golf course, recreational and cultural activities including a performing arts center, economic development, and human services programs. It also operates municipal utilities for water, wastewater, storm water, and refuse in addition to enterprise operations for parking facilities. The water utility provided approximately 2.49 billion gallons of clean, safe water in 2022. Service extends beyond the municipal boundaries, increasing its total service population to approximately 98,000.

Santa Cruz has a total of 14 city departments. The following pages summarize the role and purpose of each department based on the information found on the City's website.

### City Attorney

The City Attorney is appointed by the City Council and represents the City of Santa Cruz in all legal proceedings. Their role is to advise the City Council, City administrative staff, and City advisory bodies on a variety of legal matters. The City Attorney attends meetings of the City Council and frequently provides legal advice and opinions for items being considered by the Council. In addition, the City Attorney either prepares or approves legal content for proposed ordinances, resolutions, contracts, and other legal documents.



## City Clerk

The City Clerk Administrator is appointed by the City Manager and is responsible to the City Council. The Clerk stewards and protects the democratic process, such as elections and access to official records, and is responsible for fulfilling the legal requirements as set forth in the City Charter, City codes, and State law. The City Clerk's Office has three divisions: (1) Operations, (2) Records, and (3) Elections.

## City Manager

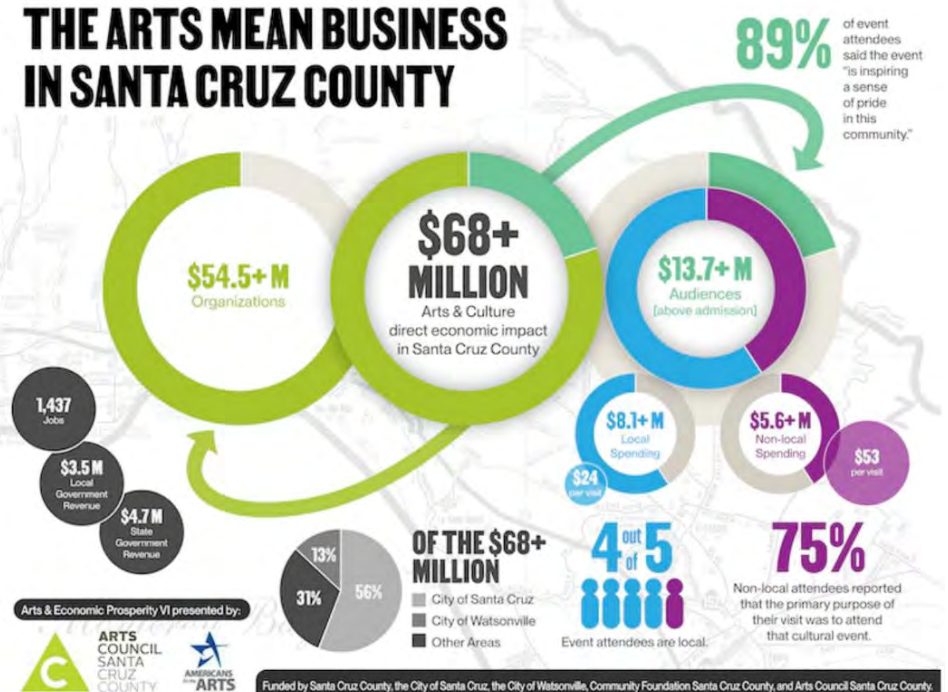
The City Manager is appointed by and reports directly to the City Council. The City Manager is responsible for the overall administration of the City and for ensuring that the City Council policies are carried out. The duties of the City Manager include coordinating the work of all City departments and advising the City Council on matters relative to the operation of those departments; preparing the annual budget and administering the budget after it is adopted by Council; appointing all department heads (except the City Clerk and the City Attorney) and serving as the final administrative authority on personnel matters. The City Manager and their staff also handle special projects and Council assignments which do not fall within the jurisdiction of any other City department. The Community Relations Office and the Commission for the Prevention of Violence Against Women (CPVAW) are part of the City Manager's Office.

## Economic Development & Housing

The Economic Development & Housing Department assists residents, businesses, and others with their efforts to grow within the City in a safe and orderly manner that respects the City's heritage, while also sustaining opportunities for present and future generations. Under this department, the City provides business services, identifies development projects, provides a latest Santa Cruz Wharf Master Plan, offers housing assistance information, and operates the City's Arts Commission. In 2023, the City released a study highlighting the economic impact from arts and culture. The Arts Council commissioned two additional studies locally, one for the City of Santa Cruz and one for the City of Watsonville.

The total economic impact figures included \$38 million in the City of Santa Cruz and less than \$9 million in the City of Watsonville.

### THE ARTS MEAN BUSINESS IN SANTA CRUZ COUNTY





## Finance

The Finance Department provides chief financial support of and advises on financial matters for the City, including its Public Safety, Water, Refuse, Wastewater, Public Works, Parks & Recreation, and other key programs. It also provides contract support services for the Santa Cruz Public Libraries Joint Powers Authority, UCSC Fire, and supports the Successor Agency of the City of Santa Cruz (former Redevelopment Agency). The department is organized in five functional sections: (1) Accounting, Administration, Budgeting, and Reporting; (2) Accounts Payable and Payroll; (3) Purchasing and Applications Management; (4) Revenue and Treasury Compliance, Management, and Revenue Audits; and (5) Risk Management, Advanced Debt Collections, and Safety. A full analysis of the City's financial health is evaluated later in this report (refer to page 13).

## Fire

The Santa Cruz Fire Department is charged with protecting the City residents. Additionally, Santa Cruz provides services around the city as part of mutual aid and auto aid agreements with neighboring fire agencies and the County. The City currently has four fire stations strategically located within the city limits. A detailed evaluation of the City's fire services was analyzed as part of LAFCO's Countywide Fire Protection Service & Sphere Review. A link to the 2021 report is available on LAFCO's website: [https://santacruzlafco.org/wp-content/uploads/2021/11/Countywide-Fire-Service-Sphere-Review-10-13-21-Adopted-Version\\_.pdf](https://santacruzlafco.org/wp-content/uploads/2021/11/Countywide-Fire-Service-Sphere-Review-10-13-21-Adopted-Version_.pdf)

## Human Resources

The Human Resources Department's purpose is to provide a connection between management and employees in an effort to enhance morale and productivity, limit job turnover, support a responsive and innovative workforce, as well as help the City deliver services in a fiscally sound and efficient manner. Specifically, Human Resources offers support services to city departments and employees, including recruitment, benefits, employee relations, equal employment opportunities, employee development, and volunteer opportunities. At present, the City has approximately 927 full-time employees.

## Information Technology

The Information Technology (IT) Department's mission is to efficiently deliver business-driven, quality technology solutions and services for the City of Santa Cruz staff and public. To this end, IT focuses on infrastructure, communications, business services (including Geographic Information Services), workplace services, relationship management, and administration services.

The IT Department's mission is "Cultivating Increased Connectivity of people, technology, and processes."

## Library

The Santa Cruz Public Library offers a variety of information,



materials, and services in a welcoming and trusted place where people come to gather, learn, and celebrate their shared multi-cultural community. The City's library has been serving county residents since 1917. The Santa Cruz Public Library System serves the cities of Santa Cruz, Capitola, and Scotts Valley. It also serves all the unincorporated areas of the County. The Library operates ten branches across the county from La Selva Beach to Boulder Creek, a bookmobile, and provides outreach services for both children and seniors. The Santa Cruz Public Library System operates under the authority of a Library Joint Powers Board. The City of Santa Cruz provides some administrative services to the Library System. All Library workers are officially employees of the City, and the Director of Libraries is a City Department Head. However, the Library operates independently of the City Council. Its Board makes legislative decisions for the Library.

## Parks & Recreation

The Santa Cruz Parks & Recreation Department develops and implements quality programs that encourage healthy lifestyles, preserve the City's heritage, provide recreational experiences, and strengthen community bonds. The department's mission is to provide quality public spaces and experiences that support community health, foster equity, and that help better steward the environment. The Parks and Recreation department is funded primarily through general fund revenue sources, such as property taxes, sales and use tax, and transient occupancy tax (TOT). In a typical year, the department generates enough revenue via program fees, permits, and other service charges to offset about one-third of its expenditure budget. In FY 2021-22, department activities were conservatively projected to bring in nearly \$4.2 million in revenues. The department also develops annual reports. The latest report (2022) is available on the City's website: <https://www.cityofsantacruz.com/home/showpublisheddocument/96557/638350405599070000>.

## Planning & Community Development

The Planning and Community Development Department has five divisions: (1) Current Planning, (2) Advance Planning, (3) Code Compliance, (4) Building and Safety, and (5) Administration. The Department also supports the following advisory boards: Planning Commission, Historic Preservation Commission, Zoning Administrator, and Board of Building and Fire Appeals. Under this department, the City allows the public an opportunity to receive notification on development/housing projects, as shown in the image on the right. Under this department, the public can access information regarding planning, building and safety, code compliance, short-term rentals, and home inspections.

Planning & Community Development Department

**NEWS**

City of Santa Cruz Housing Element Meets Requirements for Certification  
 City of Santa Cruz's 6th Cycle Housing Element Update  
 FY 2023 Development Impact Fee Annual Reports for Childcare Impact Fee and Citywide Public Safety Impact Fee (Police & Fire) Fund Fiscal Year Ending June 30, 2023

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<input type="checkbox"/> 101 Felix Street - Significant Project	<input type="checkbox"/> 111 Ervett Circle - Significant Project	<input type="checkbox"/> 119 Coral Street - Significant Project
<input type="checkbox"/> 126 Eucalyptus Ave - Significant Project	<input type="checkbox"/> 130 Center Street - Significant Project	<input type="checkbox"/> 150 Felix Street - Large Project
<input type="checkbox"/> 190 West Cliff - Significant Project	<input type="checkbox"/> 1930 Cowan Street Extension - Significant Project	<input type="checkbox"/> 2025 N Pacific Ave
<input type="checkbox"/> 247 High Street	<input type="checkbox"/> 314 Jessie Street	<input type="checkbox"/> 3241 Iron Street (Cruz Hotel) - Significant Project
<input type="checkbox"/> 530 Front Street - Significant Project	<input type="checkbox"/> 631 Water St - Significant Project	<input type="checkbox"/> 908 Ocean Street - Significant Project
<input type="checkbox"/> Accessory Dwelling Units (ADUs)	<input type="checkbox"/> Bunking	<input type="checkbox"/> Board of Building and Fire Appeals
<input type="checkbox"/> Building	<input type="checkbox"/> Cannabis	<input type="checkbox"/> Community Meetings - Planning
<input type="checkbox"/> Development Projects	<input type="checkbox"/> Downtown Plan	<input type="checkbox"/> Environmental Review/Documents
<input type="checkbox"/> Green Building	<input type="checkbox"/> Historic Preservation Commission	<input type="checkbox"/> Homelessness
<input type="checkbox"/> Housing	<input type="checkbox"/> Large Development Project	<input type="checkbox"/> Local Coastal Program
<input type="checkbox"/> Medium Project	<input type="checkbox"/> Objective Standards	<input type="checkbox"/> Ordinance & Policy Updates

## **Police**

The Santa Cruz Police Department is committed to providing public safety through engagement, education, enforcement, and professional development. A team of 133 employees, 102 budgeted sworn officers and 31 non-sworn civilian staff, serve the residents of Santa Cruz. The City is divided into five patrol beats: West, East, Beach, Central, and Downtown. The beats are designed to maximize coverage and provide efficient response to calls for service. The department has also identified five main priorities: (1) Downtown Safety, (2) Recruitment and Retention, (3) Mental Health Response, (4) Quality of Life Issues, and (5) Traffic Safety. Members of the department work diligently to meet the unique challenges of public safety in a city that plays host to a large tourist population, special events, and seasonal attractions.

## **Public Works**

The Public Works Department provides the City of Santa Cruz with a variety of services including engineering design, traffic engineering and maintenance, storm water management, street maintenance, resource recovery management, waste reduction programs, wastewater system management, flood control and parking control.

- Engineering Division provides engineering design services and construction supervision, city surveying, maintenance of maps and records, special assessment district administration, and all other basic engineering inspections and services.
- Resource Recovery Operations includes Resource Recovery Collection which is responsible for refuse and recycling collection, street sweeping, and curbside recycling programs, and the Resource Recovery Facility which is responsible for the processing of recycled materials, household hazardous waste, and the operation and maintenance of the landfill.
- Operations: Fleet, Facilities, Homelessness Response, and Streets. The latter is responsible for constructing and maintaining City streets, sidewalks, and storm drains and flood control management duties, and traffic maintenance which maintains street markings, street signs, streetlights, and traffic signals.
- Transportation Engineering and Parking Division performs traffic engineering studies and projects, operates all downtown parking facilities, the wharf gate, and parking control.
- Wastewater Treatment Facility Division maintains and operates the Wastewater Treatment Facility and Wastewater and Storm Water Collections, responsible for operating and maintaining City wastewater pump station facilities, all wastewater collection lines and manholes in the wastewater system. Additionally, LAFCO developed a comprehensive analysis of the sanitation districts in Santa Cruz County in 2019. A link to the comprehensive sanitation report is available on LAFCO's website: <https://santacruzlafco.org/wp-content/uploads/2019/10/Comprehensive-Sanitation-Service-Sphere-Review-ADOPTED-VERSION.pdf>



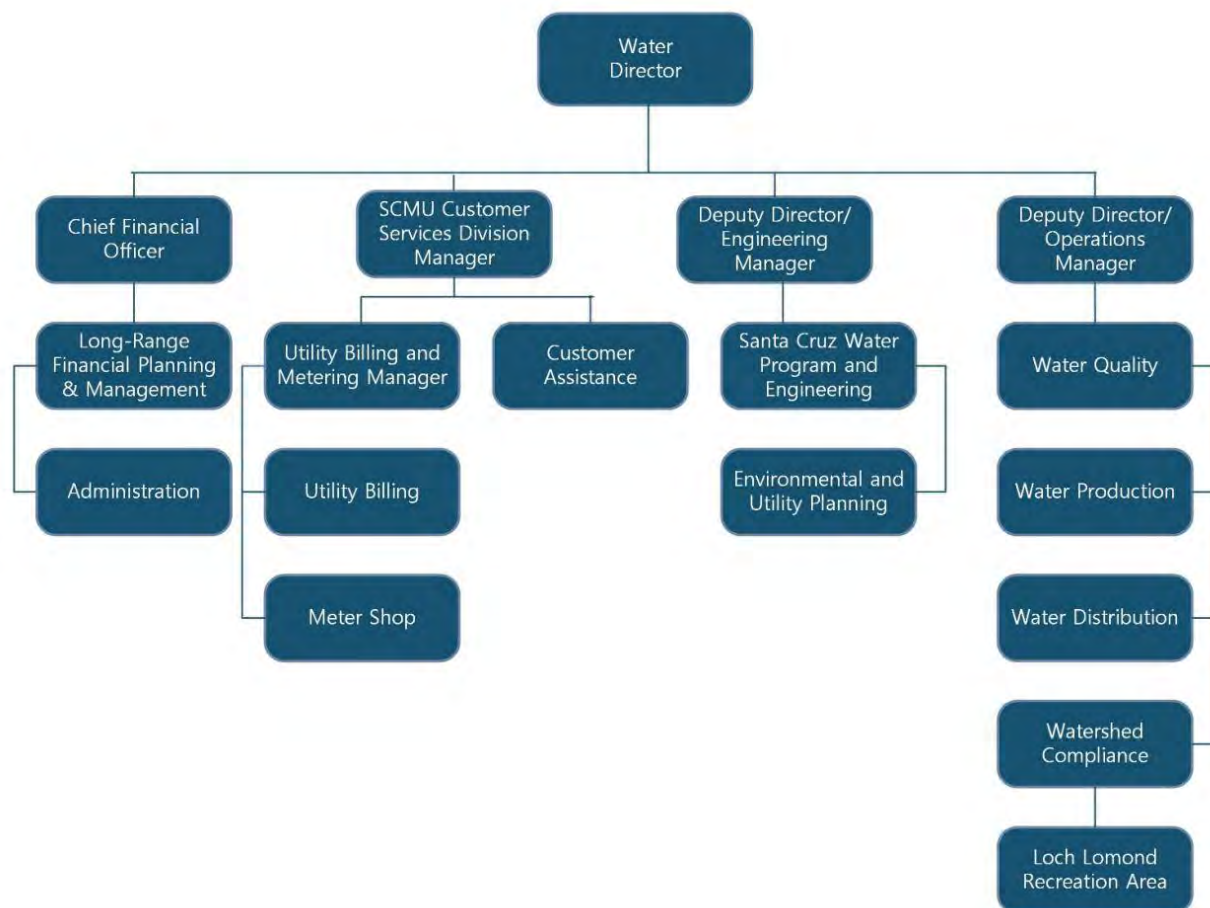
## Water Service Area

The City's water service area encompasses nearly 27 square miles of territory including the entire City of Santa Cruz, adjoining unincorporated areas of Santa Cruz County, a small portion of the City of Capitola, and serves untreated water to coastal agricultural lands north of the City. There are approximately 28,000 connections within the City's water service area (totaling approximately 17,000 acres). Almost 100,000 people rely on the Santa Cruz Water Department for water service. The City operates a system that includes more than 300 miles of pipes to deliver water to customers, pumps, and lift stations where and when needed, and a water storage reservoir that captures the water supply before the City purifies and sends it their constituents.

A detailed evaluation of the City's water services was analyzed as part of LAFCO's Countywide Water Service & Sphere Review. A link to the 2022 report is available on LAFCO's website: <https://santacruzlafco.org/wp-content/uploads/2022/09/Countywide-Water-MSR-Adopted-Version.pdf>.

## Governance Structure

The governing body for the Water Department is the City Council. The Director of the Water Department reports to the City Manager. A seven-member Water Commission advises the City Council on policy matters involving the operations and management of the water system. The following chart shows the water department's organizational structure.



## Population and Growth

The Association of Bay Area Governments (ABAG) and the Association of Monterey Bay Area Governments (AMBAG) provide population projections for cities and counties in the Coastal Region. In general, the Coastal Region is anticipated to have a slow growth over the next twenty years. Based on staff's analysis, the population for the City of Santa Cruz in 2020 was estimated to be around 64,000. **Table 1** shows the City's anticipated population over the next twenty years. The City's average rate of change is 5.18%. Under this rate, projections indicate that the entire population of Santa Cruz will be approximately 79,000 by the year 2040. In addition, the City of Santa Cruz provides water to areas outside its jurisdictional boundary. The total population within the City's water service area is expected to reach approximately 113,000 by the year 2040.

**Table 1: Projected Population**

	2020	2025	2030	2035	2040	Change (%)
Santa Cruz County (unincorporated area)	136,891	137,896	139,105	140,356	141,645	0.86%
<b>City of Santa Cruz</b>	<b>64,424</b>	<b>68,845</b>	<b>72,218</b>	<b>75,257</b>	<b>78,828</b>	<b>5.18%</b>
City of Santa Cruz (Water Service Area)	96,168	101,964	106,072	109,193	112,853	4.09%

*Source: AMBAG 2018 Regional Growth Forecast and the City's 2020 Urban Water Management Plan*

## Disadvantaged Unincorporated Communities

State law requires LAFCO to identify and describe all "disadvantaged unincorporated communities" (DUCs) located within or contiguous to existing spheres of influence for cities and special districts that provide fire protection, sewer, and/or water services. DUCs are defined as inhabited unincorporated areas within an annual median household income that is 80% or less than the statewide annual median household income. In 2020, the California statewide annual median household income was \$78,672, and 80% of that was \$62,938. LAFCO staff utilized the ArcGIS mapping program to locate potential DUCs in Santa Cruz County. Based on the criteria set forth by SB 244, staff's analysis indicates that there are no disadvantaged unincorporated communities within the City's sphere.

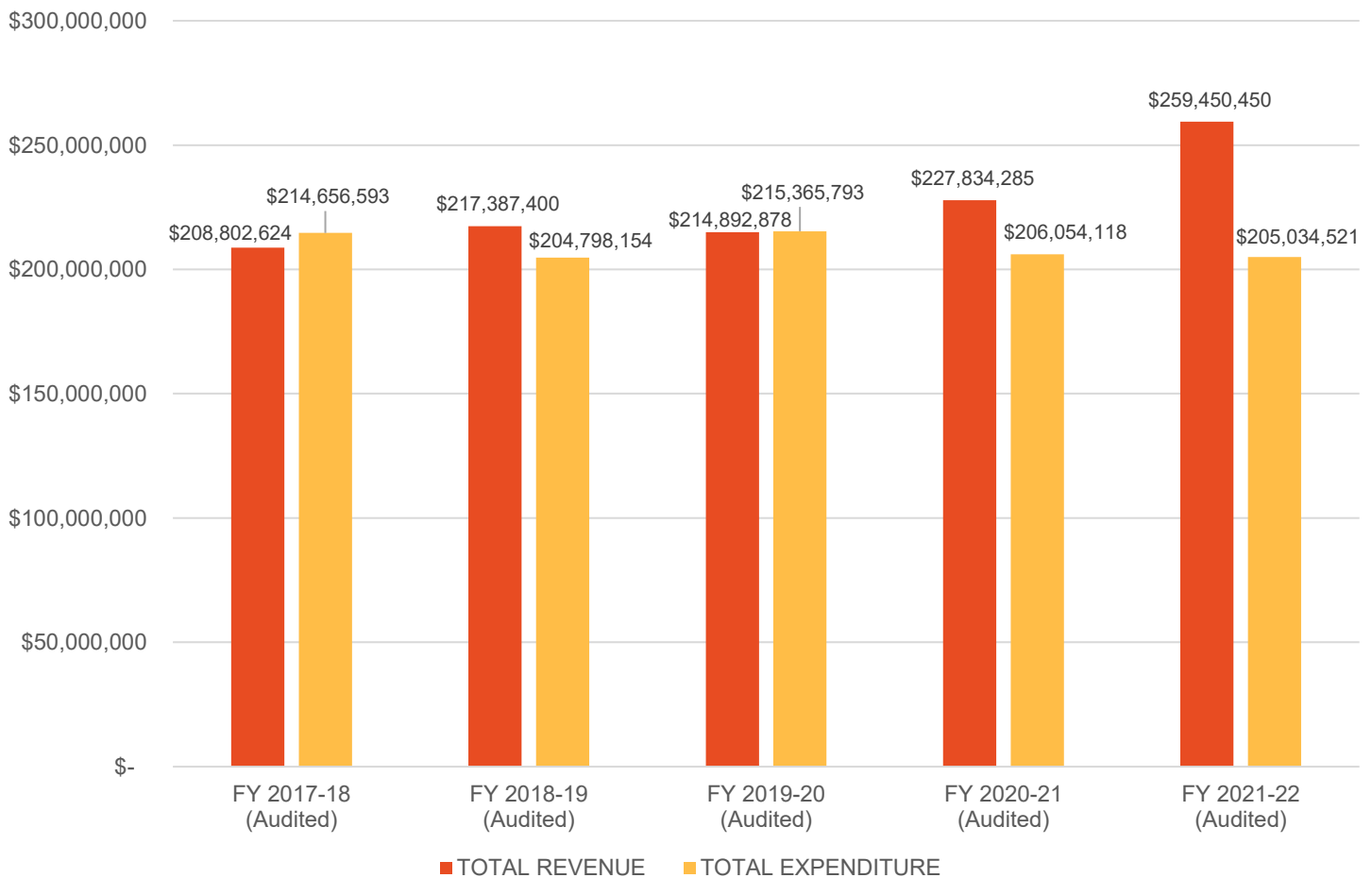


## FINANCES

This section will highlight the City's financial performance during the most recent fiscal years. Fiscal Year 2021-22 is the latest audited financial statement available. LAFCO evaluated the City's financial health from 2017 to 2022. A comprehensive analysis of the City's financial performance during the past six years is shown in **Tables 4 and 5** on pages 17 and 18. LAFCO extracted the financial data from the City's Comprehensive Annual Financial Reports located on the City's website<sup>1</sup>.

At the end of Fiscal Year 2021-22, total revenue collected was approximately \$259 million, representing a 14% increase from the previous year (\$228 million in FY 20-21). Total expenses for FY 2021-22 were approximately \$205 million, which decreased from the previous year by half a percent (\$206 million in FY 20-21). The City experienced an annual surplus in three of the last five fiscal years, as shown in **Figure 2**. LAFCO staff believes that the latest positive trend may continue based on the current management practices and the five-year performance but revenue growth is expected to slow since it was bolstered by one-time COVID relief grant money in FY 2021-22.

**Figure 2: Statement of Revenues & Expenditures  
(FY 2017-18 to FY 2021-22)**



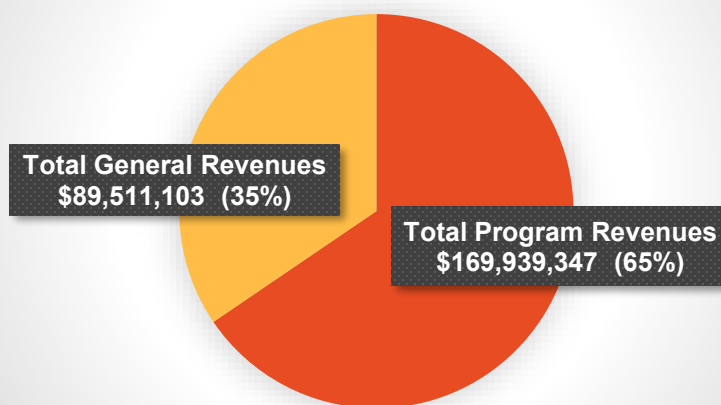
<sup>1</sup> CAFRS Webpage: <https://www.cityofsantacruz.com/government/city-departments/finance/financial-reports>



## Revenues

The City provides various municipal services to the Santa Cruz community. The City's revenue stream can be categorized into two groups: Program Revenues and General Revenues. Program revenues include funds from charges for services (such as water and sewer), operating grants and contributions, and capital grants and contributions. General revenues include funds from various taxes (including property taxes), unrestricted investment earnings, and gains on sales of assets. **Figure 3** indicates that the majority of the City's revenue comes from program revenues. In FY 2021-22, charges for services (\$123 million; 47%) represented the highest revenue stream for the City.

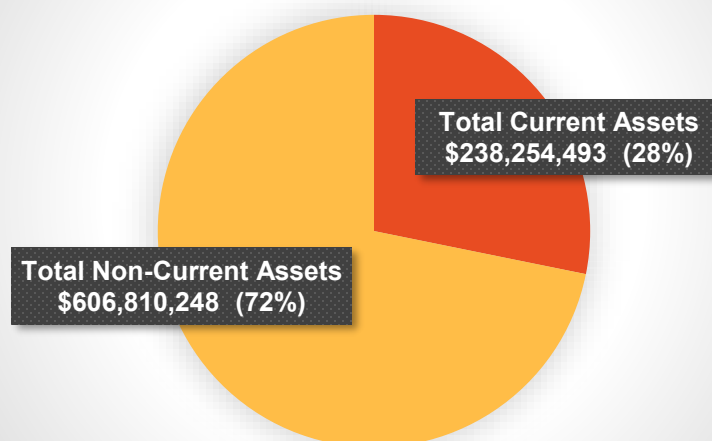
**Figure 3: Revenue Breakdown (FY 21-22)**



## Assets

The City's financial assets are comprised of cash or items that will eventually be turned into cash. Land for resale and long-term investments are examples of items that will eventually be turned into cash. Santa Cruz has approximately \$845 million in total assets. Over 70% of the City's total assets are from non-current assets, such as land, buildings, and infrastructure. The remaining amount comes from current assets, such as cash & investments, as shown in **Figure 4**. In FY 2021-22, cash & investments (\$176 million; 21%) and capital assets including buildings & infrastructure (\$568 million; 67%) represented the highest assets for the City.

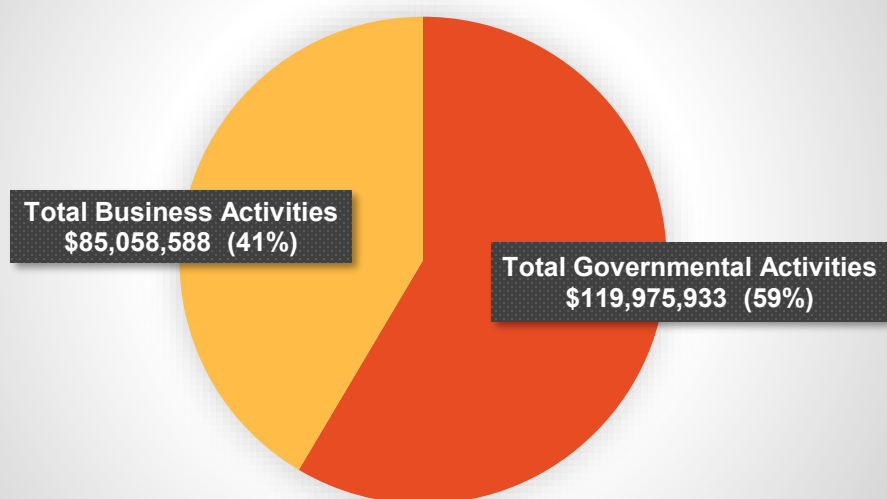
**Figure 4: Total Assets (FY 21-22)**



## Expenditures

The City's expenses are split into two categories or "activities": Government and Business. Government activities for the City of Santa Cruz include general government, public safety, parks & recreation, library, public works, transit, community & economic development, and social services. The business-type activities of the City of Santa Cruz include water, sewer, refuse, parking, and storm water services. As **Figure 5** shows, Government Activities represent more than half of the City's total expenses during Fiscal Year 2021-22.

**Figure 5: Expense Breakdown (FY 21-22)**



## Liabilities

The City's liabilities are financial obligations from past events or transactions. This can take the form of future payments to vendors, future provision of services, or future transfer of assets. Examples of liabilities include outstanding principal balances on bond issues, future costs for capital projects, or pension payments for retirees. Santa Cruz has approximately \$490 million in total liabilities, which can be categorized into three groups: (1) Current Liabilities, (2) Non-Current Liabilities, and (3) Deferred Inflows of Resources. A breakdown of the City's three main categories is shown in **Table 2**.

**Table 2: Total Liabilities (FY 2021-22)**

	Amount (\$)	Percentage (%)
Current Liabilities	\$49,806,050	10%
Non-Current Liabilities	\$339,705,176	70%
Deferred Inflows of Resources	<u>\$99,954,367</u>	<u>20%</u>
<b>Total Liabilities</b>	<b>\$489,465,593</b>	<b>100%</b>

## Net Position

As of June 30, 2022, the total net position balance ended with approximately \$400 million. The following table highlights the fund balance from 2017 to 2022. As shown in **Table 3 and Figure 6**, the City's net position balance experienced an increase each year, excluding FY 2019-20. This healthy balance of \$400 million will be critical in the event that Santa Cruz encounters unintended expenses, major capital improvement projects, or emergency repairs.

**Table 3: Net Position (2017 to 2022)**

	<b>FY 17-18 (Audited)</b>	<b>FY 18-19 (Audited)</b>	<b>FY 19-20 (Audited)</b>	<b>FY 20-21 (Audited)</b>	<b>FY 21-22 (Audited)</b>
Beginning Balance	-	\$312,197,497	\$324,786,743	\$324,313,828	\$346,094,031
<b>Ending Balance</b>	<b>\$312,197,497</b>	<b>\$324,786,743</b>	<b>\$324,313,828</b>	<b>\$346,094,031</b>	<b>\$400,509,960</b>
Difference (\$)		\$12,589,246	\$(472,915)	\$21,780,203	\$54,415,929
Difference (%)		4.03%	-0.15%	6.72%	15.72%

**Figure 6: Net Position from 2017 to 2022 (Ending Balance)**





**Table 4: Total Revenue & Expenditure (FY 2017-18 to FY 2021-22)**

	<b>FY 2017-18 (Audited)</b>	<b>FY 2018-19 (Audited)</b>	<b>FY 2019-20 (Audited)</b>	<b>FY 2020-21 (Audited)</b>	<b>FY 2021-22 (Audited)</b>
<b>REVENUE</b>					
<u>Program Revenues</u>					
Charges for Services	\$ 119,426,176	\$ 121,932,519	\$ 117,251,857	\$ 120,151,072	\$ 123,046,409
Operating Grants & Contributions	\$ 5,783,243	\$ 6,631,615	\$ 10,723,824	\$ 9,916,766	\$ 8,917,751
Capital Grants & Contributions	\$ 8,697,888	\$ 5,032,786	\$ 6,041,232	\$ 13,972,656	\$ 37,975,187
<b>Total Program Revenues</b>	<b>\$133,907,307</b>	<b>\$133,596,920</b>	<b>\$134,016,913</b>	<b>\$ 144,040,494</b>	<b>\$169,939,347</b>
<u>General Revenues</u>					
Property Taxes	\$ 20,810,078	\$ 23,204,022	\$ 23,836,366	\$ 24,393,225	\$ 26,079,579
Sales & Use Taxes	\$ 17,400,320	\$ 21,860,332	\$ 21,376,655	\$ 23,578,620	\$ 27,223,493
Franchise Taxes	\$ 3,678,560	\$ 4,025,643	\$ 4,014,250	\$ 3,953,531	\$ 4,089,489
Transient Occupancy Taxes	\$ 10,185,738	\$ 10,985,786	\$ 8,035,134	\$ 9,121,782	\$ 12,066,476
Utility Users Taxes	\$ 11,568,654	\$ 11,517,468	\$ 11,459,173	\$ 11,600,692	\$ 12,264,890
Admissions Taxes	\$ 2,679,859	\$ 2,646,472	\$ 1,721,753	\$ 663,919	\$ 8,586,123
Other Taxes	\$ 6,930,592	\$ 6,219,024	\$ 6,911,076	\$ 7,696,545	\$ 2,131,088
Unrestricted Investment Earnings	\$ 1,009,243	\$ 3,299,182	\$ 3,514,079	\$ 2,675,923	\$ (2,987,682)
Gain (Loss) on Sales of Assets	\$ 632,273	\$ 32,551	\$ 7,479	\$ 109,554	\$ 57,647
<b>Total General Revenues</b>	<b>\$ 74,895,317</b>	<b>\$ 83,790,480</b>	<b>\$ 80,875,965</b>	<b>\$ 83,793,791</b>	<b>\$ 89,511,103</b>
<b>TOTAL REVENUE</b>	<b><u>\$208,802,624</u></b>	<b><u>\$217,387,400</u></b>	<b><u>\$214,892,878</u></b>	<b><u>\$ 227,834,285</u></b>	<b><u>\$259,450,450</u></b>
<b>EXPENDITURE</b>					
<u>Governmental Activities</u>					
General Government	\$ 19,350,479	\$ 20,614,327	\$ 20,322,085	\$ 23,476,418	\$ 21,935,750
Public Safety	\$ 51,394,586	\$ 56,513,231	\$ 57,811,196	\$ 54,785,622	\$ 53,197,958
Parks & Recreation	\$ 17,650,040	\$ 17,529,459	\$ 17,067,868	\$ 15,098,626	\$ 17,025,262
Library	\$ 1,559,242	\$ 1,553,115	\$ 1,474,896	\$ 1,888,881	\$ 213,503
Public Works	\$ 15,609,565	\$ 16,471,190	\$ 17,352,820	\$ 14,170,843	\$ 19,034,665
Transit	\$ 745,940	\$ 798,782	\$ 1,013,564	\$ 797,240	\$ 1,063,500
Community & Economic Development	\$ 10,516,746	\$ 4,185,767	\$ 6,268,475	\$ 4,199,540	\$ 4,112,247
Social Services	\$ 2,159,544	\$ 2,027,873	\$ 2,005,337	\$ 2,191,401	\$ 2,601,450
Interest & Fiscal Charges on Long-Term Debt	\$ 1,581,810	\$ 1,456,449	\$ 1,152,581	\$ 972,836	\$ 791,598
<b>Total Governmental Activities</b>	<b>\$120,567,952</b>	<b>\$121,150,193</b>	<b>\$124,468,822</b>	<b>\$ 117,581,407</b>	<b>\$119,975,933</b>
<u>Business-Type Activities</u>					
Water Services	\$ 33,284,532	\$ 36,562,160	\$ 37,405,164	\$ 38,078,715	\$ 36,703,987
Wastewater Services	\$ 21,785,697	\$ 20,933,694	\$ 24,170,115	\$ 23,392,966	\$ 21,004,203
Refuse Services	\$ 18,451,537	\$ 19,253,241	\$ 21,556,523	\$ 19,809,687	\$ 18,538,166
Parking Services	\$ 5,226,564	\$ 5,530,210	\$ 6,199,876	\$ 5,527,325	\$ 6,261,166
Storm Water Services	\$ 1,673,093	\$ 1,368,656	\$ 1,565,293	\$ 1,664,018	\$ 2,551,066
Loss from Impairment of Capital Assets	\$ 13,667,218	\$ -	\$ -	\$ -	\$ -
<b>Total Business-Type Activities</b>	<b>\$ 94,088,641</b>	<b>\$ 83,647,961</b>	<b>\$ 90,896,971</b>	<b>\$ 88,472,711</b>	<b>\$ 85,058,588</b>
<b>TOTAL EXPENDITURE</b>	<b><u>\$214,656,593</u></b>	<b><u>\$204,798,154</u></b>	<b><u>\$215,365,793</u></b>	<b><u>\$ 206,054,118</u></b>	<b><u>\$205,034,521</u></b>
<b>SURPLUS / (DEFICIT)</b>	<b><u>\$ (5,853,969)</u></b>	<b><u>\$ 12,589,246</u></b>	<b><u>\$ (472,915)</u></b>	<b><u>\$ 21,780,167</u></b>	<b><u>\$ 54,415,929</u></b>
<b>NET POSITION</b>					
Beginning Balance	\$ 318,051,466	\$ 312,197,497	\$ 324,786,743	\$ 324,313,864	\$ 346,094,031
<b>Ending Balance</b>	<b><u>\$312,197,497</u></b>	<b><u>\$324,786,743</u></b>	<b><u>\$324,313,828</u></b>	<b><u>\$ 346,094,031</u></b>	<b><u>\$400,509,960</u></b>

**Table 5: Total Assets & Liabilities (FY 2017-18 to FY 2021-22)**

	FY 2017-18 (Audited)	FY 2018-19 (Audited)	FY 2019-20 (Audited)	FY 2020-21 (Audited)	FY 2021-22 (Audited)
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash & Investments	\$ 109,876,228	\$ 137,121,687	\$ 138,215,509	\$ 166,845,335	\$ 175,790,304
Restricted Cash & Investments	\$ 10,853,721	\$ 11,431,494	\$ 19,265,208	\$ 14,248,380	\$ 11,643,102
Interest Receivable	\$ 1,153,761	\$ 1,549,713	\$ 1,091,796	\$ 1,902,131	\$ 2,245,040
Taxes Receivable	\$ 7,375,291	\$ 9,176,591	\$ 7,977,055	\$ 9,142,057	\$ 11,254,895
Accounts Receivable - Net	\$ 13,216,270	\$ 12,492,827	\$ 12,650,143	\$ 17,120,731	\$ 20,118,126
Grants Receivable	\$ 62,630	\$ 1,276,123	\$ 6,055,625	\$ 4,654,533	\$ 5,492,439
Intergovernmental Receivables	\$ 3,275,523	\$ 500,227	\$ 1,820,921	\$ 785,930	\$ 4,886,322
Notes Receivable - Net	\$ 285,001	\$ 279,286	\$ 476,179	\$ 417,846	\$ 382,429
Loans Receivable - Net	\$ 7,980	\$ 4,200	\$ 1,920	\$ 1,920	\$ 11,465
Leases Receivable	\$ -	\$ -	\$ -	\$ -	\$ 1,330,883
Prepaid Items	\$ 7,325,232	\$ 4,256	\$ 1,217	\$ 790,762	\$ 4,439
Inventories	\$ 165,255	\$ 135,390	\$ 100,573	\$ 84,259	\$ 74,092
Deposits	\$ 2,965,452	\$ 2,996,858	\$ 2,982,500	\$ 4,243,587	\$ 5,020,957
<b>Total Current Assets</b>	<b>\$156,562,344</b>	<b>\$176,968,652</b>	<b>\$190,638,646</b>	<b>\$220,237,471</b>	<b>\$238,254,493</b>
<b>Non-Current Assets</b>					
Restricted Cash & Investments	\$ 5,487,270	\$ 1,037,322	\$ 1,052,524	\$ 2,036,320	\$ 1,053,461
Notes Receivable	\$ 14,988,297	\$ 14,695,044	\$ 14,021,040	\$ 15,497,060	\$ 15,232,066
Loans Receivable	\$ 2,579,724	\$ 2,576,439	\$ 2,576,181	\$ 2,575,104	\$ 2,863,684
Leases Receivable	\$ -	\$ -	\$ -	\$ -	\$ 19,591,573
<b>Capital Assets</b>					
Land	\$ 71,709,544	\$ 72,709,544	\$ 74,844,715	\$ 76,973,464	\$ 88,258,650
Land Improvements	\$ 24,435,348	\$ 27,039,080	\$ 27,299,680	\$ 28,193,423	\$ 35,168,296
Infrastructure	\$ 438,292,387	\$ 448,308,643	\$ 462,405,357	\$ 475,868,889	\$ 503,166,642
Buildings	\$ 222,832,554	\$ 226,568,700	\$ 226,914,219	\$ 232,786,485	\$ 232,821,485
Machinery & Equipment	\$ 68,578,603	\$ 23,447,648	\$ 72,583,366	\$ 79,284,770	\$ 81,690,055
Lease Improvements	\$ 553,846	\$ 47,854,238	\$ 615,943	\$ 615,943	\$ 643,239
Right-to-use leased assets	\$ -	\$ -	\$ -	\$ -	\$ 3,596,165
Intangibles	\$ 2,443,174	\$ 2,454,246	\$ 2,460,683	\$ 2,460,683	\$ 2,479,443
Software	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in Progress	\$ 41,162,577	\$ 43,681,426	\$ 65,839,966	\$ 97,728,617	\$ 132,345,387
Less Accumulated Depreciation	\$(443,731,992)	\$(458,811,176)	\$(475,570,638)	\$(492,690,282)	\$(512,099,898)
<b>Total Non-Current Assets</b>	<b>\$449,331,332</b>	<b>\$451,561,154</b>	<b>\$475,043,036</b>	<b>\$521,330,476</b>	<b>\$606,810,248</b>
<b>TOTAL ASSETS</b>	<b>\$605,893,676</b>	<b>\$628,529,806</b>	<b>\$665,681,682</b>	<b>\$741,567,947</b>	<b>\$845,064,741</b>
<b>Deferred Outflows of Resources</b>					
Deferred Charge on Refunding of Debt	\$ 1,442,169	\$ 1,281,867	\$ 1,121,566	\$ 961,236	\$ 814,787
Deferred Outflows Related to OPEB	\$ 1,038,185	\$ 964,741	\$ 3,284,963	\$ 4,193,255	\$ 6,352,156
Deferred Outflows Related to Pension	\$ 47,699,170	\$ 35,282,540	\$ 31,291,016	\$ 35,332,931	\$ 37,743,869
<b>Total Deferred Outflows of Resources</b>	<b>\$ 50,179,524</b>	<b>\$ 37,529,148</b>	<b>\$ 35,697,545</b>	<b>\$ 40,487,422</b>	<b>\$ 44,910,812</b>
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$656,073,200</b>	<b>\$666,058,954</b>	<b>\$701,379,227</b>	<b>\$782,055,369</b>	<b>\$889,975,553</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Overdrafts	\$ -	\$ -	\$ -	\$ -	\$ 350,601
Accounts Payable & Other Current Liabilities	\$ 13,147,961	\$ 19,520,731	\$ 28,075,484	\$ 23,286,694	\$ 24,080,961
Interest Payable	\$ 796,710	\$ 787,582	\$ 1,013,218	\$ 1,147,878	\$ 1,452,170
Unearned Revenue	\$ 253,723	\$ 236,176	\$ 231,174	\$ 8,336,767	\$ 6,525,817
Deposits Payable	\$ 704,758	\$ 689,744	\$ 593,013	\$ 1,122,429	\$ 1,377,712
Claims & Judgments Payable	\$ 3,472,074	\$ 3,354,789	\$ 3,456,624	\$ 3,714,974	\$ 4,959,169
Compensated Absences Payable	\$ 3,425,064	\$ 3,564,455	\$ 4,198,261	\$ 4,640,972	\$ 4,628,359
Bonds, Notes, Loans, & Leases Payable Due in Less than 1 Yr	\$ 10,399,988	\$ 17,981,076	\$ 8,386,464	\$ 8,871,414	\$ 6,431,261
<b>Total Current Liabilities</b>	<b>\$ 32,200,278</b>	<b>\$ 46,134,553</b>	<b>\$ 45,954,238</b>	<b>\$ 51,121,128</b>	<b>\$ 49,806,050</b>
<b>Non-Current Liabilities</b>					
Claims & Judgments Payable	\$ 9,931,581	\$ 9,852,894	\$ 10,094,819	\$ 9,823,644	\$ 12,362,029
Compensated Absences Payable	\$ 1,755,751	\$ 1,739,009	\$ 2,099,129	\$ 2,320,487	\$ 2,314,178
Bonds, Notes, Loans, & Leases Payable Due in More than 1 Yr	\$ 79,139,097	\$ 69,041,576	\$ 86,720,728	\$ 130,309,844	\$ 167,070,401
Landfill Closure & Postclosure Costs	\$ 7,449,025	\$ 7,918,597	\$ 8,316,243	\$ 8,611,980	\$ 9,215,755
Total Other OPEB Liability	\$ 39,367,936	\$ 38,141,658	\$ 43,571,320	\$ 39,816,181	\$ 45,110,330
Net Pension Liability	\$ 170,132,291	\$ 159,846,743	\$ 170,977,491	\$ 183,545,438	\$ 103,632,483
<b>Total Non-Current Liabilities</b>	<b>\$307,775,681</b>	<b>\$286,540,477</b>	<b>\$321,779,730</b>	<b>\$374,427,574</b>	<b>\$339,705,176</b>
<b>TOTAL LIABILITIES</b>	<b>\$339,975,959</b>	<b>\$332,675,030</b>	<b>\$367,733,968</b>	<b>\$425,548,702</b>	<b>\$389,511,226</b>
<b>Deferred Inflows of Resources</b>					
Deferred Inflows to Leases	\$ -	\$ -	\$ -	\$ -	\$ 20,887,663
Deferred Inflows Related to Pensions	\$ 3,899,744	\$ 5,227,452	\$ 6,480,119	\$ 4,585,615	\$ 73,818,363
Deferred Inflows Related to OPEB	\$ -	\$ 3,369,729	\$ 2,851,312	\$ 5,827,048	\$ 5,248,341
<b>Total Deferred Inflows of Resources</b>	<b>\$ 3,899,744</b>	<b>\$ 8,597,181</b>	<b>\$ 9,331,431</b>	<b>\$ 10,412,663</b>	<b>\$ 99,954,367</b>
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>\$343,875,703</b>	<b>\$341,272,211</b>	<b>\$377,065,399</b>	<b>\$435,961,365</b>	<b>\$489,465,593</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	\$ 359,743,916	\$ 366,386,600	\$ 385,142,330	\$ 400,190,206	\$ 415,704,998
<b>Restricted for:</b>					
Capital Projects	\$ 4,225,901	\$ 6,535,238	\$ 7,098,794	\$ 7,983,146	\$ 10,375,141
Debt Service	\$ 1,682,256	\$ 1,422,937	\$ 1,548,781	\$ 1,646,374	\$ 1,700,071
Public Safety	\$ 441,331	\$ 543,025	\$ 672,832	\$ 752,543	\$ 899,678
Parks & Recreation	\$ 1,283,774	\$ 1,717,380	\$ 1,836,974	\$ 2,781,331	\$ 3,119,374
Community & Economic Development	\$ 19,217,519	\$ 21,826,324	\$ 22,650,447	\$ 27,612,920	\$ 32,776,269
Retiree Benefits	\$ 10,250,072	\$ -	\$ -	\$ -	\$ -
Unrestricted	\$ (84,647,272)	\$ (73,644,761)	\$ (94,636,330)	\$ (94,872,489)	\$ (64,065,571)
<b>Total Net Position</b>	<b>\$312,197,497</b>	<b>\$324,786,743</b>	<b>\$324,313,828</b>	<b>\$346,094,031</b>	<b>\$400,509,960</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, &amp; NET POSITION</b>	<b>\$656,073,200</b>	<b>\$666,058,954</b>	<b>\$701,379,227</b>	<b>\$782,055,396</b>	<b>\$889,975,553</b>

## GOVERNANCE

### Legal Authority

The City of Santa Cruz operates under California Charter City Law (Article XI, section 3(a) of the California Constitution for the purpose of establishing and enforcing local ordinances in the Santa Cruz community. The California Constitution gives cities the power to become charter cities. The distinction between general law and charter cities is that charter cities have superseding authority over certain “municipal affairs.” Examples of municipal affairs include election matters, land use designations, and budgetary practices. Cities that have not adopted a charter are general law cities. General law cities are bound by the State’s general law, even with respect to municipal affairs. Based on LAFCO staff’s analysis, there are 482 cities in California – 361 or 75% are general law cities and 121 or 25% are charter cities.

### Local Accountability & Structure

The City of Santa Cruz is governed by an elected seven-member City Council elected at-large. However, it is LAFCO’s understanding that the City is currently transitioning to a district-based election process. **Appendix C** shows the district boundaries once the transition is completed in 2024. At that time, each district will have conducted its next scheduled election and have its respective representative seated on the City Council. The Council is responsible for the establishment of policy relative to the City’s mission, goals, and operations. The Council has the authority to establish all laws and regulations with respect to municipal affairs, subject to limitations of the City Municipal Code as well as State and Federal legislation. **Table 6** is a list of the Council’s current composition:

**Table 6: Santa Cruz City Council**

Board Member	Term of Office
<b>Mayor – Fred Keeley</b>	First Elected: 2022 Current Term Ends: 2026
<b>District 1 – Martine Watkins</b>	First Elected: 2016 Current Term Ends: 2024
<b>District 2 – Sonja Brunner</b>	First Elected: 2020 Current Term Ends: 2024
<b>District 3 – Shebreh Kalantari-Johnson</b>	First Elected: 2020 Current Term Ends: 2024
<b>District 4 – Scott Newsome</b>	First Elected: 2022 Current Term Ends: 2026
<b>District 5 – Sandy Brown</b>	First Elected: 2016 Current Term Ends: 2024
<b>District 6 – Renee Golder</b>	First Elected: 2022 Current Term Ends: 2026

*Footnote: Starting in 2022, the City will have six members elected by districts to four-year terms and a Mayor elected at-large to serve a four-year term*

### Board Meetings

The City Council typically meets on the second and fourth Tuesday of each month. The meeting dates are posted at city hall and on the City’s Website. Public meetings are typically held in the afternoon and evening.



### Other Boards / Commissions

The City of Santa Cruz has a varying number of advisory bodies, each with distinct responsibilities. LAFCO has identified 16 different advisory boards, including but not limited to the Arts Commission, the Equal Employment Opportunity Committee, and the Water Commission. **Appendix D** provides a copy of the City's official handbook for "City Advisory Bodies."

### Website Transparency

Recently, laws requiring more transparency for local governments have been adopted, including Senate Bill 929 for independent special districts. Since 2020, LAFCO has been analyzing agencies' websites as part of the service review process by evaluating various benchmarks. **Table 7** summarizes LAFCO's findings on whether the City's website is meeting the transparency benchmarks. At present, the City meets all benchmarks, excluding one. The only item that was not found in the City's website is LAFCO's adopted service reviews. Overall, the City has a transparent website filled with useful information and resources that are easily accessible.

**Table 7: Website Transparency**

Website Components	Status (Yes = ✓)
1. Names and Contract Information of Board Members	✓
2. Board Member Term Limits	✓
3. Names of Key Staff, including City Manager	✓
4. Contract Information for Staff	✓
5. Election / Appointment Procedure & Deadlines	✓
6. Board Meeting Schedule	✓
7. Mission Statement	✓
8. Description of City's Functions & Service Area	✓
9. Authorizing Statute / Enabling Act	✓
10. Adopted Annual Budgets	✓
11. Audited Financial Statements / Financial Audits	✓
12. Archive of Board Meeting Agendas & Minutes	✓
13. Policies & Procedures / Bylaws	✓
14. Home Page Link to Agendas / Meetings	✓
15. SB 272 – Compliance-Enterprise Catalogs	✓
16. Machine Readable / Searchable Agendas	✓
17. Recipients of Grant Funding or Assistance	✓
18. Link or Copies of LAFCO's Service & Sphere Reviews	-
<b>Total Score</b>	<b>17 (94%)</b>

## Opportunities and Challenges

Santa Cruz has been a city for almost 150 years, and it has endured significant moments and events such as economic recessions and natural disasters. The City is now experiencing a new normal post-COVID and recent fires. Unanticipated occurrences place a considerable amount of strain on local agencies, including cities. While cities struggle to maintain the same level of service to their residents in the face of obstacles, there are also opportunities to be explored during these challenging times. The following sections detail opportunities that Santa Cruz can consider or incorporate to maximize efficiencies, increase strategic partnerships, and/or identify possible cost-savings for the residents.

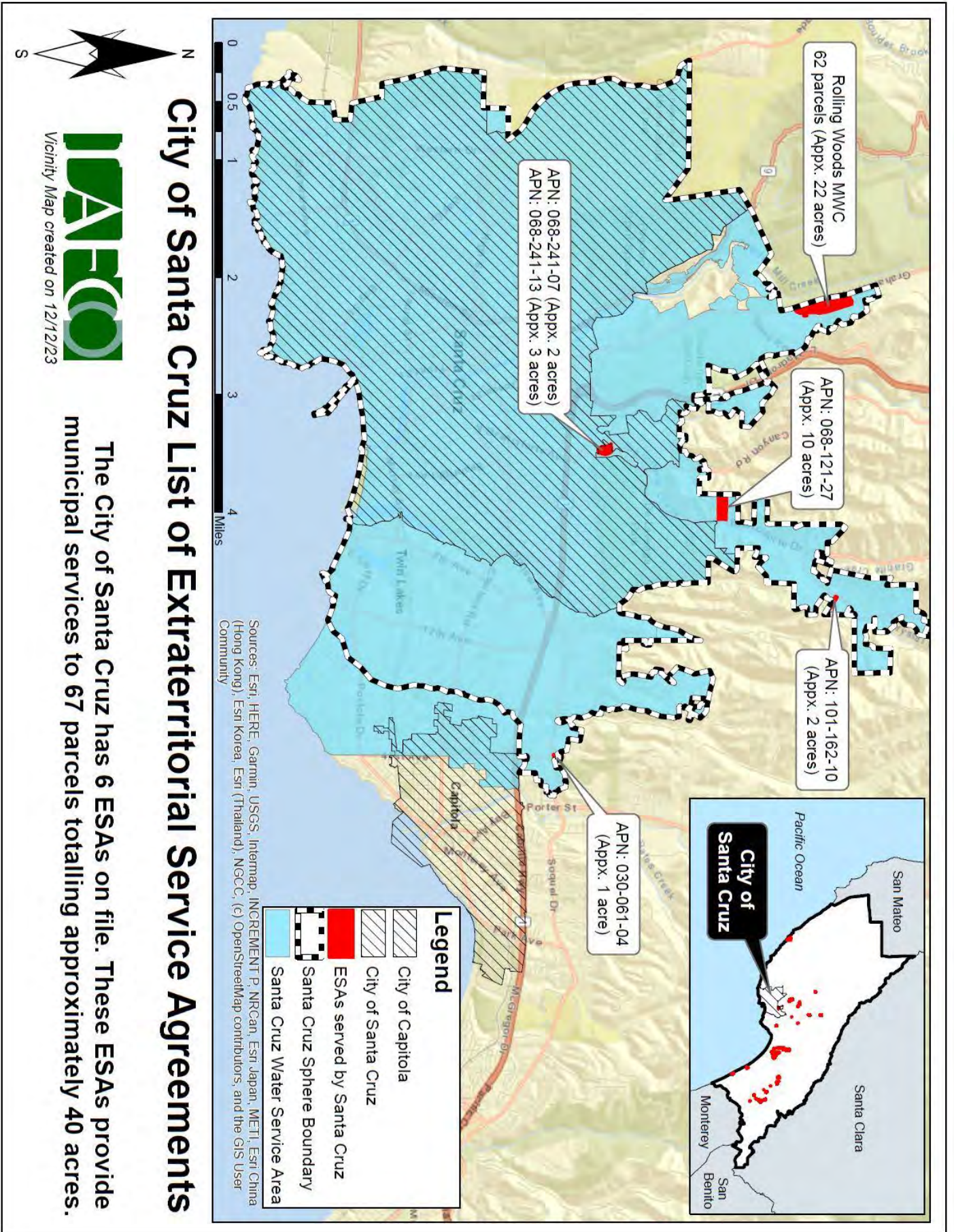
### Extraterritorial Service Agreements

The Cortese-Knox-Hertzberg Act (“LAFCO Law”) authorizes LAFCO to consider the extension of municipal services beyond the jurisdictional boundary of a local agency, where the subject territory is outside an agency’s service or sphere boundaries (Government Code Section 56133). The Commission has also adopted a policy to set clear standards for applying state and local laws governing the extension of services beyond the jurisdictional boundaries of a city or special district, which are known in Santa Cruz County as extraterritorial service agreements (“ESAs”).

At present, the City of Santa Cruz has six ESAs involving 67 parcels for a total of approximately 40 acres. The first ESA was approved in 2006 to provide water services to the Rolling Woods Mutual Water Company (22 acres; 62 parcels in total). The following five ESAs involved single parcels and were approved between 2006 to 2023 (ranging from 0.6 to 9.7 acres). **Figure 7** on page 22 shows the location of the active ESAs. As the map shows, 16 ESAs are located outside the City’s jurisdictional limits but within the City’s water service area. The last ESA was approved by LAFCO in November 2023 and involved one parcel (APN: 068-121-27). The subject parcel is within the City’s sphere boundary and substantially surrounded by the City, as shown in **Figure 8** on page 23. This ESA may be a candidate for future annexation, if desired by the landowner and supported by the City.

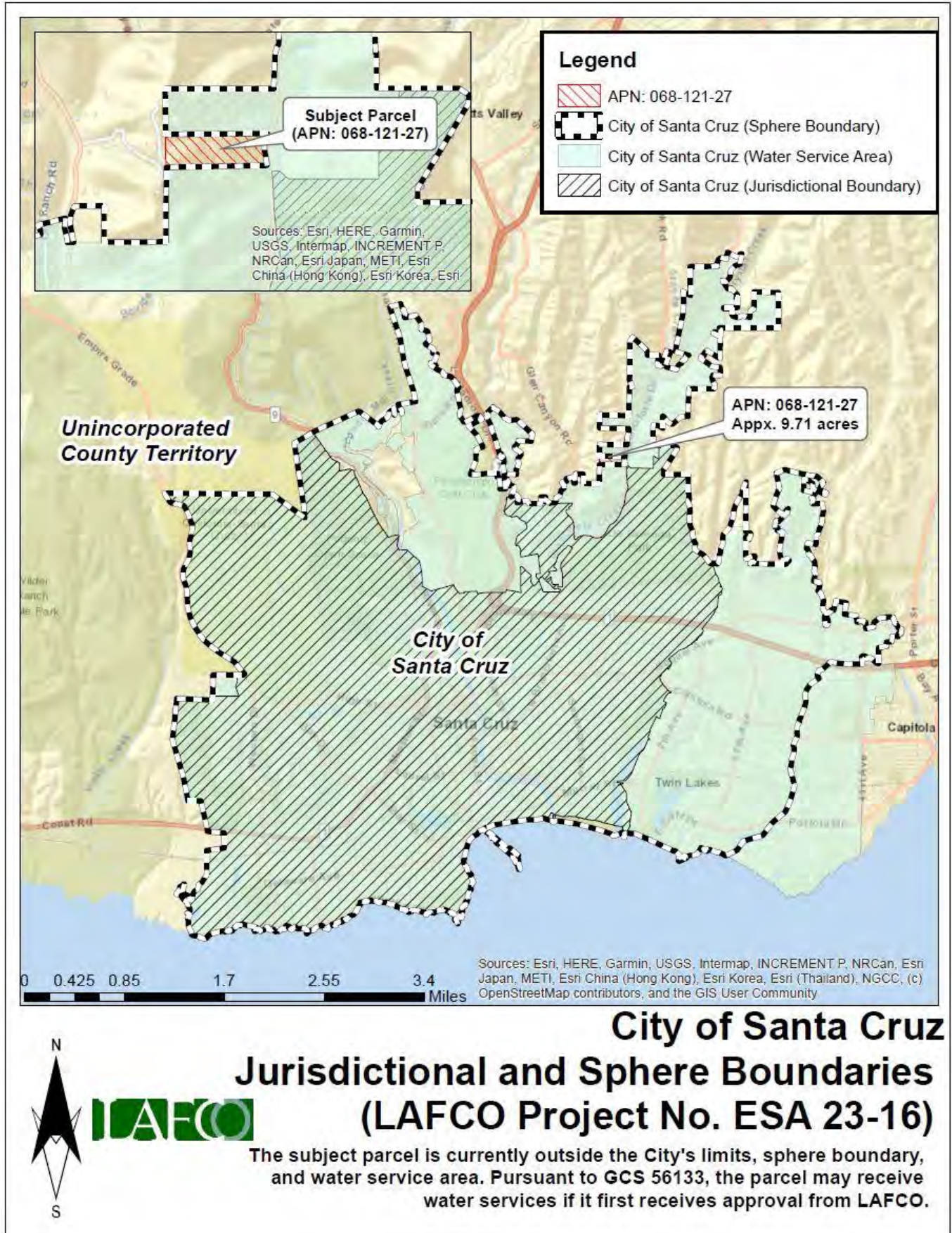
***LAFCO Staff Recommendation:*** *Santa Cruz should consider analyzing the possible annexation of the existing extraterritorial service agreements and/or areas within their current sphere boundary as part of any future strategic plan or general plan updates.*

Figure 7: Active Extraterritorial Service Agreements





### Figure 8: Most Recent Extraterritorial Service Agreement





## Shared Services – Strategic Partnerships

While the City is fiscally stable, LAFCO is concerned about the long-term sustainability of the City's fire department. LAFCO's 2021 countywide fire report noted that the fire department ended each fiscal year, from FY 2014-15 to FY 2019-20, in a deficit. The deficit amount ranged from \$13 million to almost \$16 million. The City's latest financial statements indicate that FY 2020-21 will end with a \$13 million deficit. If that holds, the City will experience seven consecutive years where revenues collected were not enough to cover the annual expenses needed to provide fire protection and emergency services within the city limits. LAFCO encourages Santa Cruz to explore cost-saving opportunities and other ways to improve the overall delivery of services within and surrounding the City by collaborating with neighboring local agencies. Examples of joint efforts include creating joint powers authorities, sharing resources through contractual agreements, considering boundary changes (i.e., fire reorganizations), or simply sharing costs associated with joint procurements. Such coordination may address the ongoing fiscal constraints facing the City's fire department.

### Latest Efforts

It is LAFCO's understanding that the City has been coordinating with the Central Fire District to explore possible shared services opportunities, including but not limited to reorganization. The two agencies held a meeting in September and invited LAFCO to discuss the development of a feasibility study and LAFCO's potential involvement with the request for proposal process. LAFCO staff supports the two agencies' efforts to explore ways to provide the best level of service to their constituents and encourages them to include LAFCO as a partner in these efforts.

***LAFCO Staff Recommendation:*** Santa Cruz should explore shared services opportunities and other strategic partnerships with neighboring agencies, including but not limited to the Central Fire District. If the two agencies move forward with a feasibility study, staff encourages them to include LAFCO in the process, if possible.

### **Long-Term Plans**

The purpose of long-term planning, such as strategic plans and capital improvement plans, are to identify and prioritize needs and project costs for planned improvements to the infrastructure that will serve the affected ratepayers in an efficient and cost-effective manner throughout the next five-plus years of growth and change. In 2023, the City adopted a five-year capital investment program, which identified over 40 different projects. Additionally, the City has developed over long-range plans including a Climate Action Plan<sup>2</sup> and a multi-year housing element update<sup>3</sup>. These efforts highlight the City's proactive leadership in climate, environmental protection, and smart growth.

***LAFCO Staff Recommendation:*** Santa Cruz should provide an update to LAFCO during the 2025 calendar year summarizing the status of their housing and climate change resilience efforts.

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<sup>2</sup> Climate Action Plan: <https://www.cityofsantacruz.com/government/city-departments/city-manager/climate-action-program/climate-action-plan>

<sup>3</sup> Housing Element Update: <https://www.cityofsantacruz.com/government/city-departments/planning-and-community-development/long-range-policy-planning/general-plan/housing-element>

## SPHERE OF INFLUENCE

### **Cortese-Knox-Hertzberg Act**

City and special district spheres of influence define the probable physical boundaries and service area of a local agency, as determined by the Commission (Government Code Section 56076). The law requires that spheres be updated at least once every five years either concurrently or subsequent to the preparation of Municipal Service Reviews. Spheres are determined and amended solely at the discretion of the Commission. In determining the sphere of influence for each local agency, the Commission is required by Government Code Section 56425(e) to consider certain factors, as analyzed on page 26.

### **Current & Proposed Sphere Boundary**

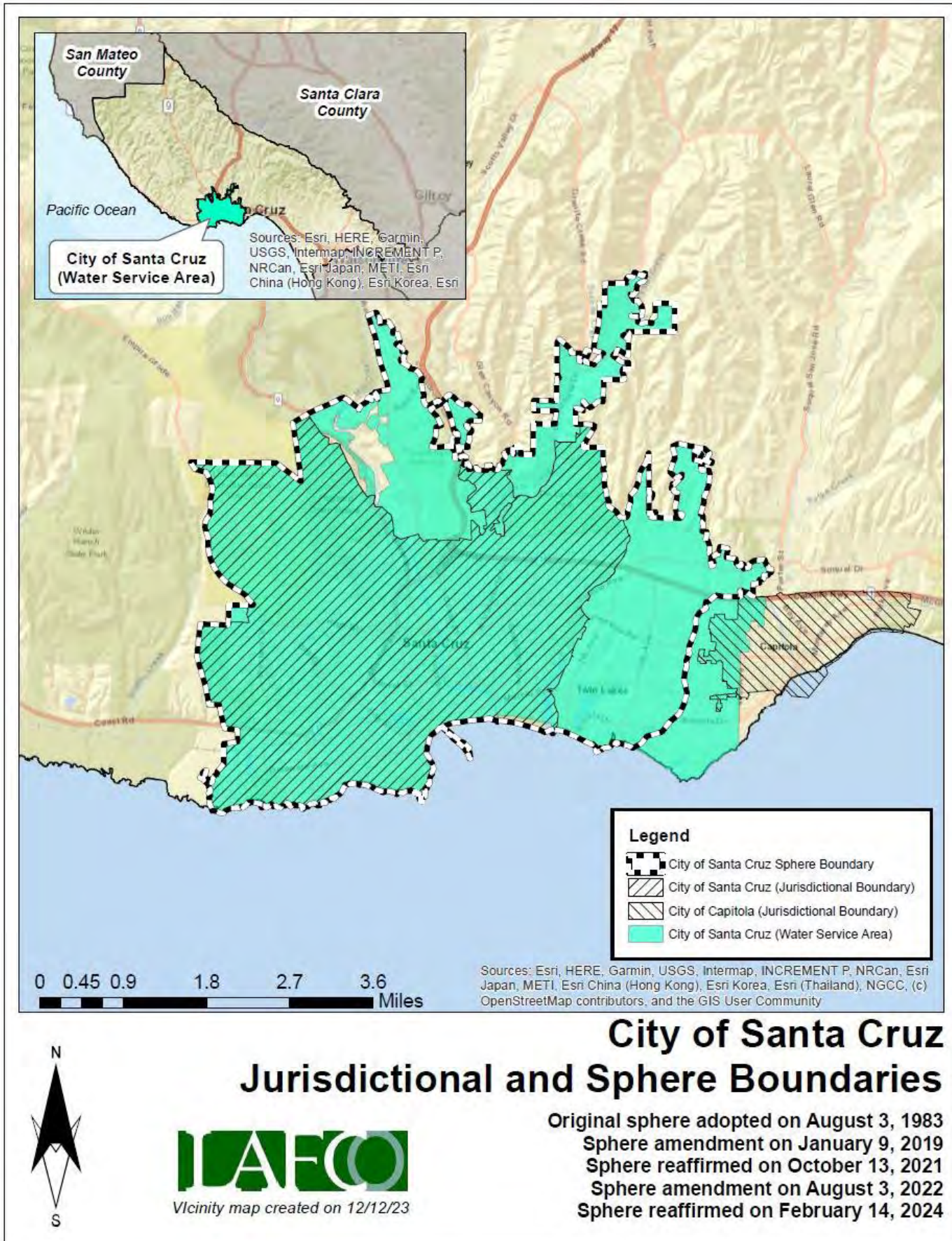
Santa Cruz LAFCO adopted the City's first sphere of influence on August 3, 1983. The current sphere includes areas outside the City's jurisdictional boundary. The current sphere goes beyond city limits and includes approximately 10,800 parcels. The last sphere update occurred in August 2022 which expanded the sphere boundary to reflect the City's water service area. While the initiation of any boundary change is not mandatorily required, it may be beneficial for the City to consider analyzing potential future annexation areas as part of their next general plan update or future strategic plan effort to prepare for future growth and/or service demand.

It is also important to note that further analysis would be required as part of any annexation application to determine whether the City is willing and capable of providing services to the annexation area(s). Such analysis would occur if annexation were to be pursued in the future based on the existing sphere and submitted plan. In the interim, LAFCO staff is recommending that the Commission reaffirm the existing sphere, as shown in **Figure 9** on page 26.





**Figure 9: Proposed City Sphere Reaffirmation**



## CITY PROFILE SUMMARY

City of Santa Cruz	
<b>Formation</b>	California Charter City Law (Article XI, section 3(a) of the California Constitution)
<b>City Council</b>	Starting in 2022, six members, elected by districts to four-year terms, and a Mayor, elected at-large to serve a four-year term
<b>Contact Person</b>	Matt Huffaker, City Manager
<b>Employees</b>	Approximately 927 Full-Time Employees
<b>City Area</b>	City Limits: 12 square miles (8,200 acres) Water Service Area: 27 square miles (17,000 acres)
<b>Sphere of Influence</b>	Larger than the City (i.e., sphere boundary goes beyond existing City limits)
<b>FY 2021-22 Audit</b>	Total Revenue = \$259,450,450  Total Expenditure = \$205,034,521  Net Position (Ending Balance) = \$400,509,960
<b>Contact Information</b>	Mailing Address: 809 Center Street, Room 10, Santa Cruz, CA 95060  Phone Number: (831) 420-5010  Email Address: <a href="mailto:mhuffaker@santacruzca.gov">mhuffaker@santacruzca.gov</a>  Website: <a href="https://www.cityofsantacruz.com/home">https://www.cityofsantacruz.com/home</a>
<b>Public Meetings</b>	City Council meetings are typically held on the second and fourth Tuesday of each month in the afternoon.
<b>Mission Statement</b>	Varies (each city department has adopted their own vision and mission statements).



## SERVICE AND SPHERE REVIEW DETERMINATIONS

The following service and sphere review determinations fulfill the requirements outlined in the Cortese-Knox-Hertzberg Act.

### Service Provision Determinations

Government Code Section 56430 requires LAFCO to conduct a municipal service review before, or in conjunction with, an action to establish or update a sphere boundary. Written statements of determination must be prepared with respect to each of the following:

**1. Growth and population projections for the affected area.**

The City currently provides various municipal services to a population of approximately 64,000. Moderate growth is projected to occur for the next twenty years. LAFCO staff estimates that the entire population will reach 79,000 by 2040.

**2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.**

LAFCO did not identify any DUCs within or contiguous to the City's sphere boundary based on the 2020 data used to conduct LAFCO's analysis.

**3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.**

The City General Plan within its jurisdictional limits designates areas for residential, commercial, and other city-related zoning.

**4. Financial ability of agencies to provide services.**

Santa Cruz is financially stable. Audited financial statements from Fiscal Years 2017-18 to 2021-22 indicate that the City has ended in a surplus in three of the last five fiscal years. As of June 30, 2022, the City is operating with a net position of approximately \$400 million.

**5. Status of, and opportunities for, shared facilities.**

LAFCO recommends that the City continue exploring collaborative efforts with neighboring agencies to improve efficiencies, including but not limited to fire protection services. Potential joint ventures may address the fire department's fiscal issues.

**6. Accountability for community service needs, including governmental structure and operational efficiencies.**

The City has a detailed and transparent website that provides in-depth information regarding the City's various departments.

**7. Any other matter related to effective or efficient service delivery, as required by commission policy.**

LAFCO recommends that the City consider analyzing the possible annexation of the existing extraterritorial service agreements and/or areas within their current sphere boundary as part of any future strategic plan and/or general plan update.

## **Sphere of Influence Determinations**

Government Code Section 56425 requires LAFCO to periodically review and update spheres of influence in concert with conducting municipal service reviews. Spheres are used as regional planning tools to discourage urban sprawl and encourage orderly growth. Written statements of determination must be prepared with respect to each of the following:

**1. The present and planned land uses in the area, including agricultural and open-space lands.**

The present and planned land uses are based on the City's general plan which ranges from urban to rural uses. General plans anticipate growth centered on existing urban areas and the maintenance of open space, residential uses, and environmental protection. Planned land uses within the applicable general plans are a mix of urban and residential, public recreation, and open-space lands.

**2. The present and probable need for public facilities and services in the area.**

Santa Cruz has identified and prioritized its infrastructure needs in various projects. These projects are easily accessible on the City's website.

**3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.**

Santa Cruz provides various types of municipal services, including but not limited to law enforcement and public works. Designated city departments are tasked to efficiently provide these public services to their constituents. The City's robust website provides detailed information about each of the 14 city departments.

**4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.**

Santa Cruz appoints its citizens on an array of boards, commissions, and committees to assist and advise in formulating policies. These advisory bodies provide feedback that may help the City make significant decisions. In total, the City has 16 boards, such as the Arts Commission, the Equal Employment Opportunity Committee, and the Water Commission.

**5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.**

LAFCO did not identify any DUCs within or contiguous to the City's sphere boundary based on the 2020 data used to conduct LAFCO's analysis.

## **APPENDICES**

**Appendix A: Past Boundary Changes (1965 to Present)**

**Appendix B: City Zoning Map**

**Appendix C: City Districting Map (2022 Version)**

**Appendix D: Handbook for City Advisory Bodies (2023 Version)**

**Appendix E: Capital Investment Program (2023 to 2027)**

