



# County of Santa Cruz

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## COUNTY ADMINISTRATIVE OFFICE

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CARLOS J. PALACIOS, COUNTY ADMINISTRATIVE OFFICER

April 26, 2023

Members of the Board

I am pleased to present the Fiscal Year 2023–24 Proposed Budget. The Proposed Budget incorporates the Board’s priorities for the coming year and continues prudent financial practices allowing us to maintain our budget reserves and AAA bond rating while assuring the continuity of public services during uncertain economic times.

This year’s \$1.104 billion Proposed Budget includes a \$731.5 million General Fund that prioritizes sustaining existing commitments and capacity, including nearly \$12 million in the base budget for salary and benefit increases, with modest targeted investments to improve services to the community.

### ***Challenges Today and on the Horizon***

**Significant Deferred Maintenance and Disaster Costs.** Despite a balanced budget, we remain concerned with both immediate and future challenges. These include addressing significant deferred maintenance at our facilities and on our roads, managing the County’s cash flow while we wait on up to \$100 million in reimbursements for past and current disaster response and recovery costs, allocating funds for behavioral health, legal and other supportive services to implement CARE Court, and supporting the County’s share of approximately \$30 million needed to finance next generation radio emergency communication systems used by our first responders.

**Economic Uncertainty.** While the Proposed Budget covers negotiated cost increases and makes progress on our goals, our long-range modeling includes ongoing deficits. We also lack adequate reserves given the risk of an economic downturn, further natural disasters, and aging infrastructure and facilities. As we have reported, the State faces significant budgetary shortfalls, with revenues underperforming forecasts, and inflation remains high. And while overall job growth remains strong, layoffs in the tech industry have impacted the Bay Area.

**Disruptive Role of Natural Disasters.** Most recently from a series of atmospheric river storms, natural disasters continue to play a disruptive role in County finances. Whether or not the State or federal government provide disaster assistance to local government, the cost of immediate response always falls on local taxpayers. We will exceed \$50 million in disaster response and recovery costs in 2023 alone. While we hope to recoup much of that, we are still negotiating with State and federal partners for reimbursement of \$67 million outstanding from the CZU fires, an event more than two and a half years old, and the COVID-19 pandemic.

**Systemic Underfunding.** Despite systemic underfunding – including a far lower share of local property tax dollars than most other counties – the Proposed Budget begins to address some overdue facility improvements. This is a step forward, but we have over \$300 million in unfunded infrastructure, and the nearly complete county facility condition assessment will likely require tens of millions to sustain our buildings. Nonetheless, we remain committed to prioritizing strategic investments guided by the values and goals of our Strategic Plan.

### ***Strategic Investments and Accomplishments***

**New and Improved Facilities.** Over the next fiscal year, we will open the new South County Government Center in Watsonville to better serve residents, complete Juvenile Hall improvements to better serve youth, develop a new Children’s Crisis Center to better serve local families, open new Project Homekey permanent supportive housing to better serve unhoused residents, restore the Sheriff’s Recovery Center to better serve those with substance-related intoxication offenses, and fully reopen Simpkins Family Swim Center to better serve the recreation needs of our residents. Our County has been extraordinarily successful in securing grant funding to support many of these investments and more, as well as federal funding to rebuild the Pajaro River levee system. I am grateful to the staff who worked hard to secure these funds, increasing and improving services to the community.

**Innovations and Opportunities.** The Proposed Budget also improves medical and behavioral health care for those in our detention centers and implements CalAIM (California’s transformation of the Medi-Cal system) for those transitioning back to the community. It advances the County’s Climate Action and Adaptation Plan strategies and invests in a Master Plan for Aging and a Parks Strategic Plan. It offers professional development opportunities to support new and existing employees and replaces key technology systems to achieve more efficient and effective services. It improves our local infrastructure through new storm repairs, increased affordable housing under our forthcoming Housing Element, and planning for the Rail Trail.

## ***Proposed Budget and Objectives Available Online***

We invite everyone to dive deeper into these topics by exploring the budget through our award-winning budget website, which demonstrates how the Proposed Budget supports our Strategic and Operational plans. We hope you will find helpful the new comparisons between the proposed budget and base budget that should isolate the more discretionary budget changes from required cost increases (like those in our employee agreements and annual benefit increases).

We also want to thank our County staff who devote so much of their time to the extraordinary and unprecedented natural disasters, as well as our community partners and residents who help make Santa Cruz County as resilient as it is. And we could not have accomplished any of this without the leadership and guidance of the Board of Supervisors.

We are ready to solve the tough challenges ahead and look forward to what we will accomplish together in the coming fiscal year.

Respectfully submitted,

Carlos J. Palacios  
County Administrative Officer