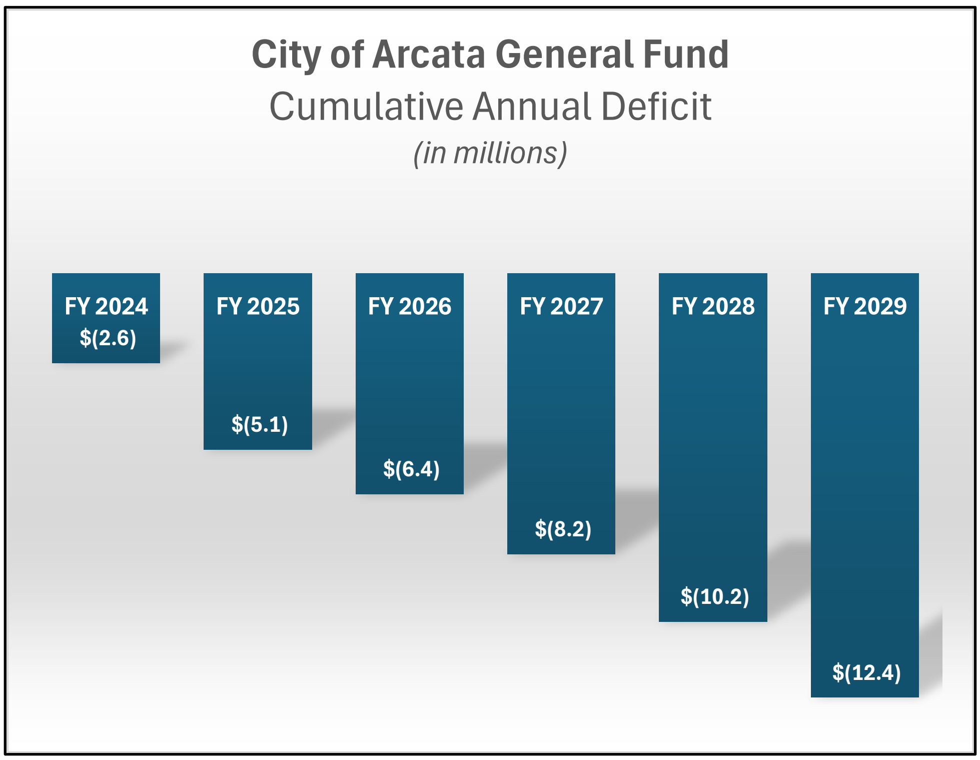
Our City's Growing Budget Deficit

The level of services and the City's diverse programs and infrastructure come at a cost, and existing tax revenues like sales and property taxes have not kept pace with cost increases. This is not a new challenge, to Arcata or many other cities in California. Since the Recession that started in 2008, Arcata has strategically worked to reduce spending and maintain existing programs and services. While also addressing new challenges such as more stringent water quality standards, homelessness, alternative police response, climate change and sea level rise.



The dissolution of the Arcata Redevelopment Agency by the State in 2012, to shift funding back to Sacramento to help fill the state's own budget deficit, eliminated important revenues that funded affordable housing, redevelopment and investments in our local businesses and industries, all of which supported growth in local tax revenues.

Arcata's structural deficit, when a budget deficit persists over time whether the economy is performing well or not, will require service reductions and ways to increase revenue to reverse. Over the next five years, the City projects an annual budget deficit in the General Fund of $1.3 to over $2 million each year.

CITY OF ARCATA

One element of reducing spending in response to the downturn was to defer maintenance on the City's infrastructure. Arcata was incorporated in 1858 (originally as the Town of Union), so aging infrastructure has and will continues to be a challenge. Over the years, the City has been diligent in pursuing and receiving grant funding for new and replacement infrastructure but has and continues to struggle to maintain the existing infrastructure. Unfortunately, this deferred maintenance liability adds to higher costs in future years.

The ARPA funding and other pandemic relief, along with savings realized as Arcata cut back programs in response to the pandemic, further delayed the onset of the structural deficit – until now. The easy budget reductions, including deferred maintenance that could be employed with little impact on current programming were implemented by the City years ago.

Over the last 20 years, City officials have and continue to adapt to more frequent and larger climate emergencies, and bigger economic ups and downs, including the ballooning cost of public employee pensions. Being prepared for anticipated and unanticipated emergencies, is the "new normal". In response, Arcata has reserved 30% of its annual operating expense budget in its General, Water and Wastewater Funds to enable response to local disasters, catastrophic events, and/or economic downturns. The City also adopted a pension funding policy to reduce the growing cost of the unfunded pension liability. In addition to the emergency reserve, the City's General Fund has built up unreserved fund balance, which together these one-time funds equal approximately 299 days of operating expenditures.

However, even eliminating the programs funded from ARPA and holding staffing levels and ongoing programs at status-quo will not balance the City's General Fund operating budget, and the set aside reserves will be spent by 2029. Without a new revenue source, loss of vital programs will be necessary. This is why the City Council unanimously agreed to place Measure H on the November 5, 2024, ballot.