



# Agenda Item

## City Council

Item #: 9.4.

6/24/2025

File #: 25-0323

**TO:** Honorable Mayor and Members of the City Council

**THRU:** Tom Kisela, City Manager

**FROM:** Trang Nguyen, Finance Director

### 1. SUBJECT

Fiscal Year 2025-26 City of Orange Budget and Five-Year Capital Improvement Program.

### 2. SUMMARY

Each spring, the City staff presents the City Council with an annual budget that serves as the City's financial and operational plan for the upcoming fiscal year. This budget document is prepared following two City Council study sessions, two regular meetings, and one special meeting during which various aspects of the proposed budget are considered and Council direction is given.

### 3. RECOMMENDED ACTION

The following action items are recommended to adopt the Fiscal Year 2025-26 Budget, effective July 1, 2025:

1. Adopt Resolution No. 11620. A Resolution of the City Council of the City of Orange adopting said City's Budget for the Fiscal Year 2025-26 and authorizing transfer of funds within and between appropriations, transfer of funds between funds, and additional appropriations.
2. Adopt Resolution No. 11622. A Resolution of the City Council of the City of Orange adopting the appropriations limit for the Fiscal Year 2025-2026.
3. Adopt Resolution No. 11621. A Resolution of the City Council of The City of Orange approving and authorizing staff to submit to the Orange County Transportation Authority the Measure M2 Seven-Year Capital Improvement Program for Fiscal Year 2025-2026 through 2031-2032 to comply with Measure M2 eligibility criteria.

### 4. FISCAL IMPACT

Adoption of the annual budget establishes the City financial plan for the Fiscal Year 2025-26.

### 5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability

### 6. DISCUSSION AND BACKGROUND

#### Background:

The City's budget is a financial plan based on anticipated revenues and expenditures in a fiscal year starting July 1 through June 30. Each year, the City's budget is prepared prioritizing resident

identified service priorities including public safety and infrastructure projects, City Council Goals, and providing the highest possible service levels to the community overall. The Fiscal Year 2025-26 (FY 26) budget development has been presented and reviewed at three City Council meetings. The FY 26 Budget incorporates direction received from the City Council at the May 27<sup>th</sup> regular City Council meeting.

The adoption of the FY 26 budget and related documents will ensure the City has established a set of legally adopted appropriations, met all the requirements of the Gann Initiative, and complied with the Measure M and Transportation Congestion Relief Fund (TCRF) funding requirements (Maintenance of Effort) of a Seven-Year Transportation Capital Improvement Plan. The FY 26 budget represents the City’s spending plan for the coming fiscal year, which will begin July 1, 2025 and end June 30, 2026.

In summary, the FY 26 budget, for all funds, includes total revenues of approximately \$253.5 million and total expenditures of \$280.1 million, including transfers and the Redevelopment Agency. The General Fund total revenues are approximately \$147.0 million and expenditures of \$149.6 million, including transfers.

The attached budget package contains the essential elements that are included and required for adoption of the FY 26 budget including:

- Budget Message (Attachment A)
- Budget Resolutions (Attachments B-D)
- Schedule of Changes in Fund Balances (Attachment E)
- Statement of Revenues and Expenditures (Attachments F-H)
- City-wide Schedule of Positions and Staffing Changes (Attachments I-J)
- Five-Year Capital Improvement Plan (Attachment K)
- Budget Reductions (Attachment L)

**Discussion:**

**Fiscal Year 2024-25 (FY 25) General Fund Year-End Estimates**

On May 27, 2025, staff presented an update to the year-end estimates for FY 25 with a focus on the General Fund. The revised FY 25 year-end estimates were based on the third quarter revenues and expenditures. The year-end estimate for revenues totaled \$148.7 million, including transfers, and totaled \$147.9 million for estimated expenditures. This resulted in an estimated operating surplus of \$577,000 due to one-time funding for road mitigation purposes. It is important to note that although the City had a one-time operating surplus due to a temporary funding source, the City is still operating on a deficit of general fund budget for services due to rising costs and the unfortunate repercussions of the Great Recession, Redevelopment Agency dissolution, and COVID-19, which is not unique to the City of Orange with many California cities facing similar fiscal situations. It should be noted that while the one-time funding created a small operating surplus, the City is projecting an ongoing operating deficit beginning in FY 26.

*Table 1: FY 25 Year-end Estimated Fund Balance*

	FY 25 Year-End Estimate
Estimated Beginning Fund Balance - 7/1/2024	\$26,910,980

Operating Revenues	145,297,582
Transfers In	3,176,328
<b>Total Revenues</b>	<b>148,473,910</b>
Operating Expenditures	(147,896,778)
Transfers Out	-
<b>Total Expenditures</b>	<b>(147,896,778)</b>
<b>Operating Surplus/(Deficit)</b>	<b>577,132</b>
<b>Estimated Ending Fund Balance - 6/30/2025</b>	<b>27,488,112</b>
Reserved - Catastrophic	24,550,865
<b>Estimated Undesignated Fund Balance - 6/30/2025</b>	<b>\$2,937,247</b>

### Fiscal Year 2025-26 (FY 26) General Fund Revenues

The FY 26 total General Fund operating revenues, including transfers in, are projected to be approximately \$147.0 million, a decrease of almost \$1.5 million or 1% from the FY 25 year-end estimates.

Provided in Table 2 is a summary of the major General Fund revenues by source type, comparing the changes from FY 25 year-end estimates, and FY 26 projected revenues:

Table 2: FY 26 General Fund Revenues

Revenue Source	FY 24 Actuals	FY 25 Year-End Estimate	FY 26 Budget	Variance from YE Estimate	% Variance to YE Estimate
Property Tax	54,570,052	57,662,282	59,276,892	1,614,610	2.8%
Sales Tax	50,610,366	49,231,534	50,113,960	882,426	1.8%
Transient Occupancy Tax	6,092,658	6,211,195	6,335,000	123,805	2.0%
Franchises	2,947,165	3,056,727	3,207,364	150,637	4.9%
Licenses & Permits	7,206,692	6,805,024	6,982,106	177,082	2.6%
Fines & Forfeitures	1,747,538	2,433,477	2,697,576	264,099	10.9%
Fees for Services	6,851,807	6,870,980	6,045,059	(825,921)	-12.0%
Use of Money & Property	4,742,556	2,084,606	2,881,727	797,121	38.2%
Rev from Other Agencies	3,580,197	2,653,399	1,350,800	(1,302,599)	-49.1%
Miscellaneous Revenue	1,958,561	1,238,158	282,847	(955,311)	-77.2%

Interfund Revenue	3,635,631	7,050,200	4,243,697	(2,806,503)	-39.8%
<b>Total Operating Revenue</b>	<b>143,943,223</b>	<b>145,297,582</b>	<b>143,417,028</b>	<b>(1,880,554)</b>	<b>-1.3%</b>
Transfers In	2,629,050	176,328	555,252	378,924	214.9%
CR&R	-	3,000,000	3,000,000	-	0.0%
<b>Total Revenue</b>	<b>146,572,273</b>	<b>148,473,910</b>	<b>146,972,280</b>	<b>(1,501,630)</b>	<b>-1.0%</b>

Provided below is a summary of the assumptions used for the FY 26 General Fund revenues:

- **Property Tax** is the largest source of General Fund revenue and is projected to be \$59.3 million, reflecting a \$1.6 million or 2.8% increase to FY 25 year-end estimates. Revenue growth ties to assessed property values, which typically increase annually at a rate of no greater than 2%. Based on information from our property tax consultant, we are projecting modest growth for FY 26.
- **Sales Tax** is the second largest source of General Fund revenue. In FY 26, the City anticipates receiving approximately \$50.1 million, an increase of approximately \$900,000 or 1.8% from the FY 25 year-end estimate. In the current economic environment, this modest increase reflects a slight increase to most business categories, except for the Fuels and Service Stations sector, the City's largest source of sales tax revenue.
- **Transient Occupancy Tax (TOT)** is projected to be approximately \$6.3 million, a slight increase of 2% over the FY 25 year-end estimate. Since the pandemic, consumers have been shifting their spending to experiences, travel, and leisure. Consumers continue to spend on travel despite higher prices, but at decreased levels. According to the U.S. Travel Association, hotel room demand continued a trend of slight contraction falling 1% versus the prior year, while short-term rental demand grew 1% in 2025. Approximately \$600,000 of this revenue is attributable to the Short-term Rental (STR) program which currently has 125 licensed properties.
- **Licenses and Permits** are currently projected to be slightly under \$7.0 million, or 2.6% increase over the FY 25 year-end estimate. There are no material changes anticipated for building-related permits and annual fire permits in FY 26. However, upon completion of the fee and cost allocation study, staff will return to the City Council for consideration on updating the Master Fee Schedule.
- **Fines and Forfeitures** revenue is projected to be \$2.7 million in FY 26, reflecting a \$264,000 or 10.9% increase over FY 25 year-end estimates. This growth is primarily driven by anticipated revenue from the expanded parking enforcement program.
- **Fees for Service** revenue is projected to be approximately \$6.0 million, a decrease of \$826,000 or -12% from the FY 25 year-end estimate. The decrease is primarily due to a reduction in the Intergovernmental Transfer (IGT), reimbursement for transport fees. The City received two payments in FY 25, which accounted for two fiscal years.
- **Interfund Revenues** are projected to be about \$4.2 million, a \$2.8 million or 39% decrease from the FY 25 year-end estimate. The decrease is primarily due to a reduction in the cost

allocation for general administrative services (G&A) such as information technology, finance, human resources, and other citywide non-departmental costs. These charges are applied as revenue to the General Fund and used to offset operating costs. The City recently completed the cost allocation study which provided a basis for the level of support, and the costs associated to provide support across city departments. The study indicated that the G&A charges need to be reduced based on current costs, practices, and efficiencies.

- **Other Revenue Sources**, which include Use of Money & Property, Revenue from Other Agencies, and Miscellaneous Revenues are projected to be \$4.5 million, a reduction of \$1.4 million from the FY 25 year-end estimates. Revenues in these categories include one-time revenues from donations and grants, reimbursements for expenditures, as well as income from investment interest and rental income. Many of these one-time revenues are difficult to project and fluctuate year-over-year.
- **Transfers In**, at the March 25<sup>th</sup> City Council meeting, the City Council authorized a one-time transfer for FY 26 of \$3 million to the General Fund. The City received these funds from CR&R for road mitigation. Additionally, a one-time transfer of \$555,525 is included in the FY 26 preliminary budget, resulting from the consolidation of the City's Dental Self-Insurance internal service fund to the General Fund.

In summary, the General Fund operating revenues, not including transfers, are projected to decrease by \$1.9 million or 1.3% compared to the FY 25 year-end estimates, bringing the total operating revenue to over \$143.4 million. The total FY 26 General Fund revenue, including transfers, is just under \$147.0 million.

### FY 26 General Fund Expenditures

The General Fund operating expenditures amount to \$149.6 million, \$1.7 million or a 1% increase from the FY 25 year-end estimate. Based on City Council direction, the FY 26 budget was created through a zero-based budget process. All departments provided documentation and descriptions of all non-personnel expenditure requests. Budget meetings were held between the departments and City Manager and Director of Finance to discuss the requests and necessity of the expenditure.

Table 3: FY 26 General Fund Expenditures

Expenditure Category	FY 24 Actuals	FY 25 Year-End Estimate	FY 26 Budget	Variance from YE Estimate	% Variance to YE Estimate
Salaries and Benefits	100,385,131	100,101,382	104,742,252	4,640,870	4.6%
Contractual Services	15,475,758	14,494,412	15,907,535	1,413,123	9.8%
Materials and Supplies	2,227,988	1,903,855	2,485,078	581,223	30.5%
Miscellaneous Expenditures	282,313	617,347	732,000	114,653	18.6%

Capital Outlay	135,064	113,863	134,000	20,137	17.7%
Internal Service Costs	23,636,031	13,407,139	8,348,382	(5,058,757)	-37.8%
Debt Service	1,781,555	17,258,780	17,255,637	(3,143)	-0.02%
<b>Total Operating Expenditure</b>	<b>143,923,841</b>	<b>147,896,778</b>	<b>149,604,884</b>	<b>1,708,106</b>	<b>1.2%</b>
Transfers Out	-	-	-	-	-
<b>Total Expenditure</b>	<b>143,923,841</b>	<b>147,896,778</b>	<b>149,604,884</b>	<b>1,708,106</b>	<b>1.2%</b>

Provided below are the budget assumptions impacting the FY 26 General Fund expenditures:

- **Salaries and Benefits:** Salaries and benefits are projected to be \$104.7 million a 4.6% increase over FY 25 year-end estimates. In summary, the increase included a contracted Cost of Living Adjustment (COLA) for public safety and increases in benefits. The FY 26 budget for this category also includes recommended staffing changes and the following budget balancing measures:
  - Elimination of 7 positions totaling \$1 million
  - Freezing of 16 positions totaling \$2.3 million
  - Partially funding of 14 positions totaling \$770,000
  - Part-time staff reduction totaling \$970,000
  - Funding Overtime at 60% totaling \$2.6 million
  - Funding Unfunded Accrued Liability (UAL) at 60% totaling \$2 million
- **Contractual Services:** Expenditures in this category are projected to be \$15.9 million, about 10% or \$1.4 million more than the FY 25 year-end estimate. This category of expenditures includes the City's large maintenance contracts as well as consultant services, many of which include an annual increase for COLA and projected material increases and are contractually obligated.
- **Materials and Supplies:** Expenditures within this category are projected to be approximately \$2.5 million, an increase of \$581,000 over the FY 25 year-end estimate. This increase is primarily due to the addition of ongoing operating expenses of approximately \$200,000 related to the City's Flock Safety Camera program, \$100,000 for library books, \$80,000 for uniforms, and \$20,000 for janitorial supplies. The remaining \$181,000 is primarily due to anticipated increases in material and supplies City-wide.
- **Miscellaneous Expenditure:** This category is projected to be \$732,000, \$115,000 or 18% more than the FY 25 year-end estimate. This increase reflects the fund consolidation of the City's self-insured dental program for insurance premiums into the General Fund. However, the increase in expenditure is offset by the increase in revenue resulting in a zero impact on the General Fund.
- **Capital Outlay:** Expenditures in this category total \$134,000, an increase of slightly over \$20,000 from the FY 25 year-end estimate. This increase reflects the City Clerk

Rolling File Cabinet Replacement, as it is more appropriately included in the City's operating budget in lieu of the Capital Improvement Plan.

- Allocations (Internal Service Funds):** Allocations to the City's Internal Service Funds from the General Fund supports operating costs related to vehicle and computer equipment maintenance, accrued liability, insurance costs, and vehicle replacements. Historically, these internal service funds were underfunded to decrease impacts to the General Fund at the time of budget adoption, with the intent to fund these accounts with any undesignated surplus at the end of the fiscal year. As the City has continued to face budgetary challenges, there has been less surplus realized, leaving these funds underfunded and deferring necessary replacements. For FY 26, staff projects about \$8.3 million to fund these internal service funds. This includes a \$2 million reduction in allocations to the Information Technology Operating Fund and \$3 million reduction in the Information Technology Capital Fund.
- Debt Service:** The City's debt service payments can be split into two categories- the Pension Obligation Bonds and the Lease Revenue Bond. The Pension Obligation Bonds were purchased in 2020 to pay down the City's Unfunded Accrued Liability (UAL) balance, thus reducing the City's debt to CalPERS while taking advantage of favorable interest rates. The City's Lease Revenue Bond was purchased in 2020 to invest in public safety infrastructure. Combined, the FY 26 interest and principal payments for these bonds are relatively flat compared to the FY 25.

In summary, the FY 26 General Fund operation expenditures, not including transfers, total almost \$150 million. This is an increase of \$1.7 million or 1.15% over the FY 25 year-end estimate. The FY 26 also included over \$17 million in budget reductions in the General Fund and over \$30 million in all funds, (Attachment L).

### FY 26 Fund Balance for the General Fund

Based on the updated FY 25 year-end estimates, the FY 25 beginning fund balance is approximately \$26.9 million with over \$2.9 million in undesignated fund balance. The FY 26 budget is projected to have an operating deficit of over \$2.6 million, including transfers and one-time revenues. Staff recommend using the undesignated fund balance of \$2.9 million as a one-time budget balancing measure. This results in the undesignated fund balance on June 30, 2026, dropping to just over \$21,000.

Table 4: General Fund Balance

	FY 25 Year-End Estimate	FY 26 Budget	Variance from YE Estimate	% Variance from YE Estimate
Estimated Beginning Fund Balance - 7/1/2024	\$26,910,980	\$26,972,467	577,132	2.1%
Operating Revenues	145,297,582	143,417,028	(1,880,554)	-1.3%
Transfers In	3,176,328	3,555,252	378,924	11.9%
<b>Total Revenues</b>	<b>148,473,910</b>	<b>146,972,280</b>	<b>(1,501,630)</b>	<b>-1.0%</b>

Operating Expenditures	(147,896,778)	(149,604,884)	(1,708,106)	1.2%
Transfers Out	-	-	-	0.0%
<b>Total Expenditures</b>	<b>(147,896,778)</b>	<b>(149,604,884)</b>	<b>(1,708,106)</b>	<b>1.2%</b>
<b>Operating Surplus/(Deficit)</b>	<b>577,132</b>	<b>(2,632,604)</b>	<b>(3,209,736)</b>	<b>-556.2%</b>
<b>Estimated Ending Fund Balance - 6/30/2025</b>	<b>27,488,112</b>	<b>24,855,508</b>	<b>(2,632,604)</b>	<b>-9.6%</b>
Reserved - Catastrophic	24,550,865	24,834,411	283,546	1.2%
<b>Estimated Undesignated Fund Balance - 6/30/2025</b>	<b>\$2,937,247</b>	<b>\$21,098</b>	<b>(2,916,150)</b>	<b>-99.3%</b>

Staff will monitor actuals to budget on an ongoing basis during the fiscal year and will present any recommendations or changes to the City Council during the quarterly financial reviews.

### FY 26 Budget for Other Funds

While the General Fund accounts for close to 50% of overall expenditures, there are several other funds managed by the City. The FY 26 budget reflects a total of \$280.1 million in expenditures for all funds. The other key areas are summarized below:

The Water Enterprise Fund, which includes both operating and capital expenditures, is projected to begin FY 26 with an available fund balance of \$10.7 million. Revenue and expenditures are estimated at \$44.3 million and \$47.9 million, respectively, which includes \$5.2 million in water capital projects. As a result, the expected ending FY 26 available fund balance is just over \$7 million. It should be noted that this fund balance estimate assumes all funding for multi-year projects will be spent in FY 26.

The Sanitation Fund, which includes sewer maintenance, tree trimming, environmental compliance services, and sewer line replacement and maintenance is projected to begin FY 26 with an available fund balance of \$2.2 million. FY 26 revenue projections are \$9.8 million, and expenditures are \$8.7 million, resulting in an estimated ending fund balance of about \$3.2 million.

The Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis. Allocations to the City's Internal Service Funds (ISFs), from the General Fund and other operating funds such as Enterprise Funds and eligible Special Revenue Funds, support operating costs related to vehicles, computer equipment maintenance, accrued liability, workers compensation, and general liability insurance. Historically, these ISFs were underfunded in an effort to minimize impacts to the General Fund, with the intent to supplement any necessary overages by utilizing surplus at the end of the year through transfers. As the City has continued to face budgetary challenges, there has been less surplus realized, leaving these funds underfunded and deferring necessary replacements. Allocations of \$8.3 million have been budgeted for these funds however at the end FY 26, the Equipment Replacement Fund (720) is projected to have a negative fund balance of \$2.1 million and the Worker's Compensation Fund (730) is projected to have a negative fund balance of over \$9 million, which will need to be addressed incrementally due to the budget constraints. All other ISFs have enough fund balance to address the City's current operating needs.

*Table 5: Fund Balance - Other Funds*

	Special Revenue Funds	Capital Projects Funds	Internal Service Funds	Enterprise Funds
Estimated Beginning Fund Balance 7/1	\$29,889,667	\$32,649,669	\$8,220,549	\$12,876,709
Operating Revenues	21,828,599	6,537,379	19,666,036	54,059,892
Transfers In	-	-	1,830,000	-
Total Revenues	21,828,599	6,537,379	21,496,036	54,059,892
Operating Expenditures	(23,381,765)	(9,849,138)	(30,519,251)	(56,717,459)
Transfers Out	-	(3,000,000)	(2,385,252)	-
Total Expenditures	(23,381,765)	(12,849,138)	(32,904,503)	(56,717,459)
Operating Surplus/ (Deficit)	(1,553,166)	(6,311,759)	(11,408,467)	(2,657,567)
Projected Ending Fund Balance - 6/30	\$28,336,501	\$26,337,910	(\$3,187,918)	\$10,219,142

## Conclusion

In summary, the FY 26 budget, for all funds, includes total revenues of approximately \$253.5 million and total expenditures of \$280.1 million, including transfers and the Redevelopment Agency. The General Fund total revenues are approximately \$147.0 million, and expenditures are \$149.6 million, including transfers. The City continues to experience fiscal challenges while balancing public safety and a standard level of service and operations for the citizens and businesses of Orange. Following the adoption, staff will complete the preparation of the Budget and Capital Improvement Plan documents and present them to the City Council upon publication.

## 7. ATTACHMENTS

- Attachment A - Budget Message
- Attachment B - Resolution No. 11620
- Attachment C - Resolution No. 11622
- Attachment D - Resolution No. 11621
- Attachment E - Schedule of Changes in Fund Balance
- Attachment F - Historical Summary of Revenues and Expenditures by Fund
- Attachment G - Schedule of Revenues by Fund and Category
- Attachment H - Schedule of Expenditures by Fund and Category
- Attachment I - Recommended Staffing Changes
- Attachment J - Schedule of Positions by Department

- Attachment K - Five-Year Capital Improvement Plan
- Attachment L - Budget Reductions