



June 24, 2025

Honorable Mayor and Members of the City Council:

I am submitting for your consideration the Fiscal Year 2025-2026 (FY 26) Citywide budget, all funds, of \$253.5 million in revenues and \$280.1 million in expenditures. As I will discuss further, despite the City's stringent fiscal accountability and efforts to make budget cuts without cutting the services residents rely on, the City is facing an ongoing annual deficit. Unfortunately, similar to many other cities, following the Great Recession, Redevelopment Agency Dissolution, and post COVID, the City has not been able to address the rise in costs and the deficit has increased as the City still strives to provide essential services. As a temporary fix for this fiscal year, unrestricted fund balance will be used to temporarily offset the difference between revenues and expenditures. The FY 26 budget reflects the city's commitment to maintaining the essential services Orange residents have prioritized such as:

- ✓ maintaining 911 response,
- ✓ maintaining fire, police protection, and paramedic services,
- ✓ preventing property crimes/thefts,
- ✓ keeping public areas and parks safe and clean,
- ✓ ensuring children have safe places to play,
- ✓ and protecting the City of Orange's long-term financial stability,

while addressing the financial challenges we currently face, and also laying the groundwork for future growth and financial stability.

As mentioned, while we prepare for the upcoming fiscal year, the City of Orange faces a projected budgetary deficit and further economic uncertainties. With modest growth in property tax and flattening in sales tax revenues, the overall FY 26 General Fund revenue is projected to total \$147.0 million, which falls short of fully covering the City's needs.

At the same time, the cost of delivering essential services continues to increase. The General Fund expenditure budget for FY 26 stands at \$149.6 million, reflecting \$17.3 million in budget reductions, inflationary pressures, the impact of new Memorandums of Understanding (MOUs) with Public Safety groups, and rising costs across various sectors. The City addressed the budgetary deficit through a combination of budget-balancing measures, selective service cuts, careful fiscal planning, and the one-time use of undesignated fund balance. Despite these financial challenges, the City Council and city staff remain committed to making tough choices to ensure financial responsibility while minimizing the impact on our residents and preserving critical public services, particularly public safety.

Economic volatility, driven by inflation and the potential for a recession, adds further complexity

to our fiscal outlook. Higher costs for goods and services, along with staffing shortages in key industries, signal that the City must remain vigilant and proactive in managing its financial resources. Together, we will develop a prudent and conservative fiscal policy to navigate the projected deficit while continuing to meet the needs of the Orange community.

Orange remains one of the safest cities in California. In the last year, there has been a 10% decrease in crime and the City is working hard to maintain 911 emergency response times and police patrols in neighborhoods and business areas, keeping residents and their property safe. Furthermore, the City of Orange has a need to maintain adequate numbers of firefighters, paramedics, and lifesaving equipment to maintain its emergency response times and save lives. The City strives to find the funding to maintain these services that continue to keep our community safe, despite our budgetary constraints.

Our city is home to major corporations, hospitals, regional shopping centers, and a thriving small business community, yet in 2022, the County of Orange reported the City had one of the highest numbers of homeless individuals in North Orange County, and since then, the County reports there has been an increase in homelessness. The City has been working hard to address homelessness by leveraging available non-profit and regional services, including mental health and substance abuse treatment, emergency shelter, food services, and health and social services. Although the City has been working hard to address homelessness, there is still a need for funding to effectively solve addressing the City's homeless challenges. Doing so will also ensure The Plaza, and other business districts, parks, and public areas are safe and secure for everyone. The historic district of Old Towne Orange, with its vibrant commercial area, is a point of pride, as are our well-maintained neighborhoods and parks. Our residents' strong community spirit and pride in their hometown remain cornerstones of our identity.

The FY 26 budget has been prepared with a focus on the needs of our citizens, businesses, visitors, and employees, prioritizing public safety and high-quality services. While the fiscal challenges are significant, we are committed to navigating these difficulties with a balanced and conservative approach.

## GENERAL FUND REVENUE

Total General Fund revenues for FY 26 are projected to be just under \$147.0 million.

**Table 1: FY 26 General Fund Revenues**

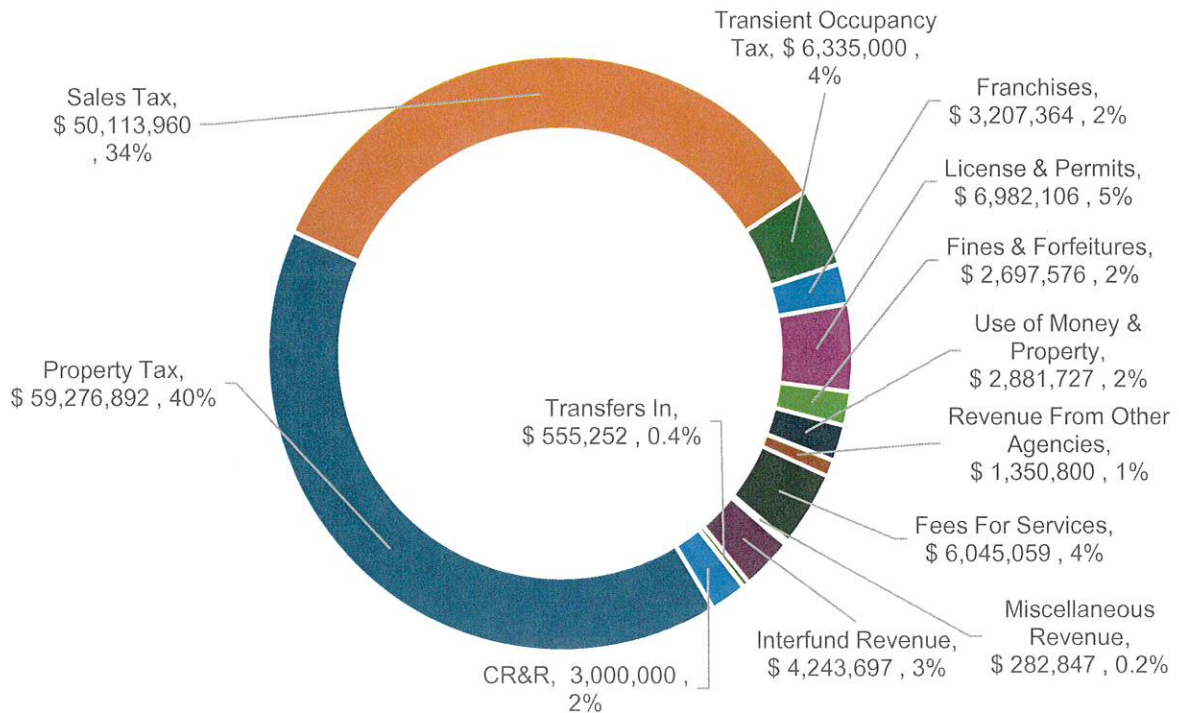
Revenue Source	FY 24 Actuals	FY 25 Year End Estimate	FY 26 Proposed Budget	Variance from YE Estimate	% Variance to YE Estimate
Property Tax	54,570,052	57,662,282	59,276,892	1,614,610	2.8%
Sales Tax	50,610,366	49,231,534	50,113,960	882,426	1.8%
Transient Occupancy Tax (TOT)	6,092,658	6,211,195	6,335,000	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%
Revenue from Other Agencies	3,580,197	2,653,399	1,350,800	(1,302,599)	-49.1%
Miscellaneous Revenues	1,958,561	1,238,158	282,847	(955,311)	-77.2%
Inter Fund 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&C		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>

- **Property Tax** is the largest source of General Fund revenue and is projected to be \$59.3 million. Given its historically stable growth rates, the FY 26 projected revenue is approximately \$1.6 million or 2.8% increase from FY 25 year-end estimates. Revenue growth is associated with assessed property values which typically increase each year at a rate no greater than 2%. Additional growth comes from home sales which trigger property reassessments and Proposition 8 value recaptures.
- **Sales Tax** is the second largest source of General Fund revenue. In FY 26, the City anticipates receiving about \$50.1 million, almost \$900,000 or 1.8% above 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 from 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 \$264,099 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 -12.0% 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 totaling \$1.0 million from IGT fees 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 25th City Council meeting, the City Council authorized a one-time transfer for FY 26 of \$3.0 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 just over \$143.4 million. The total FY 26 General Fund revenue, including transfers, is just under \$147.0 million.

**Chart 1: FY 26 General Fund Revenues**



While we anticipate the projected revenue amount of \$147.0 million for FY 26, we continue to remain cautious that any future growth in General Fund revenue will be modest, especially considering the continuing indeterminate state of the economy as we move forward into FY 26.

## **GENERAL FUND EXPENDITURES**

The General Fund operating expenditures amount to \$149.6 million, \$1.7 million or 1% increase from 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 2: FY 26 General Fund Expenditures**

Expenditure Category	FY 24 Actuals	FY 25 Year End Est	FY 26 Proposed Budget	Variance to YE Estimate	% Variance to YE Estimate
Salaries and Benefits	100,385,131	100,101,382	104,742,252	4,640,870	4.64%
Contractual Services	15,475,758	14,494,412	15,907,535	1,413,123	9.75%
Materials and Supplies	2,227,988	1,903,855	2,485,078	581,223	30.53%
Miscellaneous Expenditures	282,313	617,347	732,000	114,653	18.57%
Capital Outlay	135,064	113,863	134,000	20,137	17.69%
Internal Service Costs	23,636,031	13,407,139	8,348,382	(5,058,757)	-37.73%
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>1.15%</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>1.15%</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 includes contracted Cost of Living Adjustment (COLA) for public safety and increases in benefits. The FY 26 proposed 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 increase 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 Citywide.
- Miscellaneous Expenditure:** This category is projected to be \$732,000, almost \$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

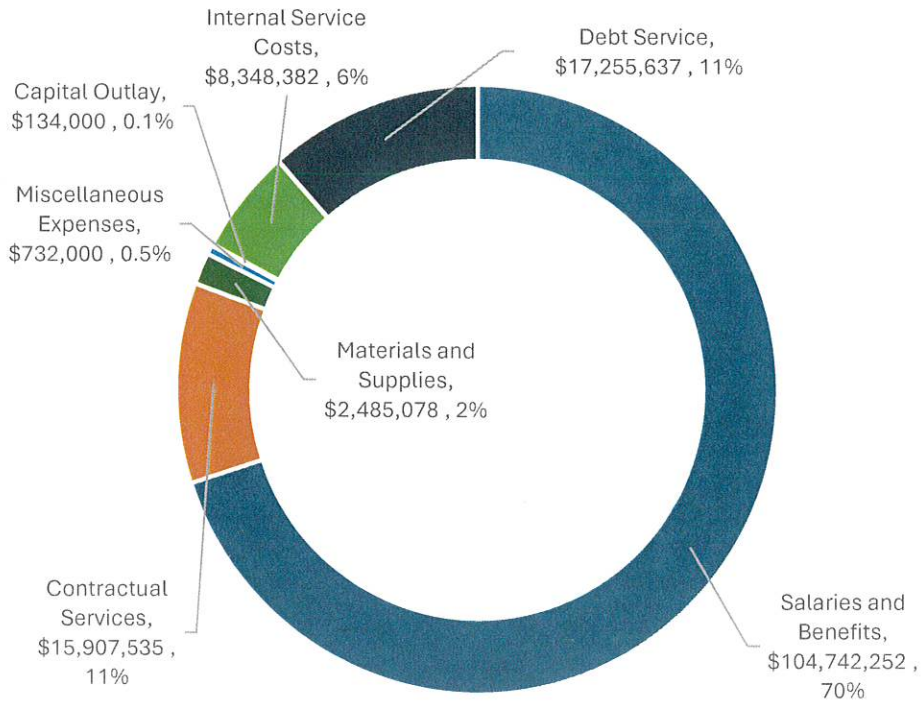


premiums into the General Fund. However, the increase in expenditure is offset by the increase in revenue resulting in a zero impact on the General Fund.

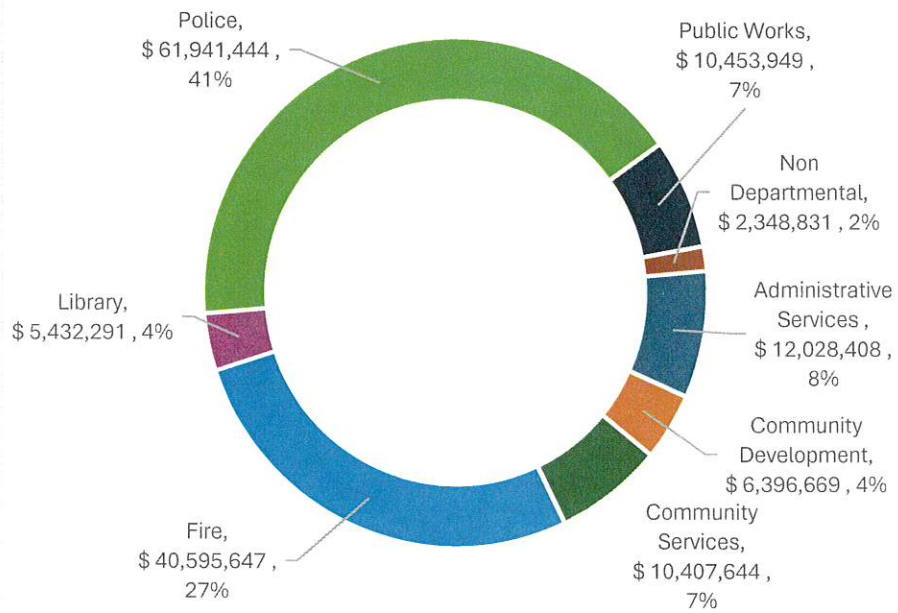
- **Capital Outlay:** Expenditures in this category total \$134,000 in the FY 26 proposed budget an increase of slightly over \$20,000 from the FY 25 year-end estimate. This increase reflects the City Clerk Rolling File Cabinet Replacement, as it is more appropriately included in the City's operating 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 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.

**Chart 2: FY 26 General Fund Expenditures by Category**



**Chart 3: FY 26 General Fund Expenditures by Department**





To continue the City's strong fiscal stewardship, the FY 26 budget includes many reduction measures, including departmental operating budget reductions, deferred maintenance, underfunding internal service fund allocations, implementing operational efficiencies, and freezing vacant and/or eliminating positions. In addition, for FY 26, zero-based budgeting for all non-personnel expenditures was implemented. The method ensured all contracts and discretionary spending was reviewed and approved through a meeting process with the City Manager and Director of Finance. Staff will continue to remain vigilant in controlling spending during these fiscally challenging times.

### **GENERAL FUND BALANCE FOR FY 26**

Based on the updated FY 25 year-end estimates, the FY 26 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 balance measure. This results in a projected undesignated fund balance on June 30, 2026, dropping to just over \$21,000.

**Table 3: Proposed General Fund Balance**

	<b>FY 25 Year End Estimate</b>	<b>FY 26 Proposed Budget</b>	<b>Variance</b>
Estimated Beginning Fund Balance – 7/1	26,910,980	27,488,112	577,132
Operating Revenues	145,297,582	143,417,028	(1,880,554)
Transfers-In	3,176,328	3,555,252	378,924
<b>Total Operating Revenues</b>	<b>148,473,910</b>	<b>146,972,280</b>	<b>(1,501,630)</b>
Operating Expenditures	147,896,778	149,604,884	
Transfers Out	-	-	
<b>Total Operating Expenditures</b>	<b>147,896,778</b>	<b>149,604,884</b>	<b>1,708,106</b>
<b>Operating Surplus/(Deficit)</b>	<b>577,132</b>	<b>(2,632,604)</b>	<b>(3,209,736)</b>
Projected Ending Fund Balance – 6/30	27,488,112	24,855,508	(2,632,604)
Reserved - Catastrophic	24,550,865	24,834,411	283,546
<b>Projected Undesignated Fund Balance – 6/30</b>	<b>2,937,247</b>	<b>21,097</b>	<b>(2,916,150)</b>

Staff will continue to work towards addressing the structural deficit and continue to keep Council informed of any financial impacts positive or negative during the FY26 quarterly reviews.

### **REVIEW OF OTHER KEY 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, supports 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 budget constraints. All other ISFs have enough fund balance to address the City's current operating needs.

## **LOOKING FORWARD**

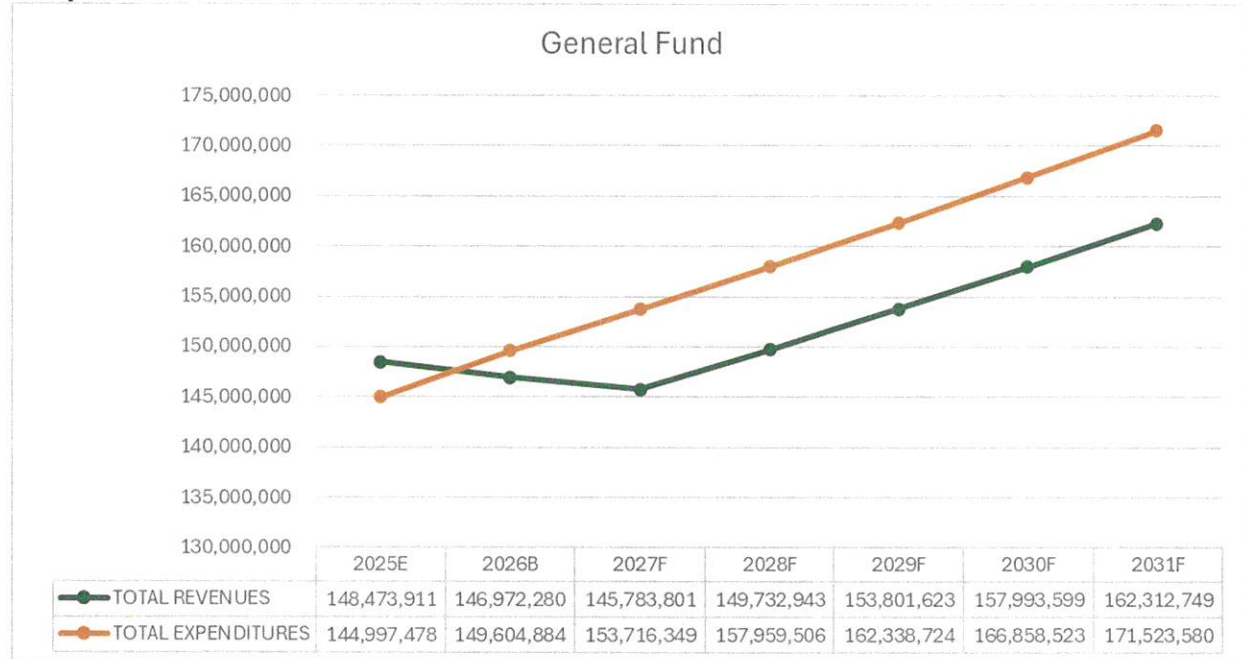
### **General Fund Financial Forecast**

The City continues to face a structural deficit for the next several years due to lower revenues, higher pension obligations, and the need to fully fund internal service allocations. The graph below illustrates the projected gap through FY 31.

The following assumptions were used to project the revenue and expenditure in the model.

- Revenues – an average of 2.5% growth
  - Sales Tax - 1.5% in FY 27 and increase to 2.5% thereafter;
  - Property Tax - 2% in FY 27 and increase to 3.5% thereafter;
  - License & Permits and Fees for Services - 2% in FY 27 and increase to 3% thereafter; and
  - All other revenues remain flat.
- Expenditures – an average of 2.8% growth
  - Internal Service Costs – 5% increase
  - All other expenditures – 3% increase

**Graph 1: 5-Year General Fund Forecast**



Based on these assumptions, the City's operating expenditure will exceed the operating revenue by approximately \$7.9 million in FY 27. This means the General Fund will need to reduce an additional \$7.9 million from the current \$17.3 million reduction. This deficit is projected to increase to approximately \$9.2 million by FY 31.

### CONCLUSION

As we look to the future, the City is committed to ensuring resources are available to meet the needs of the community, even during these fiscally challenging times. In this upcoming year, the City looks forward to continuing to keep the community closely engaged through an interactive community conversation to prioritize the City services that residents and local businesses rely on the most. Furthermore, the City will continue to implement and refine several technological improvements to enhance customer experience and increase department efficiency such as the Citywide financial system upgrade, the Land Management System, and the City's GIS Enterprise development. Several long-term infrastructure improvements will commence or be continued in FY 26, including the pickleball court and fitness circuit at Hart Park, the park in west Orange, the skate park at Grijalva Park, and the construction of a water production well.

Furthermore, the City will continue to initiate measures to review current policies, procedures, programs, and practices to make certain Orange continues operating at the most efficient and cost-effective means possible.

In addition, the City continues to revitalize its Economic Development Division to engage with business partners and draw a variety of new retail opportunities as a means to enhance our diverse commercial community. Attracting and retaining businesses in Orange has

always been a critical focus for the City and our staff continues to look at both traditional and innovative ways to provide business development services. Our Economic Development Roundtable group brings together local business owners, the Orange Chamber of Commerce, developers, and other key stakeholders to develop an economic development strategy and inform its implementation. The City continues to strengthen relationships with existing businesses with a focus on large employers and those businesses that generate significant revenue for the City. Partnerships with the Chamber of Commerce, the Small Business Administration, and the Small Business Development Center help us provide the support that our small businesses need to thrive.

In partnership with the Orange Chamber of Commerce, the City launched the Experience Orange shop local program to encourage residents and visitors to support local businesses and City services by spending their dollars in Orange.

The newly formed Orange Tourism Council brings together hotels, short term rental operators, and other visitor serving businesses to coordinate efforts to promote Orange as a visitor destination and develop connections with regional destination marketing programs.

The City began an effort to create a long-term vision for development in the West Katella area that will be complimentary to the neighboring OC Vibe development in Anaheim. The Outlets at Orange continues to attract new tenants such as the newly opened In-N-Out and a Barnes & Noble, while the City is working with the multiple property owners at the Village at Orange to explore avenues for a redevelopment of the mall.

In response to Old Towne merchants' requests for improved parking and better turnover of parking spaces, the Public Works Department is in the process of implementing paid parking in the downtown core along with improved signage and parking enforcement. The parking program is designed to support economic development as the historic district continues to attract significant private investment.

In anticipation of another challenging year ahead, we will immediately begin collaborating on long-term fiscal solutions. Following the adoption of the FY 26 budget, staff will continue to monitor the economy and be vigilant with the City's budget by taking proactive measures to address any fiscal distress the City may experience. We will remain focused on the status of our current fiscal condition as well as begin the strategic planning for FY 27 budget later this year.

We are optimistic that with a long-term sustainable and resilient fiscal policy the City will emerge from any fiscal distress stronger and will continue the mission to provide exceptional customer service, high quality of life, and strong public safety to our Orange residents.

## ACKNOWLEDGMENT AND APPRECIATION

Undoubtedly, the preparation of this budget would not be possible without the dedication and commitment of the City Council and City's Department Heads and their key staff members. A special note of thanks to the Finance team, who worked diligently to prepare for the budget study sessions and the budget documents for the budget adoption. I believe this document reflects the direction you provided and will meet the needs of our City in continuing to keep the City of Orange a great place to work, live, and play for our community.

Respectfully Submitted,



Tom Kisela  
City Manager