



Agenda Item

Orange City Council

Item #: 10.3.

12/9/2025

File #: 25-0604

TO: Honorable Mayor and Members of the City Council

THRU: Jarad Hildenbrand, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

Fiscal Year 2025-26 General Fund First Quarter Report.

2. SUMMARY

A presentation providing a first quarter budget update for Fiscal Year 2025-26, focusing on the General Fund.

3. RECOMMENDED ACTION

Receive and file.

4. FISCAL IMPACT

None.

5. STRATEGIC PLAN GOALS

2. Enhance Economic Development and Achieve Fiscal Sustainability.

6. DISCUSSION AND BACKGROUND

General Fund Revenues

For the first quarter (Q1) of Fiscal Year 2026 (FY26), the City of Orange recorded total revenues of \$12.3 million, a decrease of approximately \$392,000 (-3%) compared to the same period in FY25. While several key revenue sources demonstrated growth, timing for the transfer from the Capital Projects Fund to the General Fund resulted in an overall decrease. Not considering Transfers In, revenues increased by approximately \$470,000 (29%) compared to the same period in FY25 as shown in the Table 1.

Table 1: General Fund Revenues - Year-over-Year Comparison

Revenue Source	FY 25 Q1 Revenue	FY 26 Q1 Revenue	Variance
Property Tax	\$ 799,436	\$ 783,884	\$ (15,552) -2%
Sales Tax	\$ 5,330,425	\$ 5,787,390	\$ 456,965 9%
Transient Occupancy Tax	\$ 1,168,748	\$ 1,302,982	\$ 134,234 11%
Franchises	\$ 77,000	\$ 4,966	\$ (72,034) -94%
Fee For Services	\$ 1,009,439	\$ 1,095,815	\$ 86,376 9%
Fines & Forfeitures	\$ 309,979	\$ 91,046	\$ (218,933) -71%
Intergovernment	\$ 327,943	\$ 601,551	\$ 273,608 83%
Licenses & Permits	\$ 1,990,916	\$ 1,486,676	\$ (504,240) -25%
Other Revenues	\$ 514,296	\$ 737,465	\$ 223,169 43%
Use of Money & Prop.	\$ 164,972	\$ 272,173	\$ 107,201 65%
Subtotal	\$ 11,693,154	\$ 12,163,950	\$ 470,796 29%
Transfers In	\$ 1,000,000	\$ 136,930	\$ (863,071) -86%
Total Revenues	\$ 12,693,154	\$ 12,300,880	\$ (392,274) -57%

- **Sales Tax:** Revenues from sales tax rose by \$457,000, or 9%, reaching almost \$5.8 million. Continued consumer spending strength and steady local economic activity supported this increase.
- **Transient Occupancy Tax (TOT):** Hotel and short-term lodging revenues grew by \$134,000, or 11%, reflecting improved occupancy levels and higher average daily rates compared to the prior year.
- **Fine and Forfeitures:** Declines by \$219,000, or 71%, largely due to reduced citation activity and collection timing.
- **Intergovernmental Revenues:** Increased sharply by \$273,608 (83%), driven by higher reimbursements and grant receipts during the quarter.
- **Licenses & Permits:** Decreased by \$504,240, or 25%, reflecting a slowdown in building activity and fewer large permit issuances compared to the prior year.
- **Other Revenues:** Rose by \$223,169, or 43%, driven by miscellaneous receipts and small-scale program reimbursements.
- **Use of Money and Property:** Jumped by \$107,000, or 65%, benefitting from stronger investment returns and interest income.

When compared to budget, the first quarter revenues for FY 26 are within expected ranges for this early point in the fiscal year, and no major categories show signs of underperformance, as summarized in Table 2.

Table 2: General Fund Revenues - Budget to Actual Comparison

Revenue Category	FY 26 Revised Budget	FY 26 Q1 Revenue	% Received
Property Tax	\$40,260,386	\$783,884	2%
Sales Tax	\$50,113,960	\$5,787,390	12%
Transient Occupancy Tax	\$6,334,000	\$1,318,237	21%
Licenses & Permits	\$6,978,106	\$1,531,443	22%
Fee For Services	\$5,392,059	\$1,392,124	26%
Other Revenues	\$2,975,947	\$737,965	25%
Intergovernment	\$20,342,506	\$716,125	4%
Use of Money & Prop.	\$2,881,727	\$276,532	10%
Fines & Forfeitures	\$655,276	\$91,161	14%
Franchises	\$3,207,364	\$4,966	0%
Subtotal	\$139,141,331	\$12,639,828	9%
Transfers In	\$14,562,747	\$136,930	1%
Total	\$153,704,078	\$12,776,757	8%

Property tax revenues, while showing high early activity, are not fully realized in the first quarter. Property tax receipts typically follow a structured apportionment schedule tied to December and April secured tax payments. Therefore, early receipts are not an indicator of final performance for the year.

Sales tax revenues are roughly at 12% of the annual budget, which is consistent with prior years. Economic conditions and consumer spending levels continue to support stable receipts. Timing of receipts and sales tax sharing are also a factor for this category. However, no variances of concern have been identified at this stage.

Transient Occupancy Tax (TOT) collections reached 21% of the annual estimate, indicating steady visitor activity and ongoing demand within the local lodging market. This category is performing as expected and continue tracking near budget if current travel patterns hold.

Licenses and permits generated approximately 22% of budgeted revenue, supported by stable development and permitting activity. While this category can fluctuate throughout the year, first-quarter activity aligns with recent trends and does not present fiscal concerns.

Fee-for-services revenue reached 26% of the annual budget, reflecting strong participation in City programs and ongoing use of billable municipal services. This category is performing slightly ahead of pace for the first quarter.

Overall, first-quarter revenues are performing within normal and expected ranges, and staff will continue monitoring key categories as the fiscal year progresses. No corrective actions are recommended at this time.

General Fund Expenditure

For Q1 of FY26, total city expenditures were \$27 million, compared to \$37.4 million in FY 25 Q1, a decrease of \$8.4 million, or 22%. The reduction reflects the overall vacancy rate, and timing

difference in invoice processing and internal charge allocations. Overall spending remains steady with early-year operating patterns and demonstrates careful management of city resources as is shown on Table 2 below.

Table 3: General Fund Expenditures - Year-over-Year Comparison

FY 26 Category	FY 25 Q1 Expenditure	FY 26 Q1 Expenditure	Variance	
Salaries & Benefits	\$ 28,090,836	\$ 22,986,383	\$ (5,104,453)	-18%
Professional Service	\$ 5,298,376	\$ 1,155,454	\$ (2,088,486)	-39%
Repair & Maintenance		\$ 1,655,618	N/A	N/A
Training & Conferences		\$ 106,194	N/A	N/A
Other Services		\$ 292,625	N/A	N/A
Other Expenses	\$ 106,113	\$ 493,167	\$ 387,051	365%
Supplies	\$ 464,382	\$ 237,640	\$ (226,742)	-49%
Noncap Equipment	\$ 39,022	\$ 19,481	\$ (19,541)	-50%
Internal Charges	\$ 3,351,797	\$ 541	\$ (3,351,256)	-100%
Subtotal	\$ 37,350,526	\$ 26,947,103	\$ (10,403,426)	-28%
Total	\$ 37,350,526	\$ 26,947,103	\$ (10,403,426)	-28%

As a result of the chart of accounts consolidation, several expenditure categories have been separated in FY26 for transparency and reporting purposes. For year-to-year comparison, some categories have been grouped together to maintain analytical consistency. However, this restructuring will naturally cause fluctuations in category-level trends when compared to prior years.

- **Salaries and Benefits:** Expenditures totaled \$22.99 million, down \$5.1 million (-18%) from FY25. This decline is primarily due to position vacancies and timing differences in payroll cycles.
- **Professional Services:** Spending decreased from \$5.3 million in FY25 Q1 to \$3.2 million in FY26 Q1, a 39% reduction. In FY26, several accounts within the Professional Services category were bifurcated into more specific account groups to better reflect the various types of City expenses that had previously been combined. This refinement will improve expense tracking, transparency, and alignment with the City's newly implemented chart-of-accounts, resulting in more accurate reporting and budgeting.
- **Other Expenses:** Increased from \$106,000 in FY25 to \$493,000 in FY26, an increase of \$387,051. The rise is attributed to annual insurance payments, software renewals, and other one-time upfront costs processed at the beginning of the fiscal year.
- **Supplies:** Declined from \$464,000 to \$238,000, a 49% decrease, as departments delayed nonessential purchases and utilized existing inventory.
- **Internal Charges:** Decreased from \$3.35 million in FY25 to less than \$1,000 in FY26, primarily due to timing differences in interdepartmental cost allocations.

When comparing budget to actual, City expenditures are tracking within expected ranges, with most categories falling between 15% and 22% of the revised annual budget. This level of spending is typical for the first three months of the fiscal year and does not indicate overspending or budgetary concerns at this time as shown on Table 4.

Table 4: General Fund Expenditures - Budget to Actual Comparison

Expenditure Category	FY 26 Revised Budget	FY 26 Q1 Expenditure	% Expended
Salaries and Benefits	\$ 106,336,823	\$ 22,986,383	22%
Professional Services	\$ 6,023,109	\$ 1,155,454	19%
Repair & Maintenance	\$ 10,987,568	\$ 1,655,618	15%
Training & Conferences	\$ 687,548	\$ 106,194	15%
Other Services	\$ 1,355,066	\$ 292,625	22%
Other Expenses	\$ 1,461,821	\$ 493,167	34%
Supplies	\$ 4,589,312	\$ 237,640	5%
Noncap Equipment	\$ 262,725	\$ 19,481	7%
Internal Charges	\$ 24,406,495	\$ 541	0%
Debt Services	\$ 1,975,717	\$ -	0%
Other Capital Outlay	\$ 179,289	\$ -	0%
City Facility Improv	\$ 10,000	\$ -	0%
Subtotal	\$ 158,275,473	\$ 26,947,103	17%
Transfers Out	\$ 1,455,252	\$ -	0%
Total	\$ 159,730,725	\$ 26,947,103	17%

Salaries and Benefits remain the City's largest expenditure category and is slightly lower than is typical, at 22% expended through the first quarter. This is primarily the result of ongoing position vacancies and the City's effort to remain discipline and prudent in filling critical positions.

Professional Services expenditures total 19.2% of the revised budget, reflecting standard use of contracted services early in the fiscal year. Spending in this category often varies depending on the timing of project work and invoicing, and current levels remain consistent with past trends.

Repair and Maintenance costs are at 15.1% of the annual allocation, which is typical for the first quarter as many scheduled maintenance activities occur later in the year or are influenced by seasonal and operational needs. This is the first time that this category is separated from Other/Professional Services in the past. It will help to establish a baseline for future comparison and provide transparency for reporting purposes.

Training and Conferences expenditures stand at 15.4%, a level consistent with the timing and availability of training opportunities. Spending in this category is expected to gradually increase as departmental training plans unfold throughout the year. Similar to Repair and Maintenance, this is the first time that this category is separated from Other/Professional Services in the past. This change will help to establish a baseline for future comparison and provide transparency for reporting purposes.

Other Services expenditures are at approximately 21.6% of the annual budget, reflecting steady operational activity typical for early-year service-related spending.

Overall, first quarter expenditures across all major categories are performing within normal ranges relative to the revised budget. No categories show signs of over-expenditure, and staff will continue monitoring spending patterns as the fiscal year progresses.

Organizational Restructuring

As part of the City's commitment to optimize staff resources and enhance operational efficiency, several organizational restructurings are being considered. Here are a few adjustments that have been implemented in the first quarter. These changes are intended to align resources with the current priorities while contributing towards closing the General Fund operational deficit gaps for Fiscal Year 2026.

- City Attorney's Office: To achieve operational savings, the Senior Assistant Attorney position is proposed to remain frozen following the promotion of the City Attorney. This action will result in a budget savings of approximately \$278,000 for the remainder of the fiscal year.
- City Manager's Office: After consideration, the Assistant City Manager position is also proposed to remain frozen for the remainder of the fiscal year, resulting in a savings of \$375,000 for the fiscal year.
- Public Works Department: To enhance organizational efficiency, improve alignment between key service areas, and continue efforts to close the operating budget deficit for FY 26, the City Council approved a reorganization of the department's management structure on September 23, 2025. The reorganization eliminates the Assistant Director position and establishes two Deputy Director positions to oversee Engineering and Field Operations. This structural adjustment streamlines oversight and results in net savings of \$36,700, including \$110,600 in savings to the General Fund, based on the restructuring of positions and redistribution of salary funding by position. Additionally, the recently vacated Public Works Administrator position will remain unfilled for the remainder of the year, resulting in a \$100,000 savings to the General Fund.

These organizational changes reflect the City's continued commitment to fiscal sustainability, effective management of staff resources, and creating space to be innovative so that the taxpayer dollars are invested wisely.

Conclusion

In summary, the first quarter results for Fiscal Year 2025-26 reflect stable financial performance and continued progress toward maintaining the City's long-term fiscal sustainability. Revenues are generally tracking within expected ranges, with several major categories demonstrating resilience and steady activity, while expenditures remain well-managed and consistent with early-year operating patterns. The City's proactive approach-through careful monitoring, refinement of the chart of accounts, and strategic organizational adjustments-has strengthened transparency, improved resource allocation, and reinforced the foundation for accurate long-term planning. Staff will continue to closely monitor financial trends and operational needs throughout the remainder of the fiscal year and will return to the City Council with regular updates to support informed decision-making and responsible stewardship of public resources.

7. ATTACHMENTS

- None