



Agenda Item

Orange City Council

Item #: 3.1.

3/24/2026

File #: 26-0094

TO: Honorable Mayor and Members of the City Council

THRU: Jarad Hildenbrand, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

Mid-Year Status Update of the Fiscal Year 2025-2026 Budget

2. SUMMARY

This report provides a mid-year budget update and year-end estimates for Fiscal Year 2025-2026 and includes recommended budget adjustments across several non-General Fund accounts. The report also reflects that the FY26 budget was developed using a zero-based budgeting approach.

3. RECOMMENDED ACTION

1. Receive and file the report.
2. Authorize the appropriation of \$1,804,700 to the following accounts:

210-6001-55105- Subscription Services	\$5,000
210-6001-80201- Software Capitalization	\$40,000
210-6001-55999- Other Prof/Technical Svcs	\$50,000
210-6102-55999- Other Prof/Technical Svcs	\$417,000
310-6411-59999- Other/Misc Services	\$58,694
317-6431-87102-266028-20- CHDO	\$117,943
317-6431-87102-266002-20- HOME Developer	\$803,243
317-6431-87102- Capital Improvements - TRBA	\$312,820

4. FISCAL IMPACT

Sufficient funds are available in the available fund balances of the respective non-General Fund accounts to support the requested appropriations. These adjustments do not increase the FY26 General Fund deficit.

5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability

6. DISCUSSION AND BACKGROUND

General Fund Revenues

Through the second quarter (Q2) of Fiscal Year 2026 (FY26), the City recorded total General Fund revenues of \$70.2 million, or 45% of budgeted revenues through mid-year, including transfers. Based on current trends and analysis, total General Fund revenues for FY26 are estimated at approximately

\$158.3 million, or \$4.5 million above the revised budget.

Overall, the improved revenue outlook is being driven primarily by stronger-than-budgeted fees for services, interest earnings, and fines and forfeitures, while core revenues such as property tax, sales tax, and TOT remain generally stable.

Table 1: FY26 General Fund Revenues

	FY25 Actuals	FY26 Revised Budget	FY26 Mid-Year YTD	FY26 Year-End Estimate	Variance to Revised Budget
Property Tax	\$57,658,841	\$59,276,892	\$33,181,240	\$59,355,220	\$78,328
Sales Tax	49,355,015	50,113,960	14,071,485	50,567,208	453,248
Internal Service	15,474,265	10,077,495	5,130,809	10,077,495	-
License & Permit	6,396,387	6,978,106	3,429,076	6,742,362	-235,744
Fee for Services	6,602,124	5,392,059	3,859,825	6,599,526	1,207,467
TOT	6,150,976	6,334,000	2,836,334	6,339,957	5,957
Use of Property	3,815,519	2,881,727	603,306	3,922,905	1,041,178
Misc.	1,870,906	3,082,726	2,040,676	3,612,876	530,150
Franchise	2,753,299	3,207,364	261,794	3,235,228	27,864
Revenue from Other Agencies	3,002,532	1,356,000	1,467,571	1,704,322	348,322
Fines	2,628,786	655,276	740,018	1,669,836	1,014,560
Total Operating Revenues	\$155,708,647	\$149,355,605	\$67,622,134	\$153,826,935	\$4,471,330
Transfers	3,000,000	4,485,252	2,616,397	4,485,252	-
TOTAL REVENUES	\$158,708,647	\$153,840,857	\$70,238,531	\$158,312,187	\$4,471,330

Property Tax, currently the City's largest source of General Fund revenues, is at \$33.2 million mid-year, and is anticipated to total approximately \$59.4 million for FY26, slightly above budget by \$78,000 (0.1%). The year-end estimates indicate continued stability in assessed property values within the City. In addition, property tax in lieu of motor vehicle license fees are expected to be slightly above budget as this revenue is tied to property tax growth.

Sales Tax, the City's second largest General Fund revenue source, totaled just under \$14.1 million at mid-year and is projected to end the year at approximately \$50.6 million, or about \$453,000 above budget. Based on information from HDL, taxable sales remain generally stable, with gains in e-commerce, automotive sales, building materials, and restaurant activity offsetting softness in other sectors.

License and Permits recorded about \$3.4 million at mid-year and overall are tracking to be about \$6.7 million by year-end, under the budgeted amount by \$236,000 (3%). This is primarily due to Plan Check Fee and Business License revenues trending slightly lower than anticipated.

Fees for Services received almost \$3.9 million at midyear and currently projected to end the year at \$6.6 million, this is higher than the revised budgeted figures by \$1.2 million (22.4%) primarily due to

higher than anticipated paramedic fees as well as building division related fees.

Transient Occupancy Tax (TOT) for the City was \$2.8 million at mid-year and is estimated to be approximately \$6.3 million at year-end, trending in line with the revised budget. Of this amount, \$540,000 is specific to the City's short term rental program.

Use of Money and Property recorded just over \$600,000 at mid-year and projected to end the year at \$3.9 million, exceeding the FY26 revised budget by \$1.04 million (36.1%), reflecting higher than anticipated interest earning on City investments, along with modest increases in lease and facility rental revenues.

Fines and Forfeitures revenue was \$740,000 at mid-year and is estimated to end the year at just under \$1.7 million, exceeding the revised budget by approximately \$1.0 million (154.8%), primarily due to higher-than-anticipated revenues from parking citation delinquencies and a conservative estimate of \$300,000 for the new paid parking program.

General Fund Expenditures

Through Q2 of FY26, the City expended a total of \$83.9 million, or 52% of budgeted expenditures, including transfers. Based on current trends and analysis, total General Fund expenditures for FY26 are estimated at approximately \$160.4 million, or \$225,430 below the revised budget.

Table 2: FY26 General Fund Expenditures

	FY25 Actuals	FY26 Revised Budget	FY26 Mid-Year	FY26 YE Estimate	Variance from Revised Budget
Salary & Benefits	\$104,364,884	\$106,320,823	\$62,398,130	\$105,296,845	-\$1,023,978
Debt Services	17,377,333	17,515,954	3,984,347	17,515,954	-
Repair/Maintenance	6,865,145	9,861,065	4,228,451	9,469,606	-391,460
Internal Services	14,029,588	8,866,258	4,433,981	8,866,258	-
Contractual Services	6,141,942	6,376,647	2,809,031	7,002,544	625,897
Materials/Supplies	4,851,803	4,873,303	1,978,467	4,474,858	-398,445
Utility Charges	3,321,196	1,560,115	1,894,474	3,448,883	1,888,768
Misc.	961,597	3,518,193	1,257,184	2,782,239	-735,954
Capital Outlay	1,006,636	252,739	42,481	62,481	-190,258
Operating Expenditure	\$158,920,124	\$159,145,097	\$83,026,546	\$158,919,668	-\$225,429
Transfers	487,680	1,455,252	848,897	1,455,252	-
TOTAL EXPENDITURE	\$159,407,804	\$160,600,349	\$83,875,443	\$160,374,920	-\$225,429

Salaries and benefits, the City's largest expenditure category, were \$62.4 million at mid-year and are projected to total \$105.3 million by year-end, approximately \$1.0 million below the revised budget. The City has maintained a high level of vacancies during the fiscal year, generating approximately \$6.4 million in salary savings, excluding vacancy savings already incorporated into the adopted budget through departmental transfers. However, those savings have been substantially offset by approximately \$5.4 million in overtime costs that were not fully budgeted in FY26, although actual overtime usage remains generally consistent with prior-year levels. As a result, the net savings

in this category are approximately \$1.0 million.

Utility charges are projected to exceed the revised budget by approximately \$1.9 million due primarily to an underestimation associated with a change in budgeting methodology. In prior years, utility expenses were spread across departmental budgets. For FY26, those expenses were centralized for improved tracking and administration. During that transition, the centralized budget was set too low, resulting in the projected year-end variance. For context, actual utility expenditures were approximately \$3.3 million in FY25, \$3.0 million in FY24, and \$3.0 million in FY23, which is generally consistent with the FY26 year-end projection. The overage therefore reflects a budgeting shortfall associated with this reporting change, rather than a comparable increase in service levels or utility usage.

Contractual services totaled approximately \$2.8 million at mid-year and are projected at \$7.0 million by year-end, or about \$626,000 above the revised budget. This increase is driven primarily by approximately \$1.3 million in support program costs for the North Service Planning Area Navigation Centers.

Several expenditure categories are projected to come in below the revised budget:

- Repair and Maintenance expenditures were at \$4.2 million at midyear and are estimated at \$9.5 million, approximately \$391,000 (4.0%) under budget, largely reflecting deferred or delayed maintenance activities in the Information Technology department.
- Materials and Supplies totals almost \$2 million at midyear and are projected to end the year at almost \$4.5 million, \$398,000 (8.2%) below budget, reflecting cost control efforts and reduced purchasing.
- Miscellaneous expenditures were about \$1.2 million at midyear and are also projected to end the year at \$2.8 million, \$736,000 (20.9%) below budget, primarily due to lower-than-anticipated discretionary spending.
- Capital Outlay is expected to be \$190,000 below budget (75%), ending the year at about \$62,000, reflecting delays or adjustments to planned equipment purchases.

General Fund Balance

Table 3: FY26 General Fund Estimated Fund Balance

	FY26 Revised Budget	FY26 YE Estimates	Variance to Revised Budget	
Operating Revenues	149,355,605	153,826,935	4,471,330	2.99%
Total Revenues	149,355,605	153,826,935	4,471,330	2.91%
Operating Expenditures	141,629,143	141,403,714	-225,429	-0.16%
Debt Services	17,515,954	17,515,954	-	-
Total Expenditures	\$159,145,097	\$158,919,668	-\$225,429	-0.14%
Operating Surplus/(Deficit)	-9,789,492	-5,092,733	4,696,759	69.48%
Transfers In	4,485,252	4,485,252	-	-
Transfers Out	-1,455,252	-1,455,252	-	-

Net Surplus/(Deficit)	-6,759,492	-2,062,733	4,696,756	69.48%
Beginning Fund Balance	\$28,553,722	\$28,553,722		
Ending Fund Balance	\$21,794,230	\$26,490,989		
Catastrophic Reserve	25,493,246	25,452,668	-40,577	-0.16%
Committed/Carryover	-	-	-	-
Undesignated Fund Balance	-\$3,699,016	\$1,038,321	\$4,737,337	128.07%

Based on current projections, operating revenues are estimated at \$153.8 million, or \$4.47 million above the revised budget, while total expenditures are projected at \$158.9 million, or \$225,430 below the revised budget. As a result, the City is projected to end FY26 with an operating deficit of approximately \$5.1 million, which is \$4.7 million better than assumed in the revised budget. After accounting for transfers, the net General Fund deficit is projected at approximately \$2.1 million.

The ending General Fund balance at June 30, 2026 is projected to be \$26.5 million. Of that amount, approximately \$25.5 million is required to maintain the City's Catastrophic Reserve at 18% of General Fund operating expenditures, consistent with the Fiscal Management Policies adopted by the City Council on August 12, 2025. After accounting for this reserve requirement, the undesignated fund balance is projected at approximately \$1.0 million, representing a \$4.7 million improvement from the revised budget projection.

Staff will continue to monitor FY26 and will bring back updated estimates, if needed, at a future date.

Budget Adjustments

The following additional budget adjustments to FY26 are recommended:

- Building Technology Fee- Funded Programs - Operating funding for several Building Division functions was inadvertently omitted from the original FY26 budget adoption. Approximately \$512,000 is needed to support Building and Planning Division functions such as permitting software, scanning services, digitization, and legally required General Plan updates.
- Housing Program Adjustments - Portions of the City's HOME Program budget remained unspent in FY25 and must be reappropriated in FY26 to support future eligible projects and programs. An appropriation adjustment of approximately \$1,292,700 is recommended for affordable housing developments, rental assistance, and other qualifying housing programs.

These adjustments total \$1,804,700 across all funds and have no impact on the General Fund for FY26.

Conclusion

While the mid-year outlook shows improvement compared to earlier projections, the City continues to face ongoing structural budget challenges. FY26 year-end estimates reflect a materially improved General Fund outlook, driven primarily by stronger-than-anticipated revenues and continued position vacancy savings, partially offset by overtime and other cost pressures. Although the projected deficit is substantially lower than assumed in the revised budget, the City continues to operate with a structural imbalance between recurring revenues and expenditures. Staff will continue to closely monitor spending, hold vacancies where feasible, and identify additional opportunities to improve

long-term fiscal sustainability.

7. ATTACHMENTS

- None