



AGENDA

Orange City Council March 24, 2026

Jarad L. Hildenbrand
City Manager

Nathalie Adourian
City Attorney

Pamela Coleman
City Clerk

5:00 PM Closed Session
6:00 PM Regular Session

City Council Chamber
300 E. Chapman Avenue
Orange, CA 92866

DAN SLATER
Mayor

DENIS BILODEAU
Mayor pro tem, District 4

ARIANNA BARRIOS
Councilmember, District 1

JON DUMITRU
Councilmember, District 2

KATHY TAVOULARIS
Councilmember, District 3

ANA GUTIERREZ
Councilmember, District 5

JOHN GYLLENHAMMER
Councilmember, District 6

The City of Orange City Council welcomes you to this meeting and encourages your participation. Regular City Council meetings are held on the second and fourth Tuesday of each month at 6:00 p.m.

Agenda Information

The agenda contains a brief general description of each item to be considered. The City Council may take legislative action deemed appropriate with respect to the item and is not limited to the recommended action indicated in staff reports or on the agenda. The agenda and supporting documentation is available after 4:00 p.m. on the Thursday prior to the Council meeting on the City's website at www.cityoforange.org, at the City Clerk's Office located at 300 E. Chapman Avenue, and at the Main Public Library located at 407 E. Chapman Avenue. Written materials relating to an item on the agenda that are provided to the City Council after agenda packet distribution and within 72 hours before Council is to consider the item will be made available for public inspection in the City Clerk's Office during normal business hours; at the City Council meeting; and made available on the City's website.

Public Participation

Regular meetings are televised live on Spectrum Cable Channel 3 and AT&T U-verse Channel 99, and streamed live and on-demand on the City's website at www.cityoforange.org.

Pursuant to Government Code Section 54954.3, members of the public may address the City Council on any agenda item before or during Council's consideration of the item, and on any other matters within the City Council's jurisdiction by using any of the following methods:

1) In-Person

To speak on an item on the agenda, complete a speaker card indicating your name, address, and identify the agenda item number or subject matter you wish to address. The card should be given to the City Clerk prior to the start of the meeting. General comments are received during the "Public Comments" section at the beginning of the Regular Session. No action may be taken on off-agenda items unless authorized by law. Public Comments are limited to three (3) minutes per speaker unless a different time limit is announced. It is requested that you state your name for the record, then proceed to address the City Council. All speakers shall observe civility, decorum, and good behavior.

(Continued on page 2)

2) Written Public Comments via eComment

Members of the public can submit their written comments electronically for City Council consideration by using the eComment feature on the Agenda page of the City's website at www.cityoforange.org. To ensure distribution to the City Council prior to consideration of the agenda, we encourage the public to submit written comments by 3:00 p.m. the day of the meeting. All written comments will be provided to the Council for consideration and posted on the City's website after the meeting.

3) Public Comments via recorded voicemail message

Finally, the public can record their comments by calling (714) 744-2234 no later than 3:00 p.m. the day of the meeting. Recorded messages will not be played at the meeting, but will be provided to the Council.

In accordance with Ordinance No. 10-01, any person making personal, impertinent, slanderous or profane remarks or who becomes boisterous while addressing the Council shall be called to order by the Mayor. If such conduct continues, the Mayor may order the person barred from addressing the City Council further during that meeting, unless permission to continue is granted by a majority vote of the Council.

Please contact the City Clerk's Office at (714) 744-5500 with any questions.

ADA Requirements: In compliance with the Americans with Disabilities Act, if you need accommodations to participate in this meeting, please contact the City Clerk's office at (714) 744-5500. Notification at least 48 hours in advance of meeting will enable the City to make arrangements to assure accessibility to this meeting.

REMINDER: Please silence all electronic devices while City Council is in session.

5:00 PM CLOSED SESSION

1. CALL TO ORDER

1.1 ROLL CALL

2. PUBLIC COMMENTS ON CLOSED SESSION ITEMS

At this time, members of the public may address the Council on Closed Session items only. Public Comments are limited to three (3) minutes per speaker.

3. RECESS TO CLOSED SESSION

a. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION

Pursuant to Government Code Section 54956.9(a) & (d)(1) - One case

Name of Case: J.C. v. City of Orange et al.

Orange County Superior Court Case No. 30-2026-01553378

4. CLOSED SESSION REPORT

5. ADJOURNMENT

The City Council will adjourn to the 6:00 p.m. Regular Session in the Council Chamber.

6:00 PM REGULAR SESSION

1. OPENING/CALL TO ORDER

1.1 INVOCATION

Pastor Orlando Barela, Household of Faith Family Church

1.2 PLEDGE OF ALLEGIANCE

Councilmember Arianna Barrios

1.3 ROLL CALL

1.4 PRESENTATIONS/ANNOUNCEMENTS

Proclamation recognizing March 2026 as Women’s History Month and celebrating the exceptional female student athletes of Orange High School

Attachments: [Staff Report](#)
 [Draft Proclamation](#)

1.5 REPORT ON CLOSED SESSION ACTIONS

2. PUBLIC COMMENTS

At this time, members of the public may address the Council on matters not listed on the agenda within the subject matter jurisdiction of the City Council, provided that NO action may be taken on off-agenda items unless authorized by law. Public Comments are limited to three (3) minutes per speaker unless a different time limit is announced.

3. ADMINISTRATIVE REPORTS

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

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

Attachments: [Staff Report](#)

3.2. First Budget Study Session for the Proposed Fiscal Year 2026-27 Budget**Recommended Action:**

1. Provide direction to staff to prepare the Fiscal Year 2026-27 Preliminary Budget.
2. Review and discuss potential revenue measures.

Attachments: [Staff Report](#)

4. ADJOURNMENT

The next Regular City Council meeting will be held on Tuesday, April 14, 2026, at 6:00 p.m., in the Council Chamber, with Closed Session beginning at 5:00 p.m., if necessary.

I, Pamela Coleman, CMC, City Clerk for the City of Orange, do hereby declare, under penalty of perjury, that a full and correct copy of this agenda was posted pursuant to Government Code Section 54950 et. seq., at the following locations: Orange Civic Center kiosk and Orange City Clerk's Office at 300 E. Chapman Avenue, Orange Main Public Library at 407 E. Chapman Avenue, Police facility at 1107 N. Batavia Street, and uploaded to the City's website www.cityoforange.org.

Date posted: March 19, 2026



Agenda Item

Orange City Council

Item #:

3/24/2026

File #: 26-0163

1. SUBJECT

Proclamation recognizing March 2026 as Women's History Month and celebrating the exceptional female student athletes of Orange High School

2. SUMMARY

Recognize March 2026 as Women's History Month and celebrate the exceptional female student athletes of Orange High School.

3. ATTACHMENTS

- Draft Proclamation



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3. ATTACHMENTS

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Proclamation

Honoring

Orange High School's Female Athletes
Women's History Month 2026

WHEREAS, Women's History Month is observed each March to honor the generations of women whose courage, talent, and perseverance have shaped the fabric of American life in the arts, in science, in public service, and on the fields of athletic competition and whose legacy continues to inspire young women to pursue excellence in every arena; and

WHEREAS, the young women who compete as student athletes at Orange High School (OHS), embody the very spirit of Women's History Month—demonstrating daily that athletic achievement and academic dedication are not competing ambitions but complementary expressions of character, discipline, and heart; and

WHEREAS, OHS fields programs across a wide range of sports through which hundreds of young women each year discover their physical capabilities, forge lifelong bonds of teamwork, and develop the resilience that will serve them long after their final game; and

WHEREAS, the female student athletes of OHS have distinguished themselves not only in competition but in their communities and classrooms, carrying their school's tradition of excellence with pride and representing the City of Orange with grace and sportsmanship at every level of play; and

WHEREAS, the coaches, trainers, athletic directors, and faculty mentors of OHS have invested extraordinary care, expertise, and commitment in cultivating an environment where young women feel seen, supported, and challenged to reach their full potential understanding that the lessons of sport extend far beyond the scoreboard; and

WHEREAS, the pioneering women who fought for Title IX and equal opportunity in sport paved the way for every girl who laces up her cleats, pulls on her cap, or steps onto the court at Orange High School; and

WHEREAS, the City of Orange takes immense pride in the young women of OHS who serve as role models for the next generation of girls in our community, proving that strength and grace are not opposites, that competition and kindness coexist, and that the pursuit of athletic excellence is itself a profound act of self-determination.

NOW, THEREFORE, I, Daniel R. Slater, Mayor of the City of Orange, and the entire City Council, do hereby recognize and celebrate March 2026 as Women's History Month and extend the sincerest appreciation for the female student athletes of Orange High School past and present.

DATED this 24th day of March 2026.



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
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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



Agenda Item

Orange City Council

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3/24/2026

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TOTAL REVENUES	\$158,708,647	\$153,840,857	\$70,238,531	\$158,312,187	\$4,471,330

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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



Agenda Item

Orange City Council

Item #: 3.2.

3/24/2026

File #: 26-0116

TO: Honorable Mayor and Members of the City Council

THRU: Jarad Hildenbrand, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

First Budget Study Session for the Proposed Fiscal Year 2026-27 Budget

2. SUMMARY

This is the first budget study session for the Fiscal Year 2026-27 Budget. This session presents revenue assumptions, the proposed expenditure budget, and budget-balancing measures for the General Fund.

3. RECOMMENDED ACTION

1. Provide direction to staff to prepare the Fiscal Year 2026-27 Preliminary Budget.
2. Review and discuss potential revenue measures.

4. FISCAL IMPACT

Fiscal Impact will be determined with final budget adoption.

5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability

6. DISCUSSION AND BACKGROUND

Background

Fiscal Year 2026-27 (FY27) continues to present significant financial challenges for the General Fund, as the City faces an ongoing structural imbalance between revenues and expenditures. The City's largest revenue source, Property Tax, is expected to grow modestly within the constraints of Proposition 13, while Sales Tax revenues are projected to remain relatively flat. At the same time, costs across all major expenditure categories continue to increase.

Development of the FY27 Proposed Budget began with a zero-based budgeting approach, requiring departments to justify expenditures from the ground up rather than relying on prior-year spending as the baseline. This process resulted in proposed position reductions, continued vacancy controls, and the deferral of several lower-priority or non-core requests in order to align limited General Fund resources with the City's highest service priorities.

The FY27 Proposed Budget includes reductions totaling approximately 56 full-time equivalent (FTE) positions, reducing the City's workforce to 689.7 FTEs, or about 3% below FY26 and nearly 6%

below FY24.

Over the past three years, the City has exercised strong fiscal discipline, limiting operating expenditure growth to an average of 2.2%, compared to an average Consumer Price Index for All Urban Consumers (CPI-U) of 3.2%. For FY27, operating expenditures are projected to increase by 1.3%, which remains below the February CPI-U of 2.9%. Despite that restraint, the General Fund continues to face a structural imbalance driven primarily by annual debt service obligations totaling approximately \$17.9 million, including \$16.2 million for Pension Obligation Bonds and \$1.7 million for Lease Revenue Bonds.

This fiscal outlook underscores the need to evaluate potential revenue enhancements and long-term strategies to achieve structural balance and ensure the City's long-term financial sustainability.

General Fund Revenues

Based on current trends and analysis, General Fund operating revenues, excluding transfers, are projected at approximately \$153.7 million for FY27, a decrease of about \$140,000 from the FY26 year-end estimate. Total revenues, including transfers, are projected at approximately \$170.7 million, an increase of about \$12.4 million or 7.8% over the FY26 year-end estimate. Excluding one-time transfers, the FY27 General Fund revenue outlook is essentially flat.

The table below summarizes the General Fund revenues by source type, comparing the changes from the FY26 year-end estimates and the FY27 proposed budget:

Table 1: FY 27 Proposed General Fund Revenue

	FY26 Year End Estimate	FY27 Proposed	Variance From FY26	% Change
Property Tax	\$59,355,220	\$61,239,700	\$1,884,480	3.2%
Sales Tax	50,567,208	50,676,800	109,592	0.2%
Internal Service Charges	10,077,495	4,496,300	-5,581,195	-55.4%
Fees for Services	6,599,526	6,944,100	344,574	5.2%
Licenses & Permits	6,742,362	6,849,300	106,938	1.6%
TOT	6,339,957	6,412,400	72,443	1.1%
Miscellaneous Revenue	3,612,876	4,982,900	1,370,024	37.9%
Use of Property	3,922,905	4,169,800	246,895	6.3%
Franchises	3,235,228	3,424,400	189,172	5.8%
Fines	1,669,836	2,874,900	1,205,064	72.2%
Revenue from Other Agencies	1,704,322	1,615,700	-88,622	-5.2%
Total Operating Revenue	\$153,826,935	\$153,686,300	-\$140,635	-0.1%
Transfers In	4,485,252	17,000,000	12,514,748	279.0%
TOTAL REVENUE	\$158,312,187	\$170,686,300	\$12,374,114	7.8%

Provided below is a summary of the assumptions used for the FY27 General Fund revenues:

- **Property Tax:** The City's largest source of General Fund revenues, is proposed to be \$61.2 million in FY27, an increase of roughly \$1.9 million or 3.2% over FY26 year end estimates. While Proposition 13 generally limits annual assessed value increases to 2% on existing properties, additional growth occurs when properties change ownership and are reassessed at current market value. With the Federal Reserve lowering interest rates over the past year, housing market activity is expected to increase, leading to more home sales and modest additional growth in property tax revenues.
- **Sales Tax:** The FY27 revenue is projected to remain relatively flat at roughly \$50.7 million, reflecting a \$109,600 (0.2%) increase over the FY26 year-end estimate. According to statewide reports from the City's sales tax consultant, while inflation has moderated and interest rates have declined, statewide economic indicators suggest consumers remain cautious. As a result, taxable sales are expected to stabilize, with spending largely focused on essential goods and value-oriented purchases. While fuel prices have been trending upward due to external and foreign market factors, a significant increase in sales tax is not considered in the FY27 projections largely due to thresholds within the City's current sales tax agreements and the potential for volatility in this sector.
- **Internal Service Charges:** Internal Service Charges is projected to be almost \$4.5 million, a decrease of \$5.6 million (55.4%) from the FY26 year-end. The decrease in Internal Service Charges does not reflect a corresponding reduction in actual service levels or citywide costs. Rather, it reflects a change in budgeting and reporting methodology, as several formerly separate Internal Service Funds were consolidated into the General Fund. As a result, costs previously reflected in this category now appear directly in other operating expenditure categories.
- **Fees for Services:** The city is projecting a total of approximately \$6.9 million in FY27, an increase of \$345,000 (5.2%), compared to FY26 estimate. These fees are intended to offset the City's operating costs of providing services and have been revised following the user fee study to more appropriately align charges with the cost of service delivery. This estimate considers the updated fees adopted at the January 13th Council meeting and proposed for the April 28th Council meeting.
- **Transient Occupancy Tax (TOT):** The projected TOT revenue for FY27 is just over \$6.4 million, relatively flat with a slight increase of \$72,000 (1.1%) compared to the FY26 year-end estimate. Travel demand has remained relatively stable as consumers continue to prioritize spending on experiences, travel, and leisure, though at somewhat moderate levels compared to the post-pandemic surge. According to the U.S. Travel Association, hotel room demand declined approximately 1% from the prior year, while short-term rental demand grew slightly by about 1%, reflecting shifting travel preferences.
- **Miscellaneous Revenue:** Miscellaneous revenue is projected at just under \$5.0 million in FY27, an increase of approximately \$1.4 million over the FY26 year-end estimate. This category includes one-time reimbursements, donations, and other miscellaneous revenues, including approximately \$1.0 million in Cal OES reimbursements for fire deployments and \$150,000 to offset credit card fee surcharges. Because portions of this category are dependent on reimbursement timing and other one-time factors, actual

revenues will continue to be monitored and refined as needed during the budget process.

- Fine and Forfeitures:** Fine and forfeitures revenue is projected at approximately \$2.9 million in FY27, an increase of about \$1.2 million over the FY26 year-end estimate. This reflects anticipated revenues of approximately \$1.0 million from the City's paid parking program in Old Towne, as well as \$300,000 from increased collections associated with Transient Occupancy Tax and Business License audit activities. As these revenues are partially dependent on program performance and collection activity, staff will continue to monitor actual results and update projections as needed.
- Revenue from Other Agencies :** FY27 revenue in this category is projected at approximately \$1.6 million, a \$89,000 (5.2%) decrease from the FY26 year-end estimate. This category is primarily comprised of revenue received from other government agencies, as well as one-time grants from state funded programs. As is typical, revenue in this category may fluctuate throughout the year as additional grant programs are awarded and recognized.
- Transfers In:** Transfers into the General Fund are projected to total \$17.0 million in FY27, an increase of approximately \$12.5 million over the FY26 year-end estimate. This amount primarily reflects one-time transfers of available fund balances from the Emergency Medical Transport Fund, Equipment Replacement Fund, and Capital Improvement Program Fund to temporarily offset the projected General Fund operating deficit. These transfers are non-recurring in nature and provide temporary budget relief rather than a long-term structural solution.

Overall, the FY27 revenue outlook reflects continued stability in core tax revenues, but not sufficient growth to close the City's underlying structural gap. Staff will continue to monitor key economic indicators and actual revenues over the next few months. If warranted, staff will update the proposed FY27 revenue for the Preliminary Budget presentation.

General Fund Expenditures

The proposed FY27 General Fund operating expenditures total approximately \$143.2 million, an increase of about \$1.8 million or 1.3% over the FY26 year-end estimate. Total expenditures, including debt service and transfers out, are projected at approximately \$170.7 million, reflecting an increase of about \$10.3 million or 6.4% year over year.

Table 2 summarizes the General Fund expenditure by category, comparing the changes from the FY25 actuals, the FY26 year-end estimates, and the FY27 proposed budget:

Table 2: FY 26 Proposed General Fund Expenditure

Expenditure Category	FY26 YE Estimates	FY27 Proposed	FY 27 Variance from YE Estimate	% Change
Salaries and Benefits	105,296,845	109,683,500	4,386,655	4.2%
Repair/Maintenance	9,469,606	9,898,200	428,594	4.5%
Professional/Other Svcs	7,002,544	7,987,000	984,456	14.1%

Internal Service Costs	8,866,258	3,743,700	(5,122,558)	-57.8%
Materials and Supplies	4,474,858	5,193,600	718,742	16.1%
Miscellaneous Expenses	2,782,239	3,065,000	282,761	10.2%
Utility Charges	3,448,883	3,605,500	156,617	4.5%
Capital Outlay	62,481	44,500	(17,981)	-28.8%
Total Operating Expenditures	141,403,714	143,221,000	1,817,286	1.3%
Debt Services	17,515,954	17,905,400	389,446	2.2%
Transfers Out	1,455,252	9,554,500	8,099,248	556.6%
TOTAL EXPENDITURES	160,374,920	170,680,900	10,305,980	6.4%

Provided below are the budget assumptions impacting the FY27 General Fund expenditures:

- **Salaries & Benefits:** The FY27 proposed budget for salaries and benefits is \$109.7 million, an increase of about \$4.4 million or 4.2% above the FY26 year-end estimate. The increase is attributed to the following factors:
 - **Salary Increases:** The proposed FY27 budget includes annual step increases and a 3% increase for all City employees.
 - **Position Changes:** The proposed budget includes the elimination of 45.7 FTEs while keeping 10 FTEs frozen for FY27. It also included reclassification of select existing positions to better align with current operational needs and organizational priorities.
 - **Fully Funded Overtime:** Historically, overtime budget has been funded at 40% and utilizing vacancies to fill the gap. For FY26, staff is projecting a shortfall of about \$5.4 million. Going forward, staff will fully budget projected overtime costs. Staff is projecting approximately \$7.5 million in overtime for FY27. This amount is in line with the average of the last four fiscal years.

Although the FY27 Proposed Budget includes significant position reductions, salaries and benefits still increase year over year due primarily to annual step increases, the proposed 3% salary adjustment, and the decision to fully fund projected overtime costs rather than relying on vacancy savings to absorb those expenses.

- **Professional/Other Services:** The proposed FY27 budget for contractual services is approximately \$8.0 million. This reflects a net increase of approximately \$980,000, or 14.1%, compared to FY26 year-end estimates. This expenditure category includes \$800,000 associated with North SPA services, \$125,000 to support enhancements within the City's Economic Development Division, \$250,000 for year-round aquatics services, \$498,000 for the Old Towne paid parking program, and \$100,000 for on-call building inspection services. These increases are partially offset by one-time expenditures included in FY26 for labor relations legal services and the IT Strategic Plan.

- **Materials and Supplies:** The proposed FY27 budget for materials and supplies is

almost \$5.2 million and reflects an increase of approximately \$719,000 (16.1%) compared to the FY26 year-end estimate. This increase is primarily driven by \$400,000 for the replacement of mandatory safety equipment for the Fire Department, \$100,000 in additional safety uniform costs, and general cost increases across various operating materials and supplies categories due to rising costs for materials and normal pricing adjustments.

- **Miscellaneous Expenditures:** The proposed FY27 budget for miscellaneous expenditures totaling just under \$3.1 million reflects an increase of approximately \$280,000 (10.2%) compared to the prior year. This increase is primarily attributable to anticipated election-related costs of \$220,000, as well as \$95,000 in additional Fire Department training expenses offset through the Santa Ana College training program.
- **Internal Service Costs/Allocations:** As part of the FY26 budget process, the City completed a comprehensive Cost Allocation Plan conducted by Matrix Consulting Group and consolidated internal service functions into the General Fund. As a result of these changes, internal service costs are projected to total approximately \$3.7 million, a decrease of approximately \$5.1 million (57.8%) in FY27. This reduction reflects updated cost allocation methodologies and the elimination of prior internal service fund structures. The decrease is partially offset by corresponding increases in other expenditure categories within the General Fund, as costs previously accounted for in Internal Service Funds are now directly reflected in departmental operating budgets.

Transfers to Internal Service Funds

The City's Internal Service Funds (ISFs) are used to account for goods and services provided internally to support services such as vehicle replacement, computer replacement, general liability, workers' compensation, and employee accrued liability.

Historically, contributions from the General Fund to certain Internal Service Funds were maintained at reduced levels in order to minimize near-term impacts on the General Fund, with the expectation that future year-end surpluses would be used to replenish those funds. As budgetary constraints have persisted, that strategy has resulted in continued underfunding of several Internal Service Funds, including the Workers' Compensation Fund, which currently has a negative fund balance. The FY27 Proposed Budget includes a transfer of approximately \$9.5 million to the Employee Accrued Liability Fund; however, due to ongoing General Fund constraints, negative balances in the Workers' Compensation, General Liability, and Employee Accrued Liability Funds totaling approximately \$17.3 million will continue to be deferred.

Unfunded Requests and Future Considerations

Due to limited ongoing revenues, several priority needs were not included in the FY27 Proposed Budget and remain subject to future Council consideration if additional recurring resources become available. The following items are identified:

1. Restore negative fund balance in the ISFs.
2. Restore public safety positions.

3. Address deferred maintenance.
4. Expansion of Fire Prevention staffing model to address increased inspection, plan review, and compliance workload.
5. Restore community programs and events.
6. Implementation of a body-worn camera program for the Code Enforcement Division to enhance transparency, accountability, and staff safety.
7. Restoration of the Historic Preservation Planner position to support planning, development review, and preservation efforts.
8. Additional administrative support within the City Manager's Office, City Clerk's Office, and Finance Department to address increasing operational demands and workload.

These unfunded items may be revisited as part of future budget cycles, with priority given to those that support public safety, regulatory compliance, and core service delivery.

General Fund Balance

The proposed FY27 General Fund budget includes approximately \$153.7 million in operating revenues, excluding transfers, and approximately \$161.1 million in operating expenditures, including debt service, resulting in an operating deficit of approximately \$7.4 million. After accounting for transfers out of approximately \$9.6 million and one-time transfers in of \$17.0 million from the EMT, CIP, and Equipment Replacement Funds, the budget is projected to close with a nominal net surplus of approximately \$5,400. While this approach balances the FY27 budget on paper, it relies on one-time resources and does not fully resolve the City's underlying structural imbalance.

The Fiscal Management Policies adopted by the City Council on August 12, 2025 recommend maintaining a catastrophic reserve of 20% of General Fund operating expenditures for FY27. However, given the fiscal challenges outlined in this report, staff recommends maintaining the reserve at 18% for FY27, with the intent to revisit a phased return to 20% in future years as the City's financial condition improves. At the 18% level, the catastrophic reserve is projected to total approximately \$25.8 million, leaving an estimated undesignated General Fund balance of approximately \$717,000 as of June 30, 2027. Table 3 highlights the proposed fund balance for the General Fund.

Table 3: Proposed Fund Balance for the General Fund

	FY26 Year-End Estimate	FY27 Proposed	Variance to YE Estimate	% Change
Operating Revenues	153,826,935	153,686,300	-140,635	-0.1%
Total Revenues	153,826,935	153,686,300	-140,635	-0.1%
Operating Expenditures	141,403,713	143,221,000	1,817,287	1.3%
Debt Service	17,515,954	17,905,400	389,446	2.2%
Total Expenditures	158,919,667	161,126,400	2,206,733	1.4%
Operating Surplus/ (Deficit)	-5,092,732	-7,440,100	-2,347,368	
Transfers-In	4,485,252		-4,485,252	-100.0%

Transfer In - Fund 225 EMT	-	3,700,000	3,700,000	
Transfer In - Fund 500 CIP	-	10,000,000	10,000,000	
Transfer In - Fund 790 Equipment Replacement	-	3,300,000	3,300,000	
Transfers Out	-1,455,252	-9,554,500	-8,099,248	556.6%
Net Surplus/(Deficit)	-2,062,732	5,400	2,068,132	
Estimated Beginning Fund Balance - 7/1/2026	28,553,721	26,490,989	-2,062,732	-7.2%
Estimated Ending Fund Balance - 6/30/2027	26,490,989	26,496,389	5,400	-0.0%
Catastrophic Reserve	25,452,668	25,779,780	327,112	1.3%
Estimated Undesignated Fund Balance - 6/30/2027	1,038,321	716,609	-321,712	-31.0%

Overall, the FY27 Proposed Budget reflects a continued effort to reduce operating expenditures, align ongoing costs with available revenues, and preserve the City's core service priorities. However, recurring General Fund revenues remain insufficient to fully support recurring operating costs, debt service obligations, and long-term internal service fund needs. As proposed, the FY27 budget relies on one-time transfers from other available fund balances to close the remaining gap. Staff will continue to monitor revenue performance, expenditure trends, and policy options in order to improve long-term structural balance and fiscal sustainability.

Staff is seeking City Council direction on the proposed FY27 budget. Directions received tonight will be included in the Preliminary Budget.

The next study session is tentatively scheduled April 14th and will focus on the City's Capital Improvement Program. Staff will incorporate the City Council's directions and feedback received from both study sessions in the FY27 Preliminary Budget for review during a regular City Council meeting in May.

7. ATTACHMENTS

- None



Agenda Item

Orange City Council

Item #: 3.2.

3/24/2026

File #: 26-0116

TO: Honorable Mayor and Members of the City Council

THRU: Jarad Hildenbrand, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

First Budget Study Session for the Proposed Fiscal Year 2026-27 Budget

2. SUMMARY

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4. FISCAL IMPACT

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5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability

6. DISCUSSION AND BACKGROUND

Background

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Development of the FY27 Proposed Budget began with a zero-based budgeting approach, requiring departments to justify expenditures from the ground up rather than relying on prior-year spending as the baseline. This process resulted in proposed position reductions, continued vacancy controls, and the deferral of several lower-priority or non-core requests in order to align limited General Fund resources with the City's highest service priorities.

The FY27 Proposed Budget includes reductions totaling approximately 56 full-time equivalent (FTE) positions, reducing the City's workforce to 689.7 FTEs, or about 3% below FY26 and nearly 6%

below FY24.

Over the past three years, the City has exercised strong fiscal discipline, limiting operating expenditure growth to an average of 2.2%, compared to an average Consumer Price Index for All Urban Consumers (CPI-U) of 3.2%. For FY27, operating expenditures are projected to increase by 1.3%, which remains below the February CPI-U of 2.9%. Despite that restraint, the General Fund continues to face a structural imbalance driven primarily by annual debt service obligations totaling approximately \$17.9 million, including \$16.2 million for Pension Obligation Bonds and \$1.7 million for Lease Revenue Bonds.

This fiscal outlook underscores the need to evaluate potential revenue enhancements and long-term strategies to achieve structural balance and ensure the City's long-term financial sustainability.

General Fund Revenues

Based on current trends and analysis, General Fund operating revenues, excluding transfers, are projected at approximately \$153.7 million for FY27, a decrease of about \$140,000 from the FY26 year-end estimate. Total revenues, including transfers, are projected at approximately \$170.7 million, an increase of about \$12.4 million or 7.8% over the FY26 year-end estimate. Excluding one-time transfers, the FY27 General Fund revenue outlook is essentially flat.

The table below summarizes the General Fund revenues by source type, comparing the changes from the FY26 year-end estimates and the FY27 proposed budget:

Table 1: FY 27 Proposed General Fund Revenue

	FY26 Year End Estimate	FY27 Proposed	Variance From FY26	% Change
Property Tax	\$59,355,220	\$61,239,700	\$1,884,480	3.2%
Sales Tax	50,567,208	50,676,800	109,592	0.2%
Internal Service Charges	10,077,495	4,496,300	-5,581,195	-55.4%
Fees for Services	6,599,526	6,944,100	344,574	5.2%
Licenses & Permits	6,742,362	6,849,300	106,938	1.6%
TOT	6,339,957	6,412,400	72,443	1.1%
Miscellaneous Revenue	3,612,876	4,982,900	1,370,024	37.9%
Use of Property	3,922,905	4,169,800	246,895	6.3%
Franchises	3,235,228	3,424,400	189,172	5.8%
Fines	1,669,836	2,874,900	1,205,064	72.2%
Revenue from Other Agencies	1,704,322	1,615,700	-88,622	-5.2%
Total Operating Revenue	\$153,826,935	\$153,686,300	-\$140,635	-0.1%
Transfers In	4,485,252	17,000,000	12,514,748	279.0%
TOTAL REVENUE	\$158,312,187	\$170,686,300	\$12,374,114	7.8%

Provided below is a summary of the assumptions used for the FY27 General Fund revenues:

- **Property Tax:** The City's largest source of General Fund revenues, is proposed to be \$61.2 million in FY27, an increase of roughly \$1.9 million or 3.2% over FY26 year end estimates. While Proposition 13 generally limits annual assessed value increases to 2% on existing properties, additional growth occurs when properties change ownership and are reassessed at current market value. With the Federal Reserve lowering interest rates over the past year, housing market activity is expected to increase, leading to more home sales and modest additional growth in property tax revenues.
- **Sales Tax:** The FY27 revenue is projected to remain relatively flat at roughly \$50.7 million, reflecting a \$109,600 (0.2%) increase over the FY26 year-end estimate. According to statewide reports from the City's sales tax consultant, while inflation has moderated and interest rates have declined, statewide economic indicators suggest consumers remain cautious. As a result, taxable sales are expected to stabilize, with spending largely focused on essential goods and value-oriented purchases. While fuel prices have been trending upward due to external and foreign market factors, a significant increase in sales tax is not considered in the FY27 projections largely due to thresholds within the City's current sales tax agreements and the potential for volatility in this sector.
- **Internal Service Charges:** Internal Service Charges is projected to be almost \$4.5 million, a decrease of \$5.6 million (55.4%) from the FY26 year-end. The decrease in Internal Service Charges does not reflect a corresponding reduction in actual service levels or citywide costs. Rather, it reflects a change in budgeting and reporting methodology, as several formerly separate Internal Service Funds were consolidated into the General Fund. As a result, costs previously reflected in this category now appear directly in other operating expenditure categories.
- **Fees for Services:** The city is projecting a total of approximately \$6.9 million in FY27, an increase of \$345,000 (5.2%), compared to FY26 estimate. These fees are intended to offset the City's operating costs of providing services and have been revised following the user fee study to more appropriately align charges with the cost of service delivery. This estimate considers the updated fees adopted at the January 13th Council meeting and proposed for the April 28th Council meeting.
- **Transient Occupancy Tax (TOT):** The projected TOT revenue for FY27 is just over \$6.4 million, relatively flat with a slight increase of \$72,000 (1.1%) compared to the FY26 year-end estimate. Travel demand has remained relatively stable as consumers continue to prioritize spending on experiences, travel, and leisure, though at somewhat moderate levels compared to the post-pandemic surge. According to the U.S. Travel Association, hotel room demand declined approximately 1% from the prior year, while short-term rental demand grew slightly by about 1%, reflecting shifting travel preferences.
- **Miscellaneous Revenue:** Miscellaneous revenue is projected at just under \$5.0 million in FY27, an increase of approximately \$1.4 million over the FY26 year-end estimate. This category includes one-time reimbursements, donations, and other miscellaneous revenues, including approximately \$1.0 million in Cal OES reimbursements for fire deployments and \$150,000 to offset credit card fee surcharges. Because portions of this category are dependent on reimbursement timing and other one-time factors, actual

revenues will continue to be monitored and refined as needed during the budget process.

- Fine and Forfeitures:** Fine and forfeitures revenue is projected at approximately \$2.9 million in FY27, an increase of about \$1.2 million over the FY26 year-end estimate. This reflects anticipated revenues of approximately \$1.0 million from the City's paid parking program in Old Towne, as well as \$300,000 from increased collections associated with Transient Occupancy Tax and Business License audit activities. As these revenues are partially dependent on program performance and collection activity, staff will continue to monitor actual results and update projections as needed.
- Revenue from Other Agencies :** FY27 revenue in this category is projected at approximately \$1.6 million, a \$89,000 (5.2%) decrease from the FY26 year-end estimate. This category is primarily comprised of revenue received from other government agencies, as well as one-time grants from state funded programs. As is typical, revenue in this category may fluctuate throughout the year as additional grant programs are awarded and recognized.
- Transfers In:** Transfers into the General Fund are projected to total \$17.0 million in FY27, an increase of approximately \$12.5 million over the FY26 year-end estimate. This amount primarily reflects one-time transfers of available fund balances from the Emergency Medical Transport Fund, Equipment Replacement Fund, and Capital Improvement Program Fund to temporarily offset the projected General Fund operating deficit. These transfers are non-recurring in nature and provide temporary budget relief rather than a long-term structural solution.

Overall, the FY27 revenue outlook reflects continued stability in core tax revenues, but not sufficient growth to close the City's underlying structural gap. Staff will continue to monitor key economic indicators and actual revenues over the next few months. If warranted, staff will update the proposed FY27 revenue for the Preliminary Budget presentation.

General Fund Expenditures

The proposed FY27 General Fund operating expenditures total approximately \$143.2 million, an increase of about \$1.8 million or 1.3% over the FY26 year-end estimate. Total expenditures, including debt service and transfers out, are projected at approximately \$170.7 million, reflecting an increase of about \$10.3 million or 6.4% year over year.

Table 2 summarizes the General Fund expenditure by category, comparing the changes from the FY25 actuals, the FY26 year-end estimates, and the FY27 proposed budget:

Table 2: FY 26 Proposed General Fund Expenditure

Expenditure Category	FY26 YE Estimates	FY27 Proposed	FY 27 Variance from YE Estimate	% Change
Salaries and Benefits	105,296,845	109,683,500	4,386,655	4.2%
Repair/Maintenance	9,469,606	9,898,200	428,594	4.5%
Professional/Other Svcs	7,002,544	7,987,000	984,456	14.1%

Internal Service Costs	8,866,258	3,743,700	(5,122,558)	-57.8%
Materials and Supplies	4,474,858	5,193,600	718,742	16.1%
Miscellaneous Expenses	2,782,239	3,065,000	282,761	10.2%
Utility Charges	3,448,883	3,605,500	156,617	4.5%
Capital Outlay	62,481	44,500	(17,981)	-28.8%
Total Operating Expenditures	141,403,714	143,221,000	1,817,286	1.3%
Debt Services	17,515,954	17,905,400	389,446	2.2%
Transfers Out	1,455,252	9,554,500	8,099,248	556.6%
TOTAL EXPENDITURES	160,374,920	170,680,900	10,305,980	6.4%

Provided below are the budget assumptions impacting the FY27 General Fund expenditures:

- **Salaries & Benefits:** The FY27 proposed budget for salaries and benefits is \$109.7 million, an increase of about \$4.4 million or 4.2% above the FY26 year-end estimate. The increase is attributed to the following factors:
 - **Salary Increases:** The proposed FY27 budget includes annual step increases and a 3% increase for all City employees.
 - **Position Changes:** The proposed budget includes the elimination of 45.7 FTEs while keeping 10 FTEs frozen for FY27. It also included reclassification of select existing positions to better align with current operational needs and organizational priorities.
 - **Fully Funded Overtime:** Historically, overtime budget has been funded at 40% and utilizing vacancies to fill the gap. For FY26, staff is projecting a shortfall of about \$5.4 million. Going forward, staff will fully budget projected overtime costs. Staff is projecting approximately \$7.5 million in overtime for FY27. This amount is in line with the average of the last four fiscal years.

Although the FY27 Proposed Budget includes significant position reductions, salaries and benefits still increase year over year due primarily to annual step increases, the proposed 3% salary adjustment, and the decision to fully fund projected overtime costs rather than relying on vacancy savings to absorb those expenses.

- **Professional/Other Services:** The proposed FY27 budget for contractual services is approximately \$8.0 million. This reflects a net increase of approximately \$980,000, or 14.1%, compared to FY26 year-end estimates. This expenditure category includes \$800,000 associated with North SPA services, \$125,000 to support enhancements within the City's Economic Development Division, \$250,000 for year-round aquatics services, \$498,000 for the Old Towne paid parking program, and \$100,000 for on-call building inspection services. These increases are partially offset by one-time expenditures included in FY26 for labor relations legal services and the IT Strategic Plan.

- **Materials and Supplies:** The proposed FY27 budget for materials and supplies is

almost \$5.2 million and reflects an increase of approximately \$719,000 (16.1%) compared to the FY26 year-end estimate. This increase is primarily driven by \$400,000 for the replacement of mandatory safety equipment for the Fire Department, \$100,000 in additional safety uniform costs, and general cost increases across various operating materials and supplies categories due to rising costs for materials and normal pricing adjustments.

- **Miscellaneous Expenditures:** The proposed FY27 budget for miscellaneous expenditures totaling just under \$3.1 million reflects an increase of approximately \$280,000 (10.2%) compared to the prior year. This increase is primarily attributable to anticipated election-related costs of \$220,000, as well as \$95,000 in additional Fire Department training expenses offset through the Santa Ana College training program.
- **Internal Service Costs/Allocations:** As part of the FY26 budget process, the City completed a comprehensive Cost Allocation Plan conducted by Matrix Consulting Group and consolidated internal service functions into the General Fund. As a result of these changes, internal service costs are projected to total approximately \$3.7 million, a decrease of approximately \$5.1 million (57.8%) in FY27. This reduction reflects updated cost allocation methodologies and the elimination of prior internal service fund structures. The decrease is partially offset by corresponding increases in other expenditure categories within the General Fund, as costs previously accounted for in Internal Service Funds are now directly reflected in departmental operating budgets.

Transfers to Internal Service Funds

The City's Internal Service Funds (ISFs) are used to account for goods and services provided internally to support services such as vehicle replacement, computer replacement, general liability, workers' compensation, and employee accrued liability.

Historically, contributions from the General Fund to certain Internal Service Funds were maintained at reduced levels in order to minimize near-term impacts on the General Fund, with the expectation that future year-end surpluses would be used to replenish those funds. As budgetary constraints have persisted, that strategy has resulted in continued underfunding of several Internal Service Funds, including the Workers' Compensation Fund, which currently has a negative fund balance. The FY27 Proposed Budget includes a transfer of approximately \$9.5 million to the Employee Accrued Liability Fund; however, due to ongoing General Fund constraints, negative balances in the Workers' Compensation, General Liability, and Employee Accrued Liability Funds totaling approximately \$17.3 million will continue to be deferred.

Unfunded Requests and Future Considerations

Due to limited ongoing revenues, several priority needs were not included in the FY27 Proposed Budget and remain subject to future Council consideration if additional recurring resources become available. The following items are identified:

1. Restore negative fund balance in the ISFs.
2. Restore public safety positions.

3. Address deferred maintenance.
4. Expansion of Fire Prevention staffing model to address increased inspection, plan review, and compliance workload.
5. Restore community programs and events.
6. Implementation of a body-worn camera program for the Code Enforcement Division to enhance transparency, accountability, and staff safety.
7. Restoration of the Historic Preservation Planner position to support planning, development review, and preservation efforts.
8. Additional administrative support within the City Manager's Office, City Clerk's Office, and Finance Department to address increasing operational demands and workload.

These unfunded items may be revisited as part of future budget cycles, with priority given to those that support public safety, regulatory compliance, and core service delivery.

General Fund Balance

The proposed FY27 General Fund budget includes approximately \$153.7 million in operating revenues, excluding transfers, and approximately \$161.1 million in operating expenditures, including debt service, resulting in an operating deficit of approximately \$7.4 million. After accounting for transfers out of approximately \$9.6 million and one-time transfers in of \$17.0 million from the EMT, CIP, and Equipment Replacement Funds, the budget is projected to close with a nominal net surplus of approximately \$5,400. While this approach balances the FY27 budget on paper, it relies on one-time resources and does not fully resolve the City's underlying structural imbalance.

The Fiscal Management Policies adopted by the City Council on August 12, 2025 recommend maintaining a catastrophic reserve of 20% of General Fund operating expenditures for FY27. However, given the fiscal challenges outlined in this report, staff recommends maintaining the reserve at 18% for FY27, with the intent to revisit a phased return to 20% in future years as the City's financial condition improves. At the 18% level, the catastrophic reserve is projected to total approximately \$25.8 million, leaving an estimated undesignated General Fund balance of approximately \$717,000 as of June 30, 2027. Table 3 highlights the proposed fund balance for the General Fund.

Table 3: Proposed Fund Balance for the General Fund

	FY26 Year-End Estimate	FY27 Proposed	Variance to YE Estimate	% Change
Operating Revenues	153,826,935	153,686,300	-140,635	-0.1%
Total Revenues	153,826,935	153,686,300	-140,635	-0.1%
Operating Expenditures	141,403,713	143,221,000	1,817,287	1.3%
Debt Service	17,515,954	17,905,400	389,446	2.2%
Total Expenditures	158,919,667	161,126,400	2,206,733	1.4%
Operating Surplus/ (Deficit)	-5,092,732	-7,440,100	-2,347,368	
Transfers-In	4,485,252		-4,485,252	-100.0%

Transfer In - Fund 225 EMT	-	3,700,000	3,700,000	
Transfer In - Fund 500 CIP	-	10,000,000	10,000,000	
Transfer In - Fund 790 Equipment Replacement	-	3,300,000	3,300,000	
Transfers Out	-1,455,252	-9,554,500	-8,099,248	556.6%
Net Surplus/(Deficit)	-2,062,732	5,400	2,068,132	
Estimated Beginning Fund Balance - 7/1/2026	28,553,721	26,490,989	-2,062,732	-7.2%
Estimated Ending Fund Balance - 6/30/2027	26,490,989	26,496,389	5,400	-0.0%
Catastrophic Reserve	25,452,668	25,779,780	327,112	1.3%
Estimated Undesignated Fund Balance - 6/30/2027	1,038,321	716,609	-321,712	-31.0%

Overall, the FY27 Proposed Budget reflects a continued effort to reduce operating expenditures, align ongoing costs with available revenues, and preserve the City's core service priorities. However, recurring General Fund revenues remain insufficient to fully support recurring operating costs, debt service obligations, and long-term internal service fund needs. As proposed, the FY27 budget relies on one-time transfers from other available fund balances to close the remaining gap. Staff will continue to monitor revenue performance, expenditure trends, and policy options in order to improve long-term structural balance and fiscal sustainability.

Staff is seeking City Council direction on the proposed FY27 budget. Directions received tonight will be included in the Preliminary Budget.

The next study session is tentatively scheduled April 14th and will focus on the City's Capital Improvement Program. Staff will incorporate the City Council's directions and feedback received from both study sessions in the FY27 Preliminary Budget for review during a regular City Council meeting in May.

7. ATTACHMENTS

- None