

May 12, 2026
City Council Meeting

PowerPoint Presentations

Item 5.2 (Gyllenhammer)

CITY OF ORANGE

Fiscal Sustainability, Peer Benchmarking,
Pension Performance & Infrastructure Investment

Council Member Briefing

Prepared: May 2026 | FY 2025-26 Adopted Budget Cycle

FOR COUNCIL USE

INTRODUCTION & METHODOLOGY

How This Analysis Was Formed

- 1** 12-Year City of Orange Budgets
FY 2014-15 through FY 2025-26 adopted budgets — revenue, expenditures, FTE, fund balances, CIP programs. Actuals used where available.
- 2** 6 Peer City Budgets (FY 2023-2026)
Fullerton, Costa Mesa, Huntington Beach, Santa Ana, Garden Grove, Mission Viejo — normalized per capita & per 10K residents.
- 3** CalPERS Pension Analysis
Funded status, POB performance (\$281M issued 2021), employer contribution projections through FY 2054-55.
- 4** 2024 Pavement Management Program
318.5-mile network assessment — PCI scores, deferred maintenance backlog, 7-year CIP schedule, funding gap analysis.
- 5** Integrated Statistical Analysis
Trend analysis, CAGR calculations, stress testing, peer benchmarking computations, and cost reduction modeling.

Limitations: Analysis relies on publicly adopted budget documents and CalPERS projections. All projections are for planning purposes only.

12-YEAR GENERAL FUND TREND ANALYSIS

Expenditure CAGR: **4.8%** | 38% growth from 20-21 to 24-25

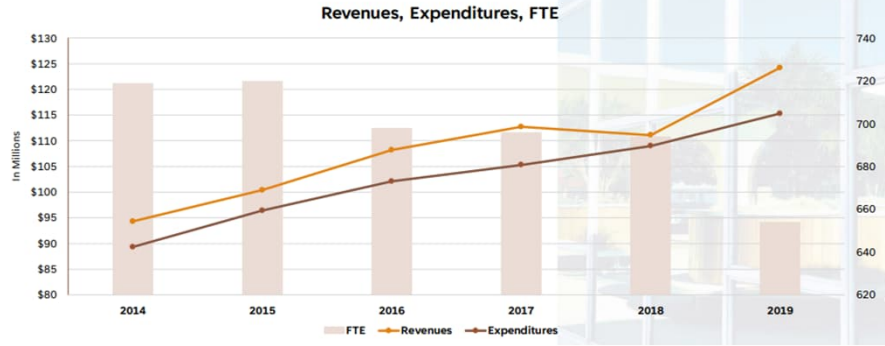
Revenue CAGR: **~4.3%** | 50 bps below expenditure growth

Fiscal Year	Revenue (\$M)	Expenditure (\$M)	Surplus/(Deficit)
FY14-15	\$102.5	\$97.5	\$5.0
FY16-17	\$109.3	\$107.8	\$1.5
FY18-19	\$118.2	\$116.0	\$2.2
FY19-20	\$118.0	\$113.5	\$2.5
FY20-21	\$107.0	\$107.0	\$0.0
FY21-22	\$139.9	\$127.8	\$12.1
FY22-23	\$138.9	\$139.4	(\$0.5)
FY23-24	\$146.6	\$143.9	\$2.7
FY24-25	\$149.2	\$147.9	\$1.3
FY25-26	\$147.0*	\$149.6*	(\$0.7)*

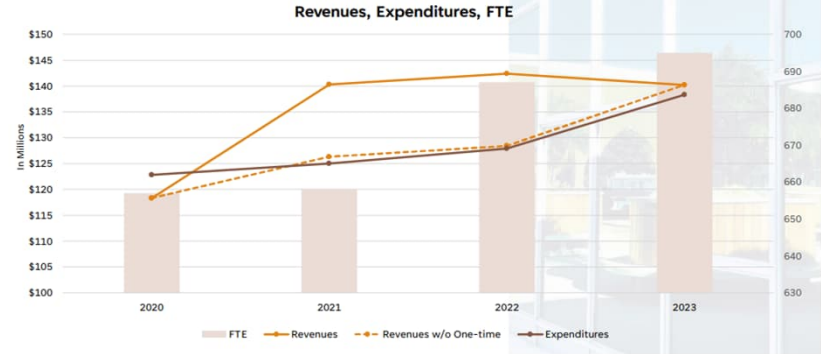
S&B at 83%+ of GF operating — primary cost driver at 4.8% CAGR. Revenue over-concentrated in Sales + Property Tax (80%+).

City of Orange FTE Balances

Post Recession Years (2014-2019)



COVID Years (2020-2023)



- FTE approx. 700 (2016-2018)
- FTE approx. 658 (2019-2021)
- COVID Relief \$27 MM (2021/22)
- FTE approx. 740-760 (2024/25) budget and *vacancies hired
- Pay increases and some salary equity adjustments
- Approx 90 HC increase from 2020-2021 to 2023-2024
- Hiring freeze in 24-25 and Budgetary decrease 25-26

CITY-WIDE SUMMARY SCHEDULE OF POSITIONS

BY DEPARTMENT

	APPROVED 2023-24	APPROVED 2024-25	BUDGET 2025-26
Departments:			
* City Council	7,000	7,000	7,000
City Manager	10,000	8,000	7,000
City Attorney	8,000	8,000	8,000
* City Clerk	7,500	7,500	7,500
* Treasurer	1,000	1,000	1,000
Finance	32,750	31,250	31,250
Human Resources	10,000	10,000	10,000
Information Technology	8,000	8,000	8,000
Library	40,950	40,525	40,525
Fire	141,789	143,039	142,000
Police	267,789	258,667	255,667
Public Works	134,950	133,950	132,950
Community Development	38,000	39,500	40,500
Community Services	62,950	62,950	62,950
Total - Authorized	770,678	759,381	754,342 *
Total - Elected	(9,000)	(9,000)	(9,000)
Total - Frozen	-	-	(34,400) *
TOTAL - BUDGETED	761,678	750,381	710,942

*Audit Committee Financial Review

City of Orange Fund Balances

Fund Balance		
Balance as of	June 30, 2013	June 30, 2019
General Fund	\$29,255,854	\$38,771,518
Capital Projects	10,561,355	29,603,940
Equipment Maintenance	2,277,784	(4,183,758)
Equipment Replacement	17,154,447	17,400,891
Major Building Improvement	225,351	288,880
Workers' Compensation	(1,231,493)	(9,378,545)
Self Insurance Liability	2,109,698	(1,222,261)
Self Insurance Liability – Dental	85,219	341,991
Employee Accrued Liability	3,998,388	6,935,245
Information System	779,159	60,425
Computer Replacement	2,029,983	2,538,427
Total Fund Balance	\$67,245,745	\$81,156,753

Fund Balance		
Balance as of	June 30, 2019	June 30, 2023
General Fund	\$38,771,518	\$25,728,204
Capital Projects	29,603,940	38,359,032
Equipment Maintenance	(4,183,758)	(4,449,029)
Equipment Replacement	17,400,891	25,004,239
Major Building Improvement	288,880	202,129
Workers' Compensation	(9,378,545)	(9,624,987)
Self Insurance Liability	(1,222,261)	(832,553)
Self Insurance Liability – Dental	341,991	536,653
Employee Accrued Liability	6,935,245	6,761,574
Information System	60,425	1,047,901
Computer Replacement	2,538,427	10,457,915
Total Fund Balance	\$81,156,753	\$93,141,078

Fund Balance		
Balance as of	June 30, 2023	June 30, 2024
General Fund	\$25,728,204	\$28,457,558
Capital Projects	38,359,032	34,802,557
Equipment Maintenance	(4,449,029)	(4,618,612)
Equipment Replacement	25,004,239	23,678,522
Major Building Improvement	202,129	176,328
Workers' Compensation	(9,624,987)	(7,903,557)
Self Insurance Liability	(832,553)	(691,138)
Self Insurance Liability – Dental	536,653	576,014
Employee Accrued Liability	6,761,574	7,383,486
Information System	1,047,901	1,320,963
Computer Replacement	10,457,915	8,364,107
Total Fund Balance	\$93,141,078	\$91,546,228

Total Fund Balance increasing through 2010s and Flattening in 2020s

Workers Comp Negative for Years and approx. \$8-9 million negative for last decade

*Audit Committee Financial Review

City of Orange Account Balances

Orange Cash and Inv. Balances continuing to rise QoQ for last 2 years

9/30/2024			9/30/2025		
	Cash & Investments Balance,	7 Day Simple Yield - 4.5%		Cash & Investments Balance,	4% - 4.1%
Chandler Investments:	\$103,019,494		Chandler Investments:	\$106,498,016	
Chandler Custodial Cash 2	470,961		LAIF, City:	\$20,218,598	
LAIF, City:	14,028,218		LAIF, Successor Agency:	\$5,585,932	
LAIF, Successor Agency:	8,164,649		Wells Fargo Bank:	\$12,090,873	
Wells Fargo Bank:	18,224,835		Balance at 3/31/2025	\$144,393,418	
Balance at 9/30/2024	\$143,908,157				
12/31/2024			12/31/2025		
	Cash & Investments Balance,	4.20%		Cash & Investments Balance,	3.9% - 4%
Chandler Investments:	\$103,746,382.33		Chandler Investments:	\$92,776,109	
Chandler Custodial Cash 2	\$85,725.78		LAIF, City:	\$35,538,464	
LAIF, City:	\$24,350,410.38		LAIF, Successor Agency:	\$5,646,952	
LAIF, Successor Agency:	\$5,371,246.55		Wells Fargo Bank:	\$25,938,199	
Wells Fargo Bank:	\$15,036,086.31		Balance at 12/31/2025	\$159,899,724	
Balance at 12/31/2024	\$148,504,125.57				
3/31/2025			3/31/2026		
	Cash & Investments Balance,	4.19%		Cash & Investments Balance,	3.5%-3.7%
Chandler Investments:	\$104,719,604.87		Chandler Investments:	\$109,303,884	
LAIF, City:	\$29,527,635.03		LAIF, City:	\$35,795,189	
LAIF, Successor Agency:	\$5,465,223.71		LAIF, Successor Agency:	\$5,951,660	
LAIF, Cash	\$343,482.83		Wells Fargo Bank:	\$11,848,531	
Wells Fargo Bank:	\$12,731,477.44		Balance at 12/31/2025	\$162,899,264	
Balance at 3/31/2025	\$152,784,422.88				
6/30/2025					
	Cash & Investments Balance,	4.15-4.19%			
Chandler Investments:	\$105,846,672				
LAIF, City:	\$39,814,705				
LAIF, Successor Agency:	\$5,525,395				
Wells Fargo Bank:	\$16,282,824				
Balance at 3/31/2025	\$167,469,596				

FY 2025-26 ADOPTED BUDGET SNAPSHOT

\$147.0M

Total Revenue

\$149.6M

Total Expenditure

(\$2.6M)

Structural Deficit

Key Context

- City projected \$19M deficit for FY24-25 but resolved to surplus through adjustments
- Higher-than-anticipated revenues and lower-than-anticipated expenses could drive FY26 deficit closer to \$0
- Revenue initiatives underway: fee study, paid parking, street sweeping, economic development
- Salaries & Benefits = 83%+ of GF operating expenditure
- Assumptions miss on actual HC funded vs Budgeted and Fire Dept OT Expense will partially offset

5-YEAR FORECAST — 3% REVENUE / 3% EXPENDITURE GROWTH

With equal 3%/3% growth, the deficit stays flat rather than ballooning — but never self-corrects.

Fiscal Year	Revenue	Expenditure	Annual Deficit	Cumulative
FY 25-26 (Base)	\$148.9M	\$149.6M	(\$0.7M)	(\$0.7M)
FY 26-27	\$153.4M	\$154.1M	(\$0.7M)	(\$1.4M)
FY 27-28	\$157.9M	\$158.7M	(\$0.8M)	(\$2.2M)
FY 28-29	\$162.7M	\$163.5M	(\$0.8M)	(\$3.0M)
FY 29-30	\$167.6M	\$168.4M	(\$0.8M)	(\$3.8M)
FY 30-31	\$172.6M	\$173.4M	(\$0.8M)	(\$4.6M)

KEY INSIGHT: The structural gap is the FY26 base gap carried forward. Efficiency gains of \$0.7M+ close it. Cumulative \$4.6M gap over 6 years is manageable vs. original City estimate of \$44.5M.

REVENUE SENSITIVITY — THREE SCENARIO STRESS TEST

Base (3%/3%)
 Optimistic (4%/2.5%)
 Slow Growth (2%/3%)

FY	Base Gap	Base Cum.	Optim. Gap	Optim. Cum.	Slow Gap	Slow Cum.
26	(\$0.7M)	(\$0.7M)	(\$0.7M)	(\$0.7M)	(\$0.7M)	(\$0.7M)
27	(\$0.7M)	(\$1.4M)	\$1.5M	\$0.8M	(\$2.4M)	(\$3.1M)
28	(\$0.8M)	(\$2.2M)	\$3.9M	\$4.7M	(\$3.8M)	(\$6.9M)
29	(\$0.8M)	(\$3.0M)	\$6.4M	\$11.1M	(\$5.5M)	(\$12.4M)
30	(\$0.8M)	(\$3.8M)	\$9.1M	\$20.2M	(\$7.2M)	(\$19.6M)
31	(\$0.8M)	(\$4.6M)	\$11.9M	\$32.1M	(\$9M)	(\$28.6M)

BOTTOM LINE: Only the Optimistic scenario self-corrects. Base and Slow Growth both require cost-side action. The Slow Growth scenario (2% rev) produces a \$28.6M cumulative hole — nearly the City's entire catastrophic reserve. Cost reduction is not optional.

*City has been running 4.3% revenue growth on average over the last 12 years and out pacing recent budget assumptions. Set rev/exp assumptions to realistic, accurate and achievable targets to inform right budgetary actions. City has been outpacing rev targets over the last few years.

CALPERS – Pension Obligation Assumption Explanation

Rate of Return Actuals

21-22: -6.1% return

22-23: 5.8% return

23-24: 9.3% return

24-25: 12.1% return

Asset Class	Net Rate of Return (in percent)
PERF	9.3
Public Equity	17.5
Income	3.7
Private Equity*	10.9
Real Assets*	-7.1
Private Debt*	17.0

*2023-2024 Investment Basket

Asset Class (by size)	Net Rate of Return (in percent)
Public Equity	16.8
Fixed Income	6.5
Private Equity*	14.3
Real Assets*	2.7
Private Debt*	12.8

*2024-2025 Investment Basket

Index	July 1, 2025	May 11, 2026	Price Return 
S&P 500	6,198.01	7,412.84	+19.6%
Nasdaq Composite	20,202.89	26,274.13	+30.0%
Dow Jones Industrial Average	44,494.94	49,704.47	+11.7%

*2025-2026 Current Stock Performance

CALPERS – Pension Obligation Assumption Explanation

Estimated CalPERS Return:

~12% to 16% with a midpoint estimate around: ~14%

Here’s the logic.

Estimated asset mix

CalPERS’ FY2024-25 allocation was approximately:

Market performance during the period

Approximate returns from July 1, 2025 → May 11, 2026:

25-26: 12% return (lower end forecasted)

Future Years: 6.8% return (forecasted)

Asset Class	Approx Weight
Public Equity	39%–42%
Fixed Income	28%–30%
Private Equity	15%–18%
Real Assets	13%–15%
Private Debt / Cash	2%–4%
Asset Class Proxy	Estimated Return
Public equities	+20% to +30%
Bonds / fixed income	+3% to +6%
Private equity	+15% to +20%
Real assets	+6% to +12%
Private debt / cash	+5% to +8%

2025-2026 – Forecasted Return at 12% - conservative at lower bound

CALPERS FUNDED STATUS — AS OF 6/30/2026

Assuming 12% return for FY 2025-26 | 6.8% discount rate forward

COMBINED

102.5%

Surplus: +\$30.64M

MISCELLANEOUS

105.3%

Surplus: +\$24.3M

PUBLIC SAFETY

100.8%

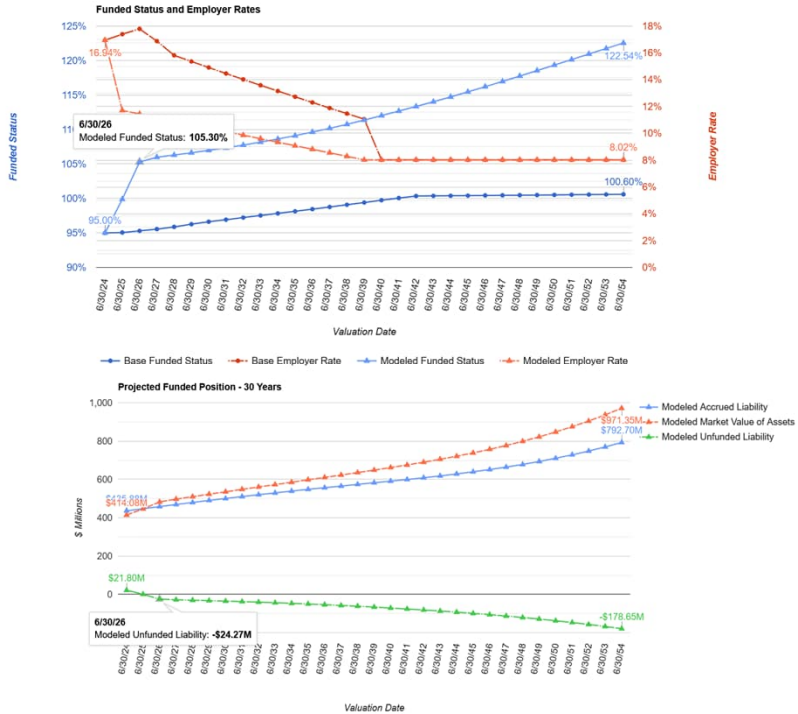
Surplus: +\$6.34M

Group	Assets	Liabilities	Surplus	Funded %
Miscellaneous	\$482.4M	\$458.1M	+\$24.3M	105.3%
Public Safety	\$762.6M	\$756.3M	+\$6.34M	100.8%
COMBINED	\$1,245.0M	\$1,214.4M	+\$30.64M	102.5%

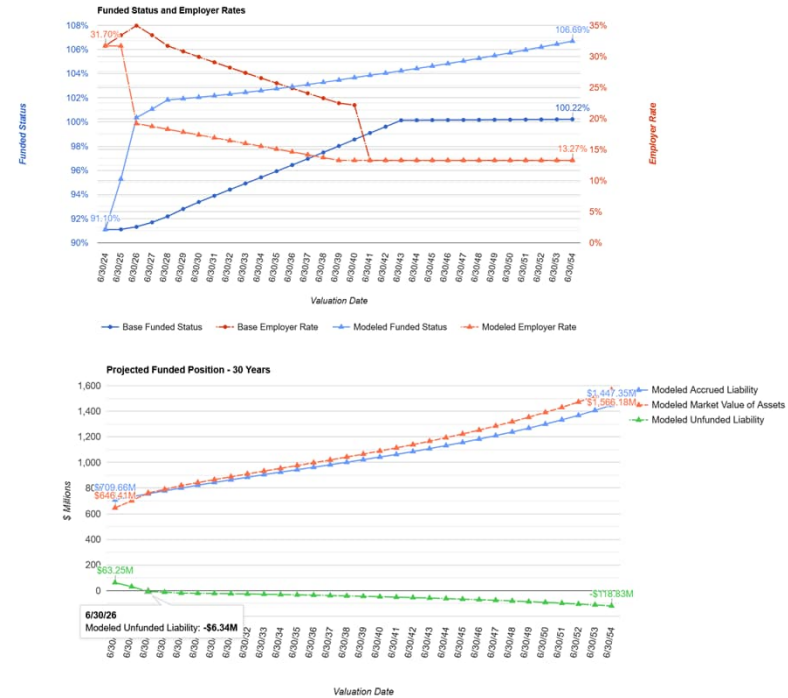
IMPORTANT: Pension surplus remains within the CalPERS account and cannot be leveraged for other components of the City's budget.

CALPERS – Misc and Public Safety Funding Status

MISC Group



Public Safety Group



PENSION OBLIGATION BOND — PERFORMANCE ANALYSIS

\$281M

POB Issued (2021)
@ 2.7% Interest

\$383.1M

Investment Value
by 2026

+\$64.2M

Net Arbitrage
Gain

\$37.9M

Total Interest
Paid (5 yrs)

Annual CalPERS Investment Returns

Year	Return
FY 21-22	-6.1%
FY 22-23	+5.8%
FY 23-24	+9.3%
FY 24-25	+12.1%
FY 25-26 (Est.)	+12.0%

POB Verdict: NET WIN

- Gross gain: +\$102.1M on \$281M invested
- After \$37.9M interest cost: +\$64.2M net
- 22.8% cumulative net return over 5 years
- Surplus stays in CalPERS account

EMPLOYER CONTRIBUTION RATE PROJECTIONS

Baseline vs. Scenario (11.6% FY25, 12% FY26, 6.8% forward)

Plan	Baseline FY26	Scenario FY26	UAL Eliminated	Baseline Long-Run	Scenario Long-Run
Misc. Plan 374	17.28%	11.71%	FY 27-28	8.02% (FY44)	8.02% (FY28)
Safety Plan 375	29.77%	19.45%	FY 28-29	13.27% (FY43)	13.27% (FY29)
Combined	23.49%	15.56%	FY 28-29	N/A	~\$120M cum. savings

Key Takeaways

- Under scenario assumptions, UAL eliminated 14+ years ahead of schedule
- Misc. UAL eliminated by FY27-28 — saves ~\$2.2M/yr in employer contributions
- Safety UAL eliminated by FY28-29 — saves ~\$7.1M/yr
- Cumulative savings through FY54-55: ~\$120M+
- Reduced employer rates free GF capacity for other priorities (not from surplus withdrawal)
- Stock market returns are projections. Will need to monitor returns

PUBLIC SAFETY PENSION RISK — BIGGEST THREAT

69% GF Concentration in Public Safety = Outsized Pension Volatility Risk

Why This Matters

- Public Safety at 100.8% funded — any market correction erodes \$6.34M surplus
- Every 1% pension cost increase = ~\$1.5M additional GF pressure
- 69% PS concentration means pension volatility has outsized budget impact vs. peers at 52-63%
- Even at 6.8% discount rate, both groups likely remain funded — but Safety margin is razor thin

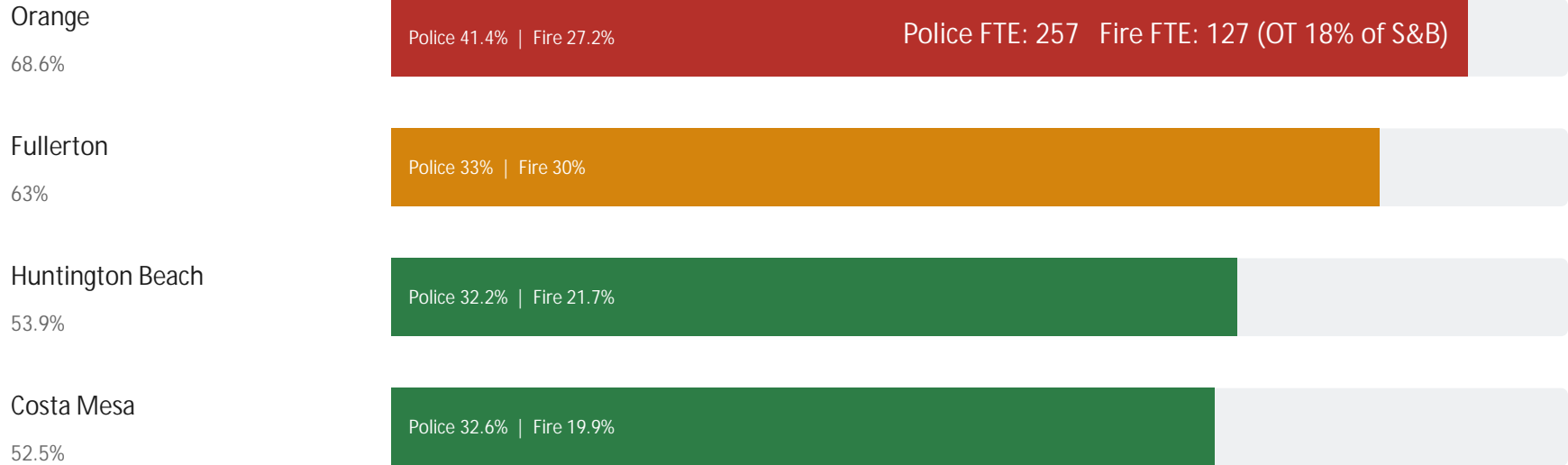
Peer PS % of GF

City	PS % of GF
Orange	68.6%
Fullerton	-63%
Huntington Beach	53.9%
Costa Mesa	52.5%

The single most effective risk mitigation for pension exposure is reducing Public Safety's share of GF spending toward peer benchmarks (65% near-term target).

PEER BENCHMARKING — PUBLIC SAFETY % OF GENERAL FUND

Orange is 5-16 percentage points above every OC peer in Public Safety spending as a share of GF.



Region	Police only	Public Safety (police + fire)
USA cities (typical)	~25%–35%	~30%–60%
California cities	~25%–45%	~40%–60%
Orange County cities	~35%–45%	~55%–70%

PAVEMENT MANAGEMENT PROGRAM — NETWORK OVERVIEW

318.5

Centerline Miles (miles)

\$1.065B

Replacement Value

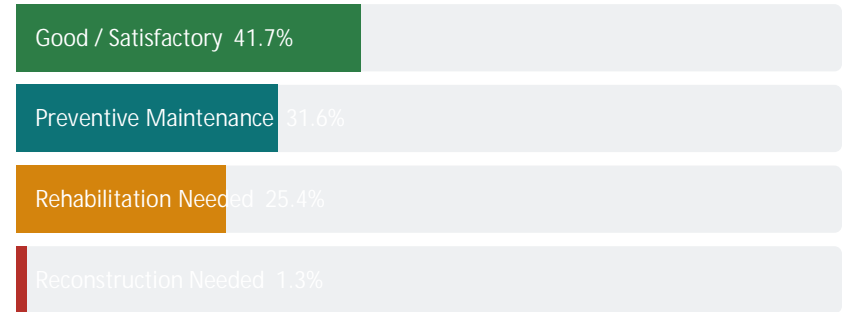
80.9

Citywide Condition (PCI)

Network Breakdown

Category	Miles	PCI
MPAH (Major Arterials)	95.9	81.6
Local Streets	222.6	80.3
Total	318.5	80.9

Condition Distribution



OCTA M2 Compliance: City qualifies for 10% local match reduction (PCI > 75). Construction costs up 40% from 2022-2024.

PAVEMENT FUNDING GAP — \$46.6M DEFERRED BACKLOG

\$10.38M/yr
Required Annual Funding

\$1.7-3.1M/yr
Annual Funding Shortfall

\$46.6M
Deferred Backlog

Period	Need	Budgeted	Shortfall
Current Biennium	\$20.03M	\$18.34M	(\$1.69M)
Next Biennium	\$22.37M	\$19.24M	(\$3.13M)
Annual Avg Required	\$10.38M	MPAH \$3.77M + Local \$6.61M	

7-Year CIP Spending (MPAH)

FY	MPAH Spend
2024-25	\$1.54M
2025-26	\$3.08M
2026-27	\$2.99M
2027-28	\$4.10M
2028-29	\$3.5-4.0M
2029-31	\$7.0-8.0M

Critical Risk

- Construction costs up 40% (2022-2024) — threatens all projections
- Gap widening from \$1.69M to \$3.13M per biennium
- Backlog target: \$33-39M by FY31
- Key corridors: Cambridge, Taft, Collins, Glassell, Katella
- *Close gap through operational efficiency savings*

LIBRARY SERVICES — 50% ABOVE PEER AVERAGE

Orange

\$45/cap

34 FTE budgeted

Huntington Beach

~\$27/cap

Est. budgeted

Orange Library FTE Breakdown (FY25-26)

Category	Authorized	Frozen	Budgeted
FT Regular	27.0	—	27.0
PT Benefitted	4.5	—	4.5
PT Non-Benefitted	9.025	6.525	2.5
TOTAL	40.525	6.525	34.0

Mon 2:00 PM - 6:00 PM	Mon 2:00 PM - 6:00 PM	Mon 10:00 AM - 6:00 PM
Tue 2:00 PM - 6:00 PM	Tue 2:00 PM - 6:00 PM	Tue 10:00 AM - 8:00 PM
Wed 2:00 PM - 6:00 PM	Wed 2:00 PM - 6:00 PM	Wed 10:00 AM - 8:00 PM
Thu 2:00 PM - 6:00 PM	Thu 2:00 PM - 6:00 PM	Thu 10:00 AM - 6:00 PM
Fri Closed	Fri Closed	Fri 10:00 AM - 6:00 PM
Sat Closed	Sat Closed	Sat 10:00 AM - 6:00 PM
Sun Closed	Sun Closed	Sun Closed
380 S Hewes St	740 E Taft Ave	407 E Chapman Ave

Total Open Hours (84/week)

Taft: 16 hrs

EI Modena: 16 hrs

Main: 52 hrs

*\$1,200/hr – Library operating

Recommendation

Option 1: Open the branch libraries back up and staff them @ 22 FTE

Est. Annual Savings: \$1.2M - \$1.4M

Option 2: Sell the Branch libraries and staff libraries @14 FTE

Est. Annual Savings: \$1.9M - \$2.2M

Option 3: Sell one branch library and staff other 2 @18 FTE

Est. Annual Savings: \$1.6M - \$1.8M

FINANCE DEPARTMENT — HEADCOUNT ISSUE, NOT COMPENSATION

Metric	Orange	Costa Mesa	HB	Garden Grove
Population	~140K	~109K	~203K	~172K
Finance FTE	30.25	26.75	~20	33
FTE per 10K Residents	2.16	2.37	1.01	1.92
Cost per FTE	\$177K	\$227K	Est.	Est.
Total Finance Budget	\$5.36M	\$6.07M	Est.	Est.

Anomalies Flagged

- Purchasing/Warehouse function (Sr. Buyer, Buyer, Stock Clerk, Warehouse Specialist) — many peers have consolidated or outsourced
- Multi-layered management: Asst. CM → Budget Mgr → Asst. Finance Dir → 4 division managers
- HB runs finance at 1.01 FTE/10K — 53% more efficient than Orange at 2.16

Recommendation

Target: 20 FTE (-10.25)

Via utility billing automation + purchasing consolidation.
Centralization of finance function and software/tech upgrades.
Est. Annual Savings:

\$1.5MM - \$1.95MM

COST REDUCTION & EFFICIENCY Options

Initiative	Low Est.	High Est.		
Library FTE (34→22)	\$1,200,000	\$1,400,000		
Fire OT Reduction (18%→12%)	\$2,180,000	\$2,500,000		
Organizational Scoping Review – Leader Ratios	\$400,000	\$900,000		
Improved Asset Management	\$200,000	\$500,000		
PS Target (68.6%→65% GF)	\$3,000,000	\$4,500,000		
Finance FTE (30→20)	\$1,500,000	\$1,950,000		
Economic Dev. / Property Tax	\$300,000	\$750,000		
TOT Optimization	\$200,000	\$400,000		
Mills Act Accountability	\$200,000	\$300,000		
18 Ambulance Ops (4-man crews)	Cost-neutral	+\$1.5MM		
FTE Reduction to 680 Citywide	\$2,000,000	\$3,500,000		
AI/Automation (HR & Fin) + IT centralized services	\$350,000	\$600,000		
Fee Study (underway)	\$1,500,000	\$1,900,000		
Revenue Diversification (TOT?)	\$500,000	\$1,000,000		
TOTAL	\$12,950,000	\$19,700,000		

BOTTOM LINE: Expanded savings opportunity of \$15.9M-\$24.2M annually. Closes \$2.6M deficit. Includes 18 ambulance operators enabling 4-man crews (hold constant manning at 3 firefighters), Mills Act overhaul (\$300-400K), and FTE reduction to 680. No tax increases required. Increasing Property Tax Roles and Ensuring Business Growth are pivotal for continued revenue health. *Add county islands?

Risks to Monitor

- May/June Investment portfolio underperformance — CalPERS FY26 return may miss 12% assumption.
- Future years may miss CalPERS 6.8% annual assumption
- Not addressing pavement backlog growth and allowing the PCI to drop too far
- Major unforeseen infrastructure impacts
- Workers Comp deficit compounding at -\$761K/yr
- Liability impacts to the city
- Revenue concentration: 80%+ in two tax sources – loss of additional property tax revenue or large sales tax revenue sources
- Public Safety percent of budget and pension obligations
- Fuel price instability

Stock Market/Economic Downturn Creates CalPERS Unfunded Liability Risk

CalPERS Pension Exposure

CalPERS assumes 12% return FY25-26

If actual return is 0% or negative:

- PS funded drops from 100.4% → below 95%
- \$2.77M surplus erodes entirely
- Unfunded liability re-emerges

Every 1% shortfall = ~\$1.5M more GF pressure

At 69% PS, Orange absorbs pension volatility at 1.3x peer rate

A -5% CalPERS return creates \$50-60M unfunded liability swing

Economic Recession Impact

Revenue 80%+ concentrated in Sales + Property Tax

Both decline simultaneously in recession

2008-2010 precedent: Sales Tax fell 25%

Slow Growth scenario (2%/3%): \$40.6M cumulative deficit by FY31

Reserves at risk if recession + pension cost escalation coincide

Other Operational Risks:

- Construction/inflation costs
- Workers' Comp deficit compounding at -\$761K/yr
- Labor market tightness for police recruitment
- State/Federal unfunded mandate risk

⚠ CRITICAL SCENARIO: A simultaneous stock market downturn (-10%) and economic recession could create a \$50-60M unfunded liability swing in CalPERS while reducing City revenue by 5-8%. At 69% PS concentration, this would create a fiscal emergency similar to Vallejo's 2008 crisis. Reducing PS concentration to 65% is the single most effective mitigation strategy.

APPENDIX A — CALPERS CONTRIBUTION RATE DETAIL

Employer Contribution Rates: Baseline vs. Scenario (Selected Years)

Fiscal Year	Misc. Baseline	Misc. Scenario	Safety Baseline	Safety Scenario	Combined Base	Combined Scen.
FY 25-26	17.28%	11.71%	29.77%	19.45%	23.49%	15.56%
FY 26-27	16.85%	11.50%	29.10%	18.90%	22.95%	15.18%
FY 27-28	15.92%	8.02%	28.05%	17.50%	21.96%	12.74%
FY 28-29	14.80%	8.02%	26.50%	13.27%	20.63%	10.63%
FY 29-30	13.95%	8.02%	24.80%	13.27%	19.35%	10.63%
FY 34-35	10.50%	8.02%	18.50%	13.27%	14.48%	10.63%
FY 39-40	8.80%	8.02%	14.90%	13.27%	11.84%	10.63%
FY 43-44	8.02%	8.02%	13.27%	13.27%	10.63%	10.63%

Scenario assumptions: 11.6% return FY24-25, 12% return FY25-26, 6.8% discount rate forward. UAL eliminated: Misc. by FY27-28, Safety by FY28-29. Cumulative savings ~\$120M through FY54-55.

Annual CalPERS Returns & POB Performance

POB issued: \$281M @ 2.7% (2021) | Current value: \$383.1M | Gross gain: +\$102.1M | Interest paid: \$37.9M | Net gain: +\$64.2M

APPENDIX B — PAVEMENT CIP SCHEDULE & CORRIDOR DETAIL

Fiscal Year	MPAH Spend	Local Spend (Est.)	Total	Key Corridors
FY 24-25	\$1.54M	\$6.61M	\$8.15M	Cambridge St, Wanda Rd
FY 25-26	\$3.08M	\$6.61M	\$9.69M	Taft Ave, Collins Ave
FY 26-27	\$2.99M	\$6.61M	\$9.60M	Glassell St, Santiago Blvd
FY 27-28	\$4.10M	\$6.61M	\$10.71M	Katella Ave, Chapman Ave
FY 28-29	\$3.5-4.0M	\$6.61M	\$10.1-10.6M	TBD per PMP update
FY 29-30	\$3.5-4.0M	\$6.61M	\$10.1-10.6M	TBD per PMP update
FY 30-31	\$3.5-4.0M	\$6.61M	\$10.1-10.6M	TBD per PMP update

Pavement Network Summary

Metric	Value
Total Centerline Miles	318.5
Replacement Value	\$1.065 Billion
Citywide PCI	80.9 (Good)
Annual Funding Need	\$10.38M/yr
Current Annual Shortfall	\$1.7-3.1M/yr
Deferred Backlog	\$46.6M
Backlog Target (FY31)	\$33-39M
Construction Cost Escalation	+10% (2022-2024)

Treatment Types by Need

- Good/Satisfactory (41.7%) — routine maintenance
- Preventive Maintenance (31.6%) — slurry seal, microsurfacing
- Rehabilitation (25.4%) — overlay, mill & fill
- Reconstruction (1.3%) — full replacement
- OCTA M2: PCI >75 = 10% local match reduction

APPENDIX C — PEER CITY COMPARISON DETAIL

Metric	Orange	Fullerton	Costa Mesa	HB	Santa Ana	Garden Gr.	Mission V.
Population	~140K	~139K	~109K	~203K	~310K	~172K	~91K
General Fund	\$149.6M	Est.	\$189.9M	\$299.4M	Est.	Est.	Est.
PS % of GF	68.6%	~63%	52.5%	53.9%	N/A	N/A	Contract
Police Budget	\$61.9M	\$66.8M	\$63.5M	\$96.2M	N/A	N/A	N/A
Police \$/cap	\$424	\$402	\$553	\$429	N/A	N/A	N/A
Police FTE	257.7	196.0	~200	~350	N/A	N/A	N/A
Fire Budget	\$40.6M	\$37.8M	N/A	\$65.0M	N/A	N/A	OCFA
Fire \$/cap	\$272	\$242	N/A	\$310	N/A	N/A	Contract
Fire FTE	126.75	88.0	N/A	~200	N/A	N/A	N/A
Library \$/cap	\$45	\$30	N/A	~\$27	N/A	N/A	N/A
Library FTE	34.0	23.3	N/A	Est.	N/A	N/A	N/A
Finance FTE	30.25	31.0	26.75	~20	69-72	33	N/A
Fin. FTE/10K	2.16	2.23	2.37	1.01	2.23	1.92	N/A

Notes: Mission Viejo is a contract city (OCFA, OCSD). HB and Costa Mesa carry large Non-Departmental line items (19.5% and 12.4% respectively), which inflates their GF denominators. 'Est.' values are estimated from partial budget data. All data from FY 2023-2026 adopted budgets.

Historic Preservation Update

Mills Act

May is National Historic Preservation Month!

- 419 Contracts
- 97 Contracts in violation



Historic Preservation Ordinance

Old Towne Preservation Association/Orange Legacy Alliance “Listening Session”	February 17th
Joint Planning Commission/Design Review Committee Study Session	March 16th
Community Workshop	March 25th
Administrative Draft Ordinance from Consultant for Internal Review	Late-May
Public Hearing Draft Complete	Late-July
Design Review Committee and Planning Commission Hearings	August
City Council Hearing	October



El Modena Barrio Story Map

The Historic El Modena Barrio

Orange, CA

April 13, 2026



Early History Agriculture Local Commerce Religious Community Community Involvement and Acti...



Thank you!



Non-Renewal vs. Cancellation

Non-Renewal

- Penalty-Free
- Contract “Sunset” - Gradual increase in property tax over 10 years
- Owner or City initiated

Cancellation

- City initiated
- Contract immediate end
- Instant loss of tax benefits
- Penalty: mandatory 12.5% of fair market value assessed paid to the county assessor’s office



Mills Act Requirements

1. Re-investment of the tax savings to restore, rehabilitate, and maintain the historic integrity of the property
2. Annual Fee
3. Annual Report
4. Current 10-year Plan



Design Review Committee

- Scope change: October 2025

Notable Projects:

- Fletcher Small Lot Subdivision approved by CC on April 28th
- Tustin (Best Buy Site) Residential Development approved by Planning Commission on April 6th scheduled for CC on June 23rd
- Rancho Santiago Planned Unit Development approved by PC on April 20th and scheduled for CC on May 26th



Item 8.3

CHARTER CITY DISCUSSION FIRST PUBLIC HEARING



COMPARING GENERAL LAW AND CHARTER LAW CITIES

General Law Cities	Charter Law Cities
Draw much of their authority from State statutes.	Draw some authority from a locally adopted charter as well as State law.
Must follow standardized rules and procedures pursuant to State law.	May create local rules for elections, contracting, governance structure, and local programs.
Must abide by State law regardless if the issue is purely local.	Can rely on locally adopted home rule charter to address issues deemed to be a <u>“municipal affair.”</u>

NON-EXHAUSTIVE AND FLUCTUATING LIST

Ambiguity in the California Constitution coupled with court decisions and legislation have resulted in a changing (and often dwindling) list of issues deemed to be a “municipal affair.”

Municipal Affair	Statewide Concern
Police Authority	Traffic Control
Municipal Elections	Numerous Housing Laws
Qualifications for local officials	Brown Act, Public Records Act, and Political Reform Act
Public Contracting	Prevailing Wage Law

DRAFT CHARTER FOR POLICY DISCUSSION

The proposed charter includes nine articles detailing general policy statements for City Council and public review and feedback. Generally, the draft Charter can be summarized into the following categories:

1. Incorporation of Powers and Municipal Affairs (Articles I and II)

- ❖ Article I – Incorporation and Powers.
- ❖ Article II – Municipal Affairs and General Laws

2. Form of Government and City Council Structure (Articles III and IV)

- ❖ Article III – Form of Government
- ❖ Article IV – City Council

3. Term Limits and Vacancy Procedures (Articles V and VII)

- ❖ Article V – Term Limits
- ❖ Article VII – Vacancies in Office

4. Procurement, Contracting, and Local Control (Article VI)

- ❖ Article VI – Municipal Affairs, Procurement, and Local Control

5. City Assets, Public Utilities, and Eminent Domain (Article VI)

- ❖ Article VI – Municipal Affairs, Procurement, and Local Control

6. Fiscal Responsibility and Legal Provisions (Articles VIII and IX)

- ❖ Article VIII – Fiscal Responsibility
- ❖ Article IX – Legal Provisions

LOOKING FORWARD

City Council Initiated Charter: Draft Ballot Measure Timeline

Step	Deadline
Notice First Public Hearing	April 9, 16, and 21, 2026
Conduct First Public Hearing	Tuesday, May 12, 2026
Notice Second Public Hearing	May 21, 28, 2026 and June 2, 2026
Conduct Second Public Hearing	Tuesday, June 23, 2026
Conduct Vote to Submit Charter Measure to Voters	Tuesday, July 14, 2026
Signed Resolutions Sent to the Orange County Registrar of Voters	Friday, July 17, 2026
Last Day to Submit Direct Arguments and Impartial Analysis	Friday, July 31, 2026
Election Day	Tuesday, November 3, 2026

Revenue Measures

Revenue Measure	Estimated Annual Revenue
1% Sales Tax	\$37 Million
Transient Occupancy Tax Increase	\$2.5 Million
Utility User Tax	\$10.7 Million
Vacant Property Tax	\$3,000-\$6,000 per vacant parcel
Documentary Transfer Tax	\$2.8 Million
Parking Operator Tax	\$2.5 Million
Sale of Utility Systems	Unknown - Separate Direction Requested
Cannabis Gross Receipts Tax	\$4 Million - Separate Direction Requested
Business License Tax Modernization	Unknown - Separate Direction Requested



One-Cent Sales Tax Measure

Description:

Additional local sales tax on the purchase of tangible goods within the City of Orange. Assuming a 1% increase, this measure would add 1-cent for every \$1 dollar spent.

Estimated Additional Revenue:

At a 1% sales tax rate (1-cent for every \$1 dollar), it is estimated the City would receive an additional \$37 million in annual revenue.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Transient Occupancy Tax

Description:

Often referred to as a hotel tax or bed tax, a transient occupancy tax (TOT) is a tax imposed on short-term lodging stays and applies to any occupancy of 30 consecutive days or less.

Estimated Additional Revenue:

The City's current 10% TOT is projected to generate \$6.3 million by the end of the fiscal year. At each 1% increase, it is estimated the City would receive an additional \$600,000 in revenue.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Utility User Tax

Description:

A Utility User Tax (UUT) is a locally imposed tax on the use of utility services and is typically calculated as a percentage of a customer's monthly bill. Utility services typically subject to the UUT include electricity, natural gas, water, and telecommunications (e.g., internet and cable).

Estimated Additional Revenue:

The City currently does not have a UUT in place. At a 4% UUT, the estimated revenue is \$10.7 million.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Vacant Property Tax

Description:

A vacant property tax (VPT) is an annual tax generally imposed on property owners whose residential, commercial, or undeveloped properties remain vacant for extended periods of time. VPT's intend to reduce blight and encourage economic activity.

Estimated Additional Revenue:

The City currently does not have a VPT in place, and revenue would range year-to-year dependent on the number of vacant parcels. In using the City of Oakland as an example, it could generate a little over \$1 million.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Parking Operator Tax

Description:

Locally imposed tax collected as a percentage of the fee paid by an individual to park in a parking facility. The tax is typically collected and remitted to the City by the parking operator.

Estimated Additional Revenue:

The estimated revenue would depend on how the tax is structured. If the tax intends to focus on larger operators, staff estimates this could potentially generate \$2.5 million. As a point of comparison, Santa Monica has implemented a parking operator tax and reported \$14 million in revenue during FY25.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Documentary Transfer Tax

Description:

Often referred to as a Real Property Transfer Tax, the Documentary Transfer Tax (DTT) is a tax imposed on the transfer of real property when a deed, lease or other transferring instrument is recorded. As a general law city, the DTT in Orange is \$1.10 per \$1,000 of the sale price. The DTT revenue estimate for FY26 is nearly \$650,000.

Estimated Additional Revenue:

Dependent on how the tax is structured. In Santa Monica, the DTT depends on the sale price. If the transaction is \$5 million or less, then a \$3.00 per \$1,000 of the final sale price rate is imposed. Based on the FY26 year-end estimate, if the \$3.00 rate is used, this could generate meaningful revenue. However, it is likely this increase could only be imposed if the City has an adopted Charter.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Sale of the City's Utility Systems

Description:

California Public Utilities Code Section 10061 authorizes cities to lease, sell, or transfer its water and sewer utility. This is a significant policy decision, and requires multiple steps and approvals.

Estimated Additional Revenue:

Unknown - the City of Bellflower completed the transfer of its water utility in 2022 for \$17 million. Given the larger scale of Orange's combined utility operations, it is expected the City would receive proposals exceeding this amount. The City could conduct a request for proposal process to better understand the potential value while not obligating the City to sell either system.



Cannabis Gross Sales Tax

Description:

The City currently prohibits all commercial cannabis-related activities. If commercial activity is allowed in the future, a gross receipts tax is imposed on gross business receipts.

Estimated Additional Revenue:

Highly dependent on City Council policy direction, but as a point of comparison, the City of Costa Mesa has imposed a 7% gross receipts tax and has reported revenues slightly above \$4 million.

Vote Requirements:

- City Council: Two-Thirds (5/7) to place on November 2026 Ballot
- Orange Voters: General Purpose (50%+1) | Special Purpose (66.67%)



Business License Tax Modernization

Description:

This is a tax paid by business operators for the privilege of conducting business in the City.

Estimated Additional Revenue:

Potential revenue depends entirely on the scope of any modernization efforts. Administrative adjustments may generate limited revenue while expanding to a gross receipts-based model may generate significant ongoing revenue. A comprehensive review of the City's existing business license program would be first step towards modifying the existing program.

City	Transient Occupancy Tax Rate
Laguna Niguel	8.0%
La Palma	8.0%
Mission Viejo	8.0%
Irvine	8.0%
Los Alamitos	8.0%
Westminster	8.0%
Costa Mesa	8.0%
Fountain Valley	9.0%
Laguna Woods	10.0%
Lake Forest	10.0%
Aliso Viejo	10.0%
Yorba Linda	10.0%
San Juan Capistrano	10.0%
Dana Point	10.0%
Laguna Hills	10.0%
Cypress	10.0%
San Clemente	10.0%
Brea	10.0%
Placentia	10.0%
Huntington Beach	10.0%
Newport Beach	10.0%
Orange	10.0%
Fullerton	10.0%
Santa Ana	11.0%
Stanton	12.0%
Seal Beach	12.0%
Buena Park	12.0%
Tustin	13.0%
Laguna Beach	14.0%
Garden Grove	14.5%
Anaheim	15.0%

Debt Worksheet, May 12, 2026 Council meeting

\$	228,000,000.00	POB
\$	85,000,000.00	UAL
\$	27,685,000.00	LEASE-REV BOND
\$	33,098,170.00	OPEB
\$	12,533,587.00	COMPENSATED AB
\$	16,493,888.00	CLAIMS PAYABLE
\$	402,810,645.00	