



Agenda Item

City Council

Item #: 9.1.

5/27/2025

File #: 25-0282

TO: Honorable Mayor and Members of the City Council

THRU: Tom Kisela, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

Fiscal Year 2025-2026 City of Orange Preliminary Budget and Five-Year Capital Improvement Program.

2. SUMMARY

Each spring, the City staff presents an annual preliminary budget to the City Council that serves as the City's operational and capital improvement plan for the upcoming fiscal year. This budget document is prepared following two City Council budget study sessions, during which various aspects of the proposed budget were considered and direction from City Council was given.

3. RECOMMENDED ACTION

1. Review and approve the Fiscal Year 2025-2026 Preliminary Budget for General Fund, consisting of revenues totaling \$147.0 million, and expenditures totaling \$149.6 million, including transfers, with the following changes since the March 25, 2025 Budget Study Session:
 - a. \$1.9 million decrease in Fiscal Year 2025-2026 General Fund Revenues, including transfers.
 - b. \$1 million decrease in Fiscal Year 2025-2026 General Fund Expenditures, including transfers.
 - c. Approve a one-time use of the General Fund undesignated/unrestricted fund balance to support the shortfall in Fiscal Year 2025-2026.
2. Review and approve the Fiscal Year 2025-2026 Preliminary Citywide Budget consisting of total revenues of \$253.5 million and total expenditures of \$280.1 million for all funds, including transfers.
3. Review and approve the staffing changes for Fiscal Year 2025-2026.
4. Review and approve the Five-Year Capital Improvement Program.
5. Direct staff to return on June 24, 2025, for the Fiscal Year 2025-2026 budget adoption.

4. FISCAL IMPACT

The Fiscal Year 2025-2026 Preliminary Citywide Budget includes total revenues of \$253.5 million and total expenditures of \$280.1 million for all funds, including transfers. The total Fiscal Year 2025-2026 Preliminary Budget for General Fund revenues are \$147.0 million, and expenditures are \$149.6 million, including transfers.

5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability.

6. DISCUSSION AND BACKGROUND

Background:

The City's budget is a financial plan based on anticipated revenues and expenditures in a fiscal year starting July 1st through June 30th. Each year, the City's budget is prepared, prioritizing public safety and infrastructure projects, City Council Goals, and providing the highest possible level of service to the community. The Fiscal Year 2025-2026 (FY 26) budget development has been presented and reviewed over the course of two City Council budget study sessions taking place in March and April 2025.

In summary, the FY 26 Preliminary Budget, for all funds, includes total revenues of approximately \$253.5 million and total expenditures of \$280.1 million, including transfers and Redevelopment Agencies. The General Fund total revenues for FY 26 are approximately \$147.0 million and expenditures of \$149.6 million, including transfers.

Discussion:

Fiscal Year 2024-25 (FY 25) General Fund Year-End Estimates

On March 25, 2025 staff presented a mid-year review including year-end estimates of FY 25 with a focus on the General Fund. Since then, staff has updated the FY 25 year-end estimates based on the third quarter revenues and expenditures. The year-end estimate for revenues decreased by \$917,000 or 0.6% mainly due to an estimated decrease in sales tax. Additionally, year-end estimates for expenditures decreased by \$1.4 million or 1% mainly from vacancies throughout the City. This resulted in an operating surplus of over \$577,000, an increase of over \$515,000 from the mid-year review. After setting aside 16.6% for the Catastrophic reserve, the General Fund has an undesignated fund balance of over \$2.9 million. This positive fund balance was primarily due to one-time transfer-in from the Capital Projects Fund for road mitigation of \$3 million. This estimate is based on year-to-date actuals and does not include any year-end entries. Staff will return in the fall with a more comprehensive review of FY 25 once the financial audit has been concluded.

Table 1: FY 25 Year-End Estimated Fund Balance

	FY 25 Year-End Estimate @ Study Session	FY 25 Year-End Estimate	Variance to Y Estimate @ Study Session
Estimated Beginning Fund Balance - 7/1/2024	26,910,980	26,910,980	-
Operating Revenues	146,214,947	145,297,582	(917,365)
Transfers-In	3,176,328	3,176,328	-
Total Operating Revenues	149,391,275	148,473,910	(917,365)
Operating Expenditures	(149,329,788)	(147,896,778)	1,433,010
Transfers Out	-	-	-
Total Operating Expenditures	(149,329,788)	(147,896,778)	1,433,010
Operating Surplus/(Deficit)	61,487	577,132	515,645
Estimated Ending Fund Balance - 6/30/2025	26,972,467	27,488,112	515,645
Reserved - Catastrophic	24,788,745	24,550,865	(237,880)
Estimated Undesignated Fund Balance - 6/30/2025	2,183,722	2,937,247	753,525

Fiscal Year 2025-26 (FY 26) General Fund Revenues

The FY 26 Preliminary General Fund operating revenues, including transfers in, are projected to be almost \$147 million, a decrease of \$1.9 million or 1.3% from the proposed budget and a decrease of almost \$1.5 million or 1% from the FY 25 year-end estimates.

Provided below is a summary of the assumptions used for the FY 26 General Fund revenues:

- **Property Tax** is the largest source of General Fund revenue and is projected to be \$59.3 million, reflecting a \$1.1 million or 1.8% increase to FY 26 Proposed budget; and \$1.6 million or 2.8% increase over the updated FY 25 year-end estimates. Revenue growth ties to assessed property values, which typically increase annually at a rate of no greater than 2%. Based on information from our property tax consultant, we are projecting modest growth for FY 26.
- **Sales Tax** is the second largest source of General Fund revenue. In FY 26, the City anticipates receiving approximately \$50.1 million, a \$1.5 million or 2.9% reduction from the FY 26 Proposed Budget and an increase of approximately \$900,000 or 1.8% from FY 25 year-end estimates. This decrease is primarily driven by a decline in the Fuel and Service Stations sector, the City's largest source of sales tax revenue. At mid-year, HdL projected a 12.9% decline in this industry group compared to FY 24; however, the latest report now estimates a steeper 21% decline.
- **Fines and Forfeitures** revenue is projected to be \$2.7 million in FY 26, reflecting a \$264,099 or 10.9% increase over FY 25 year-end estimates and a \$576,300 or 27% increase over the FY 26 Proposed Budget. This growth is primarily driven by anticipated revenue from the expanded parking enforcement program.
- **Fees for Service** revenue is projected to be slightly over \$6 million, a decrease of \$825,000 or 12% from the FY25 year-end estimate. The decrease is primarily due to a decrease in the Intergovernmental Transfer (IGT) reimbursement for transport fees. The City received two payments totaling \$1.0 million from IGT fees in FY 25, which accounted for two fiscal years.

- **Interfund Revenues** are projected to be about \$4.2 million, a decrease of \$2.7 million or 39% from the FY 26 proposed budget and a \$2.8 million or 39% decrease from the FY25 year-end estimate. The decrease is primarily due to a change in cost allocation for the general administrative services (G&A) such as information technology, finance, human resources, and other citywide non-departmental costs. These charges are applied as revenue to the General Fund and used to offset the operating costs. The City recently completed the cost allocation study which updates the level of support, and the costs associated to provide support across city departments. While the study has not been finalized, early indications show that the G&A charges need to be reduced based on current practices and efficiencies.
- **Other Revenue Sources**, which include Use of Money & Property, Revenue from Other Agencies, and Miscellaneous Revenues are projected to be \$4.4 million, which is a reduction of \$1.4 million or 49% from the FY 25 year-end estimates. Revenues in these categories include one-time revenues from donations and grants, reimbursements for expenditures, as well as income from investment interest and rental income. Many of these one-time revenues are difficult to project and fluctuate year over year.
- **Transfers In**, at the March 25th City Council meeting, the City Council authorized the transfer of \$3,000,000 one-time funding received from CR&R for road mitigation to the General Fund. This is a one-time transfer for FY 26. Additionally, a one-time transfer of \$555,525 is included in the FY 26 Preliminary Budget, resulting from the consolidation of the City’s Dental Self-Insurance internal service fund to the General Fund.

Provided in Table 2 is a summary of the major General Fund revenues by source type, comparing the changes from the FY 25 year-end estimates, the FY 26 Proposed Budget, and the FY 26 Preliminary Budget:

Table 2: General Fund Revenue

Revenue Source	FY25 Year-End Estimates	FY26 Proposed Budget	FY26 Preliminary Budget	Variance FY25 YE Estimate	FY26 Preliminary & Proposed Budget Variance
Property Tax	57,662,282	58,213,213	59,276,892	1,614,610	1,063,679
Sales Tax	49,231,534	51,632,216	50,113,960	882,426	(1,518,256)
Transient Occupancy Tax	6,211,195	6,315,000	6,335,000	123,805	20,000
Franchises	3,056,727	3,316,369	3,207,364	150,637	(109,005)
License & Permits	6,805,024	6,930,106	6,982,106	177,082	52,000
Fines & Forfeitures	2,433,477	2,121,276	2,697,576	264,099	576,300
Use of Money & Property	2,084,606	2,814,157	2,881,727	797,121	67,570
Revenue From Other Agencies	653,399	1,350,800	1,350,800	(1,302,599)	-
Fees For Services	6,870,980	5,994,059	6,045,059	(825,921)	51,000
Miscellaneous Revenue	1,238,158	215,366	282,847	(955,311)	67,481
Interfund Revenue	7,050,201	7,000,000	4,243,697	(2,806,504)	(2,756,303)
Total Operating Revenue	145,297,582	145,902,562	143,417,028	(1,880,554)	(2,485,554)
Transfers In	176,328	-	555,252	378,924	555,252
CR&R	3,000,000	3,000,000	3,000,000	-	-
Total Revenue	148,473,910	148,902,562	146,972,280	(1,501,630)	(1,930,280)

In summary, the General Fund operating revenues, not including transfers, are projected to decrease by \$1.9 million or 1.3% compared to the FY 25 Year-End Estimates, bringing the total operating revenue to over \$143.4 million. The total FY 26 General Fund revenue, including transfers, is just under \$147.0 million.

Fiscal Year 2025-26 (FY 26) General Fund Expenditures

The General Fund operating expenditures for FY 26 Preliminary budget is \$149.6 million, a decrease of less than 1% or \$1 million from the FY 26 Proposed Budget and 1% more or \$1.7 million increase from FY 25 Year-End Estimates. The operating expenditure reflects the continued focus on maintaining service levels while holding costs steady.

Based on City Council direction, the FY 26 budget was created through a zero-based budget process. All departments provided documentation and descriptions of all non-personnel expenditure requests. Budget meetings were held between the departments and City Manager and Director of Finance to discuss the requests and necessity of the expenditure.

Provided below are the budget assumptions impacting the FY 26 Preliminary Budget General Fund expenditures:

- **Salaries and Benefits:** Salaries and benefits are projected to be \$104.7 million, remain relatively unchanged from the Proposed Budget and an increase of \$4.6 million or 4.6% from FY 25 Year-End Estimates. Assumptions for this category were provided at the March Budget Study Session (Attachment I). In summary, the increase included contracted Cost of Living Adjustment (COLA) for public safety and increases in benefits. The FY 26 Preliminary Budget for this category also includes recommended staffing changes (Attachment F) and the following budget balancing measures:
 - Elimination of 7 positions totaling \$1 million
 - Freezing of 16 positions totaling \$2.3 million
 - Partially funding of 14 positions totaling \$770,000
 - Part-time staff reduction totaling \$970,000
 - Funding Overtime at 60% totaling \$2.6 million
 - Funding Unfunded Accrued Liability (UAL) at 60% totaling \$2 million
- **Contractual Services:** Expenditures in the Contractual Services category are projected to be \$15.9 million, about 3% or \$530,000 more than the FY 26 Proposed Budget. Additional contractual services for the following items makes up the majority of increase to this expenditure category:
 - Labor relations consulting amounting to \$400,000
 - Increase scope to the school crossing guard contract amounting to \$45,000
 - Consolidation of City's self-insured dental program into the General Fund resulting in an increase in administrative services of \$84,000. The increase is offset by the increase in revenue resulting in a zero impact on the General Fund.
- **Materials and Supplies:** This category has an increase of \$200,000 or 8.75% over the FY 26 Proposed Budget. This increase reflects the addition of ongoing operating expenses related to the City's Flock Safety Camera program.
- **Miscellaneous Expenditure:** Miscellaneous Expenditure has an increase of \$420,000 or 18%

over the FY 26 Proposed Budget. This increase reflects the fund consolidation of the City's self-insured dental program for insurance premiums into the General Fund. However, the increase in expenditure is offset by the increase in revenue resulting in a zero impact on the General Fund.

- **Capital Outlay:** Expenditure in this category totals \$134,000 more than the FY 26 Proposed Budget. This increase reflects the City Clerk Rolling File Cabinet Replacement, as it is more appropriately included in the City's operating budget in lieu of the Capital Improvement Plan.
- **Internal Service Costs (Allocations):** Allocations to the City's Internal Service Funds from the General Fund supports operating costs related to vehicle and computer equipment maintenance, and accrued liability. Additionally, the City funds portions of the Workers Compensation and General Liability Insurance through these funds. For FY 26, staff projects about \$8.3 million to fund these internal service funds. This includes a \$2 million reduction in allocations to the Information Technology Operating Fund and \$3 million reduction in the Information Technology Capital Fund.

Table 3: General Fund Expenditure

Expenditure Category	FY25 Year-End Est	FY26 Proposed Budget	FY26 Preliminary Budget	Variance to Estimate	Variance to Proposed Preliminary
Salaries and Benefits	100,101,382	104,851,445	104,742,252	4,640,870	(109,193)
Contractual Services	14,494,412	15,373,375	15,907,585	1,413,123	534,166
Materials and Supplies	1,903,855	2,285,078	2,485,078	581,223	200,000
Miscellaneous Expenses	617,347	312,000	732,000	114,653	420,000
Capital Outlay	113,863	34,000	134,000	20,137	100,000
Internal Service Costs	13,407,189	10,510,982	8,348,382	(5,058,807)	(2,162,605)
Debt Service	17,258,780	17,255,687	17,255,687	(3,093)	-
Total Operating Expenditures	147,896,778	150,622,517	149,604,884	1,708,106	(1,017,633)
Transfers Out	-	-	-	-	-
Total Expenditure	147,896,778	150,622,517	149,604,884	1,708,106	(1,017,633)

In summary, the General Fund operating expenditures, not including transfers, are projected to decrease by \$1 million or 0.7% from the FY 26 Proposed Budget and an increase of \$1.7 million or 1% from the FY 25 Year-End Estimates, bringing the total operating expenditure to \$149.6 million.

FY 26 General Fund - Fund Balance

Based on the updated FY 25 Year-End Estimates, the FY 26 beginning fund balance is approximately \$27.5 million with over \$2.9 million in undesignated fund balance. The FY 26 Preliminary Budget is projected to have an operating deficit of over \$2.6 million, including transfers and one-time revenues. Staff recommend using the undesignated fund balance of \$2.9 million as a one-time budget balance measure. This results in the undesignated fund balance on June 30, 2026 dropping to just over \$21,000.

The table below highlights the FY 26 Preliminary General Fund budget, catastrophic reserve of

16.6%, and undesignated fund balance.

Table 4: Preliminary General Fund Balance

	FY 25 Year Estimate	FY 26 Proposed	FY 26 Preliminary	Variance to Estimate	Variance to 26 Proposed
Estimated Beginning Fund Balance	26,910,980	26,972,467	27,488,112	577,132	515,647
Operating Revenues	145,297,582	145,902,562	143,417,028	(1,880,554)	(2,485,534)
Transfers-In	3,176,328	3,508,000	3,555,252	378,924	47,252
Total Operating Revenues	148,473,910	149,410,562	146,972,280	(1,501,630)	(2,438,228)
Operating Expenditures	(147,896,778)	(150,593,824)	(149,604,884)	(1,708,106)	988,940
Transfers Out	-	-	-	-	-
Total Operating Expenditures	(147,896,778)	(150,593,824)	(149,604,884)	(1,708,106)	988,940
Operating Surplus/(Deficit)	577,132	(1,183,262)	(2,632,604)	(3,209,736)	(1,449,304)
Projected Ending Fund Balance - 6/30	27,488,112	25,789,205	24,855,508	(2,632,604)	(933,607)
Reserved - Catastrophic	24,550,865	24,998,575	24,834,411	283,546	(164,164)
Projected Undesignated Fund Balance	2,937,247	790,630	21,098	(2,916,150)	(769,512)

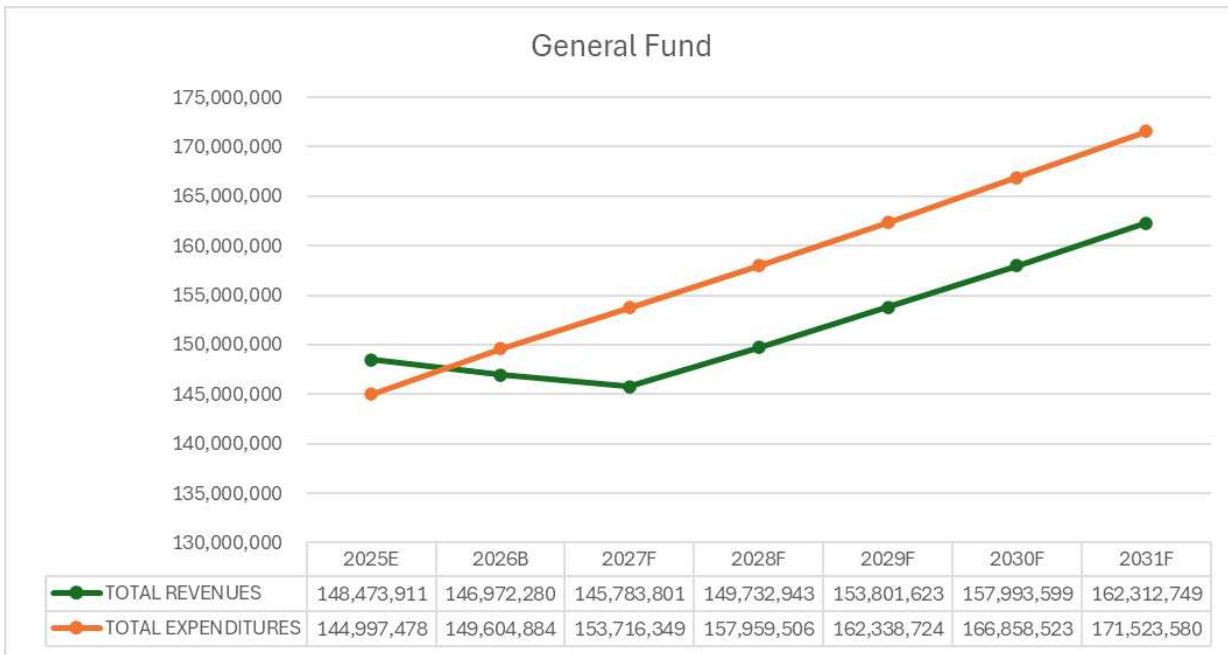
General Fund Financial Forecast

At the request of the City Council from the March 25th Budget Study Session, staff prepared a 5-year forecast of the General Fund based on the Preliminary Budget. The following assumptions were used to project the revenue and expenditure in the model.

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

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

Graph 1: 5-Year General Fund Forecast



FY 26 Preliminary Budget for Other Funds

Internal Service Funds (700 Series):

The Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis. Allocations to the City’s Internal Service Funds (ISFs), from the General Fund and other operating funds such as Enterprise Funds and eligible Special Revenue Funds, supports operating costs related to vehicles, computer equipment maintenance, accrued liability, workers compensation, and general liability insurance. Historically, these ISFs were underfunded in an effort to minimize impacts to the General Fund, with the intent to supplement any necessary overages by utilizing surplus at the end of the year through transfers. As the City has continued to face budgetary challenges, there has been less surplus realized, leaving these funds underfunded and deferring necessary replacements.

It is important to note that the Equipment Replacement Fund (720) is projected to have a negative fund balance of \$2.1 million and the Worker’s Compensation Fund (730) is projected to have a negative fund balance of over \$9 million, which will need to be addressed incrementally due to the budget constraints.

Table 5: Preliminary Fund Balance - Internal Service Funds

	Vehicel M (710)	Equipmer Replmnt (7 20)	Worker's C (730)	Emp Acc Liability (7 40)	IT Opera (780)	IT Capit (790)
Estimated Beginning Fund Balance	\$1,713,710	(358,608)	(8,265,961)	24,265,331	11,293,828	89,180,717
Proposed Revenues	3,333,506	-	4,843,835	3,149,967	2,510,292	419,111
Proposed Transfers-In	-	900,000	-	-	930,000	-
Total Proposed Revenues	3,333,506	900,000	4,843,835	3,149,967	3,440,292	419,111
Proposed Expenditures	(3,925,486)	(2,670,082)	(5,604,827)	7,074,522	4,727,104	1,120,404
Proposed Transfers-Out	(900,000)	-	-	-	-	(930,000)
Total Proposed Expenditures	(4,825,486)	(2,670,082)	(5,604,827)	7,074,522	4,727,104	1,120,404
Proposed Surplus/(Deficit)	(1,491,980)	(1,770,082)	(760,992)	3,924,555	(1,286,812)	1,631,317
Proposed Ending Fund Balance	\$ - 6/30/2025	(2,128,683)	(9,026,953)	4,340,775	7,016,727	7,549,311

Capital Improvement Funds (500 Series):

Based on feedback received from the City Council at the April 22nd Study Session and subsequent analysis of the City’s capital needs, the following adjustments were made to the Capital Improvement Program (Attachment H):

- Addition of CIP 20556 - Orange Olive Metrolink Fence Construction, \$657,800 (Fund 500 - Capital Projects Fund)
- Addition of CIP 20557 - Rampart Riverwalk Park, \$1.25 million (Fund 510 - Park Development Fund)

Considering these changes, the FY 26 Capital Improvement Program totals \$28.6 million, across 18 different funding sources, reflecting a \$1.9 million increase from the FY 26 Proposed CIP budget presented at the April budget study session (Attachment J).

Table 6: Preliminary Fund Balance - Capital Projects Fund

	Capital Projects Fund (500)	Park Acquisition Fund (510)	Fire Facilities Fund (560)	Police Facilities Fund (570)	Library Facilities Fund (573)
Estimated Beginning Fund Balance	10,053,997	9,187,992	619,437	932,169	594,553
Proposed Revenues	569,100	506,400	48,300	39,500	35,100
Proposed Transfers-In	-	-	-	-	-
Total Proposed Revenues	569,100	506,400	48,300	39,500	35,100
Proposed Expenditures	(3,773,724)	(2,594,125)	(250,000)	(70,000)	(201,125)
Proposed Transfers-Out	(3,000,000)	-	-	-	-
Total Proposed Expenditures	(6,773,724)	(2,594,125)	(250,000)	(70,000)	(201,125)
Proposed Surplus/(Deficit)	(6,204,624)	(2,087,725)	(201,700)	(30,500)	(166,025)
Proposed Ending Fund Balance - 6/30/2026	3,849,373	7,100,267	417,737	901,669	428,528

Budget Balancing Measures

Included in the FY 26 Preliminary Budget are budget balancing measures totaling approximately \$31.3 million across all funds, including \$17.3 million in the General Fund, (Attachment G). These proposed measures include:

- Leveraging one-time revenues,
- Temporarily freezing and partially funding vacant positions,
- Reducing funding for special events,
- Deferring replacements and repairs,
- Partially funding overtime,
- Partially funding the City’s Accrued Liability contributions, and
- Deferring contributions to the General Liability Fund and Workers’ Compensation Fund,
- Deferring vehicle replacements, and
- Deferring capital projects.

Conclusion

The FY 26 Preliminary Budget reflects the City’s continuing fiscal challenges while balancing public safety and a standard level of service and operations for the citizens and businesses of Orange. The

Preliminary Budget includes over \$17 million in budget reductions in the General Fund and the financial forecast is projecting a greater reduction over the next five years. Tonight, staff is seeking the City Council's direction and approval of the FY 26 Preliminary Budget for all funds, and the one-time use of the General Fund undesignated fund balance as we prepare the FY 26 Budget Adoption.

7. ATTACHMENTS

- Attachment A - Schedule of Changes in Fund Balance
- Attachment B - Historical Summary of Revenues and Expenditures by Fund
- Attachment C - Schedule of Revenues by Fund and Category
- Attachment D - Schedule of Expenditures by Fund and Category
- Attachment E - Recommended Staffing Changes
- Attachment F - Schedule of Positions by Department
- Attachment G - Budget Balancing Measures
- Attachment H - Preliminary Five-Year CIP
- Attachment I - March 25th Budget Study Session Staff Report
- Attachment J - April 22nd Budget Study Session Staff Report