



Agenda Item

City Council

Item #: 6.1.

4/22/2025

File #: 25-0215

TO: Honorable Mayor and Members of the City Council

THRU: Tom Kisela, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

Second Budget Study Session for the Proposed Fiscal Year 2025-26 Budget.

2. SUMMARY

This is the second budget study session in support of the preparation of the Fiscal Year 2025-26 Budget. This study session is intended to provide the draft of the Five-Year Capital Improvement Plan for the period of Fiscal Year 2025-26 through Fiscal Year 2029-30.

3. RECOMMENDED ACTION

1. Affirm staff recommendation for the Fiscal Year 2025-26 Capital Improvement Project Budget, and
2. Affirm staff recommendation for the Five-Year Capital Improvement Plan for the period of Fiscal Year 2025-26 through Fiscal Year 2029-30.

4. FISCAL IMPACT

Fiscal impact will be determined with the final budget adoption.

5. STRATEGIC PLAN GOALS

This is the second budget study session in support of the preparation of the City's Fiscal Year 2025-26 (FY 26) Budget focusing on the Five-Year Capital Improvement Plan (CIP) for the period of Fiscal Year 2025-26 through Fiscal Year 2029-30 (FY 26 Five-Year CIP).

The FY 26 Five-Year CIP serves as a comprehensive budget and strategic planning tool used to determine the extent of future needs and identify sources of funding. Funding is provided by a variety of sources including development impact fees, transportation funds, grants, reimbursement agreements, and long-term financing.

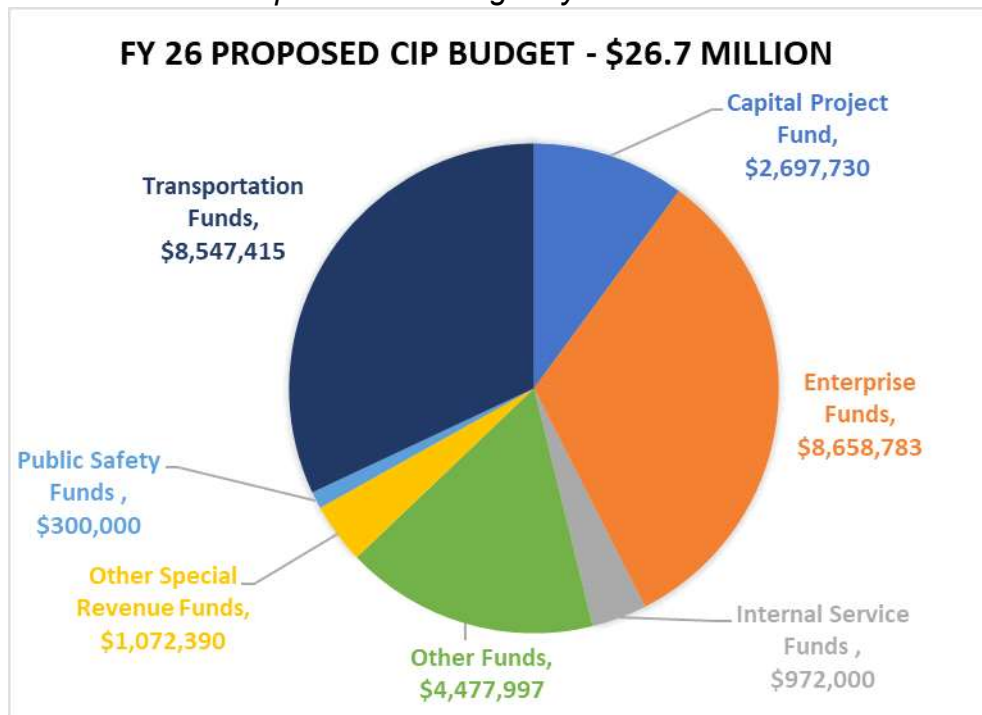
The City continues to provide its residents and businesses with much-needed capital infrastructure improvements, despite budgetary challenges. While several projects have been deferred in recent years, the City strives to maintain a steady level of capital improvement activity in Orange.

The FY 26 Five-Year CIP proposed 69 projects ranging from \$10,000 to \$8.25 million, in various funds. For FY 26 itself, there are 50 budgeted projects while the remaining 19 are anticipated to start during the out-years. In addition, there are 25 projects that will be continued into FY 26, with no new funding requested in future years. With these proposed projects, the City Council will be investing

over \$26.7 million in the upcoming fiscal year and approximately \$128.6 million in various funds over the five-year planning horizon. This is in addition to project appropriations that will be carried over from the current fiscal year. To ease the challenges of the City's budgetary operating deficit, approximately \$13.9 million in projects were recommended for defer or reduce in FY 26.

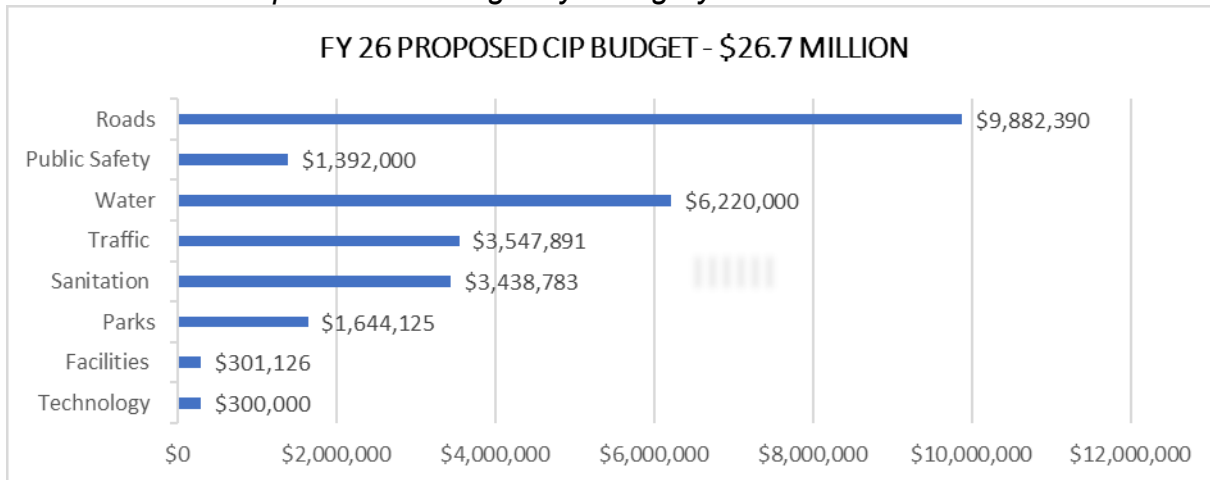
As in previous years, the CIP will be funded through several funds in FY 26. Chart 1 below summarizes the proposed FY 26 CIP budget.

Chart 1: FY 26 Proposed CIP Budget by Fund



For FY 26, there are eight project categories. Most of the investment, \$9.9 million, is towards the improvement of Roads and Traffic conditions, around the City, \$1.4 million towards city-wide Public Safety, \$9.6 million towards City Water and Sewer improvements, and a \$1.6 million investment in the City's Park renovations. Chart 2 summarizes the project categories for FY 26 proposed CIP budget.

Chart 2: FY 26 Proposed CIP Budget by Category



Five-Year Capital Improvement Plan

The following are highlights of the FY 26 Five-Year CIP projects:

Hart Park Pickleball and Fitness Circuit (20315)

The design and required environmental review for a pickleball facility and fitness circuit, which will be located in the southwest portion of Hart Park, has been completed. The project will construct ten lighted pickleball courts, install shaded outdoor fitness equipment, area and pathway lighting, paved access to courts and amenities, shaded spectator seating, and spaces for gathering amongst other associated improvements. A \$2 million Community Project Funding grant, administered through the U.S. Department of Housing and Urban Development (HUD), was secured for this project budget, which is supplemented by local funds. The application to access the funds has been approved by HUD and the City is now able to draw down those funds. The construction phase of the project is expected to begin in 2025.

Pavement Management Program (13120)

This program coordinates the comprehensive maintenance needs of the City's road system. Maintenance strategies include asphalt resurfacing, slurry seal, and reconstruction as needed. Approximately \$8.2 million is requested in FY 26, with \$2 million in funding from CR&R Road Mitigation revenue. Based on the City's Pavement Management Plan, the City should be spending approximately \$10 million annually on road maintenance to prevent long-term deterioration. This program is funded by Measure M2, Gas Tax, Capital Projects, and the Road Maintenance Rehabilitation Account funds.

Water Projects

A commitment of \$6.2 million in FY 26 toward water infrastructure projects intended to maintain or improve the City's water production and distribution. This includes \$2 million for pipeline replacement, which provides for the design and construction of water mainline replacements for the City's water system. Additionally, \$2.8 million is proposed for the drilling of a new water production well. The new well is designed to provide approximately 3,000 gallons per minute and significantly enhance the City's groundwater production.

Sewer Projects

\$3.4 million is proposed for the Sewer Replacement Program to maintain or improve the City's sewer pipe network, which provides for the design and construction of sewer mainline replacements for the City's sewer system. Approximately one mile of pipeline is targeted to be replaced annually due to increasing age, substandard sizing, corrosion, or high maintenance. The program will focus on locations such as Grand Street, Glassell Street, Center Street, Culver Avenue, Olive Street, and Maple Avenue.

Capital Projects Fund (500)

The General Fund has been the primary funding source for the Capital Projects Fund (500). This funding provided necessary reinvestment in the City's aging infrastructure. However, due to recent budgetary challenges, monies for these infrastructure needs have not been contributed towards this fund for some time. Several projects have been in deferment despite an evaluation of poor condition. As such, the City continues to prioritize projects that can no longer be deferred due to safety concerns and projects that are partially grant funded. Starting in FY 24, the Capital Projects Fund (500) received \$6,000,000 lump sum for retroactive road mitigation, \$3,000,000 from CR&R for road mitigation in FY 25 and is expected to continue to receive \$2,000,000 annually until FY 34. For Council consideration, there are approximately \$2.7 million in projects proposed for FY 26:

1. Pavement Management Program (13120) - \$2,000,000;
2. Minor Traffic Control Devices (16302) - \$200,000;
3. Pedestrian Beacon Upgrades (20518) - \$27,730;
4. Streetlight Pole Replacement Program (20374) - \$470,000.

Deferred Projects

To address the City's budgetary constraints, several projects that had been recommended from City departments have been deferred and are not included in the FY 26 CIP. These projects are listed on the following page:

Table 1: FY26 Deferred and/or Discontinued Projects

Project/Effort	Fund	Amount Deferred/ Reduced	Notes
Facilities Condition Assessment	Capital Projects Fund (500)	\$100,000	Discontinued
Community Services Building Restoration	Capital Projects Fund (500)	200,000	Discontinued
Depot Building Improvements	Capital Projects Fund (500)	400,000	Discontinued
Municipal Parking Lot Maintenance	Capital Projects Fund (500)	20,000	Discontinued
16469 Traffic Signal Equipment Painting	Measure M (263)	45,000	Discontinued
Roof Replacement at City Facilities (rated poor condition)	Capital Projects Fund (500)	500,000	Deferred
El Modena Electric Vehicle Charging Station	Capital Projects Fund (500)	50,000	Discontinued
20504 Fire Station 3 Building Addition	Fire Facility Fees (560)	4,000,000	Deferred
20505 Fire Station 5 Exercise Room Addition	Capital Projects Fund (500)	720,000	Deferred
20523 Fire Station 2 Remodel	Capital Projects Fund (500)	900,000	Deferred
20059 Tot Lot Shade Sails	Park Acquisition (510)	430,000	Deferred
20052 Resurfacing of Sports Courts (i.e. tennis, basketball)	Park Acquisition (510)	200,000	Some locations deferred
20053 Repairs and Improvements to Park Restroom Buildings	Park Acquisition (510)	1,500,000	Some locations deferred
Parking Lot Renovation at El Modena Park	Park Acquisition (510)	650,000	Deferred
20401 - Lighting Renovation at El Camino Park	Park Acquisition (510)	200,000	Deferred
20478 - Evaluation of Synthetic Turf at Grijalva Park	Park Acquisition (510)	160,000	Discontinued
Plaza Fountain Software and Controls Upgrade	Park Acquisition (510)	75,000	Deferred
20266 - Security Camera Installation at El Camino Park	Park Acquisition (510)	800,000	Deferred
Playground Equipment Replacement at Various Parks	Park Acquisition (510)	3,000,000	Some locations deferred
Total Deferred Projects	Measure M (263)	45,000	
	Capital Projects Fund (500)	2,890,000	
	Park Acquisition Fund (510)	7,020,000	
	Fire Facilities Fund (560)	4,000,000	
		\$13,955,000	

Review of Fund Balances

Capital Projects Fund (500):

Table 2: FY 26 Projected Fund Balance

	Capital Projects Fund (500)
Estimated Beginning Fund Balance - 7/1/2025	10,095,889
Proposed Revenues	2,000,000
Proposed Transfers-In	-
Total Proposed Revenues	2,000,000
Proposed Operating Expenditures	(419,519)
Proposed Capital Expenditures	(2,697,730)
Proposed Transfers Out	(3,000,000)
Total Proposed Expenditures	(6,117,249)
Proposed Surplus/(Deficit)	(4,117,249)
Proposed Ending Fund Balance - 6/30/2026	5,978,640
City Council Reserve Policy	4,835,000
Undesignated/unreserved Fund Balance - 6/30/2026	1,143,640

FY 26 revenues and expenditures for the Capital Projects Fund (500) are proposed at \$2 million and \$3 million, respectively, which includes road mitigation fee revenue and \$3 million of capital expenses and contribution to the OC Animal Care capital improvements. The result is a proposed FY 26 ending fund balance of almost \$6 million. After setting aside \$4.8 million per the City Council Reserve Policy, the undesignated/unreserved Fund balance at June 30, 2026 is just over \$1.1 million.

Enterprise Funds:*Table 3: FY26 Projected Fund Balance*

	Water Fund (600)	Sanitation Fund (220)
Estimated Beginning Fund Balance - 7/1/2025	8,954,430	1,723,303
Proposed Revenues	43,060,058	9,032,298
Proposed Transfers-In	-	-
Total Proposed Revenues	43,060,058	9,032,298
Proposed Operating Expenditures	41,916,198	(5,318,744)
Proposed Capital Expenditures	5,220,000	(3,438,783)
Proposed Transfers Out	-	-
Total Proposed Expenditures	47,136,198	(8,757,527)
Proposed Surplus/(Deficit)	(4,076,140)	274,771
Proposed Ending Fund Balance - 6/30/2026	4,878,290	1,998,074
City Council Reserve Policy	10,479,050	1,329,686
Undesignated/Unreserved Fund balance - 6/30/2026	(5,600,760)	668,388

The Water Fund will begin FY 26 with an estimated fund balance of approximately \$9.0 million. The FY 26 projections are \$43.1 million in revenue and expenditures at approximately \$47.1 million, resulting in an estimated ending fund balance of just under \$4.9 million. It is important to note that Water Fund is projected to not have enough fund balance to meet the City Council reserve in FY 26.

The Sanitation Fund will begin FY 26 with an estimated fund balance of \$1.7 million. The FY 26 projections are \$9.0 million in revenue and expenditures at approximately \$8.8 million, resulting in an estimated ending fund balance of just under \$2 million. After setting aside \$1.3 million per the City Council Reserve Policy, the undesignated/unreserved Fund balance at June 30, 2026 is just under \$670,000.

Special Revenue Funds:

Special Revenue Funds are funding from various government agencies to support a wide range of City infrastructure. These funds are projected to have sufficient funding to support the proposed

projects for FY 26.

Table 4: FY26 Projected Fund Balance

	Proposition 172 (120)	Measure M2 (263)	Gas Tax (270)	RMRA (274)	TSIP (287)
Estimated Beginning Fund Balance - 7/1/2025	1,168,783	1,154,501	1,137,647	3,700,904	4,410,661
Proposed Revenues	1,291,888	4,103,303	3,986,873	3,691,332	-
Proposed Transfers-In	-	-	-	-	-
Total Proposed Revenues	1,291,888	4,103,303	3,986,873	3,691,332	-
Proposed Operating Expenditures	(1,164,533)	(1,254,397)	(3,804,551)	-	-
Proposed Capital Expenditures	(400,000)	(3,148,415)	(275,000)	3,400,000	1,724,000
Proposed Transfers Out	-	-	-	-	-
Total Proposed Expenditures	(1,564,533)	(4,402,812)	4,079,551	3,400,000	1,724,000
Proposed Surplus/ (Deficit)	(272,645)	(299,509)	(92,678)	291,332	(1,724,000)
Proposed Ending Fund Balance - 6/30/2026	896,138	854,992	1,044,969	3,992,236	2,686,661

Developer Impact Funds:

Developer Funds are funding received from issuance of building permits to fund various community service needs created by new development such as enhancement of park facilities, public safety facilities, and library facilities. These funds are restricted for a specific purpose. Similar to Special Revenue Funds, these funds are projected to have sufficient funding to support the proposed projects for FY 26.

Table 5: FY26 Projected Fund Balance

	Park Acquisition (510)	Fire Facilities (560)	Police Facilities (570)	Library Facilities (573)
Estimated Beginning Fund Balance - 7/1/2025	9,211,930	586,496	946,116	555,268
Proposed Revenues	-	-	-	-

Proposed Transfers-In	-	-	-	-
Total Proposed Revenues	9,211,930	586,496	946,116	555,268
Proposed Operating Expenditures	-	-	20,000	-
Proposed Capital Expenditures	1,344,125	250,000	50,000	201,126
Proposed Transfers Out	-	-	-	-
Total Proposed Expenditures	1,344,125	250,000	70,000	201,126
Proposed Surplus/(Deficit)	(1,344,125)	(250,00)	(70,000)	(201,126)
Proposed Ending Fund Balance - 6/30/2026	7,867,805	336,496	876,116	354,142

Computer Replacement Fund:

Computer Replacement Fund is primarily supported by the General Fund. Due to budget constraints, the General Fund has not been consistent with its contributions to this fund. The last contribution was in FY 23 and it was designated for the Public Safety Enterprise System. Based on the estimated fund balance, The Computer Replacement Fund has sufficient funding to support the proposed projects for FY 26.

Table 6: FY26 Projected Fund Balance

	IT Capital/Computer Replacement Fund (790)
Estimated Beginning Fund Balance - 7/1/2025	7,479,253
Proposed Revenues	2,556,300
Proposed Transfers-In	-
Total Proposed Revenues	2,556,300
Proposed Operating Expenditures	(87,364)
Proposed Capital Expenditures	(972,000)
Proposed Transfers Out	-
Total Proposed Expenditures	(1,059,364)
Proposed Surplus/(Deficit)	1,496,936
Proposed Ending Fund Balance - 6/30/2026	8,976,189
Assigned Fund Balance to Axon	5,680,000
City Council Reserve Policy	2,965,381
Undesignated/Unreserved Fund Balance - 6/30/2026	330,808

Conclusion

The Proposed FY 26 CIP Budget and the Proposed Five-Year CIP reflect the City's ongoing challenges with addressing the General Fund's operating deficit, while also maintaining a standard level of service and operations for the citizens and businesses of Orange. Staff is seeking City Council affirmation or to provide staff with alternatives to the FY 26 Proposed Budget and Five-Year CIP.

In the next two months, staff will continue to refine the City's FY 26 operating and CIP budgets for preliminary review in May 2026 and final adoption in June 2026.

7. ATTACHMENTS

- FY 26 Proposed Five-Year CIP