



Agenda Item

City Council

Item #: 11.1.

5/11/2021

File #: 21-0245

TO: Honorable Mayor and Members of the City Council

THRU: Rick Otto, City Manager

FROM: Will Kolbow, Assistant City Manager/Admin. Services Director

1. SUBJECT

Third Study Session for the Proposed Fiscal Year 2021-22 Budget.

2. SUMMARY

This is the third study session in support of the preparation of the FY 2021-22 Budget. This study session provides an updated analysis of the projected General Fund revenues and expenditures for FY 2021-22, revisions to the Master Fee Schedule, as well as a status and analysis of the Special Revenue, Internal Service, and Water Funds for Fiscal Year 2020-2021.

3. RECOMMENDED ACTION

Receive and file the report and provide policy direction.

4. FISCAL IMPACT

Fiscal impact will be determined with final budget adoption.

5. STRATEGIC PLAN GOALS

Goal 2: Be a fiscally healthy community

a: Expend fiscal resources responsibly.

b: Analyze future fiscal needs and potential revenue opportunities.

Goal 4: Provide outstanding public service

b: Provide facilities and services to meet customer expectations.

6. DISCUSSION AND BACKGROUND

General Fund Revenues for FY 22

While the local economy continues to grow, the total General Fund revenues for FY 22 are projected to be \$120.1 million, \$1.4 million (1.0%), under the estimated ending revenue for FY 21. This slight difference is mostly due to grants and external revenues that are not initially estimated in the FY 22 budget and will be counted as revenue only when received.

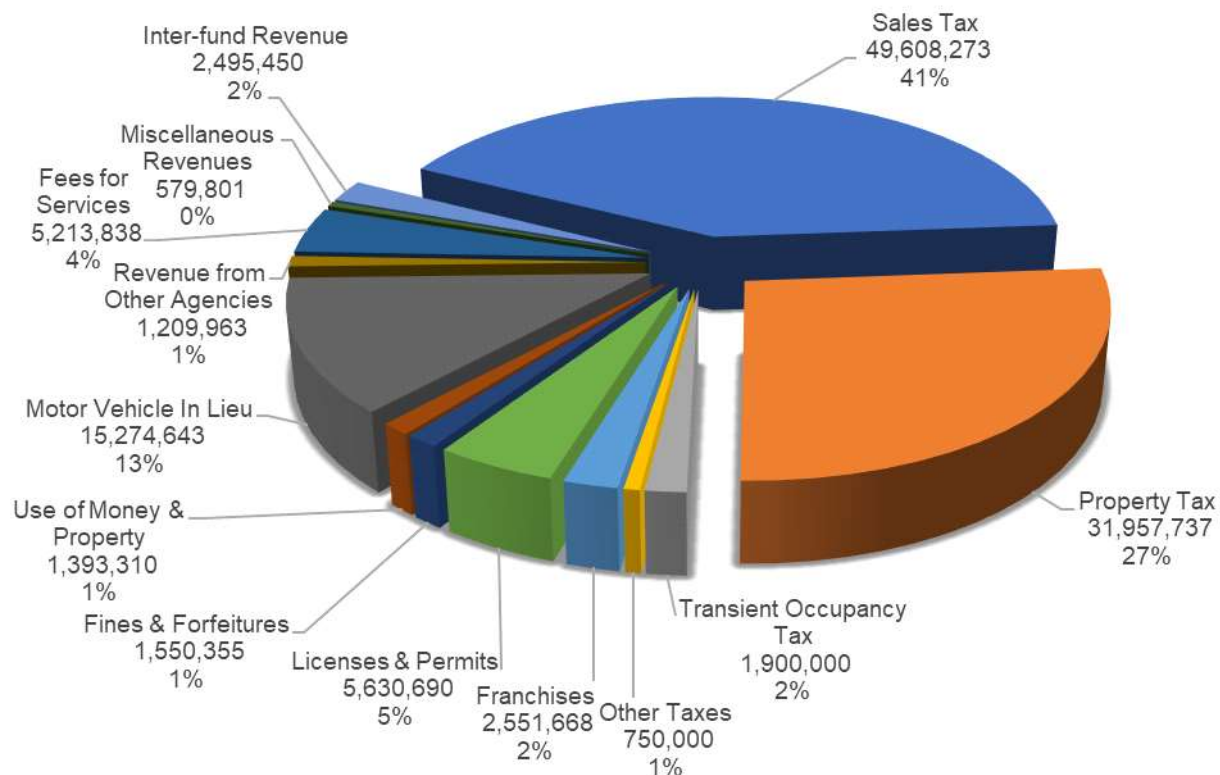
The projected FY 22 revenue amount is about \$249,000 above the revenue projections presented at the April 27 Study Session and is based on the following details:

Sales Tax is anticipated to be \$49.6 million, \$1.1 million (2.2%), above the FY 21 estimate as fuel

sales will increase as more residents commute to work and school. Building and construction activity is anticipated to slow, while restaurants and general consumer goods are expected to trend upwards as state guidelines become less restrictive. Allocations from the county tax pool will continue to bring in more revenue than in previous years with the shift to online shopping. **Property Tax** is expected to be \$47.2 million, a \$1.5 million (3.3%) increase from FY 21 estimates. **Transient Occupancy Tax (TOT)** is projected to be \$1.9 million, as business and leisure travel continue to remain at depressed levels due to COVID concerns, and despite the reopening of the Disney resort under attendance restrictions. While City Council recently determined to permit short term rental permits, no additional revenue has yet been allocated to TOT revenue. However, it is anticipated that short term rental TOT revenue will yield between \$200,000 to \$300,000.

Fees for Service are projected to be \$5.2 million (5.5% over FY 21 estimates) due to an increase in sports and recreation class enrollment. **Licenses and Permits** are projected to be \$5.6 million as the prior year's trend continues with a slight increase in building-related as well as annual fire permits. Finally, **Fines and Forfeitures** are projected to be \$1.6 million. With a return to a full year of parking enforcement, parking citations are expected to increase.

FY 22 General Fund Revenues



General Fund Expenditures for FY 20

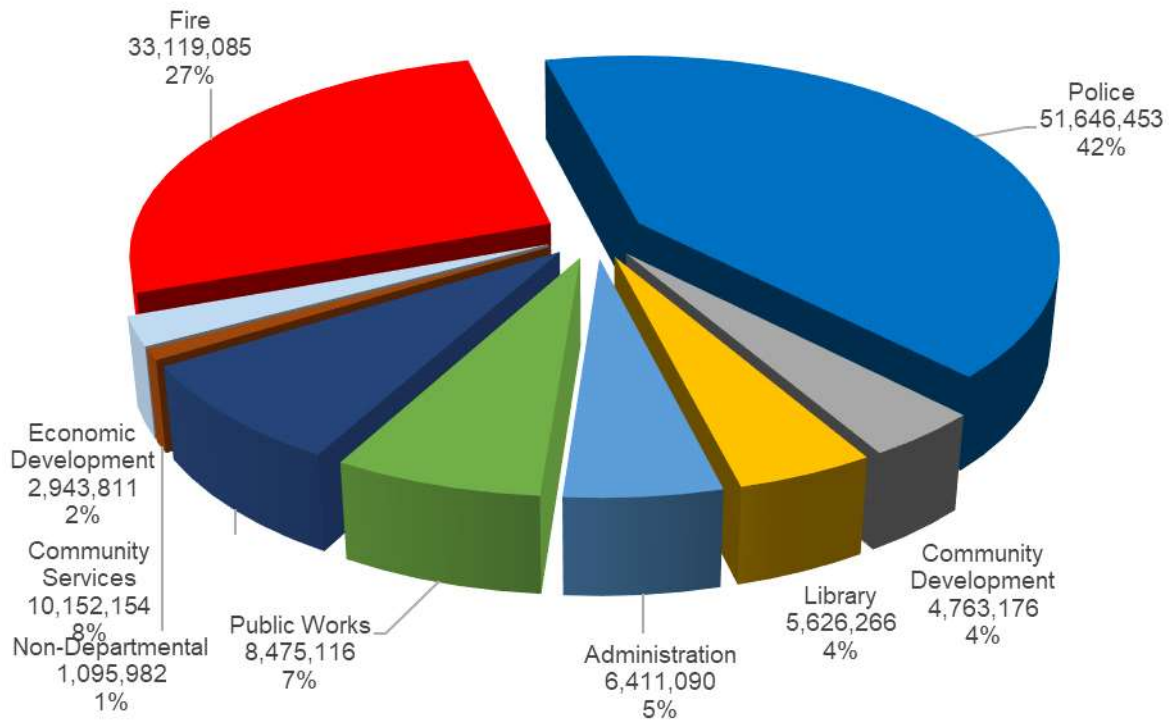
Our initial estimate for FY 22 General Fund expenditures is \$124.2 million. This reflects a 7.2% increase in expenditures over the original adopted FY 21 budget. As mentioned at the April 27 budget session, the budget reduction policy will continue in order to close an expected gap between

anticipated revenues and projected expenditures, yielding an expenditure reduction of about \$2.3 million in FY 22. We also anticipate additional savings resulting from staff charging administrative and design costs to capital improvement projects. As a result, approximately \$946,000 million in salary costs will be charged to capital projects in FY 22.

Although departments reduced their budget appropriations, these reductions were savings that had already realized at the close of past fiscal years from position vacancies, and pilot programs to realize greater business efficiencies. Applying this to the FY 22 budget, these savings will be counted in advance, which will result in reduced revenues over expenditures amount at the close of FY 22.

The City also successfully issued 2.7% Pension Obligation Bonds (POBs) in March 2021 in the amount of \$286.5 million to effectively refinance the City's Unfunded Accrued Liability (UAL) with CalPERS as of that date. The overall savings achieved in FY 22 is \$4.8 million, or a net decrease to FY 21 General Fund expenditures of \$2.7 million. However, labor costs are projected to increase \$3.8 million (4.5%) from FY 21 allocations due to agreed-upon negotiated pay and benefits increases, overtime costs, scheduled merit increases, and reorganization of certain departments.

Based on revenues and expenditures, we are projecting a budget deficit of about \$4.1 million, an increase of about \$400,000 from the last budget session of \$3.7 million. This revision is due to the addition of various anticipated City events and continued adjustments to the budget, particularly on positions. As we continue to refine the revenue and expenditure amounts, and the expected use of one-time revenues, it is anticipated that the City Council will be able to adopt a balanced FY 22 budget.

General Fund Expenditures by Department

Provided below is the proposed FY 22 General Fund departmental budgets compared to the FY 21 adopted budget.

General Fund Expenditures - Comparison of FY 21 and FY 22

<u>Department</u>	<u>FY 21 Adopted</u>	<u>FY 22 Proposed</u>	<u>% Inc/(Dec)</u>
City Attorney	\$ 951,433	\$ 1,130,173	18.8%
City Clerk	591,324	626,516	6.0
City Council	7,152	8,652	21.0
City Manager	1,211,153	1,416,275	16.9
Community Development	4,776,802	4,763,176	(0.3)
Community Services	9,282,409	10,152,154	9.4
Economic Development	224,509	2,943,811	1,211.2
Finance	3,373,595	3,358,213	(0.5)
Fire	30,588,490	33,119,085	8.3
Human Resources	1,525,220	1,671,261	9.6
Library	5,225,879	5,626,266	7.7
Non-Departmental	1,087,482	1,095,982	0.8
Police	50,663,587	51,646,453	1.9
Public Works	8,132,897	8,475,116	4.2
Vacancy Savings	(1,800,000)	(1,800,000)	0.0
Totals:	\$ 115,841,932	\$ 124,233,133	7.2%

The following information details the significant changes in many of the departmental operating budgets:

City Attorney

The budget for this department increased due to the necessary allocation to cover attorney fees, qualified demographer services, and other consultants, as necessary, for the revision of the established City Council district boundaries, utilizing information compiled in the 2020 Census according to the guidelines and procedures containing in the Federal Voting Rights Act and California law.

City Manager

Every year, the state and federal governments consider dozens of bills that directly affect the City of Orange. These bills have a range of effects including proscribing local authority, unfunded mandates, grant funds to achieve policy goals, and changing regulations. Staff in the City Manager's Office analyze these bills and works with groups such as the Orange County City Manager's Association to coordinate efforts to provide local government feedback as proposed legislation is considered in both Sacramento and Washington D.C. The City Council provides policy direction on the City's official position on significant pieces of proposed legislation. Given the current legislative environment at the State and Federal level, a need has been identified to increase our legislative analysis and grant funding efforts. Over the next few months, staff will evaluate options for increasing our efforts through additional staffing and/or contractual services. As such, it is anticipated that an increase in legislative efforts will be in place by midyear; as a result, an additional \$68,000 will be allocated to this department to fund this effort.

Community Development

We are continuing to evaluate additional enhancements to the Code Compliance Division through reorganization to address ongoing needs, while providing for future customer service with the implementation of short-term rentals. As such, one Environmental Compliance Specialist position will be transferred from the Public Works Department to the Community Development Department to support code compliance efforts.

Community Services

This budget reflects the need to increase funding for Contractual Services to continue to support regular, ongoing professional services and maintenance necessary to sustain city parks and park facilities. This includes increases to pool maintenance, lake maintenance, monument granite cleaning, custodial services of park facilities, tot lot surfacing, parks landscape services, and tree maintenance. This also includes \$75,000 specifically for Santiago Creek maintenance, continuing efforts to mitigate debris build up, prevention of unlawful habitation and criminal activity, as well as maintaining trail safety.

Economic Development

Over the past six years, we have been funding the SC Fuels sales tax sharing agreement out of transfers to the Business Investment Fund (115) at an average of \$3.0 million each fiscal year. Moving forward, we are transitioning to having this paid directly by the General Fund. We have accounted for payment of \$2.75 million for the SC Fuels sales tax sharing agreement in the Economic Development category, which accounts for the significant increase. In future fiscal years, it is anticipated that the entire SC Fuels sales tax sharing agreement will be accounted for in the General Fund.

Fire

The Fire Department is requesting a Plan Examiner/Fire Safety Specialist position that will assist with inspection and plan check, to reduce reliance on external services and enhance the quality of in-City plan check services. With increased demand for new construction, this position will alleviate staffing challenges and deliver shorter turnaround times for permitting services. Also included in this department is the \$1.7 million debt service for the new Fire Headquarters/Fire Station 1.

Library

The budget allocation reflects the rehiring of part-time staff that will be needed to support the anticipated reopening of the library branches.

Police

In an effort to bolster the City's emergency management program, the Police Department in corporation with the Fire Department and the City Manager's Office will be establishing an Emergency Preparedness Manager position to fill the critical role of managing emergency services citywide. The duties include the preparation of plans; response procedures and leadership during a response; and the coordination of training, resources, and communication between city officials and other governmental agencies. Furthermore, the Department is requesting the addition of two non-sworn Jailers to reduce the amount of time patrol officers spend on the arrest and booking process, allowing for increased patrol time, more sworn officers on the streets, and saving money while increasing service.

Finally, over the past several years, the City has initiated several proactive programs to address the issues of homelessness and mental illness in our community. This includes the Orange Police Department's HEART Team, our partnership with the north Orange County cities in developing and operating two homeless navigation centers, and our partnership with the county of Orange and MindOC in developing and operating the BeWell OC Center on Anita Drive. Nevertheless, there is more to do. Therefore, the City is assessing options in establishing a homeless outreach program staffed by non-sworn individuals who will proactively engage with the homeless community to guide

them to needed shelter and services. It is anticipated this program will augment and work in conjunction with the HEART Team. While the fiscal impact of the proposed program is not included in the proposed FY 22 budget, a recommendation will soon be presented to the City Council for mid-year implementation.

Public Works

Due to continued incidents of vandalism and illegal activities within the Orange Parking Structure, the Public Works Department is requesting funds to implement a continuous security program for the parking structure, providing patrol during all closure hours. The use of private security services has proven to be an effective and cost efficient solution and will augment the efforts of the Orange Police Department and Public Works Department staff in maintaining the structure.

Estimate of the General Fund Balance for FY 22

Summarizing the financial picture, the proposed FY 22 expenditure budget is \$124.2 million. With the FY 22 revenue amount projected to be a little over \$120.1 million, the General Fund budget will have a deficit of \$4.1 million, resulting in an ending fund balance projected at \$7.1 million. In addition, four proposed transfers from the unreserved fund balance, including \$2.2 million to the Equipment Replacement Fund, \$1.4 million to the Computer Replacement Fund, \$300,000 to the EMT Fund (discussed below), and \$1.8 million to the Business Investment Fund. Therefore, the projected unreserved fund balance for the General Fund is \$1.5 million.

Estimated Available General Fund Balance

Unreserved Fund Balance Available @ 6/30/21	\$11,289,756
FY 21 Estimated Revenues	\$120,084,478
FY 21 Estimated Expenditures	(124,233,133)
Revenue over Expenditures	<u>(4,148,655)</u>
Transfer In from Reserves	<u>0</u>
Unreserved Fund Balance Available @ 6/30/22	7,141,101
Transfers Out	
Transfer to Equipment Replacement Fund	(2,200,000)
Transfer to Computer Replacement Fund	(1,350,000)
Transfer to EMT Fund	(300,000)
Transfer to Business Investment Fund	(1,800,000)
Total Transfers Out	<u>(5,650,000)</u>
Estimate Available Fund Balance @ 6/30/22	1,491,101
General Fund Catastrophic Reserve	15,667,960
Est. Reserved & Unreserved General Fund Balance @ 6/30/22	<u>\$17,159,061</u>

American Rescue Plan

As mentioned in the last budget session, President Joe Biden signed a sweeping \$1.9 trillion COVID-19 economic relief package into law, entitled the American Rescue Plan Act of 2021 (ARP). One of the key features of the ARP includes state and local aid which will be distributed through a modified Community Development Block Grant (CDBG) formula. The City's share is estimated at \$29.9 million.

As of the writing of this staff report, we still have not received guidance from the federal government. Preliminarily, we anticipate that these funds will be eligible to close the \$4.1 million deficit that we have for FY22. Beyond that, we are hopeful that the funds will be used to backfill revenue loss from prior years. The language on the bill specifies that we will receive our allocation by May 10. At this point, we have yet to hear anything from the United States Treasury related to guidelines governing the actual allocation.

City Council and Departmental Work Plans

During the April 27th Budget Study Session, the draft City Council and Departmental Work Plans for FY 22 were presented for discussion and possible revision. At the conclusion of the discussion, the Mayor requested that any proposed changes to the Work Plans be provided to the City Manager to be included into this report for consideration by the City Council. Attached are proposed revisions to the Work Plans submitted by Council Member Barrios for the following departments: City Council, City Manager, City Attorney, City Clerk, Finance, Human Resources, Information Technology, Police, Community Development, and Community Services. Staff is seeking direction related to the inclusion of these proposed revisions.

Master Fee Schedule

In FY 19, the Council adopted an updated Master Fee Schedule to better reflect the cost of providing services. Each year, staff updates the schedule as part of this budget process, based on revised costs for delivering each service.

With these proposed fees, we anticipate recovering approximately 63% of costs associated with the services provided. The total revenue impact of the recommended fees represents an increase in General Fund revenue of approximately \$112,000, and has been included in the total revenues of \$120.1 million for FY 22. Increases in fees for encroachment applications, minor encroachment permits, fire construction permits, building plan review for changes, additions, and revisions to plan and issuance of building permits account for a major portion of the increase in revenue.

While many of the proposed fees reflect increases based on the actual cost of providing services, several fee decreases reflect reduced costs. Updated proposed fees for new construction, plan check, and inspection fees that incorporate the cost calculations are included in the detailed listing of recommended fee changes attached to this staff report.

Further, Orange County Animal Care (OCAC) administers and collects animal control and shelter charges for residents of Orange. The FY 20 budget contained updates to this fee and, for the first time, included it in the Master Fee Schedule. As cities are allowed to set their own fees for animal licenses and services, staff is proposing updates to help recover a portion of these costs. As detailed in the attachment to this staff report, the update specifically increases the fee for a dog license from \$36 to \$37. This will generate an additional \$20,000, reducing the net cost of the animal control

contract to \$1.03 million.

The following are highlights of proposed fee changes:

<u>Fee</u>	<u>Current Fee Amount</u>	<u>Proposed Fee Amount</u>	<u>% Inc/(Dec)</u>
Encroachment Application	\$ 166	\$ 201	21.1%
Minor Encroachment Permit	258	289	12.0%
Plan Review for Changes, Additions, and Revisions to Plan Issuance Fee	119	125	5.0%
30-Day Impound Release	45	47	4.4%
Sewer Frontage Charges - per l.f.	239	245	2.5%
Alcohol License Permit ^①	155	128	(17.4%)
Accessory Dwelling Unit Application ^①	--	1,049	100%
DUI Arrest Tow Release ^①	--	541	100%
Grease Interceptor Encroachment Permit ^① Electrical - New Construction ^①	-- --	285 1,000 57 Plus \$0.05 per sq. ft	100% 100% 100%

① New Fee

Review of Other Funds

Water Enterprise Fund (600):

The Water Enterprise Fund started FY 21 with an available fund balance of \$20.5 million which includes \$4.5 million in funding for projects that have been carried over from the previous year. The revised estimated revenue is \$36.4 million, about \$480,000 lower than the adopted budget due to a combination of water conservation efforts by consumers, and lower commercial consumption due to COVID-19. Expenses are \$48.1 million, which includes \$4.5 million in capital improvement project carryovers and adjustments, and \$5.6 million in new capital improvement projects. The result is an anticipated FY 21 ending fund balance of approximately \$8.8 million.

FY 22 revenue and expenditures are estimated at \$38.1 million and \$43.9 million, respectively, which includes \$4.8 million in water capital projects and an increase of operating expenses due to anticipated water purchases from the shutdown of five wells. As a result, FY 22 is expected to end with an available fund balance of about \$3.0 million. It should be noted that this fund balance estimate assumes all funding for multi-year projects will be spent in FY 22. While most of the funding is budgeted up-front, the project balances are carried over until completion and are included in the year-end fund balance once the FY 21 accounting records are finalized.

The Public Works Department will begin the process of a water rate study in July 2021 to provide the City Council with recommended strategies for future water sustainability.

Emergency Management Transport Fund (125):

The Emergency Management Transport (EMT) Fund began FY 21 with a negative budgetary fund balance of \$71,000, and is projected to have an ending negative fund balance of \$167,000. With FY 22 revenues projected at \$2.4 million, and expenditures of \$2.5 million, the estimated ending negative budgetary fund balance is approximately \$240,000. As discussed in the previous budget study session, revenues related to the Emergency Transport Program have not been as active due to the pandemic. Staff has recommended changing the fixed cost distribution of several fire fighter positions to the General Fund to offset the reduced revenue. Additionally, an increase in transports is anticipated in FY 22 and will help mitigate the negative fund balance projected for FY 22.

Measure M2 Fund (263):

The Measure M2 Fund began FY 21 with an available budgetary fund balance of \$3.4 million, and is projected to have an ending fund balance of \$116,000. With FY 22 revenues projected at \$3.0 million, and expenditures of \$3.6 million, the estimated ending negative budgetary fund balance is \$390,000. According to OCTA, M2 sales tax receipts decreased 4.3% for FY 20, with another 4.1% decrease anticipated for FY 21. However, OCTA projects M2 sales tax will grow the following years at an average annual rate of at least 3% through 2041, the end of the 30-year term. From the information provided by OCTA, the M2 sales tax uncertainty seems to be short term and manageable in terms of its impact to the City's infrastructure improvement program. Looking at the City's annual pavement maintenance program specifically, the Public Works department has been expending the M2 funding consistently at about \$2.4 million a year, with unit prices for work remaining relatively stable. The addition of SB-1 funds in 2017, combined with stable unit prices for work, and the use of carry over funding from prior fiscal years have allowed the City to continue to perform necessary street maintenance without impact to the City's Pavement Condition Index (PCI).

Sanitation Fund (220/520):

The Sanitation Fund began FY 21 with an available fund balance of \$4.3 million. With adjusted revenue estimates of \$5.8 million, expenses of \$6.6 million, and new capital projects of \$400,000, the expected year-end available fund balance is \$3.5 million. FY 22 revenues projections are \$5.9 million and expenditures at \$9.0 million, resulting in an estimated ending fund balance of \$360,000. Similar to the Water Fund (600) detailed above, this fund balance estimate assumes all funding for multi-year projects will be spent in FY 22. While most of the funding is budgeted up-front, the project balances are carried over until completion and are included in the year-end fund balance once the FY 21 accounting records are finalized.

At the beginning of FY 21, the available fund balance of the Sewer Capital Projects Fund was \$4.0 million. With revenues estimated at \$2.2 million, and expenses of about \$4.3 million, the estimated ending fund balance is \$1.9 million. The FY 22 revenue estimate is \$2.2 million, and capital improvement expenditures towards sewer line replacement and maintenance are \$2.6 million. The estimated FY 22 ending fund balance is \$1.5 million.

Gas Tax Fund (270/271/272/274):

The Gas Tax Fund began FY 21 with an available fund balance of \$1.3 million, with expected

adjusted revenues of \$3.3 million and expenses of \$4.5 million. This includes operating and capital improvement carryovers of \$3.7 million and new capital projects of \$770,000. FY 22 revenues estimates are \$3.5 million with expenditures of about \$3.9 million, resulting in an ending negative fund balance of approximately \$212,000. While a negative fund balance is projected for end of FY 22, we expect the State to provide an update on gas tax estimates later this month. With projected increases in both gas prices and gas sales, we anticipate Council will adopt a balanced budget for this fund once revenue estimates have been updated.

The Road Maintenance and Rehabilitation Account (RMRA) began FY 21 with a fund balance of \$2.8 million. Adjusted estimated revenues are \$2.5 million and expenditures are about \$5.0 million. In FY 22, the City will receive about \$2.8 million from the State, which will be fully allocated towards Pavement Management Program expenses.

Equipment Replacement Fund (720):

We continue to be prudent when replacing vehicles in our fleet. In FY 21, City Council approved \$2.5 million to fund equipment replacements. The FY 21 estimated year-end fund balance will be \$2.1 million.

The FY 22 budget includes proposed revenue of about \$2.7 million, which includes a \$2.2 million transfer from the General Fund. Staff is proposing vehicle replacements of \$2.5 million in this fund, resulting in an estimated \$2.1 million ending fund balance. Included in the replacement schedule are four vehicles for Fire (\$1.5 million total including purchase of a Seagrave Pumper fire apparatus for \$1.3 million), fourteen vehicles for Police (\$734,000), four vehicles for Public Works (\$250,000), and two vehicles for Community Services (\$80,000). In addition, Public Works will utilize a combination of Sanitation (220) and General Fund to purchase a replacement F-250 truck Mount Sweeper. Staff is also proposing additional vehicle replacement of two electrical vehicles for the Fire (\$45,000) and Public Works (\$40,000) departments, funded by the Air Pollution Reduction (AQMD) Fund (245). Lastly, the Public Works' Water Division will utilize the Water Fund (600) to purchase four vehicles (\$208,000).

Workers' Compensation Fund (730):

The Workers' Compensation Fund began FY 21 with an available budgetary fund balance of \$5.1 million, and is projected to have an ending fund balance of \$4.7 million. With FY 22 revenues projected at \$4.1 million, and expenditures of \$3.8 million, the estimated ending budgetary fund balance is \$5.0 million.

Liability Fund (740):

The Liability Fund began FY 21 with an available fund balance of about \$1.8 million, and is projected to have an estimated ending fund balance of \$1.7 million. In FY 22, staff is proposing to allocate \$2.1 million in revenue to cover expenditures of \$2.8 million, resulting in an estimated FY 22 ending budgetary fund balance of about \$993,000.

Employee Accrued Liability (PERS) Fund (760):

The Employee Accrued Liability Fund primarily accounts for accrued leave payouts to employees, paid upon their termination or retirement. To cover employee leave payouts, fund revenue is allocated through the payroll process. Budgeted expenditures are based on estimated costs of

potential FY 22 retirements, making it difficult to calculate. However, we estimate these payouts using an average amount over the past five years.

In the past, this fund's secondary function was to hold funds in anticipation of increases to future PERS retirement costs. With the issuance of the Pension Obligation bonds, there will be not be any need for transfers for PERS costs for FY 22 as was the case in FY 21. The resulting estimated FY 22 ending budgetary fund balance is estimated to be \$4.3 million, of which \$4.2 million is designated for pension stabilization.

Capital Projects Fund (500):

Several years ago, due to lack of other resources for renovations and future improvements to City facilities and infrastructure, the City Council began to set-aside monies from the General Fund unreserved fund balance in the Capital Projects Fund.

This fund began FY 21 with an available budgetary fund balance of \$9.8 million, and the estimated ending available fund balance is projected to be \$4.6 million. The fund is maintaining a healthy fund balance. As such, staff is not proposing any transfers-in from the General Fund to cover proposed expenditures of \$1.8 million in new capital improvement projects. However, there will be transfers-out to the Building Improvements Fund (725) of \$237,500 to address various City facility maintenance and improvements. Finally, due to a \$2.8 million FY 17 inter-fund loan to the Local Public Safety (Proposition 172) Fund (120), the Capital Projects Fund is projected to receive its annual \$473,000 repayment, resulting in an estimated FY 22 ending budgetary fund balance of \$2.3 million.

Staff continues to make every effort to prolong much needed repairs and improvements to City facilities and infrastructure. Repairs that cannot be postponed have been included in the Five-Year Capital Improvement Plan. As the FY 21 accounting records are finalized, we will recommend additional General Fund savings be transferred to the Capital Projects Fund. As in past years, an end-of-year budget report will be presented to the City Council in October 2021.

7. ATTACHMENTS

- Fee Study - Recommended Fees
- Proposed Revisions to Work Plans