



# City of Orange

## Legislation Details (With Text)

**File #:** 21-0172      **Version:** 2

**Type:** Administrative Reports      **Status:** Agenda Ready

**File created:** 3/29/2021      **In control:** Orange City Council

**On agenda:** 4/27/2021      **Final action:**

**Title:** Second Study Session for the Proposed Fiscal Year 2021-22 Budget.

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Staff Report, 2. Annual Departmental Work Plans for FY 22

Date	Ver.	Action By	Action	Result
------	------	-----------	--------	--------

**TO:** Honorable Mayor and Members of the City Council

**THRU:** Rick Otto, City Manager

**FROM:** Will Kolbow, Assistant City Manager/Administrative Services Director

### 1. SUBJECT

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

### 2. SUMMARY

This is the second study session in support of the preparation of the FY 2021-22 Budget. This study session is intended to provide a status of the current year budget, an initial analysis of the projected General Fund revenues and expenditures for FY 2021-22, and the proposed Annual Departmental Work Plans for FY 2021-22.

### 3. RECOMMENDED ACTION

Receive and file the report and provide direction to staff.

### 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.
- c: Provide appropriate reserves.

Goal 4: Provide outstanding public service

b: Provide facilities and services to meet customer expectations.

## 6. DISCUSSION AND BACKGROUND

This is the second study session in support of the preparation of the City's FY 2021-22 (FY 22) Budget. This study session is intended to focus on the following items:

- Providing a status of the current year budget;
- Providing an initial analysis of the projected revenues and expenditures for FY 22, and;
- Presenting the proposed Annual Departmental Work Plans for FY 22.

### Introduction

Around this time last year, our way of life as we know it changed substantially due to the unexpected spread of COVID-19. Terms that are now conventional to us such as “Stay at home” health orders were implemented, and the economy fell from record highs to unprecedented declines in a matter of weeks. The COVID-19 pandemic affected every industry to some extent across the nation. Oil and gas prices plummeted with the potential to cause disruption well beyond the energy sector, commercial and manufacturing businesses suspended operations, leisure and business travel became non-existent, and the unemployment rate rose as more and more Americans lost their jobs. At that time, the Orange economy faced uncertainty, and City Council implemented prudent fiscal policies to anticipate and weather the economic downturn. This included creating programs to promote businesses such as offering \$4.1 million in grants to small businesses affected by COVID, opening the Orange Paseo at the Plaza in Old Towne Orange, creating a Temporary Outdoor Dining Permit Program for restaurants throughout Orange to continue operating safely during the pandemic, and offering touchless permits and business license applications and renewals.

City facilities re-opened for business in May 2020 and continued to remain open in order to deliver accessible services to the community. In addition to trying to conduct business as usual, the City achieved a number of accomplishments in FY 21 such as starting construction on the Fire Station No. 1 and Headquarters project, issuance of Pension Obligation Bonds to capture long-term financial savings, negotiating a Participation Agreement with Providence Procurement Company, LLC in order to retain an important business in the community and increase sales tax revenue, and executing a Disposition and Development Agreements with Orange Housing Development Corporation and HomeAid to create affordable housing opportunities within the City.

Today, the outlook of the Orange economy is pragmatically better and continues to improve after the destruction caused by the COVID-19 pandemic. Key economic indicators trend confidently, as Wall Street continues its surge, the unemployment rate is steadily declining, and more jobs continue to rebound sharply from the pandemic. As an increasing number of counties around the State are moving to Orange Tier regarding COVID-19 restrictions, and as access to COVID-19 vaccines become more readily available for the public, it is expected the Orange economy should continue to get stronger. Nevertheless, it is anticipated that the economic recovery will extend beyond FY 22. Therefore, at this point in the budget process, staff is projecting a deficit of \$3.7 million to the preliminary General Fund budget for FY 22. However, the budget will continue to be refined in the next several months to address a conservative spending plan that is responsive to the priorities set by the City Council.

This and past City Councils continue to be extremely proactive in responding to the economic

challenges that the City has faced in the past and will likely continue to face in the future. Throughout the years, the City Council has taken decisive actions to manage our operating costs, while preserving service levels to Orange citizens. With the adoption of the FY 21 Budget, the City achieved a balanced budget with the use of reserves. This was only accomplished through our prudent savings and spending practices. Although the economy continues to illustrate a positive outlook, the City must continue to find ways to tighten its belt to avoid economic uncertainty in the future.

### **Status of Current Year Budget (FY 21)**

Although we adopted a balanced budget in FY 21, it was with significant financial challenges. Due to the devastating impacts of the pandemic, the City originally faced a \$15.8 million budget deficit when we began the FY 21 budget process in May 2020. As a result, in order to adopt a balanced budget we implemented various budget balancing measures, including: operational budget reductions to all departments, underfunding our internal service fund allocations, renegotiating labor agreements with employees, and use of reserves which consisted of the utilization of the Catastrophic Reserve Fund, Pension Stabilization Fund, and Capital Projects Fund.

### **Review of General Fund Revenues for FY 21**

As the end of FY 21 approaches, it is projected that General Fund revenues will increase to \$121.0 million, 12.6% (or about \$13.5 million) over budget. Sales tax revenues are anticipated to be \$7.9 million above the budget of \$40.6 million due to automobile sales continuing to trend upward, fuel prices rising, and the large delayed tax payment from the 4th quarter of FY 20 recorded in the current fiscal year. Further, online shopping allocations from the county tax pool continues to bring in more revenue, and building and construction activity is anticipated to generate more tax receipts.

Property taxes are expected to be \$45.7 million, \$1.8 million over the budget of \$43.9 million, due to annual increases in assessed property values and more property tax increment distributed from the County of Orange for the Successor Agency. In addition, property tax in lieu of motor vehicle license fees is expected to be above budget as this revenue is tied to property tax growth.

Based on current trends, other resources such as Revenue from Other Agencies are expected to have higher than budgeted receipts. Miscellaneous Revenues are anticipated to be \$3.4 million, \$2.8 million over budget. The majority of this increase is contributed by reimbursements from the Office of Emergency Services for the Fire Department's assistance with wildfires throughout the state.

### **Review of General Fund Expenditures and Ending Fund Balance for FY 21**

General Fund expenditures continue to track less than budgeted amounts. While we have gone through sustained economic turmoil due to the pandemic, we have been filling certain funded positions when they become vacant. However, with recent and upcoming retirements, departments continue to evaluate the operations of various divisions to determine the most effective structure moving forward. This includes the continuation of scrutinizing every vacancy, filling positions that are necessary, and identifying reclassifications and movement of resources that will increase service levels and promote succession planning efforts. Further, last year we implemented a "hiring chill" in which we have slowed down the hiring process for certain positions while we conduct a thorough evaluation of options. Overall, departments have done an excellent job of maintaining targets on expenditures, and being creative in meeting the City's service delivery goals.

With our adjusted budgeted expenditures of \$121.1 million, revenues of \$121.0 million and transfers

in from reserves of \$8.5 million, we are currently projecting a surplus of about \$8.4 million. This is due to diligent cost management by departments, implementation of the budget reduction policy, reimbursement from Fire strike team efforts, and salary savings from unfilled positions. To date, the estimated ending fund balance for the General Fund is approximately \$10.9 million.

**Estimated Available General Fund Balance**

**Unreserved Fund Balance Available @ 6/30/20** **\$8,377,407**

FY 21 Estimated Revenues	\$121,034,259	
FY 21 Estimated Revised Expenditures	(121,144,910)	
Net Deficit		(110,651)
Transfers In from Reserves		<u>8,500,000</u>

**Unreserved Fund Balance Available @ 6/30/21** **16,766,756**

Transfers Out		
Transfer to Equipment Replacement Fund	(1,000,000)	
Transfer to Vehicle Maintenance	(500,000)	
Transfer to Computer Replacement Fund	(1,100,000)	
Transfer to IT Maintenance Fund	(900,000)	
Transfer to EMT Fund	(800,000)	
Transfer to Business Investment Fund	(1,000,000)	
Transfer to Liability Fund	(600,000)	
Total Transfers Out		<u>(5,900,000)</u>

**Estimate Available Fund Balance @ 6/30/21** **10,866,756**

General Fund Catastrophic Reserve 15,667,960

**Est. Reserved & Unreserved General Fund Balance @ 6/30/21** **\$26,534,716**

**Initial Review of the Proposed Budget for FY 22**

**Estimated General Fund Revenues for FY 22**

As the economy continues to face challenges due to the impacts of the COVID-19 pandemic, the City has taken a conservative approach in budgeting for revenues. Based on current trends and analysis, the total General Fund revenues for FY 22 are projected to be \$119.8 million, \$1.2 million or 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 if received.

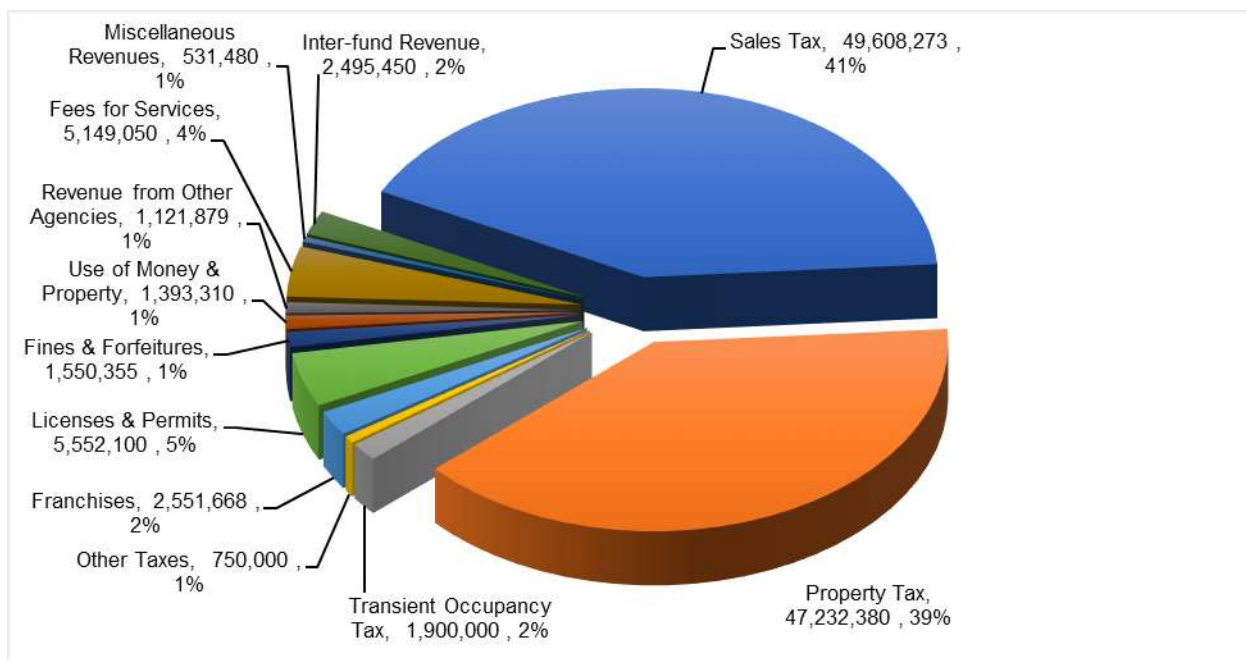
Provided below is a summary of the General Fund revenue highlights for FY 22:

- **Sales Tax** is the largest source of General Fund revenue. In FY 22, the City anticipates receiving \$49.6 million, \$1.1 million (2.2%) above the FY 21 estimate. We expect fuel sales

will go up due to increasing prices and as more of the community commutes to school and work. The positive performance in building and construction activity seen in the previous fiscal year is anticipated to slow, whereas restaurants and general consumer goods are expected to trend upwards, as state guidelines for capacity and indoor gathering become less restrictive. With the shift to online shopping, especially during the pandemic, allocations from the county tax pool will continue to bring in more revenue than in previous years. We do anticipate a \$1 million (11%) decrease in comparison to FY 21 due to corporate changes made by Amazon that will shift a significant amount of their sales from the County pools to the cities where their distribution centers are located within the State.

- **Property Tax** is the second largest source of General Fund revenue and is expected to be \$47.2 million, a \$1.5 million, or 3.3% increase from FY 21 estimates. There has been minimal impact on property tax collections, despite the potential for non-payments due to economic hardships resulting from the pandemic. In fact, annual increases in assessed property values and more property tax increment distributed from the County of Orange for the Successor Agency are projected to contribute higher property tax receipts. In addition, property tax in lieu of motor vehicle license fees are expected to be above budget as this revenue is tied to property tax growth.
- **Transient Occupancy Tax** is projected to be \$1.9 million, an increase of \$400,000 (26.7%) above the FY 21 estimate. Both business and leisure travel remain at depressed levels due to COVID concerns. Although the Disney resort will re-open in late April, we do not anticipate an immediate jump in TOT due to their restricted attendance model. We will closely monitor this situation, using Disney as a standard, and expect TOT to partially recover in the latter part of the fiscal year when COVID-19 concerns are greatly reduced or eliminated.
- **Fees for Service** are projected to be \$5.1 million, an increase of \$221,000, or 4.5% above the FY 21 estimate. As more in-person participation in leisure activities is allowed, it is anticipated there will be an increase in sports and recreation class enrollment.
- **Licenses and Permits** are projected to be \$5.5 million, a \$230,000 or 4.3% increase from FY 21 estimates. Following the prior year's trend, a slight increase in building-related permits and annual fire permits are anticipated in FY 22.
- **Fines and Forfeitures** are projected to be \$1.5 million, an increase of \$135,000 (9.5%) from FY 21 estimates. With a return to a full year of parking enforcement, parking citations are expected to increase. Additionally, with the opening of the library facilities, more library fines will likely be collected.
- **Use of Money and Property** is projected to be \$1.4 million, an increase of \$200,000 (16.9%) from FY 21 estimates. Interest rates are starting to rebound, which is expected to increase yields from our investments. Also, because revenues are increasing, it is expected that the City will have additional idle cash to invest.

### FY 22 General Fund Revenues



### Estimated General Fund Expenditures for FY 22

Our initial estimate for FY 22 General Fund expenditures is \$123.6 million. This reflects a 6.2% increase in expenditures over the original adopted FY 21 budget. As in previous years, we will continue to refine our estimates throughout the budget process.

In FY 19, an analysis determined that departments had not been using their entire budgeted allocation by the end of each fiscal year. This was primarily the result of vacant positions and more efficient use of operation monies. As such, the City Council adopted a budget reduction policy to “close the gap” on, what was then, an anticipated budget deficit. The outcome of this policy direction yielded a General Fund expenditure reduction of about \$2.0 million through decreases on all department budget salaries and benefits (S&B) by 2.5%, and on maintenance and operations (M&O) by 5%.

It remains clear this budget reduction policy should continue in order to close an expected gap between anticipated revenues and projected expenditures. The budget reduction policy will produce 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 \$1.1 million in salary costs will be charged to capital projects in FY 22.

Although departments reduced their budget appropriations, these reductions were savings that they had already realized at the end of the past several 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 a reduced revenues over expenditures amount at the close of FY 22.

The following are the most significant issues impacting the General Fund expenditures for FY 22:

**1. Status of PERS Retirement Costs**

On March 15, 2021, the City successfully issued 2.7% Pension Obligation Bonds (POBs), in the amount of \$286.5 million, to effectively refinance the City's Unfunded Accrued Liability (UAL) with CalPERS as of that date. The UAL represented ongoing expenditures with a 7% interest/discount rate, coupled with increasing annual contributions to reduce the overall balance. 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.

Concurrent with the issuance of the POBs, Council adopted a comprehensive Reserve Policy and Pension Funding Policy, which established the reserve levels for various City funds, as well as a method to proactively manage future unfunded pension liabilities.

**2. Fire Fighters Fixed Cost Distribution from Paramedic Fund to General Fund:** Over the past several years, as a budgeting measure for the Fire Department, the fixed cost distribution for several Firefighter/Paramedics was funded through the Emergency Medical Transportation (EMT) Fund rather than the General Fund. Due to the pandemic, revenues related to the emergency transport program have not been as active. As such, Emergency Medical Transportation fees for ambulance transport are forecasted to be \$2.3 million, about \$458,000 (16.5%) less than the revenue estimate of \$2.8 million for FY21. Staff recommends changing the fixed cost distribution of five firefighters to the General Fund to offset anticipated reduced revenues in the EMT Fund at a cost of about \$849,000.

**3. Contractual Obligations:** The departments continue to manage contract agreements as efficiently and cost effectively as possible; however, as in previous years, contractual obligations are experiencing cost increases. In FY 22, an additional General Fund cost of about \$630,000 is expected to impact City maintained contract agreements with Orange County Animal Control, NetFile, legal services, landscape maintenance and custodial services for park facilities, and additional security to the City parking structure.

**4. Departmental Operating Budgets:** Every year during the budget preparation process, the City departments are charged with reviewing their existing operations to determine if there are areas of budgetary savings and operational efficiencies. Departments assess if there are budget increases to address rising costs, respond to required mandates, enhance existing service levels, or the need to implement a new program. This is an effort the departments continue to take extremely seriously and with much internal scrutiny. Nevertheless, other than the contractual obligations noted above, departments are again holding the line with their budgets without making any significant changes to their allocated amounts from FY 22, other than the discussed budget reductions. As mentioned before, this continues to get more difficult each successive year in that there are programs and services that need budgetary increases,

and the City is not in a position to budget appropriately. The following are highlights of General Fund Departmental Requests as well as a summary of all requests (including contractual obligations described above):

Requests included in Proposed FY 22 Budget	Amount
Citywide 800 Mhz Maintenance & Operations	\$ 7,918
City Attorney - Legal Services Redistricting	125,000
City Attorney - Legal Services General	50,000
City Clerk - NetFile Service Agreement	9,120
City Manager - Reorganization of Positions	88,775
Com. Dev. - Reclass Administrative Specialist	(20,055)
Com. Dev. - Allocation to Temporary Outside Personnel	20,000
Com. Dev. - Housing Element (paid out of 110)	(19,648)
Community Services - Contractual Services	219,517
Community Services - Chapman Joint Use (net)	(9,200)
Fire & Police - Executive Assistant to the Chief	14,592
Fire Dept. - PERS on Fire FLSA Overtime	2,856
Fire Dept. - Plan Examiner/Fire Safety Specialist	61,010
Fire Dept. - Senior Emergency Medical Services Manager	24,612
Fire Dept. - Training	16,285
Fire Dept. - Equipment Repairs	10,000
Library - Grants (net)	(9,074)
Police Dept. - DEA Task Force	(1,062)
Police Dept. - Sergeant to Lieutenant Upgrade	2,734
Police Dept. - Emergency Manager Position	90,316
Police Dept. - Jailers	150,000
Public Works - Parking Structure Maintenance	40,000
Public Works - Position Control Updates	12,070
<b>Total</b>	<b>\$ 885,766</b>

- Attorney Legal Services - Redistricting:** Funding is necessary 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.
- Community Services - Contractual Services:** This request for funding will support regular, ongoing professional services and maintenance necessary to sustain city parks and park facilities. The request includes contractual 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.

- **Fire Department - Plan Examiner/Fire Safety Specialist:** This additional staff member will assist with inspection and plan checking, in an effort to reduce reliance on external services and enhance the quality of in-City plan checking services. With continued increases in demands for new construction, this position will alleviate staffing challenges and deliver shorter turnaround times for permitting services.
- **Police Department - Emergency Manager Position:** In efforts to bolster the City’s emergency management plan, this position would fill the critical role of managing emergency services citywide. The duties of an emergency manager include the preparation of plans, response procedures, and leadership during a response, coordination of resources, and communication between city officials and other government agencies. During an emergency, emergency managers coordinate the actions of city personnel, monitor operations, and organize the dissemination of resources and plans.
- **Police Department - Jailers:** The Police Department is requesting the addition of two non-sworn staff positions with a goal to reduce the amount of time patrol officers spend on the arrest and booking process, allowing for increased patrol time. Over the past two years, the Orange Police Department has averaged 14,430 hours spent for arrests by officers per year. This staffing request equates to more sworn officers on the streets, saving money while increasing service. This increased service includes shorter response times, increased community safety and enhanced crime reduction efforts.
- **Public Works - Parking Structure Maintenance:** With upticks of vandalism and illegal activities occurring within the Orange Parking Structure in 2020, the City developed a security program with random security checks taking place during the closure hours. Due to continued increases in these incidences, the Public Works Department is requesting funds for the implementation of a continuous security program, providing patrol during all structure closure hours. The use of private security services has proven to be an effective and cost efficient solution and will supplement the efforts of the Orange Police Department and Public Works Department staff in maintaining the parking structure.

As part of the budget process, departments are encouraged to submit requests that communicate long-term needs. While all requests have merit, budget restraints preclude the ability to fund all recommendations. Not included in the proposed budget at this time are:

Requests not included in Proposed FY 22 Budget	Amount
Community Services Licenses/Renewals	\$ 5,655
Community Services AutoCAD Licenses	3,380
Community Services - Imperial Sprinkler Supply	2,275
Community Services - Service Cost Increases	14,394

Fire Dept. - Additional Truck Company Staffing	942,000
Fire Dept. - Training Battalion Chief	279,492
Fire Dept. - Wildland/USAR Safety Training	270,000
Library - Electronic Resources	25,000
Library - Janitorial & Office Supplies	12,600
Police Dept. - Unfreezing Police Sergeant	230,221
Public Works - Custodial Contract Services	50,000
<b>Total</b>	<b>\$ 1,835,017</b>

**5. Internal Service Funds:** For FY 22, we project allocating a total of \$8.9 million between the Equipment Maintenance, Computer Equipment Maintenance, Accrued Liability, and Business Investment Fund. This is an increase of \$4.5 million from FY 21. Most Internal Service Funds (ISF) are budgeted as part of FY 22 operational costs, as opposed to being funded by unreserved General Fund balance generated through prior year savings. Allocations not completely covered by General Fund operational costs are funded by prior year savings.

Based on the revenues and expenditures, we are initially projecting a budget deficit of about \$3.7 million. As we continue to refine the revenue and expenditure amounts, it is anticipated that the City Council will be able to adopt a balanced FY 22 budget.

### Preliminary Estimate of the General Fund Balance for FY 22

The beginning fund balance is projected to be \$10.9 million. With revenues below expenditures, the ending fund balance is projected to be \$7.1 million. However, after three proposed transfers from the unreserved fund balance, including \$2.2 million to the Equipment Replacement Fund, \$1.4 million to the Computer Replacement Fund, and \$1.8 million to the Business Investment Fund, the projected unreserved fund balance for the General Fund is \$1.8 million. The following table highlights the Estimated Available General Fund Balance for FY 22:

#### Estimated Available General Fund Balance

<b>Unreserved Fund Balance Available @ 6/30/21</b>	<b>\$10,866,756</b>
FY 21 Estimated Revenues	\$119,835,945
FY 21 Estimated Expenditures	(123,560,230)
Revenue over Expenditures	<u>(3,724,285)</u>
Transfer In from Reserves	<u>0</u>
<b>Unreserved Fund Balance Available @ 6/30/22</b>	<b>7,142,471</b>
Transfers Out	
Transfer to Equipment Replacement Fund	(2,200,000)
Transfer to Computer Replacement Fund	(1,350,000)
Transfer to Business Investment Fund	(1,800,000)
Total Transfers Out	<u>(5,350,000)</u>
<b>Estimate Available Fund Balance @ 6/30/22</b>	<b>1,792,471</b>
General Fund Catastrophic Reserve	15,667,960

Est. Reserved & Unreserved General Fund Balance @ 6/30/22

\$17,460,431

**American Rescue Plan**

Early in March, 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 \$350 billion in state and local aid, of which \$45.5 billion goes to cities with populations over 50,000. These federal funds are distributed through a modified Community Development Block Grant (CDBG) formula, and the City’s share is estimated at \$29.9 million.

While the legislation lists eligible uses, it also defers to the Treasury Department to create rules and regulations as to the use of the funds. As such, staff is awaiting those guidelines, which are expected to be released in the next couple of weeks, before making specific recommendations for these funds. The funds must be used by December 31, 2024, and are subject to audit and potential clawback for ineligible uses. Staff will continue to monitor this and will provide more details in the coming weeks.

**Reserve Balances**

In FY 21, we anticipated an \$8.3 million deficit due to the COVID-19 pandemic. At that time, the economic effects of the pandemic had reached such a level that the City’s financial stability had been severely impacted. The City utilized \$8.5 million in reserve funds, consisting of the following sources, to close the remaining gap:

<b>Reserve</b>	<b>Amount</b>
Transfer from the Catastrophic Reserve	\$ 4,400,000
Transfer from the Capital Projects Fund (500)	2,000,000
Transfer from the PERS Set-Aside (760)	2,100,000
<b>TOTAL USE OF RESERVES</b>	<b>\$ 8,500,000</b>

In conjunction with the issuance of Pension Obligation Bonds, the City Council has approved a reserve policy for various City funds. The following table shows our FY 20 ending fund balance and our projected ending fund balance for FY 21:

<b>Reserve</b>	<b>6/30/2020 Balance</b>	<b>6/30/2021 Projected</b>	<b>FY 21 Policy Min.</b>
General Fund Contingency Reserve	\$20,067,960	\$15,667,960	\$19,299,266
Building Records Management Fee Fund	795,797	630,344	-
Business Investment Fund	3,304,667	1,724,918	-
Capital Projects Fund	9,664,236	4,579,401	580,272
Vehicle Replacement Fund	4,140,410	2,149,159	3,483,048
Major Building Improvements Fund	546,007	82,596	-
Computer & Technology Replacement Fund	1,248,830	120,210	1,333,155
Pension Stabilization/Employee Accrued Liability	7,395,062	4,525,560	-
Unreserved General Fund Balance	8,377,407	10,866,756	-

<b>City Council Discretionary Reserve*</b>	<b>\$55,540,376</b>	<b>\$40,346,904</b>	<b>\$34,752,579</b>
--	---------------------	---------------------	---------------------

\* The City Council Discretionary Reserve consists of the funds listed above, and the minimum total of these funds set by policy is 30% of budgeted General Fund expenditures.

The projected total ending fund balances for the above Reserves in FY 21 is \$44.6 million, \$17.8 million less (28.6%), less than the beginning balance of \$62.4 million. In order to restore our balances, and to conform with the adopted Reserve Policy, staff intends to recommend utilizing monies from the ARP to restore our fund balance, to the extent allowed under Treasury regulations.

### **Proposed Annual Work Plans for FY 22**

A draft set of departmental mission statements, goals, service objectives, and work plans for the upcoming budget year is provided for your review. The work plans are prepared for each division within each department and specifically identify actions to be completed by a certain date using budgeted funds. The City Manager and each department monitor the progress of the adopted work plans. As such, these work plans provide a mechanism for each department to be held accountable for the delivery of specific programs and services funded in their budget.

In keeping with prior years' objectives and feedback, staff has proposed work plans on behalf of the City Council, which include the following highlights:

- Provide policy direction that ensures financial stability while preserving community character and maintaining a positive organizational direction.
- Provide the necessary resources to public safety to ensure the community remains among the safest cities in California,
- Provide legislative leadership that ensures maximum accomplishment of the City's Mission Statement and goals.
- Work with the County of Orange, adjacent cities, care providers, and other stakeholders to effectively address the problem of homelessness in the community, the North Orange County Service Planning Area, and region-wide.
- Evaluate options to assist businesses with processing City land use entitlements and other business development activities.
- Enhance the City's economic base by continuing to attract quality businesses to the City's commercial corridors and industrial areas.
- Continue to look for options to enhance seamless interaction between residents and businesses through the City's website.
- Monitor statewide efforts to address the rising costs of maintaining the CalPERS retirement system and provide leadership in managing its impacts to the City's financial stability.

As a reflection of the economy in Orange, the proposed work plans continue to remain very modest and, for the most part, addresses core services and programs. Although provided to the City Council as part of this agenda package, staff will not be formally presenting the proposed FY 22 work plans at this study session. Rather, if the City Council has specific questions regarding particular department work plans, please inquire prior to the conclusion of this study session.

### **Conclusion**

The City Council's prudent policies continue to set the stage for staff to meet the budgetary challenges and demands of FY 22. While it is important to continue on the path of caution to ensure long-term fiscal health, the City Council works hard to be able to allocate the necessary resources to allow the City to provide the citizens and businesses of the City with the excellent services they have come to expect.

We continue to refine the FY 22 revenue and expenditure amounts. In addition, feedback from the City Council received at this study session will help further refine our projections. The next study session is tentatively planned for the week of May 25, and we anticipate to recommend adoption of the budget before July 1.

## **7. ATTACHMENTS**

- Annual Departmental Work Plans for FY 22