



City of Orange

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TO: Honorable Mayor and Members of the City Council

THRU: Bonnie Hagan, Acting City Manager

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

1. SUBJECT

Financial status update for Fiscal Years 2020-21 and 2021-22.

2. SUMMARY

This report provides a summary of the City's General Fund year-end for Fiscal Year 2020-21 and a status update for Fiscal Year 2021-22.

Staff is also proposing to unfreeze the Police Sergeant position to address the demand for increased Police services in the City, add a part-time Administrative Specialist position to assist with processing passports, and Budget clean-up items in other funds.

3. RECOMMENDED ACTION

For Fiscal Year 2021-22:

1. Authorize the appropriation of \$138,000 from the General Fund (100) unreserved fund balance to expenditure account number 100.4021.50001.00000.
2. Authorize the appropriation of \$29,163 from the General Fund (100) unreserved fund balance to expenditure account number 100.0401.50002.00000.
3. Authorize the appropriation of \$573,935 from the SB-2 Building Homes & Jobs Act (312) unreserved fund balance to expenditure account number 312.020152611.30138, Payments to Other Agencies - North SPA Navigation Centers.

For Fiscal Year 2020-21:

4. Authorize the appropriation of \$551,773 from the SB-2 Building Homes & Jobs Act (312) unreserved fund balance to expenditure account number 312.020152611.30138, Payments to Other Agencies - North SPA Navigation Centers.
5. Authorize the appropriation of \$95,965 from the Prop 172 (120) unreserved fund balance to expenditure account number 120.411.53670.12222, Other Maintenance Items - 800 MHZ.
6. Authorize the transfer of \$805,003.02 from the City Infrastructure Bond (553) account number 553.0000.57120.20400 to Merged 2008 Tax Exempt Bonds (954) account number 954.0000.49010.20400.

4. FISCAL IMPACT

For Fiscal Year 2021-22:

The total expenditures for the Police Sergeant and Administrative Specialist positions are \$138,000 and \$29,163, respectively, and will be funded through General Fund (100).

5. STRATEGIC PLAN GOALS

Goal 2: Be a fiscally healthy community

- b: Analyze future fiscal needs and potential revenue opportunities.

6. DISCUSSION AND BACKGROUND

Fiscal Year 2020-21 (FY 21) General Fund Revenues

The General Fund concluded the year with total revenues of \$126.1 million, \$4.7 million more than was expected in June 2021 when the FY 22 budget was adopted (\$18.6 million above the adopted FY 21 budget).

Sales tax revenue closed at \$52.5 million, \$11.9 million more than the budget of \$40.6 million. County allocations for online sales continued to trend upward as customers increased their spending on online shopping. Strong performances in auto sales and business to business also contributed to this increase. However, some of the overall increase is related to the State allowing businesses to delay payment of sales taxes, which had the effect of shifting some sales tax from FY 20 to FY 21.

Property tax closed at \$46.2 million, \$2.2 million above budget as we received higher than anticipated revenue due to more property tax increment distributed from the County of Orange for the Successor Agency, and more property tax in-lieu of motor vehicle license fees. Additionally, property tax collections did not fall off as much as we had anticipated due to the pandemic.

Transient Occupancy Tax was \$1.8 million, about \$300,000 more than was expected in June 2021 when the FY 22 budget was adopted. Business and leisure travel started to ramp up toward the end of the fiscal year at an accelerated pace, although the revenues remain far below pre-pandemic levels.

Licenses and Permits were \$800,000 more than the budget of \$4.7 million, mainly the result of increases in building related permits (building, electrical, plumbing, etc.). Revenues from Other Agencies were \$1.8 million above the budget of \$1.1 million due to the City receiving \$1.7 million in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act grant funding. Miscellaneous Revenues of \$3.6 million were \$3 million over budget of \$590,000. This increase was primarily due to reimbursements from the Office of Emergency Services for costs incurred by the City through its assistance in out-of-town fire suppression efforts.

FY 21 General Fund Expenditures

The expenditure side of the ledger showed another year of savings of about \$16.8 million, the difference between the final budget of \$122.8 million and actuals of \$106.0 million. These savings were made possible mostly by the aid provided through the American Rescue Plan (ARP), as these funds were applied to General Fund public safety related operational expenses, specifically for police and fire services and offset costs that would have otherwise greatly affected the General Fund balance.

Departments continued their efforts to maintain and seek out cost-saving measures, while sustaining optimal service levels, even with ongoing challenges resulting from the COVID-19 pandemic. A majority of departmental savings are due to controlling costs associated with maintenance and operation expenses. Itemized savings in each category are noted below:

Category	FY21 Final Budget	FY 21 Actual	Savings
Salaries & Benefits	\$102,988,158	\$88,155,948	\$14,832,210
Maintenance & Operations	15,602,451	13,653,811	1,948,640
Internal Costs	4,230,554	4,230,554	-
	\$122,821,163	\$106,040,313	\$16,780,850

FY 21 Fund Balance

During the FY 21 budget preparation, the General Fund was projected to end FY 21 with a \$19.5 million unreserved fund balance available (FBA). After the final numbers were calculated, FY 21 performed better than expected with revenues of about \$126.1 million and expenditures of \$106.0 million resulting in a revised FY 21 ending FBA of \$30.8 million. The following is a comparative illustration:

FY21	Adopted Budget for FY21 June 2020	Original Estimate for FY21 June 2021	Year-End Actuals for FY 21 October 2021
Beg. Fund Balance for FY 21	\$8,069,119	\$8,069,119	\$8,069,119
Revenues Transfers In	107,492,463 8,500,000	121,457,259 8,500,000	126,143,226 8,500,000
Expenditures Transfers Out	(115,841,932) (4,100,000)	(112,640,815) (5,900,000)	(106,040,313) (5,900,000)
FY21 Ending Fund Balance	\$4,119,650	\$19,485,563	\$30,772,032

As shown above, year-end revenues are about \$4.7 million higher than originally estimated, mostly attributed to a positive performance in sales tax revenues, based on auto sales, online sales, and business to business. We are fortunate that in Orange, we have a diversity of strength in our revenues coupled with implementation of budget reduction measures to close the year with revenues over expenditures.

With the adoption of the FY 22 budget, \$12.7 million was approved to be transferred to the following funds:

Equipment Replacement Fund	\$3,200,000
General Fund Contingency Reserve	5,000,000

Computer Replacement Fund	2,350,000
EMT Fund	300,000
Business Investment Fund	1,800,000

The increase in fund balance for FY 21 yields a recommendation for a mid-year budget adjustment of \$15.3 million in additional transfers. Specifically, staff intends to recommend to City Council a mid-year unreserved fund transfer to the following:

Pension Stabilization Reserve	\$3,500,000
Capital Projects Fund	7,000,000
Business Investment Fund	4,800,000

These transfers will provide funding to those areas having either limited resources and/or a specific need in the immediate future, as well as replenishment to reserves according to the City's reserve policy. The proposed transfers of \$3.5 million to the Pension Stabilization Reserve includes the \$2.1 million used to balance the FY 21 General Fund budget, and an additional \$1.4 million to be used to address anticipated unfunded liability payments in FY 23. Fortunately, due to the CalPERS investment return of 21.3% for the year ended June 30, 2021, it is projected that we will not have an unfunded liability payment in FY24. The transfer to the Capital Projects Fund of \$7.0 million consists of \$2.0 million, which will replenish the funds that were transferred to the General Fund Operating Budget in FY 21 as a balancing measure due to the impacts of the COVID-19 pandemic, and an additional of \$5.0 million for future investment in the City's aging infrastructure. This will bring the Capital Projects Fund back up to pre-pandemic levels. Finally, the proposed transfer to the Business Investment Fund anticipates upcoming economic development and business activities in the City for FY22.

A full report of the FY21 revenues and expenditures will be included as part of the presentation of the Annual Comprehensive Financial Report (ACFR, formerly the CAFR) at a future council meeting.

FY 22 Status Update

Despite our revenues showing positive growth compared to previous years, COVID-19 continues to impact our sources of revenue as the economy and stock market are still unpredictable in the long-term. We are fortunate that the City's history of conservative spending practices positioned us to weather the past few budget cycles. Our revenue has now reached pre-COVID-19 conditions, as positive signs in the economy continue to emerge and policy restrictions decrease. We continue to monitor changes in public policy and market conditions as major uncertainties, which may affect the lives of our citizens, are still present.

As the economy and stock market continue to grow, revenues are currently trending as projected at \$120.1 million. We closely monitor the impact on revenues of any potential policy related to the COVID-19 pandemic. The economy continues to display positive signs of recovery, as more and more private sectors continue to emerge, most notably restaurants, entertainment venues, and theme parks. Employment is slowly rising and retail sales are continuing to increase. We hope to have a better forecast to provide in the next few months when we have more information on sales tax receipts for the third quarter of the calendar year.

Expenditures are tracking as anticipated at \$112.5 million, up \$2.5 million over the approved FY 22 budget of \$110.0 million due to carryovers, rolled forward encumbrances, and budget adjustments

from previous Council-approved appropriations. As recent experience has proven, staff expects continued savings in this area. We also anticipate a mid-year adjustment to allocate remaining American Rescue Plan monies of about \$300,000 in order to shift police and fire salaries and benefits from the General Fund. We will continue to monitor our fiscal situation to determine if any additional mid-year adjustments will be necessary. Staff anticipates proposing a mid-year adjustment as part of our reorganization within the Building Division, which occurred subsequent to the FY 22 budget approval.

As a result, revenues are currently over expenditures by \$7.6 million. Moreover, the estimated available fund balance at the end of FY 22 is \$10.4 million.

FY 22 Revised Estimated Available General Fund Balance

Unreserved Fund Balance Available @ 7/1/21	\$30,772,032
FY 22 Estimated Revenues	120,084,478
FY 22 Updated Estimated Expenditures	<u>(112,459,169)</u>
Excess Revenues over Expenditures	7,625,309
Unreserved Fund Balance Available @ 6/30/22	38,397,341
Transfers Out	
Transfer to Equipment Replacement Fund	(3,200,000)
Transfer to General Fund Reserve Fund	(5,000,000)
Transfer to Computer Equipment Replacement	(2,350,000)
Transfer to Emergency Medical Transport Fund	(300,000)
Proposed Transfer to Accrued Liability Fund	(3,500,000)
Proposed Transfer to Capital Projects Fund	(7,000,000)
Proposed Transfer to Business Investment Fund	<u>(6,600,000)</u>
Total Transfers Out	(27,950,000)
Estimated Available Fund Balance @ 6/30/22	10,447,341
General Fund Catastrophic Reserve	<u>20,667,960</u>
Est. Reserved & Unreserved General Fund Balance @ 6/30/22	<u>\$31,115,301</u>

Police Sergeant Position

Several challenges exist for police supervision specific to the increased span of control at the sergeant level. This has necessitated the Police Department to request to unfreeze one of the two unfilled sergeant positions. With only eleven Patrol sergeants, three of the Patrol teams are left to manage their resources with only one sergeant. Operating with a limited number of sergeants often requires mandatory overtime to maintain minimum staffing levels. Additionally, if even one sergeant is

unavailable due to training, vacation, sick time, staff work, or providing guidance to a newer or probationary officer, this can leave the field personnel without adequate supervision, potentially leaving one sergeant to supervise 20 officers.

Many factors can be attributed to the challenges our police supervisors face, including the fact that over 27% of Patrol are probationary officers who often require greater oversight as they experience calls as a "first" and learn the job. This number is not expected to decrease, with approximately 14 officers eligible to retire within the next two years. It will also require even greater oversight through supervision to manage risk, reduce potential liability, and to ensure successful completion of calls and tasks. Additionally, supervisors are required to evaluate each probationary employee on a daily basis and write an evaluation at the end of each month. The time spent on personal interaction and evaluations significantly impacts the time Patrol sergeants are available for field supervision. This is in addition to other ancillary areas requiring oversight such as the newly created positions of Jailer and Homeless Outreach Specialists.

It has been an on-going goal for the City of Orange to be the safest city in the state with a sizable geographic footprint and a population over 100,000, and to provide the most professional law enforcement service possible. The addition of sergeant to the Field Services Division will help ensure the success of this goal.

Administrative Specialist Position

The recent retirement of a long-time City employee that was performing as a part-time passport acceptance agent has highlighted the need for a permanent part-time Administrative Specialist position in the City Clerk's Office. Staff is requesting this 19 hour a week position to prioritize customer service and accommodate the increasing demand for passport services. Providing this service without the part-time position severely limits the staff's ability to perform daily legislative duties in a timely manner. The City Clerk's Office currently functions with four budgeted full-time positions; however, employee schedules and vacations increase the burden of providing passport services on those present in the office. Without the approval of the part-time position, the Clerk's Office will be forced to limit passport services to two days a week to ensure continuing excellent guest service delivery.

Budget Clean Up Appropriations

Recommended Action Items 3 and 4 relate to Council Action taken on July 14, 2020 to Adopt Resolution No. 11247 for the use of Permanent Local Housing Allocation (PLHA) funds and the related agreement between the City of Orange and the City of La Habra to administer those funds for the operational costs of two new navigation centers in Buena Park and Placentia. The City's estimated fair share contribution to those costs is \$573,935 for each of the next five years but the necessary appropriation was omitted from the staff report and from the FY 22 budget. Action Items 3 and 4 will correct the budget in the SB-2 Building Homes & Jobs Act Fund (312). \$551,773 for FY 21 is the actual amount paid; \$573,935 is the estimate due in FY 22.

Recommended Action Item 5 relates to ongoing operating costs to maintain the County wide 800 MHZ communication program. Due to a clerical error, the FY 21 budget appropriation was understated by \$95,965. Action Item 5 will correct the budget in the Proposition 172 Fund (120).

Recommended Action Item 6 addresses reimbursement of funds used for the planning and architectural design for the Fire Headquarters and Station No. 1. As the City Infrastructure Bond was issued in July 2020, the transfer had not been anticipated in the FY 21 budget. Action Item 6 provides authorization to reimburse the Merged 2008 Tax Exempt Bonds Fund (954).

Early Look at FY 23

Staff has begun the budget process for FY 23, and these numbers will continue to be refined as many considerations will be measured, including relief funds, a decrease in expenditures, and the implementation of additional budget strategies. We are confident we can work with departments in a cooperative effort to adopt a balanced budget.

7. ATTACHMENTS

- None