



Agenda Item

Orange City Council

Item #: 10.1.

5/26/2026

File #: 26-0166

TO: Honorable Mayor and Members of the City Council

THRU: Jarad Hildenbrand, City Manager

FROM: Trang Nguyen, Finance Director

1. SUBJECT

Fiscal Year 2026-2027 City of Orange Preliminary Budget and Five-Year Capital Improvement Program

2. SUMMARY

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

3. RECOMMENDED ACTION

1. Review and affirm the Fiscal Year 2026-2027 Preliminary Citywide Budget, following the two budget study sessions on March 24 and April 14, for all funds consisting of total revenues of \$292.9 million and total expenditures of \$317.3 million, including transfers.
 - a. General Fund revenues totaling \$171.2 million and expenditures totaling \$170.8 million;
 - b. Staffing for Fiscal Year 2026-2027 at 708.567 budgeted FTEs; and
 - c. Five-Year Capital Improvement Program.
2. Direct staff to return in June, for the Fiscal Year 2026-2027 budget adoption.

4. FISCAL IMPACT

The Fiscal Year 2026-2027 Preliminary Citywide Budget includes total revenues of \$292.9 million and total expenditures of \$317.3 million for all funds, including transfers. Available fund balance will be used to cover the difference between revenue and expenditure in Special Revenue Funds and Capital Improvement Project Funds. This does not necessarily reflect an ongoing structural imbalance, but rather timing and funding strategy for these funds.

The total General Fund revenues are \$171.2 million, and expenditures are \$170.8 million, including transfers.

5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability.

6. DISCUSSION AND BACKGROUND

Background:

The City's budget is a financial plan based on anticipated revenues and expenditures in a fiscal year starting July 1st through June 30th. Each year, the City's budget is prepared, prioritizing public safety and infrastructure projects, City Council Goals, and providing the highest possible level of service to the community. The Fiscal Year 2026-2027 (FY27) budget development has been presented and reviewed over the course of two City Council budget study sessions, taking place in March and April 2026.

As noted in the March 2026 budget study session, FY27 continues to present significant financial challenges for the General Fund, as the City faces an ongoing structural imbalance between revenues and expenditures. Development of the FY27 Proposed Budget began with a zero-based budgeting approach, requiring departments to justify expenditures from the ground up rather than relying on prior-year spending as the baseline. Over the last couple of months, staff continued to refine the FY27 budget to incorporate the City Council directions, reprioritize operational needs, and incorporated changes from the third quarter financial information.

In summary, the FY27 Preliminary Budget, for all funds, includes total revenues of approximately \$292.9 million and total expenditures of \$317.3 million, including transfers. Available fund balance will be used to cover the difference between revenue and expenditure in Special Revenue Funds and Capital Improvement Project Funds. This does not necessarily reflect an ongoing structural imbalance, but rather timing and funding strategy for these funds. The total full-time equivalent (FTE) 708.567 positions, an increase of 18 FTEs from the proposed budget for the enhanced Ambulance Operator program. The General Fund total revenues for FY27 are approximately \$171.2 million and expenditures of \$170.8 million, including transfers.

Discussion:

Fiscal Year 2025-26 (FY26) General Fund Year-End Estimates

On March 24, 2026 staff presented a mid-year review including year-end estimates of FY26 with a focus on the General Fund (Attachment 8). Since then, staff have updated the FY26 year-end estimates based on the third quarter revenues and expenditures.

The year-end estimate for revenues increased by \$4.0 million or 2.6% mainly due to the timing of when revenues were recorded in the fees for services, fines, and miscellaneous revenue categories; higher property transfer tax revenue from home sales; and higher-than-anticipated sales tax revenue driven by elevated fuel prices. Additional increases were also attributed to underestimated plan check fees, construction inspection fees, and building permit revenues, which were further revised during the third quarter.

Additionally, year-end estimates for expenditures increased by \$2.7 million or 1.7% mainly from the timing of several larger payments made during the third quarter, including the City's \$1.5 million North SPA payment and implementation costs for paid parking, which impacted expenditure estimates for FY26.

This resulted in an operating deficit of \$3.7 million, a decrease of \$1.3 million from the mid-year review. After setting aside the 18% Catastrophic reserve, the General Fund is estimated to have an undesignated fund balance of \$1.9 million. This estimate is based on year-to-date actuals and does not include any year-end entries. Staff will return in the fall with a more comprehensive review of FY26 once the financial audit has been concluded.

Table 1: FY26 Year-End Estimated Fund Balance

	FY26 YE Estimate @ Mid-Year	FY26 YE Estimate @ Q3	Variance
Operating Revenues	\$153,826,935	\$157,868,578	\$4,041,643
Total Revenues	153,826,935	157,868,578	4,041,643
Operating Expenditures	141,403,713	144,093,480	2,689,767
Debt Service	17,515,954	17,519,111	3,157
Total Expenditures	158,919,667	161,612,591	2,692,924
Operating Surplus/Deficit	-5,092,732	-3,744,013	1,348,719
Transfers-In	4,485,252	4,485,252	-
Transfers-Out	1,455,252	1,455,252	-
Net Surplus/Deficit	-2,062,732	-714,013	1,348,719
Estimated Beginning Fund Balance - 7/1/2025	28,553,772	28,553,772	-
Estimated Ending Fund Balance - 6/30/2026	26,491,040	27,839,759	1,348,719
Catastrophic Reserve	25,452,668	25,936,826	484,158
Undesignated Ending Fund Balance - 6/30/2026	\$1,038,371	\$1,902,932	\$864,561

Fiscal Year 2026-27 (FY27) Preliminary General Fund Revenue

The FY27 General Fund operating revenues, including transfers, is projected to be almost \$171.2 million, an increase of \$492,000 or 0.3% from the proposed budget and an increase of \$8.8 million or 5.4% from the FY26 year-end estimates, including transfers.

Provided below is a summary of the assumptions used for the FY27 General Fund revenues:

- Property Tax:** The City's largest source of General Fund revenues is proposed to be \$61.7 million in FY27, an increase of approximately \$460,000, or 0.8%, over the FY27 Proposed Budget presented at the March Budget Study Session. The increase reflects revised year-end revenue estimates and signs of a strengthening housing market driven by slightly lower interest rates and rising rental costs, which have contributed to increased home sales activity. While Proposition 13 generally limits annual assessed value increases to 2% on existing properties, additional growth occurs when properties change ownership and are reassessed at current market value. The housing market is expected to remain stable in FY27, supporting continued modest growth in property tax revenues.

FY26 Year-end Estimate: \$59,822,181
 FY27 Proposed Budget: \$61,239,700
 FY27 Preliminary Budget: \$61,700,600
 Increase/Decrease to YE: +\$1,878,419 or +3.1%

- Sales Tax:** The FY27 revenue is projected at approximately \$51.6 million, reflecting a \$917,500, or 1.8%, increase over the FY27 Proposed Budget presented at the March Budget Study Session. The increase is primarily attributable to revised year-end revenue estimates and continued upward trends in fuel prices, which are expected to persist through FY27. According to statewide reports from the City's sales tax consultant, while inflation has

moderated and interest rates have declined, statewide economic indicators suggest consumers still remain cautious. As a result, taxable sales growth is expected to remain modest in all other categories, with consumer spending largely focused on essential goods and value-oriented purchases. Although fuel prices have continued to trend upward due to external and foreign market factors, the FY27 projections assume moderate additional growth in sales tax revenues due to thresholds within the City's current sales tax agreements and the potential volatility of this sector.

FY26 Year-end Estimate: \$51,335,804
FY27 Proposed Budget: \$50,676,800
FY27 Preliminary Budget: \$51,594,300
Increase/Decrease to YE: +\$258,496 or +0.5%

- **Fines and Forfeitures:** Fine and forfeitures revenue is projected at approximately \$2.9 million in FY27, an increase of about \$22,700 (0.8%) over the FY27 Proposed Budget. This reflects anticipated revenues of approximately \$1.0 million from the City's paid parking program in Old Towne, as well as \$300,000 from increased collections associated with Transient Occupancy Tax and Business License audit activities. As these revenues are partially dependent on program performance and collection activity, staff have refined this projection accordingly to align with the revised FY26 year-end estimates.

FY26 Year-end Estimate: \$2,426,324
FY27 Proposed Budget: \$2,874,900
FY27 Preliminary Budget: \$2,897,600
Increase/Decrease to YE: +\$471,276 or +19.4%

- **Fees for Service:** The city is projecting just under a total of approximately \$8.0 million in FY27, an increase of \$1 million (14.5%), compared to FY27 Proposed Budget presented at the March Budget Study Session. These fees are intended to offset the City's operating costs of providing services and have been revised following the user fee study to more appropriately align charges with the cost of service delivery. This estimate considers the updated fees adopted at the January 13th Council meeting, the April 28th Council meeting, and considers the revised FY26 Year End Estimates.

FY26 Year-end Estimate: \$7,647,596
FY27 Proposed Budget: \$6,944,100
FY27 Preliminary Budget: \$7,953,100
Increase/Decrease to YE: +\$305,504 or +4.0%

- **Internal Service Charges:** Internal Service Charges are projected to be almost \$4.8 million, an increase of \$334,000 (7.4%) from the FY27 Proposed Budget presented at the March Budget Study Session. The increase in Internal Service Charges from the Proposed Budget considers the revised Year End Estimates. The FY27 Budget reflects a revised methodology that excludes Internal Service Charges charged to and from the General Fund; as a result, both expenditure and revenue projections are lower compared to the FY26 Year-End Estimate.

FY26 Year-end Estimate: \$10,077,495

FY27 Proposed Budget: \$4,496,300
 FY27 Preliminary Budget: \$4,830,500
 Increase/Decrease to YE: -\$5,246,995 or -52.1%

- **Miscellaneous/Other Revenue:** Miscellaneous/other revenue is projected at \$4.2 million in FY27, a decrease of approximately \$805,000 (16.2%) compared to the FY27 Proposed Budget presented at the March budget study session. This category includes one-time reimbursements, donations, and other miscellaneous revenues, including approximately \$1.0 million in Cal OES reimbursements for fire deployments and \$150,000 to offset credit card fee surcharges. Because portions of this category are dependent on reimbursement timing and other one-time factors, revenues have been refined to reflect the revised FY26 Year End Estimates.

FY26 Year-end Estimate: \$3,995,136
 FY27 Proposed Budget: \$4,982,900
 FY27 Preliminary Budget: \$4,177,800
 Increase/Decrease to YE: +\$182,664 or +4.6%

- **Revenue from Other Agencies:** FY27 revenue in this category is projected at approximately \$1.5 million, a \$111,000 (6.8%) decrease from the FY27 Proposed Budget presented at the March Budget Study Session. This category is primarily comprised of revenue received from other government agencies, as well as one-time grants from state funded programs. As is typical, revenue in this category may fluctuate throughout the year as additional grant programs are awarded and recognized and the FY27 Preliminary Budget has been updated to reflect the revised FY26 Year End Estimates.

FY26 Year-end Estimate: \$1,816,924
 FY27 Proposed Budget: \$1,615,700
 FY27 Preliminary Budget: \$1,505,100
 Increase/Decrease to YE: -\$311,824 or -17.2%

- **Transfers In:** Transfers into the General Fund are projected to total \$15.5 million in FY27, an decrease of \$1.5 million over the FY27 Proposed Budget. This amount primarily reflects one-time transfers of available fund balances from the Emergency Medical Transport Fund (\$3.5 million), Equipment Replacement Fund (\$3 million), and Capital Improvement Program Fund (\$9 million) to temporarily offset the projected General Fund operating deficit. These transfers are non-recurring in nature and provide temporary budget relief rather than a long-term structural solution. Based on revised projections, the FY27 Preliminary Budget includes these recommended transfers to address the anticipated budgetary deficit in FY27.

FY26 Year-end Estimate: \$4,485,252
 FY27 Proposed Budget: \$17,000,000
 FY27 Preliminary Budget: \$15,500,000
 Increase/Decrease to YE: +\$11,014,748 or +245.6%

Provided in Table 2 is a summary of the major General Fund revenues by source type, comparing the changes from the FY26 year-end estimates, the FY27 Proposed Budget, and the FY27 Preliminary Budget:

Table 2: General Fund Revenues

Revenue Category	FY26 YE Estimate	FY27 Proposed	FY27 Preliminary	Variance to Estimate	Variance to Proposed
Property Tax	\$59,822,181	\$61,239,700	\$61,700,600	3.1%	0.8%
Sales Tax	51,335,804	50,676,800	51,594,300	0.5%	1.8%
Internal Service Charges	10,077,495	4,496,300	4,830,500	-52.1%	7.4%
Fees for Services	7,647,596	6,944,100	7,953,100	4.0%	14.5%
Licenses and Permits	7,645,141	6,849,300	7,835,100	2.5%	14.4%
TOT	6,100,192	6,412,400	6,198,100	1.6%	-3.3%
Miscellaneous Revenue	3,995,136	4,982,900	4,177,800	4.6%	-16.2%
Use of Property	3,922,905	4,169,800	3,929,100	0.2%	-5.8%
Franchises	3,078,880	3,424,400	3,057,300	-0.7%	-10.7%
Fines and Forfeitures	2,426,324	2,874,900	2,897,600	19.4%	0.8%
Revenue from other Agencies	1,816,924	1,615,700	1,505,100	-17.2%	-6.8%
Total Operating Revenues	157,868,578	153,686,300	155,678,600	-1.4%	1.3%
Transfers-In	4,485,252	17,000,000	15,500,000	245.6%	-8.8%
TOTAL REVENUES	\$162,353,830	\$170,686,300	\$171,178,600	5.4%	0.3%

In summary, the General Fund operating revenue projections, excluding transfers, were increased by approximately \$2.0 million, or 1.3%, from the FY27 Proposed Budget presented at the March 2026 Budget Study Session, bringing total operating revenues to approximately \$155.7 million. These adjustments were made based on revised FY26 year-end revenue estimates and consideration of current economic trends affecting each major revenue category. Total FY27 General Fund revenues, including transfers, are projected at approximately \$171.2 million.

FY27 General Fund Expenditures

The General Fund operating expenditures, including debt service, for FY27 Preliminary budget is \$161.3 million, an increase of 0.11% or \$171,800 from the FY27 Proposed Budget and -0.19% or almost \$314,400 decrease from FY26 Year-End Estimates. The operating expenditure reflects the continued focus on maintaining service levels while holding costs steady.

Based on City Council direction, the FY27 budget was created through a zero-based budget process. All departments provided documentation and descriptions of all non-personnel expenditure requests. Budget meetings were held between the departments and City Manager and Director of Finance to discuss the requests and necessity of the expenditure.

Provided below are the budget assumptions impacting the FY27 Preliminary Budget General Fund

expenditures:

- **Salaries & Benefits:** The FY27 Preliminary Budget for salaries and benefits is \$109.8 million, an increase of approximately \$157,000 or 0.1% above the FY27 Proposed Budget presented at the March Budget Study Session. The increase reflects the revised staffing assumptions as well as the transfer of five firefighter positions previously charged to the EMT Fund (Fund 225) back to the General Fund. As presented during the FY27 Budget Study Session, the FY27 salaries and benefits budget includes annual step increases and a proposed 3% salary adjustment for all City employees, fully funds projected overtime costs based on recent historical trends, and incorporates approved position changes, including the elimination of 45.55 FTEs, maintaining 10 frozen positions, and adding 18.75 FTEs in FY27. Although the budget includes significant position reductions, salaries and benefits continue to increase year over year primarily due to negotiated compensation adjustments and the City's transition to fully funding projected overtime costs rather than relying on vacancy savings.

FY26 Year-end Estimate: \$103,947,889

FY27 Proposed Budget: \$109,683,000

FY27 Preliminary Budget: \$109,840,200

Increase/Decrease to YE: +\$5,892,311 or +5.7%

- **Professional/Other Services:** The proposed FY27 budget for contractual services is approximately \$7.5 million. This reflects a net decrease of approximately \$514,000, or 6.4%, compared to the FY27 Proposed Budget. This expenditure category includes \$125,000 to support enhancements within the City's Economic Development Division, \$250,000 for year-round aquatics services, \$498,000 for the Old Towne paid parking program, and \$100,000 for on-call building inspection services. These increases are partially offset by one-time expenditures included in FY26 for labor relations legal services and the IT Strategic Plan and also consider the revised FY26 Year End Estimates for on-call services.

FY26 Year-end Estimate: \$10,083,247

FY27 Proposed Budget: \$7,987,000

FY27 Preliminary Budget: \$7,473,200

Increase/Decrease to YE: -\$2,610,047 or -25.9%

- **Materials and Supplies:** The proposed FY27 budget for materials and supplies is almost \$4.7 million and reflects a decrease of approximately \$463,000 (8.9%) compared to the FY27 Proposed Budget presented at the March Budget Study Session. This decrease is primarily driven by further assessment of necessary operating needs.

FY26 Year-end Estimate: \$4,702,718

FY27 Proposed Budget: \$5,193,600

FY27 Preliminary Budget: \$4,731,000

Increase/Decrease to YE: +\$28,282 or +0.6%

- **Miscellaneous Expenditures:** The proposed FY27 budget for miscellaneous expenditures totaling just under \$3.9 million reflects an increase of approximately \$829,300 (27.1%) compared to the Proposed Budget presented at the March Budget Study Session. This expenditure category includes \$800,000 to help offset the estimated costs for North SPA services

FY26 Year-end Estimate: \$3,217,645

FY27 Proposed Budget: \$3,065,500
 FY27 Preliminary Budget: \$3,894,300
 Increase/Decrease to YE: +\$676,655 or +21.0%

- **Internal Service Costs/Allocations:** Internal service costs are projected to total approximately \$3.7 million, relatively unchanged from the FY27 Proposed Budget presented at the March Budget Study Session. Figures have been refined using the Cost Allocation Plan model and FY26 Year End Estimates. The FY27 Budget reflects a revised methodology that excludes Internal Service Charges charged to and from the General Fund; as a result, both expenditure and revenue projections are lower compared to the FY26 Year-End Estimate

FY26 Year-end Estimate: \$8,866,258
 FY27 Proposed Budget: \$3,743,700
 FY27 Preliminary Budget: \$3,733,900
 Increase/Decrease to YE: -\$5,132,358 or -57.9%

- **Transfers to Internal Service Funds:** The FY27 Preliminary Budget includes a transfer of approximately \$9.5 million to the Employee Accrued Liability Fund, remaining unchanged from the FY27 Proposed Budget presented at the March Budget Study Session.

FY26 Year-end Estimate: \$1,455,252
 FY27 Proposed Budget: \$9,554,500
 FY27 Preliminary Budget: \$9,554,500
 Increase/Decrease to YE: +\$8,099,248 or +556.5%

Table 3: General Fund Expenditures

Expenditure Category	FY26 YE Estimate	FY27 Proposed	FY27 Preliminary	Variance to Estimate	Variance to Proposed
Salaries and Benefits	\$103,947,889	\$109,683,500	\$109,840,200	5.7%	0.1%
Repair/Maintenance	9,594,564	9,898,200	10,037,200	4.6%	1.4%
Professional/Other Services	10,083,247	7,987,000	7,473,200	-25.9%	-6.4%
Internal Service Charges	8,866,258	3,743,700	3,733,900	-57.9%	-0.3%
Materials and Supplies	4,702,718	5,193,600	4,731,000	0.6%	-8.9%
Utility Charges	3,534,948	3,605,500	3,605,500	2.0%	0.0%
Capital Outlay	146,212	44,500	74,500	-49.0%	67.4%
Miscellaneous	3,217,645	3,065,000	3,894,300	21%	27.1%
Total Operating Expenditures	144,093,480	143,221,000	143,389,800	-0.5%	0.1%
Debt Services	17,519,111	17,905,400	17,908,400	2.2%	0.0%

Transfers Out	1,455,252	9,554,500	9,554,500	556.6%	0.0%
TOTAL EXPENDITURES	\$163,067,843	\$170,680,900	\$170,852,700	4.8%	0.1%

In summary, the General Fund expenditure projections, including transfers, were adjusted upward by approximately \$171,800, or 0.1%, from the FY27 Proposed Budget presented at the March 2026 Budget Study Session, bringing total operating expenditures to approximately \$170.8 million. These adjustments reflect updated expenditure estimates and revised operational funding needs identified since the Budget Study Session. Total FY27 General Fund expenditures represent an increase of approximately \$7.8 million, or 4.8%, over the prior fiscal year, mostly due to scheduled transfers towards employee accrued liability.

FY27 General Fund - Fund Balance

Based on the updated FY26 Year-End Estimates, the FY27 beginning fund balance is approximately \$27.8 million, of which \$1.9 million in undesignated fund balance. The FY27 Preliminary Budget is projected to have an operating deficit of \$5.6 million. Considering the \$9.5 million required transfer-out to the Employee Accrued Liability Fund, the General Fund has a projected deficit of over \$15.0 million. Therefore, staff recommend a one-time use available fund balances from the Capital Improvement Project Fund, EMT Fund, and Equipment Replacement to close the gap for FY27.

The Fiscal Management Policies adopted by the City Council on August 12, 2025 recommend maintaining a catastrophic reserve of 20% of General Fund operating expenditures for FY27. However, given the fiscal challenges, staff recommends maintaining the reserve at 18% for FY27, with the intent to revisit a phased return to 20% in future years as the City's financial condition improves. After setting aside the catastrophic reserve, the General Fund is projected to end FY27 with an undesignated fund balance of just over \$2.3 million.

The table below highlights the FY27 Preliminary General Fund budget, catastrophic reserve, and undesignated fund balance.

Table 4: Preliminary General Fund Balance

	FY26 YE Estimate	FY27 Proposed	FY27 Preliminary	Variance to Estimate	Variance to Proposed
Operating Revenues	\$157,868,578	\$153,686,300	\$155,678,600	-1%	1%
Total Revenues	157,868,578	153,686,300	155,678,600	-1%	1%
Operating Expenditures	144,093,480	143,221,000	143,389,800	-1%	0%
Debt Service	17,519,111	17,905,400	17,908,400	2%	0%
Total Expenditures	161,612,591	161,126,400	161,298,200	0%	0%
Operating Surplus/Deficit	-3,744,013	-7,440,100	-5,619,600	50%	-24%

Transfers-In	4,485,252	17,000,000	15,500,000	246%	-9%
Transfers-Out	1,455,252	9,554,500	9,554,500	557%	0%
Net Surplus/Deficit	-714,013	5,400	325,900	-146%	8272%
Estimated Beginning Fund Balance - 7/1	28,553,772	26,490,989	27,839,759	-3%	5%
Estimated Ending Fund Balance - 6/30	27,839,759	26,496,389	28,165,659	1%	7%
Catastrophic Reserve	25,936,826	25,779,780	25,810,164	0%	0%
Undesignated Ending Fund Balance - 6/30	\$1,902,932	\$716,609	\$2,355,495	24%	249%

FY27 Preliminary Budget for Other Funds

Special Revenue Funds (200 - 400 Series):

Special Revenue Funds are used to account for revenues that are legally restricted or committed to expenditures for specific purposes. These funds support a variety of City programs and services that are financed through dedicated revenue sources such as grants, state and federal funding, development-related fees, public safety revenues, and other restricted resources. Unlike the General Fund, Special Revenue Funds may only be used for their designated purposes and are subject to specific legal, regulatory, or policy requirements governing their use. The City's Special Revenue Funds support programs including transportation improvements, public safety initiatives, community development activities, housing programs, and other operational and capital needs. As external funding sources and economic conditions fluctuate, the City continues to closely monitor revenues and expenditures within these funds to ensure ongoing compliance, maintain service levels, and support long-term program sustainability.

Table 5: Preliminary Fund Balance - Special Revenue Funds

	EMT Program (225)	Measure M2 (263)	Other Transportation Funds (270-274)	Citywide TSIP (287)
Proposed Revenues	\$5,353,600	\$4,335,500	\$7,474,000	\$304,000
Proposed Transfers-In	-	-	-	-
Total Proposed Revenues	5,353,600	4,335,500	7,474,000	304,000
Proposed Expenditures	5,575,900	4,205,600	7,801,300	1,695,900

Proposed Transfers-Out	3,500,000	-	-	-
Total Proposed Expenditures	9,075,900	4,205,600	7,801,300	1,695,900
Proposed Surplus/Deficit	-3,722,300	129,900	-327,300	-1,391,900
Estimated Beginning Fund Balance - 7/1/26	4,176,378	6,919,471	6,764,540	3,662,662
Proposed Ending Fund Balance - 6/30/27	\$454,078	\$7,049,371	\$6,437,240	\$2,270,762

Capital Improvement Funds (500 Series):

Based on and subsequent analysis of the City's capital needs, the following adjustments were made to the Capital Improvement Program (attached):

- Anticipated completion of the Yorba Dog Park Renovation (257014) in FY26
- Use of \$2.3 million in anticipated FY26 unspent funds in FY27 for the following continuing projects in FY27:
 - El Modena Area Renovation (257018)
 - Parks Master Plan (267003)
 - Hart Park Bandshell Roof Renovation (267004)
 - Rampart St Park (267005)

Considering these changes, the FY27 Capital Improvement Program totals just over \$33.2 million, across 17 different funding sources, reflecting a \$2.4 decrease from the FY27 Proposed CIP budget presented at the April budget study session (attached). The following table reflects fund balances for major capital funds.

Table 6: Preliminary Fund Balance - Capital Improvement Funds

	Capital Project Fund (500)	Park Funds (510-12)	Fire Facilities Fund (560)	Police Facilities Fund (570)	Library Facilities Fund (580)
Proposed Revenues	\$3,585,000	\$383,100	\$22,800	\$21,500	\$17,800
Proposed Transfers-In	-	-	-	-	-
Total Proposed Revenues	3,585,000	383,100	22,800	21,500	17,800
Proposed Expenditures	5,140,400	2,870,000	600,000	615,000	326,900
Proposed Transfers-Out	9,000,000	-	-	-	-
Total Proposed Expenditures	14,140,400	2,870,000	600,000	615,000	326,900

Proposed Surplus/Deficit	-10,555,400	-2,486,900	-577,200	-593,500	-309,100
Estimated Beginning Fund Balance - 7/1/26	12,013,635	8,462,380	703,983	724,052	468,497
Proposed Ending Fund Balance - 6/30/27	\$1,458,235	\$5,975,480	\$126,783	\$130,552	\$159,397

Enterprise Funds (600 Series):

Enterprise Funds are used to account for services provided to the public on a fee-for-service basis, where the costs of operations, capital improvements, and debt obligations are primarily recovered through user charges. The City's Water and Sewer Enterprise Funds support the operation, maintenance, and long-term sustainability of critical utility infrastructure, including water production, distribution, and wastewater collection systems.

In FY27, the City is proposing approximately \$6.5 million in water infrastructure improvements to support system reliability, increase groundwater production capacity, and replace aging infrastructure throughout the water system. Additionally, approximately \$3.5 million is proposed for sewer system improvements to continue the replacement and rehabilitation of aging sewer pipelines and related infrastructure throughout the City. These investments are intended to address aging infrastructure, reduce ongoing maintenance demands, improve operational efficiency, and ensure the City can continue to meet service and regulatory requirements while maintaining reliable utility services for residents and businesses.

The table below provides a high level overview of the City's Enterprise funds, reflecting projected revenues, expenditures for operating and capital expenses, and fund balances.

Table 7: Preliminary Fund Balance - Enterprise Funds

	Water (600)	Sewer (601)
Proposed Revenues	\$45,584,600	\$9,486,700
Proposed Transfers-In	-	-
Total Proposed Revenues	45,584,600	9,754,700
Proposed Expenditures	49,920,000	9,248,600
Proposed Transfers-Out	-	-
Total Proposed Expenditures	49,920,000	9,248,600
Proposed Surplus/Deficit	-4,335,400	238,100
Estimated Beginning Fund Balance - 7/1/26	6,057,236	4,917,562
Proposed Ending Fund Balance - 6/30/27	\$1,721,836	\$5,155,662

Internal Service Funds (700 Series):

Internal Service Funds are used to account for the financing of goods and services provided by one

department or agency to other departments or agencies on a cost reimbursement basis. Allocations to the City's Internal Service Funds (ISFs), from the General Fund and other operating funds, including Enterprise Funds and eligible Special Revenue Funds, support operating costs related to accrued liability, workers compensation, and general liability insurance.

Historically, these ISFs were intentionally underfunded to minimize impacts to the General Fund, with the expectation that any year-end surpluses would be used to supplement shortfalls through transfers. However, as the City has continued to face budgetary constraints, fewer surplus funds have been available, resulting in continued underfunding of these ISFs and the deferral of necessary capital replacements and other long-term obligations.

It should also be noted that the ISFs for the City's Information Technology and Fleet divisions were consolidated into the General Fund in FY25. As a result, the associated operational costs associated with those services continue to be reflected comprehensively within the General Fund.

Table 8: Preliminary Fund Balance - Internal Service Funds

	Equipment Replacement (720)	Worker's Comp (730)	General Liability (731)	Accrued Liability (760)	IT Capital (790)
Proposed Revenues	\$244,200	\$6,239,400	\$4,887,600	\$3,613,000	\$446,800
Proposed Transfers-In	-	-	-	9,554,500	-
Total Proposed Revenues	244,200	6,239,400	4,887,600	13,167,500	446,800
Proposed Expenditures	2,795,000	5,344,700	6,144,400	10,618,200	1,016,000
Proposed Transfers-Out	-	-	-	-	3,000,000
Total Proposed Expenditures	2,795,000	5,344,700	6,144,400	10,618,200	4,016,000
Proposed Surplus/Deficit	-2,550,800	894,700	-1,256,800	2,549,300	-\$3,569,200
Estimated Beginning Fund Balance - 7/1/26	3,052,486	-12,755,459	-12,302	-5,606,386	7,181,367
Proposed Ending Fund Balance - 6/30/27	\$501,686	-\$11,860,759	-\$1,269,102	-\$3,057,086	\$3,612,167

Unfunded Requests and Future Considerations

Due to limited ongoing revenues, several priority needs were not included in the FY27 Preliminary Budget and remain subject to future Council consideration if additional recurring resources become available, with priority given to those that support public safety, regulatory compliance, and core service delivery. The following items are identified:

Operating Budget

- Restore negative fund balance in the ISFs.
- Restore public safety positions.

- Address deferred maintenance.
- Expansion of Fire Prevention staffing model to address increased inspection, plan review, and compliance workload.
- Restore community programs and events.
- Implementation of a body-worn camera program for the Code Enforcement Division to enhance transparency, accountability, and staff safety.
- Restoration of the Historic Preservation Planner position to support planning, development review, and preservation efforts.
- Additional administrative support within the City Manager's Office, City Clerk's Office, and Finance Department to address increasing operational demands and workload.

Deferred Capital Projects

- Facilities Condition Assessment
- City Hall Roof Replacement
- Fire Station 7 - Roof Replacement
- Fire Station 8 - Exterior Paint and Roof Replacement
- Main Library Gutter Replacement
- Community Services Building Roof Replacement
- City Hall Landscape Renovation
- City Hall - Elastomeric Coating Renewal

Conclusion

The FY27 Preliminary Budget reflects the City's continuing fiscal challenges while balancing public safety and a standard level of service and operations for the citizens and businesses of Orange. The Preliminary Budget includes \$23.0 million in budget reductions in the General Fund and the financial forecast is projecting a greater need for reduction over the next five years. Tonight, staff is seeking the City Council's affirmation of the FY27 Preliminary Budget for all funds and return in June for the FY27 Budget Adoption.

7. ATTACHMENTS

- Attachment 1 Schedule of Changes in Fund Balance
- Attachment 2 Schedule of Revenues and Expenditures
- Attachment 3 Recommended Staffing Changes
- Attachment 4 Schedule of Positions by Department
- Attachment 5 FY27 Budget Reductions and Balancing Measures
- Attachment 6 Five-Year Capital Improvement Plan
- Attachment 7 Fund Description
- Attachment 8 March 24, 2026 Budget Study Session Staff Report
- Attachment 9 April 14, 2026 Budget Study Session Staff Report