

Mid-Cycle Budget & Fiscal Update

City Council
May 5, 2026



City of Irvine



STRATEGIC PRIORITIES

Quality of Life



Traffic & Mobility



Organizational Excellence



Natural Environment



Fiscal Strength

BALANCING PRINCIPLES



**Prioritize
Essential
Services**



**Avoid
service
disruptions
and layoffs**



**Maximize
savings by
monitoring
contracts,
controlling
overtime, and
re-evaluating
all discretionary
spending**



**Maximize
discretionary
revenues by
matching fees
to costs of
services**



**Continue
responsible
investments in
the City's
infrastructure**



**Minimize
further impacts
on City's
fiscal reserves**

City of Irvine Growth





Monthly Food Distribution



Bridge Housing Pilot Program



Irvine Public Library



City of Irvine



Economic Development



Fieldhouse Gym



Gateway Village/Preserve



Marine Way Grade Separation Project



JOST I-5 Bicycle and Pedestrian Bridge



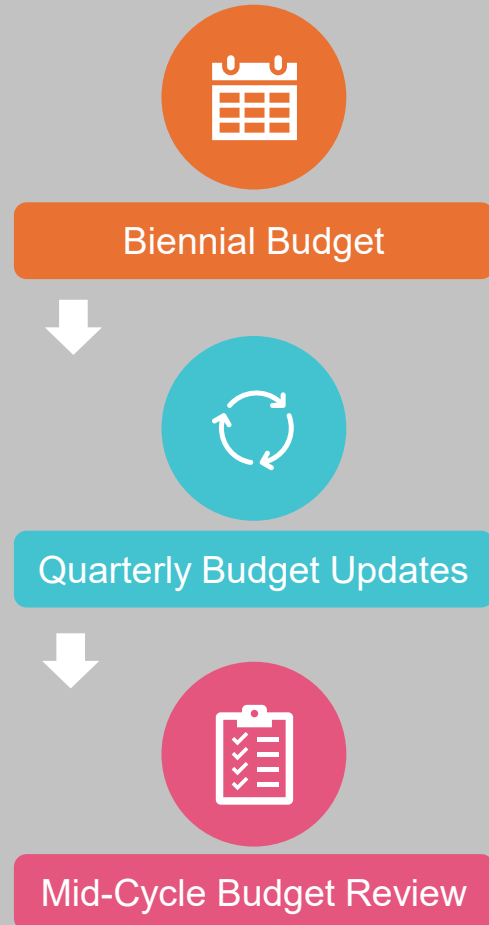
Jamboree/Michelson Pedestrian Bridge



The Canopy

Budget 101 and Process

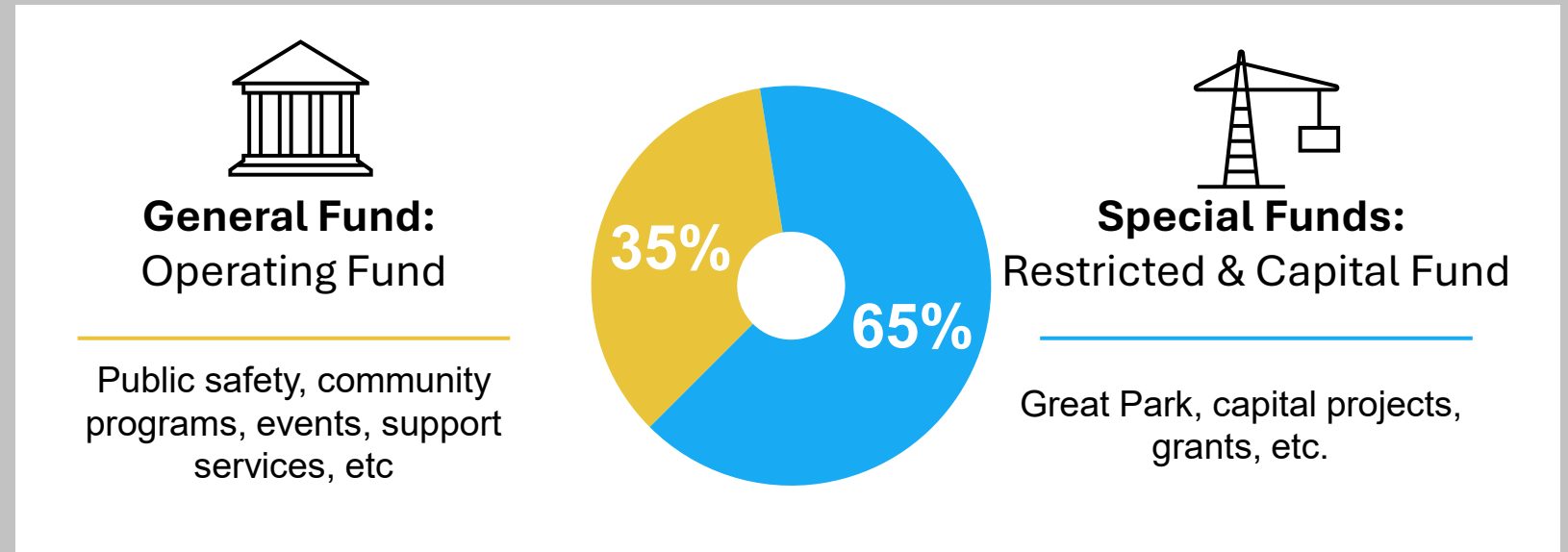
The City's Budget Process

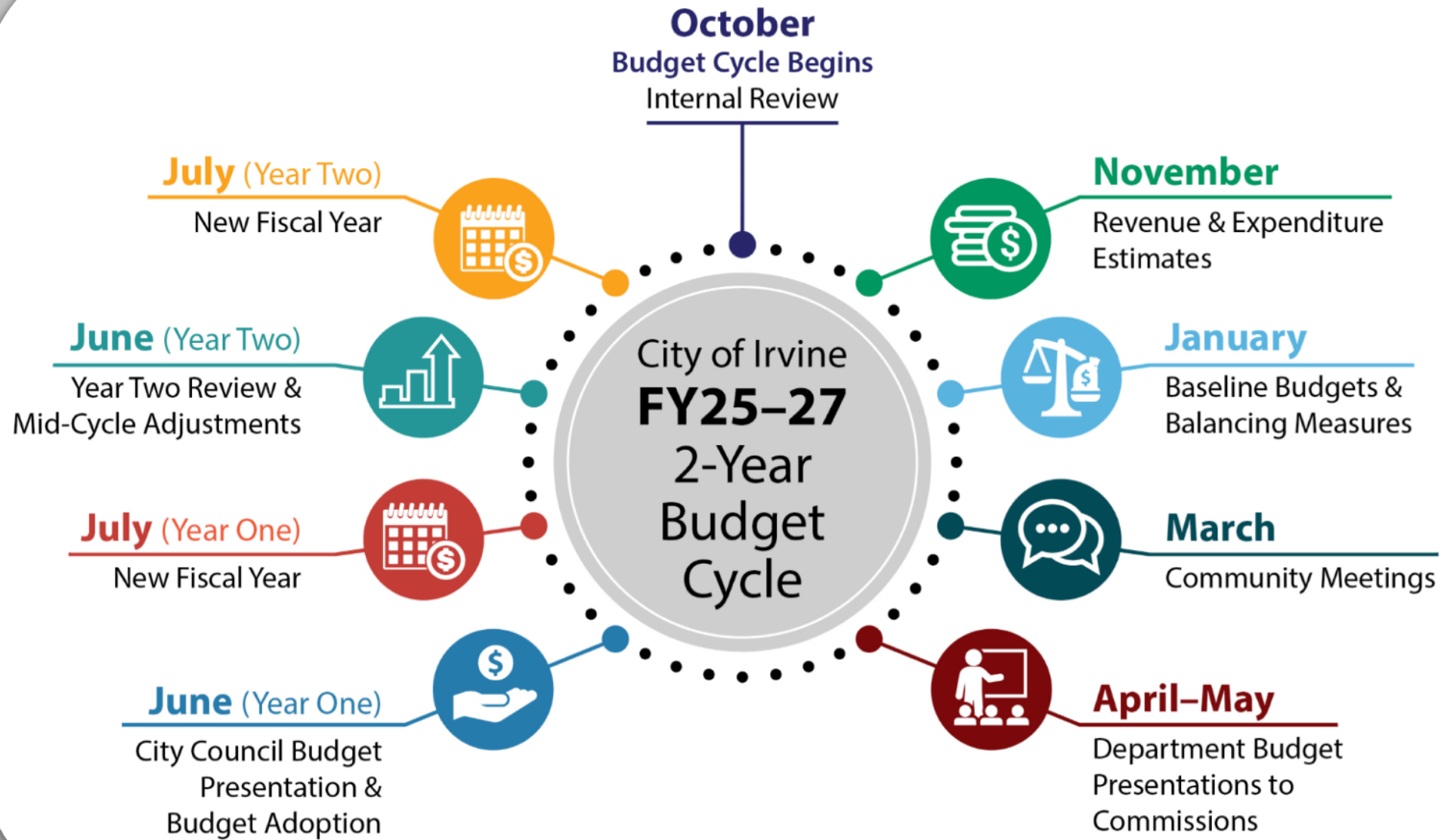


The City has 2 main budget categories

The General Fund accounts for 35% of all the City's Funds

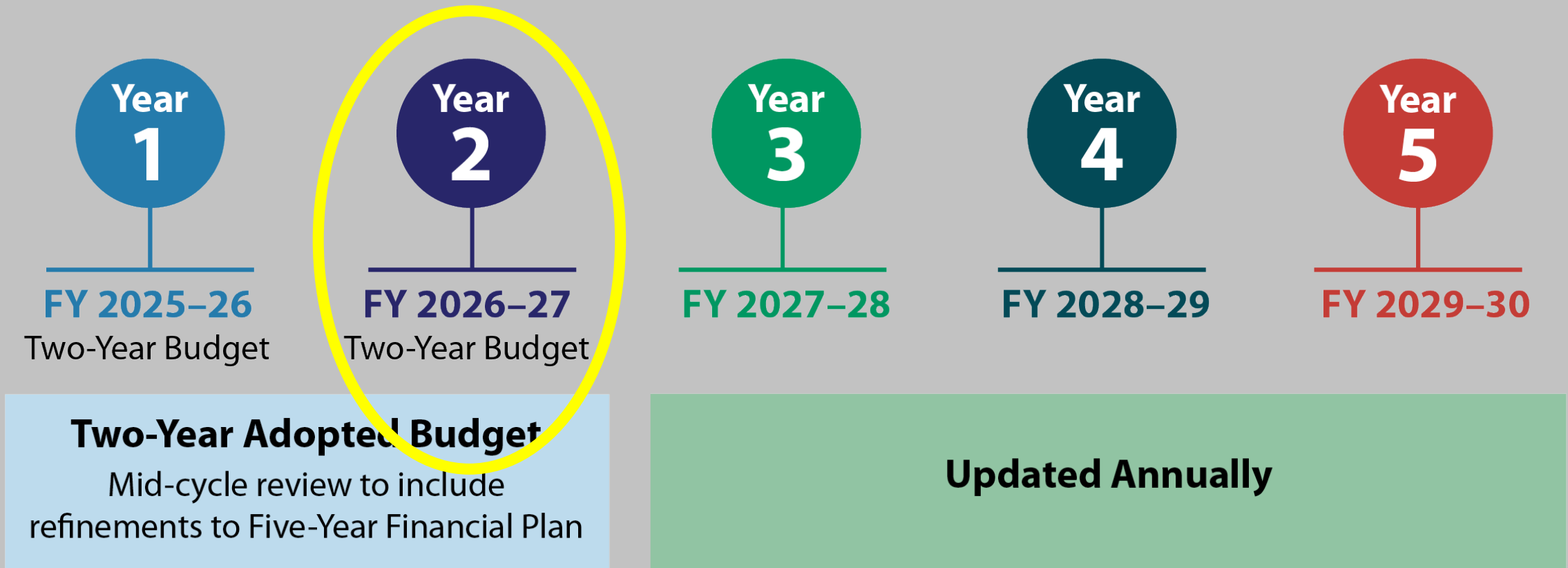
Special Funds account for 65% of all the City's Funds





Budget Development

Biennial Budget in the Context of a Five-Year Financial Plan



City of Irvine



Today's Topics

1. Prior Fiscal Year Review

- FY 2024-25 financial reports
- Latest audit results

2. Current Fiscal Review

- Investment Portfolio
- Reserves
- FY 2025-26 Third Quarter Budget Update
- FY 2026-27 Mid-Cycle Budget Review

3. The Future

- Fiscal outlook FY 2027-28 and beyond

4. Optional Solutions

5. Questions and Feedback

Overview

1. The City is in a strong financial position

- Over \$1.7 billion in investment portfolio
- Over \$130 million in reserves

2. Minor shortfall (2%-3%) in current General Fund FY 2025-27 budget

- Due to external economic challenges and rising costs

3. Goal: structurally balance the long-term financial outlook

- Ensure ongoing revenues for ongoing expenses

4. Fiscal responsibility and transparency

- Address issues now for future fiscal sustainability

5. The City will always adopt a balanced budget

11



Prior Fiscal Year Review

FY 2024-25 Financial Reports and Audit

FY 2024-25 Financial Reports

City prepares four financial statements annually – prepared in accordance with standards established by Government Accounting Standards Board (GASB)

- Annual Comprehensive Financial Report (ACFR)
- Air Quality Improvement Special Revenue Fund
- Single Audit of Federally Assisted Grant Programs
- Great Park Funds Financial Statements

Audited by independent auditor to verify accuracy, meet regulatory requirements, and ensure City is following best practices.



FY 2024-25 Audit

Audit Standards

- Key principles: Independence, Professional Judgement, Competence, and Quality Control & Assurance

Independent Audit Results

- Clean audit opinions
- No audit findings
- No deficiencies in internal controls
- No issues of noncompliance

14



Current Fiscal Review

Investment Portfolio, Reserves, FY 2025-26 Budget Update, and FY 2026-27 Mid-Cycle Budget

Investment Portfolio

Over \$1.7 Billion of Investments

- Portfolios
 - Pooled Investment Portfolio \$1.1B
 - Special District Funds \$624M
 - Gateway Preserve \$16M
- Majority restricted funding for dedicated projects
 - Capital Improvement Program
 - Great Park Framework
 - Gateway Project
- Demonstrates capacity to meet both current and future capital project obligations

Reserves

Contingency Reserve Fund

- **Purpose:** mitigate the effects of unanticipated situations, unforeseen emergencies, and meet City's liquidity needs
- Reserve balance: \$66 million
- Reserve level: 22%
- City: maintain at least 20%, including a 5% ready reserve
- National recommended reserve level of two months: 16.7%

• Asset Management Plan Fund

- **Purpose:** similar to an endowment, providing long-term funding source utilizing interest earned to support operational and infrastructure needs
- Fund balance: \$65 million

FY 2025-26 Third Quarter Budget Update

- Period: January 2026 - March 2026
- Quarterly budget updates to Finance Commission and City Council
 - Budget vs. Actuals
 - Economic conditions
 - Adjustments to allocate funds or address challenges
- 2Q update: unanticipated expenditure increases and signs of revenue declines
- 3Q update: staff has implemented preliminary budget balancing measures, but unexpected cost increases continue to outpace revenues
- FY 2025-26 projected deficit: \$6 million (2%)



18

City of Irvine



Economic Update - Expenditures

City has experienced multiple unexpected cost impacts

- Rising inflation, interest rate volatility, tariffs, and geopolitical tensions are increasing costs, straining municipal budgets
- Increased labor costs
 - Medical insurance costs – new state requirements
 - Lower vacancy rates due to service demands
- Increased operating costs
 - Contracts - landscape and street maintenance
 - Materials for construction and supplies
 - Insurance premiums, workers' comp, and claims

Economic Update - Revenues

- Broader concern is lower revenue growth in future fiscal years
 - Other agencies have also reduced their projections
- Volatile economy continues to decrease sales tax revenue
 - Notable declines in automobile sales
 - Dependent on consumer behavior
- Decreases in transfer tax revenue due to slowing home sales
 - Properties staying on the market longer than average
 - Inventory remains low
- Other revenue categories doing better to help offset the losses

FY 2025-26 Balancing Measures

- Utilize one-time funding to balance the FY 2025-26 deficit of \$6 million (2%)
 - Use Asset Management Plan Fund
 - Replenish with future fiscal year surplus
- Ensure no interruptions to current services
- Balancing measures in place
- Continue course correction actions to structurally balance future fiscal years



FY 2026-27 Mid-Cycle Budget

- Period: Year 2 of Biennial Budget
- Opportunity to update year 2 based on economic conditions
- When times are good – can allocate additional funds
- When faced with economic challenges – Mid-Cycle is the process to make adjustments
- Provide recommendations to the City's operating budget, capital improvement program, and fees
- FY 2026-27 projected deficit: \$9 million (3%)



FY 2026-27 Balancing Measures

Balancing \$9 million deficit

Expenditures (\$6.1 million savings)

- Adjust fleet vehicle replacement schedule: \$2.6 million savings
- Department cost reductions: \$3.5 million savings
 - Hold vacant positions – exception for emergency personnel
 - Reduce expenses in supplies, training, and contracts
 - Shift contract work to staff

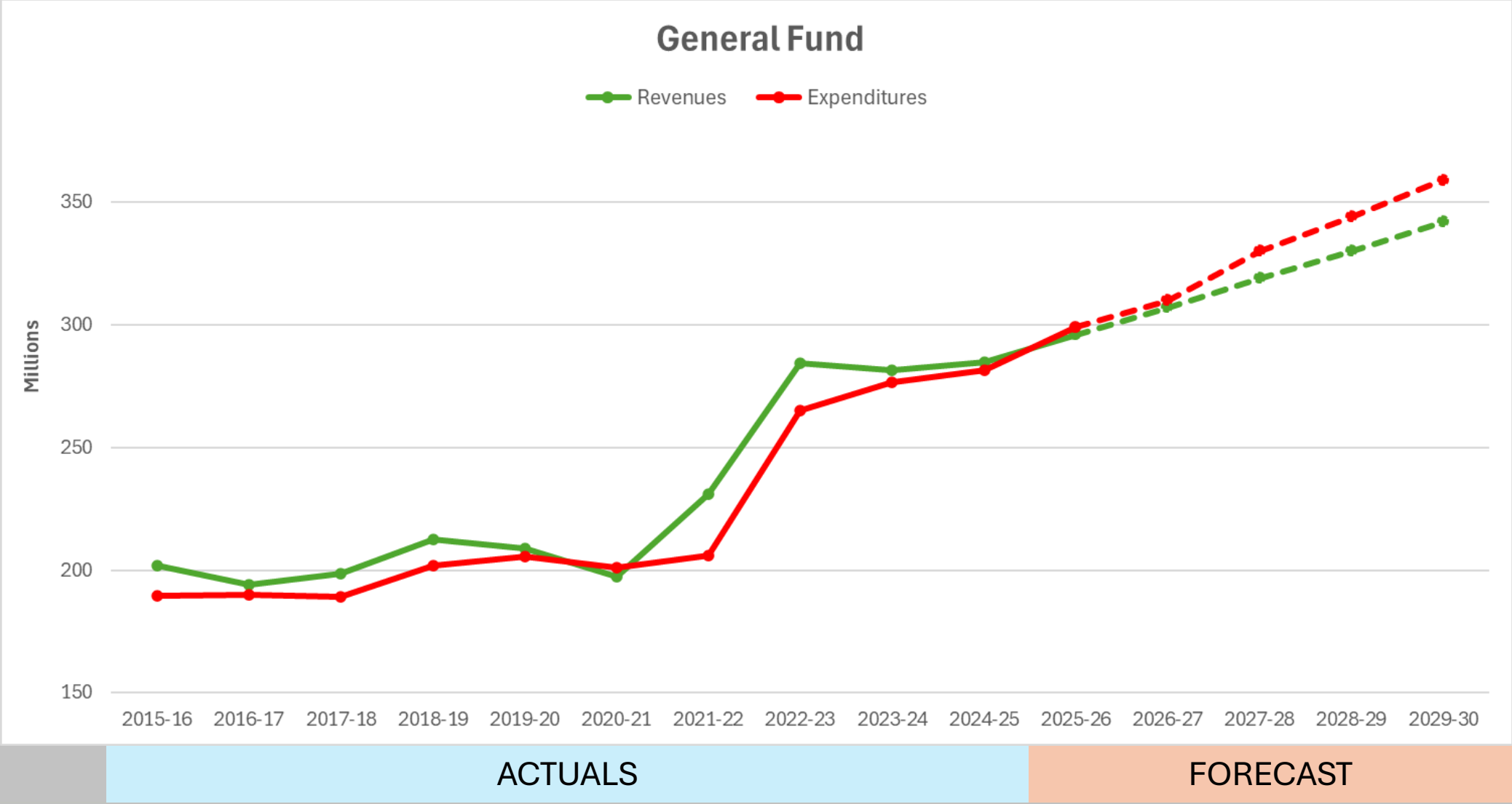
Revenues (\$2.9 million)

- Solid Waste (WISE) revenue increase: \$1.9 million
- Adjust fees to recover costs: \$1 million

The Future

Fiscal Outlook FY 2027-28 and beyond

Forecast: Revenues & Expenditures



Step 1 - Financial Outlook

Projected 5-year

General Fund	2025-26	2026-27	2027-28	2028-29	2029-30
Revenues	298 M	309 M	318 M	329 M	340 M
Expenditures	305 M	318 M	356 M	373 M	387 M
Net Surplus/(Deficit)	-6 M	-9 M	-37 M	-44 M	-47 M

With FY 2025-27 Recommendations

General Fund	2025-26	2026-27	2027-28	2028-29	2029-30
Revenues	305 M	312 M	321 M	332 M	342 M
Expenditures	305 M	312 M	351 M	368 M	382 M
Net Surplus/(Deficit)	0 M	0 M	-30 M	-37 M	-39 M

Step 2: FY 2027-28 and Beyond

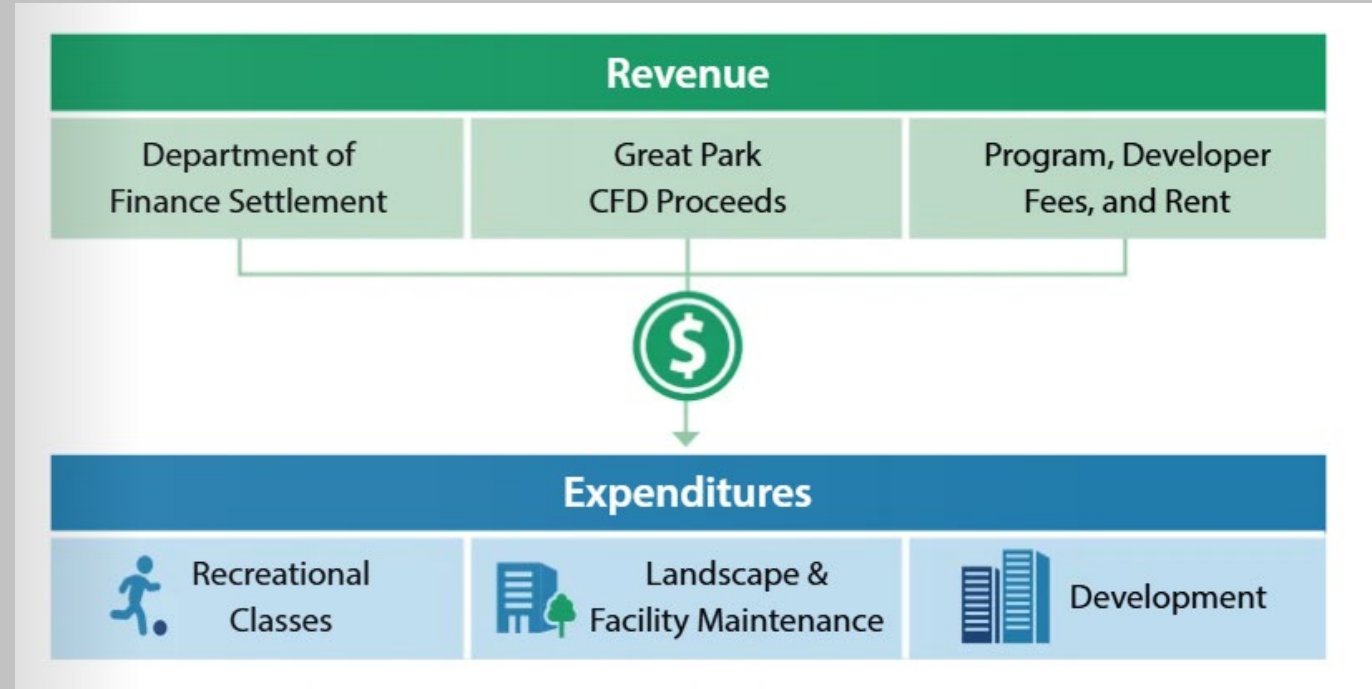
- Expenditures growth outpacing revenues
- Removal of reliance on one-time funding for ongoing operations
- Right size the Great Park cost allocation

One-Time Funding

- Since 2017, budgets have included the use of one-time funds
- One-time funding primarily comes from prior fiscal year surplus and unrestricted developer fees
- **Challenges:** Irvine continues to grow with increasing services and costs, combined with recent economic challenges
- **Goal:** build fiscal sustainability by using ongoing revenues for ongoing expenditures, instead of relying on one time funds to balance the budget.
- *Secure the City's future with a structurally balanced budget*

Right-Size Great Park Cost Allocation

- Annual evaluation of the allocation of staff costs for the Great Park
 - Currently 8% of all city staff
- Shift from planning to development
- Right-size by lowering by 2%
- **Great Park CFD funds are not used for staff allocations**



Long Term Strategies

1. Hold Vacant Positions

- City currently has 40 vacant positions
- Hold vacant positions – exception on emergency personnel
- Efficiency by leveraging technology

2. Reduce expenses and renegotiate contracts

- Reduce supplies and training expenses
- Renegotiate with vendors on current contracts
- Shift contract services work to staff
- Evaluate city contributions to agencies/non-profits and community events

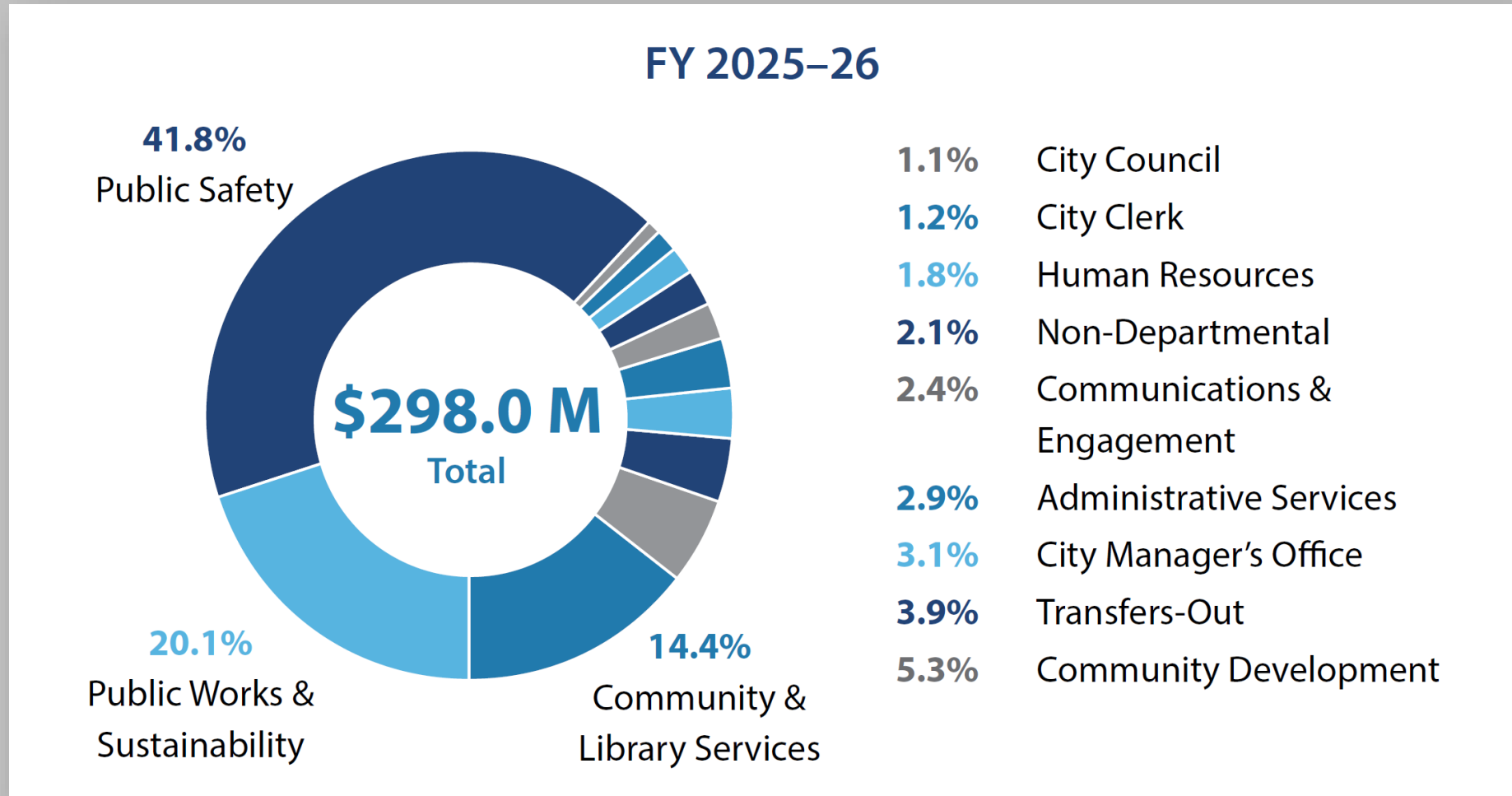
3. Initiate discussions with labor unions

4. Focus on core services

5. Lower General Fund subsidy on user fees

6. Tax Measures (Information Only)

Department Expenditures



City Contributions

Direct Contribution	2025-26
Direct School Support	4,000,000
Irvine Barclay Theatre	1,566,838
Irvine Adult Day Health Services (IADHS)	873,530
School Nights, Scholarship, & Bus Support	326,552
Irvine Chambers Grants Program	250,000
The Irvine Children's Fund (ICF)	15,000
Community Partnership Fund Grants	68,820
Direct Total	7,100,740
Indirect Contribution	2025-26
School Support - programs and facilities	8,893,532
Indirect Total	8,893,532
Direct & Indirect Total	15,994,272

- City contributes to agencies and nonprofits

Growing Demand for Citywide Events

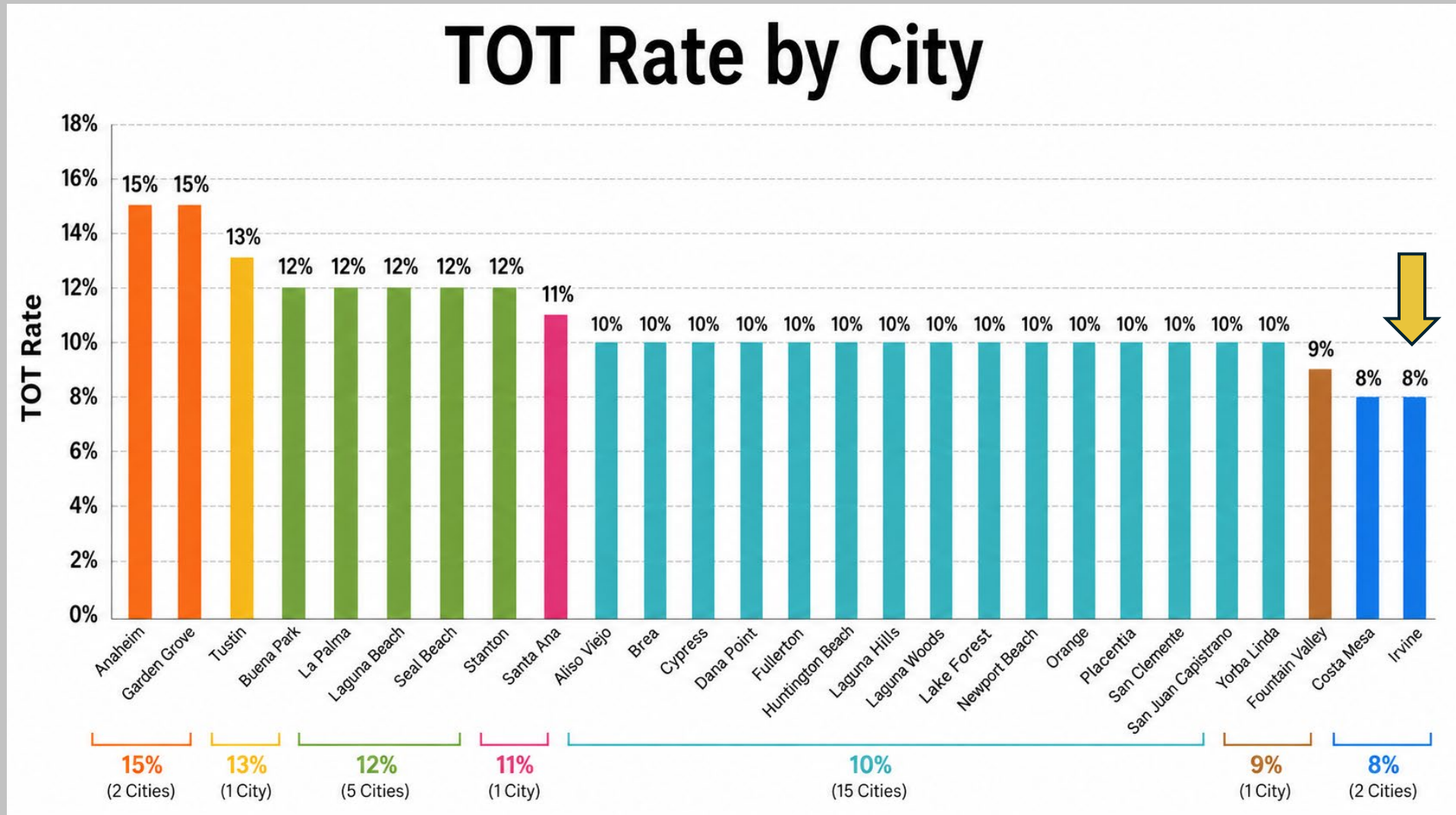
- Citywide events produced by Communications & Engagement have more than doubled since 2020.
- Reflects the City's growth, increased community demand, and expanded programming to celebrate the City's diverse population.
- Current annual production costs total **\$2,279,194**, excluding Arts in Irvine, Aquatics, Older Adults, and other one-time events produced by other City departments.

User Fees Adjustment

User Fees are for services that benefit only one person or group rather than the general public

- Recovers cost to provide service – not a tax
- Estimated current overall cost recovery is 62%
 - General public is subsidizing 38% of user services
- Ensure that the costs of providing a service are recovered from those who use it

Optional Solutions – Transient Occupancy Tax (TOT)



Optional Solutions – Business License Tax

- Irvine has a business license user fee for administrative cost recovery only, not a business license tax
 - Puts the burden on residents to subsidize cost of safety and services for businesses
- Shifts the tax burden away from households and onto businesses that benefit from city infrastructure and services.
- Broad-based: Captures revenue from nearly all businesses, from small shops to large corporations, unlike hotel tax (visitors only) or utility tax (utility users only).
- Flexible Structures: per employee or gross receipts-based

Business License Tax in Orange County

Business License Tax

Anaheim, Brea, Buena Park, Costa Mesa, Cypress, Fountain Valley, Fullerton, Garden Grove, Huntington Beach, La Habra, La Palma, Laguna Beach, Los Alamitos, Newport Beach, Orange, Placentia, San Clemente, San Juan Capistrano, Santa Ana, Seal Beach, Stanton, Tustin, Villa Park, Yorba Linda, Westminster

User Fee Only

Irvine

No Tax or User Fee

Aliso Viejo, Dana Point, Lake Forest, Laguna Hills, Laguna Niguel, Laguna Woods, Mission Viejo, Rancho Santa Margarita

Step 2 - Structurally Balanced Outlook

General Fund	2025-26	2026-27	2027-28	2028-29	2029-30
Revenues	305 M	312 M	327 M	343 M	356 M
Expenditures	305 M	312 M	327 M	343 M	356 M
Net Surplus/(Deficit)	0 M	0 M	0 M	0 M	0 M

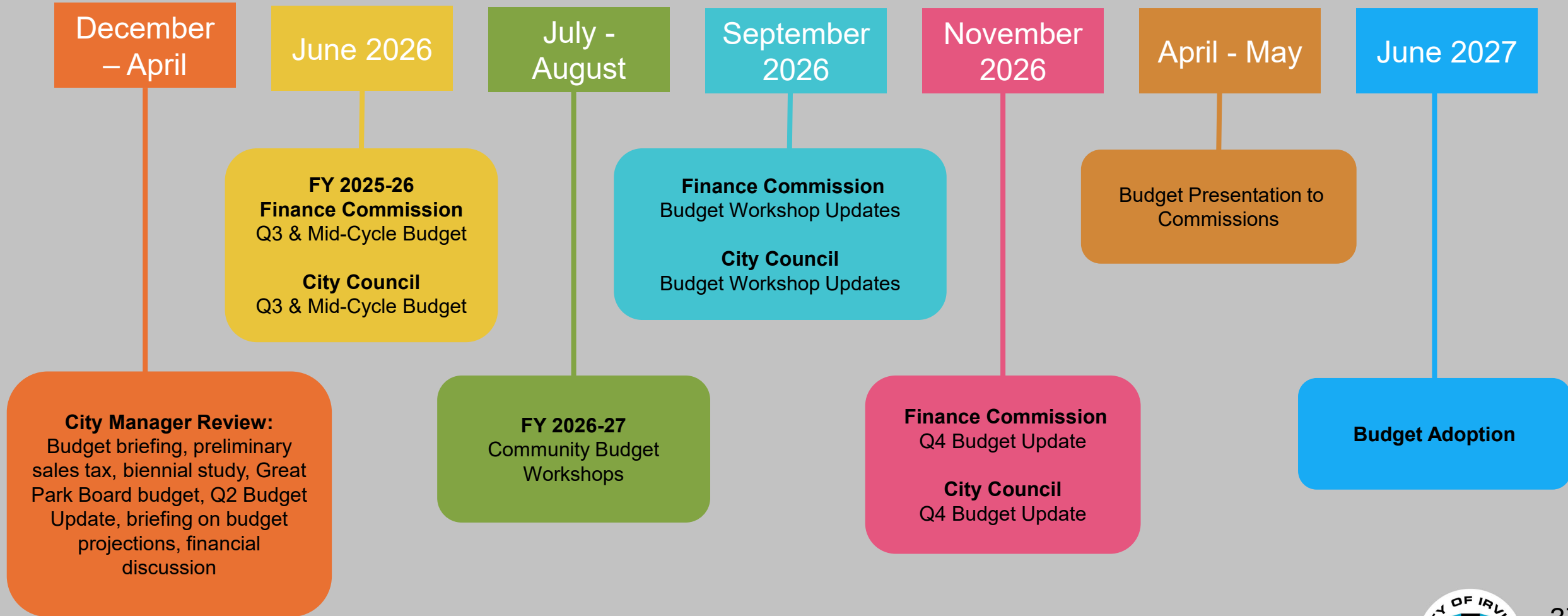
Expenditures

- Hold vacant positions, evaluate part-time and overtime needs, decrease contract staffing, consulting, and recruitment contracts
- Strategically reduce costs on contracts, events, programs, supplies, hardware, software, training, and business expenses

Revenues

- Lower General Fund subsidy on user fees
- Outlook includes continuation of solid waste (WISE) revenue

Budget Calendar



Summary of Balancing Measures

FY 2025/26

- Utilize AMP fund to balance \$6M deficit

FY 2026/27

- Adjust fleet vehicle replacement schedule: \$2.6M savings
- Department cost reductions (hold vacancies, reduce contract costs, etc): \$3.5M savings
- Solid Waste (WISE) revenue increase: \$1.9M
- Adjust fees to recover costs: \$1M

FY 2027/28 and beyond

- Continue with department cost reductions & user fee adjustments

Recommendation: Council discussion and direction to proceed with budget balancing measures and return on June 9th with formal actions



City of Irvine



Questions and Feedback



City of Irvine

