



CITY COUNCIL **BUDGET WORKSHOP**

City of Santa Ana

May 11, 2023

AGENDA

- Budget Overview
- Background & Best Practices
- Budget Direction for Discussion
- Next Steps

Budget Overview



May 2 Changes

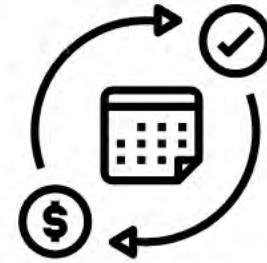


- Removed \$200K increase for Crossing Guards.
- Staff will continue to pursue school district contributions and re-assess service level and contract funding at Midyear.



One-Time Spending

- Stadium flooring and a forklift (\$980K).
- Water Tower feasibility study for public visitation (\$150K).
- Security cameras (\$100K).
- Additional expansion of community intervention programs (\$75K).
- Feral cat trap/release and RFP for low-income assistance to spay/neuter (\$75K).



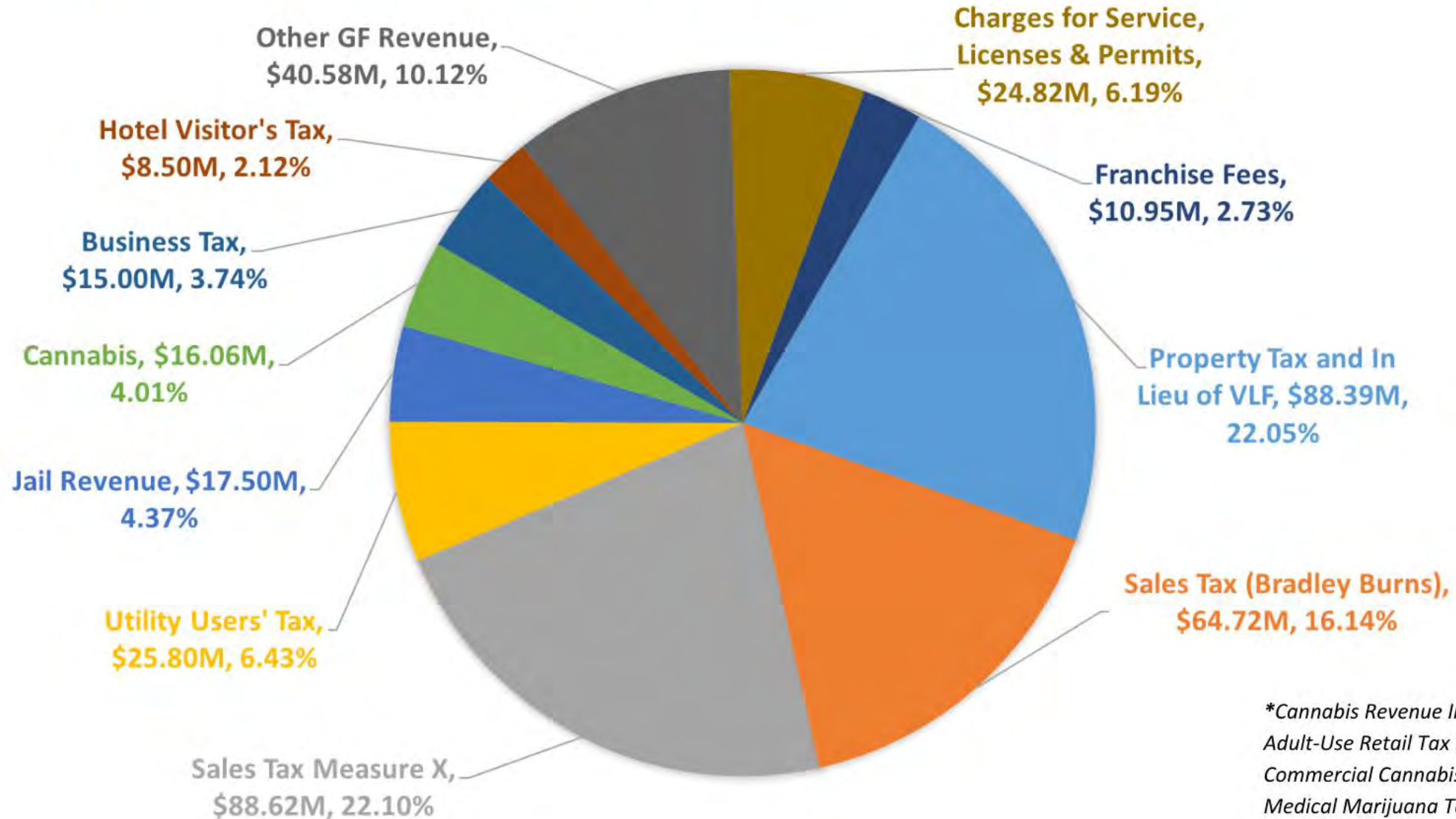
Recurring Spending

- Beat-making at the Library (\$5K).
- Community intervention programs (\$200K).

General Fund Summary

General Fund Summary		FY23-24
Total Recurring Revenues		400,938,670
Proposed FY23-24 Recurring Spending		(400,794,280)
Estimated Available (Recurring)		144,390
Estimated Ending Balance as June 30, 2023		101,046,290
Proposed Adjustments with 3rd Quarter Budget Report		487,710
Less 18% Reserve		(72,068,970)
Proposed FY23-24 One-Time Spending		(29,429,760)
Estimated Available Spendable Balance (One-Time)		35,270

General Fund Revenue - \$400.9M

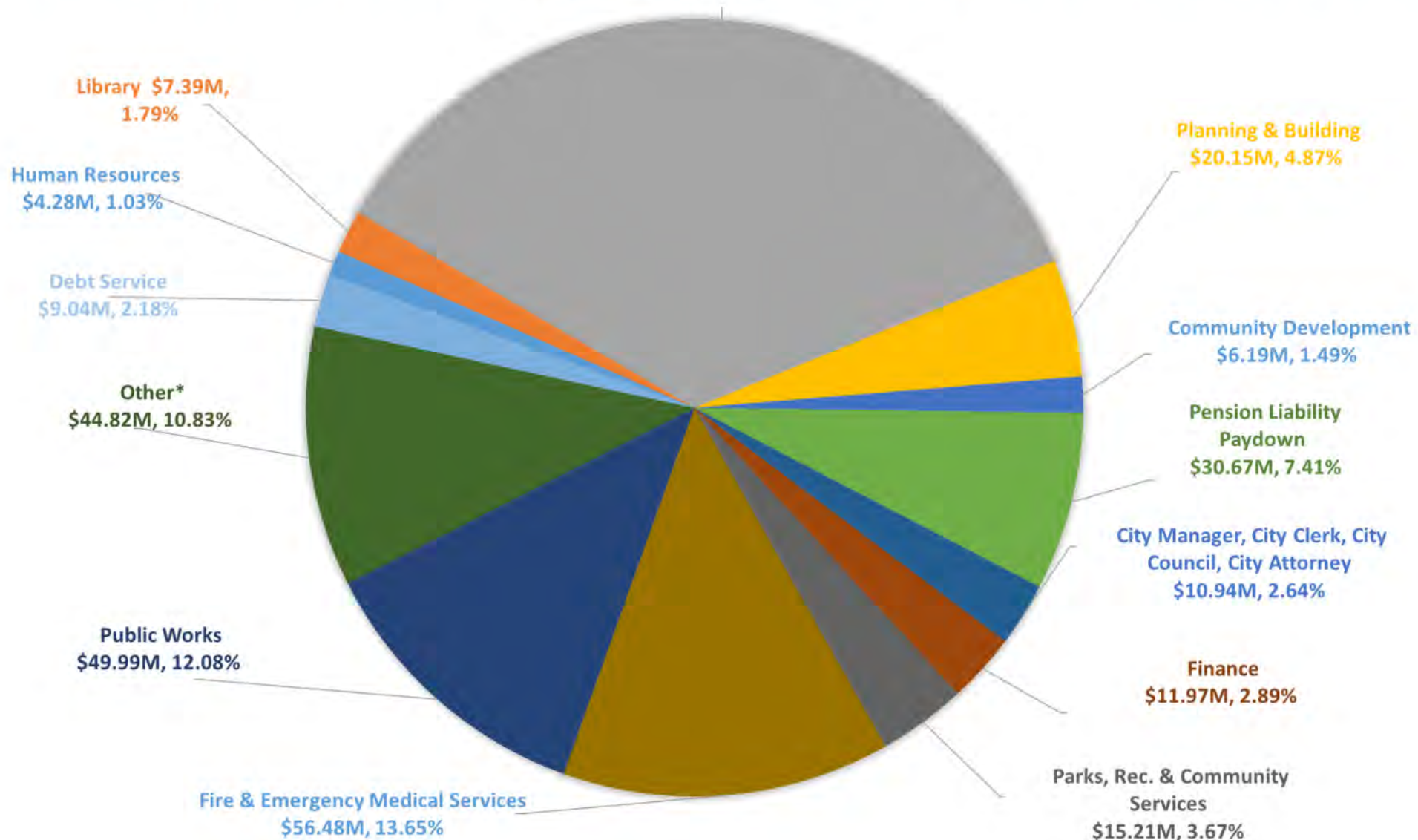


**Cannabis Revenue Includes:
Adult-Use Retail Tax (\$15.1M),
Commercial Cannabis Taxes (\$416K),
Medical Marijuana Tax (\$528K).*

General Fund Expenditures - \$413.9M

City of Santa Ana

Police \$146.81M, 35.47%



*Other includes Cannabis Set-Aside, Museum Contribution, 3rd & Broadway, Subsidies for Internal Services and Enterprise Funds, Employee Compensation Increases, & Project Transfers

Ten-Year Outlook History

- FY20-21 budget document showed a \$74.2M gap in 2029
- FY22-23 budget document showed a \$21.0M gap in 2029, after employee pension refinancing and FY20-21 CalPERS 21.3% investment return
- One bad year of revenue has a significant impact on the Outlook
- Outlook is a tool to understand trends and impact - actual results always varies



Updated Ten-Year Outlook – General Fund

Includes:

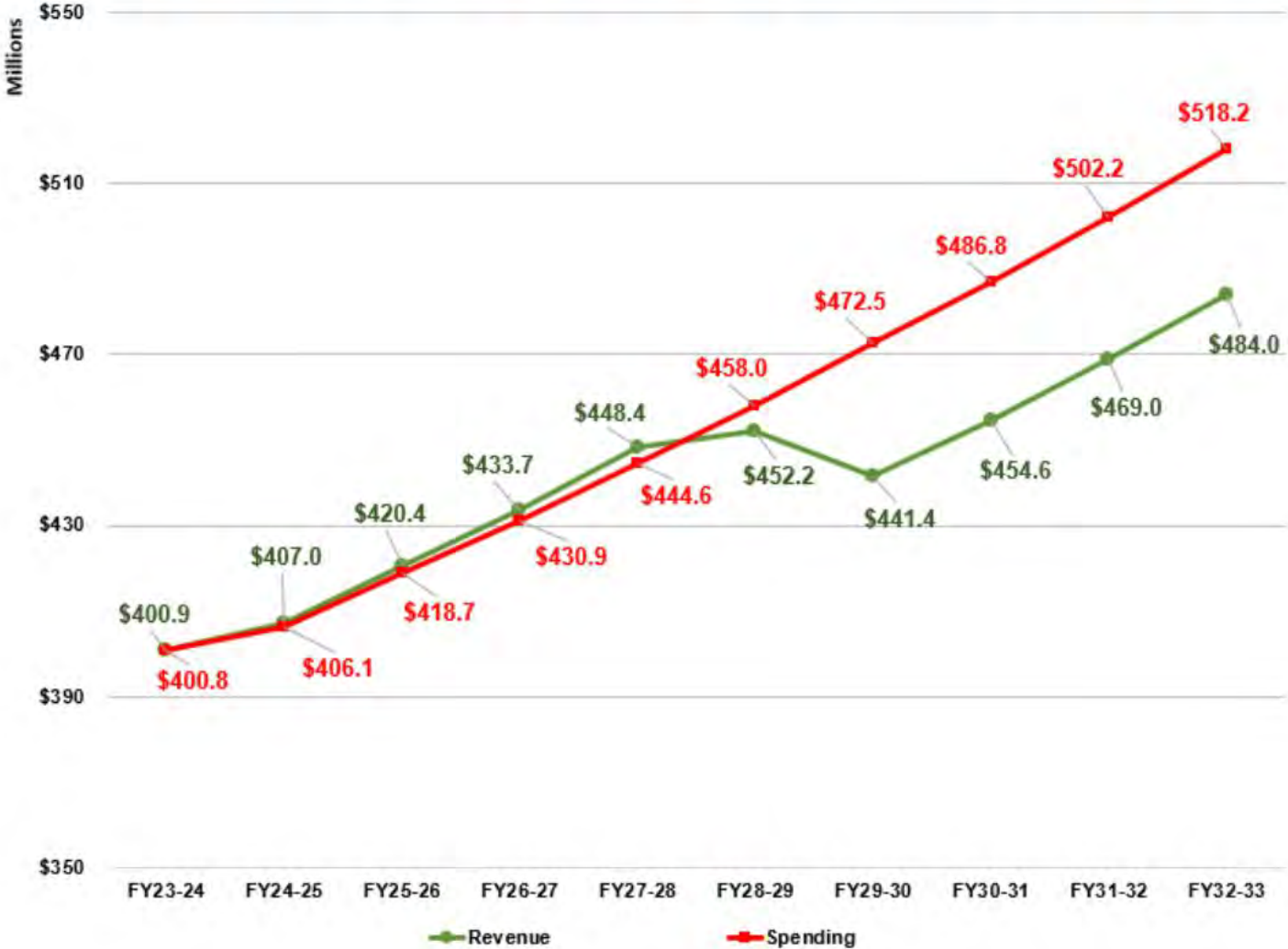
- Proposed budget for recurring spending only
- Debt pay-offs
- Measure X rate decrease (1.5% to 1.0% in 2029)
- CPI increases FY24-25 and later
- City's contribution to OC Streetcar ops begin FY24-25 (\$1M estimate)
- Planned wage increases

Updated Ten-Year Outlook – General Fund



- Includes recurring spending only
- Note: FY21-22 CalPERS investment return was 6.1% and FY22-23 YTD is 0.1%. CalPERS assumption is a 6.8% return. CalPERS numbers do not yet include the latest investment performance

Ten-Year Outlook with Mild Recession



- One-year impact of 1.2% Sales Tax decrease

Illustrative only

Ten-Year Outlook with New Development



- Sample developments:
 - \$250M mixed-use project generating \$2M annual tax revenue by 2029
 - \$100M hotel generating \$0.8M tax revenue by 2029
 - \$3B mixed-use project generating more than \$22M by 2028

Illustrative only

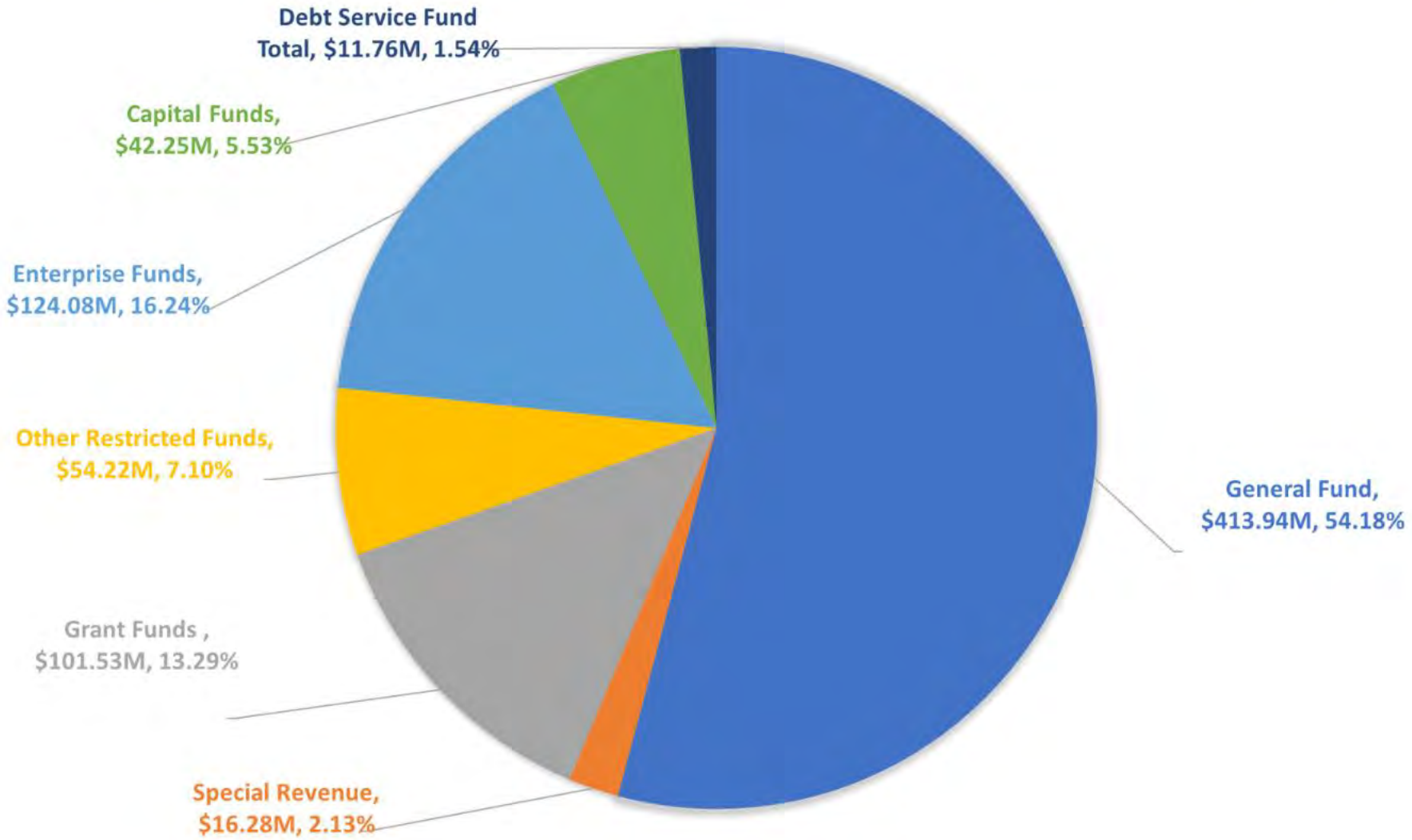
Measure X Plan for the Future

- Measure X began paying for an existing \$16M annual budget deficit on April 1, 2019.
 - FY18-19 budget deficit before Measure X approval was \$11.7M, then annual police compensation increased by \$4.3M.
- General Fund Reserve increased to 18% of annual recurring revenue or \$72.2M.
- Pension refinancing decreased the 2029 gap.
- Additional tax from new development will help.
- City Manager prioritizes one-time spending.
- Services added with Measure X are in separate accounting units called "Service Enhancements" to identify areas for future spending reductions.

Restricted Funds

- Spending-restricted resources include grants and other federal and state allocations, developer fees, and enterprises supported by user fees
- Examples:
 - Measure M2 for street improvements (local fair share + competitive) - \$17.7M
 - Gas Tax for street improvements & right-of-way maintenance (RMRA + HUTA) - \$21M
 - Water, Sewer & Refuse enterprises - \$107M
 - Housing Authority & federal housing allocations - over \$70M

Citywide Spending - \$764.06M



Internal Service Funds

Used to centrally account for internal services provided to all departments. Cost allocations are based on logic (e.g. #'s of vehicles used).

	Estimated June 30, 2024 Fund Balance	Target Fund Balance Per Policy	The Issue
Equipment Replacement	\$6,443,360	\$11,813,452	Ideal target balance is 100% of capitalized equipment depreciation. Since we do not have enough balance to replace assets as needed, we add one-time spending for highest-priority replacements.
Building Maintenance	\$1,784,270	\$5,856,780	Target balance is 100% of annual budget due to high risk of aged facilities.
Fleet	\$387,660	\$1,204,290	Target balance is 20% of annual budget.
Central Stores	\$(160,020)	\$402,932	With online ordering and quick delivery, we may be able to reduce/eliminate Central Stores. Target balance is 20% of annual budget.
General Liability	\$14,034,500	\$15,248,965	Latest actuarial liability is \$19,061,206. Target balance is 80% of the liability.
Employee Group Insurance	\$(737,030)	\$0	No target fund balance and no shortfall is expected. This figure doesn't include the revenue component caused by employee compensation increases which will be revised once bargaining agreements are finalized.
Workers Compensation	\$16,837,040	\$26,319,899	Latest actuarial liability is \$32,899,874. Target balance is 80% of the liability.
City Yard	\$(237,270)	\$317,408	Target balance is 20% of annual budget.
Public Works Project Management	\$(1,537,440)	\$0	Engineers cannot charge all their time to projects (admin, supervision, etc.). No target fund balance, as fund activity should have a net zero impact. Project billing rates have recently increased to capture more overhead and other associated costs. The work of improving the business model is ongoing.
Public Works Admin	\$(925,780)	\$0	Dept is using salary savings due to vacancies and holding off on one-time purchases to achieve net zero impact on the bottom line.
Information Systems	\$323,220	\$3,116,075	Fund balance has been spent down for various system modernizations. Ideal target balance is 100% of capitalized systems cost + 20% of annual budget.

Background & Best Practices

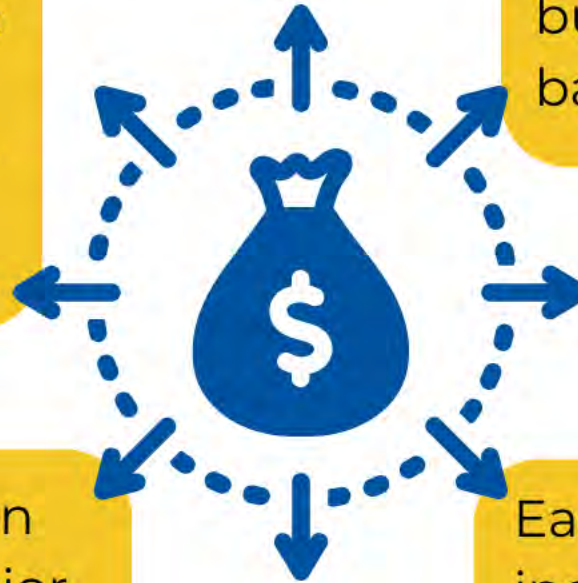


Budget Document Highlights

Overview narrative at beginning of document

- Financial policies, Strategic Plan, hot topics, revenue and labor trends, workforce changes, budget process, and Ten-Year Outlook

Fund Summary includes the budget & estimated fund balance for all funds of the City



General Fund reconciliation details all changes from prior year budget to current year budget

Each department section includes budget and labor allocations, goals, and performance indicators

City's Ability to Raise Revenue

- State Law (Prop 13, Prop 218) limits the City's ability to raise revenue
 - Taxes are for general benefit and must be approved by voters
 - Simple majority for general tax or 2/3 majority for restricted uses
 - Fees are for individual benefit and are limited to cost recovery
- The "Taxpayer Protection and Government Accountability Act," sponsored by corporate lobbyists, has qualified for the November 2024 statewide ballot to further limit local ability to raise revenue.
 - Raises approval threshold for general taxes to two-thirds
 - Expands the definition of tax (requiring voter approval) to include regulatory fees, including development fees
 - Retroactive application to January 1, 2022

Best practices



- Use *recurring revenue* for *recurring spending*
- Use most restricted sources first

Taxes (property, sales, hotel, utility, business) fund public services such as safety and recreation.

Fees (permits, water utility) cover individual service costs.

Grants and other federal/state allocations used for restricted purposes (street improvements, housing).

Capital Asset Best Practices



Maintain existing assets before developing more

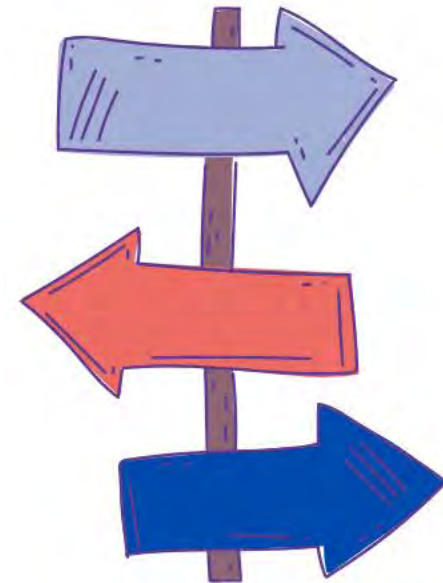


Utilize professionally developed master plans to prioritize projects



Consider future maintenance & replacement costs

Budget Direction



Fee Increase



Proposed budget includes 4.1% fee increase

City systems currently undergoing modernization

By the end of 2023, RFP to be released for new business license system (delayed due to priority for Measure W tax equity and tax holiday implementation)

RFP in development for new financial and payroll system, with implementation expected to kick-off during 2024

On May 2, Council approved a credit card payment processing agreement for modifications to accommodate new payment systems

- Rent Stabilization's Rental Registry (estimated go-live Summer 2023),
- Zoo (estimated go-live Fall 2023)
- City-wide cashiering software and hardware upgrade (estimated to go-live Winter 2023)

New land management system (Clariti) for Planning and Public Works Counters is in process of implementation (expected go-live summer 2024)

On April 4, Council recently approved new dog licensing system with expected go-live summer 2023

Rent Stabilization

- Forthcoming staff report on regular May 16 agenda
- Proposed budget includes \$100 fee per unit to fund \$3.2 million program
- Proposed program implements the City Council's Rent Stabilization Ordinance



Police Officer Deployments

South Bristol Corridor

- Patrol staffing, 3 separate patrol shifts
- Supplemented by QOLT, Directed Patrol and Traffic Officers

Downtown Santa Ana

- 4 officers assigned full-time as permanent assignment to the Downtown Business Liaison Unit
- Coverage 7 days a week from 10:00 a.m. – 8:30 p.m.
- 2 – 8 officers assigned on an overtime as-needed basis every weekend

District Policing Liaison

- Officers have been assigned to the Mayor and each Council Ward
- Contact information provided to the Mayor and Councilmembers

Environmental Justice (EJ) Commitments

- Established an Environmental Services division in Planning & Building with a dedicated full-time employee
- Climate Action Plan Funding- \$750K
- Collaborated with OC Health Care Agency and other organizations to identify partnership opportunities and raise awareness for increased healthcare services
- Delhi Groundwater Cleanup Program is the first interagency initiative addressing environmental hazard issues

Alcohol Sales at the Zoo & Stadium



Current concession contract ends September 2023



Proposals for a new concession contract are due June 19

- Posted to Planet Bids
- Pre-proposal meeting on May 24
- Parks & Recreation are working to promote the RFP for local bidders
- Alcohol service is a mandatory requirement of the RFP

Splash Pads

- Identified park sites include Portola, El Salvador, Madison, Memorial, Thornton, Zoo
- Plans & specs for all 6 sites are nearly complete
- The budget includes funding for the first two sites (Madison & Thornton)



Park Restrooms

Pre-Fab:

- Completed Memorial, Cesar Chavez Campesino and Madison
- Funded & in-process for Angels, Windsor, Heritage, Riverview
- Current cost is approximately \$725K each

Renovations:

- To be completed July 1 for Santiago West and Santiago Gas House (for rentals only)
- In-process for Lawn Bowling, Nature Center
- Funding needed for El Salvador and Santiago baseball field (considering pre-fab)

In-process of creating a master plan for Park Restrooms

Cannabis Public Benefit Fund

FY23-24	
Estimated Fund Balance July 1, 2023	\$1,501,690
Add FY23-24 Transfer from General Fund	\$10,354,720
Less Spending:	
• City Attorney's Office	\$553,080
• Finance Collections & Audit	\$362,990
• Library Youth Services	\$975,000
• Parks & Recreation Youth Services	\$3,207,410
• Code Enforcement	\$1,190,520
• Police Enforcement	\$3,520,900
Estimated Fund Balance June 30, 2024	\$2,046,510

- The FY23-24 Cannabis Public Benefit Fund is currently balanced after removing one-time spending due to tax rate reductions.
- If there is a loss of revenue beyond the estimates, the fund balance is expected to be enough to cover the shortfall before re-balancing the budget for FY24-25.

Next Steps



Public Hearing
June 6



Adoption
June 20



During FY23-24

- Update recurring revenue estimates
- Consider funding for additional police officers