



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
February 20, 2024

TOPIC: FY 2023-24 Mid-Year Budget Update, Appropriation Requests, and Workforce Changes

AGENDA TITLE

Fiscal Year 2023-24 Mid-Year Budget Update, Appropriation Requests, and Workforce Changes

RECOMMENDED ACTION

1. Receive and file the FY 2023-24 Mid-Year budget update.
2. Approve the recommended Appropriation Adjustments. (*Requires five affirmative votes*)
3. Adopt Resolution No. 2024-XXX entitled A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA TO EFFECT CERTAIN CHANGES TO THE CITY'S CLASSIFICATION AND COMPENSATION PLAN.
4. Adopt Resolution No. 2024-XXX entitled A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA TO AMEND THE CURRENT FISCAL YEAR 2023-2024 ANNUAL BUDGET TO ADJUST FULL-TIME POSITIONS IN THE CITY CLERK'S OFFICE, COMMUNITY DEVELOPMENT AGENCY, LIBRARY SERVICES, PARKS, RECREATION & COMMUNITY SERVICES AGENCY, AND PUBLIC WORKS AGENCY, INCLUDING ADDITIONS AND/OR REALLOCATIONS.

GOVERNMENT CODE §84308 APPLIES: No

DISCUSSION

The Mid-Year Budget Update provides a snapshot of General Fund activity for the first six months of the fiscal year, new information with impact to revenue, recommended appropriation adjustments, and notable items for other City funds. The update also includes recommended workforce changes and a full-time vacancy report as of December 31, 2023. Finally, the report concludes with an updated summary of all funds with estimated fund balances on June 30, 2024.

The proposed adjustments in this report result in a net \$6,254 increase in the estimated Spendable General Fund balance.

FY2023-24 Mid-Year Budget Update

	FY23-24 Adjusted Budget' (As of 12/31/23)	Proposed Mid-Yr Adjustments	Updated Estimate
Beginning Balance at July 1, 2023	127,208,578	-	127,208,578
Revenue Estimate	400,425,309	415,700	400,841,009
Appropriated Spending	(416,881,123)	(334,620)	(417,215,743)
Pension Trust Set Aside	(24,034,731)	-	(24,034,731)
Estimated Ending Balance at June 30, 2024	86,718,033	81,080	86,799,113
Less: 18% Reserve	72,073,561	74,826	72,148,387
Estimated Spendable Balance	14,644,472	6,254	14,650,726

'Includes FY22-23 Final General Fund Results & all Appropriation Adjustments through December 31, 2023, excluding Carry Forwards

General Fund Revenue

A summary of General Fund revenue follows. The City receives most of its revenue up to 60 days after the corresponding period. For example, the City receives December Sales Tax in February. Therefore, we can expect to have received approximately four (4) months (or 33%) of revenue by December 31. One notable exception is Business License Tax, where the City receives a majority of revenue in the spring of each year. Discussion is included below for changes to revenue estimates based on the latest information.

<u>Revenue Source</u>	<u>Annual Estimate Updated with 1st Qtr</u>	<u>Received As of 12/31/2023</u>	<u>% Received</u>
Business License Tax	16,000,000	2,833,148	18%
Cannabis Tax	13,060,130	5,967,602	46%
Charges for Service	32,416,140	20,153,022	62%
Franchise Fees	10,950,000	2,424,167	22%
Hotel Visitor's Tax	9,500,000	4,177,109	44%
Jail Facility Revenue	17,209,500	3,895,672	23%
Property Tax+In-Lieu of + Residual	99,387,690	24,567,830	25%
Sales Tax (Bradley Burns)	62,515,400	20,331,656	33%
Sales Tax (Measure X)	85,916,400	28,093,401	33%
Utility Users Tax	27,500,000	12,998,021	47%
All Other	25,970,049	11,139,680	43%
Totals	400,425,309	136,581,307	34%

Sales Tax (Bradley-Burns)

The original budget estimate for Bradley-Burns was \$64.7 million. The First Quarter Budget report on November 7, 2023, included an adjustment to reduce revenue

estimate by \$2.2 million. The City's Sales Tax consultant has noted a decrease from General Retail (i.e., Drug Stores) and Transportation (i.e., New Auto Sales) sectors. Therefore, staff has further adjusted the FY 2023-24 revenue estimate to \$61,042,042 (a further budget reduction of \$1,473,350).

Sales Tax (Measure X)

The original budget estimate for Measure X was \$88.6 million. The First Quarter Budget report on November 7, 2023 included an adjustment to reduce revenue estimate by \$2.7 million. The City's Sales Tax consultant has noted a decrease from Business to Business (i.e., Building Materials) sector. Therefore, staff has adjusted the FY 2023-24 revenue estimate to \$85,693,500 (a further budget reduction of \$222,900).

Property Tax, Property Tax in lieu of VLF (VLF)

The City receives its first 50% allocation from the State in January and can now accurately forecast the total revenue for the fiscal year. The City has received the January payment and staff has increased the annual revenue estimate by \$711,950.

Paramedic Service Charge

Revenue related to ambulance transports continues to exceed expectations. As noted in the FY 2022-23 Third Quarter Budget Report on May 16, 2023, a new federal program with higher reimbursement rates became effective January 1, 2023. Partial funding for that new program comes from up-front discretionary contributions from cities providing ambulance service. As long as enough cities are making a discretionary contribution, the program will continue to provide higher reimbursement rates to all. The City will continue to benefit from the new program even though the City has not made the discretionary contribution. The City's estimated discretionary contribution to the program is \$2.9 million.

At this time, based on actual receipts, staff has increased the annual revenue estimate to \$10 million, which is an additional increase of \$1.4 million. As part of the budget process, staff will bring more information to City Council regarding the discretionary contribution.

General Fund Expenditures

A summary of General Fund expenditures follows. Much of the City's budget is for employee compensation, which would support approximately 50% spending at December 31. The City typically pays invoices one month or so after the relevant service period, which supports approximately 42% spending at December 31. Two notable exceptions follow:

- The City pays for Fire Services one month in advance (or 58% at December 31).
- The City Clerk budget includes election costs, typically paid late in the fiscal year.

Based on the mix of expenditures, overall spending of 47% at December 31 is appropriate. Discussion is included below for a handful of recommended adjustments to appropriations.

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<u>Department</u>	<u>Annual Budget Updated with 1st Qtr¹</u>	<u>Spending as of 12/31/2023</u>	<u>% Expended</u>
City Manager	3,144,680	1,704,475	54%
City Council	1,021,070	418,927	41%
City Clerk	2,411,150	537,971	22%
City Attorney	4,365,880	1,704,301	39%
Human Resources	4,283,540	2,000,246	47%
Finance & Mgmt Services	11,474,370	5,748,121	50%
Library	7,409,149	3,437,338	46%
Parks, Recreation & Comm Svcs	15,206,990	7,678,262	50%
Police	146,805,550	77,131,070	53%
Fire & Emergency Medical Svcs ²	56,483,060	30,630,190	54%
Planning & Building	20,146,220	8,591,862	43%
Public Works	50,075,950	21,706,506	43%
Community Development	6,186,710	2,669,671	43%
Museum Funding	1,674,210	836,761	50%
General Non-Departmental	52,197,740	17,700,243	34%
Inter-Fund Transfers	33,994,854	14,211,099	42%
Totals	416,881,123	196,707,044	47%

¹Budget Includes all Appropriation Adjustments through December 31, 2023, excluding Carry Forwards

²Fire & Emergency Medical Services includes a one-month advance

Third & Main Parking Lot Purchase

As a requirement by the Redevelopment Agency (RDA) dissolution process, the Successor Agency submitted a Long Range Property Management Plan that addresses the disposition and use of the real properties of the former RDA. Therefore, the Community Development Agency is requesting to appropriate a one-time expenditure of \$190,000 to purchase the Third and Main parking lot from the Successor Agency to fulfill its enforceable obligation.

Camera Equipment for Police Department

The Police Department is in the middle of a multi-year project to upgrade the camera system in all 18 interview rooms. Interview rooms must have the capability to record interviews during investigations. The current camera system has fallen into disrepair and \$144,620 of additional one-time appropriations enables the department to complete this project.

Revenue Backfill

The American Rescue Plan Act (ARPA) guidelines allow cities to use their allocations for a standard \$10 million backfill of lost tax revenue during the pandemic. The revenue backfill may be used for general governmental services such as public safety. This \$10 million revenue backfill was included in the Revive spending plan. The ARPA spending deadline is drawing near. Therefore, staff proposes using the \$10 million revenue backfill to pay a portion of FY 2023-24 Fire Services and the resulting \$10 million savings for the Memorial Park project likely in 2025. The Memorial Park project currently has a \$13.9 million funding shortfall due to rising costs and increased scope.

By using the \$10 million for Fire Services in the current fiscal year and the resulting savings later for Memorial Park, the City will spend the ARPA revenue backfill timely and within guidelines and help close a funding gap for a high-priority project.

Housekeeping Adjustments for Labor Agreements

The FY 2023-24 General Fund budget includes a set-aside for labor negotiations within the Non-Departmental section of the budget. In June and July 2023, the City Council approved labor agreements for the Service Employees International Union (SEIU), Santa Ana Management Association (SAMA), Santa Ana Police Officers Association (SAPOA), and Confidential Association of Santa Ana (CASA). The staff reports included the estimated General Fund cost increase resulting from each Memorandum of Understanding. At this time, staff recommends moving the budgeted General Fund allocation for labor negotiations from Non-Departmental to various departmental budgets, based on actual usage. This housekeeping adjustment has a net zero fiscal impact.

Other Funds

Cannabis Public Benefit Fund

The Cannabis Public Benefit Fund provides dedicated funding for youth programs implemented through the Parks, Recreation and Community Service Agency and the Library. Due to rising costs and increased scope as noted above, staff requests \$2,260,000 of one-time money from this fund for the Memorial Park project. The estimated fund balance is approximately \$4.6 million, which is sufficient to cover the recommended \$2,260,000 appropriation adjustment.

Park Acquisition & Development Fund

The residential development fee applies to any person adding net residential units or converting apartments to condominiums. The City may use the revenues for the acquisition, construction, and renovation of park and recreation facilities.

- District 2 – The revenue generated in the current fiscal year exceeds the budget by \$3.1 million. The requested appropriation adjustment will increase the available fund balance to support the recommended appropriations of \$1 million for the Nature Center at Santiago Park. This project seeks to transform the interpretive hall into a dynamic space for the public to engage with the natural history of the creek, conservation action, habitat restoration, and the cultural history of the region. This project was previously funded through the Cannabis fund; however, staff recommends shifting the Cannabis allocation to the Memorial Park project.
- District 3 – The revenue generated in the current fiscal year exceeds the budget by \$1.6 million. The requested appropriation adjustment will increase the available fund balance to support the recommended appropriations of \$1.6 million for the Memorial Park project.

A summary of Memorial Park project funding follows:

<u>Fund</u>	<u>Existing Appropriations</u>	<u>Requested Appropriations</u>	<u>Total Project Funding</u>
011- General Fund	\$ -	\$ 10,000,000	\$ 10,000,000
012- Cannabis Public Benefit Fund	\$ 1,000,000	\$ 2,260,000	\$ 3,260,000
181- ARPA	\$ 6,425,327	\$ -	\$ 6,425,327
313- Residential Development District 3	\$ 8,440,095	\$ 1,600,000	\$ 10,040,095
Totals	15,865,422	13,860,000	29,725,422

Gas Tax Fund

The state imposes Gas Tax on a cents-per-gallon basis with a portion allocated to the City. It is not a percentage of sales. The City's Gas Tax revenue decreases when consumption decreases. The most recent Gas Tax estimates from the League of California Cities Fiscal Policy Advisor indicate the City's share will approximate \$15.8 million. The FY 2023-24 budgeted revenue estimate was \$16.5 million, based on previous League information, which supports decreasing the revenue estimate by \$665,888. The Gas Tax fund has an estimated fund balance of approximately \$2.4 million, which is sufficient to absorb this revenue reduction. Therefore, no adjustments are recommended for expenditures; however, staff expects to address future spending allocations for this decreasing revenue source during the FY 2024-25 budget process.

Fire Facilities Fund

The Fire Facilities fee applies to construction projects over two stories in height. The City may use the revenue to pay for equipment necessary to fight fires in structures that are over two stories and to improve fire stations in the city as necessary to accommodate such equipment. The revenue generated in the current fiscal year exceeds the budget by \$745,270. The requested appropriation adjustments will increase the available fund balance to support recommended appropriations of \$1,788,868 for projects identified by Orange County Fire Authority (OCFA) staff. These projects include the removal of an underground tank, electric gate replacements, and exterior fence installation at five fire stations across the City.

Restricted Fund Adjustments

The City receives updated information after the beginning of the fiscal year for various restricted funding sources, usually to update federal monies available for various programs. Staff recommends a series of adjustments to resize restricted-money appropriations to available balances and authorizations. Examples include federal allocations to Community Development programs.

Proposed Workforce Changes

In preparation for the Mid-Year Report, City departments review budgets, and propose updates and workforce changes to reflect organizational changes and process improvements. These proposed changes will have no net fiscal impact to the overall budget as existing department budgets will be used to fund the requested reallocations, the classification and compensation plan changes, and the three additional positions.

The Human Resources Department requests to make changes to the City's Classification and Compensation Plan in collaboration with various departments (Exhibit 2), including the creation of four new classifications, deletion of two classifications, and updating of the title and/or compensation of ten existing classifications. A summary of the proposed Workforce Changes updates is listed below with a more detailed report in Exhibit 3.

The City Clerk is requesting to reallocate two (2) full-time Office Specialist positions to two (2) full-time Senior Office Assistant positions to better align with the knowledge, skills, and abilities required to process a high volume of Public Records Act requests, contracts, and City Council agenda items. Due to vacancy savings, there will be no impact to the General Fund in the current fiscal year and a minimal impact of \$10K in FY 2024-25.

To align with current departmental needs, the Community Development Agency is requesting to reallocate one full-time (1) Community Development Commission Secretary to one (1) full-time Executive Secretary with no impact to the General Fund in the current fiscal year and an immaterial impact of \$2K in FY 2024-25. This position relieves the Executive Director of several administrative tasks such as the editing of staff reports, scheduling of meetings, and travel arrangements.

Library Services is requesting to add one (1) full-time Library Services Assistant position in the Technology and Support Services Division, with zero net impact to the General Fund in FY 2024-25 or the current fiscal year. Library Services is foregoing four part-time positions to fund this additional full-time position, which is needed to assist with increased circulation and customer service demand and the addition of a new library branch at the Delhi Center.

Aquatics is the only division in the Parks, Recreation, & Community Services Agency lacking a full-time Recreation Leader. In response, the Executive Director is requesting to add one (1) full-time Recreation Leader. These duties have historically relied on part-time staffing. A full-time position will provide continuity to the program and take on additional responsibilities beyond part-time duties. This position, which is funded through the Cannabis Public Benefits Fund, will have a net zero impact since the department is foregoing part-time funds to afford this position.

The Executive Director of the Public Works Agency is requesting to reallocate (2) full-time positions and to add one (1) full-time position:

- Reallocate one (1) Senior Office Assistant to one (1) Management Aide due to the more complex duties that align with the Management Aide role, such as staff report compilation and project management support. This position is being funded through the Water Utility Fund.
- Reallocate one (1) Associate Engineer to one (1) Civil Engineer. There will be no current year fiscal impact to the General Fund with an immaterial impact of \$12K in FY 2024-25. This position is being upgraded to balance the project management workload which is currently falling on the two existing Civil Engineers.
- A full-time Office Assistant position is being added due to a long-term Part-Time Civil Service (PTCS) Office Assistant incumbent converting to one (1) full-time Office Assistant position. The additional costs to support this additional full-time position will be absorbed by PWA's Administrative Services Fund 101 with no fiscal impact to the General Fund.

FISCAL IMPACT

The General Fund's fiscal impact is included at the beginning of this report. Exhibit 1 includes the line item changes to revenue estimates and recommended appropriation adjustments. Exhibit 5 includes the estimated June 30, 2024 fund balance for all funds, including revenue impacts and recommendations covered in this report.

EXHIBIT(S)

1. Line Item Changes to Revenue Estimates and Recommended Adjustments
2. Resolution to Effect Certain Changes to the City's Classification and Compensation Plan
3. Resolution to Amend the Current Fiscal Year 2023-2024 Annual Budget to Adjust Full-Time Positions in the City Clerk's Office, Community Development Agency, Library Services, Parks, Recreation & Community Services Agency, and Public Works Agency, Including Additions and/or Reallocations
4. Vacancy Report at December 31, 2023
5. Updated FY23-24 Fund Balance Summary for All Funds

Submitted By: Kathryn Downs, FMSA Executive Director

Approved By: Tom Hatch, Interim City Manager