



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
June 3, 2025

TOPIC: FY2024-25 Third Quarter Budget Report and Proposed Appropriation Adjustments

AGENDA TITLE

Fiscal Year 2024-25 Third Quarter Budget Report and Proposed Appropriation Adjustments

RECOMMENDED ACTION

1. Receive and file the Fiscal Year 2024-25 Third Quarter Budget Update.
2. Approve the recommended appropriation adjustments. *(Requires five affirmative votes)*

GOVERNMENT CODE §84308 APPLIES: No

DISCUSSION

The FY2024-25 Third Quarter Budget Update provides a General Fund snapshot at the 75% mark of the fiscal year. This report includes updates to revenue estimates, recommended appropriation adjustments, summary information, and a full-time staff vacancy report as of March 31, 2025. Other than the funds noted below in the Restricted Fund Adjustments section, there is nothing significant to report for other City funds.

General Fund Summary

FY2024-25 General Fund Summary

	FY24-25 Adjustments Approved by City Council through 03/31/2025	Proposed Adjustments	Updated Estimates
Estimated Beginning Balance at July 1, 2024	129,845,057	-	129,845,057
Revenue Estimate	408,609,794	(639,780)	407,970,014
Transfer In for Pension Trust Set Aside	1,000,000	-	1,000,000
Appropriated Spending ¹	(414,577,471)	709,250	(413,868,221)
Pension Trust Set Aside ²	(37,565,751)	-	(37,565,751)
Estimated Ending Balance at June 30, 2025	87,311,629	69,470	87,381,099
Less: 18% Reserve ³	73,549,763	(129,600)	73,420,163
Estimated Spendable Balance	13,761,866	199,070	13,960,936

¹Includes all appropriation adjustments through March 31, 2025, excluding Carry Forwards.

²The Pension Trust Set Aside is reflected here for full transparency. Funds will be transferred to the General Fund before being deposited into the Section 115 Trust.

³The \$26,750 in sponsorship revenue and \$53,470 for the Fund 400 closure is considered one-time and not included in the 18% reserve requirement, which applies to recurring revenue only.

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Details on the updated revenue estimates and recommended expenditure reductions are provided in the following sections. The revised recurring revenue estimates lowered the required 18% reserve, which is calculated only on recurring revenues, by \$129,600. Based on the net changes in revenues and expenditures, along with the revised reserve requirement, the estimated spendable fund balance as of June 30, 2025 increased by a net amount of \$199,070. The new estimated spendable fund balance is now \$13.9 million.

The materials provided for the May 20 Budget Work Session indicated an estimated ending spendable balance of \$1.4 million. This balance reflects proposed FY 2025-26 one-time allocations, including \$10.4 million for various projects and other one-time uses, and an additional \$1 million deposit to the Section 115 Pension Trust.

In addition, the City’s General Fund Reserve Policy requires maintaining a reserve equal to 18% of annual recurring revenues. With the projected increase in recurring revenues for FY 2025-26, approximately \$1.1 million of the available balance as of June 30, 2025 was shifted to the reserve, reducing the remaining amount available for allocation. After accounting for these proposed uses, the ending estimated spendable balance is \$1.4 million.

Overall, after accounting for the adjustments to both revenues and spending, the General Fund remains balanced, with recurring revenues exceeding recurring expenditures by \$14,711.

	Updated Estimates	Remove One-Time	Recurring
Revenues	407,970,014	(80,220)	407,889,794
Expenditures	(413,868,221)	5,993,138	(407,875,083)
	<u>(5,898,207)</u>	<u>5,912,918</u>	<u>14,711</u>

General Fund Revenues

A summary of General Fund revenues follows.

Revenue Source	Annual Estimate Updated through 03/31/2025	Received as of 03/31/2025	% Received
Property Tax/ Property Tax In-Lieu of VLF	93,275,980	53,270,931	57.1%
Sales Tax (Measure X)	82,852,591	48,385,683	58.4%
Sales Tax (Bradley Burns)	59,030,665	33,860,934	57.4%
Other General Fund Revenue	47,512,303	30,524,357	64.2%
Charges for Service	31,021,950	22,484,741	72.5%
Utility Users Tax	28,800,000	20,826,774	72.3%
Business License	17,450,000	12,142,835	69.6%
Jail Revenue	14,153,500	5,257,933	37.1%
Franchise Fees	12,875,000	6,522,970	50.7%
Cannabis Revenue	12,137,805	8,741,139	72.0%
Hotel Visitor's Tax	9,500,000	6,197,242	65.2%
Pension Stabilization Trust	1,000,000	1,000,000	100.0%
Total General Fund Revenues⁴	409,609,794	249,215,537	60.8%

⁴Includes all appropriation adjustments through March 31, 2025, excluding Carry Forwards appropriated on March 4, 2025.

Through March 31, 2025, the City received approximately \$249.2 million in General Fund revenues, representing 60.8% of the annual budgeted estimates. Because revenues for FY 2024–25 will continue to be accrued through the end of August, this collection rate is consistent with expectations and is on track to meet revenue estimates.

As noted in the Mid-Year Budget Update presented to City Council on March 4, 2025, staff previously made certain adjustments to revenue estimates. For this Third Quarter Budget Update, staff has completed a further review of revenues based on nine months of actual collections and is recommending several additional adjustments to better align with year-end estimates. Notable updates are summarized below.

Jail Revenues

The City's jail revenue continues to decline due to staffing challenges and deferred maintenance, which have limited the jail's ability to operate at full capacity. Based on nine months of billing and activity, staff decreased the jail revenue estimate by \$3,820,000, resulting in a revised budget total of \$10,330,000.

To address these challenges, staff has implemented several improvements, including adding an additional jail maintenance worker and securing funding to address deferred maintenance needs. As part of the upcoming FY 2025-26 budget process, staff is also proposing pay adjustments for Correctional Officers to improve recruitment and retention, as well as funding for a Pay-to-Stay program designed to generate additional revenue. Both staffing and facility improvements will be necessary to improve jail capacity and support future revenue recovery.

Planning and Building Charges and Fees

Based on nine months of activity through March 31, 2025, staff decreased the plan check and permit revenue estimate by \$3,200,000, resulting in a revised budget total of \$8,191,000.

Plan check revenues are generated during the review of development plans to ensure compliance with building codes, zoning regulations, and other applicable standards. Once plans are approved, building permits are issued, generating additional permit fee revenue. Both plan check and permit activities are sensitive to development trends and broader economic conditions.

The adjustment reflects a continued slowdown in development activity, as higher interest rates have led many developers to delay or pause new projects. According to the National Association of Home Builders, elevated borrowing costs remain a major factor slowing construction nationwide. This trend is expected to continue into Fiscal Year 2025-26 and staff will incorporate updated projections into the upcoming budget process.

Paramedic Service Charge

The Public Provider Ground Emergency Medical Transportation (PP-GEMT) program provides supplemental federal reimbursement to public agencies for the cost of emergency medical transports for Medi-Cal patients. To further support agencies, a new federal program increasing reimbursement rates took effect on January 1, 2023, resulting in higher collections than originally estimated. Based on year-to-date activity, staff increased the Paramedic Services Charge revenue estimate by \$3,500,000, resulting in a revised budget total of \$15,100,000.

Investment Earnings

Initial estimates assumed that American Rescue Plan Act (ARPA) funding balances would significantly decrease by the December 2024 obligation deadline. However, because major projects take time to complete, such as the Main Library renovation, Memorial Park improvements, and others, project balances have remained higher than anticipated. Combined with continued elevated interest rates, the City has experienced higher investment earnings than originally projected. Accordingly, staff has updated the investment earnings estimate by \$1 million, resulting in a revised total of \$3,150,000.

Business License Tax

Business Tax revenues continue to exceed original estimates, supported by ongoing compliance efforts led by Treasury Services staff. Based on continued strong performance through the third quarter, staff recommends increasing the revenue estimate by an additional \$560,000. This brings the revised total for FY 2024-25 to \$18,010,000.

Refuse Franchise Fee Update

The Refuse Franchise Fee revenue estimate was previously updated during the Mid-Year Report based on available data. Following continued strong collections through March, the estimate has been increased by an additional \$740,000, bringing the total to \$10,240,000 for FY 2024-25. The increase is primarily driven by higher waste collection rates implemented by the City's hauler. As franchise fees are calculated as a percentage of the hauler's gross receipts, these rate adjustments have resulted in higher revenues to the City.

Utility Users Tax – Electric

As part of the Mid-Year Budget Report on March 4, 2025, staff adjusted the Utility Users Tax revenue estimate for electric services to reflect higher-than-expected receipts. Based on continued strong collections through the third quarter ending March 31, 2025, staff has adjusted the revenue estimate upward by an additional \$500,000. This adjustment accounts for sustained higher electricity rates implemented by Southern California Edison (SCE) and elevated demand. The revised Utility Users Tax – Electric revenue budget for FY 2024-25 is now \$18,800,000.

City Event Sponsorship

The Parks, Recreation, and Community Services Agency has actively pursued sponsorships to help reduce the City’s share of event costs. To support this, staff recommends appropriating \$26,750 to the City Events budget, offset by sponsorship revenue received this fiscal year. These funds will help address cost overages often caused by last-minute requests and expanded event scope.

General Fund Expenditures

A summary of General Fund expenditures follows.

<u>Department</u>	<u>Annual Budget</u>		
	<u>Updated Through</u>	<u>Spending as of</u>	<u>%</u>
	<u>03/31/25</u>	<u>03/31/25</u>	<u>Expended</u>
City Attorney	4,796,795	2,738,488	57.1%
City Clerk	1,934,570	1,187,578	61.4%
City Council	1,043,970	658,387	63.1%
City Manager	4,439,970	2,520,861	56.8%
Community Development	6,966,123	3,116,554	44.7%
Finance & Mgmt Services	13,660,160	8,970,693	65.7%
Fire & Emergency Medical Svcs ⁵	60,483,949	47,694,134	78.9%
General Non-Departmental	52,543,830	31,943,860	60.8%
Human Resources	4,498,370	2,361,275	52.5%
Inter-Fund Transfers	17,655,630	13,368,217	75.7%
Library	14,061,311	6,064,467	43.1%
Museum Funding	1,715,320	1,291,186	75.3%
Parks, Recreation & Comm Svcs	28,869,696	12,013,061	41.6%
Planning & Building	21,818,656	13,235,832	60.7%
Police	163,556,712	113,720,498	69.5%
Public Works	81,296,914	31,021,591	38.2%
Total General Fund Expenditures⁶	479,341,976	291,906,683	60.9%

⁵Fire & Emergency Medical Services includes a one-month advance.

⁶Includes all appropriation adjustments through March 31, 2025, including Carry Forwards.

As of March 31, 2025, General Fund expenditures are at 61% of budget, which is relatively consistent with the prior year when expenditures were at 62%.

In accordance with the City’s Budget and Reserve Policy, the General Fund budget must remain balanced, with recurring expenditures not exceeding recurring revenues. To support this requirement and in response to the lower revenue estimates noted above, staff is recommending one-time expenditure reductions. These reductions reflect a \$1,036,000 decrease in the salary budget, achieved through vacancy savings in select departments.

Litigation Costs

Staff also recommends a one-time adjustment to increase appropriations in the Non-Departmental budget by \$300,000 for higher than expected litigation expenses. To account for this trend, the FY 2025-26 Proposed Budget includes a one-time increase in litigation funding.

Restricted Fund Adjustments

Water Enterprise

On June 4, 2024, the City Council approved the sale of Water Revenue Bonds to finance \$40 million in high-priority improvements to the City's water system. These proceeds from the Water Fund support the design, acquisition, and construction of capital improvements. In accordance with governmental fund accounting standards, capital expenditures are recorded in the Acquisition and Construction Fund.

A housekeeping adjustment has been made to move \$14,745,008 in revenue originally recorded in FY 2023–24 to the current fiscal year. This update ensures the Acquisition and Construction Fund's Spendable Fund Balance accurately reflects reimbursements scheduled for this year and eliminates the current deficit.

A second housekeeping adjustment is also required to increase the transfer from Fund 060, the Water Revenue Fund, to Fund 066, the Acquisition and Construction Fund, by \$10,666,969 to ensure proper alignment of resources within the Water Enterprise.

SoCal Gas Community Investment Fund

The City's Neighborhood Initiatives and Environmental Services (NIES) section of the Planning Division is requesting an appropriation adjustment to recognize \$50,000 in advanced grant funds from the SoCal Gas Community Investment Fund and appropriate the same amount to Misc Operating Expense. Monies will be used to purchase purchasing air quality monitors, which monitors air quality on city-owned property and some residential properties, depending on eligibility criteria. This Fund is facilitated by the California Community Foundation, for the Air Pollution Monitors and Air Purifiers (APMAP) project. This initiative addresses significant pollution burdens in the city's most disadvantaged communities, identified by CalEnviroScreen 4.0 and California Healthy Places Index as ranking 90% or above in pollution burden. The grant will fund the project's initial phases focusing on:

- (1) Community empowerment through education
- (2) Installation of air quality monitors to improve data accessibility for residents. By bridging data gaps and promoting environmental awareness, this project aims to enhance climate resilience and air quality in vulnerable neighborhoods through December 2026.

Police Revenue Bonds

The Police Department's Holding Facility Debt Service was paid off in FY2023-24, leaving an immaterial remaining balance. To formally close the Fund, staff is recommending that the remaining cash balance of \$53,470 transfers to the General Fund, which provided most of the funding for the debt service payments. There was a remaining balance in the Fund because the City used interest proceeds in the trustee account to supplement the debt service payments. This resulted in the total payments being less than the total amount transferred from the General Fund.

RDA: Successor Agency Fund

Santa Ana's Successor Agency finalized the sale of the Third Street and Main Street Parking Lot to the City on April 21, 2025. In accordance with Long Range Property Management Plan approved by the State Department of Finance, the proceeds from this transaction must be remitted to the County of Orange Auditor-Controller for distribution among the various taxing entities. Revenue has been updated to reflect \$190,000 from the sale. A corresponding appropriation adjustment of the same amount is requested to authorize payment to the Orange County Auditor-Controller.

ENVIRONMENTAL IMPACT

There is no environmental impact associated with this action.

FISCAL IMPACT

The General Fund Fiscal Impact is detailed on page 2 of this report. Exhibit 1 lists the line item changes to revenue estimates and recommended appropriation adjustments. After accounting for all the revenue and expenditure adjustments, the net impact is a \$199,070 increase to the General Fund's estimated Spendable Fund Balance as of June 30, 2025.

EXHIBIT(S)

1. Line Item Changes to Revenue Estimates and Recommended Adjustments
2. Third Quarter Vacancy Report Summary

Submitted By: Alex Trinidad, Acting Executive Director of Finance and Management
Services Agency

Approved By: Alvaro Nuñez, City Manager