



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
December 21, 2021

TOPIC: Fiscal Year 2021-2022 General Fund - First Quarter Budget Update

AGENDA TITLE:

Fiscal Year 2021-2022 General Fund - First Quarter Budget Update

RECOMMENDED ACTION

1. Receive and file the fiscal year 2021-2022 General Fund - First Quarter Budget Update, including the increased sales tax and property tax estimates (Exhibit 1).
2. Amend the fiscal year 2021-2022 budget to add one position funded by the Water enterprise within the Finance and Management Services Agency (Exhibit 2) and approve a \$42,720 Appropriation Adjustment to fund the position for the remainder of FY21-22. *(Requires five affirmative votes)*
3. Approve one-time General Fund Appropriation Adjustments totaling \$24,655,000 described in detail below for fiscal year 2021-2022. *(Requires five affirmative votes)*
4. Approve recurring General Fund Appropriation Adjustments totaling \$3,066,900 described in detail below for fiscal year 2021-2022, which includes amending the FY21-22 budget to add one position to the Community Development Agency (Exhibit 2) and funding for two positions in the City Clerk's Office and the City Attorney's Office. *(Requires five affirmative votes)*
5. Adopt a resolution amending the current Fiscal Year 2021-2022 Annual Budget to add one Full Time Position in the Finance and Management Services Agency and one Full Time Position in the Community Development Agency.

EXECUTIVE SUMMARY

The first quarter budget update normally covers July through September. At the end of September, staff received actual sales tax data through June 2021 and had reason to believe FY21-22 sales tax revenue would be significantly more than the budget estimate.

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In October, with the closing of the FY20-21 books, it became apparent the General Fund experienced significant positive variances, yet the audit was not yet complete. Therefore, staff postponed the first quarter budget report until more data was available to provide complete information to the City Council.

The June 30, 2021 General Fund balance was \$109.4 million, which is \$42.3 million in excess of the 18% Reserve policy. The \$42.3 million is a one-time resource derived from \$19.5 million additional sales tax revenue during FY20-21 (discussed further below) and controlled spending across all departments through the pandemic.

This one-time resource is a unique opportunity to address issues underfunded in previous years. As reported previously, there are significant budget challenges related to the train station enterprise, the health of internal service funds, and deferred maintenance of City facilities. The following recommended spending plan would address many of those challenges and leave \$16.4 million of one-time funding for other priorities identified by City Council.

1. Maintain the 18% General Fund Reserve with \$1.3 million of the additional estimated sales tax revenue.
2. Appropriate the following amounts totaling \$24.7 million.

Contribution to the train station enterprise to cure the June 30, 2021 negative fund balance of \$1,807,208 plus further depletion of the fund with the FY21-22 budget.	\$1,900,000
Contribution to the risk management funds to provide for the FY21-22 insurance rates reported to City Council on June 15, 2021.	\$1,500,000
Contribution to the internal service fund accounting for employee benefits to cure the June 30, 2021 negative fund balance of \$1,227,916 plus the further depletion of the fund with the FY21-22 budget.	\$3,400,000
Contribution to the internal service fund accounting for building maintenance due to aging facilities and increased demand for upkeep.	\$2,500,000
Contribution to the internal service fund accounting for fleet maintenance to avoid the estimated negative fund balance at June 30, 2022, as shown on page B-21 of the budget document.	\$1,500,000
Rehab and repurpose the Cypress Fire Station. Based on further City Council direction, staff can propose a specific project later this fiscal year.	\$1,000,000
Ross Annex improvements to replace an industrial sized air conditioning unit, second-floor aged carpets and workstations, and reorganize workspace locations to improve efficiency and collaboration. The proposed appropriation will optimize efficiency	\$1,450,000

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and economies of scale with inter-related City Hall improvement projects already in the City's budget.	
Deferred maintenance of the train station, including exterior stucco, painting inside and out, wall tile and coping, fountain repair, parking lot resurfacing, air conditioning upgrades, restroom remodels, and other plumbing repairs.	\$5,405,000
An economic development project in the South Main Corridor to provide restaurant incubation and Public Art for the South Main Corridor revitalization.	\$3,000,000
Deferred park maintenance projects.	\$1,500,000
Remove underground storage tanks at City-owned fire stations 71, 74 and 75.	\$1,050,000
Purchase a mini-sweeper for protected bike lanes.	\$150,000
Memorial to Lives Lost to COVID-19.	\$200,000
Eliminate shared City Council offices.	\$100,000
Total Proposed Appropriations – One-Time	\$24,655,000

To protect service levels, the FY21-22 budget included a \$12.6 million use of the General Fund balance available for spending (a one-time resource). New information related to sales tax and property tax supports increasing FY21-22 revenue estimates by \$16.6 million, resulting in \$4 million of FY21-22 revenue available to appropriate ongoing costs. With the increase to the revenue estimate, the City no longer has a deficit budget for FY21-22. The following spending plan would address issues raised by the City Council and partially restore frozen employee positions to improve service levels to the public, while maintaining a balanced budget.

Recurring	Remainder of FY21-22	Future Annual Cost
Sidewalk improvement program	\$500,000	\$1,000,000
Traffic calming program	\$500,000	\$1,000,000
Alley improvement program	\$750,000	\$1,500,000
Graffiti removal program enhancements for the areas adjacent to public pathways in the railroad corridors	\$300,000	\$600,000
Protected Bike Lane sweeping program	\$75,000	\$150,000
Contracted administrative support for City Council (annual allocation of \$60,000 per Council Member)	\$210,000	\$420,000
Juneteenth Celebration 2022 (full cost necessary for FY21-22)	\$50,000	\$50,000
Increase the City Events budget	\$50,000	\$100,000

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Partially restore funding for frozen employee positions. The estimated value of the FY21-22 hiring freeze is \$2,911,300.	\$400,000	\$800,000
Funding for one full-time Economic Development Specialist I position to the Community Development Agency	\$57,840	\$115,680
Funding for one full-time Records Manager position to the City Clerk's Office	\$79,980	\$159,960
Funding for one full-time Employment Staff Attorney position to the City Attorney's Office	\$94,080	\$188,160
Total Proposed Appropriations – Recurring	\$3,066,900	\$6,083,800

DISCUSSION

The First Quarter Update covers activity posted to the general ledger during July 2021 through September 2021 and the vacancy report for funded staff positions. First quarter revenue represents less than three months of receipts in many cases due to the lag time for remittance. Examples include Sales Tax, Hotel Visitors' Tax, and Cannabis Tax. Therefore, when analyzing the revenue as of September 30, 2021, it is normal to see 10%-15% revenue received to date. Whereas expenditures have much higher activity in the first quarter due to annual payments for insurance, the one-month advance for fire services, and the fact that 59% of the budget is for employee compensation paid twice per month.

This update focuses on the General Fund, as it is the primary operating fund of the City. Only notable items for other funds are included in this report.

General Fund Revenue

During the first quarter FY21-22, the City received approximately \$36.8 million in General Fund revenues, which is 10.8% of the annual estimate.

Lookback to FY20-21 Sales Tax (Bradley-Burns and Measure X): Actual FY20-21 sales tax exceeded the estimates reported in February 2021 by a total of \$19.5 million.

	FY20-21 Estimate	FY20-21 Actual	Positive Variance
Bradley-Burns	\$49,198,300	\$54,999,505	\$5,801,205
Measure X	61,432,700	75,094,336	13,661,636
Total	\$110,631,000	\$130,093,841	\$19,462,841

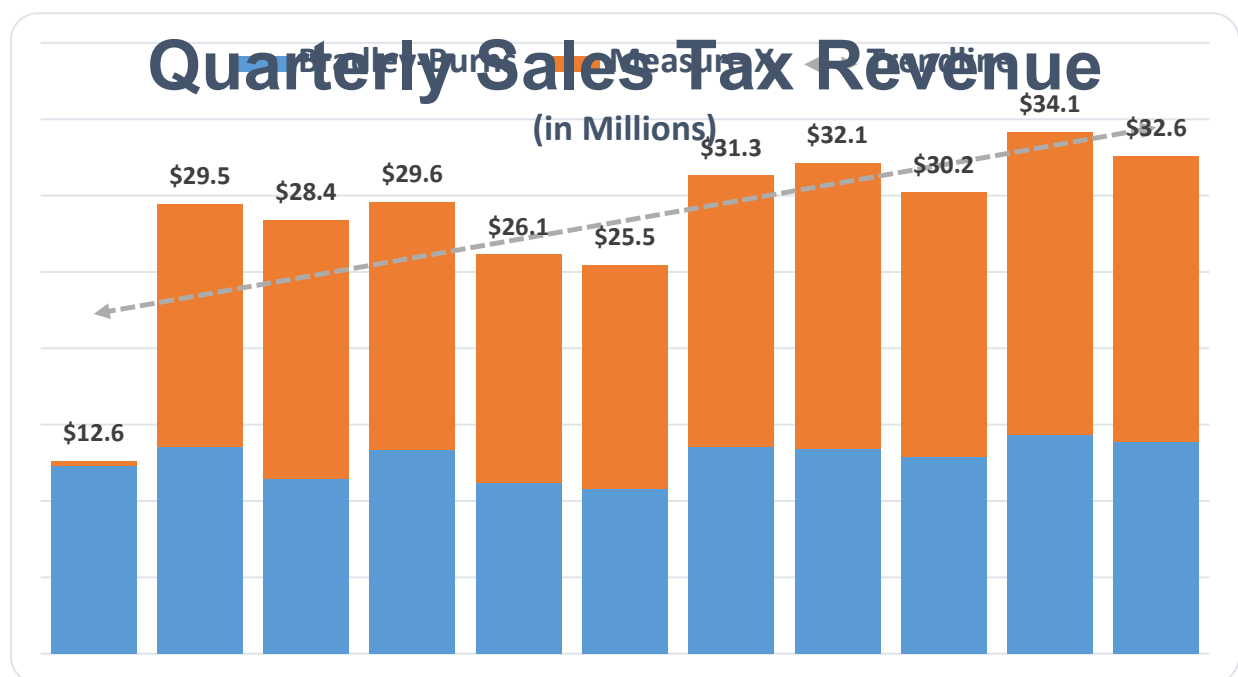
The City's sales tax consultant receives detailed data from the state, analyzes it, and provides estimates of future revenue. The pandemic and the Wayfair decision for out-of-state online vendors to collect California sales tax created an unprecedented environment, and the consultant understandably provided conservative estimates. Santa Ana is not alone, as many California cities experienced favorable sales tax results, including the state of California.

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FY21-22 Sales Tax (Bradley-Burns and Measure X): Moving forward, the sales tax consultant increased the FY21-22 revenue estimates as follows.

	FY21-22 Original	FY21-22 Revised	Increase
Bradley-Burns	\$53,650,000	\$57,600,000	\$3,950,000
Measure X	65,000,000	77,250,000	12,250,000
Total	\$118,650,000	\$134,850,000	\$16,200,000

A quarterly report on Sales Tax and Business Activity is provided in Exhibit 3.



Property Tax, Property Tax in lieu of VLF & Santa Ana Residual Property Tax: Total Property Tax collected for the first quarter is \$0.7 million. Approximately two-thirds of Property Tax is collected during the months of December and April. Furthermore, the first payment (50%) of Property Tax in lieu of VLF is received in January and the second payment in May. Based on assessed value information available from the county after adoption of the City's budget, the City's property tax consultant has provided an updated revenue estimate that is \$380,000 more than the estimate included in the budget.

Hotel Visitors' Tax (HVT): HVT collected for the first quarter is approximately \$1.5 million, which is nearly double the amount of the prior year's first quarter results of \$0.8 million, but still \$0.6 million below pre-pandemic levels in the same quarter of FY 19-20. The global pandemic has continued to affect hotels' ability to accommodate guest services such as banquets, conferences and other meeting events; however, there are signs for recovery. Staff expects HVT will increase after the pandemic; and after new

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hotels continue through the development process and open for business, such as the Tapestry by Hilton. Staff will continue to monitor activity over the first six months and may adjust to increase revenue estimates with the Mid-Year Budget Report as needed.

Business License Tax (BLT): The BLT revenue of \$1.4 million collected in the first quarter exceeded last year's revenues of \$1.0 million. The revenue is on track to meet the \$12.2 million annual estimate. With the hiring of additional staff, our revenue division has been able to proactively improve collections, including making payment arrangements with small businesses suffering during the pandemic. Peak business license periods occur during the third and fourth quarters of the fiscal year, when approximately 80% of annual BLT is collected.

Utility Users Tax (UUT): The UUT is a 5.5% tax on the following utilities: electric, gas, water, and telecommunications. UUT collected for the first quarter is nearly \$4.4 million, which exceeded last year's revenues of \$4.0 million. Currently, the electric, gas and water utilities are trending above last year's first quarter results. However, the telecommunications utility users' tax has been showing a continual downward trend for the past few years and is nearly \$0.1 million less than the prior year. This appears to be primarily due to service providers readjusting their apportionment of sales from taxable to nontaxable services.

Permits and Plan Check: Current permit and plan check revenues collected total \$3.8 million. Plan check revenues in the first quarter surpassed annual estimates by nearly \$0.1 million or 3.4%, while permit revenues of \$1.1 million are nearly doubled the amount of last year's first quarter results of \$0.6 million. The uptick in planning and building activity is due to a one-time spike in plan check activity. Staff will continue to monitor development activity and related revenues and may revise revenue estimates with the Mid-Year Budget Report.

General Fund Expenditures for FY 2021-2022

Overall, General Fund expenditures are at 22.6% of budget. Each department is within the expected range of spending for the first quarter. It should be noted the first quarter activity includes four monthly payments for fire services, as the City pays one month in advance.

OTHER CITY 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. Examples of programs implemented during the first quarter include:

- The Book/Tech Mobile program engages the community where they are by placing an emphasis on technology, robotics and STEM learning.

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- Wireless hotspots have been expanded to allow for filtered safe internet services for the City's youth community.
- Year-round aquatics program at Memorial Pool and seasonal aquatic programs for youth to promote water safety and stay physically active.
- The Youth Internship program, in partnership with the Santa Ana Youth (SAY) Employment Program, provides a paid work experience to introduce youth into the workforce and is a year around program.

The City Council recently received a report of FY20-21 actual expenditures in the Cannabis Public Benefit Fund, as recommended by the Orange County Grand Jury.

Parking Enterprise

The Parking Enterprise fund was impacted by COVID-19, but as outdoor dining continues to be an option in the downtown area and events are planned during the year, we expect to see a slight improvement in parking revenue. However, staff may recommend a subsidy with the FY21-22 Mid-Year Budget Report to fund ongoing parking operations.

Internal Service Funds

Internal Service Funds are used to centralize the budget and accounting for services provided to other City departments. Examples include General Liability claims and coverage, Employee Benefits, Building Maintenance, and Fleet Maintenance. The City utilizes a consultant to review, validate, and develop internal charges to City departments. The FY21-22 budget included increased charges for some of these funds; but other charges have remained static while labor, supply and contract costs continue to increase. As such, some of the Internal Service Funds are still troubled and in need of increased contributions to sustain service levels.

General Liability Fund

The City's *Budget and Reserve Policy* includes a target reserve equal to 80% of the actuarial-determined loss liability. The General Liability Fund is short of this target over the next two years by \$6.4 million. Staff will work towards developing a long-term plan to achieve target reserve levels.

Workers Compensation Liability Fund

The Workers Compensation Liability Fund is also short of the target reserve level over the next two years by \$12.9 million. Staff will work towards developing a long-term plan to achieve target reserve levels.

Employee Benefits Fund

The pass-through charges accounted for in the Employee Benefits Fund have remained level for many years, even though the City's costs for employee benefits have steadily increased. The fund has been operating at a loss, depleting the previously accumulated fund balance. The actual fund balance at June 30, 2021 was negative \$1,227,916. The FY21-22 budget would deplete the fund balance by another \$2.2 million, as shown on page B-21 of the budget document. Recently, staff and the City's consultant worked

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through an updated cost allocation and internal charge methodology to be included in the proposed FY22-23 budget. In the meantime, the fund needs a cash infusion to avoid a negative fund balance at June 30, 2022.

Building Maintenance Fund

The City's buildings are aged and there has been an increased demand for repairs across all city facilities including fire stations and the City Hall complex. Over the past four years, the fund has been operating at a loss and has continued to rely on fund balance to pay for its operational costs. Staff expects the FY21-22 budget will deplete the fund balance. We currently recommend a one-time infusion, with a plan to propose a rebalancing of internal charges and costs with the FY22-23 budget.

Fleet Maintenance Fund

The Fleet Maintenance Fund provides support for the maintenance and operation of city-owned vehicles. In three of the last four years, the fund has been operating at a loss and has been using available fund balance to cover operations and new vehicle purchases. The labor and supply costs have been increasing and growth of the fleet has increased demand for routine maintenance, yet the corresponding internal charges to departments have not increased. We currently recommend a one-time contribution, with a plan to propose a rebalancing of internal charges and costs with the FY22-23 budget.

Full-Time Employee Position Vacancy Report

The FY 2021-22 budget included funding for 1,263 full-time positions. On October 5, 2021, the City Council approved an additional 21 positions across various departments funded by the Revive Santa Ana program. These new positions funded in the second quarter will be included in the Mid-Year Budget Report.

Staff recommends adding one full-time Meter Reader Collector position funded by the Water Enterprise Fund. This area has been experiencing staffing shortages for a number of years, impacting timely reads and rereads of water meters used for water billing. Furthermore, staff expects the water fund to receive a significant infusion of funds from the state in January for past-due water accounts. The requested funding for the position is \$42,720 to cover the remainder of the fiscal year, with the full annual amount to be included in the FY22-23 budget.

Staff also recommends adding one full-time Economic Development Specialist I position in the Community Development Agency to support the administration of new economic development and resident assistance programs. The requested funding for the position is \$57,840 to cover the remainder of the fiscal year, with the full annual amount to be included in the FY22-23 budget.

Additionally, staff recommends adding one full-time Records Manager position in the City Clerk's Office to manage the increased volume of public records request. Human Resources will provide a final recommendation of appropriate job classification which will

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be included in the Mid-Year Report. The requested funding for the position is estimated at \$79,980 for the remainder of the fiscal year with the full annual amount to be included in the FY 22-23 budget.

Furthermore, staff recommends adding one full-time employment staff attorney position in the City Attorney's Office to provide labor relations support for investigations and contract negotiations to provide cost savings. The utilization of in-house staff will minimize the cost of using outside contract attorneys. Human Resources will provide a final recommendation of appropriate job classification which will be included in the Mid-Year Report. The requested funding for the position is estimated at \$94,080 for the remainder of the fiscal year with the full annual amount to be included in the FY 22-23 budget.

As of September 30, there is a total of 154 total vacancies (Exhibit 1), of which, 124 are funded vacant positions and 30 are subject to the hiring freeze. Positions subject to the hiring freeze provided \$2.9 million in savings in the current year budget. At this time, staff proposes to release \$0.8 million of the hiring freezes to improve service to the public, with an estimated FY21-22 cost of \$0.4 million for the remainder of the year.

ENVIRONMENTAL IMPACT

There is no environmental impact associated with this action.

FISCAL IMPACT

On December 9, the City finalized the FY20-21 financial statements and the independent auditor issued a "clean" opinion. A complete report of the audited financial statements is scheduled for presentation to City Council on January 18, 2022. A summary of the June 30, 2021 ending General Fund balance follows.

Amounts to be spent in FY21-22 for continued appropriations and encumbrances	\$4,042,487
18% Policy Reserve	63,083,968
Available for one-time spending	42,289,528
Total General Fund Balance at June 30, 2021	\$109,415,983

If City Council approves the staff recommendation, the 18% Policy Reserve will increase to an estimated \$64,354,356 at June 30, 2022 and the remaining available balance for one-time spending will be \$16,364,140.

A summary of the FY21-22 General Fund budget updated with new sales tax and property tax estimates follows.

	FY21-22 Budget	FY21-22 Updated
Recurring Revenue	\$340,944,200	\$357,524,200

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Expenditures	(328,791,570)	(328,791,570)
Net Transfers to Other Funds	(24,703,590)	(24,703,590)
Net Activity	\$(12,550,960)	\$4,029,040

If City Council approves the staff recommendation, FY21-22 recurring expenditures will increase by \$3,066,900 (with an annualized estimate of \$6,083,800 for FY22-23).

Staff recommends the following appropriation adjustments.

Adjustments for General Fund contributions to other funds:

Fiscal Year	Accounting Unit - Account #	Fund Description	Accounting Unit, Account Description	Amount
FY 21-22	01106019-68000-XX	General Fund	Inter-Fund Transfers Service Enhancement, Transfer Out	\$10,800,000
FY 21-22	06717002-59000-11	SARTC Operations	Transfer In to Train Station Enterprise Fund	\$1,900,000
FY 21-22	08X09002-59000-11	General Liability / Workers' Compensation	Transfer In to General Liability / Workers' Compensation Fund	\$1,500,000
FY 21-22	08109002-59000-11	Benefits Fund	Transfer In to Employee Benefits Fund	\$3,400,000
FY 21-22	07317002-59000-11	Building Maintenance	Transfer In to Building Maintenance Fund	\$2,500,000
FY 21-22	07517002-59000-11	Fleet Maintenance	Transfer In to Fleet Maintenance Fund	\$1,500,000

Adjustments for one-time project costs:

Fiscal Year	Accounting Unit- Account #	Fund Description	Accounting Unit, Account Description	Amount
FY 21-22	011XX017-66220	General Fund	PWA / PRCSA Service Enhancement,	\$1,450,000

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			Improvements Other Than Building	
FY 21-22	01117650-6XXXX	General Fund	SARTC Maintenance Service Enhancement (Deferred Maintenance)	\$5,405,000
FY 21-22	01117017-6XXXX	General Fund	PWA Service Enhancement (Repurpose Cypress Fire Station)	\$1,000,000
FY 21-22	01118810-62300	General Fund	Economic Development Service Enhancement (S. Main Corridor Restaurant Incubation)	\$2,000,000
FY21-22	01117017-62300	General Fund	PWA Service Enhancement (S. Main Corridor Public Art)	\$1,000,000
FY 21-22	01113250-6XXXX	General Fund	Park Facilities Service Enhancement (Deferred Park Maintenance)	\$1,500,000
FY21-22	01115330-62300	General Fund	Fire Suppression / EMS (Fire Stations – Removal of Underground Storage Tanks)	\$1,050,000
FY21-22	01117017-66400	General Fund	PWA Service Enhancement (Mini Sweeper for Protected Bike Lanes)	\$150,000
FY 21-22	01118810-62300	General Fund	Economic Development Service Enhancement (Memorial to Lives Lost)	\$200,000
FY 21-22	01104012-66210	General Fund	City Council Service Enhancement, Office Space Improvement	\$100,000

Adjustments for ongoing/recurring project costs:

Fiscal Year	Accounting Unit-Account #	Fund Description	Accounting Unit, Account Description	Amount
FY 21-22	06017645-61XXX	Water Fund	Water Admin / Engineering (Meter Reader Collector)	\$42,720
FY 21-22	01118810-61XXX	General Fund	Economic Development Service Enhancement (Economic Dev. Spec. I)	\$57,840
FY 21-22	01107017-61XXX	General Fund	COTC Service Enhancement (Records Manager)	\$79,980

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FY 21-22	01108017-61XXX	General Fund	CAO Service Enhancement (Employment Staff Attorney)	\$94,080
FY 21-22	01117626-62300	General Fund	PWA Sidewalks Service Enhancement (Sidewalk Improvements)	\$500,000
FY 21-22	01117620-62300	General Fund	PWA Traffic / Transportation Service Enhancement (Traffic Calming)	\$500,000
FY21-22	01117017-62300	General Fund	PWA Service Enhancement (Alley Improvements)	\$750,000
FY 21-22	01117642-62300	General Fund	PWA Graffiti Abatement Service Enhancement (Graffiti Removal)	\$300,000
FY21-22	01117017-62300	General Fund	PWA Service Enhancement (Protected Bike Lane Sweeping)	\$75,000
FY 21-22	01104012-62302	General Fund	City Council Service Enhancement, Contract Vendor Personnel Services	\$210,000
FY 21-22	01113017-62300	General Fund	PRCSA Service Enhancement (Juneteenth Celebration 2022)	\$50,000
FY 21-22	01113017-62300	General Fund	PRCSA Service Enhancement (City Events)	\$50,000
FY 21-22	Various-61XXX	General Fund	Various (Partially Restore Frozen Positions)	\$400,000

Adjustments for increases to revenue estimates:

Fiscal Year	Accounting Unit-Account #	Fund Description	Accounting Unit, Account Description	Amount
FY 21-22	01102002-50020	General Fund	Sales Tax - Bradley-Burns	\$3,950,000
FY 21-22	01102002-50022	General Fund	Sales Tax - Measure X	\$12,250,000
FY 21-22	01102002-50011	General Fund	Property Tax	\$380,000

EXHIBITS

1. Fiscal Year 2021-2022 General Fund - First Quarter Budget Update
2. Personnel Resolution
3. Quarterly Report on Sales Tax and Business Activity

Submitted By: Kathryn Downs, FMSA Executive Director

Approved By: Kristine Ridge, City Manager