



**City of Santa Ana**  
**20 Civic Center Plaza, Santa Ana, CA 92701**  
**Staff Report**  
**November 15, 2022**

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**TOPIC:** Fiscal Year 2022-23 First Quarter Budget Report and Proposed Appropriation Adjustments

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**AGENDA TITLE:**

Fiscal Year 2022-23 First Quarter Budget Report and Proposed Appropriation Adjustments

**RECOMMENDED ACTION**

1. Approve appropriation adjustments (*requires five affirmative votes*) to increase General Fund expenditures as follows:
  - a. \$40,000 for a full-time Librarian to staff the second Knowledge Mobile for the remainder of FY 2022-23;
  - b. \$35,000 for a full-time Receptionist to greet and direct visitors;
  - c. \$36,600 to print and mail election information cards for the City's November 2022 ballot measures;
  - d. \$514,764 for the purchase of bus benches, trash containers, and advertising kiosks; and
  - e. \$1,000,000 to plan for development of new public facilities in the Civic Center complex;
  - f. \$1,657,000 to move construction inspection costs from the Public Works Engineering & Project Management internal service fund to the General Fund, along with the associated fee/charge revenue of \$1,420,000 for a net impact of \$237,000.
2. Increase authorized full-time staff headcount from 1,342 to 1,359 to capture 11 limited-term positions funded by the Revive Santa Ana Program as approved by City Council on August 2, 2022, five additional Library positions to staff the second Knowledge Mobile and new Teen Time program, and one additional City Hall Reception position.

**EXECUTIVE SUMMARY**

This FY 2022-23 first quarter budget report focuses on the General Fund, as it is the primary operating fund of the City. There is also a discussion of notable items for other funds. This report does not include a discussion of programs and funds with no significant budget variance expected.

The General Fund balance at June 30, 2022 is \$16 million more than estimated during the FY 2022-23 budget process primarily due to FY 2021-22 revenue performance. Staff proposes spending adjustments totaling \$3.3 million, offset by \$1.4 million of revenue, for a net fiscal impact of \$1.9 million. If the City Council approves the recommendations, the General Fund balance available for spending may be \$19.9 million. Considering the effects of pending recession and the Cannabis tax rate reductions, staff does not recommend any further appropriations from the available \$19.9 million. In addition, staff recommends preserving a spendable balance sufficient to fund the City's \$13 million contribution to the forthcoming Third & Broadway project if the developer meets the December 31, 2022 deadline for closing escrow.

#### General Fund Summary with Proposed Adjustments

	Original FY 2022-23 Budget	Proposed First Quarter Adjustments	Updated Estimate
Beginning Balance at July 1, 2022	\$97,462,861	\$16,046,683	\$113,509,544
Revenue Estimate	\$390,132,940	\$1,420,000	\$391,552,940
Appropriated Spending	\$(403,596,760)	\$(3,283,364)	\$(406,880,124)
Pension Trust Set-Aside	\$(7,748,811)		\$(7,748,811)
<b>Estimated Ending Balance at June 30, 2023</b>	<b>\$76,250,230</b>	<b>\$14,183,319</b>	<b>\$90,433,549</b>
Less: 18% Reserve	\$70,223,929	\$255,600	\$70,479,529
<b>Estimated Spendable Balance</b>	<b>\$6,026,301</b>	<b>\$13,927,719</b>	<b>\$19,954,020</b>

The First Quarter budget and actual revenues and expenditures are included in Exhibits 1 and 2. The First Quarter vacancy report is included in Exhibit 3.

#### **DISCUSSION**

During the FY 2022-23 budget process, staff estimated the June 30, 2022 General Fund balance to be \$97.5 million, which enabled the City to add \$23.2 million of one-time spending to the FY 2022-23 budget. The resulting estimated June 30, 2023 General Fund balance was \$76.2 million, including the 18% Reserve of \$70.2 million and \$6.0 million available to spend.

The FY 2021-22 audit is not complete, but staff estimates that the General Fund balance at June 30, 2022 will be approximately \$113.5 million after accounting for budget carryovers. This is \$16 million more than originally estimated. The additional

fund balance is primarily attributable to the following FY 2021-22 positive budget variances.

- Additional sales tax of \$3.1 million (\$1.3 million of Measure X and \$1.8 million of Bradley-Burns). Taxable sales defied expectations and grew 14% during FY 2021-22 with unprecedented economic activity likely boosted by federal spending. However, the most recent data shows signs that taxable sales growth is slowing down and may only grow by approximately 2.8% in FY 2022-23.
- Additional residual property tax of \$1.3 million allocated to the City from the Redevelopment Property Tax Trust Fund.
- Additional utility user tax of \$1.2 million, primarily related to increased electricity usage.
- Additional business license tax of \$1.7 million. When the FY 2022-23 estimates were prepared, the City had not yet received the bulk of FY 2021-22 revenue.
- Additional supply-side Cannabis tax of \$0.9 million and adult-use retail tax of \$2.6 million as reported on October 4 with City Council adoption of the Cannabis tax reduction.
- Additional parking fine revenue of \$0.8 million and jail revenue of \$1.4 million due to diligent management of resources.
- Expenditure savings of \$1.7 million from Recreation & Community Services and \$1.5 million from Fire & Ambulance Services.

#### FY 2022-23 Revenue

For the most part, the FY 2022-23 budget already reflects the higher revenue amounts received during FY 2021-22. Only the notable exceptions follow:

- The FY 2022-23 budget for Cannabis tax is \$1.6 million less than actually received during FY 2021-22. However, with the recent reduction to the Cannabis tax rates, staff does not propose an adjustment at this time. With the Midyear budget report, staff will have more information and may be in a better position to adjust the revenue estimate.
- The FY 2022-23 budget for Business License tax is \$0.7 million less than actually received during FY 2021-22. However, with the ballot measure to change the tax rates, staff does not propose an adjustment at this time. The City receives most of its business license tax revenue in the spring. Therefore, the 3<sup>rd</sup> quarter budget report is most likely to include a potential adjustment to the revenue estimate.
- The FY 2022-23 budget for planning & building permit revenue is \$5.3 million less than FY 2021-22 actuals. However, planning & building activity is very difficult to predict, and this is cost recovery revenue offset by expenditures. Therefore, staff proposes no adjustment at this time. With the Midyear budget report, staff will have more information and may be in a better position to adjust both the revenue estimate and expenditure budget related to planning & building activity.

At this time, there are no recommended increases to General Fund revenue estimates.

#### Library Staffing Additions

On May 17 of this year, staff reported sufficient FY 2021-22 budget availability to purchase a second Knowledge Mobile for the Library. On September 20, the City Council approved a General Fund budget carryover of \$400,000 for purchase of the vehicle. At this time, staff requests an appropriation of \$40,000 and the addition of one full-time Librarian to provide staffing for the second Knowledge Mobile beginning March 1, 2023.

The June 7, 2022 budget presentation included a \$350,000 allocation for a new Teen Time program in response to City Council direction. Although the City added funding to the FY 2022-23 budget in time for adoption, the employee headcount was missing. Therefore, at this time, staff requests the addition of two full-time Librarians and two full-time Library Technicians to manage, implement, and lead activities for the Teen Time program beginning January 2023 at the El Salvador and Garfield community centers. The existing \$350,000 budget appropriation is sufficient to pay for the four new positions.

#### Full-Time Receptionist at City Hall

The City currently staffs the information desk at the south entrance of the main City Hall building on a part-time basis. To improve customer service, staff requests an appropriation of \$35,000 and the addition of one full-time Receptionist to greet and direct visitors, and answer questions beginning January 1, 2023.

#### Full-Time Staff Headcount

The FY 2022-23 included 1,342 full-time positions. On August 2 of this year, the City Council approved 11 additional limited term employees to support the Revive Santa Ana program. The request outlined above would add five full-time Library positions and 1 full-time City Hall Reception position. If the City Council approves the staff recommendation, the new full-time position count for FY 2022-23 will be 1,359. Exhibit 3 includes the full-time position vacancy report at September 30, 2022.

#### Informational Post Card for November 8 Ballot Measures

The City took the additional unplanned step of mailing an election information postcard to all households in the City with a registered voter. The information covered Measure X (Charter Amendments) and Measure W (Business Tax Equity and Flexible Tax Holiday). Staff recommends a budget appropriation of \$36,600 to cover the cost of printing and mailing.

#### Public Works Bus Stop Fixtures

On June 21 of this year, City Council approved a purchase order for bus benches, trash containers and advertising kiosks for a total amount of \$514,764. The FY 2021-22 funding was not included in the budget carryovers to FY 2022-23. Therefore, staff requests an appropriation of \$514,764 so the purchase can proceed.

#### Civic Center Development

The City has begun the long-term planning process for renewal of the Civic Center, including a land swap with the county and a state allocation to expand the City's footprint within the Civic Center. At this time, staff recommends an appropriation of \$1 million for professional services to plan for development of new public facilities.

#### Construction Inspection

The City has historically accounted for the design engineering and construction inspection components in an internal service fund. The fund is not solvent, as full cost recovery is not available for the staffing charged to that fund. Since spending and associated cost recovery of these components is not considered restricted, a multi-year process to discontinue use of the separate fund and transition to the General Fund is underway. Therefore, staff proposes to transfer \$1.7 million of staffing costs and \$1.4 million of charge revenue related to the inspection activity to the General Fund budget with a net fiscal impact of \$237,000. The next phase is to transition design engineering costs to the General Fund. Process improvements and cost-benefit analysis will be necessary prior to any further changes that result in a significant General Fund impact.

#### **Other Funds**

##### Parking Enterprise

On September 12, 2022, the Orange County Transportation Authority approved an allocation of up to \$679,748 to backfill lost revenue while offering free parking at City-owned parking garages in Downtown Santa Ana during the OC Streetcar construction. Once City staff provides supporting documentation for actual revenue losses, the parking enterprise will receive the revenue backfill.

##### Opioid Settlement

The City recently received a \$348,507 allocation from the National Opioid settlement. The settlement agreement restricts use of the money, and staff has created a new special revenue Fund 111 to account for it. The Police Department is in the process of developing a comprehensive spending plan that is compliant with allowable uses. A separate staff report with an appropriation request is forthcoming.

#### **ENVIRONMENTAL IMPACT**

There is no environmental impact associated with this action.

### **FISCAL IMPACT**

If City Council approves the recommended budget amendments, the updated estimate of the General Fund balance at June 30, 2023 is as follows:

General Fund	FY 2022-23 Updated
Beginning Balance at July 1, 2022	\$113,509,544
Revenue Estimate	\$391,552,940
Appropriated Spending	\$(406,880,124)
Pension Trust Set-Aside	\$(7,748,811)
<b>Estimated Ending Balance at June 30, 2023</b>	<b>\$90,433,549</b>
Less: 18% Reserve	\$70,479,529
<b>Estimated Spendable Balance</b>	<b>\$19,954,020</b>

Staff recommends the following appropriation adjustments:

<b>Fiscal Year</b>	<b>Accounting Unit – Account #</b>	<b>Fund Description</b>	<b>Accounting Unit, Account Description</b>	<b>Amount</b>
FY 2022-23	01111017-61000	General Fund	Library – Service Enhancement	\$40,000
FY 2022-23	01103010-61000	General Fund	City Manager, Salaries Regular	\$35,000
FY 2022-23	01105015-62300	General Fund	General Non-Departmental, Contract Services-Professional	\$36,600
FY 2022-23	01117621-62300	General Fund	Bus Shelter Program-Service Enhancement, Contract Services-Professional	\$514,764
FY 2022-23	01105015-62300	General Fund	General Non-Departmental, Contract Services-Professional	\$1,000,000
FY 2022-23	01117611-Various	General Fund	Construction Engineering, Various Accounts	\$1,657,000

**EXHIBIT(S)**

1. FY 2022-23 General Fund Revenue Summary
2. FY20 22-23 General Fund Expenditure & Transfer Summary
3. September 30, 2022 Full-Time Position Vacancy Report
4. Personnel Resolution

Submitted By: Kathryn Downs, FMSA Executive Director

Approved By: Kristine Ridge, City Manager