



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
February 21, 2023

TOPIC: Fiscal Year 2022-23 Mid-Year Budget Update, Revive Santa Ana Spending Plan Update, Appropriation Requests, and Workforce changes

AGENDA TITLE:

Fiscal Year 2022-23 Mid-Year Budget Update, Revive Spending Plan Update, Appropriation Requests and Workforce Changes

RECOMMENDED ACTION

1. Receive and file the FY 2022-23 Mid-Year budget update, including an update for the Revive Santa Ana Spending Plan.
2. Approve the recommended Appropriation Adjustments. (*Requires five affirmative votes*)
3. Adopt a Resolution - A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA TO AMEND RESOLUTION NO. 2015-026 TO EFFECT CERTAIN CHANGES TO THE CITY'S BASIC CLASSIFICATION AND COMPENSATION PLAN.
4. Adopt a Resolution - A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA TO AMEND THE CURRENT FISCAL YEAR 2022-2023 ANNUAL BUDGET TO ADD AND DELETE FULL-TIME POSITIONS IN THE LIBRARY DEPARTMENT, PARKS, RECREATION, AND COMMUNITY SERVICES DEPARTMENT, PLANNING AND BUILDING DEPARTMENT, AND PUBLIC WORKS DEPARTMENT.

EXECUTIVE SUMMARY

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, an update of the Revive spending plan, and notable items for other funds of the City. The update also includes recommended workforce changes and a full-time position vacancy report as of December 31, 2022. Finally, the report includes an updated summary of all funds with estimated fund balances at June 30, 2023.

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A summary of the General Fund budget follows.

	FY22-23 Budget Updated with First Quarter Report on November 15, 2022	Proposed Mid-Year Adjustments	Updated Estimate
Beginning Balance at July 1, 2022	\$113,509,544	\$0	\$113,509,544
Revenue Estimate	\$391,552,940	\$7,383,500	\$398,936,440
Appropriated Spending	(\$406,880,124)	(17,443,760)	(\$424,323,884)
Pension Trust Set-Aside	(\$7,748,811)	\$0	(\$7,748,811)
Estimated Ending Balance at June 30, 2023	\$90,433,549	(\$10,060,260)	\$80,373,289
Less: 18% Reserve	70,479,529	1,329,030	\$71,808,559
Estimated Spendable Balance	19,954,020	(11,389,290)	\$8,564,730

DISCUSSION

This report focuses on the General Fund, as it is the primary operating fund of the City, and the Revive spending plan due to its significance to the community. Only notable items are included for other funds. No discussion is included for fund activity expected to approximate the budget for the current fiscal year.

The FY 2022-23 budget document includes a Fund Summary for all funds of the City, including the estimated fund balance at July 1, 2022, the adopted budget, and the estimated fund balance at June 30, 2023. We now have actual fund balances at July 1, 2022 and we have updated budget amounts. Therefore, we have included an updated Fund Summary as Exhibit 5, which includes all recommendations in this report.

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 4 months (or 33%) of revenue by December 31. Except for the items discussed below, we do not expect any significant variances to General Fund revenue estimates at this time.

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	Annual Estimate Updated with 1st Qtr	Received as of 12/31/2022	Percent Received
Property Tax + In-Lieu of VLF + Residual	94,235,000	30,207,055	32%
Sales Tax Measure X	88,102,000	28,981,618	33%
Sales Tax Bradley-Burns	64,550,000	21,163,355	33%
Utility Users Tax	24,400,000	12,637,575	52%
Cannabis Tax	22,200,000	7,400,096	33%
Business License Tax	15,000,000	1,556,677	10%
Other Taxes	12,491,100	5,497,980	44%
Charges for Service, Licenses & Permits	21,319,580	14,580,951	68%
Jail Facility Revenue	16,521,360	4,874,742	30%
Franchise Fees	10,960,100	2,568,820	23%
All Other	21,773,800	13,687,876	63%
Totals	391,552,940	143,156,745	37%

Utility Users Tax (UUT)

The City's UUT is 5.5% of utility charges. The price of natural gas substantially increased in December and January, which affects the City's UUT revenue. For example, the SoCalGas website reports the core-procurement gas price for January 2023 was 344.892 cents per therm, compared to the January 2022 price of 83.569 cents per therm. We expect FY 2022-23 UUT revenue for natural gas to be approximately \$1 million more than the budget amount of \$3.2 million, and have adjusted our revenue estimate accordingly.

Electricity for UUT has been steadily increasing over the last several years. Southern California Edison reports that the number of customer accounts has been increasing. After adopting the FY 2022-23 budget with a \$13.1 million revenue estimate, we closed the FY 2021-22 books with final revenue of \$13.7 million. At this time, we expect Electricity UUT to exceed the budget estimate of \$13.1 million by \$2 million.

Cannabis Tax

The new tax rates became effective January 1, 2023. The earliest we see January receipts is the end of February. Therefore, we have no data to analyze the impact of rate changes. We expect to provide an update of Cannabis Tax with the Third Quarter budget report.

Business License Tax

The majority of annual business license tax is collected in the spring each year. Therefore, at December 31, the City has only collected a small portion of revenue, and we do not yet have data to analyze the impact of the voter-approved Measure W. We

expect to provide an update of Business License Tax with the Third Quarter budget report.

Building Plan Check Revenue

The FY 2022-23 budget for Building Plan Checks was \$2,022,100. As of December 31, we have already collected \$3,598,910 of revenue, primarily due to the Main Place development, the Cabrillo multi-use residential building, and the Center Pointe multi-use residential building. Using the most conservative method of forecasting, we are comfortable increasing the revenue estimate by \$2 million at this time. Planning & Building has a request to add four full-time positions to meet the increased demand.

Investment Earnings

The City received \$128 million of federal funding from the American Rescue Plan Act (ARPA). Many of the City's projects and programs funded with ARPA take time to execute (e.g. Main Library renovation), which means the City has been holding ARPA cash. Federal guidelines allow us to deposit interest earnings from ARPA cash into the City's General Fund. In addition, the Federal Reserve has raised interest rates by 3.50% since the City Council's budget hearing on June 7, 2022. Therefore, we have increased our interest earnings revenue estimate from \$475,000 to \$2,675,000, which is a \$2.2 million increase.

General Fund Expenditures

A summary of General Fund expenditures follows (does not include carryovers from FY 2021-22).

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	Annual Budget Updated with 1st Qtr	Spending as of 12/31/2022	Percent Expended
City Manager's Office	2,939,040	1,349,453	46%
City Council	1,029,860	353,650	34%
Clerk of the Council	1,935,720	607,884	31%
City Attorney's Office	3,584,860	1,184,461	33%
Human Resources	3,884,170	1,840,457	47%
Finance & Mgmt Svcs	11,750,090	5,494,451	47%
Library	6,720,310	2,982,690	44%
Parks, Rec & Comm Svcs	13,574,280	6,344,787	47%
Police Department	142,772,990	67,542,754	47%
Fire Services ¹	53,956,950	29,858,584	55%
Planning & Building	19,545,470	7,099,250	36%
Public Works	50,705,414	13,828,303	27%
Community Development	7,944,600	3,291,505	41%
Museum Funding ²	2,542,320	1,795,916	71%
General Non-Dep	48,103,560	22,888,437	48%
Inter-fund Transfers	35,890,490	15,300,834	43%
Totals	406,880,124	181,763,418	45%

¹ Fire Services spending includes a one-month advance. ² Museum Funding includes one-time capital reimbursements.

Finance Staff Retirements

Two long-term Finance employees (36 years and 39 years) filed for retirement in December 2022. During budget preparation, we did not know they would retire during FY 2022-23. The accrued leave-time cash-outs totaled \$201,260. The Finance department budget cannot absorb the significant additional expenditure that was compliant with labor agreements, and we request a budget increase accordingly.

Santa Ana Zoo- Giant River Otter/Primate Trails

Staff requests \$1.3 million for additional zoo improvements to utilize the contractor already onsite for the giant river otter habitat. The additional improvements will relocate three primate species from the north end of the zoo and remove the antiquated habitats for the upcoming primate forest project. Both improvements are part of the Master Plan. The requested funding will also address the lighting deficiency in the area.

Waste Hauler Donation

Republic Services provided a donation of \$183,500 to the City to support community events and charitable programs. We request General Fund appropriations to allocate \$25,000 to the Library, \$48,500 to Parks, Recreation & Community Services, and \$25,000 to the Non-Departmental section of the budget for the City Manager's Office to administer; as well as a Public Works Administration Fund appropriation of \$85,000.

Police Staffing Request

The Police Department would like to remove one Forensic Specialist II position from the hiring freeze due to increased fingerprint processing and a backlog that adversely affects the quality of investigative results. There is no current year fiscal impact due to budgetary savings. The ongoing actual cost may be \$140,000.

Debt Service for 800 MHz Communication System

During FY 2022-23 budget preparation, staff inadvertently omitted a \$23,000 principal payment for the 800 MHz communication system used by multiple departments in the City. Staff requests an adjustment to correct the error.

Museum Building Capital Repairs

The FY 2022-23 budget includes funding to reimburse Bowers Museum for capital repairs to the City-owned building, as allowed by the City's agreement with the museum. The final request from Bowers, based on documented support for the reimbursement, necessitates another \$25,000 of funding. Staff recommends an appropriation adjustment accordingly.

Annual Prayer Breakfast and Orange County Pride Parade & Festival Sponsorship

The Mayor would like the City to host an annual Prayer Breakfast, likely in May. Staff requests a \$20,000 appropriation in the Non-Departmental section of the budget for the City Manager's Office to administer.

The City received a donation request for the Orange County Pride Parade & Festival held in Santa Ana in June. Staff requests an appropriation of \$30,000 to sponsor the event.

Third & Broadway Development

The Third & Broadway property development agreement with Caribou Industries obligates the City to fund up to \$13 million for site preparation. The developer recently completed all contractual requirements to secure the \$13 million funding from the City. Therefore, staff recommends appropriating this commitment.

Housekeeping Adjustments for Labor Agreements

The FY 2022-23 General Fund budget includes \$5 million for labor negotiations, within the Non-Departmental section of the budget. On November 15, the City Council approved labor agreements for the Police Management Association and the Part-Time Service Employees International Union. On December 20, the City Council approved the last, best and final offer for the Police Officers Association. All three staff reports indicated that we would propose housekeeping adjustments at Midyear to move the existing General Fund allocation from Non-Departmental into the affected department

programs. There is no fiscal impact for these housekeeping adjustments totaling \$1,855,046.

Revive Spending Plan Update

The Revive Spending Plan, to protect and revive the community as Santa Ana emerges from the impacts of the pandemic, is from \$128 million of federal American Rescue Plan money. The funding must be obligated by December 2024 and fully spent by December 2026. The City has completed many of the projects, and has initiated many more. A presentation of Revive Spending Plan highlights and accomplishments will accompany this report.

Classification & Compensation Plan and Workforce Changes and Vacancy Report

Human Resources requests Classification & Compensation Plan changes across various departments (Exhibit 2), including the creation of six new classifications, deletion of one classification, updates to two existing job titles, and compensation changes to thirty-six existing classifications with an estimated ongoing annual fiscal impact of \$140,000.

Detailed information for the following proposed workforce changes are in Exhibit 3.

Library requests changes to streamline staffing and improve administrative supervision. Specifically, Library recommends deleting one Library Technician and one Management Analyst, and adding one Graphics Designer I and one Senior Management Analyst with no current year fiscal impact due to budgetary savings. The future annual net impact may be \$37,000.

Parks, Recreation & Community Services Agency (PRCSA) requests the following workforce changes to improve supervision with no current year fiscal impact.

- Delete one Recreation & Community Services Supervisor and add one Recreation Program Coordinator and one Recreation Leader (future annual impact may be \$20,000);
- Upgrade one Recreation Leader to a Recreation Program Coordinator (future annual impact may be \$34,000); and
- Upgrade one Accounting Assistant to a Management Aide (future annual impact of \$26,000).

PRCSA also requests to add the following positions with no current year fiscal impact due to budgetary savings.

- One Recreation Program Coordinator to restructure the existing Senior Mobility Program from a part-time staffing program to a full-time staffing program using existing and future funding from the Orange County Transportation Authority (future annual impact may be \$107,000);

- Two General Maintenance Workers to address needed deferred maintenance at the Zoo such as additional tasks related to the opening of the new River Otter Exhibit and assisting with the Zoo's accreditation by the Association of Zoos & Aquariums (future annual impact may be \$212,000);
- One Management Analyst to assist the Zoo Manager with administrative duties and to research and manage grant opportunities for the Zoo (future annual impact may be \$140,000); and
- Two Recreation Leaders to achieve a consistent level of service through the consolidation and elimination of part-time positions.

The Planning & Building Agency (PBA) recommends adding four full-time employees to improve permit counter service and meet the demands of increased plan check activity, while balancing the overall workload with contract services. This is the only request in this section that includes a current year budget increase.

	FY 2022-23 Budget Impact	Ongoing Annual Impact
Associate Plan Check Engineer	\$50,000	\$150,000
Combination Building Inspector	\$36,000	\$109,000
Permit Services Technician	\$34,000	\$102,000
Assistant Plan Check Engineer	\$41,000	\$122,000
Total PBA Requests	\$161,000	\$483,000

The Public Works Agency (PWA) requests the following workforce changes with no current year fiscal impact due to budgetary savings.

- Upgrade one Assistant Parks/Landscape Planner to a Public Works Projects Specialist. The future annual net impact may be \$14,000.
- Add one Projects Manager to the Water Enterprise. The future annual net impact may be \$175,000.
- Upgrade one Civil Engineer to a Senior Civil Engineer to promote supervision, retain talent, and execute project delivery improvements for capital improvement projects. Various restricted funding sources for CIP projects will bear the ongoing cost of the upgrade, which may be \$24,000 annually.
- Delete two Maintenance Worker II positions and reallocate the funding to contractual services for the Revive program.

The following table summarizes the requested workforce changes.

Department	Quantity	Position	Fund
Library	-1	Library Technician	General Fund
Library	-1	Management Analyst	General Fund
Library	1	Graphics Designer I	General Fund

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Library	1	Senior Management Analyst	General Fund
PRCSA	-1	Recreation and Community Services Supervisor	General Fund
PRCSA	1	Recreation Program Coordinator	General Fund
PRCSA	1	Recreation Leader	General Fund
PRCSA	-1	Accounting Assistant	General Fund
PRCSA	1	Management Aide	General Fund
PRCSA	-1	Recreation Leader	General Fund
PRCSA	1	Recreation Program Coordinator	General Fund
PRCSA	1	Recreation Program Coordinator for SMP	Senior Mobility
PRCSA	2	General Maintenance Worker for the Zoo	General Fund
PRCSA	1	Management Analyst for the Zoo	General Fund
PRCSA	2	Recreation Leader to replace PT positions	General Fund
Planning & Building	1	Associate Plan Check Engineer	General Fund
Planning & Building	1	Combination Building Inspector	General Fund
Planning & Building	1	Permit Services Technician	General Fund
Planning & Building	1	Assistant Plan Check Engineer	General Fund
Public Works	-1	Assistant Parks/Landscape Planner	Civic Center Authority
Public Works	1	Public Works Projects Specialist	Civic Center Authority
Public Works	1	Projects Manager	Water Enterprise
Public Works	-1	Civil Engineer	Capital Projects
Public Works	1	Senior Civil Engineer	Capital Projects
Public Works	-2	Maintenance Worker II	Federal ARPA
	10	Total Net Positions	

The Vacancy Report as of December 31, 2023 is in Exhibit 4.

Other Funds

Cannabis Public Benefit Fund

The FY 2021-22 Cannabis Public Benefit Fund budget included \$1,287,990 for the Newhope Library Renovation, and the FY 2022-23 budget included \$1,110,730. Due to project scope enhancements, the Library requests an additional \$1,150,000 of one-time money from this fund for the Newhope Library Renovation, including replacement of existing end-of-life HVAC systems and units, critical upgrades to electrical systems and cabling, and modern technology improvements in the new Media Lab and existing large meeting room that will help bridge the digital divide. The City expects to solicit construction bids in June for a target completion date of May 2024. After absorbing the potential revenue shortfall reported to City Council on October 4, 2022 due to Cannabis tax rate changes, the estimated fund balance is approximately \$2.8 million, which is sufficient to cover the recommended \$1,150,000 appropriation adjustment.

Gas Tax Fund

The state imposes Gas Tax on a cents-per-gallon basis and allocates a portion to the city. Gas Tax is not a percentage of sales. Therefore, when gas prices escalate and drivers purchase fewer gallons of gas, the City's Gas Tax revenue decreases. The most recent Gas Tax estimates from the League of California Cities Fiscal Policy Advisor indicate the City's share will approximate \$14.7 million. The FY 2022-23 budgeted revenue estimate was \$17.2 million, based on previous League information, which supports decreasing the budget estimate by \$2.5 million.

To ensure the City's right-of-way maintenance services are not impacted, staff recommends a \$2.5 million General Fund appropriation to cover the shortfall. If approved, expenditures for the Fairview Bridge & Street Improvements, Traffic Signal Maintenance, Median Landscaping, and Roadway Maintenance expenditures will move to the General Fund. Increasing General Fund spending for right-of-way maintenance improves the City's ability to comply with the Orange County Transportation Authority Maintenance of Effort for Measure M2 funding.

Restricted Fund Adjustments

The City receives updated information after the beginning of the fiscal year for various restricted funding sources. Examples include the Civic Center Authority adopting the budget after June, and update to federal monies available for various programs. Staff recommends a series of adjustments to resize restricted-money appropriations to available balances and authorizations. The details of these adjustments are included in Exhibit 1.

FISCAL IMPACT

The General Fund fiscal impact appears 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, 2023 fund balance for all funds, including the revenue impacts and recommendations covered in this report.

EXHIBIT

1. Line Item Changes to Revenue Estimates and Recommended Adjustments
2. Resolution No. 2023-XXX, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA TO AMEND RESOLUTION NO. 2015-026 TO EFFECT CERTAIN CHANGES TO THE CITY'S BASIC CLASSIFICATION AND COMPENSATION PLAN
3. Resolution No. 2023-XXX, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA TO AMEND THE CURRENT FISCAL YEAR 2022-2023 ANNUAL BUDGET TO ADD AND DELETE FULL-TIME POSITIONS IN THE LIBRARY DEPARTMENT, PARKS, RECREATION, AND COMMUNITY SERVICES DEPARTMENT, PLANNING AND BUILDING DEPARTMENT, AND PUBLIC WORKS DEPARTMENT
4. Vacancy Report at December 31, 2022

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5. Updated FY 2022-23 Fund Balance Summary for All Funds

Submitted By: Kathryn Downs, FMSA Executive Director

Approved By: Kristine Ridge, City Manager