

13. Fiscal Year 2023-2024 General Fund Results

Department(s):

Recommended Action:

1. Receive and file this informational report.
2. Approve proposed General Fund appropriation adjustments as detailed in Exhibit 1 (*Requires two-thirds vote*).



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
December 17, 2024

TOPIC: Fiscal Year 2023-2024 General Fund Results

AGENDA TITLE

Fiscal Year 2023-24 General Fund Results

RECOMMENDED ACTION

1. Receive and file this informational report.
2. Approve proposed General Fund appropriation adjustments as detailed in Exhibit 1 (*Requires two-thirds vote*).

GOVERNMENT CODE §84308 APPLIES: No

DISCUSSION

The City's independent auditors have completed their fieldwork for the fiscal year ending June 30, 2024, and the City anticipates issuing its financial statements later in December 2024. Staff intends to present the City Council with an informational report detailing the audited financial statements and related findings after the new year.

This report provides early information on General Fund performance for FY 2023-24 (FY23-24) and includes requests for multiple appropriation adjustments, as well as the formal closure of the Engineering Services Fund. If the City Council approves the recommendations in this report, the remaining spendable General Fund balance in excess of the 18% Reserve requirement is \$16.3 million, which is available for one-time spending. Staff recommends leaving that amount in the General Fund balance for consideration during the FY2025-26 annual budget process that starts with "Early Direction" from the City Council scheduled for March 18, 2025. The City has a significant list of unfunded capital improvement projects, including future Civic Center development, and staff recommends an approach where all competing needs are identified prior to the City Council providing direction for use of the one-time funding source.

On November 19, staff reported that for FY23-24, the City realized both revenues exceeding initial estimates and expenditure savings. General Fund revenues exceeded estimates by \$13.5 million, after adjusting for non-cash items such as fair market value adjustments and year-end entries. This represents a 3% increase over the adjusted

estimates and aligns with the City's policy of using a conservative approach in revenue estimation. Additionally, General Fund expenditures resulted in total savings of \$7.5 million.

FY23-24 General Fund Results

These positive variances have resulted in a spendable General Fund balance of \$20.3 million, in excess of the 18% General Fund Reserve balance of \$73.2 million. With the proposed closure of the Engineering Services Fund and the recommended appropriation requests outlined in this report, the spendable fund balance would decrease to \$16.3 million.

While many General Fund revenues exceeded conservative estimates and several departments realized expenditure savings, the following factors were the most significant contributors to the \$20.3 million spendable balance.

Revenues

- The Business Tax exceeded estimates, generating an additional \$0.8 million above the adjusted budget of \$16 million, as reported in the FY 23-24 First Quarter Budget Update presented on November 7, 2023.
- Property Tax surpassed revenue estimates by \$0.6 million due to ongoing growth in assessed valuations. This rate of growth is not expected to continue in FY2024-25.
- Investment earnings for the fiscal year exceeded estimates, generating an additional \$0.9 million above the adjusted budget of \$4.9 million, as reported in the FY 2023-24 Third Quarter Budget Update presented on June 4, 2024.
- The General Fund collected \$1 million more than the \$8.4 million budget in Indirect Costs, primarily due to increased personnel salaries charged to restricted-money programs.
- Refuse Franchise Fee revenues for FY 23-24 exceeded the \$8 million estimate and minimum annual payment required by agreement by \$1.5 million, driven by higher-than-anticipated gross receipts from directly billed customers. Under the City's Franchise Fee agreement, the waste hauler is obligated to remit either a minimum annual payment of \$8 million or 17.9% of gross receipts, whichever is greater.
- Cannabis revenues exceeded estimates, generating an additional \$3 million of one-time revenue following the implementation of corrections to the tax calculations for prior periods.
- Charges for services generated \$2.2 million more than expected, primarily due to Paramedic Service Charges, Planning and Building revenues, and increases to Parks and Recreation's zoo revenue and recreational program offerings. As reported in the FY 23-24 Third Quarter Budget Update on June 4, 2024, the City continues to receive increased reimbursements for Medicare and Medi-Cal transports. The Third Quarter Report also included a budget

reduction for Plan Check revenue, caused by an anticipated slowdown in the first half of the fiscal year. However, activity unexpectedly picked up late in the fiscal year. A \$1 increase in zoo ticket prices, paired with an increase of program offerings, led to recreation related revenue surpassing budget by more than \$0.8 million.

Expenditures

- The FY 23-24 non-departmental budget included \$8.7 million for employee negotiations, consisting of an original set-aside of \$6.4 million and an additional \$2.3 million carried over from unspent FY 2022-23 funds. Of this total, \$4.8 million was utilized to meet actual Memorandum of Understanding (MOU) requirements, and \$1.3 million was used for budget rebalancing, as presented in the Third Quarter Report on June 4, 2024. This resulted in \$2.6 million in budgetary savings within the non-departmental section.
- The City Attorney's Office, Human Resources, and Finance had combined vacancy and contractual savings of \$2.5 million.
- The Fire Facilities Fund (Fund 120) absorbed nearly \$0.6 million in deferred maintenance expenses for the City's fire stations, freeing up General Fund resources.
- Community Development had both contractual savings and a remaining balance in the Resident's Vehicle Incentive Program which was phased out in FY23-24 totaling \$0.8 million.

Requested FY23-24 Appropriations

Library

While the Main Library is closed for renovations, the City offers an eLibrary service to patrons (Hoopla), including e-books, audio books, movies, and other digital content. The City's cost of Hoopla is based on usage, which has skyrocketed during library closure. Staff requests a one-time funding allocation of \$40,000 to ensure the City can continue to provide Hoopla through April 2026, the scheduled re-opening date of the Main Library.

In preparation for the library construction projects, the collections of materials have been organized and evaluated. Many books and other items were worn due to prolonged use and sun damage. In addition to ensuring the library has a sufficient collection on the shelves after construction is complete, staff needs a back-room inventory in anticipation of significant lending upon re-opening. Staff requests a one-time funding allocation of \$375,000 to re-build the library's inventory of books and other lending materials.

Building Maintenance

The Building Maintenance Division budgets for routine operating expenses such as janitorial services, security, and daily maintenance. Recently, two unexpected expenses

occurred that were not included in the budget, including \$100,000 for elevator repairs in the Fleet Division and \$140,000 for necessary fire panel repairs. Staff is requesting a one-time funding allocation of \$240,000 to cover these critical, unanticipated repairs.

Parks Projects in Progress

Due to a process-related oversight, \$555,600 in carryovers were not included in the October 1, 2024 request for the carry-over of unspent amounts from FY23-24 to FY24-25. As a result, Public Works is requesting to re-budget unspent FY23-24 appropriations totaling \$555,600 to complete the design and construction phases for the following parks projects:

- Cool pavement treatment at Madison and Campesino Parks
- El Salvador Park concession stand
- Edna Park and restroom improvements
- Thornton Park playground

Engineering Services Division Fund Close-Out

On December 19, 2023, staff reported that the Engineering Services Division has been managing a negative fund balance for several years. To address this issue and prepare for the fund's eventual closure, the City Council approved a FY 2024-25 annual budget allocation within the General Fund to cover overhead costs and staff time that cannot be billed to projects or developer deposits.

At this stage, staff is requesting authorization to transfer all related expenditures and revenues from the Engineering Services Division fund to the General Fund to close the fund. An additional \$1.25 million allocation is required to fully address the negative fund balance from FY 23-24, which resulted from unanticipated costs. This one-time funding allows for a clean closure of the fund.

Although the Engineering Services fund has a budget of approximately \$6.7 million, only \$5.4 million will shift to the General Fund due to indirect cost recovery. The General Fund charges overhead costs to other funds, including the Engineering Services fund. These overhead costs are for accounting, legal assistance, and contract processing. By moving Engineering Services to the General Fund, the General Fund will not charge itself for these indirect overhead services.

The City's General Fund Reserve policy requires maintaining a reserve balance equal to 18% of annual recurring revenue. With an anticipated \$5.4 million increase of General Fund recurring revenue from the Engineering Services Division, the 18% Reserve must increase by \$977,371. This action ensures compliance with the reserve policy, further supporting the City's fiscal stability.

Contribution to Section 115 Trust for Pension Stabilization

In line with the City Council approved *Unfunded Employee Pension Liability Cost Reduction Policy*, staff recommends a one-time \$2 million contribution of the excess

spendable General Fund balance to the Section 115 Trust for pension stabilization. Per the policy, when the General Fund balance exceeds the reserve policy requirement, the City may consider an additional deposit to address unfunded pension liabilities. This deposit is part of the overall Section 115 Trust strategy, which helps mitigate fluctuations in future contributions caused by differences in actual plan performance and changes to actuarial assumptions made by CalPERS.

The following table includes these proposed appropriations, along with an updated summary of the General Fund budget for the current fiscal year, which accounts for the additional reserve requirement.

FY2024-25 General Fund Summary

	FY24-25 1st Quarter Budget Update	FY23-24 Year- End Results	Proposed December 17 Adjustments	Updated Estimates
Estimated Beginning Balance at July 1, 2024	109,495,834	20,349,223		129,845,057
Revenue Estimate	406,543,143		5,429,840	411,972,983
Appropriated Spending	(406,907,411)		(7,890,440)	(414,797,851)
Pension Trust Set Aside	(34,565,751)		(2,000,000)	(36,565,751)
Estimated Ending Balance at June 30, 2025	74,565,815	20,349,223	(4,460,600)	90,454,438
Less: 18% Reserve ¹	73,173,121		977,371	74,150,492
Estimated Spendable Balance	1,392,694	20,349,223	(5,437,971)	16,303,946

¹\$15,803 in recognized revenue approved by City Council on September 19, 2024 is one-time money. The City's 18% reserve policy applies to annual recurring revenue only.

ENVIRONMENTAL IMPACT

There is no environmental impact associated with this action.

FISCAL IMPACT

Exhibit 1 outlines the line-item changes to revenue estimates resulting from the closure of the Engineering Services Fund, along with the recommended appropriation adjustments discussed in this Staff Report. These adjustments result in a \$2.46 million increase in General Fund appropriations, funded by a one-time allocation from the spendable fund balance. Additionally, the proposed adjustments include the transfer of revenues and corresponding expenditures from the Engineering Services activity to the General Fund, each totaling \$5.4 million, bringing the total appropriation request to \$7.89 million.

The \$2 million deposit to the 115 Trust is reflected in the FY 2024-25 General Fund Summary table. While this deposit reduces the estimated spendable balance, it is excluded from Exhibit 1 as it represents a financial transfer rather than a direct appropriation adjustment.

EXHIBIT

1. Line Item Changes to Revenue Estimates and Recommended Appropriation Adjustments

Submitted By: Kathryn Downs, FMSA Executive Director

Approved By: Alvaro Nuñez, City Manager

Description	Account	Revenue	Spending
<i>Engineering Services (Fund 086) Closure Appropriation</i>			
<i>Adjustments</i>			
Reduction to Indirect Cost Recovery revenue budget due to Fund 086 closure	01102002-57901	(1,304,600)	
Fund 086 revenue moving to General Fund (CIP Construction Permit Oversight Deposits)	01117002-51709	50,000	
Fund 086 revenue moving to General Fund (Charges to Departments)	01117002-56000	6,634,140	
Fund 086 revenue moving to General Fund (Engineering Cost Allocation)	01117002-56300	10,000	
Fund 086 revenue moving to General Fund (Expense Reimbursement- Condemn Deposit)	01117002-57006	38,000	
Fund 086 revenue moving to General Fund (Miscellaneous Recoveries)	01117002-57010	300	
Fund 086 revenue moving to General Fund (Expense Reimbursement- Condemn Deposit)	01117002-58005	2,000	
Fund 086 revenue moving to General Fund (CIP Construction Permit Oversight Deposits)	08617002-51709	(50,000)	
Fund 086 revenue moving to General Fund (Charges to Departments)	08617002-56000	(6,634,140)	
Fund 086 revenue moving to General Fund (Engineering Cost Allocation)	08617002-56300	(10,000)	
Fund 086 revenue moving to General Fund (Expense Reimbursement- Condemn Deposit)	08617002-57006	(38,000)	
Fund 086 revenue moving to General Fund (Miscellaneous Recoveries)	08617002-57010	(300)	
Fund 086 revenue moving to General Fund (Expense Reimbursement- Condemn Deposit)	08617002-58005	(2,000)	
Fund 086 expenses moving to General Fund (Salaries & Wages)	08617613-61XXX		(4,014,381)
Fund 086 expenses moving to General Fund (Contracted Services)	08617613-62XXX		(196,909)
Fund 086 expenses moving to General Fund (Commodities)	08617613-63XXX		(71,810)
Fund 086 expenses moving to General Fund (Fixed Charges)	08617613-65XXX		(2,119,210)
Fund 086 expenses moving to General Fund (Capital/Leases)	08617613-66511		(9,000)

Description	Account	Revenue	Spending
Fund 086 expenses moving to General Fund (Debt Service)	08617613-67XXX		(209,920)
	08617613-68000-		
Fund 086 expenses moving to General Fund (Interfund Transfer)	404		(113,210)
Fund 086 expenses moving to General Fund (Salaries & Wages)	01117612-61XXX		4,014,381
Fund 086 expenses moving to General Fund (Contracted Services)	01117612-62XXX		196,909
Fund 086 expenses moving to General Fund (Commodities)	01117612-63XXX		71,810
Fund 086 expenses moving to General Fund (Fixed Charges)	01117612-65XXX		814,610
Fund 086 expenses moving to General Fund (Capital/Leases)	01117612-66511		9,000
Fund 086 expenses moving to General Fund (Debt Service)	01117612-67XXX		209,920
	01117612-68000-		
Fund 086 expenses moving to General Fund (Interfund Transfer)	404		113,210
	01106019-68000-		
Engineering Services (Fund 086) closure	086		1,250,000
	08617002-59000-		
Engineering Services (Fund 086) closure	011	1,250,000	
Engineering Services Expenditures & Revenues to Close Fund Sub-Total		(6,734,440)	(6,734,440)
Reduction to Indirect Cost Recovery for Expenditures & Revenues budget due to Engineering Services Fund closure		(1,304,600)	-
Engineering Services Expenditures & Revenues Sub-Total to General Fund		6,734,440	5,429,840
Other General Fund Adjustments			
Park Improvement Projects	01117652-66220		555,600
Books & other lending services	01111110-66600		375,000
eLibrary services (Hoopla)	01111190-66511		40,000
Building Maintenance unanticipated elevator and fire panel repairs	01117607-62300		240,000
Other General Fund Adjustments Sub-Total			1,210,600
Total Revenue Adjustments to General Fund		5,429,840	
Total Expenditure Adjustments to General Fund			7,890,440