



CITY OF ORLAND STAFF REPORT

MEETING DATE: April 1, 2025

TO: Honorable Mayor and Council

FROM: Pete Carr, City Manager

SUBJECT: **Fiscal Year 2025-26 Budget Discussion#3: Fund Balances; General Fund, Gas Tax, Measure A and Enterprise Funds** (Discussion/Direction)

City staff will brief Council and seek direction on ongoing progress in preparing a draft proposed budget for the next fiscal year.

BACKGROUND:

City staff is preparing a draft budget for the fiscal year 2025-26 (FY26) which starts July 1. The budget will represent the City's best estimate of probable revenues and a spending plan to support operations and projects consistent with Council direction. Staff will continue to analyze revenue projections and collect cost estimates to produce an evolving budget picture in anticipation of an adoptable budget before July 1st.

ANALYSIS

This evening's discussion will build on the previous two discussions about capital projects, staffing, and revenues. We will consider the balances of all major funds with particular focus on the General Fund and Measure A Public Safety Fund. We will also include a first look at next year's Gas Tax Fund, Water and Sewer Funds.

Direction received from Council this evening will further inform staff analysis as we proceed with formulation of the final proposed budget which is planned, ideally, for presentation to Council for consideration of adoption on June 4th.

Fund Balances

While still awaiting our FY24 audit report to confirm starting balances for funds for this fiscal year, our best estimates indicate reasonably reliable starting fund balances. The General Fund reserve, which – excluding Measure A -- was close to \$2M not more than a year ago, is declining and at risk of dipping below \$1M. All other funds have healthy reserves. The General Fund at this time is still more than double the balance five years ago, and four times the balance 13 years ago, but falls very short of our internally set formula-based minimum threshold but is well short of our \$3.3M target.

General Fund

With \$6.48M in expected revenue against \$6.73M in planned expenditures, the first-draft preliminary budget is not balanced and suggests a reduction in reserves for the second year in a row. Most cities in California are experiencing a similar fiscal disposition this year.

Changes from the FY25 General Fund budget include:

- City Attorney and City Planning costs are expected to rise significantly, total >\$100k.
- GHD transportation consulting is estimated at 200 hours = \$60k, as a placeholder. The Council may wish to consider charging this optional advisory service to Gas Tax/Streets.
- Planning design consultants are estimated at \$25k, as a placeholder.
- Salaries & benefits are increased by 2%, but bargaining unit negotiations have not yet begun. Health insurance benefits are likely to rise by at least double that rate.
- OFD cost shifting from General Fund to Measure A provides some relief to General Fund.
- Chamber of Commerce and Facade Improvement program support are reduced.
- No funding is provided to continue the Queen Bee Bucks gift card promotion.

Note that the \$168,000 pending Teeter Plan clawback demand is not shown as an expense this year or next.

Measure A Public Safety Fund

The Measure A expenditure budget also has significant differences from FY25:

- Gradual Fire Department operations cost-shifting from General Fund.
- One-time expenditures for roof repair and concrete for training facility.
- Increases in Police dispatch and animal control contracts.
- Police vehicles have been on a 1/year replacement schedule, but the fleet of Chevy Tahoe vehicles is deteriorating and depreciating faster than expected, triggering higher than usual maintenance costs and earlier than expected replacement costs. Given the potential impact of tariffs on the cost of new vehicles, the price of new Ford units, and the cost of upfitting, we have conservatively estimated the cost at \$115k each.
- One-time costs to migrate OPD data to a cloud server, and to expand the successful new drone program.
- The Public Works safety items portion is reduced by 50%.
- 12-hr ambulance support, currently at approximately \$15-30k/month, is not included as the original Public Safety expenses are exceeding the projected revenue into the fund. This support would need to be shifted to the Measure J budget.

Gas Tax – Streets Fund

State allocations are shown against known major projects and resources for smaller in-house maintenance projects.

Water and Sewer Utility Funds

Operationally, revenues for these funds are covering their expenses. Several recent and current large projects and capital expenditures affect annual balances and the reserves significantly, as expected. This

year we are showing a cost-shift from Sewer to Water, correcting a longstanding 50-50 cost allocation for these two utilities which are not 50-50 in their cost of operation.

Attachments (2):

1. Draft Summary of Major Fund Balances
2. Draft Revenue and Expenditure Budget FY26 for Measure A, General Fund, Gas Tax
3. Draft Revenue and Expenditure Budget FY26 for Water and Sewer Funds
4. Capital Equipment Replacement Schedules for OPD, OFD, OPW

RECOMMENDATION

Provide direction at Council discretion. Staff will proceed with budget preparation accordingly, acknowledging the limitations of budget forecasting without the previous year's audit and without a clear accounting of year-to-date expenditures.

Fiscal Impact of Recommendation:

Staff will strive to balance revenues with expenditures as it produces a budget intended to provide for operations and improvement project objectives; when possible, budgets are designed to maintain or build fund reserves.