CITY OF SANTA ANA

FISCAL YEAR 2018-2019

PROPOSED

CITY BUDGET

SUMMARY

JUNE 5, 2018
June 5, 2018

Honorable Mayor and City Council:

I am pleased to present the proposed budget for the City of Santa Ana for Fiscal Year 18-19. This budget document provides the foundation for our work plan, and more importantly our commitments to the residents and constituents of the community. As a document, the budget calls out the anticipated expenditures and revenue assumptions for the next year of service.

During my short tenure as your City Manager, one of my top priorities was to analyze the current fiscal position of the organization and to provide clarity moving forward. These observations became the basis for the development of this budget.

Observations & Fiscal Realities

The first observation is that there is a lack of clarity as to the City’s current financial position. This, in part, is due to changes in administration and varied budget philosophies. A fundamental value and budget principle is transparency and clear communication. We can do better and we will do better; that is my commitment to you. It is for this reason that I have instituted a directive that the City’s over-riding budget principle be “Truth in Budgeting”. City government has a responsibility to not only make financial information accessible, but also transparent so that any interested party can review, ask questions, and understand the budget.

The second observation is that the problems we are experiencing are actually years in the making. Santa Ana is a community with many opportunities, but also many needs. We have one of the youngest populations; as an older city, we have increased infrastructure needs; and according to industry benchmarks, we are under-staffed in our police department. In short, we are operating with a “service deficit” in relation to the needs of our community. I believe that these pressures, in part, led to the decisions that contributed to a trend where expenditures increased at a rate of 4%, while revenues only increased at a rate of 2%. The result is a structural deficit of $9.3M for our current FY17-18 budget, and a projected $17.1M deficit for FY18-19. Clearly, this is not sustainable.

As a result, unfortunately, we are left in a very vulnerable position, potentially unable to weather a downturn in the economy. While a core function of government is the delivery of services, a city must have solvency in order to deliver any services. The City’s total general fund reserve balance is $46.1M ($42.3M in general fund reserve and $3.8M in an economic uncertainty fund). This is approximately 17.7% of the total proposed General Fund budget. At
that rate, the reserve would be depleted in approximately two (2) months if we had a catastrophic event. Additionally, like most California cities, Santa Ana relies on these fund balance reserves to maintain a positive cash position during the course of the fiscal year, especially during the first five to six months of each fiscal year, since the majority of the City’s revenues are not received until December/ January and April/May. As we accrue cost savings or revenue surpluses into the future, I will continue to recommend that these reserves be increased; we owe it to the community and to our employees.

Maximizing Opportunities

Given our fiscal challenges, a top priority has been to maximize economic development opportunities. With the advent of Proposition 64, the City took a lead role among municipalities to regulate cannabis uses within our City, culminating in being one of the first of only a handful of cities that had adult-use retail cannabis dispensaries operating on January 1, 2018 in California. This has been followed by the adoption of regulatory ordinances for cannabis testing uses, and more recently, commercial cannabis uses. Since these commercial uses may require more substantial tenant improvements, and thus more prolonged entitlement processes, we are only budgeting a third of the lower range of projected revenues for FY18-19.

There also has been considerable development interest in housing and mixed use projects, and staff has been working very diligently to accommodate all of this interest in our City. Currently, there are 108 total residential and non-residential projects in entitlement plan check or under construction. Of these projects, we anticipate 6,180 residential units and 1,396,350 square feet of non-residential development. With this increased investment comes additional housing and retail amenities for our community, and more property tax revenue to support our City services.

Moving Forward

As previously mentioned, our current predicament was several years in the making, and consequently, our transition back to fiscal sustainability will also occur over a couple of years. The path forward will likely involve a concerted effort to reduce costs and also increase revenues. As we look at reducing costs, it’s important to note that Santa Ana is already recognized as being one of the most efficient at providing services when compared to the 11 largest cities in California, and the largest 100 cities in the country. The organization has become lean over time. As an example, in FY 1986-87, the ratio of employees to population served was 7.5 employees per 1,000 residents; currently, our ratio is 3.46 per 1,000 residents. The pressure to limit costs will be tremendous, given the needs of the CalPERS system to remain solvent, the need to continue resolving compliance issues within some of our enterprise funds, the need to address deferred maintenance for our infrastructure, in addition to any requests from our bargaining units at the negotiation table. Therefore, this next year is being proposed as a “bridge” year, an opportunity to frame the policy discussions around which core services we can afford to deliver and at what service levels, along with vetting all revenue measures for consideration.

Within the realities of our budget outlook, strategic investments are being made that will yield positive results moving forward. Of particular note are the following projects: completion of
the General Plan Update to streamline private investments into the City and address critical housing needs; investments into the City’s Information Technology system to support existing service delivery and future efficiency projects; creation of a Risk Manager position to effectively manage the City’s risk portfolio and reduce liability and exposure moving forward; creation of a Payroll Manager position to ensure compliance with all state and federal laws as well as to champion efforts to modernize our payroll systems; increased funding for Police to reduce the number of unfunded police officer positions, and continued funding to address homelessness-related issues that impact the quality of life for the Santa Ana community.

I remain optimistic that we will find solutions by working collectively with our stakeholders - the community, employee labor groups, and management, to create a pathway towards fiscal sustainability. In keeping with our commitment to long-term planning, we will continue providing financial recommendations based on realistic revenue projections, risk assessments, and prudent spending to ensure a stable financial position. Stability, after all, is the result of thoughtful planning and strategic restraint. In spite of the fiscal challenges the City is facing, the proposed FY18-19 budget continues to support and advance the City Council’s priorities in response to the community and its needs.

Preparation of this budget took significant effort, and I want to thank the Budget Team for their dedication and countless hours of work, and the Executive Management Team and their staff for their fiscal restraint and efforts in preparing this proposed FY18-19 budget.

Sincerely,

Raul Godinez II
City Manager
TOTAL CITY BUDGET

REVENUE SOURCES & APPROPRIATIONS
FY 2018-2019

COMMUNITY SAFETY       YOUTH EDUCATION, RECREATION
ECONOMIC DEVELOPMENT     CITY FINANCIAL STABILITY

COMMUNITY HEALTH, LIVABILITY, ENGAGEMENT & SUSTAINABILITY
COMMUNITY FACILITIES & INFRASTRUCTURE       TEAM SANTA ANA
Proposed FY 18-19 Citywide Budget
Expenditures: $547.2M

- General Fund, $260.4M, 48%
- Water Enterprise, $60.3M, 11%
- Capital Funds, $39.2M, 7%
- Other Enterprise Funds, $54.2M, 10%
- Special Revenue Funds, $31.3M, 6%
- CDBG & Other Grants, $14.1M, 3%
- Successor Agency, $17.6M, 3%
- Housing Assistance, $51.5M, 9%
- General Fund Related, $18.6M, 3%
- Other Enterprise Funds, $54.2M, 10%
GENERAL FUND

REVENUE SOURCES
&
APPROPRIATIONS
FY 2018-2019

COMMUNITY SAFETY          YOUTH EDUCATION, RECREATION
ECONOMIC DEVELOPMENT       CITY FINANCIAL STABILITY
COMMUNITY HEALTH, LIVABILITY, ENGAGEMENT & SUSTAINABILITY
COMMUNITY FACILITIES & INFRASTRUCTURE   TEAM SANTA ANA
Proposed FY 18-19
General Fund 11 Revenue Sources: $250.2M

- Sales Tax: $47.9M (19.1%)
- Property Tax: $36.0M (14.4%)
- Property Tax In Lieu VLF: $32.6M (13.0%)
- Utility Users' Tax: $25.4M (10.2%)
- Charges for Services & Fees: $13.3M (5.3%)
- Licenses, Permits & Fines: $20.0M (8.0%)
- Business Tax: $12.0M (4.8%)
- Cannabis Related Revenue*: $10.4M (4.2%)
- Other Revenue & Taxes**: $16.1M (6.4%)
- Use of Money & Property***: $17.2M (6.9%)
- Agency Deposits (Fund 98) & Transfer from Fund 25: $1.3M (0.5%)

** Includes $2.1M in Sale of Land
*** Includes Jail Revenue of $16.0M

* Cannabis Related Revenue: Medical Marijuana $2.3M, Adult-Use Retail: $5.5M, Adult-Use Commercial: $2.6M

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** Includes $2.1M in Sale of Land
*** Includes Jail Revenue of $16.0M
Proposed FY 18-19
General Fund 11 Expenditures: $260.4M

* Other includes: City Manager: $2.6M, City Attorney: $3.5M, Clerk: $1.7M, HR: $1.8M,
Cost Saving Strategies: ($1.5M), Bowers: $1.5M, CDA: $0.9M
WORKFORCE CHANGES

GENERAL FUND
&
NON-GENERAL FUND

Community Safety  Youth Education, Recreation

Economic Development  City Financial Stability

Community Health, Livability, Engagement & Sustainability

Community Facilities & Infrastructure  Team Santa Ana
**Proposed Full-Time Workforce Changes - FY 18-19**

**Additions/Deletions**

### Organizational Changes

<table>
<thead>
<tr>
<th>Department</th>
<th>Qty.</th>
<th>Position</th>
<th>Fiscal Impact</th>
<th>General Fund</th>
<th>Non-General Fund</th>
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<td>Community Development Agency</td>
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<td>Water Systems Electrician</td>
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<td>Water Services Utility Inspector</td>
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| General Fund Positions  | 4    |
| Non-General Fund Positions | 1    |
| **Total**                | **5**|

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<td><strong>Total</strong></td>
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\(^1\) Reflects net cost offset by reduction in part-time positions
### Proposed Full-Time Workforce Changes - FY 18-19

#### Reallocations

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<th>City Attorney’s Office</th>
<th>Qty.</th>
<th>Position</th>
<th>Fiscal Impact</th>
<th>General Fund</th>
<th>Non-General Fund</th>
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<td>(1) Litigations Assistant</td>
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<td>Parks, Recreation, &amp; Community Svcs.</td>
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<td>(2) Youth Services Technician</td>
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<td>2 Librarian</td>
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<td>(9) Communications Services Officers</td>
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<td>(1) Secretary</td>
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<td>140,757</td>
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</table>

**Total** | **196,878** | **151,102** | **45,776**

1. Costs will be absorbed in base budget
2. Cost will be offset by reduction in part-time position(s)
FY 18-19
ORGANIZATION CHART AND FULL-TIME EMPLOYEES

REESIDENTS OF THE CITY OF SANTA ANA

MAYOR AND CITY COUNCIL

City Attorney
15 (1.3%)

City Manager
10 (0.9%)

Clerk of the Council
5 (0.4%)

Recreation & Community Services
74 (6.3%)

Public Works
165 (14.1%)

Police Department
634 (54.1%)

Finance & Management Services
105 (9.0%)

Information Technology
21 (1.8%)

Community Development Agency
46 (3.9%)

Personnel Services
25 (2.1%)

Planning & Building
72 (6.1%)

FY 18-19 Total FT Positions: 1172
COMMUNITY SAFETY  YOUTH EDUCATION, RECREATION

ECONOMIC DEVELOPMENT  CITY FINANCIAL STABILITY

COMMUNITY HEALTH, LIVABILITY, ENGAGEMENT & SUSTAINABILITY

COMMUNITY FACILITIES & INFRASTRUCTURE  TEAM SANTA ANA