



CITY of BREA

Communication
June 17, 2025
Item No. 3A.

Adoption of the FY 2025-27 Biennial Operating and Capital Improvement Program (CIP) Budget

TO	PREPARED BY
Honorable Mayor and City Council Members	Alicia Brenner, Budget Manager
DEPARTMENT HEAD APPROVAL	CITY MANAGER APPROVAL
Monica Lo, Administrative Services Director	Kristin Griffith, City Manager

RECOMMENDATION

- Adopt Fiscal Year 2025-27 Proposed Biennial Operating Budget as presented in the Fiscal Year 2025-27 Operating Budget document and adopt Resolution No. 2025-XX approving the Fiscal Year 2025-27 Operating Budget and appropriating funds for the City of Brea FY 2025-27 Operating Program and
- Adopt Resolution No. 2025-XX approving the Fiscal Year 2025-26 Appropriation Limit; and
- Adopt Resolution No. 2025-XX adopting the Proposed Fiscal Year 2025-27 Biennial Capital Improvement Program (CIP) Budget and appropriating funds for the projects and purposes as presented in the Proposed Fiscal Year 2025-27 Biennial CIP Budget.

BACKGROUND/DISCUSSION

A Budget Workshop was held on May 6, 2025 for City Council to preview and provide guidance on the Biennial FY 2025-27 Operating Budget and Capital Improvement Program (CIP) Budget. Below provides an overview of the proposed budget for both the City Operating and Capital Improvement Program budget that was affirmed at the Budget Workshop for FY 2025-27.

City's Operating Budget

The Proposed Fiscal Year 2025-27 operating budget document and budget resolution are provided as Attachment A1 & A2, which contains an overview message from the City Manager, summary schedules, the fund balances of each operating fund, a comprehensive review of revenues, and expenditure breakdowns by department (please see attachment). As part of this budget cycle, staff focused on long-term and strategic considerations as the organization adapts to changes in the economy as well as within the organization. The budget is the financial plan for the City of Brea for the next two fiscal years and does not constitute a mandate to spend, only the authority to do so.

This budget message provides a comprehensive overview of the City's General Fund budget representing efforts to align resources with operating expenditures while continuing to provide core services to the community during the next two fiscal years. The City's operating budget was developed after considerable review and a commitment to the City Council's top priorities and projects. The process and approach staff used to develop this biennial budget reflects cautiously optimistic projections for both revenues and expenditures, but again, these assumptions are based on very finite information in a changing economic environment.

Staff will continue to monitor several unknowns including economic uncertainty at both the State and Federal level, increases in the cost-of-living, continued demand for fixed asset replacement needs, economic pressures that may impact the City's sales tax base and CalPERS projected rate increases. Looking forward, staff will continue with strong communication at all levels as more information becomes available.

Revenues

For FY 2025-26, the total General Fund revenues are budgeted at \$74,422,625 which includes \$2,788,339 in estimated excess General Fund reserves from the prior year that are above the City's 25% reserve policy limit. For FY 2026-27, the total General Fund revenues are budgeted at \$77,472,773. Which includes excess General Fund reserves anticipated from the prior fiscal year in the amount of \$3,997,142.

Sales tax revenue is the City's single largest revenue source representing approximately 37% of the FY 2025-27 budget. Sales tax revenues are projected to increase by 5.0% over the FY 2024-25 year-end estimate for the next two years with an average growth of 1.7% for the remaining three years covering FY 2027-28 through FY 2029-30. This assumption includes preliminary sales tax growth related to new development.

Property taxes are the second-largest revenue source representing 22% of the FY 2025-27 budget. Property tax revenues are anticipated to grow by 4.0% over the FY 2024-25 year-end estimate and future years beyond FY 2026-27 remain conservative at 2%. They will be adjusted as more information becomes available regarding development projects within the community and as construction begins to break ground.

Expenditures

Total General Fund expenditures in FY 2025-26 are budgeted at \$72,330,689 and \$76,432,821 for FY 2026-27. This budget retains core service levels to the community and represents a 3.3% increase in budgeted expenditures when compared to the FY 2024-25 year-end expenditures (exclusive of transfers-out). The proposed budget includes temporary and one-time budget changes presented at the Budget Workshop on May 6, 2025.

It is also important to note that employees continue to contribute toward their retirement in accordance with the provision of Memorandums of Understanding (MOUs). All employees contribute 100% of the employee cost of retirement. The City has met its goal to have all City employees contribute the full cost per the current pension reform legislation. In addition, most employees are contributing more than the employee portion and are cost-sharing the normal employer cost.

Five Year Projections

Each year, the City's General Fund revenues and expenditures are projected for five years. The five-year projection is a planning tool and reflects staff's best-educated estimates. It does not represent approved or authorized deficit spending, rather it depicts what could occur if the City were to choose not to make the necessary adjustments to operate within a balanced budget. The five-year projections allow us to take a glimpse at potential future budget impacts so that we can make the necessary adjustments to maintain a balanced budget.

These five-year projections and budget assumptions, from FY 2025-26 through FY 2029-30, are attached to this budget document. It is noted that the assumptions include all negotiated labor agreements for FY 2025-26. The projections also assume major revenue sources, including sales tax and property tax, to be increased based upon preliminary development assumptions through FY 2026-27 and remain conservative thereafter.

With the use of Excess General Fund reserves above the current 25% policy limit, the organization is able to maintain a balanced budget for the next two fiscal years. The temporary and one-time budget changes proposed as part of this budget are folded back into the projections starting in Year 3 and represent a preliminary budget shortfall in the longer term. Work is underway to close this budget shortfall and will continue as more information becomes available, staff will work with City Council to identify longer-term resolutions. As previously noted, future-year projections are estimates and are provided solely for informational purposes. Staff will continue to monitor and adjust projections as new information develops for a balanced budget including CalPERS retirement costs.

Funds

Decision packages are requests for new programs, new personnel, and/or new equipment. The decision packages for FY 2025-27 were presented to the City Council at the Budget Workshop on May 6, 2025, to receive input and identify department needs for the coming two fiscal years. The City Council reviewed decision package requests and recommended that staff include them in the FY 2025-27 budget. Below is a summary of the recommended decision packages that are incorporated in the budget.

- The City's Community Benefit and Economic Development Fund (140) includes the purchase of a new software ("Placer.ai") that will provide staff with critical market insight and foot-traffic analysis data to enhance community development efforts within the City. This fund was established to assist with legacy projects as well as provide funding for the attraction and retention of business and economic development.
- The Public Safety Augmentation Fund (172) is restricted for public safety related costs and includes operating and capital related costs for fire safety equipment. This includes replacement of resuscitation and cardiac monitor equipment, replacement of the Fire Department's multi-band portable radios, upgrade of exhaust system and alerting system at various fire stations, purchase of fire turnouts, and a tablet command mobile incident management platform.
- Facility and equipment replacements, such as fitness equipment, facility tables and chairs, parking lot landscaping, HVAC equipment, and gym floor refinishing will be funded by the Community Center Replacement (181) Fund.
- The Fixed Asset Replacement Program Fund (182) will provide funding for the replacement of equipment and facilities at the City's Curtis Theatre. This includes replacement of drapes and projectors, as well as stage lighting.
- The Water Utility Fund (420) will provide funding for a new full-time Water Quality Specialist position and the purchase of one vehicle to support the increased regulatory demands from the State Water Resources Control Board (SWRCB). This includes increased compliance in the areas of cross-connection control and urban water education.
- Replacement of network switches and the network access control system will be funded from the City's External IT Services Fund (460) as the equipment is beyond its useful lifecycle.
- The Information Technology Fund (475) will provide funding for the replacement of desktop, mobile computer, and peripherals throughout the City to maintain operational efficiency and safeguard the City's digital infrastructure.

- Purchase of tools and equipment to outfit the two Type 1 Fire Engines is recommended from the City's Fire Impact Fees Fund (542) which is restricted for eligible fire costs that mitigate future impacts that development has on fire services.

Appropriation Limit

In November 1979, the voters of the State of California approved Proposition 4, commonly known as the "Gann Initiative." The Proposition created Article XIII B of the State Constitution placing various limits on the appropriations of state and local governments. The law requires the governing body of each local jurisdiction to establish annually by resolution, the Appropriations Limit for the upcoming budget year.

In effect, the law requires that expenditures subject to the limit cannot exceed the prior year's expenditures after adjusting for inflation and population changes. In June 1990, Proposition 111 was enacted which modified the formula to allow the Appropriations Limit to be more responsive to local growth issues. Prop. 111 allowed the City of Brea to modify its limit to take into consideration the change in the County or City population, whichever is greater. The Appropriations Limit applies to all taxes levied by and for a municipality. In addition, user fees are excluded from the formula. The Appropriations Limit also excludes the following activities: Successor Agency to the Brea Redevelopment Agency Funds, Enterprise Funds, certain Capital Improvement Funds, and funds received from special assessment districts.

Brea's appropriations that are "subject to the limit" have traditionally been much lower than the limitation established by Article XIII B. This year's Appropriations Limit has been calculated to be \$145,222,222. FY 2025-26 budgeted revenues subject to the calculated Appropriations Limit are provided in Attachment B of the proposed resolution.

Summary

As we reflect on the last two years, the organizational and economic landscape has changed in Brea. Major initiatives moving forward include the launch of the City's new in-house Ambulance Program, the purchase of new and replacement fire vehicles, and the construction of the Arovista Park Modernization Capital Improvement project.

While development remains constant with the prospect of new growth; economic pressures have constrained sales tax revenue growth, creating some uncertainty for the organization. That, coupled with rising CalPERS costs, have created fiscal challenges as we look ahead in the longer term. Though uncertainty and fiscal challenges remain throughout this budget process, the organization has responded and remains steadfast.

Balancing this biennial budget required a strategic approach across the organization, including the careful allocation of resources and the implementation of creative solutions to reduce expenditures, streamline operations, and enhance revenues over the two-year period. The budget savings changes discussed at the Budget Workshop on May 6, 2025 are included in the proposed operating budget with continued discussions underway. Longer-term resolutions are under evaluation and are highlighted below:

- Evaluation of lease agreements at the Civic & Cultural Center;
- Evaluation of subsidies provided to other agencies, user groups, and/or events;
- Evaluation of oil franchise fees and cell tower lease agreements;
- Evaluation of market outreach to film industry;
- Updates to the Brea Mall Message Board signage revenue projections;
- Consideration of short-term rentals and other business opportunities; and
- Consideration of business license tax and transient occupancy tax (TOT) updates.

The use of excess General Fund reserves above the City's policy limit of 25% will help the organization maintain service levels to the community as the organization regains momentum in the coming fiscal years. This fund balancing strategy will avoid making severe service reductions until the organization has an opportunity to better understand the changing economic environment.

Staff will also continue to closely monitor actual versus projected revenues and opportunities for vacancy savings that will assist in providing firmer estimates as we navigate the next two fiscal years. Staff is committed to providing budget updates to the City Council as the financial picture changes.

Overall it is important to note that Brea is paying all of its obligations on time; is setting aside funding for ongoing capital facility and equipment replacement; and is funding a robust Capital Improvement Program (CIP) to adequately maintain City infrastructure.

The organization will make every effort to continue to build prudent reserves and strategic savings programs to insulate the City from a downturn in the economy and minimize organizational disruption. The City Council is also committed to pension modifications and plans to continue setting aside money in an irrevocable trust fund, administered through Public Agency Retirement Services (PARS), that is specifically designed to help stabilize pension costs. This, combined with continued efforts to promote pension modifications at the legislation front, are steps in the right direction.

The entire organization is determined to preserve core City services. Staff will continue to diligently monitoring long-term economic uncertainties that could impact Brea's budget picture. These include:

- Uncertainty at the State and Federal level;
- Increases in the cost-of-living (inflation);
- Fixed asset replacement needs;
- Economic pressures impacting the City's sales tax base; and
- CalPERS projected rate increases.

City staff uses a variety of tools, such as strategically evaluating vacancies and consolidation of functions, to structurally close the budget gap when needed. Additionally, staff continues to research new and innovative ways of doing business. Presenting the City Council with the FY 2025-27 biennial budget is simply one of the many projects that City staff has completed during FY 2024-25. Working within the City Council priorities and under their direction, City staff was able to complete a substantial list of accomplishments, which are found in the department summary sections of the budget.

We would like to thank the City Council for their patience and leadership during this period. Though the development of the FY 2025-27 budget is complete, the work will continue as we enter a new phase of data gathering and forecasting to match our new economic reality.

City's Capital Improvement Program (CIP) Budget

The Proposed Fiscal Year 2025-27 Biennial Capital Improvement Program (CIP) Budget and budget resolution is provided as Attachment C1 & C2 and formally adopts the City's seven-year CIP Budget and appropriates funding for the first two years of the seven year capital improvement plan. The CIP budget reflects the City Council's commitment to enhancing existing infrastructure, providing new infrastructure for a safe environment, and enhancing the quality of life in the community. The remaining five years of the CIP budget are not a commitment of funds but rather a long-range planning tool for subsequent investment in the City's infrastructure. Staff recommends the adoption of the CIP Budget as presented.

The CIP Budget is divided into several categories: Street Improvements, Storm Drain Improvements, Traffic Safety Enhancements, Water Improvements, Sewer Improvements, Facility Improvements, and Golf Course Improvements.

There are 30 projects proposed for funding in the FY 2025-2027 CIP Budget. A detail sheet has been prepared for each proposed project included within the seven-year CIP Budget that contains a description of the project, the amount of funding required, and the source of funds. The following are highlights of the FY 2025-2027 Biennial CIP Budget:

Street Improvements - The projects included in this section of the proposed CIP Budget continue emphasizing street pavement rehabilitation per the City's Pavement Management Plan (PMP). The PMP is updated every two (2) years for arterial roads and every six (6) years for local roads, as the Orange County Transportation Authority requires. Work continues on designing and constructing several large street/roadway improvement projects that are being carried forward from the previous fiscal year. Some examples of this include Walnut Way Street Improvements (CIP 7326) and Birch Street Improvements from S. Associated to Valencia (CIP 7329).

Requested appropriations for the FY 2025-2027 CIP include funding for our annual Traffic Calming Improvements (CIP 7219), Citywide Slurry Seal (CIP 7312) and Citywide Sidewalk Replacement (CIP 7313) projects, as well as the design and construction budget for Palm Street Paving Improvements (CIP 7334) and Tanglewood Street Paving Improvements (CIP 7337).

Storm Drain Improvements - Requested appropriations for the FY 2025-2027 CIP include design phase funding for an update to the Storm Drain Master Plan (CIP 7330).

Traffic Safety Enhancements - In conjunction with Street Improvement projects, the projects included within the Traffic Safety Enhancements section of the proposed CIP Budget improve the driving experience in Brea by easing congestion and improving traffic flow. The City has partnered with OCTA and multiple local municipalities to progress OCTA's Regional Traffic Signal Synchronization Program (RTSSP). This partnership has led to the introduction of the Kraemer Blvd. Regional Traffic Signal Synchronization (CIP 7720) and the State College Blvd. Regional Traffic Signal Synchronization (CIP 7721) projects.

Requested appropriations for the FY 2025-2027 CIP include funding for annual Traffic Signal Controller Upgrade (CIP 7218), Transportation Improvement Nexus Program Update (CIP 7718), and the two aforementioned RTSSP projects.

Water Improvements - A significant focus of the proposed CIP Budget is on proposed improvements to the City's water infrastructure. The design phases of Enterprise Tract Water Improvements (CIP 7462) and the Candlewood Tract Water Main Replacement (CIP 7465) continue to progress, while the design phase of Lotus Water Line Improvements (CIP 7479) has been completed.

Requested appropriations for the FY 2025-2027 CIP include design phase funding for Candlewood Tract Water Main Replacement (CIP 7465), Olinda Village Water Line Improvements (CIP 7482), Replace Generator at Berry Street Booster Pump Station (CIP 7483), and design and construction phase funding for Thompson Oil Site Hydrant Improvements (CIP 7494).

Sewer Improvements - Another focus area of the proposed FY 2025-2027 CIP Budget is the proposed improvements to the City's sanitary sewer infrastructure. Requested appropriations for the FY 2025-2027 CIP include funding for our annual Sewer Mainline Relining (CIP 7617) project and design phase funding for the Carbon Canyon Access Road Phase 1-3 (CIP 7632) project.

Facility Improvements - Work continues on the design of several significant projects from FY 2024-2025. The Brea PD Integrated Crime Center (ICC) Citywide Camera Network (CIP 7719) is progressing through various phases, and the Arovista Park Modernization Project (CIP 7978) is progressing through the construction phase of the park improvements on the east side of Brea Creek.

Requested appropriations for the FY 2025-2027 CIP include funding for the Police Department Space Plan Improvements (CIP 7992), Wildcatters Park Storage Building Improvements (CIP 7997), the Public Works Standard Plans Update (CIP 7998), as well as various other citywide facility improvements.

Golf Course Improvements - In Fiscal Year 2024-2025 various improvements were made at both Birch Hills and Brea Creek Golf Courses, including the Brea Creek Golf Course Netting Extension Project. Requested Appropriations for the FY 2025-2027 CIP include funding for the construction of cart path, driving range, storage shed, and HVAC improvements at the Birch Hills Golf Course (CIP 7968).

In conclusion, with continued prudent fiscal management and project coordination, Brea's Fiscal Year 2025-2027 Biennial CIP Budget will support a variety of projects to sustain the quality of our infrastructure, and continue the goals of enhancing the quality of life in the community, ensuring a safe environment, and promoting transportation improvements in the City.

FISCAL IMPACT/SUMMARY

The expenditures for all funds included in the Proposed Biennial Operating Budget is \$134,193,644 for FY 2025-26 and \$137,820,595 for FY 2026-27 (exclusive of transfers-out).

The proposed FY 2025-27 Biennial Capital Improvement Program Budget is \$15,135,000 and includes \$9,285,000 for FY 2025-2026 and \$5,850,000 for FY 2026-2027. Funding sources include the Fixed Asset Replacement Fund; Gas Tax Fund; Measure M Fund; RMRA; Water Fund; Sewer Fund; Golf Course Fund; Storm Drain Fund; Traffic Impact Fund; Federal Grants; State Grants; County Grants, and other miscellaneous contributions.

Attachments

[Attachment A1 - 25-27 Proposed City of Brea Operating Budget](#)

[Attachment A2 - Operating Budget Resolution](#)

[Attachment B - 25-26 Appropriation Limit Resolution and Exhibit](#)

[Attachment C1 - Proposed FY 2025-27 CIP Budget](#)

[Attachment C2 - CIP Budget Resolution](#)