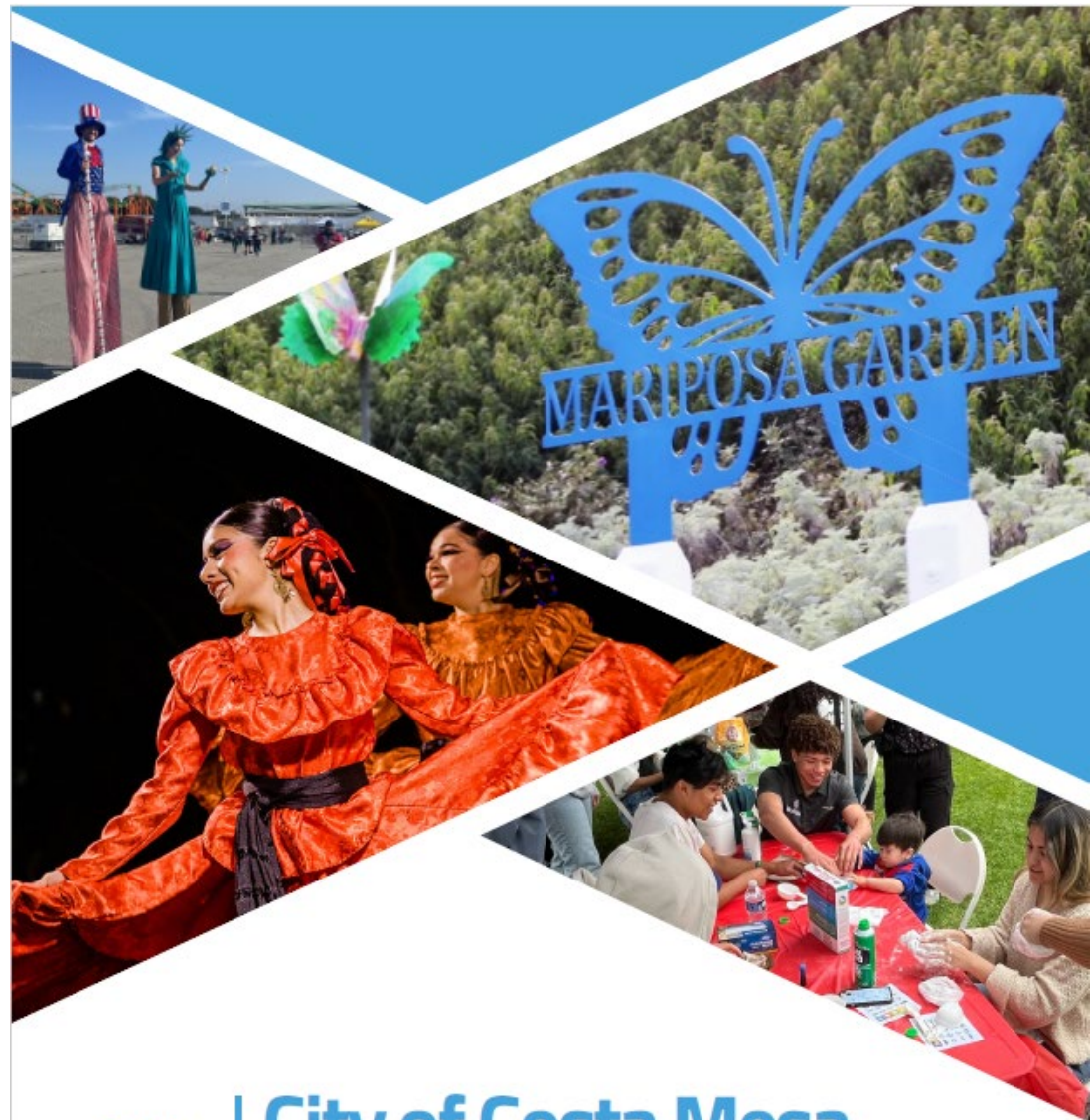

FY 2024-25
**PROPOSED OPERATING AND
CAPITAL IMPROVEMENT BUDGET**

City Council Study Session
May 14, 2024



**“WHEN WE ALL
PULL TOGETHER”**



City of Costa Mesa
Proposed Budget
2024-2025

FY 2024-25 PROPOSED BUDGET OVERVIEW

- FY 2024-25 Proposed Budget Guiding Principles
- FY 2024-25 Revenue Highlights
- FY 2024-25 Proposed Expenditures Overview
- Status of General Fund Reserves
- Budget Calendar

GUIDING PRINCIPLES

FY 2024-25 Proposed Budget was inspired by the five Strategic Plan Goals:

- Strengthen Public Safety And Improve The Quality Of Life
- Diversify, Stabilize, and Increase Housing To Reflect Community Needs
- Advance Environmental Sustainability And Climate Resiliency
- Recruit And Retain High Quality Staff
- Achieve Long-Term Fiscal Sustainability

*New Strategic Plan goals will be presented to the City Council at an upcoming Study Session, and will be formally adopted thereafter

FY 2024-25 Proposed Operating and Capital Improvement Budget Overview



FISCAL YEAR 2024-25 PROPOSED BUDGET ALL FUNDS OVERVIEW

Highlights:

- Structurally balanced General Fund budget without the use of reserves or ARPA Funds;
- Designating \$99.7M, or 52%, in General Fund resources to public safety;
- Investing \$27.9M into the City's parks, streets, active transportation network, facilities, and other infrastructure;
- Fully annualizes recently negotiated labor contract; and
- Funds \$2.5M into the Housing Trust Fund.



ALL FUNDS DESCRIPTION

- General Fund – general operating fund of the City, unrestricted;
- Special Revenue Funds – grants (Federal, State and/or County), restricted funding sources
 - E.g. American Rescue Plan Fund, Measure M, Gas Tax, RMRA, etc.;
- Internal Service Funds –used to finance and account for activities involved in rendering equipment replacement, self-insurance services, and information technology replacement to departments within the City. Costs of materials, equipment, and services used are accumulated in these funds and charged to the user departments.
 - Equipment Replacement Fund
 - Self-Insurance Fund
 - Information Technology Replacement Fund

FY 2024-25 ALL FUNDS APPROPRIATIONS

\$240.1M

Appropriations All Funds	Adopted FY 2023-24	Proposed FY 2024-25	Increase (Decrease)	
			Amount	Percent
Operating Budget	188,349,065	199,582,608	11,233,543	6%
Transfers Out	14,582,902	12,631,498	(1,951,404)	-13%
Capital Budget	31,081,719	27,901,236	(3,180,483)	-10%
Total	\$234,013,686	\$240,115,342	\$6,101,656	3%

- Transfer of \$2.5M from ARPA funds towards a Housing Trust Fund to help address housing affordability;
- Continue funding for the City's homeless outreach and bridge shelter programs and operations of \$1.3M;
- Transfer of \$222,469 from ARPA funds to support again Tenant Eviction Protection Program;
- Transfer of \$231,839 from ARPA funds to support Housing Authority Fund for Homeless Program Funding; and
- Funds 15 beds at the permanent Bridge Shelter for Behavioral Health Bridge Housing funded by a \$972,000 reimbursable grant from County of Orange Healthcare Agency (OCHCA).

- Information Technology Replacement Fund
 - Investment for Year 5 of the Information Technology Strategic Plan (ITSP) for \$1.9M, including:
 - \$1.5M for year two of the CAD RMS Public Safety System replacement;
 - \$250K Desktop Replacement Program; and
 - \$130K for a new project to upgrade the City's website.
- Self Insurance Internal Service Fund
 - \$50k in additional funding for ongoing administrative costs.

- Allocates ½ percent of the seven percent Cannabis Retail and Delivery Tax (Measure Q) funding for Year Four of the goals outlined in the Arts and Culture Master Plan (\$393,494);
- Proposed Budget reflects essentially flat funding year over year;
- Fund is approximately \$115K insufficient to fully support the City's arts programs and goals; based on \$2.9M in cannabis revenues; and
- Staff is proposing to utilize available fund balance in the Cultural Arts Master Plan Fund (130) from prior years to offset the FY 2024-25 Proposed Budget.

- Allocate \$300,000 for a water quality program to monitor the City's compliance with the National Pollutant Discharge Elimination System (NPDES);
- Tree Planting and Small Tree Care Program (\$150K);
- Placentia Ave, Stormwater Quality Trash Full-Capture System (\$115K); and
- Clean Mobility Options Program: On-Demand Transit Services (\$500K).

ALL FUNDS

REQUESTED NEW POSITIONS

Department	Classification	FTE	Justification
Other Funds			
City Manager	Community Outreach Worker (Homeless Services)	3.00	Community Outreach Workers to support case management for Homeless Services.
City Manager	Community Outreach Worker (Tenant Protection)	(1.00)	Community Outreach Worker will be reduced in Tenant Eviction Protection Program and increased in Homeless Services.
Development Services	Code Enforcement Officer (Tenant Protection)	(1.00)	Positions for the program will now all be in the City Manager's Department.
Other Funds Total		1.00	
General Fund			
Finance	Accounting Specialist II (Part Time)	0.75	Account Specialist II to support with processing invoices for payments in Accounts Payable.
Police	Accounting Specialist II (Convert to Full Time)	0.37	Account Specialist II to support with processing higher volume of P-card transactions.
Public Works	Maintenance Worker (Part Time)	0.50	Maintenance Worker to support the Signs and Marking.
GF total		1.62	
All Funds Total		2.62	

ALL FUNDS

CIP FUNDING SOURCES

FUND	AMOUNT
Capital Improvement Fund (GF)	\$8,955,010
Gas Tax (HUTA)	\$1,870,000
Gas Tax (RMRA)	\$3,500,000
CDBG	\$350,000
Park Development Fees	\$75,000
Drainage Fees	\$125,000
Traffic Impact Fees	\$965,000
Cannabis Traffic Impact Fee	\$150,000
Measure M2 Regional	\$115,000
Measure M2 Competitive and Fair share	\$4,580,000
Jack Hammett	\$400,000
Lions Park CIP Bond	\$334,136
CMHA James/18th St. Property	\$140,000
Grant Funds*	\$6,342,090
ALL FUNDS SUBTOTAL	\$27,901,236
Estimated Future Bond Financing	\$20,000,000
TOTAL	\$47,901,236

*Projects funded by grants: Signal Modernization (\$3,906,090); Bicycle Facility Project (\$1,760,000); Clean Mobility Program (\$500,000); and Fairview Road Improvement Project (\$176,000).

Proposed CIP (\$27.9M). Some of the key projects include:

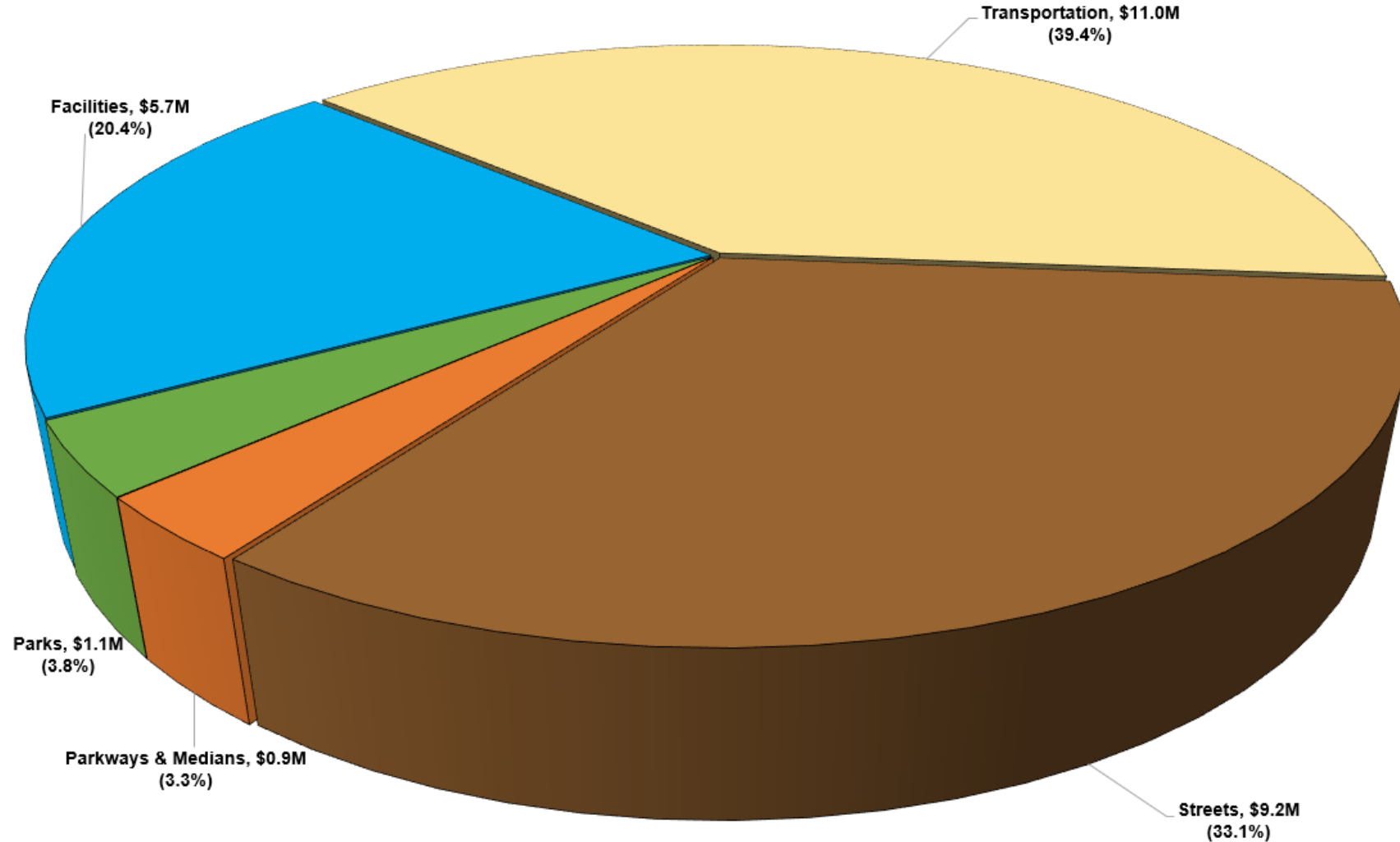
- Emergency Communications Facility Remodel;
- Senior Center - HVAC Replacement;
- Harbor Blvd., 17th St., and Gisler Ave. Rehabilitation Project;
- Adams Avenue Undergrounding Project; and
- Signal Modernization for Systemic Multi-Modal Safety Improvements.

Capital Improvement Fund includes \$2.3M in unallocated funding for several major projects, such as the: Senior Center HVAC Replacement for \$725,000; and Citywide Street Improvements for \$800,000.

- Repairs, upgrades, reconstruction at Fire Stations 2 and 4 for \$18.15M, of which \$18M is in potential Bond financing:
 - Fire Station 2 – Reconstruction (\$10M);
 - Fire Station 4 – Living quarters reconstruction (\$8M);
- Additional Proposed Public Safety CIP of \$2.5M:
 - Various Fire Stations CIP (\$150K);
 - Police Emergency Communication Facility remodel (\$900K);
 - Police Locker room remodel (\$400K);
 - Weather proofing the Police Department’s main building (\$400K);
 - Sewage liner replacement for the Police Communications and Westside Sub-Station (\$300K);
 - Police Westside Sub-Station renovation seed money (\$300K).

IMPROVEMENT AREAS BY CATEGORY

PROPOSED CIP BUDGET BY CATEGORY \$27.9M





FY 2024-25 Proposed General Fund Budget Overview

General Fund Overview



Category	Adopted FY 23/24	Amended FY 23/24	Proposed FY 24/25	Adopted vs. Proposed Increase/(Decrease)	
				Amount	Percent
Estimated Revenues	\$180.32	\$181.11	\$189.90	\$9.58	5%
Transfers In	-	-	-	-	-%
Use of Fund Balance	-	-	-	-	-%
Total Sources of Funds	\$180.32	\$181.11	\$189.90	\$9.58	5%
Operating Budget	\$167.22	\$170.60	\$180.20	\$12.98	8%
Transfers Out	13.1	10.5	9.7	-3.4^	-26%
Total Expenditures	\$180.32	\$181.11	\$189.90	\$9.58	5%
Total Surplus/(Deficit)	-	-	-		

^ Realigns the transfer out for the Equipment Replacement Fund to an Internal Rent category for consistency with GAAP.

FISCAL YEAR 2024-25 PROPOSED GENERAL FUND REVENUES BUDGET

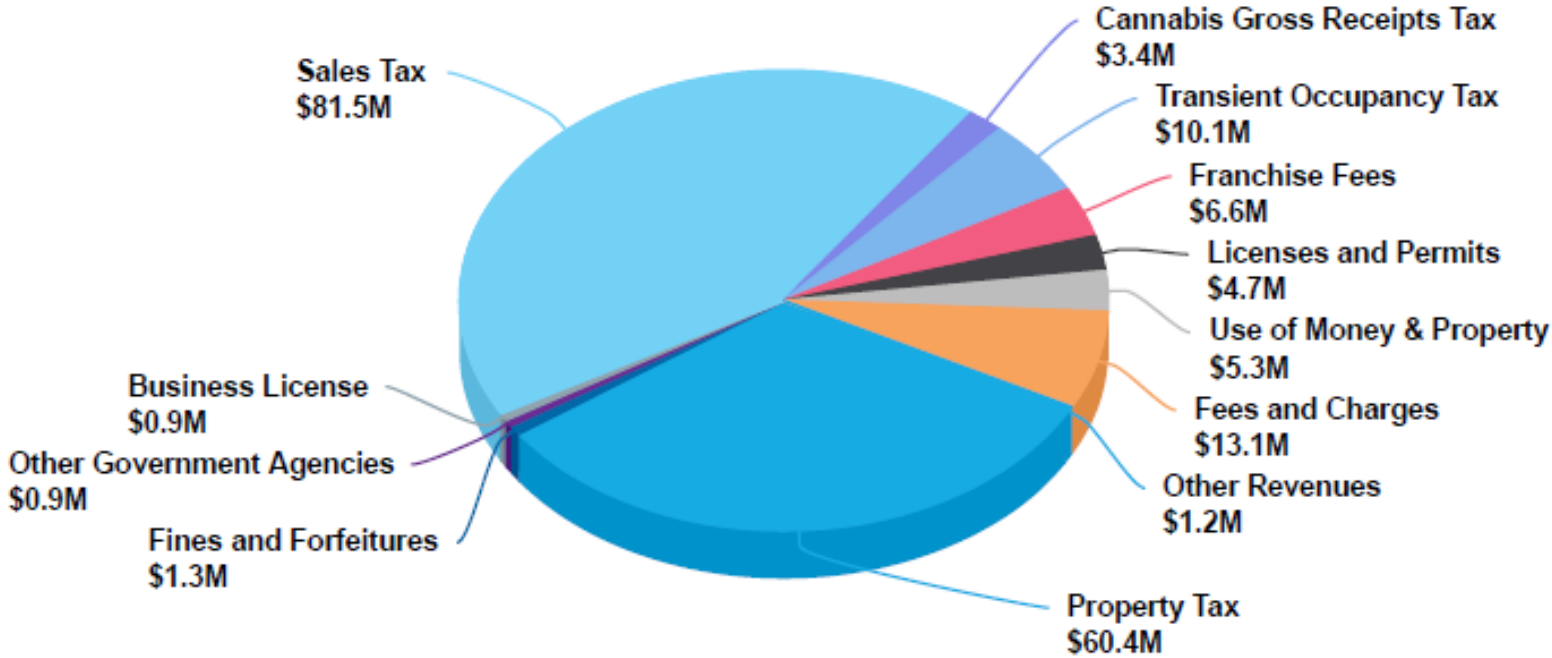
(IN MILLIONS)

Revenue Sources	Adopted FY 2023-24	Proposed FY 2024-25	Increase/(Decrease) Amount Percent		FY 2024-25 % of Total
Property Tax	54.5	60.5	5.9	11%	32%
Sales Tax	82.5	81.6	(0.9)	-1%	43%
Transient Occupancy Tax	9.6	10.1	0.6	6%	5%
Miscellaneous Revenues	30.4	34.9	4.5	15%	18%
Subtotal Revenues	177.0	187.1	10.1	6%	99%
Measure Q: Cannabis	2.5	2.8	0.3	12%	1%
Transfers In	0.9	-	(0.9)	-100%	0%
Total	180.3	189.9	9.6	5%	100%

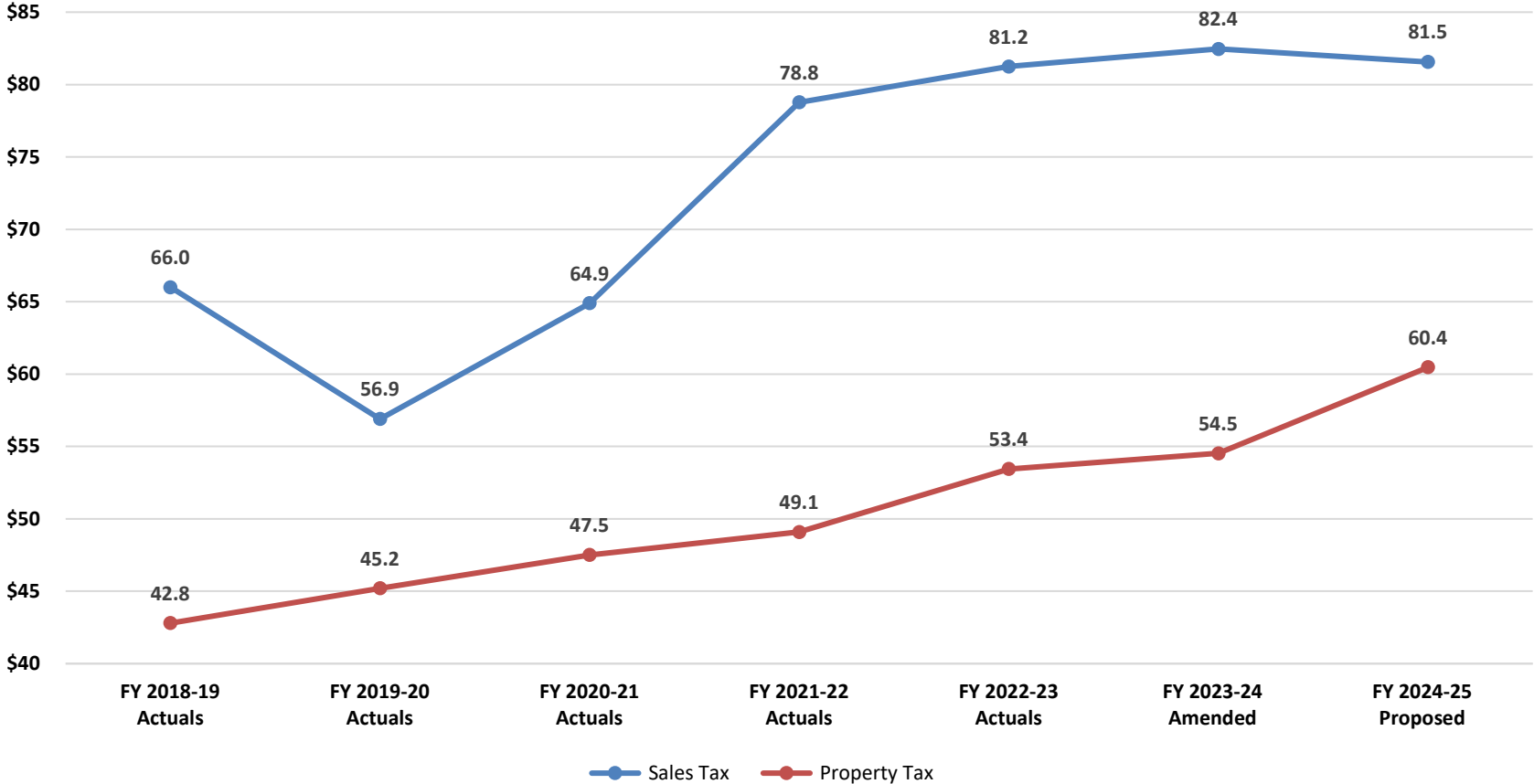
GENERAL FUND REVENUE HIGHLIGHTS

- General Fund revenue is projected at \$189.9M, reflecting an increase of \$9.5M or 5% from the FY 2023-24 Adopted Budget;
- Reduction of Sales Tax is estimated at \$81.5M, a decrease of \$900K or 1% from FY 2023-24 due to lower sales of consumer goods and building supplies;
- Property Taxes are estimated at \$60.4M, reflecting a 10% growth over the current fiscal year, due to the reallocation of Successor Agency funds to property taxes and a steady increase in assessed valuations and home sales;
- Fees and Charges are estimated at \$13.1M due to the statutory change in the ambulance revenues reflecting a \$3.4M or 35% growth over the current year;
- Cannabis taxes and permits are estimated at \$3.4M, an increased by \$350k, or 11% from the current year budget; and
- Increase of Transient Occupancy Tax, estimated at \$10.1M, a \$600K increase from the current year's adopted budget of \$9.5M, as a result of increased travel.

FY 2024-25 PROPOSED GENERAL FUND REVENUE



GENERAL FUND SALES TAX AND PROPERTY TAX HISTORY (IN MILLIONS)



GOVERNOR'S MAY REVISE BUDGET UPDATE

- FY 2024-25 All Funds budget of \$288.1 billion, General Fund budget of \$201 billion;
- Balance the estimated deficit over the next two fiscal years: \$27.6 billion in FY 2024-25 and \$28.4 billion in FY 2025-26;
- Steady, but slowing, economic growth;
- Reduces \$132.5 billion in FY 2024-25 and \$207.5 billion in FY 2025-26 for the Behavioral Health Bridge Housing Program;
- Revenues from the “Big Three” are projected to be lower by \$10.5 billion: personal income tax is down by \$2.4 billion, corporation tax is down by \$5.8 billion, and sales tax forecast from January’s estimate is downgraded by \$2.3 billion but is still higher than the current year;
- Use of the Budget Stabilization Account by \$12.2 billion; and
- Eliminate 10,000 vacant positions.

FY 2024-25 PROPOSED GENERAL FUND EXPENDITURES



FY 2024-25 PROPOSED GENERAL FUND OVERVIEW

- Structurally balanced budget with no use of General Fund Reserves or ARPA Funds;
- Includes 52% commitment to Public Safety;
- Funds a net of 2.62 FTEs in the All Funds, of which 1.62 is in the General Fund, to achieve Strategic Plan goals, in addition to 3.27 FTEs previously approved at mid-year in April of 2024;
- Funds a total of \$6.8M in the General Fund towards capital spending, and a \$2.8M for the Lions Park bonds debt service payment, for a total of \$9.6M exceeding amount to comply with the Capital Asset Needs (CAN) at \$8.9M;
- Annualizes labor contractual negotiations of \$5.8M;
- Includes \$2.3M in CalPERS year-over-year increase as per CalPERS regulations;
- Includes increases in operating contractual obligations of \$1.4M; and
- Continues the \$4.3M vacancy factor (negative appropriation) in the Police Department Budget.

General Fund Overview



Category	Adopted FY 23/24	Amended FY 23/24	Proposed FY 24/25	Adopted vs. Proposed Increase/(Decrease)	
				Amount	Percent
Estimated Revenues	\$180.32	\$181.11	\$189.90	\$9.58	5%
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Use of Fund Balance	-	-	-	-	0%
Total Sources of Funds	\$180.32	\$181.11	\$189.90	\$9.58	5%
Operating Budget	\$167.22	\$170.60	\$180.20	\$12.98	8%
Transfers Out	13.1	10.5	9.7	-3.4 [^]	-26%
Total Expenditures	\$180.32	\$181.11	\$189.90	\$9.58	5%
Total Surplus/(Deficit)	-	-	-		

[^] Realigns the transfer out for the Equipment Replacement Fund to an Internal Rent category for consistency with GAAP.



“WHEN WE ALL PULL TOGETHER”

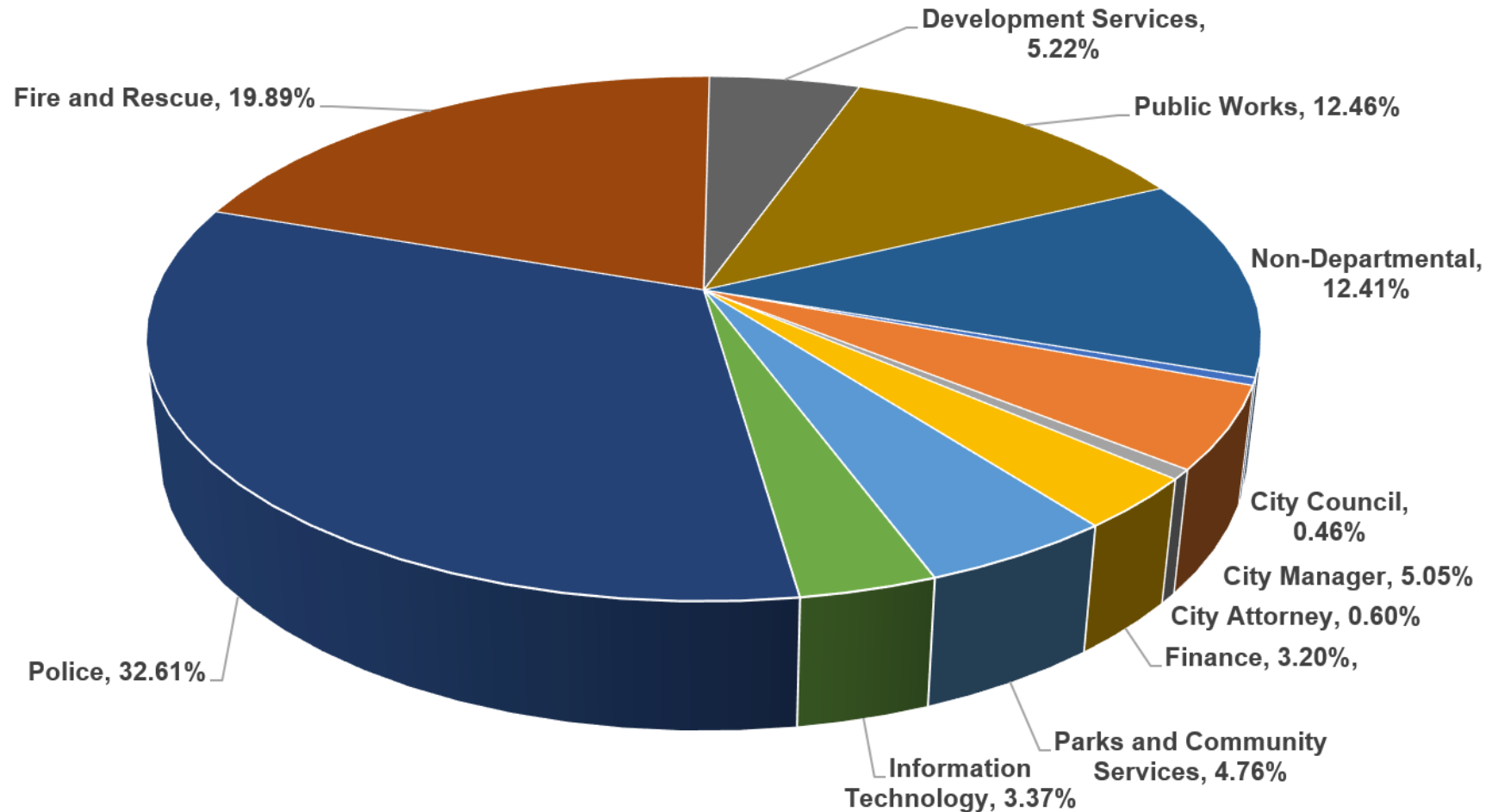
Strengthen the Public’s Safety and Improve the Quality of Life



STRENGTHEN THE PUBLIC'S SAFETY

Public Safety Represents 52% of General Fund

Total Appropriations - General Fund by Department \$189,894,159



Police Department:

- Sworn staffing levels at 142 positions;
- Highest level of Police sworn staffing since the Great Recession;
- Other annualized enhancements include:
 - Part-time Account Specialist II to full-time Account Specialist II;
 - Salaries and benefits budget increased by a net of \$3.1 million to fully fund contractual obligations; and
 - \$1.05 million in funding for new vehicles;
 - Creation of hiring bonuses and incentives for Police Officers and Dispatchers similar to surrounding agencies.

Police Department

- Reallocation of \$730K for body-worn and vehicle cameras system;
- \$150K to establish a new Wellness Program;
- \$120K for contract obligations for Wildlife Wetlands and Animal Services;
- Police Department \$1.05 million in funding for eight Police interceptor vehicles, a light truck for animal services, and a heavy one-ton truck to haul equipment and support the recently received armored vehicle; and
- Annualizes 3.27 positions added at mid-year and adds 2.0 FTEs that were converted from three part-time positions in the Police Department.

Fire and Rescue Department

- Sworn staffing levels at 85 positions;
- Salaries and benefits budget increased by a net of \$1.3 million to fund contractual obligations;
- A budget allocation of \$702,000 to the Fire Department for the Ambulance Program and emergency medical supplies (net neutral); and
- \$95,000 funding for a light truck.



**“WHEN WE ALL
PULL TOGETHER”**

**Recruit and Retain
High Quality Staff**



RECRUIT AND RETAIN

- Annualizes funding to attract, recruit and retain high quality staff through the recently negotiated labor contracts that aligns employee compensation to average market rate levels (\$5.8M);
- Budget increase of \$2.5M in all funds for annual CalPERS payment;
- Recruitment and retention incentives for public safety to help retain tenured-and-experienced staff in our Police and Fire and Rescue Departments for adequate succession planning (\$400K); and
- Negotiations in process for CMFMA to be followed by CMDMA, Confidential Management Unit, Executive Team and the City Council.



**“WHEN WE ALL
PULL TOGETHER”**

Achieve Long-Term Fiscal Sustainability



GENERAL FUND

ACHIEVE LONG-TERM FISCAL SUSTAINABILITY

- Structurally balanced General Fund Budget without the use of ARPA or General Fund Reserves;
- Maximize the City's economic recovery through strategic investments in Citywide infrastructure;
- Provides full funding for Capital Fund (CAN) and IT Replacement Fund; and
- Includes a \$1.0M in debt payment for a potential recommended bond for the reconstruction of Fire Stations #2 and #4.

FUND BALANCE - GENERAL FUND

(IN THOUSANDS)

Fund Balance Category	FY 2020/21 Audited	FY 2021/22 Audited	FY 2022/23 Audited	FY 2023/24 Projected
Committed				
Declared Disasters	\$14,125	\$14,125	\$14,125	\$14,125
Self-Insurance	2,000	2,000	2,000	2,000
Economic Reserves	9,000	9,000	9,000	9,000
Assigned				
Compensated Absences	5,920	5,584	6,210	6,210
Police Retirement 1% Supplemental	2,275	1,885	1,737	1,737
Workers Compensation		1,000	2,000	2,000
Facilities Reserve		2,000	2,000	2,000
Strategic Plan Project		2,000	2,000	2,000
Section 115 Trust	-	-	-	
Restricted				
Pension and OPEB	1,778	3,061	3,178	3,178
Non-spendable	965	604	459	459
Unassigned	17,429	16,517	16,328	16,328
Total Fund Balance	\$53,492	\$57,776	\$59,037	\$59,037

FINANCIAL ACHIEVEMENTS

- Strategically utilized remaining ARPA to offset the fiscal impact of the pandemic, including small business grants, rental assistance, Project Homekey, and tenant eviction protection;
- Dedicated 1.5 percent to the I.T. Replacement Fund to address aging technological software and equipment;
- Dedicated 5 percent to the Capital Improvement Fund to address maintenance and repair of facilities and infrastructure;
- Achieved and exceeded the City Council Reserve Fund Balance Policy of \$55M by \$4.0M; and
- Maintained City's underlying AAA rating and AA rating on its 2017 Lease Revenue Bonds.

FY 2024-25 Budget Calendar

FY 2024-25 Proposed CIP Budget Study Session	Finance and Pension Advisory Committee	April 18, 2024
FY 2024-25 Proposed CIP Budget Study Session	City Council	April 23, 2024
FY 2024-25 Proposed Budget Study Session	City Council	May 14, 2024
FY 2024-25 Proposed Budget and CIP Review	Finance and Pension Advisory Committee	May 15, 2024
FY 2024-25 Proposed Operating & CIP Budget Public Hearing	City Council	June 4, 2024
FY 2024-25 Proposed Operating & CIP Budget Study Session #2, if needed	City Council	June 11, 2024
FY 2024-25 Proposed Budget Adoption, if needed	City Council	June 18, 2024

**“WHEN WE ALL
PULL TOGETHER”**

QUESTIONS?



ARPA FUNDS TRANCHE 2 REMAINING ALLOTMENT

Description	Amount
Transfers	
Housing Trust Fund	2,500,000
Housing Authority Fund – Tenant Eviction Protection Program and Homeless Program	454,308
Grand Total	2,954,308