



Agenda Report

Item #: 25-312

Meeting Date: 6/03/2025

TITLE:

FISCAL YEAR 2025-26 PROPOSED OPERATING AND CAPITAL IMPROVEMENT PROGRAM AND HOUSING AUTHORITY BUDGET INCLUDING ANNUAL REPORTING FOR EQUIPMENT USE POLICY PER AB 481 AND VACANCY STATUS AND RECRUITMENT STRATEGIES PER AB 2561

DEPARTMENT: CITY MANAGER'S OFFICE, FINANCE DEPARTMENT

PRESENTED BY: CECILIA GALLARDO DALY, ACTING CITY MANAGER, CAROL MOLINA, FINANCE DIRECTOR

CONTACT INFORMATION: CAROL MOLINA, FINANCE DIRECTOR, (714) 754-5243

RECOMMENDATION:

Staff recommends the City Council:

1. Approve Resolution 2025-XX, adopting the Proposed Fiscal Year 2025-26 Operating and Capital Improvement Program (CIP) Budget; and
2. Approve Joint Resolution 2025-XX adopting the Housing Authority Budget including Economic and Community Development expenditures for Fiscal Year 2025-26; and
3. Authorize the "Emergency Exception" clause of the Capital Asset Needs Ordinance under Section 2-209.2 (a)(2), Economic Downturn, for Fiscal Year 2025-26; and
4. Approve a financial plan to reinstate \$6.9 million from Fiscal Year 2025-26 in deferred projects by:
 - a. Reinstate the funding over a 10-year period to ensure a fiscally sustainable General Fund budget.
5. Authorize and approve staffing for the following full-time positions: increase of 1.0 FTE for Custody Officer for Police Department, decrease of 1.0 FTE for Human Resources Analyst, decrease of 1.0 FTE for Programmer Analyst I, decrease of 1.0 FTE for Senior Management Analyst (CON), and a decrease of 1.0 FTE for Community Outreach Worker as presented at the May 13, 2025 Study Session; and
6. Approve Resolution 2025-XX establishing the Fiscal Year 2025-26 Appropriations Limit for the City of Costa Mesa at \$330,924,446, by using Orange County's growth for population adjustment, and the California per capita income growth for inflationary adjustment; and
7. Approve the City of Costa Mesa's Revised Special Event Rates; and

8. City Council action is requested for the following to comply with AB 481 Police Equipment Report and Resolution:
 - a. Receive and file the 2025 Annual AB 481 Report and take public comment; and
 - b. Approve Resolution 2025-XX Renewing Ordinance No. 2022-03, the AB 481 Equipment Use Policy of the City of Costa Mesa, California, governing the use of police safety equipment.
9. Receive and file the job vacancy status information required by AB 2561.

BACKGROUND:

The Fiscal Year 2025-26 Proposed Budget includes collaboration efforts throughout all sectors, including public safety, parks, facilities, streets and housing for the City of Costa Mesa residents, businesses, and visitors. Recommended budget adjustments contained in the Proposed Budget were carefully selected based on operational needs, the provision of essential core services to our community, and to implement the City Council's stated Goals and Priorities more effectively.

The current uncertainty regarding the potential impacts of United States policies on global, domestic, and local economic conditions presents a challenging environment for both consumers and businesses. As a result, it is prudent to anticipate some slowdown in revenues leading into Fiscal Year 2025-26, particularly in Sales Tax and Transient Occupancy Tax, while Property Tax is expected to continue to experience modest growth. During the development of the Fiscal Year 2025-26 budget, the City diligently worked to balance the anticipated decline in revenues due to economic uncertainties and the expected increase in costs for goods and services. However, you will find that, despite the decline in revenue and increase in costs, this carefully prepared budget ensures that services and programs will continue to be provided for its residents and business community.

Guiding Principles

The guiding principles that inspired the recommendations for the FY 2025-26 Proposed Budget were created when the City Council conducted a Strategic Planning workshop, identifying key priorities, as well as the Mission Statement for Costa Mesa, as follows:

"The City of Costa Mesa serves our residents, businesses, and visitors by promoting a safe, inclusive, and vibrant community."

In addition, the City Council has developed five Strategic Plan Goals:

- Strengthen the Public's Safety and Improve the Quality of Life;
- Achieve Long-Term Fiscal Sustainability;
- Maintain and Enhance the City's Facilities, Technology, and Equipment;
- Recruit and Retain High Quality Staff;
- Diversify, Stabilize, and Increase Housing to Reflect Community Needs; and
- Advance Environmental Sustainability and Climate Resiliency.

The recommendations contained in the FY 2025-26 Proposed Budget are rooted in the Strategic Plan Goals and Core Values created by the City Council for a safe, inclusive, and vibrant City.

ANALYSIS:

The theme for the FY 2025-26 Proposed Budget is, “Focused. Efficient. Resilient.” Staff will stay focused on the City’s mission to serve its community, be efficient in all services delivered, while being resilient to the changing economic conditions. This budget fully funds the Homeless and Behavioral Health Program, Information Technology Replacement Fund, Self-Insurance Fund, and the Equipment Replacement Fund to allow Departments to achieve shared goals in addressing our most pressing needs and priorities.

Funding requests contained in the FY 2025-26 Proposed Budget help further stabilize or enhance critical City operations to better serve the public and/or provide City employees with the essential technology, equipment, and overall tools to perform their public service effectively. The Proposed Budget also helps to ensure both short-and-long-term fiscal sustainability, while committing resources to achieve Council’s goals in a fiscally prudent manner.

At the April 22, 2025 FY 2025-26 Capital Improvement Budget Study Session and May 13, 2025 FY 2025-26 Proposed Operating Study Session, City Council provided feedback to staff regarding several items to include or adjust in the Proposed Budget.

The FY 2025-26 Proposed Operating and Capital Improvement Budget was also presented and discussed at the May 14, 2025, Finance and Pension Advisory Committee (FiPAC) meeting.

The agenda reports and videos for the April 22, 2025, and May 13, 2025 City Council Study Sessions can be found here:

April 22, 2025 Agenda Report

- [FY2025-26 Proposed Capital Improvement Program Budget Study Session Staff Report and Corresponding Attachments](#)

May 13, 2025 Agenda Report

- [FY2025-26 Proposed Operating and Capital Improvement Program Budget Study Session Staff Report and Corresponding Attachments](#)

Overview of FY 2025-26 Proposed All Funds Budget

The Fiscal Year 2025-26 Budget reflects the operating and capital spending plans for the General Fund, Special Revenue Funds, Capital Project Funds, and Internal Service Funds. The total proposed budget for all funds is \$224.4 million, a decrease of \$15.4 million, or 6 percent, compared to the Fiscal Year 2024-25 Adopted Budget of \$239.8 million. Table 1 illustrates these amounts.

Table 1 – Proposed Budget – All Funds

Expenditure Category	Adopted	Proposed	Increase/(Decrease)		FY 2025 26
	FY 2024 25	FY 2025 26	Amount	Percent	% of Total
Operating Budget	\$ 199,282,606	\$ 204,133,821	\$ 4,851,215	2%	91%
Transfers Out	12,631,498	3,547,836	(9,083,662)	-72%	2%
Capital Budget	27,901,236	16,693,612	(11,207,624)	-40%	7%
Total	\$ 239,815,340	\$ 224,375,269	\$ (15,440,071)	-6%	100%

The All-Funds Budget for the City includes both governmental and proprietary funds. Governmental funds include the General Fund, Special Revenue funds, and Capital Projects funds. The Special Revenue Funds are the grants and other restricted funds designated for specific services and purposes provided by higher levels of government (i.e., Federal, State, and County governments and agencies). Some of these funds receive ongoing revenue streams, while some are one-time competitive grants and require careful monitoring and record keeping. Proprietary funds are internal service funds that account for the City's equipment replacement, self-insurance, and information technology replacement.

In some instances, a fund can have available fund balances that have accumulated over time and are expended as the need arises and/or to complete specific projects within allotted timeframes. As such, the All-Funds Budget contains many funds that are separate entities with specific accounting and reporting requirements as per government regulations and, in some cases, statutes.

The City's General Fund, however, is not restricted and can be used to provide a broad array of public services and is comprised of multiple revenue sources including taxes (such as property, sales, and hotel taxes, among others), user fees, fines, facility rentals, and development related fees, to name a few.

The Fiscal Year 2025-26 Proposed All Funds Budget of \$224.4 million, a decrease of 6 percent from the previous adopted year, consists of an increase in the operating budget and decreases in both transfers out and the capital project budget to ensure a balanced budget.

Operating Budget

The FY 2025-26 total proposed operating budget for All Funds is \$204.1 million, an increase of \$4.9 million, or 2 percent, compared to the FY 2024-25 Adopted Budget of \$199.3 million. The FY 2025-26 All Funds Proposed Operating Budget is comprised of several changes including:

General Fund

- A salary and benefits budget increase of \$133,286 in the Police Department for a full-time Custody Officer.
- \$59,915 increase in the Police Department Operating Budget that includes gun range maintenance, mobile data connection services for first responders, and public safety health counseling services.
- \$163,908 decrease in the Police Department as a result of the relocation of the Placentia Avenue evidence warehouse to a city-owned facility.

- A budget reallocation of \$1,500 transferring 3SI Security Systems from the Information Technology Department to the Police Department budget.
- \$40,750 increase in the Information Technology Department for evidence and internal affairs software to support the Police Department.
- \$50,000 increase in the Fire and Rescue Department for firefighters' personal protective equipment, training for the Emergency Operations Center, and Telecommunications Staff.
- \$35,000 increase in the Public Works Department for bus shelter pressure washing.
- \$50,000 increase for the Economic & Development Department to support the lease agreement for the Airport Loop Drive facility, which serves as the office location for the City's Code Enforcement Officers.
- \$36,950 increase for the City Attorney's annual contractual agreement.
- \$65,000 increase in the City Manager Department's Human Resources Division to enhance the background screening process for public safety-related positions and to support organization-wide workplace reviews.
- \$1.8 million increase to the annual CalPERS retirement plan payment.
- \$140,000 decrease in the City Manager Department's City Clerk Division for biennial elections.

Other Funds

- \$2.8 million in Measure M2 Fairshare (Fund 416) to utilize annual allocations towards eligible street and road projects.
- The Gas Tax (Fund 201) has a \$120,000 budget increase to support tree trimming along City streets and medians, and a \$720,590 reallocation from the General Fund for street sweeping costs.
- Appropriates year five of the Arts and Culture Master Plan (Fund 130) in the amount of \$416,990, which is a budget increase of \$23,495 from FY 2024-25, for various free art experiences for the community, such as ARTVenture, Art Crawl, and Park Performances.
- \$319,950 increase in the Self Insurance Fund (602) for insurance premiums.
- \$600,000 decrease in RMRA Gas Tax Funds (Fund 251) due to Fiscal Year 2024-25 utilization of fund balance, leaving \$2.9 million towards street projects.

Transfers Out

The total transfers out decreased by \$6.9 million from the FY 2024-25 Adopted Budget due to the "Emergency Exception" clause of the Capital Asset Needs Ordinance under Section 2-209.2 (a)(2), Economic Downturn.

Transfers Out from the General Fund total \$2.8 million to the Information Technology Replacement Fund (Fund 603). This amount is comprised of \$474,901 towards the Citywide Computer Replacement Program, \$1.2 million towards year one of a ten-year depreciation schedule for the replacement of major software programs, and salaries and benefits.

Transfers Out from Other Funds total \$750,000. This represents a budget allocation of \$750,000 State Grant Funding from the Department of Health Care Services in the State Grant Fund (Fund 231) into the Housing Authority Fund (Fund 222) to support the City's Homeless Programs.

Equipment Replacement Fund

The FY 2025-26 Proposed Budget includes \$1.5 million for the replacement of fleet that has exceeded its life expectancy and/or is essential to operations. The Police Department accounts for \$1.1 million, which includes eight (8) Police interceptors, four (4) motorcycles, two (2) vehicles for investigations, and one (1) light truck for Park Rangers. The Fire and Rescue Department's proposed fleet totals \$99,000, which includes one (1) light truck.

The Public Works Department FY 2025-26 proposed fleet totals \$109,000, which includes one (1) warehouse forklift, one (1) trailer, and one (1) portable generator. Additionally, the Parks and Community Services Department's proposed fleet totals \$188,000 for one (1) large passenger van, eight (8) light towers, and one (1) utility maintenance vehicle for Fairview Park.

Information Technology Replacement Fund

This fund accounts for the accumulation of resources necessary to replace hardware and software related to information technology. As per the City's Municipal Code Section 2-209.4, 1.5% of General Fund revenues is allocated to the Information Technology Replacement Fund (ITRF) to provide funding for the City's immediate and future information technology needs, including those identified in the Information Technology Strategic Plan (ITSP). In the FY 2025-26 Proposed Budget, \$2.8 million will be funded from the General Fund for the Citywide Computer Replacement Program, depreciation, and staffing salaries and benefits related to the ITSP.

Capital Budget

For the proposed Capital Improvement Program (CIP) budget, staff is requesting an emergency exception to the 5% General Fund contribution towards the Capital Assets Needs (CAN) for FY 2025-26 in the amount of \$6.9 million. The funding for the deferred amount would be reinstated over a 10-year period to ensure fiscal sustainability to the General Fund budget. Public Works will be utilizing fund balance in the Capital Improvement Program (Fund 401) to fund \$2.2 million in projects in the Proposed FY 2025-26 Capital Improvement Program (Fund 401).

The proposed all-funds Capital Improvement Program (CIP) budget of \$16.7 million is a decrease of \$11.2 million, or 40 percent, from the adopted FY 2024-25 budget. In addition to the \$16.7 million, the Capital Budget includes a \$12.0 million Fire Station #2 Reconstruction project that will be funded through future bond financing. A comprehensive detail of the Proposed CIP Budget was presented to the City Council at the April 22, 2025, Study Session and is contained in further detail in the CIP section of the FY 2025-26 Proposed Budget Book. Some key capital projects include:

- Adams Avenue Active Transportation Improvements – Multipurpose Trails
- Harbor Boulevard Rehabilitation Project (RMRA funds)
- Park Security Lighting Replacement
- Bicycle and Pedestrian Infrastructure Improvements
- Clean Mobility Options Program - On-Demand Transit Services
- Pedestrian Safety Festival
- Fire Station #2 Reconstruction

Public Works staff presented the one-year (FY 2025-26) and the five-year (FY 2025-26 to FY 2029-30) Capital Improvement Program (CIP) budgets to the Finance and Pension Advisory Committee (FIPAC) on April 9, 2025, to the Parks and Community Services Commission on April 10, 2025, and to the Planning Commission during its regularly scheduled meeting on May 12, 2025.

FY 2025-26 Proposed General Fund Budget Overview

The Proposed FY 2025-26 General Fund expenditure budget is a balanced budget and totals \$186.9 million. This reflects a decrease of \$3.0 million, or 2 percent, from the FY 2024-25 Adopted Budget of \$189.9 million.

Table 2 is a summary of the Proposed FY 2025-26 General Fund Revenue and Expenditure Budget.

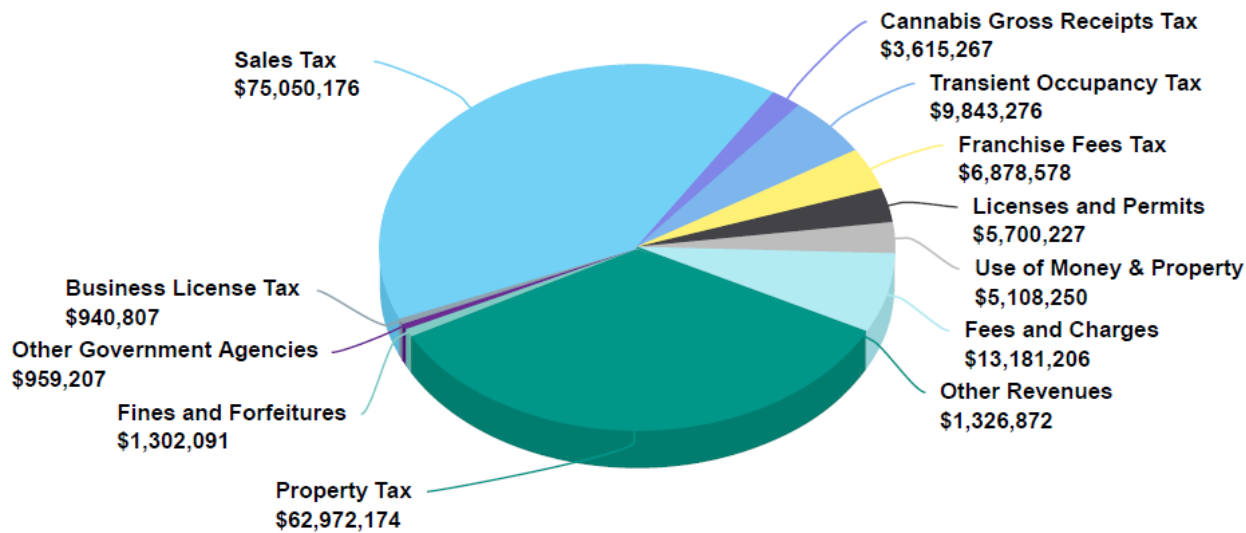
Table 2 – General Fund Revenue and Expenditure

Revenue Source	Adopted FY 2024 25	Proposed FY 2025 26	Increase/(Decrease)		FY 2025 26 % of Total
			Amount	Percent	
Taxes	\$ 163,213,634	\$ 159,300,278	\$ (3,913,356)	-2%	85%
Licenses and Permits	4,736,019	5,700,227	964,208	20%	3%
Fines and Forfeitures	1,302,091	1,302,091	-	0%	1%
Use of Money and Property	5,360,700	5,108,250	(252,450)	-5%	3%
Other Governmental Agencies	896,086	959,207	63,121	7%	1%
Fees and Charges for Service	13,097,122	13,181,206	84,084	1%	7%
Other Revenue	1,288,507	1,304,347	15,840	1%	1%
Total	\$ 189,894,159	\$ 186,855,606	\$ (3,038,553)	-2%	100%

Expenditure Category	Adopted FY 2024 25	Proposed FY 2025 26	Increase/(Decrease)		FY 2025 26 % of Total
			Amount	Percent	
Salaries and Benefits	\$ 133,130,772	\$ 137,367,315	\$ 4,236,543	3%	74%
Maintenance and Operations	44,132,090	43,726,192	(405,898)	-1%	23%
Fixed Assets	2,925,298	2,964,263	38,965	1%	2%
Transfers Out	9,705,994	2,797,836	(6,908,158)	-71%	1%
Total	\$ 189,894,154	\$ 186,855,606	\$ (3,038,548)	-2%	100%

General Fund Revenue Highlights

The FY 2025-26 Proposed Budget for Total General Fund Revenues for all funds totals \$186.9 million, a decrease of \$3.0 million, or 2 percent reduction from the FY 2024-25 Adopted Budget. Economic and consumer challenges that impacted Sales Tax in FY 2024-25 continue to present potential headwinds in FY 2025-26 at the City, County, and State levels, and therefore have the biggest impact to overall City revenues. These funds typically are used to cover public safety, parks and community services, development services, and other activities and programs for residents. The Fiscal Year budget commencing July 1, 2025, will be balanced without the use of reserves.

Graph 1 – General Fund Revenue Estimates by Category

Sales and Use Tax: Sales tax is the largest revenue category in Costa Mesa and is estimated at \$75.1 million for FY 2025-26, a reduction of \$6.5 million, or an 8 percent decrease from the FY 2024-25 Adopted Budget. General economic uncertainty due to the potential impact of tariffs on businesses and consumers, coupled with persistent inflation and slower growth, could lead to a continued reduction in spending in such areas as automobiles, general consumer goods, and home renovations.

Property Tax: All combined Property Tax revenues are estimated at \$63.0 million, reflecting a 4 percent growth over the prior fiscal year budget. Despite continued higher interest rates and limited supply, the competitiveness in the housing market continues to show resilience in terms of assessed values and number of home sales.

Transient Occupancy Tax (TOT): Hotel tax revenues are estimated at \$9.8 million next year, reflecting a 3 percent decrease from the FY 2024-25 Adopted Budget. There is an anticipation of a potential slowdown in general consumer spending, and a reduction in international visitors to California. In addition, persistent inflation and economic uncertainty impact consumer confidence, discretionary income, and savings levels, potentially impacting the travel and leisure segment of consumer spending.

Fees and Charges: Fees and Charges are estimated at \$13.2 million, a decrease of \$84,084, while Plan Check fee revenues are \$1.8 million in FY 2025-26. Staff is proposing a Consumer Price Index (CPI) increase of 3.3% to certain fees and proposing a credit card processing fee of 2.7%. In addition, staff is proposing a Technology Enhancement Fee of 5% on all permit fees to recover costs of future development related technology enhancements and system replacement, as well as a General Plan Maintenance Fee of 5% for on all applicable building permit fees, to offset a portion of the periodic costs associated with General Plan and supporting document updates. Adopting a Technology Enhancement Fee and General Plan Maintenance Fee allows staff to reserve amounts collected and use them to offset costs that may be incurred from time to time.

Measure Q Retail Cannabis Business Tax: On November 3, 2020, voters approved the “City of Costa Mesa Retail Cannabis Tax and Regulation” Measure, also known as Measure Q, which allows cannabis retail storefront and delivery uses. City Council voted to adopt a 7 percent tax on cannabis retail businesses. The FY 2025-26 Proposed Budget includes an estimated \$3.6 million in cannabis taxes, an increase of \$195,583, or 6 percent, from FY 2024-25. To date, the City has approved over 20 retail storefronts and non-storefront businesses. Also, as previously approved by the City Council, the Proposed Budget has two restricted special revenue funds that are financed by the cannabis retail tax: The Arts and Culture Master Plan Fund (130) and First Time Homebuyers Fund (140).

FY 2025-26 General Fund Budget Expenditure Highlights

The Proposed General Fund Budget for FY 2025-26 reflects total expenditures of \$186.9 million. Of this amount, \$137.4 million is in salaries and benefits, which represents an increase of \$4.2 million, or 3 percent, from the FY 2024-25 adopted operating budget of \$133.1 million. The General Fund transfer of \$5.9 million to the Equipment Replacement Fund was reclassified from a transfer out to an internal rent category for consistency reporting purposes. The remaining \$2.8 million represents the Transfers Out to the Information Technology Fund as described earlier. The FY 2025-26 Proposed Budget for expenditures includes the following significant items:

- A \$2.8 million allocation to ensure compliance with the Information Technology needs municipal code requirement of 1.5% of the General Fund revenue.
- A \$1.8 million increase in the annual required CalPERS contributions.
- An additional \$159,819 in funding for medical, dental and vision benefits and \$2.3 million in compensation increase as per contractual MOU requirements.
- The continuation of the \$4.3 million vacancy factor (negative appropriation).
- No use of General Fund Reserves to balance the General Fund.

Graph 2 – General Fund Total Appropriations by Department

Total Appropriations - General Fund - \$186.9 (includes Capital Improvement)
(in millions)

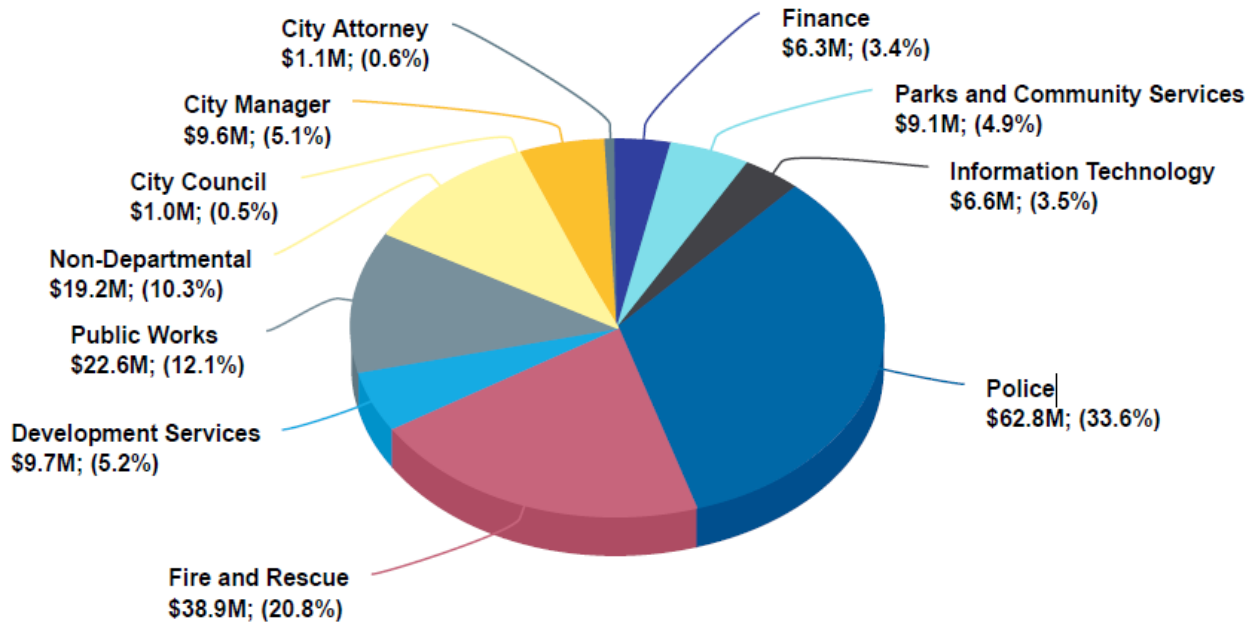


Table 3 - General Fund Budget by Department

Department	FY 2020-21 Actual	FY 2021-22 Actuals	FY2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Adopted	FY 2025-26 Proposed
City Council	\$ 644,712	\$ 867,909	\$ 834,337	\$ 750,577	\$ 874,089	\$ 954,143
City Manager*	6,068,680	6,505,480	7,573,363	8,902,755	9,594,377	9,613,230
City Attorney	968,029	958,775	988,108	977,061	1,086,750	1,123,700
Finance	4,485,375	3,811,155	4,271,188	4,416,583	6,073,764	6,296,502
Parks and Community Services	7,414,732	6,379,328	7,371,372	9,753,352	9,037,068	9,101,830
Information Technology	3,760,148	4,104,946	5,133,365	5,567,967	6,402,558	6,570,716
Police	48,905,944	53,504,411	55,874,470	62,005,909	61,919,751	62,820,471
Fire and Rescue	27,042,315	32,298,517	33,480,396	35,159,635	37,772,922	38,903,466
Economic & Development Services	6,325,666	7,522,770	8,229,755	9,082,786	9,911,803	9,695,734
Public Works	17,801,071	19,517,456	20,413,479	23,101,963	23,659,001	22,553,602
Non-Departmental	11,614,781	27,397,679	32,457,225	23,423,354	23,562,076	19,222,213
Total	\$ 136,637,270	\$ 162,868,426	\$ 176,627,058	\$ 183,141,942	\$ 189,894,159	\$ 186,855,607

*City Manager's Department includes City Clerk, Human Resources, and Risk Management

Commitment to Public Safety

The FY 2025-26 Proposed Budget allocates \$101.7 million as the City's commitment to public safety, comprising both the Police and Fire Departments. Public safety budgets account for approximately 54 percent of the General Fund Proposed Budget, with 34 percent allocated to the Police Department and 21 percent to the Fire and Rescue Department. Of the 599 citywide full-time personnel, approximately 38 percent are sworn officers.

The Police Department budget includes 142 full-time sworn personnel, with one new non-sworn Custody Officer in the proposed budget. Additionally, the Police Department manages the entire Animal Services and Enforcement Program.

The Police Department's salaries and benefits budget increased by a net of \$1.0 million, primarily due to labor contractual agreements and retirement benefits. As in prior years, and to balance the General Fund, the Department includes a vacancy factor of approximately \$3.7 million to account for its average vacancy rate.

The Fire and Rescue Department consists of 85 full-time sworn personnel. Its salaries and benefits budget increased by a net \$1.1 million, largely due to labor contractual agreements and retirement costs.

Diversify, Stabilize, and Increase Housing to Reflect Community Needs

To support the Housing Authority Fund, \$750,000 is transferred in from a State Grant secured by Assemblywoman Cottie Petrie-Norris. The General Fund continues the contribution of \$1.3 million to the Housing Authority Fund to support the Homeless Shelter and behavioral health programs. This budget includes funding for all contractual obligations such as Mercy House and Bracken's Kitchen.

Staffing Levels

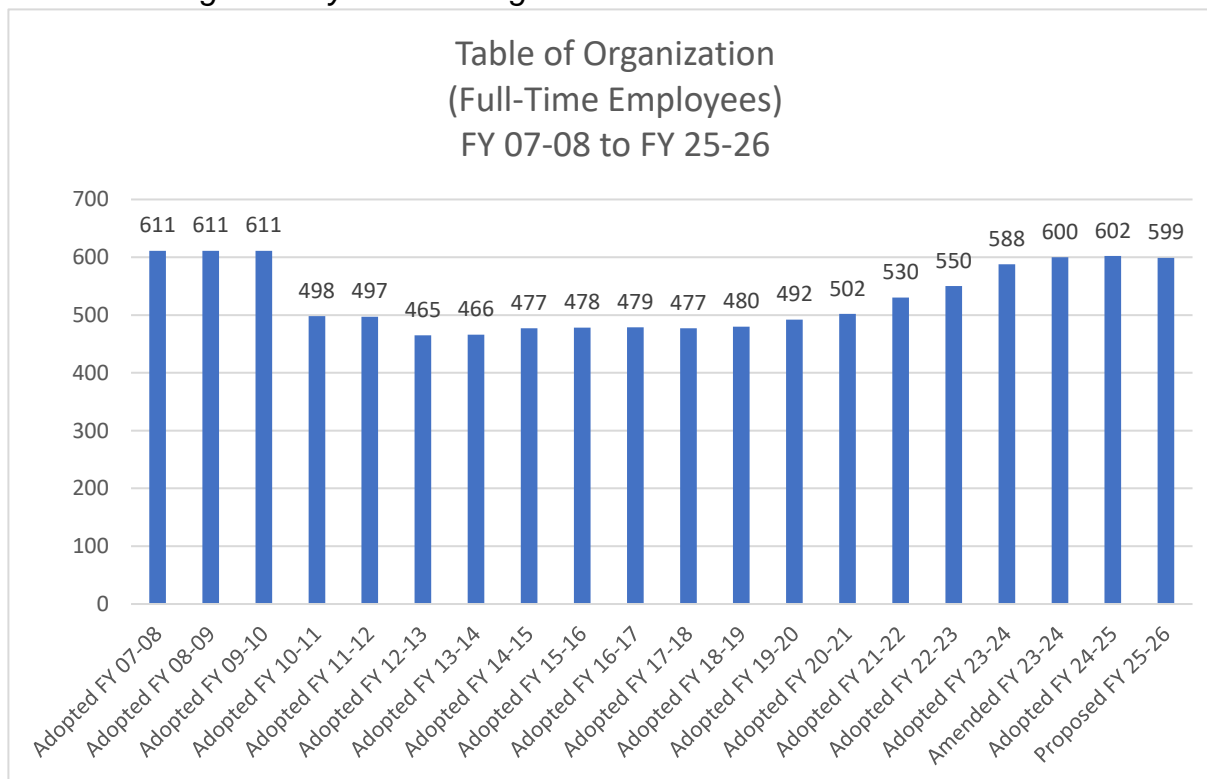
On April 1, 2025, the City implemented its soft hiring freeze of employees outside of public safety. The FY 2025-26 Proposed Budget includes 599 full-time employees, which reflects a net decrease of three (3) positions. Positions eliminated were in the City Manager's Department, which includes one (1) Human Resources Analyst, one (1) Programmer Analyst I, and one (1) Senior Management Analyst (CON), all funded by the General Fund. Additionally, one (1) Community Outreach Worker position was eliminated in the Housing Authority Fund (Fund 222).

There is an increase of one (1) Custody Officer in the Police Department that is vital to managing the workload of the City's current jail staff. Custody Officers are needed for the transportation and booking of arrestees to the Orange County Jail. This one additional Custody Officer will alleviate staffing challenges, promote safety and wellness, and reduce overtime costs.

Table 4 – Change in Staffing Levels

Department	Job Title	FTE
Other Funds		
City Manager	Community Outreach Worker	(1.00)
Other Funds Total		(1.00)
General Fund		
City Manager	Human Resources Analyst	(1.00)
City Manager	Programmer Analyst I	(1.00)
City Manager	Sr. Management Analyst (CON)	(1.00)
Police Department	Custody Officer	1.00
General Fund Total		(2.00)
Grand Total All Funds Impact		(3.00)

Table 5 – Budgeted Citywide Staffing Levels



Compensation Adjustments

The Costa Mesa City Employees Association's (CMCEA) MOU contains a provision for CMCEA to request up to five (5) compensation inequity studies each year. This allows for at least five (5) classifications in this bargaining unit to be analyzed by Human Resources to identify whether there are discrepancies in compensation relative to the prevailing market. A classification update may also be needed based on the duties and functions being performed by the incumbent(s). Classification studies may also result in a recommendation to adjust compensation. For 2025, CMCEA requested compensation-inequity studies resulting in recommended market adjustments for the following five classifications:

- 10. Graphic Designer – 8.14%
- 11. Multimedia Specialist – 26.55%
- 12. Rangemaster – 8.19%
- 13. Building Technician – 9.90%
- 14. Assistant Fire Marshal – 19.9%

The FY 2025/2026 budget includes a 10% market adjustment for the classification of Fairview Park Administrator, which was pending the results of the compensation and classification study requested in 2023. There are also classification studies for Community Services Specialists and Property and Evidence Specialists that are pending final recommendation. Should these studies result in a compensation adjustment recommendation, these recommendations will be brought forward for City Council review and approval at a future Council meeting. A compensation adjustment was also recommended by the Police Department for the Crime Prevention Specialist classification to be internally aligned with the Fire Protection Specialist position. These two classifications perform similar functions for the Police and Fire Departments, respectively, and the Human Resources Division and CMCEA support and concur with the recommended adjustment. The recommended market adjustments will be included in the new salary resolution that will be presented at a future council meeting with the adoption of the newly negotiated CMCEA side letter.

General Fund Reserves

The City continues to demonstrate strong fiscal prudence and controls on spending. The combined commitment for emergency reserves, including the declared disaster and economic reserves, is indicative of financial discipline. The General Fund reserves currently at \$60.4 million exceed the City Council policy of \$55 million.

Table 6 – General Fund Reserves Balance (in millions)

Fund Balance Category	FY 2020-21 Audited	FY 2021-22 Audited	FY 2022-23 Audited	FY 2023-24 Audited	FY 2024-25 Estimate
Committed					
Declared Disasters	\$14,125	\$14,125	\$14,125	\$14,125	\$14,125
Self-Insurance	2,000	2,000	2,000	2,000	2,000
Economic Reserves	9,000	9,000	9,000	9,000	9,000
Assigned					
Compensated Absences	5,920	5,584	6,210	5,982	5,982
Police Retirement 1% Supplemental	2,275	1,885	1,737	1,572	1,572
Workers Compensation		1,000	2,000	2,000	2,000
Facilities Reserve		2,000	2,000	2,000	2,000
Strategic Plan Project		2,000	2,000	2,000	2,000
Section 115 Trust	-	-	-	-	-
Restricted					
Pension and OPEB	1,778	3,061	3,178	3,367	3,367
Non-spendable	965	604	459	631	631
Unassigned	17,429	16,517	16,328	17,686	17,686
Total Fund Balance	\$53,492	\$57,776	\$59,037	\$60,363	\$60,363

FY 2025-26 Housing Authority

On January 17, 2012, under the California Housing Authorities Law, Health, and Safety Code Section 34200, *et seq.* (“HAL”), the City Council established the Costa Mesa Housing Authority (“Housing Authority”). Also, on that date by resolution, the City Council selected the Housing Authority to serve as the “housing successor” and to assume the housing assets, duties, functions, and obligations of the former Costa Mesa Redevelopment Agency (“Former Agency”) as of February 1, 2012.

Section 34176.1 establishes certain limitations on expenditures by housing successors; thus, each fiscal year, the Housing Authority’s funding is limited in two categories: (1) administrative costs, including covenant monitoring, and (2) homelessness prevention and rapid rehousing.

Homeless Outreach

The Homeless Outreach program combines the City’s Network for Homeless Solutions with the Housing Authority’s Homeless Prevention and Rapid Rehousing Program. Both programs serve the same functions and offer a broad range of services to homeless individuals, such as assisting with housing options; creating a social service registry; establishing a network of nonprofit and faith-based organizations; providing outreach services; and reconnecting new homeless persons to their families and services in their city/state of origin.

Costa Mesa Bridge Shelter

The Housing Authority accounts for all shelter operating activities, including shelter operator contract, utilities, external rents, maintenance, and other operational costs. In March 2021, the Costa Mesa Bridge Shelter on Airway Avenue was completed and opened, and a partnership was established

between the City of Costa Mesa and the City of Newport Beach. The permanent shelter serves as a temporary home for as many as 100 men and women in need. It is intended to help unsheltered individuals and residents who are affected by homelessness.

Additionally in 2024, The City received a three-year award for the Behavioral Health Bridge Housing (BHBH) in the amount of \$3.6 million from the Orange County Health Care Agency (OCHCA) to provide emergency shelter and behavioral health services at the Costa Mesa Bridge Shelter. The program implements a wide range of behavioral health care services, which include housing navigation, workforce development, case management, and housing retention.

The Housing Authority's FY 2025-26 budget consists of funding from a variety of resources with distinct purposes. This includes rental income, loan repayments, grants, subsidies, and contributions/donations.

Table 7 – FY 2025-26 Proposed Housing Authority Budget

	FY 2024-25 Adopted	FY 2025-26 Proposed	Increase/(Decrease) Amount/Percentage	
Total Resources	\$6,522,548	\$6,020,822	(\$501,726)	-8%
Total Appropriations	\$6,150,709	\$6,020,822	(\$129,887)	-2%

FY2025-26 Appropriations Limit

Article XIII B of the Constitution of the State of California requires that the City establish annually an Appropriations Limit. This appropriations limit determines the maximum amount of specific tax revenues which an agency is allowed to spend. Pursuant to Article XIII B and its implementing legislation, the total annual appropriations limit must be calculated by adjusting the prior year's appropriations limit for changes in the cost of living and population growth.

For the FY 2025-26 calculation, the City uses the population growth of the County of Orange of 0.31% since it yields a higher population growth factor, and the growth in California per capita income as its inflation factor as provided by the State Department of Finance (DOF).

As a result, the City's budget is \$106.5 million less, or 32% below the proposed Fiscal Year 2025-26 appropriations limit. Therefore, the City is well within its appropriations limit established pursuant to Section 7910 of the California Government Code and will not exceed this limit during Fiscal Year 2025-26. Below is the calculation utilized for the appropriations limit.

**CITY OF COSTA MESA
CALCULATION OF APPROPRIATIONS LIMIT
FOR FY 2025-2026**

The City's Appropriations Limit for FY 25-26 is calculated as follows:

Step 1	Appropriations Limit for FY 24-25	\$ 310,115,684
Step 2	Multiply the FY 25-26 Appropriations Limit by the cumulative growth factors for changes in the California per capita personal income and the population change for the City of Costa Mesa.	1.067100
	Appropriations Limit for FY 25-26	<u>\$ 330,924,446</u>

*CALCULATION OF CUMULATIVE GROWTH FACTORS:

Personal Income Factor	1.0644
Orange County Population Change	1.0017
Costa Mesa Population Change	1.0025
*(1.0644 x 1.0025) =	1.0671
Per capita Cost of Living converted to ratio (6.44+100/100)	1.0644
Orange County Population converted to ratio (0.17+100/100)	1.0017
Costa Mesa Population converted to ratio (0.25+100/100)	1.0025

* The City has the option to utilize the larger of the annual percentage change of the City or the County.

FY 2025-26 Special Event Rates

Regarded as one of the most livable cities in the County, Costa Mesa offers community celebrations, festivals, and parades that provide opportunities for social activity, cultural experience, creative expression, and engagement in public life. Being named the City of the Arts, special events benefit the community through exposure to artistic and creative innovation, while providing entertaining ways to relax and enjoy life.

Each year, the City hosts, sponsors and/or coordinates with other agencies and local organizations to hold programs and activities that our local citizenry enjoy and love. These activities include the OC Fair and the OC Marathon, to name a couple.

A majority of events require public safety, public works, community development, and/or parks and community services staff. As such, the City costs out an hourly rate for the City personnel requested/needed to staff these events. The City takes into consideration a position's hourly rate and corresponding benefits attributed to the position/classification.

2025 Annual AB 481 Police Safety Equipment Report

Per AB 481, law enforcement agencies are required to submit an annual report to the governing body on the use of the equipment, any complaints regarding the use of the equipment, results of any internal audits on the use of the equipment, annual costs of the equipment, quantity possessed by the agency, and any intent to purchase new equipment in the following year.

Items deemed to be AB 481 equipment are used as a component of best practices for law enforcement agencies throughout the country. These tools have been tested in the field and used by law enforcement agencies to enhance both citizen safety and officer safety. Loss of these items would jeopardize the welfare of citizens and peace officers within the Costa Mesa Police Department.

The term “military equipment,” as used in AB 481, does not necessarily indicate equipment that has been used by, or obtained from, the military. Pursuant to AB 481, items deemed to be “military equipment” include, but are not limited to, unmanned aerial or ground vehicles, armored rescue vehicles, command and control vehicles, tactical robots, specialized firearms and ammunition, less lethal 40mm projectile launchers, long range acoustic devices, flashbangs, “tear gas,” and pepper balls.

CMPD is committed to using the most up-to-date tools and equipment to safeguard the citizens of Costa Mesa. Many of the items deemed to be AB 481 equipment are utilized by CMPD, and law enforcement agencies across the country, in order to specifically reduce risk to community members. These items provide peace officers with the ability to safely resolve volatile situations, which otherwise might rise to the level of a lethal force encounter. Items listed in this report, and accompanying AB 481 Equipment Use Policy, also provide CMPD’s peace officers with vital tools that facilitate compliance with its comprehensive use of force policy.

Other items deemed to be AB 481 equipment include specialized rifles. Specialized rifles allow peace officers in rare and unpredictable circumstances to address lethal threats from a greater distance and with greater precision.

There is significant interest to ensure law enforcement continues to have access to equipment that will provide peace officers as many options as possible to safeguard lives, ensure safety, de-escalate volatile circumstances, and protect civil liberties. The use of the tools identified below are vital to CMPD’s mission and will continue to be strictly regulated through internal processes and oversight.

Staff seeks to authorize the CMPD’s continued use of the specified equipment based upon the attached Annual AB 481 Report. The report addressed each item responsive to the requirements of AB 481 and includes a list of equipment prescribed under AB 481, including information regarding the description, cost, quantity, capabilities, purpose, authorized use, lifespan, fiscal impact, training, and legal and procedural rules for each item. A majority of these particular items were in place prior to the implementation of AB 481.

2025 Annual AB 2561 Vacancy Status Report

Effective January 1, 2025, Assembly Bill 2561 modified the Meyers-Milias-Brown Act (“MMBA”) to update Government Code section 3502.3 (“Section 3502.3”). This modification introduced new requirements for public agencies to annually report vacant positions, recruitment, and retention efforts. The annual report requires presentation of the status of vacancies and recruitment and retention efforts during a public hearing before the governing board at least once per fiscal year. The presentation of vacancies must be done prior to the adoption of the agency’s final budget. The public agency must also identify any necessary changes to policies, procedures and recruitment activities that may lead to obstacles in the hiring process and allow bargaining units to also make a presentation. If vacancies within a single bargaining unit meet or exceed 20% of authorized full-time

positions in that bargaining unit, the City must provide additional information regarding vacancies and recruitments if requested by that bargaining unit.

In Fiscal Year 2024-25, the City of Costa Mesa is authorized for 595 full-time employees (excludes Council Members). The City's overall vacancy rate as of May 3, 2025 is currently 8.74%. The vacancy rate for each bargaining group is summarized below:

Employee Group	FT Employees Budgeted	Vacancies	Vacancy Rate
Costa Mesa City Employees Association (CMCEA)	298	25	8.39%
Costa Mesa Fire Association (CMFA)	80	0	0.00%
Costa Mesa Fire Management Association (CMFMA)	3	0	0.00%
Costa Mesa Police Association (CMPA)	130	20	15.38%
Costa Mesa Police Management Association (CMPMA)	9	0	0.00%
Costa Mesa Division Managers Association (CMDMA)	19	2	10.53%
Confidential Unit	35	4	11.43%
Confidential Management Unit	8	1	12.50%
Executive Employees	13	0	0.00%
Total	595	52	8.74%

Vacancies within the City arise from a range of factors, including retirements, internal promotions, resignations, and terminations. From May 4, 2024 to May 3, 2025, the City filled 93 full-time positions. During this same time frame, 48 full-time employees separated from the City.

Employee retention remains a central focus and priority for the City. The City Council included the recruitment and retention of high-quality employees as one of the City Council's Strategic Plan Goals. However, maintaining a competitive compensation package continues to be a challenge as other agencies continue to update their compensation and benefits. Continuing to negotiate agreements with the bargaining groups that incorporate competitive increases and expanded benefits, and conducting market studies, will assist in recruiting and retaining high quality employees.

In the past year, the City has continued its efforts to recruit and retain high quality employees, including:

- Negotiating agreements with the Costa Mesa Police Association (CMPA), Costa Mesa Police Management Association (CMPMA) and the Costa Mesa City Employees Association (CMCEA), incorporating competitive wage increases and expanded benefits including recruitment and retention benefits
- Continuing to conduct market studies per the CMCEA MOU
- Implementing hiring incentives and employee referral incentives for Police Officers and Dispatchers
- Developing a new internship program to create a pipeline for identifying and nurturing local talent
- Partnering with local educational institutions to enhance interest in working for local government
- Attending various community and college job fairs

- Enhancing employee's onboarding experience and continuing to encourage professional growth and development
- Continuing to explore new advertising methods and platforms including enhancing recruitment-related social media presence, and
- Continuing efforts to enhance City's branding as an employer of choice.

The City continues to monitor vacancies and assess strategies to assist in recruiting and retaining high quality employees.

May 13, 2025, City Council Study Session

At the May 13, 2025 City Council Study Session, the City Council requested additional information for their consideration in review of the FY 25-26 Proposed Budget. This included information on consultant contracts, use of reserves, staff vacancy information, revisiting funding for the Code Enforcement Officer position, and any alternatives to utilizing the emergency exception to the 5% General Fund contribution towards the CAN for FY 2025-26. Some of the information has been provided as part of this report. The remaining information, such as consultant contracts, will be provided as part of the Budget presentation to City Council on June 3, 2025.

Summary

The budget development process is a collaborative effort that involves input from various stakeholders to ensure that financial planning aligns with Council Goals and Priorities. Staff values and appreciates the Committee and Commissions' and City Council's continued support as we navigate challenges, ever-changing circumstances, and economic uncertainty. The dedication and collective efforts of the City Council's leadership, the contributions from Commissions and Committees, of staff, residents, businesses, and the non-profit sector all working together to improve outcomes for all residents and visitors to Costa Mesa are reflected in this carefully prepared budget to ensure services and programs will continue to be provided for everyone in the community.

The 25-26 Proposed Budget reflects the City's commitment to serve the community, be efficient in all services delivered while being resilient to the changing economic conditions. Staff will be presenting alternatives for the FY 2025-26 Proposed Budget to ensure the efficient use of resources while ensuring the continuity of high-quality services to our community. With the FY 2025-26 Proposed Budget, we intend to create a solid foundation for a better "Focused. Efficient. Resilient" Costa Mesa.

ALTERNATIVES

The City Council can provide alternative direction to staff on the FY 2025-26 Proposed Operating Budget through June 30, 2025.

FISCAL REVIEW

The FY 2025-26 Operating and Capital Improvement Budget provides the funding and expenditure plan for all funds. As such, it serves as the City's financial plan for the upcoming fiscal year. The City Council will be kept apprised regarding actual operating results for the General Fund through a quarterly financial report and the Mid-Year Budget Review. The Mid-Year Budget Review will include

an update of the fiscal year's projected revenues and expenditures, and any recommended adjustments, if necessary.

LEGAL REVIEW

The City Attorney's Office has reviewed and approved this report as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the City Council goals:

- Strengthen the Public's Safety and Improve the Quality of Life
- Achieve Long-term Fiscal Sustainability
- Maintain and Enhance the City's Facilities, Technology, and Equipment
- Recruit and Retain High Quality Staff
- Diversify, Stabilize, and Increase Housing to Reflect Community Needs
- Advance Environmental Sustainability and Climate Resiliency

CONCLUSION:

The Proposed FY 2025-26 Operating and Capital Improvement Program Budget represents the strong commitment of our City Council to its residents and community partners, and promotes healthy, sustainable neighborhoods and balanced economic activity, which facilitate and aid us in continuing the quality of services we provide.

Staff recommends the City Council:

1. Approve Resolution 2025-XX, adopting the Proposed Fiscal Year 2025-26 Operating and Capital Improvement Program (CIP) Budget; and
2. Approve Joint Resolution 2025-XX adopting the Housing Authority Budget including Economic and Community Development expenditures for Fiscal Year 2025-26; and
3. Authorize the "Emergency Exception" clause of the Capital Asset Needs Ordinance under Section 2-209.2 (a)(2), Economic Downturn, for Fiscal Year 2025-26; and
4. Approve a financial plan to reinstate \$6.9 million from Fiscal Year 2025-26 in deferred projects by:
 - a. Reinstate the funding over a 10-year period to ensure a fiscally sustainable General Fund budget.
5. Authorize and approve staffing for the following full-time positions: increase of 1.0 FTE for Custody Officer for Police Department, decrease of 1.0 FTE for Human Resources Analyst, decrease of 1.0 FTE for Programmer Analyst I, decrease of 1.0 FTE for Senior Management Analyst (CON), and a decrease of 1.0 FTE for Community Outreach Worker as presented at the May 13, 2025 Study Session; and

6. Approve Resolution 2025-XX establishing the Fiscal Year 2025-26 Appropriations Limit for the City of Costa Mesa at \$330,924,446, by using Orange County's growth for population adjustment, and the California per capita income growth for inflationary adjustment; and
7. Approve the City of Costa Mesa's Revised Special Event Rates; and
8. City Council action is requested as follows to comply with AB 481 Police Equipment Report and Resolution:
 - a. Receive and file the 2025 Annual AB 481 Report and take public comment; and
 - b. Approve Resolution 2025-XX Renewing Ordinance No. 2022-03, the AB 481 Equipment Use Policy of the City of Costa Mesa, California, governing the use of police safety equipment.
9. Receive and file the job vacancy status information required by AB 2561.