



CITY OF COSTA MESA

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 25-283

Meeting Date: 5/6/2025

TITLE:

CAPITAL ASSET NEEDS (CAN) ORDINANCE EMERGENCY EXCEPTION AND CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECT DEFERRALS - FISCAL YEAR 2024-25

DEPARTMENT: PUBLIC WORKS DEPARTMENT/FINANCE DEPARTMENT

PRESENTED BY: RAJA SETHURAMAN, PUBLIC WORKS DIRECTOR AND CAROL MOLINA, FINANCE DIRECTOR

CONTACT INFORMATION: RAJA SETHURAMAN, PUBLIC WORKS DIRECTOR (714) 754-5343

RECOMMENDATION:

Staff requests the City Council:

1. Authorize the "Emergency Exception" clause of the Capital Asset Needs Ordinance under Section 2-209.2 (a)(2), Economic Downturn, for Fiscal Year 2024-25.
2. Provide direction on which approved projects may be deferred to help address the General Fund revenue shortfall resulting from the current economic downturn.
3. Approve a financial plan to reinstate the \$2.9 million in deferred projects by:
 - a. Prioritizing funding in FY 2025-26 if revenues exceed expectations, and if needed.
 - b. Reinstate the funding over a 10-year period for fiscal years that revenues exceed expenditures to ensure a fiscally sustainable General Fund budget.

BACKGROUND:

The City Council at their regular meeting on September 15, 2015, adopted the Capital Asset Needs (CAN) Ordinance (Attachment 1), requiring the allocation of a minimum of five percent (5%) of the annual General Fund revenues to Capital Fund 401. While the City met this requirement during the budget process for Fiscal Year 2024-25, the City's General Fund revenues are coming in lower than expected. This required several actions from staff to reduce operating expenditures to achieve a balanced budget.

Upon further in-depth fiscal analysis, the Finance Department determined that an additional \$3.6 million in savings are needed. Staff is proposing to achieve this by deferring approximately \$2.9 million in General Fund Capital Improvement Projects (CIP) and by funding the street sweeping program entirely with Gas Tax, thereby reducing the General Fund street sweeping expenditures by approximately \$0.7 million.

ANALYSIS:

There are several previously funded CIP projects that are in various stages of completion. Attachment 2 lists all projects that have current funding allocation from multiple funds. There are a total of 72 CIP projects with ongoing activity and 30 that are yet to begin. Over the past year, a total of 23 CIP projects were completed.

In order to address the revenue shortfall due to the economic downturn, staff initially identified the following projects for deferral:

No.	Project Name	Deferred Amount
1	City Hall Cast Iron Drain Repipe	\$ 254,019
2	Finance Security/Effic. Remodel	\$ 250,000
3	Citywide Community Choice Energy Study	\$ 150,000
4	City Hall 5th Floor Air Handler Replacement	\$ 140,000
5	City Hall Breezeway Roof	\$ 245,000
6	City Hall Heater(s) Replacement	\$ 350,000
7	Westside Restoration Project	\$ 450,000
8	Parkway Maintenance Program Citywide	\$ 233,757
9	Costa Mesa Country Club Modernization (General Fund portion)	\$ 400,000
10	Butterfly Gardens	\$ 100,000
	Savings from Completed Projects	\$ 300,000
Proposed Ongoing CIP Projects for Fund Deferral		\$ 2,872,776

The above list was presented to the City Council at the March 11, 2025 Study Session. The Council directed staff to provide a list of all CIP projects and obtain input from the Finance and Pension Advisory Committee (FiPAC).

Public Works staff presented at the FiPAC meeting on April 9, 2025. The Committee recommended the above projects for deferment, with the exception of: Cast Iron Drain Repipe, Air Handler Replacement, and Heater(s) Replacement projects. The Committee's reasoning is that these are maintenance items which, if left unaddressed, may lead to more expensive repairs. FiPAC did not identify any replacement projects for deferral and requested staff to propose replacements.

At the CIP City Council Study Session on April 22, 2025, staff presented the above initial list as well as an alternative deferral list comprising the following projects:

No.	Project Name	Deferred Amount
1	City Hall Cast Iron Drain Repipe	\$ 254,019
2	Finance Security/Effic. Remodel	\$ 250,000
3	Sewer Line Improvement	\$ 250,000
4	Citywide Community Choice Energy Study	\$ 150,000
5	City Hall Breezeway Roof	\$ 245,000
6	Westside Restoration Project	\$ 450,000
7	Parkway Maintenance Program Citywide	\$ 233,757
8	Costa Mesa Country Club Modernization (General Fund portion)	\$ 400,000
9	Butterfly Gardens	\$ 100,000
10	Senior Center Improvements	\$ 250,000
	Savings from Completed Projects	\$ 300,000
Alternative Ongoing CIP Projects for Fund Deferral		\$ 2,882,776

While requesting additional clarification on the CAN Ordinance, the City Council considered the initial and alternative list of deferred projects and made the following observations:

- The Sewer Line Improvement Project should not be deferred as it addresses critical infrastructure needs and may result in more expensive repairs in the future.
- Improvements to the Senior Center, which is used by many seniors and serves a vulnerable population, are necessary.
- There are funds available in the Golf Course and Tennis Center project that can be targeted for deferral.
- The Golf Course is a revenue-generating establishment and needs improvements to address various issues concerning both the golf course grounds and clubhouse.

A third alternative deferral list taking into account the above comments is provided below:

No.	Project Name	Deferred Amount
1	City Hall Cast Iron Drain Repipe	\$ 254,019
2	Finance Security/Efficiency. Remodel	\$ 250,000
3	Citywide Community Choice Energy Study	\$ 150,000
4	City Hall Breezeway Roof	\$ 245,000
5	Westside Restoration Project	\$ 450,000
6	Parkway Maintenance Program Citywide	\$ 233,757
7	Costa Mesa Country Club Modernization (General Fund portion)	\$ 400,000
8	Butterfly Gardens	\$ 100,000
9	Golf Course & Tennis Center Improvements	\$ 500,000
	Savings from Completed Projects	\$ 300,000
Revised Alternative Ongoing CIP Projects for Fund Deferral		\$ 2,882,776

The above three alternatives are summarized in Attachment 3. Staff continues to recommend the approval of the initial proposed list of projects for deferral based on the current needs and schedule of those projects. The City's initial list of proposed projects includes non-critical upgrades that can be safely postponed without compromising public safety or ongoing services. This will also ensure that funding for the Sewer Line Replacement Project, Senior Center improvements, and the Golf Course and Tennis Center improvements are maintained.

Section 2-209.2 (c) requires that “the City shall develop a plan to replenish the Capital Expenditures funds for the amount exempted.” The FY 2024-25 capital projects deferment is \$2.9 million. These funds can be replenished in the FY 2025-26 mid-year if revenues come in higher than anticipated, by directing staff to prioritize this funding. For funds not reinstated due to higher than anticipated revenues, staff recommends replenishing funds over a 10-year period, which would amount up to \$290,000 per year for fiscal years in which revenues exceed expenditures to ensure a structurally balanced General Fund. The capital projects identified to be deferred can be reinstated either upon revenues exceeding expectations and, if needed, prioritized in the FY 2026-27 proposed capital improvement projects budget.

Staff requests City Council direction on the final list of projects that can be deferred and authorize the CAN Emergency Exception provision for Fiscal Year 2024-25.

ALTERNATIVES:

The City Council may consider other projects for deferral and direct staff accordingly. Another alternative for the City Council is to not authorize the Emergency Exception clause of the CAN Ordinance. If this is recommended, staff will return to the City Council with other options including the use of the General Fund reserves.

FISCAL REVIEW:

The recommended City Council actions will reduce the City’s General Fund annual contribution by approximately \$2.9 million in funds to the Capital Improvement Fund to address the anticipated revenue shortfall for Fiscal Year 2024-25.

Staff also recommends City Council adopt a plan to replenish the \$2.9 million in deferred projects by prioritizing reinstatement of funding in FY 2025-26 if the revenues exceed expectations, and/or spreading the reinstatement of the funds over a 10-year period for fiscal years in which revenues exceed the expenditures to ensure a structurally balanced General Fund.

LEGAL REVIEW:

The City Attorney’s Office has reviewed this report and approves it as to form.

CITY COUNCIL GOALS AND PRIORITIES:

The CIP budget strives to achieve City Council goals and objectives as listed below:

- Achieve long-term fiscal sustainability.

CONCLUSION:

In order to address the current economic downturn, staff requests City Council authorization of the use of Emergency Exception provision of the Capital Asset Needs Ordinance. In addition, staff requests approval of deferral of certain projects to realize approximately a \$2.9 million reduction in the Capital Improvement fund. The City’s proposed projects included non-critical upgrades that can be safely postponed without compromising public safety or ongoing services.