



# CITY OF COSTA MESA

## Agenda Report

77 Fair Drive  
Costa Mesa, CA 92626

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**File #:** 25-298

**Meeting Date:** 5/13/2025

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**TITLE:**

**FISCAL YEAR 2025-26 PROPOSED BUDGET STUDY SESSION**

**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:**

Conduct a Study Session regarding the Fiscal Year 2025-26 Proposed All Funds Budget of \$224.4 million, with a General Fund component of \$186.9 million, and provide feedback and direction to staff in advance of final adoption of the budget by June 30, 2025.

**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 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 cost 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;
- 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 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 for 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 concerns.

Funding requests contained in the FY 2025-26 Proposed Budget help to 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.

### ***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***

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Expenditure Category	Adopted FY 2024-25	Proposed FY 2025-26	Increase/(Decrease)		FY 2025-26 % of Total
			Amount	Percent	
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 salaries and benefit 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 Ave 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, and training for 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 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 bi-annual elections.

#### *Other Funds*

- \$2.3 million increase 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 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 totals \$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 totals \$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.

**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 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. 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 a 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. A few 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

**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**

Table 3 - General Fund Revenue Estimates

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%
Operating Transfer In			-	100%	0%
Total	\$ 189,894,159	\$ 186,855,606	\$ (3,038,553)	-2%	100%

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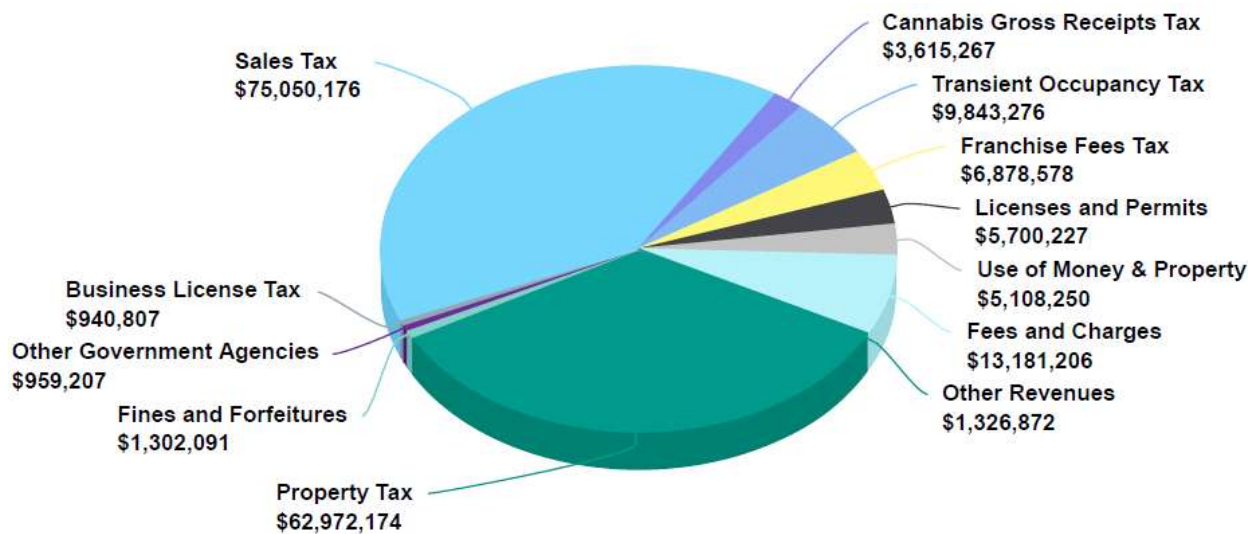
Table 2 - General Fund Operating Budget

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 to 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 3.5% to certain fees and proposing a credit card processing fee of 2.7%.

**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 storefront and non-storefront businesses. Also, as previously approved by the City Council, the

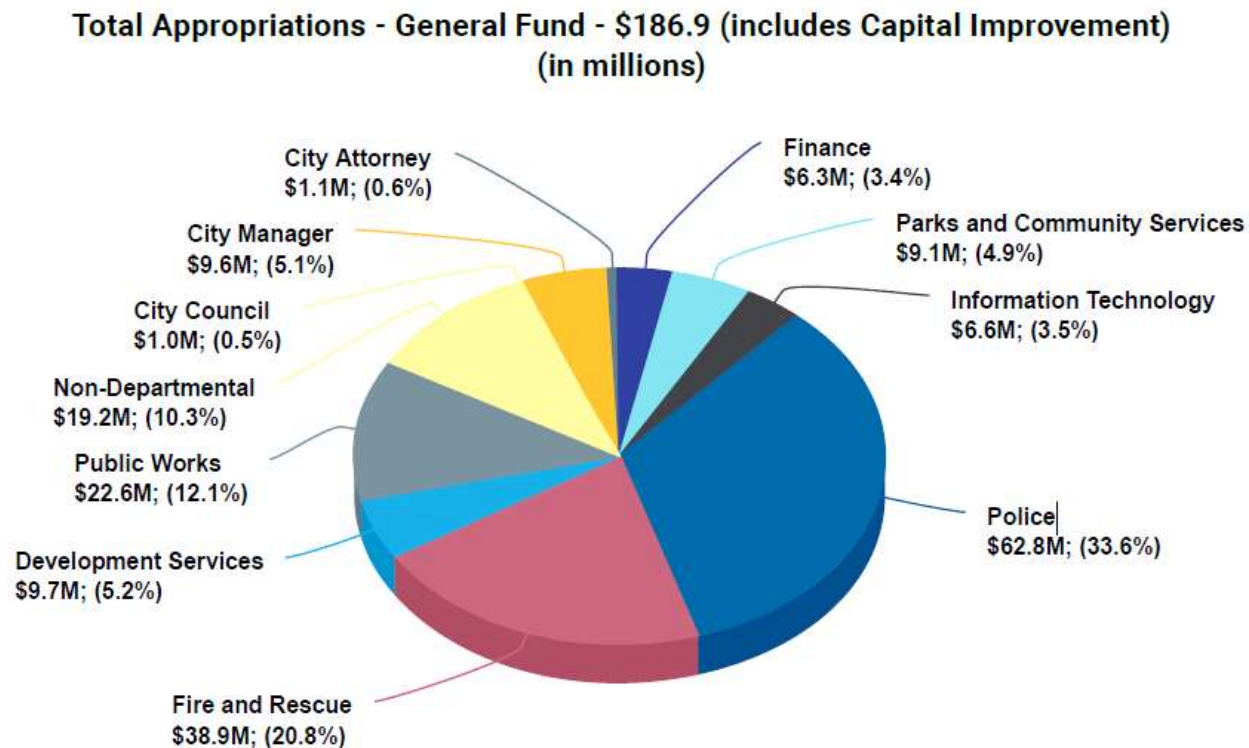
Proposed Budget has two restricted special revenue funds that are financed by the cannabis retail tax: The Arts and Culture Master Plan Fund (130) and First Time Homebuyers Fund (140).

### ***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 IT 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***



***Table 3 - General Fund Budget by Department***



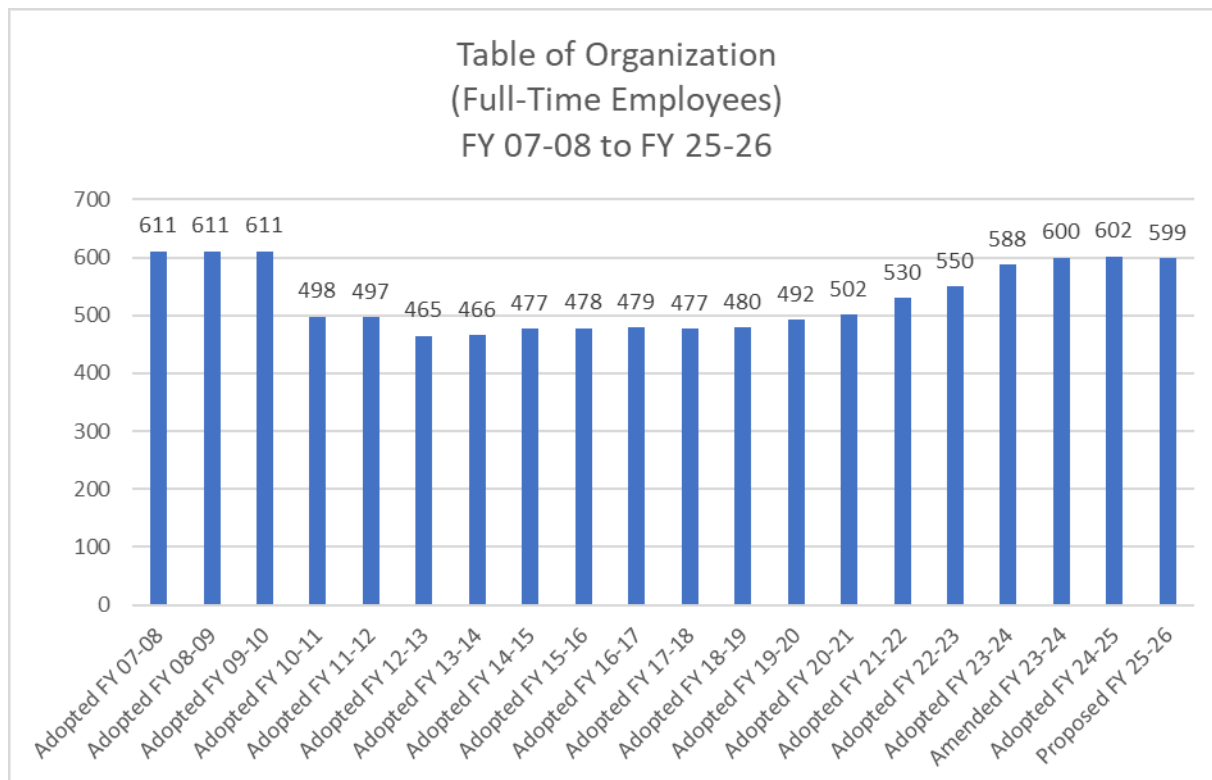
Department	FY 2020-21 Actual	FY 2021-22 Actuals	FY2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Adopted	FY 2025-26 Proposed
City Council	\$ 644,712	\$ 867,909	\$ 834,337	\$ 750,577	\$ 874,089	\$ 954,143
City Manager*	6,068,680	6,505,480	7,573,363	8,902,755	9,594,377	9,613,227
City Attorney	968,029	958,775	988,108	977,061	1,086,750	1,123,700
Finance	3,578,756	3,811,155	4,271,188	4,416,583	6,073,764	6,296,502
Parks and Community Services	4,004,589	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	29,042,315	32,298,517	33,480,396	35,159,635	37,772,922	38,903,466
Economic & Development Services	5,581,596	7,522,770	8,229,755	9,082,786	9,911,803	9,695,734
Public Works	17,794,769	19,517,456	20,413,479	23,101,963	23,659,001	22,553,602
Non-Departmental	29,862,096	27,397,679	32,457,225	23,423,354	23,562,076	19,222,214
<b>Total</b>	<b>\$ 150,211,634</b>	<b>\$ 162,868,426</b>	<b>\$ 176,627,058</b>	<b>\$ 183,141,942</b>	<b>\$ 189,894,159</b>	<b>\$ 186,855,609</b>

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

### 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, representing a net decrease of 3 full-time equivalent positions.

Table 4 - Budgeted Citywide Staffing Levels



The Proposed Budget includes 1.0 new Custody Officer position in the Police Department. This position is vital to managing the workload of the City's current jail staff. Custody Officers are needed for the booking and transporting of arrestees to the Orange County Jail. This one additional Custody Officer will alleviate staffing challenges, promote safety, and reduce overtime costs.

### *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 of \$1.1 million, largely due to labor contractual agreements and retirement costs.

### *May 6, 2025 City Council Meeting*

At the May 6, 2025, City Council meeting, City Council requested additional information for their consideration in the review of the FY 25-26 Proposed Budget. This included review of contracts, bringing forward alternatives to the CAN, additional CIPs to defer, consideration of restoring the 2.5% CIP allocation to the Golf Course Fund, and a review of fees at the Tennis Center. These items will be addressed in the May 13, 2025, presentation.

### **ALTERNATIVES:**

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

### **FISCAL REVIEW:**

Staff is requesting City Council provide feedback and direction in advance of final adoption of the FY 2025-26 Proposed Operating Budget. Staff will be bringing the FY 2025-26 Proposed Operating Budget forward to a Public Hearing on June 3, 2025, for additional feedback or final adoption. An additional Study Session can be held on Tuesday, June 10, 2025, if needed, with a second alternative final adoption date of Tuesday, June 17, 2025, if desired.

**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
- Recruit and Retain High Quality Staff
- Diversify, Stabilize, and Increase Housing to Reflect Community Needs
- Advance Environmental Sustainability and Climate Resiliency

**CONCLUSION:**

The overview of the Proposed Operating General Fund expenditure and revenue projections for FY 2025-26 was fully vetted by staff, being prudent in any proposed increases.

To continue providing essential services to the community coupled with the City Council goals in mind, staff recommends that the City Council discuss and provide feedback on the FY 2025-26 Proposed Budget.

The strong commitment of our City Council, residents and community partners for healthy, sustainable neighborhoods and balanced economic activity, both facilitate and aid us to continue the quality of services we provide.

The high degree of professionalism, commitment, and effort of City staff to our community, our neighbors, and our businesses has provided us the ability to meet our overall goals, objectives, and programs, of which we are proud to serve.

It is our hope and belief that the FY 2025-26 Proposed Budget creates a solid foundation for "Focused. Efficient. Resilient."