

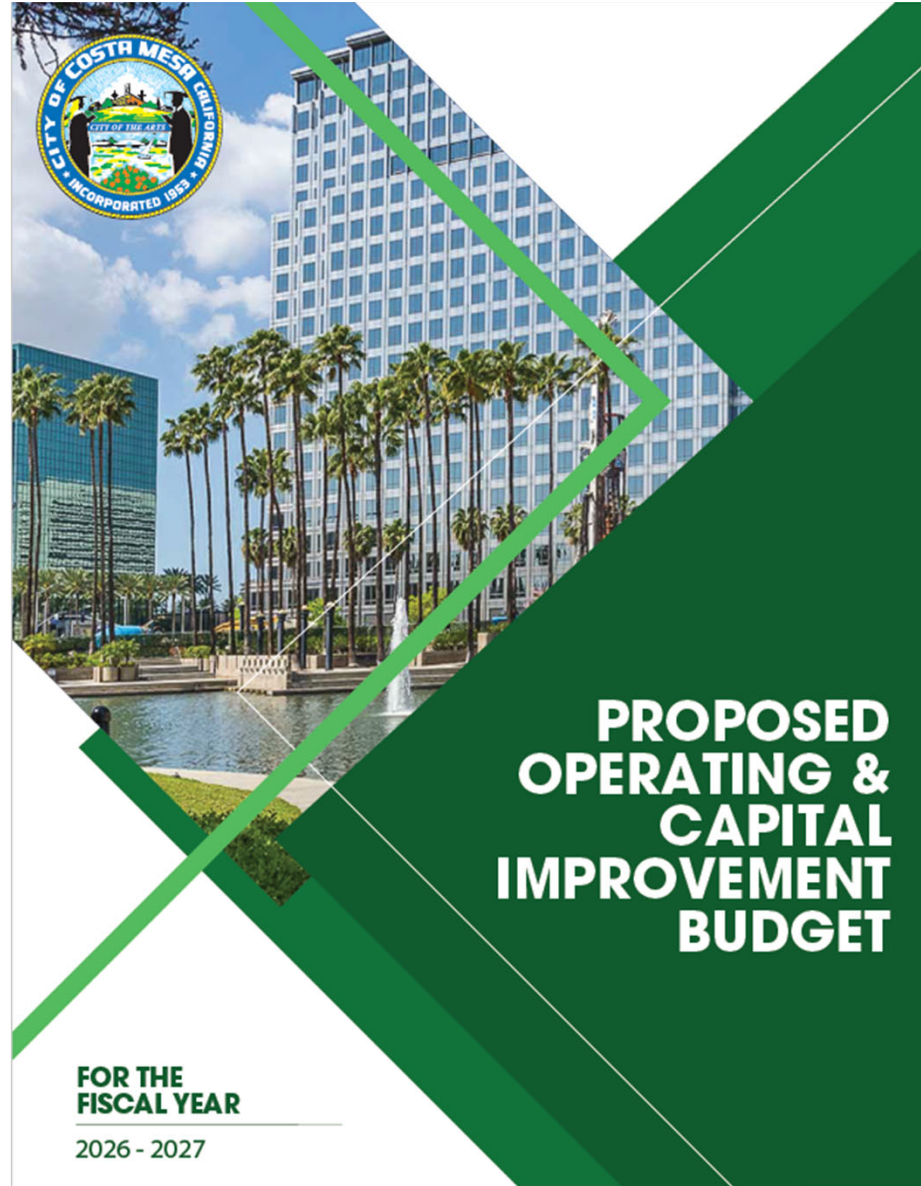


FY 2026-27
**PROPOSED OPERATING AND
CAPITAL IMPROVEMENT BUDGET**

City Council Study Session
May 12, 2026



**“Measured Decisions.
Meaningful Impact.”**



CITY OF COSTA MESA CALIFORNIA
CITY OF THE ARTS
INCORPORATED 1953

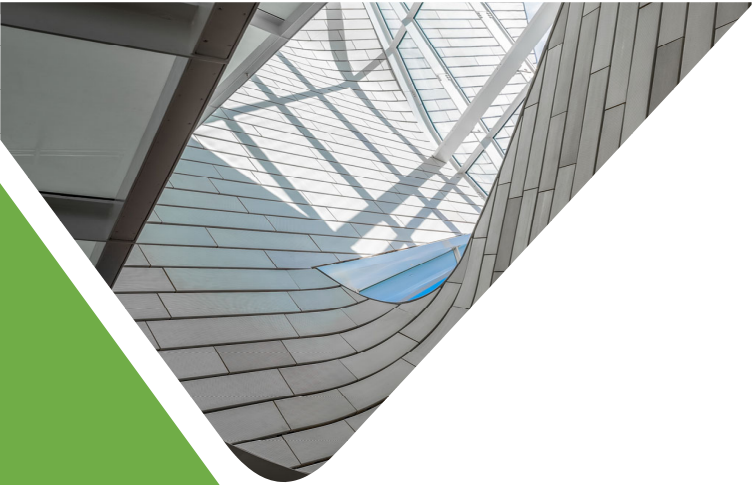
**PROPOSED
OPERATING &
CAPITAL
IMPROVEMENT
BUDGET**

**FOR THE
FISCAL YEAR**
2026 - 2027

FY 2026-27 PROPOSED BUDGET OVERVIEW

- Guiding Principles/Strategic Plan Goals
- Economic Update & Budget Assumptions
- FY 2026-27 Proposed Operating and Capital Budget
 - Proposed Revenue, Expenditures and CIP Overview
- FY 2026-27 Proposed General Fund Budget
 - Revenue and Expenditure Highlights
 - Public Safety Highlights
- Achieve Long-Term Fiscal Sustainability
 - Status of General Fund Reserves
- Budget Calendar





ECONOMIC UPDATE & BUDGET ASSUMPTIONS



GUIDING PRINCIPLES

FY 2026-27 Proposed Budget was inspired by the Strategic Plan Goals:

- Strengthen the Public's 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
- Maintain and Enhance the City's Facilities, Technology, and Equipment

STATE OF THE ECONOMY

- U.S Economy is still grappling with uncertainty spurred by :
 - Increasing fuel prices
 - Uninspiring interest rate
 - Inflation concerns
 - Shaken consumer confidence
 - Decreased concern about Recession.
 - Geopolitical concerns including tariffs and Middle East Conflicts
- California economy is fraught with same economic uncertainty and consumer unease
 - Governor's Proposed Budget May Revision for California FY 2026-27 Budget is due May 14, 2026.
- Costa Mesa
 - Impacted but with more resilient economic and revenue base

FY 2026-27 BUDGET ASSUMPTIONS

Revenue Assumptions and Impact:

- 2%-10% growth in major revenues from FY 2025-26 Adopted Budget:
(Approximately 3% growth compared to FY 2025-26 year-end projections)
 - Sales Tax
 - Property Tax
 - Transient Occupancy Tax (TOT)
 - Permits
 - Franchise Fee
- Flat to very low growth in most other revenue sources.
- City Fee study underway.

FY 2026-27 BUDGET ASSUMPTIONS

Expenditure Assumptions and Impact:

- Built-in expenditure growth based on labor and contractual obligations
- Cost containment measures with a target reduction of 5% for departments
- Gradual/Incremental right sizing of departments' budgets
 - Adjusting overtime and part-time budgets to be more reflective of actuals
- Fully staffed in the Police Department sworn positions
- Recruitment underway to fully staff sworn positions in the Fire Department
- 14 frozen positions (13 in General Fund)
- 2% attrition factor
 - Applying attrition factor citywide rather than department specific
- Fully fund and repayment of deferrals in the CAN and IT Needs funds
 - Properly apportioning project related labor costs into CAN & IT Needs funds



**FY 2026-27
PROPOSED OPERATING AND
CAPITAL IMPROVEMENT
BUDGET OVERVIEW**

ALL FUNDS DESCRIPTION

Fund Type	Description
General Fund	General operating fund of the City.
Special Revenue Funds	Grants (Federal, State and/or County), restricted funding sources.
Internal Service Funds	Costs of materials, equipment, and services used are accumulated in these funds and charged to the user departments. <ul style="list-style-type: none"> • Equipment Replacement Fund • Self-Insurance Fund • Information Technology Replacement Fund
Capital Improvement Fund	Large capital projects normally span over multiple fiscal years. Typically, \$30,000 or above including staff time.
Housing Authority Fund	To serve as the housing successor by managing housing assets, duties, and functions, including administrative costs and homelessness prevention and rapid rehousing, in accordance with California Health and Safety Code Section 34200 et seq.

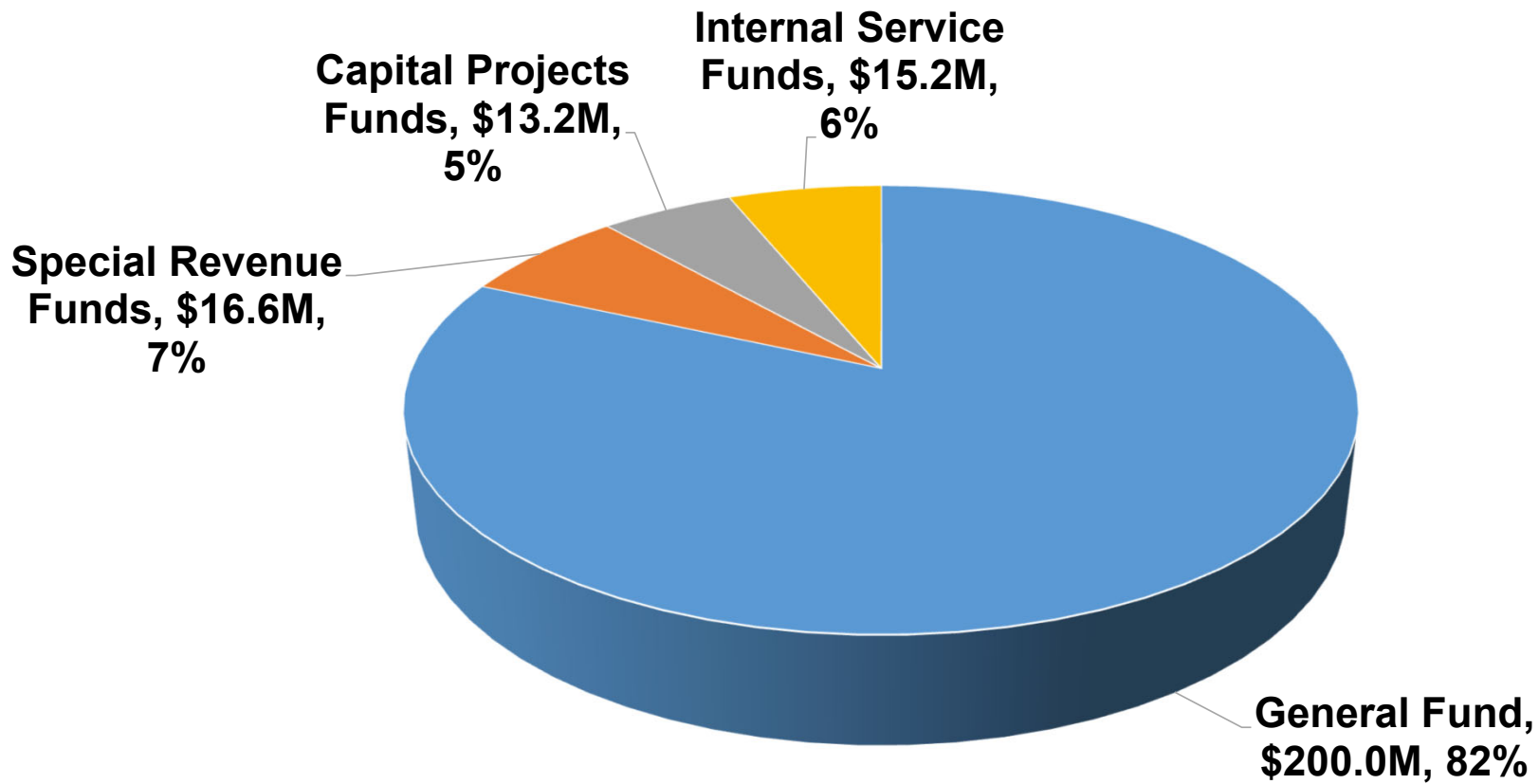
FISCAL YEAR 2026-27 PROPOSED BUDGET ALL FUNDS OVERVIEW

Highlights:

- The Proposed Budget for FY 2026-27 All Funds is \$244.9M, an \$19.9M or 9% increase from the current fiscal year adopted budget;
- Appropriating \$109.3M, or 55%, in General Fund resources to public safety;
- Investing \$22.0M into the City's parks, streets, active transportation network, facilities, and other infrastructure (additional \$12.0M for Fire Station #2 bond);
- Increase of \$2.0M to the annual required CalPERS UAL contributions;
- Includes fully funding and repayment of the Capital Asset Needs and IT Needs Funds; and
- Funds \$1.3M to the Housing Authority Fund.



FISCAL YEAR 2026-27 ALL FUNDS \$244.9 MILLION



FY 2026-27 ALL FUNDS APPROPRIATIONS

\$244.9M

Appropriations All Funds	Adopted	Proposed	Increase /(Decrease)	
	FY 2025-26	FY 2026-27	Amount	Percent
Operating Budget ¹	\$202,433,823	\$211,466,653	\$9,032,830	4%
Transfers Out ²	3,547,836	9,825,324	6,277,488	177%
Capital Budget ³	18,957,631	23,585,595	4,627,964	24%
Total	\$224,939,290	\$244,877,572	\$19,938,282	9%

¹ Includes General Fund, Special Funds, and Internal Services Funds

² Includes General Fund contribution to the CAN \$6.7M and ITRF \$3.1M

³ Includes \$1.6M IT projects

CAPITAL ASSET NEEDS (CAN) & INFORMATION TECHNOLOGY NEEDS (IT Needs) CALCULATION

CAN Calculation	\$ (millions)
5% General Fund Revenues	\$10.0M
Less: Lease Revenue Bond Payments	(2.8M)
Less: Fire Station #2 Bond Payment	(1.1M)
CAN Deferral Repayment	0.6M
Total	\$6.7M

IT Needs Calculation	\$ (millions)
1.5% General Fund Revenues	\$3.0M
IT Needs Deferral Repayment	0.1M
Total	\$3.1M

Total transfer out to CAN and IT Needs is \$9.8M

ALL FUNDS

HOUSING AUTHORITY

- General Fund continues the contribution of \$1.3M to the Housing Authority Fund to support the Homeless Shelter and programs.
- Includes funding for all contractual obligations (e.g. Shelter operator, Meals provider).

Information Technology Replacement Fund

- Appropriation of \$3.1M, including:
 - \$2.2M for IT Replacement eligible expenditures and projects.
 - \$0.9M for project-related staff costs.

Self-Insurance Internal Service Fund

- \$0.5M in additional funding for increases to insurance premiums.

**SPECIAL
REVENUE FUND**

ARTS AND CULTURE MASTER PLAN FUND

- ½ percent of the seven percent Cannabis Retail and Delivery Tax (Measure Q) funding for the Arts and Culture Master Plan (\$242,200).
- Received direction from City Council on May 5, 2026 to allocate additional funding towards the City's Art and Culture Programs.
- Will award a consulting contract on June 16, 2026 for the preparation of the next 5-year Arts and Culture Master Plan.
- Upon completion of the proposed 5-year plan, staff will return to Council with the adoption of the plan and funding sources.

ALL FUNDS

REQUESTED CHANGE IN POSITIONS

Department	Job Title	FTE
General Fund		
Police	Park Ranger	(1.00)
Police	Public Safety Dispatcher	(1.00)
Police	Public Safety Dispatch Supervisor	1.00
Development Services	Chief of Code Enforcement	(1.00)
Development Services	Senior Permit Technician	1.00
Fire & Rescue	Emergency Medical Services Coordinator	(1.00)
Fire & Rescue	Fire Battalion Chief	1.00
Grand Total All Funds Impact		(1.00)

Note: Total FTE City count is 599.

ALL FUNDS

RECOMMENDED FROZEN POSITIONS

Department	Job Title	FTE	
		FY 2025-26	FY 2026-27
General Fund			
City Manager	Deputy City Manager	-	(1.00)
Development Services	Assistant Dir. of Dev Services (9 months)	-	(1.00)
Development Services	Principal Planner (3 months)	-	(1.00)
Development Services	Associate Planner	-	(1.00)
Development Services	Code Enforcement Officer II	(1.00)	(1.00)
Development Services	Chief of Code Enforcement	(1.00)	-
Finance	Assistant Finance Director	-	(1.00)
Police	Police Records Shift Supervisor	-	(1.00)
Fire	Assistant Fire Marshall	-	(1.00)
Parks	Office Specialist II	(1.00)	(1.00)
Information Technology	Programmer Analyst II	-	(1.00)
Public Works	Engineering Technician III	(1.00)	(1.00)
Public Works	Lead Facilities Maintenance Technician	(1.00)	(1.00)
Public Works	Maintenance Supervisor	(1.00)	(1.00)
Public Works	Senior Engineer	(1.00)	-
General Fund Total		(7.0)	(13.00)
Other Funds			
Development Services	Office Specialist II	(1.00)	(1.00)
Other Funds Total		(1.00)	(1.00)
Grand Total All Funds Impact		(8.00)	(14.00)

ALL FUNDS**FY 2025-26****AB 2561 ANNUAL VACANCY REPORT**

Employee Group	FT Employees Budgeted	Vacancies	Vacancy Rate
Costa Mesa City Employees Association (CMCEA)	288	23	8%
Costa Mesa Fire Association (CMFA)	80	8	10%
Costa Mesa Fire Management Association (CMFMA)	3	0	0%
Costa Mesa Police Association (CMPA)	131	0	0%
Costa Mesa Police Management Association (CMPMA)	9	0	0%
Costa Mesa Division Managers Association (CMDMA)	21	1	5%
Confidential Unit (Non Respresented)	33	2	6%
Confidential Management Unit (Non Represented)	7	1	14%
Executive Employees (Non Represented)	13	3	23%
Total*	585	38	6%

**Does not include 7 council members and FY 2025-26 frozen positions.*

ALL FUNDS

CITY WIDE VACANCIES

DEPARTMENT	VACANCY	
CITY MANAGER	Community Outreach Supervisor Executive Assistant	Deputy City Manager Senior Management Analyst
ECONOMIC & DEVELOPMENT SERVICES	Administrative Assistant Assistant Dev. Services Director Assistant Planner	Associate Planner Principal Planner
FINANCE	Assistant Finance Director	Finance Director
FIRE	Fire Chief Firefighter (8)	Assistant Fire Marshal Emergency Medical Services Coordinator
PARKS & COMMUNITY SERVICES	Recreation Specialist	Senior Recreation Supervisor
POLICE	Custody Officer Park Ranger Police Records Shift Supervisor	Sr. / Police Records Technician/ (2) Sr. / Public Safety Dispatcher Dispatcher (7)
PUBLIC WORKS	Senior Management Analyst	Senior Maintenance Worker
TOTAL VACANCIES:	38	

ALL FUNDS

CIP FUNDING SOURCES

FUND	AMOUNT
Capital Improvement	\$ 6,100,000
Grant Funds*	5,744,920
Measure M2 Fairshare	4,666,000
Gas Tax (HUTA)	1,790,000
Gas Tax (RMRA)	3,150,000
Park Development	100,000
Traffic Impact Fee	250,000
Cannabis Traffic Impact Fees	150,000
All Funds Subtotal	\$ 21,950,920
Future Bond/ Financing	12,000,000
All Funds Grand Total	\$ 33,950,920

*Federal, State, and County grant funding.


ALL FUNDS

CIP HIGHLIGHTS

All Funds Budget FY 2026-27 Capital Improvement Program (CIP) is \$34.0M, which includes \$12.0M potential bond for Fire Station #2 reconstruction project.

- Citywide Alley Improvements
- Police Department Chiller Replacement
- Police Department Emergency Communications Center
- Citywide Tree Maintenance (in Public Right-of-Way)
- Harper Park Playground Replacement
- Moon Park Playground Replacement
- Costa Mesa Skate Park Expansion
- Fire Station #2 Reconstruction (Future Bond Funding)

Note: The FY 2026-27 Capital Assets Needs (CAN) is fully funded and includes a scheduled repayment of \$0.6M from prior year deferrals.



**FY 2026-27
PROPOSED GENERAL FUND
BUDGET OVERVIEW**

GENERAL FUND OVERVIEW (IN MILLIONS)

Category	Adopted FY 2025-26	Projected FY 2025-26	Proposed FY 2026-27	Adopted vs Proposed Difference Percent	
Estimated Revenues	\$186.9	\$193.9	\$200.0	\$13.1	7%
Total Sources of Funds	\$186.9	\$193.9	\$200.0	\$13.1	7%
Operating Budget	\$184.1	\$191.0	\$190.2	\$6.1	3%
Transfers Out	2.8	2.8	9.8*	7.0	251%
Total Uses of Funds	\$186.9	\$193.8	\$200.0	\$13.1	7%
Difference	\$ -	\$0.1	\$ -	\$ -	- %

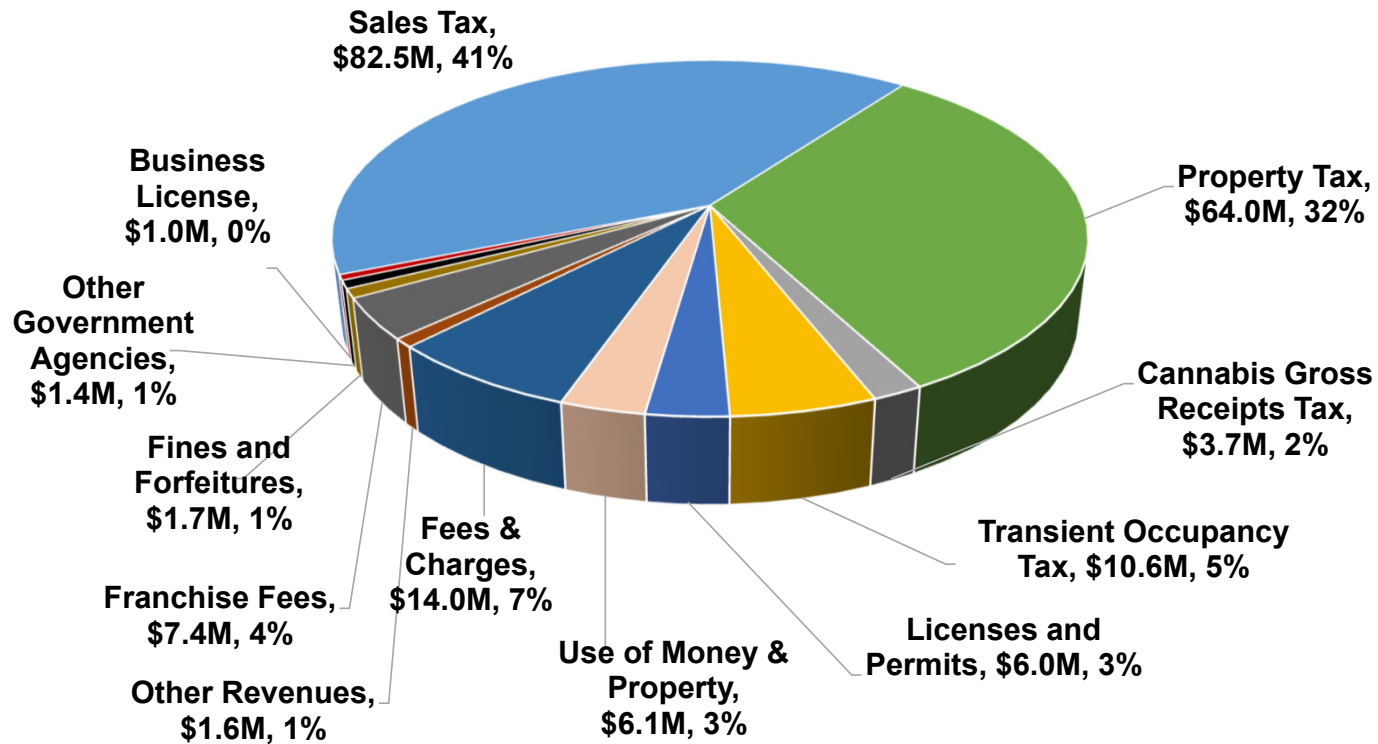
*Includes full General Fund contribution and deferral repayment to the CAN and ITRF.

GENERAL FUND REVENUE HIGHLIGHTS

- General Fund revenue is budgeted at \$200.0M, reflecting an increase of \$13.1M, or 7% from the FY 2025-26 Adopted Budget;
- Sales Tax is estimated at \$82.5M, an increase of \$7.5M, or 10% from FY 2025-26 Adopted Budget;
- Property Taxes are estimated at \$64.0M, reflecting a 2% growth over from FY 2025-26 Adopted Budget;
- Transient Occupancy Tax are estimated at \$10.6M, reflecting a 7% increase from FY 2025-26 Adopted Budget of \$9.8M;
- Fees and Charges are estimated at \$13.9M reflecting an approximate increase of \$808K from the FY 2025-26 Adopted Budget; and
- Cannabis taxes are estimated at \$3.7M, an approximate increased by \$49K, or 1% from FY 2025-26 Adopted budget.

FY 2026-27 PROPOSED GENERAL FUND REVENUE

Total Revenues – General Fund by Category \$200.0M



REQUESTED DEPARTMENT NAME UPDATE

Economic and Development Services Department is requesting to update their name to “**Community Development.**”

The name change to “**Community Development**” would reflect the broader service base and purpose the department provides to the City of Costa Mesa.

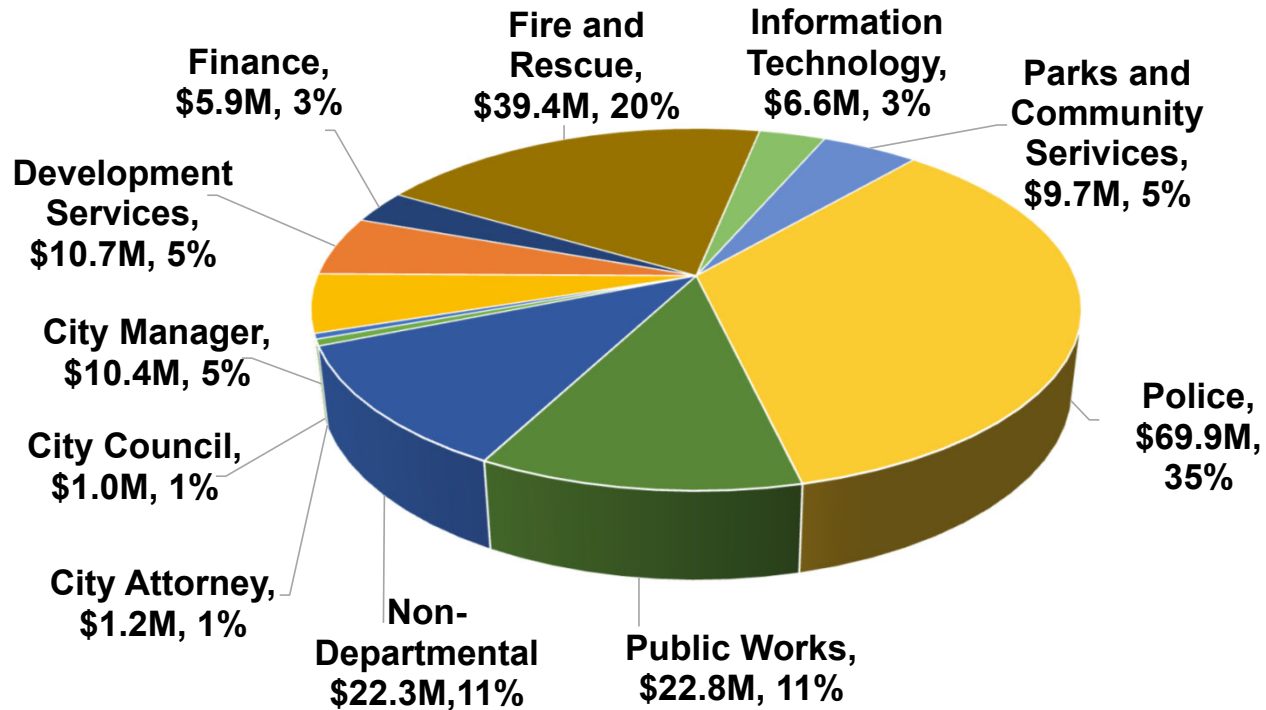
Department’s responsibilities includes:

- Manages all private-owned property in the City through the complete life cycle of the build environment;
- Review new construction, managing land uses for new and existing buildings;
- Overseeing operational details, housing and community program assistance;
- Ensuring property maintenance and code compliance; and
- Permitting demolition.

STRENGTHEN THE PUBLIC'S SAFETY

Public Safety Represents 55% of General Fund

Total Appropriations – General Fund by Department \$200.0M



Police Department

- Sworn staffing levels at 142 positions;
- Fully staffed in Police sworn positions;
- Other annualized enhancements include:
 - Reallocation of a Public Safety Dispatcher to a Public Safety Dispatch Supervisor and elimination of a Park Ranger; and
 - \$0.7M in funding for new and replacement vehicles.

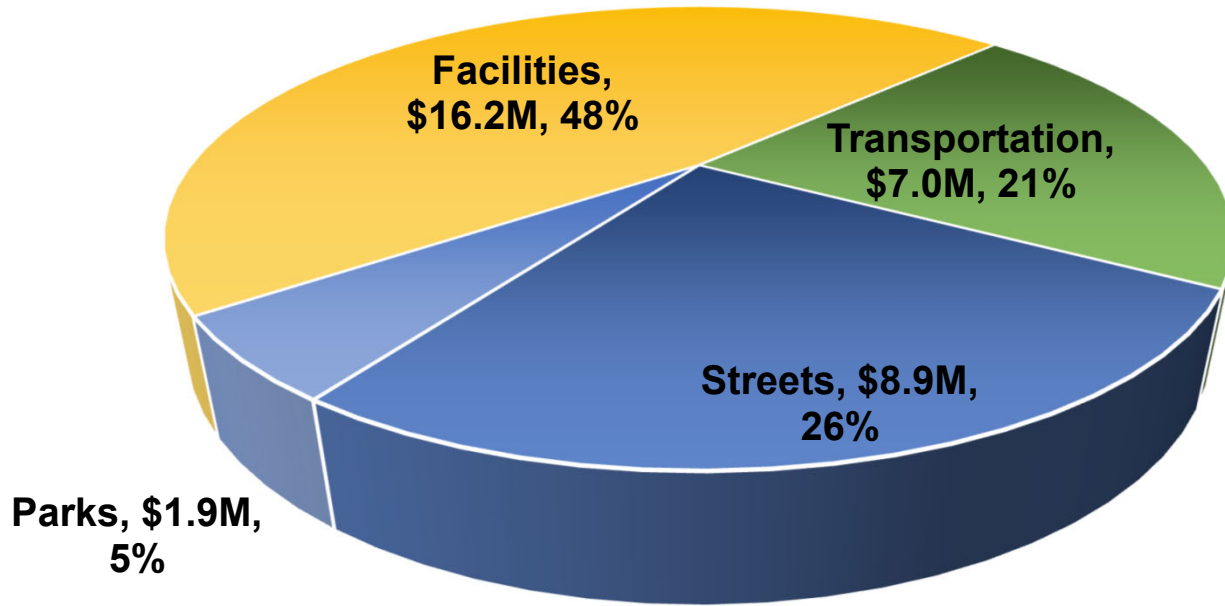
Fire and Rescue Department

- Sworn staffing levels at 86 positions;
- Currently recruiting 8 Fire Fighter positions and pursuing full staffing;
- Other annualized enhancements include:
 - Reallocation of an Emergency Medical Services Coordinator to a Fire Battalion Chief; and
 - \$0.1M in funding for new vehicle.

**ALL
FUNDS**

**FY 2026-27 CIP IMPROVEMENT AREAS
BY CATEGORY**

**PROPOSED CIP BUDGET BY CATEGORY \$34.0M
(Includes \$12.0M Bond for Fire Station #2)**



FY 2026-27 PROPOSED GENERAL FUND HIGHLIGHTS

- Structurally balanced budget with no use of General Fund Reserves;
- Includes 55% commitment to Public Safety;
- Reallocate 3.0 positions, while reducing 1 FTE;
- Includes \$2.0M in CalPERS UAL year-over-year increase;
- Includes a 2% attrition factor across all departments;
- Allocate \$6.7M (including scheduled repayments of \$0.6M to Capital Asset Needs to ensure compliance with the Municipal Code Ordinance No. 2020-06); and
- Allocate \$3.1M (includes \$0.1M in deferral repayment) to ensure compliance with the Information Technology Needs Municipal Code requirement of 1.5% of GF revenue.



**“Measured Decisions. Meaningful Impact.”
Achieve Long-Term Fiscal Sustainability**

FUND BALANCE - GENERAL FUND

(IN THOUSANDS)

Fund Balance Category	FY 2022-23 Audited	FY 2023-24 Audited	FY2024-25 Audited	FY2025-26 Projected	FY2026-27 Projected
Nonspendable	\$460	\$630	\$883	\$883	\$883
Restricted					
Pension & OPEB	3,178	3,367	2,092	2,092	2,092
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	6,209	5,982	5,982	5,982	5,982
Police Retirement	1,737	1,572	1,572	1,572	1,572
Workers Comp	2,000	2,000	2,000	2,000	2,000
Facilities Reserve	2,000	2,000	2,000	2,000	2,000
Strategic Plan Projects	2,000	2,000	2,000	2,000	2,000
Unassigned	16,328	17,686	19,307	19,407	19,407
Total Fund Balance	59,037	60,362	60,962	61,062	61,062



GENERAL FUND

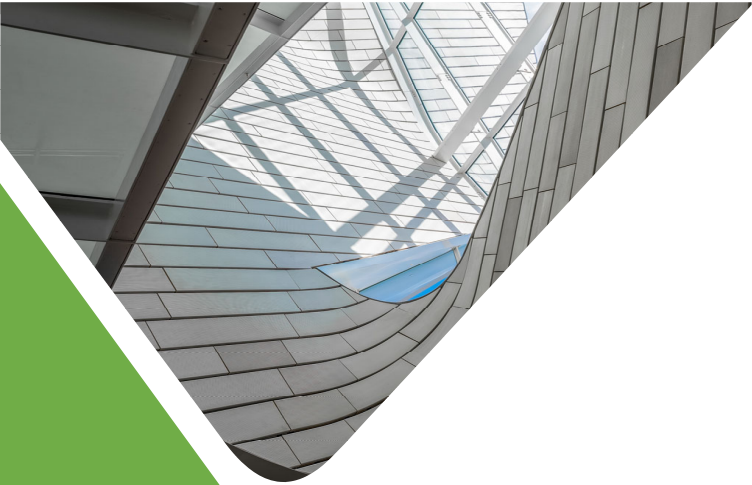
ACHIEVE LONG-TERM FISCAL SUSTAINABILITY

- Structurally balanced General Fund Budget without the use of reserves.
- Provides full funding for the Capital Asset Needs Fund at 5% of General Fund revenues.
 - Includes a \$1.1M in projected debt service payment for the bond funded reconstruction costs of Fire Station #2.
- Provides full funding for the IT Replacement Fund at 1.5% of General Fund revenues.

FY 2026-27 Budget Calendar

5/12/2026	FY 2026-27 Proposed Budget Study Session	City Council
5/13/2026	FY 2026-27 Proposed Budget Special Meeting	FiPAC
6/2/2026	FY 2026-27 Proposed Operating and CIP Budget Public Hearing & Adoption	City Council
6/16/2026	FY 2026-27 Proposed Operating and CIP Budget Public Hearing & Adoption (if needed)	City Council





QUESTIONS

