



CITY OF COSTA MESA

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 24-196

Meeting Date: 5/14/2024

TITLE:

FISCAL YEAR 2024-25 PROPOSED BUDGET STUDY SESSION

DEPARTMENT: CITY MANAGER'S OFFICE, FINANCE DEPARTMENT

PRESENTED BY: LORI ANN FARRELL HARRISON, CITY MANAGER, CAROL MOLINA, FINANCE DIRECTOR

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

RECOMMENDATION:

Conduct a Study Session regarding the Fiscal Year 2024-25 Proposed All Funds Budget of \$240.1 million, with a General Fund component of \$189.9 million, and provide initial feedback and direction to staff in advance of final adoption of the budget by June 30, 2024.

BACKGROUND:

The Fiscal Year 2024-25 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 prudently 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.

Guiding Principles

The guiding principles that inspired the recommendations for the FY 2024-25 Proposed Budget were created when the City Council conducted a Strategic Planning workshop identifying key priorities, as well as a new 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 2024-25 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 2024-25 Proposed Budget, “When We All Pull Together” reflects the collective efforts by City Council and staff to work in collaboration to help drive change for a greater outcome for the residents of Costa Mesa. This includes City Council’s recommendation for staff to establish a Housing Trust in the amount of \$2.5 million to assist in funding for housing opportunities. This budget also includes additional funding for the Homeless and Behavioral Health Programs, IT Strategic Plan, as well as the Arts and Culture Master Plan to allow Departments to achieve shared goals in addressing our most pressing needs and concerns.

Funding requests contained in the FY 2024-25 Proposed Budget help to further stabilize or enhance critical City operations to better serve the public, and/or provide City employees with the 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 additional resources to achieve Council’s goals.

Overview of FY 2024-25 Proposed All Funds Budget

The Fiscal Year 2024-25 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 \$240.1 million, an increase of \$6.1 million, or 3 percent compared to the Fiscal Year 2023-24 Adopted Budget of \$234 million. Table 1 illustrates these amounts.

Table 1 - Proposed Budget - All Funds

Expenditure Category	Adopted FY 2023-24	Proposed FY 2024-25	Increase/(Decrease)		FY 2024-25 % of Total
			Amount	Percent	
Operating Budget	\$ 188,349,065	\$ 199,582,608	\$ 11,233,543	6%	83%
Transfers Out	14,582,902	12,631,498	(1,951,404)	-13%	5%
Capital Budget	31,081,719	27,901,236	(3,180,483)	-10%	12%
Total	<u>\$ 234,013,686</u>	<u>\$ 240,115,342</u>	<u>\$ 6,101,656</u>	<u>3%</u>	<u>100%</u>

The All-Funds Budget for the City includes governmental, proprietary, and internal service funds, including 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).

Many of the City’s special and restricted funds receive ongoing revenue streams, while some are one-time competitive grants and require careful monitoring and record keeping.

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 assigned 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 main factors attributed to the year-over-year increase in the FY 2024-25 Proposed All Funds Budget are as follows:

Operating Budget

- The proposed increase of \$11.2 million, or 6 percent, for a total of \$199.5 million in the Operating Budget's portion of the FY 2024-25 All Funds Budget is comprised of several items including:
- Annualized funding needed to attract, recruit and retain high quality staff through the recently negotiated labor contracts for all employees citywide that aligned employee compensation to essentially average (market rate) levels (\$5.8 million);
- A \$2.5 million increase to the annual CalPERS retirement plan payment;
- Recruitment and retention incentives for public safety to help retain tenured and experienced staff in our Police and Fire Departments for adequate succession planning (\$400,000);
- An increased budget allocation of \$300,000 in the Information Technology Department's budget for software licensing and subscription fees, as well as \$1.9 million to fund year five (5) of the IT Strategic Plan;
- A budget reallocation of \$945,000 in the Police Department's General Fund that includes \$700,000 for the replacement of body-worn and vehicle cameras, and various contractual increases, such as animal services and software subscriptions;
- An additional \$200,000 in the Police Department Budget to provide \$150,000 in funding for a Wellness Program, and \$50,000 for the replacement of a K9 police dog, and a new jail contract for intoxicated female arrests;
- A budget increase of \$200,000 in the Public Works Department for a part-time Maintenance Worker and school crossing guard contractual increase; and reallocation of salary savings of \$350,000 to fund the Water Quality Control Program;
- An additional \$140,000 in projected election costs;
- An increase of \$150,000 in Public Works Capital Fund for a facilities needs assessment;
- An increased budget allocation of \$700,000 in the Fire Department's budget for the Ambulance Program and emergency medical supplies (EMS) (these expenses are offset by the Ambulance Program revenue increase); and
- An ARPA budget increase of \$1.8 million to fund the Housing Trust Fund for a total of \$2.5 million.

Transfers Out

Transfers Out from All Funds total \$12.6 million, a decrease of \$1.9, or 13 percent from FY 2023-24. Of that total, \$9.7 million are Transfers Out from the General Fund into two funds: \$6.85 million into the Capital Improvement Fund, and \$2.85 million into the Information Technology Replacement Fund.

The remaining \$2.9 million Transfer Out of the \$12.6 million is from the American Rescue Plan Fund for \$2.5 million for the Housing Trust Fund, and \$454,308 into the Housing Authority Fund to support the Tenant Eviction Protection Program.

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 annual 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). This includes the transfer of \$2.85 million from the General Fund into the ITRF to fund year 5 of the Information Technology Strategic Plan (ITSP). The proposed budget includes \$1.5 million in funding for the second year of the computer-aided dispatch and record-management system (CAD RMS) for public safety, and \$380,000 for the Citywide desktop replacement program and City website.

Capital Budget

The proposed all-funds Capital Improvement Program (CIP) budget of \$27.9 million is a decrease of \$3.2 million or 10 percent from the adopted FY 2023-24 budget. Additionally, there is \$20 million in projects that may potentially be funded through future bond financing. A comprehensive detail of the Proposed CIP Budget was presented at the April 23, 2024, Study Session and will be contained in further detail in the CIP section of the FY 2024-25 Proposed Budget Book. A few key projects include:

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

FY 2024-25 Proposed General Fund Budget Overview

The Proposed FY 2024-25 General Fund expenditure budget is a balanced budget and totals \$189.9 million. This reflects an increase of \$9.5 million, or 5 percent, from the FY 2023-24 Adopted Budget of \$180.3 million.

Table 2 is a summary of the Proposed FY 2024-25 General Fund Revenue and Expenditure Budget.

Table 2 - General Fund Revenue and Expenditure

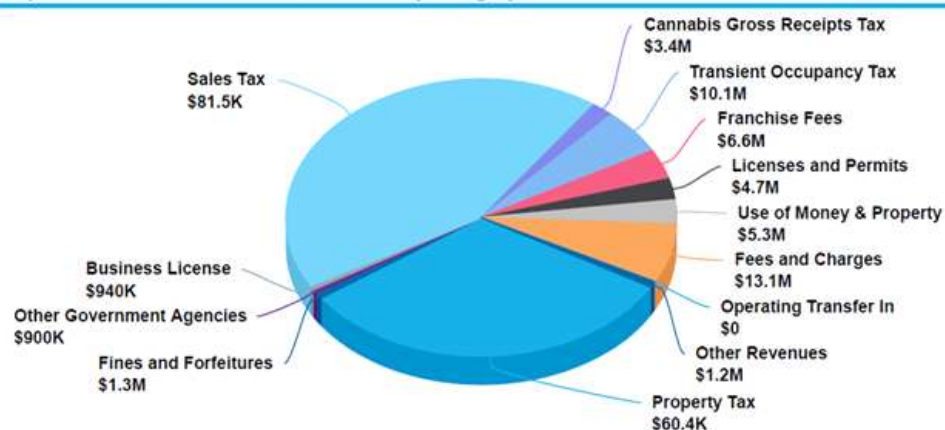
Revenue Source	Adopted FY 2023-24	Proposed FY 2024-25	Increase/(Decrease)		FY 2024-25 % of Total
			Amount	Percent	
Taxes	\$ 156,199,363	\$ 163,213,634	\$ 7,014,271	4%	86%
Licenses and Permits	4,675,862	4,736,019	60,157	1%	2%
Fines and Forfeitures	1,066,632	1,302,091	235,459	22%	1%
Use of Money and Property	4,606,615	5,360,700	754,085	16%	3%
Other Governmental Agencies	896,086	896,086	-	0%	0%
Fees and Charges for Service	9,677,140	13,097,122	3,419,982	35%	7%
Other Revenue	2,336,446	1,288,507	(1,047,939)	-45%	1%
Operating Transfer In	868,898	-	(868,898)	-100%	0%
Total	\$ 180,327,042	\$ 189,894,159	\$ 9,567,117	5%	100%

Expenditure Category	Adopted FY 2023-24	Proposed FY 2024-25	Increase/(Decrease)		FY 2024-25 % of Total
			Amount	Percent	
Salaries and Benefits	\$ 125,049,401	\$ 133,130,777	\$ 8,081,376	6%	70%
Maintenance and Operations	40,352,929	44,132,090	3,779,161	9%	23%
Fixed Assets	1,827,122	2,925,298	1,098,176	60%	2%
Transfers Out	13,097,589	9,705,994	(3,391,595)	-26%	5%
Total	\$ 180,327,041	\$ 189,894,159	\$ 9,567,118	5%	100%

General Fund Revenue Highlights

The Proposed FY 2024-25 Budget for Total General Fund Resources totals \$189.9 million, a \$9.5 million, or 5 percent increase from the FY 2023-24 Adopted Budget. General Fund Revenue is recovering favorably with several categories returning to or above pre-pandemic levels such as Sales and Use Tax, Licenses and Permits, Use of Money and Property, and Fees and Charges. These funds are typically used to fund public safety, parks and community services, development services, and other activities and programs known to residents. The Fiscal Year commencing July 1, 2024, budget will be balanced without the use General Fund reserves or the American Rescue Plan Fund.

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 \$81.5 million, a reduction of \$0.9 million, or a 1 percent decrease, from the FY 2023-24 Adopted Budget due to dampened receipts from sellers of general consumer goods, as well as a decline in building and supplies.

Property Tax: All combined Property Tax revenues are estimated at \$60.4 million, reflecting a ten percent growth over the prior fiscal year. As a result of the dissolution of the Successor Agency, the property tax revenues that were utilized to pay required payments on obligations are being redirected to the Property Tax revenue. Costa Mesa anticipates \$1.4 million in this realignment plus the annual 4% increase normally received from the County.

Transient Occupancy Tax (TOT): Hotel tax revenues are projected to continue to surpass pre-pandemic levels, with an estimated \$10.1 million anticipated next year versus the FY 2023-24 Adopted Budget of \$9.5 million. As a result of an increase in hotel rates due to higher inflation, as well as the shift from consumers spending less on tangible items and more on experiences.

Fees and Charges: Fees and Charges are showing signs of recovery at \$13.1 million, an increase of \$3.5 million, or 36 percent increase, as a result of statutory changes in ambulance reimbursements, while Plan Check fee revenues are anticipated to remain flat at \$1.6 million in the Proposed FY 2024-25 budget.

Measure Q Retail Cannabis Business Tax: The FY 2024-25 Proposed Budget includes an estimated \$3.4 million in cannabis taxes, an increase of \$350,000, or 11 percent, from FY 2023-24, as the City has already approved over 20 retail storefront and non-storefront businesses. It is anticipated that with these businesses, the projected retail tax revenue will be realized in FY 2024-25. 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 and the First Time Homebuyers Fund.

FY 2024-25 General Fund Budget Expenditure Highlights

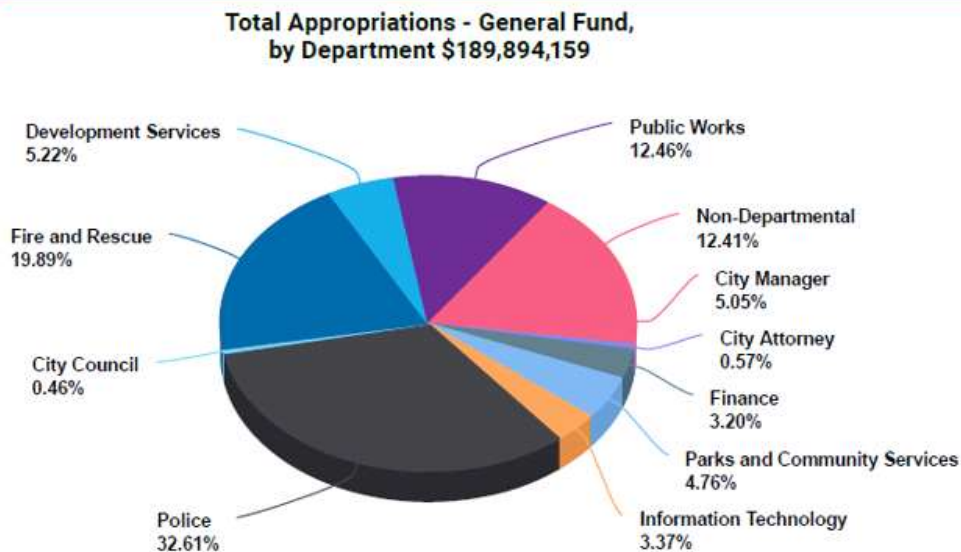
The Proposed Operating General Fund Budget for FY 2024-25 reflects total expenditure of \$189.9 million. Of this amount, \$177.2 million in operating costs represents an increase of \$11.9 million, or seven percent, from the current year's adopted operating budget of \$165.4 million. The General Fund transfer of \$3.3 million to the Equipment Replacement Fund was reclassified from a transfer out to an internal rent category for consistency reporting purposes. The remaining \$9.7 million represents the Transfers Out to the Capital Improvement Fund, and the Information Technology Fund described earlier. The FY 2024-25 Proposed Budget for expenditures includes the following significant items:

- A \$2.9 million allocation for the City Council approved Five-Year Information Technology Strategic Plan (Year 5);
- A \$2.3 million increase in the annual required CalPERS contributions;
- An additional \$500,000 million in funding for medical, dental and vision benefits and \$5.5 million in compensation increase as per contractual MOU requirements;
- A \$0.4 million increase for recruitment and retention incentives for public safety to help retain

tenured and experienced staff in our Police and Fire and Rescue Departments for adequate succession planning;

- An increased budget allocation of \$700,000 to the Fire and Rescue Department for the Ambulance Program and emergency medical supplies (these expenses are offset by an increase the ambulance program revenue);
- The continuation of the \$4.3 million vacancy factor (negative appropriation); and
- No use of General Fund Reserves or ARPA funds to balance the General Fund.

Graph 2 - General Fund Total Appropriations by Department



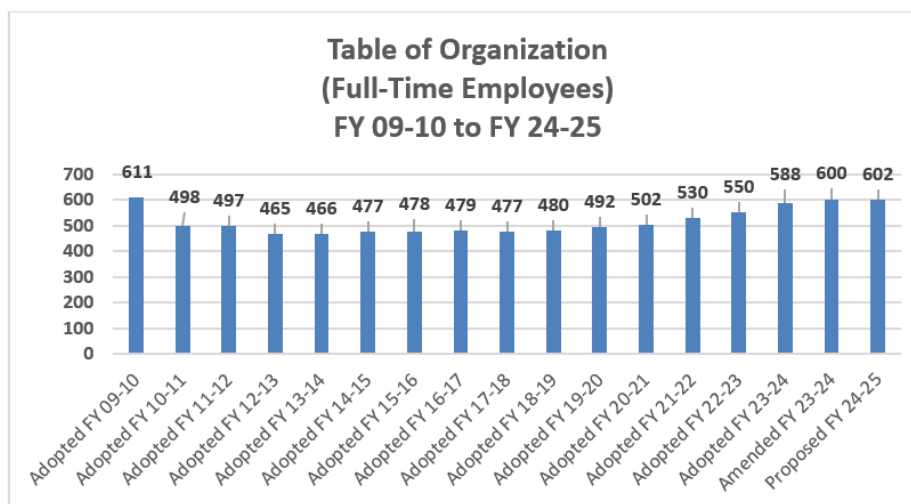
Staffing Levels

The FY 2024-25 Proposed Budget includes 602 full-time employees, which includes FY 2023-24 amendment staffing adjustments of a net 12 FTEs. The Proposed Budget incorporates an additional net of 2 full-time equivalents. With the proposed changes, full-time staffing levels are climbing back to nearing FY 2009-10 pre-recession levels.

Table 3 - Breakdown of General Fund Appropriations by Department

Department	FY 2019-20 Actual	FY 2020-21 Actual	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Adopted	FY 2024-25 Proposed
City Council	\$698,817	\$644,712	\$867,909	\$834,337	\$750,150	\$874,089
City Manager *	7,765,950	6,068,680	6,505,480	7,573,363	8,680,554	9,594,377
City Attorney	1,102,741	968,029	958,775	988,108	1,050,000	1,086,750
Finance	4,369,638	4,485,375	3,811,155	4,271,188	5,590,659	6,073,764
Parks and Community Services	7,298,474	7,414,732	6,379,328	7,371,372	7,954,828	9,037,068
Information Technology	3,191,744	3,760,148	4,104,946	5,133,365	5,923,476	6,402,558
Police	50,525,724	48,905,944	53,504,411	55,874,470	59,221,389	61,919,851
Fire and Rescue	28,865,368	27,042,315	32,298,517	33,480,396	35,785,123	37,772,922
Development Services	6,950,075	6,325,666	7,522,770	8,229,755	9,256,476	9,911,803
Public Works	19,209,987	17,801,071	19,517,456	20,413,479	22,457,898	23,659,001
Non-Departmental	11,475,099	11,614,781	27,397,679	32,457,225	23,656,488	23,562,076
TOTAL	\$142,155,502	\$136,637,270	\$162,868,426	\$176,627,059	\$180,327,041	\$189,894,159

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

Table 4 - Budgeted Citywide Staffing Levels

A Table of Organization reflecting 602 full-time employees, and 99.98 part-time employees for a total of 701.98.

Table 5 - Staffing Requests

Department	Description	FTE
City Manager	Community Outreach Worker (Homeless Services)	3.00
City Manager	Community Outreach Worker (Tenant Protection)	(1.00)
Development Services	Code Enforcement Officer (Tenant Protection)	(1.00)
Finance	Accounting Specialist II (Part Time)	0.75
Police	Accounting Specialist II (Convert to Full Time)	0.37
Public Works	Maintenance Worker (Part Time)	0.50
Total		2.62

The Proposed Budget includes a net of 2.6 new positions to the Table of Organization and the General Fund.

Case Management and Housing Navigation Services - The City Manager's Department is requesting an increase of three (3) Community Outreach Workers to provide in-house case management and housing navigation services. By having this function in-house, case management efficiencies can be realized that could result in better overall outcomes and potentially more expedient housing placements for clients at the shelter.

Tenant Eviction Protection - At the May 7, 2024, City Council meeting, staff provided an update on the Tenant Eviction Protection Program and related services to residents facing eviction and potential homelessness. The program has resulted in a 50 percent reduction in the number of eviction notices issued to residents. In November 2023, when the Ordinance was adopted, the City Manager requested and was granted authority for up to four additional positions, if needed, to properly administer the program: one Community Outreach Worker, (and a second, if needed); one (1) Senior Planner; and, one (1) Code Enforcement Officer. Of the four positions authorized, only three were filled.

The Code Enforcement Officer position remained vacant as there was no measurable work related to the new Ordinance that could not be handled by existing Code Enforcement Officer positions. The Senior Planner was filled and remains in the Proposed Budget for next year. The two Community Outreach Worker positions were filled quickly to help make an immediate impact and reduce the number of no-fault evictions. However, at this time, there is only sufficient workload to necessitate one Community Outreach Worker to support residents in risk of evictions. In the past six months, twenty-five families have been served by the City. Further, certain aspects of the tenant protection program have been absorbed by the Constituent Services Team further reducing the need for two Outreach Worker positions. Moreover, one of the Outreach Worker positions will soon be vacant. As such, the Proposed Budget reflects a realignment of the staffing level for this program from four to two positions. This is both programmatically and fiscally prudent as the funding source for these positions is ARPA, which will end after 2025.

Finance Department is proposing to add a part-time Accounting Specialist II to support processing invoices for payments in accounts payable. This position will be fully-funded by the existing operating budget in the Finance Department. The Police Department is converting a part-time Accounting Specialist II to a full-time position. Lastly, the Public Works Department is requesting to add a part-time Maintenance Worker to assist with the Signs and Markings Program within the Department.

Commitment to Public Safety:

The FY 2024-25 Proposed Budget includes \$99.7 million as the City's commitment to public safety comprised of both the Police and Fire Departments. The public safety budgets make up more than 52 percent of the General Fund Proposed Budget at 32 percent for Police and 20 percent for the Fire and Rescue Department, respectively. Of the 602 Citywide full-time personnel, approximately 38 percent are sworn, which is on level with funding levels prior to the Great Recession.

The Police Department budget now contains 142 full-time sworn personnel. The Proposed Budget includes the conversion of three part-time positions to full-time, two that were approved at mid-year. The Police Department also manages the entire Animal Services and Enforcement Program. The reorganization aligns with the City Council Goal - Strengthen the Public's Safety and Improve the Quality of Life.

In addition, the Police Department's salaries and benefits budget increased by a net of \$3.2 million, mostly 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 in the budget to capture its average vacancy rate.

The Police Department Proposed Budget for the Equipment Replacement Fund includes \$1.05 million in funding eight Police interceptor vehicles, a light truck for Animal Control, and a heavy one-ton police truck to haul equipment and support the recently received police armored vehicle.

The Fire and Rescue Department contains 85 full-time sworn personnel. The Fire and Rescue Department's salaries and benefits budget increased by a net of \$1.3 million, mostly due to labor contractual agreements and longevity pay. Additionally, the Proposed Budget includes a \$700,000 increase in the department's ambulance program, which is wholly offset by an increase in revenue.

Diversify, Stabilize, and Increase Housing to Reflect Community Needs

To support affordable housing, \$2.5 million is recommended to be allocated from ARPA towards a Housing Trust Fund to assist with affordable housing development. The Proposed Budget includes continued funding for the City's homeless outreach and bridge shelter programs and operations of \$3.7 million. One project forthcoming includes an additional 15 beds for the permanent Bridge Shelter for Behavioral Health funded by a County of Orange Health Care Agency (OCHCA) Grant. Furthermore, the Development Services Department will work on the implementation of the Affordable Housing Ordinance. The ordinance will ensure that new housing projects will provide a certain percentage of its housing units as affordable units to moderate, low, and/or very low-income households.

Advance Environmental Sustainability and Climate Resiliency

To achieve environmental sustainability and climate resiliency, the Proposed Budget includes \$300,000 in funding for a water quality program to monitor the City's compliance with the National Pollutant Discharge Elimination System (NPDES). This program will coordinate and implement the Santa Ana Regional Water Quality Board (Regional Water Board) directives for compliance with the Federal Clean Water Act and California's Porter-Cologne Water Quality Control Act, as it relates to City drainage into the Santa Ana River and the Newport Bay. Furthermore, there will be inspections related to commercial/industrial sites, as well as construction sites, and enforcement connected to illicit discharge.

Transfers Out

Transfers Out from All Funds total \$12.6 million, a decrease of \$1.9, or 13 percent from FY 2023-24. Of that total, \$9.7 million are Transfers Out from the General Fund into two funds: \$6.85 million into the Capital Improvement Fund, \$2.85 million into the Information Technology Replacement Fund. The majority of the transfer out reduction is due to the reallocation of the General Fund's transfer out to the Equipment Replacement in Non-Departmental to internal rent for reporting consistency purposes.

The remaining \$2.9 million Transfer Out of the \$12.6 million is from the American Rescue Plan Fund, consisting of a transfer of \$2.5 million for the Housing Trust Fund, and \$454,308 into the Housing Authority Fund to support the Tenant Eviction Protection Program.

ALTERNATIVES:

The City Council can provide alternative direction to staff on the FY 2024-25 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 2024-25 Proposed Operating Budget. Staff will be bringing the FY 2024-25 Proposed Operating Budget forward to a Public Hearing on June 4, 2024, for additional feedback or final adoption. An additional Study Session can be held on Tuesday, June 11, 2024, if needed, with a second alternative final adoption date of Tuesday, June 18, 2024, 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 2024-25 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 2024-25 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 2024-25 Proposed Budget creates a solid foundation for **“When We All Pull Together.”**