



# FY 2024-2025 MID-YEAR BUDGET PRESENTATION

City Council Study Session  
March 11, 2025



# OVERVIEW

- FY 2024-25 General Fund Adopted Budget
- FY 2024-25 Amended General Fund Budget Estimate
- Recommended FY 2024-2025 Budget Modifications
- FY 2024-25 Capital Improvement Program (CIP) Update
- Federal Grant Funding Update
- FY 2025-26 Budget Calendar

# FISCAL YEAR 2024-2025 BUDGET OVERVIEW



# CURRENT YEAR FY 2024-25 HIGHLIGHTS

- City Council approved the All Funds FY 2024-25 budget of \$239.8 million in June 2024, with a General Fund Budget of \$189.9 million;
- Structurally balanced budget with no use of General Fund Reserves or ARPA Funds;
- Dedicated 53% of General Fund to public safety departments;
- Fully funded Capital Assets Needs (CAN) allocation of \$6.9 million;
- Fully funded Year 5 of the Information Technology Strategic Plan (ITSP);
- Prefunded CalPERS Unfunded Accrued Liability (UAL), saving the General Fund approximately \$900,000; and
- General Fund has maintained a strong credit rating of AAA.

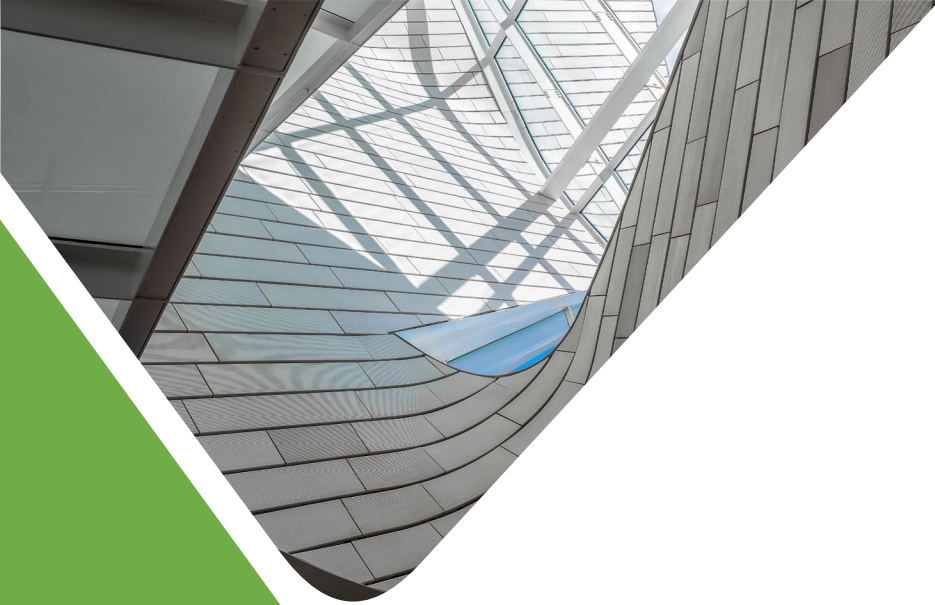
# FY 2024-25 GENERAL FUND REVENUES

Certain key revenues are received at different times throughout the fiscal year

- Sales Tax represents 43% of General Fund (GF) revenues and is primarily received two months in arrears;
- Property Tax represents 32% of GF revenue and is primarily received in December/January and April/May;
- Transient Occupancy Tax (TOT) represents 5% of total GF Revenues and is received one month in arrears; and
- Cannabis Gross Receipts Tax represents 2% of total budgeted GF Revenues and is received one month in arrears.

# GENERAL FUND BUDGET DEVELOPMENT AND MONITORING PROCESS

- Best Practice is to continuously monitor revenues and manage expenditures to ensure a balanced budget on a daily, weekly, and monthly basis;
- Swift and early action is key to ensure a structurally balanced budget at the end of the fiscal year and beyond;
- Revenue estimates for any given fiscal year are prepared 15 to 18 months in advance (for example, the revenue estimates for Fiscal Year 2025-26 for the General Fund estimated to be received by June 30, 2026 are being finalized now); and
- Key is to monitor revenues and expenditures throughout the year.



# ECONOMIC OVERVIEW



# ECONOMIC OVERVIEW

- In late 2023/early 2024, economic data was reflecting strong consumer spending, high levels of consumer confidence, solid GDP and a resilient housing market, despite high inflation and high interest rates as pandemic stimulus still fueled much of the economy.
  - Anticipation of rate cuts by the Federal Reserve helped to influence consumer and business outlooks in early 2024
- Sales Tax was beginning to show some early signs of a slowdown, but many industry forecasts still anticipated year over year growth based on a resilient consumer.
  - Costa Mesa staff conservatively budgeted a reduction of \$1.1M in Fiscal Year 2024/25 from the Fiscal Year 2023/2024 Adopted Budget



# ECONOMIC OVERVIEW

Currently, Macro Economic negativity create concerns for business outlooks (in addition to the consumer), and potentially impact City revenues

## Macro Economic Challenges:

- **Labor Market Strains** → Potential impacts of immigration policies especially in certain labor segments; Increased cost of labor
- **High Interest Rates** → Impacts capital expenditures, business expansion, new business activity
- **Confidence** → Delayed business growth, reluctance to expand workforce/preemptive downsizing
- **Inflation** → Inability to pass along increased cost of goods & labor to consumers
- **Federal Policy Shifts** → Tariff & Immigration policies could impact certain businesses disproportionately (e.g., autos, service sector)

# Economic Overview

- Taken together, headwinds to consumers and businesses present potential slowdowns to City revenues
  - *Particularly in Sales Tax, the City's largest revenue category*
- Sales Tax is a higher proportion of total revenues in Costa Mesa (many other cities have a higher reliance on Property Taxes)
  - *As a lagging indicator, impacts to Property Taxes can be delayed (versus a coincident indicator like Sales Tax)*
- National and State level economic data may not necessarily reflect the local business impacts due to variances in business composition, consumer and labor demographics
  - *Costa Mesa has higher percentage of businesses in the Consumer Goods and Auto sectors*
  - *California businesses rely heavily on immigration for labor in the service sector, farming, and construction*

# FY 2024-25 GENERAL FUND REVENUES

- Sales Tax projections are trailing by 3.4% for a year-end estimate of \$75.2M; a reduction of \$6.4M from the Adopted Budget;
  - Slowdowns in General Consumer Goods and Auto sectors primarily
- Property Tax is essentially inline with the Adopted Budget of \$60.5M reflecting a projected increase of 7.1% from the prior fiscal year;
- Transient Occupancy Tax (Hotel Tax) coming in slightly under at \$9.7M, approximately \$0.4M under the Adopted Budget; and
- Total Cannabis Tax is projected to have a slight increase of \$0.1M for a year-end estimate of \$3.6M.

# FY 2024-25 GENERAL FUND OVERVIEW (IN MILLIONS)

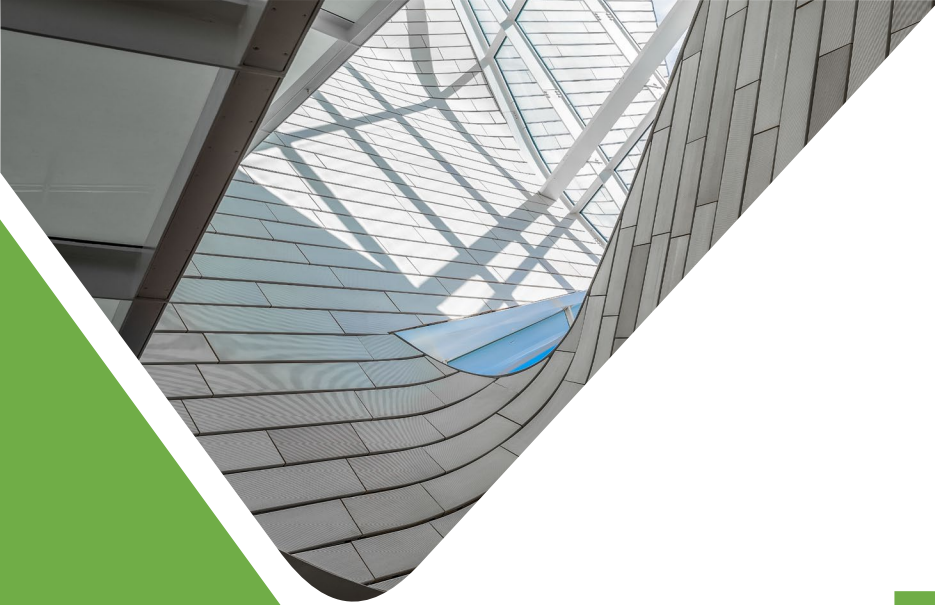
Category	FY 2023-24 Actuals	FY 2024-25 Adopted	FY 2024-25 Projected	Diff	FY 2024-25 Adopted vs Projected %
Property Taxes	\$56.5M	\$60.5M	\$60.4M	\$(0.1)M	-0.2%
Sales Tax	77.8	81.6	75.2	(6.4)	-7.8%
TOT (hotel tax)	10.2	10.1	9.7	(0.4)	-4.0%
Cannabis Tax	2.9	3.5	3.6	0.1	2.9%
Other Revenues	37.1	34.2	34.6	0.4	1.2%
<b>Total Revenues</b>	<b>184.5</b>	<b>189.9</b>	<b>183.5</b>	<b>(6.4)</b>	<b>-3.4%</b>
<b>Total Expenditures</b>	<b>183.2</b>	<b>189.9</b>	<b>187.1</b>	<b>(2.8)</b>	<b>-1.5%</b>
<b>Net Gain/(Loss)</b>	<b>\$1.3M</b>	<b>-</b>	<b>\$(3.6M)</b>	<b>\$(3.6M)</b>	

# FY 2024-25 GENERAL FUND EXPENDITURES (IN MILLIONS)

Category	FY 2024-25 Adopted	FY 2024-25 Projected	Diff	FY 2024-25 AD vs Proj %
<b>Total Revenues</b>	<b>\$189.9M</b>	<b>\$183.5M</b>	<b>\$(6.4)M</b>	<b>-3.4%</b>
Salaries & Benefits	\$133.1M	\$132.9M	\$(1.8M)	-0.2%
Operating	47.1	44.5	(1.0M)	-5.5%
<b>Subtotal</b>	<b>\$180.2M</b>	<b>\$177.4M</b>	<b>\$(2.8M)</b>	<b>-1.6%</b>
<b>Transfers Out:</b>				
Capital Improvement	6.8	6.8	-	-
IT Replacement	2.9	2.9	-	-
<b>Total Expenditures</b>	<b>\$189.9M</b>	<b>\$187.1M</b>	<b>\$(2.8M)</b>	<b>-1.5%</b>
<b>Net Gain/(Loss)</b>	<b>-</b>	<b>\$(3.6M)</b>	<b>\$(3.6M)</b>	

# ACHIEVEMENTS

- Ended last fiscal year with a \$1.3 million surplus;
- Strategically utilized ARPA to offset fiscal impact of the pandemic, including small business grants, rental assistance, project Room Key;
- Provided an ongoing revenue stream for the Equipment Replacement Fund;
- Financed public safety apparatus taking advantage of the low interest environment for both Police and Fire fleets;
- Dedicated 1.5 percent to the I.T. Replacement Fund to address replacement of aging technology software and equipment to fully fund the 5-Year Plan;
- Fully funded the CAN (Capital Asset Needs) projects of 5% of General Fund revenues;
- Exceeded the City Council Reserve Fund Balance Policy of \$55 million by \$5.4 million over the past four years; and
- Current reserves of \$60.4 million are at 32.8% of General Fund revenues exceed the GFOA best practice of having a minimum of 16% to 17%.



# Recommended Solutions and Options



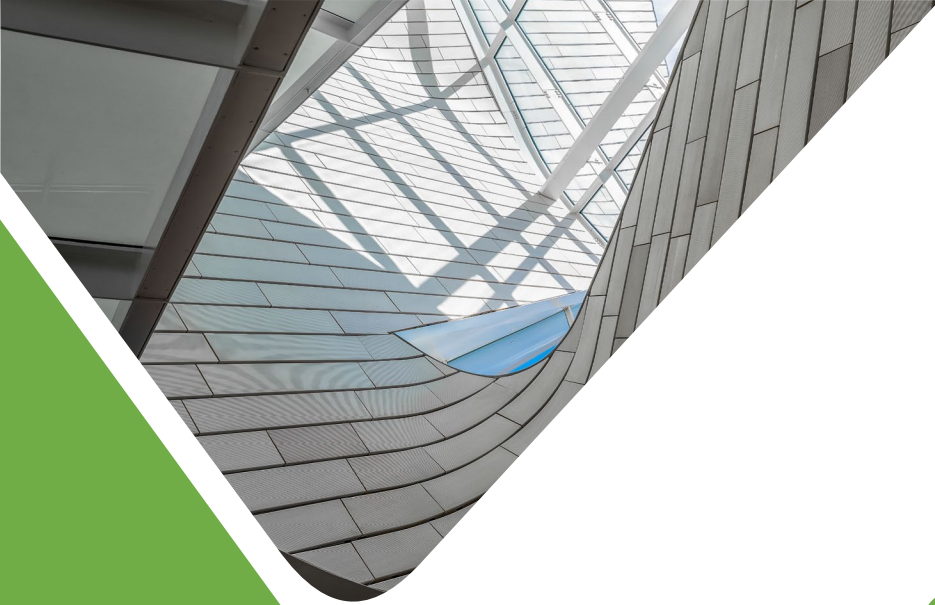
# RECOMMENDED BUDGET MODIFICATIONS

- Realign General Fund street sweeping costs to the Gas Tax Fund
- Defer Capital Improvement Projects in Capital Improvement Fund

Fund	Description	Amount
Gas Tax	Realign street sweeping	\$0.7M
Capital Improvement	Defer Capital Projects	2.9M
<b>Total</b>		<b>\$3.6M</b>

- Soft Hiring Freeze effective April 1, 2025
  - No impact to public safety personnel





# CIP Temporary Deferral Recommendations



# CIP PROJECT TEMPORARY DEFERRALS (Option A1)

Project Name	Budget	Funding Deferrals	Remaining
Savings from Completed Projects	300,000	300,000	-
Butterfly Gardens	100,000	100,000	-
Citywide Community Choice Energy Study	150,000	150,000	-
City Hall 5th Floor Air Handler Replacement	140,000	140,000	-
City Hall Breezeway Roof	245,000	245,000	-
City Hall Cast Iron Drain Re-pipe	328,000	254,019	73,981
City Hall Heater(s) Replacement	350,000	350,000	-
Citywide Street Improvements	5,713,297	250,000	5,463,297
Parkway Maintenance Program Citywide	275,000	233,757	41,243
Westside Restoration Project	1,215,000	450,000	765,000
Costa Mesa Country Club Modernization	400,000	400,000	-
<b>TOTAL</b>	<b>9,216,297</b>	<b>2,872,776</b>	<b>6,343,521</b>

# CIP PROJECTS TEMPORARY DEFERRALS

(Option A2: All Projects Yet to Start General Fund Supported )

Project Name	Balance
Butterfly Gardens	100,000
City Hall 5th Floor Air Handler Replacement	140,000
City Hall Cast Iron Drain Repipe	254,019
City Hall Heater(s) Replacement	350,000
Citywide Community Choice Energy Study	150,000
Costa Mesa Country Club Modernization	400,000
NHCC- AV System Repair & Upgrade	55,000
Police Dept - Locker Rooms Remodel	400,000
Police Dept - Weather Proofing	350,000
Senior Center- HVAC Replacement	725,000
Senior Center Improvements	250,000
Sewer Line Improvement Project	260,000
Westside Police Sub-Station Improvements	850,000
<b>Capital Projects Pending</b>	<b>4,284,019</b>

# Use of General Fund Reserves – Option B

- The General Fund reserves policy established the Economic Reserves Category to address possible economic instability resulting in a decline in sales tax, property tax, and transient occupancy tax (hotel tax).
- Utilize Economic Reserves Category to address all or a portion of the \$3.6 million projected revenue shortfall.
- The resulting General Fund balance would still be \$1.8 million above the City Council minimum of \$55.0 million.

# FUND BALANCE IN GENERAL FUND

## (IN THOUSANDS) – OPTION B

Fund Balance Category	FY 21/22 Audited	FY 22/23 Audited	FY 23/24 Audited	FY 24/25 Projected
<b>Committed</b>				
Declared Disaster	\$14,125	\$14,125	\$14,125	\$14,125
Self Insurance	2,000	2,000	2,000	2,000
Economic Reserves	9,000	9,000	9,000	5,400
<b>Assigned</b>				
Compensated Absences	5,584	6,209	5,982	5,982
Police Retirement 1% Supplemental Plan	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 Projects	2,000	2,000	2,000	2,000
<b>Restricted</b>				
Pension and OPEB	3,061	3,178	3,367	3,367
<b>Non-Spendable</b>	604	460	630	630
<b>Unassigned</b>	16,517	16,328	17,686	17,686
<b>TOTAL</b>	<b>\$57,776</b>	<b>\$59,037</b>	<b>\$60,362</b>	<b>\$56,762</b>



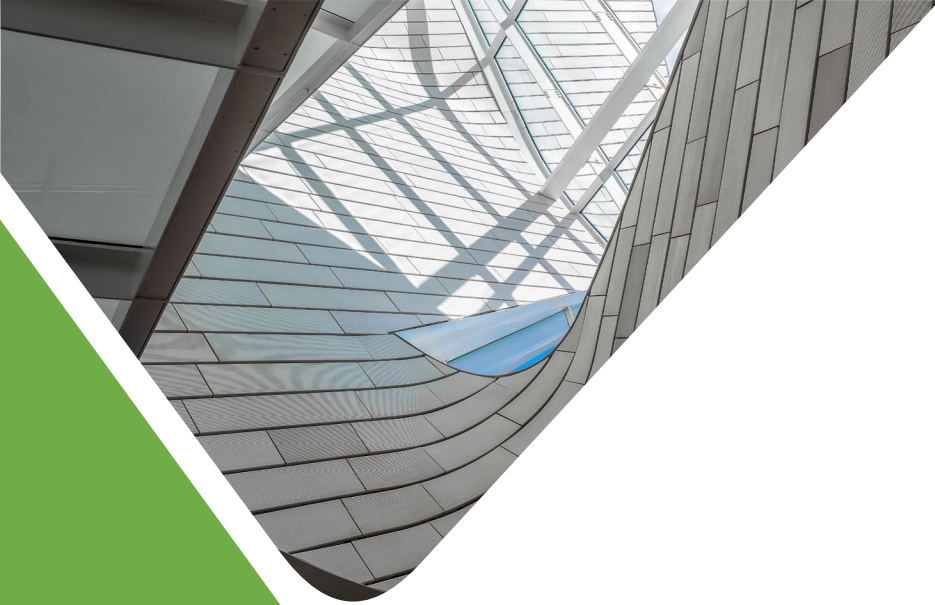
# Pros & Cons of Using General Fund Reserves

- Pros

- Avoid reallocating street sweeping cost, preserving future funding flexibility in the Gas Tax fund.
- Prevents deferral of Capital Improvement Projects.
- Provides more opportunity to deliberate future financial solutions.

- Cons

- Leads to short-term fixes, delaying necessary revenue adjustments or spending realignments.
- Instead of using reserves immediately, alternative funding solutions should be prioritized to maintain long-term financial sustainability. Reserves should remain a last-resort safety net for economic downturns or unexpected emergencies.
- Given potential of Federal funding cuts, the use of reserves may be necessary to fill funding gaps temporarily, while identifying other revenue sources and/or program cuts.



# Federal Funding Update



# FEDERAL FUNDING

- On January 27, 2025, President Trump signed an executive order essentially freezing all federal funding which is currently paused by the courts.
- Finance staff will continue to monitor the status of the Executive Order, as well as other orders or actions that may potentially impact City revenues.
- Annual Federal CDBG grant funding is used to fund 4.17 FTE's at a cost of \$785K.

Dept	Description	Grant Agency	Amount
<b>Development Services</b>			
	Community Development Block Grant (CDBG)	Housing and Urban Development	\$ 971,431
	HOME Investment Partnerships Program (HOME)	Housing and Urban Development	395,571
<b>TOTAL</b>			<b>\$ 1,367,002</b>



# FEDERAL FUNDING IMPACTS

## Community Development Block Grant (CDBG)

Type	Programs/Projects	Amount
FY 2024-2025 CDBG Annual Allocation		971,431
CDBG Prior Year Unspent/Available Allocation		187,000
CDBG Program Income (Loan Repayment)		30,900
<b>TOTAL CDBG FUNDING SOURCES</b>		<b>1,189,331</b>
Community Improvement / Code Enforcement		
	Salary & Benefits (2 Full Time and 1 Part Time Officers)	385,000
Annual Capital Improvement Projects Funding		
	Senior Center Roof Replacement	414,331
Public Service Grants		
	Senior Center Social Worker - PT	30,000
	Boys & Girls Club of Central Orange Coast	14,464
	Families Forward	28,500
	Human Options (Domestic Violence Prevention)	28,500
	Project Hope Alliance	23,750
	Trellis International	20,500
	<b>Subtotal</b>	<b>145,714</b>
Housing Rehabilitation		
	Administration	50,000
	CDBG Program Administration	174,286
	Fair Housing Foundation (Legal Workshops)	20,000
<b>TOTAL CDBG ALLOCATION</b>		<b>1,189,331</b>

# FEDERAL FUNDING IMPACTS

## HOME FUND

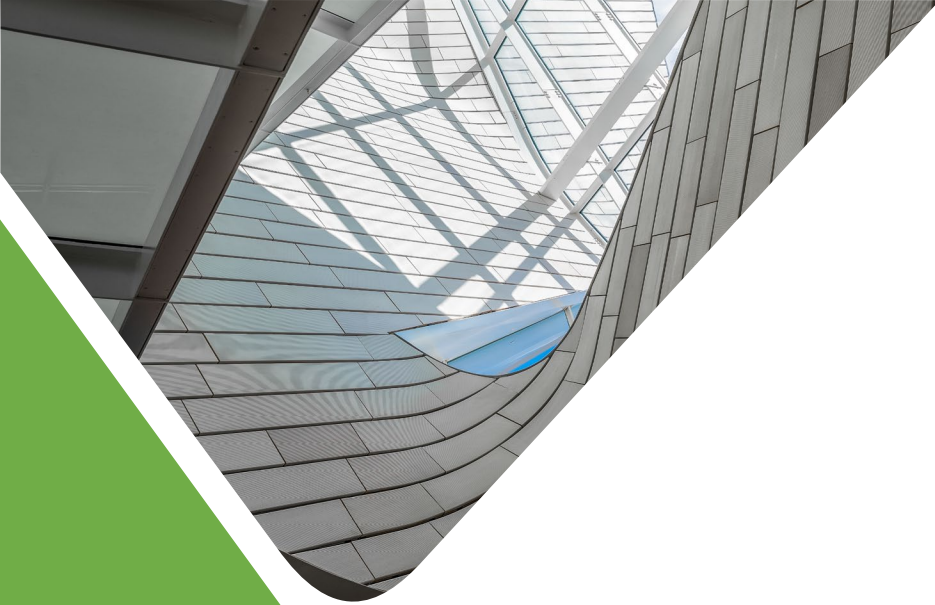
Type	Programs/Projects	Amount
FY 2024-2025 HOME Allocation		395,571
FY 2023-2024 HOME Reimbursement	Rehabilitation Loans	108,670
Prior Year HOME Funds		54,702
<b>TOTAL HOME FUNDING SOURCES</b>		<b>558,943</b>
Housing Rehabilitation		
	SFR Loan and Grant Program (up to \$25K)	310,051
HOME Tenant Based Rental Assistance		
		150,000
Housing / Community Housing Development Organization Projects		
	CHDO Project Required Set Aside	59,335
Administration (10% Maximum)		
		39,557
<b>TOTAL HOME ALLOCATION</b>		<b>558,943</b>

# AWARDED CAPITAL FEDERAL GRANTS

Project	Amount	Project Status
Adams Avenue ATP - Multipurpose Trails	\$4,223,000	Design Phase
Signal Modernization for Systemic Safety Improvements	3,906,090	Design Phase
Fairview Road ATP– Adams Avenue to Fair Drive	1,935,000	
Adams Avenue Bicycle Facility Project	1,760,000	Design and Environmental Phase
Safe Routes to School Action Plan	630,472	Contract Awarded
Adams Ave and Pinecreek Drive Intersection Project	620,336	Construction Phase (90%)
Pedestrian Safety Festival	400,000	
<b>TOTAL</b>	<b>\$13,474,898</b>	

# Summary

- While the national economy is showing some signs of a slowdown, the economic outlook for Costa Mesa is still solid.
- A 3% change in fiscal conditions is manageable and can be achieved with a temporary pause to Capital Projects and realigning costs to other eligible funding streams that have not yet started.
- At this time there are no anticipated cuts to General Fund services or programs.
- City has strong reserves that can provide a safety net between now and June 30, 2025 and beyond, if needed.
- With all this in mind, we are planning a Fiscal Year 2025-26 proposed budget with little-to-no growth in discretionary categories and inline with our normal conservative budget development projections.



# Next Steps



# NEXT STEPS

- Return to City Council with the FY 2024-2025 Mid-Year Budget Agenda Report with \$3.6 million in solutions on March 18, 2025.
- Staff will present the FY 2025-26 Proposed Operating and CIP Budgets for the Fiscal Year starting July 1, 2025, Study Sessions in April, May, and June 2025.
- Staff will continue to closely monitor revenues and expenditures and will apprise Council of major changes, if any.

# FY 2025-26 Budget Calendar

FY 2024-25 Mid-Year Budget Update Study Session	City Council	March 11, 2025
FY 2045-25 Mid-Year Budget Update Presentation	Finance and Pension Advisory Committee	March 12, 2025
FY 2025-26 Proposed CIP Budget Review	Finance and Pension Advisory Committee	April 9, 2025
FY 2025-26 Proposed CIP Budget Study Session	City Council	April 22, 2025
FY 2025-26 Proposed CIP Budget Review	Parks, Arts and Community Services Commission	May 8, 2025
FY 2025-26 Proposed CIP Budget Review	Planning Commission	May 12, 2025
FY 2025-26 Proposed Budget Study Session	City Council	May 13, 2025
FY 2025-26 Proposed Operating Budget	Finance and Pension Advisory Committee	May 14, 2025
FY 2025-26 Proposed Operating and CIP Budget Public Hearing	City Council	June 3, 2025
FY 2025-26 Proposed Operating & CIP Budget Special Meeting/ Study Session #2 (if necessary)	City Council	June 10, 2025
FY 2025-26 Proposed Budget Adoption (if necessary)	City Council	June 17, 2025



# QUESTIONS

