



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 26-309

Meeting Date: 6/2/2026

TITLE:

FISCAL YEAR 2026-27 PROPOSED OPERATING AND CAPITAL IMPROVEMENT PROGRAM AND HOUSING AUTHORITY BUDGET INCLUDING ANNUAL REPORTING FOR EQUIPMENT USE POLICY PER AB 481 AND VACANCY STATUS AND RECRUITMENT STRATEGIES PER AB 2561

DEPARTMENT: CITY MANAGER'S OFFICE, FINANCE DEPARTMENT

PRESENTED BY: CECILIA GALLARDO-DALY, CITY MANAGER,
MARK KHOU, BUDGET & PURCHASING MANAGER

CONTACT INFORMATION: MARK KHOU, BUDGET & PURCHASING MANAGER,
(714) 754-5241

RECOMMENDATION:

Staff recommends the City Council:

1. Approve Resolution 2026-XX, adopting the Proposed Fiscal Year 2026-2027 Operating and Capital Improvement Program (CIP) Budget; and
2. Approve Joint Resolution 2026-XX adopting the Housing Authority Budget including Economic and Community Development expenditures for Fiscal Year 2026-2027; and
3. Authorize and approve staffing as follows: decrease of 1.0 FTE for Park Ranger as presented at the May 12, 2026, Study Session; and
4. Approve Resolution 2026-XX establishing the Fiscal Year 2026-2027 Appropriations Limit for the City of Costa Mesa at \$346,047,694, by using Orange County's growth for population adjustment, and the California per capita income growth for inflationary adjustment; and
5. Approve the City of Costa Mesa's Revised Special Event Rates; and
6. City Council is requested to comply with AB 481 Police Equipment Report and Resolution as follows:
 - a. Receive and take public comment on the 2026 Annual AB 481 Report and file; and
 - b. Approve Resolution 2026-XX Renewing Ordinance No. 2022-03, the AB 481 Equipment Use Policy of the City of Costa Mesa, California, governing the use of police safety equipment; and
7. Approve renaming of the Economic and Development Services Department to the Community Development Department and approve Resolution 2026-XX, renaming the Economic and Development Services Director and updating benefits information for Executives (Attachment 16); and

8. Approve Resolution 2026-XX renaming the Assistant Development Services Director (Attachment 17); and
9. Receive and file the job vacancy status information required by AB 2561.

BACKGROUND:

The FY 2026-27 Proposed Budget reflects a strong commitment to the City Council, residents, and community partners in ensuring the delivery of high quality, core public services and fulfilling the City Council's highest goals and priorities. City staff have carefully considered the City Council's priorities and goals during the development of this Proposed Budget to ensure essential services and community needs remain fully supported.

While the City continues to benefit from modest revenue growth, particularly in Sales Tax, Property Tax, and Transient Occupancy Tax, broader macroeconomic forces associated with geopolitical tensions, supply chain disruptions, fluctuating energy markets, and rising operational costs create an environment of uncertainty. These external pressures have the potential to affect consumer behavior and critical municipal revenue sources. In response, the City has taken a measured and proactive approach: aligning revenue projections with realistic expenditure assumptions and identifying one-time deferral opportunities that maintain service delivery without impacting core programs.

Despite increasing costs for goods, services, and personnel, the Proposed FY 2026-27 Budget remains structurally balanced without the use of General Fund reserves, demonstrating the City's ongoing commitment to long term fiscal sustainability. This budget ensures that high-quality programs, public safety services, community amenities, and neighborhood investments continue uninterrupted for residents, businesses, and visitors.

The theme for the FY 2026-27 Proposed Budget is "Measured Decisions. Meaningful Impact." Staff will remain focused on the City's mission to serve its community, operate efficiently, and maintain resilience in the face of evolving economic conditions. The City's ability to sustain strong service levels reflects the collective commitment of the City Council, staff, residents, businesses, and our community partners working together to support Costa Mesa's continued success.

Guiding Principles

The guiding principles that shaped the FY 2026-27 Proposed Operating and Capital Improvement Budget were established 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."

The City Council Proposed Strategic Plan Goals as outlined below:

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

In addition to the six goals, the City Council proposed Core Values as part of their Strategic Plan:

- Integrity
- Sustainability
- Innovation
- Compassion
- Inclusion
- Collaboration

The recommendations in the FY 2026-27 Proposed Budget are rooted in the Strategic Plan Goals and Core Values established by the City Council to promote a safe, inclusive, and vibrant community. This budget underwent a thorough review and in-depth analysis by multiple levels of staff to ensure that funding requests support both short-and-long-term fiscal sustainability.

Every proposed adjustment has been carefully evaluated based on operational needs, the provision of essential core services, and the effective implementation of the City Council's stated goals and priorities. Together, these goals and priorities form the foundation of this year's recommendations, aligning resources with long-term stability and the City's responsibility to deliver meaningful, reliable services to the community.

ANALYSIS:

The theme for the FY 2026-27 Proposed Budget is "Measured Decisions. Meaningful Impact." Staff will remain 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 provides funding for the Homeless and Behavioral Health Program, Capital Asset Needs, Information Technology Replacement Fund, Self-Insurance Fund, and Equipment Replacement Fund, enabling Departments to achieve shared goals in addressing our most pressing needs and concerns.

Funding requests contained in the FY 2026-27 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 helps ensure both short- and long-term fiscal sustainability, while committing resources to achieve the Council's goals. As the cost of operating the City continues to rise, it was appropriate to anticipate that overall expenditure would begin to outpace revenues. Hence, the need to continue to explore new revenue opportunities.

To address and develop a balanced Budget for the Fiscal Year 2026-27, departments reviewed operational expenses and identified opportunities to reduce or defer expenditures without impacting core services. Following a comprehensive evaluation of departmental expenses, staff identified reductions and deferrals (one-time savings) that can be implemented without affecting the City's primary services. At the same time, staff continue to evaluate long-term revenue strategies to ensure the City can sustainably meet its future operational needs. This includes assessing potential revenue enhancements, monitoring economic trends, and identifying opportunities to strengthen the City's fiscal position. Together, these efforts support the City's commitment to maintaining service levels, advancing Council priorities, and ensuring long-term financial resilience.

At the FY 2026-27 Capital Improvement Budget Study Session on March 31, 2026, and May 12, 2026, and the FY 2026-27 Proposed All Funds Budget Study Session on May 12, 2026, City Council provided feedback to staff regarding several items to include or adjust in the Proposed Budget. These items and adjustments have been largely incorporated into the proposed budget.

The FY 2026-27 Proposed Operating and Capital Improvement Budget was also presented and discussed at the May 12, 2026, Finance and Pension Advisory Committee (FiPAC) meeting.

The agenda reports and videos for March 31, 2026, and May 12, 2026, City Council Study Sessions can be found here:

March 31, 2026 Agenda Report

- [CITY OF COSTA MESA - Meeting of REGULAR CITY COUNCIL AND HOUSING AUTHORITY* on 3/31/2026 at 5:00 PM <https://costamesa.legistar.com/MeetingDetail.aspx?ID=1400709&GUID=F1D65368-0BF4-40A4-B65C-821E5F17277D&Options=info|&Search=>](https://costamesa.legistar.com/MeetingDetail.aspx?ID=1400709&GUID=F1D65368-0BF4-40A4-B65C-821E5F17277D&Options=info|&Search=>)

May 12, 2026 Agenda Report

- [CITY OF COSTA MESA - Meeting of REGULAR CITY COUNCIL AND HOUSING AUTHORITY* on 5/12/2026 at 5:00 PM <https://costamesa.legistar.com/MeetingDetail.aspx?ID=1410427&GUID=A30C7A12-CD16-4B9A-B66C-8D5DCAF889A0&Options=info|&Search=>](https://costamesa.legistar.com/MeetingDetail.aspx?ID=1410427&GUID=A30C7A12-CD16-4B9A-B66C-8D5DCAF889A0&Options=info|&Search=>)

Overview of FY 2026-27 Proposed All Funds Budget

The Fiscal Year 2026-27 Proposed Budget is balanced and 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 \$245.9 million, an increase of \$20.9 million, or 9 percent, compared to the Fiscal Year 2025-26 Adopted Budget of \$224.9 million. Table 1 illustrates these amounts.

Table 1 - Proposed Budget - All Funds

Expenditure Category	Adopted FY 2025-26	Proposed FY 2026-27	Increase/(Decrease)		FY 2026-27 % of Total
			Amount	Percent	
Operating Budget	\$ 202,433,823	\$ 211,652,683	\$ 9,218,860	5%	86%
Transfers Out	3,547,836	10,625,324	7,077,488	199%	4%
Capital Budget	18,957,631	23,585,595	4,627,964	24%	10%
Total	\$ 224,939,290	\$ 245,863,602	\$ 20,924,312	9%	100%

The All-Funds Budget for the City includes both governmental and proprietary funds. Governmental funds include the General Fund, Special Revenue Funds, Internal Services Funds, and Capital Improvement Funds. Special Revenue Funds consist of grants and other restricted revenues designated for specific programs or services, typically provided through Federal, State, or County agencies. Some of these funds receive ongoing revenue streams, while others are awarded as one-time competitive grants that require careful monitoring, compliance, and recordkeeping. Proprietary Funds include the City’s internal service operations, such as equipment replacement, self-insurance costs, and information technology replacement. These funds ensure that critical internal services are

properly maintained and financially supported over time. Finally, Capital Improvement Funds support major capital projects that generally span multiple fiscal years.

In some instances, individual funds may carry accumulated fund balances that can be used as needs arise or to complete specific projects within required timeframes. As a result, the City's All Funds Budget is composed of numerous distinct funds, each with its own accounting and reporting requirements established by government regulations and, in some instances, by statute.

The City's General Fund, however, is unrestricted and can be used to provide a broad array of public services. It is supported by multiple revenue sources, including property, sales, hotel, and cannabis taxes, as well as user fees, fines, facility rentals, and development-related charges. For Fiscal Year 2026-27, the Proposed All Funds Budget totals \$245.9 million, an increase of 9 percent from the previous adopted year and consists of an increase in all expenditure categories: operating, transfers out and capital budget.

Operating Budget

Within the FY 2026-27 All Funds budget the total proposed operating budget is \$211.7 million, an increase of \$9.2 million, or 5 percent, compared to the FY 2025-26 Adopted Budget of \$202.4 million. This includes realigning budgets to reflect more recent year-over-year actuals in some areas. The FY 2026-27 All Funds Proposed Operating Budget is balanced and comprised of several items, including:

General Fund

- \$250,000 increase in the City Manager Department's City Clerk Division for bi-annual elections.
- Realignment of \$800,000 to citywide utilities for electricity, gas, and water.
- A salary and benefit budget decrease of \$158,442 in the Police Department for a full-time Park Ranger, and an overtime increase of \$122,000 for the City's jail operations.
- \$62,000 increase in the Police department Operating Budget to support the City's Animal Care services and security services for City Council meetings.
- Realignment resulting in an increase of \$79,321 for Part-Time positions in the Parks and Community Services Department.
- Adjustment resulting in an increase of \$70,968 due to CPI for the Parks and Community Services Department to support the lease agreement with Newport Mesa Unified for the Balearic Community Center and other operational needs.
- Reallocation of the Emergency Service Coordinator position to a sworn Battalion Chief with a net \$176,603 increase to the Fire Department Proposed Budget.
- A \$33,711 increase due to CPI for the City Attorney's annual contractual agreement.
- \$2.0 million increase to the annual CalPERS Unfunded Actuarial Liability (UAL) payment.
- Incorporates a citywide attrition factor set at 2% of the operating budget.

Other Funds

- Fully allocated \$190,930 in the Cultural Arts Master Plan (Fund 130) for the Arts Specialist position.
- Realignment of \$800,000 from Opioid Settlement Fund (Fund 227) to Costa Mesa Housing Authority Fund (Fund 222) to support the homeless population that are impacted by substance

use disorder (SUD).

- The Gas Tax (Fund 201) has a \$350,000 budget increase to support tree trimming and maintenance along medians and public-rights-of-way.
- \$220,000 increase in Measure M2 Fairshare (Fund 416) to utilize annual allocations towards City's traffic signal maintenance.
- \$508,693 increase in the Self Insurance Fund (602) for insurance premiums.
- \$66,000 one-time increase in Drainage Fund (Fund 209) to support legal advertising/filing fees.

Additionally, departments identified numerous operational cost reductions, mostly one-time deferrals totaling approximately \$1.7 million.

Transfers Out

Transfers Out from All funds total \$9.8 million, an increase of \$6.3 million. Ordinance No. 2020-06, Section 1: 2-209 requires the City to contribute 5% of annual General Fund revenues to the Capital Improvement Fund (Fund 401) and 1.5% to the Information Technology Replacement Fund (Fund 603). In the Proposed FY 2026-27 Budget, Transfers Out from the General Fund total \$9.8 million, with \$6.7 million allocated to Fund 401 and \$3.1 million allocated to Fund 603. This amount includes the scheduled annual repayment of previously deferred contributions to the Capital Asset Needs (CAN) program and the Information Technology Needs, totaling \$0.7 million.

Information Technology Replacement Fund

This fund accounts for the accumulation of resources necessary to fund Information Technology Projects, including hardware and software replacements. As per the City's Ordinance No. 2020-06, Section 2: Article 9, 2-209.4, 1.5% of General Fund revenues are allocated to the Information Technology Needs Fund 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 2026-27 Proposed Budget, \$3.1 million will be funded from the General Fund for the Citywide Computer Replacement Program, depreciation and staffing salaries and benefits related to the ITSP.

Self-Insurance Internal Service Fund

This fund accounts for general liability premiums. The City's FY 2026-27 Proposed Budget includes an increase of \$0.5 million due to increasing insurance premiums.

Capital Budget

The proposed all-funds Capital Improvement Program (CIP) budget totals \$23.6 million, an increase of \$4.6 million, or 24 percent, from the Adopted FY 2025-26 Budget. Of the City's \$23.6 million Proposed All-Funds Capital Improvement Budget, \$15.9 million will be funded through various City funds and grants. A comprehensive detail of the Proposed CIP Budget was presented to the City Council at the March 31, 2026, Study Session, and further detail is within the CIP section of the FY 2026-27 Proposed Budget Book. In addition to the \$23.6 million, the Capital Improvement Program includes \$12 million for the Fire Station #2 Reconstruction project that will be funded through future bond financing.

A few key capital projects in the Proposed CIP budget include:

- Costa Mesa Skate Park Expansion
- Harper Park Playground Replacement
- Moon Park Playground Replacement
- Newport Boulevard Improvement (RMRA funds)
- Police Department Real Time Crime Center
- Police Department Chillers Replacement
- 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
- Fire Station #2 Reconstruction

FY 2025-26 Proposed General Fund Budget Overview

The Proposed FY 2026-27 General Fund budget is balanced and totals \$200.0 million, a modest 3% increase to the revised FY 2025-26 year-end projections. Nonetheless, the proposed budget reflects an increase of \$13.1 million, or 7 percent, from the FY 2025-26 Adopted Budget of \$186.9 million.

Table 2 is a summary of the Proposed FY 2026-27 General Fund Operating Budget.

Expenditure Category	Adopted FY 2025-26	Projected FY 2025-26	Proposed FY 2026-27	Adopted to Proposed Increase/Decrease		FY 2026-27 % of Total
				Amount	Percent	
Salaries and Benefits	\$ 137,367,317	\$ 145,761,179	\$ 146,171,618	\$ 8,804,301	6%	73%
Maintenance and Operations	43,726,192	41,103,253	41,165,570	(2,560,622)	-6%	21%
Fixed Assets	2,964,263	2,962,010	2,804,063	(160,200)	-5%	1%
Transfers Out	2,797,836	3,979,836	9,825,324	7,027,488	251%	5%
Total	\$ 186,855,608	\$ 193,806,278	\$ 199,966,575	\$ 13,110,967	7%	100%

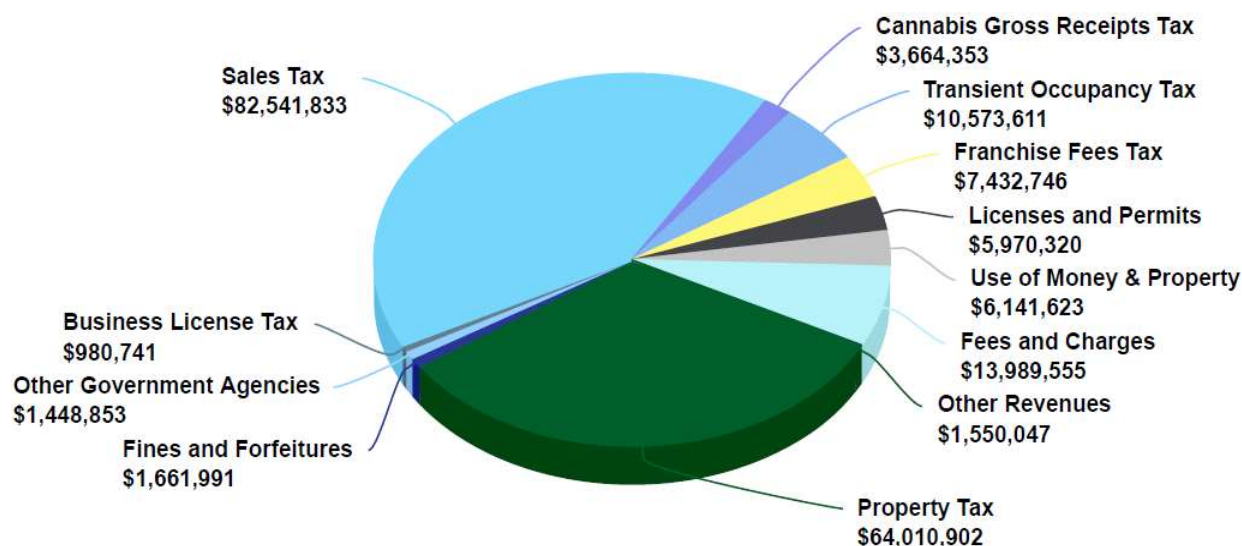
General Fund Revenue Highlights

The FY 2026-27 Proposed Budget for General Fund Revenues totals \$200.0 million, an increase of \$13.1 million, or 7 percent, from the FY 2025-26 Adopted Budget; however, when compared to the projected FY 2025-26 year-end of \$193.9 million, the increase is a modest 3% growth. General Fund Revenues are typically used to cover public safety, roads, parks and community services, development services, and other activities and programs for residents. There were many uncertainties leading into the budget development process, including global conflict, changing tariff policies, and persistent inflation. These factors remain a concern to the outlook; however, the City expects modest revenue growth in certain categories. The fiscal year budget commencing July 1, 2026, will be balanced with projected revenues to offset expenses and without the use of reserves.

Table 3 - General Fund Revenue Estimates

Revenue Source	Adopted FY 2025-26	Projected FY 2025-26	Proposed FY 2026-27	Adopted to Proposed Increase/Decrease		FY 2026-27 % of Total
				Amount	Percent	
Taxes	\$ 159,300,278	\$ 164,734,215	\$ 169,204,186	\$ 9,903,908	6%	85%
Licenses and Permits	5,700,227	5,543,883	5,970,320	270,093	5%	3%
Fines and Forfeitures	1,302,091	1,524,245	1,661,991	359,900	28%	1%
Use of Money and Property	5,108,250	5,617,060	6,141,623	1,033,373	20%	3%
Other Governmental Agencies	959,207	1,530,583	1,448,853	489,646	51%	1%
Fees and Charges for Service	13,181,206	13,538,631	13,989,555	808,349	6%	7%
Other Revenue	1,304,347	1,448,489	1,550,047	245,700	19%	1%
Total	\$ 186,855,606	\$ 193,937,106	\$ 199,966,575	\$ 13,110,969	7%	100%

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 \$82.5 million for FY 2026-27. This is an increase of \$7.5 million, or a 10 percent increase from the FY 2025- 26 Adopted Budget, but only a modest 2% increase compared to the updated FY2025-26 year-end revenues estimate of \$80.9 million. The City continues to see growth in this category, despite the economic conditions that would typically dampen consumer spending.

Property Tax: All combined Property Tax revenues are estimated at \$64.0 million, reflecting a 2 percent growth over the prior fiscal year budget.

Transient Occupancy Tax (TOT): Transient Occupancy tax revenues are estimated at \$10.6 million next year, reflecting a 7 percent increase to FY 2026-27 Adopted Budget but only a modest 5% increase compared to updated FY2025-26 year-end estimate of \$10.0 million. The previously adopted revenue budget accounted for a potential slowdown in the travel and leisure segment of consumer spending.

Fees and Charges: Fees and Charges are estimated at \$13.9 million, an increase of \$808,349, reflecting a 6 percent growth in FY 2026-27. In FY 2025-26, the City implemented credit card processing fee of 2.7 percent, which was previously paid by the City.

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 2026-27 Proposed Budget includes an estimated \$3.7 million in cannabis taxes, an increase of \$49,086, or 1 percent from FY 2025-26. 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 the First Time Homebuyers Fund (140).

Business License Tax: The City’s Business License Tax was implemented over 40 years ago and the fees have not adjusted since its inception. The Business License Tax revenues are estimated at \$980,741 for FY 2026-27, a 4 percent increase from FY 2025-26.

FY 2026-27 General Fund Budget Expenditure Highlights

The Proposed General Fund Budget for FY 2026-27 reflects total expenditure of \$200 million. Of this amount, \$146.1 million is for salaries and benefits, which represents a modest increase of 0.14% relative to the FY 2025-26 year-end expenditure projected estimate. On a budget to budget basis, it is an increase of \$8.8 million, or 6 percent, from the FY 2025-26 adopted operating budget of \$137.4 million. The General Fund maintenance and operations and fixed assets budget will decrease to \$44.0 million from \$46.7 million. The decrease is largely due to the operating reduction requests from all departments to align expenditures with projected revenues. The remaining \$9.8 million represents the Transfers Out to the Information Technology Replacement Fund and Capital Asset Needs Fund as described earlier. The FY 2026-27 Proposed Budget for expenditures includes the following significant items:

- A \$3.1 million allocation to ensure compliance with the Information Technology Needs municipal code requirement of 1.5% of the General Fund revenue.
- A \$6.7 million allocation to ensure compliance with the Capital Asset Needs municipal code requirement of 5% of the General Fund revenue.
- A \$2.0 million increase in the annual required CalPERS UAL contribution.
- Adoption of a 2% attrition factor.
- No use of General Fund Reserves to balance the General Fund budget.

Graph 2 - General Fund Total Appropriations by Department

**Total Appropriations - General Fund - \$200.0 (includes Capital Improvement)
(in millions)**

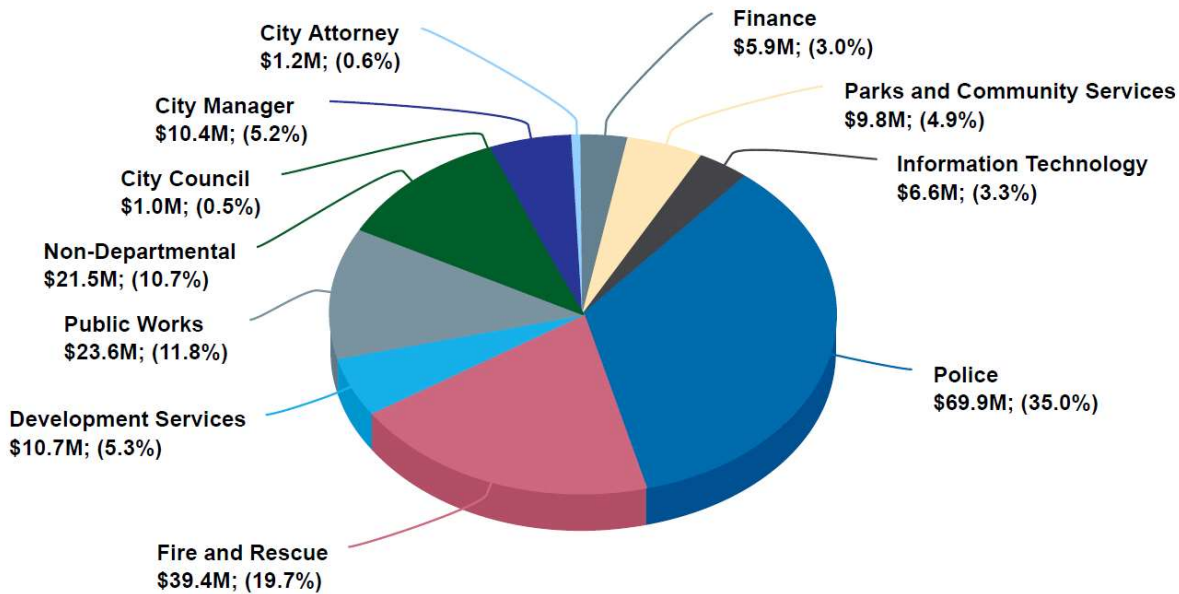


Table 4 - General Fund Budget by Department

Department	FY 2021-22 Actuals	FY2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Adopted	FY 2025-26 Adopted	FY 2026-27 Adopted
City Council	\$ 867,909	\$ 834,337	\$ 750,577	\$ 874,089	\$ 954,143	\$ 968,834
City Manager*	6,505,480	7,573,363	8,902,755	9,594,377	9,613,230	10,430,048
City Attorney	958,775	988,108	977,061	1,086,750	1,123,700	1,157,411
Finance	3,811,155	4,271,188	4,416,583	6,073,764	6,296,502	5,933,378
Parks and Community Services	6,379,328	7,371,372	9,753,352	9,037,068	9,101,830	9,779,550
Information Technology	4,104,946	5,133,365	5,567,967	6,402,558	6,570,716	6,625,320
Police	53,504,411	55,874,470	62,005,909	61,919,751	62,820,471	69,922,839
Fire and Rescue	32,298,517	33,480,396	35,159,635	37,772,922	38,903,466	39,421,729
Economic & Development Services	7,522,770	8,229,755	9,082,786	9,911,803	9,695,734	10,651,781
Public Works	19,517,456	20,413,479	23,101,963	23,659,001	22,553,602	23,583,065
Non-Departmental	27,397,679	32,457,225	23,423,354	23,562,076	19,222,213	21,492,620
Total	\$ 162,868,426	\$ 176,627,058	\$ 183,141,942	\$ 189,894,159	\$ 186,855,607	\$ 199,966,575

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

Commitment to the Arts and Culture

At the May 5, 2026, City Council meeting, the Arts Commission provided an update on the implementation of the five-year Cultural Arts Master Plan, accomplishments to date, and next steps for developing the next five-year plan. As part of this discussion, the City Council directed staff to continue allocating funding for the City's arts and culture programs. The City will award a consulting contract for preparation of the next Cultural Arts Master Plan. Staff initially proposed to return to

Council with funding solutions for both the Arts Specialist position and future programming needs. Based on feedback provided by City Council and FiPAC, staff was able to identify funding for the Arts Specialist position, ensuring continued support for arts programming and implementation of the next phase of the Master Plan.

Staffing Levels

As part of the City’s effort to ensure expenditures remain aligned with projected revenues, staffing levels were reviewed across all departments, and 14 vacant positions were identified and proposed to be frozen for the fiscal year. The FY 2026 27 Proposed Budget includes 599 full time employees. On January 20, 2026, the City Council approved staff’s recommendation to convert two part time Concierge positions into one full time Office Specialist II position to better support front line service needs.

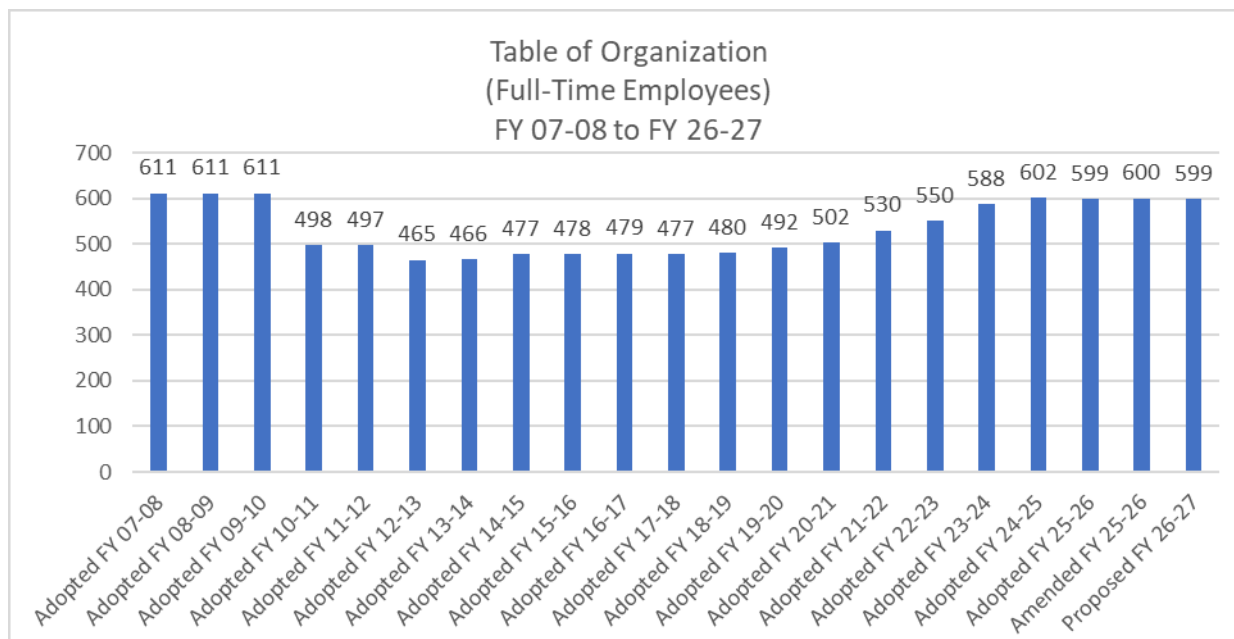
Within the Development Services Department, the Proposed Budget reflects a reallocation of the Chief of Code Enforcement position to a Senior Permit Technician to strengthen building counter operations. In addition, the Department plans to underfill an Assistant Planner position with a Planning Technician to provide needed support at the customer service counter. The Proposed Budget also includes full funding for the Parks and Community Services Department’s Senior Center Community Outreach Worker, ensuring continued support for senior services and community engagement.

Within the City’s public safety departments, the Proposed Budget includes several key staffing adjustments. In the Police Department, the Budget reflects the reduction of one Park Ranger position, along with the reallocation of a Public Safety Dispatcher position to a Public Safety Dispatch Supervisor to enhance training and operational support. In the Fire and Rescue Department, the City is requesting the reallocation of a vacant Emergency Services Coordinator position to a sworn Battalion Chief to better address operational needs.

Table 5 - Change in Staffing Levels

Department	Job Title	FTE
General Fund		
Police	Park Ranger	(1.00)
Police	Public Safety Dispatcher	(1.00)
Police	Public Safety Dispatcher 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)

Table 6 - Budgeted Citywide Staffing Levels



The Proposed Budget will also include a reallocation for the full funding for the Parks and Community Services Department Senior Center Community Outreach Worker to the General Fund. A portion of the costs for this position was funded by CDBG (Fund 207) in prior years.

Executive Resolution Update to Comply with CalPERS

Pursuant to Government Code section 20636 “compensation earnable” for CalPERS “Classic Members” is defined as the pay rate and special compensation of the member and also requires all items of special compensation be contained in a written labor policy or agreement that has been adopted by the employer’s governing body and include the conditions for payment for the special compensation item, and cannot reference another document in lieu of disclosing the item of special compensation. Examples of “special compensation” include, but are not limited to, special assignment pay, holiday pay, bilingual pay, recruitment and retention incentive pay, and certification and education pay. On January 20, 2026, the City Council approved compensation updates for the Police Chief and Fire Chief which includes Longevity (Recruitment and Retention Incentive) Pay. CalPERS has requested that the City update its Executive Employees resolution to clarify that the Longevity Pay applies to both the Police Chief and Fire Chief and that the City add effective dates into the resolution for certain items of special compensation including items that were previously in existence.

Proposed Department Name Update

The Economic and Development Services Department is requesting a department name change to “Community Development” Department to reflect its broader service base and purpose. This department performs a wide breadth of functions, manages all privately-owned property in the City through the complete life cycle of the built environment. This includes reviewing 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 finally, permitting demolition.

The name change to “Community Development” would reflect the broader service base and purpose that the department provides to the City of Costa Mesa. This change would also include a title change for the Economic and Development Services Director to “Community Development Director” and a title change for Assistant Development Services Director to “Assistant Community Development Director.”

Commitment to Public Safety

The FY 2026-27 Proposed Budget allocates \$109.3 million as the City’s commitment to public safety, comprising both the Police and Fire Departments. Public safety budgets account for approximately 55 percent of the General Fund Proposed Budget, with 35 percent allocated to the Police Department and approximately 20 percent to the Fire and Rescue Department. Of the 599 citywide full-time personnel, approximately 38 percent are sworn positions.

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 Animal Services and Enforcement Program.

The Fire and Rescue Department consists of 86 full-time sworn personnel. The Department is requesting to reallocate a vacant Emergency Services Coordinator position to a Battalion Chief to address operational needs.

These are some of the proposed actions that demonstrate the City’s ongoing commitment to the public’s safety. The strong support of the City Council, along with the engagement of residents and community partners, continues to promote healthy, sustainable neighborhoods and balanced economic activity. Together, these efforts help maintain the high quality of services the City provides.

General Fund Reserves

The City continues to demonstrate strong fiscal prudence and controls on spending. The combined commitment for emergency reserves, including the declared disaster and economic reserves, is indicative of financial discipline. The General Fund reserves currently at \$60.9 million exceed the City Council policy of \$55 million.

Table 7 - General Fund Reserves Balance (in millions)

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

FY 2026-27 Housing Authority

On January 17, 2012, under the California Housing Authorities Law, Health, and Safety Code section 34200, *et seq.* (“HAL”), the City Council established the Costa Mesa Housing Authority (“Housing Authority”). Also, on that date by resolution, the City Council selected the Housing Authority to serve as the “housing successor” and to assume the housing assets, duties, functions, and obligations of the former Costa Mesa Redevelopment Agency (“Former Agency”) as of February 1, 2012.

Section 34176.1 establishes certain limitations on expenditures by housing successors; thus, each fiscal year, the Housing Authority’s funding is limited in two categories: (1) administrative costs, including covenant monitoring, and (2) homelessness prevention and rapid rehousing.

Homeless Outreach

The Homeless Outreach program combines the City’s Network for Homeless Solutions with the Housing Authority’s Homeless Prevention and Rapid Rehousing Program. Both programs serve the same function and offer a broad range of services to homeless individuals, such as assisting with housing options; creating a social service registry; establishing a network of nonprofit and faith-based organizations; providing outreach services; and reconnecting new individuals experiencing homelessness to their families and services in their city/state of origin.

Costa Mesa Bridge Shelter

The Housing Authority accounts for all shelter operating activities, including shelter operator contract, utilities, external rents, maintenance, and other operational costs. In March 2021, the Costa Mesa Bridge Shelter on Airway Avenue was completed. The permanent shelter serves as a temporary home for as many as 100 men and women in need. It is intended to help unsheltered individuals and

residents who are affected by homelessness.

Additionally, in 2024, the City received a three-year award for the Behavioral Health Bridge Housing (BHBH) in the amount of \$3.6 million from the Orange County Health Care Agency (OCHCA) to provide emergency shelter and behavioral health services at the Costa Mesa Bridge Shelter. The program implements a wide range of behavioral health care services, including housing navigation, workforce development, case management, and housing retention.

The Housing Authority’s FY 2026-27 budget consists of funding from a variety of resources with distinct purposes. This includes rental income, loan repayments, grants, subsidies, and contributions/donations.

Table 8 - FY 2026-27 Proposed Housing Authority Budget

	FY 2025-26 Adopted	FY 2026-27 Proposed	Increase/(Decrease) Amount/Percentage	
Total Resources	\$6,020,822	\$5,681,355	(\$339,467)	-6%
Total Appropriations	\$6,020,822	\$5,681,355	(\$339,467)	-6%

FY 2026-27 Appropriations Limit

Article XIII B of the Constitution of the State of California requires that the City establish annually an Appropriations Limit. This appropriations limit determines the maximum amount of specific tax revenues which an agency is allowed to spend. Pursuant to Article XIII B and its implementing legislation, the total annual appropriations limit must be calculated by adjusting the prior year’s appropriations limit for changes in the cost of living and population growth.

For the FY 2026-27 calculation, the City uses the population growth of the County of Orange of 0.37% since it yields a higher population growth factor, and the growth in California per capita income as its inflation factor as provided by the State Department of Finance (DOF).

As a result, the City’s budget is \$169.2 million less, or 51.1% below the proposed Fiscal Year 2026-27 appropriations limit. Therefore, the City is well within its appropriations limit established pursuant to section 7910 of the California Government Code and will not exceed this limit during Fiscal Year 2026-27. Below is the calculation utilized for the appropriations limit.

**CITY OF COSTA MESA
CALCULATION OF APPROPRIATIONS LIMIT
FOR FY 2026-2027**

The City's Appropriations Limit for FY 26-27 is calculated as follows:

Step 1	Appropriations Limit for FY 25-26	\$ 330,924,446
Step 2	Multiply the FY 25-26 Appropriations Limit by the cumulative growth factors for changes in the California per capita personal income and the population change for the City of Costa Mesa.	1.045700
	Appropriations Limit for FY 26-27	\$ 346,047,694

***CALCULATION OF CUMULATIVE GROWTH FACTORS:**

Personal Income Factor	1.0495
Orange County Population Change	0.9963
Costa Mesa Population Change	0.9920
*(1.0495 x 0.9963) =	1.0456
Per capita Cost of Living converted to ratio (4.95+100/100)	1.0495
Orange County Population converted to ratio (-0.37+100/100)	0.9963
Costa Mesa Population converted to ratio (-0.8+100/100)	0.9920

* The City has the option to utilize the larger of the annual percentage change of the City or the County.

FY 2026-27 Special Event Rates

Regarded as one of the most livable cities in the County, Costa Mesa offers community celebrations, festivals, and parades that provide opportunities for social activity, cultural experience, creative expression, and engagement in public life. Being named the City of the Arts, special events benefit the community through exposure to artistic and creative innovation, while providing entertaining ways to relax and enjoy life.

Each year, the City hosts, sponsors and/or coordinates with other agencies and local organizations to hold programs and activities that our local citizenry enjoy and love. These activities include the OC Fair and the OC Marathon, to name a couple.

A majority of events require public safety, public works, community development, and/or parks and community services staff. As such, the City costs out an hourly rate for the City personnel requested/needed to staff these events. The City takes into consideration a position's hourly rate and corresponding benefits attributed to the position/classification.

2026 Annual AB 481 Police Safety Equipment Report

Per AB 481, law enforcement agencies are required to submit an annual report to the governing body on the use of the equipment, any complaints regarding the use of the equipment, results of any

internal audits on the use of the equipment, annual costs of the equipment, quantity possessed by the agency, and any intent to purchase new equipment in the following year.

Items deemed to be AB 481 equipment are used as a component of best practices for law enforcement agencies throughout the country. These tools have been tested in the field and used by law enforcement agencies to enhance both citizen safety and officer safety. Loss of these items would jeopardize the welfare of citizens and peace officers within the Costa Mesa Police Department (CMPD).

The term “military equipment,” as used in AB 481, does not necessarily indicate equipment that has been used by, or obtained from, the military. Pursuant to AB 481, items deemed to be “military equipment” include, but are not limited to, unmanned aerial or ground vehicles, armored rescue vehicles, command and control vehicles, tactical robots, specialized firearms and ammunition, less lethal 40mm projectile launchers, long range acoustic devices, flashbangs, “tear gas,” and pepper balls.

CMPD is committed to using the most up-to-date tools and equipment to safeguard the citizens of Costa Mesa. Many of the items deemed to be AB 481 equipment are utilized by CMPD, and law enforcement agencies across the country, in order to specifically reduce risk to community members. These items provide peace officers with the ability to safely resolve volatile situations, which otherwise might rise to the level of a lethal force encounter. Items listed in this report, and accompanying AB 481 Equipment Use Policy, also provide CMPD’s peace officers with vital tools that facilitate compliance with its comprehensive use of force policy.

Other items deemed to be AB 481 equipment include specialized rifles. Specialized rifles allow peace officers in rare and unpredictable circumstances to address lethal threats from a greater distance and with greater precision.

There is significant interest in ensuring law enforcement continues to have access to equipment that will provide peace officers as many options as possible to safeguard lives, ensure safety, de-escalate volatile circumstances, and protect civil liberties. The use of the tools identified below are vital to CMPD’s mission and will continue to be strictly regulated through internal processes and oversight.

Staff seeks to authorize the CMPD’s continued use of the specified equipment based upon the attached Annual AB 481 Report. The report addressed each item responsive to the requirements of AB 481 and includes a list of equipment prescribed under AB 481, including information regarding the description, cost, quantity, capabilities, purpose, authorized use, lifespan, fiscal impact, training, and legal and procedural rules for each item. A majority of these particular items were in place prior to the implementation of AB 481.

2026 Annual AB 2561 Vacancy Status Report

Effective January 1, 2025, Assembly Bill 2561 modified the Meyers-Milias-Brown Act (“MMBA”) to update Government Code section 3502.3. This modification introduced new requirements for public agencies to annually report vacant positions, recruitment, and retention efforts. The annual report requires presentation of the status of vacancies and recruitment and retention efforts during a public hearing before the governing board at least once per fiscal year. The presentation of vacancies must be done prior to the adoption of the agency’s final budget. The public agency must also identify any

necessary changes to policies, procedures and recruitment activities that may lead to obstacles in the hiring process and allow bargaining units to also make a presentation. If vacancies within a single represented bargaining unit meet or exceed 20% of authorized full-time positions in that bargaining unit, the City must provide additional information regarding vacancies and recruitments if requested by that bargaining unit.

In Fiscal Year 2025-26, the City of Costa Mesa is authorized for 593 full-time employees (excludes Council Members). In FY2025-26, eight positions were temporarily frozen, resulting in 585 positions available to fill. The City’s overall vacancy rate as of May 2, 2026, is currently 7.86%. The vacancy rate for each bargaining group is summarized below:

Employee Group	FT Employees Budgeted	Vacancies	Vacancy Rate
Costa Mesa City Employees Association (CMCEA)	288	31	10.76%
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	4.76%
Confidential Unit (Non Respresented)	33	2	6.06%
Confidential Management Unit (Non Represented)	7	1	14.29%
Executive Employees (Non Represented)	13	3	23.08%
Total*	585	46	7.86%

**Does not include 7 Council Members and FY 2025-26 frozen positions*

Vacancies within the City arise from a range of factors, including retirements, internal promotions, resignations, and terminations. From May 3, 2025 to May 2, 2026, the City filled 38 full-time positions. During this same time frame, 48 full-time employees separated from the City.

Employee retention remains a central focus and priority for the City. The City Council included the recruitment and retention of high-quality employees as one of the City Council’s Strategic Plan Goals. However, maintaining a competitive compensation package continues to be a challenge as other agencies continue to update their compensation and benefits.

In the past year, the City has continued its efforts to recruit and retain high quality employees, including:

- Began negotiating successor agreements with the Costa Mesa Police Association (CMPA), Costa Mesa Police Management Association (CMPMA) and the Costa Mesa City Employees Association (CMCEA)
- Updated compensation to align with the market for select CMCEA classifications and expanded select classification series to provide for professional growth within the series

- Continued to offer hiring incentives and employee referral incentives for Police Officers and Dispatchers
- Utilized the internship program to create a pipeline for identifying and nurturing local talent and partnering with Coastline Regional Occupation Program (ROP) to place interns in order to enhance interest in working for local government
- Continued efforts to enhance City's branding as an employer of choice through social media and enhancing employees' onboarding experience

The City continues to monitor vacancies and assess strategies to assist in recruiting and retaining high quality employees.

FY 2026-27 Proposed Budget Study Session

At the May 12, 2026, City Council Study Session, the City Council provided feedback in review of the FY 2026-27 Proposed Budget. This included the request to fund 1 FTE position dedicated to the Arts program, information on staffing levels, additional information regarding Transient Occupancy Tax revenue projections, and information about Capital Improvement projects, specifically Transportation and Streets. Lastly, it was requested by City Council for Staff to return with a mid-year update for FY 2026-27

Finance and Pension Advisory Committee (FiPAC)

On May 7, 2026, Finance staff presented the FY 2026-27 Proposed Budget to FiPAC. The Committee commented on the proposed citywide attrition factor and inquired about frozen positions and how they are accounted for in the attrition factor. The Committee commented on whether additional funding was needed for the increasing cost of utilities as the actual year-over-year expenditure has exceeded what has been budgeted in previous years. Further, the Committee inquired whether Police overtime has been budgeted to reflect actual historical costs.

The Finance Department returned to FiPAC on May 13, 2026, for further discussion and recommendations to City Council. The committee deliberated and made the recommendation to support staff's recommendations for the FY 2026-27 Proposed Operating and Capital Improvements budget with two requests. These requests were first, to move all legal expenses in various General Fund departments to the City Attorney's department; and second, for staff to provide semi-annual capital project status updates. Additionally, FiPAC noted several areas of concern such as overtime, reserves, and the reduction in maintenance and operation budgets. These areas will be tracked and updates will be provided to FiPAC in the upcoming year.

Based on feedback provided by FiPAC and the City Council, staff reallocated \$0.8 million in operational expenditures to address rising utility costs. The FY 2026-27 Operating and Capital Proposed Budget reflects these adjustments to right-size the utility budget to align with actual expenditures.

Mid-Year Review

The Budget Division will return to the City Council at mid-year in FY 2026-27 to present an updated budget-to-actuals report. This review will provide an opportunity to assess the City's financial performance, evaluate revenue and expenditure trends, and recommend any adjustments needed to ensure continued alignment with Council priorities and fiscal sustainability throughout the remainder

of the fiscal year.

ALTERNATIVES:

The City Council can provide alternative direction to staff on the FY 2026-27 Proposed Operating Budget through June 30, 2026.

FISCAL REVIEW:

The Proposed FY 2026-27 Operating and Capital Improvement Budget provides the funding and expenditure plan for all funds. As such, it serves as the City's financial plan for the upcoming fiscal year. The City Council will be kept apprised regarding actual operating results for the General Fund through a quarterly financial report and the Mid-Year Budget Review. The Mid-Year Budget Review will include an update of the fiscal year's projected revenues and expenditures, and any recommended adjustments, if necessary.

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

CONCLUSION:

The Proposed FY 2026-27 Operating and Capital Improvement Program Budget represents the strong commitment of our City Council to its residents and community partners, and promotes healthy, sustainable neighborhoods and balanced economic activity, which facilitates and aids staff in continuing the provision of quality of services.

Staff recommends the City Council:

1. Approve Resolution 2026-XX, adopting the Proposed Fiscal Year 2026-27 Operating and Capital Improvement Program (CIP) Budget; and
2. Approve Joint Resolution 2026-XX adopting the Housing Authority Budget including Economic and Community Development expenditures for Fiscal Year 2026-27; and
3. Authorize and approve staffing for the following as follow: decrease of 1.0 FTE for Park Ranger as presented at the May 12, 2026, Study Session; and

4. Approve Resolution 2026-XX establishing the Fiscal Year 2026-2027 Appropriations Limit for the City of Costa Mesa at \$346,047,694, by using Orange County's growth for population adjustment, and the California per capita income growth for inflationary adjustment; and
5. Approve the City of Costa Mesa's Revised Special Event Rates; and
6. City Council is requested to comply with AB 481 Police Equipment Report and Resolution as follows:
 - a. Receive and file the 2026 Annual AB 481 Report and take public comment; and
 - b. Approve Resolution 2026-XX Renewing Ordinance No. 2022-03, the AB 481 Equipment Use Policy of the City of Costa Mesa, California, governing the use of police safety equipment.
7. Approve Resolution 2026-XX renaming the Economic and Development Services Director and updating benefits information for Executives (Attachment 16); and
8. Approve Resolution 2026-XX renaming the Assistant Development Services Director (Attachment 17); and
9. Receive and file the job vacancy status information required by AB 2561.