



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 26-206

Meeting Date: 3/31/2026

TITLE:

FISCAL YEAR 2026-27 PROPOSED CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET AND FIVE-YEAR (2026-27 TO 2030-31) CIP STUDY SESSION

DEPARTMENT: PUBLIC WORKS DEPARTMENT/FINANCE DEPARTMENT

PRESENTED BY: RAJA SETHURAMAN, PUBLIC WORKS DIRECTOR

CONTACT INFORMATION: RAJA SETHURAMAN, PUBLIC WORKS DIRECTOR (714) 754-5343

RECOMMENDATION:

Staff requests the City Council provide general direction during the Study Session on the FY 2026-27 Proposed Capital Improvement Program (CIP) Budget and the Five-Year (FY 2026-27 to FY 2030-31) CIP. A final vote on the FY 2026-27 Proposed CIP Budget is required by June 30, 2026.

BACKGROUND:

The Public Works Department has delivered and made progress on numerous Capital Improvement Program (CIP) projects over the past year. Several major projects were completed and continue to receive awards and recognitions by agencies such as the American Society of Civil Engineers (ASCE) and the Institute of Transportation Engineers (ITE), recognizing the Department's best practices. More importantly, our City projects are well-received by the community and our City partners.

The Public Works Department is organized into five (5) divisions as follows:

- *Administration*
- *General Services*
- *Engineering*
- *Transportation Services*
- *Maintenance Services*

CIP projects are carried out by all the department divisions depending on the nature of the improvement. While CIP implementation is the most visible function of the Public Works Department, it accounts for only about one-third of the department's overall workload. The Maintenance Services Division, in addition to managing park development projects in the CIP, is responsible for maintaining the City's street infrastructure and parks. The General Services Division oversees the maintenance of the City's facilities and vehicle fleet, as well as building modification and facility-related CIP projects. A significant share of the Engineering Division's workload is devoted to development reviews and inspection of private and public projects and water quality/National Pollution Discharge Elimination System (NPDES) compliance. Additionally, the CIP projects related to streets, parks and storm drains

are managed by the Engineering Division. The Transportation Services Division maintains the City's traffic signal system and related infrastructure, provides development reviews for building and planning, reviews and approves traffic control plans for private and public developments, supports the Active Transportation and Traffic Impact Fee Committees, addresses various neighborhood traffic issues, administers the City's residential permit parking program, and implements transportation CIP projects.

Funding of CIP Projects:

CIP Projects are funded by various funding mechanisms, with some having restrictions on use. The typical funding sources and typical projects include:

- Capital Improvement Fund (General Fund) - Least restricted fund and can be used on all capital assets
- Gas Tax (HUTA), Gas Tax (RMRA) - Streets and Alleys in public right-of-way
- Community Development Block Grants - Federal grant for specified projects
- Park Development Fees - New parks, park expansion, major park improvements
- Drainage Fund - Storm Drain projects
- Traffic Impact Fees (General, Cannabis) - Development related impacts
- Measure M2 (Competitive, Fairshare) - Street and transportation-related improvements
- Golf Course Funds - Costa Mesa Country Club improvements
- Jack Hammett Fund - Improvements at Jack Hammett Sports Complex
- Grant Funds - Federal, State, County grant funds that require City match

The Capital Improvement Fund (Fund 401) is funded by the General Fund. Under the City of Costa Mesa's Municipal Code section 2-209 Reserve requirement, the City shall allocate a minimum of five percent (5%) of the annual General Fund revenue towards the capital asset account (Fund 401) and capital debt.

Accomplishments:

The City had numerous significant CIP accomplishments during the current Fiscal Year 2025-26. Some of the major accomplishments by the end of this fiscal year include:

- **Citywide Street Improvements** - This is an annual Capital Improvement Project for the major rehabilitation of local and residential streets. These improvements consist of a combination of slurry sealing and complete pavement restoration, such as milling and overlaying with new asphalt. The City maintains its streets at a high level and strives to maintain a Pavement Condition Index (PCI) of 85. Streets that have been recently slurry sealed, reconstructed, and rehabilitated include Yellowstone Drive, Westminster Avenue, Stromboli Road, Tahiti Drive, and Mendoza Drive.

- **Costa Mesa Police Department Carpet and Indoor Paint Project** - This Indoor Paint project included sanding, priming, repairing, and painting all interior surfaces, along with repainting the back exterior and roll-up doors. The Floor Replacement project started with epoxy flooring replacement, followed by removal of existing carpet, rubber flooring, and vinyl composition tile (VCT) in the basement and eastern half of the first floor, which were replaced with carpet tile, luxury vinyl tile (LVT) plank, and rubber flooring, while remaining VCT areas received LVT overlay; moisture barriers were maintained, and all rubber bases and door thresholds were replaced.

- **Norma Hertzog Community Center Roof Replacement** - This project includes removing and replacing all metal and flat roofing components, including panels, flashing, gutters and damaged plywood, with new underlayment copper penny colored metal roof panels designed for a watertight seal. The project also replaces flat bituminous roofing, roof wall panels, skylight flashing, and wall caps, with drainage areas tested to prevent water intrusion. All components will be covered by warranties to ensure long-term performance.

- **Brentwood Park Improvements** - This project replaced the existing 30-year-old play structure rated for children 5-12 years of age and the underutilized sand volleyball court with separate age-appropriate play areas for children aged 2-5 years and 5-12 years. The play areas include integrated shade structures, swings, and a large variety of play and interactive equipment including several pieces for children of all abilities. The project also included the replacement of the wood shade structure with a new metal structure, new benches and picnic tables, the upgrade of the existing lighting to LED lights, a drinking fountain and the addition of a DG walking path along the eastside of the park. New concrete pathways with embedded poetry were added as part of the project.

- **Fairview Road Improvement Project (Fair Drive to Newport Boulevard)** - This project reallocated the excess travel lane to upgrade the Class II bike lanes to Class IV Cycle Tracks in both directions. The project enhances accessibility and safety for bicyclists and pedestrians by providing separation from motor vehicles. The project also provides a new pedestrian hybrid beacon (HAWK Signal) for pedestrians to cross Fairview Road at Valley Forge and new bus boarding islands. The project provides the first bicycle signal in the City at the Fairview Road and Wilson Street intersection for southbound travel. Landscaping, including new trees, was installed with new paving and roadway striping.

- **Various Project Design** - Design of the following major CIP projects were completed in Fiscal Year 2025-26:
 - Fire Station #2
 - Costa Mesa Skate Park Expansion
 - Ketchum-Libolt Park Expansion
 - Shalimar Park Improvements
 - Signal Modernization for Systemic Multi-Modal Safety Improvements
 - Fairview Road Improvements (Fair Drive to Adams Avenue)

ANALYSIS:

As part of the Fiscal Year 2025-26 budget discussion, the City Council, in response to a budgetary shortfall from declining revenues, approved several actions. These include the realignment of eligible street sweeping expenses in the General Fund to the Gas Tax Fund (Fund 201) in the amount of approximately \$720,000, and the temporary deferment of approximately \$2.4 million in previously allocated Capital Projects from the 2024-25 Fiscal Year that are not critical to public health and safety. The latter action required authorization of the “Emergency Exception” clause of the Capital Assets Needs Ordinance under Municipal Code section 2-209.2 due to an economic downturn.

The listing of deferred projects and their subsequent consideration for the proposed CIP budget is provided below:

No.	Project Name	Deferred Amount	Notes
1	Finance Security/Effic. Remodel	\$250,000	Sufficient funding in project account
2	Citywide Community Choice Energy Study	\$150,000	Project not considered at this time
3	City Hall Breezeway Roof	\$245,000	Moved to FY 27-28
4	Westside Restoration Project	\$450,000	Moved to FY 27-28
5	Parkway Maintenance Program Citywide	\$233,757	Replaced funding source
6	Costa Mesa Country Club Modernization	\$400,000	Moved to long-term future
7	Butterfly Gardens	\$100,000	Moved to FY 28-29
8	Senior Center Improvements	\$250,000	Received Federal grant

In addition, for Fiscal Year 2025-26, the City Council authorized the “Emergency Exception” clause of the Capital Asset Needs Ordinance under Municipal Code section 2-209.2, Economic Downturn, to reduce the amount allocated to new CIP projects by \$1.2 million and did not allocate any funds towards IT replacement.

These actions required a repayment schedule to the CIP and IT funds over several years. The amounts to be repaid for Fiscal Year 2026-27 for prior deferrals is \$600,737 for the CIP account and \$116,310 for the IT account.

Deferred Allocation	Total Deferment	Year 1
FY 2024-25 Projects	\$ 2,378,757.00	\$ 475,751.40
FY 2025-26 CAN	\$ 1,249,855.30	\$ 124,985.53
Total	\$ 3,628,612.30	\$ 600,736.93

Ongoing CIP Projects:

There are several previously funded CIP projects that are in various stages of completion. A listing of ongoing CIP projects is included in Attachment 1. There are a total of 86 CIP projects with ongoing work activity, and 20 that are yet to start. Excluding on-going projects, a total of 15 CIP projects were completed over the past year.

Proposed FY 2026-27 CIP:

The CIP budget for FY 2026-27, which starts on July 1, 2026, was developed based on consideration of City Council priorities, commission and community needs identified over the past year, input from various departments, Maintenance of Effort (MOE) requirements for Measure M2 and Gas Tax, and current economic challenges. Existing projects with funding shortages were also prioritized in the proposed CIP budget. The budget document will include a narrative section of the CIP process, incorporating visual representations for recommended projects, a listing of ongoing capital improvement projects with updated balances, and a five-year CIP.

The proposed FY 2026-27 CIP is included as Attachment 2. The total proposed CIP budget is approximately \$33.4 million, across all funding sources. A significant share of the proposed budget includes an estimated \$12 million in future funding that will be secured with bond financing for Fire Station 2 reconstruction. Grant funds are the next highest source of funding in the proposed CIP at approximately \$5.7 million. Gas Tax (HUTA and RMRA), Traffic Impact Fee Fund, Cannabis Traffic Impact Fees Fund, Measure M2 Fairshare, and Jack Hammett Fund comprise the remaining non-General Fund funding sources.

A total of 39 projects are proposed for FY 2026-27 CIP. A total of 41 additional projects were proposed but are not being considered for inclusion. A listing of these projects is also provided in Attachment 2.

For Fiscal Year 2026-27, while the proposed funding meets the minimum 5% contribution required by the CAN Ordinance, it does not account for repayment of the prior waivers. It is anticipated that an additional General Fund contribution of \$600,000 is required for CAN repayment for Fiscal Year 2026-27. As with prior fiscal years, approximately \$2.8 million in the capital debt service payment on the bonded debt for the Lions Park projects, and an additional \$1 million for future Fire Station #2 bond payment will be set aside from the projects listed in Attachment 2. The proposed General Fund allocation also takes into account staffing costs associated with the implementation of CIP projects, estimated to be approximately \$800,000. The proposed CIP ensures that the City continues to meet the minimum MOE requirements for Measure M2 and Gas Tax Funds.

Major projects that are proposed for FY 2026-27 are briefly described below:

- **Police Department Chillers Replacement** - This project involves the removal of existing Chillers #1 and #2 and the installation of a new high-efficiency chiller designed to meet current performance and energy standards. The existing units have reached the end of their useful service life and are no longer operating reliably or efficiently. Replacing these systems will reduce the risk of unexpected failures, improve overall energy efficiency, and provide consistent, dependable cooling performance.

- **Communications Building Improvements** - This project includes complete interior tenant improvements to modernize dispatch floor, break room, bathrooms, offices, and meeting areas. Work to be performed includes: Creating an open entry space concept, remove cabinets/remodel work area room in front office area copy room, renovation and reconfiguration to accommodate accessible stalls and the addition of a shower and locker room, level floor in the communications area, construct two supervisor office spaces (training/supervisor), remove glass separation panels in common area, remove all carpet on walls, remove window between dispatch and equipment room, replace carpet, replace t-bar ceiling and lighting, remove/replace exterior canopy outside of break room, replace all existing exterior windows, nine (9) new dispatch consoles, and Title 24 compliant energy improvements.
- **Citywide Tree Maintenance (in Public Right-of-Way)** - This is a continuation of the project initiated in the current Fiscal Year. The City maintains over 25,000 trees. However, there are areas that need additional trees as well as additional maintenance, especially along parkways and medians. Providing additional maintenance to these trees will result in fewer issues during unprecedented weather events such as high winds and heavy rain.
- **Harper Park Playground Improvements** - This project will replace the existing playground equipment and rubberized surfacing, which was installed in 1995 and has become worn and deteriorated. The playground will be redesigned to include age-appropriate play equipment with integrated shade components, interactive play equipment, and play pieces for children of all abilities.
- **Moon Park Improvements** - The initial phase of this project in Fiscal Year 2026-27 will include coordination with multiple county agencies regarding the western boundary of the park, community outreach and engagement, and ultimately produce conceptual design that will provide a clear vision for the park that the community desires. The design will include reimagining the playground area, safety fencing, lighting improvements, bike trail access improvements, and improvements to other park amenities. The conceptual design will also help determine the funding needs for Fiscal Year 2027-28.
- **Citywide Alley Improvements** - This is an ongoing Capital Improvement Project, done in multiple phases, for the major rehabilitation of the City's public alleys. The existing deteriorating alleys will be reconstructed with new concrete paving that will now last for decades. This is the latest phase of the project in which eleven (11) alleys will be constructed. After this phase, fourteen (14) alleys will be left remaining to be improved. Upon completion, all 129 City's public alleys will be completely reconstructed.
- **Adams Avenue Multipurpose Trails Project** - City staff secured an additional competitive grant in the amount of \$2,777,000 from the Southern California Association of Governments towards construction phase of these improvements. The project will construct Class I Multi-use paths along Adams Avenue from the Santa Ana River to Royal Palm Drive. Proposed improvements include curb extensions with new curb and gutter, signing and striping, new medians, median modifications, landscaping and irrigation, streetlighting relocations, utility relocations and adjustments, and traffic signal modifications. The project will enhance

accessibility and safety for bicyclists and pedestrians by providing separation from motor vehicles. The project will connect to the future Adams Avenue Bicycle Facility Project from Harbor Boulevard to Fairview Road and also to the recently constructed Class IV Cycle Track on Placentia Avenue. Securing the new federal grant for construction funds of this project allows construction to be scheduled in Fiscal Year 2027/28. This project is in accordance with the City's General Plan and the Active Transportation Plan. The project is in the design phase. The project will improve pedestrian and bicycle mobility and access in the area.

- **Mesa Del Mar Multi-Modal Access Improvements Project** - City staff secured a Highway Safety Improvement Program federal grant in the amount of \$350,000 from Caltrans for construction phase of improvements along Junipero Drive. The project will implement Class IV parking separated cycle tracks along Junipero Drive from Arlington Drive to Presidio Drive. Proposed improvements include new signing and striping, storm drain facilities, and a raised crosswalk at the Junipero Drive and Arlington Drive intersection. The project will enhance accessibility and safety for bicyclists and pedestrians by providing separation from motor vehicles. The project will connect the Mesa Del Mar neighborhood to the off-street paved trail along Arlington Road and the OC Fair & Event Center. This project is in accordance with the City's General Plan and the Active Transportation Plan. The funding request is acceptance of the grant funding for the project design phase. The project will improve pedestrian and bicycle mobility and access in the area.

- **Ongoing Construction Projects** - Construction of several major CIP projects will be underway during the Fiscal Year 2026-27. These include:
 - Costa Mesa Skate Park Expansion
 - Ketchum-Libolt Park Expansion
 - Shalimar Park Improvements
 - Fairview Park Mesa Restoration
 - Adams Avenue Active Transportation Project (Fairview Road to Harbor Boulevard)
 - Signal Modernization for Systemic Multi-Modal Safety Improvements

Attachment 3 provides a comparison of the anticipated FY 2026-27 CIP as part of the current year budget in the Five-Year Plan and the proposed CIP. While there is a general alignment between the projected plan and proposed plan, there are some adjustments in certain areas due to new priorities and funding availability. Attachment 3 includes a brief description of the proposed adjustments.

Proposed Five-Year CIP:

Attachment 4 includes the proposed Five-Year CIP, which includes projects that were deferred from consideration in Fiscal Year 2026-27 and other future projects for consideration over the next five years and beyond. The Five-Year CIP was revised to reflect current priorities as well as to adjust fiscal years for future projects based on more realistic funding projections. The Five-Year CIP also includes projects identified in the draft Facilities Needs Assessment and Park Assessment study that was discussed with the City Council at a Study Session on March 10, 2026. Additional projects from the Facilities Needs Assessment will be added as the study is finalized in the coming months.

Finance and Pension Advisory Committee:

Public Works staff presented the proposed Fiscal Year 2026-27 CIP at the FiPAC meeting on March 11, 2026. The presentation included an overview outlining the CIP process, types of funding sources, status of select ongoing projects, and the FY 2026-27 CIP and the Five-Year CIP. Several projects, including Moon Park, Skate Park, and Shalimar Park were discussed to further clarify funding needs and enhance the Committee's understanding. Following the discussion, the Committee appreciated all the information provided and expressed interest in holding a follow-up meeting to develop a final recommendation to City Council.

Parks and Community Services Commission:

Staff presented the proposed FY 2026-27 CIP and the Five-Year CIP pertaining to Parks and Parkways and Medians, to the Parks and Community Services Commission (PACS) on March 12, 2026. The Commission deliberated on the "Guiding Values" document and its relation to the CIP and recommended that future CIP should be discussed in an earlier timeframe. The Commission, while concurring with the proposed CIP projects list, provided the following recommendations for City Council consideration:

- Marina View Park - For Fiscal Year 2026-27 add sand in areas where the levels are low and address sidewalk improvements.
- Wilson Park - For Fiscal Year 2026-27 address improvements identified in the Park Assessment Study for bathrooms.
- Community Gardens - Add \$50,000 for Fiscal Year 2027-28 for planning for Community Gardens and consider Neth Park as potential site in a multi-faceted way.
- Westside Park Development - Add \$400,000 for Fiscal Year 2027-28.
- Fairview Park and Skate Park Project - Consider ways to cut back on projects and evaluate/pursue private funding.
- Revise the Five-Year CIP to include only parks in the "C" category.

Staff will address Marina View Park and Wilson Park items listed above using operating funds as these are maintenance-related items.

NEXT STEPS:

The Proposed CIP is scheduled for presentation to the Planning Commission for General Plan conformity on May 11, 2026, and to the FiPAC as part of the operating budget presentation in April 2026.

All comments received from the aforementioned committee and commissions will be presented to the City Council as part of budget deliberations.

ALTERNATIVES:

The City Council may consider changes to the current projects proposed for the CIP budget and direct staff accordingly. Staff will evaluate and present to the Council for formal adoption at upcoming meetings.

FISCAL REVIEW:

The FY 2026-27 proposed CIP budget is approximately \$33.4 million, across all funds, of which an estimated \$12 million will be secured with bond financing for the Fire Station 2 reconstruction. The CIP budget was prepared using a variety of funding sources, which includes actuals, estimated revenues, and fund balances, to maximize the utilization of available funds to maintain, improve, and develop essential City assets. These funding sources also include County, State and Federal grants, many of which are reserved for CIP projects. There are sufficient fund balances and estimated revenues to support the projects recommended for the FY 2026-27 CIP from the various funding streams.

LEGAL REVIEW:

The City Attorney's Office has reviewed this report and approves it as to form.

CITY COUNCIL GOALS AND PRIORITIES:

The CIP budget strives to achieve City Council goals and objectives as listed below:

- Recruit and retain high-quality staff
- Strengthen the public's safety and improve the quality of life.
- Achieve long-term fiscal sustainability.
- Maintain and enhance the City's facilities, technology, and equipment.
- Advance environmental sustainability and climate resiliency.

CONCLUSION:

The attached FY 2026-27 Proposed CIP Budget utilizes anticipated revenues from various funding sources, both General Fund and Restricted Funds, to program essential and key projects in accordance with City Council adopted goals and priorities. The proposed Five-Year CIP includes projects that were deferred and other future projects for consideration over the next five years and beyond. Staff requests City Council direction on the FY 2026-27 Proposed CIP Budget in order to finalize recommendations for final budget adoption by June 30, 2026.