



# CITY OF COSTA MESA

77 Fair Drive  
Costa Mesa, CA 92626

## Agenda Report

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**File #:** 23-1443

**Meeting Date:** 11/7/2023

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**TITLE:**

**FISCAL YEAR 2022-23 PRELIMINARY UNAUDITED YEAR-END FINANCIAL REPORT**

**DEPARTMENT:** FINANCE DEPARTMENT

**PRESENTED BY:** CAROL MOLINA, FINANCE DIRECTOR

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

**RECOMMENDATION:**

Staff recommends the City Council:

1. Authorize the City Manager, or her designee, to concur with FiPAC recommendations on the allocation and appropriation of Fiscal Year 2022-23, if available, year-end savings estimated between \$4.0 million to \$6.0 million in order of priority as follows:
  - a) Transfer \$1.1 million to Fund 401 for the Lions Park Café;
  - b) Transfer \$1.5 million to Fund 401 for Fire Station #4 Training Tower;
  - c) Deposit \$500,000 (up to \$1.0 Million, if available for surplus funds of \$6.0 million) to the Workers' Compensation Fund Balance designation;
  - d) Transfer \$900,000 to Housing Fund 222 for Housing Element and Visioning;
  - e) Transfer \$300,000 to Equipment Fund 602 to pay the balance of one Fire Engine Apparatus;  
and
  - f) Transfer \$1.2 million to Fund 401 for improvements to the City's Golf Course and Tennis Center.

**BACKGROUND:**

On June 7, 2022, City Council adopted the Fiscal Year 2022-23 Operating and Capital Improvement Budget for a total of \$206.2 million in All Funds. Of this amount, the General Fund revenues totaled \$163.6 million and expenditures \$163.6 million, a fully balanced budget without the use of reserves or American Rescue Plan Act funds. The FY 2022-23 preliminary unaudited year-end analysis provides a projection of the City's financial position for the fiscal year ending June 30, 2023. The final audited financial statement is normally issued by the end of December. Staff will return to Council with the audited financial reports once the audit is complete. However, the preliminary unaudited analysis reflects a potential \$4.0 million to \$6.0 million surplus at the end of the fiscal year.

City staff presented these two potential year-end surplus options to the City’s Finance and Pension Advisory Committee. Three separate public meetings were noticed and held to discuss, in order of preference, the committee’s recommendations as to how to best utilize the estimated surplus amounts.

**ANALYSIS:**

The FY 2022-23 Amended Budget for General Fund Revenues is now estimated at \$177.0 million, versus the adopted amount of \$163.6 million. After accounting for projected General Fund expenses of \$171.3 million, it is anticipated that for the Fiscal Year ending June 30, 2023, there may be a \$4.0 million to 6.0 million surplus. This is due to anticipated increases in General Fund revenues, including sales and use taxes, and transient occupancy tax. This presents the City with the opportunity to use one-time funds to achieve City Council goals and objectives, and fund priority projects.

City staff and Finance and Pension Advisory Committee (FiPAC) members utilized the City Council’s approved Strategic Planning Goals to guide the fiscal year-end operating surplus recommendations to the City Council. They are as follows:

**City Council Goal: Achieve Long-Term Fiscal Sustainability**

*FY 2022-23 Year-End General Fund Preliminary, Unaudited Estimate*

From the most recent preliminary findings, the City’s General Fund year-end preliminary unaudited results for the FY 2022-23, ending on June 30, 2023, are currently showing a positive year-end surplus of approximately \$4.0 million to \$6.0 million. City staff anticipates the financial audit to be finalized by the end of December. Upon the finalization of the Annual Comprehensive Financial Report (ACFR), City staff will present to the City Council the audited year-end report. The table below shows the General Fund Balance on June 30, 2022.

*Table 1: General Fund Reserves*

Fund Balance Category	FY 2018/19 Audited	FY 2019/20 Audited	FY 2020/21 Audited	FY 2021/22 Audited
<b>Committed</b>				
Declared Disasters	\$14,125	\$14,125	\$14,125	\$14,125
Self-Insurance	2,000	2,000	2,000	2,000
Economic Reserves	7,500	9,000	9,000	9,000
<b>Assigned</b>				
Compensated Absences	4,892	5,036	5,920	5,584
Police Retirement 1% Supplemental	2,297	2,365	2,275	1,885
Section 115 Trust	-	1,750	-	-
Workers’ Compensation	-	-	-	1,000
Facilities Reserve	-	-	-	2,000
Strategic Plan Projects	-	-	-	2,000
<b>Restricted</b>				
Pension and OPEB	-	-	1,778	3,061
Non-spendable	280	362	965	604
<b>Unassigned</b>	<b>20,451</b>	<b>18,825</b>	<b>17,429</b>	<b>16,517</b>
<b>Total Fund Balance</b>	<b>\$51,545</b>	<b>\$53,463</b>	<b>\$53,492</b>	<b>\$57,776</b>

The Fund Balance and Reserves Financial Policy states that the City determined the appropriate reserve level for the General Fund to be \$55 million. The Fiscal Year 2021-2022 audited financials resulted in an increase of the City's Fund Balance by \$4.3 million, bringing the total fund balance for the General Fund to \$57.8 million. This amount exceeds City Council's target of \$55.0 million by \$2.8 million.

The General Fund reserves currently includes \$1.0 million assigned for Workers' Compensation to partially fund one Self-Insurance Retention (SIR) claim. The City's self-insured policy requires that the City cover the first \$2.0 million per claim. Amounts in excess of \$2.0 million will be covered by the City's insurance policy.

**City Council Goal: Achieve Long Term Fiscal Sustainability**

*Lions Parks Café*

The FY 2023-24 Adopted Budget Capital Improvement Fund includes the total cost of design, construction management, and construction for the Lions Park Café \$1.2 million allocation received through Supervisor Katrina Foley from County American Rescue Plan Act (ARPA) funds. However; once staff began soliciting quotes for the design, construction management, and construction of Lions Park Café it was determined that the cost would exceed \$1.2 million and is now estimated at approximately \$2.3 million. FiPAC recommended this project as its priority funding item due to the time sensitivity of the grant funds that need to be committed by December 2024 and expended by December 2025 as per the ARPA (American Rescue Plan Act) Guidelines.

**City Council Goal: Diversify, Stabilize and Increase Housing to Reflect Community Needs**

*Sixth Cycle General Plan Housing Element Program*

The State of California requires every city and county to adopt a comprehensive general plan that is "an integrated, internally consistent, and compatible statement of policies" to address all issues that affect the physical development of the community, as well as the land outside its boundaries that potentially affect long-term planning (Government Code Section 65300, et seq.). The role of a general plan is to act as a "constitution" for development, the foundation upon which all land use and related decisions are based.

The Costa Mesa General Plan establishes the long-range planning and policy direction that guides change and preserves the qualities that define our community. The Costa Mesa General Plan consists of 10 elements: Land Use, Circulation, Housing, Conservation, Noise, Safety, Open Space and Recreation, Growth Management, Community Design, and Historical and cultural Resources. The City's 2015-2035 General Plan Housing Element requires an update every eight years.

The Housing Element provides an analysis of the City's demographic, economic, and housing characteristics, identifies community housing needs, and establishes objectives, policies and programs to meet those needs. To remain in compliance with State Housing Law, the City's Housing Element must respond to various State laws and requirements and must be adopted by City Council and certified by the California State Department of Housing and Community Development.

Within the City's completed Housing Element are programs that are required to be implemented based on statutory requirements and specific timelines. These programs are consistent with the City Council's stated priorities and generally include community outreach, visioning, and rezoning work to create opportunities for housing. In order to complete these City Council priorities and the Housing Element Programs, staff will be contracting with professional consultants. Consulting costs are to be spread over multiple fiscal years, with \$700,000 needed in the first year, Fiscal Year 2023-24.

The estimated total cost for the implementation of this Housing Element Program is \$3.0 million. At the June 20, 2023, City Council Meeting, Council approved to transfer \$1.5 million from the General Fund into the Housing Authority Fund for the Sixth Cycle General Plan Housing Element Program Implementation.

### **City Council Goal: Strengthen Public Safety & Improve Quality of Life**

#### *Fire Station No. 4 Training Tower*

The Fiscal Year 2022-23 Adopted Budget included an allocation of \$3.6 million for the demolition of the existing training tower at Fire Station 4, and the design and construction of a new regional training tower facility. State grant funds through Assembly Member Cottie Petrie Norris accounts for \$2.5 million of the total funding. The cost for the design services and the fabrication and installation of the training tower already awarded by City Council is approximately, \$2.75 million. Other items including demolition of the tower, installation of foundations, restroom facilities and water capture system, require an additional \$2.4 million, resulting in a shortfall of approximately \$1.5 million.

#### *Tennis Center and Golf Course*

Costa Mesa Tennis Center and Costa Mesa Country Club need several capital improvements over the next few years. The lighting at the Costa Mesa Tennis Center is currently being upgraded to a Light Emitting Diode (LED) system to achieve better reliability with reduced maintenance and operating costs. Other improvements at the Tennis Center include restroom and pro-shop renovation, shade structure, new court surfacing and concrete improvements. The Costa Mesa Country Club needs improvements to the grounds as well as facilities. Several bunkers and cart paths need replacement and new cart paths are needed for certain areas. The existing Country Club cafe needs significant modernization with better layout, equipment, seating and lighting. The above improvements will enhance the value of these existing City assets.

#### *Prepay 1 Fire Apparatus*

The FY 2023-24 Adopted Budget includes an increase to the City's master lease agreement for the acquisition of one Pierce 1500 GPM Triple Combination Pumper Truck to replace the existing 2003 American LaFrance Pumper. The cost for the replacement Fire pumper is \$1.5 million for the required apparatus and required fixtures. Of the \$1.5 million cost, \$950,000 will be paid from the CDBG Fund, the balance of approximately \$300,000 was initially included through the master lease agreement. However, in order to comply with the City's Financial Policy use of operating surplus, it is recommended to reduce the lease by \$300,000 and utilize the year-end savings.

**Finance and Pension Advisory Committee (FiPAC)**

On September 13, 2023, the Finance Department presented to the Finance and Pension Advisory Committee the estimated surplus estimates and an overview of the City’s fund balance designations and the City’s Financial Policy. Staff and committee members discussed the projected \$4 million or \$6 million operating surplus in the General Fund. The committee reviewed and discussed various considered recommendations to the City Council for the potential use of the surplus in order of priority. They used the Financial Policy guidelines and the City Council strategic plan goals to guide them. Finance Policy guidelines state the following three categories for operating surplus:

1. Increase reserves if reserves are below target;
2. Examine opportunities for prepayment and accelerated payoff of debt;
3. Increase funds for capital facilities.

In an effort to assist FiPAC members with their deliberations, staff scheduled a special FiPAC meeting on September 27, 2023 to discuss budgeted and active Capital Improvement Program projects. Public Works Department Director Sethuraman presented to the committee a list of high priority projects, grant projects that are time sensitive, and a list of major projects that are underway and/or scheduled to start.

At the October 11, 2023 FiPAC meeting, staff presented the compilation of projects and designations by each member, and presented the results of the committee members’ priorities. The committee discussed the potential use of the projected General Fund surplus. The committee compiled a list based on the City Council’s Strategic Planning Goals, in order of importance, and recommends the following to allocate the estimated operating surplus as seen in the table below:

<b>City Council Strategic Planning Goals</b>	<b>Description</b>	<b>4,000,000</b>	<b>6,000,000</b>
Achieve Long Term Fiscal Sustainability	Lions Park Café	1,100,000	1,100,000
Strengthen Public Safety & Improve Quality of Life	Fire Station No. 4: Training Tower	1,500,000	1,500,000
Achieve Long Term Fiscal Sustainability	Workers' Compensation	500,000	1,000,000
Diversify, Stabilize & Increase Housing	Housing Element/Visioning	900,000	900,000
Strengthen Public Safety & Improve Quality of Life	Prepay 1 Fire Apparatus		300,000
Strengthen Public Safety & Improve Quality of Life	Golf Course & Tennis Center		1,200,000
	<b>Subtotal</b>	<b>4,000,000</b>	<b>6,000,000</b>

**ALTERNATIVES:**

The alternative is that the City Council may choose to refrain from approving the recommended items and otherwise allocate the potential unaudited operating surplus.

**FISCAL REVIEW:**

City Council adopted the Fiscal Year 2022-23 Operating and Capital Improvement Budget for a total of \$206.2 million in All Funds. Of this amount, the General Fund revenues total \$163.6 million and expenditures \$163.6 million, a fully balanced budget without the use of reserves or American Rescue Plan Act funds. The FY 2022-23 Preliminary Unaudited Year-End Report provides a projection of the City's financial position for the fiscal year ending June 30, 2023. The preliminary unaudited analysis reflects a potential \$4.0 million to \$6.0 million surplus at the end of the fiscal year. Staff recommends the above allocations as recommended by FiPAC based on current operating needs and previously expressed City Council priorities.

**LEGAL REVIEW:**

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

**CITY COUNCIL GOALS AND PRIORITIES:**

This item supports the following City Council Goals:

- Achieve Long-Term Fiscal Sustainability
- Diversify, Stabilize and Increase Housing to Reflect Community Needs
- Strengthen Public Safety and Improve Quality of Life

**CONCLUSION:**

Staff recommends the City Council:

1. Authorize the City Manager, or her designee, to concur with FiPAC recommendations on the allocation and appropriation of Fiscal Year 2022-23, if available, year-end savings estimated between \$4.0 million to \$6.0 million in order of priority as follows:
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