



CITY OF COSTA MESA

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 24-232

Meeting Date: 6/4/2024

TITLE:

FISCAL YEAR 2024-25 PROPOSED OPERATING AND CAPITAL IMPROVEMENT PROGRAM AND HOUSING AUTHORITY BUDGET

DEPARTMENT: CITY MANAGER'S OFFICE, FINANCE DEPARTMENT

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

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

RECOMMENDATION:

Staff recommends the City Council:

1. Approve Resolution 24-XX, adopting the Proposed Fiscal Year 2024-25 Operating and Capital Improvement Program (CIP) Budget; and
2. Approve Joint Resolution 24-XX adopting the Housing Authority Budget including Housing and Community Development expenditures for Fiscal Year 2024-25; and
3. Authorize and approve staffing as follows:
 - a. Authorize the following full-time positions: increase of 3.0 FTE for Community Outreach Worker for Homeless Services, decrease of 1.0 FTE Community Outreach Worker for the Tenant Eviction Protection Program, and a decrease of 1.0 FTE Code Enforcement Officer for the Tenant Eviction Protection Program for a net increase of 1.0 FTE as presented at the May 14, 2024 Study Session; and
 - b. Authorize the following part-time to full-time conversions: Accounting Specialist II in the Police Department for a 0.37 FTE increase due to the increased responsibilities, heavy workload and succession planning purposes, as presented at the May 14, 2024 Study Session; and
 - c. Authorize a 0.75 part-time Accounting Specialist II in the Finance Department to help support the processing of invoices and a 0.50 part-time Maintenance Worker in the Public Works Department to support the Signs and Markings Program as presented at the May 14, 2024 Study Session; and
 - d. Approve Salary and Classification Updates Resolution 2024-XX (various CMCEA classifications)

4. Approve Resolution 24-XX establishing the Fiscal Year 2024-2025 Appropriations Limit for the City of Costa Mesa at \$310,115,684, 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 action is requested for the following to comply with AB 481 Police Equipment Report and Resolution:
 - a. Receive and file the 2024 Annual AB 481 Report and take public comment; and
 - b. Approve Resolution 24-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.

BACKGROUND:

The Fiscal Year 2024-25 Proposed Budget includes collaboration efforts throughout all sectors, including public safety, parks, facilities, streets and housing for the City of Costa Mesa residents, businesses, and visitors. Recommended budget adjustments contained in the Proposed Budget were prudently selected based on operational needs, the provision of essential core services to our community, and to implement the City Council's stated Goals and Priorities more effectively.

Guiding Principles

The guiding principles that inspired the recommendations for the FY 2024-25 Proposed Budget were created when the City Council conducted a Strategic Planning workshop identifying key priorities, as well as a new Mission Statement for Costa Mesa, as follows:

"The City of Costa Mesa serves our residents, businesses, and visitors by promoting a safe, inclusive, and vibrant community."

In addition, the City Council has developed five Strategic Plan Goals:

- Strengthen the Public's Safety and Improve the Quality of Life;
- Achieve Long-Term Fiscal Sustainability;
- Recruit and Retain High Quality Staff;
- Diversify, Stabilize, and Increase Housing to Reflect Community Needs; and
- Advance Environmental Sustainability and Climate Resiliency.

The recommendations contained in the FY 2024-25 Proposed Budget are rooted in the Strategic Plan Goals created by the City Council for a safe, inclusive, and vibrant City.

ANALYSIS:

The theme for the FY 2024-25 Proposed Budget, "When We All Pull Together" reflects the collective efforts by City Council and staff to work in collaboration to help drive change for a greater outcome for the residents of Costa Mesa. This includes City Council's recommendation for staff to establish a

Housing Trust in the amount of \$2.5 million to assist in funding for housing opportunities. This budget also includes additional funding for the Homeless and Behavioral Health Programs, IT Strategic Plan, as well as the Arts and Culture Master Plan to allow Departments to achieve shared goals in addressing our most pressing needs and concerns.

Funding requests contained in the FY 2024-25 Proposed Budget help to further stabilize or enhance critical City operations to better serve the public, and/or provide City employees with the technology, equipment, and overall tools to perform their public service effectively. The Proposed Budget also helps to ensure both short-and-long-term fiscal sustainability, while committing additional resources to achieve Council's goals.

At the April 23, 2024 and May 14, 2024 City Council FY 2024-25 Capital Improvement Budget and Proposed Operating Study Sessions, City Council provided feedback to staff regarding several items to include or adjust in the Proposed Budget. At the April 18, 2024 and the May 15, 2024 Finance and Pension Advisory Committee (FiPAC) meetings, the FY 2024-25 Proposed Operating and Capital Improvement Budget were also presented and discussed.

The agenda reports and videos for the April 23, 2024 and May 14, 2024 City Council Study Sessions can be found here:

April 23, 2024 Agenda Report

- [FY2024-25 Proposed Capital Improvement Program Budget Study Session Staff Report and Corresponding Attachments <https://costamesa.legistar.com/LegislationDetail.aspx?ID=6641971&GUID=651DDF1C-86B4-4FFB-B35D-4C2140A5BE19>](https://costamesa.legistar.com/LegislationDetail.aspx?ID=6641971&GUID=651DDF1C-86B4-4FFB-B35D-4C2140A5BE19)

May 14, 2024 Agenda Report

- [FY2024-25 Proposed Operating and Capital Improvement Program Budget Study Session Staff Report and Corresponding Attachments <https://costamesa.legistar.com/LegislationDetail.aspx?ID=6664886&GUID=85362F19-9886-](https://costamesa.legistar.com/LegislationDetail.aspx?ID=6664886&GUID=85362F19-9886-)

Overview of FY 2024-25 Proposed All Funds Budget

The Fiscal Year 2024-25 Budget reflects the operating and capital spending plans for the General Fund, Special Revenue Funds, Capital Project Funds, and Internal Service Funds. The total proposed budget for all funds is \$240.1 million, an increase of \$6.1 million, or 3 percent compared to the Fiscal Year 2023-24 Adopted Budget of \$234 million. Table 1 illustrates these amounts.

Table 1 - Proposed Budget - All Funds

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

The All-Funds Budget for the City includes governmental, proprietary, and internal service funds, including grants and other restricted funds designated for specific services and purposes provided by higher levels of government (i.e., Federal, State and County governments and agencies).

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

In some instances, a Fund can have available fund balances that have accumulated over time and are expended as the need arises and/or to complete specific projects within assigned timeframes. As such, the All-Funds Budget contains many funds that are separate entities with specific accounting and reporting requirements as per government regulations and in some cases, statutes.

The City's General Fund however, is not restricted and can be used to provide a broad array of public services and is comprised of multiple revenue sources including taxes (such as property, sales, and hotel taxes, among others), user fees, fines, facility rentals, and development related fees, to name a few.

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

Operating Budget

The proposed increase of \$11.2 million, or 6 percent, for a total of \$199.5 million in the Operating Budget's portion of the FY 2024-25 All Funds Budget is comprised of several items including:

- Annualized funding needed to attract, recruit and retain high quality staff through the recently negotiated labor contracts for all employees citywide that aligned employee compensation to essentially average (market rate) levels (\$5.8 million);
- A \$2.5 million increase to the annual CalPERS retirement plan payment;
- Recruitment and retention incentives for public safety to help retain tenured and experienced staff in our Police and Fire Departments for adequate succession planning (\$400,000);
- An increased budget allocation of \$300,000 in the Information Technology Department's budget for software licensing and subscription fees, as well as \$1.9 million to fund year five (5) of the IT Strategic Plan;
- A budget reallocation of \$945,000 in the Police Department's General Fund that includes \$700,000 for the replacement of body-worn and vehicle cameras, and various contractual increases, such as animal services and software subscriptions;
- An additional \$200,000 in the Police Department Budget to provide \$150,000 in funding for a Wellness Program, and \$50,000 for the replacement of a K9 police dog and a new jail contract to handle the arrests of intoxicated females;

- A budget increase of \$200,000 in the Public Works Department for a part-time Maintenance Worker and school crossing guard contractual increase; and reallocation of salary savings of \$350,000 to fund the Water Quality Control Program;
- An additional \$140,000 in projected election costs;
- A realignment of \$57,000 from the City Manager's contingency or salary savings for two (2) senior services programs operated by Community SeniorServ, which includes \$28,500 for Meals on Wheels, and \$28,500 for Lunch Café;
- An increase of \$150,000 in the Public Works Capital Fund for a Facilities Needs Assessment;
- An increased budget allocation of \$700,000 in the Fire Department's budget for the Ambulance Program and emergency medical supplies (EMS) (these expenses are offset by the Ambulance Program revenue increase); and
- An ARPA budget transfer of \$2.5 million to the Housing Trust Fund.

American Rescue Plan Act

At the April 2, 2024 City Council meeting, Council discussed the need to address housing affordability and to establish a Housing Trust Fund. As result of these discussions, staff recommends appropriating \$2.5 million towards the Housing Trust Fund. Additionally, City residents continue to experience hardships due to rising rents; thus, Staff recommends committing the remaining \$454,308 uncommitted ARPA Fund for additional assistance to our residents to support the Housing Authority Fund for the Tenant Eviction Protection Program and Homeless Outreach Program. The total of \$2.9 million will fully commit the remaining balance from the second tranche of the ARPA Fund.

Parks Land Acquisition Fund

During the May 14, 2024 Proposed Budget Study Session, City Council discussed the need of park spaces in the Westside and Eastside. As result, staff recommends appropriating \$350,000 from available fund balance in the Park Land Acquisition Fund (420) towards the Open Space Master Plan.

Equipment Replacement Fund

The FY 2024-25 Proposed Budget includes \$1.9 million for the replacement of fleet that has exceeded its life expectancy and/or is essential to operations. The Police Department accounts for \$1.05 million, which includes eight (8) Police interceptors/patrol vehicles, a heavy-bodied truck to support the newly acquired armored vehicle, and a light truck for Animal Services.

The Public Works Department FY 2024-25 proposed fleet totals \$320,000, which includes one (1) ariel lift truck for tree trimming, and one (1) electric pool vehicle. Additionally, the Parks and Community Services Department's proposed fleet totals \$220,000 for two (2) large passenger vans, one assigned to the Senior Center and the other to transport youth recreation.

The City Manager's Department is proposing three (3) new vehicles to assist with the Homeless Outreach Program for a total of \$170,000, and Development Services is requesting one (1) a small electric vehicle for \$45,000 to support administrative services within the Department.

Information Technology Replacement Fund (ITRF)

This fund accounts for the accumulation of resources necessary to replace hardware and software related to information technology. As per the City's Municipal Code Section 2-209.4, 1.5% of annual General Fund revenues is allocated to the ITRF to provide funding for the City's immediate and future information technology needs, including those identified in the Information Technology Strategic Plan (ITSP). This includes the transfer of \$2.85 million from the General Fund into the ITRF to fund year 5 of the ITSP. The proposed budget includes \$1.5 million in funding for the second year of the computer-aided dispatch and record-management system (CAD RMS) for public safety, and \$380,000 for the Citywide desktop replacement program and City website.

Capital Budget

The proposed all-funds Capital Improvement Program (CIP) budget of \$27.9 million is a decrease of \$3.2 million or 10 percent from the adopted FY 2023-24 budget. This reduction is largely due to one-time funds received in FY 2023-24 in the amount of \$14.4 million from State and County grants through State Senator David Min, Assemblymember Cottie Petrie-Norris, and County of Orange Supervisor Katrina Foley. In the FY 2024-25 proposed CIP budget, there is an additional \$20 million in projects that may potentially be funded through future bond financing. A comprehensive detail of the Proposed CIP Budget was presented at the April 23, 2024, Study Session and will be contained in further detail in the CIP section of the FY 2024-25 Proposed Budget Book. A few key projects include:

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

Public Works staff presented the one-year (FY 2024-25) and the five-year (FY 2024-25 to FY 2028-29) Capital Improvement Program (CIP) budgets to the Parks and Community Services (PACS) Commission during its regularly scheduled meeting on May 9, 2024. The PACS Commission recommended to the City Council to prioritize the following parks CIP projects: Gisler Park, Harper Park, Lions Park, and Marina View Park.

In addition, Public Works staff presented the one-year (FY 2024-25) and the five-year (FY 2024-25 to FY 2028-29) Capital Improvement Program (CIP) budgets to the Planning Commission during its regularly scheduled meeting on May 13, 2024. The Planning Commission adopted a resolution to find the CIP programs conform to the California Environmental Quality Act (CEQA), and that the one-year and five-year CIP programs are consistent with the Costa Mesa 2015-2035 General Plan.

Furthermore, during the Budget Study Session on May 14, 2024, staff presented plans to include \$150,000 in funding in the CIP operating budget for a facilities-needs assessment. This study is critical in the evaluation of the condition and improvements necessary to maintain City-owned facilities and assets.

Carryover of Capital Improvement Program (CIP) Budget

City Council authorization is requested to grant the City Manager, or Finance Director, permission to carryover any balances on capital projects from the prior years into the next fiscal year to ensure the continuation of projects that were approved by City Council. This will ensure that multiple-year projects continue without interruption. Many CIPs are funded by grants and have competitively sourced funding that are subject to a timeframe outlined in the grant documents. Consequently, deferring or delaying these projects may result in the forfeiture of these fundings.

FY 2024-25 Proposed General Fund Budget Overview

The Proposed FY 2024-25 General Fund expenditure budget is a balanced budget and totals \$189.9 million. This reflects an increase of \$9.5 million, or 5 percent, from the FY 2023-24 Adopted Budget of \$180.3 million. Table 2 is a summary of the Proposed FY 2024-25 General Fund Revenue and Expenditure Budget.

Table 2 - General Fund Revenue and Expenditure

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

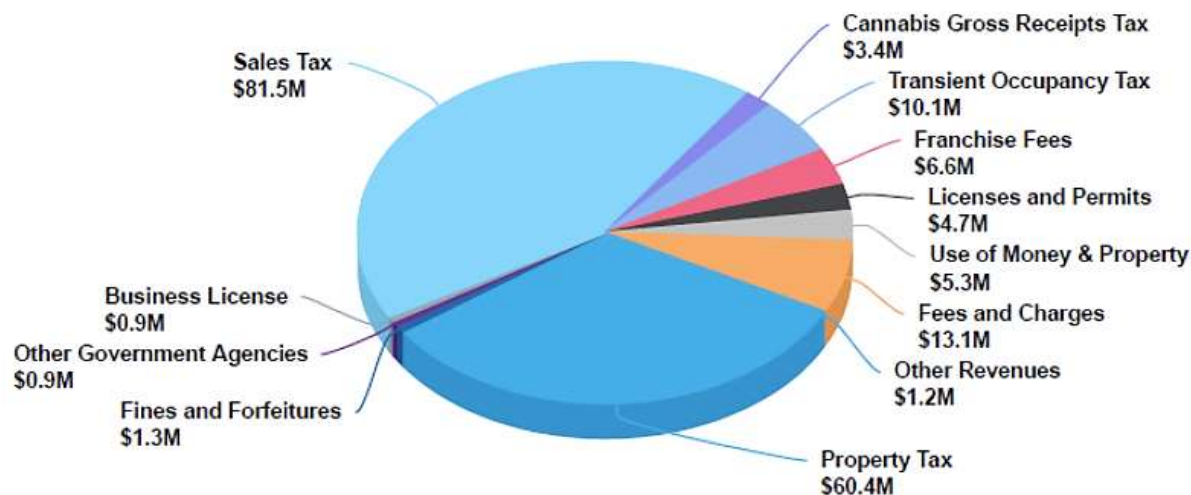
Expenditure Category	Adopted FY 2023-24	Proposed FY 2024-25	Increase/(Decrease)		FY 2024-25 % of Total
			Amount	Percent	
Salaries and Benefits	\$ 125,049,401	\$ 133,130,777	\$ 8,081,376	6%	70%
Maintenance and Operations	40,352,929	44,132,090	3,779,161	9%	23%
Fixed Assets	1,827,122	2,925,298	1,098,176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

General Fund Revenue Highlights

The Proposed FY 2024-25 Budget for Total General Fund Resources totals \$189.9 million, a \$9.5 million, or 5 percent increase from the FY 2023-24 Adopted Budget. General Fund Revenue is recovering favorably with several categories returning to or above pre-pandemic levels such as Sales and Use Tax, Licenses and Permits, Use of Money and Property, and Fees and Charges. These funds are typically used to fund public safety, parks and community services, development

services, and other activities and programs known to residents. The Fiscal Year commencing July 1, 2024, budget will be balanced without the use General Fund reserves or the American Rescue Plan Fund.

Graph 1 - General Fund Revenue Estimates by Category



Sales and Use Tax: Sales tax is the largest revenue category in Costa Mesa, and is estimated at \$81.5 million, a reduction of \$0.9 million, or a 1 percent decrease, from the FY 2023-24 Adopted Budget due to dampened receipts from sellers of general consumer goods, as well as a decline in building and supplies.

Property Tax: All combined Property Tax revenues are estimated at \$60.4 million, reflecting a 10 percent growth over the prior fiscal year. As a result of the dissolution of the Successor Agency, the property tax revenues that were utilized to pay required payments on obligations are being redirected to the Property Tax revenue. Costa Mesa anticipates \$1.4 million in this realignment plus the annual 4% increase normally received from the County.

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

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

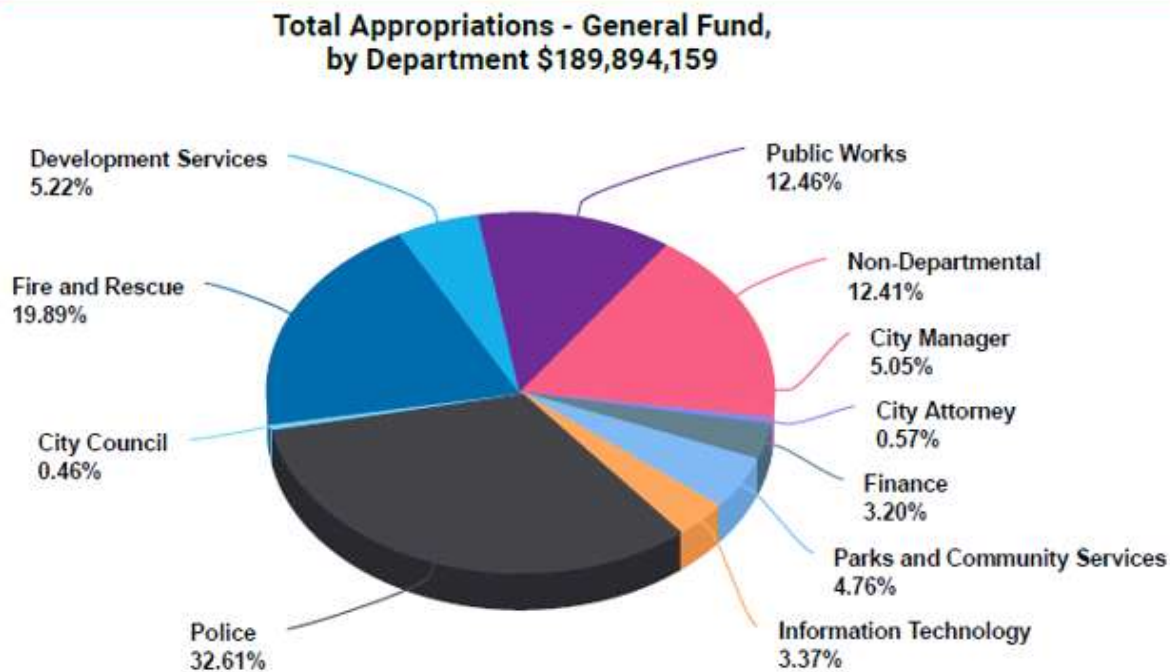
Measure Q Retail Cannabis Business Tax: The FY 2024-25 Proposed Budget includes an estimated \$3.4 million in cannabis taxes, an increase of \$350,000, or 11 percent, from FY 2023-24, as the City has already approved over 20 retail storefront and non-storefront businesses. It is anticipated that with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

Operating Budget Highlights

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

- A \$2.9 million allocation for the City Council approved Five-Year Information Technology Strategic Plan (Year 5);
- A \$2.3 million increase in the annual required CalPERS contributions;
- An additional \$500,000 in funding for medical, dental and vision benefits and \$5.5 million in compensation increase as per contractual MOU requirements;
- A \$400,000 increase for recruitment and retention incentives for public safety to help retain tenured and experienced staff in our Police and Fire and Rescue Departments for adequate succession planning;
- An increased budget allocation of \$700,000 to the Fire and Rescue Department for the Ambulance Program and emergency medical supplies (these expenses are offset by an increase the ambulance program revenue);
- The continuation of the \$4.3 million vacancy factor (negative appropriation); and
- No use of General Fund Reserves or ARPA funds to balance the General Fund.

Graph 2 - General Fund Total Appropriations by Department



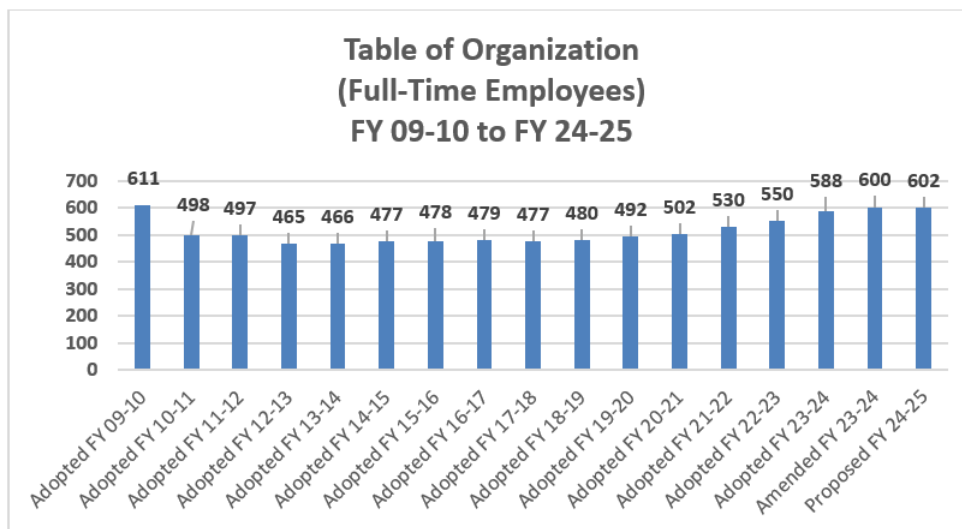
Staffing Levels

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

Table 3 - Breakdown of General Fund Appropriations by Department

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

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

Table 4 - Budgeted Citywide Staffing Levels

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

Table 5 - Staffing Requests

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

The Proposed Budget includes a net of 2.62 new positions to the Table of Organization and the General Fund.

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

Tenant Eviction Protection - At the May 7, 2024, City Council meeting, staff provided an update on the Tenant Eviction Protection Program and related services to residents facing eviction and potential homelessness. The program has resulted in a 50 percent reduction in the number of eviction notices issued to residents. In November 2023, when the Ordinance was adopted, the City Manager requested and was granted authority for up to four (4) additional positions, if needed, to properly administer the program: one (1) Community Outreach Worker, (and a second, if needed); one (1) Senior Planner; and, one (1) Code Enforcement Officer. Of the four (4) positions authorized, only three (3) were filled.

The Code Enforcement Officer position remained vacant as there was no measurable work related to the new Ordinance that could not be handled by existing Code Enforcement Officers. The Senior Planner was filled and remains in the Proposed Budget for next year. The two Community Outreach Worker positions were filled quickly to help make an immediate impact and reduce the number of no-fault evictions. However, currently, there is only sufficient workload to necessitate one (1) Community Outreach Worker to support residents in risk of evictions. In the past six (6) months, twenty-five families have been served by the City. Further, certain aspects of the tenant protection program have been absorbed by the Constituent Services Team further reducing the need for two Outreach Worker positions. Moreover, one of the Outreach Worker positions will soon be vacant. As such, the Proposed Budget reflects a realignment of the staffing level for this program from four to two positions. This is both programmatically and fiscally prudent as the funding source for these positions

is ARPA, which will end after 2025.

The Finance Department is proposing to add one (1) part-time Accounting Specialist II to support processing invoices for payments in accounts payable. This position will be fully funded by the existing operating budget in the Finance Department. The Police Department is requesting to convert a part-time Accounting Specialist II to a full-time position. Lastly, the Public Works Department is requesting to add a part-time Maintenance Worker to assist with the Signs and Markings Program within the Department.

Compensation Adjustments

The Costa Mesa City Employees Association's (CMCEA) MOU contains a provision for CMCEA to request up to five (5) compensation inequity studies each year. This allows for at least five (5) classifications in this particular bargaining unit to be analyzed by Human Resources to identify whether there are discrepancies in compensation relative to the prevailing market. A classification update may also be needed based on the duties and functions being performed by the incumbent(s). Classification studies may also result in a recommendation to adjust compensation. For 2024, CMCEA requested compensation-inequity studies for the following five classifications:

1. Community Services Specialist
2. Crime Scene Investigator
3. Engineering Technician
4. Equipment Mechanic
5. Office Specialist

Commitment to Public Safety

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

The Police Department budget now contains 142 full-time sworn personnel. The Proposed Budget includes the conversion of three (3) part-time positions to full-time, two (2) that were approved at the FY 2023-24 mid-year. The Police Department also manages the entire Animal Services and Enforcement Program. The reorganization aligns with the City Council Goal - Strengthen the Public's Safety and Improve the Quality of Life.

In addition, the Police Department's salaries and benefits budget increased by a net of \$3.2 million, mostly due to labor contractual agreements and retirement benefits. As in prior years and to balance the General Fund, the Department includes a vacancy factor of approximately \$3.7 million in the budget to capture its average vacancy rate.

The Police Department Proposed Budget for the Equipment Replacement Fund includes \$1.05 million in funding eight Police interceptor vehicles, a light truck for Animal Control, and a heavy one-

ton police truck to haul equipment and support the recently received police armored vehicle.

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

Diversify, Stabilize, and Increase Housing to Reflect Community Needs

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

Advance Environmental Sustainability and Climate Resiliency

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

Transfers Out

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

\$2.85 million into the Information Technology Replacement Fund. The majority of the transfer out reduction is due to the reallocation of the General Fund's transfer out to the Equipment Replacement in Non-Departmental to an Internal Rent category for reporting purposes consistent with Generally Accepted Accounting Principles (GAAP).

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

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 \$59 million exceeds the City Council policy of \$55 million.

Table 6 - General Fund Balance Overview (in millions)

Fund Balance Category	FY 2020/21 Audited	FY 2021/22 Audited	FY 2022/23 Audited	FY 2023/24 Estimate
Committed				
Declared Disasters	\$14,125	\$14,125	\$14,125	\$14,125
Self-Insurance	2,000	2,000	2,000	2,000
Economic Reserves	9,000	9,000	9,000	9,000
Assigned				
Compensated Absences	5,920	5,584	6,210	6,210
Police Retirement 1% Supplemental	2,275	1,885	1,737	1,737
Workers Compensation		1,000	2,000	2,000
Facilities Reserve		2,000	2,000	2,000
Strategic Plan Project		2,000	2,000	2,000
Section 115 Trust	-	-	-	-
Restricted				
Pension and OPEB	1,778	3,061	3,178	3,178
Non-spendable	965	604	459	459
Unassigned	17,429	16,517	16,328	16,328
Total Fund Balance	\$53,492	\$57,776	\$59,037	\$59,037

FY 2024-25 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 functions 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 homeless persons 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 and opened, and a partnership was established between the City of Costa Mesa and the City of Newport Beach. The permanent shelter serves as a temporary home for as many as 85 men and women in need. It is intended to help homeless individuals and residents who are affected by homelessness. To provide better service to the clients at the Bridge Shelter, the City Manager's Department is requesting an increase of three (3) Community Outreach Workers to provide in-house case management and housing navigation services. By having this function in-house, case management efficiencies can be realized that could result in better overall outcomes and potentially more expedient housing placements for clients at the shelter.

The Housing Authority's FY 2024-25 budget consists of funding from a variety of resources with distinct purposes. This includes rental income, loan repayments, grants, subsidies, and contributions/donations.

Table 7 - FY2024-25 Proposed Housing Authority Budget

	FY 2023/24 Adopted	FY 2024/25 Proposed	Increase/(Decrease) Amount/Percentage	
Total Resources	\$4,400,316	\$6,290,709	\$1,890,393	43%
Total Appropriations	\$4,017,325	\$6,290,709	\$2,273,384	57%

FY2024-25 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 2024-2025 calculation, the City uses the population growth of the County of Orange of 0.31% 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 is \$146.9 million less, or 47.4% below the proposed Fiscal Year 2024-2025 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 2024-2025. Below is the calculation utilized for the appropriations limit.

**CITY OF COSTA MESA
CALCULATION OF APPROPRIATIONS LIMIT
FOR FY 2024-2025**

The City's Appropriations Limit for FY 24-25 is calculated as follows:

Step 1	Appropriations Limit for FY 23-24	\$ 298,356,781
Step 2	Multiply the FY 23-24 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.	1.0394
		<u>1.0394</u>
	Appropriations Limit for FY 24-25	<u>\$ 310,115,684</u>

***CALCULATION OF CUMULATIVE GROWTH FACTORS:**

Personal Income Factor	1.0362
Orange County Population Change	1.0031
Costa Mesa Population Change	0.9969
*(1.0362 x 1.0031) =	1.0394
Per capita Cost of Living converted to ratio (3.62+100/100)	1.0362
Orange County Population converted to ratio (0.31+100/100)	1.0031
Costa Mesa Population converted to ratio (-0.31+100/100)	0.9969

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

FY 2024-25 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.

Staff is requesting the approval of the attached Rate Determination Schedule that has been realigned with the rates of our neighboring cities.

2024 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.

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, 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 equipment such as 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 to ensure 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.

ALTERNATIVES:

The City Council can provide alternative direction to staff on the FY 2024-25 Proposed Operating Budget through June 30, 2025. An additional Study Session can be held on Tuesday, June 11, 2024, if needed, with a second alternative final adoption date of Tuesday, June 18, 2024, if desired.

FISCAL REVIEW:

The FY 2024-25 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

CONCLUSION:

The strong commitment of our City Council, residents and community partners for healthy, sustainable neighborhoods and balanced economic activity, both facilitate and aid us to continue the quality of services we provide.

Staff recommends that City Council:

1. Approve Resolution 24-XX, adopting the Proposed Fiscal Year 2024-25 Operating and Capital Improvement Program (CIP) Budget; and
2. Approve Joint Resolution 24-XX adopting the Housing Authority Budget including Housing and Community Development expenditures for Fiscal Year 2024-25; and
3. Authorize and approve staffing as follows:
 - a. Authorize the following full-time positions: increase of 3.0 FTE for Community Outreach Worker for Homeless Services, decrease of 1.0 FTE Community Outreach Worker for the Tenant Eviction Protection Program, and decrease of 1.0 FTE Code Enforcement Officer for the Tenant Eviction Protection Program for a net increase of 1.0 FTE as presented at the May 14, 2024 Study Session; and

- b. Authorize a part-time to full-time conversion Accounting Specialist II in the Police Department for a 0.37 FTE increase due to the increased responsibilities, heavy work workload and succession planning purposes, as presented at the May 14, 2024 Study Session; and
 - c. Authorize the following additions: a 0.75 part-time Accounting Specialist II in the Finance Department to help support with the processing of invoices and a 0.50 part-time Maintenance Worker in the Public Works Department to support the Signs and Markings Program as presented at the May 14, 2024 Study Session; and
 - d. Approve Salary and Classification Updates Resolution 2024-XX (various CMCEA classifications).
4. Approve Resolution 24-XX establishing the Fiscal Year 2024-2025 Appropriations Limit for the City of Costa Mesa at \$310,115,684, 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 action is requested for the following to comply with AB 481 Police Equipment Report and Resolution:
- a. Receive and file the 2024 Annual AB 481 Report and take public comment; and
 - b. Approve Resolution 24-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.