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**Housing Element Rezoning and  
Environmental Impact Report**

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**Professional Services Agreement (PSA)**

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**City Council Meeting  
February 18, 2025**





# Background: Housing Element

- November 2022 - City adopted the 6th Cycle Housing Element
- May 2023 - California Department of Housing and Community Development (HCD) letter
  - The City's Housing Element "meets the statutory requirements of State Housing Law"
  - Rezoning for 11,760 units is required for HCD certification
- To obtain certification, a major effort must take place to amend existing commercial corridors and other parcels to allow for residential development.

# Background: City Council Actions

- March 10, 2023 - 2021-2024 Strategic Plan update
  - Conduct community visioning forums and rezoning for Measure K sites
  - Complete Housing Element Update / Receive State certification
- December 12, 2023 City Council Study Session on the phased rollout of the City's Housing Element programs
- October 15, 2024 City Council presentation on Housing Element Implementation and discussion of major rezoning effort

# Background: City Commitment of Funding

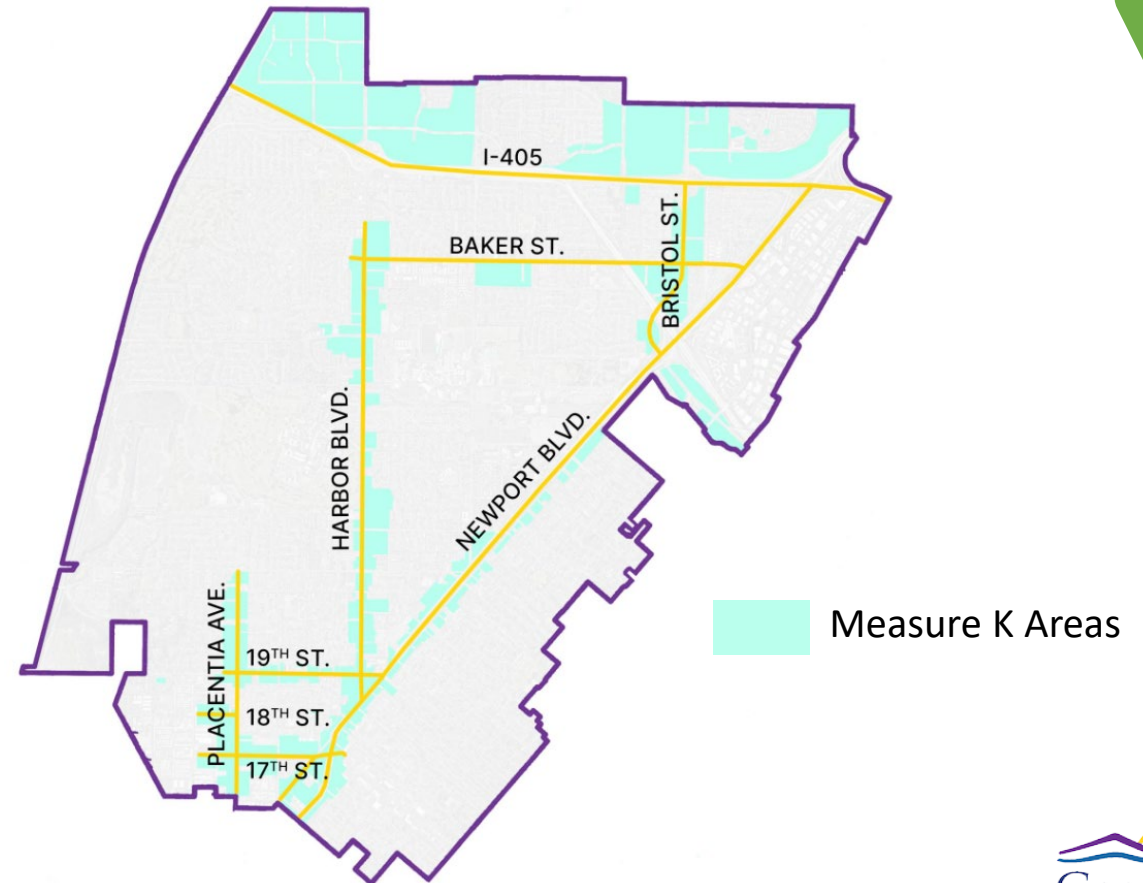
- June 20, 2023, City Council approved \$1.5 million for rezoning during budget adoption
- November 7, 2023, City Council approved an additional \$900,000 during the annual year-end financial report; Total cost of Housing Element implementation estimated to be \$3 million
- Total available funding for Housing Element implementation (including rezoning) is \$2.4 million



# Rezoning Program: Goal and Purpose

1. Implement Housing Element programs
2. New zoning for Housing Element Sites (97 sites)
3. New zoning for Commercial Corridors and Industrial Areas
4. Obtain Housing Element certification from HCD

## BALLOT MEASURE



# Scope of Work Overview

- Analyze the City's adopted specific plans, urban plans, overlays, and existing regulations
- Identify required amendments to adopted plans
- Develop new zones or overlays, along with development standards, to accommodate housing at densities specified in Housing Element
- Community engagement strategy and outreach
- Updated General Plan for required consistency with zoning

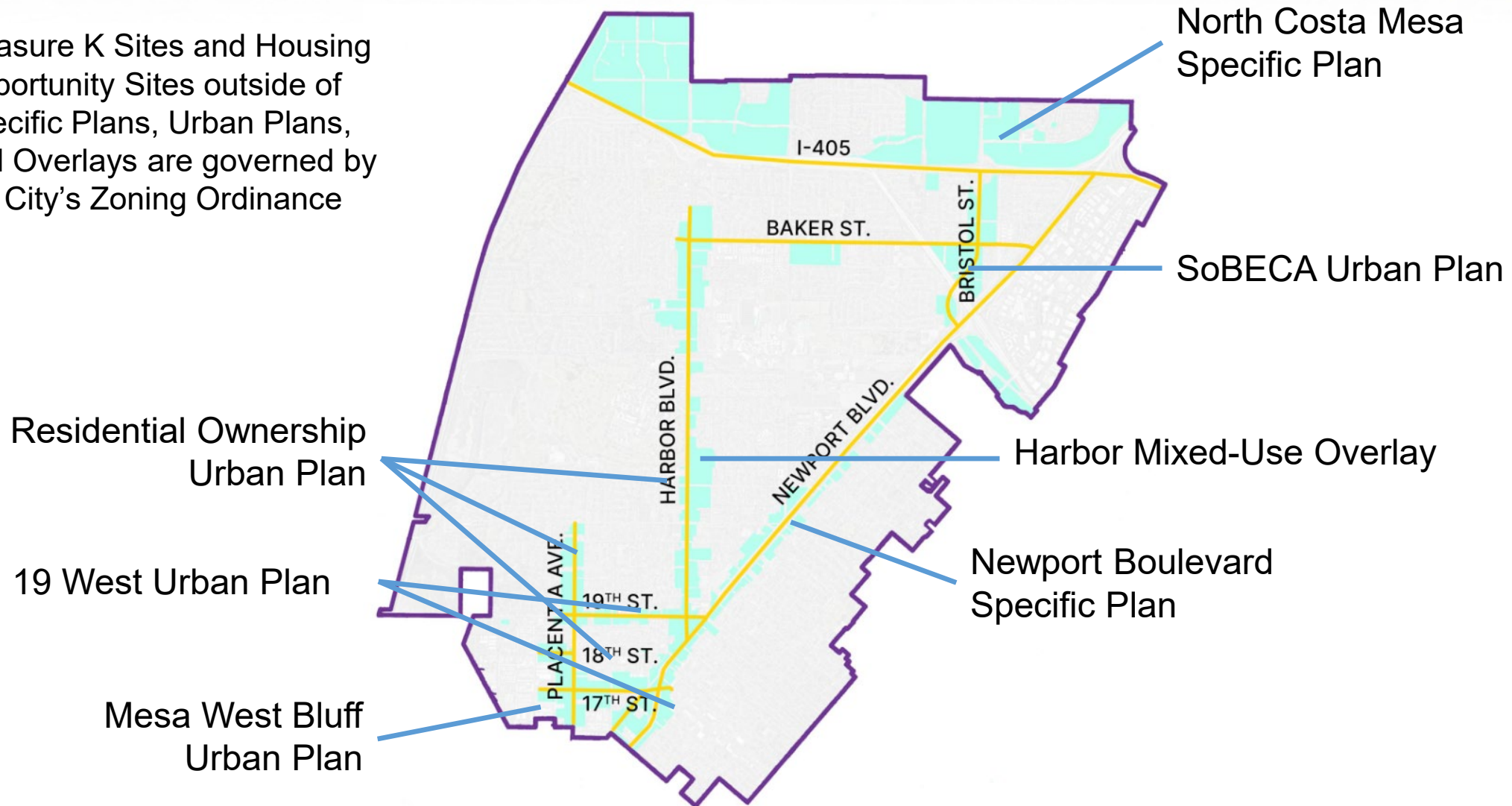
## Scope of Work Overview Continued

- Forecast local housing market potential and develop rezoning fiscal impact model
- Establish objective design standards for residential and mixed-use development
- Improve permitting procedures
- Prepare an Environmental Impact Report (EIR) that future projects may rely on for streamlined review
- Submit revised Housing Element (with completed rezoning) for HCD certification



# Scope of Work: Plan Updates

Measure K Sites and Housing Opportunity Sites outside of Specific Plans, Urban Plans, and Overlays are governed by the City's Zoning Ordinance





# Scope of Work: Zoning Ordinance Updates

- Update Zoning for all Housing Opportunity Sites to plan for new residential development as per State requirements
- Update Zoning Ordinance for compliance with State law (definitions, changes to State housing law, etc.)
- Improve application review and permitting procedures for residential/mixed-use residential projects

# Scope of Work: Community Outreach and Engagement

- Community meetings and pop-up events
- Virtual meetings and surveys
- Updates to the City Council (written, website, briefings)
- Study sessions to share key results
- Public hearings
  - Environmental review (CEQA)
  - Adopt zoning amendments

\*Spanish language included



# Key Information: Cost, Term, and Team

- Dudek - project management, planning, urban design, environmental compliance, etc.
  - Kearns & West - community engagement effort
  - ProForma Advisors - market analyses
- Contract term: 3 years and 2 one-year extensions, if needed
- Total potential cost: \$2,035,672 (includes \$185,061 contingency)

# Key Deliverables & Schedule

Task Category	Deliverables	Estimated Completion
Project Management	<ul style="list-style-type: none"> <li>Progress Reports</li> </ul>	Monthly
Initial Assessment & Strategy	<ul style="list-style-type: none"> <li>Project Kick-Off</li> <li>Existing Conditions Findings &amp; Recommendations</li> </ul>	March 2025 Spring 2025
Community Outreach & Engagement	<ul style="list-style-type: none"> <li>Community Outreach &amp; Engagement Plan</li> <li>Meetings, Events, Surveys, etc.</li> </ul>	Spring 2025 Throughout 2025
Market Demand & Economic Feasibility Analysis	<ul style="list-style-type: none"> <li>Draft Market Demand Analysis</li> <li>Draft Fiscal Impact Analysis</li> <li>Findings Report &amp; Recommendations</li> </ul>	Summer/Fall 2025
Rezoning	<ul style="list-style-type: none"> <li>Draft Urban Plan &amp; Specific Plan Amendments</li> <li>Draft Overlay Amendment and/or New Overlay(s)</li> <li>Draft Technical General Plan Update</li> <li>Housing Element Technical Revisions</li> </ul>	Fall 2025 Winter 2026 Spring 2026 Spring/Summer 2026
Zoning Code Amendments	<ul style="list-style-type: none"> <li>Draft Zoning Code Amendments</li> <li>Draft Development Processing Streamlining</li> </ul>	Spring/Summer 2026 Summer 2026
Objective Design Standards	<ul style="list-style-type: none"> <li>Draft Objective Design Standards</li> </ul>	Spring/Summer 2026
Environmental Review	<ul style="list-style-type: none"> <li>Draft Environmental Impact Report (EIR) Public Review</li> </ul>	Spring 2026
Planning Commission & City Council Public Hearings	<ul style="list-style-type: none"> <li>Rezoning, Zoning Code, General Plan, EIR</li> </ul>	Summer 2026
HCD Certification Submittal	<ul style="list-style-type: none"> <li>Submit revised Housing Element, General Plan Amendments and Rezones for HCD for certification</li> </ul>	November 2026
Additional Public Hearings	<ul style="list-style-type: none"> <li>Design Standards, processing, other amendments as needed</li> </ul>	Winter 2027



A decorative collage of three images is positioned on the left side of the slide. The top image shows a close-up of a modern building's curved, metallic, ribbed roof structure. The middle image is a daytime photograph of a large, modern building with a prominent circular glass facade, surrounded by palm trees and a fountain. The bottom image is a nighttime photograph of a building with a large, illuminated dome and signs for 'TRIANGLE restaurants & entertainment' and 'EL CORAZON', with palm trees in the foreground.

# Advance Planning Ongoing and Work to Date

- 1 Housing Element Implementation activities (Accessory Dwelling Units, housing stabilization programs, coordination with HCD, etc.)
- 2 Fairview Development Center (FDC) Specific Plan
- 3 Climate Action and Adaption Plan (CAAP)
- 4 Inclusionary/Affordable Housing Ordinance
- 5 Outdoor Dining Program and Ordinance



## Next Steps

- Obtain City Council approval of the PSA
- Project kick-off meeting
- Existing regulations analysis
- Community engagement planning







## **Fiscal Year 2023-24 Financial Performance & Audited Financial Reports**

**City Council Meeting  
February 18, 2025**



# Overview

- Governmental Fund Accounting Overview
- Fiscal Year 2023-24 Audit Overview
- Fiscal Year 2023-24 Financial Performance Review
- Fiscal Year 2023-24 General Fund Revenues
- Status of General Fund Reserves
- Fiscal Year 2023-24 Housing Authority
- Next Steps





## Finance Overview

- Fiscal Year is July 1 to June 30
- Fiscal Year 2023-24 adopted budget appropriations: \$234 million – all Funds; \$180.3 million – General Fund
- Generally Accepted Accounting Principles (GAAP) is for municipal accounting
- Governmental Accounting Standards Board (GASB) regulates municipal accounting and requirements for audited financial statements
- Presented the year-end results to FiPAC at their January 29, 2025 and February 12, 2025 meetings



# Finance Overview

- A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting, pursuant to GAAP and GASB, to ensure and demonstrate compliance with finance-related legal requirements.
- Governmental Fund Types:
  - General Fund - Unrestricted
  - Special Revenue Fund - Restricted
  - Capital Projects Fund - Restricted
  - Debt Service Fund - Restricted
  - Internal Service Fund – Restricted (Workers' Compensation and General Liability only)
  - Custodial Fund - Restricted



# Governmental Fund Accounting

- General Fund – chief operating fund for governmental general purposes. Tax revenue is the primary source of its revenue. Important to monitor the fund balance of the General Fund.
- Special Revenue Fund – track revenues from specific sources restricted for certain purposes (i.e. grants).
- Capital Projects Fund - used to track large capital projects (i.e., over \$30,000).
- Debt Service Fund – used to pay long term debt obligations, such as bonded debt.
- Internal Service Fund – collect revenues from departments to pay for services to all City departments (i.e. equipment replacement, legal claims and settlements, workers' compensation and technology replacement).
- Custodial Fund – used to account for funds held by the City in a fiduciary capacity, previously known as “Agency Fund”.





## FY 23-24 Audit Overview

- FY 2023-24 Annual Comprehensive Financial Report (ACFR) received an unmodified (clean) opinion – the highest opinion possible.
- The City's ACFR is award winning – receiving the GFOA Certificate of Achievement for Excellence in Financial Reporting for 26 years.
- Annual financial audit conducted by Davis Farr LLP, an independent accounting firm.
- Audit covers the City's financial statements for all funds and internal controls.

## Scope of the Audit Engagement

- Annual Comprehensive Financial Report (ACFR)
- Financing Authority Financial Statements
- Housing Authority Financial Statements
- Air Quality Improvement Fund (AQMD) and Gann Limit Reports
- Single Audit of Federal Awards (in process)



# AUDIT OPINION



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Main: 949.474.2020 | Fax: 949.263.5520

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and  
Members of the City Council  
of the City of Costa Mesa  
Costa Mesa, California

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa (the City), as of and for the year June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.



# Evaluation of Internal Controls

Review of internal controls for purposes of planning the audit (not to express an opinion on the effectiveness of internal controls)

Reviewed and tested controls over key accounting cycles

- Cash receipting
- Purchasing
- Cash disbursements
- Payroll
- Investing and banking
- Information systems

Internal Control Recommendations

- Journal entries detected during the audit process

## Audit Results on Compliance

- No material instances of non-compliance with laws and regulations that are direct and material to the financial statements were identified
- General fund expenditures were within the City Council approved budget
- No purchasing compliance issues identified
- No investment compliance issues identified
- No debt compliance issues identified
- There was a delayed receipt of audit schedules that added to the timing of the audit
  - ✓ No disagreements occurred with management
  - ✓ Staff will implement project management controls and deadlines to avoid any future delays





# Financial Performance Review

## Fiscal Year 2023-24

(Ending June 30, 2024)



## FY 2023-24 All Governmental Funds

All Funds	FY 2023-24 Actuals
<b>Beginning Fund Balances, July 1</b>	<b>\$139,900,640</b>
Total Revenues & Transfers In	225,951,543
Less: Total Operating	(181,433,250)
Less: Total CIP	(12,346,763)
Less: Transfers Out	(18,892,041)
<b>Operating Results Before Debt Service Payment</b>	<b>\$13,279,489</b>
Less: Debt Service Payment	(3,428,067)
<b>Ending Fund Balance, June 30</b>	<b>\$149,752,062</b>
Change in Fund Balance (All Funds)	\$9,851,422

# FY 2023-24 GENERAL FUND YEAR-END AUDITED ACTUALS

General Fund	FY 22/23 Actual	FY 23/24 Actual	Difference
Total Revenues	177,640,548	183,887,782	6,247,234
Less: Total Operating Expenses	(149,844,446)	(166,963,640)	(17,119,194)
Less: Total Transfers, Net	(26,534,995)	(15,598,195)	10,936,800
<b>Net Change in Fund Balance</b>	<b>\$1,261,107</b>	<b>\$1,325,946</b>	<b>\$64,840</b>

# FY 2023-24 GENERAL FUND YEAR-END AUDITED NET TRANSFERS

Description	FY 22/23 Actual
True-Up to CAN and ITRF	\$3.7M
Fire Training Tower	1.5
Golf Course & Tennis Center	1.2
Lions Park Café	1.1
Workers Compensation	1.0
Housing Element and Visioning	0.9
Rental Assistance (ARPA)	0.5
Transfer to Arts & Culture Fund	0.4
Bus Shelter	0.3
Fire Engine Apparatus	0.3
<b>Total Net Transfers</b>	<b>\$10.9M</b>



## GENERAL FUND REVENUES

- Property Tax totaled \$56.4 million, 5.7% or \$3.0 million higher than the prior fiscal year.
- Cannabis revenue (all in) totaled \$3.2 million, higher than the previous fiscal year of \$0.9 million due to the full annual receipts of new Measure Q cannabis businesses.
- Transient Occupancy Tax slightly increased to \$10.2 million, 3.3% or \$300,000 higher than the prior fiscal year.
- Sales Tax receipts came to \$76.4 million, a decrease of \$3.5 million or 4.3% over last fiscal year.



## FUND BALANCE IN GENERAL FUND (IN THOUSANDS)

Fund Balance Category	FY 21/22 Audited	FY 22/23 Audited	FY 23/24 Audited	Difference
<b>Committed</b>				
Declared Disaster	\$14,125	\$14,125	\$14,125	-
Self Insurance	2,000	2,000	2,000	-
Economic Reserves	9,000	9,000	9,000	-
<b>Assigned</b>				
Compensated Absences	5,584	6,209	5,982	(227)
Police Retirement 1% Supplemental Plan	1,885	1,737	1,572	(165)
Workers' Compensation	1,000	2,000	2,000	-
Facilities Reserve	2,000	2,000	2,000	-
Strategic Plan Projects	2,000	2,000	2,000	-
<b>Restricted</b>				
Pension and OPEB	3,061	3,178	3,367	189
<b>Non-Spendable</b>	604	460	630	170
<b>Unassigned</b>	16,517	16,328	17,686	1,358
<b>TOTAL</b>	<b>\$57,776</b>	<b>\$59,037</b>	<b>\$60,362</b>	<b>\$1,325</b>

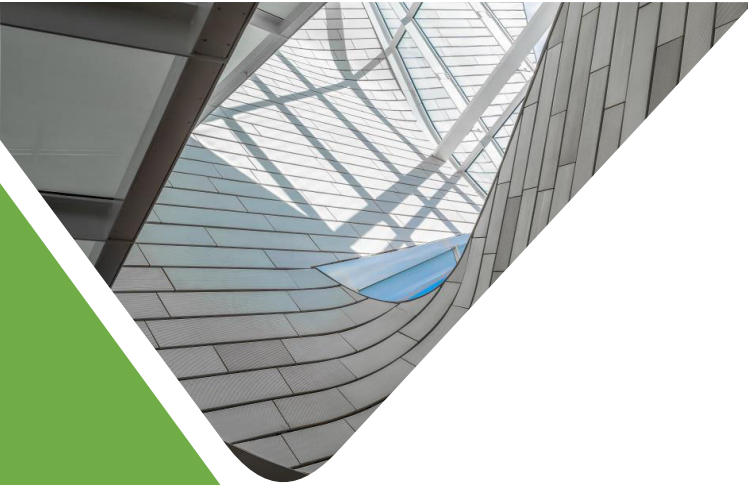


## NOTABLE FISCAL ACHIEVEMENTS

- General Fund Revenues now exceed the City Council Reserve Policy by \$5.4 million.
- Fully funded the CAN (CIP) at \$7.2 million in FY 23/24.
- Fully funded the Information Technology Replacement Fund at \$3.1 million, fully funding the 5-year IT Strategic Plan.
- Strategically utilized multiple funding sources to purchase two (2) Fire Combination Pumpers of \$938,000 from CDBG, \$300,000 from the General Fund year-end savings, and \$1.5 million utilizing the master lease low interest rate of 3.9%.
- No major audit findings or internal control breaches identified.







# Housing Authority

## Fiscal Year 2023-24



## Housing Authority

- Separate legal entity formed in 2012 to function as the Housing Successor to the dissolved Costa Mesa Redevelopment Agency.
- Includes accounts for the City's homeless outreach and bridge shelter programs and operations, among other housing related programs.



# Housing Authority Programs

- Programs previously held by the former RDA
  - Single Family Rehabilitation Program
  - Federal Neighborhood Stabilization Program (NSP)
  - Costa Mesa Family Village
  - Habitat for Humanity Loan Program
  - James Street/W. 18th Street Property (rental)
  - Affordable Housing Administration
- Established Programs as of FY 2019-20
  - Homeless Outreach Program
  - Homeless Bridge Shelter Operations





# FY 2023-24 HOUSING AUTHORITY YEAR-END AUDITED ACTUALS (in millions)

Description	FY 2023/24 Audited Actuals
<b>Beginning Fund Balance, July 1<sup>st</sup></b>	<b>\$8.30 M</b>
<sup>1</sup> Revenues and Transfers In	6.14 M
Less: Total Operating Expenses	(6.12) M
<b>Net Change in Fund Balance</b>	<b>\$0.02 M</b>
<b>Ending Fund Balance, June 30<sup>th</sup></b>	<b>\$8.32 M</b>

Note:

<sup>1</sup> Revenues and transfers of \$6.14 million include City of Newport Beach contribution of \$1.3 million; \$940,000 of Housing Authority revenues that includes loan repayments and grants; \$2.3 million General Fund transfer to the Housing Authority for homeless program costs and \$0.5 million from FEMA for rental assistance program; \$1.1 million ARPA funding for Mercy House Rental Assistance Program, for households facing Just Cause Evictions and for Homeless Outreach.



# FUND BALANCE IN HOUSING AUTHORITY

(in millions)

Fund Balance Category	Amount
<b>Major Housing Programs</b>	
Housing Program	\$1.9 M
Costa Mesa Family Village	1.2 M
First Time Home Buyer Program	1.1 M
<b>Homeless Program</b>	2.6 M
<b>Tenant Protection Program</b>	1.0 M
<b>James Street</b>	0.5 M
<b>TOTAL</b>	<b>\$8.3 M</b>



## Next Steps

- March 2025: FY 2024/25 Mid-Year Update
- April 18, 2025: FY 2025/26 Capital Improvement Projects (CIP) Presentation
- May 13, 2025: FY 2025/26 Proposed Operating Budget Study Session
- June 2, 2025: FY 2025/26 Proposed Operating and CIP Budget for City Council adoption and consideration
- June 16, 2025: FY 2025/26 Proposed Operating and CIP Budget for City Council adoption and consideration, if needed
- June 30, 2025: Fiscal Year Ends



## Supply Boost Has Driven Down Rents in Lower-Cost Apartments

Market	Effective Rent Change in 2023			
	Market Average	Class A	Class B	Class C
Austin	-6.0%	-4.4%	-5.7%	-7.9%
Dallas	-1.4%	-0.4%	-1.9%	-1.5%
Orlando	-4.0%	-2.9%	-5.1%	-3.1%
Phoenix	-4.3%	-1.9%	-3.9%	-7.2%
Salt Lake City	-3.4%	-1.9%	-3.9%	-3.6%
San Antonio	-2.9%	-1.7%	-3.6%	-2.8%

Source: chart and rent data from RealPage