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TITLE:

FISCAL YEAR 2023-2024 MID-YEAR BUDGET UPDATE

DEPARTMENT: FINANCE DEPARTMENT

PRESENTED BY: CAROL MOLINA, FINANCE DIRECTOR

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

RECOMMENDATION:

Staff recommends that City Council receive and file the FY 2023-24 mid-year budget update for the current fiscal year that began on July 1, 2023 and ends on June 30, 2024.

BACKGROUND:

On June 6, 2023, the City Council approved a General Fund (Fund 101) balanced budget of \$180.3 million and the All Funds (including Restricted Funds) budget totaled \$234 million with a total of 588 Full-Time Equivalents (FTEs) across City Departments.

All City Departments continue to exercise fiscal prudence by monitoring their budgets to ensure there are sufficient appropriations for essential programs; expending actual revenue that has been received or awarded in grants or restricted funds; and making minor adjustments to staffing to better address workload demands and Council priorities.

ANALYSIS:

Overall, the FY 2023-24 Second Quarter Financial Report indicates that revenues and expenditures are consistent with projections made in the FY 2023-24 Amended Budget. Since a significant portion of our revenues and expenses do not occur evenly throughout the year, the remaining third and

fourth quarter numbers cannot simply be extrapolated to arrive at the full year's amounts. However, we do utilize the best information available and historical data to provide an estimate of the fiscal year-end performance. As of December 31, 2023, the General Fund recorded 37% of the projected revenues and 53% of budgeted expenditures. These percentages are consistent with projections for this time of the fiscal year.

As of December 31, 2023, total General Fund revenues are \$66.3 million and expenditures are \$95.5 million, representing 53% of total expenditure budget. City departments strive towards achieving City Council's goals for long-term fiscal sustainability by monitoring revenues and finding ways to improve performance. Moreover, departments exercise prudence with the budget to deliver effective and efficient benefits to the residents of Costa Mesa.

REVENUES

The City continually monitors and adjusts its revenue projections based on revenue performance and other developments that impact City revenues. It is important to note that certain key revenues are received at different times throughout the fiscal year. Sales Tax represents 46% of the total annual General Fund revenue and is the largest revenue category. Property Tax represents 30% of the total General Fund revenues budget and is primarily received in the December/January and April/May periods. Transient Occupancy Tax (TOT) represents 5% of total General Fund Revenues and is received monthly. Although TOT receipts have increased since last fiscal year, this revenue stream continues to be impacted by the pandemic and the loss of group bookings, comprised of industry and trade conferences. Cannabis Gross Receipts Tax represents 2% of budgeted General Fund Revenues but will not materialize at the level budgeted as the retail cannabis program is still in the early implementation phase. We are amending the General Fund Year-End projections from \$180.3 million (including transfers) to a total of \$181.9 million, a slight increase of \$1.6 million.

EXPENDITURES

The Fiscal Year 2023-24 expenditures budget was \$181.9 million for Citywide services with public safety comprising over 50% of total expenses. As of this writing, General Fund expenditures are expected to come in at amended budgeted levels.

Fiscal Year 2023-24 Mid-Year Update

Category	Adopted FY 23/24	Projected FY 23-24	Difference
Property Taxes	54.5	55.3	0.8
Sales Tax	82.5	81.9	(0.6)
TOT (hotel tax)	9.5	9.9	0.4
Cannabis Tax	3.0	2.6	(0.4)
Other Revenues	30.8	32.2	1.4
Subtotal	180.3	181.9	1.6
Use of Reserves/ARPA	-	-	-
Total Funding Sources	180.3	181.9	1.6
Expenditures	180.3	181.8	1.5
Net Gain / (Loss)	-	0.1	0.1

Strengthen the Public Safety and Improve the Quality of Life

The City Council has prioritized a goal to strengthen the safety of the public and improve the quality of life for residents of Costa Mesa. There are several critical positions in the Police Department that staff will be requesting at a future Council meeting to further strengthen administrative support for the Police.

In addition, throughout the year, the City's Police Department provides special event support to other jurisdictions. In these situations, Costa Mesa Police provides special event security with both personnel and fleet. After the event, the City will receive full reimbursement for services provided. Staff will request the City Council's authorization to appropriate funds from these services into the Police Department budget.

Recruiting and Retaining High Quality Staff

The City has implemented multiple strategies to recruit and retain high quality staff. Personnel realignments and adjustments have been deliberate and phased-in to ensure that the City's financials can sustain the fiscal impacts long term. The City updated compensation for various hard to fill positions to attract high caliber personnel, realigned labor contracts to market when possible, and increased staffing levels to assist with the increasing customer service demands. These multiple strategies have resulted in successful hires. Forthcoming compensation analysis and discussions include the management group, executive team and City Council.

Development Services Department

The Development Services Department is requesting to add one (1) full-time Planning and Sustainable Development Manager to lead a team focused on development and implementation of the City's long range planning work programs. A manager position is necessary to lead and administer the numerous long range planning programs including implementation of Measure K and the Housing Element in order to achieve State Housing Element certification. These efforts include responsibility and staff/consultant oversight for the intensive zoning code amendments, re-zoning and

General Plan amendments required to implement Measure K, lead the effort to develop objective design standards, oversee the development and implementation of work programs identified in the City's approved Housing Element, along with the associated Environmental Impact Report (EIR) efforts. The Planning and Sustainable Development Manager will also implement, manage, monitor, and enforce the proposed inclusionary housing ordinance. This incumbent's tasks would include but are not limited to the collection and management of in-lieu fees, preparation of requests for proposals for housing projects funded by in-lieu fees, agenda reports for the allocation of in-lieu housing funds, development of community development partnerships, preparation and monitoring of affordable housing agreements for each inclusionary project, annual rent certifications to ensure required units are rented to households at the appropriate income levels, and appropriate tracking and reporting of units to the State annually. This manager position is a companion position to the recently approved Planning and Sustainable Development Manager position that leads the current planning and project entitlement team.

The Development Services Department is also requesting to add one (1) Building Technician. The Development Services Department's Building Division provides plan review, permitting and inspection services to ensure compliance with mandatory state use, and occupancy of private and public buildings and properties. The Building Division process has evolved recently due to the implementation of the City's new automated permit system (Tessa). The additional staff will assist in providing and processing information through Tessa for property owners, developers, contractors, architects, and others. Some of the essential functions include: to provide general and technical information to permit applicants, receive and review building permit applications, completeness and compliance with established regulations, routing plans to different departments for review, calculate and collect fees. This position is also responsible for responding to Public Records Act (PRA) requests related to building permits and plan documents. The City Clerk's Office has been taking on these additional workload overflow duties, when the Permit Technicians must prioritize in-person customers. Based on the above responsibilities, an additional technician is necessary and will improve the customer service experience in the City.

Parks and Community Services Department

The Parks and Community Services Department is requesting to convert a part-time Sr. Community Services Leader one (0.25) to one (1.00) full-time Recreation Specialist. This Recreation Specialist will assist with support in park restoration projects and public education programs. Converting the position will help in coordinating and supporting a variety of conservation, restoration, outreach and resource management activities for the City's natural parklands to ensure environmental compliance with federal, state and local laws and regulations and the preservation and operations of Fairview Park. In addition, the large amount of grant funded projects for Fairview Park will require additional assistance to complete while continuing to provide regular park programming.

Police Department

The Police Department is requesting to convert a part-time Property and Evidence Specialist position (0.75), to one (1) full-time Property & Evidence Specialist. The Property and Evidence Bureau is responsible for securely storing and preserving all property and evidence acquired by the Police Department. During the past three years, the Property and Evidence Bureau received and processed an annual average of 12,836 items booked into property and evidence. Ensuring adequate staffing for the volume of property and evidence is crucial. Converting the position to full-time will assist the Bureau in meeting the increased demands and workload including maintaining the property

warehouse, booking and purging property and evidence, coordinating fleet maintenance, purchasing, issuing and tracking police issued duty gear and equipment and will assist with retention.

The Police Department is also requesting to convert a part-time Sr. Community Services Leader one (0.48) and part-time Office Specialist II one (0.25) to one (1) full-time Permit Processing Specialist and retitle the full-time Recreation Coordinator position in the Police Department to a newly created Animal Services Coordinator classification. As part of the FY 23-24 budget, Animal Services was moved from the Parks and Recreation Department to the Police Department. This move included the transition of a Recreation Coordinator and a Sr. Community Services Leader between both departments. The City is on pace to have over 3,000 animal control calls for service and process over 3,100 animal license applications. The Permit Processing Specialist will assist in processing animal licensing and provide administrative support to the Animal Services Bureau. The new Animal Services Coordinator classification will better align to the classification structure for the Animal Services Bureau.

Summary

In summary, the total net increase to the Citywide Table of Organization of all these changes within all departments including the new positions, reallocations of classifications and part-time to full-time conversion is 3.27 FTE for all Departments. A summary of the proposed updates and resultant costs is contained below.

Department	Staff Update	Net FTE	Current Year Prorated Impact	Annual Impact
Economic and Development Services	Add 1.0 full-time Planning and Sustainable Development Manager	1.00	42,817	171,267
Economic and Development Services	Add 1.0 full-time Building Technician	1.00	26,739	106,956
Parks and Community Services	Convert 0.25 part-time Sr. Community Services Leader to 1.0 full-time Recreation Specialist	0.75	20,152	80,606
Police	Convert 0.75 part-time Property & Evidence Specialist to 1.0 full-time Property & Evidence Specialist	0.25	7,224	28,897
Police	Convert 0.48 part-time Sr. Community Services Leader and 0.25 Office Specialist II to 1.0 full-time Permit Processing Specialist	0.27	5,963	23,850
TOTAL FTE		3.27	\$ 102,895	\$411,576

Compensation Adjustments / Classification Updates

The Human Resources Division makes recommendations to the City Manager that may require

adjustments based on input from City departments and labor associations along with recruitment and retention trends. Hard-to-fill positions include positions that are currently vacant, positions that are not currently vacant but are traditionally hard to fill, and positions which are currently filled but are expected to be difficult to fill in the future or retain for long term due to their relative position in the marketplace as being well under market compensation. Further, certain positions would adversely impact City operations if the position were to become vacant and would be difficult to fill at current salaries. Some adjustments are also recommended to maintain internal alignment or to address compaction issues with supervisory classifications.

On September 19, 2023, the City Council approved market adjustments for positions in the Analyst series including an adjustment for Financial Analyst. In order to address compaction issues between the Revenue Supervisor and Financial Analyst which it supervises, an adjustment is being recommended for the Revenue Supervisor classification. In addition, adjustments are also being recommended for all of the Finance Department Supervisors to include Revenues Supervisor, Accounting Supervisor, Purchasing Supervisor and Payroll Supervisor to maintain internal alignment. The adjustment is currently under review.

The Human Resources Division is developing a new internship program to create a pipeline for identifying and nurturing local talent. Providing opportunities for students and recent graduates to gain practical experience within a municipality cultivates a pool of skilled individuals who can later become valuable employees. The Human Resources Division has been partnering with and attending job fairs at local universities and the most asked question at these fairs is regarding internship opportunities. Currently, the City offers one internship level paid at minimum wage. To encourage local students and recent graduates to participate in our internship program, it is recommended to increase the intern pay range and create two levels of internships: one geared towards undergraduate students and one geared towards recent graduates or graduate students. Departments will absorb the fiscal impact within their budget.

FISCAL REVIEW:

There is no fiscal impact to receiving and filing this report. All future proposed staffing changes will be fully costed and presented to the City Council.

LEGAL REVIEW:

The City Attorney has reviewed and approved this report as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following 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:

Staff recommends that City Council receive and file the mid-year budget review for Fiscal Year 2023-24 that began on July 1, 2023.