

**SPECIAL ADJOURNED/STUDY SESSION MEETING OF THE
CITY COUNCIL CITY OF COSTA MESA**

January 31, 2012

The City Council of the City of Costa Mesa, California met in a Special Study Session on Tuesday, January 31, 2012 at 4:30 p.m. in Council Chambers, 77, Fair Drive, Costa Mesa. The meeting was called to order by the Mayor Pro Tem.

ROLL CALL:

Council Members Present: Mayor Pro Tem Jim Righeimer
Council Member Eric R. Bever
Council Member Wendy Leece (left meeting at 6:21 p.m.)
Council Member Steve Mensinger

Council Members Absent: Mayor Gary Monahan

Officials Present: CEO Thomas Hatch
City Attorney Thomas Duarte
Finance/IT Director Bobby Young
Interim Public Services Director Ernesto Munoz
Interim Development Services Director Khanh Nguyen
City Clerk Julie Folcik

PUBLIC COMMENT

1. Eleanor Egan, Costa Mesa, asked about a zero contribution comparison vs. employees paying their maximum PERS contribution. (00:00:57)
2. Bob Ooten, Costa Mesa, asked the City to consider library upgrades. (00:02:50)
3. Perry Valantine, Costa Mesa, commented on annual user fees, unfunded liabilities and Council priorities and capital improvements. (00:07:44)
4. Martin Millard, Costa Mesa, suggested a line item for improvements on the Westside. (00:12:10)
5. Robin Leffler, Costa Mesa, commented on the PERS liability and suggested showing numbers on what employees are paying versus what employees are going to pay. (00:12:46)
6. Beth Refakes, Costa Mesa, commented on street improvements and upgrades to Council Chambers. (00:15:39)

ITEMS FOR DISCUSSION

1. Review of Draft Financial and Budget Policies Document (00:18:26)

CEO Thomas Hatch introduced the report and described the research on policies and ordinances and incorporating the requests from Council

Members to replenish and maintain adequate reserves that were incorporated into the budget policy document.

Finance/IT Director Bobby Young described the document as a tool for accountability and presented an outline of the budget policy, and noted that once adopted, the budget policy would be reviewed and adopted annually. Mr. Young also provided background on financial reporting goals and auditing requirements according to General Accounting Principles (GAP).

Council Member Bever expressed concern that although the City does well on their financial reports, the auditors have not provided an indication of the City's strengths and weaknesses and he would like to see feedback and direction from the auditors in future reports. He also asked for an appendix on unfunded liabilities at the end of each budget document and an earlier deadline for staff to complete the budget document for City Council review.

Mr. Young stated a goal of reviewing the budget within eight months of budget adoption and adopting an operating budget carryover policy. He noted a goal of minimum cash reserves of 40 percent by June 30. Cash reserve categories consist of fund balance on the general operating budget, non-spendable committed, assigned, or un-assigned.

Council Member Bever inquired as to the reporting of the Lehman Brothers note. Finance/IT Director Bobby Young advised that the Lehman Brothers note is included as an investment and recorded losses are included in fund balance. Minimum cash fund balance at the beginning of the fiscal year was \$10 million and a six year history was presented. Currently, the City has a \$13 million cash fund balance with a goal of \$15 million.

Discussion ensued on the standards for cash balance and requirement for using cash balance. Mr. Young recommended maintaining a minimum cash balance of \$10 million and developing a schedule to review revenue at different times of the year.

Council Member Mensinger requested staff create a formal policy for requesting the use of reserves and would like to see the cash balance as a percentage of gross revenue.

Finance/IT Director Bobby Young responded to questions from the Council Members regarding the business license tax, an accounts receivable system, and the capital improvement budget. Council Member Bever suggested a 10 percent policy and working toward a 15 percent policy for capital improvements without counting grant funds. Council Member Leece preferred a graduated policy of increasing the capital improvement budget and asked the Council to consider supporting a library master plan.

Council Member Leece left the meeting at 6:21 p.m.

CEO Hatch informed the City Council that the Mayor expressed that he would like a 10 percent increase to the capital improvement budget, but felt that more than a 5 percent increase right now would be difficult.

Council Member Bever asked that the City's auditors explain the process to book unfunded liabilities and asked for the City's collection policy for bad debt.

Council took no action on this item.

2. Five-Year Financial Forecast (01:53:01)

CEO Thomas Hatch introduced this report and Finance/IT Director Bobby Young explained the structure of the document, presenting the benefits of projecting future budgets, spending priorities, assumptions, revenues and expenditures, and explained sales tax and property tax projections.

A debt service of approximately \$1.4 million would be going away soon, but staff is holding the line on expenditures with increased revenue. Assumed salary increases and changes after agreements fall off were included in the plan. Current initiatives and funding needs for streets, unfunded liabilities, unfunded medical reimbursement for retirees and general liability were also presented. (02:15:57)

Mayor Pro Tem Righeimer stated that although the five-year financial forecast is a good document, there is a need to work towards funding the needs of the city and looking at where the money will come from.

Discussion ensued on a seven-year plan for street and alley improvements and the formula to determine needs and revenue sources. Interim Public Services Director Ernesto Munoz advised the Council that 41 percent of the City's alleys are in poor condition and would require \$1.4 million for improvements.

Council Members expressed interest in plugging in the numbers for streets, alleys, sidewalks, park improvements, software and hardware into the five year projection. Staff responded to questions from Council Members on a strategy to reduce the costs related to trip and fall claims and an upgrade to the City's Information Technology equipment.

Council Members asked for \$500,000 to be considered for the unfunded PERS liability and medical retirement costs and asked staff to provide information on future budgeting for these costs.

CEO Thomas Hatch presented a plan to partner with Costa Mesa United, the Sports User Groups and Newport Mesa Unified School District to fund a youth sports project. An agreement to be the fourth partner would further support youth sports. (02:46:37)

Discussion ensued on the agreement with Costa Mesa United and the original intent to fund the Jim Scott Stadium and the Costa Mesa High School Aquatic Center. No further obligations for future funds were included in the original agreement.

Mary Ellen Goddard presented a request for a Master Plan Study for Library Services, and asked the City Council to consider using any remaining monies from Costa Mesa United or money in the budget for a central library. Ms. Goddard described the size and capacity of the Newport Beach Central Library and felt that families in Costa Mesa would benefit from a comparable central library. (02:49:20)

Mayor Pro Tem Righeimer asked for clarification of the ownership of the Mesa Verde and Donald Dungan libraries. Staff advised that the buildings are owned by the City, and the agreement with Orange County Library is to provide operations at all branches. The City provides the maintenance for the Mesa Verde branch. The Technology branch is in leased space. CEO Hatch advised that the City receives a portion of property tax to help fund library operations. Costa Mesa is a recipient City and is not paying all the costs to operate the libraries. A funding source would have to be identified in the master plan for a central library. Mayor Pro Tem Righeimer suggested that staff develop a plan to fund a central library.

CEO Thomas Hatch presented to the City Council a request to fund a Sports Field Master Plan for approximately \$10 million and to work with the Newport Mesa Unified School District. Council Members agreed to consider putting \$2 million a year toward this project. (03:01:51)

CEO Thomas Hatch notified the City Council of the need to research funding to continue the Fairview Park Master Plan Project. Staff will submit a report at a later date for discussion.

Mayor Pro Tem Righeimer suggested a need to put money towards the acquisition of motels that are ridden with crime which is causing added expense for the Police Department. A suggestion was made to put in approximately \$1 million a year for five years toward acquisition of the problem properties.

Discussion ensued on purchasing trees at \$800,000, upgrades to the City's 800 MHz system and finding the cost and funding for renovating Fire Station One and the Harbor Boulevard medians project.

Interim Public Services Director Ernesto Munoz presented the Drainage Master Plan, and noted that although some improvements have been made, current costs are much higher now than when the survey was completed in 2006. Discussion ensued on budget contingencies of no less than \$1 million and the desire to resolve problems with "back-splashing". (03:18:36)

CEO Thomas Hatch advised the Council of employee contractual retirement contributions ending as agreements expire. Mayor Pro Tem Righeimer asked the City Attorney and staff to explore the possibility of imposing costs or looking at outsourcing or some way to cut salary and benefits to fund the budget items discussed. (03:31:56)

Council Member Bever asked for consideration of \$2.5 million over five years for street improvements on the Westside.

Council took no action on this item.

COUNCIL MEMBERS REPORTS, COMMENTS, AND SUGGESTIONS

Council Member Mensinger reported of his visit to the Hurley facility in Costa Mesa and stated he would like to promote the fact that their apparel starts at the Costa Mesa facility. He also welcomed Assistant CEO Rick Francis and thanked staff for the hard work on the five-year Financial Forecast.

ADJOURNMENT

The Mayor Pro Tem declared the Study Session adjourned at 8:10 p.m. The next Regular Meeting will be held February 7, 2012.

Mayor of the City of Costa Mesa

ATTEST:

City Clerk of the City of Costa Mesa