

FY 2015-16 OPERATING & CAPITAL BUDGET IN BRIEF

The Fiscal Year 2015-16 Preliminary Budget reflects the operating and capital spending plans for the General Fund, Special Revenue Funds, Capital Project Funds, and Internal Service Funds. The total adopted budget for all funds is \$147.8 million, an increase of \$7.9 million or 5.7% compared to the adopted budget for FY 14-15. Table 1 illustrates these amounts.

TABLE 1

PRELIMINARY BUDGET--ALL FUNDS

| Appropriations <u>All Funds</u> | Adopted | Preliminary | Increase/(Decrease) | | FY 15-16 |
|------------------------------------|-----------------------|--------------------|---------------------|----------------|-------------------|
| | <u>FY 14-15</u> | <u>FY 15-16</u> | <u>Amount</u> | <u>Percent</u> | <u>% of total</u> |
| Operating Budget | \$ 114,958,461 | \$ 118,083,807 | \$ 3,125,346 | 2.7% | 79.9% |
| Transfers Out | 5,517,067 | 7,452,140 | 1,935,073 | 35.1% | 5.0% |
| Capital Budget | 19,421,001 | 22,299,929 | 2,878,928 | 14.8% | 15.1% |
| Total | \$ 139,896,529 | 147,835,876 | \$ 7,939,347 | 5.7% | 100.0% |

GENERAL FUND BUDGET OVERVIEW

For all governmental funds, the General Fund comprises 89.2% of the *operating* budget and 76.4% of the *operating* and *capital* budget. Therefore, the succeeding discussion will focus primarily on the General Fund.

The preliminary General Fund budget is \$112.95 million, an increase of \$3.5 million or 3.2% compared to the FY 14-15 adopted budget. Table 2 below illustrates the components and the changes of the adopted budget as compared to the prior year's budget.

TABLE 2

GENERAL FUND OPERATING BUDGET

| Expenditure Category | Adopted | Preliminary | Increase/(Decrease) | | FY 15-16 |
|----------------------|-----------------------|--------------------|---------------------|----------------|-------------------|
| | <u>FY 14-15</u> | <u>FY 15-16</u> | <u>Amount</u> | <u>Percent</u> | <u>% of total</u> |
| Salaries & Benefits | \$ 78,839,634 | \$ 77,802,041 | \$ (1,037,593) | -1.3% | 68.9% |
| Maint. & Operations | 24,992,819 | 27,574,446 | 2,581,627 | 10.3% | 24.4% |
| Fixed Assets | 102,152 | 91,654 | (10,498) | -10.3% | 0.1% |
| Transfers Out | 5,517,067 | 7,486,049 | 1,968,982 | 35.7% | 6.6% |
| Total | \$ 109,451,672 | 112,954,190 | \$ 3,502,518 | 3.2% | 100.0% |

Salaries & Benefits: Budgeted personnel costs decrease by \$1 million or 1.3%. This decrease is attributed to a number of factors including a reduction of six sworn Custody Officers due to contracting out jail operations, reduction of three maintenance workers due to contracting out street sweeping, inclusion of new, lower cost retirement tiers and salary schedules for newly hired and vacant non-sworn positions, non-sworn employees paying 60% of their retirement cost increases, inclusion of only merit step increases for filled sworn positions and correction of retirement calculation formulas. These reductions were partially offset by increases in part-time

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positions, cafeteria plan, increases in retirement rates, professional development and retiree medical. Budgeted positions are set at the level of personnel needed to continue providing expected levels of services to the community.

Maintenance & Operations (M&O): The maintenance and operations category includes such things as: office supplies; office equipment; electricity, gas and water for all City owned property including parks, medians, street lights and traffic signals; principal and interest payments on outstanding City debt. The preliminary budget for maintenance and operations accounts is \$27.6 million, a net increase of \$2.6 million or 10.3% compared to the FY 14-15 adopted budget. The increase is attributed to janitorial and housekeeping, maintenance of streets, alleys and sidewalks, consulting and the reinstatement of internal rent-replacement charges for vehicles after a one-year internal rate holiday.

Transfers Out: The preliminary budget includes an operating transfer out of 5% of General Fund Revenues, similar to the current budget year. In addition, another 1.5% of General Fund Revenues is dedicated to Capital Facilities Projects—specifically an additional \$1.7 million set aside for the future rebuilding of Fire Station 1.

The total adopted FY 115-16 General Fund estimated revenue is \$113.1 million, an increase of \$3 million or 2.8% compared to projected revenues for FY 14-15. Table 3 illustrates the General Fund revenue sources that fund City services.

TABLE 3

GENERAL FUND ESTIMATED REVENUES

| <u>Revenue Source</u> | <u>Projected</u> | <u>Preliminary</u> | <u>Increase/(Decrease)</u> | | <u>FY 15-16</u> |
|-----------------------------|-----------------------|--------------------|----------------------------|----------------|-------------------|
| | <u>FY 14-15</u> | <u>FY 15-16</u> | <u>Amount</u> | <u>Percent</u> | <u>% of total</u> |
| Taxes | \$ 87,217,170 | \$ 91,055,600 | \$ 3,838,430 | 4.4% | 80.5% |
| Licenses & Permits | 1,879,925 | 2,481,500 | 601,575 | 32.0% | 2.2% |
| Fines & Forfeitures | 1,047,261 | 1,190,000 | 142,739 | 13.6% | 1.1% |
| Use of Money & Property | 4,535,985 | 3,144,700 | (1,391,285) | -30.7% | 2.8% |
| Other Governmental Agencies | 10,515,289 | 10,612,800 | 97,511 | 0.9% | 9.4% |
| Fees & Charges for Services | 3,587,974 | 3,796,000 | 208,026 | 5.8% | 3.4% |
| Other Revenue | 1,253,905 | 787,300 | (466,605) | -37.2% | 0.7% |
| Total | \$ 110,037,509 | 113,067,900 | \$ 3,030,391 | 2.8% | 100.0% |

Note: Excludes Transfers In

Revenues: As a result of the continued rebound in the economy, most revenue sources are projected to increase at. The City has been experiencing increases in Sales Tax, Property Tax, Transient Occupancy Tax (TOT) and Building Permit revenue in the current fiscal year and expect those to continue in FY 15-16.

Sales & Use Tax represents Costa Mesa's single largest revenue source and is estimated at \$52.3 million or 46.2% of the total General Fund revenues estimated for FY 15-16. This amount represents an increase of \$2 million or 4% from the estimate for FY 13-14. This change in revenue is directly attributed to a continued increase in sales activity. The City has been experiencing increases in Sales Tax revenues since the winter of 2009.

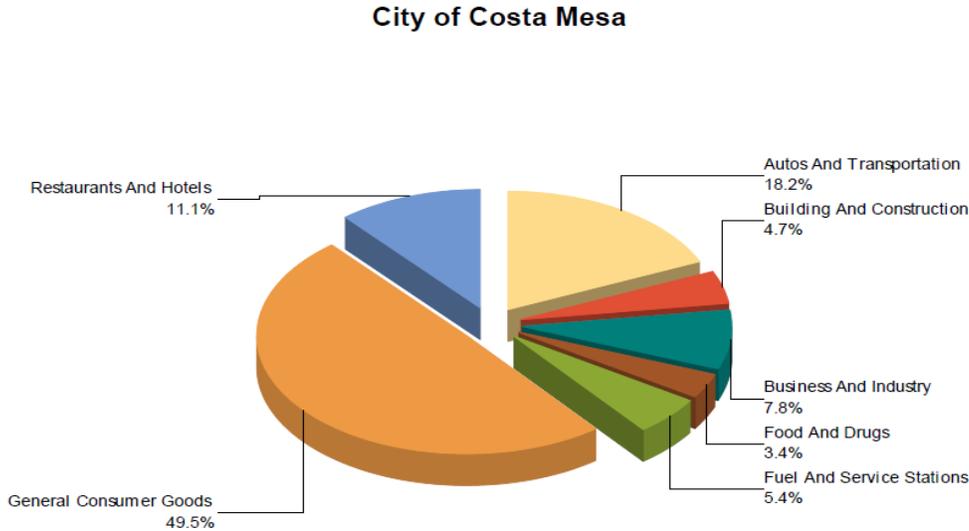
Part of the \$50.2 million Sales & Use Tax estimate is the \$6.4 million backfill from the State in the form of property taxes (accounted for as Sales Tax In-Lieu). This backfill from the State is the result of the "triple flip", which was approved by the voters in 2004 under Proposition 57 to finance the State's Fiscal Recovery Bonds. Under this Proposition, the State took one fourth of the local agencies' sales tax and backfilled it with a like amount in property taxes from the Educational Revenue Augmentation Fund (ERAF). The State estimates the "triple flip" to continue for 13 years or until the bonds are paid off.

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The State Board of Equalization administers sales taxes and remits funds to local governments: 30% for the first month of each quarter, another 30% the following month, and 40% at the end of the quarter with a “clean-up” payment. The “triple flip” portion is remitted only twice a year, in January and May. Costa Mesa’s sales tax base remains strong with South Coast Plaza; the Harbor Boulevard of Cars; a host of other retailers throughout the City; a variety of restaurants and hotels; and major businesses and industries located within the City. The triple-flip program is expected to begin phase out during FY 15-16 and be completed by the following fiscal year without loss of revenue to the City.

Graph 1 illustrates the categories of businesses and industries that generated sales tax revenue for the City in calendar year 2014. (Source: HdL)

GRAPH 1



For FY 15-16, estimated revenue from Property Taxes is \$24.7 million, which represents 21.8% of the total General Fund revenue. This estimate is an increase of \$964,000 or 4.0% over the projected revenue for FY 13-14. The City is expecting an increase in revenue due to: property values increasing over the prior year; resale activity and new construction being added to the property tax roll. Included in the estimates are Secured Property Tax at \$22.4 million, Unsecured Taxes at \$823,000, Supplemental Taxes at \$613,700; Homeowner’s Exemption (\$7,000 of assessed value is exempt from property tax, which is made up by State subvention) at \$160,800, Delinquent Taxes at \$71,700; and \$621,700 derived from Property Transfers (assessed at 55 cents for every \$500 of market value at the time of transfer – half of this amount or 27.5 cents goes to the County).

For FY 15-16, preliminary estimated revenue from Motor Vehicle License Fee (VLF) is \$9.6 million, which represents 7.2% of the total General Fund revenue. This estimate reflects an increase of \$188,000 or 2.0% from the projected revenue in FY 14-15. The increase is due to the estimate from the VLF Swap which includes an increase based on the projected increases in assessed property values.

Transient Occupancy Tax (TOT) is the City’s fourth largest revenue source. For FY 15-16, estimated revenue from TOT is \$8.1 million, which represents 7.4% of the total General Fund revenue. The projected amount reflects an increase of \$236,000 or 3.0% from the current year projected revenue. Since the 2010, the City has seen a continued increase in TOT revenue when compared to the prior year.

For FY 15-16, preliminary estimated revenue from all Franchise Fees is \$5.0 million, which represents 4.5% of total General Fund revenues. The projected amounts reflect an increase of \$318,000 or 6.7% from the projected in FY 14-15.

The \$1.4 million reduction in Use of Money & Property is due to a one-time FY 14-15 adjustment for interest on the General Fund loan to the Park Development Fees Fund.

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Descriptions, assumptions, and a ten-year historical trend on the General Fund revenue sources by major categories can be found in the following Summaries of Financial Data section of this book.

OTHER GOVERNMENTAL FUNDS

To gain a better understanding of the budget as a whole, the General Fund budget is compared to the entire budget covering all governmental funds. The Operating Transfers Out are excluded from this comparison to avoid duplicate counting of resources. Table 4 illustrates this relationship.

TABLE 4

GOVERNMENTAL FUNDS ADOPTED BUDGET

| <u>Fund Types</u> | <u>Adopted</u> | <u>Preliminary</u> | <u>Increase/(Decrease)</u> | | <u>FY 15-16</u> |
|------------------------|-----------------------|--------------------|----------------------------|----------------|-------------------|
| | <u>FY 14-15</u> | <u>FY 15-16</u> | <u>Amount</u> | <u>Percent</u> | <u>% of total</u> |
| General Fund * | \$ 103,913,168 | \$ 105,502,050 | \$ 1,588,882 | 1.5% | 71.4% |
| Special Revenue Funds | 9,278,462 | 12,256,413 | 2,977,951 | 32.1% | 8.3% |
| Capital Project Funds | 19,906,200 | 21,629,280 | 1,723,080 | 8.7% | 14.6% |
| Internal Service Funds | 6,798,701 | 8,448,133 | 1,649,432 | 24.3% | 5.7% |
| Total | \$ 139,896,531 | 147,835,876 | \$ 7,939,345 | 5.7% | 100.0% |

* Excludes Transfers Out

INTERNAL SERVICE FUNDS

The City uses Internal Service Funds to account for the following activities:

a) Equipment Replacement Fund (ERF) – This fund accounts for fleet services provided by the Maintenance Services Division to the user-departments. For FY 15-16, the adopted budget is \$4.2 million and the estimated revenue is \$2.5 million. The difference will be provided from the accumulated fund balance. The funding necessary to replace vehicles is accumulated in the ERF over a number of years based upon an established replacement schedule. Among the items scheduled for replacement are two aging fire trucks budgeted at cost of \$680,000 each without incurring additional City debt.

Under the Internal Service Funds method of accounting for fleet services, user-departments are charged an internal rent monthly. This rent is split into the estimated cost for future replacement vehicles and actual maintenance charges, including fuel. Staff uses an inflationary factor compounded annually to determine the estimated future replacement cost divided by the estimated life of the vehicles. Maintenance charges are based on actual usage of fuel and the service, including labor, materials, and overhead costs.

b) Self-Insurance Fund – This fund accounts for the Risk Management Program dealing with workers' compensation, general liability, and unemployment insurance. The FY 15-16 adopted budget totals \$4.2 million, the same level as the current adopted budget.

The City currently contracts with separate vendors for workers' compensation and managed care services that historically were handled together. Since the City has separated the two, it has been able to take advantage of competitive rates and additional cost savings on medical expenses.

The unemployment insurance portion is based on actual payments to the State Employment Development Department (EDD), which processes the claims for unemployment benefits on behalf of the City. The City reimburses the EDD on a quarterly basis. Departments are charged back based on an established formula.

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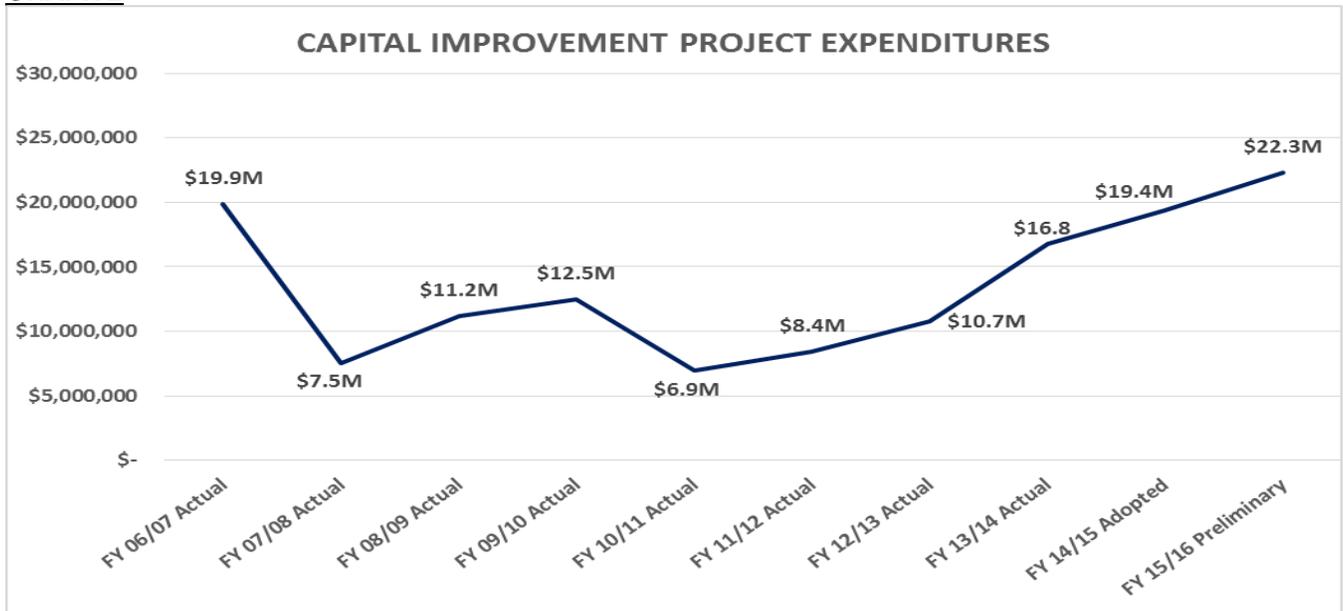
Revenues for the Self-Insurance Fund come from the internal charges to the user-departments based on historical costs of incurred losses, insurance premiums, and other services provided by the Risk Management Division.

CAPITAL IMPROVEMENT PROJECTS

The City's Seven-Year Capital Improvement Program (CIP) is listed at the end of the Capital Improvement Program section of this budget book. This section provides comprehensive, detailed information on the capital projects that the City plans to undertake in the coming fiscal year and beyond. It also contains a summary listing of recommended projects by funding source. Please refer to Table 2 in the Budget Message preceding this section for the summary of capital project amounts by program category.

The following graph illustrates how much the City has expended to improve and maintain its infrastructure including streets; curbs and sidewalks; storm drains; traffic operations; parks, parkways, and medians; and buildings and facilities. Over the last 10 years, the City has spent/appropriated approximately \$136 million or an average of \$13.6 million a year for capital improvements.

GRAPH 2



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Use of fund balances: During times of emergency or due to other needs, the City may utilize its general operating reserve (which is part of the “designated” fund balance) if circumstances warrant, as defined in the Costa Mesa Municipal Code Section 2-205 et seq. The General Fund balance is distinguished from other fund balances. Special Revenue Funds and Capital Projects Funds fund balances are earmarked for specific uses based upon the criteria for which these funds were established. These types of funds may accumulate monies over a period of one or more years for future appropriations. Then, when the City is ready and able to embark upon a capital improvement project or special program that meets the specific requirements for the use of the funds, appropriations from fund balances may be used.

A summary schedule of estimated available fund balances for all funds is found at the beginning of the Summaries of Financial Data section. Table 5 lists the estimated fund balances to be used to support the FY 15-16 adopted budget.

TABLE 5

| <u>Fund Name</u> | <u>Projected Bal.</u> <u>7/1/2015</u> | <u>Projected Bal.</u> <u>6/30/2016</u> | <u>Amount</u> <u>To Be Used</u> |
|----------------------------|--|---|------------------------------------|
| Gas Tax Fund | \$ 3,732,545 | \$ 18,888 | \$ 3,713,657 |
| Prop. 172 Fund | 116,989 | 9,371 | 107,618 |
| Community Dev. Block Grant | 202,873 | 15,870 | 187,003 |
| Drainage Fees Fund | 1,004,093 | 900,343 | 103,750 |
| Traffic Impact Fees | 2,712,892 | 2,079,316 | 633,576 |
| Capital Improvement Fund | 8,405,586 | 4,425,586 | 3,980,000 |
| Measure M2 Fairshare | 1,739,245 | 1,731,745 | 7,500 |
| Equipment Replacement Fund | 4,997,524 | 3,314,565 | 1,682,959 |
| Total | \$ 22,911,747 | \$ 12,495,684 | \$ 10,416,063 |