

CITY OF COSTA MESA, CALIFORNIA

**PRELIMINARY  
OPERATING & CAPITAL  
IMPROVEMENT  
BUDGET IN BRIEF**



**FISCAL YEAR  
2015-2016**

**CITY OF COSTA MESA, CALIFORNIA**  
**PRELIMINARY OPERATING AND**  
**CAPITAL IMPROVEMENT BUDGET**  
**FISCAL YEAR 2015-2016**

**CITY COUNCIL**

**Stephen M. Mensinger**  
Mayor

**James M. Righeimer**  
Mayor Pro Tem

**Katrina Foley**  
Council Member

**Sandra L. Genis**  
Council Member

**Gary Monahan**  
Council Member

**Thomas R. Hatch**  
Chief Executive Officer

Prepared by the Finance Department

**Stephen G. Dunivent**  
Interim Finance Director

In collaboration with

**Ernesto Munoz**  
Public Services Director

## CITY CHIEF EXECUTIVE OFFICER'S BUDGET MESSAGE



May 5, 2015

Honorable Mayor, Members of the City Council, and Citizens of Costa Mesa:

I am pleased to submit the Fiscal Year 2015-16 Preliminary Operating and Capital Budget. The objectives used in developing this budget were to submit a balanced budget to the City Council; to do the best job possible of maintaining current excellent levels of service to the community; to implement City Council's priorities as feasible; and to be prudent in our revenue estimates and cautiously optimistic overall. The City's management team and staff have put together an operating and capital expenditure plan that addresses the City Council's priorities while fulfilling the service requirements of the people who live, work, and play in our community.

As presented, this represents a balanced budget for the coming fiscal year without the use of General Fund reserves and provides the highest level of service to the community within existing financial resources.

This preliminary budget maintains and, in a few areas, enhances the current level of service from FY 14-15. Having already reduced operating expenditures to a minimum base level in prior years, management decided to use the FY 14-15 budget as the starting point while allowing Departments to make their requests known for new items that they believed met the community and City Council needs.

On March 3, 2015 the Council adopted updated financial and budget policies. These policies are outlined in detail in the Appendix Section. Highlights of these policies as they relate to this budget include:

- Consistency with Council and CEO priorities
- Balanced budgets with the exception of using dedicated non-General Fund balances for carry-over or one-time items
- Realistic assumptions for revenue forecasts
- A minimum of 5% General Fund revenues dedicated to funding capital projects
- A new goal of an additional 1.5% of General Fund revenues dedicated to capital facilities
- A goal of \$1 million budgeted for contingencies
- Provision for an additional \$500,000 payment to reduce unfunded pension liabilities

The first set of FY 15-16 General Fund base operating budget requests submitted by the departments to the Finance Department totaled \$112.8 million; \$3.3 million or 3% over the prior year budget. A large part of this increase was due to an increase in retirement costs, assumption of increased number of filled positions, increases in utilities and certain other operating costs and the additional 1.5% of General Fund revenues dedicated to capital facilities projects. In addition, departments requested \$4 million in budget increases for operating expense increases, enhanced service levels and a few new positions. During the month of March, the Budget Review Team held meetings with each department to review and discuss these budget requests.

The first set of FY 15-16 revenue estimates totaled \$111.7 million using the assumptions of modest economic growth, a gradually improving real estate market and increasing development activity in the City. Revenue assumptions are discussed in detail in the Summaries of Financial Data section of this budget book.

The departmental budget requests and revenue estimates described above combined to create an initial budget gap of \$5 million. The budget gap was closed by making the following adjustments in concert with discussions with the CEO, department heads, Finance and departmental budget liaisons:

- Reduction in the CEO budget for part-time, consulting and professional development costs of about \$276,000
- Reduced the City Attorney budget from a \$400,000 increase to a \$200,000 increase
- Reduced the Police Department preliminary budget by about \$354,000; a combination of deleting six vacant custody officers and keeping part-time positions at the current year level of hours while reclassifying five Community Service Specialist positions to Park Ranger positions.
- Initial City-wide salary savings of \$1.75 million was increased by about \$1.4 million representing an average City-wide vacancy factor of just under 4.7% for the entire fiscal year
- CEO, department heads and Finance reviewed all requests for budget increases and made further budget reductions of \$1.3 million by identifying one-time items that could be purchased out of the current budget and deferring lower priority items
- Revenue projections were increased by about \$1.3 million based on updated year-to-date actuals and other items

As a quick overview, here is the preliminary budget for FY 15-16 for all funds compared to the FY 14-15 adopted budget:

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

### **GENERAL FUND PRELIMINARY BUDGET**

The General Fund provides 89.2% of the total operating budget for all governmental funds. The total preliminary General Fund budget is \$113 million, an increase of \$3.5 million or 3.2% from the current year adopted budget. Table 1 is a summary of the total General Fund resources and requirements for FY 15-16:

**Table 1**

<b>PRELIMINARY BUDGET - GENERAL FUND</b>				
	<b>Adopted</b>	<b>Preliminary</b>	<b>Increase (Decrease)</b>	
	<b><u>FY 14-15</u></b>	<b><u>FY 15-16</u></b>	<b><u>Amount</u></b>	<b><u>Percent</u></b>
Estimated Revenues	\$ 109,451,662	\$ 113,067,900	\$ 3,616,238	3.3%
Transfer in	-	-	-	
Use of Fund Balance	-	-	-	
Total Resources	<u>\$ 109,451,662</u>	<u>\$ 113,067,900</u>	<u>\$ 3,616,238</u>	3.3%
Operating Budget	\$ 103,934,595	\$ 105,502,050	\$ 1,567,455	1.5%
Transfer Out	5,517,067	7,452,140	1,935,073	35.1%
Total Appropriations	\$ 109,451,662	\$ 112,954,190	\$ 3,502,528	3.2%

### **FINANCIAL OUTLOOK**

As a result of the continued improvement in the economy, most revenue sources are projected to continue to increase. The City experienced increases in Sales Tax, Property Tax, Transient Occupancy Tax (TOT) and Building Permit revenue last year and expects those to continue in FY 15-16. The City will evaluate revenues and

continue to find ways to mitigate costs. Doing so will continue to stabilize the City's budget, provide necessary services to the community and work towards re-building reserves.

The City remains careful about its cash position. With the depletion of reserves in previous years, it is very important for the City to maintain a balanced budget and stabilize cash. Based on the timing of the receipt of certain revenues, the City has periods of time when it uses more cash than it receives. That use of cash is replenished later in the fiscal year with the receipt of property tax revenue. The General Fund had operating surpluses at the end of both FY 12-13 and FY 13-14 which helped increase the overall cash position. The City plans for this trend to continue in the current and next fiscal years.

### **HIGHLIGHTS OF THE PRELIMINARY BUDGET**

The FY 15-16 preliminary budget contains funding for on-going services to the community. The following highlights reflect some of the changes and facts regarding the budget:

- Budgeted amounts for the City's share of employee retirement cost are affected by:
  - Increased retirement rates from CalPERS
  - Miscellaneous employees contributing 60% of the rate increases
  - City pick-up of 5% of Police employee retirement
  - Inclusion of new retirement tier rates
  - Corrections to budget calculation formulas used to determine retirement budget amounts
- The budget contains funding for an additional payment of \$500,000 toward reducing the unfunded liability associated with retirement costs.
- Internal charges for vehicle replacement are reinstated after a one-year internal rate holiday.
- General Fund contribution to Capital Projects is 5% of the General Fund budget: \$5,587,335
- General Fund contribution to Capital Facility Projects is 1.5% of the General Fund budget: \$1,676,201
- Capital Projects include the second year of advance funding of a four-year level-pay plan for the next generation of the 800 MHz Coordinated Communication System at \$1,239,969 per year. The Police Department will fund \$763,889 of this project.
- Allocations to the Information Technology (IT) Replacement Fund will increase from \$100,000 to \$150,000 for the accumulation of funds for future IT equipment replacements and upgrades.
- Conversion from City Jail staffing to G4S contract staffing is implemented by fully funding the G4S contract and deleting the remaining Custody Officer positions.
- Fire Department
  - Staffing is increased by the addition of an EMS/Training Captain

- Planned replacement of thirteen cardiac monitors
- Replacement of two aging fire trucks
- Development Services:
  - Permit & plan check revenue is estimated to increase by \$568,000 based on projected development activity.
  - Budget reflects the creation of a new Community Improvement Division staffed with existing resources and a new Assistant Director position.
- Public Services Department
  - Includes the new street sweeping contract offset by a reduction of three full-time positions
  - Includes the new custodial services contract with enhanced services
  - Staffing is increased by the addition of an Assistant City Engineer to assist with the high volume of capital projects.
- Three new Code Enforcement Officer positions are added to enhance services to the community from various perspectives: one each in the Fire Department, Police Department and Development Services.
- Contingency appropriations are \$1,000,000.

### **GENERAL FUND RESERVES/USE OF FUND BALANCE**

The General Fund – Total Fund Balance was \$50.2 million as of June 30, 2014. As part of the mid-year budget report on March 3, 2015 the Council approved allocation of \$4 million toward the planned Neighborhood Community Center/Library/Park project. The City continues to maintain a \$14.125 million emergency general operating reserve, in addition to reserves for workers’ compensation, general liability claims, and compensated absences. On March 3, 2015 the Council reviewed a new Reserves Study that took a risk-based approach to establishing reserves for economic volatility, major infrastructure failure, natural disasters and other emergencies. The Council approved a reserves goal of \$52 million and a plan to achieve that goal by increasing existing reserves by up to \$1.5 million per year funded by any actual annual operating surplus.

A schedule of estimated fund balances for all budgeted funds is found in the Summaries of Financial Data section of this budget book.

### **CAPITAL IMPROVEMENT PROJECTS**

The capital budget is recommended at \$22.3 million. In reviewing the Capital Improvement budget, it is important to keep in mind that most projects are funded by restricted revenue sources or grants. Consequently, there will potentially be significant differences from year to year in both the numbers of projects adopted and the total dollars budgeted.

Approximately \$11.3 million or 50.5% of the total funding for capital projects is from the General Fund; \$5.35 million or 24% is funded by the Gas Tax Fund and another \$2.3 million or 10% is from Measure M Funds. Both the Measure M Funds and Gas Tax

Funds are earmarked for streets and/or transportation-related expenditures. Other funding sources for capital improvements are the Community Development Block Grant (CDBG) Fund, Drainage Fees, Traffic Impact Fees and Narcotics Asset Forfeiture Funds.

Table 2 below illustrates the total capital projects funding by category planned for FY 15-16. It reflects an emphasis on streets, parks, and capital facilities projects including \$4 million for the Neighborhood Community Center/Library/Park facilities and nearly \$1.7 million set aside for eventual replacement of Fire Station 1.

**Table 2**

<b><u>CAPITAL IMPROVEMENT PROJECTS</u></b>				
<b><u>Program Category</u></b>	<b>Adopted</b>	<b>Preliminary</b>	<b>Increase (Decrease)</b>	
	<b><u>FY 14-15</u></b>	<b><u>FY 15-16</u></b>	<b><u>Amount</u></b>	<b><u>Percent</u></b>
Parkway & Median Improvements	\$ 813,900	\$ 700,000	-\$113,900	-13.99%
Street Improvements/Maintenance	5,038,307	6,675,946	1,637,639	32.50%
Storm Drain Improvements	2,090,000	510,000	(1,580,000)	-75.60%
Curbs and Sidewalks	550,000	1,150,000	600,000	109.09%
Traffic Planning	3,257,000	1,022,208	(2,234,792)	-68.62%
Traffic Operations	3,330,694	-	(3,330,694)	N/A
Park Development & Maintenance	1,116,100	3,912,350	2,796,250	250.54%
Building Maintenance	1,641,000	1,377,255	(263,745)	-16.07%
Equipment Maintenance	-	36,000	36,000	N/A
Capital Facility Projects	-	5,676,201	5,676,201	N/A
Next Gen 800 Mhz Comm System	1,584,000	1,239,969	(344,031)	-21.72%
Total	<u>\$19,421,001</u>	<u>\$22,299,929</u>	<u>\$2,878,928</u>	<u>14.82%</u>
General funds	5,450,000	11,263,536	5,813,536	106.67%
Other Funds	13,971,001	\$11,036,393	(2,934,608)	-21.00%
Total Appropriations	<u>\$19,421,001</u>	<u>\$22,299,929</u>	<u>\$2,878,928</u>	<u>14.82%</u>

**NEXT STEPS**

The next steps in the FY 15-16 budget process include the following events:

- May 12, 2015 Council Study Session
- May 21, 2015 Community Meeting
- June 15, 2015 Council budget hearing and adoption.

## **SUMMARY**

Although current economic conditions are improving, and continue to do so, this adopted budget does not fully support the overall high level of operating service that the citizens of Costa Mesa had grown accustomed to in the past. Those levels are likely unsustainable. It does however propose a balanced financial plan, maintains and in a few areas, enhances the current level of service and enhances infrastructure improvements.

## **ACKNOWLEDGEMENT**

The development of the adopted budget takes a great amount of staff time and effort, and has to be completed within a defined timeline. I sincerely appreciate the contribution made by all department directors, division managers, and departmental budget liaisons. Special recognition is extended to the Finance budget team and Central Services staff. I thank the City Council for their continued support in making Costa Mesa a financially stable and well-balanced community.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas R. Hatch". The signature is written in a cursive, flowing style.

Thomas R. Hatch  
Chief Executive Officer  
City of Costa Mesa

**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%
<b>Total</b>	<b>\$ 139,896,529</b>	<b>147,835,876</b>	<b>\$ 7,939,347</b>	<b>5.7%</b>	<b>100.0%</b>

**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%
<b>Total</b>	<b>\$ 109,451,672</b>	<b>112,954,190</b>	<b>\$ 3,502,518</b>	<b>3.2%</b>	<b>100.0%</b>

**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 15-16 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%
<b>Total</b>	<b>\$ 110,037,509</b>	<b>113,067,900</b>	<b>\$ 3,030,391</b>	<b>2.8%</b>	<b>100.0%</b>

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.

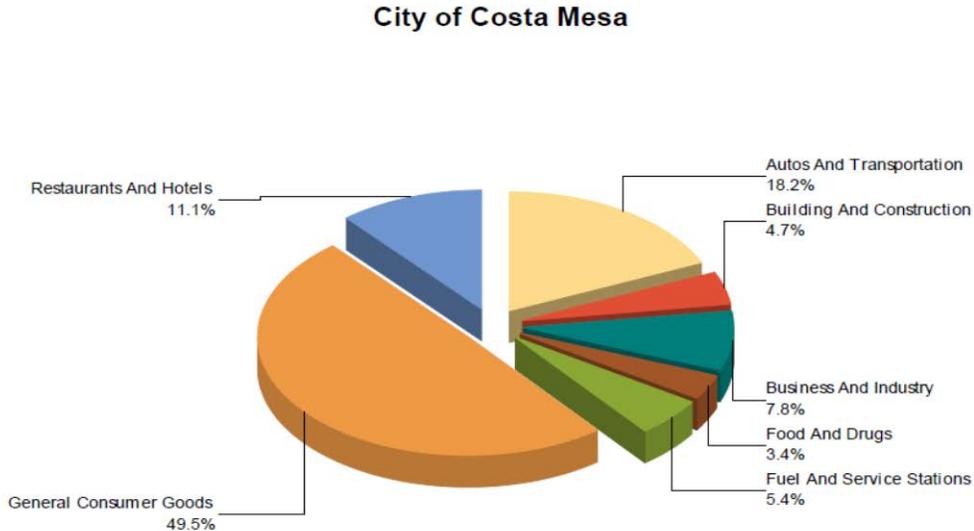
Part of the \$50.2 million Sales & Use Tax estimate is the \$6.4 million backfill from the State in the form of property taxes (accounted for as Sales Tax In-Lieu). This backfill from the State is the result of the "triple flip", which was approved by the voters in 2004 under Proposition 57 to finance 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%
<b>Total</b>	<b>\$ 139,896,531</b>	<b>147,835,876</b>	<b>\$ 7,939,345</b>	<b>5.7%</b>	<b>100.0%</b>

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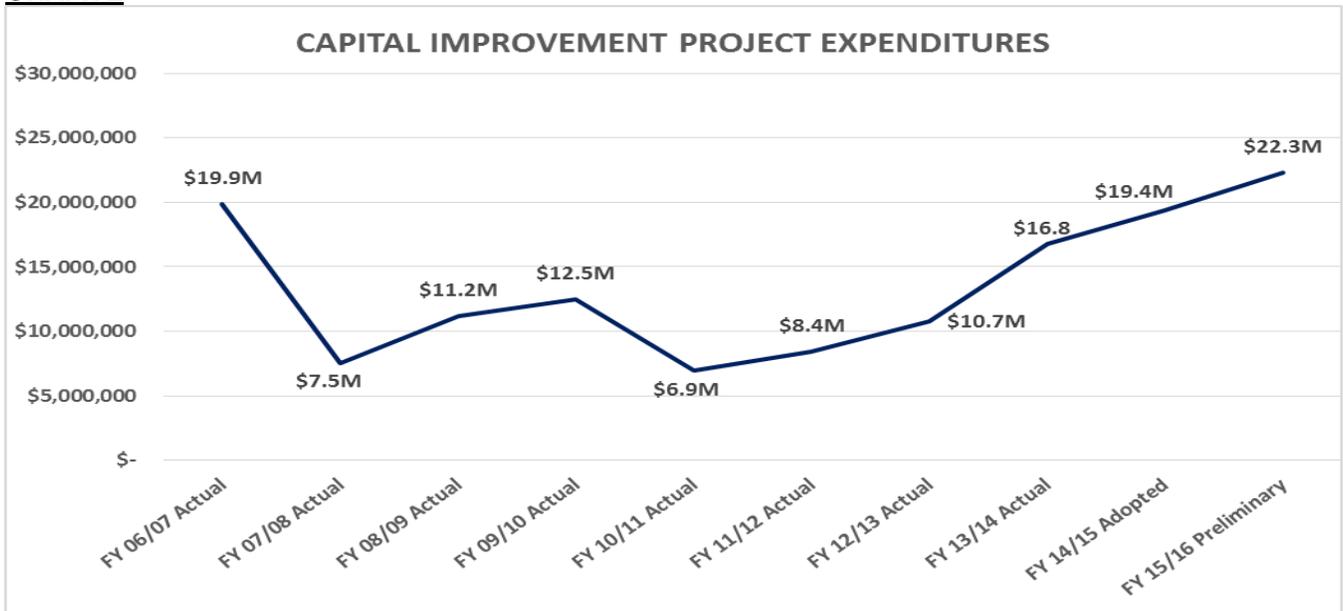
Revenues for the Self-Insurance Fund come from the internal charges to the user-departments based on historical costs of incurred losses, insurance premiums, and other services provided by the Risk Management Division.

## 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**



**CITY OF COSTA MESA, CALIFORNIA**

**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
<b>Total</b>	<b>\$ 22,911,747</b>	<b>\$ 12,495,684</b>	<b>\$ 10,416,063</b>