



# CITY COUNCIL AGENDA REPORT

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MEETING DATE: SEPTEMBER 15, 2015

ITEM NUMBER: **OB-2**

**SUBJECT: SECOND READING AND ADOPTION OF THE CAPITAL ASSET NEEDS ORDINANCE  
15-07**

**DATE: SEPTEMBER 4, 2015**

**FROM: FINANCE DEPARTMENT**

**PRESENTATION BY: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR**

**FOR FURTHER INFORMATION CONTACT: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR,  
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## **RECOMMENDED ACTIONS:**

Give second reading and adopt Ordinance 15-07, to be read by title only, and waive further reading, regarding the Capital Asset Needs Ordinance.

## **BACKGROUND:**

On March 3, 2015 the Council adopted updated Financial & Budget Policies. These policies included a section regarding a percentage set aside for capital expenditures:

***Percentage of General Fund Budget for Capital Expenditures:*** The City will allocate a minimum of five percent (5%) of the General Fund budget to capital expenditures and plan a goal of an additional one and one-half percent (1.5%) dedicated to a Capital Facilities Account. This allocation may be annually reviewed by the Finance Advisory Committee. During an economic downturn or in the event of a disaster these allocated funds could be used as a type of reserve for operations.

This ordinance would add Article 8 to Title II, Chapter V of the Costa Mesa Municipal Code to establish the requirement for a minimum of 5% of annual General Fund revenue to the Capital Expenditures account and a minimum of 1.5% to a Capital Facilities account annually.

## **ANALYSIS:**

The purpose of this ordinance is to ensure the annual budgeting of adequate capital funds to meet the needs of the City. The needs are illustrated by the seven-year capital improvement program that totals over \$230 million.

The ordinance contains definitions to clarify the distinction between capital expenditures and capital facilities; outlines the use of funds and includes an emergency exception for circumstances in which the City need not comply with the ordinance.

The Finance Advisory Committee reviewed a draft copy of this ordinance on May 26, 2015. Some Committee members expressed concerns about the loss of flexibility that the ordinance would bring while others expressed that the ordinance represents added financial discipline for the City. The Committee voted 4-2-1 in support of the ordinance.

The City Council gave Ordinance 15-07 a first reading on September 1, 2015 and approved it for a second reading on a 3-2 vote.

**ALTERNATIVES CONSIDERED:**

The Council could choose to amend this ordinance or not adopt it and continue to use the existing Financial & Budget Policies currently in place.

**FISCAL REVIEW:**

The impact of the 5% and 1.5% requirements is currently \$5,587,335 and \$1,676,201 of General Fund resources annually dedicated to capital and is included in the FY 15-16 Adopted Operating & Capital Budget.

**LEGAL REVIEW:**

The City Attorney prepared a draft ordinance for consideration and has reviewed this report.

**CONCLUSION:**

Adoption of this ordinance require the City to annually budget minimum amounts of funds for capital improvements and capital facility projects.

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Stephen Dunivent  
Interim Finance Director

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Thomas R. Hatch  
City CEO

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Thomas Duarte  
City Attorney

Attachment: 1. [Capital Asset Needs Ordinance](#)