

CITY CHIEF EXECUTIVE OFFICER'S BUDGET MESSAGE



May 3, 2016

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

I am pleased to submit the Fiscal Year 2016-17 Preliminary Operating and Capital Budget. The objectives used in developing this budget are 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 15-16. Having already reduced operating expenditures to a minimum base level in prior years, management used the FY 15-16 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 consistent with the purpose of those funds
- Realistic assumptions for revenue forecasts
- A minimum of 5% General Fund revenues dedicated to funding capital projects plus 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 16-17 General Fund base operating budget requests submitted by the departments to the Finance Department totaled \$116.2 million; \$1.04 million or 1% over the prior year budget. A large part of this increase was due to an increase in pension costs, assumption of increased number of filled positions, increases in utilities and certain other operating costs offset by the deletion of some one-time items in the non-departmental section of the budget. In addition, departments requested \$2.7 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 16-17 revenue estimates totaled \$116.8 million using the assumptions of modest economic growth, a gradually improving real estate market and 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 yielded a balance of about \$600,000 to fund \$2.7 million in requests for increases. The budget was balanced using the following process in concert with discussions with the CEO, department heads, Finance and departmental budget liaisons:

- All requests for increases were analyzed on the basis of need and department priority and classified into categories:
 - Transfers and required items (e.g. cost increases in existing service or commodity contracts) which totaled \$624,244.
 - Department priority one items which totaled \$285,096.
 - Department priority two items which totaled \$402,330.
 - Department priority three items which totaled \$134,740.
 - Department priority four items which totaled \$983,083.
 - Some requests were withdrawn which totaled \$254,661.

After review and evaluation, all transfers, required items and priority one, two and three items were funded. The priority four items were deferred to future years. Examples of the funded items will be noted in the following Highlights of the Preliminary Budget section.

- Initial City-wide salary savings of \$3.18 million increased by \$1.4 million representing an average City-wide vacancy factor of 6.15% for the entire fiscal year
- Revenue projections were increased by about \$543,000 based on updated year-to-date actuals and other items.

As a quick overview, here is the Preliminary Budget for FY 16-17 for all funds compared to the FY 15-16 Adopted Budget:

<u>PRELIMINARY BUDGET-ALL FUNDS</u>				
Appropriations	Adopted	Preliminary	<u>Increase/(Decrease)</u>	
<u>All Funds</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>Amount</u>	<u>Percent</u>
Operating Budget	\$ 119,009,800	\$ 120,809,731	\$ 1,799,931	1.5%
Transfers Out	9,416,140	7,752,242	(1,663,898)	-17.7%
Capital Budget	25,763,929	15,994,334	(9,769,595)	-37.9%
Total	\$ 154,189,869	\$ 144,556,307	\$ (9,633,562)	-6.2%

GENERAL FUND PRELIMINARY BUDGET

The General Fund provides 90.7% of the total operating budget for all governmental funds. The total preliminary General Fund budget is \$117 million, an increase of \$2.2 million or 1.9% from the current year adopted budget. Table 1 is a summary of the total General Fund resources and requirements for FY 16-17:

Table 1

<u>GENERAL FUND PRELIMINARY BUDGET</u>				
	Adopted	Preliminary	<u>Increase/(Decrease)</u>	
	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>Amount</u>	<u>Percent</u>
Estimated Revenues	\$ 113,638,900	\$ 117,376,187	\$ 3,737,287	3.3%
Transfers In	400,000	-	(400,000)	-100.0%
Use of Fund Balance	-	-	-	
Total Resources	\$ 114,038,900	\$ 117,376,187	\$ 3,337,287	2.9%
Operating Budget	\$ 106,186,760	\$ 109,623,945	\$ 3,437,185	3.2%
Transfers Out	9,016,140	7,752,242	(1,263,898)	-14.0%
Total Appropriations	\$ 115,202,900	\$ 117,376,187	\$ 2,173,287	1.9%

FINANCIAL OUTLOOK

As a result of the projection for slowing growth in the economy, forecasted changes in revenue sources are projected to be mixed. Slight decreases from current year levels of revenue are forecasted for licenses and permits, fines and forfeitures, use of money and property and fees and charges for services. Modest growth is forecasted for sales and use tax, property tax, motor vehicle license fees, transient occupancy tax (TOT), and franchise fees. 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 13-14 and FY 14-15 which helped increase the overall cash position. The City plans for this trend to continue in the current fiscal year.

HIGHLIGHTS OF THE PRELIMINARY BUDGET

The FY 16-17 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 pension cost are affected by:
 - Increased pension rates from CalPERS
 - Miscellaneous employees contributing 60% of their rate increases
 - Inclusion of new, lower cost pension tier rates
 - Added costs of \$5,850 for required CalPERS actuarial reports.
- The budget contains funding for an additional payment of \$500,000 toward reducing the unfunded liability associated with pension costs.
- General Fund contribution to Capital Projects is 5% of the General Fund budget: \$5,963,263
- General Fund contribution to Capital Facility Projects is 1.5% of the General Fund budget: \$1,788,979
- Capital Projects include the third year of advance funding of a four-year level-pay plan for the next generation of the 800 MHz Coordinated Communication System. Capital Projects also include \$1,600,000 for Fairview Park-related maintenance and \$2.6 million for Jack Hammett fields and ADA improvements.
- Continued allocation of funds for scanning and automated retrieval of city documents.
- Allocations to the Self-Insurance Fund increased by \$250,000 as part of a multi-year plan to rebuild the fund balance. Additional allocations are planned after the General Fund Reserves target is fulfilled.
- Allocations to the Information Technology (IT) Replacement Fund will increase from \$150,000 to \$200,000 for the accumulation of funds for future IT equipment replacements and upgrades.

- Police Department
 - Anticipated approval of the Costa Mesa Police Association memorandum of understanding.
 - Purchase of new department issued firearms
 - Funded ten new e-citation devices compatible with the county-wide system.
 - General fund assumed \$185,000 in employee costs previously funded by the Narcotics Asset Forfeiture Fund.
- Fire Department
 - Funded contracting out annual fire hose testing.
 - Funded 15 iPads used to enter patient data to maintain county-wide reporting standards in emergency medical services.
 - Funded an additional \$75,000 in contracted fire safety building plan check and inspection services.
- Development Services:
 - Adds one full-time Senior Combination Inspector.
 - Funded an additional \$30,000 for night-time inspections
 - Funded and additional \$18,500 for training and development of new staff.
- Public Services Department
 - Funded \$55,000 for additional consultant help with transportation workload.
 - Funded \$25,000 for consulting and other support costs related to the Bikeway & Walkability Committee.
 - Funded \$60,000 for the Bike Safety Education Program.
 - Funded \$50,000 for additional city tree trimming.
 - Funded \$13,860 for State mandated prevailing wage increase for tree workers.
 - Funded ongoing \$50,000 for Fairview Park cattail removal.
- Contingency appropriations are \$1,000,000.

GENERAL FUND RESERVES/USE OF FUND BALANCE

The General Fund – Total Fund Balance was \$53.8 million as of June 30, 2015. 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 \$55 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. The City is within \$1.2 million of that goal.

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 preliminary capital budget is recommended in the amount of nearly \$16 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. The lower funding compared to FY 15-16 is due to one-time funds of \$4 million used in FY 15-16 for the Library/Neighborhood Community Center/Park project and reduced FY 16-17 estimates for Gas Tax, Narcotics Asset Forfeiture Funds, Measure M, Traffic Impact Fees, and Drainage Fees.

Approximately \$7.75 million or 49% of the total funding for capital projects is from the General Fund; \$2.4 million or 15% is from the Park Development Fund, \$2.1 million or 13% is funded by Gas Tax, and \$1.8 million or 11% is from Measure M Funds.

Table 2 below illustrates the total capital projects funding by category planned for FY 16-17. Please see the Capital Improvement Program section of this budget for the complete list of projects and project details.

CAPITAL IMPROVEMENT PROJECTS				
	Adopted FY 15-16	Preliminary FY 16-17	Increase (Decrease)	
			Amount	Percent
Parkway & Median Improvements	\$ 700,000	\$ 160,000	\$ (540,000)	-77.1%
Fairview Park Program	110,000	1,600,000	1,490,000	1354.5%
Street Improvements & Maintenance	6,675,946	3,501,137	(3,174,809)	-47.6%
Storm Drain Improvements	510,000	600,000	90,000	17.6%
Curbs & Sidewalks	1,150,000	400,000	(750,000)	-65.2%
Traffic Planning	1,022,208	742,000	(280,208)	-27.4%
Active Transportation Programs	-	300,000	300,000	N/A
Traffic Operations	-	604,990	604,990	N/A
Park Development & Maintenance	5,702,350	4,105,965	(1,596,385)	-28.0%
Building Maintenance	2,977,255	1,009,622	(1,967,633)	-66.1%
Capital Facility Projects	5,676,201	1,788,979	(3,887,222)	-68.5%
Next Gen. 800 MHz Comm. System	1,239,969	1,181,641	(58,328)	-4.7%
Total Appropriations	<u>\$ 25,763,929</u>	<u>\$ 15,994,334</u>	<u>\$ (9,769,595)</u>	-37.9%
General Funds	\$ 12,663,536	\$ 7,752,242	(4,911,294)	-38.8%
Other Funds	13,100,393	8,242,092	(4,858,301)	-37.1%
Total Appropriations	<u>\$ 25,763,929</u>	<u>\$ 15,994,334</u>	<u>\$ (9,769,595)</u>	-37.9%

BUDGETARY REPORTING AWARDS

The Preliminary Budget was prepared in accordance with local ordinances, state statutes, and best practices in budgeting recommended by the National Advisory Council on State and Local Budgeting (NACSLB). Additionally, this document will also be prepared in a manner that meets the Budget Awards Program criteria established by the Government Finance Officers Association (GFOA) of the United States and Canada and the California Society of Municipal Finance Officers (CSMFO).

The Government Finance Officers Association of the United States and Canada presented a Distinguished Budget Presentation Award to the City of Costa Mesa for its annual budget document for the fiscal year beginning July 1, 2015. This is the 15th consecutive year that the City has received this prestigious award. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for one year only.

In addition, the California Society of Municipal Finance Officers presented the Excellence in Operational Budgeting, and the Excellence in Public Communications awards to the City of Costa Mesa for its FY 15-16 Adopted Budget.

Staff believes the FY 16-17 Preliminary Operating & Capital Improvement Budget document will continue to conform to the award program requirements. The City will again apply to both GFOA and CSMFO for these awards.

SUMMARY

Although current economic conditions continue to be favorable, this Preliminary Budget continues to be careful with our reliance on volatile Sales Tax revenue. The budget maintains a lower level of reoccurring cost in addition to a fewer number of full-time employees, in order to support an important capital improvement program. 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 Preliminary 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 Department 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,



Thomas R. Hatch
Chief Executive Officer
City of Costa Mesa