

## ***FY 2016-17 OPERATING & CAPITAL BUDGET IN BRIEF***

The Fiscal Year 2016-17 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 preliminary budget for all funds is \$144.6 million, a decrease of \$9.6 million, or 6.2% compared to the adopted budget for FY 15-16. Table 1 illustrates these amounts.

**TABLE 1**

<b><u>PRELIMINARY BUDGET-ALL FUNDS</u></b>					
Appropriations <u>All Funds</u>	Adopted <u>FY 15-16</u>	Preliminary <u>FY 16-17</u>	<u>Increase/(Decrease)</u>		FY 16-17
			<u>Amount</u>	<u>Percent</u>	<u>% of total</u>
Operating Budget	\$ 119,009,800	\$ 120,809,731	\$ 1,799,931	1.5%	83.6%
Transfers Out	9,416,140	7,752,242	(1,663,898)	-17.7%	5.4%
Capital Budget	25,763,929	15,994,334	(9,769,595)	-37.9%	11.1%
<b>Total</b>	<b>\$ 154,189,869</b>	<b>\$ 144,556,307</b>	<b>\$ (9,633,562)</b>	<b>-6.2%</b>	<b>100.0%</b>

### **GENERAL FUND BUDGET OVERVIEW**

For all governmental funds, the General Fund comprises 90.7% of the *operating* budget and 80.1% of the *operating* and *capital* budget. Therefore, the succeeding discussion will focus primarily on the General Fund.

The preliminary General Fund budget is \$117 million, an increase of \$2.2 million, or 1.9% compared to the FY 15-16 adopted budget. Table 2 below illustrates the components and the changes of the preliminary budget as compared to the prior year's budget.

**TABLE 2**

<b><u>GENERAL FUND OPERATING BUDGET</u></b>					
<u>Expenditure Category</u>	Adopted <u>FY 15-16</u>	Preliminary <u>FY 16-17</u>	<u>Increase/(Decrease)</u>		FY 16-17
			<u>Amount</u>	<u>Percent</u>	<u>% of total</u>
Salaries & Benefits	\$ 78,892,688	\$ 80,926,283	\$ 2,033,595	2.6%	68.9%
Maint. & Operations	27,202,418	28,442,090	1,239,672	4.6%	24.2%
Fixed Assets	91,654	255,572	163,918	178.8%	0.2%
Transfers Out	9,016,140	7,752,242	(1,263,898)	-14.0%	6.6%
<b>Total</b>	<b>\$ 115,202,900</b>	<b>\$ 117,376,187</b>	<b>\$ 2,173,287</b>	<b>1.9%</b>	<b>100.0%</b>

**Salaries & Benefits:** Budgeted personnel costs increased by \$2 million, or 2.6%. This increase is attributed to a number of factors including merit increases, change in retirement rates and recent approval of the Costa Mesa Police Association memorandum of understanding. 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 \$28.4 million, a net increase of \$1.2 million or 4.6% compared to the FY 15-16 adopted budget. Nearly half of the increase is attributed to general liability costs with the remainder of the increase found in consulting, landscaping and sprinkler maintenance and repair.

**Transfers Out:** The preliminary budget includes an operating transfer out of 5% of General Fund Revenues, to fund various Capital Improvement Projects. In addition, another 1.5% of General Fund Revenues is dedicated to Capital Facilities Projects.

The total preliminary FY 16-17 General Fund estimated revenue is \$117 million, a decrease of \$0.8 million or 0.68% compared to projected revenues for FY 15-16. Table 3 illustrates the General Fund revenue sources that fund City services.

**TABLE 3**

<b>GENERAL FUND ESTIMATED REVENUES</b>						
<u>Revenue Source</u>	Projected		<u>Increase/(Decrease)</u>		FY 16-17 <u>% of total</u>	
	FY 15-16	FY 16-17	Amount	Percent		
Taxes	\$ 95,772,143	\$ 94,962,112	\$ (810,031)	-0.8%	80.9%	
Licenses & Permits	2,433,063	2,173,933	(259,130)	-10.7%	1.9%	
Fines & Forfeitures	1,556,315	1,475,000	(81,315)	-5.2%	1.3%	
Use of Money & Property	3,275,132	3,164,021	(111,111)	-3.4%	2.7%	
Other Governmental Agencies	10,292,409	10,678,708	386,299	3.8%	9.1%	
Fees & Charges for Services	3,865,600	3,848,306	(17,294)	-0.4%	3.3%	
Other Revenue	979,506	1,074,107	94,601	9.7%	0.9%	
Total	<u>\$ 118,174,168</u>	<u>\$ 117,376,187</u>	<u>\$ (797,981)</u>	-0.7%	<u>100.0%</u>	

Note: Excludes Transfers In

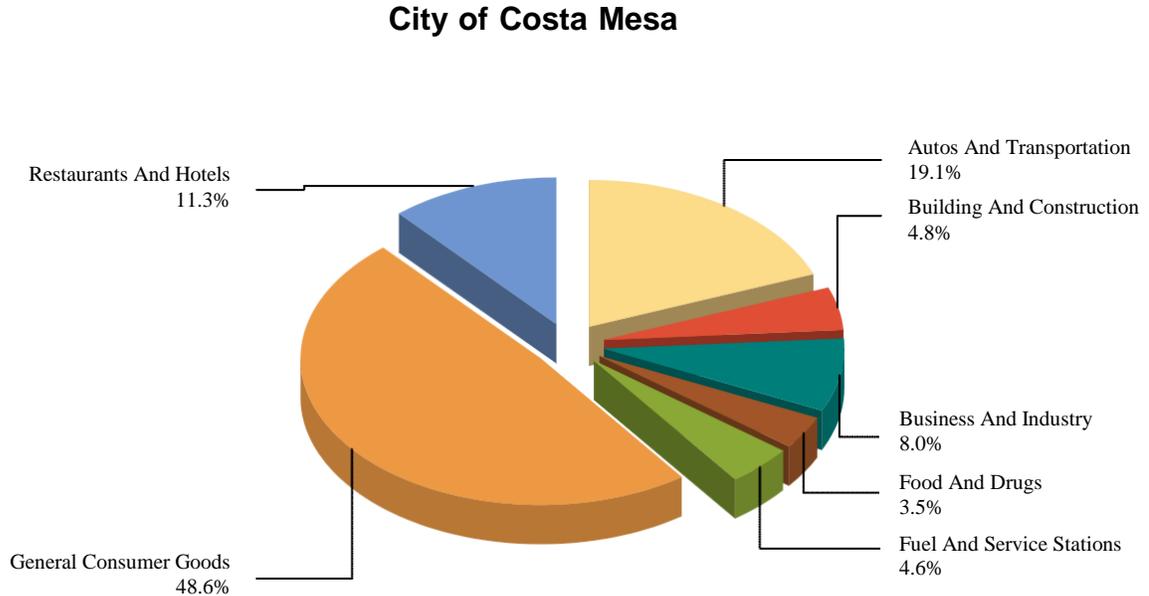
**Revenues:** The City has been experiencing increases in Sales Tax, Property Tax, Transient Occupancy Tax (TOT) and Building Permit revenue up to and including the current fiscal year. The outlook for these revenues for FY 16-17 is more modest growth and in some cases, some slowing.

Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees are projected to grow modestly. Sales Tax is the largest revenue source and is estimated at \$54.6 million, or 46.5% of the total General Fund revenues estimated for FY 16-17.

The overall estimated decline of 0.7% in revenues is driven by two main factors. Part of the historical Sales & Use Tax revenue includes the 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). FY 15-16 is the last year of the triple flip and the projected revenues include nearly \$3.5 million in a final "true-up" payment. While this causes the FY 16-17 amounts to appear to be declining, the core amount of Sales Tax is projected to increase by 3.4% for FY 16-17. 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.

Graph 1 illustrates the categories of businesses and industries that generated sales tax revenue for the City in calendar year 2015. (Source: HdL)

**GRAPH 1**



For FY 16-17, estimated revenue from Property Taxes is \$25.9 million, which represents 22.1% of the total General Fund revenue. This estimate is an increase of \$442,523 or 1.7% over the projected revenue for FY 15-16. 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 \$23.7 million; Unsecured Taxes at \$800,417; Supplemental Taxes at \$500,000; Homeowner's Exemption (\$7,000 of assessed value is exempt from property tax, which is made up by State subvention) at \$157,584; Delinquent Taxes at \$50,000; and \$750,000 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 16-17, preliminary estimated revenue from Motor Vehicle License Fee (VLF) is \$9.9 million, which represents 8.4% of the total General Fund revenue. This estimate reflects an increase of \$218,102, or 2.3% from the projected revenue in FY 15-16. 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 16-17, estimated revenue from TOT is \$8.5 million, which represents 7.3% of the total General Fund revenue. The projected amount reflects an increase of \$44,260, or 0.5% from the current year projected revenue. Since 2010, the City has seen a continued increase in TOT revenue when compared to the prior year.

For FY 16-17, preliminary estimated revenue from all Franchise Fees is \$5.0 million, which represents 4.2% of total General Fund revenues. The projected amounts reflect a decrease of \$61,678, or 1.2% from the projected in FY 15-16.

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**

<b><u>GOVERNMENTAL FUNDS PRELIMINARY BUDGET</u></b>					
<u>Fund Types</u>	<u>Adopted FY 15-16</u>	<u>Preliminary FY 16-17</u>	<u>Increase/(Decrease)</u>		<u>FY 16-17</u>
			<u>Amount</u>	<u>Percent</u>	<u>% of total</u>
General Fund *	\$ 106,586,760	\$ 109,623,945	\$ 3,037,185	2.8%	75.8%
Special Revenue Funds	14,156,416	9,966,172	(4,190,244)	-29.6%	6.9%
Capital Project Funds	24,757,280	17,316,608	(7,440,672)	-30.1%	12.0%
Internal Service Funds	8,689,413	7,649,582	(1,039,831)	-12.0%	5.3%
Total	<u>\$ 154,189,869</u>	<u>\$ 144,556,307</u>	<u>\$ (9,633,562)</u>	<u>-6.2%</u>	<u>100.0%</u>
* 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 16-17, the preliminary budget is \$3.0 million and the estimated revenue is \$784,725. 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 five police patrol vehicles, as well as replacement of aging support vehicles for fire, development services, public services, and parks vehicles, as well as two new code enforcement vehicles. All will be purchased without incurring additional City debt.

Under the Internal Service Funds method of accounting for fleet services, user-departments are charged monthly internal rent. 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 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 16-17 preliminary budget totals \$4.7 million, \$444,669, or 10% over 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.

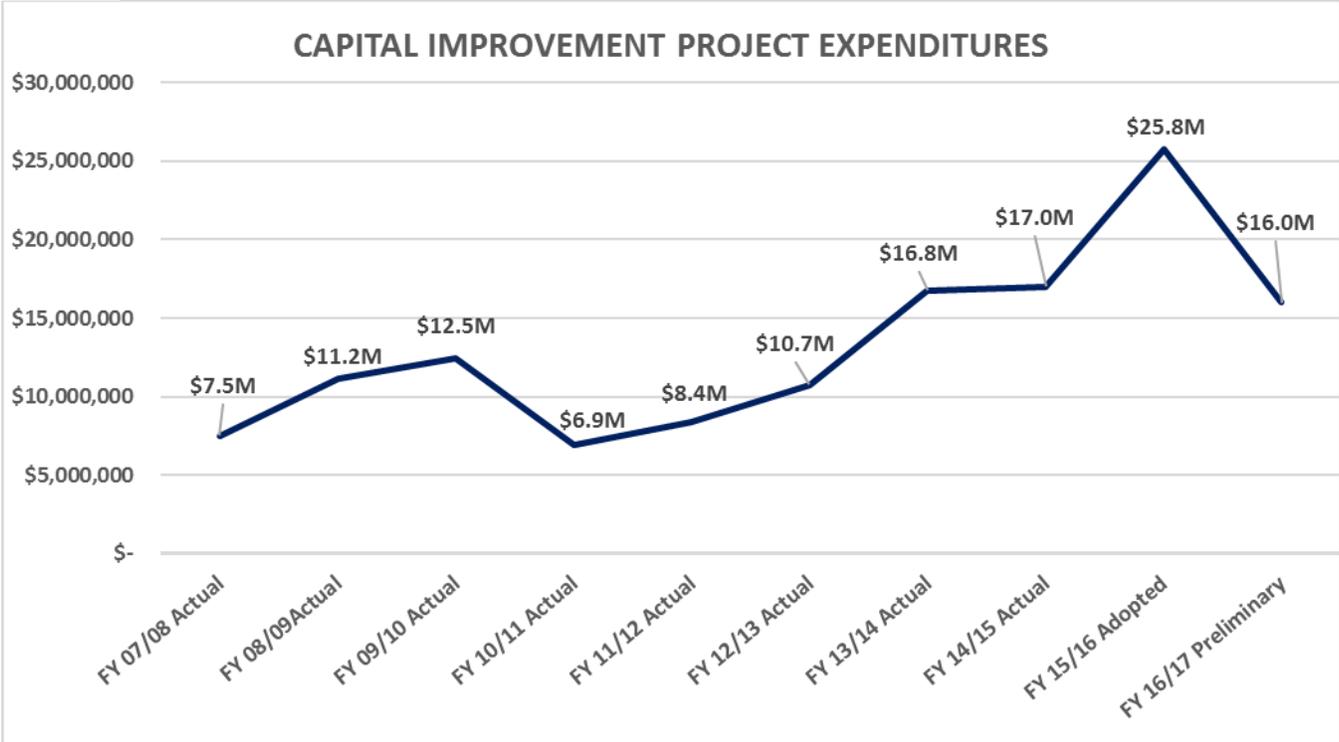
Revenues for the Self-Insurance Fund come from the internal charges to the user-departments based on historical costs of incurred losses, insurance premiums, and other services provided by the Risk Management Division. Internal charges include a \$250,000 surcharge as the beginning of a multi-year plan to rebuild the balance in this fund.

**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 spent/appropriated approximately \$133 million or an average of \$13.3 million a year for capital improvements.

**GRAPH 2**



**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. The fund balances of the Special Revenue Funds and Capital Projects Funds 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 16-17 preliminary budget.

**TABLE 5**

<b><u>ESTIMATED FUND BALANCES TO BE USED</u></b>				
<u>Fund Name</u>	<u>Projected Bal.</u> <u>07/01/2016</u>	<u>Projected Bal.</u> <u>06/30/2017</u>	<u>Amount</u> <u>To Be Used</u>	<u>Percent</u>
Gas Tax Fund	\$ 597,265	\$ 49,707	\$ 547,558	91.7%
Prop. 172 Fund	33,152	13,136	20,016	60.4%
AQMD Fund	89,773	(102,717)	192,490	214.4%
Park Dev. Fees Fund	(2,159,871)	(2,179,919)	20,048	-0.9%
Suppl. Law Enf. Svcs. Fund	16,996	(44,543)	61,539	362.1%
Traffic Impact Fees Fund	3,415,491	2,860,491	555,000	16.2%
Equipment Replacement Fund	7,747,911	5,565,494	2,182,417	28.2%
<b>Total</b>	<b>\$ 9,740,717</b>	<b>\$ 6,161,649</b>	<b>\$ 3,579,068</b>	<b>36.7%</b>