Attachment 2

CITY OF COSTA MESA
CALIFORNIA

PRELIMINARY OPERATING & CAPITAL IMPROVEMENT

BUDGET IN BRIEF

FISCAL YEAR 2016-2017

CITY OF COSTA MESA, CALIFORNIA

PRELIMINARY OPERATING AND CAPITAL IMPROVEMENT BUDGET FISCAL YEAR 2016-2017

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 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:

PRELIMINARY BUDGET-ALL FUNDS

Appropriations All Funds	Adopted FY 15-16	Preliminary FY 16-17	Increase/(Decrease) Amount	Increase/(Decrease) Percent
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

GENERAL FUND PRELIMINARY BUDGET

	Adopted FY 15-16	Preliminary FY 16-17	Increase/(Decrease) Amount	Increase/(Decrease) Percent
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.

Table 2

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	$ 25,763,929	$ 15,994,334	$ (9,769,595)	-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	$ 25,763,929	$ 15,994,334	$ (9,769,595)	-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

Thomas R. Hatch
Chief Executive Officer
City of Costa Mesa

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

PRELIMINARY BUDGET-ALL FUNDS

Appropriations All Funds	Adopted FY 15-16	Preliminary FY 16-17	Increase/(Decrease) Amount	Increase/(Decrease) Percent	FY 16-17 % of total
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%
Total	$ 154,189,869	$ 144,556,307	$ (9,633,562)	-6.2%	100.0%

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 $117.4 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

GENERAL FUND OPERATING BUDGET

Expenditure Category	Adopted FY 15-16	Preliminary FY 16-17	Increase/(Decrease) Amount	Increase/(Decrease) Percent	FY 16-17 % of total
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%
Total	$ 115,202,900	$ 117,376,187	$ 2,173,287	1.9%	100.0%

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 adopted FY 16-17 General Fund estimated revenue is $117.4 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

GENERAL FUND ESTIMATED REVENUES

Revenue Source	Projected FY 15-16	Preliminary FY 16-17	Increase/(Decrease) Amount	Increase/(Decrease) Percent	FY 16-17 % of total
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 & Forteitures	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	$ 118,174,168	$ 117,376,187	$ (797,981)	-0.7%	100.0%

Note: Excludes Transfers In

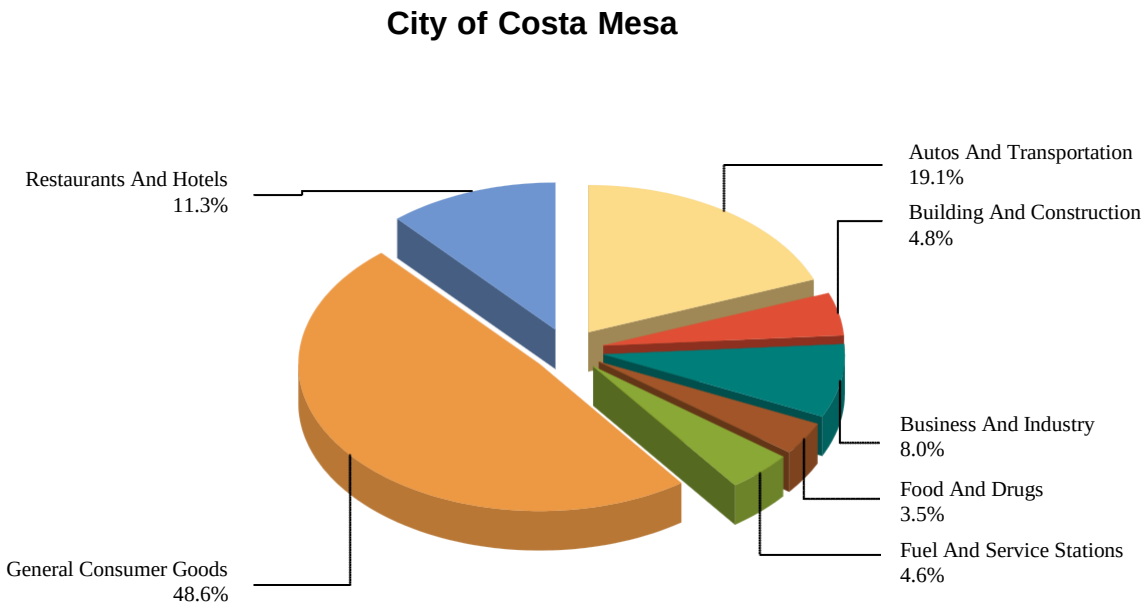
Revenues: The City has been experiencing increases in Sales Tax, Property Tax, Transient Occupancy Tax (TOT) and Building Permit revenue up to and including the current fiscal year. The outlook for these revenues for FY 16-17 is more modest growth and in some cases, some slowing.

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

GOVERNMENTAL FUNDS PRELIMINARY BUDGET

Fund Types	Adopted FY 15-16	Preliminary FY 16-17	Increase/(Decrease) Amount	Increase/(Decrease) Percent	FY 16-17 % of total
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	$ 154,189,869	$ 144,556,307	$ (9,633,562)	-6.2%	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 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 and 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 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 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

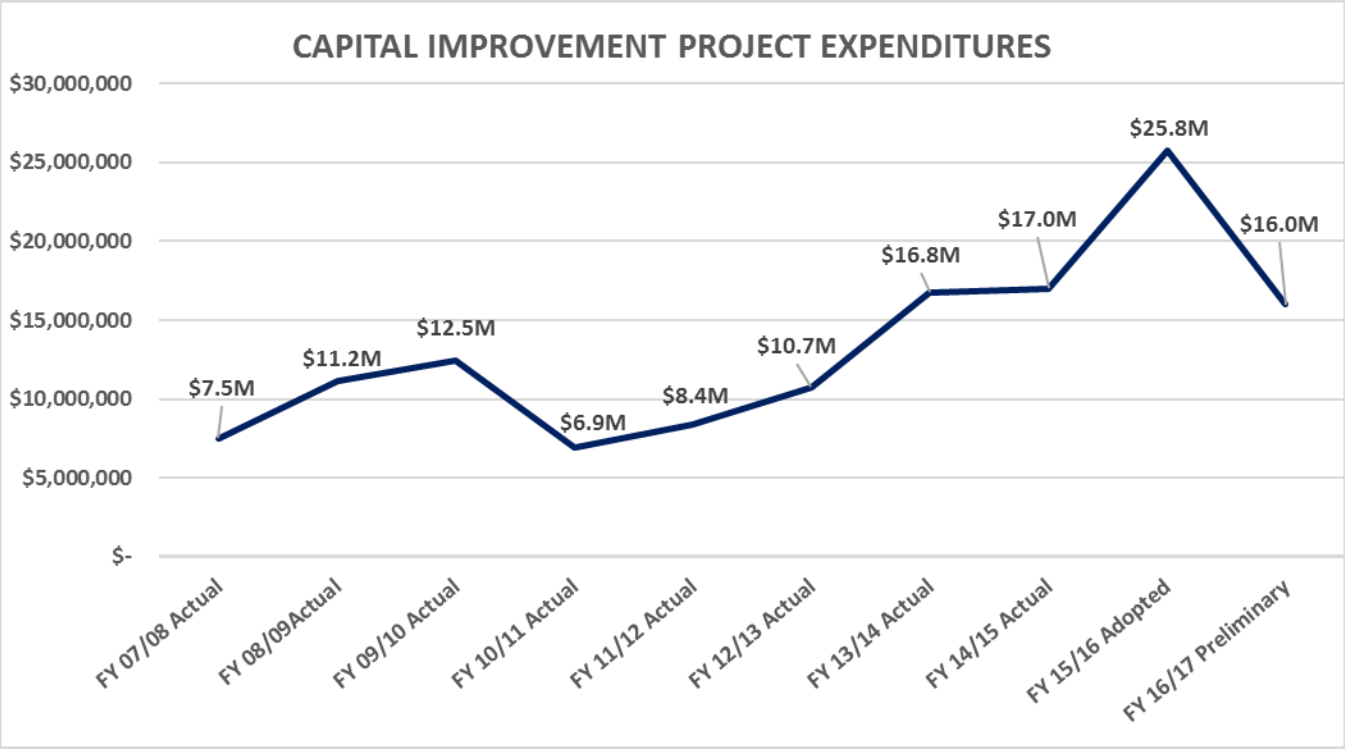
Division. Internal charges include a $250,000 surcharge as the beginning of a multi-year plan to rebuild the balance in this fund.

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. 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 16-17 preliminary budget.

TABLE 5

ESTIMATED FUND BALANCES TO BE USED

Fund Name	Projected Bal. 07/01/2016	Projected Bal. 06/30/2017	Amount To Be Used	Percent
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%
Total	$ 9,740,717	$ 6,161,649	$ 3,579,068	36.7%

CITY OF COSTA MESA, CALIFORNIA

SUMMARY OF REQUESTED CAPITAL IMPROVEMENT PROJECTS
by Funding Source
FISCAL YEAR 2016-2017

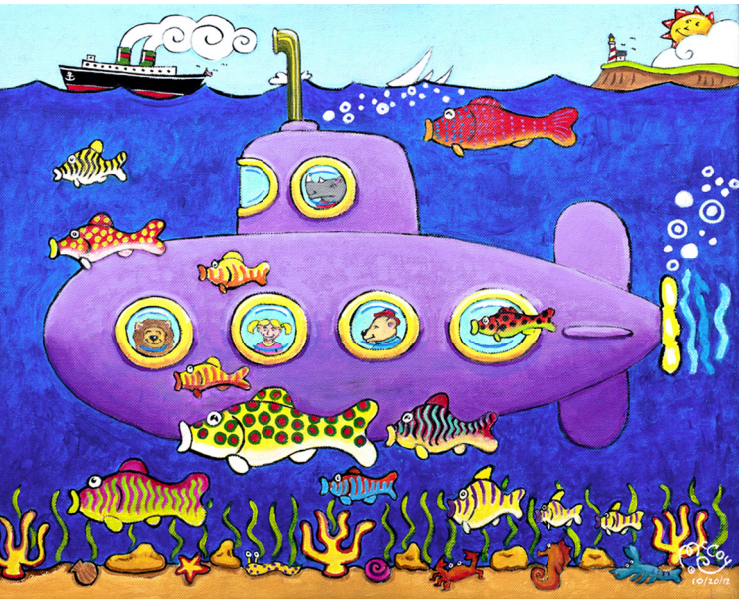
Req Nbr	Program/Project Name	Gas Tax Fund 201	AQMD Fund 203	CDBG Fund 207	Park Dev Fund 208	Drainage Fund 209	Traffic Impact Fees Fund 214	Capital Improvement Fund 401: Capital Expenditures	Capital Improvement Fund 401: Capital Facility	Measure M Funds 415/416	Total	CEO Funding Recommended
	Parkway & Median Improvements, Program #20111											
1	Close Off Wall Openings- Various Locations	-	-	-	-	-	-	160,000	-	-	160,000	160,000
	Fairview Park, Program #20115											
2	Fairview Park - Fence Along Placentia Ave	-	-	-	-	-	-	380,000	-	-	380,000	-
3	Fairview Park - On Call Environmental Services	-	-	-	-	-	-	50,000	-	-	50,000	50,000
4	Fairview Park - Plant Establishment and Pond Maintenance	-	-	-	-	-	-	100,000	-	-	100,000	100,000
5	Fairview Park - Storm Drain	-	-	-	-	365,000	-	885,000	-	-	1,250,000	1,250,000
6	Fairview Park - West Bluff Repair	-	-	-	-	-	-	200,000	-	-	200,000	200,000
	Street Improvements, Program #30112											
7	Citywide Street Improvements	910,287	-	298,725	-	-	-	-	-	1,792,125	3,001,137	3,001,137
8	Citywide Unimproved Alley	500,000	-	-	-	-	-	-	-	-	500,000	500,000
	Storm Drain Improvements, Program #30122											
9	Bristol Street Storm Drain Diversion Project	-	-	-	-	-	-	600,000	-	-	600,000	600,000
	Curbs and Sidewalks, Program #30130											
10	New Sidewalk/Missing Link Program	100,000	-	-	-	-	-	-	-	-	100,000	100,000
11	Parkway Improvement Program	250,000	-	-	-	-	-	-	-	-	250,000	250,000
12	Priority Sidewalk Repair	50,000	-	-	-	-	-	-	-	-	50,000	50,000
	Traffic Planning, Program #30210											
13	Bus Bench Replacement	-	-	-	-	-	-	40,000	-	-	40,000	-
14	City Wayfinding Signage Program	-	-	-	-	-	-	50,000	-	-	50,000	-
15	Fairview Road Improvements (Baker St. - Adams Av.)	-	-	-	-	-	-	17,000 *	-	-	17,000	17,000
16	Newport Boulevard Widening Design from 19th St.to 17th St.	-	-	-	-	-	375,000	-	-	-	375,000	375,000
17	Red Hill Avenue Medians (McCormick Ave. to Bristol St.)	-	-	-	-	-	-	1,188,000	-	-	1,188,000	-
18	SR-55 Access Study	-	-	-	-	-	-	250,000	-	-	250,000	-
19	Wilson Street Widening Design from College Ave. to Fairview F	-	-	-	-	-	350,000	-	-	-	350,000	350,000
	Active Transportation Programs, Program #30225											
20	Bicycle Rack Improvements Citywide	-	-	-	-	-	-	50,000	-	-	50,000	50,000
21	West 19th Street Bicycle Trail to Greenville-Banning Channel/Santa Ana River	-	-	-	-	-	-	250,000	-	-	250,000	250,000
	Traffic Operations, Program #30241											
22	Citywide Traffic Signal Preemption	-	-	-	-	-	-	300,000	-	-	300,000	-
23	Baker - Coolidge Avenue Traffic Signal Modifications	-	-	-	-	-	-	50,000	-	-	50,000	50,000
24	Baker - Randolph Avenue Traffic Signal Installation	-	-	-	-	-	-	250,000	-	-	250,000	250,000
25	Bristol Street Traffic Signal Synchronization	-	125,396	-	-	-	-	-	-	-	125,396	125,396
26	Fairview Road - Arlington Drive Traffic Signal Modification	-	-	-	-	-	-	75,000	-	-	75,000	-
27	Harbor Boulevard Traffic Signal Synchronization	-	179,594	-	-	-	-	-	-	-	179,594	179,594
	Park Maintenance, Program #40111											
28	Fairview Park - Rehabilitate Parking Lot	-	-	-	-	-	-	220,000	-	-	220,000	220,000
29	Pinkley Park - Replace Arbor	-	-	-	-	-	-	150,000	-	-	150,000	150,000
30	Various Park - Sidewalk Replacement	-	-	-	-	-	-	75,000	-	-	75,000	75,000
	Park Development, Program #40112											
31	Costa Mesa High School Stadium - 1,000 Additional Bleachers	-	-	-	-	-	-	625,000	-	-	625,000	625,000
32	Donald Dungan Library and Neighborhood Community Center	300,000	-	-	-	-	-	-	1,676,201	-	1,976,201	1,976,201
33	Heller Park - ADA Accessibility Improvements	-	-	-	-	-	-	135,000	-	-	135,000	-
34	Jack Hammett Field 1 and 2 Upgrades	-	-	-	2,370,965	-	-	-	-	-	2,370,965	2,370,965
35	Jack Hammett - Addition of a Storage Facility	-	-	-	-	-	-	660,000	-	-	660,000	-
36	Jack Hammett - ADA Improvements	-	-	275,000	-	-	-	-	-	-	275,000	275,000

CITY OF COSTA MESA, CALIFORNIA

SUMMARY OF REQUESTED CAPITAL IMPROVEMENT PROJECTS
by Funding Source
FISCAL YEAR 2016-2017

Req Nbr	Program/Project Name	Gas Tax Fund 201	AQMD Fund 203	CDBG Fund 207	Park Dev Fund 208	Drainage Fund 209	Traffic Impact Fees Fund 214	Capital Improvement Fund 401: Capital Expenditures	Capital Improvement Fund 401: Capital Facility	Measure M Funds 415/416	Total	CEO Funding Recommended
37	Paularino Park - Replace Picnic Shelter	-	-	-	-	-	-	70,000	-	-	70,000	70,000
38	Smallwood Park Improvements	-	-	-	-	-	-	250,000	-	-	250,000	-
Park Development, Program #40112 (continued)												
39	Tewinkle Park- Landscape Medians	-	-	-	-	-	-	275,000	-	-	275,000	-
40	Tewinkle Park - Skate Park Expansion	-	-	-	-	-	-	20,000	-	-	20,000	20,000
Capital Facility Account, Program #50905												
41	Police Department Facility Expansion - Conceptual Design	-	-	-	-	-	-	-	100,000	-	100,000	-
Building Maintenance, Program #50910												
42	Balearic Center - Install New HVAC Unit	-	-	-	-	-	-	95,000	-	-	95,000	-
43	Balearic Center-Construct Undergrounding of New Electrical	-	-	-	-	-	-	36,000	-	-	36,000	-
44	Building Maintenance Projects	-	-	-	-	-	-	407,400	-	-	407,400	407,400
45	City Clerk's Office Remodel	-	-	-	-	-	-	70,000	-	-	70,000	-
46	City Hall 2nd Floor - Carpet Replacement	-	-	-	-	-	-	85,000	-	-	85,000	-
47	City Hall 2nd Floor - Paint Interior	-	-	-	-	-	-	80,000	-	-	80,000	-
48	City Hall 5th Floor - Carpet Replacement	-	-	-	-	-	-	85,000	-	-	85,000	-
49	City Hall 5th Floor - Paint Interior	-	-	-	-	-	-	80,000	-	-	80,000	-
50	City Hall EV Charging Stations	-	-	-	-	-	-	50,000	-	-	50,000	-
51	City Hall PA System Replacement	-	-	-	-	-	-	100,000	-	-	100,000	100,000
52	City Hall- Replace Mechanical Door Lock Cylinders	-	-	-	-	-	-	50,000	-	-	50,000	-
53	Corp Yd & PD- Replace Automated Fuel Dispensing System	-	-	-	-	-	-	132,000	-	-	132,000	132,000
54	Corporation Yard- Replace Four (4) Fuel Dispensers	-	-	-	-	-	-	50,000	-	-	50,000	50,000
55	DRC - Replace Pool Heater	-	-	-	-	-	-	48,000	-	-	48,000	48,000
56	DRC - Replace Four (4) HVAC Units	-	-	-	-	-	-	85,000	-	-	85,000	-
57	Fleet Shop - Extend Bay #2 - Design	-	-	-	-	-	-	15,000	-	-	15,000	-
58	Fire Stations #2-#6: Critical Infrastructure Protection	-	-	-	-	-	-	60,000	-	-	60,000	60,000
59	Fire Station #2 - Front Public Access Parking for Baker Street	-	-	-	-	-	-	300,000	-	-	300,000	-
60	Fire Stations #2, #3 and #6 - Replace Fuel Tank Monitoring System							80,000	-	-	80,000	-
61	Fire Station #4 - Replace Roof	-	-	-	-	-	-	85,000	-	-	85,000	-
62	Fire Station #6- Repair Failing Perimeter Walls	-	-	-	-	-	-	95,000	-	-	95,000	-
63	Fire Station #6- Replace (3) HVAC Units & Control Systems	-	-	-	-	-	-	64,000	-	-	64,000	-
64	Mesa Verde Library- ADA Compliance Design	-	-	-	-	-	-	50,000	-	-	50,000	-
65	PD - Range Remodel / Update	-	-	-	-	-	-	205,000	-	-	205,000	-
66	Senior Center- ADA Accessibility Restroom Renovation	-	-	-	-	-	-	125,000	-	-	125,000	125,000
67	Senior Center- Elevator Control System Upgrade	-	-	-	-	-	-	35,000	-	-	35,000	-
68	Senior Center- Replacement of cabinets, counters, flooring, anc	-	-	-	-	-	-	100,000	-	-	100,000	-
69	Westside Resource Center	-	-	-	-	-	-	200,000	-	-	200,000	-
70	Relocation of IT Department	-	-	-	-	-	-	87,222	112,778	-	200,000	200,000
71	800 MHz CCCs Next Generation Update	-	-	-	-	-	-	1,181,641	-	-	1,181,641	1,181,641
	Total FY 16-17 Fund Allocations	**$ 2,110,287**	**$ 304,990**	**$ 573,725**	**$ 2,370,965**	**$ 365,000**	**$ 725,000**	**$ 11,511,263**	**$ 1,888,979**	**$ 1,792,125**	**$ 21,642,334**	**$ 15,994,334**
	Funded:	**$ 2,110,287**	**$ 304,990**	**$ 573,725**	**$ 2,370,965**	**$ 365,000**	**$ 725,000**	**$ 5,963,263**	**$ 1,788,979**	**$ 1,792,125**	**$ 15,994,334**	

* includes grant funding



Costa Mesa

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