

**SPECIAL STUDY SESSION OF THE CITY COUNCIL
CITY OF COSTA MESA
May 31, 2011**

The City Council of the City of Costa Mesa, California met in a special Study Session on Tuesday, May 31, 2011 at 4:30 p.m. in Council Chamber of City Hall, 77 Fair Drive, Costa Mesa.

The meeting was called to order by the Mayor Pro Tem.

ROLL CALL: (00:13:18)

Council Members Present: Mayor Pro Tem James M. Righeimer
Council Member Eric R. Bever
Council Member Wendy Leece
Council Member Stephen M. Mensinger

Council Members Absent: Mayor Gary Monahan

Officials Present: City Chief Executive Officer Thomas R. Hatch
City Attorney Thomas Duarte
Public Services Director Peter Naghavi
Budget and Research Officer Bobby Young
Interim Development Services Director Khanh Nguyen
City Clerk Julie Folcik

PUBLIC COMMENTS (00:00:19)

Judi Berry, Costa Mesa, commented on the prior year budget for expenses. She suggested showing estimated expenses for the current year for comparison as is done by other cities. (00:45)

David Kinkaid, Costa Mesa, thanked the Council for supporting the Memorial Day service, acknowledging the fiscal crisis and addressing the issue. (02:17)

Eleanor Eagan, Costa Mesa, requested clarification on costs of in-house city attorneys, vs. Jones and Mayer and outside Counsel. She asked if the figures shown for Jones and Mayer accounted for litigation costs. (03:26)

Reggie Mundekis, reported on inthepublicinterest.org that provides information on privatization and resources to review public contracts. (04:39)

ITEMS FOR DISCUSSION (00:06:03)

1. Fiscal Year 2011-2012 Preliminary Budget Overview and Presentation for Expenditures and Estimated Fund Balances:
 - A. General Fund
 - B. Equipment Replacement Fund
 - C. Self Insurance Fund
 - D. Other Expenditures

City Chief Executive Officer Thomas Hatch introduced the item. Mr. Hatch reported that in addition to an overview of expenditures, staff will focus on the Equipment Replacement Fund, Self Insurance fund and the Capital Improvement Budget. Mr. Hatch also provided a schedule of upcoming budget meetings.

Budget and Research Officer Bobby Young presented the report detailing expenditures related to the General Fund, preliminary estimates, comparison with other surrounding cities, distribution of General Fund expenditures, and an explanation of the Cafeteria Plan. Mr. Young addressed the General Fund, salaries and benefits compared with other cities, operating costs, number of budgeted positions, breakdown of salaries and benefits by department and overtime budget by department. He explained the concept of "minimum manning" for the Fire Department per shift, PERS contributions for full time employees and savings estimated under current MOU's.

Council Member Leece requested details on agreements with general employees, Fire and Police. Mr. Hatch offered more information to be provided within the next few weeks and stated that staff has drafted a five-year revenue and expenditure summary including the various employee agreements.

Council Member Mensinger requested insertion of footnotes indicating when the various employee contributions expire for the bargaining units and the terms of the MOU's.

Council Member Leece referenced a pension taskforce by the League of Cities, and noted that general employees are paying their share and Fire and Police has begun to pay a portion of their employee share.

Discussion followed regarding separating accounts in order to obtain an accurate accounting of retiree medical funding and pension per year.

Council Member Leece inquired regarding specific locations of the streets, alleys and sidewalks that will be repaired with General Fund monies.

Mr. Naghavi reported that money in the next fiscal year's proposed budget for Capital Improvements includes two projects and he noted that other projects will be funded by grants.

Mr. Young continued the presentation addressing debt service accounts, general liability for the self-insurance fund and total fixed assets. Mr. Young addressed the General Fund Balance and previous appropriations to the Vehicle and Equipment Replacement Fund. He reported the elimination of charges in the previous year's Vehicle and Equipment Replacement Fund which reduced the General Fund by approximately \$2 million.

In reply to Council Member Leece's inquiry regarding savings realized from ABLE, Mr. Young reported that staff has not yet factored any savings from ABLE.

Mr. Hatch addressed an Emergency Fund and noted that the issue would be brought before Council again in order to set expectations, as well as discussion regarding replenishment of reserves.

Council Member Bever expressed confusion regarding Fund Balance and addressed specific reasons under which those funds can be accessed and asserted the need to increase the cash

balance by \$9 million. Council Member Bever reported that Council should adopt a resolution regarding use of Fund Balance.

Mayor Pro Tem Righeimer expressed the need to have a cash reserve. He noted the City's efforts to avoid cutting services while going through an economic crisis. He indicated a need for a minimum of \$1 million for contingency and \$1 million of additional cash.

Mr. Young addressed the historical use of Fund Balance including reserved and unreserved, designated and undesignated and presented information on the Equipment Replacement Fund, and potential costs associated with replacing vehicles and equipment. Mayor Pro Tem Righeimer expressed the importance of budgeting to account for costs in the same year as the expense and asked staff to make the appropriate cuts in order to balance the budget.

Council Member Bever requested that staff provide information regarding standard inflationary factors and their application and whether an automatic adjustment factor should be added to Emergency Reserves.

Mr. Hatch reported that staff would provide a status report on the issue at an upcoming meeting; including ways to reduce funding by reducing the number of vehicles by 10 percent. Discussion ensued on reductions and the effects on services to the community.

RECESS AND RECONVENE (02:00:52)

Mayor Pro Tem Righeimer called for a 10 minute recess at 6:35 p.m.

ITEMS FOR DISCUSSION - Continued

1. Fiscal Year 2011-2012 Preliminary Budget Overview and Presentation for Expenditures and Estimated Fund Balances – Continued

Mr. Young presented the Self Insurance Fund including general liability and Worker's Compensation as well as a yearly valuation of all outstanding claims by a third party administrator. He reported that the City is insured for \$2 million with excess insurance coverage to cover losses.

In response to Council Member Bever's inquiry regarding a minimum liability requirement, Mr. Young reported that the \$2 million is in the City's Municipal Code and compatible with other agencies.

PUBLIC COMMENTS

Reggie Mundekis, expressed confusion with the Equipment Replacement Fund and requested a detailed inventory of vehicles owned by the City including anticipated replacement dates and costs. She asked for snapshots of the fund from previous years in order to see the trends. (02:18:01)

Perry Valentine, Costa Mesa, expressed concerns with the additional needs and reducing headcounts. He asked whether the budget accounts for vacant or soon-to-be vacant positions and inquired regarding employee PERS contributions. (02:19:41)

Jay Humphrey, Costa Mesa, inquired on turning down money from the Redevelopment Agency. He stressed the importance of making sure that the City's money is not at risk and suggested doing a per-resident cost analysis. He addressed comparable numbers with the City of Irvine and the possibility of new development traffic impact fees. (02:28:27)

Greg Ridge, Costa Mesa, inquired regarding monies allocated to the City's General Plan update. He referenced the Banning Ranch project and stated that costs for a traffic study should be covered by the developer. (02:27:26)

Judi Berry, Costa Mesa, stated that the Business License Tax should be revised relative to size of the organization. She commented on the increase in legal fees and the Self Insurance Fund. (02:40:22)

Robin Leffler, Costa Mesa, agreed with the need to re-evaluate the Business License tax. She asked that Council consider all of its options before disabling the ABLE program and suggested the City evaluate alleys and alternatives to using public money. She addressed the consequences of issuing lay-off notices, especially as it relates to Police Officers and stressed the importance of maintaining the level of service. (02:45:16)

Sue Lester, Costa Mesa, inquired about existing litigation in the budget. She suggested incorporating increases in Business Licenses into the City's five-year projection. She also commented on medical marijuana and the revenue generated for the City of Sacramento with the regulation of medical marijuana and asked the City to consider the issue. (02:52:55)

Beth Refakes, Costa Mesa, agreed with a previous speaker regarding budget information on a per capita basis. She addressed the various contracts with employee associations, recurring maintenance costs for City projects and the reserve fund, noting that it should be used for emergencies.

2. Discussion and Analysis about FY 2011-12 Preliminary Capital Improvement Budget (03:05:01)

Mr. Young provided a presentation on the FY 2011-12 Capital Improvement Budget noting that the majority of supporting documentation can be found in the budget book. He addressed the total allocated to projects, gas tax, Measure M, grant allocations, and the Capital Improvement Fund. Mr. Young presented comparisons with the previous year's budget.

Council Member Leece requested detail on the preliminary office equipment budget, consulting, engineering, architectural and legal expenses. She inquired regarding an item for Mesa Verde Library and wanted to ensure that the Donald Dugan Library is considered as well. Mr. Naghavi reported that the City is under contract with the County for maintenance to certain facilities including the Mesa Verde Library.

PUBLIC COMMENTS

None Received.

III COUNCIL MEMBERS REPORTS, COMMENTS, AND SUGGESTIONS (03:12:29)

Council Member Bever requested placement on a future agenda discussion of the General Fund dedicated to CIP. He commented on the City of Huntington Beach's ballot initiative of no-less-

than 15% allocation for capital improvements. He also requested a discussion on a minimum capital improvement policy and an allocation to manpower on an annual basis.

Council Member Leece referenced a proposal to restructure the Police Department and hoped that it included an analysis on the impacts to service and efforts to keep residents safe. She reiterated a request to place the ABLÉ issue on the next agenda.

Council Member Mensinger commended staff and CEO Tom Hatch for their work on the budget. Council Member Mensinger also commented on the need to balance the budget and indicated he would like to focus on the Police Reserve Program.

Mayor Pro Tem Righeimer spoke on the importance of deterring crime and noted a problem with motel-related crimes. He stressed the importance of building up reserves and paying expenses from revenue.

CEO Hatch addressed a memo distributed after the agenda was published regarding the Equipment Replacement Fund, as well as reducing the allocation for the General Plan Update by \$200,000, and costs related to a computer-aided dispatch system and a reduction in the Aquatics program.

IV ADJOURNMENT

Mayor Pro Tem Righeimer adjourned the Special Study Session at 8:13 p.m.



Mayor of the City of Costa Mesa

ATTEST:



Interim City Clerk for the City of Costa Mesa