

**REGULAR ADJOURNED MEETING/STUDY SESSION OF THE CITY COUNCIL  
CITY OF COSTA MESA**

**July 12, 2011**

The City Council of the City of Costa Mesa, California met in a Regular Adjourned Meeting/Study Session on Tuesday, July 12, 2011 at 4:30 p.m. in Council Chamber of City Hall, 77 Fair Drive, Costa Mesa.

The Mayor Pro Tem called the meeting to order at 4:30 p.m.

**ROLL CALL:**

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

Council Members Absent: Mayor Gary Monahan

Officials Present: City Chief Executive Officer Thomas Hatch  
City Attorney Tom Duarte  
Public Services Director Peter Naghavi  
Budget and Research Officer Bobby Young  
Interim Public Affairs Manager Dan Joyce  
City Clerk Julie Folcik

**PRESENTATION (00:00:36)**

Interim Public Affairs Manager Dan Joyce announced that the City of Costa Mesa was named as finalist for the Best of Food Towns in America as part of the Rand-McNally USA Today Best of the Road Competition. He acknowledged the attendance of two judges, Jim and Bonnie Parr, and welcomed Paulette Fries of the Costa Mesa Conference and Visitor Bureau.

Mayor Pro Tem Righeimer presented a proclamation in recognition of the event.

**I. PUBLIC COMMENT (00:06:29)**

Mayor Pro Tem Righeimer opened the public comment portion of the meeting and stated that public comments will be taken after the presentation of each item on the agenda.

Jim Fitzpatrick, Costa Mesa, commented on the need for a strategic plan that provides the guiding principles from which decisions will be made. He referenced a past

document noting that it focuses on activity, not strategic planning and stated that he looks forward to further discussion on this item. (00:06:56)

Greg Ridge, Costa Mesa, questioned the forecast provided by staff specifically user fees and charges. He felt that Council has been remiss at not considering business license fees within the City and encouraged Council to review the issue. (00:09:17)

Council Member Mensinger noted that Council provided direction to staff to study the issue at a previous meeting.

## **II. ITEMS FOR DISCUSSION (00:12:22)**

### **1. Introduction to the Preliminary 5-year Financial Forecast (00:15:34)**

Chief Executive Officer Tom Hatch introduced the item noting that along with Items two and three are broad introductory documents and that it will take time in order to refine to where they are an effective tool for staff. He encouraged Council comments and deferred to staff for the report.

Budget and Research Officer Bobby Young noted that the item was previously presented as part of a preliminary look at the next five years, given certain assumptions. He addressed benefits of the forecast and assumptions regarding revenues and expenditures.

In reply to Council Member Leece's inquiry regarding forecasting salary increases, Mr. Young reported the model uses the standard two percent increase and that current contracts were used for other groups. Overall market environment was also considered as well as the likelihood of no increases. Improvement in market conditions in the next four or five years were also factored into the forecast model.

In response to Council Member Mensinger's question, Mr. Young reported that salary ranges are set for every position within the City and that five percent scheduled merit increases are assigned to each step within a range. He added that step increases occur outside of the negotiation process and he presented examples of other types of pay; noting that all types are taken under consideration when budgeting and forecasting.

CEO Hatch reported that the City has had merit step increases in place for many years. He noted that traditionally, the City has had seven steps and that when an employee reaches the top step, there are no additional merit increases or bonus structures. He added that staff could look at other types of programs if Council so desired.

CEO Hatch reported that increases are negotiated and that the City's policy has been to survey and compare total compensation of other cities, driven by cost-of-living increases and outside the seven-step merit process. He suggested the issue of compensation could be scheduled as a separate study session item.

In reply to an inquiry from Council Member Leece, CEO Hatch reported that the basic structure of the seven-step plan includes certain criteria and requirements depending on the position.

Mayor Pro Tem Righeimer noted that under current contracts, employees have agreed not to take any pay increases and there are varying timelines.

Mr. Young addressed assumptions regarding PERS rates noting that the total percentage was used based on the most current PERS forecast and on current negotiated contracts. He addressed employee contributions going forward.

Discussion followed regarding inclusion of health benefits within compensation forecasts.

Mr. Young presented details of the forecasting model for each of the five years projected and highlighted the incorporation of Council direction into the document, and potentially using the document as a tool for allocating potential available resources and guiding future decisions.

In response to Council Member Bever's inquiry regarding replenishment of General Fund balance, Mr. Young reported a commitment to replenish the General Fund and the Equipment Fund balances.

Mr. Hatch reported that staff is seeking feedback and direction in order to adjust the document to meet Council priorities and expectations going forward.

Discussion followed regarding organizational efficiency and eliminating positions as part of budget savings to be realized each year.

In response to Council Member Leece's inquiry regarding the Human Resources consultant, CEO Hatch reported that the Administrative Services Director position became vacant and staff is using the salary savings from the vacancy to fund the costs of the consultant. He reported that a number of positions have been eliminated throughout the organization, and many were non-managerial positions and that staff must balance those that provide front-line service with those that provide managerial service. The Administrative Services Director position may be eliminated as a cost-cutting measure and will be presented in the future for Council's consideration. He noted that many consultants have been brought on to complete a lot of work as directed by Council and staff needs the help in getting the work done.

Council Member Bever inquired regarding commitments for residential streets. Mr. Hatch referenced a previous presentation and Council's expectations noting funding from gas tax and Measure M dollars that will provide for a lot of the work in the community. In later years, money would be allocated from General Funds to meet Council expectations.

Public Services Director Peter Naghavi explained that his department has about \$18 million worth of projects within the next three years and that most of them involve residential streets. Subsequently, there will be about \$3.5 million available from gas tax and Measure M allocated for streets and that staff requested another \$1 million in addition that can be used for residential streets or as match for potential grants.

Discussion followed regarding allocations for Youth Sports Costa Mesa United and asked that a policy be adopted to have the group present initiatives each year for Council consideration to fund.

CEO Hatch agreed and addressed collaboration between Costa Mesa United, the School District and others.

Council Member Mensinger commented on the importance of setting goals for maintaining a high level of standards for streets, including maintenance. Staff addressed maintenance and noted that with a continued level of commitment, staff would be able to reach a high level of maintenance as well. Staff reported that generally, staff installs a sidewalk patch to reduce the liability until work can be completed.

Council Member Mensinger indicated he would like to see an objective set for alleys and staff reported that a goal was adopted to complete miles of alleys. Discussion followed regarding sidewalk maintenance. Council Member Mensinger asked that a memo be provided regarding plans for sidewalk maintenance. Council Member Mensinger asked for a five-year scope of work in order to accomplish the desired goals and objectives and funding for the Sports Fields Master Plan starting as well as problem properties and tree funding

Mr. Naghavi noted that it is important to remember that the money allocated in the plan is in addition to what is budgeted. He noted the need for additional allocations depending on Council's direction relative to the desired level of maintenance.

CEO Hatch addressed parks expansion, park capital projects and neighborhood identification. He encouraged feedback from Council and the public regarding possible deficiencies for which staff should be planning for in the long term.

Council Member Mensinger inquired regarding the plan for medical reimbursement and unfunded liabilities. CEO Hatch reported that the goal is to have a listing of unfunded liabilities in one area so that staff can continually understand the challenges and that definitions will be enhanced for increased understanding. Council Member Mensinger complemented CEO Hatch and staff on the Five-Year Financial Forecast document.

Council Member Bever addressed the bicycle trail at Fairview Park and encouraged a connection through Talbert Park along the 19th Street corridor to the Santa Ana River trail. He presented the possibility of working with the County on the matter.

Council Member Leece felt it important to determine repairs and structural issues needing attention in the City's libraries and the possibility of increasing capacity.

Mayor Pro Tem Rigeimer asked to make sure to distinguish between maintenance and replenishment of vehicles within the Replenishment and General Fund. He expressed concern with having matching funds for possible grants and encouraged addressing alleys. He agreed with the need to start budgeting money for libraries, noting increased community value with adding trees and addressed the budget contingency.

Interested parties were invited to address Council on this item.

Perry Valentine, Costa Mesa, applauded Council for thinking ahead and noted that many questions have been answered by the document. He encouraged Council to trust staff to do their job rather than getting involved in details. He felt that a Council "wish list" should be separate from the forecast and that thought should be given to additional revenue assumptions as in increasing business taxes as another revenue source. (01:28:00)

Beth Refakes, Costa Mesa, felt the forecast is a good tool and asked regarding Senior Center funding and the Council Chamber video/audio equipment upgrades. She agreed that Council needs to review the employee compensation policy and inquired whether the revenue accounts for the decrease in special events policing fees. She felt that the projected salaries and benefits shown are not sustainable and that Council should develop ideas for generating revenue. Ms. Refakes addressed the need for a reforestation program in older neighborhoods to deal with sidewalks lifting, especially in older neighborhoods. (01:30:23)

Mr. Young reported that the Senior Center is currently funded under a grant provided by the City and is included in maintenance and operations. He noted there is no budget for video/audio equipment upgrades.

Mr. Hatch reported funding may be included within the building equipment budget as progress is made throughout the years.

Discussion followed regarding addressing changes in compensation when contracts expire, changes in revenue for special events and related impacts, installing root barriers on trees and implementation of a reforestation plan.

Council Member Mensinger requested breaking out the Senior Center as its own cost center to better understand the real costs.

Council Member Bever reported that in prior years, the City budgeted for upgrades to audio/visual equipment in the Chambers but it was scrapped because of the budget situation. He indicated that the amount was approximately \$100,000.

Tom Egan, Costa Mesa, commended staff for the 5-year plan and expressed concerns regarding the ability to provide matching funds for potential grants. (01:38:00)

Mr. Naghavi addressed savings that are budgeted for the next two-and-a-half fiscal years, an allocation from gas tax and Measure M for road maintenance, rebuilding roads or for matching grants. He noted an additional source from the TRIP Fee program for transportation enhancement projects.

Robin Leffler, Costa Mesa, addressed increases in workload and the use of consultants and temps when layoffs occur or people leave. She questioned the amount spent on consultants resulting from Council directions. In addition, she commented on the City's ability to come out of its financial hole opining that many of the projects should be held off until the City is in a better financial position and revenues are built up. (01:42:17)

Council Member Bever noted that there is Measure M and gas tax money that must be spent on streets and that the cost is independent of other downturns.

Greg Ridge, Costa Mesa, commented on the Youth Sports at Costa Mesa United and indicated opposition to the City subsidizing non-profits. In addition he stated opposition to the City engaging in property development in terms of problem properties, expressing concern with "land banking" and did not feel that is the role of the City. (01:45:28)

Council Member Mensinger agreed with Mr. Ridge's comments and felt that the problem properties category relates to crime. He reported that he is a Board Member of Costa Mesa United and noted that they are part of the education process and that there are groups that fund scholastic endeavors. The program uses matching funds to offer and improve facilities for the youth.

Council Member Bever addressed specific problem properties and using City resources and efforts to restore them. He noted that there cases where Cities should get involved.

Jim Fitzpatrick, Costa Mesa, stated that he would like to see a white paper on all contracts that outlines key deal points for increased transparency. He commented on the need for a reforestation program and suggested involving the Parks and Recreation Commission in the matter. He addressed bicycle paths and programs and stated the desire for a corresponding budget. In addition, he suggested the City prepare its senior leaders for managing change and addressed the business tax and the City's golf course. (01:51:43)

## 2. Introduction to City's Monthly Cash Flow Analysis (01:55:19)

Budget and Research Officer Bobby Young presented details of the report including background, reserves spent and the need for a cash flow analysis. He addressed attributes and analysis of historical trends for both, cash inflows and outflows. He added that the analysis covers a six-month time period and he addressed line items that have changed with changes in the economy. Mr. Young presented projected monthly

cash balances for the remainder of 2011 and noted that it is specifically for the General Fund and includes debt service payments. Mr. Young presented a six-year historical trend of the General Fund Cash Balance.

Council Member Mensinger addressed the establishment and maintenance of the Emergency Cash Balance. Mr. Young reported that it was not included in the monthly cash balance and addressed financial and budget policies.

Discussion followed regarding revenues from sales at South Coast Plaza, monthly payroll commitments and operating costs.

Interested parties were invited to address Council on this item.

Jim Fitzpatrick, Costa Mesa, suggested that policies be set as to when the funds can be dipped to and how. (02:12:25)

Council Member Bever acknowledged the need for setting appropriate policies. Mr. Young reported that should Council desire, the current policy can be included with the monthly Treasurer's report.

### **RECESS AND RECONVENE (02:14:54)**

Mayor Pro Tem Righeimer called for a recess at 6:46 p.m. The meeting was reconvened at 6:51 p.m.

### **3. Introduction of Preliminary Financial and Budget Policies (02:16:38)**

Budget and Research Officer Bobby Young presented details of the report noting that many policies are dictated by the Municipal Code and Council policy and that the intent is to compile a comprehensive document. He noted the document is a beginning draft that can be expanded on. He addressed minimum fund balance reserves and cash requirements and asked Council to provide input.

Mayor Pro Tem Righeimer asked for clarification of past minimum fund balance reserves.

Council Member Mensinger commented that an emergency fund is meant for emergency situations. He felt that it is unwise to make it a protocol every year.

Regarding Operating Carryover, Council Member Bever suggested that Council establish percentage allocations for net revenues, whether to capital or reserves. Regarding minimum fund balance, he suggested changing the word "committed" to "available". He noted that a disaster will not wait for the funds to be available and stressed the need to be funded year round. He suggested that an inflationary adjustment be built into the Emergency Fund Balance. Regarding budgetary control, he suggested that basic institution-wide monthly reports be presented to Council and the

CEO. Relative to Debt Management, he urged that the City not get in the habit of borrowing for General Fund operating costs unless the debt issuance results in net operating cost savings.

Mr. Young addressed on-going appropriations relative to Operating Carryover, net revenue carryovers for non-recurring capital expenditures and minimum fund balance reserves as committed assigned and non-assigned. It was noted that the term "committed" refers to the highest legislative body having earmarked those funds to be committed and that the term is proper, especially on the CAFR.

Council Member Leece inquired regarding a possible resolution regarding the Emergency Fund Balance and clarification of user fees and levels of service delivery. Mr. Hatch explained that the idea would be that after input from Council and modification of the document, staff will bring back the item to Council for formal adoption of all of the policies. Council Member Leece requested a copy of the original resolution. Mr. Young addressed adjustments and clarification of the way that user fees are calculated.

Council Member Mensinger requested that the percentage of General Fund for capital expenditures be set at 10 percent and suggested a semi-annual review of the financials. Mr. Young reported that it is currently done with the mid-year budget review.

Council Member Bever indicated he would eventually like to see the percentage of General Fund for capital expenditures set at 15 percent.

Council Member Mensinger agreed with Council Member Bever. Mr. Young felt it prudent to more clearly define what is meant by capital expenditures.

CEO Hatch addressed challenges working toward a 10 percent for capital expenditures. He felt that the process should start at 5 percent and increase to 15 percent.

Interested parties were invited to address Council on this item.

Sandra Genis, Costa Mesa, felt it would be appropriate to develop criteria for subsidizing user fees. (02:38:28)

Perry Valantine, Costa Mesa, expressed concerns with placing limitations on capital expenditures and urged Council to consider professional staff advice as well as a review of business taxes. Mr. Valantine wanted to ensure that the issue is not overlooked for review in the future. (02:39:59)

CEO Hatch reported that Council directed staff to hire a business tax consultant as part of the budget process. Funds have been set aside for development of a plan to include that item in a ballot measure.



Council Member Bever noted that taxes are generally adjusted for inflation and commented regarding deferred maintenance allocations.

Beth Refakes, Costa Mesa, felt that the policies will have a major impact on budgeting going forward. She expressed concerns regarding operating carryovers and felt it was not feasible. She addressed the Emergency Fund Balance and agreed it must be adjusted for inflation. In addition, she felt that the minimum cash fund should be above and beyond the Emergency Fund Balance and that the latter should not be touched unless there is a disaster. She agreed with the need to define capital expenditures and commented positively on the proposed policies. (02:45:50)

Robin Leffler, Costa Mesa, thanked staff and Council for the process and reiterated comments from Mr. Valentine regarding the need for flexibility and to better define capital expenditures. (02:48:36)

#### 4. Employee of the Month

None

### **III. COUNCIL MEMBERS REPORTS, COMMENTS, AND SUGGESTIONS (02:50:26)**

Council Member Leece stated she would like to include revenues from business license taxes within the five-year forecast. She agreed with the need to establish criteria regarding subsidizing user fees and asked for an updated spreadsheet regarding current contracts and MOUs. In addition, she requested a report of comparable salaries and benefits offered by Costa Mesa with neighboring cities and possible options for reductions.

Council Member Mensinger stated he would take a 5 percent cut in pay and a reduction in his medical program if the employees were to take an equivalent amount. He commended staff on the Joanne Street Bike Trail and suggested that staff work with other groups to encourage similar projects. He noted that Council and staff are trying to help the community understand how money is spent within the City. He felt that staff is raising the bar with the proposed changes. He suggested providing a cash flow for the year.

Mayor Pro Tem Righheimer addressed the importance of setting policies and felt that comparing negotiated contracts and MOUs with other cities is not helpful information. He commended staff on the Joanne Street Bike Trail and encouraged staff to ensure there is money to extend and maintain it as well as implement improvements in other areas in the City. He addressed the City's recent win of the Rose Award from the OC Taxpayers Association.

CEO Hatch expressed appreciation to staff for the work in generating the documents and introduced new Police Chief Tom Gazsi.

**IV. ADJOURNMENT (03:06:54))**

The Mayor Pro Tem adjourned the Study Session at 7:37 p.m.



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Mayor of the City of Costa Mesa

ATTEST:

*Brenda Green*

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City Clerk for the City of Costa Mesa