



CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: November 12, 2013

ITEM NUMBER: 1

SUBJECT: CAPITAL IMPROVEMENT PROGRAM UPDATE/SURPLUS FUNDS DISCUSSION

DATE: NOVEMBER 4, 2013

FROM: FINANCE DEPARTMENT

PRESENTATION BY: STEPHEN DUNIVENT, INTERIM FINANCE & I.T. DIRECTOR

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RECOMMENDED ACTION:

1. Receive and file this report.
2. Provide staff direction on the recommended uses of the FY 2012-13 surplus as outlined in this report and detailed in Attachment 2.
3. Provide staff direction on funding of any of the projects to be selected from the list in Attachment 3 within the amount indicated on Attachment 2.

BACKGROUND:

The City completed FY 2012-13 with a surplus of \$7.1 million. This announcement prompted much discussion on how the City should use the surplus. Those discussions often included suggestions on funding additional capital projects. This report reviews the sources of the surplus and makes recommendations on the use of those funds.

ANALYSIS:

The City's annual operating and capital budget is prepared and adopted by June 30. This means that the revenues and fund balances for the upcoming year are based on estimates rather than actual amounts. Now that FY 2012-13 is completed, the actual revenues, expenditures and fund balances for that year are known. The City finished FY 2012-13 with a surplus of \$7.1 million. An analysis of the sources of the surplus is presented in Attachment 1. \$4.9 million of the surplus is a result of revenues exceeding budget. These include sales taxes (\$1.5 million), property tax (\$1.7 million), transient occupancy taxes (\$0.8 million) and other items. Nearly 60% of the additional revenue was from one-time sources. \$2.2 million of the surplus is a result of expenditure savings. \$1.5 million of this amount is a result of salary savings in various departments. The balance is from various items under budget or not used; some of which need to be carried over and re-budgeted in the current fiscal year.

The re-budget items are listed in the first section of Attachment 2. They include funding for the general plan update, pension unfunded liability prepayment, Neighborhood Improvement Task Force (NITF) acquisition costs and other departmental items. These items total \$1.799 million.

There are three previously approved items listed in the second section of Attachment 3 that also require funding. These are the Costa Mesa Police Association (CMPA) salary adjustment per the side letter to the MOU, the Information Technology (IT) infrastructure upgrades (previously recommended to be funded by a loan from the general fund to a newly established IT fund, now recommended for direct payment) and the Civic Center Barrio default cure.

Some of the surplus is needed for staffing recommendations. A report regarding significant workloads and staffing needs is in process. This report will be brought to the Council separately. Funding for one-half year of this plan is recommended to be set aside from the surplus. Also, due to the reallocation of staff resources to the management of Fairview Park issues, the Public Services Department requires additional project management services to facilitate the completion of a number of capital projects budgeted this fiscal year. Finally, the Police Department needs the replacement of ten (10) vehicles which were proposed but not funded this fiscal year. We estimate the cost of each vehicle at \$32,000.

These items are summarized on Attachment 2 and total \$5.4 million. Staff recommends that these items be funded from the FY 2012-13 surplus. Individual budget adjustments for them will be included in the mid-year budget report or brought to the Council for approval separately depending on the timing of each item.

The FY 2013-14 adopted Capital Improvement Program (CIP) budget totals \$18 million and is funded by various sources including gas tax, Measure M and a \$3.985 million contribution from the General fund. One of the funded projects, the Costa Mesa High School track and field upgrade will now be done by the school district thereby freeing up \$0.8 million for other capital projects (plus \$3 million over the following two years). For reference, the FY 2013-14 CIP list is included as Appendix A.

There were many other capital projects on the recommended list for funding in FY 2013-14 but could not be accommodated within the existing resources. These are included in Attachment 3. For example, the City Council Chambers and Audio/Visual system upgrade for \$1.25 million (now estimated at \$1.6 million with associated projects) was deferred to next fiscal year.

Since the announcement of the FY 2012-13 surplus, new capital projects have been discussed at various times. For example, additional funds for parkway tree planting and sidewalk repair have been discussed. For the balance of the remaining FY 2012-13 surplus, staff recommends funding some of the highest priority item(s) from the list shown in Attachment 3. These are also included in the second half of Attachment 2.

In addition to these capital improvements, there are several other key issues that require funding decisions. These include the golf course revenues and CIP, pension unfunded liability, Fire Side Fund unfunded liability, annual pension prepayments, and the development and funding of a plan to rebuild the City's financial reserves. Reports on these issues will be brought to the Council in separate future reports or will be included in the mid-year budget report.

CONCLUSION:

Use of surplus funds is an important part of the responsible management of the City's fiscal resources. Since much of the \$7.1 million surplus is one-time, recommended uses also need to be one-time. The recommendations of this report, summarized in Attachment 2, follow that guideline.

Stephen Dunivent
Interim Finance and I.T. Director

Thomas R. Hatch
City CEO

Ernesto Munoz
Public Services Director

Attachments:

- [1 - FY 2012-13 Surplus Analysis](#)
- [2 - Recommended Uses of the FY 2012-13 Surplus](#)
- [3 - Unfunded Priority List for Capital Improvement Projects](#)

Appendix A: [FY 2013-14 Capital Improvement Program Budget](#)