



# CITY COUNCIL AGENDA REPORT

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MEETING DATE: February 18, 2014

ITEM NUMBER:

**SUBJECT: FISCAL YEAR 2013-14 MID-YEAR BUDGET REPORT**

**DATE: February 6, 2014**

**FROM: FINANCE DEPARTMENT**

**PRESENTATION BY: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR**

**FOR FURTHER INFORMATION CONTACT: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR,  
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## **RECOMMENDED ACTIONS:**

1. Approve the recommended uses of the remainder of the FY 2012-13 surplus as follows:
  - a. Increase the Information Technology budget by \$758,770 for the remainder of the infrastructure backbone project (general fund portion) and consider this as a budgeted expense rather than a non-interest bearing loan as originally planned
  - b. Increase the General Fund transfer to the Capital Improvement Program Fund by \$300,000
  - c. Save the remaining \$1,568,000 in General Fund balance
2. Approve the recommended increase of the FY 2013-14 General Fund revenue budget by \$1,900,000 as indicated in Attachment 4 and increase the FY 2013-14 General Fund appropriations by \$1,568,000 as indicated on page 3 of this report.
3. Approve the allocation of appropriations from the General Fund contingency account to the General Fund departments/projects listed on Attachment 8 including the final \$18,717.03 transfer to the Costa Mesa Community Foundation.
4. Adjust the budgets of certain non-General Funds as follows:
  - a. Adjust the Capital Improvement Projects Fund by for the Council Chambers audio/visual equipment upgrade as indicated on page 4 of this report.
  - b. Adjust the Narcotic Asset Forfeiture Fund as described on page 4 of this report.
  - c. Adjust the budgets of the Measure M2 Funds 415 and 416 as described in page 4 of this report.
  - d. Establish the new Nuisance Abatement Relocation Assistance Fund as directed by the City's Public Nuisance Abatement Ordinance Section 20-32(b)

## **BACKGROUND:**

The City Council adopted the FY 2013-14 budget on June 18, 2013. The total budget was \$125.4 million with a General Fund budget of \$103.2 million. As the FY 2012-13 financial records were being closed, a General Fund surplus of \$7.1 million was reported. During the past six months, the Council has approved various staff recommendations for FY 2013-14 budget modifications and held a November 12, 2013 study session on the sources and potential uses of the \$7.1 million surplus. The general consensus from that session was that there are many good uses for the funds and a portion of the surplus should be saved.

This report reviews the current status of the FY 2012-13 surplus, FY 2013-14 General Fund revenues, expenditures and other budget issues. This report also summarizes revisions to the FY 2013-14 budget that will be recommended for adoption at the next regular Council meeting.

## **ANALYSIS:**

### **FY 2012-13 surplus:**

As reported in the November 12, 2013 study session information, the \$7.1 million surplus was generated by a combination of on-going and one-time positive revenue variances of \$4.9 million, net salary and benefit savings of \$1.5 million and other carryover and savings items of \$0.7 million. These sources are summarized in Attachment 1, page 1.

Various carry over items from FY 2012-13 that total \$1.8 million have been re-budgeted including funds for the General Plan update, pension unfunded liability payment, Neighborhood Improvement Task Force acquisition costs and other departmental items. The Council has approved six other items that total of \$2.6 million including: the Civic Center Barrio mortgage default cure, the Costa Mesa Police Association salary adjustment, Public Services project management, purchase and outfitting of ten Police Department vehicles, the IT Director and consultant and the CEO City staff reorganization plan.

Two other items are recommended for funding from the FY 2012-13 Surplus: the Information Technology infrastructure upgrades (General fund portion of \$1.1 million offset by existing non-departmental appropriations of \$235,000) and an increase in the transfer to the Capital Improvement Plan Fund 401 of \$300,000 to help fund the Council chambers audio/visual (A/V) equipment upgrade. The remainder of the funding plan for the A/V upgrade is provided later in this report.

These recommendations are summarized in Attachment 1, page 2. The balance of \$1.6 million would remain as savings in the City's General Fund unassigned balance.

### **FY 2013-14 Revenues:**

Total year-to-date General Fund revenue by month is displayed in Attachment 3. The graph displays last fiscal year, current fiscal year-to-date budget allocated in the same proportion as last fiscal year actuals and year-to-date actual revenues by month. Through December 31, total General Fund revenue is \$34.3 million; 1.4% over year-to-date budget. Three revenue categories make up the majority of the General Fund revenues: Property Tax, Sales & Use Tax and Temporary Occupancy Tax (TOT).

Secured Property Tax as of December 31 is \$10.7 million or \$0.9 million above budget due to the improving real estate market and is expected to be \$1.1 million above budget by fiscal year-end.

Sales & Use Tax as of December 31 is \$12.48 million and is projected to be \$100,000 above budget by fiscal year-end. Sales Tax In-Lieu is received in January. The first installment was \$6.985 million and the total is expected to be \$0.5 million above budget by fiscal year end. These revenues are driven by increases in sales for general consumer goods, autos and transportation and in restaurants and hotels.

Transient Occupancy Tax (TOT) as of December 31 is \$3.28 million and is expected to be \$200,000 above budget by fiscal year-end.

Based on the projections noted above, a total General Fund revenue budget increase of \$1.9 million is recommended. The recommended use of these funds is as follows:

- Development Services
  - \$250,000 staffing plan (discussed in a separate agenda item)
  - \$150,000 future consulting services
  - \$100,000 supplement existing consultant services
- Fire Department
  - \$268,000 Emergency vehicle preemption system project and related costs
- City Council chambers A/V upgrade
  - \$800,000 to provide the balance of the project funding
- The remaining balance of \$332,000 would be unused; saved in the General Fund balance.

These adjustments, as well as all General Fund revenue account information, are displayed in Attachment 4.

#### FY 2013-14 Expenditures:

Total General Fund expenditures as of December 31 are \$48.1 million; 1.7% ahead of the year-to-date budget. General Fund expenditures are summarized in Attachments 5, 6 & 7. Total salaries and benefits as of December 31 are \$32.9 million and are within budget. However, overtime spending is \$2.9 million as of December 31 compared to a year-to-date budget of \$2.1 million; a 37% variance. The total overtime budget is \$4.4 million compared to an actual spending level of nearly \$6.1 million last year and a projection of nearly the same amount this year if the current rate of use continues. These costs are expected to be completely covered by savings in regular salaries and employee benefit accounts.

Attachment 7 details the General Fund expenditures by department and division. City Attorney, Transportation Services and possibly a few other departments will require further monitoring and possible adjustment by fiscal year end.

#### Allocation of Contingencies:

The current Non-Departmental section of the General Fund budget includes a \$1 million contingency appropriation. Attachment 8 lists items that the City Council and/or the CEO has approved for use by the various departments and divisions listed. It is recommended that these appropriations be transferred out of the General Fund contingency account and added to the various General Fund department budgets for the purposes indicated on Attachment 8. This will result in a revised balance of about \$333,286 in this account.

The contingency allocation includes an amount for transfer to the Costa Mesa Community Foundation. The initial amount approved to be provided to the Costa Mesa Community Foundation for the City's 60<sup>th</sup> Anniversary Celebration was \$125,000 with the commitment that the City would bear the cost of any additional expenses. An additional \$50,000 was approved for transfer to the Foundation for FY 2012-13; the maximum that could be approved by the CEO. The City Council is requested to approve the balance of the funding for payment to the Foundation in the amount of \$18,717. This amount is included in the total event cost reported on January 30, 2014.

Attachment 2 summarizes all recommended changes to the FY 2013-14 General Fund budget. The revised General Fund budget is \$110.3 million.

#### Other Issues/Other Funds:

The following recommendations affect the non-General Fund budgets controlled by the City:

Capital Improvement Fund 401: Recommended adjustments to this fund are summarized in Attachment 1, page 2. It is recommended to fund the City Council Chambers A/V upgrade as approved in concept for \$1.6 million by the Council on December 3, 2013 from the following sources:

- \$500,000 from the Costa Mesa High School track & field project
- \$300,000 from the FY 2012-13 surplus
- \$800,000 from the additional FY 2013-14 General Fund revenues

Narcotic Asset Forfeiture Fund 217: It is recommended to appropriate the following amounts from unassigned fund balance to provide for unbudgeted uses of these funds:

- \$30,000 for the purchase of Automated Exterior Defibrillator units to be installed in patrol cars
- \$7,200 for Police Department building maintenance and improvements
- \$155,000 for consulting services related to CAD/RMS implementation
- \$6,800 for Special Investigative Unit expenses

Measure M2 Competitive Fund 415: Staff discovered that Measure M2 Tier 2 grant funds of \$2,871,600 for the Pomona Avenue project was inadvertently omitted from the City's FY 2013-14 Adopted Budget. In addition, the project was mistakenly budgeted in the Measure M2 Fairshare Fund 416. It is recommended that the project funding be corrected by moving the project appropriations of \$2,871,600 from Fund 416 to Fund 415 and budget the corresponding grant revenue of the same amount in Fund 415.

Nuisance Abatement Relocation Assistance (New Fund): It is recommended that the City establish this new fund with a \$10,000 loan from the General Fund contingency account. This is in compliance with Section 20-32(b) of the Public Nuisance Abatement Ordinance adopted by the City on October 10, 2013. Funds will be used to defray the costs and expenses which may be incurred by the City in causing the payment or relocation assistance to evicted tenants of abated structures. Funds will be reimbursed from payments received from the property owner.

**CONCLUSION:**

The review and approval of the recommended budget changes will update the City's budget to reflect the current revenue expectations and expenditure requirements that help enable the City to continue providing the Community with quality programs and services.

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Stephen Dunivent  
Interim Finance Director

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Thomas R. Hatch  
City CEO

Attachments:

1. [Analysis and Recommended Uses of the FY 2012-13 Surplus](#)
2. [Mid-year Budget Report Summary—General Fund](#)
3. [General Fund Revenue Chart](#)
4. [Budget to Actual Analysis—General Fund Revenues](#)
5. [General Fund Total Expenditure Chart](#)
6. [General Fund Salary & Benefit Chart](#)
7. [Budget to Actual Analysis—General Fund Expenditures](#)
8. [Contingency Funds](#)