



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 15, 2021

ITEM NUMBER: PH-2

SUBJECT:

**FISCAL YEAR 2021-22 PROPOSED OPERATING AND CAPITAL
IMPROVEMENT PROGRAM BUDGET**

DATE:

JUNE 15, 2021

FROM:

**CITY MANAGER'S OFFICE
FINANCE DEPARTMENT**

PRESENTATION BY:

**LORI ANN FARRELL HARRISON, CITY MANAGER
CAROL MOLINA, FINANCE DIRECTOR**

FOR FURTHER INFORMATION CONTACT:

**CAROL MOLINA, FINANCE DIRECTOR
(714) 754-5036**

RECOMMENDATIONS:

Staff recommends that City Council:

1. Approve Resolution 21-xx, adopting the Proposed Fiscal Year 2021-22 Operating and Capital Improvement Budget as originally proposed on May 25, 2021; or
2. Approve an amended Resolution 21-xx adopting the Proposed Fiscal Year 2021-22 Operating and Capital Improvement Budget without the use of \$3.2 million in Declared Disasters Reserve, as outlined and discussed at the June 8, 2021 Budget Study Session; and,
3. Adopt Resolution 21-xx, adding the following job classifications and related pay ranges:
 - a. Active Transportation Coordinator; and
 - b. Arts Specialist; and
4. Authorize the City Manager and/or Finance Director to appropriate and transfer Federal American Rescue Plan (ARP) Funds as needed to comply with U.S. Treasury Guidelines and to facilitate audit review and compliance; and
5. Authorize the City Manager and/or Finance Director to appropriate and transfer current year (FY 2020-21) General Fund Reserves to the Equipment Replacement Fund to provide sufficient cash flow for the upcoming fiscal year.

6. Authorize the City Manager and City Attorney to enter into any and all agreements with Costa Mesa organizations to provide financial assistance for families with a financial hardship to participate in Parks and Community Services programs.
7. Authorize the City Manager and/or Finance Director to appropriate funds from the Golf Course Improvement Fund (Fund 413), as and if needed, to begin the process of updating the Golf Course's Five-Year Plan.

BACKGROUND:

The Proposed Budget for FY 2021-22 is designed to invigorate the City's economic recovery through strategic investments in Citywide infrastructure, restoring staffing and services to pre-pandemic levels, and maximizing Federal stimulus dollars while the global, national and regional economies recover from the impacts of COVID-19.

With the reopening of the California economy on June 15, 2021, next year's FY 2021-22 Budget positions Costa Mesa to succeed in overcoming the myriad challenges posed by the worldwide pandemic. This year marks a pivotal transition as the City continues to push vaccination efforts, see positive signs of a potentially subsiding pandemic, and allows the City to chart a distinct path towards economic resilience for both the near and long term.

Guiding Principles

The guiding principles that inspired the recommendations for the FY 2021-22 Budget were created in January 2021, when the City Council conducted a Strategic Planning workshop identifying key priorities, as well as a new Mission Statement for Costa Mesa, as follows:

"The City of Costa Mesa serves our residents, businesses, and visitors by promoting a safe, inclusive, and vibrant community."

In addition to a new Mission Statement, five new Strategic Plan Goals were developed:

- Recruit and retain high quality staff;
- Achieve long-term fiscal sustainability;
- Strengthen public safety and keep the community safe;
- Maintain and enhance the City's infrastructure, facilities, equipment and technology; and,
- Diversify, stabilize, and increase housing to reflect community needs.

The recommendations contained in the FY 2021-22 Proposed Budget are rooted in the Five Strategic Plan Goals created by the City Council for a safe, inclusive and vibrant City.

ANALYSIS:

The theme for the FY 2021-22 Proposed Budget, "**Charting the Path to Recovery**," conveys the restoration of core services while incorporating key strategies to ensure long-term fiscal sustainability. It provides a framework for reinstating service levels cut during the pandemic while using Federal American Rescue Plan funds, along with the City's

Disasters Reserve, if needed, to sustain core services until revenues return to pre-pandemic levels.

At the May 25, 2021 City Council Study Session, the June 1, 2021 Public Hearing, and June 8, 2021 Study Session, regarding the FY 2021-22 Proposed Budget, the City Council provided feedback to staff regarding several items contained in the Proposed Budget. The result is a budget that addresses the City Council's goals and priorities, while fulfilling the service requirements of the people who live, work, and play in our community. This represents a balanced budget and provides the highest level of service to the community within existing financial resources.

The agenda reports and videos for the May 11, 2021 City Council Study Session, May 25, 2021 City Council Study Session, the June 1, 2021 Public Hearing, and the June 8, 2021, City Council Study Session can be found here:

May 11, 2021 Agenda Report:

- [FY 2021-22 Proposed Capital Improvement Program Budget Study Session Agenda](#)

May 11, 2021 Study Session Video:

- [FY 2021-22 Proposed Capital Improvement Program Budget Study Session Video](#)

May 25, 2021 Agenda Report:

- [FY 2021-22 Proposed Budget Study Session Agenda](#)

May 25, 2021 Study Session Video:

- [FY 2021-22 Proposed Budget Study Session Video](#)

June 1, 2021 Agenda Report:

- [FY 2021-22 Proposed Budget Public Hearing](#)

June 1, 2021 Public Hearing Video:

- [FY 2021-22 Proposed Budget Public Hearing Video](#)

June 8, 2021 Agenda Report:

- [FY 2021-22 Proposed Budget Study Session Agenda](#)

June 8, 2021 Study Session Video

- [FY 2021-22 Proposed Budget Study Session Video](#)

Overview of FY 2021-22 Proposed All Funds Budget

The Proposed FY 2021-22 Budget totals \$197.9 million in All Funds. This reflects a \$34.1 million, or 21 percent increase from the FY 2020-21 All Funds Budget of \$163.8 million.

Table 1

<u>FY 2021-22 PROPOSED BUDGET - ALL FUNDS</u>						
Appropriations	Actual	Actual	Adopted	Proposed	<u>Increase/Decrease</u>	
All Funds	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Amount	Percent
Operating Budget	\$144,808,736	\$145,205,721	\$145,841,031	\$163,522,932	\$17,681,901	12.1%
Transfers Out	20,094,245	6,677,681	4,099,924	9,841,585	\$5,741,661	140.0%
Capital Budget	42,373,416	6,772,928	13,855,245	24,566,362	\$10,711,117	77.3%
Total	<u>\$207,276,397</u>	<u>\$158,656,330</u>	<u>\$163,796,200</u>	<u>\$197,930,879</u>	<u>\$34,134,679</u>	<u>20.8%</u>

Operating Budget

The projected increase of \$17.7 million in the Operating Budget's portion of the FY 2021-22 All Funds Budget is mostly comprised of the reinstated staffing and service levels previously cut as a result of the pandemic's fiscal impacts. The General Fund has the most significant increase; estimated at \$12.9 million. Of the \$12.9 million increase in spending in the General Fund, half of that amount or \$6.6 million is from Federal American Rescue Plan Part Two funds the City will receive after July 1, 2021.

Staff is requesting approval from the City Council to authorize the City Manager and/or Finance Director to appropriate the American Rescue Plan (ARP) Funds as needed to comply with the U.S. Treasury guidelines and to facilitate audit review and compliance. The \$6.6 million in ARP funded restorations in the Proposed General Fund Budget include 17.4 full-time and part-time positions defunded Citywide, as well as training, supplies, and other services.

The original FY 2021-22 Proposed Budget recommended the use of \$3.2 million in Declared Disasters Reserve, in addition to ARP funds, to create a bridge. This action was originally recommended given the fact that the City has not yet dipped into its reserves, and even if required to do so before June 30, 2021 for the current year, there is still sufficient Council authority from Declared Disasters Reserve to cover expenses for one more year. Utilizing a combination of Federal stimulus funds and Declared Disasters Reserve can assist the City in restoring services to near pre-pandemic levels while the economy recovers. However, at the June 1, 2021, City Council Public Hearing, certain concerns were raised regarding this approach. City Council direction is requested on which option to pursue with the full understanding that certain public safety capital projects will need to be delayed until mid-year if the Council opts to approve the budget without using reserves.

In addition, in order to implement efficiencies, staff is recommending that the City Council grant authorization to the City Manager and/or Finance Director to appropriate, as received, donations and grants awarded during the fiscal year up to \$100,000, per source or grantor. Any donations and grant awards with matching requirements or exceeding \$100,000 from

a single source, grantor or sole source, will continue to require City Council approval. This change will help to expedite the use and expenditure of the funds and remove the administrative burden of preparing lengthy agenda reports for smaller grants.

Finally, City Council expressed interest in providing grants to Costa Mesa families experiencing financial hardship to participate in the Parks and Community Services programs. Staff is requesting City Council to authorize the City Manager and/or City Attorney to enter into agreements with local non-profit organizations or foundations to administer and manage these grants. Staff will be utilizing funding included in the FY 2021-22 Proposed Budget, City Manager's contingency, to cover any administrative costs and grant awards.

Capital Budget

The All Funds Capital Budget of \$24.6 million reflects the City's annual Capital Improvement Program Budget that contains an increase of \$10.7 million as a result of continued compliance with the Capital Asset Needs (CAN) ordinance, as well as changes in other special and restricted funds for Capital projects.

Table 2

<u>CAPITAL IMPROVEMENT PROJECTS</u>				
	Adopted FY 2020-21	Proposed FY 2021-22	Increase/Decrease	
			Amount	Percent
Energy & Sustainability	\$ 185,356	\$ 295,000	\$ 109,644	59.2%
Facilities	3,840,244	4,492,306	652,062	17.0%
Parks	350,000	2,006,520	1,656,520	473.3%
Parkways & Medians	725,000	1,000,000	275,000	37.9%
Streets	6,284,145	12,531,536	6,247,391	99.4%
Transportation	2,470,500	4,241,000	1,770,500	71.7%
Total CIP	\$ 13,855,245	\$ 24,566,362	\$ 10,711,117	77.3%

The majority of the FY 2021-22 increase in projects are in Citywide Street Improvements as the pandemic caused a significant delay in street improvements. Additional detail regarding the CIP Budget is contained in the CIP section of the FY 2021-22 Proposed Budget Book.

Capital Status Report

During City Council FY 2021-22 budget presentations, City Council expressed an interest to have a Capital Project Status Report available to the public. Staff is exploring options for enhanced reporting regarding key or high priority capital projects. The additional staffing included in the Public Services Department request would assist in this regard.

City Golf Course Five-Year Plan

At the June 8, 2021 City Council Study Session, Council discussed an interest in improving the facility at the Golf Course, and providing for a potential increase in City revenues. Staff recommends beginning a review of the Golf Course Five-Year Plan in the upcoming fiscal year, to address the concerns highlighted at the Study Session.

FY 2021-22 Proposed General Fund Budget Overview

The Proposed FY 2021-22 General Fund expenditure budget is \$154.4 million. This reflects an increase of \$17.8 million or 13.0 percent, from the FY 2020-21 Adopted Budget of \$136.6 million. Table 3 is a summary of the FY 2021-22 General Fund Proposed Budget.

Table 3

<u>FY 2021-22 PROPOSED GENERAL FUND BUDGET</u>						
	Actual FY 2018-19	Actual FY 2019-20	Adopted FY 2020-21	Proposed FY 2021-22	<u>Increase/Decrease</u>	
					Amount	Percent
Estimated Revenues	\$144,928,663	\$136,450,019	\$126,360,101	\$144,622,060	\$18,261,959	14.5%
Transfers In	41,287	1,150,000	-	6,561,529	6,561,529	100.0%
Use of Fund Balance	-	-	10,277,168	3,219,091	(7,058,067)	-68.7%
Total Resources	<u>\$144,969,950</u>	<u>\$137,600,019</u>	<u>\$136,637,269</u>	<u>\$154,402,680</u>	<u>\$17,765,421</u>	<u>13.0%</u>
Operating Budget	127,472,196	132,020,925	132,537,346	145,421,744	12,884,398	9.7%
Transfers Out	20,049,116	5,405,141	4,099,924	8,980,936	4,881,012	119.1%
Total Appropriations	<u>\$147,521,312</u>	<u>\$137,426,066</u>	<u>\$136,637,270</u>	<u>\$154,402,680</u>	<u>\$17,765,410</u>	<u>13.0%</u>

The General Fund Operating Budget increase of \$17.8 million is mostly comprised of the reinstatement of the multiple reductions taken Citywide in the current year as a result of the pandemic's fiscal impacts. Included is \$6.6 million in ARP funds to restore General Fund cuts including the restoration of 17.43 defunded full-time and part-time positions, training, supplies, and other operating reductions.

General Fund Reserves

According to Standard and Poor's, the City of Costa Mesa holds, "very strong management, with strong financial policies and practices under our financial management assessment methodology." Based on this and other positive reflections of the City, Standard & Poor's has maintained its AA+ credit rating for the 2017 Costa Mesa Bonds; and an overall AAA credit rating for the City. City Council direction is requested as to the use of \$3.2 million in Declared Disasters Reserve in the FY 2021-22 Proposed Budget.

Table 4 – Without the Use of Reserves

Fund Balance Category	FY 2018-19 Audited	FY 2019-20 Audited	FY 2020-21 Estimated
Committed			
Declared Disasters	\$14,125	\$14,125	\$14,125
Self-Insurance	2,000	2,000	2,000
Economic Reserves	7,500	9,000	9,000
Assigned			
Compensated Absences	4,892	5,037	5,037
Police Retirement 1%			
Supplemental	2,297	2,365	2,365
Section 115 Trust	1,750	1,750	1,750
Non-Spendable	280	362	362
Unassigned	20,451	18,825	18,825
Total Fund Balance	\$53,295	\$53,464	\$53,464

Equipment Replacement

The Equipment Replacement Internal Service Fund has only \$1.6 million in cash to support equipment replacements going forward. While it has a total fund balance of \$8.6 million, the majority of it is actually the value of the City's equipment inventory. In order to meet department operational demands, a sufficient cash balance is required for vehicle and equipment replacement. Staff is recommending a transfer of \$2.2 million in the current year (FY 2020-21) from the General Fund to provide sufficient funding for vehicle and equipment purchases. This transfer is needed to fund vehicle replacements for new purchases of vehicles and equipment for various departments in the City. The total costs for purchases in the Fiscal Year 2021-22 Budget is \$1.0 million in addition to staff and vehicle maintenance costs. A long term plan to shore up resources in this Fund will be proposed in the mid-year budget review.

Staffing Levels

The Proposed budget includes a total of 530 full-time employees. The Proposed Budget incorporates an additional 9.9 full-time positions which are mostly attributed to the reallocation of part-time positions to full-time. During the Great Recession, the City lost 146 full-time positions. While the number of full-time staff at the City has grown, the workload attributed to the pandemic, implementation of Measure Q, and major development projects across the City, in addition to an increased workload overall, has magnified the need to both stabilize and enhance the workforce commensurately. Even with the proposed changes, full-time staffing levels are thirteen percent (13%) under FY 2009-10 levels.

On May 4, 2021, the City Council approved the elimination of furloughs across all labor groups and restored employee salaries back to pre-pandemic levels. The FY 2021-22 Proposed General Fund Budget includes an additional \$3.0 million in salaries and benefits to fully restore the amounts cut via the furloughs and 17.4 defunded positions. The Proposed

FY 2021-22 Operating Budget reinstates funding for those positions in the Fire and Rescue, Information Technology, Development Services, Public Services, and Finance Departments in order to enhance public service and improve productivity and reflects a \$1.7 million increase in General Fund spending above the FY 2020-21 Adopted General Fund Budget.

Included in the FY 2021-22 Proposed Budget are also two (2) new classifications to provide support to the Arts and Culture Master Plan and the Active Transportation Plan:

1. Active Transportation Coordinator – this position will assist and coordinate the implementation of City's Active Transportation Plan projects and other related CIP projects.
2. Arts Specialist – this position will oversee activities and programs such as art gallery exhibits, bringing in local artists for speaking engagements, expand programs such as the utility box art, and coordinate the Art Venture, among other arts programs and events. This position will be funded by the Measure Q ½ percent retail tax for the implementation of the Council-adopted Arts and Culture Master Plan.

To continue the efficient implementation of the Council-approved Strategic Goal of recruiting and retaining high quality staff, staff is requesting that the City Manager be authorized to revise the Table of Organization, such as reclassifying an Office Specialist position to an Administrative Secretary position, as the demand for increased functions or increased responsibilities deem it necessary, provided that the authorized number of personnel within the City is not exceeded. This will assist in the realignment of much needed staff support during the fiscal year and will aid in continued efficiencies throughout the entire organization.

Cost Recovery Fees: City staff were working with ClearSource Financial Consulting to update the Citywide Cost Recovery Fees when the pandemic hit. Over the past few weeks, the number of new cases has drastically decreased to the point that the State announced a reopening on June 15, 2021, and economists are predicting a 5.8% to 8.6% growth over the next year. Therefore, staff will continue to work with ClearSource to finalize the review of the City's fees and anticipates returning to Council for discussion in the next six to nine months.

A potential increase in fees coupled with key full-time positions included in the proposed budget will provide additional revenue for the City as certain employee classifications are revenue-generating positions. Specifically, Development Services, Public Services and the Fire Department include new positions that are crucial to begin to address the current backlog of permit and building processing, and inspection services. The additional positions include, but are not limited to: Fire Protection Specialist, Building Technician, Plan Checker and Assistant Planner.

Commitment to Public Safety: One of the main priorities of the FY 2021-22 Proposed Budget is public safety. As such, more than 53 percent of the General Fund Adopted Budget, approximately \$81.4 million is designated for public safety.

The Police Department budget contains 138 full-time sworn personnel, reflecting two additional police officer positions approved mid-year as part of the Measure Q Cannabis

Retail Program's implementation for an increase of \$498,203. We are pleased to report this is the highest level of Police Department sworn staffing since the Great Recession.

In addition, the Police Department's maintenance and operations budget increased by \$495,301, to restore the previous year's FY 2020-21 budget reductions, mostly for training, and necessary equipment and other purchases.

The Fire Department budget contains 95 total full-time personnel; 84 full-time sworn personnel and 11 non-sworn positions and 2.25 part-time positions. The Fire Department provides emergency response services and staffs six fire stations, 24 hours a day, seven days a week, 365 days a year with an increase of \$2,395,120 over the FY 2020-21 Adopted Budget.

Finally, the Fire Department is in need of a new Pierce 1500 GPM Triple Combination Pumper Truck. The existing 2003 American LaFrance Pumper apparatus has high mileage with heavy wear and tear on all powertrain, suspension, steering and pump. The manufacturer, American LaFrance, is out of business and parts are becoming obsolete extending repair and maintenance down times. The estimated cost for the replacement Fire pumper is \$875,000, of which \$200,000 is included in the FY 2021-22 Proposed Budget for a master lease agreement. Staff is recommending that City Council authorize the City Manager and/or Finance Director to sign the master lease agreement for funding of the Fire pumper truck, taking advantage of the low interest rate environment.

SUMMARY

The City Council has discussed and reviewed the FY 2021-22 Proposed Operating and Capital Improvement Budget at the Study Sessions held on May 11, 2021 and May 25, 2021; the Public Hearing held on June 1, 2021; and a second Study Session held on June 15, 2021.

Also, the FY 2021-22 Proposed Budget was presented to the Finance and Pension Advisory Committee (FiPAC) on May 26, 2021 and June 9, 2021. FiPAC created a Budget Sub-committee that has provided significant feedback to City Council. At the June 9, 2021 FiPAC meeting, FiPAC committee members recommended to approve the Revised Proposed Budget option, not utilizing the use of Declared Disasters Reserve and to delay the Arts Specialist position to mid-year until the revenues from the Measure Q ½ percent for the Arts and Culture Master Program are received.

Staff appreciates the Committee and City Council's continued support as we navigate the multitude of challenges and ever changing circumstances related to this pandemic in the weeks and months to come.

The results of all concerted efforts by City Council, the FiPAC Committee, and staff on the FY 2021-22 Proposed Operating and Capital Improvement Budget has resulted in a budget that creates a solid foundation for Charting a Path Toward Recovery for the City of Costa Mesa for the near future and beyond.

LEGAL REVIEW:

The City Attorney has reviewed and approved this report as to form.

CONCLUSION:

Staff recommends that City Council:

1. Approve Resolution 21-xx, adopting the Proposed Fiscal Year 2021-22 Operating and Capital Improvement Budget as originally proposed on May 25, 2021; or
2. Approve an amended Resolution 21-xx adopting the Proposed Fiscal Year 2021-22 Operating and Capital Improvement Budget without the use of \$3.2 million in Declared Disasters Reserve, as outlined and discussed at the June 8, 2021 Budget Study Session; and,
3. Adopt Resolution 21-xx, adding the following job classifications and related pay ranges:
 - a. Active Transportation Coordinator; and
 - b. Arts Specialist; and
4. Authorize the City Manager and/or Finance Director to appropriate and transfer Federal American Rescue Plan (ARP) Funds as needed to comply with U.S. Treasury Guidelines and to facilitate audit review and compliance; and
5. Authorize the City Manager and/or Finance Director to appropriate and transfer current year (FY 2020-21) General Fund Reserves to the Equipment Replacement Fund to provide sufficient cash flow for the upcoming fiscal year.
6. Authorize the City Manager and City Attorney to enter into any and all agreements with Costa Mesa organizations to provide financial assistance for families with a financial hardship to participate in Parks and Community Services programs.
7. Authorize the City Manager and/or Finance Director to appropriate funds from the Golf Course Improvement Fund (Fund 413), as and if needed, to begin the process of updating the Golf Course's Five Year Plan.

CAROL MOLINA

Finance Director

LORI ANN FARRELL HARRISON

City Manager

KIMBERLY HALL BARLOW

City Attorney

- Attachments:
1. [Resolution 21-xx, Adopting the Operating and Capital Improvement Budget for Fiscal Year 2021-2022](#)
 2. [Resolution 21-xx, adding the following job classifications and related pay ranges:](#)
 - a. [Active Transportation Coordinator; and](#)
 - b. [Arts Specialist; and](#)
 3. [FY 2021-2022 Four Year Personnel Summary by Department](#)
 4. [Letter from the Finance and Pension Committee \(FiPAC\) members regarding the Proposed Operating and Capital Improvement Budget for Fiscal Year 2021-2022](#)