



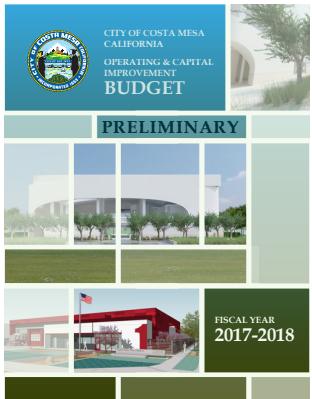
CITY OF COSTA MESA
CALIFORNIA
OPERATING & CAPITAL
IMPROVEMENT
BUDGET
IN BRIEF



PRELIMINARY



FISCAL YEAR
2017-2018



Fire Station 1

When complete, Fire Station No. 1 will feature a new 12,000 square-foot, state-of-the-art facility, including 10 dorm rooms, three administrative offices, one training/classroom, an emergency medical supply room and four utility rooms. The new facility will address out-of-date building code and standard issues, accommodate multi-gender usage and provide an efficient floor plan that aims to improve emergency response time.

Lions Park Projects

The purpose of the Lions Park projects are to improve library services, and create quality programming and event user space necessary to meet the needs of the community. The projects will re-purpose both the Donald Dungan Library to the adjacent Neighborhood Community Center building and move the NCC to the current library space. Features will include: A new two-story 20,000 square foot library building and a renovated Neighborhood Community Center. The project will also add one acre of programmed park open space that will be utilized as an event lawn and provide residents with a variety of fun, family and educational events.

CITY MANAGER'S BUDGET MESSAGE



May 9, 2017

Honorable Mayor, Members of the City Council, and Citizens of Costa Mesa:

I am pleased to submit the Fiscal Year 2017-18 Preliminary Operating and Capital Budget. The objectives used in developing this budget are to submit a balanced budget to the City Council; to do the best job possible of maintaining current excellent levels of service to the community; to implement City Council's priorities as feasible; and to be prudent in our revenue estimates and cautiously optimistic overall. The City's management team and staff have put together an operating and capital expenditure plan that addresses the City Council's priorities while fulfilling the service requirements of the people who live, work, and play in our community.

The City Council Priorities include the following items:

Tier 1: To receive the highest priority attention in FY 2017-18

- Begin Construction of the Lions Park Projects
- Engage in strategies for a safe community, including having a fully-staffed Police Department
- Address homelessness, both locally and on a cooperative basis with other communities
- Address issues related to group/sober living homes
- Maintain focus on fiscal responsibility

Tier 2: To be carried out as resources permit in FY 2017-18

- Invest in infrastructure (e.g., sidewalks, streets, safe bike trails)
- Fill City staffing vacancies to provide needed services
- Ensure our land use policies will make life better for our residents and try to keep our residential areas nice places to live
- Formally consider a new ambulance transport system
- Complete the process to create a Master Plan for the Arts
- Pursue economic development with a focus on attracting middle and well-paying jobs and supporting workforce development
- Implement additional measures to enhance our animal control and sheltering services

As presented, this represents a balanced budget for the coming fiscal year without the use of General Fund reserves and provides the highest level of service to the community within existing financial resources.

This Preliminary Budget maintains and, in a few areas, enhances the current level of service from FY 16-17. Having already reduced operating expenditures to a minimum base level in prior years, management used the FY 16-17 budget as the starting point while allowing Departments to make their requests known for new items that they believed met the community and City Council needs.

On March 3, 2015, the Council adopted the financial and budget policies; updated in October 2016. These policies are outlined and refreshed in the Appendix Section. Highlights of these policies as they relate to this budget include:

- Consistency with Council and City Manager priorities
- Balanced budgets with the exception of using dedicated non-General Fund balances for carry-over or one-time items consistent with the purpose of those funds
- Realistic assumptions for revenue forecasts
- New revenue sources pending legislation or grant approval are not included in the base budget request
- A minimum of 5% General Fund revenues dedicated to funding capital projects plus an additional 1.5% of General Fund revenues dedicated to capital facilities
- A goal of \$500,000 budgeted for contingencies
- Provision for an additional \$500,000 payment to reduce unfunded pension liabilities

Below is the Preliminary Budget for FY 17-18 for all funds compared to the FY 16-17 Adopted Budget:

| <u>PRELIMINARY BUDGET-ALL FUNDS</u> | | | | | | |
|--|-----------------|-----------------|---------------|----------------|----------------------------|--|
| Appropriations <u>All Funds</u> | Adopted | | Preliminary | | <u>Increase/(Decrease)</u> | |
| | <u>FY 16-17</u> | <u>FY 17-18</u> | <u>Amount</u> | <u>Percent</u> | | |
| Operating Budget | \$ 120,781,897 | \$ 126,526,997 | \$ 5,745,100 | 4.8% | | |
| Transfers Out | 7,796,786 | 8,907,435 | 1,110,649 | 14.2% | | |
| Capital Budget | 16,057,334 | 19,567,158 | 3,509,824 | 21.9% | | |
| Total | \$ 144,636,017 | \$ 155,001,590 | \$ 10,365,573 | 7.2% | | |

GENERAL FUND PRELIMINARY BUDGET

The General Fund provides 91.4% of the total operating budget for all governmental funds. The total preliminary General Fund budget is \$124.5 million, an increase of \$7.1 million or 6.1% from the current year adopted budget. Table 1 is a summary of the total General Fund resources and requirements for FY 17-18:

Table 1

| <u>GENERAL FUND PRELIMINARY BUDGET</u> | | | | | |
|--|-----------------------|-----------------------|----------------------------|----------------|--|
| | <u>Adopted</u> | <u>Preliminary</u> | <u>Increase/(Decrease)</u> | | |
| | <u>FY 16-17</u> | <u>FY 17-18</u> | <u>Amount</u> | <u>Percent</u> | |
| Estimated Revenues | \$ 117,392,897 | \$ 124,512,589 | \$ 7,119,692 | 6.1% | |
| Transfers In | - | - | - | - | |
| Use of Fund Balance | - | - | - | - | |
| Total Resources | <u>\$ 117,392,897</u> | <u>\$ 124,512,589</u> | <u>\$ 7,119,692</u> | <u>6.1%</u> | |
| Operating Budget | \$ 109,596,111 | \$ 115,605,154 | \$ 6,009,043 | 5.5% | |
| Transfers Out | 7,796,786 | 8,907,435 | 1,110,649 | 14.2% | |
| Total Appropriations | \$ 117,392,897 | \$ 124,512,589 | \$ 7,119,692 | 6.1% | |

The first set of FY 17-18 General Fund base operating budget requests submitted by the departments to the Finance Department totaled \$124.1 million; 5.7% over the prior year budget. A large part of this increase was due to an increase in pension costs, assumption of increased number of filled positions, increases in utilities and certain other operating costs. In addition, departments requested a net increase of \$1.1 million in budget increases, the largest of these being in Public Services related to operating expense increases. These two amounts totaled \$125.2 million. During the month of March, the Budget Review Team held meetings with each department to review and discuss these budget requests. The total requests were ultimately reduced by \$0.7 million to \$124.5 million. The reductions are noted later in this report.

The first set of FY 17-18 General Fund revenue estimates totaled \$122.7 million using the assumptions of modest economic growth, a gradually improving real estate market and a leveling off of development activity in the City. During the budget review period, revenue assumptions were increased by \$1.8 million to a new total of \$124.5 million. These increases were based on the need to update Fire and Parks fees that are significantly below full cost recovery, Medical Marijuana Measure X business permit and conditional use permit revenues, and six months of new Fire-Paramedic ambulance transportation revenue. Primary revenue sources and assumptions are discussed in detail in the Summaries of Financial Data section of this budget book.

The results of the budget reductions and revenue changes yielded a balanced General Fund budget of \$124.5 million and keeps General Fund reserves intact.

FINANCIAL OUTLOOK

As a result of the projection for modest growth in the economy, forecasted changes in revenue sources are projected to be mixed. Modest growth is forecasted for sales and use tax, transient occupancy tax (TOT) and franchise fees. Stronger growth is projected for property tax, licenses and permits, and motor vehicle license fees. Revenues such as fines and forfeitures are projected to be level. The City will continue to evaluate revenues and find ways to mitigate costs. Doing so will continue to stabilize the City's budget, provide necessary services to the community and work towards re-building reserves.

The City remains careful about its cash position. With the significant reduction in reserves seven years ago, it is very important for the City to maintain a balanced budget and stabilize cash. Based on the timing of the receipt of certain revenues, the City has periods of time when it uses more cash than it receives. That use of cash is replenished later in the fiscal year with the receipt of property tax revenue. The General Fund had operating surpluses for five of the past six years which helped increase the overall cash position.

HIGHLIGHTS OF THE PRELIMINARY BUDGET

The FY 17-18 preliminary budget contains funding for the continuation of existing services to the community. The following highlights reflect some of the facts and changes regarding this budget:

- The budget contains funding for the full annual required contribution for the City's share of employee retirement costs plus an additional payment of \$500,000 to help reduce the unfunded liability associated with pension costs
- General Fund contribution to Capital Projects is 5% of the General Fund budget, which is \$6,006,649, and the 1.5% for Capital Facility Projects is \$1,801,995
- Allocations to the Information Technology (IT) Replacement Fund will increase from \$200,000 to \$250,000 for the accumulation of funds for future IT equipment replacements and upgrades
- Four departments (City Manager, City Attorney, Finance, and IT) have budgets with a growth rate of less than 3.5%
- Both the City Manager's budget and the Development Services budget are staffed to address homelessness, both locally and on a cooperative basis with other communities and to continue to address issues related to group/sober living homes
- Police Department
 - Funds all full-time positions for a fully-staffed department
 - Funded \$44,000 for ten additional e-citation devices compatible with the county-wide system
 - Additional uniform costs of \$20,000 for new employees
 - Additional communications costs of \$24,000 for the Westside Substation
 - Reduction in vacant part-time position costs of \$450,000 will help fund part of the cost to replace an aging Mobile Command Vehicle (\$900,000)
- Fire Department

- Funds all full-time positions including the six new positions added mid-year FY 16-17 for a fully-staffed department. The cost of the additional positions is to be offset by reduction in overtime spending.
 - Inclusion of a partial year of ambulance transportation revenue (\$600,000) will help fund most of the cost to replace an older 1500 GPM pumper truck (\$707,300)
 - Continued funding for the part-time Emergency Medical Services Coordinator position approved by Council on February 7, 2017.
- Parks and Community Services
 - Increased 5.5 full-time equivalent part-time positions
 - Added \$61,374 for the reinstated mobile recreation program
- Public Services Department
 - Includes the new park maintenance contract and deleted a total of eleven (five full-time and six part-time) vacant positions and positions to be vacated by attrition or reassignment due to the new contract
 - Reduced discretionary park maintenance items by \$86,345
 - Reduced the parks and parkways water account by \$90,000 based on lower usage
 - Reduced bulky debris item removal by \$62,589
 - Budgeted existing staff levels will ensure the Fire Station 1, Lions Park projects and other capital projects are managed efficiently and on a timely basis
- Capital Projects include \$6.2 million for the cash funding of the construction of the new Fire Station 1, \$2.8 million for second year of a four-year plan to accumulate funds for the Lions Park projects as a way to minimize new debt. A debt financing of about \$18.5 million for the Lions Park projects is planned for issuance during FY 17-18
- Contingency appropriations are \$500,000

GENERAL FUND RESERVES/USE OF FUND BALANCE

The General Fund – Total Fund Balance was \$64.5 million as of June 30, 2016. The City continues to maintain a \$14.125 million emergency general operating reserve, in addition to reserves for workers' compensation, general liability claims, and compensated absences. On March 3, 2015 the Council reviewed a new Reserves Study that took a risk-based approach to establishing reserves for economic volatility, major infrastructure failure, natural disasters and other emergencies. The Council approved a reserves goal of \$55 million and a plan to achieve that goal by increasing existing reserves by up to \$1.5 million per year funded by any actual annual operating surplus. As noted in the FY 16-17 Mid-year Budget Report, the City reached and exceeded that goal and reallocated the amount above the \$55 million to important debt reduction and one-time capital items.

A schedule of estimated fund balances for all budgeted funds is found in the Summaries of Financial Data section of this budget book.

CAPITAL IMPROVEMENT PROJECTS

The preliminary capital budget is recommended in the amount of \$19.6 million, an increase of 21.9%. In reviewing the Capital Improvement budget, it is important to keep in mind that most projects are funded by restricted revenue sources or grants. Consequently, there will potentially be significant differences from year to year in both the numbers of projects adopted and the total dollars budgeted. Primary funding sources for capital projects include the General Fund, Measure M, Gas Tax, Community Development Block Grant, Park Development Fees and Drainage Fees. Key projects include Fire Station 1, Lions Park projects, City-wide street improvements and the Fairview Road traffic signal synchronization project.

Table 2 below illustrates the total capital projects funding by category planned for FY 17-18. Please see the Capital Improvement Program section of this budget for the complete list of projects and project details.

Table 2

CAPITAL IMPROVEMENT PROJECTS

| | Adopted FY 16-17 | Preliminary FY 17-18 | Increase (Decrease) | |
|-----------------------------------|----------------------|-------------------------|---------------------|--------------|
| | | | Amount | Percent |
| Parkway & Median Improvements | \$ 160,000 | \$ - | \$ (160,000) | -100.0% |
| Fairview Park Program | 1,820,000 | - | (1,820,000) | -100.0% |
| Street Improvements & Maintenance | 3,501,137 | 5,423,904 | 1,922,767 | 54.9% |
| Storm Drain Improvements | 600,000 | 760,193 | 160,193 | 26.7% |
| Curbs & Sidewalks | 400,000 | 200,000 | (200,000) | -50.0% |
| Traffic Planning | 805,000 | 1,562,943 | 757,943 | 94.2% |
| Active Transportation Programs | 300,000 | 230,000 | (70,000) | N/A |
| Traffic Operations | 604,990 | 1,771,474 | 1,166,484 | N/A |
| Park Development & Maintenance | 3,885,965 | 3,069,000 | (816,965) | -21.0% |
| Building & Equipment Maintenance | 1,009,622 | 407,144 | (602,478) | -59.7% |
| Capital Facility Projects | 1,788,979 | 6,142,500 | 4,353,521 | 243.4% |
| Next Gen. 800 MHz Comm. System | 1,181,641 | - | (1,181,641) | -100.0% |
| Total Appropriations | \$ 16,057,334 | \$ 19,567,158 | \$ 3,509,824 | 21.9% |
| General Funds | \$ 7,796,786 | \$ 7,808,644 | 11,858 | 0.2% |
| Other Funds | 8,260,548 | 11,758,514 | 3,497,966 | 42.3% |
| Total Appropriations | \$ 16,057,334 | \$ 19,567,158 | \$ 3,509,824 | 21.9% |

BUDGETARY REPORTING AWARDS

The Preliminary Budget was prepared in accordance with local ordinances, state statutes, and best practices in budgeting recommended by the National Advisory Council on State and Local Budgeting. Additionally, this document will also be prepared in a manner that meets the Budget Awards Program criteria established by the Government Finance Officers Association (GFOA) of the United States and Canada and the California Society of Municipal Finance Officers (CSMFO).

The GFOA presented a Distinguished Budget Presentation Award to the City of Costa Mesa for its annual budget document for the fiscal year beginning July 1, 2016. This is the 16th consecutive year that the City has received this prestigious award. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for one year only.

In addition, the CSMFO presented the Excellence in Operational Budgeting, and the Excellence in Public Communications awards to the City of Costa Mesa for its FY 16-17 Adopted Budget.

Staff believes the FY 17-18 Preliminary Operating & Capital Improvement Budget document will continue to conform to the award program requirements. The City will again apply to both GFOA and CSMFO for these awards.

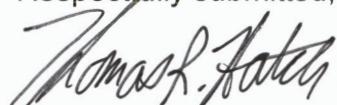
SUMMARY

Although current economic conditions continue to be favorable, this Preliminary Budget continues to be careful with our reliance on potentially volatile Sales Tax revenue. The budget substantially maintains existing services and supports an important capital improvement program. It proposes a balanced annual budget, maintains, and in a very few areas, enhances the current level of service and enhances infrastructure improvements.

ACKNOWLEDGEMENT

The development of the Preliminary Budget takes a great amount of staff time and effort, and has to be completed within a defined timeline. I sincerely appreciate the contribution made by all department directors, division managers, and departmental budget liaisons. Special recognition is extended to the Finance Department budget team and Central Services staff. I thank the City Council for their continued support in making Costa Mesa a financially stable and well-balanced community.

Respectfully submitted,



Thomas R. Hatch
City Manager
City of Costa Mesa

CITY OF COSTA MESA, CALIFORNIA

FY 2017-18 OPERATING & CAPITAL BUDGET IN BRIEF

The Fiscal Year 2017-18 Preliminary Budget reflects the operating and capital spending plans for the General Fund, Special Revenue Funds, Capital Project Funds, and Internal Service Funds. The total preliminary budget for all funds is \$155.0 million, an increase of \$10.4 million, or 7.2% compared to the adopted budget for FY 16-17. Table 1 illustrates these amounts.

TABLE 1

| <u>PRELIMINARY BUDGET-ALL FUNDS</u> | | | | | | |
|--|-----------------|--------------------|----------------------------|-----------------|-------------------|--|
| <u>Appropriations</u> | <u>Adopted</u> | <u>Preliminary</u> | <u>Increase/(Decrease)</u> | <u>FY 17-18</u> | | |
| <u>All Funds</u> | <u>FY 16-17</u> | <u>FY 17-18</u> | <u>Amount</u> | <u>Percent</u> | <u>% of total</u> | |
| Operating Budget | \$ 120,781,897 | \$ 126,526,997 | \$ 5,745,100 | 4.8% | 81.6% | |
| Transfers Out | 7,796,786 | 8,907,435 | 1,110,649 | 14.2% | 5.7% | |
| Capital Budget | 16,057,334 | 19,567,158 | 3,509,824 | 21.9% | 12.6% | |
| Total | \$ 144,636,017 | \$ 155,001,590 | \$ 10,365,573 | 7.2% | 100.0% | |

GENERAL FUND BUDGET OVERVIEW

For all governmental funds, the General Fund comprises 91.4% of the *operating* budget and 79.1% of the *operating* and *capital* budget. Therefore, the succeeding discussion will focus primarily on the General Fund.

The preliminary General Fund budget is \$124.5 million, an increase of \$7.1 million, or 6.1% compared to the FY 16-17 adopted budget. Table 2 below illustrates the components and the changes of the preliminary budget as compared to the prior year's budget.

TABLE 2

| <u>GENERAL FUND OPERATING BUDGET</u> | | | | | | |
|---|-----------------|--------------------|----------------------------|-----------------|-------------------|--|
| <u>Expenditure Category</u> | <u>Adopted</u> | <u>Preliminary</u> | <u>Increase/(Decrease)</u> | <u>FY 17-18</u> | | |
| | <u>FY 16-17</u> | <u>FY 17-18</u> | <u>Amount</u> | <u>Percent</u> | <u>% of total</u> | |
| Salaries & Benefits | \$ 80,881,739 | \$ 86,802,470 | \$ 5,920,731 | 7.3% | 69.7% | |
| Maint. & Operations | 28,442,090 | 27,855,624 | (586,466) | -2.1% | 22.4% | |
| Fixed Assets | 272,282 | 947,060 | 674,778 | 247.8% | 0.8% | |
| Transfers Out | 7,796,786 | 8,907,435 | 1,110,649 | 14.2% | 7.2% | |
| Total | \$ 117,392,897 | \$ 124,512,589 | \$ 7,119,692 | 6.1% | 100.0% | |

Salaries & Benefits: Budgeted personnel costs increased by \$5.9 million, or 7.3%. This increase is attributed to a number of factors including the memorandums of understanding for both the Costa Mesa Police Association and Costa Mesa City Employees Association, increases in CalPERS rates, new positions for Fire Station 6 and increases in workers' compensation insurance. Budgeted positions are set at the level of personnel needed to continue providing expected levels of services to the community.

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Maintenance & Operations (M&O): The maintenance and operations category includes such things as: office supplies; office equipment; electricity, gas and water for all City owned property including parks, medians, street lights and traffic signals; park and facility maintenance, general liability insurance, the contingency account, and principal and interest payments on outstanding City debt. The preliminary budget for maintenance and operations accounts is \$27.9 million, a net decrease of \$586,466 or 2.1% compared to the FY 16-17 adopted budget. While there is an increase of \$1.3 million primarily due to the parks maintenance contract, that increase is more than offset by reductions in water usage, consulting and a \$500,000 reduction in contingency.

Transfers Out: The preliminary budget includes an operating transfer out of 5% of General Fund Revenues, to fund various Capital Improvement Projects and an additional 1.5% Capital Facilities Projects. For FY 17-18 there are also one-time transfers to the Vehicle Replacement Fund to help pay for the replacement Mobile Command Vehicle (\$450,200) and replacement Fire 1500 GPM pumper truck (\$600,000).

The total preliminary FY 17-18 General Fund estimated revenue is \$124.5 million, an increase of \$4.2 million or 3.5% compared to projected revenues for FY 16-17. Table 3 illustrates the General Fund revenue sources that fund City services.

TABLE 3

| <u>GENERAL FUND ESTIMATED REVENUES</u> | | | | | | |
|---|-------------------------------|---------------------------------|---------------------------------------|-----------------------------|--------------------------------|--|
| <u>Revenue Source</u> | <u>Projected FY 16-17</u> | <u>Preliminary FY 17-18</u> | <u>Increase/(Decrease) Amount</u> | <u>FY 17-18 Percent</u> | <u>FY 17-18 % of total</u> | |
| Taxes | \$ 97,240,961 | \$ 99,557,928 | \$ 2,316,967 | 2.4% | 80.0% | |
| Licenses & Permits | 2,276,161 | 2,561,508 | 285,347 | 12.5% | 2.1% | |
| Fines & Forfeitures | 1,493,653 | 1,535,000 | 41,347 | 2.8% | 1.2% | |
| Use of Money & Property | 3,049,850 | 3,109,749 | 59,899 | 2.0% | 2.5% | |
| Other Governmental Agencies | 10,734,941 | 11,097,025 | 362,084 | 3.4% | 8.9% | |
| Fees & Charges for Services | 4,122,372 | 5,237,529 | 1,115,157 | 27.1% | 4.2% | |
| Other Revenue | 1,436,795 | 1,413,850 | (22,945) | -1.6% | 1.1% | |
| Total | \$ 120,354,733 | \$ 124,512,589 | \$ 4,157,856 | 3.5% | 100.0% | |

Note: Excludes Transfers In

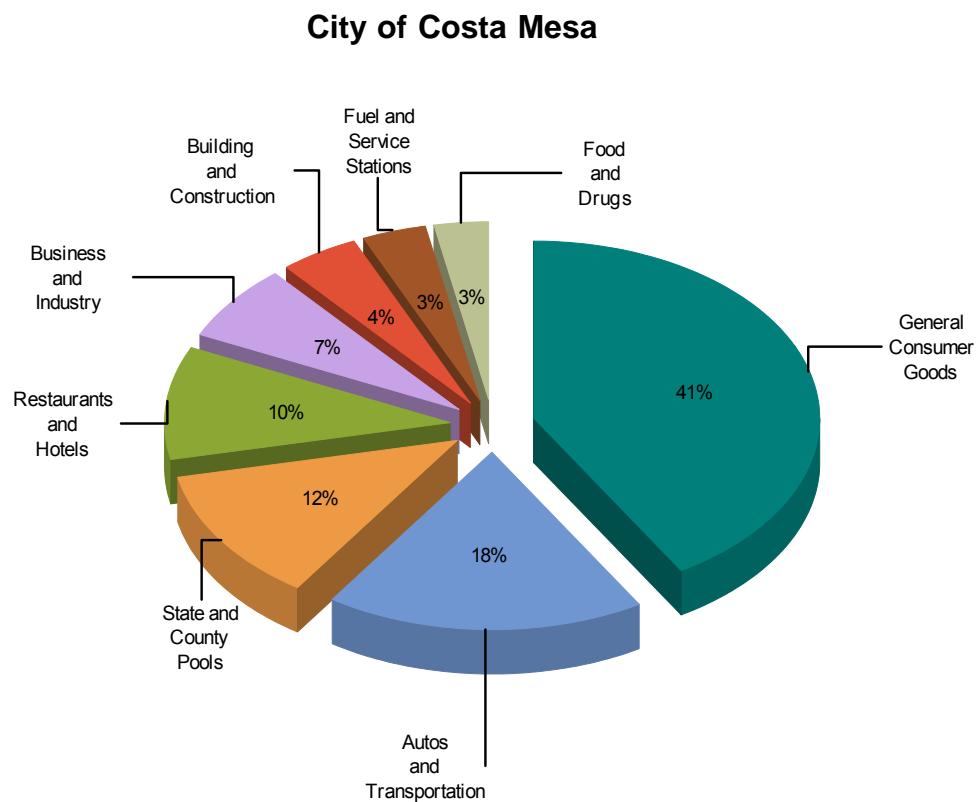
Revenues: The City has been experiencing increases in Sales Tax, Property Tax, Transient Occupancy Tax (TOT) and Building Permit revenue up to and including the current fiscal year. The outlook for these revenues for FY 16-17 is more modest growth.

Taxes include Property Tax, Sales Tax, Transient Occupancy Tax, and various utility Franchise Fees. This group of revenues is projected to grow modestly at 2.4% over the current year projection.

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Graph 1 illustrates the categories of businesses and industries that generated sales tax revenue for the City in calendar year 2016. (Source: HdL)

GRAPH 1



Licenses & Permits include building and other permits, dog licenses and a new category of revenue for anticipated Medical Marijuana Measure X business permits (\$215,250). Other Governmental Agencies includes primarily the vehicle license fees from the State projected to grow at the historical rate. Fees and Charges for Services has above-normal growth due to the inclusion of new Medical Marijuana Measure X conditional use permit fees (\$275,080), updated Fire Cost Recovery fees (\$250,000), six months of additional Fire Paramedic Fees for ambulance transportation (\$642,000) and updated Parks fees (\$200,000).

Descriptions, assumptions, and a ten-year historical trend on the General Fund revenue sources by major categories can be found in the following Summaries of Financial Data section of this book.

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OTHER GOVERNMENTAL FUNDS

To gain a better understanding of the budget as a whole, the General Fund budget is compared to the entire budget covering all governmental funds. The Operating Transfers Out are excluded from this comparison to avoid duplicate counting of resources. Table 4 illustrates this relationship.

TABLE 4

| <u>GOVERNMENTAL FUNDS PRELIMINARY BUDGET</u> | | | | | | |
|---|-----------------------------|---------------------------------|---------------------------------------|----------------|--------------------------------|--|
| <u>Fund Types</u> | <u>Adopted FY 16-17</u> | <u>Preliminary FY 17-18</u> | <u>Increase/(Decrease) Amount</u> | <u>Percent</u> | <u>FY 17-18 % of total</u> | |
| General Fund * | \$ 109,596,111 | \$ 115,605,154 | \$ 6,009,043 | 5.5% | 74.6% | |
| Special Revenue Funds | 10,010,713 | 9,402,012 | (608,701) | -6.1% | 6.1% | |
| Capital Project Funds | 17,379,609 | 21,173,645 | 3,794,036 | 21.8% | 13.7% | |
| Internal Service Funds | 7,649,582 | 8,820,779 | 1,171,197 | 15.3% | 5.7% | |
| Total | \$ 144,636,017 | \$ 155,001,590 | \$ 10,365,575 | 7.2% | 100.0% | |

* Excludes Transfers Out

INTERNAL SERVICE FUNDS

The City uses Internal Service Funds to account for the following activities:

a) **Equipment Replacement Fund (ERF)** – The funding necessary to replace vehicles is accumulated in the ERF over a number of years based upon an established replacement schedule. This fund accounts for fleet services provided by the Maintenance Services Division to the user-departments. For FY 17-18, the preliminary budget is \$3.1 million and the estimated revenue is \$2.2 million with an additional Operating Transfer In from the General Fund of \$1,050,200. Among the items scheduled for replacement are the Police mobile command vehicle, a fire truck, as well as replacement of aging support vehicles for Police, Public Services, and Parks and Community Services. All will be purchased without incurring additional City debt.

Under the Internal Service Funds method of accounting for fleet services, user-departments are charged monthly internal rent. This rent is split into the estimated cost for future replacement vehicles and actual maintenance charges, including fuel. Staff uses an inflationary factor compounded annually to determine the estimated future replacement cost divided by the estimated life of the vehicles. Maintenance charges are based on actual usage of fuel and service, including labor, materials, and overhead costs.

b) **Self-Insurance Fund** – This fund accounts for the Risk Management Program dealing with workers' compensation, general liability, and unemployment insurance. The FY 17-18 preliminary budget totals \$4.7 million.

The City currently contracts with separate vendors for workers' compensation and managed care services that historically were handled together. Since the City has separated the two, it has been able to take advantage of competitive rates and additional cost savings on medical expenses.

The unemployment insurance portion is based on actual payments to the State Employment Development Department (EDD), which processes the claims for unemployment benefits on behalf of the City. The City reimburses the EDD on a quarterly basis. Departments are charged back based on an established formula.

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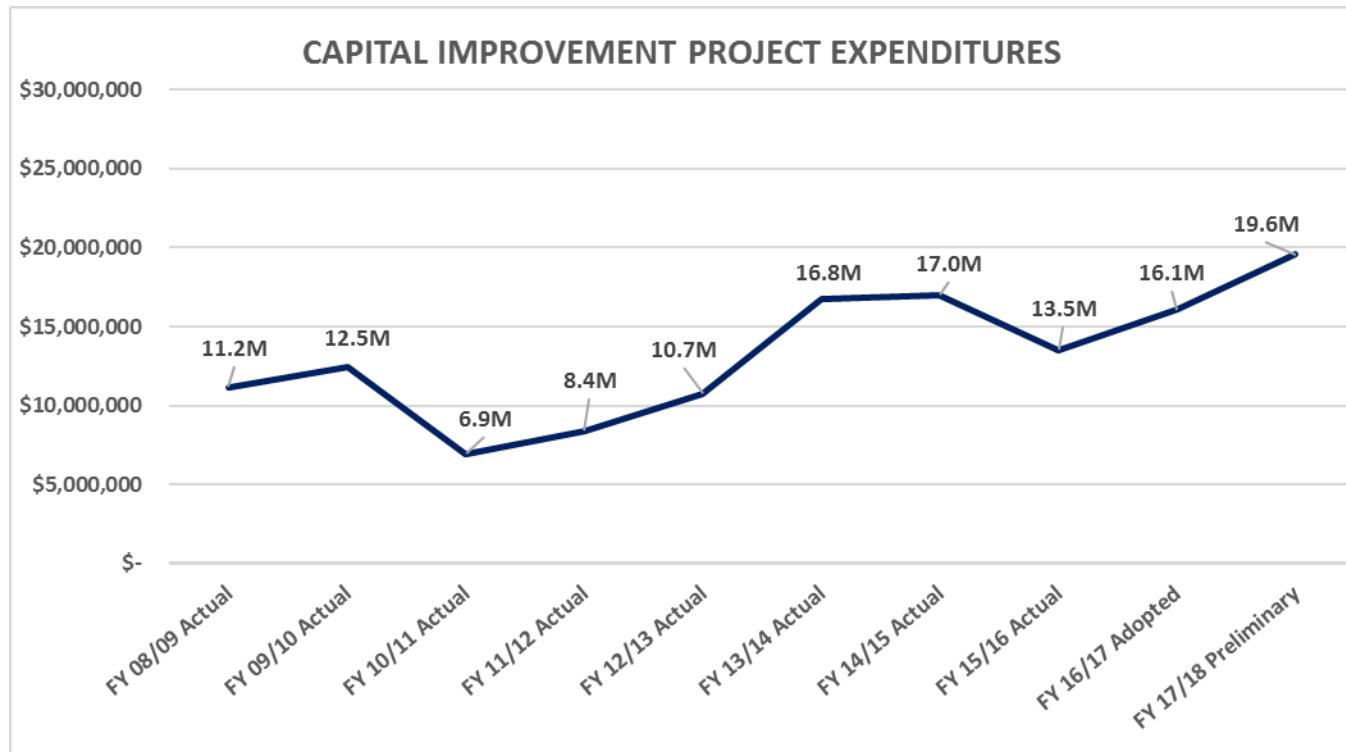
Revenues for the Self-Insurance Fund come from the internal charges to the user-departments based on historical costs of incurred losses, insurance premiums, and other services provided by the Risk Management Division.

CAPITAL IMPROVEMENT PROJECTS

The City's Seven-Year Capital Improvement Program (CIP) is listed at the end of the Capital Improvement Program section of this budget book. This section provides comprehensive, detailed information on the capital projects that the City plans to undertake in the coming fiscal year and beyond. It also contains a summary listing of recommended projects by funding source. Please refer to Table 2 in the Budget Message preceding this section for the summary of capital project amounts by program category.

The following graph illustrates how much the City has expended to improve and maintain its infrastructure including streets; curbs and sidewalks; storm drains; traffic operations; parks, parkways, and medians; and buildings and facilities. Over the last 10 years, the City spent/appropriated approximately \$133 million or an average of \$13.3 million a year for capital improvements.

GRAPH 2



CITY OF COSTA MESA, CALIFORNIA

Use of fund balances: During times of emergency or due to other needs, the City may utilize its general operating reserve (which is part of the "designated" fund balance) if circumstances warrant, as defined in the Costa Mesa Municipal Code Section 2-205 et seq. The General Fund balance is distinguished from other fund balances. The fund balances of the Special Revenue Funds and Capital Projects Funds are earmarked for specific uses based upon the criteria for which these funds were established. These types of funds may accumulate monies over a period of one or more years for future appropriations. Then, when the City is ready and able to embark upon a capital improvement project or special program that meets the specific requirements for the use of the funds, appropriations from fund balances may be used.

A summary schedule of estimated available fund balances for all funds is found at the beginning of the Summaries of Financial Data section. Table 5 lists the estimated fund balances to be used to support the FY 17-18 preliminary budget.

TABLE 5

| <u>ESTIMATED FUND BALANCES TO BE USED</u> | | | | | |
|--|--------------------------------------|--------------------------------------|------------------------------|----------------|--|
| <u>Fund Name</u> | <u>Projected Bal. 07/01/2017</u> | <u>Projected Bal. 06/30/2018</u> | <u>Amount To Be Used</u> | <u>Percent</u> | |
| Gas Tax Fund | \$ 597,944 | \$ - | \$ 597,944 | 100.0% | |
| Park Dev. Fees Fund | (1,912,880) | (2,123,079) | 210,199 | -11.0% | |
| Drainage Fees Fund | 863,593 | 365,000 | 498,593 | 57.7% | |
| Total | \$ (451,343) | \$ (1,758,079) | \$ 1,306,736 | -289.5% | |

CITY OF COSTA MESA, CALIFORNIA

SUMMARY OF REQUESTED CAPITAL IMPROVEMENT PROJECTS
by Funding Source
FISCAL YEAR 2017-2018

| Req Nbr | Program/Project Name | Gas Tax Fund 201 | AQMD Fund 203 | CDBG Fund 207 | Park Fees Fund 208 | Drainage Fund 209 |
|--|---|------------------|---------------|---------------|--------------------|-------------------|
| Parkway & Median Improvements, Program #20111 | | | | | | |
| 1 | Gisler Ave and California Ave Improvements | - | - | - | - | - |
| 2 | Redhill Avenue Medians (McCormick Ave to Bristol St.) | - | - | - | - | - |
| Subtotal Parkway & Median Improvements | | - | - | - | - | - |
| Fairview Park, Program #20115 | | | | | | |
| 3 | Fairview Park- CA - ORA-58 Fill Removal | - | - | - | - | - |
| 4 | Fairview Park Improvements | - | - | - | - | - |
| 5 | Fairview Park Plant Establishment and Pond Maintenance | - | - | - | - | - |
| 6 | Fairview Park- On Call Environmental Services | - | - | - | - | - |
| 7 | Fairview Park- S/E Entrance and Parking Lot | - | - | - | - | - |
| Subtotal Fairview Park | | - | - | - | - | - |
| Street Improvements, Program #30112 | | | | | | |
| 8 | Citywide Street Improvements | 1,163,904 | - | - | - | - |
| 9 | Citywide Alley Improvements | 500,000 | - | - | - | - |
| 10 | Hamilton St. - Charle St. to Harbor Blvd. | 75,000 | - | - | - | - |
| 11 | Irvine Avenue Improvements - 20th St to S'ly City Limits | - | - | - | - | - |
| 12 | Newport Boulevard Frontage Rd (N/B) - 15th St to 17th St | - | - | - | - | - |
| 13 | Pomona Ave Improvements - 19th St to 16th St | 105,000 | - | 480,000 | - | - |
| Subtotal Street Improvements | | 1,843,904 | - | 480,000 | - | - |
| Storm Drain Improvements, Program #30222 | | | | | | |
| 14 | Citywide Storm Drain Improvements | - | - | - | - | 760,193 |
| Subtotal Storm Drain Improvements | | - | - | - | - | 760,193 |
| Curbs and Sidewalks, Program #30130 | | | | | | |
| 15 | New Sidewalk/Missing Link Program | 50,000 | - | - | - | - |
| 16 | Parkway Improvement Program Project | 100,000 | - | - | - | - |
| 17 | Priority Sidewalk Repair | 50,000 | - | - | - | - |
| Subtotal Curbs and Sidewalks | | 200,000 | - | - | - | - |
| Active Transportation Programs, Program #30225 | | | | | | |
| 18 | Bicycle Rack Improvements Citywide | - | - | - | - | - |
| 19 | Bicycle Safety Education at Sixteen Schools | - | - | - | - | - |
| 20 | Bristol Street (Bear St to Santa Ana Av.) Bicycle Facility | - | - | - | - | - |
| 21 | Class II and III Bicycle Projects | - | - | - | - | - |
| 22 | Fairview Road (Fair Dr. to Newport Blvd.) Bicycle Facility | - | - | - | - | - |
| 23 | Merrimac Way Multipurpose Trail and Cycle Tracks | - | - | - | - | - |
| 24 | Paularino Channel Multipurpose Trail | - | - | - | - | - |
| 25 | Santa Ana Avenue Bicycle Facility (Bristol St. to Mesa Drive) | - | - | - | - | - |
| Subtotal Active Transportation | | - | - | - | - | - |
| Traffic Planning, Program #30210 | | | | | | |
| 26 | Fairview Road Improvements (Baker St. to Adams Av.) | 63,060 | - | - | - | - |
| 27 | Newport Boulevard Widening Design from 19th Street to 17th | - | - | - | - | - |
| 28 | Project V - Community Circulator | - | - | - | - | - |
| 29 | Wilson Street Widening Design from College Avenue to Fairview | - | - | - | - | - |
| Subtotal Traffic Planning | | 63,060 | - | - | - | - |
| Traffic Operations, Program #30241 | | | | | | |
| 30 | Fairview Road Traffic Signal Synchronization | - | 75,000 | - | - | - |
| 31 | Neighborhood Traffic Improvements | - | - | - | - | - |
| Subtotal Traffic Operations | | - | 75,000 | - | - | - |
| Park Maintenance, Program #40111 | | | | | | |
| 32 | Estancia Park- Slope Renovation | - | - | - | - | - |
| 33 | Jack Hammett SC - Light Pole & Footing Replacement | - | - | - | - | - |
| 34 | Rehabilitate Parking Lot - Various Locations | - | - | - | - | - |
| 35 | Various Parks - Replace Playground Surfacing | - | - | - | - | - |
| 36 | Various Parks - Sidewalk Replacement | - | - | - | - | - |
| Subtotal Park Maintenance | | - | - | - | - | - |
| Park Development, Program #40112 | | | | | | |
| 37 | ADA Access Improvements - Heller, Shiffer, and Wakeham Parks | - | - | - | - | - |
| 38 | Park Security Lighting Replacement Program | - | - | - | - | - |
| 39 | Brentwood Park Improvements | - | - | - | - | - |
| 40 | Lions Park Projects | 300,000 | - | - | 2,500,000 | - |
| 41 | Mesa del Mar Neighborhood Entryway | - | - | - | - | - |
| 42 | Smallwood Park Improvements | - | - | - | - | - |
| 43 | Tewinkle Park - Skate Park Expansion | - | - | - | - | - |
| 44 | Vista Veteran's Memorial | - | - | - | - | - |
| Subtotal Park Development | | 300,000 | - | - | 2,500,000 | - |

CITY OF COSTA MESA, CALIFORNIA

SUMMARY OF REQUESTED CAPITAL IMPROVEMENT PROJECTS
by Funding Source
FISCAL YEAR 2017-2018

| Req Nbr | Program/Project Name | Capital Improvement Fund 401 | Capital Facility Account 401 | Grant Fund | Measure M Funds 415/416 | Total | CEO Funding Recommended |
|--|---|------------------------------|------------------------------|------------|-------------------------|-----------|-------------------------|
| Parkway & Median Improvements, Program #20111 | | | | | | | |
| 1 | Gisler Ave and California Ave Improvements | 115,000 | - | - | - | 115,000 | - |
| 2 | Redhill Avenue Medians (McCormick Ave to Bristol St.) | 1,038,000 | - | - | - | 1,038,000 | - |
| Subtotal Parkway & Median Improvements | | 1,153,000 | - | - | - | 1,153,000 | - |
| Fairview Park, Program #20115 | | | | | | | |
| 3 | Fairview Park- CA - ORA-58 Fill Removal | 250,000 | * | - | - | 250,000 | - |
| 4 | Fairview Park Improvements | 250,000 | * | - | - | 250,000 | - |
| 5 | Fairview Park Plant Establishment and Pond Maintenance | 250,000 | * | - | - | 250,000 | - |
| 6 | Fairview Park- On Call Environmental Services | 50,000 | * | - | - | 50,000 | - |
| 7 | Fairview Park- S/E Entrance and Parking Lot | 150,000 | * | - | - | 150,000 | - |
| Subtotal Fairview Park | | 950,000 | - | - | - | 950,000 | - |
| Street Improvements, Program #30112 | | | | | | | |
| 8 | Citywide Street Improvements | 650,000 | - | - | 1,800,000 | 3,613,904 | 3,613,904 |
| 9 | Citywide Alley Improvements | - | - | - | - | 500,000 | 500,000 |
| 10 | Hamilton St. - Charle St. to Harbor Blvd. | - | - | - | - | 75,000 | 75,000 |
| 11 | Irvine Avenue Improvements - 20th St to S'ly City Limits | 10,000 | - | - | 640,000 | 650,000 | 650,000 |
| 12 | Newport Boulevard Frontage Rd (N/B) - 15th St to 17th St | 350,000 | - | - | - | 350,000 | - |
| 13 | Pomona Ave Improvements - 19th St to 16th St | - | - | - | - | 585,000 | 585,000 |
| Subtotal Street Improvements | | 1,010,000 | - | - | 2,440,000 | 5,773,904 | 5,423,904 |
| Storm Drain Improvements, Program #30122 | | | | | | | |
| 14 | Citywide Storm Drain Improvements | - | - | - | - | 760,193 | 760,193 |
| Subtotal Storm Drain Improvements | | - | - | - | - | 760,193 | 760,193 |
| Curbs and Sidewalks, Program #30130 | | | | | | | |
| 15 | New Sidewalk/Missing Link Program | - | - | - | - | 50,000 | 50,000 |
| 16 | Parkway Improvement Program Project | - | - | - | - | 100,000 | 100,000 |
| 17 | Priority Sidewalk Repair | - | - | - | - | 50,000 | 50,000 |
| Subtotal Curbs and Sidewalks | | - | - | - | - | 200,000 | 200,000 |
| Active Transportation Programs, Program #30225 | | | | | | | |
| 18 | Bicycle Rack Improvements Citywide | 25,000 | - | - | - | 25,000 | - |
| 19 | Bicycle Safety Education at Sixteen Schools | 30,000 | - | - | - | 30,000 | 30,000 |
| 20 | Bristol Street (Bear St. to Santa Ana Av.) Bicycle Facility | 75,000 | - | - | - | 75,000 | - |
| 21 | Class II and III Bicycle Projects | 50,000 | - | - | - | 50,000 | 50,000 |
| 22 | Fairview Road (Fair Dr. to Newport Blvd.) Bicycle Facility | 60,000 | - | - | - | 60,000 | - |
| 23 | Merrimac Way Multipurpose Trail and Cycle Tracks | 125,000 | - | - | - | 125,000 | - |
| 24 | Puaralino Channel Multipurpose Trail | 150,000 | - | - | - | 150,000 | 150,000 |
| 25 | Santa Ana Avenue Bicycle Facility (Bristol St. to Mesa Drive) | 30,000 | - | - | - | 30,000 | - |
| Subtotal Active Transportation | | 545,000 | - | - | - | 545,000 | 230,000 |
| Traffic Planning, Program #30210 | | | | | | | |
| 26 | Fairview Road Improvements (Baker St. to Adams Av.) | - | - | 567,540 | - | 630,600 | 630,600 |
| 27 | Newport Boulevard Widening Design from 19th Street to 17th | - | - | - | 281,250 | 281,250 | 281,250 |
| 28 | Project V - Community Circulator | 25,000 | - | - | 369,843 | 394,843 | 369,843 |
| 29 | Wilson Street Widening Design from College Avenue to Fairview | - | - | - | 281,250 | 281,250 | 281,250 |
| Subtotal Traffic Planning | | 25,000 | - | 567,540 | 932,343 | 1,587,943 | 1,562,943 |
| Traffic Operations, Program #30241 | | | | | | | |
| 30 | Fairview Road Traffic Signal Synchronization | - | - | - | 1,596,474 | 1,671,474 | 1,671,474 |
| 31 | Neighborhood Traffic Improvements | 100,000 | - | - | - | 100,000 | 100,000 |
| Subtotal Traffic Operations | | 100,000 | - | - | 1,596,474 | 1,771,474 | 1,771,474 |
| Park Maintenance, Program #40111 | | | | | | | |
| 32 | Estancia Park- Slope Renovation | 30,000 | - | - | - | 30,000 | - |
| 33 | Jack Hammett SC - Light Pole & Footing Replacement | 44,000 | - | - | - | 44,000 | 44,000 |
| 34 | Rehabilitate Parking Lot - Various Locations | 100,000 | - | - | - | 100,000 | 100,000 |
| 35 | Various Parks - Replace Playground Surfacing | 50,000 | - | - | - | 50,000 | 50,000 |
| 36 | Various Parks - Sidewalk Replacement | 50,000 | - | - | - | 50,000 | 50,000 |
| Subtotal Park Maintenance | | 274,000 | - | - | - | 274,000 | 244,000 |
| Park Development, Program #40112 | | | | | | | |
| 37 | ADA Access Improvements - Heller, Shiffer, and Wakeham Parks | 60,000 | - | - | - | 60,000 | - |
| 38 | Park Security Lighting Replacement Program | 400,000 | - | - | - | 400,000 | - |
| 39 | Brentwood Park Improvements | 2,000,000 | - | - | - | 2,000,000 | - |
| 40 | Lions Park Projects | - | - | - | - | 2,800,000 | 2,800,000 |
| 41 | Mesa del Mar Neighborhood Entryway | 25,000 | - | - | - | 25,000 | 25,000 |
| 42 | Smallwood Park Improvements | 300,000 | - | - | - | 300,000 | - |
| 43 | Twinkle Park - Skate Park Expansion | 750,000 | - | - | - | 750,000 | - |
| 44 | Vista Veteran's Memorial | 20,000 | - | - | - | 20,000 | - |
| Subtotal Park Development | | 3,555,000 | - | - | - | 6,355,000 | 2,825,000 |

CITY OF COSTA MESA, CALIFORNIA

SUMMARY OF REQUESTED CAPITAL IMPROVEMENT PROJECTS

by Funding Source
FISCAL YEAR 2017-2018

| Req Nbr | Program/Project Name | Gas Tax Fund 201 | AQMD Fund 203 | CDBG Fund 207 | Park Fees Fund 208 | Drainage Fund 209 |
|--|---|------------------|------------------|---------------|-----------------------|-------------------|
| Building Maintenance, Program #50910 | | | | | | |
| 45 | Baleanic Center-Construct Undergrouding of Electrical Service | - | - | - | - | - |
| 46 | Baleanic Center- Install New HVAC Unit | - | - | - | - | - |
| 47 | Building Maintenance Projects | - | - | - | - | - |
| 48 | City Clerk's Office Remodel | - | - | - | - | - |
| 49 | City Hall- HVAC Cooling Tower Replacement | - | - | - | - | - |
| 50 | City Hall- Paint and Carpet (2nd Floor - Development Services) | - | - | - | - | - |
| 51 | City Hall- Paint Interior - 5th Floor | - | - | - | - | - |
| 52 | City Hall- Carpet Replacement 5th Floor | - | - | - | - | - |
| 53 | City Hall- Replace Covered Walkway Roof | - | - | - | - | - |
| 54 | Downtown Rec Center - Replace four (4) HVAC Units | - | - | - | - | - |
| 55 | Downtown Rec Center - Replace Pool Plaster | - | - | - | - | - |
| 56 | Fire Stations #2-#6: Critical Infrastructure Protection | - | - | - | - | - |
| 57 | Fire Station #2&4 - Accessibility Design | - | - | - | - | - |
| 58 | Fire Station #2- Front Public Access Parking for Baker Street | - | - | - | - | - |
| 59 | Fire Station #6- Replace (3) HVAC Roof Top Units | - | - | - | - | - |
| 60 | Fire Stations - Plymo Vent Vehicle Exhaust Systems | - | - | - | - | - |
| 61 | P.D. - Front Lobby Security Project | - | - | - | - | - |
| 62 | P.D. - Range Remodel/Update | - | - | - | - | - |
| 63 | P.D. - Carpet Replacement, Records & Investigative Svcs Bureaus | - | - | - | - | - |
| 64 | P.D. - Design Survey of Gym Expansion | - | - | - | - | - |
| Subtotal Building Maintenance | | | | | | |
| Building Facility Account, Program #50905 | | | | | | |
| 65 | Fire Station #1 | - | - | - | - | - |
| Subtotal Building Facility | | | | | | |
| Total FY 17-18 Requested CIPs | | | | | | |
| Total Funded: | | | | | | |

CITY OF COSTA MESA, CALIFORNIA

SUMMARY OF REQUESTED CAPITAL IMPROVEMENT PROJECTS

by Funding Source
FISCAL YEAR 2017-2018

| Req Nbr | Program/Project Name | Capital Improvement Fund 401 | Capital Facility Account 401 | Grant Fund | Measure M Funds 415/416 | Total | CEO Funding Recommended |
|--|---|---------------------------------|---------------------------------|-------------------|----------------------------|----------------------|----------------------------|
| Building Maintenance, Program #50910 | | | | | | | |
| 45 | Balearic Center-Construct Undergrounding of Electrical Service | 40,000 | - | - | - | 40,000 | 40,000 |
| 46 | Balearic Center- Install New HVAC Unit | 350,000 | - | - | - | 350,000 | - |
| 47 | Building Maintenance Projects | 347,144 | - | - | - | 347,144 | 347,144 |
| 48 | City Clerk's Office Remodel | 70,000 | - | - | - | 70,000 | - |
| 49 | City Hall- HVAC Cooling Tower Replacement | 66,200 | - | - | - | 66,200 | - |
| 50 | City Hall- Paint and Carpet (2nd Floor - Development Services) | 150,000 | - | - | - | 150,000 | - |
| 51 | City Hall- Paint Interior - 5th Floor | 93,500 | - | - | - | 93,500 | - |
| 52 | City Hall- Carpet Replacement 5th Floor | 110,000 | - | - | - | 110,000 | - |
| 53 | City Hall- Replace Covered Walkway Roof | 130,000 | - | - | - | 130,000 | - |
| 54 | Downtown Rec Center - Replace four (4) HVAC Units | 90,000 | - | - | - | 90,000 | - |
| 55 | Downtown Rec Center - Replace Pool Plaster | 123,000 | - | - | - | 123,000 | - |
| 56 | Fire Stations #2-#6: Critical Infrastructure Protection | 20,000 | - | - | - | 20,000 | 20,000 |
| 57 | Fire Station #2&4 - Accessibility Design | 50,000 | - | - | - | 50,000 | - |
| 58 | Fire Station #2- Front Public Access Parking for Baker Street | 300,000 | - | - | - | 300,000 | - |
| 59 | Fire Station #6- Replace (3) HVAC Roof Top Units | 50,000 | - | - | - | 50,000 | - |
| 60 | Fire Stations - Plymo Vent Vehicle Exhaust Systems | 250,000 | - | - | - | 250,000 | - |
| 61 | P.D. - Front Lobby Security Project | 53,000 | - | - | - | 53,000 | - |
| 62 | P.D. - Range Remodel/Update | 205,000 | - | - | - | 205,000 | - |
| 63 | P.D. - Carpet Replacement, Records & Investigative Svcs Bureaus | 87,200 | - | - | - | 87,200 | - |
| 64 | P.D. - Design Survey of Gym Expansion | 100,000 | - | - | - | 100,000 | - |
| Subtotal Building Maintenance | | 2,685,044 | - | - | - | 2,685,044 | 407,144 |
| Building Facility Account, Program #50905 | | | | | | | |
| 65 | Fire Station #1 | 4,340,505 | 1,801,995 | - | - | 6,142,500 | 6,142,500 |
| Subtotal Building Facility | | 4,340,505 | 1,801,995 | - | - | 6,142,500 | 6,142,500 |
| Total FY 17-18 Requested CIPs | | \$ 14,637,549 | \$ 1,801,995 | \$ 567,540 | \$ 4,968,817 | \$ 28,198,058 | \$ 19,567,158 |
| * previous appropriations | | | | | | | |
| Total Funded: | | \$ 6,006,649 | \$ 1,801,995 | \$ 567,540 | \$ 4,968,817 | \$ 19,567,158 | |

