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**CITY OF COSTA MESA  
CEO'S OFFICE  
MEMORANDUM**

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**TO: CITY COUNCIL, CITY STAFF & COMMUNITY MEMBERS**  
**FROM: THOMAS R. HATCH, CHIEF EXECUTIVE OFFICER**  
**DATE: MAY 31, 2011**  
**SUBJECT: CEO RECOMMENDED CHANGES TO THE FY 11-12 PRELIMINARY BUDGET**

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The preliminary budget for FY 2011-2012 includes the entire budget allocations including the changes already made during the departmental budget hearings with the CEO. These changes that occurred at staff level budget hearings included expenditure and revenue changes reducing the overall budget shortfall from approximately \$5 million down to approximately \$3.3 million (\$1.7 million in changes). Again, all of these changes are already included in the budget detail presented in the preliminary budget. The details of the \$1.7 million in changes are attached to this report as Attachment A.

Reductions of \$3.3 million are needed to develop a recommended balanced budget for FY 2011-2012. Below is a listing of key budget changes that represent additional changes of approximately \$2.4 million in savings that further help balance the budget. With the changes presented below, the CEO's recommended budget still is approximately \$900,000 short of a balanced budget. In the next few weeks the CEO will make additional recommendations that will reduce the \$900,000 gap down to a balanced budget. These final recommendations will be even more difficult and will involve reductions to staffing levels and departmental reorganization.

Below are additional budget recommendations totaling \$2.4 million in savings:

**Reduce amount charged to the General Fund for Internal Rent – Replacement Charges - \$1.9 million.**

To be prepared for future replacement of current vehicles and equipment, the City established an Internal Service Fund called the Equipment Replacement Fund (ERF). This fund was established even earlier than 1990. By doing so, it allowed the City over the years to allocate money separate from the General Fund for vehicle and equipment purchases. The City currently has a total of 314 vehicles and equipment it tracks in the ERF.

Money is moved to the ERF by way of annual "Internal Rent" charges to funds that use the vehicles and equipment, most notably the General Fund. This fund has two components: Internal Rent – Maintenance Charges for fleet maintenance staff, fuel, tires, etc. and Internal Rent – Replacement Costs for the replacement of vehicles and equipment. This money is held as fund balance and each year staff assesses the need to replace any vehicle or equipment and makes recommendations to the City CEO during the budget process. Keeping in mind the needs of the City, the CEO determines the vehicles to replace as part of the annual budget.

In light of the budget crisis for FY 2010-2011, the City did not charge any amount to the General Fund for the Maintenance Charges or Replacement Costs. Because no charges were included, the fund balance was originally projected to decrease from \$7.3 million to \$5.2 million. For FY 2011-2012, staff has included the full costs for Maintenance Charges of approximately \$1.8 million. For FY 2011-2012, there are no vehicles proposed to be replaced. Therefore, the City will not have a need to utilize money already set aside. However, included in the Preliminary FY 2011-2012 Budget is \$2.1 million in Internal Rent – Replacement Charges. It is estimated that at the end of FY 2010-2011, the fund balance for the ERF will be approximately \$5.4 million. The overall replacement value of the City's entire fleet (calculated based on original purchase price plus a standard inflationary factor) is approximately \$15.0 million.

Further analysis of the replacement value amount shows that approximately \$7.5 million of the \$15.0 million is accounted for in the City's top 25 vehicles. These vehicles include 11 Fire Engines/Apparatus, 3 Street Sweepers, 2 Regenerative Air Sweepers, Vactor Cleaner, PD Mobile Command vehicle, equipment for paving, equipment for striping, asphalt patch vehicle, water vehicle, Tractor/Loader Backhoe, and 2 miscellaneous large vehicles.

Of these 25 vehicles, most (20) have a standardized useful life of 15 years for depreciation purposes, except the 5 Sweepers which have an 8-year useful life. Of the 15-year useful life vehicles, 10 were put into service prior to FY 2000-2001 (5 are Fire Engines/Apparatus), therefore 10 vehicles have been put into service more recently. Of the 5 Sweepers with an 8-year useful life, the City put all into service prior to FY 2004-2005.

Based on staff's review of available fund balance and review of the expected needs to replace vehicles, the CEO recommends reducing the Internal Rent – Replacement Charges for FY 2011-2012 by \$1.9 million. Reducing to this amount and fully charging for the Internal Rent - Maintenance Charges will still ensure no use of ERF fund balance in FY 2011-2012.

It is clear that this fund must have continued revenue in the form of Internal Rent moving forward. The CEO will need to recommend a budget amount of at least \$1,000,000 each year (starting FY 2012-2013) for the replacement of vehicles in addition to the amount budgeted for the maintenance of vehicles. In addition, the CEO has directed the Public Services Director to conduct a thorough review of the total number of City vehicles with the goal of reducing the number of vehicles by approximately ten (10%) percent. Over the last few years, the number of employees has been reduced and there are opportunities to reduce the number of vehicles as well. Reducing the number of vehicles will reduce the amount of funding needed for the replacement of vehicles as well as reduce the staff time and expense related to maintaining these vehicles.

#### **Reduce amount allocated for a General Plan Update - \$200,000.**

Per the request of the City Council, staff included an allocation of \$500,000 in the preliminary budget for a City General Plan update. Based on communication with Development Services staff, a General Plan update may still be completed with a \$300,000 allocation. Therefore, the CEO recommends reducing the Development Services budget by \$200,000. If approved, a Request For Proposal (RFP) will be developed and distributed. It is likely that this process will take many months and this competitive bidding process will ultimately determine the costs for this update. Even when a consultant has been selected and agreements executed, the work for this type of planning process will take many months to complete allowing additional funding to be included in the FY 2012-2013 budget if needed.

#### **Reduce Information Technology budget for Computer Aided Dispatch (CAD) server - \$283,000.**

As requested by the Information Technology Division, the preliminary budget includes an allocation of \$307,880 for the replacement of the City's CAD server (computer) using General Fund dollars. The current equipment and technical support have reached a point that the server needs to be replaced this year. Based on staff's review of CAD incidents, it appears 92% of all incidents are Police related. Therefore, the CEO recommends utilizing Narcotic Asset Forfeiture money to fund 92% of the CAD equipment. Planning for the replacement of the CAD server will continue but no purchase will be completed until a decision is made concerning the RFP process for the emergency dispatch service area.

**Reduce Recreation budget for reduction in Aquatics programming - \$39,305 & reduce revenue of approximately \$10,000.**

As part of the FY 2010-2011 budget deliberations, closing the City pool during the months of October through March was proposed to reduce costs. During the winter months, the pool's activity decreases significantly while the City still incurs costs associated with heating the pool and staffing to ensure safety. Therefore, the CEO recommends closing the City's pool at the Downtown Recreation Center for the months of October through March for a net cost savings of \$29,305. The key impact of this action will be the reduction of 420 lap swim hours and 90 swim lesson hours. This will require changing a full-time Recreation Specialist position to part-time and the reduction of other part-time staff hours.

**Total CEO Recommended Changes = \$2.4 million.**

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Thomas R. Hatch  
City Chief Executive Officer

**City of Costa Mesa**  
**Budget Changes from Initial Requests to Preliminary Budget - General Fund Only**

Department/Division/Account	Individual Amount	Total Amount
<b><u>City CEO's Office</u></b>		
Remove requested position, Legislative & Public Affairs Manager, which was left vacant in 2010-2011 and originally proposed for 2011-2012		(182,423)
<b><u>City Clerk's Office</u></b>		
Increase part-time hours for additional workload assistance		13,837
<b><u>City Attorney's Office</u></b>		
Increase legal consulting budget per expected workload in 2011-2012	50,000	
Increase legal fees per expected workload in 2011-2012	50,000	
		100,000
<b><u>Finance Department</u></b>		
Increase for Finance Director position that was vacated and unfunded in 2011-2012 budget	193,834	
Estimated increase cost for the city's annual independent financial audit after City sends out new Request for Proposal to accounting firms.	10,000	
Increase cost incurred by shifting work involving annual independent financial audit preparation from staff to auditors	10,000	
		213,834
<b><u>Administrative Services Department</u></b>		
<b><u>Human Resources Division</u></b>		
Estimated increase cost for consultant services for human resource functions		100,000
<b><u>Recreation Division</u></b>		
Decrease in rent at Balearic facility as school district waives cost for 2011-2012 fiscal year		(71,000)
<b><u>Telecommunications Division</u></b>		
Increase part-time hours to eliminate much of the department's projected overtime	182,219	
Decrease overtime hours	(203,914)	
Eliminate laptop computer request	(5,800)	
		(27,495)
<b><u>IT Division</u></b>		
Increase in cost quote from vendor for computer-aided dispatch server		48,752
<b><u>Police Department</u></b>		
Decrease salary and benefit accounts for ABLE reduction - 3 helicopter pilots	(432,620)	
Shift five police officer positions from general fund to Prop 172 Fund, which has increased due to rising sales tax revenues.	(739,761)	
Eliminate two vacant positions that were left vacate in the 2010-11 fiscal year.	(262,025)	
		(1,434,406)

Department/Division/Account	Individual Amount	Total Amount
<b><u>Fire Department</u></b>		
Decrease in originally proposed overtime	(170,436)	
Decrease professional development costs to prior year actuals	(33,987)	
Decrease uniforms and clothing costs to prior year actuals	(45,802)	
Decrease safety and health costs to prior year actuals	(25,575)	
Decrease automotive equipment costs to prior year actuals	(39,998)	
Increase consulting costs for additional fire plan-checking assistance	75,000	
		<u>(240,798)</u>
<b><u>Development Services Department</u></b>		
Decrease part-time intern hours	(13,796)	
Eliminate the previously vacated Sr Plumbing/Mechanical Inspector position	(96,578)	
Eliminate the previously vacated Plan Checker position	(100,184)	
Decrease Engineering and Architectural costs per staff review	(37,000)	
Reduce the number of requested field laptops by 4.	(10,000)	
		<u>(257,558)</u>
<b><u>Public Services Department</u></b>		
<b><u>Engineering Division</u></b>		
Decrease Legal Advertising/Filing Fees due to change in County cost		<u>(35,662)</u>
<b><u>Maintenance Services Division</u></b>		
Increased part-time hours related to ballfield preparation	50,366	
Increase accounts residential street paving program allowing for 5 additional streets (from 10 to 15 streets)	130,000	
Increase in sidewalk grinding to make streets safer and City less vulnerable to trip-and-fall lawsuits	40,000	
Decrease in waste disposal costs after staff review	(14,000)	
Increased Landscaping and Sprinklers account for tree trimming costs returning to every 3-5 years (instead of 5-7 years)	40,000	
Eliminate request for new radios	(14,400)	
Decrease original \$770,000 sought for building maintenance to most essential repairs	(602,300)	
Increase maintenance of sports fields and parks	109,000	
		<u>(261,334)</u>
<b><u>Various Departments &amp; Programs</u></b>		
Increase internal charges for equipment maintenance and replacement due to initial error.		716,580
<b><u>Non-Departmental</u></b>		
Increase general fund transfer to Supplemental Law Enforcement Fund due to negative balance.		<u>100,000</u>
<b>Subtotal Changes in Expenditures</b>		<b>(1,217,673)</b>
<b>Revenue Changes</b>		
Revenue projections changed due to several factors, including updated numbers, new estimates and historical trends.		
<b>Property Taxes</b>	50,000	
<b>Sales Taxes</b>	(266,290)	
<b>Transient Occupancy Tax</b>	9,029	
<b>Electric Franchise</b>	(50,000)	
<b>Cable TV Franchise</b>	50,000	
<b>PEG Cable TV Franchise</b>	14,750	

Department/Division/Account	Individual Amount	Total Amount
Gas Franchise	(50,000)	
Dog License	35,000	
Fire Permits	25,000	
Building Permits	304,000	
Electric Permits	9,000	
Plumbing/Mechanical Permits	(6,000)	
Street Permits	25,000	
Home Occupation Permits	(500)	
Special Business Permits	100	
Operator's Permits	2,500	
Shopping Cart Retrieval	(10,000)	
Investment Earnings	50,000	
Investment Market Value Adjustment	(50,000)	
Interest Earned - CMRA Note	(1,806)	
Building/Ground Rental	50,000	
Rental - Downtown Community Center	3,500	
Rental - Balearic Community Center	(5,000)	
Rental - Tennis Center	1,000	
Rental - Golf Course Operations	(100,000)	
Rental - Bus Shelter Ads	15,000	
Motor Vehicle In-Lieu Tax	100,000	
OCTA - SAAV	15,000	
Other County Grants	2,500	
Reimbursement from ABLE	(194,000)	
Zoning/Variance/CUP Fees	25,000	
Subdivision Map Fees	1,000	
Environmental Impact Fees	(750)	
Plan Checking Fees	90,000	
Special Policing Fees	(20,000)	
DUI/Emergency Response	(50,000)	
Jail Booking Fees	(60,000)	
Police False Alarms	(25,000)	
Fire Inspection Fees	(6,000)	
EMS - First Responder Fee	(100,000)	
Paramedic Fee - Advanced	50,000	
Fire False Alarms	10,000	
Park Permits	5,000	
Park Improvements	5,000	
Youth Sports - Basketball and Football	26,300	
Recreation - Aquatics	20,000	
Recreation - Playgrounds	114,494	
Recreation - Early Childhood	10,000	
Instructional Classes	(20,000)	
Recreation - Basketball	(16,300)	
Teen Camp	(3,400)	
Photocopies	500	
Special Assessments	10,000	
Sponsorship Naming Rights	3,000	
Other Reimbursements	100,000	
Other Revenue	250,000	
<b>Subtotal Changes in Revenues</b>		<b>446,627</b>
		<u><u>(1,664,300)</u></u>