

**SPECIAL STUDY SESSION OF THE
CITY COUNCIL
CITY OF COSTA MESA**

May 24, 2011

The City Council of the City of Costa Mesa, California met in a Special Meeting on Monday, May 24, 2011 at 4:30 p.m. in City Council Chamber, 77 Fair Drive, Costa Mesa. The meeting was called to order by Mayor Monahan.

Mayor Monahan announced that study sessions are for information purposes only and that Council will not take action on any item. He added that public comments will be received and written responses provided.

ROLL CALL:

Council Members Present:	Mayor Gary Monahan Mayor Pro Tem James Righeimer Council Member Wendy Leece Council Member Stephen Mensinger
Council Members Absent:	Council Member Eric Bever
Officials Present:	CEO Thomas R. Hatch Economic Development Director/Deputy CEO Peter Naghavi City Clerk Julie Folcik Budget and Research Officer Bobby Young HdL Representative Lloyd De Llamas Probolsky Research Representative Adam Probolsky Association of California Cities-Orange County Representative Lacy Kelly

I. PUBLIC COMMENT (00:00:57)

None

II. ITEMS FOR DISCUSSION (00:01:03)

1. Fiscal Year 2011-2012 Preliminary Budget Overview and Presentation (00:01:07)

Chief Executive Officer Thomas R. Hatch commended staff for their work in generating the budget document. He noted the challenges in providing a document that is detailed yet understandable and reported that the focus at this time will be an overview as well as details on revenues and projections. He noted the document is the key policy

document that will provide guidance for the future. He stated that the budget is not yet balanced, addressed the gap and efforts to reduce the gap. Mr. Hatch addressed the Capital Improvement Budget, improvements in technology and maintenance improvements, as well as investment strategies.

Mr. Hatch addressed City Council and community expectations and development of a five-year projection. He reported that details of expenditures in the preliminary budget will be provided at the next meeting, including details on the Equipment Replacement Fund and the various fund balances, and he referenced documents currently available.

Budget and Research Officer Bobby Young commended those involved in preparing and generating the budget. He addressed a preliminary budget summary for all funds, total operating budget, total capital improvement budget, a ten-year historical comparison of CIP funding source, distribution of appropriations by major service categories percentages and dollars, definitions of major service categories, summary of appropriations based on major accounts and total appropriations by fund type. In addition, Mr. Young addressed a General Fund summary, General Fund appropriations percentages and dollars, and summary of appropriations by major account for the General Fund. He presented details of a comparison of the General Fund FY 10-11 adopted appropriations versus FY 11-12 preliminary appropriations. (00:14:41)

Discussion followed regarding a definition of "internal rent". Mr. Young explained it is used to charge the General Fund in order to obtain funding into the Equipment Replacement Fund for maintenance and replacement of vehicles.

Discussion followed regarding a breakdown of line item details for revenues and the availability of a list of equipment that has been replaced as well as a list of current owned fleet of vehicles and equipment. Mr. Young reported that details would be presented the following week during the report on expenditures.

Discussion followed regarding the methodology for determining salaries and providing a detail of costs related to employee pension contributions. Mr. Young reported details will be presented during the discussion on expenditures.

Mr. Young provided a ten-year historical trend of expenditures by department, specifically, Public Service. He addressed preliminary estimates for General Fund revenues and a twelve-year historical trend of revenues versus expenditures. He noted the later indicates the results of staff's commitment to reduce expenditures. He presented a historical trend of the General Fund balance and decreases in revenues related to retail sales tax revenue and Transit Occupancy Tax (TOT).

Mr. Young presented a six-year historical trend of the General Fund Cash Balance and noted the importance of balancing the budget and the related impact to the cash balance.

Discussion followed regarding inclusion of a cash contingency fund. Mr. Young reported the contingency is set up as Fund Balance, not necessarily cash. He added it was set up as an ordinance for an emergency reserve but not required on a month-to-month basis. At the direction of Mayor Pro Tem Bever, Mr. Young indicated he will provide a copy of the ordinance for Council's review.

Council Member Mensinger requested that staff include the purpose for the emergency reserves and conditions under which the emergency reserves would be used. He requested the inclusion of a cash flow analysis.

Council Member Leece inquired regarding discussions for a plan to replenish the Fund Balance and requested to review a reasonable percentage, each year, to reach a given goal related to reserves.

Mr. Hatch addressed the need and concerns related to cash flow and to replenish reserves. He noted staff would provide a five-year projection on June 7, 2011, including an understanding of the replenishment of reserves.

Discussion followed regarding funding for the majority of CIPs from gas tax and Measure M.

Council Member Mensinger asked for inclusion of information regarding unfunded pension liability, unfunded medical retiree liability and General Plan allocation for future road improvements.

Mr. Young reported on the availability of documents related to the Fiscal Year 2011-2012 Preliminary Budget. He noted that all documents are available on the website and encouraged the public to contact staff with questions. He addressed items that would be reviewed at the June 7, 2011 meeting and next steps.

Public Comments:

Greg Proctor commented on the City Attorney's salary noting that it is more than Council's and the Annual Department Services combined budgets. He referenced regulations and suggested incorporating a fine. (00:53:21)

Judi Berry, Costa Mesa, referenced slide number 20 noting she was unable to determine the source of the FY10-11 Revised Estimated budget. (00:54:10)

Mr. Young reported that it would be addressed during the next presentation noting an error in the document that would be amended.

Eleanor Egan, Costa Mesa, felt that no consideration has been given to increasing revenues. She suggested raising the business license tax and a possible utility user tax. (00:55:09)

Tamar Goldman inquired regarding labels under employee compensation, City Attorney compensation, increases in consulting fees, decreases in retirement pay and savings from the use of consultants. (00:57:19)

2. Discussion and Analysis about FY 11-12 Estimated Revenues (01:02:48)

A. Sales Taxes –Presentation by HdL

Budget and Research Officer Young provided a PowerPoint presentation regarding FY 11-12 estimated revenues. He noted that the biggest share of the overall budget is the General Fund adding that approximately 91% of all revenues come through the General Fund. He stated that approximately 78% of all General Fund revenue comes from taxes and franchise fees. Unlike other cities, Costa Mesa is heavily weighted to Sales Tax revenue. Mr. Young explained an error made related to the FY 10-11 revised estimates and referenced an attachment with the corrections.

He addressed preliminary estimated revenues, comparison with other cities and General Fund resources, and deferred to HdL Representative Lloyd De Llamas for a presentation on Sales Tax revenues.

Mr. De Llamas reported on the responsibilities and work his firm does for Costa Mesa. He presented an overview of sales and use tax and addressed allocation, jurisdictions, the Costa Mesa sales and use tax rate, sources of sales tax revenues, susceptibility to economic down/up turns, mortgage equity withdrawals, discretionary income, thirteen-year trend versus 1998 sales tax per CPI, thirteen-quarter trend and sales and use tax forecast. Mr. De Llamas noted a strong recovery in auto sales and business-to-business sales. He addressed food and drugs, fuel and service stations and general consumer goods as well as restaurants and hotels. He addressed uncertainties and impacts of the State budget crisis. Mr. De Llamas addressed unemployment, changes in population, etc. He explained that the narrower the base, the higher the rate.

Mr. De Llamas presented information on the State's economy in the 21st Century and sales tax collections as a percentage of personal income. He reported there will be modest gains after 2012/2013, noted that long term growth will be less robust than in the past and addressed the City's challenges including keeping up with evolving retail trends, diversification of tax base and tax reform.

Council Member Leece inquired regarding HdL's Quarterly Sales Tax Newsletter. Mr. De Llamas noted updates are presented quarterly rather than monthly.

Discussion followed regarding declines during past years and difficulties in providing proper estimates because of uncertainties. Ensuing discussion pertained to lack of auto supplies affected by the tsunami in Japan, expected increases in car sales prices and impacts from increases in crude oil and fuel prices.

B. Property Taxes (02:03:51)

Mr. Young reported on statewide trends that must be considered then applied to the City. He noted that almost half of sales tax revenues are from consumer goods. He reported on the timing of receipts of sales and use taxes, the State's need for cash, quarterly State advance formula and clean-up (reconciliation of the quarter), budgeting revenues for sales and use taxes and the City's accrued basis of accounting. In addition, Mr. Young addressed sales and use tax trends, sales tax comparison with other cities, property tax, changes in assessed values, property assessments, property tax trends, and property tax comparisons with other cities.

C. Transient Occupancy Taxes (TOT)

D. Other Revenues

Mr. Young presented details of the TOT including approval of an increase by voters in 2010 and TOT trends and addressed TOT comparisons with other cities, motor vehicle license fees and trends, comparisons with other cities and business license tax. He noted that business license rates have been the same since April 1, 1985. He addressed totals of the top five revenue sources and noted that they make up 83% of total revenues.

Public Comments:

Patrick Kelly, Costa Mesa, inquired regarding percentage of sales tax revenues pertaining to gasoline tax. Mr. Young replied that fuel taxes are 5.5 percent of total sales tax revenues and although it has been factored in, Costa Mesa is not heavily weighted with fuel taxes as other cities. He noted that it was part of the estimates provided by HdL. (02:16:33)

Mr. De Llamas reported the City does not have the authority to raise fuel tax rates but that the sales tax rate could be raised by voter approval.

Perry Valentine expressed his support for increasing business license fees and suggested the Council start the process as soon as possible to avoid having a gap in the next year's budget again. (02:19:36)

Mr. Young suggested hiring a consultant to properly analyze the issue and develop a model for increasing business license fees in the future.

Jay Humphrey, Costa Mesa, inquired regarding sales tax revenues lost from businesses that claim their addresses are outside of the City. Mr. Humphrey also suggested the City take advantage of long-term planning and partner with homeowners for replacing sidewalks and sharing costs. (02:23:30)

Mr. Young reported there is no estimate but indicated the HdL audits provide information so that the City can limit its losses. He noted that a complete response will be provided as follow up.

3. Presentation regarding the "Orange County Voter Survey on Pension Reform" conducted by the Association of California Cities-Orange County. (02:30:09)

Mr. Probolsky introduced Lacy Kelly, CEO of the Association of California Cities-Orange County, who would provide an introduction to the item.

Ms. Kelly provided information regarding the Association of California Cities – Orange County and reported on three policy committees working on key public policy issues for Orange County cities including pension reform. She reported principles were developed and voted on by the committees and addressed a survey of Orange County voters prior to the development of principles to assess how voters felt about the pension reform principles. She reported copies of the principles are available for review by Council. (02:29:25)

Mr. Probolsky reported voters throughout Orange County were surveyed and addressed the dates in which the survey was conducted using appropriate ratios regarding gender, age, party and geography. He presented a brief background on his firm and addressed questions asked and results of each. He reported a broad sense that pension reform is needed but a concern that public employees are compensated well. Mr. Probolsky reported most felt that public sector pension programs should be more in line with private sector programs and supported the idea of making the retirement age closer to social security age requirements. He addressed the ability of agencies to freeze and change plans that are more affordable, capping the amount of benefits, support for requiring employees to contribute the same amount as their employers to their pensions and support of pension reform if it will stave off layoffs.

Council Member Leece noted that pension reform cannot be accomplished by one city, but that must be done by all. She stated it is a complex issue and commented regarding the importance of maintaining quality, especially in service to the public. Council Member Leece noted that overall, people care about public workers

Mr. Probolsky reported no group of employees was excluded and commented on increased interest levels if certain types of public services were to decrease. He noted that in a broad sense, there was support for pension reform.

Public Comments:

Susan Shaw, Costa Mesa, stated she was amazed that conclusions could be drawn from a survey of three-hundred and twenty-five people. She opined it is an inadequate sampling, that backgrounds on the survey takers are unknown and that assumptions were presented with questions that could foretell responses. (02:46:02)

Mr. Probolsky explained the margin of error and level of confidence and stated the number of surveys given is a statistically valid number of completed responses. He felt it represents voters as a whole in Orange County.

Sue Lester, Costa Mesa, inquired regarding the agency responsible for paying for the survey and expressed concerns with the statistical sampling. (02:51:19)

Mr. Valentine commented on the sampling and on the assumptions presented. He urged Council to use caution in relying on the survey, acknowledged a need for pension reform but stated it cannot be done in one sitting. (02:55:06)

Mr. Humphrey felt that by not specifying the types of public employees, people are left to opine on their own, usually relative to elected officials, not others as in people in the military. He expressed concerns with the depth of the survey, stating it does not indicate the type of reform that people would like to see and what they thought it would accomplish. (02:57:32)

Tamar Goldman, Costa Mesa, commented on the statement that more voters would support pension reform if they knew it would save jobs. She wondered if it were better to survey cities that have been dealing with the pension question. (03:02:59)

Patrick Kelly, Costa Mesa, noted that pensions are complicated, felt there has been a lot of due diligence by the electorate and stated decency and humanity needs to be brought into the process. (03:06:03)

Council Member Leece stated she would have preferred that the survey include a breakout of public safety employees noting they are over burdened and often need to retire sooner than others.

III. COUNCIL MEMBERS REPORTS, COMMENTS AND SUGGESTIONS

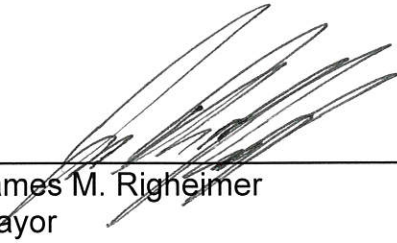
Council Member Mensinger expressed his appreciation to Mr. Probolsky and his firm for the work performed.

Council Member Leece commented on the issue of animal licensing and stated the need to be proactive in encouraging residents to license their pets. Regarding computers for Code Enforcement, she suggested looking into what other cities are using. In addition, she announced the upcoming Concerts in the Park.

Mayor Pro Tem Righeimer noted that the budget items considered today did not relate to pensions. He addressed pension changes by other cities and reported that certain jobs are affected by age and noted the challenges in determining the appropriate levels. He stressed that the current goal is that of balancing the budget.

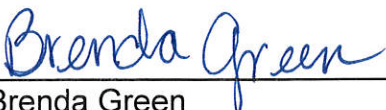
ADJOURNMENT:

The Mayor Pro Tem adjourned the special meeting at 7:41 p.m.



James M. Righheimer
Mayor

ATTEST:



Brenda Green
Interim City Clerk