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Costa Mesa budget audit claims \$26 million available for services, jobs

Representative from independent firm hired by employees union suggests city is not on brink of insolvency.

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By Lauren Williams and Imran Vittachi, lauren.williams@latimes.com, imran.vittachi@latimes.com
June 21, 2011 | 5:22 p.m.

Costa Mesa has about \$26 million that could be spent on services and jobs slated for budgetary cuts, according to an audit released Tuesday of the city's financial picture.

The Orange County Employees Assn. retained Harvey M. Rose Associates, a San Francisco-based public sector management consulting firm, to audit the city's finances.

The results were released in the morning, hours before the City Council was scheduled to vote on a controversial \$114.9-million budget for the 2011-12 fiscal year that proposes deep cuts in city spending.

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City CEO Tom Hatch said Tuesday afternoon that he will review Rose Associates' findings once they are completed, then schedule a council study session to discuss the matter. He said he was given an executive summary of the report's analysis.

"Once we have the audit in hand, we will provide a full response as quickly as possible," Hatch said in the release.

OCEA, which represents many of the city's employees, opposes the proposed reductions to the city workforce. Some 200 positions are slated to be outsourced.

In an afternoon conference call with reporters, Steve Foti, the Rose Associates representative who led the audit, said Costa Mesa's finances weren't as bleak when compared with similar

cities. The city was not on the brink of insolvency, he suggested.

Nonetheless, he did stress that the city was facing fiscal challenges.

"I'd say that Costa Mesa is better than average where they're sitting financially at this point," Foti told reporters, later adding "they are not in a great financial position" and that it was relative to other California cities.

At another point during the call, he said that outsourcing "is not necessarily the solution in these kinds of situations."

When a reporter asked Foti directly whether Costa Mesa officials had exaggerated the numbers by painting the situation as a fiscal crisis, Foti replied that he couldn't draw such a conclusion.

City spokesman William Lobdell said the city has been transparent in its budget process.

"There's no hidden money," Lobdell said. "The budget is out there for anybody to see."

Foti told reporters that, although OCEA had hired his firm to perform the audit, he had to remain impartial in offering his assessment.

"I'm here to give it an objective review," Foti said. "I'm not here to point fingers at anybody."

When asked whether he agreed with OCEA's assertion in a news release that the audit identified "hidden pots of money," Foti took issue with the word "hidden," but did say that the audit revealed money held in other funds.

Jennifer Muir, spokeswoman for the OCEA, said although Foti had done an "independent audit" of Costa Mesa's finances, "We do believe that the (majority) City Council intentionally manipulated numbers."

The audit found a \$4.2-million difference in the projection in expenditures for the general fund figure given by city officials for the start of the 2011-12 year, Foti said.

According to the audit, the city gave a fund balance of \$39.9 million to start the fiscal year, but Foti's

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calculations found that to be \$44.1 million.

OCEA is claiming the equipment replacement fund, which contains unnecessary reserves, is one of the places the city holds reserve money that could be spent on retaining jobs, according to an OCEA news release.

The audit examined the equipment replacement working capital dating back from 2005, and concluded that the reserve funds could be used in the general fund.

The audit also largely questioned the city's priorities in allocating money to different funds and noted a high degree of imprecision in calculating assets, according to Foti.

Areas the city could reallocate money to put the budget in the black included compensated absences, general funds for liabilities, and the unnecessary reserves in the equipment replacement fund, according to Rose Associates' report.

The report examined the equipment replacement working capital dating back to 2003-04, and concluded that the reserve funds could be used in the general fund.

Quoting Moody's, the report said, "The city also has noted that \$3.5 million in the Capital Improvement Fund and \$6.5 million in the Equipment Replacement Fund are available to the General Fund if necessary. This remains a credit positive and is reflected in the current rating."

"Therefore, the city has fully acknowledged the availability of these funds for general government and debt service purposes," the report said.

About \$6.2 million of the equipment replacement fund can be moved to the general fund, Foti said.



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JayJay3 at 9:59 AM June 22, 2011

The report left out the \$100M+ in street repairs which are overdue....

fiscalsanity1 at 8:21 AM June 22, 2011

For those of you who stayed up late and watched Council meeting on tv, like I did, you saw the complete meltdown of OCEA right before your eyes. The poor gal who presented on the budget couldn't even explain it. She conceded it wasn't a "pot of gold", but rather some options for the Council to consider. There's no found money. It's simply draining cash, reserves and insurance money to pay salaries. They also want to issue to pension obligation bonds--meaning float more debt to pay our debt.

Even Wendy Leece couldn't defend this one. It was brutal to watch. When Eric Bever started asking questions, she couldn't even answer them. If you want a good laugh at our "Waste Watchers" pull up the video--near the end of the meeting. Very entertaining. RIP OCEA!

CM PESSIMIST at 10:39 PM June 21, 2011

For those of you ignorant council supporters, who wrote that Chief Staveley was some kind of a senile windbag lacking proof for his accusations, the proof was just presented. Still waiting for any kind of proof from Righiemer regarding the CITY SAVING SAVINGS that can be had if we just outsourced all of these evil city employees. Another trick Righiemer has been employing has been to try to get the General Fund to pay for everything. Overloading the General Fund is a rather pedestrian way to attempt to present the possibility of a fiscal crisis. Nice try Riggy! Your master Scott Baugh should be beginning to distance himself from you. Don't worry because big Stevie will be there to hold your hand just like he did during the Steve Lopez interview.

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