ATTACHMENT 1

MEMORANDUM

To: Costa Mesa Arts Commission

From: Fisher Derderian, Arts Commissioner; Ericia Lucia, Arts Commissioner

Date: April 2, 2026

Re: Budget Recommendations to City Council for FY 2026-27

Purpose

This memorandum summarizes the budget recommendations discussed between Commissioners Derderian and Lucia and presented to the full Arts Commission for consideration and forwarding to City Council. The intent is not to create new financial obligations but to remove the inefficiencies in how existing and anticipated resources are structured and deployed. These recommendations apply the lessons learned during the first cycle of the Arts and Culture Master Plan implementation to correct how existing dollars are structured and allocated. The current framework requires City finance staff to return to Council each year to request general fund dollars to backfill a recurring shortfall, creating unnecessary friction and inefficiency in the annual budget process. Updating city policies and municipal codes where applicable would ensure that arts funding is properly designated from the outset, staff time is not consumed by avoidable annual shortfalls, and public dollars are directed as efficiently as possible toward the community outcomes the Master Plan was designed to deliver.

Recommendation 1: Reclassify the Arts Specialist Position to the City's General Fund

The Arts Commission recommends that the full-time Arts Specialist position be reclassified from the Arts and Culture Budget to the City's general fund for personnel costs.

The Arts Specialist role was established as a direct outcome of the Arts and Culture Master Plan and hired in 2022 at an annual salary of approximately $120,000. Currently, that cost is borne by the Arts and Culture Budget, which is inconsistent with how other City departments fund their staff. Every other City department draws on the general fund to cover employee salaries, and the Arts Specialist position should be treated no differently. In practice, the City has already been covering this cost through general fund supplements, meaning this reclassification does not introduce a new expense but rather aligns the budget structure with how the position is already being funded.

As currently structured, a substantial portion of the Arts and Culture Budget is directed toward a personnel line item rather than toward the programming, activations, and public art investments the Master Plan was designed to fund. Reclassifying this position to the general fund would restore those resources to their intended purpose and bring the budget structure into alignment with standard City practice.

Recommdenation 2: Establish a Dedicated Public Art Fund

The Arts Commission recommends that the City work with the Finance Department to establish a formal, dedicated Public Art Fund. This action does not require a budget appropriation and can be initiated immediately through a request to Finance for Council approval.

A dedicated Public Art Fund would serve as a specialized, protected fund for public art investments. Critically, it would be structured so that it is not subject to general fund supplementation, meaning any unspent dollars would carry forward from year to year rather than reverting to the general fund at the close of each fiscal year. This structure ensures that public art funding accumulates purposefully over time and is available when meaningful projects are ready to move forward.

Establishing this fund now also creates the necessary infrastructure to support Recommendations 3 and 4 below. Before the City can formally direct TOT revenue or an increased cannabis tax allocation to public art, a designated fund must exist to receive those dollars. Creating the Public Art Fund is the foundational step that makes the remaining recommendations actionable.

Recommendation 3: Dedicate a Portion of Any Transient Occupancy Tax Increase to the Public Art Fund

The Arts Commission recommends that City Council designate a defined portion of any Transient Occupancy Tax (TOT) increase for the Public Art Fund.

The City Council is currently exploring a November 2026 ballot measure to raise Costa Mesa's TOT rate, which stands at 8%, the lowest among surrounding Orange County cities. City staff have projected that each additional 1% increase in the TOT could generate approximately $1 million in new annual revenue for the City.

As the Council considers how to allocate that new revenue, the Arts Commission urges that the Public Art Fund be included as a designated recipient. Hotel visitors are among the most direct beneficiaries of a culturally vibrant city, and there is a clear and logical connection between tourism revenue and the public art investments that make Costa Mesa an attractive destination. Dedicating a share of TOT growth to the Public Art Fund would create a sustainable, visitor-supported funding stream tied directly to the community's cultural identity.

Recommendation 4: Increase the Cannabis Tax Allocation to Fund Full Implementation of the Arts and Culture Master Plan

The Arts Commission recommends that City Council amend the municipal code to increase the cannabis tax allocation dedicated to arts and culture from one-half cent to one full cent of the 7-cent-per-dollar retail cannabis tax, in order to better fulfill the original intent of Measure Q.

When the City adopted its retail cannabis ordinance, one-half cent of the 7-cent-per-dollar tax was earmarked to fund implementation of the Arts and Culture Master Plan. City leaders initially projected this revenue would be sufficient to fully fund the Master Plan's programs, estimated at approximately $1.9 million over the plan's five-year term. In practice, revenue has fallen significantly short of that projection. The City currently collects approximately $230,000 annually in arts-related cannabis tax revenue, and that figure is not expected to grow meaningfully given existing caps on the number of licensed dispensaries. The City has relied on general fund supplements each of the past three years to make up the difference.

Doubling the allocation from one-half cent to one full cent would meaningfully close that gap and reduce the City's dependence on annual general fund backfills to sustain Master Plan programming. The original vision behind the Measure Q set-aside was to generate visible, tangible results for the community through a dedicated revenue source. Increasing the allocation is the most direct way to honor that commitment without asking for new or additional spending from the general fund. A portion of the increased allocation could be directed to the Public Art Fund established under Recommendation 2, ensuring a dedicated and visible source of funding for public art projects as envisioned under the Master Plan.

Conclusion

Taken together, these four recommendations reflect the Arts Commission's commitment to responsible stewardship of public resources. None of these recommendations create new financial obligations for the City. Each one is about directing existing or anticipated revenue more efficiently so that dollars already flowing into the City are put to work in the way they were originally intended. After several years of Master Plan implementation, it is clear that the current funding structure creates recurring inefficiencies: finance staff must return to Council annually to request general fund dollars to cover a predictable shortfall, and dedicated revenue sources are not being used as effectively as they could be. These recommendations ask Council to update the relevant policies and municipal codes so that those dollars reach their intended purpose without unnecessary administrative burden each year. The result will be a more efficient use of staff time, a more transparent use of public funds, and a stronger foundation for delivering on the arts and cultural vision Costa Mesa has already committed to: a city where creativity can flourish, arts and culture enrich everyday life, and Costa Mesa's identity as a City of the Arts is visible and felt by everyone who lives, works, and visits here.