



**CITY OF COSTA MESA
FINANCE DEPARTMENT
INTEROFFICE MEMORANDUM**

TO: CITY COUNCIL
CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR
C. JEANNIE FORTUNE, BUDGET AND PURCHASING MANAGER

DATE: DECEMBER 7, 2021

SUBJECT: FY2021-22 FIRST QUARTER FINANCIAL REPORT

City Council adopted the FY2021-22 Budgets on June 15, 2021 with approved General Fund revenues of \$151.2 million and expenditures of 154.4 million. The First Quarter Financial Report summarizes the City's financial position for the fiscal year through the first quarter ending September 30, 2021 and presents an analysis related to key General Fund revenues and expenditures by category.

ANALYSIS:

The purpose of this financial report is two-fold. First, it ensures that the City is consistently monitoring its revenues and expenditures to be able to proactively respond to unanticipated changes. Second, and equally important, the reports continue to increase the transparency of City finances.

In addition, this report is not an audited financial statement, and the results provided are the most up-to-date information available at a certain point in time. No data on revenues and expenditures are final until the City has completed its annual financial audit, for which the report is finalized by auditors in December of each year for the prior fiscal year. Most revenues and expenditures do not occur uniformly throughout the year, so at the end of the first quarter we would not expect to see 25% of the annual budget realized in actual activity. That measurement is stated in terms of actual revenue or expenditures as a percentage of the annual budget.

FY2021-22 General Fund First Quarter Analysis

Overall, the FY2021-22 First Quarter Financial Report reflects that revenues and expenditures are consistent with projections made in the FY2021-22 Adopted Budget. Since a significant portion of our revenues and expenses do not occur evenly throughout the year, the other three quarters numbers cannot simply be extrapolated to arrive at the full year's amounts. However, we do utilize the best information available and historical data to provide an estimate of where we will be at the fiscal year end. As of September 30 2021, the General Fund has recorded 10% of the projected revenues and 32% of budgeted expenditures. These percentages are consistent with what is expected at this time of the fiscal year.

Revenues

The City continually monitors and adjusts its revenue projections based on revenue performance and other developments that impact City revenues.

It is good to note that several key revenues are received at different times during the fiscal year.

Property Tax represents 33% of the total General Fund revenues budget and are primarily received in the December/January and April/May time frames. The estimated property tax revenue increase over the prior year is consistent with the projected increase in overall assessed values of properties in the City.

Sales and Use Tax represents 40% of the total annual General Fund revenues, is the largest revenue category, and is received two months in arrears. Sales tax for the first quarter, compared to the first quarter of other years, is showing pre-pandemic levels. The increase over prior year revenues is attributed to the pent up demand of sales, including an increase in the sale of luxury items, building and construction, and the exponential growth in online sales. Caution should be taken however, as the pandemic is not over and there is a possibility of other emerging strains of the virus to hamper sales. In addition, shipping port backlogs have the potential to affect this year's Christmas sales.

Transient Occupancy Tax (TOT) represents 4% of total General Fund Revenues. The City collects 8% of the room rent charged by a hotel or motel to tourists occupying a room within the City for a period of less than 30 days. TOT is on track at 29% of TOT Budgeted Revenues. Conferences/trainings hotel sales will remain subdued due to the pandemic, and will dampen this winter's TOT amounts.

Marijuana Gross Receipts Tax represents 1.3% of total General Fund Revenues. Measure Q (City of Costa Mesa Retail Cannabis Tax and Regulation), allows cannabis retail storefront and delivery uses. The City Council voted to adopt a 7% tax on cannabis retail businesses; however, only 6% is deposited into the General Fund. The other percent is split between the Cultural Arts Master Plan and the First-time Homebuyer Program. The Measure Q program is still in the permit issuance stage, as evidenced by the Marijuana Business Permit Revenue receipts, totaling 3% or \$59,249 received in the 1st Quarter of FY2021-22. Marijuana related revenue budgets will be realigned to reflect actual Measure Q revenues in the future.

Franchise Fees represent 3% of total General Fund revenues and are received from utility companies (electric, gas and cable) and solid waste haulers. Franchise Fees from utility companies are normally received in April of each fiscal year, while Franchise Fees from solid waste haulers are received quarterly, usually between 30 to 45 days at the close of each quarter.

Staff continues to monitor these revenues.

Expenditures

The expenditure information in this report is derived from the City's financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between accounts. It represents a snapshot of City expenditures at a certain point in time.

Unfunded Accrued Liability (UAL) is the largest payment incurred during the first quarter of the fiscal year; it is the City's amortized dollar amount needed to fund past service credits earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits. This is often referred to as the Unfunded Accrued Liability (UAL). Of the \$49.9 million expense, 47% or \$23.4 million is attributed to the City's July-2021 prepayment of the CalPERS Unfunded Accrued Liability (UAL). Prepayment of the UAL saved the City approximately \$834,000 in the current fiscal year.

Summary

Overall, as of September 30, 2021, total General Fund expenditures are \$49.9 million, representing 32% of total expenditure budget. Of the \$49 million expense, 47% or \$23.4 million is attributed to the City's July-2021 prepayment of the CalPERS Unfunded Accrued Liability (UAL). Without this one-time expense, operating expenditures total 17% or 26.5 million for the 1st Quarter of FY2021-22.



CITY OF COSTA MESA
 GENERAL FUND FIRST QUARTER FINANCIAL REPORT
 FY 2021-22 - 25% of the Fiscal Year

	FY2020-21 Unaudited Actuals	FY2021-22 Adopted Budget	FY2021-22 Amended Budget	FY2021-22 YTD as of 09/30/21	% of Amended
REVENUES					
Taxes					
Property Tax	\$47,502,239	\$49,552,799	\$49,552,799	\$706,155 ¹	1%
Sales and Use Tax	64,986,713	61,026,733	61,026,733	5,387,217 ²	9%
Transient Occupancy Tax	4,282,804	5,569,330	5,569,330	1,632,960	29%
Business Tax	901,602	928,160	928,160	215,968	23%
Marijuana Gross Receipts Tax	326,241	2,000,000	2,000,000 ³	59,249	3%
Franchise Fees	4,895,572	5,183,043	5,183,043	817 ⁴	0%
Licenses and Permits					
Marijuana Business Permits	176,087	741,960	741,960	313,356	42%
Other Licenses and Permits	3,233,122	3,271,481	3,271,481	962,594	29%
Fines and Forfeitures					
	1,055,883	1,402,174	1,402,174	251,927	18%
Use of Money and Property					
Golf Course Operations	3,526,236	3,500,000	3,500,000	677,586	19%
Other Uses of Money and Property	490,307	1,383,522	1,383,522	103,021	7%
Other Government Agencies					
	1,364,747	275,523	275,523	179,625	65%
Fees and Charges for Services					
Marijuana CUP	102,532	480,974	480,974	87,940	18%
Paramedic Transportation	3,507,832	3,150,000	3,150,000	1,125,648	36%
Other Fees and Charges for Services	2,137,135	3,992,552	3,992,552	960,217	24%
Other Revenues/Transfers In					
	11,722,959	8,725,338	8,725,338	1,979,921	23%
TOTAL REVENUES	\$150,212,009	\$151,183,589	\$151,183,589	\$14,644,200	10%
EXPENDITURES					
Operating Expenditures					
City Council	\$644,712	\$891,341	\$891,341	\$250,249	28%
City Manager	6,068,680	7,385,715	7,483,028 ⁵	1,848,550	25%
City Attorney	968,029	1,000,000	1,000,000	166,048	17%
Finance	3,578,756	4,750,218	4,750,218	1,150,044	24%
Parks and Community Services	4,004,589	7,664,502	7,698,082	1,752,460	23%
Information Technology	3,760,148	4,523,356	4,523,356	1,218,098	27%
Police Department	48,905,944	51,313,014	51,482,275 ⁶	19,631,327	38%
Fire and Rescue	29,042,315	30,142,203	30,142,203	11,880,763	39%
Development Services	5,581,596	7,782,564	7,782,564	2,234,347	29%
Public Services	17,794,769	19,960,600	19,930,600	4,293,811	22%
Non-Departmental	29,862,096	18,988,668	18,988,668	5,496,366	29%
TOTAL EXPENDITURES	\$150,211,634	\$154,402,181	\$154,672,335	\$49,922,063 ⁷	32%
TOTAL DIFFERENCE	\$375	(\$3,218,592) ⁸	(\$3,488,746)	(\$35,277,863)	
TOTAL FULL TIME EQUIVALENTS (FTE)	652	652	652	582 ⁹	

¹ Property Tax receipts, the bulk of which is collected twice per year, around December and May.

² Sales Tax is allocated monthly starting in October with a true-up in June.

³ Revenue Budgets for marijuana related activities will be realigned to accurately account for Measure Q revenues.

⁴ Franchise Fees are primarily received in April. Other franchise fees from solid waste haulers are received quarterly.

⁵ The City Manager's Amended budget includes carryovers for election costs and recruiting services totaling \$97,300.

⁶ The Police Department's Amended Budget includes carryovers for the Digital Evidence Management System totaling \$169,260.

⁷ Total expenditures include a prepayment of CalPERS Unfunded Accrued Liability (UAL) of \$23.4 million.

⁸ The Adopted Budget includes the authorized use of Disaster Reserves in the amount of \$3.2 million.

⁹ Filled Full Time Equivalents (FTEs) at 582, as of the end of September.