



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

TO: CITY COUNCIL

CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: JUNE 29, 2022

SUBJECT: FY2021-22 THIRD QUARTER FINANCIAL REPORT

The FY2021-22 Third Quarter Financial Report summarizes the City's financial position for the fiscal year through the third quarter ending March 31, 2022, and presents an analysis related to key General Fund revenues and expenditures.

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 quarterly report continues to increase transparency of City finances.

Please note, most revenues and expenditures do not occur uniformly throughout the year, so at the end of the third quarter we would not necessarily expect to see exactly 75% 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 Third Quarter Analysis

The City's financial report shows a gradual economic recovery due in a large part to the rebound of Sales Tax revenues. Overall, the FY2021-22 Third Quarter Financial Report reflects that revenues and expenditures are consistent with projections made in the FY2021-22 Adopted Budget. As of March 31, 2022, the General Fund recorded 67% of the projected revenues and 68% 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 important to note that several key revenues are received at different times throughout the fiscal year.

Property Tax represents 33% of the total General Fund revenues budget and is primarily received in the December/January and April/May periods. As of March 31, the City had received 60% of the property tax budget. This represents a 3% increase from last fiscal year. Sales of property will likely slow as the Federal Reserve tightens up on the monetary policy.

Sales and Use Tax represents 40% of the total annual General Fund revenues and is the largest revenue category. Following holiday 2021 record levels, core retail sales exceeded estimates in the 3rd quarter. Healthier receipts are partially attributed to escalating prices. Volume also reflected persistent demand. Uncertainty in the future exists as consumers begin to gauge the economic outlook due to inflation, the Russian invasion of Ukraine, and the corresponding rise in fuel prices.

Transient Occupancy Tax (TOT) has reached 91% of the amended budget. While hotel occupancy has neared recovery, taxable sales at hotels are still lagging behind as business and international travel slowly recovers. Growth from this category could be curbed as consumers react to volatile fuel prices.

Cannabis Gross Receipts Tax represents 1.3% of total General Fund Revenues. The amount of \$315,550 comes from Measure X gross sales. The City anticipates Measure Q retail and delivery gross receipts tax later next fiscal year as Measure Q businesses open.

Cannabis Business Permits for Measure X and Measure Q retail permit applications total \$1,065,791 in the Third Quarter of FY2021-22. Cannabis business permits are renewed every two years.

Other Licenses and Permits represents 2% of total General Fund Revenues. This category is at 93% received of the Amended Budget. Building permits are the primary driver. Building permits are up 37% over last fiscal year.

Franchise Fees represent 3% of total General Fund revenues and are received from utility companies (electric, gas and cable) and solid waste haulers. Solid Waste Franchise Fees are reporting a 5% increase over the same time last year. Utility Franchise Fees are primarily received in April.

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.

Fiscal Year 2021-22 expenditures include reinstating staffing and service levels previously cut in the prior fiscal year as a result of the pandemic's fiscal impacts.

In-house, and in conjunction with City Council's goal to "recruit and retain high quality staff," the City has ramped up its recruiting efforts, conducting an ongoing recruitment process to proactively attract and hire public safety officers. In addition, a market analysis and compensation study was conducted for hard-to-fill classifications, recommendations of which was approved by City Council to address critical needs.

Staff continues to maintain COVID safe protocols in accordance with safety guidelines while managing the fiscal impacts from COVID-19.

As of the third quarter-end, General Fund expenditures are on track to expend to the amended budget.



CITY OF COSTA MESA
 GENERAL FUND THIRD QUARTER FINANCIAL REPORT
 FY 2021-22 - 75% of the Fiscal Year

	FY2020-21 YTD as of 03/31/21	FY2020-21 Audited Actuals	FY2021-22 Adopted Budget	FY2021-22 Amended Budget	FY2021-22 YTD as of 03/31/22	Year End Projections	% of Amended
REVENUES							
Taxes							
Property Tax	\$28,672,126	\$47,502,239	\$49,552,799	\$48,605,428	\$29,619,984 ¹	\$49,552,799	61%
Sales and Use Tax	35,598,047	64,986,713	61,026,733	71,163,452	46,123,890 ²	71,775,574	65%
Transient Occupancy Tax	2,492,344	4,282,804	5,569,330	8,818,603	5,057,571	7,664,657	57%
Business Tax	667,642	901,602	928,160	928,160	678,427	1,008,160	73%
Cannabis Gross Receipts Tax	201,730	326,241	2,000,000	420,000 ³	315,550	447,041	75%
Franchise Fees	1,810,139	4,895,572	5,183,043	5,014,253	1,845,443 ⁴	5,233,444	37%
Licenses and Permits							
Cannabis Business Permits	112,657	176,087	741,960	1,172,136	1,065,791	1,079,576	91%
Other Licenses and Permits	2,375,831	3,227,622	3,271,481	4,933,679	3,055,264	3,452,329	62%
Fines and Forfeitures	747,511	1,058,847	1,402,174	1,076,630	799,721	1,404,674	74%
Use of Money and Property							
Golf Course Operations	2,278,125	3,526,236	3,500,000	3,650,000	2,234,926	3,599,329	61%
Other Uses of Money and Property	596,947	490,307	1,383,522	883,522	625,868	883,522	71%
Other Government Agencies	1,038,041	1,022,458	275,523	1,637,454	1,595,136	1,665,681	97%
Fees and Charges for Services							
Cannabis CUP	102,532	102,532	480,974	1,080,974	830,661	1,038,978	77%
Paramedic Transportation	2,435,922	3,281,680	3,150,000	3,700,000	3,182,946	3,963,154	86%
Other Fees and Charges for Services	1,817,999	2,777,061	3,992,552	4,485,967	2,907,646	4,280,473	65%
Other Revenues/Transfers In							
American Rescue Plan (ARPA)	-	9,173,146	6,561,529	-	-	-	0%
Other Revenues	1,551,874	2,480,863	2,163,809	2,604,959	2,564,353	3,064,353	98%
TOTAL REVENUES	\$80,947,593	\$150,212,009	\$151,183,589	\$160,175,217	\$102,503,177	160,113,744	68%
EXPENDITURES							
Operating Expenditures							
City Council	\$478,459	\$644,712	\$891,341	\$891,341	\$631,205	872,537	71%
City Manager	4,440,355	6,068,680	7,385,715	7,483,028	4,665,786	7,008,396	62%
City Attorney	644,666	968,029	1,000,000	1,000,000	542,526	1,000,000	54%
Finance	2,533,724	3,578,756	4,750,218	4,750,218	2,735,542	4,533,155	58%
Parks and Community Services	2,627,875	4,004,589	7,664,502	6,661,582	3,706,891	6,329,711	56%
Information Technology	2,674,913	3,760,148	4,523,856	4,523,356	3,164,514	4,423,890	70%
Police Department	37,250,711	48,905,944	51,313,014	53,273,756	39,937,452	53,271,456	75%
Fire and Rescue	22,082,966	29,042,315	30,142,203	31,926,296	24,090,650	31,911,494	75%
Development Services	4,031,674	5,581,596	7,782,564	7,689,839	5,166,742	7,428,662	67%
Public Services	12,197,133	17,794,769	19,960,600	19,130,600	13,062,487	19,081,044	68%
Non-Departmental	11,672,169	29,862,096	18,988,668	21,064,867	8,851,583	20,987,670	42%
TOTAL EXPENDITURES	\$100,634,645	\$150,211,634	\$154,402,681	\$158,394,883	\$106,555,378 ⁵	\$156,848,015	67%
USE OF RESERVES			\$3,260,507 ⁶	\$0		\$0	
TOTAL YEAR TO DATE DIFFERENCE	(\$19,687,052)	\$375	\$41,415	\$1,780,334	(\$4,052,201)	\$3,265,729	
TOTAL FULL TIME EQUIVALENTS (FTE)			652	652	600 ⁷		

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

⁶ The Adopted Budget includes the authorized use of Disaster Reserves in the amount of \$3.2 million.

⁷ Filled Full Time Equivalents (FTEs) at 595, as of the end of March.