



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

TO: CITY COUNCIL
CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR
ROBERT MOYA, ASSISTANT FINANCE DIRECTOR

DATE: NOVEMBER 3, 2022

SUBJECT: FY2022-23 FIRST QUARTER FINANCIAL REPORT

City Council adopted the FY2022-23 Budget on June 7, 2022 with approved General Fund revenues of \$163.6 million and expenditures of \$163.6 million, a fully balanced budget without the use of reserves or American Rescue Plan funds. The First Quarter Financial Report summarizes the City's financial position for the fiscal year through the first quarter ending September 30, 2022 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 ending on June 30th. 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.

FY2022-23 General Fund First Quarter Analysis

Overall, the FY2022-23 First Quarter Financial Report reflects that revenues and expenditures are consistent with projections made in the FY2022-23 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 the fiscal year end performance. As of September 30, 2022, the General Fund has recorded 14% of the projected revenues and 31% 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 factors that impact City revenues.

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

Sales and Use Tax was approximately \$13.2 million, which represents 44% of the total annual General Fund revenues. This is the largest revenue category and is received two months in arrears. Sales tax for the first quarter, compared to the first quarter of prior years, is \$7.8 million, showing a marked increase of 60% thus far. It should be noted that in FY 2021-22, only one month was received, and in FY 2022-23, we received two months of revenue. The increase over prior year revenues is attributed to a slight increase in general consumer sales, including an increase in the sale of luxury items, and the growth in restaurant patronage. Caution should be taken however, as there is a possibility of other emerging strains of the COVID virus to impact sales as well as rising inflation.

Property Tax was about \$727,000, representing 32% of the total General Fund revenues budget and is primarily received in the December/January and April/May timeframes. The estimated property tax revenue increase over the prior year is 3%, which is consistent with the projected increase in overall assessed values of properties in the City.

Transient Occupancy Tax (TOT) was slightly more than \$2.0 million and represents 5% 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 26% of TOT Budgeted Revenues. A steady rise in tourism increased the TOT the City received about \$376,000 over last year, almost to pre-pandemic levels.

Cannabis Gross Receipts Tax was nearly \$22,000 and represents 2% of total budgeted General Fund Revenues but has not yet been realized as this is a new program still in the implementation phase. 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 working through multiple processes, as evidenced by the Cannabis Business Permit Revenue receipts, totaling 4% or \$109,694 received in the 1st Quarter of FY2022-23.

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. As such, we have not received any revenue for the first quarter.

As of this writing, it is expected that General Fund Revenues will meet budgeted amounts by year end.

Expenditures

The expenditure information in this report is reflected by Department and represents a snapshot of the City's expenditures at a certain point in time. These expenditures include payments, reimbursements, or transfers between accounts. The City continually monitors and adjusts its expenditures based on operational needs and changes from Departments throughout the fiscal year.

In the first quarter of the fiscal year, the City takes advantage of the one-time pension payment option to CalPERS, saving the General Fund \$1.0 million. As a result, the first quarter expenditures report reflects this one-time annual payment with the savings achieved.

Summary

Overall, as of September 30, 2022, total General Fund expenditures are \$51.1 million, representing 31% of total expenditure budget. The City continues towards achieving the Council's goal for long terms fiscal sustainability by monitoring and finding ways to improve the performance of revenues. Moreover, departments continually to prudently spend within budget while maintaining efficiencies and effectiveness to the benefit of Costa Mesa citizens.



CITY OF COSTA MESA
 GENERAL FUND FIRST QUARTER FINANCIAL REPORT
 Ending September 30, 2022

	FY2021-22 1st Quarter Actuals	FY2022-23 Adopted Budget	FY2022-23 1st Quarter Actuals	Year End Projections	% of Amended
REVENUES					
Taxes					
Property Tax	\$706,155	\$52,047,128	\$727,017 ¹	\$52,047,128	1%
Sales and Use Tax	5,387,217	72,615,432	13,173,144 ²	72,615,432	18%
Transient Occupancy Tax	1,632,960	7,373,732	2,008,542	7,373,732	27%
Business Tax	215,968	913,264	252,329	913,264	28%
Cannabis Gross Receipts Tax	59,249	2,920,000	109,694	2,920,000	4%
Franchise Fees	-	5,168,793	- ³	5,168,793	0%
Licenses and Permits					
Cannabis Business Permits	313,356	727,250	42,512	727,250	6%
Other Licenses and Permits	962,594	4,191,538	1,283,984	4,191,538	31%
Fines and Forfeitures					
	-	1,067,717	138,007	1,067,717	13%
Use of Money and Property					
Golf Course Operations	677,586	3,782,130	679,365	3,782,130	18%
Other Uses of Money and Property	135,365	467,800	16,380	467,800	4%
Other Government Agencies					
	-	584,252	252,815	584,252	43%
Fees and Charges for Services					
Cannabis CUP	87,940	359,485	21,529	359,485	6%
Paramedic Transportation	1,125,648	3,661,675	1,291,645	3,661,675	35%
Other Fees and Charges for Services	743,710	4,943,349	1,399,989	4,943,349	28%
Other Revenues/Transfers In					
Other Revenues	1,979,919	2,803,993	1,599,765	2,803,993	57%
TOTAL REVENUES	\$14,027,667	\$163,627,538	\$22,996,716	163,627,538	14%
EXPENDITURES					
Operating Expenditures					
City Council	\$250,249	\$950,772	\$276,230	950,772	29%
City Manager	1,850,236	8,164,357	2,270,780	8,164,357	31%
City Attorney	166,048	1,000,000	192,093	1,000,000	19%
Finance	1,144,308	5,233,710	1,516,902	5,233,710	33%
Parks and Community Services	1,752,854	7,679,328	1,708,827	7,679,328	26%
Information Technology	1,218,186	5,002,953	1,671,826	5,002,953	37%
Police Department	19,571,808	53,591,410	20,069,796	53,591,410	36%
Fire and Rescue	11,934,007	32,518,134	12,751,323	32,518,134	37%
Development Services	2,228,204	8,509,974	2,840,066	8,509,974	34%
Public Services	4,298,893	20,416,297	5,030,475	20,416,297	25%
Non-Departmental	5,376,022	20,560,603	2,809,470	20,560,603	14%
TOTAL EXPENDITURES	\$49,790,814	\$163,627,538	\$51,137,786 ⁴	\$163,627,538	31%
USE OF RESERVES					
		\$0	\$0	\$0	
TOTAL YEAR TO DATE DIFFERENCE	(\$35,763,147)	\$0	(\$28,141,070)	\$0	
TOTAL FULL TIME EQUIVALENTS (FTE)					
		550	478 ⁵		

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. In FY 21/22, only one month was received and FY 22/23, received two months

³ Franchise Fees are primarily received in April. Other franchise fees from solid waste haulers are received quarterly.

⁴ Total expenditures include a prepayment of CalPERS Unfunded Accrued Liability (UAL) of \$26.3 million.

⁵ Filled Full Time Equivalents (FTEs) at 478, as of the end of August; does not reflect part time positions.