



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

TO: CITY COUNCIL
CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: APRIL 10, 2023

SUBJECT: FY 2022-23 SECOND QUARTER FINANCIAL REPORT

City Council adopted the FY 2022-23 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 Act funds. The Second Quarter Financial Report summarizes the City's financial position for the fiscal year through the second quarter ending December 31, 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.

This report is an unaudited financial statement and the results provided are the most up-to-date information available at a certain point in time. Revenues and expenditures for the fiscal year are finalized at the end of the annual year-end financial audit process. Most revenues and expenditures do not occur uniformly throughout the year; therefore, we would not necessarily expect to see 50% of the annual budget realized in actual activity at the end of the second quarter. That measurement is stated in terms of actual revenue or expenditures as a percentage of the annual budget.

FY 2022-23 General Fund Second Quarter Analysis

Overall, the FY 2022-23 Second Quarter Financial Report reflects that revenues and expenditures are consistent with projections made in the FY 2022-23 Adopted Budget. Since a significant portion of our revenues and expenses do not occur evenly throughout the year, the remaining half of the year's numbers cannot simply be extrapolated to arrive at the full year's amounts. However, staff utilizes the best information available and historical data to provide an estimate of the fiscal year end performance. As of December 31, 2022, the General Fund has recorded 40% of the projected revenues and 52% 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 \$27.9 million, which represents 44% of the total annual General Fund revenues budget. This is the largest revenue category and is received two months in arrears. As such, the holiday sales tax won't be received until the third quarter of the fiscal year and is not reflected in these numbers.

Year over year sales are up 10%. The increase over prior year revenues in the second quarter is attributed to industrial growth, building and construction sector doing well, and online sales with early online holiday shopping. Also, inflation has pushed up the price of many items that consumers rely on, resulting in an increase of sales tax collected.

Property Tax was about \$20.0 million, representing 30% of the total General Fund revenues adopted budget and is primarily received in the December/January and April/May. The estimated property tax revenue year to date 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 approximately \$4.2 million and represents 5% of total General Fund revenues adopted budget. 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. Ever increasing prices and continued recovery are pushing hotels to post healthy gains. Though leisure travel remains hearty, business travel has yet to rebound.

Franchise Fees represent 3% of total General Fund revenues adopted budget 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, between 30 to 45 days at the close of each quarter. As of the end of December, \$1.0 million has been received.

As of this writing, it is expected that General Fund Revenues will meet the amended General Fund budget amounts by fiscal year end.

Expenditures

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

As of the mid-point in the fiscal year, approximately 52% of the General Fund's adopted budget was spent. It is important to keep in mind that the City participated in the annual up-front cost of the CalPERS unfunded accrued liability (UAL) in July; thereby skewing the expenditures to date. The UAL payment in July totaled \$26.3 million across all departments, with the exception of Non-Departmental.

City Council implemented a goal to strengthen the public's safety and improve the quality of life in Costa Mesa. Multiple safety vehicles were financed through a master lease agreement. The Police Department received the new Mobile Command Vehicle approved by City Council on November 19, 2019. In June 2022, Council approved the purchase of a police armored vehicle, which is currently being built and outfitted. In the Fire and Rescue Department, City Council authorized the purchase of six ambulances. Fire and Rescue also anticipate other Council approved Fire apparatus, including a fire engine and a fire utility truck, both expected to be received before the end of the fiscal year.

During this quarter, purchases were made that aligned with the Council's Strategic Goal - Maintain and enhance the City's infrastructure, facilities, equipment and technology. City Council approved the purchase of replacement mobile data computers (MDCs) required for the public safety vehicles. The MDCs allows personnel in the field to communicate with the Dispatch Center and each other. They also allow personnel to access a variety of information and perform various tasks, resulting more effectiveness and efficiency.

This quarter also included the negotiation of legally required labor contracts aligning with the City Council's Strategic Plan Goal – Recruit High Quality Staff. The new collective bargaining agreements address recruitment and retention issues relating to many hard-to-fill positions in the City as well as challenges with salary and benefits in this competitive job market.

Summary

Overall, as of December 31, 2022, total General Fund expenditures are \$86.0 million, representing 52% of total expenditure budget. The City continues working towards achieving the Council's goal for long term fiscal sustainability by monitoring and finding ways to improve the performance of revenues while monitoring the expenditures. 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 December 31, 2022

	FY2021-22 2nd Quarter Actuals	FY2022-23 Adopted Budget	FY2022-23 Amended Budget	FY2022-23 2nd Quarter Actuals	% of Amended
REVENUES					
Taxes					
Property Tax	\$18,410,395	\$52,047,128	\$52,047,128	\$20,033,680 ¹	38%
Sales and Use Tax	25,370,235	72,615,432	72,615,432	27,909,955 ²	38%
Transient Occupancy Tax	3,276,867	7,373,732	7,373,732	4,245,045	58%
Business Tax	436,298	913,264	913,264	438,885	48%
Cannabis Gross Receipts Tax	146,970	2,920,000	2,920,000	214,311	7%
Franchise Fees	902,262	5,168,793	5,168,793	1,005,513 ³	19%
Licenses and Permits					
Cannabis Business Permits	946,887	727,250	727,250	42,512	6%
Other Licenses and Permits	2,056,736	4,191,538	4,191,538	2,515,598	60%
Fines and Forfeitures					
	567,014	1,067,717	1,067,717	402,161	38%
Use of Money and Property					
Golf Course Operations	1,493,683	3,782,130	3,782,130	1,471,741	39%
Other Uses of Money and Property	258,400	467,800	467,800	344,016	74%
Other Government Agencies					
	802,326	584,252	584,252	179,236	31%
Fees and Charges for Services					
Cannabis CUP	506,318	359,485	359,485	41,304	11%
Paramedic Transportation	2,077,283	3,661,675	3,661,675	2,447,022	67%
Other Fees and Charges for Services	2,118,759	4,943,349	4,943,349	3,099,081	63%
Other Revenues/Transfers In					
Other Revenues	2,369,451	2,803,993	2,834,943	1,882,969	66%
TOTAL REVENUES	\$61,739,886	\$163,627,538	\$163,658,488	\$66,273,027	40%
EXPENDITURES					
Operating Expenditures					
City Council	\$453,421	\$950,772	\$950,772	\$451,553	47%
City Manager	3,238,510	8,164,357	7,317,358	3,947,230	54%
City Attorney	324,610	1,000,000	1,000,000	394,306	39%
Finance	2,006,671	5,233,710	4,583,710	2,389,194	52%
Parks and Community Services	2,620,555	7,679,328	6,512,058	3,126,208	48%
Information Technology	2,265,974	5,002,953	4,577,954	2,753,562	60%
Police Department	30,434,963	53,591,410	55,899,873	31,138,875	56%
Fire and Rescue	18,606,649	32,518,134	34,068,134	19,136,673	56%
Development Services	3,738,728	8,509,974	8,461,574	4,448,119	53%
Public Services	8,532,072	20,416,297	20,140,997	9,560,794	47%
Non-Departmental	6,067,432	20,560,603	20,423,203	8,675,439	42%
TOTAL EXPENDITURES	\$78,289,585	\$163,627,538	\$163,935,633	\$86,021,953 ⁴	52%
TOTAL YEAR TO DATE DIFFERENCE	(\$16,549,699)	\$0	(\$277,145)	(\$19,748,926)	
TOTAL FULL TIME EQUIVALENTS (FTE)		550	561 ⁵	491 ⁶	

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 revenue.

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 for FY 22/23, FY 21/22 \$24 million.

⁵ Includes City Council approved jail services positions (10 Custody Officers and 1 Custody Supervisor).

⁶ Filled Full Time Equivalents (FTEs) at 491, as of the end of December; does not reflect part time positions.