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

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**TO: CITY COUNCIL**  
**CC: FINANCE AND PENSION ADVISORY COMMITTEE**

**FROM: CAROL MOLINA, FINANCE DIRECTOR**

**DATE: NOVEMBER 17, 2023**

**SUBJECT: FY2023-24 FIRST QUARTER FINANCIAL REPORT**

City Council adopted the FY2023-24 Budget on June 6, 2023 with approved General Fund revenues of \$180.3 million and expenditures of \$180.3 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, 2023 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 30<sup>th</sup>. 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.

**FY2023-24 General Fund First Quarter Analysis**

Overall, the FY2023-24 First Quarter Financial Report reflects that revenues and expenditures are consistent with projections made in the FY2023-24 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, 2023, the General Fund has recorded 9.18% of the projected revenues and 29% 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 \$6.27 million, which is 8% of the budgeted sales tax revenue. This is the largest revenue category and is received two months in arrears. It should be noted that last year, first quarter two months of sales tax revenue was received when this quarter's fiscal year only one month. The third month of each quarter includes any quarter-end clean up by the State. Since this last month has not yet been received, it's too early to determine the status of this revenue stream.

Property Tax was about \$830,000. This category represents 30% 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, was primarily due to Property Transfer Tax. This is a one-time tax imposed upon a change of ownership of real property.

Transient Occupancy Tax (TOT) was slightly more than \$2.1 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. A steady rise in room rates increased the TOT revenues. The City received about \$232,000 over last year for the same timeframe.

Cannabis Gross Receipts Tax total was \$260,691 and represents 1.7% of total budgeted 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 evenly between the Cultural Arts Master Plan and the First-time Homebuyer Program. Measure X cannabis tax only provides for 1% of tax receipts to the City. Both cannabis measures are included in this category.

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.

The General Fund's expenditures total \$53.2 million through September 30 (29% of the \$181.1 million amended budget). General Fund expenditures appear to be tracking to expectations at 29% of the amended budget through the first quarter of the current fiscal year. This is primarily due to the City taking advantage of the pension prepayment option to CalPERS during the first quarter of the fiscal year, saving the General Fund more than \$850,000. With this prepayment, many departments including City Manager, Parks and Community Services, Information Technology, Police Department Fire and Rescue and Development Services exceeded the 25% of the budget for the first quarter.

Overtime expenditures normally track higher than 25% of the budget based on the summer programs and demand for public safety, such as the Orange County Fair, Chargers Training Camp and other summer recreational programs.

During the FY 2023-24 budget development approval, the Fire and Rescue Department's overtime budget increased by \$500,000 to better align with the actual expenditures. As approved by City Council, mutual aid expenses are appropriated to the Departments as revenues are received for a net neutral fiscal impact. Therefore, the budget will be amended to account for these expenditures and offsetting revenue.

The Information Technology Department's operating expenditures is expected to be higher than 25% due to the one-time annual payment of the annual software subscriptions that occurs at the start of each fiscal year.

It is also anticipated for the first quarter that the Parks and Recreation Department's operating expenditures is higher than 25% based on the summer program. Also, this summer, the Department held a hiring event in which more than 40 individuals were hired for various youth programs, aquatics, field ambassador and Senior Center.

## Summary

Overall, as of September 30, 2023, total General Fund expenditures are \$53.2 million, representing 29% of total expenditure budget. However, the departments are expected to remain within the budget appropriation for the remainder of the fiscal year. The City continues towards achieving the Council's goal for long term fiscal sustainability by monitoring and finding ways to improve the performance of revenues. Moreover, departments continue to prudently spend within budget while maintaining efficiencies and effectiveness to the benefit of Costa Mesa residents.



**CITY OF COSTA MESA**  
 GENERAL FUND FIRST QUARTER FINANCIAL REPORT  
 Ending September 30, 2023

	FY2022-23 1st Quarter Actuals	FY2023-24 Adopted Budget	FY2023-24 Amended Budget	FY2023-24 1st Quarter Actuals	Year End Projections	% of Amended
<b>REVENUES</b>						
<b>Taxes</b>						
Property Tax	\$727,017	\$54,524,010	\$54,524,010	\$830,096 <sup>1</sup>	\$54,524,010	2%
Sales and Use Tax	13,173,144	82,459,889	82,459,889	6,271,203 <sup>2</sup>	82,459,889	8%
Transient Occupancy Tax	2,008,542	9,554,733	9,554,733	2,159,942	9,554,733	23%
Business Tax	252,329	913,264	913,264	200,082	913,264	22%
Cannabis Gross Receipts Tax	109,694	3,059,684	3,059,684	260,691	3,059,684	9%
<b>Franchise Fees</b>	-	5,687,783	5,687,783	- <sup>3</sup>	5,687,783	0%
<b>Licenses and Permits</b>						
Cannabis Business Permits	42,512	248,096	248,096	18,296	248,096	7%
Other Licenses and Permits	1,283,984	4,427,766	4,427,766	938,566	4,427,766	21%
<b>Fines and Forfeitures</b>	138,007	1,066,632	1,066,632	239,822	1,066,632	22%
<b>Use of Money and Property</b>						
Golf Course Operations	679,365	3,825,761	3,825,761	742,684	3,825,761	19%
Other Uses of Money and Property	16,380	780,854	710,858	248,531	710,858	35%
<b>Other Government Agencies</b>	252,815	896,086	896,086	211,066	896,086	24%
<b>Fees and Charges for Services</b>						
Cannabis CUP	21,529	429,640	429,640	-	429,640	0%
Paramedic Transportation	1,291,645	4,620,812	5,371,130	1,729,757	5,371,130	32%
Other Fees and Charges for Services	1,399,989	4,626,688	4,540,360	1,239,440	4,540,360	27%
<b>Other Revenues/Transfers In</b>						
Other Revenues	1,599,765	3,205,344	3,376,350	1,456,225	3,376,350	43%
<b>TOTAL REVENUES</b>	<b>\$22,996,717</b>	<b>\$180,327,042</b>	<b>\$181,092,042</b>	<b>\$16,546,401</b>	<b>181,092,042</b>	<b>9%</b>
<b>EXPENDITURES</b>						
<b>Operating Expenditures</b>						
City Council	\$276,230	\$750,150	\$750,150	\$284,615	750,150	38%
City Manager	2,270,780	8,680,555	8,680,754	2,036,881	8,680,754	23%
City Attorney	192,093	1,050,000	1,050,000	181,785	1,050,000	17%
Finance	1,516,902	5,590,659	5,590,659	1,340,212	5,590,659	24%
Parks and Community Services	1,708,827	7,954,828	7,954,828	2,470,111	7,954,828	31%
Information Technology	1,671,826	5,923,476	5,961,319	1,728,947	5,961,319	29%
Police Department	20,069,796	59,221,389	59,227,114	22,916,038	59,227,114	39%
Fire and Rescue	12,751,323	35,785,123	36,514,767	13,403,169	36,514,767	37%
Development Services	2,840,066	9,256,476	9,248,056	2,725,090	9,248,056	29%
Public Works	5,030,475	22,457,898	22,458,118	5,395,639	22,458,118	24%
Non-Departmental	2,809,470	23,656,488	23,656,088	747,701	23,656,088	3%
<b>TOTAL EXPENDITURES</b>	<b>\$51,137,788</b>	<b>\$180,327,042</b>	<b>\$181,091,853</b>	<b>\$53,230,188</b> <sup>4</sup>	<b>\$181,091,853</b>	<b>29%</b>
<b>USE OF RESERVES</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>TOTAL YEAR TO DATE DIFFERENCE</b>	<b>(\$28,141,071)</b>	<b>\$0</b>	<b>\$189</b>	<b>(\$36,683,787)</b>	<b>\$189</b>	
<b>TOTAL FULL TIME EQUIVALENTS (FTE)</b>		<b>588</b>	<b>588</b>	<b>524</b> <sup>5</sup>		

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

<sup>2</sup> Sales Tax is allocated monthly starting in October with a true-up in June. FY 2023-24 shows only one month of tax received, versus two months for FY 2022-23

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

<sup>4</sup> Total expenditures include a prepayment of CalPERS Unfunded Accrued Liability (UAL) of \$25.5 million, of \$24.6 million is the General Fund's share.

<sup>5</sup> Filled Full Time Equivalents (FTEs) at 524, as of the end of September, does not reflect part time positions.