



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

TO: CITY COUNCIL

CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: JANUARY 29, 2024

SUBJECT: FY2022-23 THIRD QUARTER FINANCIAL REPORT

The FY2022-23 Third Quarter Financial Report summarizes the City's financial position for the fiscal year through the third quarter ending March 31, 2023, at 75% of the fiscal year, 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.

FY2022-23 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 FY2022-23 Third Quarter Financial Report reflects that revenues and expenditures are exceeding projections made in the FY2022-23 Adopted Budget. As of March 31, 2023, the General Fund recorded 63% of the projected revenues and 72% 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 31.2% 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 62% of the property tax budget. This represents a 2% increase from last fiscal year. Sales of

property could potentially slow as the Federal Reserve continues tightening up on the monetary policy.

Sales and Use Tax represents 43.8% of the total annual General Fund revenues and is the largest revenue category. Strong job numbers and low unemployment rates have allowed consumption spending to remain solid. Healthier receipts are partially attributed to escalating prices. Recent bank closures have tested the stock market and as a result, both investors and customers are nervous about the security and accessibility of their funds. One of the most vulnerable segments includes taxable discretionary merchandise as consumers are closely monitoring their own financial situation.

Transient Occupancy Tax (TOT) has reached 68.3% of the amended budget. Receipts for TOT is 2% above what it was last fiscal year. Due to the shift from consumers spending less on tangible items and more on experiences, spending on travel and leisure is expected.

Cannabis Gross Receipts Tax represents 35% of total General Fund Revenues. The amount of \$381,727 comes from Measure X gross sales. The City anticipates a measurable increase in Measure Q retail and delivery gross receipts tax next fiscal year as Measure Q businesses open.

Cannabis Business Permits for Measure X and Measure Q retail permit applications total \$188,232 in the Third Quarter of FY2022-23. The City allowed previous applicants for cannabis business permits to rescind their application due to the slow-moving process. Ten businesses took advantage of this opportunity. Thus, this year the growth in this category will be nominal. Cannabis business permits are renewed every two years; thus, an increase should be experienced next fiscal year.

Other Licenses and Permits represents 2.6% of total General Fund Revenues. This category is at 82% received of the Amended Budget. Building permits are the primary driver. Building permits are up 20% over last fiscal year. Despite the decline in home sales activity, owners of existing properties still remain focused on home renovations.

Franchise Fees represent 3.2% 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 15.3% 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.

The Departments spent approximately \$121 million or 72% of the total General Fund amended budget at the end of the third quarter. Salaries and benefits account for the majority of expenses representing 77% of the total expenditures in the General Fund for the third quarter. Due to the number of vacancies across several departments, salaries expenses year to date are slightly below the amended budget. These expenses are offset by overtime costs primarily within the public safety departments. Staff continue to monitor Police and Fire overtime expenses. The City's annual required CalPERS contributions make up 30 percent of the labor costs and are front loaded in the beginning of the year reflecting slightly higher during this period.

Many transportation projects have expended funds during this period including the Adams Ave Active Transportation Project, Bear Street, Traffic Signal Synchronization Project, Adams Avenue Bicycle Facility Project and Interstate 405 Improvement Project.

Fiscal Year 2022-23 expenditures include labor costs to due recently negotiated employee that brought compensation to market (i.e., average) levels. 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. With now market compensation, the City is continuing its recruiting efforts to attract and hire public safety officers as well as hard-to-fill positions.

Public Safety

The Fire and Rescue Department replaced defibrillators at all City facilities and fire houses. This process, which occurs every five years, provides for additional safety measures not only for all City staff but also for the public we serve. These new defibrillators are state of the art, and have improved and advanced technology for saving lives.

The Police Department implemented succession planning by creating a new Deputy Police Chief position. This additional layer provides for an increased oversight of the City's police force. Thereby resulting in a strength of administrative oversight and management. As we enter into the last quarter, the City's police force starts to prepare for the summer programs as well as special events, like the OC Fair and OC Marathon Running Festival.

Public Works

The Public Works Department implemented succession planning with the creation of an Assistant Public Works Director that will oversee the City's aging facilities. In this period, the department received City Council approval for the award of several professional services agreements including the design of Fire Station #4 training facility, Fairview Road active transportation improvements, Placentia Avenue, West 19th Street, East 17th Street pavement rehabilitation, bicycle facility and striping improvements as well as a traffic signal at the intersection of West 19th Street and Wallace Avenue and the installation of two High-Intensity Activity CrossWalk (HAWK) on West 18th Street and Wilson Street.

Quality of Life

The Parks and Community Services Department prepares staff for its summer programs by sending staff to training to ensure successful and vibrant summer events and programs, like concerts in the Park, Camp Costa Mesa and the ROCKS program. Also, 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 of purchase 21 light towers for City recreational events.

Fiscal Sustainability

This timeframe is when the departments work alongside Finance staff to prepare and finalize the upcoming fiscal year budget presentation for Council consideration. In this last quarter the budget and/or CIP will be presented to various committees for their input.

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
 Ending March 31, 2023

	FY2021-22 3rd Quarter Actuals	FY2022-23 Adopted Budget	FY2022-23 Amended Budget	FY2022-23 3rd Quarter Actuals	% of Amended
REVENUES					
Taxes					
Property Tax	\$29,619,984	\$52,047,128	\$53,782,035	\$32,264,904 ¹	60%
Sales and Use Tax	46,123,890	72,615,432	77,803,868	48,125,454 ²	62%
Transient Occupancy Tax	5,057,571	7,373,732	8,871,984	6,471,168	73%
Business Tax	678,427	913,264	913,264	701,671	77%
Cannabis Gross Receipts Tax	315,550	2,920,000	570,000	463,938	81%
Franchise Fees	1,845,443	5,168,793	5,457,343	2,069,250 ³	38%
Licenses and Permits					
Cannabis Business Permits	1,065,791	727,250	245,482	169,552	69%
Other Licenses and Permits	3,055,264	4,191,538	4,211,538	3,520,166	84%
Fines and Forfeitures					
	799,721	1,066,632	1,066,632	599,428	56%
Use of Money and Property					
Golf Course Operations	2,234,926	3,782,130	3,846,549	2,102,375	55%
Other Uses of Money and Property	625,868	913,522	898,522	737,593	82%
Other Government Agencies					
	1,595,136	614,252	944,229	498,363	53%
Fees and Charges for Services					
Cannabis CUP	830,661	359,485	129,640	45,104	35%
Paramedic Transportation	3,182,946	3,661,675	4,361,675	3,732,567	86%
Other Fees and Charges for Services	2,907,646	4,383,712	5,429,326	4,141,790	76%
Other Revenues/Transfers In					
Other Revenues	2,564,353	2,888,993	3,043,943	2,287,049	75%
TOTAL REVENUES	\$102,503,177	\$163,627,538	\$171,576,030	\$107,930,373	63%
EXPENDITURES					
Operating Expenditures					
City Council	\$631,205	\$950,772	\$955,497	\$639,448	67%
City Manager	4,665,786	8,164,355	7,348,152	5,459,302	74%
City Attorney	542,526	1,000,000	1,000,000	594,054	59%
Finance	2,735,542	5,233,710	4,629,451	3,151,554	68%
Parks and Community Services	3,706,891	7,679,328	6,233,217	4,558,595	73%
Information Technology	3,164,514	5,002,954	4,623,620	3,384,716	73%
Police Department	39,937,452	53,591,411	56,967,802	43,589,965	77%
Fire and Rescue	24,090,650	32,518,134	34,615,914	25,500,790	74%
Development Services	5,166,742	8,509,974	8,561,297	6,071,513	71%
Public Services	13,062,487	20,416,297	20,568,520	14,060,518	68%
Non-Departmental	8,851,583	20,560,603	22,284,692	13,064,375	59%
TOTAL EXPENDITURES	\$106,555,378	\$163,627,538	\$167,788,162	\$120,074,829 ⁴	72%
TOTAL YEAR TO DATE DIFFERENCE	(\$4,052,201)	\$0	\$3,787,868	(\$12,144,456)	
TOTAL FULL TIME EQUIVALENTS (FTE)		550	561 ⁵	573 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 573, City Council approved as of mid-year; does not reflect part time positions.