



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

TO: CITY COUNCIL
CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: APRIL 15, 2024

SUBJECT: FY 2023-24 SECOND QUARTER FINANCIAL REPORT

City Council adopted the FY 2023-24 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 Act funds. The Second Quarter Financial Report summarizes the City's financial position for the fiscal year through the second quarter ending December 31, 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, these reports continue to increase the transparency of the 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 2023-24 Second Quarter Financial Report reflects that revenues and expenditures are consistent with the projections made in the FY 2023-24 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, 2023, the General Fund has recorded 37% of the projected revenues and 53% 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 \$26.3 million, which represents 32% 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 in February and is not reflected in these numbers.

Property Tax was about \$20.7 million, representing 38% of the total General Fund revenues amended budget. Property taxes are primarily received in December/January and April/May. The estimated property tax revenue by year end 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 \$4.6 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. Increase in prices and occupancy levels are pushing TOT revenues back up to pre-pandemic levels.

Cannabis Gross Receipts Tax was \$980,387 and represents 1.7% of total adopted 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 remaining one percentage is split evenly between the Cultural Arts Master Plan and the First-time Homebuyer Program.

Franchise Fees represent 3.2% 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 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 expenditures based on operational needs from departments throughout the fiscal year.

In alignment with the City Council's Goal to strengthen the Public's Safety and Improve the Quality of Life, Public Works completed the Citywide Parkway Maintenance and Street Rehabilitation and Slurry Seal Project which is part of the annual capital improvement program funded by multiple funding sources including General Fund revenues.

Summary

Overall, as of December 31, 2023, total General Fund expenditures are \$95.6 million, representing 53% of total expenditure budget. 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 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, 2023

	FY2022-23 2nd Quarter Actuals	FY2023-24 Adopted Budget	FY2023-24 Amended Budget	FY2023-24 2nd Quarter Actuals	Year End Projections	% of Amended
REVENUES						
Taxes						
Property Tax	\$20,033,680	\$54,524,010	\$54,524,010	\$20,677,360 ¹	\$54,524,010	38%
Sales and Use Tax	27,909,955	82,459,889	82,459,889	26,271,136 ²	82,459,889	32%
Transient Occupancy Tax	4,245,045	9,554,733	9,554,733	4,604,245	9,554,733	48%
Business Tax	438,885	913,264	913,264	320,115	913,264	35%
Cannabis Gross Receipts Tax	214,311	3,059,684	3,059,684	980,387	3,059,684	32%
Franchise Fees	1,005,513	5,687,783	5,687,783	1,023,702 ³	5,687,783	18%
Licenses and Permits						
Cannabis Business Permits	42,512	248,096	248,096	103,276	248,096	42%
Other Licenses and Permits	2,515,598	4,427,766	4,427,766	1,770,725	4,427,766	40%
Fines and Forfeitures	402,161	1,066,632	1,066,632	440,023	1,066,632	41%
Use of Money and Property						
Golf Course Operations	1,471,741	3,825,761	3,825,761	1,625,462	3,825,761	42%
Other Uses of Money and Property	344,016	780,854	710,858	526,533	710,858	74%
Other Government Agencies	179,236	896,086	896,086	326,671	896,086	36%
Fees and Charges for Services						
Cannabis CUP	41,304	429,640	429,640	-	429,640	0%
Paramedic Transportation	2,447,022	4,620,812	5,371,130	3,640,417	5,371,130	68%
Other Fees and Charges for Services	3,099,081	4,626,688	4,540,360	2,143,461	4,540,360	47%
Other Revenues/Transfers In						
Other Revenues	1,882,969	3,205,344	3,376,350	1,825,362	3,376,350	54%
TOTAL REVENUES	\$66,273,029	\$180,327,042	\$181,092,042	\$66,278,876	181,092,042	37%
EXPENDITURES						
Operating Expenditures						
City Council	\$451,553	\$750,150	\$750,150	\$427,714	750,150	57%
City Manager	3,947,230	8,680,555	8,680,754	4,062,932	8,680,754	47%
City Attorney	394,306	1,050,000	1,050,000	451,899	1,050,000	43%
Finance	2,389,194	5,590,659	5,590,659	2,197,692	5,590,659	39%
Parks and Community Services	3,126,208	7,954,828	7,954,828	4,526,555	7,954,828	57%
Information Technology	2,753,562	5,923,476	5,961,319	2,722,985	5,961,319	46%
Police Department	31,138,875	59,221,389	59,227,114	35,220,904	59,227,114	59%
Fire and Rescue	19,136,673	35,785,123	36,514,767	20,210,172	36,514,767	55%
Development Services	4,448,119	9,256,476	9,248,056	4,479,658	9,248,056	48%
Public Works	9,560,794	22,457,898	22,458,118	10,673,108	22,458,118	48%
Non-Departmental	8,675,439	23,656,488	23,656,088	10,605,830	23,656,088	45%
TOTAL EXPENDITURES	\$86,021,953	\$180,327,042	\$181,091,853	\$95,579,449 ⁴	\$181,091,853	53%
USE OF RESERVES		\$0	\$0	\$0	\$0	
TOTAL YEAR TO DATE DIFFERENCE	(\$19,748,924)	\$0	\$189	(\$29,300,573)	\$189	
TOTAL FULL TIME EQUIVALENTS (FTE)		588	588	524 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.

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 \$25.5 million, of \$24.6 million is the General Fund's share.

⁵ Filled Full Time Equivalents (FTEs) at 524, as of the end of December; does not reflect part time positions.