



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

TO: CITY COUNCIL
CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: AUGUST 1, 2024

SUBJECT: FY 2023-24 THIRD 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 Third Quarter Financial Report summarizes the City's financial position for the fiscal year through the third quarter ending March 31, 2024, 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 point in time and compare actuals to the amended budget. 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 75% of the annual budget realized in actual activity at the end of the third quarter. That measurement is stated in terms of actual revenue or expenditures as a percentage of the annual budget.

FY 2023-24 General Fund Third Quarter Analysis

Overall, the FY 2023-24 Third 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 months 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 March 31, 2024, the General Fund has recorded 61% of the projected revenues and 73% 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 \$46.0 million, which represents 25% of the total annual General Fund revenues budget. This is the largest revenue category and is received two months in arrears. The holiday sales tax is reflected in these numbers.

Property Tax was about \$33.9 million, representing 19% of the total General Fund revenues 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 \$6.7 million and represents 4% of total General Fund revenues 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 \$1.5 million and represents 1% of total General Fund revenues budget. 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 1% of total General Fund revenues 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 March 31, 2024, total General Fund expenditures are \$132.0 million, representing 73% 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 THIRD QUARTER FINANCIAL REPORT
 Ending March 31, 2024

	FY2023-24 Adopted Budget	FY2023-24 Amended Budget	FY2023-24 3rd Quarter Actuals	Year End Projections	% of Amended
REVENUES					
Taxes					
Property Tax	\$54,524,010	\$54,524,010	\$33,940,008 ¹	\$55,774,010	62%
Sales and Use Tax	82,459,889	82,459,889	46,037,872 ²	80,959,889	56%
Transient Occupancy Tax	9,554,733	9,554,733	6,658,056	9,554,733	70%
Business Tax	913,264	913,264	500,989	667,986	55%
Cannabis Gross Receipts Tax	3,059,684	3,059,684	1,546,192	2,061,589	51%
Franchise Fees	5,687,783	5,687,783	2,151,492 ³	5,687,783	38%
Licenses and Permits					
Cannabis Business Permits	248,096	248,096	171,260	248,096	69%
Other Licenses and Permits	4,427,766	4,427,766	2,733,201	4,427,766	62%
Fines and Forfeitures	1,067,717	1,067,717	860,696	1,067,717	81%
Use of Money and Property					
Golf Course Operations	3,825,761	3,825,761	2,379,051	3,522,068	62%
Other Use of Money and Property	818,654	778,658	931,568	1,342,090	120%
Other Government Agencies	866,086	866,086	880,527	880,527	102%
Fees and Charges for Services					
Cannabis CUP	429,640	429,640	-	129,640	0%
Paramedic Transportation	4,260,812	5,011,130	5,552,484	7,588,394	111%
Other Fees and Charges for Services	4,977,803	4,861,475	3,285,845	4,381,126	68%
Other Revenues/Transfers In					
American Rescue Plan (ARPA)	-	-	-	-	0%
Other Revenues	3,205,344	3,396,070	2,884,220	3,396,070	85%
TOTAL REVENUES	\$180,327,042	\$181,111,762	110,513,459	181,689,484	61%
EXPENDITURES					
Operating Expenditures					
City Council	\$750,150	\$750,150	\$592,008	768,018	79%
City Manager	8,680,554	8,876,954	6,153,557	8,280,801	69%
City Attorney	1,050,000	1,050,000	677,932	1,016,898	65%
Finance	5,590,659	5,522,159	3,130,660	5,354,303	57%
Parks and Community Services	7,954,828	7,933,328	6,572,903	8,763,908	83%
Information Technology	5,923,476	5,961,319	3,855,357	5,893,400	65%
Police Department	59,221,389	59,234,514	48,147,762	59,234,514	81%
Fire and Rescue	35,785,123	36,504,267	27,228,001	35,735,738	75%
Development Services	9,256,476	9,389,216	6,689,172	8,804,607	71%
Public Works	22,457,898	22,189,403	16,632,850	22,189,403	75%
Non-Departmental	23,656,488	24,364,878	12,354,368	24,364,878	51%
TOTAL EXPENDITURES	\$180,327,041	\$181,776,188	\$132,034,570 ⁴	\$180,406,469	73%
USE OF RESERVES	\$0	\$0	\$0	\$0	
TOTAL YEAR TO DATE DIFFERENCE	\$1	(\$664,426)	(\$21,521,112)	\$1,283,015	
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 Revenue Budgets for Cannabis related activities will be realigned to accurately account for Measure Q revenues.

⁴ 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.