CITY OF COSTA MESA
FINANCE DEPARTMENT
INTEROFFICE MEMORANDUM

TO: CITY COUNCIL
CC: FINANCE AND PENSION ADVISORY COMMITTEE

FROM: CAROL MOLINA, FINANCE DIRECTOR
C. JEANNIE FORTUNE, BUDGET AND PURCHASING MANAGER

DATE: FEBRUARY 9, 2022

SUBJECT: FY2021-22 SECOND QUARTER FINANCIAL REPORT

The FY2021-22 Second Quarter Financial Report summarizes the City's financial position for the fiscal year through the second quarter ending December 31, 2021, 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.

In addition, most revenues and expenditures do not occur uniformly throughout the year, so at the end of the second quarter we would not necessarily expect to see 50% 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.

FY2021-22 General Fund Second 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 FY2021-22 Second Quarter Financial Report reflects that revenues and expenditures are consistent with projections made in the FY2021-22 Adopted Budget. As of December 31, 2021, the General Fund recorded 41% of the projected revenues and 51% 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 33% of the total General Fund revenues budget and is primarily received in the December/January and April/May periods. As of December 31, the City received a 3% increase overall than was received last year at the same time. As of quarter-end, this revenue category remains consistent with the amended budget.

Sales and Use Tax for the second quarter is showing signs of pre-pandemic recovery. Increases in consumer good purchases, such as vehicle, building supplies, and luxury items continue to contribute to the revenues received. Sales Tax represents 40% of the total annual General Fund revenues and is the largest revenue category.

Transient Occupancy Tax (TOT) represents 4% of total General Fund Revenues. Although TOT receipts has increased since last fiscal year, where the pandemic impacts were felt the most, this revenue stream continues to be impacted by the pandemic. Fiscal year 2018-19, the last full fiscal year that did not have pandemic impacts, actual revenues in this category was $8.6 million.

Cannabis Gross Receipts Tax represents 1.3% of total General Fund Revenues. The amount of $146,970 comes from Measure X gross sales. The City anticipates Measure Q retail and delivery gross receipts tax later this fiscal year.

Cannabis Business Permits for Measure Q total $946,887 in the Second Quarter of FY2021-22. Cannabis business permits are renewed every two years.

Other Licenses and Permits represents 2% of total General Fund Revenues. This category is at 63% received of the Amended Budget. Building and street permits are the primary driver. There has been an increase in building activity in the City for the past year mostly due to the low interest rate environment.

Franchise Fees represent 3% of total General Fund revenues and are received from utility companies (electric, gas and cable) and solid waste haulers. Revenues are 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 prior fiscal year 2020-21 marked the first full year of the fiscal impacts of the pandemic. City financials were impacted due to park closures, events cancelled, and services were realigned to manage the pandemic. As a result, the Fund 150 Disaster Fund, incurred emergency-related expenditures, particularly related to labor costs. Fiscal Year 2021-22 expenditures includes services related to the reopening of the parks, special events returning to the City, and other City services that were previously diverted to manage the pandemic. As of the second quarter-end, the General Fund expenditures are on track to expend to the amended budget.

CITY OF COSTA MESA

GENERAL FUND SECOND QUARTER FINANCIAL REPORT

FY 2021-22 - 50% of the Fiscal Year

	FY2020-21 YTD as of 12/31/20	FY2020-21 Audited Actuals	FY2021-22 Adopted Budget	FY2021-22 Amended Budget	FY2021-22 YTD as of 12/31/21	Year End Projections	% of Amended
REVENUES							
Taxes							
Property Tax	$17,879,647	$47,502,239	$49,552,799	$49,552,799	$18,410,395 [1]	$49,692,145	37%
Sales and Use Tax	19,667,986	64,986,713	61,026,733	61,026,733	25,370,235 [2]	66,121,328	42%
Transient Occupancy Tax	1,727,093	4,282,804	5,569,330	5,569,330	3,276,867	6,664,657	59%
Business Tax	433,071	901,602	928,160	928,160	436,298	928,160	47%
Marijuana Gross Receipts Tax	128,600	326,241	2,000,000	2,000,000 [3]	146,970	447,041	7%
Franchise Fees	841,357	4,895,572	5,183,043	5,183,043	902,262 [4]	5,183,043	17%
Licenses and Permits							
Marijuana Business Permits	110,141	176,087	741,960	741,960	946,887	1,079,576	128%
Other Licenses and Permits	1,656,845	3,233,122	3,271,481	3,271,481	2,056,736	3,452,329	63%
Fines and Forfeitures	484,446	1,055,883	1,402,174	1,402,174	567,014	1,402,174	40%
Use of Money and Property							
Golf Course Operations	1,505,763	3,526,236	3,500,000	3,500,000	1,493,683	3,500,000	43%
Other Uses of Money and Property	287,924	490,307	1,341,022	1,309,772	258,400	1,309,772	20%
Other Government Agencies	681,037	1,364,747	275,523	802,326	802,326	1,665,681	100%
Fees and Charges for Services							
Marijuana CUP	102,532	102,532	480,974	506,318	506,318	719,667	100%
Paramedic Transportation	1,720,155	3,507,832	3,150,000	3,150,000	2,077,283	3,720,000	66%
Other Fees and Charges for Services	1,154,407	2,137,135	3,993,637	4,041,856	2,118,759	4,041,856	52%
Other Revenues/Transfers In	1,392,927	11,722,959	8,725,338	8,725,338	2,369,451	6,073,162	27%
TOTAL REVENUES	**$49,773,930**	**$150,212,009**	**$151,142,174**	**$151,711,290**	**$61,739,885**	**156,000,590**	**41%**
EXPENDITURES							
Operating Expenditures							
City Council	$372,599	$644,712	$891,341	$891,341	$453,421	$891,341	51%
City Manager	3,050,441	6,068,680	7,385,715	7,483,028 [5]	3,238,510	7,385,715	43%
City Attorney	396,069	968,029	1,000,000	1,000,000	324,610	1,000,000	32%
Finance	1,800,194	3,578,756	4,750,218	4,750,218	2,006,671	4,750,218	42%
Parks and Community Services	1,796,779	4,004,589	7,664,502	7,761,582 [6]	2,620,555	7,464,502	34%
Information Technology	1,848,388	3,760,148	4,523,856	4,523,856	2,265,974	4,523,856	50%
Police Department	28,554,993	48,905,944	51,313,014	51,492,275 [7]	30,434,963	51,492,275	59%
Fire and Rescue	16,386,431	29,042,315	30,142,203	30,191,969 [8]	18,606,649	31,142,203	62%
Development Services	3,038,049	5,581,596	7,782,564	7,782,564	3,738,728	7,782,564	48%
Public Services	8,069,994	17,794,769	19,960,600	19,930,600 [9]	8,532,072	19,905,600	43%
Non-Departmental	8,247,263	29,862,096	18,988,668	18,988,668	6,067,432	16,888,668	32%
TOTAL EXPENDITURES	**$73,561,201**	**$150,211,634**	**$154,402,681**	**$154,796,101**	**$78,289,585** [10]	**$153,226,942**	**51%**
USE OF RESERVES			**$3,260,507**	**$3,260,507**		**$0**	
TOTAL DIFFERENCE	**($23,787,270)**	**$375**	**$0** [11]	**$175,696**	**($16,549,700)**	**$2,773,648**	
TOTAL FULL TIME EQUIVALENTS (FTE)			**652**	**652**	**595** [12]		

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 marijuana 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.*

5 *The City Manager's Amended budget includes carryovers for election costs and recruiting services totaling $97,300.*

6 *The Parks Department's Amended Budget includes donations for Concerts in the Park ($63,500) and maintenance services ($30k transfer from Public Services) for Fairview Park.*

7 *The Police Department's Amended Budget includes carryovers for the Digital Evidence Management System totaling $169,260.*

8 *The Fire Department's Amended budget includes carryovers for fire equipment totaling $49,770.*

9 *The Public Services Department's Amended Budget includes a transfer ($30,000) to the Parks Department for maintenance services for Fairview Park.*

10 *Total expenditures include a prepayment of CalPERS Unfunded Accrued Liability (UAL) of $23.4 million.*

11 *The Adopted Budget includes the authorized use of Disaster Reserves in the amount of $3.2 million.*

12 *Filled Full Time Equivalents (FTEs) at 595, as of the end of December.*