



# CITY OF COSTA MESA

## Agenda Report

77 Fair Drive  
Costa Mesa, CA 92626

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**File #:** 23-1265

**Meeting Date:** 6/20/2023

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**TITLE:**

**FISCAL YEAR 2022-23 PRELIMINARY UNAUDITED YEAR-END FINANCIAL REPORT**

**DEPARTMENT:** FINANCE DEPARTMENT

**PRESENTED BY:** CAROL MOLINA, FINANCE DIRECTOR

**CONTACT INFORMATION:** CAROL MOLINA, FINANCE DIRECTOR (714) 754-5243

**RECOMMENDATION:**

Staff recommends the City Council:

1. Authorize the City Manager, or her designee, to allocate and appropriate Fiscal Year 2022-23, if available, year-end savings as follows:
  - a. Deposit \$1.5 million into the City's Section 115 Trust to reduce existing pension liabilities;
  - b. Allocate up to \$1.5 million into the Housing Authority Fund for the General Plan Housing Element implementation program; and
  - c. Appropriate \$1.0 million for transfer to the Self Insurance Fund for the Workers' Compensation program.
2. Transfer actual amounts needed to cover the remaining COVID-19 and winter storm related costs in the Disaster Fund, from the American Rescue Plan Act Fund (ARPA), currently estimated at \$500,000.

**BACKGROUND:**

On June 7, 2022, City Council adopted the Fiscal Year 2022-23 Operating and Capital Improvement Budget for a total of \$206.2 million in All Funds. Of this amount, the General Fund revenues totaled \$163.6 million and expenditures \$163.6 million, a fully balanced budget without the use of reserves or American Rescue Plan Act funds. The FY 2022-23 preliminary unaudited year-end analysis provides a projection of the City's financial position for the fiscal year ending June 30, 2023. The final audited financial statement is normally issued by the end of December. Staff will return to Council with the audited financial reports once the audit is complete. However, the preliminary unaudited analysis reflects a potential \$4.0 million surplus at the end of the fiscal year.

**ANALYSIS:**

The FY 2022-23 Amended Budget for General Fund Revenues is now estimated at \$175.0 million, versus the adopted amount of \$163.6 million. After accounting for projected General Fund expenses of \$171.0 million, it is anticipated that for the Fiscal Year ending June 30, 2023, there will be a \$4.0 million surplus.

This is due to anticipated increases in General Fund revenues, including sales and use taxes, and transient occupancy tax. This presents the City with the opportunity to use one-time funds to achieve City Council goals and objectives, and fund priority projects.

**City Council Goal: Achieve Long-Term Fiscal Sustainability*****FY 2022-23 Year-End General Fund Estimate***

From the most recent preliminary findings, the City's General Fund year-end preliminary unaudited results for the FY 2022-23, ending on June 30, 2023, are currently showing a positive year-end surplus of approximately \$4.0 million. City staff anticipates the financial audit to be finalized by the end of December. Upon the finalization of the Annual Comprehensive Financial Report (ACFR), City staff will present to the City Council the audited year-end report. The table below shows the projected General fund balance on June 30, 2023 as well as staff's recommendation on where to deposit the anticipated surplus amounts.

***Table 1: General Fund Reserves***

Fund Balance Category	FY 19/20 Audited	FY 20/21 Audited	FY 21/22 Audited	FY 22/23 Projected	YOY Diff
<b>Committed</b>					
Declared Disasters	\$14,125	\$14,125	\$14,125	\$14,125	\$0
Self-Insurance	2,000	2,000	2,000	2,000	-
Economic Reserves	9,000	9,000	9,000	9,000	-
<b>Assigned</b>					-
Compensated Absences	5,036	5,920	5,584	5,584	-
Police Retirement 1% Supplemental	2,365	2,275	1,885	1,885	-
Workers Compensation			1,000	2,000	1,000
Facilities Reserve			2,000	2,000	-
Strategic Plan Project			2,000	2,000	-
Section 115 Trust	1,750	-	-	1,500	1,500
<b>Restricted</b>					-
Pension and OPEB	-	1,778	3,061	3,061	-
Non-spendable	362	965	604	604	-
<b>Unassigned</b>	18,825	17,429	16,517	18,017	1,500
<b>Total Fund Balance</b>	<b>\$53,463</b>	<b>\$53,492</b>	<b>\$57,776</b>	<b>\$61,776</b>	<b>\$4,000</b>

The Fund Balance and Reserves Financial Policy states that the City determined the appropriate reserve level for the General Fund to be \$55 million. The Fiscal Year 2021-2022 audited financials resulted in an increase of the City's Fund Balance by \$4.3 million, bringing the total fund balance for the General Fund to \$57.8 million. This amount exceeds City Council's target by \$2.8 million.

The General Fund reserves currently includes \$1.0 million assigned for Workers' Compensation to partially fund one Self-Insurance Retention (SIR) claim. The City's self-insured policy requires that the City cover the first \$2.0 million per claim. Amounts in excess of \$2.0 million will be covered by the City's insurance policy. Staff is recommending City Council assign an additional \$1.0 million into the Workers' Compensation program for a total of \$2.0 million.

### *Section 115 Trust City Council Policy*

Concurrent with the City's continual effort to set aside funds for pension obligations, staff is recommending to implement the City Council policy to deposit up to \$1.5 million from potential current year's projected surplus, if available, into the Section 115 Trust Fund. This policy was adopted by the City Council on June 7, 2022.

## **City Council Goal: Diversify, Stabilize and Increase Housing to Reflect Community Needs**

### *Sixth Cycle General Plan Housing Element Program*

The State of California requires every city and county to adopt a comprehensive general plan that is "an integrated, internally consistent, and compatible statement of policies" to address all issues that affect the physical development of the community, as well as land outside its boundaries that potentially affect long-term planning (Government Code Section 65300 et seq.). The role of a general plan is to act as a "constitution" for development, the foundation upon which all land use and related decisions are based.

The Costa Mesa General Plan establishes the long-range planning and policy direction that guides change and preserves the qualities that define our community. The Costa Mesa General Plan consists of 10 elements: Land Use, Circulation, Housing, Conservation, Noise, Safety, Open Space and Recreation, Growth Management, Community Design and Historical and cultural Resources. The City's 2015-2035 General Plan Housing requires an update every eight years.

The Housing Element provides an analysis of the City's demographic, economic and housing characteristics, identifies community housing needs and establishes objectives, policies and programs to meet those needs. To remain in compliance with State Housing Law, the City's Housing Element must respond to various State laws and requirements and must be adopted by City Council and certified by the California State Department of Housing and Community Development.

Within the City's completed Housing Element are programs that are required to be implemented based on statutory requirements and specific timelines. These programs are consistent with the City Council's stated priorities and generally include community outreach, visioning and rezoning work to create opportunities for housing. In order to complete these City Council priorities and the Housing Element Programs, staff will be contracting with professional consultants. Consulting costs to be spread over multiple fiscal years, with \$700,000 needed in the first year, Fiscal Year 2023-24.

The estimated total cost for the implementation of this Housing Element Program is \$3.0 million. Therefore, staff is recommending to transfer between \$700,000 and \$3 million from the General Fund into the Housing Authority Fund for the Sixth Cycle General Plan Housing Element Program Implementation utilizing current year-end savings, if available.

### **Federal American Rescue Plan Act (ARPA) Funds**

The American Rescue Plan Act (ARPA) of 2021 passed by the United States Congress and signed into law by President Joe Biden on March 11, 2021, is a \$1.9 trillion economic stimulus bill providing for a wide variety of funding efforts to offset the economic losses resulting from the COVID-19 worldwide pandemic.

The Disaster Fund was reactivated in February 2020 to track COVID-19 related expenditures. The prior year's deficit amount of \$664,963 was partially offset by the County reimbursement for being a COVID test site, which of \$308,428 has been received this fiscal year. This differential plus current year expenses that occurred prior to February, when the emergency declaration was lifted, resulted in approximately \$500,000 in expenses. As of June 30, the American Rescue Plan Fund will have a remaining unallocated balance of \$6.1 million from the second tranche of \$13.2 million. Staff is recommending the use of ARPA funds to cover the Disaster Fund projected negative year-end fund balance. Should FEMA reimburse the City, the General Fund will be refunded.

### **ALTERNATIVES:**

The alternative is that the City Council may choose to refrain from approving the requested items. However, staff does not recommend this action as it is counteractive to the city finance policies to increase reserves, pay down liabilities, and fund one-time projects while focusing on Council priorities and complying with the City Council's goal of achieving long-term fiscal sustainability.

### **FISCAL REVIEW:**

City Council adopted the Fiscal Year 2022-23 Operating and Capital Improvement Budget for a total of \$206.2 million in All Funds. Of this amount, the General Fund revenues total \$163.6 million and expenditures \$163.6 million, a fully balanced budget without the use of reserves or American Rescue Plan Act funds. The FY 2022-23 Preliminary Unaudited Year-End Report provides a projection of the City's financial position for the fiscal year ending June 30, 2023. The preliminary unaudited analysis reflects a potential \$4.0 million surplus at the end of the fiscal year. Staff recommends the above allocations based on current operating needs and previously expressed City Council priorities.

### **LEGAL REVIEW:**

The City Attorney's Office has reviewed this report and approves as to form.

### **CITY COUNCIL GOALS AND PRIORITIES:**

This staff report works toward the following City Council Goal:

- Achieve Long-Term Fiscal Sustainability
- Diversify, Stabilize and Increase Housing to Reflect Community Needs

**CONCLUSION:**

Staff recommends the City Council:

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