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Title: CITY OF COSTA MESA, COSTA MESA PUBLIC FINANCING AUTHORITY, COSTA MESA FINANCING AUTHORITY, AND COSTA MESA HOUSING AUTHORITY FINANCIAL STATEMENTS, AND HOUSING SUCCESSOR ANNUAL REPORT FOR THE PERIOD ENDING JUNE 30, 2022.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Agenda Report, 2. 1. FY 2021-22 Annual Comprehensive Financial Report, 3. 2. FY 2021-22 Air Quality Improvement Fund Compliance Report, 4. 3. FY 2021-22 Audit Communication Letter, 5. 4. FY 2021-22 Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets, 6. 5. FY 2021-22 Costa Mesa Public Financing Authority Financial Statements, 7. 6. FY 2021-22 Costa Mesa Financing Authority Financial Statements, 8. 7. FY 2021-22 Costa Mesa Housing Authority Financial Statements, 9. 8. FY 2021-22 Housing Successor Annual Report

Date	Ver.	Action By	Action	Result
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TITLE:

CITY OF COSTA MESA, COSTA MESA PUBLIC FINANCING AUTHORITY, COSTA MESA FINANCING AUTHORITY, AND COSTA MESA HOUSING AUTHORITY FINANCIAL STATEMENTS, AND HOUSING SUCCESSOR ANNUAL REPORT FOR THE PERIOD ENDING JUNE 30, 2022.

DEPARTMENT: FINANCE DEPARTMENT

PRESENTED BY: CAROL MOLINA, FINANCE DIRECTOR

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

RECOMMENDATION:

1. Staff recommends the City Council receive and file the following reports for the fiscal year ended June 30, 2022:
 - a. Annual Comprehensive Financial Report (ACFR) (Attachment 1);
 - b. Air Quality Improvement Fund Compliance Report (Attachment 2);
 - c. Audit Communication Letter (Attachment 3); and
 - d. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets (Attachment 4).

2. Staff recommends the City Council and Costa Mesa Public Financing Authority receive and file

the Costa Mesa Public Financing Authority audited financial statements for the fiscal year ended June 30, 2022 (Attachment 5).

3. Staff recommends the City Council and Costa Mesa Financing Authority receive and file the Costa Mesa Financing Authority audited financial statements for the fiscal year ended June 30, 2022 (Attachment 6).
4. Staff recommends the City Council and Housing Authority receive and file the following reports for the fiscal year ended June 30, 2022:
 - a. Independent Financial Audit of the Costa Mesa Housing Authority, including the Low and Moderate Income Housing Asset Fund (Attachment 7); and
 - b. The Fiscal Year 2021-22 Housing Successor Annual Report prepared under the California Health and Safety Code Section 34176.1 as the housing successor and Section 34328 as a housing authority (Attachment 8).

BACKGROUND:

Federal Single Audit guidelines require a recipient of federal funds to have an independent annual financial audit and compliance audit of the federal programs. As such, the City has retained an independent public accounting firm of licensed certified public accountants, Davis Farr LLP, to complete an audit of the City's financial records. The goal of the financial statement audit is to provide users with a reasonable assurance from an independent source that the information presented in the financial statements is reliable and free of material misstatements. All of the financial reports received unmodified opinions from Davis Farr LLP signifying that, without exception, the financial statements fairly present in all material respects the financial position of the City.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR is an audited summary report of the financial transactions of the City for Fiscal Year 2021-22. The report is presented to the City Council and designed to provide summary financial information.

The financial statements were prepared in conformity with generally accepted accounting principles (GAAP) as set by the Governmental Accounting Standards Board (GASB). The specific financial documents on which the auditor expresses an opinion include (1) the financial statements, and (2) notes to the basic financial statements, which include required supplementary information. These documents, along with the auditor's opinion letter and management's discussion and analysis, form the core of the ACFR. The additional documents within the ACFR include: the letter of transmittal jointly from the City Manager and Finance Director, the combining and individual fund statements, and a supplemental statistical section presenting detailed information to assist the reader in assessing the economic condition of the City.

The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures and transactions,

confirmation with outside parties, checking of certain internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other accounting techniques. The auditors also considered the City's internal controls in determining what procedures to use and the size of samples to be selected and reviewed. In their report, the auditors indicated that the financial statements were free of material misstatements and all significant transactions were recognized in the proper period.

AIR QUALITY IMPROVEMENT FUND COMPLIANCE REPORT

Assembly Bill 2766 (AB2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of that revenue to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act. The City's Air Quality Improvement Fund accounts for the use of these funds received from SCAQMD. The Air Quality Improvement Fund Compliance Report received an unmodified (clean) audit opinion.

AUDIT COMMUNICATION LETTER

Audit clarity standards (AU-C) Section 260 requires defined and documented communications between the auditors and the City Council or Audit Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit and explain their role. They provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit, and no disagreements occurred with management.

INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES APPLIED TO APPROPRIATION LIMIT WORKSHEETS

Section 1.5 of Article XIII B of the California Constitution requires that the City follow the procedures agreed upon by the State of California and the League of California Cities (as presented in the League publication entitled "Article XIII B Appropriations Limitation Uniform Guidelines") to determine the annual appropriations limit (known as the Gann Limit), which sets forth the maximum amount of special tax revenues an agency is allowed to spend. The auditors perform an "Agreed-Upon Procedure" where they recalculate the Gann Limit. They determined that the City has correctly calculated the Gann Limit.

COSTA MESA PUBLIC FINANCING AUTHORITY FINANCIAL STATEMENTS

The Costa Mesa Public Financing Authority was created by a joint powers agreement between the City of Costa Mesa and the former Costa Mesa Redevelopment Agency, dated August 20, 1990, to provide financing for capital improvements, acquisition of capital improvements, and the purchase of local obligations. Davis Farr LLP completed an audit of the Costa Mesa Public Financing Authority's (a component unit of the City of Costa Mesa) financial statements and the related notes to the financial statements.

COSTA MESA FINANCING AUTHORITY FINANCIAL STATEMENTS

The Costa Mesa Financing Authority was created by a joint powers agreement between the City of Costa Mesa and the Costa Mesa Housing Authority, dated August 1, 2017. It was created pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government

Code of the State of California to provide financing for capital improvements, acquisition of capital improvements, and the purchase of local obligations. Davis Farr LLP completed an audit of the Costa Mesa Financing Authority's (a component unit of the City of Costa Mesa) financial statements and the related notes to the financial statements.

COSTA MESA HOUSING AUTHORITY FINANCIAL STATEMENTS AND HOUSING SUCCESSOR ANNUAL REPORT

On January 17, 2012, under the California Housing Authorities Law (HAL), Health and Safety Code (HSC) Section 34200, et seq., the City Council established the Costa Mesa Housing Authority (Housing Authority). Also on that date, the City Council selected the Housing Authority to be the housing successor and, as of February 1, 2012, to assume the housing assets, duties, functions and obligations of the former Costa Mesa Redevelopment Agency (Former Agency). These actions occurred as a result of the dissolution of the Former Agency under Assembly Bill x1 26, the California Supreme Court's decision in California Redevelopment Association v. Matosantos, Assembly Bill 1484, and other subsequent dissolution legislation (together, "Dissolution Law"), which laws regulate the administration of successor agencies and housing successors due to the dissolution of all California redevelopment agencies. Further, under Section 34328 of the HAL, the Housing Authority also prepares and presents an annual report on its activities for the preceding year.

Under Section 34176, added by AB x1 26 and amended by AB 1484, the State Department of Finance (DOF) issued a decision letter in January 2013 that confirms the Housing Authority holds all affordable housing assets of the Former Agency as listed in a Housing Asset Transfer schedule prepared by the Housing Authority and submitted to the DOF prior to August 1, 2012. Since dissolution, all housing assets are held and administered by the Housing Authority in the Low to Moderate Income Housing Asset Fund (LMIHAF) under the Dissolution Law, as per Sections 34176 and 34176.1. Under Section 34176.1(f), the Housing Successor is required to conduct an independent financial audit of LMIHAF and prepare an annual report for each fiscal year, and provide such reports to the governing body, within six months after the end of the fiscal year.

From inception, the Housing Authority's primary function had been to serve as the Housing Successor to the former Agency. Beginning in Fiscal Year (FY) 2018-19, the Housing Authority expanded services beyond the scope of LMIHAF by consolidating the City's existing homeless outreach program and establishing a new bridge shelter operation for homeless individuals.

ANALYSIS:

Based on the results of their audit, Davis Farr LLP provided the City with an unmodified opinion on the financial statements, which indicates that the City's financial statements are free of material misstatements and are in accordance with GAAP. This is the best and highest audit opinion the City could receive.

GENERAL FUND FINANCIAL RESULTS

FY 2021-22 General Fund revenues totaled \$165.7 million, overall in line with pre-pandemic levels. Revenues in the past fiscal year were impacted by the closures due to the pandemic, whereas FY 2021-22 started to experience pre-pandemic levels in some of the main revenue categories. Summary is as follows:

- Sales tax revenue increased by \$13.5 million compared to last fiscal year. Sales tax revenues

have exceeded pre-pandemic levels due to increased consumer demand and increased prices as a result of inflation.

- Transient occupancy tax (hotel tax) increased by \$4.1 million over the prior fiscal year, almost at pre-pandemic levels, as a result of significant increase in tourism and travel, as travel restrictions put in place during the pandemic were lifted.
- License & permits and charges for services increased by \$2.9 million and \$2.1 million, respectively.

General Fund expenditures (before transfers) totaled \$140.1 million, approximately \$3.1 million below the budget. The variance was due to a deference of debt service payments for the Fire and Rescue Department safety apparatus and citywide vacancies.

General Fund transfers-out totaled \$21.4 million and included \$8.5 million to the Capital Improvements Fund for capital improvement projects and the transfer for the 5% Capital Assets Needs (CAN) Ordinance, \$2.8 million to the Financing Authority Debt Service Fund for bond debt service payments, \$1.7 million to the Housing Authority for the homeless shelter and related program costs, \$6.4 million to the Internal Service Funds for various equipment, technology and vehicle purchases, and \$1.8 million to the Self-Insurance Fund for annual worker's compensation claims and general liability costs.

GENERAL FUND - FUND BALANCE

The General Fund's ending fund balance increased by \$4.3 million. General Fund expenditures totaled \$161.4 million, including transfers, and was offset by \$165.7 million in General Fund revenues.

As of June 30, 2022, the City has \$25.1 million committed for declared disasters, self-insurance, and economic uncertainty; \$13.1 million assigned for compensated absences, Police Retirement 1% Supplemental Plan, workers compensation claims, facilities reserve, strategic plan projects, prepaid items, and inventory; \$3.1 million for the Section 115 Trust for post-retirement benefits; and \$16.5 million in unassigned fund balance for a total of \$57.8 million.

STATEMENT OF NET POSITION

Change in Net Position

At June 30, 2022, the Statement of Net Position which is in essence the City's overall balance sheet, and reflects the City's total assets and liabilities on an All Funds basis, reflects a positive \$14.6 million increase. This is primarily due to the receipt of the second tranche of the Federal American Rescue Plan funds along with the City's prudent financial management.

Pensions and Retiree Medical Liabilities

The City's net pension liability decreased by \$82.8 million to \$229.6 million for two reasons: CalPERS rate of return in 2021 earned 13.3%, almost doubling its target of 6.8% and the difference between actual and expected experiences. Three of the City's four pension plans are administered by CalPERS. The Police 1% Supplemental Plan is administered by the City and is paid on a pay-as-you-go basis.

In addition, FY 2021-22 is the fifth year the City is required to record the OPEB net liability on its financial statements, similar to the pension liability above. The City's net OPEB liability increased by \$3.4 million to \$66.3 million. This plan is administered by the City and is paid to retirees on a pay-as-you-go basis.

COSTA MESA FINANCING AUTHORITY FINANCIAL STATEMENTS

The Financing Authority received an unmodified opinion from the auditors, Davis Farr LLP. This is the highest and cleanest attestation report given by independent auditors. The reports that deal with compliance information also received unmodified opinions and no findings were noted.

In Fiscal Year 2021-22, the Financing Authority continued to support debt service payments for the 2017 Lease Revenue Bonds, which were originally issued in October 2017 to fund the Donald Dungan Library, Norma Hertzog Neighborhood Community Center and Lions Park projects; and to advance refund the 2007 Certificates of Participation. At June 30, 2022, the 2017 bonds outstanding principal was \$23.1 million.

COSTA MESA HOUSING AUTHORITY FINANCIAL STATEMENTS AND HOUSING SUCCESSOR ANNUAL REPORT

An audit of the Housing Authority's financial activities, consisting of the LMIHAF activities and homeless assistance programs, was completed as part of the City's overall financial audit by an independent certified public accounting firm, Davis Farr, LLP. The Housing Authority received an unmodified opinion. This is the highest attestation report given by independent auditors. The reports that deal with compliance information also received unmodified opinions with no findings. The audit results are incorporated as part of the City's Annual Comprehensive Financial Report (ACFR). The section in the City's audit/ACFR relating to the LMIHAF Audit is entitled: Costa Mesa Housing Authority (A Component Unit of the City of Costa Mesa) Financial Statements Year ended June 30, 2022 (Attachment 7).

In FY 2021-22, the Housing Authority received approximately \$2.2 million in revenues and incurred \$4.0 million in expenditures. The General Fund provided a budgeted \$1.7 million transfer to the homeless outreach and bridge shelter programs. At June 30, 2022, the Housing Authority's available fund balance was \$3.6 million, all of which is restricted for LMIHAF purposes.

ALTERNATIVES:

Not applicable. The reports are for receive and file purposes.

FISCAL REVIEW:

There is no fiscal impact associated with receiving and filing the reports.

LEGAL REVIEW:

The City Attorney's Office has reviewed the reports, and approves the reports as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Achieve Long-Term Fiscal Sustainability

CONCLUSION:

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