



## Legislation Text

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**File #:** 21-541, **Version:** 1

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### **TITLE:**

CITY OF COSTA MESA AND COSTA MESA PUBLIC FINANCING AUTHORITY FINANCIAL STATEMENTS FOR THE PERIOD ENDING JUNE 30, 2021

**DEPARTMENT:** FINANCE DEPARTMENT

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

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

### **RECOMMENDATION:**

1. Staff recommends that the City Council receive and file the following reports for the fiscal year ended June 30, 2021:
  - 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 that 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, 2021 (Attachment 5).

### **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. This is the highest and cleanest attestation report given by independent auditors.

### **ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)**

The ACFR is an audited summary report of the financial transactions of the City for Fiscal Year 2020-21. 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) and comply with reporting requirements of the national 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 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.

#### **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 also 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.

#### **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, 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.

## **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 2020-21 General Fund revenues (before transfers) totaled \$141.1 million, or approximately \$295,510 more than the final budget. Summary is as follows:

- Advance repayments had an increase of \$548,288 due to a one-time rebate from Southern California Edison, as a result from changing all the City street lights to LED.
- Fees and Charges were lower than budgeted by \$711,051. This category covers fees and charges related to recreational activities such as sports, instructional classes, camps, and special events. Due to the closure of parks and recreational areas, and safety guidelines by the State to maintain six feet of distance, many of these recreational activities were temporarily suspended in FY 20/21.

General Fund expenditures (before transfers) totaled \$123.5 million, approximately \$4.3 million below the budget. The variance was due to the defunding of full-time vacant positions citywide, the reduction of certain non-essential services, the closure of City parks, and the prepayment of the annual CalPERS contribution obligations.

The City has incurred substantial costs in COVID related mitigation, prevention and safety measures. COVID expenditures are reported in the separate and distinct Disaster Fund as these expenditures are eligible for federal grant reimbursements and are required to be tracked separately. A brief summary of the Disaster Fund activity is presented later in this report.

General Fund transfers-out totaled \$26.7 million and included \$7.8 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, \$1.8 million to the Housing Authority for the homeless shelter and related program costs, \$6.9 million to the Internal Service Funds for various equipment, technology and vehicle purchases, as well as a true up per the CAN Ordinance, \$5.1 million to the Disaster Fund for Small Business Grants and COVID related expenditures, and \$2.3 million to the Self-Insurance Fund for annual worker's compensation claims and general liability costs.

The General Fund transfers-in totaled \$9.2 million from the Federal American Rescue Plan Act (ARPA) for additional expenses incurred and to cover revenue shortfalls.

## **GENERAL FUND - FUND BALANCE**

The General Fund's fund balance increased by a slight \$28,593. The City strategically utilized the federal funding from the CARES Act and the American Rescue Plan Act to reimburse the City for its revenue losses and increased expenses for FY 20/21 due to the ongoing COVID-19 pandemic.

As of June 30, 2021, the City has \$25.1 million committed for declared disasters, self-insurance and economic uncertainty; \$9.2 million assigned for compensated absences, Police Retirement 1% Supplemental Plan, prepaid items, and inventory; \$1.8 million for the Section 115 Trust for post-retirement benefits; and \$17.4 million in unassigned fund balance. Table 1 below shows the City's fund balance amounts since 2012.

*Table 1*

**General Fund - Fund Balance**

	TOTAL FUND BALANCE	Committed		Assigned						
		Disaster	Self-Insurance	Economic	Compensation	Police Retirement	Police Supplemental	OPEB	Non-Spendable	Restricted/Inaccessible
June 30, 2019	2,531,492,261%	14,125,000	2,000,000	0,000,000	0,000,000	5,036,540	274,765	-	964,846	1,778,201
June 30, 2020	2,530,463,668%	14,125,000	2,000,000	0,000,000	0,000,000	5,036,540	364,522	-	362,189	1,750,000
June 30, 2021	2,539,296,439%	14,125,000	2,000,000	0,000,000	0,000,000	4,892,819	297,253	-	280,195	1,750,000
June 30, 2022	2,538,224,080%	14,125,000	2,000,000	0,000,000	0,000,000	4,354,522	376,305	-	2,038,518	1,000,000
June 30, 2023	2,537,065,129%	14,125,000	2,000,000	0,000,000	0,000,000	4,010,752	527,726	280,610	2,253,843	-
June 30, 2024	2,536,472,480%	14,125,000	2,000,000	0,000,000	0,000,000	4,107,428	766,673	946,563	2,486,085	-
June 30, 2025	2,535,815,975%	14,125,000	2,000,000	0,000,000	0,000,000	4,036,221	166,823	622,775	4,165,795	-
June 30, 2026	2,535,200,307%	14,125,000	2,000,000	0,000,000	0,000,000	4,443,799	262,033	310,261	3,430,104	-
June 30, 2027	2,534,646,451%	14,125,000	2,000,000	0,000,000	0,000,000	4,871,727	362,297	897,591	3,137,794	-
June 30, 2028	2,534,809,936%	14,125,000	2,000,000	0,000,000	0,000,000	5,435,878	440,991	470,935	872,213	-

**STATEMENT OF NET POSITION****Change in Net Position**

At June 30, 2021, 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 \$15.3 million increase. This is primarily due to the receipt of Federal American Rescue Plan Funds along with the City's prudent financial management.

**Pensions and Retiree Medical Liabilities**

The City's net pension liability increased by \$10 million to \$314.7 million for two reasons: the number of plan participants increased by 2.8% 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 2020-21 is the fourth 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 \$4.0 million to \$62.9 million, as reflected in Table 2 below. This plan is administered by the City and is paid to retirees on a pay-as-you-go basis.

Table 2

Pensions	Net Pension Liability		Net Pension Liability		Increase/Decrease
	6/30/2020	% Funded	6/30/2021	% Funded	
Miscellaneous Plan (Agent)	\$ 100,136,743	66%	\$ 103,519,168	66%	\$ 3,382,425
Safety Police Plan (Agent)	124,388,501	60%	127,350,714	60%	2,962,213
Safety Fire Plan (Cost Sharing)	77,775,545	73%	81,561,540	73%	3,785,995
Police 1% Supplemental Plan	<u>2,364,522</u>		<u>2,274,765</u>		<u>(89,757)</u>
Total Pension	304,665,311		314,706,187		10,040,876
OPEB	<u>58,917,480</u>		<u>62,882,272</u>		<u>3,964,792</u>
Total - All Plans	\$ <u>363,582,791</u>		\$ <u>377,588,459</u>		\$ <u>14,005,668</u>

**DISASTER FUND (FUND 150)**

In accordance with Federal guidelines, the City is required to track revenues and expenditures related to a proclaimed local emergency. The Disaster Fund was created to comply with Federal guidelines. In March 2020, the City, State and the President proclaimed the coronavirus pandemic (COVID) as an emergency triggering the utilization of this fund. The Disaster Fund had a deficit

fund balance of \$2.3 million in FY 19/20. In FY 20/21, the fund received \$5.1 million from the General Fund (reimbursed by the Federal American Rescue Plan monies) for the Small Business grants program, expenditures incurred during the pandemic, and to cover the prior year's deficit. Staff continues to work with various agencies to pursue additional cost recovery opportunities. The Disaster Fund will continue to account for COVID related expenditures in compliance with federal expenditure guidelines. At the end of the COVID disaster recovery effort, staff will reconcile and true up all related revenues and expenditures in this fund.

### **AMERICAN RESCUE PLAN ACT (FUND 204)**

The United States Congress signed the American Rescue Plan in March of 2021 for \$1.9 trillion providing for a wide variety of funding efforts to offset the economic losses resulting from the worldwide pandemic. The City received \$13.2 million or 50%, of the \$26.3 million awarded in FY 20/21 from the grant. As approved by City Council, these funds covered COVID-19 related expenditures, staff furloughs, restored capital asset funding, recovered revenue losses, and addressed the deficit in the Disaster Fund, resulting from the pandemic.

### **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:**

Achieve long term fiscal sustainability.

### **CONCLUSION:**

1. Staff recommends that the City Council receive and file the following reports for the fiscal year ended June 30, 2021:
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