



# STAFF REPORT

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May 10, 2023  
File Number 0430-80

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## **SUBJECT**

**FINANCIAL REPORT FOR THE QUARTER ENDED MARCH 31, 2023 AND BUDGET ADJUSTMENT REQUEST**

## **DEPARTMENT**

Finance

## **RECOMMENDATION**

It is requested that the City Council:

- A. Receive and file the third quarter financial report for FY2022/23 (Attachment 1);
- B. Adopt Budget Adjustments (Attachment 2) to amend the Fiscal Year 2022/23 operating and capital improvement budgets;

Staff Recommendation: Approval (Finance: Christina Holmes)

Presenter: Christina Holmes

## **FISCAL ANALYSIS**

See Below.

## **PREVIOUS ACTION**

On March 8, 2023, the City Council received the Fiscal Year 2022/23 Second Quarter Financial Status report.

## **BACKGROUND**

The City Council Budget and Financial Policies require that the City present quarterly financial reports each fiscal year. The purpose of this report is to provide City Council and the public a financial update of selected funds of the City. This report provides the City Council with the analysis of unaudited revenues and expenditures for Fiscal Year 2022/23 in comparison to Fiscal Year 2021/22 for the General Fund, the Water Fund, and the Wastewater Fund. The financial highlights for each of these funds are summarized below.



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### General Fund

Prior to the onset of the COVID-19 pandemic, the City experienced a stable economy with moderate revenue growth averaging 4% annually. Then in March 2020, the public health measures and restrictions due to the pandemic forced government operations and private businesses to close or drastically alter operations, actions that many anticipated would create a severe economic downturn comparable to the Great Recession, which had a devastating impact on the City's General Fund. However, the COVID-19 restrictions began to be lifted in FY2020/21 and a combination of California fully reopening its economy, improved vaccination rates, public health measures to reduce the spread of the COVID-19 virus, and additional federal funding allowed for additional public activities and improved the economic environment.

The General Fund has benefitted from improved revenue activity since the recovery period of COVID-19, from the end of 2020 through 2022. However, operating revenue has not kept pace with the growing costs of providing City services, and as a result the General Fund long-term financial plan has projected annual deficits creating a structural budget deficit. To address this projected shortfall, the City has minimized increases in expenditures when possible and staff are continuously seeking measures that ensure efficiency, while enhancing basic operations. Despite all of these measures, and the City's efforts to fund projects with grants and other sources of one-time funds, it has not been enough to meet growing costs and demand for services, the General Fund operating budget projected a net operating deficit of \$8.5 million. In the Preliminary Operating Budget Workshop on May 11, 2022, the City Council direction was to prepare a General Fund Operating Budget that closed the \$8.5 million deficit, without impacting the Public Safety departments and services, including Police, Fire, and Public Works.

In order to address the \$8.5 million General Fund deficit, Staff evaluated both projected operating revenue and the proposed operating expenses for FY2022/23. Projected operating revenue was increased by \$1.4 million due to updated information received subsequent to the May 11, 2022 budget workshop. General Fund operating expense reductions of \$7.1 million were proposed by staff, and the proposed reductions and modifications to City services were sufficient to close the FY2022/23 budget gap.

After discussion and consideration of the recommended budget reductions, City Council directed Staff to modify the proposed FY2022/23 operating budget and offset some of the budgetary cuts recommended with the use of one-time funds from the American Rescue Plan Act (ARPA) funds and the Section 115 Pension Trust fund. To maintain a balanced budget and yet continue an appropriate level of service and address City priorities, the adopted FY2022/23 budget utilizes \$3.7 million from the American Rescue Plan Act.



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Through the end of March 2023, operating revenue is at 65% of the total amount projected and has exceeded the prior year by about \$2.1 million. This is primarily due to increases in Property Tax, Other Taxes, and Charges for Services.

The largest source of revenue for the General Fund is sales tax revenue at 42%. As a result of high inflation and strong consumer spending, sales tax revenue in Escondido recovered quickly, increasing by \$5.6 million or 13% in FY2021/22, and is anticipated to increase in FY2022/23 by 10% to reach \$51.0 million. Actual sales tax receipts are under the March 2022 amount by \$984,780, indicating that the economy is slowing from the post pandemic surge in spending. The decrease in sales tax revenue this fiscal year is offset by increases in Property Taxes and Franchise Fees. The housing market remains strong in San Diego County, prior year home sales have increased the assessed values and therefore property tax revenue. For Franchise Fees, the steep increases in gas and fuel prices have increased the franchise fee revenue the City receives from San Diego Gas & Electric. City staff will continue to monitor economic indicators and sales tax revenue closely and return to Council with updates during the fiscal year.

Actual General Fund expenditures are at 71% of the total operating budget through March 2023. In addition to the cuts to expenditures approved in the FY2022/23 operating budget, to account for projected annual expenditures savings experienced for items such as employee service savings resulting from vacant positions, the adopted budget includes a cost savings budget reduction of \$1 million, offset by a Cost Savings Contingency amount of \$400,000 to give some flexibility in managing available resources to be used throughout the fiscal year under the direction of the City Manager. Attachment 1 to this staff report includes an analysis of operating expenditures as of March 2023 and a status update of the Cost Savings Reduction by major expenditure category.

### **Recommended Budget Adjustments:**

- Increase for Fire Department Type 3 Brush Engine - \$30,100. On October 27, 2021, City Council approved the purchase of a Type 3 Brush Engine using the FY2020/21 fiscal year end surplus. Type 3 Brush Engines are specifically designed for fighting wildfires and are valuable because during a large-scale wildfire incident, all apparatus with call back crews can be deployed within our community or be deployed to assist other jurisdictions. The City currently owns three Type 3 Brush Engines located at Fire Stations 2, 3, and 4. One of the Fire Department's Type 3 wildfire apparatus, also referred to a brush engine, is 29-years old and has aged to the point that a critical failure in the near future is likely. The new engine was ordered in 2021; however, due to increases in the price of materials used in the manufacture of the apparatus, an additional \$30,100 is needed to complete the purchase.
- Increase for Building Department Professional Services - \$150,000. In order to continue to provide architectural, structural, plumbing, mechanical and electrical plan check review for buildings and structures for compliance with applicable Federal and State laws, building and safety codes, City ordinances, and acceptable engineering practices. Type of proposed plan check work may include



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new construction (residential, commercial, or industrial), remodel, additions, green building, ADA, Leadership in Energy and Environmental Design ("LEED"), onsite wastewater treatment systems ("OWTS") and public nuisance abatement; Fire Code related plan check and inspections services.

### **ATTACHMENTS**

1. Attachment 1 – Third Quarter Financial Status Report FY 2022/23
2. Attachment 2 – Budget Adjustment to amend the FY2022/23 operating and capital budgets