



STAFF REPORT

February 2, 2022
File Number 0430-80

SUBJECT

FINANCIAL STATUS REPORT FOR THE FY2021/22 SECOND QUARTER ENDING DECEMBER 31, 2021 AND BUDGET ADJUSTMENT

DEPARTMENT

Finance

RECOMMENDATION

Request the City Council receive and file the second quarter financial report and approve a budget adjustment to amend the fiscal year 2021/22 operating budget.

Staff Recommendation: Approval (Finance: Christina Holmes)

Presenter: Christina Holmes

FISCAL ANALYSIS

See Below.

PREVIOUS ACTION

On October 27, 2021, the City Council received the Fiscal Year 2020/21 Financial Status Report for the fiscal year ending June 30, 2021.

BACKGROUND

The City Council Budget and Financial Policies require that the City of Escondido ("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 2021/22 in comparison to Fiscal Year 2020/21 for the General Fund, the Reidy Creek Municipal Golf Course Fund, and the Water and Wastewater Funds. The financial highlights for each of these funds are summarized below.

In December of 2021, the City conducted a Community Opinion Survey to assess resident satisfaction of City services provided and to identify issues and community priorities to address through this year's budget process. Residents identified the following City service priorities:

- ✓ Addressing homelessness



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- ✓ Attracting businesses and jobs to the City
- ✓ Improving public safety and police services
- ✓ Maintaining and repairing local streets, roads and sidewalks
- ✓ Keeping public areas clean and free of graffiti

As part of this year's budget process City staff will be building on the Community Opinion Survey by engaging Escondido residents CityWide through The Escondido Discussion, to hear local community priorities and City service needs. Staff will also be working with the City Council to engage in a thorough dialogue and develop strategies to address the challenge and resident-identified community priorities.

General Fund

Prior to the onset of the pandemic, consumer confidence was at all-time highs and the California economy was strong. Even with a stable economy, General Fund revenues have not kept pace with the growing cost of municipal services and operating budget deficits have been projected beginning in FY2017/18. The City has maintained a balanced budget as a result of modest economic growth and stability and a combined strategy of a hardline on expenditures and cost saving measures that included reducing staff, deferring infrastructure maintenance, investing in technology to reduce ongoing costs, and outsourcing services. The conditions and these approaches left the City able to preserve municipal operations without the use of General Fund Reserves, while also setting aside funds in the Section 115 Irrevocable Pension Trust Fund.

Then in March 2020, at the onset of the COVID-19 pandemic, the public health measures and restrictions forced government operations and private businesses to close or drastically alter operations. Many economists predicted that the sudden closures would create a severe economic downturn comparable to the Great Recession, which had a devastating impact on the City's General Fund. However, as the restrictions have been lifted, the reopening of the economy has allowed for additional public activities and the economic environment continues to improve.

In June 2021, the City Council adopted the FY2021/22 operating budget with General Fund revenues of \$107 million and expenditures of \$117.1 million. Total operating revenue is projected to increase by 3% and the adopted expenditure budget increased by approximately \$7.1 million or 6% compared to the revised FY2020/21 operating budget. In addition to providing core City services including Public Safety, Public Works, Community Services, and Community Development, the FY2021/22 budget reflects the resources required to address specific public service needs around traffic flow, traffic safety, and homelessness.

The adopted FY2021/22 budget also projects an \$8 million net operating deficit. The cost reductions needed to balance the budget and close the budget gap would have a significant impact on the community and the services the City provides. To continue to provide essential City services and identified community priorities, respond to infrastructure maintenance and repair needs, and address the net operating deficit



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with a balanced budget for Fiscal Year 2021/22, City Council approved the use of the final one-time source of funds from the Successor Agency Redevelopment Loan repayment of \$2.2 million and a transfer of \$6.1 million from the Section 115 Pension Trust Fund though this did not address the ongoing deficit the City faces and the need to cut City services including public safety and public works services without an additional source of locally controlled revenue.

Through the end of December, operating revenue exceeded the amount projected by about \$4.0 million. The economy continues to recover from the initial impacts of the COVID-19 pandemic and resulting restrictions. Pent up demand for goods and services has driven the growth of sales tax revenue, actual sales tax receipts have increased by \$2.3 million or 16% compared to December 2020. Property tax, other tax revenue, and rental income also increased from the prior year by about \$1.1 million. Charges for services, intergovernmental revenue, permits and licenses, and all other revenue decreased from the prior year but to a lesser degree. Total operating revenue as of December 2021 increased by \$3.3 million compared to December 2020.

As a result of the receipts received through December 2021 and the amended Sales Tax forecast provided by the City's sales tax consultant, the General Fund operating revenue is projected to exceed the current adopted budget amount by approximately \$4 million. However, one-time funds of over \$8 million were needed to close the General Fund structural budget gap this fiscal year. The amended operating revenue projections will simply reduce the amount of one-time funds that will be utilized to address the budgeted net operating deficit for FY2021/22.

Update on Future Year Budget Deficits

The City's annual budget process begins around December each year with an update of the budgetary forecast and the General Fund Multi-Year Financial Plan. The City works closely with its sales tax consultant, AvenuInsights, in projecting sales tax revenue. Based on the analysis of the trend in year-to-date tax receipts and an examination of the current local economy, the City's sales tax revenue is anticipated to continue to grow in the next fiscal year. This assumes the economy remains stable with no retraction or recession.

Even with the improved economy and projections, operating revenue is not keeping pace with operating expenditures. To maintain core City services, the General Fund is potentially facing an \$8 million budget gap this year. Due to the budget shortfall, the City may have to decide on cuts to City services, including public works and public safety services.

Reidy Creek Municipal Golf Course Fund

Overall operating revenues for the Reidy Creek Golf Course have declined by 2% compared to the prior year. This is due to a decrease in the total rounds of golf played at the course, which decreased by 8% compared to the prior year. Total operating expenditures through December were up slightly by 1.5% from the prior year as a result of the added activity at the course which has led to an increase in expenses,



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primarily due to the maintenance of the course and repairs of aging equipment. As of December 31, Reidy Creek total net income is \$6,943.

Water Fund

Net operating income for the Water Fund through December 2021 was \$10.5 million, a decrease of \$523,000 from prior year. Operating revenue increased by about \$510,000 million or 1% compared to the prior year, due to approved rate increases effective March 31. Operating expenses increased by about \$1 million or 4% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

Wastewater Fund

Net operating income for the Wastewater Fund through December 2021 was \$7.2 million, an increase of \$1.7 million from the prior year. Operating revenue increased by about \$2.4 million or 14% compared to the prior year, due to the timing of reimbursements received from the City of San Diego for treatment charges. Operating expenses increased by about \$703,000 or 6% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

Recommended Budget Adjustments:

The recommended budget amendments have no effect on Reserve Balances as all the adjustments have identified funding sources.

- Approve an adjustment to General Fund Sales Tax revenue. As a result of the amended forecast prepared by Avenulnsights and operating results as of December 2021, an increase to sales tax revenue of \$4.2 million is recommended. The improved operating revenue forecast will reduce the projected operating deficit of \$8 million this fiscal year.
- Approve an increase to the Fire Department operating budget of \$1,096,680. The adjustment to the Fire Department overtime budget is necessary primarily due to the overtime incurred as a result of the deployments to wildfires this fiscal year through California and Oregon. EFDs assistance to other jurisdictions under the California Fire Assistance Agreement coordinated through the Office of Emergency Services fully reimbursed the City for the direct and backfill overtime created as a result of the deployments. In addition to deployments, additional overtime has been needed due to a larger than anticipated number of vacancies, workers compensation injuries, and absences due to COVID-19 infection or exposure. The requested adjustment to Fire Department's overtime budget is projected to be sufficient through the end of this fiscal year, however, the current surge in the Omicron variant could necessitate a third quarter adjustment.
- Approve an increase to the Water Fund Lakes Department budget of \$61,650. In October 2021, two temporary part-time Park Ranger positions ("Park Rangers") were filled to assist the California



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Center for the Arts (“CCA”) campus with addressing various security concerns including trespassing, homeless encampments, and vandalism. The CCAE agreed to reimburse the City for the costs incurred for the Park Ranger services. A budget adjustment is recommended to increase the employee services budget for the additional staff costs and also increase the revenue to reflect the reimbursement from the CCAE. There is no financial impact to the General Fund.

- Approve an increase to the Library Services Grant budget. The California State Library provides the Escondido Library with annual funding to support adult and family literacy services through the California Library Literacy Services grant program. Additional funds of \$84,280 were awarded for FY2021/22, a budget adjustment is recommended to increase the grant budget. There is no financial impact to the General Fund.

ATTACHMENTS

1. Attachment “1” – Second Quarter Financial Status Report FY 2021/22
2. Budget Adjustment