



STAFF REPORT

March 20, 2024
File Number 0430-80

SUBJECT

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

DEPARTMENT

Finance

RECOMMENDATION

Request the City Council:

- A. Receive and file the second quarter financial report for FY2023/24 (Attachment "1");
- B. Adopt Budget Adjustments (Attachment "2") to amend the Fiscal Year 2023/24 operating and capital improvement budgets

Staff Recommendation: Approval (Finance: Christina Holmes)

Presenter: Christina Holmes, Director of Finance

ESSENTIAL SERVICE – Yes - Police Services; Fire/EMS Services; Keep City Clean for Public Health and Safety; Land Use/Development; Clean Water; Sewer

COUNCIL PRIORITY – Eliminate Structural Deficit

FISCAL ANALYSIS

See Below

PREVIOUS ACTION

In October 2023, the City Council received the Fiscal Year 2022/23 Financial 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 2023/24 in comparison to the adopted Fiscal Year 2023/24 budget for the General Fund. The financial highlights for are summarized below.



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General Fund

Operating revenue has not kept pace with the growing costs of providing City services since the Great Recession, and as a result, the General Fund long-term financial plan has projected annual deficits creating a structural budget deficit. The City has maintained a hardline on expenditures, controlled costs by deferring maintenance and capital project costs, sought measures that ensure efficiency, and continued to utilize one-time grants and other sources of funding. Revenue-generating opportunities have also been explored and implemented as appropriate per City Council direction.

To address the predicted structural budget gap for the 2023/24 fiscal year, departments were directed to submit their FY2023/24 General Fund operating budget at the same level as the prior year, FY2022/23, where possible. Once all revised General Fund budgets were submitted to the Finance Department, and a summary of projected revenue and expenditures was prepared, the General Fund operating budget projected a net operating deficit of \$11,295,840.

In order to continue to provide essential City services, City Council approved a combination of using reserve balances as well as deferring major purchases to future years in order to close the budget deficit:

- Utilizing the Section 115 Pension Trust Fund for the increase in CalPERS costs, estimated at \$1,500,640 for FY2023/24.
- Deferring vehicle replacements to future years for all General Fund departments, except for Public Safety vehicles, to save \$1,148,800 and utilizing reserves from the Fleet Services Fund of \$3,610,070.
- Changing the funding methodology of the General Liability Reserve Fund and reducing reserves by \$2,995,840.
- Including the Historical Cost Savings Reduction of \$1,000,000 in recognition of annual savings from vacant positions during the fiscal year, 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.
- Utilizing funds from the Revenue Loss provision of the American Rescue Plan Act (“ARPA”) to close the remaining General Fund operating budget deficit of \$1,440,490 in FY2023/24.

The projected FY2023/24 General Fund revenue estimate is \$127.4 million, estimated to increase \$7.5 million or 6 percent over the FY2022/23 amended revenue projection. The total proposed FY2023/24 General Fund Operating Budget is \$130.7 million, which increased by approximately \$5.6 million or 4.4 percent compared to the FY2022/23 Operating Budget.

At the end of the second quarter, General Fund revenues are at 33 percent of the amended budget, while expenditures are at 48 percent. Attachment “1” to this staff report includes an analysis of General Fund operating revenues, expenditures, and reserve balances as of December 2023.



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Recommended Budget Adjustments:

1. Recognize ARPA Lost Revenue – \$4,627,960 (General Fund Increase). The staff recommendation is to recognize the remaining funds from the Revenue Loss provision of the American Rescue Plan Act. On January 6, 2022, the U.S. Department of the Treasury issued its Final Rule, which offers a standard allowance for revenue loss of \$10 million. Because the amount claimed under revenue loss can be used for “general government services,” this single provision provides significant flexibility for municipalities. “General government services” includes any service traditionally provided by a government, other than a few exceptions explicitly identified by the Treasury. All American Rescue Plan Act funds, including the Lost Revenue allocation, must be earmarked by December 31, 2024, and fully spent by December 31, 2026. The City has budgeted a total of \$5,175,520 from the Lost Revenue category to date, with \$4,824,480 remaining of the total \$10 million allowed.

ARPA Lost Revenue Category	\$10,000,000
FY2022/23 General Fund Deficit	(3,735,030)
FY2023/24 General Fund Deficit	(1,637,010)
Remaining ARPA Lost Revenue Category	\$4,627,960

2. Services Community Facility District – \$290,900 (General Fund Decrease). On January 24, 2024, the City Council approved the repeal of the City’s Services Community Facilities District (“CFD”) 2020-1. As a result, tax assessments, budgeted at approximately \$290,900 in FY2023/24, will be refunded to all homeowners that had been annexed into the Services CFD and paid the property tax in FY2023/24.
3. Utility Allocation – \$1,500,000 (General Fund Decrease). As part of the City’s ongoing review of how the City allocates expenses to the Utility Funds, an adjustment to the allocations out of the General Fund will be implemented in the FY2023/24 Operating Budget.
4. Fire Department Overtime and Maintenance – \$217,750 (Funded by CalOES Reimbursements). The adjustment to the Fire Department budget is necessary primarily due to the overtime and equipment & maintenance costs incurred as a result of deployments to wildfires this fiscal year through California and Oregon. The Escondido Fire Department’s 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, \$50,000 will be utilized to replace the department’s current inventory of 100 fire shelters past their useful life, used as a last resort safety device by wildland firefighters. The increase to expenditures is offset by reimbursements from CalOES, there is no net effect to the General Fund.



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5. Increase to the Paramedic Capital Replacement Fund – \$50,000 (Funded by New IG-GEMT Paramedic Revenue). On October 11, 2023, City Council approved the City’s membership to the North County Dispatch Joint Powers Authority. As part of the transition, additional communications equipment is needed on ambulances to establish mobile data computer connectivity. The staff recommendation is to use the new revenue the City is receiving from the Ground Emergency Transportation Program implemented at the end of FY2022/23 that utilizes Federal funding to supplement the ambulance billing revenue received for medical transports. As a result of this new program, additional funds of \$2,280,943 have been recorded since the inception of the program, offset by an administration fee of \$1,812,370 in FY2023/24.
6. Community Survey - \$90,000. At the City Council Retreat in September 2023, Council directed staff to engage with a consultant to conduct a comprehensive community survey to gauge community satisfaction with municipal services and assess potential ballot measures. After completing a solicitation process, the City has selected a consultant and the survey is expected to be completed in the Spring of 2024.

ATTACHMENTS

- a. Attachment “1” – FY2023/24 Second Quarter Financial Status Report
- b. Attachment “2” – Budget Adjustment Request