



**FY2023/24 Financial Status Report
Second Quarter Ending December 31, 2023**

OVERVIEW

This report summarizes the City's financial position through the second quarter ending December 31, 2023 for the General Fund. The purpose of the report is to provide City Council, City Management, and the Escondido community an update on the City's fiscal status based on the most recent financial information available. The revenue projections and budget information include adjustments for encumbrances, carryovers, and any other supplemental appropriations approved by the City Council as of December 31, 2023.

This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting principles (GAAP).

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, staff made recommendations to close the deficit that included a combination of using reserve balances as well as deferring major purchases to future years.

The projected FY2023/24 General Fund revenue estimate is \$127.4 million, estimated to increase \$7.5 million or 6% 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% compared to the FY2022/23 Operating Budget.

At the end of the second quarter, General Fund revenues are at 33% of the amended budget, while expenditures are at 48%, shown in the table below.

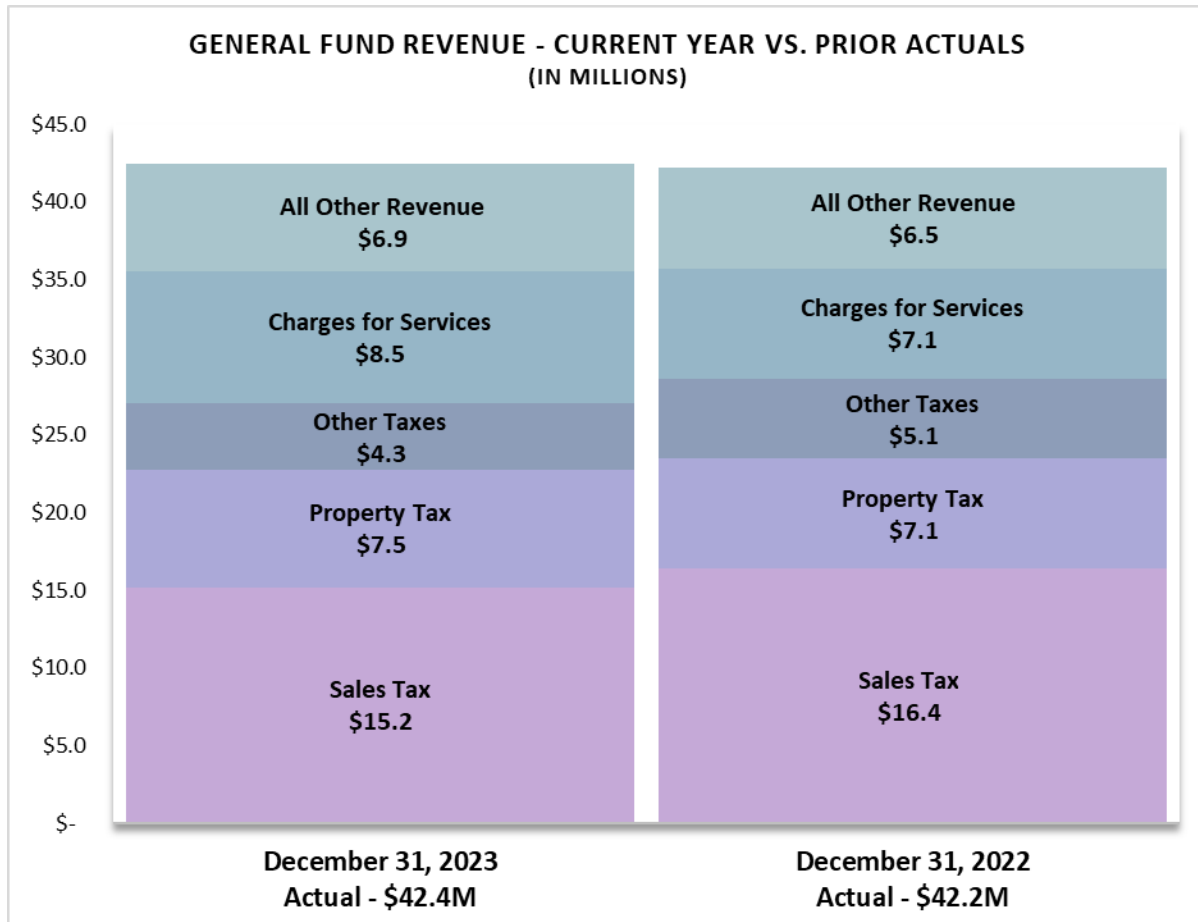
**General Fund
Comparison of Projected FY2023/24 Operating Budget to Actuals**

	FY2023/24 ADOPTED BUDGET	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	%
Total Operating Revenue	\$127,403,060	\$127,927,490	\$42,434,556	33%
Total Operating Expenditures	(130,892,070)	(131,380,460)	(62,623,810)	48%
Operating Transfers	1,852,000	1,561,100	1,561,100	-
One-Time Revenue Sources – American Rescue Plan Act	1,637,010	1,637,010	1,637,010	-
Net Operating Surplus / (Deficit)	\$-	(\$254,80)	(\$16,700,244)	-

GENERAL FUND REVENUE

	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	ACTUAL RESULTS DECEMBER 2022	Prior Year vs. Current Year
Sales Tax	\$49,507,600	\$15,223,550	\$16,381,110	\$(1,157,560)
Property Tax	35,068,340	7,530,870	7,134,690	396,180
Other Taxes	16,483,370	4,280,250	5,104,930	(824,680)
Charges for Services	15,078,000	8,542,980	7,102,610	1,440,370
Permits and Licenses	3,506,250	2,607,950	2,723,010	(115,060)
Fines and Forfeitures	873,000	331,950	342,450	(10,500)
Intergovernmental	2,674,930	1,283,980	931,030	352,950
Rental Income	3,829,000	1,916,320	1,874,770	41,550
Other Revenue	907,000	716,730	637,020	79,710
TOTAL OPERATING REVENUE	\$127,927,490	\$42,434,580	\$42,231,620	\$202,960

Sales tax is the largest General Fund revenue source at 39% of total operating revenue followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue collected through December 31, 2023 compared to the revenue collected in the prior year through December 31, 2022. Overall operating revenue increased \$202,960 compared to the same time last fiscal year.



Sales Tax (39% of Total General Fund Revenue): \$15.2 million

The City works closely with its sales tax consultant, AvenulInsights, in projecting sales tax revenue. Based on AvenulInsights’ analysis of the trend in year-to-date tax receipts and an examination of the local economy, the City’s sales tax revenue is anticipated to decline in Fiscal Year 2023/24 by \$1,504,600 or 3% to reach \$49.5 million. A recession in 2024 is possible, but continued low unemployment and tight labor markets indicate that a severe downturn is unlikely. The forecast provided by AvenulInsights assumes a very mild recession or slowdown starting in the first quarter of FY2023/24 and lasting for the remainder of the fiscal year.

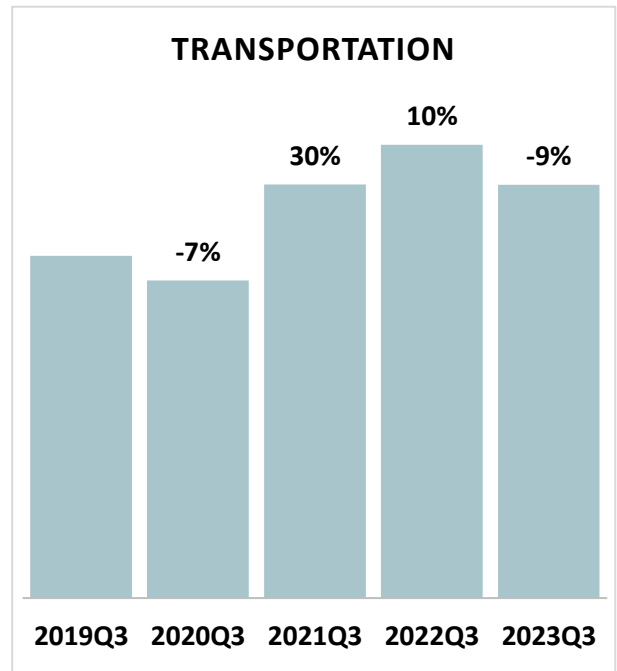
Actual sales tax receipts are under the December 2022 amount by \$1,157,560, indicating that the economy is continuing to slow from the post pandemic surge in spending.

Transportation

The largest sales tax segment, 35% of total sales tax revenue, is Transportation, which includes new and used auto sales, auto repair shops, and service stations.

Sales revenues decreased by 9% compared to the same quarter in the prior year. Despite an increase in new car registrations, the automobile and transportation sector declined 2.6% statewide. Like other industry groups, elevated financing costs are expected to create headwinds for auto sales.

Petroleum per barrel costs increased significantly in the spring of 2022, and as a result, receipts received from fuel and service stations increased by about 31% compared to the same quarter in the prior year. However, gas prices have steadily dropped for two consecutive quarters.

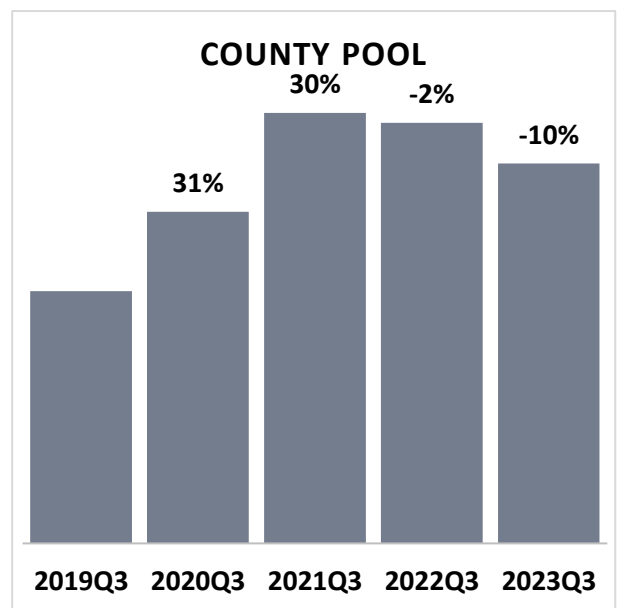


County Pool

Sales tax revenue received through the County Pool is now the second largest sales tax segment accounting for 19% of total sales tax revenue.

Effective in April 2019, new taxable sales are distributed to the City under the AB 147 Wayfair decision which extended the sales and use taxes to online and out-of-state retailers engaged in business in California.

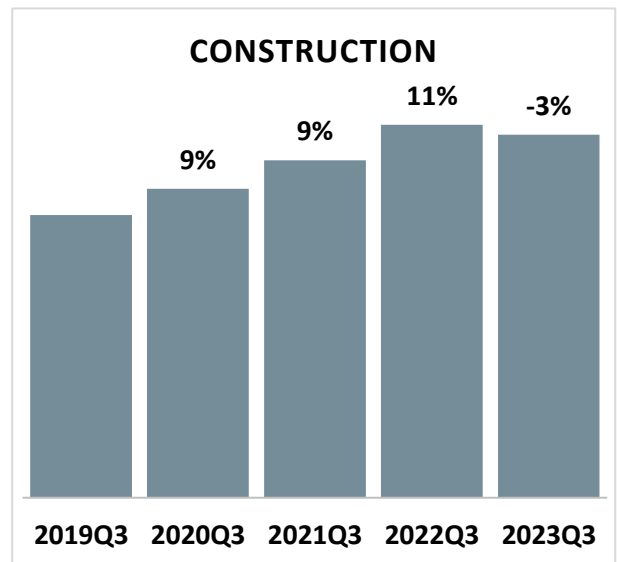
However, the increase in activity from the countywide pool experienced during the pandemic has slowed; total receipts decreased by \$882,167, or 10%, compared to the prior year. In addition, more in-state fulfillment has diverted tax allocations away from pools and toward fulfillment center sites



Construction

The Construction sales tax segment which accounts for revenue generated from building materials, including both wholesale and general retail, decreased from the prior year by about 3%.

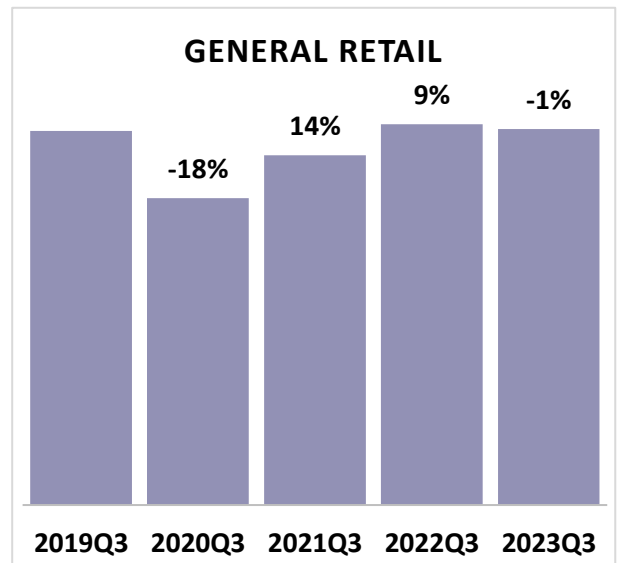
Overall construction activities have increased steadily since the start of the pandemic in 2020 inflation increased this revenue further in 2023. However, building and construction projects continued slowing as higher interest rates constrained commercial development, public infrastructure projects and new housing starts.



General Retail

General Retail and Food Products combined make up 25% of the total sales tax revenue for the City and declined slightly compared to the prior fiscal year.

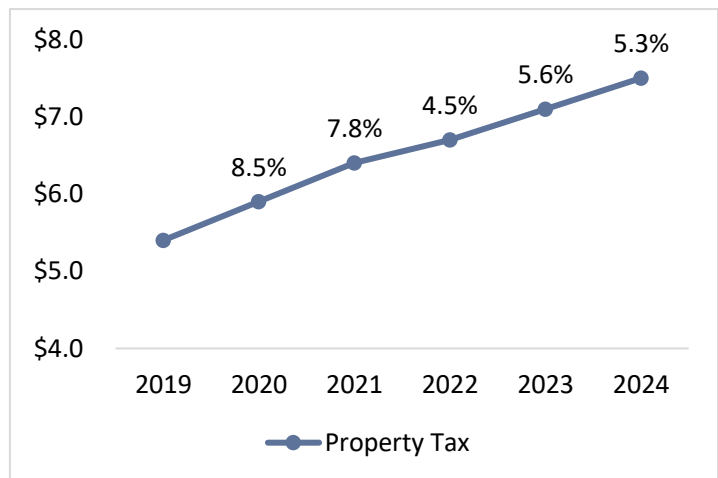
The decline was likely driven by tighter family budgets, elevated interest rates, and diminished savings compared to the previous two fiscal years.



Property Tax (27% of Total General Fund Revenue): \$7.5 million

Property Tax revenue increased by \$396,180 or about 5.3% compared to this time in prior year.

The largest portions of property tax revenue are distributed by the County in December and April each year. The FY2023/24 Operating Budget projected property tax growth of 7%. This is attributed to an increase in current secured and unsecured tax projections, along with an increase in property transfer taxes based on the current and projected development activity, such as permits, inspections, and plan checks, which indicate continued growth in property sales.

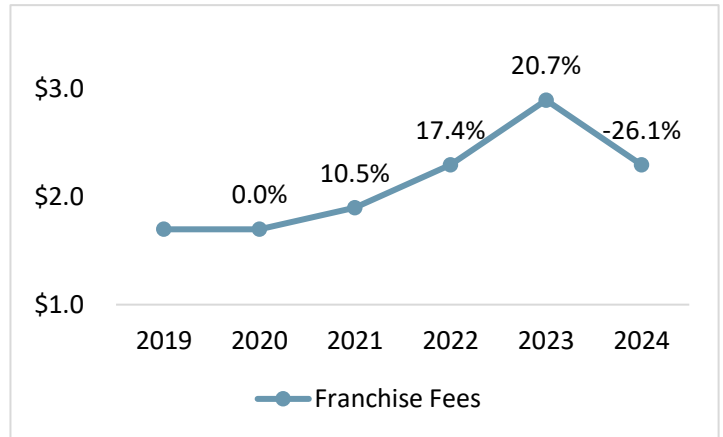


Other Taxes (13% of Total General Fund Revenue): \$4.3 million

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have decreased by \$824,680 compared to the prior year.

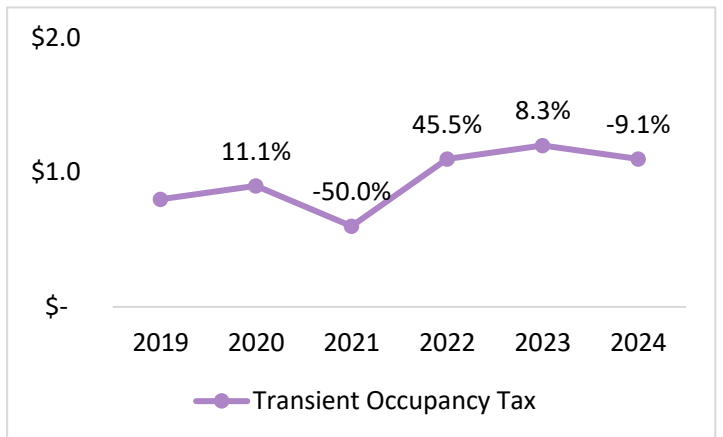
Franchise Fees

The City collects franchise fee revenues from San Diego Gas and Electric (SDG&E), cable companies conducting business within City limits, and Escondido Disposal Incorporated (EDI). Revenues received from franchise agreements decreased by \$882,857 from the prior fiscal year. In the first two quarters of 2023, the Escondido Palomar Energy Plant was shut down for maintenance. This resulted in zero electric emissions during this time and therefore no franchise fee revenue was due to the City. The plant was fully operational again in August.



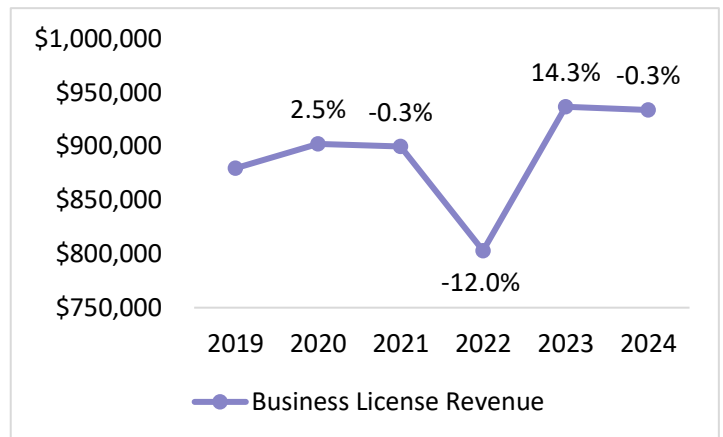
Transient Occupancy Tax

Transient occupancy tax, also known as hotel tax, decreased by \$122,556 compared to the prior year. The tourism industry was impacted significantly as a result of the closures, and many forecasted its recovery would take much longer than it has. Between FY2021/22 and FY2022/23, transient occupancy tax receipts increased by 49% from the pre-pandemic levels in March 2020. It is expected that those receipts will remain flat going forward as the activity stabilizes in the industry.



Business License Revenue

All entities doing business in the City are required to have a valid business license. The business license tax is calculated based on annual gross receipts; business license revenue from the 2023 calendar year is based off of 2022 gross receipts. Business license revenues decreased by \$2,893 compared to the prior fiscal year.

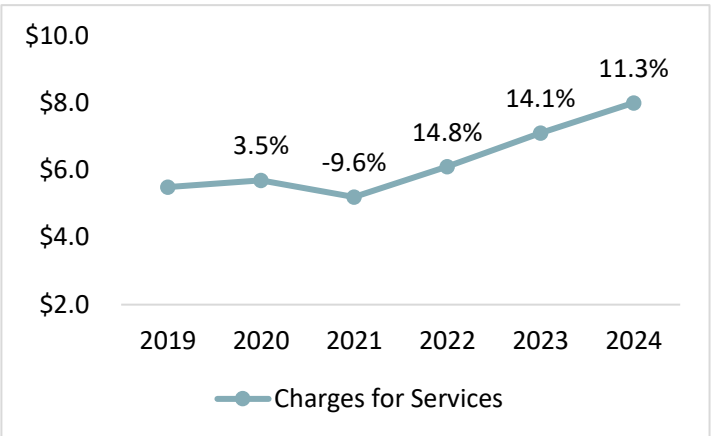


Charges for Services (12% of Total General Fund Revenue): \$8.5 million

Charges for Services include paramedic fees, Community Services fees for recreational and community activities, and charges for development related services, which include Engineering and Planning fees.

This category of revenue has increased by \$1.4 million primarily due to paramedic billing. The City is receiving *new revenue* due to the Ground Emergency Medical 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.

The increase in revenue is offset by the timing of Community Services and Development Services fees.

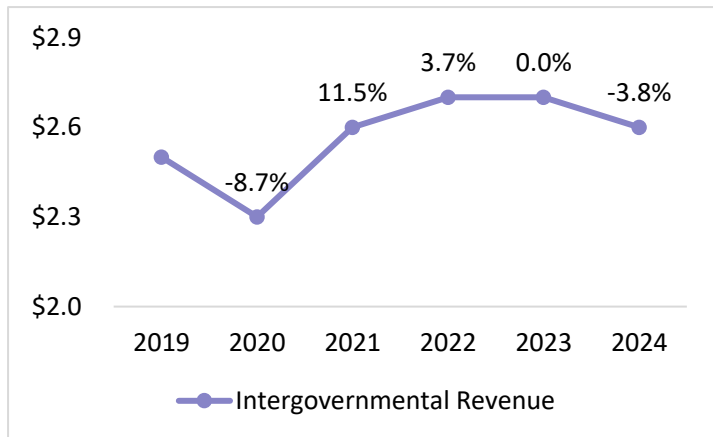


Intergovernmental (3% of Total General Fund Revenue): \$2.6 million

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, various grants, and revenue received from the fire mutual aid reimbursements.

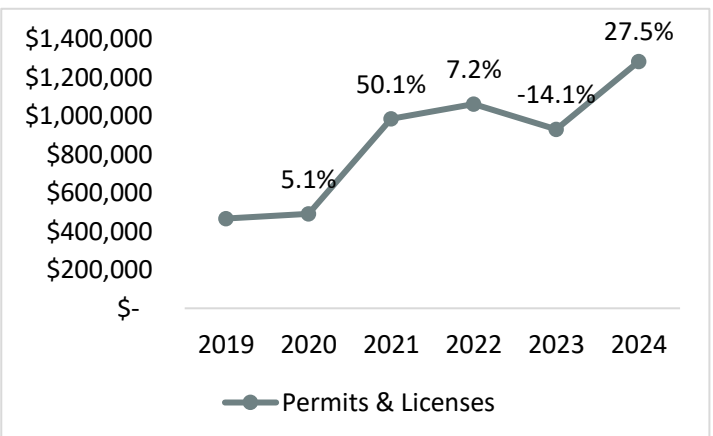
Overall revenue has decreased \$115,060 compared to the prior year.

The City's Fire Department staff can be deployed to assist other State agencies with responses to fires and other incidents. The California Office of Emergency Services reimburses the City for the time and resources of the staff deployed. As of December 2023, reimbursements of \$245,988 have been recorded.



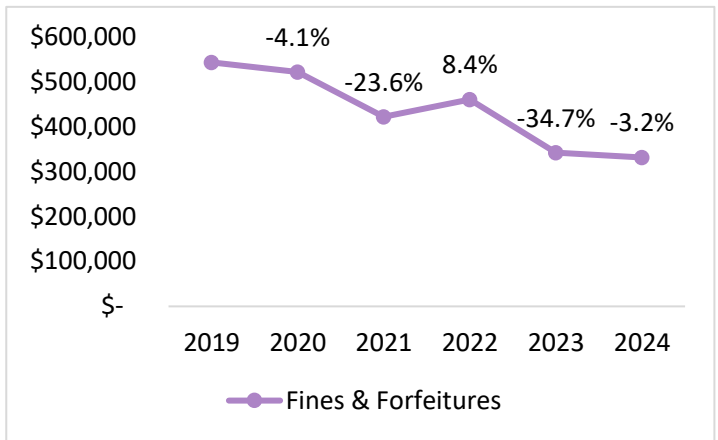
Permits and Licenses (2% of Total General Fund Revenue): \$1.3 million

Revenue generated from permits and licenses increased by \$352,950 compared to fiscal year 2022/23. Construction and development activity continues driving building permit revenue compared to previous fiscal years.



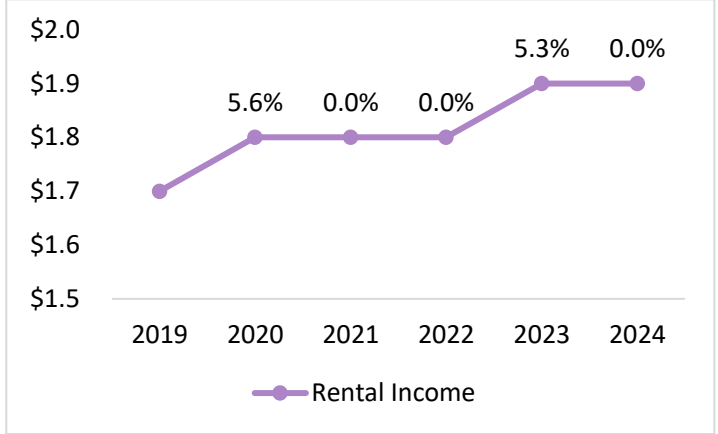
Fines & Forfeitures (1% of Total General Fund Revenue):
\$331,950

Fines & Forfeitures represent fees collected for vehicle code fines, parking ticket fines, other court fines, code enforcement citations, and impound fees. Overall revenue has decreased by \$10,500 compared to the prior fiscal year.



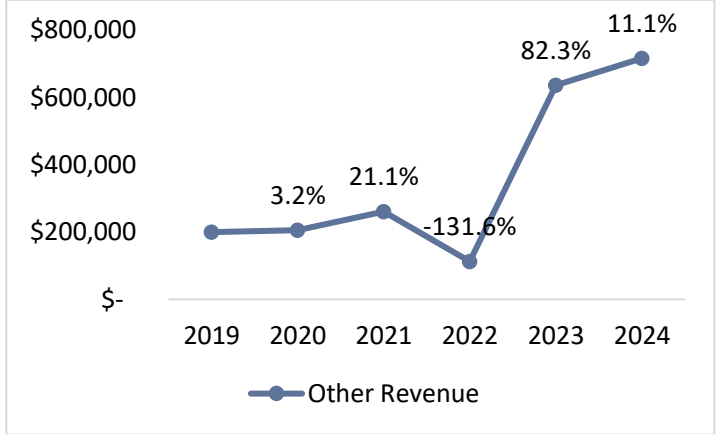
Rental Income (3% of Total General Fund Revenue):
\$1.9 million

The City receives lease and rental income from City owned properties, such as the North County Mall. Overall revenue has increased by \$41,550 compared to the prior fiscal year.



Investment and Other Revenues (1% of Total General Fund Revenue): **\$716,730**

Investments and Other Revenue includes interest earned from investing activities, and other miscellaneous receipts and has increased by \$79,710 compared to the prior year.



GENERAL FUND OPERATING EXPENDITURES

The total adopted FY2023/24 General Fund Operating Budget is \$131.4 million, an increase of approximately \$5.6 million or 4.4% compared to the FY2022/23 Operating Budget. In order to address an \$11.3 million budget deficit, vehicle replacements were deferred to future years, reserve funds are being utilized from the Fleet Services Fund, General Liability Fund, Section 115 Pension Trust and the American Rescue Plan Act Lost Revenue category of funds.

The following table includes cumulative expenditure comparisons for General Fund departments as of December 2023.

	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	ACTUAL RESULTS DECEMBER 2022	Prior Year vs. Current Year
General Government Services	\$8,238,090	\$3,115,650	\$3,365,550	(249,900)
Community Services	9,702,390	4,569,580	4,154,770	414,810
Development Services	8,343,060	3,170,280	3,401,060	(230,780)
Public Works	12,886,050	6,457,510	5,870,950	586,560
Police	54,209,820	26,358,870	25,553,670	805,200
Fire	33,599,220	16,684,840	15,427,070	1,257,770
California Center for the Arts	3,247,370	1,615,430	1,235,560	379,870
Other Expenditures	1,154,460	651,640	1,051,530	(399,890)
TOTAL OPERATING EXPENDITURES	\$131,380,460	\$62,623,800	\$60,060,160	\$2,563,640

The City continues to be impacted by a competitive labor market, as a result of recurring vacant positions and long recruitment efforts there are expenditure savings in regular salary and benefits through December 2023. However, the vacant positions have also increased the overtime expenditures which are at 75% of the amount budgeted for the fiscal year. The increase in overtime expenses will be offset by the savings in employee services.

	FY2023/24 AMENDED BUDGET	ACTUALS DECEMBER 2022	% of Budget
Employee Services	\$106,172,860	\$47,968,270	45%
Employee Services - Overtime	6,202,850	4,621,142	75%
SUBTOTAL EMPLOYEE SERVICES	105,925,850	50,144,560	47%
Maintenance and Operations	26,044,668	12,718,127	49%
Internal Service Charges	12,464,710	6,232,390	50%
Allocations	(18,904,630)	(8,397,567)	44%
SUBTOTAL OPERATING EXPENDITURES	19,604,748	10,552,950	54%
Historical Cost Savings Reduction	(600,000)	-	-
TOTAL OPERATING EXPENDITURES	\$131,380,460	\$63,142,362	48%

The following table shows each department's operating expenses through December 2023 compared to the amended budget for FY2023/24:

GENERAL GOVERNMENT SERVICES	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
City Council	\$396,390	\$ -	\$396,390	\$178,869	45%
City Manager	1,530,580	-	1,530,580	749,506	49%
City Attorney	198,290	-	198,290	79,165	40%
City Clerk	680,240	-	680,240	344,218	50%
City Treasurer	233,490	-	233,490	134,612	58%
Finance	1,809,720	-	1,809,720	777,722	43%
Human Resources & Risk Management	795,320	-	795,320	288,836	42%
Information Systems & GIS	1,547,210	-	1,547,210	562,722	33%
Communications & Digital Media	1,046,040	-	1,046,040	528,664	50%
TOTAL GENERAL GOVERNMENT	\$8,237,280	\$-	\$8,237,280	\$3,633,026	44%

COMMUNITY SERVICES	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
Recreation	\$4,573,720	\$ -	\$4,573,720	\$2,021,978	44%
Main Library	3,771,040	-	3,771,040	2,008,302	53%
Older Adult Services	727,170	-	727,170	333,790	45%
Senior Nutrition	630,460	-	630,460	205,514	32%
TOTAL COMMUNITY SERVICES	\$9,702,390	\$-	\$9,702,390	\$3,633,026	47%

DEVELOPMENT SERVICES	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
Planning	\$2,391,860	\$ -	\$2,391,860	\$891,139	37%
Building	1,688,550	-	1,688,550	534,661	32%
Engineering	3,251,450	-	3,251,450	1,359,971	42%
Code Compliance	1,011,200	-	1,011,200	384,513	38%
TOTAL DEVELOPMENT SERVICES	\$8,343,060	\$-	\$8,343,060	\$3,633,026	47%

	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
PUBLIC WORKS					
Street Maintenance	\$8,177,050	\$375,820	\$8,552,870	\$4,635,264	54%
Park Maintenance	4,221,420	111,770	4,333,190	2,161,637	50%
Radio Communications	-	-	-	(339,387)	0%
TOTAL DEVELOPMENT SERVICES	\$12,398,470	\$487,580 <i>*Carryovers from FY2022/23</i>	\$12,886,060	\$6,457,513	50%

	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
POLICE DEPARTMENT					
Police Department	\$54,209,820	\$-	\$54,209,820	\$26,358,867	48%

	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
FIRE DEPARTMENT					
Fire Department	\$33,599,220	\$-	\$33,599,220	\$16,684,844	49%

	FY2023/24 ADOPTED BUDGET	BUDGET ADJUSTMENTS	FY2023/24 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2023	% Of Budget
CENTER FOR THE ARTS					
California Center for the Arts	\$3,247,370	\$-	\$3,247,370	\$1,615,429	50%

GENERAL FUND RESERVES

In December 2015, City Council adopted a Fund Balance Policy and established a General Fund target Reserve balance of 25% of General Fund operating revenues in order to maintain adequate levels of fund balance. This goal is based on a risk-based analysis to mitigate current and future risks, adequately provide for cash flow requirements, and to fund one-time unanticipated expenditure requirements.

Total General Fund budgeted operating revenue in FY2023/24 is \$127,403,060 and 25% of this amount is \$29,982,308. The current General Fund Reserve balance is \$17,392,319, or 14% of budgeted operating revenue, which is below the identified acceptable risk-based analysis adopted by City Council and general government practices.

Section 115 Irrevocable Pension Trust Fund

In February 2018, City Council authorized the establishment of a Section 115 Irrevocable Pension Trust Fund. The Trust Fund is used to set aside and hold money to meet future pension liabilities and can be used to provide economic relief during recessionary cycles and/or rate increases that are significantly above anticipated projected employee rate increases. Funds placed in this Trust can also be used to offset the City's "normal" CalPERS costs, such that if funds are necessary for other purposes, a certain amount of flexibility is present. Another benefit is that funds held in the Trust can be invested in the same manner as funds in a typical pension fund rather than as part of the City's General Fund, which means a potentially higher rate of return.

When the Pension Trust Fund was established, a funding policy for contributions to the Fund was recommended and included the four years of annual Successor Agency Redevelopment Loan Repayments of \$14 million that began in FY2018/19, future proceeds from the sale of City Property belonging to the General Fund, and a portion of General Fund surplus at the end of each fiscal year, if one exists.

On December 31, 2023, the Section 115 Pension Trust Fund had a balance of \$33,353,260 which included City contributions of \$31,257,650 plus investment earnings net of expenses of \$2,095,610. The Trust Fund has a 3-year rate of return of 0.49%, a 1-year rate of return of 10.46%, and a 3-month rate of return of 8.16%.

The following table provides a summary of the activity since the establishment of the Trust Fund.

<i>Section 115 Pension Trust Fund</i>	
<i>Initial Deposit – General Fund</i>	\$1,984,000
<i>General Fund Operating Results (5 years)</i>	20,705,235
<i>Successor Agency Advance Repayments</i>	8,568,415
<i>Investment Earnings, net of expenses</i>	2,095,610
<i>Balance as of December 31, 2023</i>	\$33,353,260

FOR MORE INFORMATION

This summary report is based on detailed information generated by the City's Finance department. If you have any questions or would like additional information on this report, please contact the Finance department at (760) 839-4676 or visit www.escondido.org.