



STAFF REPORT

October 11, 2023
File Number 0410-20

SUBJECT

FINANCIAL REPORT FOR FY2022/23

DEPARTMENT

Finance

RECOMMENDATION

Request that the City Council receive and file the annual financial report for FY2022/23 (Attachment 1).

Staff Recommendation: Approval (Finance: Christina Holmes, Director of Finance)

Presenter: Christina Holmes, Director of Finance

FISCAL ANALYSIS

See Below.

PREVIOUS ACTION

On May 10, 2023, the City Council received the Fiscal Year 2022/23 Third 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.

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,



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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.

Total budgeted operating revenue was projected to increase by 6.4% to reach \$119.7 million and the adopted expenditure budget of \$125.2 million increased by approximately \$8.1 million or 6.9% compared to the revised FY2021/22 operating budget. As reported in previous financial updates, Sales Tax Revenue declined in FY2022/23; however, due to increases in property tax and franchise fees, overall operating revenue exceed the budget amount by \$8.3 million. Total operating expenditures were under the final amended budget by \$670,030. As a result, the General Fund reported a Net Operating Surplus of \$3,167,030. As noted above, additional funds from the American Rescue Plan Act Funds of \$3,735,030 were utilized in the FY2022/23 budget to support the City's essential services.

Attachment 1 to this staff report includes an analysis of General Fund operating revenues and operating expenditures for the fiscal year ending June 30, 2023.



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With the net General Fund surplus of \$3,167,030 and allocation of American Rescue Plan Act funds of \$3,735,030, a total of \$6,902,060 is available for allocation. Staff will be returning to City Council in February 2024 with a Mid-Year Financial Update and will also make recommendations for how to allocate the FY2022/23 available resources. This will include additional General Fund resources needed to account for utility expenses as a result of the Utility Rate Study, a budget adjustment for a community survey, and potential funding needed for the replacement of three ambulances.

ATTACHMENTS

1. Attachment 1 – FY2022/23 Financial Status Report