



STAFF REPORT

May 11, 2022
File Number 0430-30

SUBJECT

FISCAL YEAR 2022/23 OPERATING BUDGET BRIEFING –

DEPARTMENT

Finance

RECOMMENDATION

Request the City Council provide direction regarding the Fiscal Year 2022/23 General Fund Operating Budget.

Staff Recommendation: Provide Direction (Finance: Christina Holmes)

Presenter: Christina Holmes, Director of Finance

ANALYSIS

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 financial forecast takes a look forward at the City's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls, and potential issues so the City can proactively address them. It does so by projecting out into the future the fiscal results of continuing the City's current service levels and policies, providing a snapshot of what the future will look like as a result of those policies.

General Fund Financial Forecast Accuracy

The revenue projections and methodology used in the forecast are estimated based on current and known conditions, historical performance, and consultation from subject matter experts. Over 42% of total General Fund operating revenue comes from Sales Tax, which is highly sensitive to economic conditions, making this revenue particularly challenging to forecast. To assist with this analysis, the City works closely with its sales tax consultant, AvenuInsights, in projecting sales tax revenue. Because sales tax revenue is tied to economic indicators, City staff have taken a conservative approach in forecasting this revenue due to the fluctuations that can occur. For example, during the Great Recession this revenue was significantly impacted and fell by 34% or \$11.0 million. The economy and subsequent Sales Tax revenue took more than 5 years to return to pre-recession levels.

Since the Great Recession, the City has experienced a stable economy with moderate revenue growth averaging 4% annually. 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



CITY of ESCONDIDO

STAFF REPORT

downturn comparable to the Great Recession, which had a devastating impact on the City’s General Fund as noted above. The FY2020/21 Operating Budget reflected those economic conditions, at the time of adoption in June 2020 the emergency remained in effect and the timeline for resuming many operations and businesses was uncertain. Overall operating revenue was anticipated to decline by 5%.

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. As a result, the City’s major General Fund revenues grew significantly in April, May, and June 2021 and operating revenues exceeded the original FY2020/21 budgeted amount by \$11.4 million, a 10.8% increase in revenue from the prior fiscal year.

The following table depicts the anticipated annual General Fund Operating Revenue budget compared to the actual General Fund Operating Revenue reported at the close of the fiscal year (in millions). Excluding the fiscal years noted below (Note 1 and Note 2), on average actual operating revenue has been above the amount projected by about 1.2% over the previous 10 years.

	Operating Revenue Budget	Operating Revenue Actuals	Over/(Under)	%
FY2009/10	\$73.0	\$68.0	(\$5.0)	(6.8%) <i>Note 1</i>
FY2010/11	67.6	69.7	2.1	3.1
FY2011/12	72.1	74.5	2.4	3.3
FY2012/13	75.9	77.7	1.8	2.3
FY2013/14	80.7	81.4	.7	.9
FY2014/15	86.3	84.7	(1.6)	(1.9)
FY2015/16	89.2	90.8	1.6	1.8
FY2016/17	91.4	91.4	-	-
FY2017/18	97.5	100.0	2.5	2.6
FY2018/19	101.1	102.4	1.3	1.3
FY2019/20	105.4	102.3	(3.1)	(3.0) <i>Note 2</i>
FY2020/21	102.0	113.4	11.4	11.2 <i>Note 2</i>

Note 1: The Great Recession, which began in 2007, impacted both Sales tax revenue and Property tax revenue. Actual tax revenue fell by more than \$6.7 million between FY2008/09 and FY2009/10, it was uncertain when the City would begin to recover from this recession.

Note 2: As noted above, the COVID-19 pandemic began in March 2020 and had an immediate impact on City revenues in FY2019/20, resulting in a decrease of \$3.0 million. This was due to the Stay at Home orders and restrictions that closed segments of the economy. However, as restrictions were lifted during



CITY of ESCONDIDO

STAFF REPORT

FY2020/21, a change in consumer behavior and pent up demand for goods drove sales tax revenue to pre-pandemic levels resulting in a 21% increase in revenue from the prior year.

Since the impacts of the Great Recession, the City has also been challenged with funding growing expenditures and community service needs, with the moderate revenue growth experienced as result of economic conditions. Cost saving measures have been implemented in an effort to keep expenditures in line with the growth of revenue, further described under “Efficiencies, Staffing, and Cost-Control Measures” below. The following table depicts the annual General Fund Operating Expenditure budget compared to the actual General Fund Operating Expenditures reported at the close of the fiscal year (in millions).

	Operating Expenditure Budget	Operating Expenditure Actuals	(Under)	%
FY2009/10	\$76.7	\$75.4	(\$1.3)	(1.7%)
FY2010/11	73.6	71.7	(1.9)	(2.6)
FY2011/12	72.9	72.0	(0.9)	(1.2)
FY2012/13	77.9	75.7	(2.2)	(2.8)
FY2013/14	82.8	80.7	(2.1)	(2.5)
FY2014/15	88.7	86.5	(2.2)	(2.5)
FY2015/16	91.9	89.9	(2.0)	(2.2)
FY2016/17	94.1	90.8	(3.3)	(3.5)
FY2017/18	100.7	98.4	(2.3)	(2.3)
FY2018/19	104.4	102.0	(2.4)	(2.3)
FY2019/20	108.4	106.0	(2.4)	(2.2)
FY2020/21	110.3	106.1	(4.2)	(3.8) <i>Note 1</i>

Note 1: The expenditure savings in FY2020/21 were largely the result of vacant staff positions in multiple departments as recruitments are being performed. The effects of the COVID-19 pandemic and various closures also resulted in expenditures being less than budgeted. In May 2020 as a result of the closures of recreation facilities, certain Recreation and ASES Department staff were furloughed. In addition, the Library professional services contract was amended to account for the reduction in services, both of which contributed to the Community Services budget savings of \$1.3 million. Expenses for utilities were also under the amount budgeted as the result of closures of various City buildings during the fiscal year.

Similar to the forecast methods used for annual Operating Revenue, the City budgets conservatively for anticipated Operating Expenses. Over the previous 10-years, Operating Expenses have been approximately 2.2% below the budgeted amount. Although the City does experience savings each year from employee services resulting from vacant positions, these are not assumed in the Operating Budget or Financial Forecast with the goal of developing a conservative budget. For example, in calendar year 2021 the City had the highest turnover rate at 14%, which is not unique to the City given the current competitive local job market. The FY2020/21 Operating Budget also assumed that the COVID-19 closures



CITY of ESCONDIDO

STAFF REPORT

would be lifted; however, the services the City provides continued to be restricted resulting in the additional expenditures savings of \$4.2 million compared to prior fiscal years.

Efficiencies, Staffing, and Cost-Control Measures

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 maintained a hardline on expenditures and staff are continuously seeking measures that ensure efficiency, while enhancing basic operations. Decreased spending has been accomplished by:

- Reducing City staff by over 140 employees from 2008 to 2021 (10% reduction) as the City's population grew by more than 10%.
- Controlling pension and employee benefit costs by transferring the responsibility to employees to fund a larger portion of the total costs.
- Forming strategic partnerships to provide services, such as the Escondido Library, to save an estimated \$400,000 annually.
- Investing in technology to reduce ongoing costs and expand online services.

While these actions have resulted in controlling annual operating expenses, this has resulted in the lowest per capita spending for the services Escondido provides in comparison to other cities in San Diego North County. Escondido spends approximately \$703 per citizen compared to the two other full-service cities in North County, the City of Carlsbad has a per capita expense of \$1,368 and Oceanside's per capita expense is \$912. The City of Escondido has been consistently doing more with less.

Actions Regarding Additional Revenue Opportunities

In addition to cost-control measures, revenue generating opportunities have also been explored:

- In April 2020, City Council adopted an updated fee schedule and cost allocation plan to ensure that certain fees charged by the City for the services being delivered equal the City's cost of providing the services including direct and indirect costs, departmental overhead, and City administration.
- A fiscal analysis was performed to evaluate the cost of providing police, fire, public works, community and general services to new residential development, and the results determined that the revenue received is less than the cost to provide ongoing services. In May 2020, the City Council established the CityWide Community Facilities District that would fund City services for new residential development by offsetting ongoing costs of new development with a special tax collected from the new residential property owners in the District. Future revenue resulting from the Services CFD is dependent on future development in the City. A transfer of \$285,000 is included as a funding source in the FY2022/23 General Fund proposed budget.
- City staff are currently exploring the options for creation of a Short-Term Rental Program, which may generate additional revenue from short term rental hosts. The establishment of a program would involve a large degree of administrative expense, the future fiscal impact is uncertain. A



CITY of ESCONDIDO

STAFF REPORT

preliminary review provided by a prospective consultant estimates additional annual lodging taxes of less than \$100,000 potentially recoverable by the City.

In addition to implementing cost saving measures and pursuing revenue-generating opportunities, since the Great Recession, the City has controlled costs by annually deferring maintenance and capital project costs. More than *\$8 million annually* has been deferred for the City's parks, playgrounds, libraries, recreation centers, pools, streets, sidewalks, bridges, storm drains, fleet, and other City facilities. Deferred maintenance costs will only continue to increase in the future.

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 FY2021/22 Operating Budget was adopted in June 2021 and contained certain significant budget changes to reflect the increased demand for City services around traffic safety and homelessness, that also reflected community priorities. These included:

- A multi-faceted strategy to improve traffic flow and safety throughout the City by providing additional resources to the Engineering, Police, and Public Works department budgets.
- Additional staff and resources necessary for essential services such as homeless encampment clean-up, patrolling hotspots, and removing refuse, to be provided seven-days per week.
- The budget also restored three police officer positions to the Community Oriented Policing and Problem Solving (COPPS) Unit to provide a more effective, efficient and consistent level of service by increasing coverage and proactivity to further the City's approach for addressing the community impacts of homelessness while being sensitive to the importance of tackling underlying causes and helping people.

To continue to provide essential City services and identified community priorities, respond to critical infrastructure maintenance and repair needs, and address an \$8 million budget gap, the 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. The Section 115 Pension Trust was funded with transfers of one-time funds and is not an ongoing source of revenue, funds could be depleted in under 4 years if used each year to close the projected budget gap. Due to the continuing budget shortfall projected each fiscal year, the City may have to decide on cuts to City services, including Public Works and Public Safety services.



CITY of ESCONDIDO

STAFF REPORT

Community Engagement and The Escondido Discussion

To assess resident satisfaction with City services provided and to identify issues and community priorities to address through this year's budget process, in December of 2021 the City conducted a Community Opinion Survey. Close to 1300 residents were surveyed and identified the following City service priorities:

- ✓ Addressing homelessness
- ✓ 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 staff built on the results of the Community Opinion Survey by engaging Escondido residents CityWide through The Escondido Discussion, to hear local community priorities and City service needs. In addition to holding four City hosted events, including one at the Park Avenue Community Center for Seniors, City staff have met or will be meeting with the following groups and the list continues to grow:

- Auto dealership owners
- Brookside HOA
- Casa de Amigos
- Community Alliance for Escondido (Café)
- Downtown Business Association
- East End Club
- Emerald Heights HOA
- Escondido Democratic Club
- Escondido Education COMPACT
- Escondido Republican Club
- Greater Escondido Chamber of Commerce
- Kiwanis
- Library Support Groups
- Mercado District
- Neighborhood Leadership Forum
- Old Escondido Neighborhood
- Orchard Church
- Rotaries
- San Diego County Taxpayers Association
- Universidad Popular

As part of each discussion and through extensive outreach including social media, utility bills, partnerships with the local school districts, and City newsletters, community members have been encouraged to complete an online survey to share their priorities for the City of Escondido. As of April 28, 2022, feedback from 572 community members has been provided. Based on the responses received, the community confirmed the five priorities identified in the Community Opinion Survey.

The proposed FY2022/23 operating budget continues to reflect an overall strategy of fiscal prudence on the part of the entire City workforce by continuing to maintain a hardline on expenditures while also continuing to provide core City services including Public Safety, Public Works, Community Services, and Community Development. Understanding the community's priorities was also a critical part of the City's budget process. As a result, there are items included in the proposed operating budget that reflect these high priority items and the needs expressed by the community.



CITY of ESCONDIDO

STAFF REPORT

The community has identified that **addressing the impacts of homelessness** and **keeping the City clean and free of graffiti** are top priorities. In order to meet the demand for service around homeless encampment clean-up, patrolling hotspots, and removing refuse, the FY2021/22 adopted operating budget included additional resources that enabled the Public Works staff to expand from a five-day work week to a seven-day work week. After a prolonged recruitment, the weekend clean-up crew began conducting those activities on February 1, 2022. To continue to address these priorities and the increasing demand for debris removal, additional equipment of \$230,000 is included in the FY2022/23 proposed operating budget.

Maintaining and repairing local streets, roads and sidewalks has been identified as the second highest priority for the community. The City's Pavement Condition Index (PCI) has been ranked as Fair and is the second lowest ranked among Northern San Diego cities. The current General Fund budget allows for treatment of approximately 8% of the City's 740 lane miles per year; at a minimum an additional \$3.5 million would be required to improve the PCI ranking and address the community's concern for maintaining the City's local streets and roads.

An important item expressed by the community is maintaining and **improving public safety and police services**. Each year, the Police department receives approximately \$2 million in grant, task force, and asset forfeiture funding. These funds augment the General Fund operating budget and provide the resources required to add two new criminal intelligence positions in this fiscal year's budget to provide proactive enforcement through crime prevention, intervention and suppression efforts. However, additional locally controlled funding is needed to ensure the City can continue to maintain local fire protection and prevention services, paramedic and emergency medical services and police services to reduce crime.

To maintain an appropriate level of service provided by the City, address select community priorities, and provide resources for infrastructure maintenance and repair needs, the FY2022/23 proposed operating budget is projecting a net operating deficit of \$8.5 million. The City continues to strive to provide the level of service residents expect and deserve, but given the deficit, inflation and rising costs, it is increasingly becoming more difficult to do so and therefore, without an additional source of locally controlled revenue, significant cuts to public safety and public works services must be considered.



CITY of ESCONDIDO

STAFF REPORT

The FY 2022/23 Preliminary Operating Budget Sources and Uses are as follows:

Sources of Funds:

Operating Revenue	\$118,257,230
Deposit – PEG Fees	11,700
Transfer from Gas Tax Fund	2,055,000
Transfer from CFD No. 2020-1 (The Services)	285,000
TOTAL, Sources	\$120,608,930

Uses of Funds:

Operating Budget	\$128,520,810
Transfer to Building Maintenance	86,880
Transfer to Reidy Creek Golf Course – Debt Service	362,750
Transfer to Successor Agency – Housing	25,000
Transfer to Vehicle Parking District	112,400
TOTAL, Uses	\$129,107,840

FY 2022/23 General Fund Net Operating Deficit (\$8,498,910)

Options to Close the Fiscal Year 2022/23 General Fund Deficit

Until revenue is increased on an ongoing and structural basis, the City must continue to rely on short-term, one-time resources to continue operations and avoid drastic cuts to City services. The staff recommendation to address the \$8.5 million deficit and achieve a balanced budget for Fiscal Year 2022/23 is to utilize a portion of the Section 115 Irrevocable Pension Trust.

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. The projected payments to CalPERS in the FY2022/23 General Fund Operating Budget including an estimated Normal Cost of \$8.7 million and the Unfunded Actuarial Liability payment of \$19.7 million.

As of March 31, 2022, the Section 115 Pension Trust Fund has a balance of \$25,840,638. However, in order to close the \$8.2 million budget deficit in the prior fiscal year budget (FY2021/22), City Council approved the transfer of \$6.1 million from the Section 115 Pension Trust Fund. This would have reduced the balance to \$19.7 million. Utilizing the Section 115 Pension Trust to close the FY2022/23 budget gap of \$8.5 million would further reduce the Trust Fund balance to \$11.2. However, the improved operating



CITY of ESCONDIDO

STAFF REPORT

revenue projections that have been presented in the Third Quarter Financial Status Report may reduce the amount of one-time funds that will be used to address the budgeted net operating deficit for FY2021/22, but a portion of the Section 115 Pension Trust Fund may still need to be utilized.

The General Fund also has a Reserve Balance of \$17,392,319. The Reserve was established based on a risk-based analysis and funds are to be used to mitigate current and future risks, adequately provide for cash flow requirements, and to fund one-time unanticipated expenditure requirements. Based on the analysis and general government best practices, an adequate funded level is 25% of budgeted General Fund operating revenue. The proposed General Fund operating revenue budget in FY2022/23 is \$118,257,230 and 25% of this amount is \$29,564,308. The current balance of \$17,392,319 is 14.7% of budgeted operating revenue, which is below the identified acceptable amount; therefore, it is not recommended to utilize these funds to close the budget gap.

If the City Council determines it would not be desirable to utilize \$8.5 million from the Section 115 Pension Trust Fund, cuts to the preliminary operating budget will need to be considered. The FY2022/23 preliminary operating budget proposes certain additions to the budget to reflect specific public service needs and community requests. These are described in further detail by department under “**Operating Budget**” below. Three staff positions were added to the General Fund budget to address high priority City service needs. New infrastructure expenses have been added, including equipment for the homeless encampment clean up crew and funds to make critical repairs to specific roofs on City owned buildings. In addition, the Fire Department has also proposed funds to replace aging and failing equipment.

The following is a summary and total cost of these proposed additions:

Description	General Fund Budget Amount
Staff Position – Grant Writer Management Analyst	\$112,800
Staff Position – Human Resources Analyst	76,000
Staff Position – Digital Media Technician	77,240
Equipment for the Homeless Encampment Clean Up Crew	230,000
Roof Repair of City Buildings	550,000
Fire Department EMS Fee Study	50,000
Fire Department First Responder Wellness App	45,000
Fire Department Standards of Coverage Study	150,000
Fire Department Furniture & Equipment	269,000
Total Proposed Budget Items	\$1,560,040

The City Council can provide direction to remove these line items from the preliminary operating budget. Additional items can also be considered to close the budget gap, the following are those that have been stated by City Council in previous public meetings:



CITY of ESCONDIDO

STAFF REPORT

Description	General Fund Budget Amount
A hiring and salary freeze for all City employees could be enacted, resulting in estimated General Fund savings of \$2 million and \$3 million CityWide in FY2022/23. To move forward with this option, the City would be required to engage in a Meet and Confer process with each bargaining unit.	\$2,000,000
The annual support the City provides to numerous community organizations, either through direct payments of expenses such as utilities, staff support of community events, reduced user fees that benefit the community, and other City services, could be eliminated.	Between \$6,000 - \$5,600,000

If the City Council has additional proposals, Staff will include those for consideration in the FY2022/23 Operating Budget that will be presented at the June 8, 2022 meeting. It is also important to note that the community engagement and outreach regarding the City’s budget and projected operating deficit will continue after this fiscal year’s budget is adopted. The City Manager has set aside funds in the budget to enhance the dialogue with the community, evaluate the services the City provides, and determine the right size of the organization to continue to provide those critical City services while addressing the high priorities of the community.

REVENUE PROJECTIONS

The projected Fiscal Year 2022/23 General Fund revenue estimate is \$118.3 million. The Fiscal Year 2021/22 amended revenue is the starting point to forecast revenue in the next fiscal year based on factors such as economic indicators, development in the City, past revenue history, and ongoing impacts from the COVID-19 pandemic. The FY2022/23 projected operating revenue is estimated to increase \$6.8 million or 6% over the FY2021/22 amended revenue projection. The following are the basic components underlying the revenue projections in FY2022/23, followed by an explanation of each category in the following paragraphs:

Revenue	FY2021/22 Amended	FY2022/23 Projected	Change	%
Sales Tax	\$46,347,300	\$50,012,200	\$3,664,900	8%
Property Tax	30,925,000	32,350,100	1,425,100	5
Other Taxes	13,680,000	14,617,860	937,860	7
Charges for Services	10,169,710	10,698,650	528,940	5
Intergovernmental	3,341,000	3,450,000	109,000	3
Fines & Forfeitures	908,000	832,500	(75,500)	(8)
Permits & Licenses	1,412,500	1,778,500	366,000	26



CITY of ESCONDIDO

STAFF REPORT

Investment and Rental Income	4,313,000	4,350,920	37,920	1
Other Revenue	323,000	166,500	(156,500)	(48)
Total Operating Revenue	\$111,419,510	\$118,257,230	\$6,837,720	6%
One-Time Revenue	1,056,680	-	(1,056,680)	(100)
Total Revenue	\$112,476,190	\$118,257,230	\$5,781,040	5%

Sales tax revenue is highly sensitive to economic conditions and is impacted by the levels of unemployment, consumer confidence, and per-capita income that drive spending and growth in sales tax receipts. Over the past two years, since the onset of the COVID-19 pandemic, the U.S. economy has swung from the deepest recession on record to a quick recovery and a surge of inflation. The sales tax revenue collected by the City was at record highs leading into 2020, but the economic impacts of the restrictions due to COVID-19 reduced the FY2019/20 revenue by \$2.0 million or 5% from the prior fiscal year and an additional decline of 3% was expected in FY2020/21. However, 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 fostered an economic environment in which consumers' buying power remained intact and the demand to spend on taxable goods significantly increased during the fiscal year. Overall, the City's local economy experienced a fairly strong recovery as well and as a result, sales tax revenues distributed to the City in FY2020/21 increased by \$7.6 million or 21% from the prior year.

There are now indicators that the economy could slow once more. The fiscal support through Federal programs, which assisted in pushing up demand in 2020 and 2021 through stimulus spending, has expired. Although wages have been increasing nationwide, inflation has been rising faster, leading to a decrease in purchasing power which could hurt consumer demand. On the other hand, the combination of Federal stimulus programs and limitations on household spending for certain items, such as travel, have enabled consumers to save, which could prop up spending leading to continued sales tax growth in the next fiscal year.

The City works closely with its sales tax consultant, AvenuInsights, in projecting sales tax revenue. Based on AvenuInsights' 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 increase in FY2022/23 by 8% to reach \$50 million.

The largest economic segments in the City are transportation and receipts from the County Pool. Together these segments generate 57% of the total sales tax revenues. The transportation segment includes new and used auto sales and service stations, and is projected to increase by 7% or \$1 million from the prior year. According to the California Auto Outlook published by the California New Car Dealers Association, the demand for new vehicles may ease in calendar year 2022 due to slower economic growth, increasing inflation, and rising interest rates, but lean inventories will continue to be the controlling factor. As a result, softening demand might reign in some of the upward pressure on vehicle prices, but it's not likely to have an impact on sales levels.



CITY of ESCONDIDO

STAFF REPORT

The construction sales tax segment accounts for revenue generated from building materials, including both wholesale and general retail, and is projected to increase by 2.6% from the prior year. This is due to an increase in the price of goods, such as lumber and steel, and an increase in ongoing development and construction projects in the City.

The economic sales tax category, which had been negatively impacted throughout the pandemic, is general retail sales in brick and mortar stores like family apparel, department, and electronics/appliance stores. This segment is projected to increase by 3.6% compared to the prior fiscal year as consumers slowly return to pre-pandemic spending habits. Conversely, online sales, which increased by more than 27% compared to pre-pandemic levels, are projected to increase by approximately 7.3% from the prior year, and continues to impact the growth in general retail as consumer shop more online.

Property tax revenues also represent a major funding source for the City at 27% of the General Fund. The major factors influencing property tax revenue are the annual inflation adjustment under Proposition 13, number of home sales, and increased median home prices. In accordance with State law, property is assessed at actual full cash value and the maximum tax is 1% of the assessed valuation. Proposition 13, passed by California voters in 1979, specified that an assessed value may increase at the rate of the Consumer Price Index, not to exceed 2% per year based on the 1979 value, unless the property is improved or sold to establish a new market value. The overall property tax revenue is projected to increase approximately 5% from the prior fiscal year budgeted amount. 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.

Also included in Property tax revenues is the Property tax in lieu of Vehicle License Fees (“VLF”) which is estimated to increase by 3% to reach projected revenue of \$16.1 million. This revenue is in addition to the regular apportionment of property taxes received. In 2004, the Legislature permanently reduced the Vehicle License Fee rate from 2% to 0.65% and compensated cities for their revenue loss with a like amount of property taxes, dollar-for-dollar. Each agency’s property tax in lieu of VLF allocation increases annually in proportion to the growth in gross assessed valuation in the City based on the prior year assessment role.

Other taxes, which include franchise fees, Transient Occupancy Tax, business license fees, property transfer tax and the Redevelopment Property Tax Trust Fund (“RPTTF”) residual payment, account for 12% of General Fund revenue. These other taxes are projected to increase by 7% to reach projected revenue of \$14.6 million. 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) for trash collection services. Overall franchise fee revenues are projected to be \$8 million, an increase of 7% from the prior year. Revenue growth is projected based on population, inflation factors, and historic revenue trends. In addition, due to continued reopening of the economy and pent up demand for travel, Transient Occupancy Tax is projected to increase by 29% to reach \$2.2 million.



CITY *of* ESCONDIDO

STAFF REPORT

Charges for services are projected to increase compared to the prior fiscal year with estimated revenue of \$10.7 million. Charges for services include paramedic fees and Community Services fees for recreational and community activities. Revenue estimates are based on the projected number of facilities and classes, number of participants, fee levels, and staff's estimate of demand for programs and services.

Permits and licenses that are collected for building, plumbing, electrical, mechanical, fire code and mobile-home permits are projected to increase by 26% from the FY2021/22 budget amount to reach projected revenue of \$1.8 million. This is due to increases in the number of new building permits from several large development projects located in the City.

Fines and forfeitures are projected to decrease slightly from the prior fiscal year to reach \$832,500. Fines and forfeitures are collected by the City for vehicle code fines, parking ticket fines, other court fines, code enforcement citations, and impound fees.

Investment and Rental Income includes income from City-owned properties and interest earned from investing activities. This revenue is projected to increase by 1% to reach revenue of \$4.4 million. The City plans to prepay the annual unfunded accrued liability ("UAL") for the Safety and Miscellaneous Plans in July 2022, which will result in interest savings to the General Fund. The General Fund is responsible for payment of 100% of the Safety Plan and approximately 56% of the Miscellaneous Plan.

Other Revenues or miscellaneous receipts projections have been decreased by approximately \$156,500 to reflect the actual revenue received in prior fiscal years for certain accounts.

One-time revenue budgeted in Fiscal Year 2021/22 accounts for fire assistance reimbursements of \$1.1 million. The City is not currently budgeting any one-time revenue in Fiscal Year 2022/23. The City's financial policy allows for the use of one-time resources to pay for non-recurring expenditures, provide transitional funding of operations for a limited time period, add to reserves, or pay down unfunded liabilities.



CITY of ESCONDIDO

STAFF REPORT

OPERATING BUDGET

The total proposed Fiscal Year 2022/23 General Fund Operating Budget is \$128.5 million. It has increased by approximately \$9.9 million or 8% compared to the revised Fiscal Year 2021/22 Operating Budget. The following chart shows General Fund expenditures by department and compares the total FY2022/23 projected expenditures to the current fiscal year revised operating budget.

Department	FY2021/22 Revised Expenses	FY2022/23 Projected Expenses	Change	%
General Government Services	\$6,740,760	\$7,110,310	\$369,550	5%
Community Services	9,073,750	9,893,430	819,680	9
Community Development	5,094,590	5,148,680	54,090	1
Engineering	2,820,380	2,940,680	120,300	4
Public Works	12,485,090	13,479,080	993,990	8
Police	49,097,170	53,258,950	4,161,780	9
Fire	28,965,040	31,290,020	2,324,490	8
California Center for the Arts	2,412,680	2,730,260	317,580	13
Other Expenses	1,936,450	2,669,400	732,950	38
Total Expenditures	\$118,625,910*	\$128,520,810	\$9,894,900	8%

**Excludes FY2020/21 Carryover Requests of \$681,750*

As noted earlier, certain items were incorporated into the proposed operating budget that reflect the community priorities received as part of the City's public engagement process. The following are additional budget highlights for General Fund Departments.

General Government Services

General Government Services include the following departments: City Council, City Manager, City Attorney, City Clerk, City Treasurer, Finance, Human Resources, Risk, Information Systems, Enterprise Software and Web Administration, and Geographic Information Systems ("GIS"). Significant budget highlights include the addition of a Management Analyst position to the Finance Department budget at an approximate annual cost of \$112,800 to oversee the City's grant application and management activity, to better leverage federal and state funding opportunities. A Human Resources Analyst position, previously eliminated in 2004 due to budgetary cuts, was added back to the Human Resources department budget at an approximate annual cost of \$76,000 to assist with the increased workload from ongoing employment and recruitment efforts. The Real Property division was transferred to the City Manager's Department to better leverage these functions as an Economic Development tool. The



CITY of ESCONDIDO

STAFF REPORT

associated expenses were transferred from the Engineering Department budget, so there was no impact to total General Fund expenses.

Community Services

Community Services includes the following departments: Communications, Digital Media Services, Recreation, Library Services, Older Adult Services, and Senior Nutrition. These combined department operating budgets total \$9.9 million in FY2022/23 and have increased \$819,680 or 9% over the prior year.

As part of Communications, Digital Media Services staff ensure that residents have access to high quality broadcasts of City Council meetings and communicate important information to the public regarding policies, events, services, and activities of City government. At the recommendation of the City Council Boards and Commissions subcommittee, an additional full-time Digital Media Technician position has been added in order to record and broadcast Board and Commission meetings, which increased the operating expenses by \$77,240. Due to the increase in equipment usage over the past two years to support virtual and hybrid meetings, an annual maintenance contract of \$5,000 has been added to extend the life of some of the City's aging equipment.

The proposed increase in expenditures for Community Services is predominantly attributed to an expansion of the After School Program (ASP) in partnership with the Escondido Union School District (EUSD) but will be offset by the revenue generated through the program. EUSD requested to expand the City's ASP service from two to six schools. As the lowest-cost option available, this provides a tremendous benefit to working parents. To offset the increased expenses that will be incurred by the City, EUSD will be utilizing funding from their Expanded Learning Opportunities Program (ELOP) to reimburse the City for program administration.

Community Development

Community Development includes Planning, Code Compliance, and Building. These departments guide the physical development of the City, protect life and property through the application of building codes and standards, and enhance the image and appearance of the City. These combined department operating budgets total \$5.1 million and increased 1% compared to the prior year primarily due to increases in employee services.

Public Works

Public Works includes the Streets and Parks Department operating budgets. The Streets Department is responsible for filling potholes, maintaining sidewalks, cleaning storm water channels, replacing traffic signs, sweeping and lane striping City streets, and graffiti eradication. The Parks Department maintains the City's parks, median and parkway landscaping, open spaces, trees, and landscaping at City facilities. Proposed FY2022/23 operating expenses increased by \$993,990 or 8% from the prior fiscal year. Significant budget changes include the transfer of the Deputy Director of Public Works to the Streets Department from the Building Maintenance Fund to better reflect the current responsibilities of the



CITY of ESCONDIDO

STAFF REPORT

position. The City is currently experiencing material cost increases for concrete, asphalt, graffiti supplies, and added costs for sweeper broom replacements which is expected to continue into the next fiscal year and have been included in the total operating supplies budget.

An additional \$230,000 has been proposed for the purchase of additional equipment for the homeless encampment clean-up crew needed to support the demand for service around homeless encampment clean-up, patrolling hotspots, and removing refuse – a top priority identified by residents.

Police

The Police Department improves community safety, enhances crime prevention, and provides emergency response. Overall, the Police Department's costs are increasing by \$4.2 million or 9% compared to the prior year to reach projected expenditures of \$53 million. Each year, the Police Department receives approximately \$2 million in grant, task force, and asset forfeiture funding. These funds augment the General Fund operating budget and provide the resources required to add two criminal intelligence positions to provide proactive enforcement through crime prevention, intervention and suppression efforts although additional funding is needed to continue to maintain police services and reduce crime. The proposed budget also includes contract-negotiated animal control cost increases as well as additional funds for the Body Worn Camera and Conducted Energy Devices contract (commonly known as tasers).

Fire

The Fire Department provides emergency operations, emergency preparedness, and fire prevention services to safeguard lives and property. The FY2022/23 operating budget reflects an increase of \$2.3 million or 8% increase compared to the prior year to reach projected expenditures of \$31.1 million. Due to increases in call volume and the costs of supplies, total Emergency Medical Supplies such as oxygen and pharmaceuticals increased by \$120,000. The increased call volume has also led to a more rapid deterioration of personal protective and safety equipment.

The proposed budget also includes an increase in Professional Services/Contracts for the following activities. An increase in the quality assurance fees of \$74,800 is due to an increase in call volume. Funds to conduct an EMS fee study are proposed to defensively determine the appropriate amount the City should be charging for EMS services, estimated at \$50,000. Contract services also include a first responder wellness app & wellness counseling (\$45,000), a standards of coverage study and strategic plan consultant estimated at \$150,000 (that has not been completed since 1999), and a training tower pump service contract of \$15,000. Again, additional locally controlled funding is needed to support local fire protection and prevention, paramedic and emergency medical services.

Other Expenses

Other Expenses accounts for expenditures that are not directly chargeable to other General Fund departments as well as funding for community events. The combined budgets total \$2.7 million in



CITY of ESCONDIDO

STAFF REPORT

FY2022/23 and include expenditures for contractual salary and benefit obligations, various CityWide membership fees, consulting fees necessary for the preparation of expected 2022 Ballot Measures, and direct support provided by the City for the Community Fireworks program, Cruisin' Grand, and the Christmas Parade.

Enterprise Funds

The City's Enterprise Funds account for the financial activity of the City's water utility and the wastewater utility. The costs for providing these services to the public are recovered through user charges. Both the Water and Wastewater funds are investing in technology to reduce costs and maximize efficiencies. Below is a brief description of each department and a summary of the significant changes in their FY2022/23 Operating Budget.

Water Fund

The Water Fund operates the Water Treatment Plant that supplies water to approximately 26,000 residential, commercial, and agricultural customers in the City. This Department also provides maintenance on the Escondido Canal that carries untreated water 14 miles from the intake on the San Luis Rey River to Lake Wohlford. The Department's Lakes and Open Space Division maintains Daley Ranch, Dixon Lake, and Lake Wohlford that provides fishing and boating to the community.

The Water Fund budget increased by \$3.7 million or 6% compared to the prior year. In order to manage the increasing environmental regulatory needs for both the lakes and the treatment plant and distribution system operations, a Management Analyst position was added. Responsibilities will include water conservation, hazmat and hazardous waste activities, reporting, and training. To keep pace with increases passed through from the San Diego County Water Authority, the budget for purchased water costs increased by \$600,000. The preliminary budget also includes increases to water treatment chemicals due to the ever-increasing costs of manufacturing and delivering these products, especially during the COVID-19 pandemic and the increase to Utilities, specifically electricity, is due mostly to rising costs in power.

Wastewater Fund

The Wastewater Fund operates the Hale Avenue Resource Recovery Facility ("HARRF") for the effective treatment of wastewater within the City's jurisdiction. The Recycled Water division produces recycled water from the HARRF and distributes it to various City landscape irrigation customers including golf courses, school fields, City parks, and green belts. The Environmental Programs Division administers a number of programs relating to water, wastewater, and storm water compliance.



CITY of ESCONDIDO

STAFF REPORT

The Wastewater Fund budget increased by \$1.4 million or 4.4% compared to the prior year. These increases were primarily due to employee service cost increases of \$512,210 and increases to Maintenance and Operations to continue to upgrade the City's lift stations to replace old motor starters, upgrade/replace relay logic controls with programmable logic controllers (PLCs), and to further increase plant and lift station security with additional cameras in strategic locations.

Other Funds

The following "Other Funds" which propose an increase or decrease of more than 10% as compared to the prior year adopted budget are as follows:

Vehicle Parking District

This fund was established to account for transactions related to the maintenance and operation of City-owned public parking lots. Funding is provided by a transfer from the General Fund. Operating expenses are projected to increase by 11.8% or \$11,860 due to increases in maintenance and staff costs.

Reidy Creek Golf Course

The Reidy Creek Golf Course fund accounts for the transactions of the Reidy Creek Golf Course managed by JC Resorts. Due to the increase in activity at the course and continued popularity of Disc Golf, the fund is projecting a \$177,300 or 19% increase in operating revenue from the prior year with no transfer from the General Fund. Operating expenses are projected to rise by 13% or \$108,804 due to the increase in maintenance and staff costs needed to support the increase in activity.

Successor Agency – Housing

This fund was established to account for the continued administration and oversight of housing obligations after the elimination of the redevelopment agency. Due to changes in staff positions and a reallocation of resources, the proposed FY2022/23 operating budget increased by \$131,340 or 34.8%.

Mobilehome Park Management

This fund was created to account for transactions related to the management of Mountain Shadows and Escondido Views mobilehome parks. Budgeted operating expenses increased by \$60,040 or 37.6% due to anticipated extraordinary maintenance required at a lot in Mountain Shadows (new retaining wall) that will cost more than excess funds from a single year.

HOME Program

This fund was created to account for transactions related to the HOME grant awards. The resources from the Department of Housing and Urban Development (HUD) are expended for affordable housing programs. To allow for better contract management, additional resources were added to Professional Services which increased operating expenses by 20.6% or \$12,810.



CITY of ESCONDIDO

STAFF REPORT

Building Maintenance

This fund was created to account for financial activity related to the maintenance and repair of all City-owned buildings. Funding is provided through charges to other departments, based on square footage, common area allocation, and specific maintenance projects. In order to provide an appropriate service level to the City, six new positions were added to the department including an HVAC Technician, Electrician, two Plumbers, and two Maintenance Technicians. The employee services costs are partially offset by a decrease in professional services/contracts of about \$98,000. The roofs of many City buildings are at the end of their useful life resulting in deterioration, leaks, and potential mold. In order to address the deferred maintenance of more than \$1 million in roof repairs, the FY2022/23 proposed operating budget includes \$550,000 to address urgent repairs needed to prevent further damage.

Fleet Services

This fund was created to account for transactions related to the maintenance, operation, and replacement of the City's vehicles. Total proposed operating expenses increased by \$1.1 million or 17.6%. Due to the ongoing General Fund structural deficit and budget limitations, the CityWide vehicle replacement plan has been underfunded and the replacement of critical public safety equipment has been delayed. In addition, repair and replacement costs for vehicles has increased substantially due to the impacts of COVID-19, supply chain shortages, and recent inflation. In order to ensure adequate funds are available to provide a safe and reliable fleet of vehicles, additional funds of \$924,560 were added to the City's Vehicle Replacement program.

Network and Systems Administration

This fund was created to account for financial activity related to Network & Systems Administration services, licensing, and hardware. A Network Systems Engineer was added to the department to address network and cybersecurity support, fully funded by the Water and Wastewater funds. Other operating expenses are due to cybersecurity technology and additional technology demands due to COVID-19 as well as additional technology replacement costs anticipated at the Library.

General Liability Insurance

This fund was created to account for transactions related to the City's liability exposure, including its insurance program (excluding property and workers compensation insurance). Insurance premiums have increased by an average of 161% for the City. This increase is not limited to the City, but instead is a result of a hard market cycle. Public entities, across the country but especially in California, and the insurance industry as a whole have witnessed dramatic increases in liability loss development in recent years – meaning the dollar amount of liability claims has grown exponentially. This has resulted in a decrease of available funds for insurance carriers. In an effort to increase confidence levels to rebuild surplus, insurance premiums (across the board) are experiencing drastic rate increases - this is especially true for the general liability and cyber policies.



CITY *of* ESCONDIDO

STAFF REPORT

Although these increases are significant, as a member of PRISM (a member-directed insurance risk sharing pool of various public entities), the City benefits in the insurance market due to PRISM's size and ability to leverage that size in negotiations. The City's PRISM membership ensures it's protecting the City from possible liability exposures at the best cost to its taxpayers.

Property Insurance

The Property Insurance Fund accounts for the transactions related to obtaining property insurance for the City. This fund is proposing a 27.2% or \$302,460 increase to its total operating budget due to an increase in the property insurance premium. The increase is in line with insurance increases industry wide as a result of significant increases of property claims from catastrophic events including wildfires and hurricanes.