



# STAFF REPORT

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May 11, 2022  
File Number 0430-80

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## **SUBJECT**

**FINANCIAL REPORT FOR THE QUARTER ENDED MARCH 31, 2022 AND BUDGET ADJUSTMENT REQUEST –**

## **DEPARTMENT**

Finance

## **RECOMMENDATION**

Request the City Council receive and file the third 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, Director Finance and Michelle Collett, Revenue Manager

## **FISCAL ANALYSIS**

See Below.

## **PREVIOUS ACTION**

On February 2, 2022, the City Council received the Fiscal Year 2021/22 Financial Status Report for the second quarter ending December 31, 2021.

## **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 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.

### **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



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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 include 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 \$107.0 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 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. With this deficit and the need to make cuts to public safety and public works services in mind, the City launched The Escondido Discussion as part of this year's budget process to engage residents and the community citywide on their city service needs and priorities. Through the Discussion, residents identified the following 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



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Through the end of March, operating revenue exceeded the amount projected by about \$3.1 million. The largest source of revenue for the General Fund is sales tax revenue at 42%, followed by property tax revenue at 28%, and other taxes account for 12% of total operating revenue. The economy continues to recover from the initial impacts of the COVID-19 pandemic and resulting restrictions. The pent-up demand for goods, as well as inflation which has led to higher prices for goods, have driven this growth in sales tax revenue. Actual sales tax receipts have increased by \$4.7 million or 19% compared to March 2021. This increase was anticipated in the mid-year financial report to City Council, and the Sales Tax revenue budget was increased by \$4.2 million approved by City Council on February 2, 2022. Property tax and other tax revenue also increased from the prior year by about \$2.2 million. Total operating revenue as of March 2022 increased by \$7.1 million compared to March 2021.

Actual General Fund expenditures are under the projected budget amount by \$4.9 million. This can be attributed to countless conscientious and efficient operational decisions, and an overall climate of fiscal prudence on the part of the entire City workforce. In addition, the City continues to experience expenditure savings from vacant staff positions in multiple departments as recruitments are being performed, often taking much longer than anticipated to fill those positions. In calendar year 2021 the City had the highest turnover rate at 14%. This is not unique to the City given the job market locally. In April 2022, the U.S. Bureau of Labor Statistics and the California Employment Development Department reported that California's labor force — defined as the number of people who either have a job or are looking for work — has grown by nearly 350,000 people in the past year, typically a strong sign of economic recovery. But the state's labor force is still nearly 400,000 people short of the pre-pandemic high. Recent state employment statistics show that there are 29,300 fewer people working in the San Diego area in January 2022 compared to January 2020, just before the onset of the pandemic. As a result of the vacant positions and extended length of recruitments, actual Employee Services costs will be under the FY2021/22 budgeted amount.

### **Reidy Creek Municipal Golf Course Fund**

Overall operating revenues for the Reidy Creek Golf Course have declined by 1% compared to the prior year. This is due to a decrease in the total rounds of golf played at the course, which decreased by 11% compared to the prior year. Total operating expenditures through March were down 4% from the prior year, primarily due to less maintenance on the aging golf carts that were replaced in November. As of March 31, Reidy Creek total net income is \$59,987.

### **Water Fund**

Net operating income for the Water Fund through March 2022 was \$12 million, a decrease of \$579,000 from prior year. Operating revenue increased by about \$474,000 million or 1% compared to the prior year, due to approved rate increases effective March 31. Operating expenses increased by about \$1 million or 3% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.



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### **Wastewater Fund**

Net operating income for the Wastewater Fund through March 2022 was \$9.9 million, an increase of \$2 million from the prior year. Operating revenue increased by about \$2.8 million or 11% compared to the prior year due to increased sewer service charges. Operating expenses increased by about \$767,000 or 4% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

### **Recommended Budget Adjustments:**

Fleet Services is responsible for providing fuels (gasoline, diesel, and propane) for all City vehicles and equipment. On June 16, 2021, the City Council approved a contract with SC Fuels, Inc. for the purchase of unleaded gasoline and diesel fuel. The contract is part of a fuel purchasing consortium sponsored by the City of San Diego. By creating a fuel purchasing consortium, local agencies benefit from collective fuel purchasing. On average, the City saves between \$0.60 and \$0.80 per gallon from regular pump prices. However, due to the recent record high cost of gasoline and diesel fuel, a contract amendment and budget adjustment of \$350,000 is requested to fund fuel purchases for the last quarter of the fiscal year. The FY2021/22 Operating Budget for Fleet Services includes funding for annual fuel purchases of unleaded gasoline in the amount of \$900,000, and diesel fuel in the amount of \$300,000. The budget adjustment will increase the total annual fuel expense to \$1,550,000. The budget adjustment is funded by a transfer from the General Fund (\$268,960), Water Fund (\$54,530), and Wastewater Fund (\$26,510).

### **ATTACHMENTS**

1. Attachment 1 – Third Quarter Financial Status Report FY 2021/22
2. Budget Adjustment