



3rd Quarter Financial Report

OVERVIEW

This report summarizes the City's financial position for the fiscal year through the third quarter ending March 31, 2020 for the General Fund, Water and Wastewater Funds, and the Reidy Creek Municipal Golf Course. 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 March 31, 2020.

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

At the end of the third quarter, General Fund revenues through March are projected to be over budget by about \$3.1 million, mainly due to one-time revenue of \$4.1 million from the sale of Windsor Gardens which is offset by decreases in franchise fees, lease revenue and paramedic transport revenue. Expenditures are projected to be under budget through March by approximately \$2 million. The Projected Results as of March 31, 2020 are based on past history of the timing of revenues collected and expenditure activity. Details of the third quarter operating results are described in this report.

General Fund
Comparison of Projected Budget to Actuals
As of March 31, 2020

	ANNUAL AMENDED BUDGET	PROJECTED RESULTS MARCH 2020	ACTUAL RESULTS MARCH 2020	VARIANCE OVER/(UNDER)
Total Revenue	\$106,949,170	\$65,857,636	\$68,972,832	\$3,115,196
Total Expenditures	108,560,660	79,332,790	77,135,876	(2,196,916)
Other Sources (Uses) – Note 1	586,595	586,595	586,595	-
Total Sources over (Uses)	(1,024,895)	-	-	-

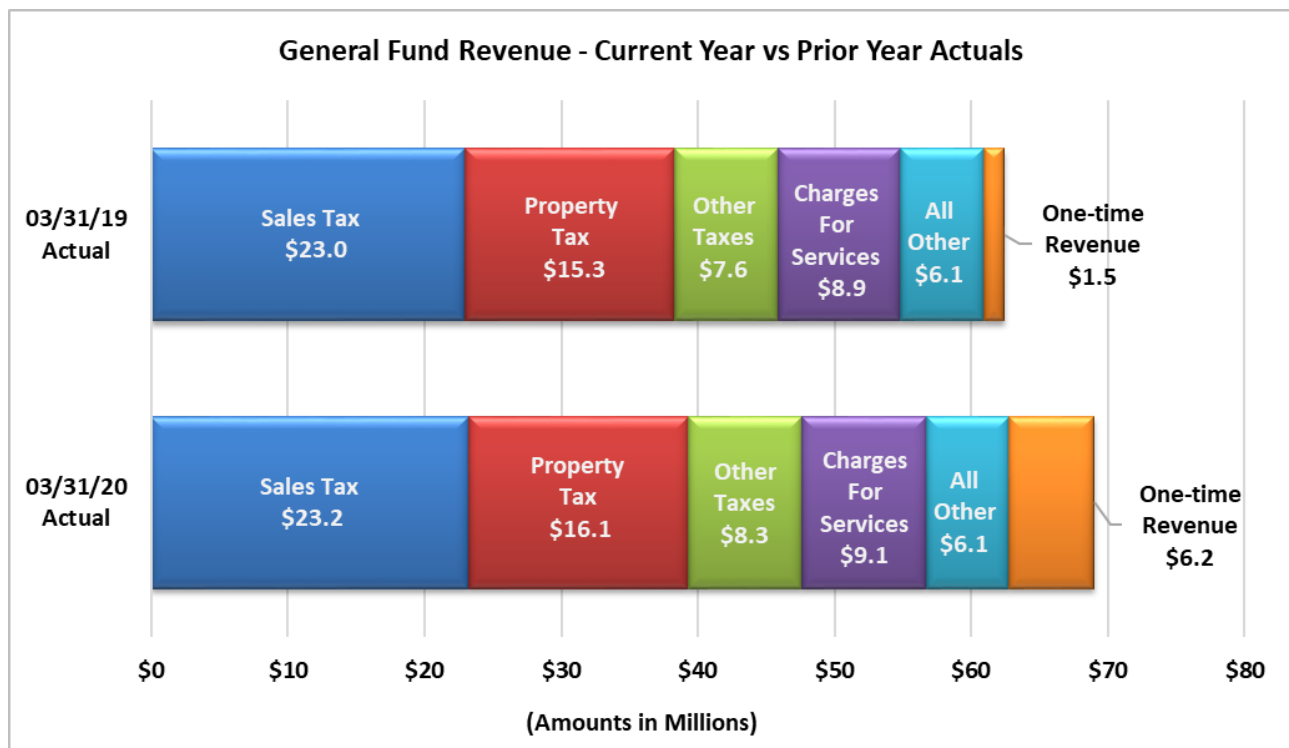
Note 1: Other Sources (Uses) include transfers in and advances from other funds less transfers out and advance repayments. In addition, Council approved the use of General Fund surplus from the fiscal year ending June 30, 2019, during the year-end report to Council on October 23, 2019.

GENERAL FUND REVENUE

Third quarter General Fund operating revenue was up compared to the prior year by 3.0% or about \$1.8 million excluding one-time revenue. Details of the General Fund revenue sources are outlined below.

	FISCAL YEAR 2019/20 BUDGET	ACTUAL REVENUE AS OF MARCH 2020	ACTUAL REVENUE AS OF MARCH 2019	PRIOR YEAR VS CURRENT YEAR VARIANCE OVER/(UNDER)
Sales Tax	\$38,947,000	\$23,238,991	\$22,970,126	\$268,866
Property Tax	29,276,000	16,075,122	15,253,687	821,435
Other Taxes	13,907,285	8,274,604	7,664,544	610,061
Charges For Services	11,926,400	9,072,292	8,896,928	175,364
Intergovernmental	3,117,000	2,316,429	2,044,991	271,438
Fines and Forfeitures	1,226,000	808,326	873,065	(64,739)
Permits and Licenses	944,500	686,786	663,629	23,156
Investment and Other Revenue	5,065,000	2,278,665	2,539,425	(260,760)
TOTAL OPERATING REVENUE	\$104,409,185	\$62,751,216	\$60,906,396	\$1,844,820
One-time Revenue	2,539,985	6,221,616	1,529,540	4,692,076
TOTAL REVENUE	\$106,949,170	\$68,972,832	\$62,435,936	\$6,536,896

The chart below shows the major categories of revenue that have been collected through March 31, 2020 compared to the revenue collected in the prior year through March 31, 2019. Sales tax is the largest General Fund revenue source at 37% of total revenue followed by property tax, other taxes, and charges for services.



Sales Tax

Sales Tax revenues were \$268,000 higher than the previous year or up about 1%. Sales tax revenues distributed to the City as of March 2020 represent sales that occurred between July and January 2020 as well as continued clean-up payments from previous activity due to the California Department of Tax and Fee Administration implementing a new sales tax reporting software system in 2018.

Sales occurring in the third calendar quarter of 2019 (the most recent data available) show a total economic sales tax gain of 3.1% over the third quarter of 2018 with gains in Transportation of 2.7%, Construction of 18.0%, and Food Products of 2.0%. During the same period, declines were seen in General Retail of (3.6%) predominantly from department store sales.

In April 2019, California Governor Newsom signed AB 147 which provided State guidelines for the implementation of the U.S. Supreme Court decision in *South Dakota v. Wayfair*, which addressed how sales tax is collected and remitted from online sales. Under AB 147, California extended sales and use taxes to out-of-state retailers engaged in business in California and requires those retailers to collect and remit sales tax. This includes any retailer that has total combined sales of property for delivery in California that exceed \$500,000 in the preceding 12 months. Online sales taxes are distributed to the City through the San Diego County pool. The City receives a percentage share proportionate to the City's annual sales tax receipts. As a result, sales tax revenues received from the County pool increased by \$675,000 over the prior year.

Property Tax

Property Tax revenue is up \$821,000 or 5.4% compared to this time in the prior year. The largest portions of property tax revenue is distributed by the County in December and April each year and supplemental property tax in lieu of VLF revenue is distributed in January and May. The FY2019/20 Operating Budget projected property tax growth of 3%. The revenues collected are expected to exceed the fiscal year projection.

Other Taxes

Other Taxes includes franchise fee revenues, transient occupancy tax, and business license revenue, in addition to other miscellaneous taxes. Overall, Other Taxes have increased by \$610,000 compared to the prior year.

Redevelopment Property Tax Trust Funds (RPTTF) increased by \$869,666 over the prior year. Each year the City, on behalf of the Successor Agency, submits a Recognized Obligation Payment Schedule (ROPS) to the County Oversight Board to request property tax funds to pay outstanding enforceable obligations of the former Community Development Commission. If funds remain in the RPTTF after payments are made for the Successor Agency's ROPS, they are considered to be residual RPTTF funds, and are distributed proportionally to the taxing entities that would otherwise have received property tax revenues from the former project areas. As obligations are gradually fulfilled and paid off, the amount of residual RPTTF that will be proportionally distributed to the City will increase.

The increases to other taxes are offset by a \$555,000 decrease in franchise fee revenue. 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). Franchise fees from cable companies have decreased over the prior year due to the increasing loss of market share to digital competitors such as Netflix, Hulu, and Amazon. Due to decreases in consumption levels of electricity and gas, franchise fee revenues from SDG&E have also decreased.

In June 2019, City Council approved an amended franchise tax agreement with Escondido Disposal Incorporated (EDI) that went into effect July 1, 2019. The amended agreement included an increase in the Host Fee imposed by the City on EDI for materials accepted at the Escondido Resource Recovery facility on W. Mission Avenue from refuse generators located outside the City of Escondido. This revenue has increased by \$183,000 compared to the prior year.

Charges for Services

Charges for services have increased over the prior year by about \$175,000. This is due to an increase in revenues collected from Community Development including engineering and planning fees. Paramedic billing payments for emergency medical services have increased slightly from the prior year primarily due to the Ground Emergency Medical Transport (GEMT) Quality Assurance Fee (QAF) program established by Department of Health Care Services (DHCS) in early 2019 to provide supplemental Medi-Cal payments to GEMT providers.

Intergovernmental

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and increased \$271,000 compared to the prior year due to the timing of various grant reimbursements. In addition, the amount of state mandated cost claim reimbursements received from the State increased by \$40,000 compared to the prior year.

Investment and Other Revenue

Investment and Other Revenue includes rental income, interest earned from investing activities, and other miscellaneous receipts. The decrease in revenue compared to the prior year is primarily from a decrease in rental revenue. Under the lease agreement for the North County Mall, the City receives a portion of the rental income that Westfield collects from subtenants located at the mall during each calendar year. The revenue received for calendar year 2019 decreased by \$190,000 compared to the prior calendar year due to subtenant vacancies.

One-Time Revenue

The FY2019/20 operating budget included the use of one-time resources of unclaimed deposits as transitional funding to cover the structural budget gap until an additional recurring revenue source has been approved. The one-time revenue of \$6.2 million includes \$1.2 million of unclaimed deposits that became the property of the General Fund in July 2019 after a public notification was performed. In addition, \$4.1 million has been received as part of the property sale at 1600 West Ninth Avenue, commonly known as Windsor Gardens, which was approved by City Council in August 2019. The remaining one-time revenue is due to reimbursements from outside agencies for various services performed by the City as well as fire assistance reimbursements.

GENERAL FUND EXPENDITURES

General Fund total expenditures are up 4.3% compared to the prior Fiscal Year or about \$3.2 million. The FY2019/20 General Fund Operating Budget increased by approximately \$4 million or 4% compared to the FY2018/19 revised Operating Budget, so the General Fund departments are on track to meet this target.

	FISCAL YEAR 2019/20 BUDGET	ACTUAL EXPENDITURES AS OF MARCH 2020	ACTUAL EXPENDITURES AS OF MARCH 2019
General Government	\$6,547,430	\$4,005,355	\$3,712,517
Community Development	7,631,265	4,876,738	4,717,432
Community Services	8,218,060	5,752,282	5,344,930
Public Works	10,321,850	7,373,232	7,398,583
Public Safety	72,250,435	52,597,624	50,427,357
Other Expenditures	3,591,620	2,530,645	2,324,781
TOTAL OPERATING EXPENDITURES	\$108,560,660	\$77,135,876	\$73,925,600

Coronavirus (COVID-19) Impacts on Future Revenues

In order to slow the spread of the COVID-19 disease, several public health orders have been issued in 2020 that require people to stay home aside for essential services or needs and forced many businesses across the state to suspend or reduce operations. The restrictions have limited the City's ability to conduct certain operations and have significantly impacted consumer behavior creating a decrease in spending on certain goods and services. The following is a summary of the anticipated economic effect on City revenues that will be most impacted in the coming months.

Sales Tax

Using a forecast tool developed by the City's sales tax consultant, Avenu Insights & Analytics, the estimated loss of sales tax revenue to the City is approximately \$970,000 for each month the stay at home orders are in place. Industry observers predict that transportation and auto sales will report an 80% or more decline in auto sales while shelter in place regulations are in force and sales are expected to remain depressed once showrooms are fully reopened.

General consumer goods are also expected to see significant drops as society practices social distancing measures. Shopping centers, the North County Mall, and retail stores all will be adversely impacted; however, some of these losses will be offset by the increase in online sales. Analysts predict that consumers will have a lower demand in general for products and services and will postpone many purchases until after the end of the COVID-19 crisis.

Reports show overall construction will continue but at a slower pace. Economic uncertainties may also put pressure on home sales during the coming summer months thus hurting the contractor's sector.

Assuming that the virus is largely contained by the end of September, sales tax analysts project that tax declines will bottom out in the first quarter of 2021 but with only moderate gains for several quarters.

Transient Occupancy Tax

Transient Occupancy Tax, also known as hotel tax, accounts for 2% of General Fund operating revenues, or about \$1.9 million. Assuming hotels have a significant reduction in occupancy in April, May, and June, the reduction in revenue is expected to be about \$525,000.

Recreation Program Revenue

Due to the public health orders, all City recreation facilities and services have been closed. The inability to hold recreation programs has resulted in refunds of fees collected for classes and programs already scheduled as well as the loss of recreation program revenue for as long as the public health orders are in place, estimated to be about \$685,000 through June 30.

Rental Income

Several tenants of City-owned property have reached out to the City to request assistance with their monthly rent. City staff are working with each one of these lessees to defer rent payments through May 31. After that time, the City expects to collect the deferred rent.

Other City Revenues

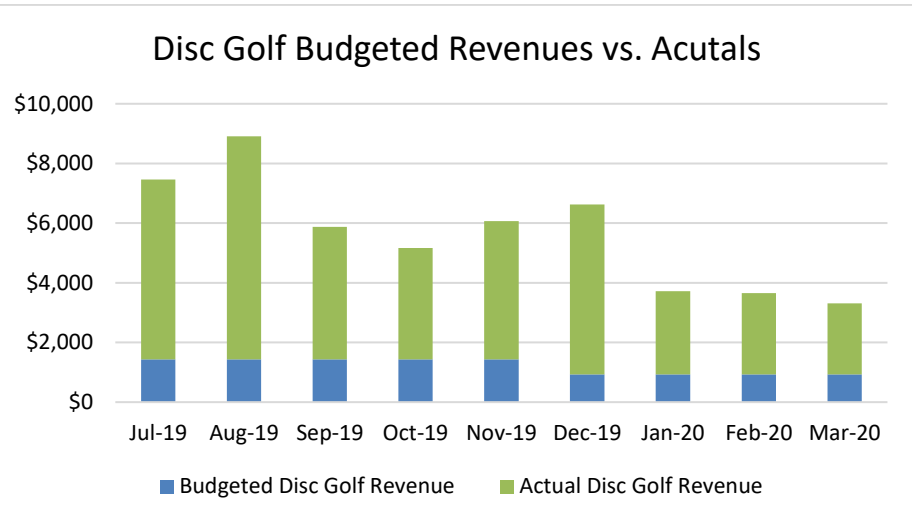
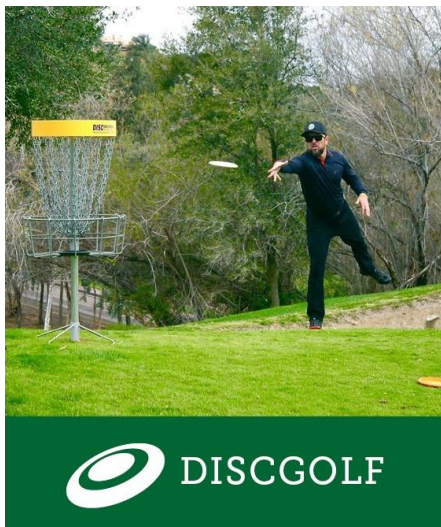
City staff anticipates a decline in many other sources of revenue as a result of COVID-19. Market volatility will effect investment and interest income activity in the fourth quarter of this fiscal year. The Section 115 Pension Trust Fund is managed by PARS, which allows more flexibility in investments than funds held by the City. The moderately conservative portfolio reported a loss of 7.99% for the first quarter of the calendar year ending March 31, 2020. This resulted in a net investment loss of \$193,000 for the fiscal year and an ending cash balance of \$9,883,796.

REIDY CREEK GOLF COURSE FUND

Reidy Creek Golf Course has been closed to golfers since March 22 due to COVID-19. Overall revenues are up 10% compared to the prior year and Disc Golf revenues are coming in at almost triple what was projected. Operating expenditures are up 6% from the prior year due to increased maintenance costs largely due to golf cart repairs needed on aging carts earlier in the year.

Clubhouse improvements for the “Creekside Tavern” have passed planning approval and construction has begun. Funds for these improvements were previously budgeted in a capital project for Reidy Creek Clubhouse Improvements.

Although improvements were being seen in the revenue at the course, depending on the length of closure for the course, the City should expect an overall loss of \$75,000 to \$150,000 more than the \$95,890 that was budgeted for FY2019/20.



REIDY CREEK GOLF COURSE	FISCAL YEAR 2019/20 BUDGET	ACTUAL RESULTS AS OF MARCH 2020	ACTUAL RESULTS AS OF MARCH 2019
Total Revenues	\$564,885	\$381,211	\$345,978
Total Expenditures	(660,775)	(514,759)	(485,409)
Other Sources (Uses) – Note 1	225,890	225,890	80,590
Total Sources over (Uses)	\$130,000	\$92,342	\$(58,841)

Note 1: Other Sources (Uses) include a transfer from the General Fund of \$95,890 to balance the budget for FY2019/20 and a transfer to cover the prior year loss of \$130,000.

WATER FUND

Net operating income through March 2020 was \$8,866,205, an increase of about \$1.4 million from prior year. Operating revenue increased by \$803,720 or 1.8% compared to the prior year due to an increase in water service charges effective March 1. Operating expenses decreased by about \$600,000 or 2% compared to the prior year. Due to an increase in rainfall in late 2019, overall water usage was slightly down resulting in a decrease in the amount of purchased water.

The variance in non-operating revenue and expenses is due to a timing difference in billing Vista Irrigation District for shared operation costs.

WATER FUND	FISCAL YEAR 2019/20 BUDGET	ACTUAL RESULTS AS OF MARCH 2020	ACTUAL RESULTS AS OF MARCH 2019	PRIOR YEAR VS CURRENT YEAR VARIANCE OVER/(UNDER)
Operating Revenues	\$58,075,000	\$44,550,050	\$43,746,330	\$803,720
Operating Expenses	(54,232,245)	(35,683,845)	(36,290,480)	(606,635)
Operating Income	3,842,755	8,866,205	7,455,850	1,410,355
Non-Operating Revenue (Expenses)	1,975,850	68,288	2,469,663	(2,401,375)
Transfer to Capital Projects and Debt Service Payments	(2,184,540)	(1,358,991)	(1,305,940)	53,051
Total Sources over Uses	\$3,633,065	\$7,575,502	\$8,619,573	\$(1,044,071)

WASTEWATER FUND

Net operating income through March 2020 was \$8.2 million, a decrease of \$1 million or 10% from prior year. Operating revenue is in line with the prior year and operating expenditures increased by about \$930,000 or 6% due in large to increases in employee services and professional service charges.

The variance in non-operating revenue and expenses is due to the timing of grant revenue received for the Membrane Filtration Reverse Osmosis facility project.

WASTEWATER FUND	FISCAL YEAR 2019/20 BUDGET	ACTUAL RESULTS AS OF MARCH 2020	ACTUAL RESULTS AS OF MARCH 2019	PRIOR YEAR VS CURRENT YEAR VARIANCE OVER/(UNDER)
Operating Revenues	\$38,400,000	\$25,414,200	\$25,575,395	(\$161,195)
Operating Expenses	(27,051,750)	(17,231,409)	(16,300,122)	931,287
Operating Income	11,348,250	8,182,791	9,275,272	(1,092,481)
Non-Operating Revenue (Expenses)	(1,686,775)	(1,643,928)	3,887,396	(5,531,324)
Transfer to Capital Projects and Debt Service Payments	(6,108,905)	(1,715,000)	(1,750,573)	35,573
Total Sources over Uses	\$3,552,570	\$4,823,863	\$11,412,095	(\$6,588,232)

Coronavirus (COVID-19) Impacts on Utilities

When the State of California enacted the stay at home order in March, the City Utilities department suspended all billing penalties and related water service shutoffs to ensure the health and safety of Escondido residents. Governor Newsom confirmed this action on April 2 by issuing an Executive Order restricting water shutoffs on homes and small businesses. Under the order, the State Water Resources Control Board will be issuing best practices and guidelines on support for the state's water systems.

The American Water Works Association predicts that water utilities will experience a revenue shortfall due to declines in commercial and industrial water consumption due to the COVID-19 crisis; however, this revenue shortfall may be offset by an increase in residential user charge revenue due to stay at home order. City staff are closely monitoring water service and usage during the stay at home order, and preliminary data does not indicate a significant change in operating revenues for the City's Water and Wastewater Funds.

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.