



Fiscal Year 2020/21 Second Quarter
Financial Report

OVERVIEW

This report summarizes the City’s financial position for the fiscal year through the second quarter ending December 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 December 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

The General Fund Fiscal Year 2020/21 operating budget was adopted as a balanced budget without the use of reserves but relied on one-time revenues of \$4.0 million from the Redevelopment Loan payment to the City. As a result of COVID-19, projected operating revenue was reduced by 5% or about \$5.5 million dollars from the prior fiscal year. Cost saving measure were implemented including reductions in staff and services, resulting in a net increase of 1% to the total operating expense budget from the prior fiscal year.

At the end of the second quarter, General Fund revenues are at 35% of the amended budget, while expenditures are at 47%. Actual revenues are higher than projected by about \$3.3 million primarily due to increases in Sales Tax, Property Tax, and revenues from development projects received through the second quarter of the fiscal year. Expenditures are in line with budgeted activity and projected amounts. The Projected Results as of December 31, 2020 shown below are based on past history of the timing of revenues collected and expenditure activity.

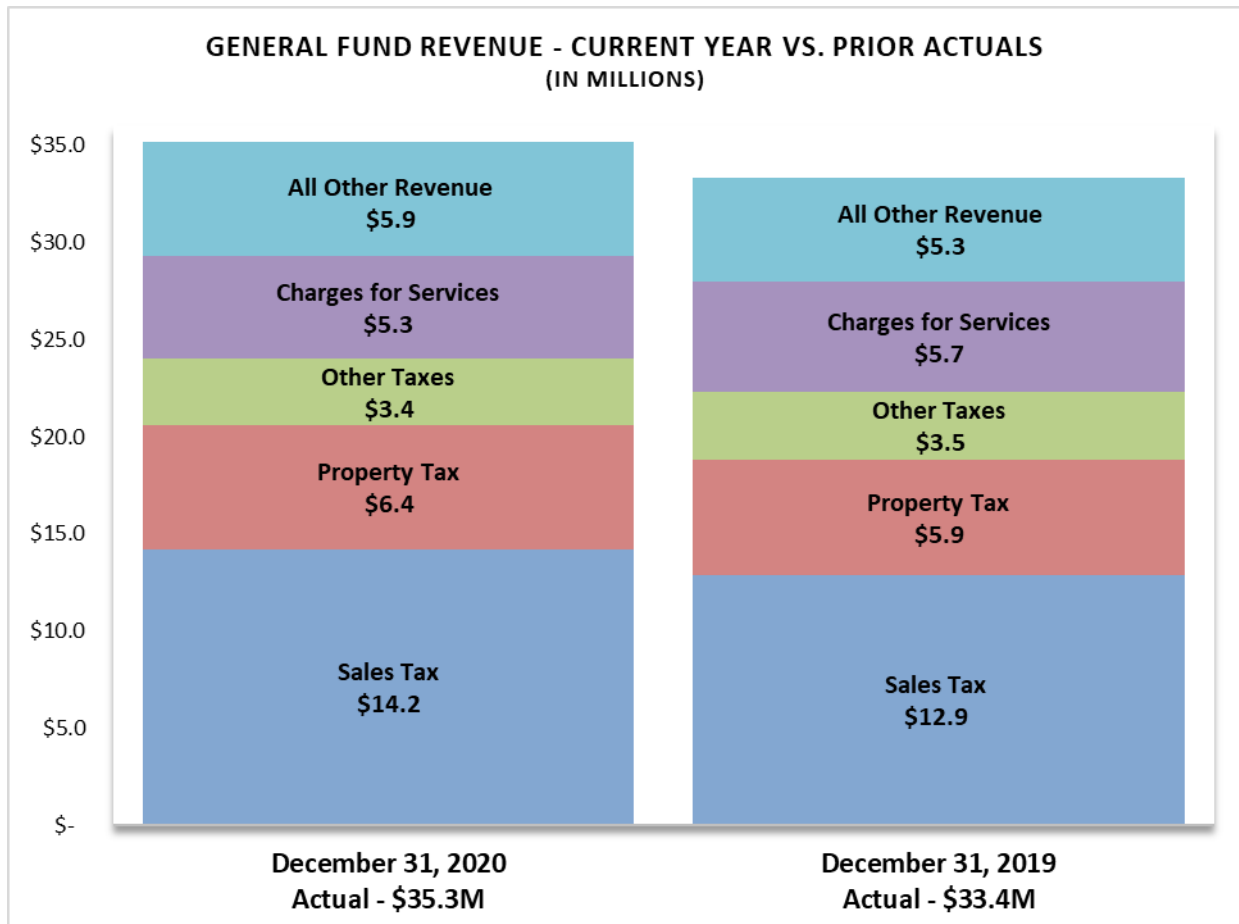
**General Fund
Comparison of Projected Budget to Actuals**

	FY2020/21 AMENDED BUDGET	PROJECTED RESULTS DECEMBER 31, 2020	ACTUAL RESULTS DECEMBER 31, 2020
Total Operating Revenue	\$102,017,820	\$33,576,875	\$35,300,880
Total Operating Expenditures	(107,596,800)	(50,570,495)	(50,395,390)
Operating Transfers	1,581,630	1,581,630	1,581,630
One-Time Revenue (Budgeted)	3,997,350	3,997,350	3,997,350
Total (Uses) over Sources	\$-		

GENERAL FUND REVENUE

	FISCAL YEAR 2020/21 AMENDED BUDGET	DECEMBER 31 2020 ACTUAL REVENUE	DECEMBER 31 2019 ACTUAL REVENUE	PRIOR YEAR VS CURRENT YEAR VARIANCE OVER/(UNDER)
Sales Tax	\$35,991,300	\$14,208,940	\$12,912,750	\$1,296,190
Property Tax	30,022,000	6,350,110	5,867,660	482,450
Other Taxes	13,504,800	3,433,140	3,540,480	(107,340)
Charges for Services	11,852,020	5,341,340	5,731,940	(390,600)
Intergovernmental	3,487,000	2,592,420	2,317,550	274,870
Fines and Forfeitures	1,226,000	422,770	522,500	(99,730)
Permits and Licenses	1,083,020	986,000	492,010	493,990
Rental Income	4,083,000	1,822,700	1,771,570	51,130
Other Revenue	830,200	143,460	200,430	(56,970)
TOTAL OPERATING REVENUE	\$102,079,340	\$35,300,880	\$33,363,860	\$1,943,990

Sales tax is the largest General Fund revenue source at 35% of total revenue followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue that have been collected through December 31, 2020 compared to the revenue collected in the prior year through December 31, 2019.

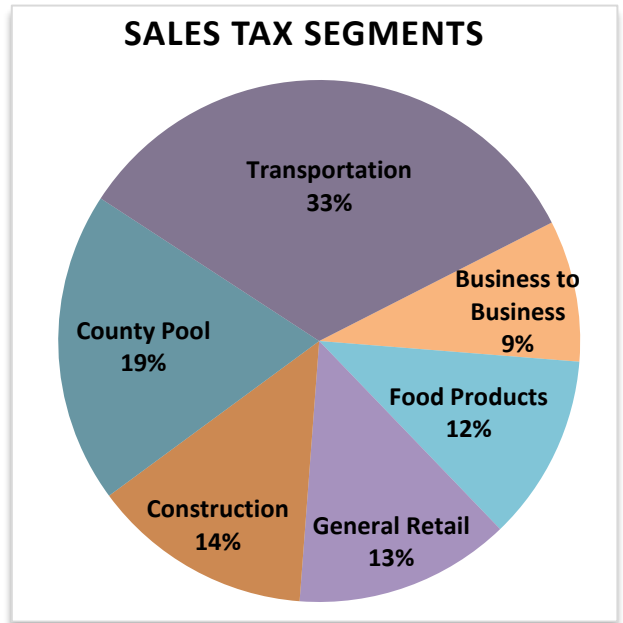


Sales Tax

The Sales Tax revenue projected in the Fiscal Year 2020/21 Operating Budget is \$36 million, a decrease of \$3 million or 7.5% over the FY2019/20 amended sales tax forecast. The decrease was mainly due to projected declines in sales tax receipts from transportation and general retail offset by increases in projected revenue from online sales received through the County Pool.

Sales tax revenues distributed to the City as of December 2020 represent sales that occurred between July and October 2020 and increased by \$1.3 million or 10% from the prior year.

The largest sales tax segment, 33% of total sales tax revenue, is Transportation, which includes new and used auto sales, auto repair shops, and service stations. Revenue decreased by 7% compared to the prior year primarily due to decreases from service stations as the price as well as the demand for fuel decreased due to the COVID-19 pandemic. Also, as projected, revenue from General Retail declined by \$1.0 million or about 18% compared to the prior year primarily due to decreases in receipts from apparel and department stores. Food Products and Business to Business receipts also declined from the prior year by about 5% due to the restrictions and closures in place as a result of the pandemic.



Historically, General Retail has been the second largest sales tax segment for the City; however, as a result of the Wayfair decision and an increase in online sales, revenue received from the County Pool makes up 19% of the sales tax revenue received this fiscal year. 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 and the City receives a percentage share proportionate to the City’s annual sales tax receipts. The Wayfair decision came at an opportune time as the COVID-19 restrictions have pushed consumers from brick and mortar stores to online sales resulting in an increase of \$1.7 million compared to the prior fiscal year and is providing the City with a new, large amount of taxable sales not received in prior years.

The Construction sales tax segment accounts for revenue generated from building materials, including both wholesale and general retail, increased from the prior year by about 9% as homeowners completed housing projects during the stay-at-home orders. Construction and development activity have also increased throughout the City during the fiscal year.

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Property Tax

Property Tax revenue is up \$482,450 or about 8.0% compared to this time in the prior year. The largest portions of property tax revenue are distributed by the County in December and April each year. The FY2020/21 Operating Budget projected property tax growth of 2% due to an increase in overall assessed values of properties in Escondido and the City is on target to reach this amount.

Other Taxes

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have decreased by \$107,340 compared to the prior year.

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 increased by \$222,000 from the prior fiscal year primarily due to the fees collected from EDI.

Transient Occupancy Tax, also known as hotel tax, accounts for 2% of General Fund operating revenues, or about \$1.7 million. Revenue has decreased by \$330,000 compared to the prior year. Due to the COVID-19 pandemic, many hotels have remained closed or partially closed during the first six months of the fiscal year.

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 2020 calendar year is based off of 2019 gross receipts. There are currently 10,444 licensed businesses operating in the City, 127 more than the prior year. Business license revenues have decreased by about \$95,000 from the previous fiscal year through December, but the revenue is on track to meet the budgeted amount of \$1.8 million for the current fiscal year.

Charges for Services

Due to the public health orders, City recreation facilities and services have been restricted or 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 of approximately \$435,000 compared to the prior year.

The decrease in recreation program revenues were offset by increases in charges for development related services, which include engineering and planning fees. Development related fees are paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections, and have increased by about \$342,000 compared to the prior year.

Intergovernmental

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and increased \$274,870 compared to the prior year primarily due to the timing of various grant reimbursements.

Permits and Licenses

Revenue generated from permits and licenses has increased by \$494,000 from the prior year primarily due to building permits. The increase in building permit revenue is due to increases in the number of new residential permits and commercial/industrial permitting to date.

Investment, Rental Income, and Other Revenues

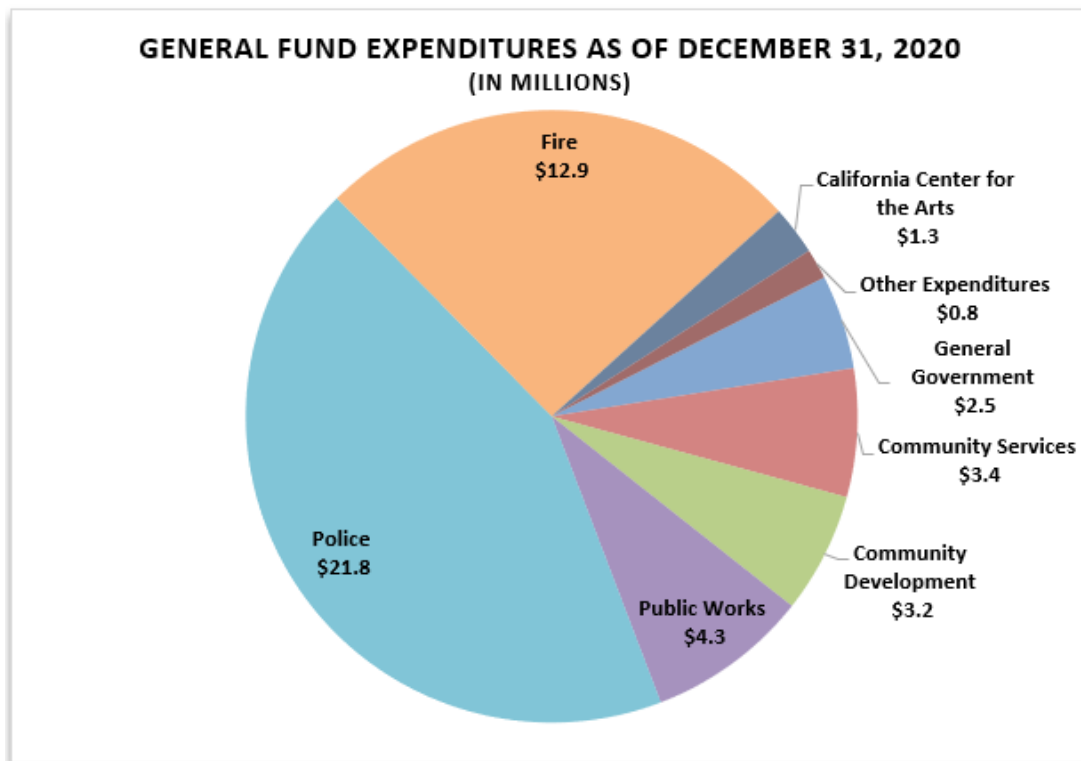
Investment and Other Revenue includes rental income, interest earned from investing activities, and other miscellaneous receipts. This category of revenue is down slightly compared to the prior year primarily due to the timing of miscellaneous receipts.

GENERAL FUND OPERATING EXPENDITURES

The following table includes cumulative second quarter expenditure comparisons for General Fund departments for FY2020/21.

	FISCAL YEAR 2020/21 AMENDED BUDGET	DECEMBER 31 2020 ACTUAL EXPENDITURES	DECEMBER 31 2019 ACTUAL EXPENDITURES
General Government & Administrative Services	\$5,915,550	\$2,541,340	\$2,429,190
Community Services	8,779,470	3,397,010	3,609,500
Community Development	7,217,280	3,170,240	3,118,430
Public Works	10,100,860	4,318,760	4,516,330
Police	45,639,580	21,799,180	21,017,010
Fire	25,798,360	12,916,070	12,390,970
California Center for the Arts	2,443,000	1,334,433	1,603,170
Other Expenditures	1,995,630	750,300	536,350
TOTAL OPERATING EXPENDITURES	\$107,889,730	\$50,227,330	\$49,220,950

General Fund expenditures are tracking as expected at 47% percent of the budget through the first six months of the fiscal year. The General Fund total expenditures are up 2% compared to the prior fiscal year or about \$1.0 million. The FY2020/21 General Fund Operating Budget increased by approximately \$1,037,980 or 1% compared to the FY 2019/20 revised Operating Budget and the General Fund departments are on track to meet this target.



GENERAL FUND RESERVES

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

Budgeted General Fund operating revenue in Fiscal Year 2020/21 is \$102,079,340 and 25% of this amount is \$25,519,835. The current General Fund Reserve balance is \$17,392,319, or 17% of budgeted operating revenue.

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 Fiscal Year 2018/19, 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.

As of December 31, 2020, the Section 115 Pension Trust Fund has a balance of \$14,752,540 which includes City contributions of \$12,855,585 plus investment earnings net of expenses of \$1,896,955. The 3-month rate of return of the investment portfolio is 6.10% and the 1-year rate of return is 10.62%.

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

Section 115 Pension Trust Fund	
Initial Deposit	\$1,984,000
FY2017/18 General Fund Operating Results	1,000,000
Successor Agency Advance Repayment - FY2018/19 Budget	3,716,185
Successor Agency Advance Repayment - FY2019/20 Budget	2,657,860
FY2018/19 General Fund Operating Results	748,000
FY2019/20 General Fund Operating Results	2,749,540
Investment Earnings, net of expenses	1,896,955
Balance as of December 31, 2020	\$14,752,540

REIDY CREEK GOLF COURSE FUND

With everything going on in today's world, golf seems to have found its silver lining. Reidy Creek Golf Course overall revenues are up 82% compared to the prior year. Disc Golf revenues continue to exceeded expectations, coming in at 28% more than budgeted. The course has become an official host to professional disc golf tournaments which also leads to a number of practice rounds.

In August 2020 work was completed on the tunnel to prevent the recurring issue of water entering and causing flooding. Lighting has also been replaced for cart access, improving the overall experience and safety for golfers.

Operating expenditures were up 30% from the prior year. The added activity at the course has led to an increase in expenses, but most of the increase is due to repairs of aging equipment. A majority of the equipment that is being used at the course is original and the repair costs continue to escalate.

If the activity continues through the remainder of the fiscal year, the Reidy Creek Golf Course Fund is projected to end the fiscal year with about \$2,000 of net income without using the budgeted transfer from the General Fund.

	FISCAL YEAR 2020/21 BUDGET	DECEMBER 31 2020 ACTUAL	DECEMBER 31 2019 ACTUAL
Total Revenues	\$620,780	\$483,980	\$266,431
Total Expenditures	(697,190)	(457,350)	(350,282)
Net Operating Deficit	(76,410)	26,630	(83,851)
Budgeted Transfer from the General Fund	76,410	76,410	95,890
Additional Funding Approved at Yearend	-	-	38,025
Total Sources over (Uses)	\$0	\$103,040	\$50,064

WATER FUND

Net operating income through December 2020 was \$11 million, an increase of \$311,962 or 3% from prior year. Operating revenue increased by about \$3.3 million or 10% compared to the prior year, due to an increase in water usage. Operating expenses increased by about \$3 million or 13% compared to the prior year. Because of the increase in overall water usage, the amount of purchased water also increased by about \$2.8 million.

	FISCAL YEAR 2020/21 BUDGET	DECEMBER 31 2020 ACTUAL	DECEMBER 31 2019 ACTUAL
Operating Revenues	\$63,475,000	\$37,204,118	\$33,918,813
Operating Expenses	(55,944,030)	(26,138,253)	(23,164,910)
Operating Income	\$7,530,970	\$11,065,865	\$10,753,903
Non-Operating Revenue (Expenses)	(1,439,120)	1,022,149	492,712
Debt Service Payments	(1,952,560)	(1,823,839)	(1,358,991)
Total Sources over Uses	\$4,139,290	\$10,264,175	\$9,887,624

WASTEWATER FUND

Net operating income through December 2020 was \$5.4 million, a decrease of \$264,414 or 5% from prior year. Operating revenue increased by \$537,646 or 3% compared to the prior year due to an increase in sewer service charges. Operating expenditures increased by \$802,060 or 7% primarily due to an additional pay period that was posted in December 2020 compared to the prior fiscal year due to the timing of the holidays.

	FISCAL YEAR 2020/21 BUDGET	DECEMBER 31 2020 ACTUAL	DECEMBER 31 2019 ACTUAL
Operating Revenues	\$39,900,000	\$17,577,285	\$17,039,639
Operating Expenses	(27,595,230)	(12,106,087)	(11,304,027)
Operating Income	\$12,304,770	\$5,471,198	\$5,735,612
Non-Operating Revenue (Expenses)	(1,630,770)	(258,313)	(864,803)
Debt Service Payments	(3,918,070)	(2,016,536)	(1,800,710)
Total Sources over Uses	\$6,755,930	\$3,196,349	\$3,070,099

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