



FY2022/23 Financial Status Report
Third Quarter Ending March 31, 2023

OVERVIEW

This report summarizes the City’s financial position through the third quarter ending March 31, 2023 for the General Fund, Water Fund, and Wastewater Fund. 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, 2023.

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 has benefitted from improved revenue activity since the recovery period of COVID-19, from the end of 2020 through 2022. However, revenues have not kept pace with the growing costs of providing municipal services, and the City’s structural budget gap remains.

The adopted FY2022/23 operating budget reflects an overall strategy of fiscal prudence on the part of the entire City workforce by maintaining a hardline on expenditures while also continuing to provide core City services including Public Safety, Public Works, Community Services, and Development Services, as well as the community’s priorities. However, to maintain a balanced budget and yet continue an appropriate level of service and address City priorities, the adopted FY2022/23 budget utilizes \$3.7 million from the American Rescue Plan Act, a short-term, one-time source of funds.

Total budgeted operating revenue is projected to increase by 6.4% to reach \$119.7 million and the adopted expenditure budget of \$125.2 million increased by approximately \$8.1 million or 6.9% compared to the revised FY2021/22 operating budget.

At the end of the third quarter, General Fund revenues are at 65% of the amended budget, while expenditures are at 71%, shown in the table below. The following report provides an analysis of General Fund financial activity through March 2023.

General Fund Comparison of Projected FY2022/23 Operating Budget to Actuals

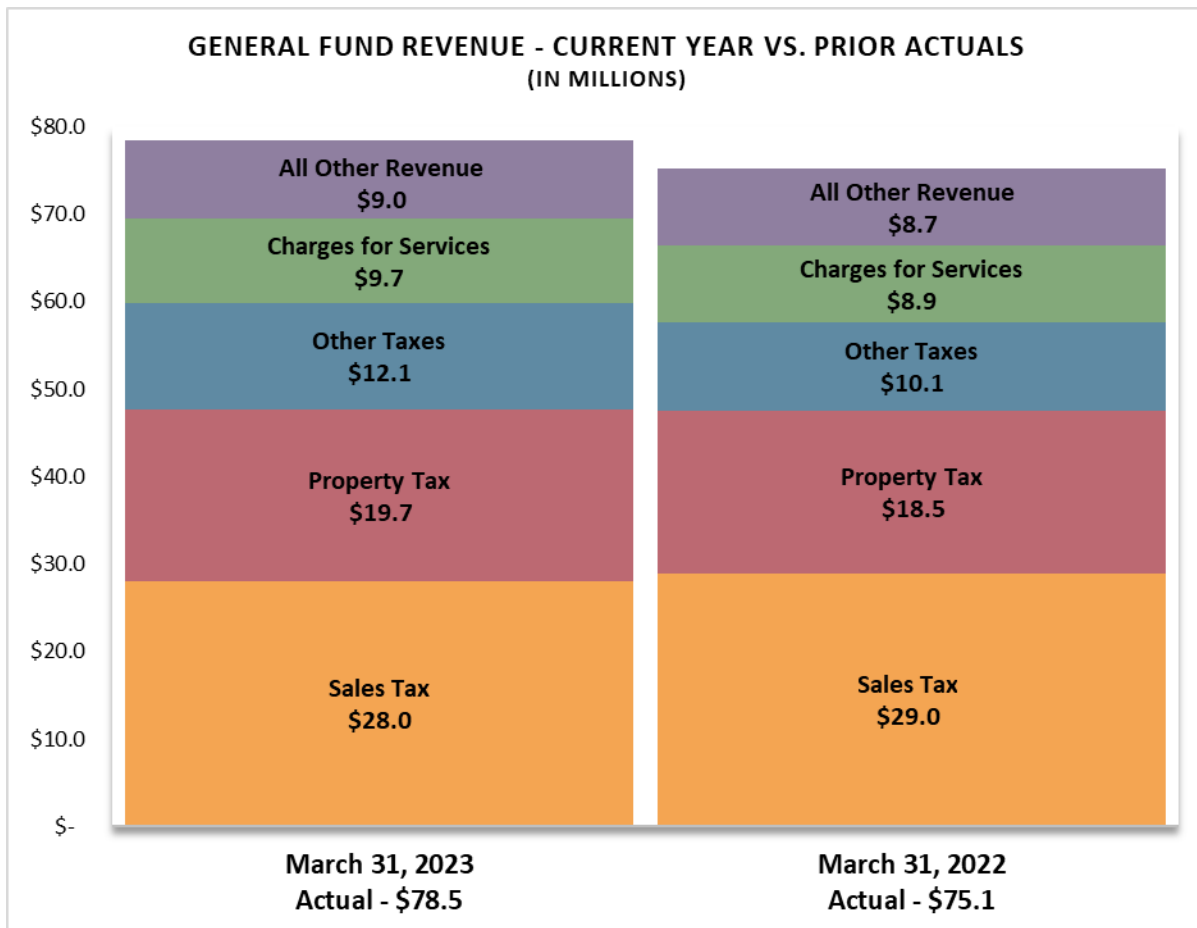
	FY2022/23 ADOPTED BUDGET	FY2022/23 AMENDED BUDGET	ACTUAL RESULTS MARCH 2023	%
Total Operating Revenue	\$119,687,230	\$120,534,950	\$78,487,010	65%
Total Operating Expenditures	(125,186,930)	(127,962,170)	(91,100,125)	71%
Other Sources (Uses)	1,764,670	1,764,670	1,764,670	-
Net Operating Surplus / (Deficit)*	(\$3,735,030)	(\$5,662,550)	(\$10,848,435)	

*FY2022/23 projected Operating Budget deficit closed with one-time revenue from the American Rescue Plan Act.

GENERAL FUND REVENUE

	FY2022/23 AMENDED BUDGET	ACTUAL RESULTS MARCH 2023	ACTUAL RESULTS MARCH 2022	Prior Year vs. Current Year
Sales Tax	51,012,200	27,965,430	28,950,210	(984,780)
Property Tax	32,780,100	19,694,430	18,512,290	1,182,140
Other Taxes	14,659,860	12,128,850	10,088,300	2,040,550
Charges for Services	10,898,650	9,740,890	8,861,390	879,500
Permits and Licenses	1,778,500	1,349,090	1,642,350	(293,260)
Fines and Forfeitures	832,500	492,840	660,460	(167,620)
Intergovernmental	4,055,720	3,871,830	3,845,160	26,670
Rental Income	3,775,920	2,284,070	2,231,930	52,140
Other Revenue	741,500	959,580	357,630	601,950
TOTAL OPERATING REVENUE	\$120,534,950	\$78,487,010	\$75,149,720	\$3,337,290

Sales tax is the largest General Fund revenue source at 42% of total operating revenue followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue collected through March 31, 2023 compared to the revenue collected in the prior year through March 31, 2022.



Sales Tax (\$16.4 million)

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 10% to reach \$51.0 million.

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 pent-up demand for goods, as well as inflation, led to higher prices for goods, increasing the projected sales tax revenue generated within the City.

As a result of high inflation and strong consumer spending, sales tax revenue in Escondido also recovered quickly, increasing by \$5.6 million or 13% in FY2021/22.

Actual sales tax receipts are under the March 2022 amount by \$984,780, indicating that the economy is slowing from the post pandemic surge in spending.

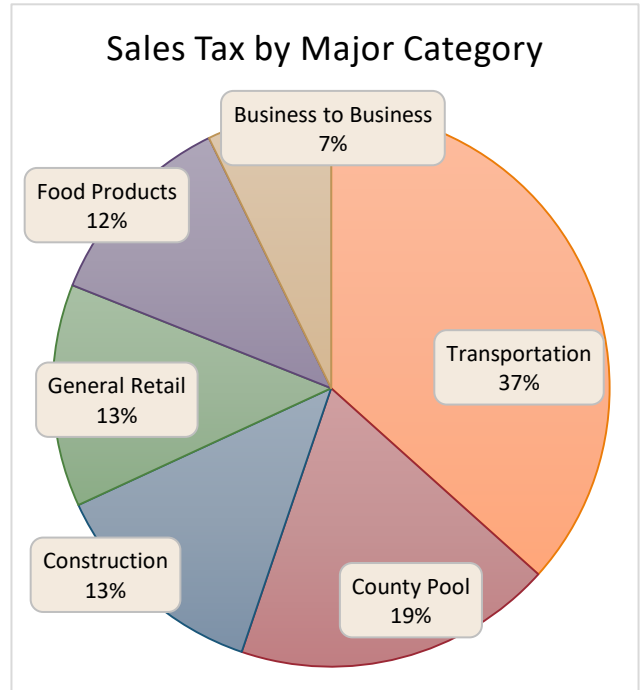
The largest sales tax segment, 37% of total sales tax revenue, is Transportation, which includes new and used auto sales, auto repair shops, and service stations. Sales revenues increased by 4% compared to the same quarter in the prior year primarily due to new auto sales. In 2022, the lack of autos available for sale caused the prices for both new and used vehicles to soar; however, the inventory is finally increasing from historic lows now that the recent supply chain disruptions and computer chip shortages have eased.

Petroleum per barrel costs increased significantly in the spring of 2022, and as a result receipts received from fuel and service stations increased by about 31% compared to the same quarter in the prior year. However, gas prices have steadily dropped for two consecutive quarters. The average per gallon was at its lowest point in December 2022 and is expected to continue to experience downward pressure.

Sales tax revenue received through the County Pool is the second largest sales tax segment accounting for 19% of total sales tax revenue. Effective in April 2019, new taxable sales are distributed to the City under the AB 147 Wayfair decision which extended the sales and use taxes to online and out-of-state retailers engaged in business in California. However, the increase in activity from the countywide pool experienced during the pandemic has slowed; total receipts decreased by 12% compared to the prior year.

The Construction sales tax segment which accounts for revenue generated from building materials, including both wholesale and general retail, increased from the prior year by about 10%. This can be attributed to increases in the price of materials, including lumber and steel, and the continued high demand for home improvements and new construction in the City.

General Retail and Food Products combined make up 25% of the total sales tax revenue for the City and increased by 14% compared to the prior fiscal year. This growth reflects increased foot traffic and buying activity as people return to in-store shopping and indoor dining.



Property Tax (\$19.7 million)

Property Tax revenue increased by \$1,182,140 or about 6% compared to the prior year. The largest portions of property tax revenue are distributed by the County in December and April each year. The FY2022/23 Operating Budget projected property tax growth of 6%. 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.

Other Taxes (\$12.1 million)

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have increased by \$2,040,550 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 \$1.6 million from the prior fiscal year primarily due to an increase in fees collected SDG&E for electric generation from the Escondido Palomar Energy Plan which can also be attributed to the higher prices for gas and electricity.

Transient occupancy tax, also known as hotel tax, increased by \$110,230 compared to the prior year. The tourism industry was impacted significantly as a result of the closures, and many forecasted its recovery would take much longer than it has. In the prior fiscal year transient occupancy tax receipts increased by 49% from the pre-pandemic levels in March 2020. It is expected that those receipts will remain flat going forward as the activity stabilizes in the industry.

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 2022 calendar year is based off of 2021 gross receipts. Business license revenues increased by \$211,105 compared to the prior fiscal year.

Charges for Services (\$9.7 million)

Charges for Services include paramedic fees, Community Services fees for recreational and community activities, and charges for development related services, which include Engineering and Planning fees. Community Service fees have increased by approximately \$415,000 compared to the prior fiscal year primarily due to funding received from the school district to support the After-School Program. Development Services revenue also increased by about \$520,000 million, due to the development projects occurring throughout the City.

Intergovernmental (\$3.8 million)

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, various grants, and revenue received from the fire mutual aid reimbursements. Overall revenue has increased \$26,670 compared to the prior year. The City's Fire Department staff can be deployed to assist other State agencies with responses to fires and other incidents. The California Office of Emergency Services reimburses the City for the time and resources of the staff deployed. As of March 2023, reimbursements of \$605,720 have been recorded.

Permits and Licenses (\$1.3 million)

Revenue generated from permits and licenses decreased by \$293,260 compared to fiscal year 2021/22; however, construction and development activity continues driving building permit revenue compared to previous fiscal years.

Fines & Forfeitures (\$492,840)

Fines & Forfeitures represent fees collected for vehicle code fines, parking ticket fines, other court fines, code enforcement citations, and impound fees.

Investment, Rental Income, and Other Revenues (\$3.2 million)

Investments, Rental Income, and Other Revenue includes rental income, interest earned from investing activities, and other miscellaneous receipts and has increased by \$654,090 compared to the prior year.

GENERAL FUND OPERATING EXPENDITURES

The FY2022/23 General Fund Operating Budget increased by approximately \$6.6 million or 6% compared to the FY2021/22 revised Operating Budget. In order to address an \$8.5 million budget deficit, reductions were made to the proposed operating budget including: reduction in the funding for Fleet Services, removal of new staff positions for Building Maintenance to provide City services that are unable to be outsourced, the management fee to the California Center for the Arts was reduced by \$133,000, and alternative funding sources and reclassifications were proposed for fire equipment, Planning division professional services, a Grant Writer position, and Human Resources Analyst position.

The following table includes cumulative expenditure comparisons for General Fund departments as of March 2023.

	FY2022/23 ADOPTED BUDGET	FY2022/23 AMENDED BUDGET	ACTUAL RESULTS MARCH 2023	% OF AMENDED BUDGET
Administrative Services	\$6,353,860	\$6,713,645	\$4,512,050	67%
Community Services	9,857,530	10,099,310	7,109,020	70
Development Services	7,509,830	7,819,195	5,201,130	66
Public Works	12,543,700	13,254,245	9,344,130	70
Police	52,939,360	53,662,930	38,356,970	71
Fire	30,721,430	31,600,320	23,358,780	74
California Center for the Arts	2,480,730	2,480,730	1,957,930	79
Other Expenditures	2,780,490	2,331,795	1,260,120	54
TOTAL OPERATING EXPENDITURES	\$125,186,930	\$127,962,170	\$91,100,130	71%

The City continues to be impacted by a competitive labor market, as a result of recurring vacant positions and long recruitment efforts there are expenditure savings in regular salary and benefits through March 2023. However, the vacant positions have also increased the overtime expenditures which are at 119% of the amount budgeted for the fiscal year. The increase in overtime expenses will be offset by the savings in employee services.

GENERAL FUND OPERATING EXPENDITURES – COST SAVINGS REDUCTION

In addition to the cuts in expenditures to account for projected annual expenditures savings experienced for items such as employee service savings resulting from vacant positions, the adopted FY2022/23 operating budget includes a cost savings budget reduction of **\$1,000,000**, offset by a Cost Savings Contingency amount of **\$400,000** in the non-departmental section of the budget to give some flexibility in managing available resources to be used throughout the fiscal year under the direction of the City Manager. Based on an analysis of the previous 5 fiscal years of savings, the Cost Savings Reduction line item has been added to individual departments in the General Fund, excluding the Public Safety departments and services.

The following is each department’s plan for meeting the cost savings target through the remainder of the fiscal year:

	<u>Budget Reduction</u>	<u>Department's Plan for Meeting the Cost Savings Target</u>
City Manager	\$100,000	Historical cost savings for the City Manager department was based on vacant positions that have since been eliminated or filled, the City Manager’s Department will likely not meet the Cost Savings Target this fiscal year. For the remainder of the fiscal year, the recommendation is to utilize the Lost Revenue category of ARP funds for high priority economic development contracts.
City Attorney	65,000	The City Attorney’s Department will likely not meet the Cost Savings Target this fiscal year. The historical cost savings of \$65,000 was the result of vacant positions in prior fiscal years. All positions in the department are currently filled. For the remainder of the fiscal year, the recommendation is to utilize the Lost Revenue category of ARP funds
City Clerk	15,000	The City Clerk Department utilizes Temporary Part-Time staff which will not be filled.
City Treasurer	25,000	The City Treasurer’s Department will likely not meet the Cost Savings Target this fiscal year. The historical cost savings of \$25,000 was the result of vacant positions in prior fiscal years. All positions in the department are currently filled. For the remainder of the fiscal year, the recommendation is to utilize the Lost Revenue category of ARP funds.
Finance	125,000	The Finance Department will meet the budget reduction target by utilizing savings in employee services from four vacant positions in the first half of the fiscal year. Three out of the four positions have been filled as of March 2023.
Human Resources & Risk Management	60,000	The Human Resources & Risk Management Departments will meet the budget reduction target by utilizing savings in employee services from two vacant positions this fiscal year, a Senior Human Resources Analyst and Senior Safety Analyst.
Information Systems Administration, Enterprise Software & Web Administration, and Geographic Information Systems	75,000	The Information Systems Department will meet the budget reduction target by utilizing savings in employee services from vacant positions this fiscal year. As of March 2023, there are 4 vacant full-time positions .
TOTAL ADMINISTRATIVE SERVICES	465,000	

	<u>Budget Reduction</u>	<u>Department's Plan for Meeting the Cost Savings Target</u>
Recreation	200,000	The Community Services Department relies on Temporary Part-Time positions for programming. Due to the seasonality of Recreation programs and cyclical nature of these positions, there are vacancies that will result in savings in employee services that will help meet the cost savings reduction target of \$200,000.
Older Adult Services		
Senior Nutrition		
Communications		
Digital Media Services		
Main Library		
TOTAL COMMUNICATIONS & COMMUNITY SERVICES	200,000	
Planning	100,000	The Development Services Department will meet the budget reduction target by utilizing savings in employee services from vacant positions this fiscal year. As of March 2023, there are 6 vacant full-time positions .
Code Compliance		
Engineering		
Building		
TOTAL DEVELOPMENT SERVICES	100,000	
Street Maintenance	140,000	The Public Works Department will meet the budget reduction target by utilizing savings in employee services from vacant positions this fiscal year. As of March 2023, there are 7 vacant full-time positions in the Street Maintenance Department.
Park Maintenance		
Radio Communications		
TOTAL PUBLIC WORKS	140,000	
POLICE DEPARTMENT	150,000	<p>The historical cost savings of \$150,000 calculated for the Police Department was the result of vacant positions in prior fiscal years. In FY2020/21 the Police Department froze 7 full-time positions as a measure to close the budget deficit. However, in FY2021/22 due to an increase in demand for City services around traffic safety and homelessness, two Traffic Police Officer positions were reinstated to improve traffic safety and responsiveness and three police officer positions were reinstated to the budget in order to increase the staffing levels of the COPPS Unit.</p> <p>For the Police Department to meet the budget reduction target of \$150,000, one to two vacant police officer positions would not be filled. Although this would result in employee service savings, the impacts of vacant police officer positions would likely result in overtime to meet minimum staff requirements.</p>

	<u>Budget Reduction</u>	<u>Department's Plan for Meeting the Cost Savings Target</u>
TOTAL FIRE DEPARTMENT & EMERGENCY MANAGEMENT SERVICES	180,000	The historical cost savings of \$180,000 calculated for the Fire Department was the result of vacant positions in prior fiscal years. For the Fire Department to meet the budget reduction target of \$180,000, one to two vacant firefighter paramedic positions would not be filled. Although this would result in employee service savings, the impacts of these vacant positions would likely result in overtime to meet minimum staff requirements at each fire station.

Non-Departmental	95,000	The Non-Departmental budget accounts for anticipated retirement and vacation obligations that occur at the time an employee leaves the City, which are unknown at the time the budget is adopted. The actual expenses incurred as of March 2023 are under the amount budgeted, as a result the department is anticipated to meet the budget reduction target.
TOTAL OTHER EXPENSES	95,000	

CENTER FOR THE ARTS	-	The annual management fee to the Center for the Arts Foundation was reduced by \$133,000 from the Preliminary FY2022/23 budget amount of \$788,370 to \$655,370. The reduction is accounted for in a separate line item in the operating budget.
----------------------------	---	--

TOTAL EXPENDITURE SAVINGS	1,330,000
----------------------------------	------------------

(330,000)	<i>Per direction from City Council on May 11, 2022, Public Safety is excluded from FY2022/23 budget reductions</i>
-----------	--

FY2022/23 Cost Savings Reduction	\$1,000,000
---	--------------------

GENERAL FUND RESERVES

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

Total General Fund budgeted operating revenue in FY2022/23 is \$119,929,230 and 25% of this amount is \$29,982,308. The current General Fund Reserve balance is \$17,392,319, or 15% of budgeted operating revenue, which is below the identified acceptable risk-based analysis adopted by City Council and general government practices.

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 FY2018/19, 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. On December 7, 2022, City Council approved the transfer of the FY2021/22 Successor Agency Redevelopment Loan Repayment of \$2,194,370 and the remaining net resources from the FY2021/22 yearend operating results of \$4,656,850.

On March 31, 2023, the Section 115 Pension Trust Fund had a balance of \$31,248,583 which included City contributions of \$31,166,650 less a loss on investment earnings net of expenses of \$81,933. Prior to FY2021/22, the Trust Fund had a 1-year rate of return of 14%, and the investment earnings had grown to about \$1.4 million. The 3-month rate of return of the investment portfolio is a gain of 3.18%, the 1-year rate of return is a loss of 5.87%, and the 3-year rate of return is 4.46%.

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

Section 115 Pension Trust Fund	
Prior Contributions	\$24,406,430
Successor Agency Advance Repayment – FY2021/22	2,194,370
General Fund Operating Results – FY2021/22	4,565,850
Investment Earnings, net of expenses	(81,933)
Balance as of March 31, 2023	\$31,248,583

WATER FUND

Net operating income for the Water Fund through March 2023 was \$8.9 million, a decrease of \$2.4 million from prior year. Operating revenue decreased by about \$956,000 or 2% compared to the prior year. Operating expenses increased by about \$1.4 million or 4% compared to the prior year due to increases in the costs of employee services, supplies, maintenance, and insurance.

	FISCAL YEAR 2022/23 BUDGET	ACTUAL RESULTS MARCH 2023	ACTUAL RESULTS MARCH 2022	PRIOR YEAR VS CURRENT YEAR
Operating Revenues	\$66,175,000	\$52,111,500	\$53,067,535	(\$956,035)
Operating Expenses	(63,077,690)	(43,174,424)	(41,690,932)	(1,483,492)
Net Operating Income	\$3,097,310	\$8,937,076	\$11,376,603	(\$2,439,527)

WASTEWATER FUND

Net operating income for the Wastewater Fund through March 2023 was \$8.2 million, a decrease of \$1.8 million from the prior year. Operating revenue stayed about the same compared to the prior year. Operating expenses increased by about \$1.8 million or 10% compared to the prior year due to increases in the costs of employee services, supplies, maintenance, and utilities.

	FISCAL YEAR 2022/23 BUDGET	ACTUAL RESULTS MARCH 2023	ACTUAL RESULTS MARCH 2022	PRIOR YEAR VS CURRENT YEAR
Operating Revenues	\$41,200,000	\$29,031,785	\$29,004,797	\$26,988
Operating Expenses	(31,260,310)	(20,878,284)	(19,006,905)	(1,871,379)
Net Operating Income	\$9,939,690	\$8,153,501	\$9,997,892	(\$1,844,391)

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