



STAFF REPORT

May 17, 2023

File Number XXXX-XX

SUBJECT

FISCAL YEAR 2023/24 OPERATING BUDGET BRIEFING –

DEPARTMENT

Finance

RECOMMENDATION

Request the City Council provide direction regarding the Fiscal Year 2023/24 General Fund Operating Budget.

Staff Recommendation: Provide Direction (Finance: Christina Holmes)

Presenter: Christina Holmes

The Preliminary FY2023/24 Annual Operating Budget document can be viewed on the City's website at:
<https://www.escondido.org/budget-information>

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.

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. Revenue-generating opportunities have also been explored that include an evaluation and update to the City's fee schedule for specific services and the formation of the Services Community Facilities District. 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. 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.

To address the predicted structural budget gap for the upcoming fiscal year, Departments were directed to submit their FY2023/24 General Fund operating budget at the same level as the prior year, FY2022/23, where possible. Once all revised General Fund budgets were submitted to the Finance Department, and



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a summary of projected revenue and expenditures was prepared, the General Fund operating budget projected a net operating deficit of \$11.3 million:

	FY2023/24 Proposed Budget
<u>Sources of Funds:</u>	
Operating Revenue	\$127,403,060
Transfer from Gas Tax Fund	2,055,000
Transfer from CFD No. 2020-1 (The Services)	290,900
TOTAL, Sources	\$129,748,960

<u>Uses of Funds:</u>	
Operating Budget	\$140,550,900
Transfer to Reidy Creek Golf Course – Debt Service	364,300
Transfer to Successor Agency – Housing	25,000
Transfer to Vehicle Parking District	104,600
TOTAL, Uses	\$141,044,800

FY2023/24 General Fund Operating Deficit	\$(11,295,840)
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In order to continue to provide core City services including Public Safety, Public Works, Community Services, and Development Services, Staff made the following adjustments to address the \$11.3 million General Fund budget deficit.

CalPERS Normal Cost and Unfunded Accrued Liability Payments

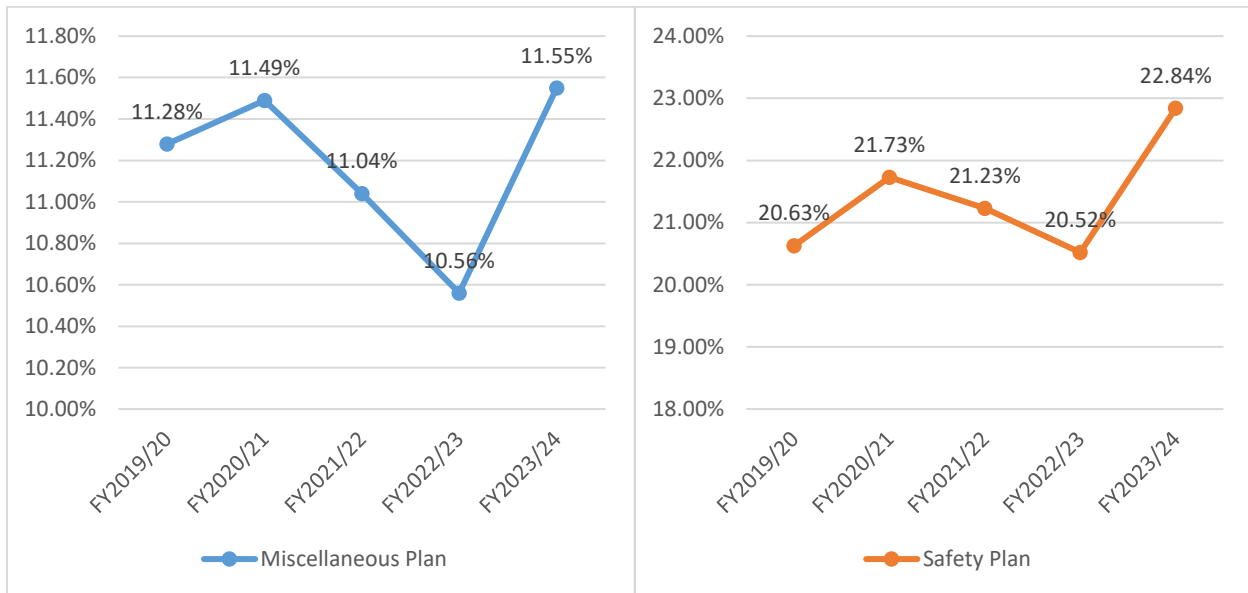
CalPERS expenses for FY2023/24 include a Normal Cost, based on a percentage of employee salaries, and the Unfunded Accrued Liability (UAL) payment, which is determined by CalPERS. The projected payments to CalPERS increased the General Fund deficit by \$1,500,640. This is the result of an increase in the Normal Cost percentage, which will increase from 10.56% to 11.55% for the Miscellaneous Plan and from 20.52% to 22.84% for the Safety Plan.



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Below is a 5-year history of the Normal Cost rates by fiscal year.



The PERS Unfunded Accrued Liability (UAL) portion of PERS will decrease slightly from \$14.4 million to \$14.1 million for the Miscellaneous plan and the Safety Plan will increase from \$10.9 million to \$11.1 million.

Staff are recommending utilizing the Section 115 Pension Trust Fund for the increase in CalPERS costs, estimated at \$1,500,640, for FY2023/24. 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. On March 31, 2023, the Section 115 Pension Trust Fund had a balance of \$31,248,583.

Fleet Services Fund

This fund was created to account for transactions related to the maintenance, operation, and replacement of the City's vehicles. To help alleviate budget shortages, available resources in the Fleet Fund have been used to balance prior year budgets. Since the Great Recession that began in FY2009/10, the Fleet Services Fund has minimized budgetary impacts to the General Fund by deferring purchases, reducing allocations, and using reserve balances.



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As a result of underfunding the Fleet Fund and using reserve balances for many years, there have not been enough funds available to purchase and replace vehicles when needed so other methods have been used for certain purchases. This includes using Gas Tax funds, lease purchase agreements, and one-time funds from available end-of-year net surplus.

To address the General Fund FY2023/24 Budget Deficit, the Fleet Services Fund took two approaches: reduce the number of vehicles that will be replaced in FY2023/24 and use resources from the available reserves.

In FY2023/24, the vehicle replacement schedule identified 87 vehicles that were due to be replaced based on the age of the current vehicles. To reduce the estimated expenses, vehicle replacements for the General Fund departments, except for Public Safety, were removed and will be deferred to future years. The only vehicles that will be replaced in the upcoming fiscal year are for public safety, specifically the Police Department, and the Water and Wastewater funded purchases. A summary of the new proposed replacement schedule is shown in the table below. This resulted in General Fund savings of \$1,148,800 for FY2023/24.

	FY2023/24 Original Replacement	Reduction - Defer Replacement	FY2023/24 Replacement Schedule
Building	\$26,000	(26,000)	\$0
Code Compliance	53,000	(53,000)	0
Engineering	133,500	(133,500)	0
Fleet Services	113,000	(113,000)	0
Parks Maintenance	95,000	(95,000)	0
Police Department Administration	193,000	0	193,000
Police Department Operations	159,000	0	159,000
Police Department Patrol	1,751,700	0	1,751,700
Recreation	43,000	(43,000)	0
Risk Management	38,000	(38,000)	0
Street Maintenance	647,300	(647,300)	0
Total Estimated Cost	\$3,252,500	(\$1,148,800)	\$2,103,700
<i>Total Number of Vehicles</i>	<i>59</i>	<i>23</i>	<i>36</i>



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	FY2023/24 Original Replacement	Reduction - Defer Replacement	FY2023/24 Replacement Schedule
Water Operations	\$945,200	\$0	\$945,200
Water Canal	27,000	0	27,000
Lakes	64,630	0	64,630
Wastewater - Collections	178,500	0	178,500
Wastewater - HARRF	275,000	0	275,000
Environmental Programs	29,000	0	29,000
Outfitting Costs	80,000	0	80,000
Total Estimated Cost	\$1,519,330	\$0	\$1,599,330
<i>Total Number of Vehicles</i>	<i>28</i>	<i>0</i>	<i>28</i>
FY2023/24 Total Vehicle Replacement Budget	\$4,771,830	(\$1,148,800)	\$3,703,030
<i>Total Number of Vehicles</i>	<i>87</i>	<i>23</i>	<i>28</i>

The second measure taken to reduce the General Fund deficit is to use reserves of \$3,610,070 from the Fleet Services available fund balance. The estimated fund balance as of June 30, 2023 for the Fleet Services Fund is \$6,500,000. Using this budget methodology, the projected FY2023/24 available fund balance is reduced to \$2,714,930:

June 30, 2023 Projected Fund Balance	\$6,500,000
Total Department Charges in FY2023/24	4,551,710
Budgeted Expenditures in FY2023/24	(8,336,780)
Projected Ending Fund Balance FY2023/24	\$2,714,930

The use of reserve funds will reduce this balance in the Fleet Services Fund to \$2.7 million. To maintain operations during the fiscal year, provide cash flow for annual purchases, and to cover vehicle replacement needs during a catastrophic event, the Fleet Services Fund should maintain an available fund balance of approximately \$5.8 million. This will likely be adequate for vehicles such as sedans, pickup trucks and service body trucks. However, this strategy comes with considerable risk for essential services vehicles such as fire engines, ambulances, and police cars because it is taking at least 24 months (two years) to deliver these vehicles once ordered.

With future deficits projected in the General Fund, the City's current vehicle replacement schedule and funding plan are not sustainable. City staff will be reviewing the current vehicle replacement strategy and will return to City Council with alternatives for addressing this need.



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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). Funding is provided through charges to departments based on future risk evaluation, prior claims experience, and other factors. The City uses the services of an actuary to estimate these liabilities. While the actuarial estimates are subject to some uncertainty, the industry recommendation is that cities maintain funding at the 75% - 85% confidence level. However, actuaries recognize that each city is unique, and proper funding levels can vary based on issues such as the organization's risk tolerance, financial circumstances, and priorities.

Historically the City's policy has been to accumulate resources in the General Liability Fund to meet the actuarial recommendation of the 75% confidence level, which is \$2,749,000 in a February 2023 report prepared by Bickmore Actuarial. In FY2023/24, the City is changing the funding methodology by analyzing actual historical experience in expenses. To determine the current year charges to other departments, staff calculated the 10-year average of actual expenditures, added the projected increase in insurance premiums, and added the increase in employee services:

10-Year Average of Actual Expenditures	\$2,857,650
Increase in Insurance Premiums	555,900
Increase in Employee Services Allocated In	8,780
Total Department Charges in FY2023/24	\$3,422,330

The estimated fund balance as of June 30, 2023 for the General Liability Fund is \$3,458,880. Using this budget methodology requires the use of available funds of \$2,995,840. The projected FY2023/24 available fund balance is reduced to \$1,428,430:

June 30, 2023 Projected Fund Balance	\$3,458,880
Total Department Charges in FY2023/24	3,422,330
Budgeted Expenditures in FY2023/24	(5,452,780)
Projected Ending Fund Balance FY2023/24	\$1,428,430

Historical Cost Savings Target

Historically the City's practice has been to budget for the full cost of operating expenses. Items such as employee service savings resulting from vacant positions are not assumed in the operating budget or financial forecast with the goal of developing a conservative budget. To account for the annual expenditures savings, the adopted FY2022/23 operating budget added a cost savings rate, or budget reduction, of \$1,000,000 in recognition of these annual savings. Many municipal agencies utilize this budgetary practice of setting a target based on historical spending trends, but this represents a significant change in way the City does business. Therefore, an offsetting Cost Savings Contingency amount of \$400,000 was included to give some flexibility in managing available resources to be used throughout the fiscal year under the direction of the City Manager.



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The FY2022/23 operating results will not be available until September or October of 2023. Until staff are able to evaluate a full year of the budget and operating impacts of the Historical Cost Savings Target, the recommendation is to utilize the same budget reduction and offsetting contingency in FY2023/24. The Historical Cost Savings Reduction of \$1,000,000 and Cost Savings Contingency of \$400,000 have been included in the non-departmental section of the FY2023/24 budget.

Department budgets have been monitored during the fiscal year. If a department is anticipating exceeding their bottom line budget, then resources within the General Fund will be evaluated, vacant positions may not be filled, City services may slow, or City staff will return to City Council with a proposed budget adjustment to continue a program or service.

American Rescue Plan Act

As detailed above, the following is a summary of the budgetary reductions that Staff have proposed to close the FY2023/24 General Fund Operating Budget:

Beginning General Fund Deficit	(\$11,295,840)
Section 115 Trust – Increase in CalPERS Rates	1,500,640
Deferred Replacement of Vehicles	1,148,800
Use of Fleet Fund Reserves	3,610,070
Use of General Liability Fund Reserves	2,995,840
Historical Cost Savings Reduction	600,000
Total Reductions to the FY2023/24 Budget	\$9,855,350
Remaining General Fund Deficit	(\$1,440,490)

The staff recommendation is to utilize funds from the Revenue Loss provision of the American Rescue Plan Act to close the remaining General Fund operating budget deficit of \$1,440,490 in FY2023/24. The American Rescue Plan Act allocated to the City one-time funding of \$38,808,509 to cover expenses in response to the COVID-19 pandemic, make up for lost revenue, and ease the overall economic impact from the pandemic. Funds may only be used for project costs initiated on or after March 3, 2021, and must qualify within one of the eligible expenditure categories described below.

On January 6, 2022, the U.S. Department of the Treasury issued its Final Rule, which offers a standard allowance for revenue loss of \$10 million. Recipients that select the standard allowance may use that amount for government services, with streamlined reporting requirements. Because the amount claimed under revenue loss can be used for “general government services,” this single provision provides significant flexibility for municipalities. “General government services” includes any service traditionally provided by a government, other than a few exceptions explicitly identified by the Treasury. The Final Rule lists some common examples of “general government services,” including construction of schools and hospitals, road building and maintenance and other infrastructure, health services, general



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government administration, staff and administrative facilities, environmental remediation, and provision of police, fire and other public safety services (including purchase of fire and police vehicles).

All American Rescue Plan Act funds, including the Lost Revenue allocation, must be earmarked by December 31, 2024 and fully spent by December 31, 2026.

In FY2022/23, City Council approved the use of \$3,735,030 from the American Rescue Plan Act Lost Revenue Category. With the transfer of \$1,440,490 to close the FY2023/24 General Fund Operating Budget deficit, the City has budgeted a total of \$5,175,520 from the Lost Revenue category, with \$4,824,480 remaining of the total \$10 million allowed.

ARPA Lost Revenue Category	\$10,000,000
FY2022/23 General Fund Deficit	(3,735,030)
FY2023/24 General Fund Deficit	(1,440,490)
Remaining ARPA Lost Revenue Category	\$4,824,480

With the use of American Rescue Plan Act Funds, the FY2023/24 Preliminary Operating Budget is balanced. Sources and Uses are as follows:

	FY2023/24 Proposed Budget
<u>Sources of Funds:</u>	
Operating Revenue	\$127,403,060
Transfer from Gas Tax Fund	2,055,000
Transfer from CFD No. 2020-1 (The Services)	290,900
<i>Transfer from American Rescue Plan Act</i>	<i>1,440,490</i>
TOTAL, Sources	\$131,189,450

<u>Uses of Funds:</u>	
Operating Budget	\$130,695,550
Transfer to Reidy Creek Golf Course – Debt Service	364,300
Transfer to Successor Agency – Housing	25,000
Transfer to Vehicle Parking District	104,600
TOTAL, Uses	\$131,189,450



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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. To maintain a balanced budget and yet continue an appropriate level of service and address City priorities, the Fiscal Year 2023/24 budget utilizes funds from the American Rescue Plan Act, a short-term, one-time source of funds.

There are also many much-needed items that are not included in the FY2023/24 proposed budget:

- critical infrastructure, equipment and vehicle, and repair needs
- deferred maintenance of current facilities and parks
- ongoing maintenance of new assets being added to the community
- underfunding reserve accounts
- ability to continue supporting community organizations and events
- addressing organizational capacity issues

In addition to the above, high priorities from the community are not being addressed. The City continues to strive to provide the level of service residents expect and deserve, but given the structural General Fund deficit, it is becoming increasingly more difficult to do so.

In keeping with our commitment to long-term planning, staff will continue to provide financial recommendations based on realistic revenue projections, risk assessments, and prudent spending to ensure a stable financial position.

OPERATING BUDGET

The total proposed FY2023/24 General Fund Operating Budget is \$130.7 million. It has increased by approximately \$5.6 million or 4.4% compared to the FY2022/23 Operating Budget. The following will detail the General Fund expenditures by department and compare the total FY2023/24 proposed budgeted expenditures to the current fiscal year revised operating budget.

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").



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Expenditures in this category have increased by \$373,580, or 5.5%, over the prior year summarized in the table below:

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
City Council	\$345,510	\$396,390	50,880	14.7%
City Manager	1,396,630	1,530,580	133,950	9.6%
City Attorney	212,870	198,290	(14,580)	(6.8%)
City Clerk	655,840	680,240	24,400	3.7%
City Treasurer	238,080	233,490	(4,590)	(1.9%)
Finance	1,550,700	1,809,720	259,020	16.7%
Human Resources & Risk Management	755,520	795,320	39,800	5.3%
Information Systems Administration	501,350	438,310	(63,040)	(12.6%)
Enterprise Software Administration	778,120	711,330	(66,790)	(8.6%)
Geographic Information Systems	368,040	397,570	14,530	3.8%
Total Expenditures	\$6,817,660	\$7,191,240	\$373,580	5.5%

Significant budget highlights include the following:

City Council

- The Training and Meetings budget was increased by \$15,500, from \$16,500 to \$32,000. An allocation of \$5,000 is listed for each City Councilmember and Mayor.
- Funds of \$7,000 were added to cover the costs for the State of the City address.
- The new membership fee to National League of Cities of \$12,000 was added to Dues and Subscriptions.

City Manager

- In FY2021/22, the business license division was moved from the Code Compliance Department to the City Manager's Office. During that reclassification, a position was eliminated and a Temporary Part-Time position was filled. The Temporary Part-Time position in prior years has not been included in the budget, but was added as a line item in FY2023/24. The implementation of the new Enterprise Resource Planning (ERP) software will provide improved tracking and visibility of part-time positions across the City.
- Professional Services expenses increased for current Economic Development contracts. Services include the AgTech Hackathon and Innovate 78 marketing program.



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- The City and Real Property division is responsible for utilities for vacant City owned properties. Due to the rising electricity costs from San Diego Gas & Electric, the utilities expenses are projected to increase by \$76,000 from the prior fiscal year.

Finance

- Added Consulting Services of \$45,000 for new accounting statements required to be issued by the Governmental Accounting Standards Board. The consulting services will ensure that the City's Annual Comprehensive Financial Report ("ACFR") and financial statement audit is in compliance with new standards and issued timely.
- Added Consulting Services of \$75,000 for a Revenue Analysis and Fiscal Impact Study. The consultant will prepare a report that will analyze various revenue options for the City and the viability of each, including cannabis, a utility users' tax, modifying the Transient Occupancy Tax Rate, and implementing a Parks District.
- Added Consulting Services of \$75,000 for a Citywide Fee Inventory Study. The Study will calculate and consider full cost recovery for all City User Fees. The results of the Study will be brought to City Council in FY2023/24.

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 \$10.6 million in FY2023/24 and have increased \$690,900 or 7% over the prior year summarized in the table below:

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Communications	\$740,410	\$871,500	\$131,090	17.7%
Digital Media Services	164,100	174,540	10,440	6.4%
Recreation/Community Services	4,333,780	4,573,720	239,940	5.5%
Library	3,661,960	3,771,040	109,080	3.0%
Older Adult Services	691,580	727,170	35,590	5.1%
Senior Nutrition Center	465,700	630,460	164,760	35.4%
Total Expenditures	\$10,057,530	\$10,748,430	\$690,900	6.9%

Significant budget highlights include the following:

Communications

- The Website Design Technician position was moved from the Enterprise Software and Web Administrations (ESWA) department budget into Communications to better align the position with the department of responsibility. Communications will now oversee the administration of



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the City's website in order to have more flexibility in curating the information being shared with the public to ensure consistent and accurate messaging.

Recreation/Community Services

- This increase is the result of step increases for Temporary Part-Time positions that are critical for programming and staffing of Community Center facilities as well as increased Utilities costs.

Senior Nutrition Center

- The Senior Nutrition Center utilizes a contract for Transportation and Meal & Delivery services. The contract is increasing by over \$140,000 in FY2023/24. Additionally, a position was moved from the Recreation 102 department budget into the Senior Nutrition budget in order to better support operations of the Senior Nutrition Transportation Program as the City works to move away from the contracted services and toward bringing that service in-house.

Development Services

Development Services includes Code Compliance, Building, Planning, and Engineering. 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 \$8.3 million and increased 9% compared to the prior fiscal year summarized in the table below.

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Code Compliance	\$1,063,970	\$1,011,200	\$(52,770)	(5.0%)
Building	1,502,130	1,688,550	186,420	12.4%
Planning	2,145,050	2,391,860	246,810	11.5%
Engineering	2,940,780	3,251,450	310,670	10.6%
Total Expenditures	\$7,651,930	\$8,343,060	\$691,130	9.0%

Significant budget highlights include the following:

Building

- Increased Contract Consultant Services by \$285,000. The additional funds will ensure that the City can continue to provide architectural, structural, plumbing, mechanical and electrical plan check review for buildings and structures for compliance with applicable Federal and State laws, building and safety codes, City ordinances, and acceptable engineering practices. The increase is in anticipation of sustained building permit activity in FY2023/24 and expected contract increases for third-party building permit plan check and inspection services. The City's current contract for these services expired in March 2023. The City is currently reviewing responses to proposals for building services.



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Overall, the increase in consulting services allows the City to meet expected turnaround times by providing an extension of staff that can step in during a period of peak demand or in the event of ongoing staffing vacancies.

Planning and Engineering Staff Reclassifications

- The Planning Department Staff are proposing the removal of a vacant Administrative Coordinator position and adding a Management Analyst position, increasing employee service costs by approximately \$8,664. The increased costs will be offset through Allocations to Capital Projects and Developer Deposits. The Management Analyst position will provide support across the Development Services Department through the management of deposit accounts; RFPs and contracts; public facing information and content, including application forms, checklists, flowcharts, and similar information that explains the City's development review process on the website and additional content that details current department activities; performance metrics and reports; monitor and track responses to customer service surveys; grant support; and support for budget preparation and monitoring.

The Engineering Department Staff are proposing the removal of a vacant Administrative Assistant position and adding a Development Technician position, increasing employee service costs by approximately \$3,000. The increased costs will be offset through Allocations to Capital Projects and Developer Deposits. The Development Technician position will assist with streamlined processing of encroachment permits and additional duties associated with grant-funded projects, including meeting federal requirements through prevailing wage compliance.

The reclassifications will position the department such that it can report out its performance and support multiple department-wide initiatives intended to improve customer service and performance, including the recruitment of a Management Analyst whose primary responsibilities include updates to the major development activity dashboard; application forms, checklists, flowcharts, and similar information that explains the City's development review process on the website; monitoring and reporting customer service surveys; and the development and tracking of performance metrics.

Planning and Engineering Consultant Services

- Planning added Consulting Services of \$250,000 for the purpose of contracting with consulting firms on an on-call and as-needed basis to assist development review with peak demands and to offset staffing vacancies by providing a staff extension to meet expected turnaround times. The on-call services also include on-call professional consulting services for the preparation and peer-review of environmental documents and technical studies pursuant to the California Environmental Quality Act (CEQA) for both external development projects and those initiated by the City. Costs incurred as a result of development review will be offset by revenue from Cost Recovery Developer Deposits. Costs incurred from City projects will be covered through CIP.

Engineering added Consultant Services of Land Development Projects of \$250,000 for the purpose of contracting with consulting firms on an on-call and as-needed basis to assist development



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review with peak demands and to offset staffing vacancies by providing a staff extension to meet expected turnaround times.

The increase in consultant services will result in an additional 1.5 full time equivalent in additional staff capacity. These increases are distributed across the Development Services Department and provide benefit through ongoing support to land development, including staff extensions for Planning and Engineering intended to support expected development review turnaround times and lists of pre-approved, on-call consultants for the preparation and peer-review of environmental documents and technical studies pursuant to the California Environmental Quality Act (CEQA). Current City staff do not possess the requisite level of technical expertise in highly specialized areas of focus, particularly as it relates to environmental regulations and legislative requirements, to thoroughly review environmental documentation and technical analyses without the assistance of industry experts. Maintaining these lists allows the City to be more responsive to environmental review for internal and external projects. Increases in consultant services for third-party building plan check and inspection services provide continuous support for building permits. In 2022, the City referred 447 building permits to its third-party service provider for review - capacity that does not exist within City staff.

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 FY2023/24 operating expenses decreased by (\$285,030) or (2.2%) from the prior fiscal year summarized in the table below.

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Parks Maintenance	\$3,956,770	\$4,221,420	\$264,650	10%
Street Maintenance	8,726,730	8,177,050	(549,680)	(6.3%)
Total Expenditures	\$12,683,500	\$12,398,470	(\$285,030)	(2.2%)

Significant budget changes include the following:

Parks Maintenance

- Added \$20,000 for Play Structure Repairs. New, modern play structures are typically under the manufacturer's warranty and require very little maintenance or repairs. Most repairs during the initial warranty period are due to vandalism and are outside of warranty. The City of Escondido Parks Division currently maintains 16 play structures, 14 (88%) are outside of the manufacturer's warranty. As one example, the division currently maintains a play structure installed in 1999 that will attain 24 years in service this year. These play structures were installed without shade



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structures that lengthen the time of service and slow the degradation of materials. As is common with aging play structures, repairs costs increase exponentially over time and are more prone to failures thus exposing the public to frequent closures and out of service notices. If playground equipment is broken or otherwise unusable, children will miss out on opportunities to play. Children learn through play, so a safe space for kids to learn, socialize, explore, and grow is essential.

Historically, the Parks Division has not had a budgeted line item for play structure maintenance. To keep these play structures operational requires fabrication and intensive labor that has exceeded the capabilities of Parks staff, forcing the division to increasingly rely on contractual assistance from outside vendor specializing in playground repairs and/or re-engineering of components. This added expense diverts funding away from park maintenance in other areas. To compensate for aging equipment, the division recommends a line item in the budget of \$20,000 for increasing repairs.

- Added \$20,000 for Pool Maintenance. The Parks Division for the City of Escondido currently maintains two aquatics facilities that are heavily programmed by the City's Community Services Department and enjoyed by the community. If not maintained correctly, swimming pools can be the source of many diseases and injuries, such as giardia, cryptosporidia, and e.coli as well as slips, falls, and accidental entrapments. The proper construction, maintenance, and operation of public swimming pools and spas is of significant public health importance.

Parks staff performs minor repairs and required cleaning and chemical applications to stay in compliance with the County of San Diego Environmental Health and Quality standards. This year, due to equipment that has surpassed its useful lifespan, the aquatics facility at Washington Park experienced a catastrophic equipment failure that shut down programming at the facility for over a month. After repairs were made, our subject matter experts strongly recommended a more intensive preventative maintenance program be instituted on a more frequent basis. Due to the age of the equipment, this maintenance requires certified personnel that is outside the expertise of current staff knowledge, skills and abilities.

The Parks Division traditionally has not had a line item in the budget for Pool Maintenance. As the pool equipment ages, there is a need to create this line item and budget for repairs and preventative maintenance. The division increasingly has been forced to rely upon contractual assistance, specializing in pool equipment repairs and diagnosis, and is strongly recommending a line item of \$20,000 in the Parks budget to account for more frequent repairs of the aging infrastructure.

- Added \$52,000 for the Replacement of the Washington Pool Heater. The Washington Pool Heater is at the end of its useful life. Without replacement, the heater is likely to stop working which would shut down programming operations indefinitely.



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Streets Maintenance

- Added \$200,000 for the replacement of a backhoe. A critical piece of equipment employed by Public Works Departments across the nation is a backhoe. Backhoe loaders are heavy-duty pieces of equipment that can be used for a variety of tasks. Primarily excavation machines, they can do double-duty because they have working implements on both the front and the back of a tractor body. A backhoe can dig to depths of 12 to 14 feet and can range from 20 to upwards of 100 horsepower. Their versatility makes them a popular piece of construction equipment for tasks ranging from uprooting trees to moving material on work sites. These machines can dig, haul, carry, and transport and can also be used in helping build roads, prepare job sites, and assist in cleaning up after a completed project. As a testament to its versatility, nearly all Public Works staff are trained to operate a backhoe and it is used across all methods of maintenance. The current Streets backhoe is from model year 2006, purchased used in 2010, has no replacement value and is well past its life cycle of 10 years. Without a replacement, Public Works operations will be hindered, impacting Staff's ability to respond to public safety hazards. The \$200,000 of Capital Outlay funds will be used to replace this front-line piece of equipment.
- Added \$300,000 for the replacement of a wheel loader. One of the most utilized tools by Public Works is the wheel loader. These machines can dig, haul, carry, transport and can also be used in helping build roads, prepare job sites, and assist in cleaning up after a completed project. It is instrumental in maintaining yard work flows because it is the main tool used to load bins and move large quantities of material in the most effective way possible. With the loss of over 50% of the Public Works yard due to the MFRO plant project, Staff rely even more on this piece of equipment due to the loss of storage real estate. Essential functions of the wheel loader in daily operations are excavations, sinkhole repair, homeless encampment clean up, debris removal, concrete demo, and much more. The current wheel loader is a 2008 model year, purchased used in 2010, has no replacement value and is well past its life cycle of 7-10 years. Without a replacement, down time increases impacting Staff's ability to quickly respond to growing resident and inter-department assistance requests. The \$500,000 of Capital Outlay funds will be used to replace this front-line piece of equipment.
- Decreased funding to the Fleet Services Fund by 50%. Additional information is provided in the Fleet Services Fund section of this Staff Report.

Police

The Police Department improves community safety, enhances crime prevention, and provides emergency response. Overall, the Police Department's costs are increasing by \$1.1 million or 2.2% compared to the prior year to reach projected expenditures of \$54.1 million.

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Police Department	\$52,939,360	\$54,083,660	\$1,144,300	2.2%



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Significant budget changes include the following:

- Effective January 2023, City Council approved a one-year agreement with the Police Officers Association. The agreement included a 2.3% Across-the-Board salary increase for Police Officers and a 3.6% Across-the-Board salary increase for Police Sergeants. In addition, salary ranges were adjusted by removing the bottom two steps of the salary schedule and adding two new steps at the top of the salary schedule. Overall employee services for the Police Department increased by \$2.9 million.
- The increases in Employee Services were offset by a reduction of funding for the Fleet Services Fund of \$1,248,630. Additional information is provided in the Fleet Services Fund section of this Staff Report.

Fire

The Fire Department provides emergency operations, emergency preparedness, and fire prevention services to safeguard lives and property. The FY2023/24 operating budget reflects an increase of \$2.8 million or 9.1% increase compared to the prior year to reach projected expenditures of \$33.5 million.

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Fire Department	\$30,500,650	\$33,306,060	\$2,805,410	9.2%
Emergency Management	220,780	222,800	2,020	0.9%
Total Expenditures	\$30,721,430	\$33,582,860	\$2,807,430	9.1%

Significant budget changes include the following:

- Effective January 2023, City Council approved a one-year agreements with the Firefighters Association. The agreement included a 2.5% Across-the-Board salary increase for Firefighters. In addition, salary ranges were adjusted by removing the bottom three steps of the salary schedule and adding three new steps at the top of the salary schedule. Overall employee services for the Fire Department increased by \$2.5 million.
- Intergovernmental Transfer Program (IGT). An administrative fee of \$1,812,370 was added to the Professional Services section of the Fire Department budget, which is required as Federal matching funds in order to participate in the Ground Emergency Medical Transportation / Intergovernmental Transfer Program (IGT). By participating in the program, the City will recognize an additional \$3.0 million in paramedic ambulance revenue.
- The increases in Employee Services were offset by a reduction of funding for the Fleet Services Fund of \$1,252,410. Additional information is provided in the Fleet Services Fund section of this Staff Report.



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California Center for the Arts (“CCA”) (“CCA”)

The CCA facility is owned by the City of Escondido and operated by the California Center for the Arts, Escondido, Foundation, Inc. (the “Foundation”) under a Management Agreement. On March 22, 2023, City Council adopted Resolution No. 2023-34 approving an Operations and Management Agreement between the City of Escondido and the California Center for the Arts, Escondido Foundation.

Financial support is provided to the Foundation from the City for various items, including a management fee paid to the Foundation for the operation of the Center, all gas and electric utility bills for the campus, and support from Building Maintenance and Network Administration, either through direct payments of operational costs or employee staff time. Overall, the Department’s costs are increasing by \$766,640 or 30.9% compared to the prior year:

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Center for the Arts	\$2,480,730	\$3,247,370	\$766,640	30.9%

Significant budget changes include the following:

- The new Management Agreement includes a management fee of \$55,000 per month, which totals \$660,000 for FY2023/24 an increase of \$4,630 over the prior fiscal year.
- Under the terms of the Management Agreement, the City is responsible for the Gas and Electric costs of the CCA facility, which are projected to increase by \$367,000 from the prior year from \$810,000 to \$1,177,300 in FY2023/24.
- The Management Agreement also requires the City to pay 75% of the premiums for insurance which is consistent with prior fiscal years but is now reflected as a separate line item in the CCA Department budget. The City’s share of insurance premiums in FY2022/23 was approximately \$100,000 and is anticipated to increase to \$108,900 in FY2023/24.

Other Expenses

Other Expenses accounts for expenditures that are not directly chargeable to other General Fund departments as well as funding for community events. Overall, the Department’s costs are decreasing by \$626,030 or 35.2% compared to the prior year:

Department	FY2022/23 Revised Expenses	FY2023/24 Projected Expenses	Change	%
Non-Departmental	\$1,713,490	\$1,067,460	\$(646,030)	(37.7%)
Community Relations	67,000	87,000	20,000	29.9%
Total Expenditures	\$1,780,490	\$1,154,460	\$(626,030)	(35.2%)



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The FY2023/24 expenditures are for contractual salary and benefit obligations, various CityWide membership fees, software costs used by multiple departments, and direct support provided by the City for the Community Fireworks program, Cruisin' Grand, the Christmas Parade, and the Veteran's Day Parade. The Historical Cost Savings Reduction is also accounted for in this category, further described earlier in this report.

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. Below is a brief description of each department and a summary of the significant changes in their FY2023/24 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 recreational fishing and boating opportunities to the community.

The Water Fund budget increased by \$4.5 million or 7% compared to the prior year. To keep pace with increases passed through from the San Diego County Water Authority, the budget for purchased water costs increased by \$2.0 million. 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.

The Wastewater Fund budget increased by \$2.6 million or 10% compared to the prior year. These increases were primarily due to the increase to Utilities, specifically electricity which is projected to increase \$1.7 million compared to the prior fiscal year.

Internal Service Funds

Internal Service funds account for services provided by one City department to another City department on a cost reimbursement basis. Certain Internal Service funds, such as Fleet Services and Network &



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Systems Administration, also receive money from other operating funds to purchase necessary equipment like police vehicles or computers.

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. This fund was also created to fund a reserve for future maintenance and replacement within City facilities, including carpeting, air conditioning, roofing, and other maintenance items. However, due to the General Fund structural budget deficit, the fund has been adequately funded. Charges to departments are calculated for annual operations costs only, therefore the Building Maintenance Fund description has been updated accordingly:

This fund was created to account for ~~the annual operation costs~~ 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. A reserve for replacement will be accumulated to replace carpeting, air conditioning, roofing and other maintenance items.

REVENUE PROJECTIONS

The projected FY2023/24 General Fund revenue estimate is \$127.4 million. The FY2022/23 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 anticipated program revenue. The FY2023/24 projected operating revenue is estimated to increase \$7.5 million or 6% over the FY2022/23 amended revenue projection.

The following are the components underlying the revenue projections in FY2023/24, followed by an explanation of each category in the following paragraphs:

Revenue	FY2022/23 Revised	FY2023/24 Projected	Change	%
Sales Tax	\$51,012,200	\$49,507,600	(\$1,504,600)	(3)%
Property Tax	32,780,100	35,068,340	2,288,240	7
Other Taxes	14,659,860	16,483,370	1,823,510	12
Charges for Services	10,898,650	15,083,000	4,184,350	38
Intergovernmental	3,450,000	3,506,250	56,250	2
Permits & Licenses	1,778,500	2,145,500	367,000	21
Fines & Forfeitures	832,500	873,000	40,500	5
Investment and Rental Income	4,350,920	4,474,000	123,080	3
Other Revenue	166,500	262,000	95,500	57
Total Operating Revenue	\$119,929,230	\$127,403,060	\$7,473,830	6%



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One-Time Revenue	605,720	-	(605,720)	-
Total Revenue	\$120,534,950	\$127,403,060	\$6,798,110	6%

Sales Tax revenue, which makes up 39% of total Fiscal Year 2023/24 projected General Fund operating 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. 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. 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 Fiscal Year 2020/21 increased by \$7.6 million or 21% from the prior year.

However, there are now indicators that the economy is slowing once more. The City works closely with its sales tax consultant, Avenulnsights, in projecting sales tax revenue. Based on Avenulnsights' 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 decline in Fiscal Year 2023/24 by \$1,504,600 or 3% to reach \$49.5 million. The possibility of a recession in 2023 or 2024 is possible but continued low unemployment and tight labor markets indicate that a severe downturn is unlikely. The forecast provided by Avenulnsights assumes a very mild recession or slowdown starting in the first quarter of FY2023/24 and lasting for the remainder of the fiscal year.

The largest economic segments in the City are transportation and receipts from the County Pool. Together these segments generate 54% of the total sales tax revenues. The transportation segment includes new and used auto sales and service stations, and is projected to remain flat from the prior year. California Auto Outlook reports that pent-up demand is accumulating as new vehicle sales remain below baseline levels. In addition, vehicle transaction prices will move lower as supplies become more in-line with demand. However, supply chain issues are lingering and new vehicle affordability is weakening due to high inflation, increasing interest rates, slower economic growth, and falling trade-in values. Household incomes are increasing, but not fast enough to keep pace with inflation. The impact resulting from pent-up demand will be tempered due to softer economic conditions, but sales rates should still recover from current levels.

Sales tax revenue received through the County Pool is the second largest sales tax segment accounting for 18% of the sales tax revenue received. The implementation of the AB 147 Wayfair decision began in April 2019, which extended sales and use taxes to out-of-state retailers engaged in business in California. In addition to the new taxable sales under AB 147, the continued COVID-19 restrictions pushed consumers from brick and mortar stores to online sales in prior fiscal years. Economic forecasters remain optimistic that online sales will continue to grow. However, in California, changes for online-based purchasing activity are ever evolving. Recent data released by HdL Companies reflected the opening of more in-state fulfillment facilities. In addition, many retailers are choosing to use local retail outlets as the resource for delivery of products in lieu of shipping from out-of-state warehouses. The result has dampened pool



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revenues and this trend is expected to continue in the short-term, impacting lower County Pool outlooks for the next three quarters.

The construction sales tax segment accounts for revenue generated from building materials, including both wholesale and general retail, and is projected to increase by 5.0% 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.

General Retail and Food Products combined make up 25% of the total sales tax revenue for the City and are projected to increase by 3.8% 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.

City staff will continue to monitor economic indicators and sales tax revenue closely and return to City Council with updates during the fiscal year.

Property Tax revenues also represent a major funding source for the City at 28% 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 7% from the prior fiscal year budgeted amount. This is attributed to an increase in current secured and unsecured tax projections and actual revenue received through the third quarter of FY2022/23, 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 \$17.6 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 12% to reach projected revenue of \$16.5 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 \$8.2 million, an increase of 18% from the prior year. Revenue growth is projected based on population, inflation factors, and historic revenue trends.



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Permits and Licenses that are collected for building, plumbing, electrical, mechanical, fire code and mobile-home permits are projected to increase by 21% from the Fiscal Year 2022/23 budget amount to reach projected revenue of \$2.1 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 increase slightly from the prior fiscal year to reach \$873,000. Fines and forfeitures are collected by the City for vehicle code fines, parking ticket fines, other court fines, code enforcement citations, and impound fees.

Intergovernmental revenue includes the Rincon Fire Services Agreement, state mandated cost claims, and various grants and is projected to increase overall by approximately \$56,250 or 2%.

Charges for Services are projected to increase compared to the prior fiscal year with estimated revenue of \$15.0 million, an increase of 38% from the FY2022/23 budget. Charges for services include paramedic fees and Community Services fees for recreational and community activities. The increase in projected revenue from the prior year is primarily due to a new Ground Emergency Medical Transportation Program that utilizes Federal funding to supplement the ambulance billing revenue received for medical transports. This revenue is projected to increase \$3,030,000. In order to participate in the program, matching funds of \$1,812,370 are required and have been included in the Fire Department budget.

Revenue estimates for Community Services 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. In addition, beginning in July 2022 in partnership with the Escondido Union School District ("EUSD"), the Before and After School Program was fully funded by the EUSD.

Investment and Rental Income includes income from City-owned properties and interest earned from investing activities. This revenue is projected to increase by 3% to reach revenue of \$4.5 million. The City plans to prepay the annual unfunded accrued liability ("UAL") for the Safety and Miscellaneous Plans in July 2023, 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 Revenue or miscellaneous receipts projections have been increased by approximately \$95,500 to reflect the actual revenue received in prior fiscal years for certain accounts.

One-time Revenue budgeted in FY2022/23 accounts for fire assistance reimbursements of \$605,720. The City is not currently budgeting any one-time revenue in FY2023/24. 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.