

CITY COUNCIL STAFF REPORT

Workshop Item No. 9

May 13, 2020

File No. 0430-30

SUBJECT: Fiscal Year 2020/21 Preliminary Operating Budget Status

DEPARTMENT: Finance Department

RECOMMENDATION:

It is requested that the City Council review the proposed Fiscal Year 2020/21 General Fund Preliminary Operating Budget status, provide policy concurrence or alternative direction on the recommendations for closing the structural budget gap, and authorize staff to return with the Fiscal Year 2020/21 General Fund Operating Budget on June 10, 2020.

ANALYSIS:

Pre-COVID-19

The City's budget process begins in December each year with a review and update of the General Fund long-term financial plan. This plan identifies future challenges and opportunities, as well as fiscal imbalances, and serves as the framework for the development of the Fiscal Year 2020/21 General Fund operating budget. As the City Council and the public should be well aware from previous financial updates, the General Fund long-term financial plan projected a \$6 million operating budget deficit in Fiscal Year 2020/21. Annual projected deficits were to grow to \$14 million by Fiscal Year 2023/24 and were to continue over the next 15 years. These deficits are due to projected revenue growth not keeping pace with the projected growth in operational and retirement costs. When the General Fund long-term financial plan was updated in December the economic outlook was trending stable and positive.

To address the predicted structural budget gap for the upcoming fiscal year, Departments were required to submit their Fiscal Year 2020/21 General Fund operating budgets with a 3% reduction using their adopted Fiscal Year 2019/20 budget as the base to determine their reduction. Because department budgets were projected to grow on average by about 5% in Fiscal Year 2020/21, actual department budget reductions averaged around 8%. These proposed budget reductions will have an impact on some programs and services provided to the community. These impacts are outlined later in the Staff Report.

Once all revised General Fund budgets were submitted to the Finance Department, and a summary of projected revenue and expenditures was prepared, it was determined that proposed budget reductions were sufficient to close the projected budget gap.

Post-COVID-19

With the net 8% cuts referenced above having been made to address the structural deficit for Fiscal Year 2020/21, staff was preparing to submit the budget for public comment and Council consideration. However, on March 13, 2020, the City of Escondido, following both the Federal and State government, was forced to declare a state of emergency because of the COVID-19 pandemic. Government

operations and private businesses were forced to close or drastically alter operations. Public attention and effort immediately shifted to addressing the emergency. Public health orders forced the cancellation of planned outreach workshops, and community dialogue focused solely on the pandemic.

As of this report, the emergency remains in effect and the timeline for resuming many operations and businesses is uncertain. With the current social distancing restrictions, travel warnings and closing of non-essential businesses, sales tax and transient occupancy tax revenues have declined significantly and are projected to sharply decline over the remainder of Fiscal Year 2019/20 and to continue to decline at a slower rate in Fiscal Year 2020/21. This sharp and sudden decline in revenues that support the City's core services has resulted in the need for dramatic budget adjustments and use of one-time money for the current fiscal year. These measures were presented to and approved by the City Council on May 6, 2020. In addition, City staff was forced to address the significant budget reductions and alternative funding options to balance the budget in Fiscal Year 2020/21.

The below chart depicts the General Fund operating budget over the past 4 months. The first column shows the projected \$6 million deficit per the long-term financial plan dated December 30, 2019. The second column shows the General Fund balanced budget incorporating the net 8% cuts previously mentioned, prior to the impacts of COVID-19. The third column shows the projected deficit of \$4 million due to projected revenue declines resulting from the economic downturn caused by the government response to the pandemic.

Sources of Funds:

	FY 2020/21 as of 12/30/19	FY 2020/21 as of 4/2/20	FY 2020/21 as of 5/6/20
Operating Revenue	\$106,227,800	\$106,074,270	\$102,017,820
Transfers In	2,055,000	2,085,000	2,085,000
Deposits	11,000	100,600	100,600
Successor Agency Loan Payback	5,910,820	5,982,930	5,982,930
TOTAL, Sources	\$114,204,620	\$114,242,800	\$110,186,350

Uses of Funds:

Operating Budget	\$112,616,505	\$107,698,100	\$107,581,200
Transfers Out	1,680,710	561,770	603,970
Transfer to Section 115 Pension Trust	5,910,820	5,982,930	5,982,930
TOTAL, Uses	\$120,208,035	\$114,242,800	\$114,168,100
TOTAL, Sources Over/(Under) Uses	\$(6,003,415)	\$0	\$(3,981,750)

The City of Escondido has the tools to grapple with this emergency and resulting downturn in the economy. In addition to efficient administration of core City services, the General Fund Reserve balance is \$17.4 million. This Reserve balance provides a one-time funding source available for unanticipated expenditure requirements or when actual revenues are less than the amounts budgeted. The City also set aside monies in a Section 115 Irrevocable Pension Trust that currently has a balance of approximately \$9.9 million. Funds placed in this Trust are irrevocably committed for the payment of pension obligations. Finally, City staff has identified at least one additional option for use of one-time funds in balancing the budget.

Nonetheless, the structural budget gap consistently present in Escondido's finances, plus the inevitable lingering impacts of the COVID-19 pandemic make addressing future City revenue the highest priority of staff, policymakers and the community in upcoming months.

REVENUE PROJECTIONS

The projected Fiscal Year 2020/21 General Fund revenue estimate is \$102 million. This projection starts with the Fiscal Year 2019/20 revenue as the base. The base was then adjusted for the financial impacts of the COVID-19 pandemic through June 30, 2020, which estimated a loss of \$4.6 million primarily due to lower sales tax and transient occupancy tax, which is reflected in the Fiscal Year 2019/20 table below. The Fiscal Year 2019/20 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 of course, ongoing impacts from the pandemic. The Fiscal Year 2020/21 projected revenue is estimated to increase \$813,000 or 1% over the Fiscal Year 2019/20 amended revenue projection. The following are the basic components underlying the revenue projections in Fiscal Year 2020/21, followed by an explanation of each category in the following paragraphs:

<u>Revenue</u>	<u>2019/20 Amended</u>	<u>2020/21 Projected</u>	<u>Change</u>	<u>% Change</u>
Sales Tax	\$36,936,200	\$35,991,300	\$(944,900)	-3%
Property Tax	13,951,000	14,228,000	277,000	2
Property Tax in Lieu of VLF	14,628,000	15,213,000	585,000	4
Other Taxes	13,399,285	14,085,800	686,515	5
Permits and Licenses	944,500	1,003,500	59,000	6
Fines and Forfeitures	1,226,000	1,226,000	0	0
Intergovernmental	3,205,000	3,165,000	(40,000)	-1
Charges for Services	12,127,400	12,331,020	203,620	2
Investment and Rental Income	4,018,710	4,018,000	(710)	0
Other Revenue	768,550	756,200	(12,350)	-2
One-time Revenue	6,299,985	0	(6,299,985)	
Total with One-Time Revenue	\$107,504,630	\$102,017,820	\$(5,486,810)	-5%
Total excluding One-Time Revenue	\$101,204,645	\$102,017,820	\$813,175	1%

- Sales tax is the largest General Fund revenue source at 35% of total revenue. Sales tax revenue is projected to decline in Fiscal Year 2020/21 by 3% to reach \$36 million. This decrease is mainly due to declines in sales tax receipts from brick and mortar stores, which are projected to decline by \$1.8 million or 6% over the prior year. This amount is offset by increases in projected sales tax revenue collected from online sales of about \$900,000, as explained below.

Economic indicators that drive spending and growth in sales tax receipts include the unemployment rate, total number of persons employed, and consumer confidence. While these numbers were at record highs leading into 2020, the impacts from COVID-19 have created much uncertainty and volatility, and it is difficult to estimate the full impact on our local economy. Working with the City's sales tax consultant, declines are being projected in every economic segment in our local economy. The two largest economic segments for the City, transportation and general retail, account for 60% of local sales tax, and are experiencing the largest declines. The transportation segment includes new and used auto sales and service stations, and is projected to decline by \$714,000 or 6% over prior year. General retail, which includes department stores, apparel stores, and furniture stores, is projected to fall by \$470,000 or 8% over the prior year.

Fortunately, this lower sales tax from brick and mortar stores is being offset by increases in sales tax revenue collected from online sales. The U.S. Supreme Court decided in the *Wayfair* case that state and local governments could require online retailers to collect sales tax even if the retailer did not have a physical presence in the state or local tax jurisdiction. Based on this decision, changes were made to California state law that effective on April 1, 2019, out-of-state retailers that meet a threshold of having \$500,000 in cumulative sales in California during the preceding 12 months must begin collecting sales tax in California, even if the retailer does not have a physical presence in the state. Second, effective October 1, 2019, Marketplace Facilitators such as Amazon, Ebay and Etsy became obligated to collect and remit sales and use taxes for third party retailers who contract with the facilitator to provide sales related services. The same \$500,000 threshold applies to Marketplace Facilitators. The local portions of these tax collections are being allocated to cities and counties on a pro-rata basis through the State and County Pools.

- Property tax revenue is projected to increase by 2%, totaling \$14.3 million. Prior year property tax growth was estimated at 3% and the City is on target to exceed this projection by 1%. The major factors influencing property tax revenue are the California Consumer Price Index ("CCPI"), number of home sales, and increased median home prices. Proposition 13, passed by voters in 1979, specifies that a property's assessed value may increase at the rate of the CCPI, but cannot exceed 2% per year unless the property is improved or sold to establish a new assessed value. The State Board of Equalization determined that the CCPI increased by 2.98%; the Proposition 13 inflation factor for assessment role 2020 is 2%. This means that the assessed valuation of properties not improved or sold will increase by 2% in Fiscal Year 2020/21. In

addition, the median sales price for a home in Escondido for January 2020 averaged \$545,000, which is an increase of 3%, compared to the January 2019 median sales price. As homes sell, this increased price will become the new assessed value for property tax purposes. Property tax has a general delay of 12 – 18 months from when assessed valuations are established to when taxes are received by the City. Therefore, the City continues to project growth in property tax revenue and does not anticipate a major impact from the COVID-19 pandemic.

- Property tax in lieu of Vehicle License Fees (“VLF”) is estimated to increase by 4% to reach projected revenue of \$15.2 million. Growth in this revenue is based on the change in assessed property tax values in the City on the prior year assessment role. This is different from property tax growth, which is based on the change in assessed property tax values on the current year assessment role.
- There are a variety of 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. These other taxes are projected to increase by 5% to reach projected revenue of \$14.1 million. Staff estimates additional revenue from the RPTTF residual payment and increased franchise fees from Escondido Disposal’s amended franchise agreement reached last June. These increases will be offset by decreases in transient occupancy tax due to declines in travel and decreases in business license fees due to the economic slowdown.
- Permits and licenses that are collected for building, plumbing, electrical, mechanical, fire code and mobile-home permits are projected to increase by 6% in the upcoming year to reach a projected revenue of \$1 million. The majority of this increase is due to a projected increase in building permits.
- Fines and forfeitures are projected to remain flat at \$1.2 million. Fines and forfeitures are collected by the City for vehicle code fines, parking ticket fines, other court fines, library fines, code enforcement citations and impound fees.
- Charges for services are projected to increase by 2% to reach estimated revenue of \$12.3 million. Charges for services include developer processing fees, paramedic fees and community services fees. The majority of the increase is attributable to the anticipated additional revenue collected from three new school sites participating in the After-School Program. Staff are still awaiting confirmation from the Escondido Union School District about their plan to expand After-School Programs at these additional sites.
- Income from interest and property includes rent received from leased City property and interest income on City investments. This revenue from investment income and rental income is projected to remain flat to reach revenue of \$4 million. The City plans to prepay the annual unfunded accrued liability (“UAL”) for the Safety and Miscellaneous Plans in July 2020, which

will result in additional investment earnings to the General Fund of \$187,000. This amount should offset declines in lease payments and lower investment earnings due to the City's declining portfolio yield.

- Currently, the City is not budgeting any one-time revenue in Fiscal Year 2020/21. 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. One-time revenue budgeted in Fiscal Year 2019/20 included developer reimbursements of \$636,000, unclaimed deposits of \$1.2 million, the sale of Windsor Gardens of \$4.1 million and fire assistance of \$320,000.

OPERATING BUDGET

The total proposed Fiscal Year 2020/21 General Fund Operating Budget is \$107,581,200. It has increased by approximately \$777,000 or 1% compared to the Fiscal Year 2019/20 Operating Budget adopted on June 12, 2019. The following chart shows General Fund expenditures by department. The chart compares total Fiscal Year 2020/21 projected expenditures to the amounts budgeted in the previous years. A brief description of each department, the services it provides, and a summary of significant department budget changes in the Fiscal Year 2020/21 Operating Budget, are noted on the pages following the chart.

<u>Department</u>	<u>2019/20 Adopted Expenditures</u>	<u>2020/21 Projected Expenditures</u>	<u>Dollar Change</u>	<u>% Change</u>
General Govt. Support Services	\$5,942,870	\$5,655,070	\$(287,800)	-5%
Community Services	8,164,810	8,827,290	662,480	8
Community Development	4,780,800	4,610,390	(170,410)	-4
Public Works	10,288,210	10,100,860	(187,350)	-2
Engineering	2,737,210	2,551,590	(185,620)	-7
Police	45,928,340	45,633,100	(295,240)	-1
Fire	24,746,230	25,764,270	1,018,040	4
Community Relations & CCAE	2,491,560	2,535,050	43,490	2
Non-departmental	1,724,420	1,903,580	179,160	10
Total Expenditures	\$106,804,450	\$107,581,200	\$776,750	1%

- General Government Services include the following departments: City Council, City Manager, City Attorney, City Clerk, City Treasurer, Finance, Human Resources, Risk, and Information Systems and Geographic Information Systems ("GIS"). These combined department operating

budgets total \$5.7 million and have decreased by 5% compared to the prior year due to efficiencies. Examples of these efficiencies include the relocation of the City Clerk Records Center from an off-site location to City Hall eliminating the lease, maintenance and security costs on the off-site location. The City Treasurer outsourcing investment management services has improved investment returns and reduced staff time necessary to select investments. Efficiencies to the utility billing process allow customers to receive paperless utility bills and pay their utility bills on-line which reduces Finance staffing needs. The Human Resources Department utilizes technology to streamline the new hire onboarding process saving staff time preparing new hire packets. Information Systems expanded online services to customers in Community Development as well as improved workflows and accessibility to information for staff using Cityworks software. New technologies in networking and telephones have also been implemented that have improved data and voice communication and reduced costs.

- Community Services includes the following departments: Communications, Video Services, Recreation, Library Services, Older Adult Services, and Senior Nutrition. These combined department operating budgets total \$8.8 million in Fiscal Year 2020/21 and have increased \$662,480 or 8% over the prior year. Below is a brief description of each department, a summary of significant budget changes, and an explanation of how the reductions were achieved.

Communications staff contribute to the efficient and effective operations of the City by coordinating the creation and distribution of content to key internal and external constituents; producing and distributing public information; and facilitating coordination with departments, divisions, and outside agencies. Communications is the contact point for media relations, public relations, crisis communication, employee communication, social media, community outreach, and a variety of other communication services. The Graphics staff produce high-quality, professional, on-brand materials that aid not only in the communication of important City information to the public, but also with legally required Planning notifications. In order to achieve the 3% reduction, "Visit Escondido" operations have been moved out of the Grand Avenue storefront and into City Hall. The full-time Tourism and Marketing Administrator position, which was vacated due to retirement, will not be filled. Instead, a part-time employee will staff an information desk at City Hall and a professional services contract for digital brand management will round out the support for this service. These proposed changes resulted in savings of \$21,000.

Video Services staff ensure that residents have access to high quality broadcasts of weekly City Council meetings as well as public, educational, and governmental information through Cox Cable Channel 19 and AT&T U-Verse Channel 99 broadcasts. The Video Services budget decreased by \$4,500 over the prior year budget or 4%.

Recreation provides healthy, innovative and educational opportunities to unify our community. Recreation staff have been transitioning out of the grant-funded After School Education & Safety ("ASES") program due to grant mandates that require operational costs beyond what the grant

can provide. Staff are instead pursuing opportunities with Escondido Union School District to expand the fee-based, revenue-generating After School Program (“ASP”) at three new school sites plus a new morning program at an existing site. The expenditure increases to the Recreation budget of about \$588,000 are due to zeroing out the grant funded ASES budget, which was in a Special Revenue Fund, and moving the staffing and related costs needed to operate the After School Program into the Recreation budget. The projected revenue from the After School Program will entirely cover the operational costs so even though the Recreation budget increased by \$588,000, this increase was covered by increased revenue. Staff are still awaiting confirmation from the Escondido Union School District about their plan to expand After School Programs at these additional sites. Reorganization of staffing responsibilities, program areas, and service delivery models; a reduction to the overtime line item for Public Works staff time assisting with sports tournaments and special events; elimination of \$10,000 from Professional Services for lifeguard training as we currently have staff members who are trained to perform lifeguard certifications in-house; reductions to Maintenance of Equipment; and decreases to M&O costs associated with program support resulted in a 3% reduction of \$90,000.

The Escondido Public Library provides free access to resources and materials that promote the joy of reading, study, research, and learning. The Library budget increased by \$91,000 or 3% over prior year due to the library services contractual agreement and increased utility costs.

Older Adult Services provides a safe environment where older adults can participate in life-long learning instruction. Older Adult Services overall budgeted expenditures remained flat over the prior year but staff were able to achieve a 3% savings to the General Fund by transferring \$18,600 from the Joslyn Trust. This is not a sustainable, long-term solution as the Trust has a limited balance and no significant sources of revenue.

The Senior Nutrition division serves nutritious, well-balanced meals, Monday through Friday, to low and moderate income adults, 60 years and older. The Senior Nutrition Center budget increased by \$70,000 compared to prior year due to increased professional services agreements with the food and transportations providers. Despite this, 3% savings to the General fund was achieved by transferring \$82,000 from the Joslyn Trust. This is not a sustainable, long-term solution as the Trust has a limited balance and no significant sources of revenue.

- Community Development includes Planning, Code Enforcement, and Building. 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 \$4.6 million and have decreased 4% compared to the prior year. The Building and Planning Departments achieved these savings by reducing contracted consulting services. Code Enforcement savings were achieved by staffing reductions that may cause slowdowns in case management and proactive code enforcement.

- 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. These combined operating budgets total \$10.1 million and have decreased \$187,350 compared to the prior year. This decrease was achieved in the Parks Department by eliminating all the part-time positions. This staffing reduction will have a major impact on the maintenance of the ballfields at Kit Carson Park. Additional cost savings were also achieved by reducing how often the parks parking lots are striped and sealed, reducing the pest control measures at the parks, and reducing the replanting and refreshing of existing landscaping at City facilities and the parks. The decrease in the Streets Department was achieved by lowering contract services paid for street maintenance due to a new piece of equipment, which allows Streets to perform the function in house.
- The Engineering Department coordinates engineering review of private development projects, planning applications, and environmental studies; oversees and maintains the City's inventory of real property assets; designs and administers bidding of all capital improvement projects; inspects all public construction projects including those initiated by private developers; and administers all traffic and transportation projects including those for traffic signals. The Engineering Department budget totals \$2.6 million and has decreased 7% compared to the prior year. This decrease was achieved by increasing allocations out to capital projects by ensuring that the full cost of an employee is charged to projects maximizing contributions from grant funds and other Capital funding sources.
- The Police Department enhances public safety and the quality of life in our community by fostering trust and preserving peace. Overall, the Police Department's costs are decreasing by \$295,240 or 1% compared to the prior year to reach projected expenditures of \$45.6 million. The Police Department budget in Fiscal Year 2020/21 was projected to increase by \$1.6 million or 3.5% over the prior year. In order to achieve a 1% budget reduction, budget cuts of \$1.9 million were needed and are outlined below.

Savings to employee services of \$1.2 million was achieved by freezing seven full-time police department positions and vacating six part-time positions. The full-time positions include one Police Lieutenant, four Police Officers, one Public Safety Dispatcher, and 1 Police Records Technician. The part-time positions include one Department Specialist in Internal Affairs, one Department Specialist in the Investigations Bureau and four Department Specialists at the Range. Impacts to freezing the Lieutenant and Police Officers include: jeopardizing Patrol staffing levels that could force COPPS Division officers back to Patrol to maintain minimum staffing levels; and vacant positions could create staff shortages within the Investigations Bureau, forcing a reduction in the investigation of lower level criminal cases. Impacts to freezing the Lieutenant position creates an increase to management span of control. Freezing the Police Records Technician position and Department Specialists increases the workload for the

Investigations Bureau. Other Police Department cuts that totaled about \$700,000 included a reduction in overtime, community outreach, lease vehicles and replacement laptops. Cuts to community outreach will reduce efforts in crime prevention and youth engagement.

- The Fire Department provides emergency operations, emergency preparedness, and fire prevention services to safeguard lives and property. The Fiscal Year 2020/21 operating budget reflects an increase of \$1 million or a 4% increase compared to the prior year to reach projected expenditures of \$25.8 million. The Fire Department has little ability to cut costs and yet experiences the same cost increases applicable to other employees, such as increased worker's compensation costs, increased pension costs, and increased salary costs. The Fire Department budget for Fiscal Year 2020/21 leaves the number of personnel unchanged from the prior year.

The Fire Department budget maintains a fixed level of staffing for seven fire engines, five ambulances, one ladder truck and one Battalion Chief. These pieces of equipment are staged at seven stations throughout the City and are available and ready to respond 24 hours per day, 7 days per week. In addition, when calls are dispatched through the Communications Center, the dispatch response plan calls for specific pieces of equipment, in addition to the fixed personnel for each of those pieces of equipment. For example, when the Communications Center dispatches a response to a residential structure fire, the Department always sends a minimum of three fire engines, one ladder truck, one rescue ambulance and one Battalion Chief so that there are enough firefighters to execute multiple tasks including search and rescue, fire suppression, ventilation, safety/backup for rapid intervention and overall scene command.

The Department does not have additional positions to provide relief coverage for station personnel. Thus, any time employees are ill, on vacation, or injured, replacement personnel must be called in (and paid overtime) to maintain the fixed staffing levels for each piece of equipment. It should be noted that the Overtime budget does not include overtime costs associated with Escondido Fire providing assistance to other communities during large scale emergencies throughout the State that are reimbursed. Because requests for assistance are unpredictable, those costs and revenues are accounted for during midyear budget reports and adjustment requests.

In the proposed budget for the Fire Department for Fiscal Year 2020/21, PERS and PERS Unfunded Liability increased \$685,000 over the prior year. Workers Compensation costs increased nearly \$200,000 because in Fiscal Year 2019/20 the Fire Department had several large workers compensation claims including chronic conditions and one serious injury resulting from a roof collapse at a fire in a commercial building. These costs impact rates for subsequent years. Salaries for Fire Department personnel increased \$531,000 due to contracted employee and management salary increases, step raises, and an hourly increase for entry level Paramedics from \$13.50 to \$16.00 per hour to address recruitment and retention.

Finally, the State of California has recently implemented a new fee imposed for each ambulance transport provided by the City. This "Quality Assurance Fee" ("QAF") revenue is then used by the State to leverage Federal funding, and this consequently enhances ambulance transportation revenue for Medi-Cal patients. Because of the number of Medi-Cal patients transported by the Escondido Fire Department, the total new revenue anticipated for the City is \$612,000. However, the immediate impact to the Department is the anticipated payment of the fee throughout the year in the amount of \$280,000, less other cuts the Department made to maintenance and operations for a net increase of \$166,030.

- The Community Relations (Community Fireworks, Cruisin' Grand, and Christmas Parade) and California Center for the Arts Escondido Departments bring people together in the community to celebrate visual and performing arts. Increased community participation has been a focal point of the current City Council. The combined budgets total \$2.5 million and increased 2% over the prior year. Some form of these events will be a priority in spite of the pandemic, and cost increases are primarily due to increased building maintenance costs allocated to these budgets.

The following "Other Funds" which propose an increase or decrease of more than 10% as compared to the prior year adopted budget are as follows:

Warehouse

The City's Warehouse provides a centralized location to store goods and materials that are necessary for daily City operations, and essential for unforeseen emergencies or immediate repairs. This budget is projected to decrease by about \$109,000 or 70% compared to the prior year. This was achieved by automating the inventory system using barcodes to track inventory items. This system will help manage the inventory by providing staff with more real time information on the inventory quantity, location, and status. The new inventory system will allow each division the ability to checkout its own inventory making it possible for the Warehouse to operate with less staff.

Telecommunications

Telecommunications manages the City's unified communication and collaboration services that include voice and data communications for City Hall and 24 remote locations. The Telecommunications budget is proposing a decrease of \$58,000 compared to the prior year budget. Last year, Telecommunications paid the cost to upgrade the City's phone system to Voice over Internet Protocol ("VoIP"). This technology allows staff to make voice calls using a broadband Internet connection instead of a regular (or analog) phone lines, which improves efficiencies that have led to reduced costs.

Property Insurance

The Property Insurance Fund accounts for the transactions related to obtaining property insurance for the City. This fund is proposing a \$207,000 increase to its total operating budget due to an

increase in the property insurance premium. Recent California wildfires have effected this rate and caused this premium increase.

HOME Fund

The HOME Program administers a variety of programs providing affordable housing for low-income households including building, buying, and/or rehabilitating affordable housing for rent or homeownership. This fund is proposing a decrease of \$7,500 or 12% to its operating budget primarily because of lower allocations in from the Successor Agency-Housing Fund.

Successor Agency- Housing

The Successor Agency-Housing Fund administers a variety of programs providing affordable housing for low-income households including building, buying, and/or rehabilitating affordable housing for rent or homeownership. This fund proposes an increase in the operating budget of approximately \$43,000 or 12%, primarily due to a decrease in the administrative allowance from the Redevelopment Agency.

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. Both the Water and Wastewater funds are investing in technology to reduce costs and maximize efficiencies. Below is a brief description of each department and a summary of the significant changes in their Fiscal Year 2020/21 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 fishing and boating to the community. The Water Fund budget increased by \$1.3 million or 2.3% compared to the prior year. These increases were primarily from increased employee service costs of \$519,000, increased software costs of \$326,000 from the planned investment in the City-Works project, increased chemical costs of \$200,000, and increased interest expense of \$490,000 to finance the Lindley Reservoir Tank Replacement project.

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 \$848,000 or 2.9% compared to the prior year. These increases were primarily due to employee service cost increases of \$568,000

and increased capital outlay of \$232,000 due to end of life or aging equipment that needed to be replaced to maintain reliability and functionality.

OPTIONS TO CLOSE FISCAL YEAR 2020/21 GENERAL FUND DEFICIT

At the present time, staff is projecting a General Fund deficit in Fiscal Year 2020/21 of \$4 million due to all of the factors previously discussed, and after taking into account the reductions called for in the original budget preparation.

The staff recommendation to address this remaining \$4 million deficit and achieve a balanced budget for Fiscal Year 2020/21 is to divert the transfer of funds in the same amount from the Redevelopment Loan payment to the City. Such funds would have normally been placed in the Section 115 Irrevocable Pension Trust pursuant to prior City Council policy direction for use of one-time funds. Background regarding the Redevelopment Loan is attached to this staff report. (See Attachment A). This recommendation includes an assumption that ongoing work by the City Manager will occur to streamline operations and lower costs.

However, if the City Council determines it would not be desirable to utilize all or part of the Redevelopment Loan payment towards closing the remaining budget gap, other and further cost cutting measures can be utilized. If the City Council decides to pursue such an avenue, the following additional cuts would be recommended. Indeed, such cuts may still be required in the event the economic downturn is more significant than projected, or may be required in future years if the structural budget gap is not addressed through increased revenue. Options include:

- Close a Fire Station for an estimated annual cost savings of \$1.3 million. Closing a fire station will achieve cost savings by eliminating the following full-time positions: three Fire Captains, three Fire Engineers, three Firefighter/Paramedics for a total of nine positions. This reduction in staffing would then result in the loss of one fire engine/paramedic assessment unit ("PAU"). Because units would have to be dispatched from other locations, the loss of a fire engine will likely result in increased response times in certain circumstances, particularly to the areas surrounding the closed fire station.
- Reduce Animal Control services for an estimated annual savings of \$1 million. State law requires certain minimum animal control services. The Police Department budget includes approximately \$1,064,110 for animal control services provided by the San Diego Humane Society ("SDHS"). The SDHS has currently agreed to extend their contract for services that would not include any funding increase for the upcoming year, with increases in subsequent years. The City could determine not to renew the contract and arrange for in-house services sufficient to meet minimum legal thresholds resulting in a savings of approximately \$1 million.
- Propose a 25% reduction in the management fee paid to Library Systems & Services, LLC ("LS&S") to provide day-to-day operational services at the Escondido Public Library. The annual savings of this reduction would be about \$675,000. City Staff and the Library Board would work with LS&S to determine what services the Library would continue to provide.

- Close the two City Pools for an estimated annual cost savings of \$307,000. This savings is offset by the loss in revenue generated by the pools that is estimated to be \$176,000, so the net savings to the General Fund would be about \$131,000 annually.
- Propose a 25% reduction in the management fee paid to the California Center for the Arts Escondido (“CCAЕ”) for estimated annual savings of about \$200,000. The CCAЕ board would determine what services would continue to be provided.

All of the above cost reductions will have a significant impact on the services the City provides to the community.

LOCAL SALES TAX MEASURE

As noted earlier in this report, it is imperative that Escondido’s policymakers and community address the structural budget gap for future years. In terms of municipal services, it should be noted that the City of Escondido has been consistently doing more with less. Escondido has the lowest per capita spending for the services it provides in comparison to other cities in San Diego North County. Choosing one of the proposed budget reductions will reduce this pre capita expenditure even more. That is why the City needs to move forward with the proposed sales tax measure now more than ever.

City	Expenditures Per Capita
Escondido	\$ 699
Vista	\$ 736
San Marcos	\$ 818
Poway	\$ 943
Oceanside	\$ 971
Encinitas	\$1,014
Carlsbad	\$1,354
Solana Beach	\$1,389

The City will face significant challenges in years beyond Fiscal Year 2020/21. The City’s most recent Multi-Year Financial Plan forecasts that projected revenue growth will not keep up with projected expenditure growth. According to this Plan, the City is potentially facing a budget deficit of \$10 million

by Fiscal Year 2021/22. It is becoming increasingly challenging to keep residents safe and to maintain municipal services at their current levels due to the rising cost of providing services.

Eliminating a deficit this large is extremely challenging when 84% of the total General Fund budget pays for the cost of staffing to provide City services, and nearly 80% is dedicated to public safety and public works personnel for law enforcement, emergency services, street and park maintenance, graffiti removal and addressing homelessness issues.

In order to maintain these essential services, the City must secure a reliable, locally-controlled source of funding. One such funding source is a voter-approved local sales tax increase. The current sales tax rate applied in Escondido is 7.75%, which is the base rate for San Diego County. This includes a combined state/local rate of 7.25% and a San Diego County district tax of .50% for the TransNet Program. Of the total 7.75% collected, Escondido receives only 1%. The City could obtain voter approval of local transactions and use tax (aka sales tax) increase at the next general election on November 3, 2020. A general tax measure requires approval of 50% of voters, plus one.

For example, if a sales tax rate increase of 1% was approved by the voters, the local sales tax rate in Escondido will increase from 7.75% to 8.75%. For each \$100 spent on taxable items in the City, an additional \$1 would be collected that would stay in Escondido. Cumulatively, this increase would annually generate approximately \$25 million in new revenue for the City; none of funds could be taken away by the County or Sacramento.

This funding mechanism has been enacted by nearly 45% of all California cities, including Oceanside, Vista, National City, Del Mar, La Mesa, El Cajon and Chula Vista, with the major benefit of ensuring local control over how these funds are spent and that they are spent locally. Another benefit to a sales tax increase is that out-of-town visitors spending money in Escondido share in paying this tax. In addition, sales tax is not levied on food items (groceries), prescriptions, certain medical devices, and other "Necessities of Life" as they are exempt from sales tax.

The City is at a financial crossroads and is running out of options. Approval of a sales tax increase could avoid City service reductions that will have significant impacts to the community. Without a new revenue source, the City faces risk to the quality of life that residents and visitors have come to expect.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:

Joan Ryan, Director of Finance
5/7/20 11:12 a.m.

ATTACHMENTS:

1. Attachment A – Successor Agency Redevelopment City Loans

Attachment A

Successor Agency – Redevelopment City Loans

The City of Escondido and the Redevelopment Agency entered into a Cooperation Agreement in 1988 that authorized the advance of monies for Civic Center projects and other redevelopment projects outside the Civic Center. This 1988 Cooperation Agreement provided a repayment schedule to the City from future tax increment, and provided for a specific interest rate formula that was tied to the City's cost of funds. The repayment schedule provided that any balances remaining unpaid rolled over to the next year. The City and the Redevelopment Agency have operated under the terms of this Cooperation Agreement since its adoption and have maintained ongoing information on annual reports regarding the balances due and payable. The outstanding principal balance at the time of the dissolution of Redevelopment was \$9,832,652.

On January 24, 2017, the Oversight Board approved Resolution No. OB 2017-02 to find that the City Loans were for legitimate redevelopment purposes that meet the definition of a loan eligible for reinstatement pursuant to Health and Safety Code Section 34191.4(b)(2)(A) and approved the agreement to reinstate the City Loans made to the former Redevelopment Agency. On April 26, 2017, the Department of Finance approved the action taken by the Oversight Board and found that the City loans were for legitimate redevelopment purposes and eligible for reinstatement.

As a result of the reinstatement, the loan obligation of \$17,682,611 was placed on ROPS18-19. The outstanding balance included \$9,832,652 of principal. In addition, in accordance with Health and Safety Code 34191.4(b)(3)(A), interest on the remaining principal of the loan was recalculated at a simple interest rate of three percent from the date of the origination of the loan. This resulted in interest outstanding of \$7,849,959. ROPS18-19 approved a payment for \$4,645,228 and ROPS19-20 approved a payment of \$3,322,326 leaving a remaining balance of \$10,221,612 at June 30, 2020, that includes principal and accrued interest.

The annual repayment amount is calculated pursuant to Health and Safety Code Section 34191.4(b)(3)(A), which requires repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in the preceding fiscal year and the ROPS residual pass-through distributed to the taxing entities in the Fiscal Year 2012-13 base year. For the Successor Agency, the ROPS residual pass-through amounts for Fiscal Year 2012-13 and 2019-20 are zero and \$14,957,320, respectively. Therefore, \$7,478,660 is the repayment authorized for FY 2020-21. Of this amount, 20% or \$1,495,730 must be repaid to the Successor Agency – Housing Fund leaving a balance of \$5,982,930 to be repaid to the General Fund.

On April 25, 2018, the City Council approved staff's recommendation that all Successor Agency Loan Repayments made over the next four years shall all be contributed to the Section 115 Irrevocable Pension Trust.

FY2020/21 Operating Budget Briefing

May 13, 2020



Agenda

- Review the Proposed Fiscal Year 2020/21 General Fund Preliminary Operating Budget Status
- Provide policy concurrence or alternative direction on the recommendations for closing the structural budget gap
- Authorize staff to return with the Fiscal Year 2020/21 General Fund Operating Budget on June 10, 2020

FY2019/20 Financial Summary

- One-time funds were used in FY2019/20 to close the budget gap
- Decreased revenue as a result of COVID-19 on May 6

	FY2019/20 Adopted	FY2019/20 Adjustments	FY2019/20 Amended
Total Operating Revenue	\$103,440,105	(\$2,235,460)	\$101,204,645
One-Time Revenue	1,948,780	4,351,205	6,299,985
Total Revenue	\$105,388,885	\$2,115,745	\$107,504,630

Revenue Projections FY2020/21

	FY2019/20 Amended	FY2020/21 Projected	Change	%
Sales Tax	\$36,936,200	\$35,991,300	(\$944,900)	-3% ▼
Property Tax	28,579,000	29,441,000	862,000	3% ▲
Other Taxes	13,399,285	14,085,800	686,515	5% ▲
Charges for Services	12,127,400	12,331,020	203,620	2% ▲
Intergovernmental	3,205,000	3,165,000	(40,000)	-1% ▼
Permits, Licenses, Fines	2,170,500	2,229,500	59,000	3% ▲
Investment & Rental Income	4,018,710	4,018,000	(710)	0% ▼
Other Revenue	768,550	756,200	(12,350)	-2% ▼
Total Operating Revenue	\$101,204,645	\$102,017,820	\$813,175	1% ▲
One-Time Revenue	6,299,985	-	(6,299,985)	-100% ▼
Total Revenue	\$107,504,630	\$102,017,820	(\$5,486,810)	-5% ▼

Sales Tax Assumptions

Total Sales Tax (3%)	General Retail (8%)
Food Products (2.8%)	Transportation (5.4%)
Construction (5.3%)	Business to Business (8.2%)
Miscellaneous (8.5%)	County Pool 7.5%

- Sales tax is the largest General Fund revenue source at 35% of total revenue
- Assumes some form of Stay At Home order is in effect until July
- Declines are being projected in every economic segment in our local economy

Revenue Projections FY2020/21

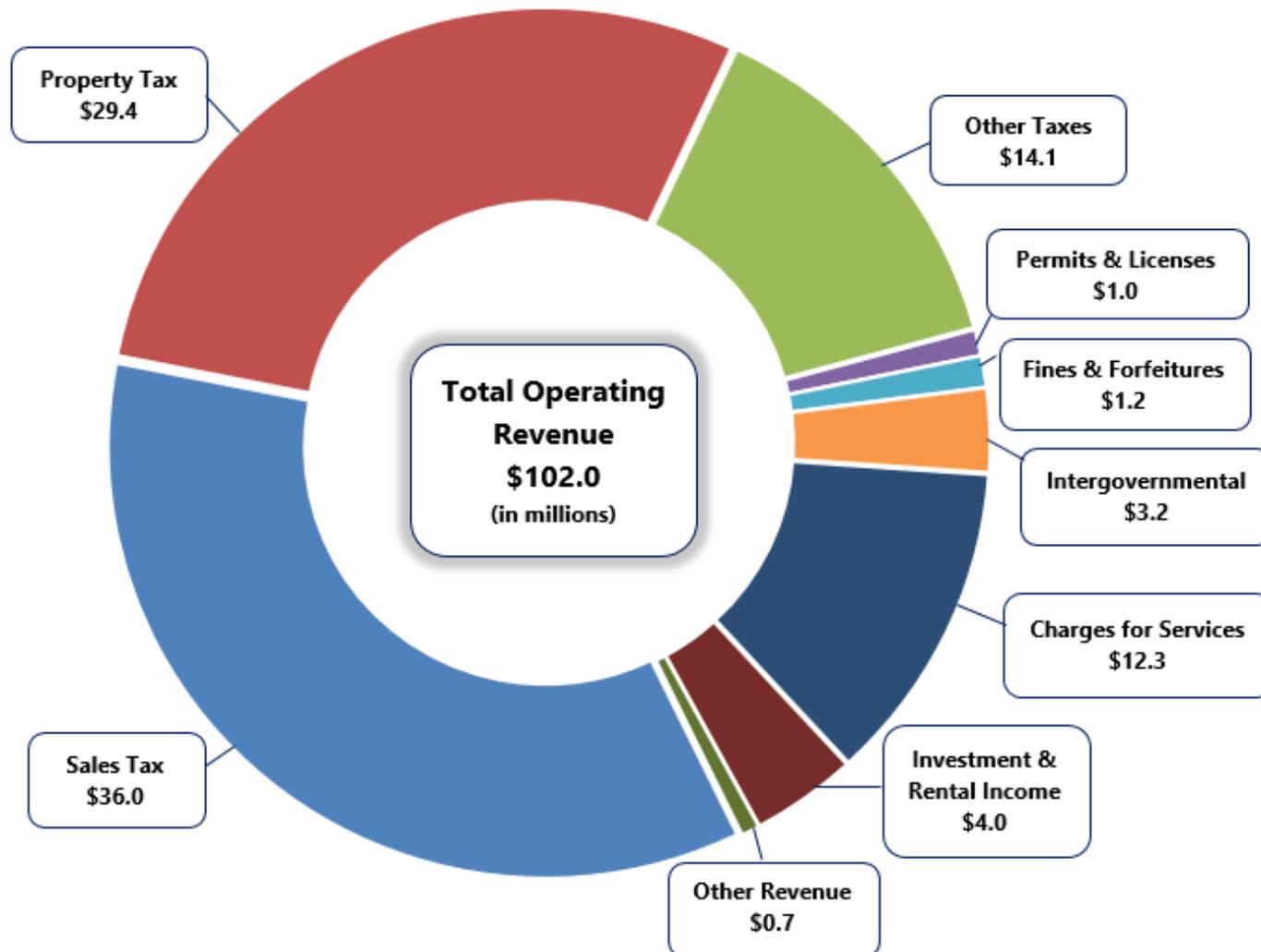
Projected Growth

- Property Taxes
- Redevelopment Property Tax Trust Fund (RPTTF)
- Franchise Fees
- Permits and Licenses
- Charges for Services

Projected Declines

- Transient Occupancy Tax
- Business License Fees

Revenue Projections FY2020/21



Operating Expenditures

- Pre COVID-19 projected operating budget deficit: \$6 million
- All departments required to reduce their budgets by 3% (net 8%)

	December 2019	March 2020 Pre COVID-19
Operating Revenue	\$106,227,800	\$106,074,270
Transfers In & Deposits	2,066,000	2,185,600
Successor Agency Loan Payback	5,910,820	5,982,930
Total Sources	\$114,204,620	\$114,242,800
Operating Expenditures	\$112,616,710	\$107,698,100
Transfers Out	1,680,710	561,770
Transfer to Section 115 Pension Trust	5,910,820	5,982,930
Total Uses	\$120,208,035	\$114,242,800
Total Sources Over/(Under) Uses	\$(6,003,415)	\$0

Projected Expenditures FY2020/21

	FY2019/20 Adopted	FY2020/21 Projected	Change	%
General Government	\$5,942,870	\$5,655,070	(\$287,800)	-5% ▼
Community Services	8,164,810	8,827,290	662,480	8% ▲
Community Development	4,780,800	4,610,390	(170,410)	-4% ▼
Public Works	10,288,210	10,100,860	(187,350)	-2% ▼
Engineering	2,737,210	2,551,590	(185,620)	-7% ▼
Police	45,928,340	45,633,100	(295,240)	-1% ▼
Fire	24,746,230	25,764,270	1,018,040	4% ▲
Community Relations & CCAE	2,491,560	2,535,050	43,490	2% ▲
Non-Departmental	1,724,420	1,903,580	179,160	10% ▲
Total Expenditures	\$106,804,450	\$107,581,200	\$776,750	1% ▲

Summary of Increases

- Community Services
 - Zeroing out the After School Education & Safety (ASES) Grant program budget and transitioning staff into the Recreation budget to expand the fee-based After School Program
 - Senior Nutrition and Older Adult Services are being subsidized by the Joslyn Trust
- Fire Department
 - No change in fire station staffing
 - Enhanced revenue through the Quality Assurance Fee paramedic program

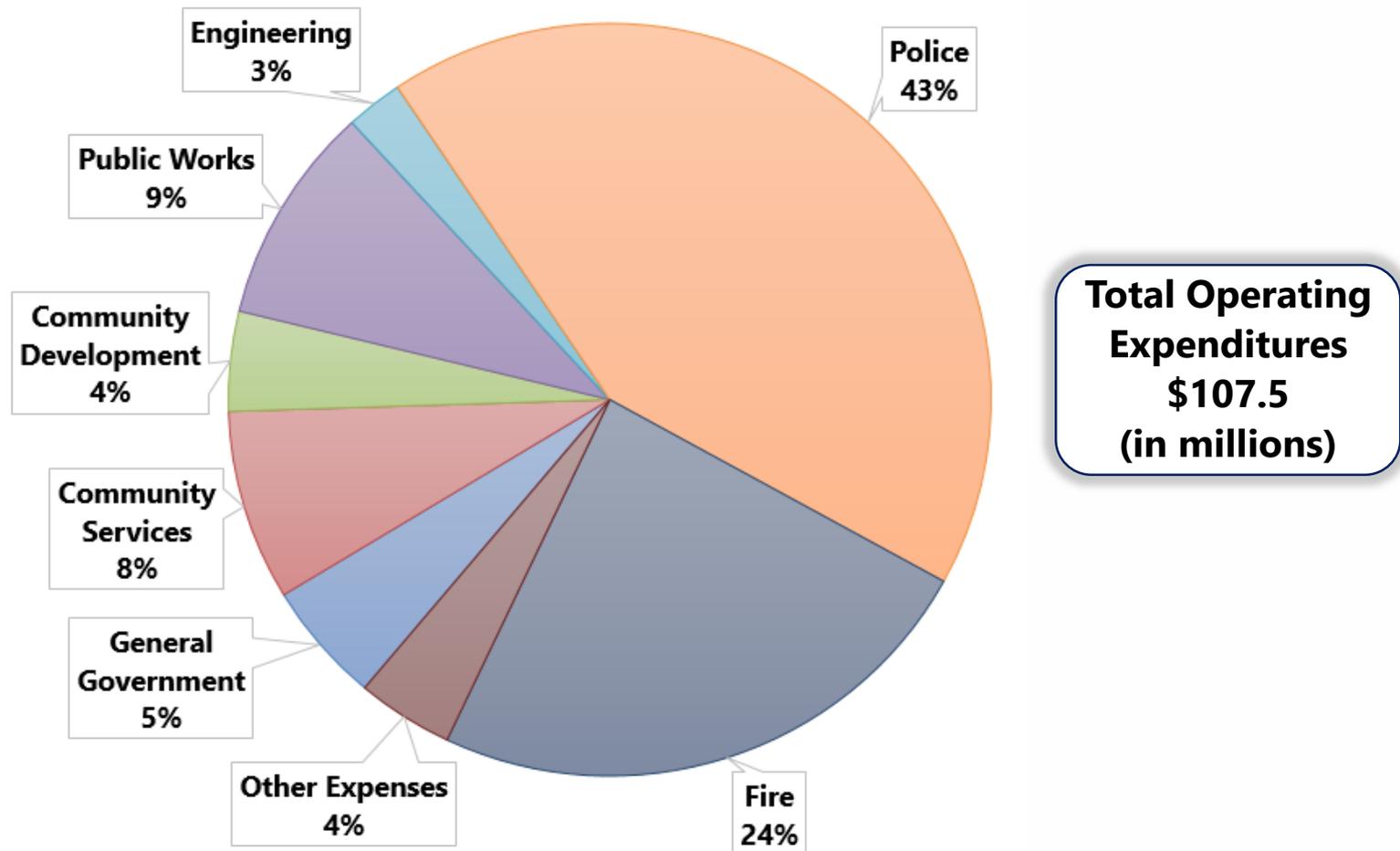
Summary of Reductions

- Increased efficiencies
- Use of technology and consolidation of resources
- Staffing changes
 - Code Enforcement
 - Parks Department
 - Police Department

Summary of Reductions

- Decrease in City Services
 - Maintenance of ballfields at Kit Carson Park
 - (reliance on volunteers)
 - Parking lot maintenance
 - Pest control measures at the parks
 - Landscape maintenance
 - Police Department Community outreach programs

Projected Expenditures FY2020/21



Sources and Uses

Sources of Funds – FY2020/21

Operating Revenue	\$102,017,820
Transfers In	2,085,000
Deposits	100,600
Successor Agency Loan Payback	5,982,930
TOTAL, Sources	\$110,186,350

Uses of Funds – FY2020/21

Operating Budget	\$107,581,2700
Transfers Out	603,970
Transfer to Section 115 Pension Trust	5,982,930
TOTAL, Uses	\$114,168,100

TOTAL, Sources Over/(Under) Uses **\$(3,981,750)**

General Fund Transfers Out

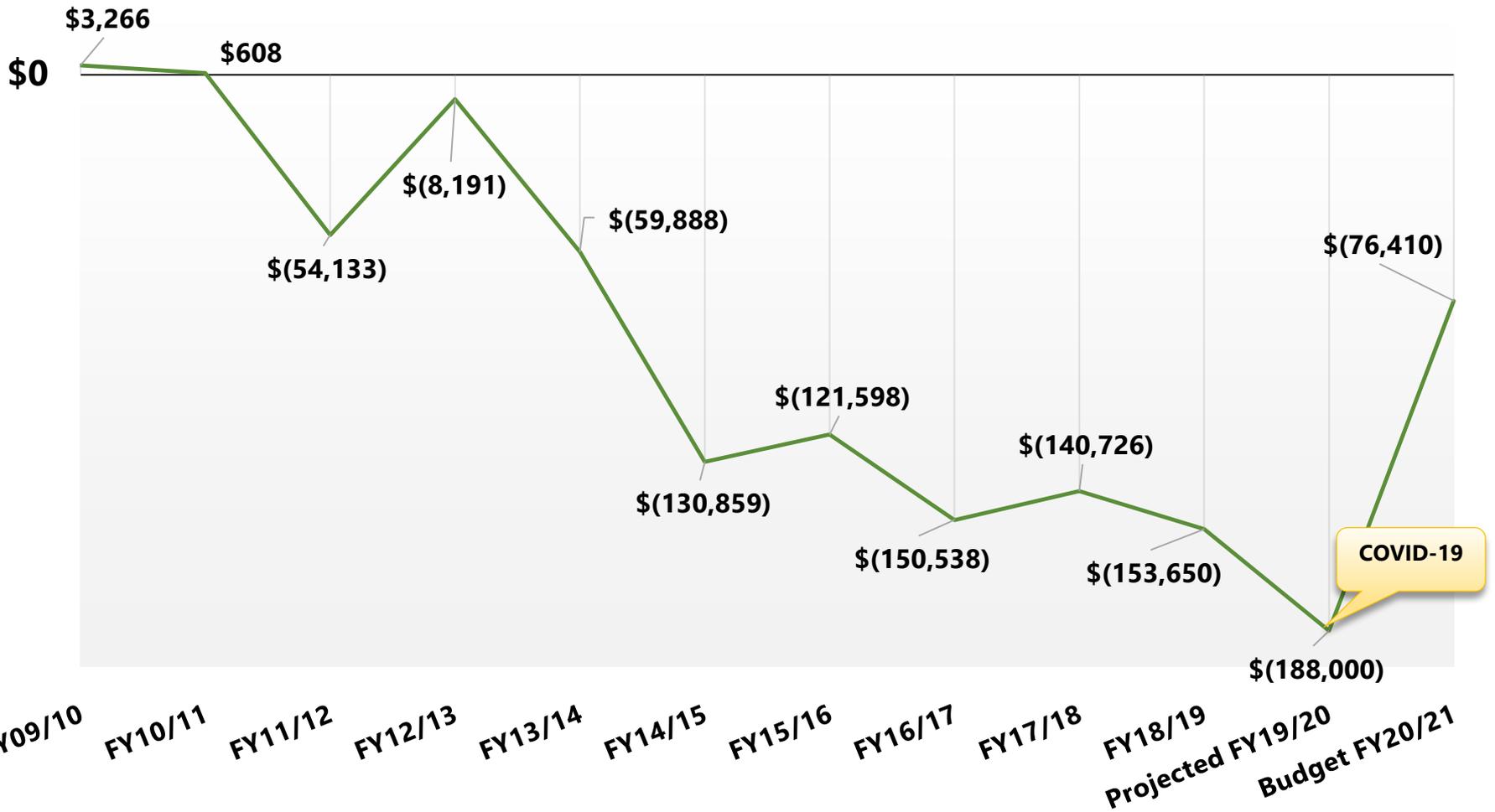
Reidy Creek Golf Course Debt Service	Lease Revenue Bond Payment	\$363,270
Reidy Creek Golf Course Operations	To cover operational costs	76,410
Vehicle Parking District	Maintenance and operation of City owned parking lots	97,090
Successor Agency Housing Fund	To fund the short form rent review process	25,000
Total Transfers Out		\$603,970

Reidy Creek Golf Course

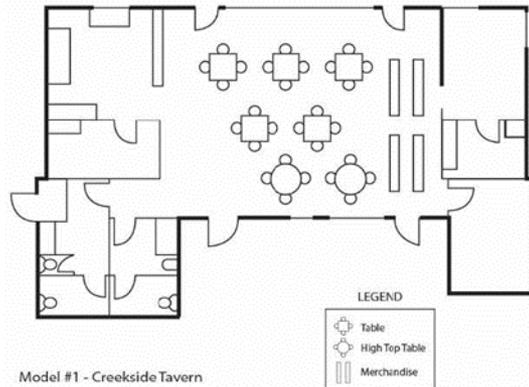
- JC Resorts manages the Course and the City is responsible for the cash flows necessary for operations
- Management Agreement Ends June 30, 2022
- Terminating the agreement early
 - Exposes city to claim for damages
 - Leaves course without management

Reidy Creek Golf Course

Operating Net Income / (Loss)



Reidy Creek Golf Course



The Creekside Tavern

- Framing and electrical were completed this week and inspections are underway
- Improvements will increase the range of food items available for sale and reconfigure the space to provide opportunities for revenue-generating private event rentals

Options to Close Budget Gap

Staff Recommendation

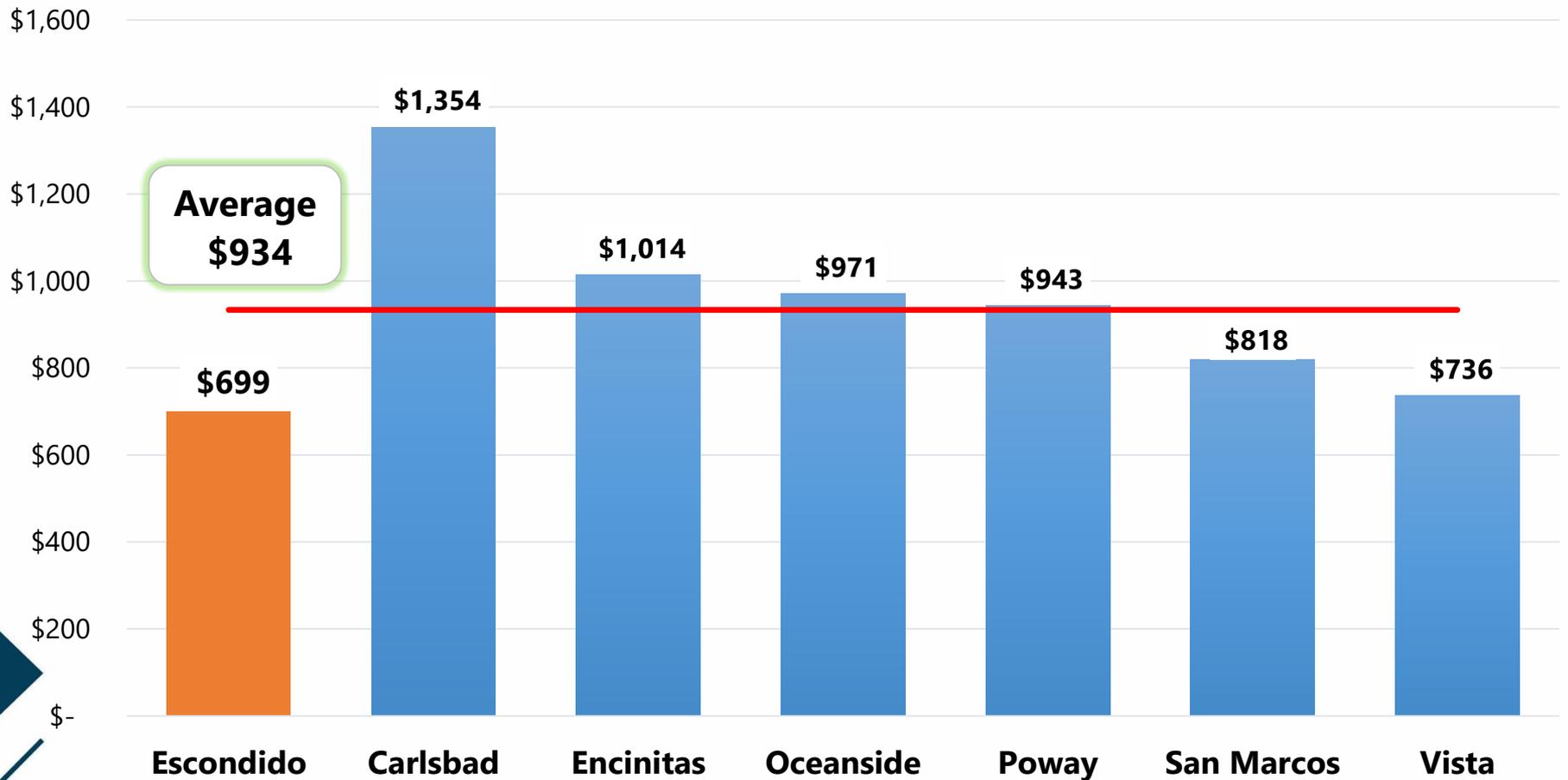
- Use the Successor Agency Loan Repayment
 - Current policy is to transfer to the Section 115 Irrevocable Pension Trust Fund
 - Limits the funds available to offset future PERS liabilities
 - Using one-time money to reduce the operating deficit is not a recommended financial habit
 - Temporary solution that does not address the fiscal imbalance
 - Avoids further cuts to City services

Options to Close Budget Gap

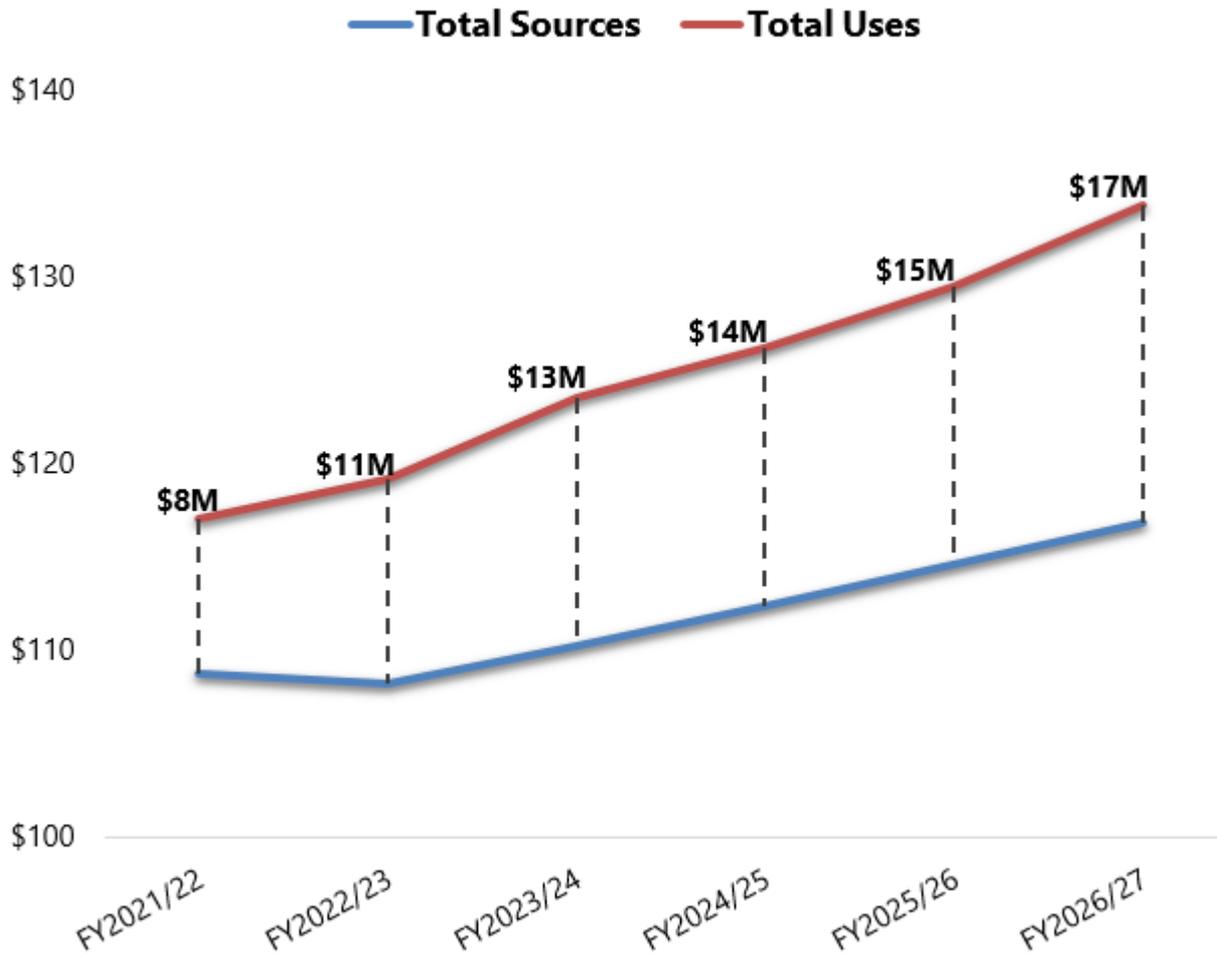
Other Alternatives

City Service	Annual Cost Savings
Close a Fire Station	\$1,300,000
Terminate Humane Society Contract	\$1,000,000
Public Library Service Reduction	\$675,000
Close Two City Pools	\$131,000
California Center for the Arts	\$200,000

General Fund Per Capita Spending



General Fund Projected Budget Gaps



**Cumulative 6 year
General Fund
Budget Gap
\$78 million**

Reserve Balance

- General Fund Reserve Balance target of 25% of operating revenues

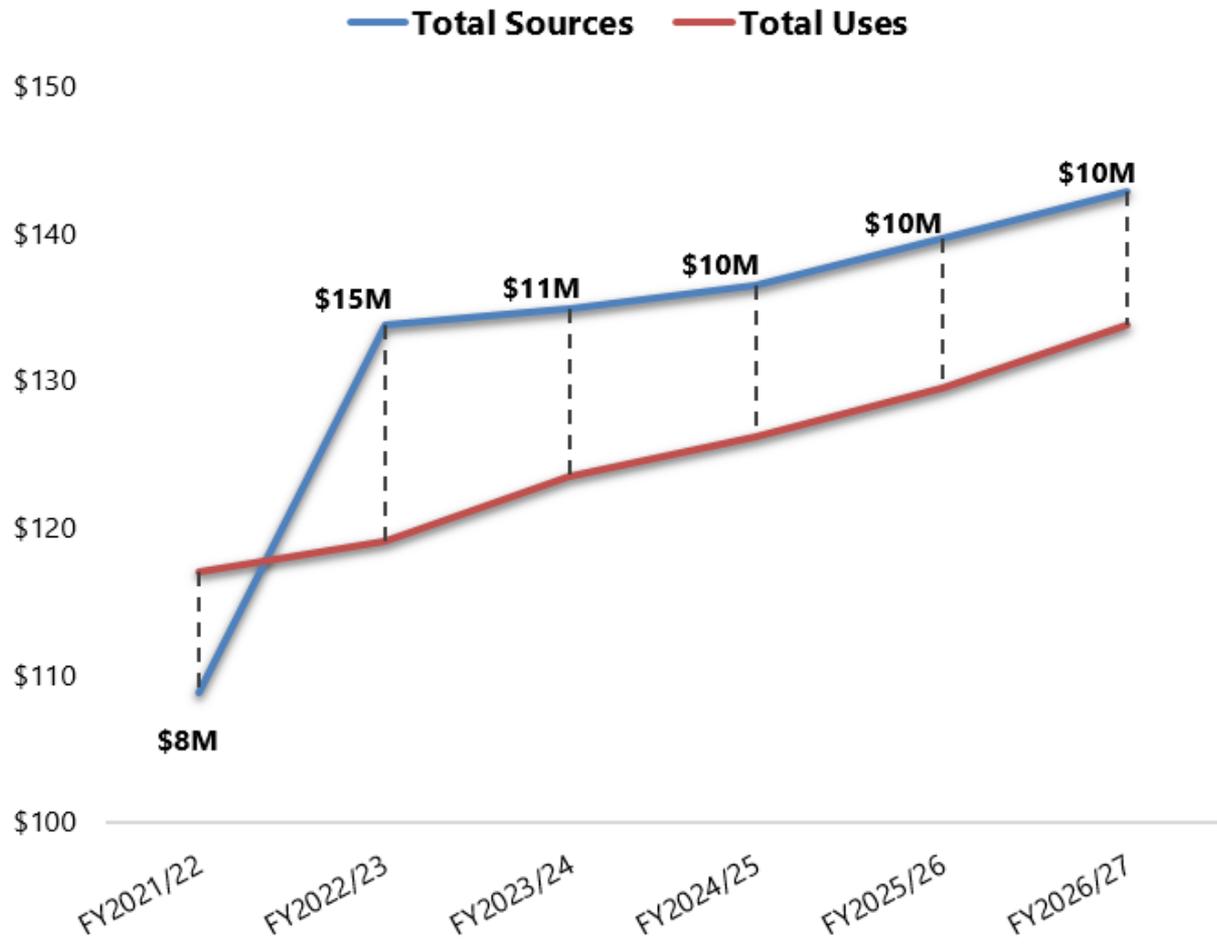
Current Balance = \$17,392,319

Target Balance = \$25,504,455

- Section 115 Irrevocable Pension Trust
Current Balance = \$9,883,796

If no new revenue is generated and there are no major cuts to expenditures, Reserve balances will be depleted in FY2023/24

General Fund Revenue Measure Projections



**1¢ Sales Tax
NET SURPLUS**

Recommendation

- Provide policy concurrence or alternative direction on the recommendations for closing the structural budget gap
- Authorize staff to return with the Fiscal Year 2020/21 General Fund Operating Budget on June 10, 2020