



Fiscal Year 2021/22
Second Quarter Financial Report

OVERVIEW

This report summarizes the City’s financial position for the fiscal year through the second quarter ending December 31, 2021 for the General Fund, the Reidy Creek Municipal Golf Course, and the Water and Wastewater Funds. The purpose of the report is to provide City Council, City Management, and the Escondido community an update on the City’s fiscal status based on the most recent financial information available. The revenue projections and budget information include adjustments for encumbrances, carryovers, and any other supplemental appropriations approved by the City Council as of December 31, 2021.

This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting principles (GAAP).

GENERAL FUND

The General Fund Fiscal Year 2021/22 operating budget was adopted as a balanced budget but relies on over \$8 million of one-time sources of funds including the final loan repayment from the Successor Agency Redevelopment Loan of \$2.2 million and a transfer of \$6.1 million from the Section 115 Pension Trust Fund. Total operating revenue is projected to increase by 3% to reach \$107.2 million and the adopted expenditure budget of \$117.1 million increased by approximately \$7.1 million or 6% compared to the revised FY2020/21 operating budget although this does not address the current \$8 million deficit the City is facing. In addition to providing core City services including Public Safety, Public Works, Community Services, and Community Development, the FY2021/22 budget reflects the resources required to address specific public service needs around traffic flow, traffic safety, and homelessness.

At the end of the second quarter, General Fund revenues are at 35% of the amended budget, while expenditures are at 46%. Actual revenues are higher than projected by about \$4.0 million primarily due to increases in Sales Tax, Property Tax, and Other Taxes received through the second quarter of the fiscal year. Expenditures are in line with budgeted activity and projected amounts. The Projected Results as of December 2021 shown below are based on past history of the timing of revenues collected and expenditure activity.

General Fund Comparison of Projected FY2021/22 Operating Budget to Actuals

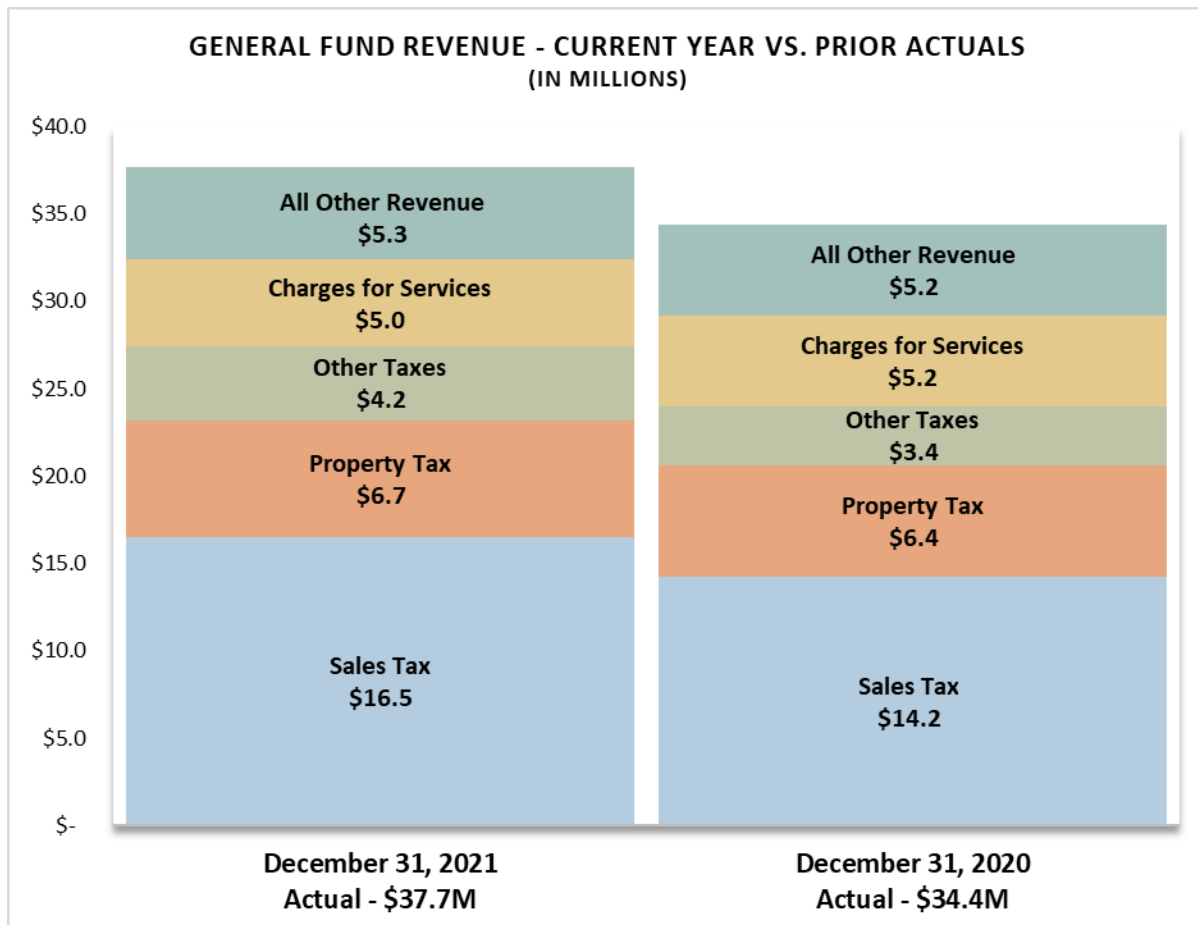
	FY2021/22 AMENDED BUDGET	PROJECTED RESULTS DECEMBER 2021	ACTUAL RESULTS DECEMBER 2021
Total Operating Revenue	\$107,219,510	\$33,672,888	\$37,768,603
Total Operating Expenditures	(118,268,800)	(55,586,336)	(54,652,836)
Other Sources (Uses)	1,563,840	1,563,840	1,563,840
Net Operating Surplus / (Deficit)*	(\$9,485,450)	(\$20,349,608)	(\$15,320,393)

**FY2021/22 projected Operating Budget deficit closed with one-time revenue from the Redevelopment Loan payment of \$2.2 million and funding from the Section 115 Pension Trust Fund of \$6.1 million.*

GENERAL FUND REVENUE

	FY2021/22 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2021	ACTUAL RESULTS DECEMBER 2020	Prior Year vs. Current Year
Sales Tax	\$42,147,300	\$16,517,130	\$14,208,940	\$2,308,190
Property Tax	30,925,000	6,687,530	6,350,110	337,420
Other Taxes	13,680,000	4,214,540	3,432,150	782,390
Charges for Services	10,169,710	5,043,780	5,245,620	(201,840)
Intergovernmental	3,341,000	1,589,880	1,719,830	(129,950)
Permits and Licenses	1,412,500	942,790	986,000	(43,210)
Fines and Forfeitures	908,000	457,120	422,770	64,350
Rental Income	3,738,000	2,120,080	1,822,700	297,380
Other Revenue	898,000	165,760	259,060	(93,300)
TOTAL OPERATING REVENUE	\$107,219,510	\$37,768,610	\$34,447,180	\$3,321,430

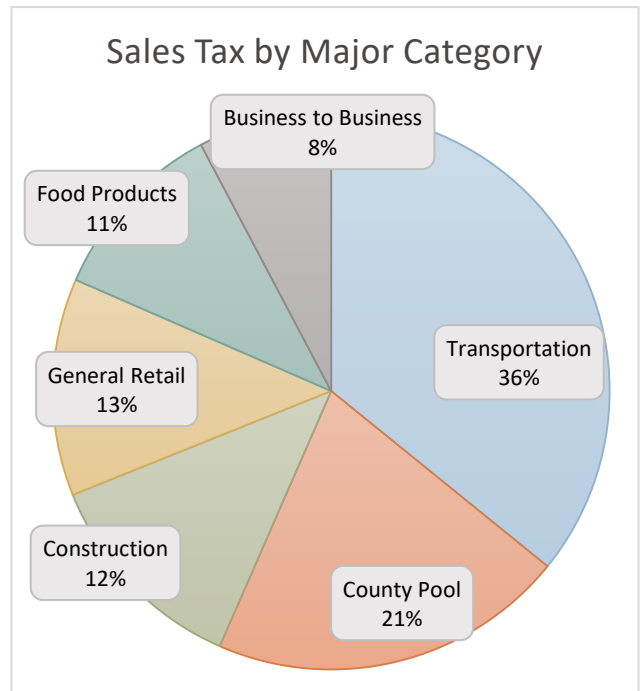
Sales tax is the largest General Fund revenue source at 39% of total revenue in FY2021/22 followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue collected through December 31, 2021 compared to the revenue collected in the prior year through December 31, 2020.



Sales Tax (\$16.5 million)

The Sales Tax revenue projected in the Fiscal Year 2021/22 Operating Budget adopted in June 2021 was \$42.1 million, an increase of \$2.7 million or 7% over the FY2020/21 amended sales tax forecast. The restrictions from the COVID-19 pandemic were expected to continue to negatively impact sales tax revenue in FY2020/21; however, actual sales tax receipts received at the close of the previous quarter resulted in strong growth that was not previously anticipated. A combination of California fully reopening its economy, improved vaccination rates, public health measures to reduce the spread of the COVID-19 virus, and additional federal funding fostered an economic environment in which consumers’ buying power remained intact and the demand to spend on taxable goods significantly increased during this time period.

Overall, the City’s local economy continues to experience a fairly strong recovery and as a result, sales tax revenues distributed to the City through December 2021 increased by \$2.3 million or 16% compared to the prior year. Sales tax revenues distributed to the City as of December 2021 represent sales that occurred between July and October 2021.



The largest sales tax segment, 36% of total sales tax revenue, is Transportation, which includes new and used auto sales, auto repair shops, and service stations. Sales revenues increased by 30% compared to the prior year primarily due to new auto sales. Limited supply has been overwhelmed by strong demand and the smaller inventories increased the taxable price of vehicles. As businesses, commuters, and travelers returned to the road with increased gas prices, fuel and service stations also increased by about 80% compared to the same quarter in the prior year.

Sales tax revenue received through the County Pool is now the second largest sales tax segment accounting for 21% of the sales tax revenue received this fiscal year. Effective in April 2019, new taxable sales are distributed to the City under the AB 147 Wayfair decision which extended the sales and use taxes to online and out-of-state retailers engaged in business in California. However, the increase in activity from the countywide pool experienced during the pandemic have slowed; total receipts declined by 3% compared to the prior year.

The Construction sales tax segment accounts for revenue generated from building materials, including both wholesale and general retail, increased from the prior year by about 12%. This can be attributed to increase in the price of materials, including lumber and steel, and the continued high demand for home improvements and new construction in the City.

General retail and food products combined make up 24% of the total sales tax revenue for the City and increased by 13% compared to the prior fiscal year. The rise in general merchandise and food product sales reflects increased foot traffic and buying activity as people return to in-store shopping and indoor dining.

Property Tax (\$6.7 million)

Property Tax revenue is up \$337,417 or about 5.0% compared to this time in the prior year. The largest portions of property tax revenue are distributed by the County in December and April each year. The FY2021/22 Operating Budget projected property tax growth of 3% due to an increase in overall assessed values of properties in Escondido, favorable lending conditions and the continued increased number of home sales have all lead to significant growth in property tax revenues this fiscal year.

Other Taxes (\$4.2 million)

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have increased by \$782,000 compared to the prior year.

The City collects franchise fee revenues from San Diego Gas and Electric (SDG&E), cable companies conducting business within City limits, and Escondido Disposal Incorporated (EDI). Revenues received from franchise agreements increased by \$308,000 from the prior fiscal year primarily due to an increase in fees collected from EDI and SDG&E.

Transient Occupancy Tax, also known as hotel tax, increased by \$602,500 compared to the prior year. Due to the COVID-19 pandemic, many hotels remained closed or partially closed during the prior fiscal year. The tourism industry was impacted significantly as a result of the closures, and many forecasted its recovery would take much longer than it has. The Transient Occupancy Tax receipts collected through December 2021 have increased by 11% from the pre-pandemic levels in December 2019.

All entities doing business in the City are required to have a valid business license. The business license tax is calculated based on annual gross receipts; business license revenue from the 2021 calendar year is based off of 2020 gross receipts. Business license revenues have decreased by about \$197,500 from the previous fiscal year.

Charges for Services (\$5.0 million)

Due to the public health orders, City recreation facilities and services have been restricted or closed. The inability to hold recreation programs has resulted in refunds of fees collected for classes and programs already scheduled as well as the loss of recreation program revenue of approximately \$253,000 compared to the prior year.

The decrease in recreation program revenues were offset by increases in charges for development related services, which include engineering and planning fees. Development related fees are paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections, and have increased by about \$433,000 compared to the prior year.

Intergovernmental (\$1.6 million)

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and decreased \$129,950 compared to the prior year primarily due to the timing of various grant reimbursements.

Permits and Licenses (\$942,800)

Revenue generated from permits and licenses has decreased by \$43,200 primarily due to a decrease in building permit activity from the prior fiscal year.

Fines & Forfeitures (\$487,120)

Fines & forfeitures represent fees collected for code enforcement citations, vehicle code violations, parking citations, overdue fines, and impound fees. The increase of \$64,350 to date is due to an increase in activity as the restrictions on activity as a result of the pandemic continue to be lifted.

Investment, Rental Income, and Other Revenues (\$2.3 million)

Investments, Rental Income, and Other Revenue includes rental income, interest earned from investing activities, and other miscellaneous receipts and has increased by about \$200,000 compared to the prior year.

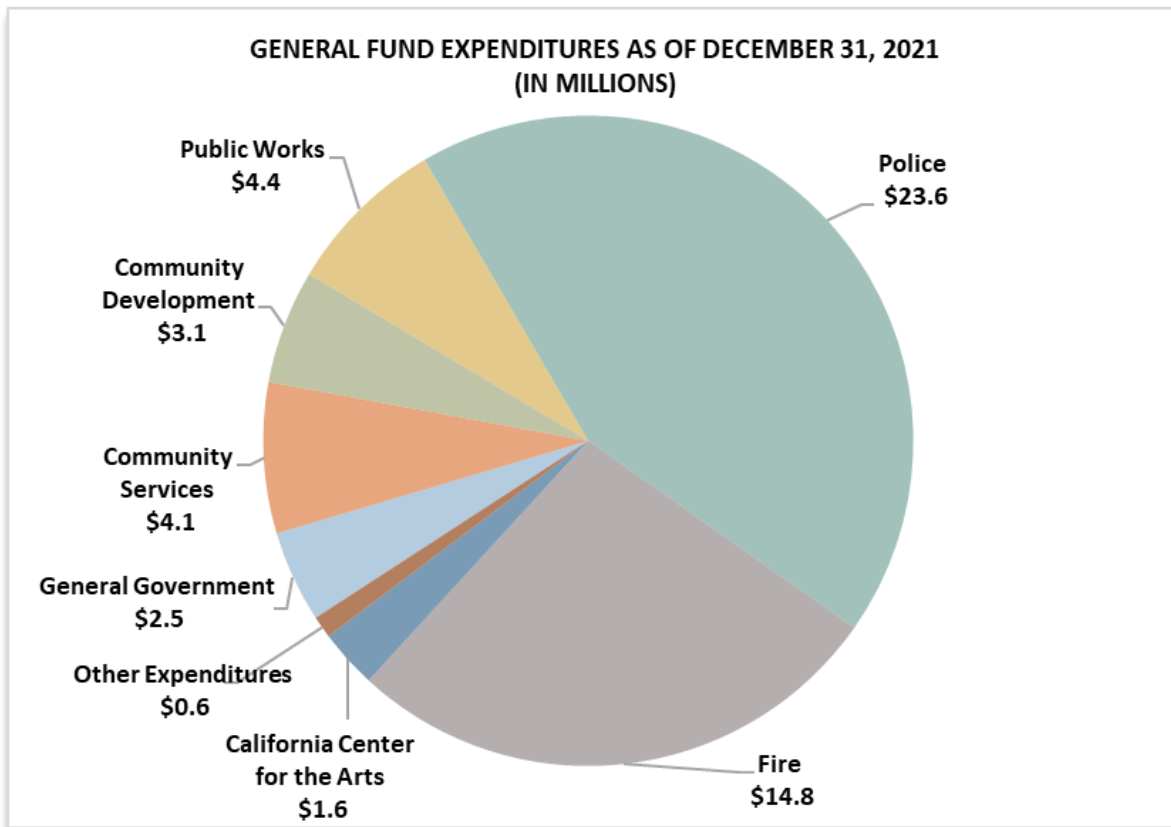
One-Time Funds: Fire Mutual Aid Reimbursements - \$1,023,638

The City's Fire Department staff can be deployed to assist other State agencies with responses to fires and other incidents. The California Office of Emergency Services reimburses the City for the time and resources of the staff deployed. As of December 2021, reimbursements of \$1,023,638 have been recorded.

GENERAL FUND OPERATING EXPENDITURES

The following table includes cumulative second quarter expenditure comparisons for General Fund departments for FY2021/22. General Fund expenditures are tracking as expected at 46% percent of the budget through the first six months of the fiscal year. The General Fund total expenditures are up 6% compared to the prior fiscal year or about \$2.9 million. The FY2021/22 General Fund Operating Budget increased by approximately \$7.1 million or 6% compared to the FY 2020/21 revised Operating Budget and the General Fund departments are on track to meet this target.

	FY2021/22 AMENDED BUDGET	ACTUAL RESULTS DECEMBER 2021	ACTUAL RESULTS DECEMBER 2020
General Government & Support Services	\$6,786,250	\$2,553,690	\$2,596,540
Community Services	9,073,751	4,054,690	3,367,010
Community Development	8,128,370	3,109,050	3,176,970
Public Works	12,485,090	4,389,990	4,328,630
Police	49,248,620	23,563,560	22,421,190
Fire	27,999,290	14,777,350	13,759,360
California Center for the Arts	2,412,680	1,554,270	1,334,430
Other Expenditures	2,134,750	650,250	750,300
TOTAL OPERATING EXPENDITURES	\$118,268,801	\$54,652,850	\$51,734,430



GENERAL FUND RESERVES

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

Budgeted General Fund operating revenue in Fiscal Year 2021/22 is \$107,219,510 and 25% of this amount is \$26,804,878. The current General Fund Reserve balance is \$17,392,319, or 16% of budgeted operating revenue, which is below the identified acceptable risk-based analysis adopted by City Council and general government practices.

Section 115 Irrevocable Pension Trust Fund

In February 2018, City Council authorized the establishment of a Section 115 Irrevocable Pension Trust Fund. The Trust Fund is used to set aside and hold money to meet future pension liabilities and can be used to provide economic relief during recessionary cycles and/or rate increases that are significantly above anticipated projected employee rate increases. Funds placed in this Trust can also be used to offset the City’s “normal” CalPERS costs, such that if funds are necessary for other purposes, a certain amount of flexibility is present. Another benefit is that funds held in the Trust can be invested in the same manner as funds in a typical pension fund rather than as part of the City’s General Fund, which means a potentially higher rate of return.

When the Pension Trust Fund was established, a funding policy for contributions to the Fund was recommended and included the four years of annual Successor Agency Redevelopment Loan Repayments of \$14 million that began in Fiscal Year 2018/19, future proceeds from the sale of City Property belonging to the General Fund, and a portion of General Fund surplus at the end of each fiscal year, if one exists. On October 27, 2021, City Council approved the transfer of the FY2020/21 Successor Agency Redevelopment Loan Repayment of \$5,982,930 and the remaining net resources from the FY2020/21 year end operating results of \$5,567,915.

As of December 31, 2021, the Section 115 Pension Trust Fund has a balance of \$27,023,050 which includes City contributions of \$24,406,430 plus investment earnings net of expenses of \$2,616,620. The 3-month rate of return of the investment portfolio is 1.78% and the 1-year rate of return is 5.21%.

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

Section 115 Pension Trust Fund	
Prior Contributions	\$12,855,585
Successor Agency Advance Repayment – FY2020/21	5,982,930
General Fund Operating Results – FY2020/21	5,567,915
Investment Earnings, net of expenses	2,616,620
Balance as of December 31, 2021	\$27,023,050

REIDY CREEK GOLF COURSE FUND

In the prior fiscal year ending June 30, 2021, Reidy Creek Golf Course had the best performance it has had since opening and was able to end the year with positive net income for the first time in 10 years. Due to the increase in activity at the course and continued popularity of Disc Golf, the FY2021/22 budget for the course was adopted with a \$304,280 or 49% increase in operating revenue from the prior year with no transfer from the General Fund. Operating expenses are projected to rise by 19% or \$131,930 due to the increase in maintenance and staff costs needed to support the increase in activity.

	FISCAL YEAR 2021/22 BUDGET	ACTUAL RESULTS DECEMBER 2021	ACTUAL RESULTS DECEMBER 2020	PRIOR YEAR VS CURRENT YEAR
Total Revenues	\$925,060	\$471,159	\$483,980	(\$12,821)
Total Expenditures	(829,120)	(464,216)	(457,350)	(6,866)
Net Operating Income / (Deficit)	\$95,940	\$6,943	\$26,630	(\$19,687)
Budgeted Transfer from the General Fund	-	-	76,410	(76,410)
Total Sources over (Uses)	\$-	\$6,943	\$103,040	(\$254,382)

As of December 2021, overall operating revenues have declined by 2% compared to the prior year. This is due to a decrease in the total rounds of golf played at the course, which decreased by 8% compared to the prior year. In addition, total operating expenditures through December were up slightly by 1.5% from the prior year. The added activity at the course has led to an increase in expenses, primarily due to the maintenance of the course and repairs of aging equipment.

In May 2021, City Council approved the use of \$160,000 of the FY2020/21 projected net surplus for the purchase of new golf carts for the course. The carts were ordered, but due to delays in shipping not received before the end of last fiscal year. In November the new carts arrived at the course and have been very well received by customers. The new fleet is anticipated to alleviate future maintenance costs that were needed to keep the old carts operating.



WATER FUND

Net operating income for the Water Fund through December 2021 was \$10.5 million, a decrease of \$523,000 from prior year. Operating revenue increased by about \$510,000 million or 1% compared to the prior year, due to approved rate increases effective March 31. Operating expenses increased by about \$1 million or 4% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

	FISCAL YEAR 2021/22 BUDGET	ACTUAL RESULTS DECEMBER 2021	ACTUAL RESULTS DECEMBER 2020	PRIOR YEAR VS CURRENT YEAR
Operating Revenues	\$64,175,000	\$37,714,975	\$37,204,118	\$510,857
Operating Expenses	(59,158,690)	(27,172,386)	(26,138,453)	(1,033,933)
Net Operating Income	\$5,016,310	\$10,542,589	\$11,065,665	(\$523,076)

WASTEWATER FUND

Net operating income for the Wastewater Fund through December 2021 was \$7.2 million, an increase of \$1.7 million from the prior year. Operating revenue increased by about \$2.4 million or 14% compared to the prior year, due to the timing of reimbursements received from the City of San Diego for treatment charges. Operating expenses increased by about \$703,000 or 6% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

	FISCAL YEAR 2021/22 BUDGET	ACTUAL RESULTS DECEMBER 2021	ACTUAL RESULTS DECEMBER 2020	PRIOR YEAR VS CURRENT YEAR
Operating Revenues	\$41,200,000	\$19,989,592	\$17,577,285	\$2,412,307
Operating Expenses	(26,601,330)	(12,808,901)	(12,106,086)	(702,815)
Net Operating Income	\$5,016,310	\$7,180,691	\$5,471,199	\$1,709,492

FOR MORE INFORMATION

This summary report is based on detailed information generated by the City's Finance department. If you have any questions or would like additional information on this report, please contact the Finance department at (760) 839-4676 or visit www.escondido.org