



Fiscal Year 2020/21
Financial Report

OVERVIEW

This report summarizes the City’s overall financial position for the fiscal year ending June 30, 2021 for the General Fund, Water and Wastewater Funds, and the Reidy Creek Municipal Golf Course. The purpose of the report is to provide City Council, City Management, and the Escondido community an update on the City’s fiscal status based on the most recent financial information available. The revenue projections and budget information include adjustments for encumbrances, carryovers, and any other supplemental appropriations approved by the City Council as of June 30, 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 2020/21 operating budget was adopted as a balanced budget without the use of reserves but relied on one-time revenues of \$4.0 million from the Redevelopment Loan payment to the City. Such funds would have normally been placed in the Section 115 Irrevocable Pension Trust pursuant to City Council policy direction for use of one-time funds. As a result of COVID-19, based on an updated forecast model and the economic condition at the time, projected operating revenue was reduced by 5% or about \$5.5 million dollars from the prior fiscal year.

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%. Cost saving measures were implemented including reductions in staff and services, resulting in an overall net increase of 1% to the total operating expense budget from the prior fiscal year.

Contrary to financial indicators and the consultant’s revenue analysis prepared each quarter, as the result of strong sales tax receipts, increases in property tax revenue, and an increase in development activities in the City, operating revenues exceeded the amended FY2020/21 budgeted amount by \$9.7 million. At the same time, Staff responded to the pandemic as great stewards of General Fund resources by reducing services and the related staffing levels where mandated. These efforts led to total operating expenditures under the amended FY2020/21 budgeted amount by \$4.2 million. As a result of the increases in operating revenue and expenditure savings, the General Fund ended the fiscal year with a net operating surplus of \$8.8 million.

General Fund Comparison of FY2020/21 Operating Budget to Actuals

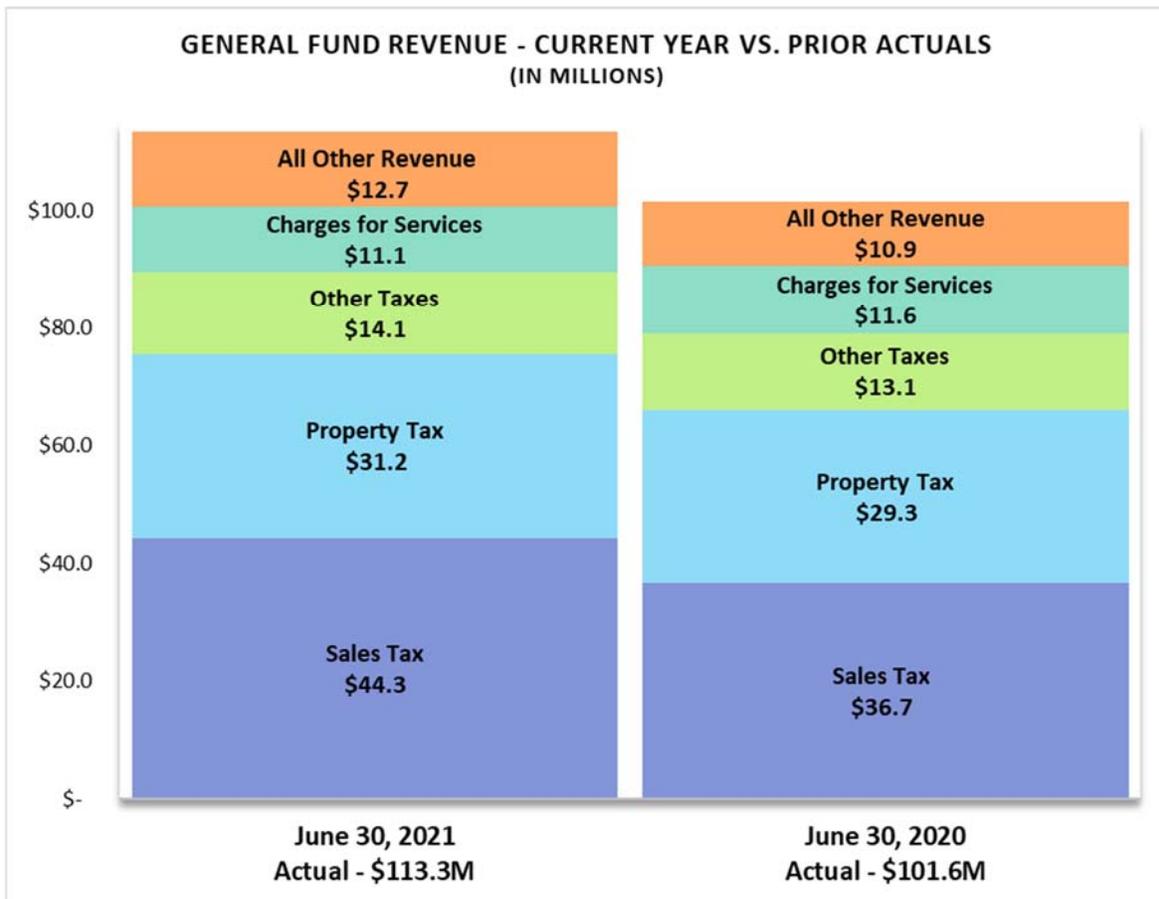
	FY2020/21 ADOPTED BUDGET	FY2020/21 AMENDED BUDGET	ACTUAL RESULTS JUNE 2021
Total Operating Revenue	\$102,017,820	\$103,658,140	\$113,377,780
Total Operating Expenditures	(107,596,800)	(110,272,120)	(106,111,800)
Other Sources (Uses)	1,581,630	1,449,630	1,449,630
Net Operating Surplus / (Deficit)*	(\$3,997,350)	(\$5,164,350)	\$8,715,610

**Budget deficit closed with one-time revenue from the Redevelopment Loan payment*

GENERAL FUND REVENUE

	FY2020/21 AMENDED BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	<i>Prior Year vs. Current Year</i>
Sales Tax	\$39,431,300	\$44,295,510	\$36,651,480	\$7,644,030
Property Tax	30,022,000	31,209,630	29,273,990	1,935,640
Other Taxes	13,039,800	14,142,700	13,095,120	1,047,580
Charges for Services	10,396,820	11,074,260	11,610,030	(535,770)
Intergovernmental	3,487,000	3,918,250	3,763,510	154,740
Fines and Forfeitures	750,000	864,800	1,122,480	(257,680)
Permits and Licenses	1,918,020	2,433,870	923,130	1,510,740
Rental Income	3,783,000	4,131,580	3,855,330	276,250
Other Revenue	830,200	1,307,180	1,286,110	21,070
TOTAL OPERATING REVENUE	\$103,658,140	\$113,377,780	\$101,581,180	\$11,796,600

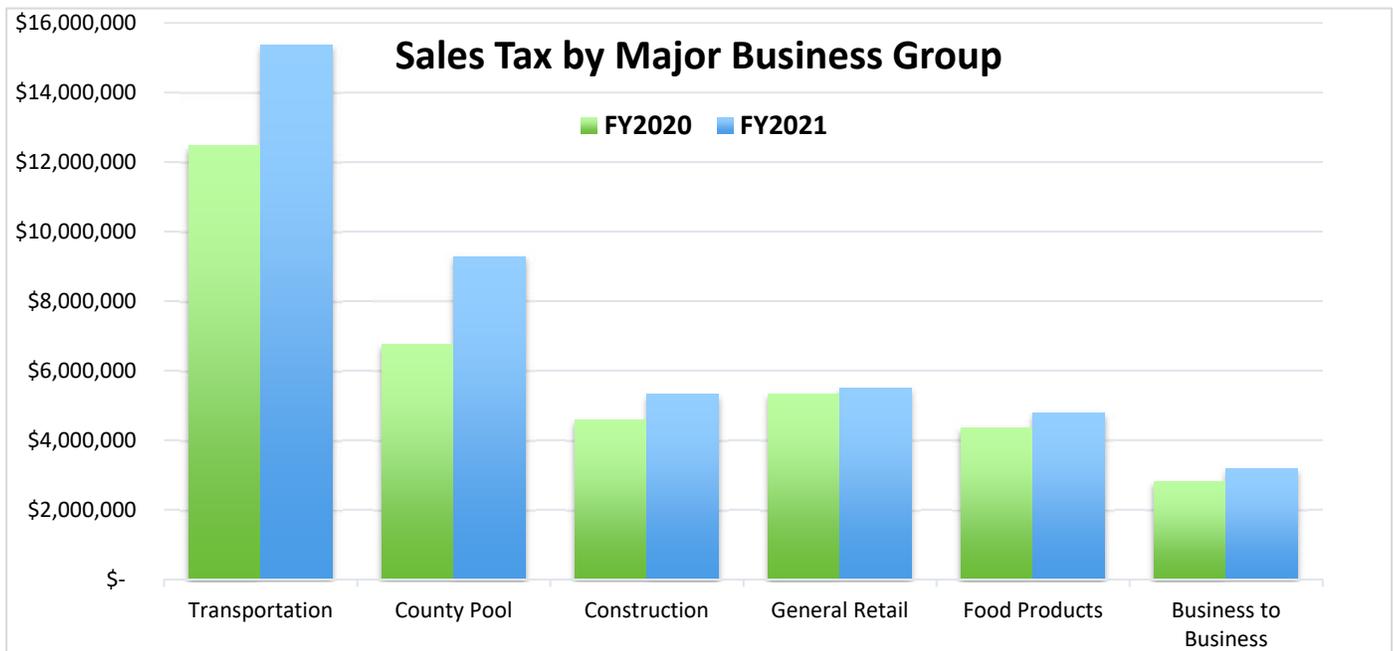
Sales tax is the largest General Fund revenue source at 39% of total revenue in FY2020/21 followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue collected through June 30, 2021 compared to the revenue collected in the prior year through June 30, 2020.



Sales Tax (\$44.3 million)

The Sales Tax revenue projected in the Fiscal Year 2020/21 Operating Budget was \$36 million, a decrease of \$3 million or 7.5% over the FY2019/20 amended sales tax forecast. At the time of the budget adoption in June 2020, the forecast model assumed that the mandated restrictions on a wide range of businesses and services, as well as individual and business actions taken to mitigate virus exposure, would lead to less business activity, less consumer spending, and therefore less sales tax revenue collections.

Through the third quarter of this fiscal year, the restrictions from the COVID-19 pandemic continued to negatively impact sales tax revenue when compared to the prior year activity; however, sales tax revenue exceeded the amount projected by about \$3.4 million. Actual sales tax receipts in the fourth 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 is currently experiencing a fairly strong recovery as well and as a result, sales tax revenues distributed to the City through June 2021 increased by \$7.6 million or 21% from the prior year.



The largest sales tax segment, 35% of total sales tax revenue, is Transportation, which includes new and used auto sales, auto repair shops, and service stations. Sales revenues increased by 23% 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.

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. The increase in activity is due to the implementation of the AB 147 Wayfair decision beginning 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 resulting in an increase of \$2.5 million, or 38%, compared to the prior fiscal year. Since early 2020, companies accelerated efforts to make e-commerce shopping easier, especially as they offered flexible payment and delivery options. Recent studies show customers value convenience more now than prior to the pandemic and many experts expect the e-commerce behaviors that accelerated over the past year are here to stay.

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 16%. This is due to an increase in demand for home improvements as well as an increase in the price of materials, including lumber and steel. Permit levels for all types of projects are at their second highest level in two years across the state and construction and development activity have also increased throughout the City during the fiscal year.

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 (\$31.2 million)

Property tax revenues were not negatively impacted by the pandemic in FY2020/21, the revenue increased by \$1.9 million or about 7.0% compared to the prior fiscal year. Collection rates have remained stable and home prices have continued to rise. Favorable lending conditions and the increased number of home sales when compared to the prior year have all lead to significant growth in property tax revenues this fiscal year.

Other Taxes (\$14.1 million)

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have increased by \$1.0 million 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 \$866,000 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, decreased by \$12,300 compared to the prior year. Due to the COVID-19 pandemic, many hotels have remained closed or partially closed during the fiscal year.

All entities doing business in the City are required to have a valid business license. The business license tax is calculated based on annual gross receipts; business license revenue from the 2020 calendar year is based off of 2019 gross receipts. Business license revenues have increased by about \$202,000 from the previous fiscal year.

Charges for Services (\$11.0 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 (\$3.9 million)

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and increased \$154,740 compared to the prior year primarily due to the timing of various grant reimbursements.

Fines & Forfeitures (\$864,800)

Fines & forfeitures represent fees collected for code enforcement citations, vehicle code violations, parking citations, overdue fines, and impound fees. The decrease of \$257,680 to date is due to closures and restrictions in activity as a result of the COVID-19 pandemic.

Permits and Licenses (\$2.4 million)

Revenue generated from permits and licenses has increased by \$1.5 million or 164% from the prior year primarily due to building permits. The increase in building permit revenue is due to increases in the number of new residential permits and commercial/industrial permitting to date.

Investment, Rental Income, and Other Revenues (\$5.4 million)

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

GENERAL FUND OPERATING EXPENDITURES

Actual General Fund expenditures are under budget by \$4.2 million. The expenditure savings were largely the result of vacant staff positions in multiple departments as recruitments are being performed. The effects of the COVID-19 pandemic and various closures also resulted in expenditures being less than budgeted. In May 2020 as a result of the closures of recreation facilities, certain Recreation and ASES Department staff were furloughed. In addition, the Library professional services contract was amended to account for service level reduction, both of which contributed to the Community Services budget savings of \$1.3 million. Expenses for utilities were also under the amount budgeted as the result of closures of various City buildings, including California Center for the Arts, during the fiscal year.

	FY2020/21 AMENDED BUDGET	ACTUAL RESULTS JUNE 2021	AMENDED BUDGET OVER/(UNDER)
General Government & Support Services	\$6,427,950	\$5,406,180	\$(1,021,770)
Community Services	8,691,570	7,407,930	(1,283,640)
Community Development	7,398,655	6,871,570	(527,085)
Public Works	10,135,940	10,107,380	(28,560)
Police	46,245,605	45,947,390	(298,215)
Fire	27,463,775	27,172,350	(291,425)
California Center for the Arts	2,443,000	2,181,670	(261,330)
Other Expenditures	1,465,630	1,017,330	(448,300)
TOTAL OPERATING EXPENDITURES	\$110,272,125	\$106,111,800	\$(4,160,325)

General Fund total expenditures are up 1% compared to the prior Fiscal Year or about \$1.0 million. This in line with the FY2020/21 General Fund Operating Budget which increased by approximately \$793,000 or 1% compared to the FY2019/20 revised Operating Budget.

	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	PRIOR YEAR VS CURRENT YEAR OVER/(UNDER)
General Government & Support Services	\$5,406,180	\$5,928,670	\$(522,490)
Community Services	7,407,930	7,501,720	(93,790)
Community Development	6,871,570	6,747,160	124,410
Public Works	10,107,380	10,303,440	(196,060)
Police	45,947,390	45,434,770	512,620
Fire	27,172,350	25,900,980	1,271,370
California Center for the Arts	2,181,670	2,372,410	(190,740)
Other Expenditures	1,017,330	817,270	200,060
TOTAL OPERATING EXPENDITURES	\$106,111,800	\$105,006,420	\$1,105,380

GENERAL FUND ONE-TIME REVENUE (\$2,843,660)

Unanticipated funds of \$2.8 million dollars not included in the FY2020/21 adopted operating budget were received from the following sources:

Fire Mutual Aid Reimbursements - \$1,337,520

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. In FY2020/21, reimbursements of \$1,337,520 have been received.

CARES Act Funding - \$1,506,140

Through the Coronavirus Relief Fund, the CARES Act provided for payments to State, Local, and Tribal governments navigating the impact of the COVID-19 outbreak. The City of Escondido was allocated \$2,713,486 from the County of San Diego and \$1,889,210 from the State; a total of \$4,602,696. The CARES Act requires that the payments from the Coronavirus Relief Fund only be used to cover expenses that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).

In the prior fiscal year, the General Fund reported \$953,330 of expenses that were eligible for reimbursement under the CARES Act. Additional expenses of \$1.5 million were incurred between July and September 2020, the eligibility period of the grant funds. These expenses include the purchase of Personal Protective Equipment and related supplies, payroll costs of personnel and services diverted to a substantially different use, such as Community Services staff delivering Senior Meals, as well as the costs incurred for public safety and public health employees who were substantially dedicated to mitigating or responding to COVID-19 public health emergency.

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.

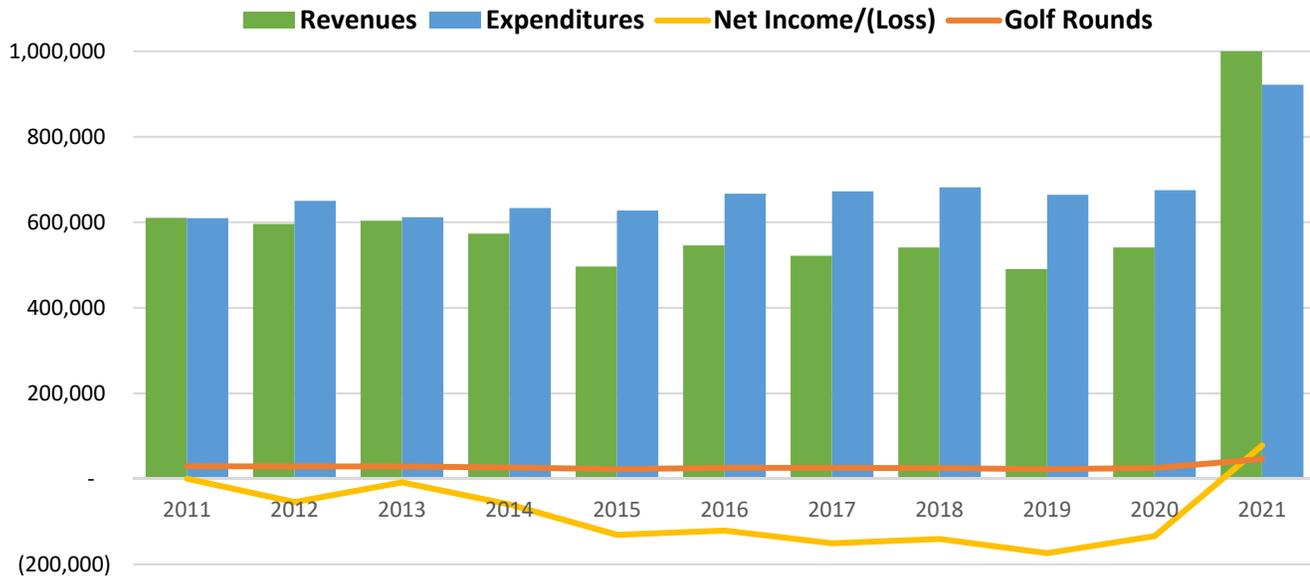
When the Pension Trust Fund was established, a funding policy for contributions to the Fund was recommended and included the four years of annual Successor Agency Redevelopment Loan Repayments of \$14 million that began in Fiscal Year 2018/19, future proceeds from the sale of City Property belonging to the General Fund, and a portion of General Fund surplus at the end of each fiscal year, if one exists. The FY2020/21 loan repayment was utilized as one-time revenue to close the operating budget deficit. As a result of the current year operating results, it is Staff's recommendation that the loan repayment be placed in the Section 115 Pension Trust Fund per City Council policy.

As of June 30, 2021, the Section 115 Pension Trust Fund has a balance of \$15,301,705 which includes City contributions of \$12,855,585 plus investment earnings net of expenses of \$2,446,120. The 3-month rate of return of the investment portfolio is 3.65% and the 1-year rate of return is 14.01%.

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

Section 115 Pension Trust Fund	
Initial Deposit	\$1,984,000
FY2017/18 General Fund Operating Results	1,000,000
Successor Agency Advance Repayment - FY2018/19 Budget	3,716,185
Successor Agency Advance Repayment - FY2019/20 Budget	2,657,860
FY2018/19 General Fund Operating Results	748,000
FY2019/20 General Fund Operating Results	2,749,540
Investment Earnings, net of expenses	2,446,120
Balance as of June 30, 2021	\$15,301,705

REIDY CREEK GOLF COURSE FUND



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. Overall operating net income revenues are up 85% compared to the prior year. Disc Golf revenues continue to exceed expectations, coming in at 69% more than budgeted. Operating expenditures were up 36% from the prior year. The added activity at the course has led to an increase in expenses, primarily due to the maintenance and repairs of aging equipment. Most of the equipment that is being used was purchased in 2002 when the golf course opened and the repair costs continue to escalate. As of June 30, 2021, Reidy Creek total net income with transfers from the general fund is \$222,538 and \$78,103 without the transfers.

With the March 2021 quarterly update, \$160,000 of the projected net surplus was approved to be used to purchase new golf carts for the course. The carts were ordered, but not received before the end of the fiscal year, so the expense to offset some of the surplus will be carried into the next fiscal year.

	FISCAL YEAR 2020/21 BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020
Total Revenues	\$620,780	\$999,580	\$541,007
Total Expenditures	(697,190)	(921,477)	(674,922)
Net Operating Income / (Deficit)	(76,410)	78,103	(133,915)
Budgeted Transfer from the General Fund	76,410	76,410	95,890
Transfer of remaining Capital Project Funds to purchase New Golf Carts	-	30,000	
Additional Funding Approved at Yearend for Previous FY deficit	-	38,025	130,000
Total Sources over (Uses)	\$0	\$222,538	\$91,975

WATER FUND

Net operating income for FY2020/21 was \$2,706,123, an increase of \$236,275 or 10% over the prior year. Operating revenue increased by about \$9.8 million or 16% compared to the prior year, due to an increase in water usage. Because of the increase in overall water usage, the amount of purchased water also increased by about \$7.7 million. Non-operating revenue and Capital Contributions increased by a combined \$6.8 million compared to the prior year due to significant development in the City.

	FISCAL YEAR 2020/21 BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	PRIOR YEAR VS CURRENT YEAR OVER/(UNDER)
Operating Revenues	\$63,475,000	\$69,992,349	\$60,212,236	\$9,780,113
Operating Expenses	(55,944,030)	(67,286,226)	(57,742,388)	(9,543,838)
Operating Income	\$7,530,970	\$2,706,123	\$2,469,848	\$236,275
Non-Operating Revenue (Expenses)	-	(317,531)	(1,741,346)	1,423,815
Capital Contributions	-	7,247,517	1,856,220	5,391,297
Change in Net Position	-	\$9,636,111	\$2,584,722	\$7,051,387

WASTEWATER FUND

Net operating income for FY 2021 was approximately \$1.1 million, a \$677,078 decrease from the prior year. Operating revenue increased by \$1.2 million or 3% compared to the prior year due to approved rate increases effective March 31. Operating expenditures increased by \$1.8 million or 5% primarily due to an increase in professional services related to the construction of Recycled Water infrastructure. Non-operating revenue and Capital Contributions increased from the prior fiscal year due to significant development in the City resulting in an increase in Sewer Connection Fees.

	FISCAL YEAR 2020/21 BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	PRIOR YEAR VS CURRENT YEAR OVER/(UNDER)
Operating Revenues	\$39,900,000	\$37,147,393	\$35,974,920	\$1,172,473
Operating Expenses	(27,595,230)	(36,077,209)	(34,227,658)	(1,849,551)
Operating Income	\$12,304,770	\$1,070,184	\$1,747,262	\$(677,078)
Non-Operating Revenue (Expenses)	-	(1,983,638)	(296,581)	(1,687,057)
Capital Contributions	-	7,172,210	4,905,304	2,266,906
Change in Net Position	-	\$6,258,756	\$6,355,985	(\$97,229)

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