



**Fiscal Year 2021/22 Third Quarter  
Financial Report**

**OVERVIEW**

This report summarizes the City’s financial position for the fiscal year through the third quarter ending March 31, 2022 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 March 31, 2022.

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. 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 third quarter, General Fund revenues are at 66% of the amended budget, while expenditures are at 69%. The Projected Results as of March 2022 shown below are based on past history of the timing of revenues collected and expenditure activity. Actual revenues are higher than projected by about \$3.1 million primarily due to increases in Sales Tax, Property Tax, and Other Taxes received through the third quarter of the fiscal year. Expenditures are tracking under the amount projected by \$4.8 million due to vacant staff positions as recruitments are being performed.

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

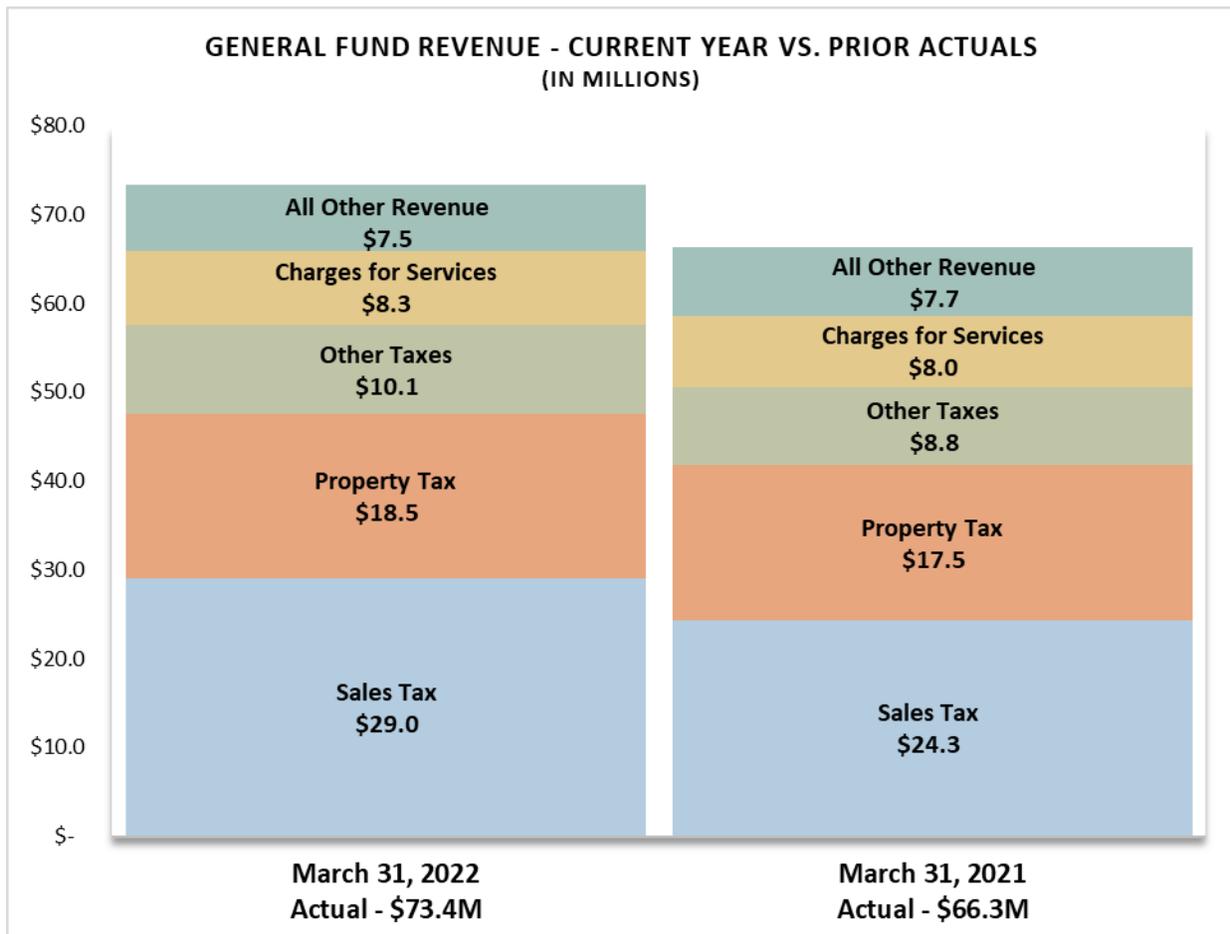
	FY2021/22 AMENDED BUDGET	PROJECTED RESULTS MARCH 2022	ACTUAL RESULTS MARCH 2022
Total Operating Revenue	\$111,409,510	\$70,240,080	\$73,361,280
Total Operating Expenditures	(119,307,480)	(86,975,150)	(82,126,800)
Other Sources (Uses)	1,563,840	1,563,840	1,563,840
<b>Net Operating Surplus / (Deficit)*</b>	<b>(\$6,324,130)</b>	<b>(\$15,171,230)</b>	<b>(\$7,201,680)</b>

\*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**

	<b>FY2021/22 AMENDED BUDGET</b>	<b>ACTUAL RESULTS MARCH 2022</b>	<b>ACTUAL RESULTS MARCH 2021</b>	<b>Prior Year vs. Current Year</b>
<b>Sales Tax</b>	\$46,347,300	\$28,950,210	\$24,321,020	\$4,692,190
<b>Property Tax</b>	30,925,000	18,512,290	17,517,300	994,990
<b>Other Taxes</b>	13,680,000	10,069,710	8,836,880	1,232,830
<b>Charges for Services</b>	10,169,710	8,306,030	8,022,390	283,640
<b>Intergovernmental</b>	3,341,000	2,668,110	2,531,530	136,580
<b>Permits and Licenses</b>	1,412,500	1,644,500	1,645,510	(1,010)
<b>Fines and Forfeitures</b>	908,000	645,570	586,870	58,700
<b>Rental Income</b>	3,738,000	2,230,930	2,482,890	(251,960)
<b>Other Revenue</b>	898,000	333,930	353,730	(19,800)
<b>TOTAL OPERATING REVENUE</b>	<b>\$111,419,510</b>	<b>\$73,361,280</b>	<b>\$66,298,120</b>	<b>\$7,063,160</b>

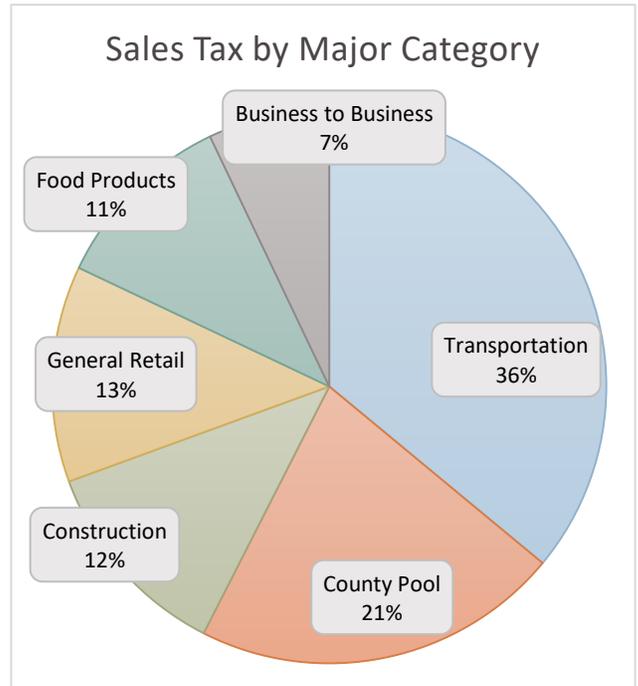
Sales tax is the largest General Fund revenue source at 42% of total revenue in FY2021/22 followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue collected through March 31, 2022 compared to the revenue collected in the prior year through March 31, 2021.



**Sales Tax (\$29.0 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 March 2022 increased by \$4.6 million or 19% compared to the prior year. Sales tax revenues distributed to the City as of March 2022 represent sales that occurred between July and December 2022.



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 36% 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 57% 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 remained flat 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 8%. 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 (\$18.5 million)**

Property Tax revenue is up \$994,990 or about 6% 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 (\$10.1 million)**

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have increased by \$1,232,830 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 \$779,000 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 \$694,750 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 March 2022 have increased by 6% from the pre-pandemic levels in March 2020.

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 \$203,000 from the previous fiscal year.

**Charges for Services (\$8.3 million)**

Charges for services include paramedic fees, Community Services fees for recreational and community activities, and charges for development related services, which include engineering and planning fees. In the prior fiscal year, due to the public health orders, City recreation facilities and services were restricted or closed. However, as certain restrictions have been lifted, Community Service fees have increased by approximately \$650,000 compared to this time last year. The increase in recreation program revenues were offset by decreases in charges for development services and paramedic fees due to the timing of receipts received in the third quarter.

**Intergovernmental (\$2.6 million)**

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and increased \$136,580 compared to the prior year primarily due to the timing of various grant reimbursements.

**Permits and Licenses (\$1.6 million)**

Revenue generated from permits and licenses has remained flat compared to the prior year as construction and development activity continues driving building permit revenue this fiscal year.

**Fines & Forfeitures (\$645,570)**

Fines & forfeitures represent fees collected for code enforcement citations, vehicle code violations, parking citations, overdue fines, and impound fees. The increase of \$58,700 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 (\$2.5 million)**

Investments, Rental Income, and Other Revenue includes rental income, interest earned from investing activities, and other miscellaneous receipts and has decreased by about \$270,000 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 March 2022, reimbursements of \$1,023,638 have been recorded.

**GENERAL FUND OPERATING EXPENDITURES**

The following table includes cumulative third quarter expenditure comparisons for General Fund departments for FY2021/22. The FY2021/22 General Fund Operating Budget increased by approximately \$7.1 million or 6% compared to the FY 2020/21 revised Operating Budget. The General Fund total expenditures through the third quarter are up 6% compared to the prior fiscal year or about \$5.1 million which is in line with the adopted budget.

	<b>FY2021/22 AMENDED BUDGET</b>	<b>ACTUAL RESULTS MARCH 2022</b>	<b>ACTUAL RESULTS MARCH 2021</b>
<b>General Government &amp; Support Services</b>	\$6,891,580	\$3,870,500	\$3,691,470
<b>Community Services</b>	9,097,870	6,331,050	5,189,470
<b>Community Development</b>	8,185,560	4,687,710	4,809,490
<b>Public Works</b>	12,497,670	7,302,270	6,887,060
<b>Police</b>	49,324,210	35,211,600	33,124,340
<b>Fire</b>	29,053,990	21,617,600	19,948,720
<b>California Center for the Arts</b>	2,412,680	2,186,490	1,725,760
<b>Other Expenditures</b>	1,843,920	919,580	1,633,010
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$119,307,480</b>	<b>\$82,126,800</b>	<b>\$77,015,320</b>

The City continues to experience expenditure savings from vacant staff positions in multiple departments as recruitments are being performed. In calendar year 2021 the City had the highest turnover rate at 14%. This is not unique to the City but is comparable to the competitive job market locally. In April 2022, the U.S. Bureau of Labor Statistics and the California Employment Development Department reported that California's labor force — defined as the number of people who either have a job or are looking for work — has grown by nearly 350,000 people in the past year, typically a strong sign of economic recovery. But the state's labor force is still nearly 400,000 people short of the pre-pandemic high. Recent state employment statistics show that there are 29,300 fewer people working in the San Diego area in January 2022 compared to January 2020, just before the onset of the pandemic. As a result of the vacant positions and extended length of recruitments, actual Employee Services costs will be under the FY2021/22 budgeted amount.

	<b>FY2021/22 AMENDED BUDGET</b>	<b>ACTUAL RESULTS MARCH 2022</b>	<b>% of Budget</b>
<b>Employee Services</b>	\$101,612,550	\$70,345,915	69%
<b>Maintenance and Operations</b>	19,270,910	13,228,865	68%
<b>Internal Service Charges</b>	13,442,760	10,082,090	75%
<b>Allocations</b>	(16,784,730)	(12,152,560)	72%
<b>Debt Service</b>	620,990	331,570	53%
<b>Capital Outlay</b>	1,145,000	290,920	25%
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$119,307,480</b>	<b>\$82,126,800</b>	<b>69%</b>

**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.

The amended General Fund operating revenue budget in Fiscal Year 2021/22 is \$111,419,510 and 25% of this amount is \$27,854,878. 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 yearend operating results of \$5,567,915.

As of March 31, 2022, the Section 115 Pension Trust Fund has a balance of \$25,840,638 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 a loss of (4.28%), the 1-year rate of return is .38%, and the 3-year rate of return is 6.10%.

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

<b>Section 115 Pension Trust Fund</b>	
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	1,434,208
<b>Balance as of March 31, 2022</b>	<b>\$25,840,638</b>

**REIDY CREEK GOLF COURSE FUND**

As of March 2022, Reidy Creek Golf Course's operating revenues have declined by 1% compared to the prior year. This is due to a decrease in the total rounds of golf played at the course, which decreased by 11% compared to the prior year. Total operating expenditures through March were down by 4% from the prior year. In November 2021, new golf carts were delivered to the course and have been very well received by customers. The new fleet is alleviating maintenance costs that were needed to keep the old carts operating, resulting in decrease in expenses from the prior year.

	<b>FISCAL YEAR 2021/22 BUDGET</b>	<b>ACTUAL RESULTS March 2022</b>	<b>ACTUAL RESULTS March 2021</b>	<b>PRIOR YEAR VS CURRENT YEAR</b>
Total Revenues	\$925,060	\$720,078	\$730,938	(\$10,860)
Total Expenditures	(829,120)	(660,091)	(684,106)	24,016
<b>Net Operating Income / (Deficit)</b>	<b>\$95,940</b>	<b>\$59,987</b>	<b>\$46,832</b>	<b>\$13,156</b>
Budgeted Transfer from the General Fund	-	-	76,410	(76,410)
<b>Total Sources over (Uses)</b>	<b>\$-</b>	<b>\$59,987</b>	<b>\$123,242</b>	<b>(\$254,382)</b>

The course is also celebrating 20 years of being open to the public. Special events are being planned to celebrate the anniversary and will be advertised on the [course website](#).

The current management agreement for the operator of Reidy Creek Golf Course expires in June 2022. The City has issued a request for qualifications from operators in the area and will then proceed with issuing requests for proposals to those qualified firms for a management company to operate the course and concessions. The new management agreement with the successful bidder will seek to adopt more favorable terms for the City and will terminate in 2030 to align with the bond maturity date.

**WATER FUND**

Net operating income for the Water Fund through March 2022 was about \$12 million, a decrease of \$579,000 from prior year. Operating revenue increased by about \$474,000 or less than 1% compared to the prior year, due to approved rate increases effective March 31. Operating expenses increased by about \$1 million or 3% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

The State of California provided funding Federal COVID-19 relief funds to the City of Escondido through the California Water and Wastewater Arrearage Payment Program for past due utility bills for the period of March 4, 2020 to June 15, 2021. The City received these funds for Water in February and credited customers' accounts in March.

	<b>FISCAL YEAR 2021/22 BUDGET</b>	<b>ACTUAL RESULTS MARCH 2022</b>	<b>ACTUAL RESULTS MARCH 2021</b>	<b>PRIOR YEAR VS CURRENT YEAR</b>
Operating Revenues	\$64,175,000	\$53,676,651	\$53,202,567	\$474,084
Operating Expenses	(59,220,360)	(41,690,932)	(40,637,646)	(1,053,286)
<b>Net Operating Income</b>	<b>\$4,954,640</b>	<b>\$11,985,719</b>	<b>\$12,564,921</b>	<b>(\$579,202)</b>

**WASTEWATER FUND**

Net operating income for the Wastewater Fund through March 2022 was \$9.9 million, an increase of \$2 million from the prior year. Operating revenue increased by about \$2.8 million or 11% compared to the prior year due to increased sewer service charges. Operating expenses increased by about \$767,000 or 4% compared to the prior year due to increases in the costs for supplies, maintenance, and utilities.

	<b>FISCAL YEAR 2021/22 BUDGET</b>	<b>ACTUAL RESULTS MARCH 2022</b>	<b>ACTUAL RESULTS MARCH 2021</b>	<b>PRIOR YEAR VS CURRENT YEAR</b>
Operating Revenues	\$41,200,000	\$29,004,797	\$26,185,427	\$2,819,370
Operating Expenses	(26,601,330)	(19,006,905)	(18,239,599)	(767,306)
<b>Net Operating Income</b>	<b>\$11,598,670</b>	<b>\$9,997,892</b>	<b>\$7,945,828</b>	<b>\$2,052,064</b>

**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](http://www.escondido.org)