



Fiscal Year 2019/20 Financial Report

OVERVIEW

This report summarizes the City’s overall financial position for the fiscal year ending June 30, 2020 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, 2020.

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 2019/20 operating budget was adopted as a balanced budget without the use of reserves but relied on one-time revenues of \$1.2 million from unclaimed deposits as transitional funding to cover the structural budget gap until an additional recurring revenue source has been approved.

The General Fund ended the fiscal year with a net operating loss of \$2.4 million which includes the use of budgeted one-time revenue of \$1.2 million. Without the available unclaimed deposit revenue, the General Fund operating loss is \$3.8 million.

	FY2019/20 ADOPTED BUDGET	FY2019/20 AMENDED BUDGET	ACTUAL RESULTS JUNE 2020
Total Operating Revenue	\$104,144,900	\$101,840,645	\$101,532,835
One-Time Revenue (Budgeted)	1,243,985	1,243,985	1,453,780
Total Operating Expenditures	(106,803,545)	(108,360,660)	(105,959,745)
Other Sources (Uses)	1,414,660	565,195	565,195
Total (Uses) over Sources	-	(\$4,710,835)	(\$2,407,935)

Total operating expenditures were under the amended FY2019/20 budgeted amount by \$2.4 million. However, as a result of the impacts of the Coronavirus pandemic health and stay at home orders, in the third quarter financial update total operating revenue was reduced by \$2.3 million from the adopted FY2019/20 budget. Actual operating revenue of \$100.8 million was under the amended budgeted amount by \$308,000.

Other Sources (Uses) include budgeted operating transfers, the activity from the Advance Payback from the Successor Agency, and advance repayments. In addition, City Council approved the use of General Fund surplus from the fiscal year ending June 30, 2019, during the year-end report to Council on October 23, 2019.

The details of the fiscal year ending June 30, 2020 financial results of the General Fund are described in this report.

GENERAL FUND REVENUE

General Fund operating revenue was under the amended budgeted revenue by \$308,000 and under the prior year operating revenue by \$75,000.

	FISCAL YEAR 2019/20 AMENDED BUDGET	FISCAL YEAR 2019/20 ACTUAL REVENUE	FISCAL YEAR 2018/19 ACTUAL REVENUE	PRIOR YEAR VS CURRENT YEAR VARIANCE OVER/(UNDER)
Sales Tax	\$36,936,200	\$36,651,485	\$38,678,930	(\$2,027,446)
Property Tax	29,576,000	29,699,475	28,344,850	1,354,625
Other Taxes	12,402,285	12,669,635	11,974,560	695,075
Charges For Services	11,942,400	11,784,845	11,947,490	(162,645)
Intergovernmental	4,220,000	3,763,500	3,653,320	110,180
Fines and Forfeitures	1,226,000	1,122,480	1,262,090	(139,610)
Permits and Licenses	944,500	923,125	888,020	35,105
Investment and Rental Income	4,198,710	4,422,510	4,358,655	63,855
Other Revenue	394,550	544,115	499,530	44,585
TOTAL OPERATING REVENUE	\$101,840,645	\$101,532,835	\$101,607,445	(\$26,275)

Sales Tax

The City's sales tax is generated from a diverse set of businesses and the impact COVID-19 restrictions are having on businesses varies widely depending on the good and services the business provides and the length and type of business closure requirements in place. In May 2020, it was projected that for each month that local businesses remain closed, the City was estimated to lose about \$970,000 in sales tax collections. If businesses remain closed or at reduced operations through the end of June, the estimated sales tax loss to the City was estimated to be \$2.9 million offset by an anticipated increase from the County Pool of \$900,000. The FY2019/20 adopted sales tax revenue budget of \$38.9 million was reduced to \$36.9 million.

Actual sales tax receipts through June 2020 are \$36.7 million, about \$224,000 under the amended budgeted amount. This is a \$2.0 million or 5% decrease from the prior fiscal year.

The reopening of certain business sectors led to a gradual economic pickup in June; however, the reopening came with many limitations producing only a temporary boost in demand. People still find their movements and options to spend restricted. Consequently, retail sales and spending will continue to be affected as new County Health orders and restrictions are issued. Sudden lockdowns of economic activity make predicting the sales tax revenue for FY2020/21 difficult. However, forecasters have stated that the City's actual sales tax receipts received in April, May, and June are a good indicator the current FY2020/21 sales tax budget amount of \$36.0 million is a reasonable projection.

Property Tax

Property Tax revenue of \$29.7 million is an increase of \$1.3 million or 4.8% compared to the prior fiscal year. This was the seventh year in a row that assessed values increased from year to year and is in line with assessed value increases with other cities in San Diego County. The increase in revenue is due to strength in the housing market and new construction in the City.

Other Taxes

Other Taxes includes franchise fee revenues, transient occupancy tax, and business license revenue, in addition to other miscellaneous taxes. In total, Other Taxes have increased by \$646,000 compared to the prior year.

Redevelopment Property Tax Trust Funds (RPTTF) increased by \$525,000 over the prior year. Each year the City, on behalf of the Successor Agency, submits a Recognized Obligation Payment Schedule (ROPS) to the County Oversight Board to request property tax funds to pay outstanding enforceable obligations of the former Community Development Commission. If funds remain in the RPTTF after payments are made for the Successor Agency's ROPS, they are considered to be residual RPTTF funds, and are distributed proportionally to the taxing entities that would otherwise have received property tax revenues from the former project areas. As obligations are gradually fulfilled and paid off, the amount of residual RPTTF that will be proportionally distributed to the City will increase.

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 \$300,000 from the prior fiscal year primarily due to the amended franchise agreement with EDI that went into effect July 1, 2019.

Transient Occupancy Tax, also known as hotel tax, accounts for 2% of General Fund operating revenues, or about \$1.9 million. Acting on the assumption that hotels would experience a significant reduction in occupancy in April, May and June, staff estimated a reduction in TOT revenue of about \$525,000. Actual transient occupancy tax revenues for the fiscal year are \$1.6 million, \$100,000 less than the prior year but \$260,000 more than the amended budget amount.

Charges for Services

Due to the public health orders, all City recreation facilities and services have been 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 for as long as the public health orders are in place. This resulted in a net loss of \$692,000 to the FY2019/20 budgeted revenue and a decrease of \$605,000 from the prior fiscal year.

The decrease in recreation program revenues were offset by increases in development related revenues, which include engineering fees, planning fees, building department fees, and engineering fees.

Intergovernmental

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and increased \$100,000 compared to the prior year due to the timing of various grant reimbursements.

Investment, Rental Income, and Other Revenues

Rental revenue is received from City owned properties including the Westfield North County Mall. Under the lease agreement for the North County Mall, the City receives a portion of the rental income that Westfield collects from subtenants located at the mall during each calendar year. The revenue received for calendar year 2019 decreased by \$190,000 compared to the prior calendar year due to subtenant vacancies.

GENERAL FUND EXPENDITURES

General Fund total expenditures are up 3.6% compared to the prior Fiscal Year or about \$3.6 million. The FY2019/20 General Fund Operating Budget increased by approximately \$4 million or 4% compared to the FY2018/19 revised Operating Budget. The Police Department budgeted expenditures increased from the prior year due to negotiated step increases, increases to medical, workers' compensation and pension costs, and an increase in overtime hours.

Actual General Fund expenditures are under budget by \$2.4 million. Efficient operations and fiscal prudence contributed to these savings. In addition, in May 2020 City Council approved General Fund cost reductions resulting from the COVID-19 pandemic including a decrease to the Recreation/ASES Department of \$181,000 due to the layoff of employees working at recreation facilities and a decrease to the Library Department operating budget of \$165,000 to account for service level reductions at the Library.

	FISCAL YEAR 2019/20 AMENDED BUDGET	FISCAL YEAR 2019/20 ACTUAL EXPENDITURES	FISCAL YEAR 2018/19 ACTUAL EXPENDITURES	PRIOR YEAR VS CURRENT YEAR VARIANCE OVER/(UNDER)
General Governmental	\$2,583,760	\$2,574,400	\$2,376,850	\$197,550
Administrative Services	3,963,670	3,277,630	3,115,320	162,310
Community Services	7,979,060	7,628,770	7,566,075	62,695
Community Development	7,740,265	6,765,800	6,594,450	171,350
Public Works	10,321,850	10,430,610	10,132,220	298,390
Police	46,204,650	46,084,210	42,998,125	3,086,085
Fire	26,045,785	26,008,655	25,667,180	341,475
Other Expenditures	3,521,620	3,189,670	2,928,200	261,470
TOTAL OPERATING EXPENDITURES	\$108,360,660	\$105,959,745	\$101,378,420	\$4,581,325

GENERAL FUND ONE-TIME REVENUE

The General Fund ended the fiscal year with a net operating loss of \$3.8 million excluding the use of budgeted one-time revenue of \$1.2 million from unclaimed deposits. In addition to the \$1.2 million in budgeted one-time revenue, unanticipated funds totaling \$5.5 million dollars were received in FY2019/20.

Unclaimed Deposit Revenue - Budgeted

The FY2019/20 operating budget included the use of one-time resources of unclaimed deposits as transitional funding to cover the structural budget gap until an additional recurring revenue source has been approved. Unclaimed deposits of \$1.5 million became the property of the General Fund in July 2019 after a public notification was performed.

Sales of Windsor Gardens

In August 2019, City Council approved the sale of Windsor Gardens Apartments located at 1600 W. Ninth Avenue to Windsor Gardens Housing Associates. As a result of the sale of property, the General Fund received \$4.1 million in February 2020.

Fire Mutual Aid Reimbursements

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 FY2019/20, revenue of \$405,375 was received.

CARES Act Funding

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 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). The funds cannot be used to backfill lost revenues to the City.

Between March and June 2020, the General Fund incurred \$953,330 of expenses that were eligible for reimbursement under the CARES Act. These expenses include the purchase of Personal Protective Equipment and related supplies of \$100,210. The remaining reimbursement of \$853,120 is payroll costs due to 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 have been substantially dedicated to mitigating or responding to COVID-19 public health emergency.

GENERAL FUND ENDING FINANCIAL POSITION

With these unanticipated funds, the General Fund has a net surplus of \$3.0 million for fiscal year ending June 30, 2020.

The General Fund’s Multi-Year Financial Plan forecasts a budget deficit of \$8 million in Fiscal Year 2021/22. With the structural budget gap consistently present in Escondido’s finances, plus the inevitable lingering impacts of the COVID-19 pandemic, City staff are recommending the net surplus be placed in the Section 115 Irrevocable Pension Trust. It is recommended that the funds be placed in the Trust rather than the General Fund reserve because the investment arrangements through the Trust enable the City to generate a higher rate of return on the funds while they are being held.

The Section 115 Pension Trust Fund has a balance of \$10,822,500 which includes City contributions of \$10,106,045 plus investment earnings net of expenses of \$716,442.

The General Fund Reserve balance is \$17,392,319.

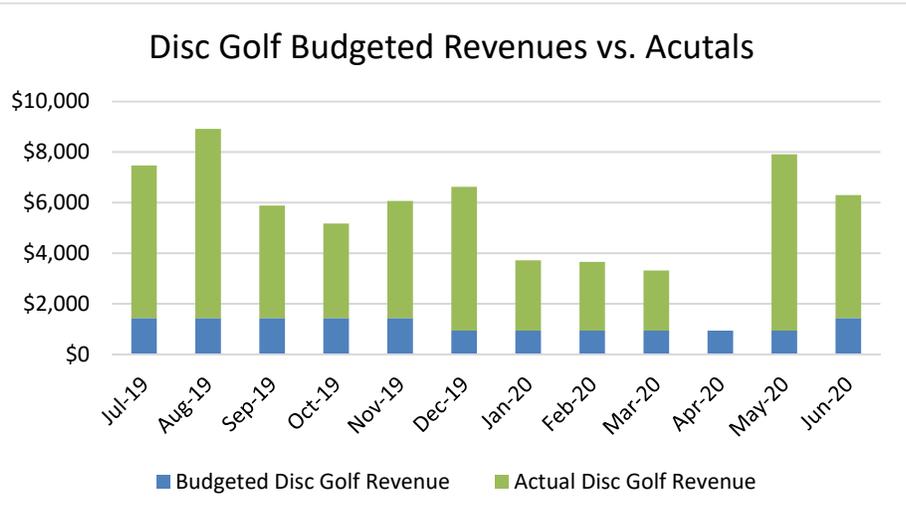
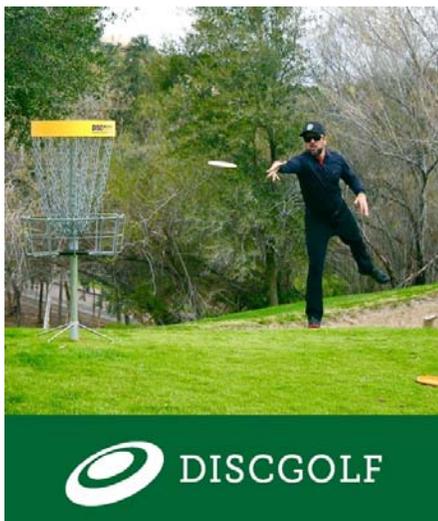
GENERAL FUND FINANCIAL POSITION JUNE 30, 2020	
Total Operating Revenue	\$101,532,835
Total Operating Expenditures	(105,959,745)
Other Sources (Uses)	565,195
Net Operating Deficit	(\$3,861,715)
Unclaimed Deposit Revenue (Budgeted)	\$1,453,780
Sale of Windsor Gardens	4,100,000
Fire Mutual Aid Reimbursements	405,375
CARES Act Funds	953,330
One-Time Revenue	\$6,912,485
Total Sources over Uses, Net Surplus	\$3,050,770

REIDY CREEK GOLF COURSE FUND

Despite Reidy Creek Golf Course being closed to golfers from March 22nd to May 1st due to COVID-19, overall revenues were up 10% compared to the prior year. Disc Golf revenues far exceeded expectations, coming in at almost triple what was projected. Operating expenditures were up 1.6% from the prior year due to increased maintenance costs largely due to golf cart repairs needed on aging carts earlier in the year.

Clubhouse improvements for the “Creekside Tavern” were completed this year, giving a fresh look to the interior and the ability for the spaced to be used more as a rental for special events in the future. Funds for these improvements were previously budgeted in a capital project for Reidy Creek Clubhouse Improvements.

While there has been a steady increase in revenue at the course, the closure for the course resulted in an overall loss of \$38,025 more than the \$95,890 that was budgeted for FY2019/20. Therefore, there is a budget adjustment request to transfer \$40,000 in regards to Reidy Creek. The \$38,025 is requested for the Reidy Creek Operating Fund to cover the loss from operations and the remaining \$1,975 is requested for the Reidy Creek Debt Service Fund. An error was made in the calculation of the available fund balance in the debt service fund and this amount is needed to cover the negative ending fund balance.



	FISCAL YEAR 2019/20 BUDGET	FISCAL YEAR 2019/20 ACTUAL	FISCAL YEAR 2018/19 ACTUAL
Total Revenues	\$564,885	\$541,007	\$490,570
Total Expenditures	(660,775)	(674,922)	(664,220)
Net Operating Deficit	(95,890)	(133,915)	(173,650)
Other Sources (Uses) – Note 1	225,890	225,890	80,590
Total Sources over (Uses)	\$130,000	\$91,975	(\$93,060)

Note 1: Other Sources (Uses) of \$225,890 include a transfer from the General Fund of \$95,890 to balance the budget for FY2019/20 and a transfer to cover the prior year loss of \$130,000 (FY2018/19 loss of \$173,650 less \$43,650 budgeted funds).

WATER FUND

The Water Fund ended the year with net revenue of \$9.7 million, an increase of \$1.8 million from the prior year primarily due to an increase in water consumption as well as an increase in water service charges effective March 1.

The City has agreed to set charges for water services each year at rates sufficient to produce net revenues (after paying operating and maintenance expenses, excluding depreciation, GASB 68 pension accounting entries and interest) of at least 1.2 times debt services on the bonds. As shown on the chart, the City has met this debt coverage in both fiscal years. Any excess net revenues are set aside for future capital projects.

	FISCAL YEAR 2019/20	FISCAL YEAR 2018/19
Total Revenues	\$62,567,200	\$60,221,280
Total Operating Costs	(52,852,500)	(52,344,140)
Net Revenue	9,714,700	7,877,140
<i>Amount Required:</i>		
Debt Service Payments	(3,429,625)	(4,010,315)
Coverage Required	1.2	1.2
Amount Required	(4,115,550)	(4,812,378)
Excess of Net Revenues	\$5,599,150	\$3,064,762

WASTEWATER FUND

The Wastewater Fund ended the year with net revenue of \$12.8 million, a decrease of \$1.2 million from the prior year due to increases in employee services and professional service charges.

The City has agreed to set charges for wastewater services each year at rates sufficient to produce net revenues (after paying operating and maintenance expenses, excluding depreciation, GASB 68 pension accounting entries and interest) of at least 1.15 times debt services on the bonds. As shown on the chart, the City has met this debt service coverage in both fiscal years. Any excess net revenues are set aside for future capital projects.

	FISCAL YEAR 2019/20	FISCAL YEAR 2018/19
Total Revenues	\$38,142,870	\$38,533,130
Total Operating Costs	(25,278,520)	(24,456,380)
Net Revenue	12,864,350	14,076,750
<i>Amount Required:</i>		
Debt Service Payments	(5,773,860)	(5,750,010)
Coverage Required	1.15	1.15
Amount Required	(6,639,940)	(6,612,515)
Excess of Net Revenues	\$6,224,410	\$7,464,238

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.