

## CITY COUNCIL

For City Clerk's Use:

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**APPROVED**

☐

**DENIED**

Reso No. \_\_\_\_\_

File No. \_\_\_\_\_

Ord No. \_\_\_\_\_

**Agenda Item No.:** 29  
**Date:** March 24, 2010

**TO:** Honorable Mayor and Members of the City Council  
**FROM:** Gilbert Rojas, Director of Finance  
**SUBJECT:** Midyear Financial Report for the Quarter Ended December 31, 2009

**RECOMMENDATION:**

It is requested that Council receive and file the quarterly financial report.

**BACKGROUND:**

On an ongoing quarterly basis, the Finance Department will present written financial updates to Council concerning certain funds of the City based on the most recent financial information available. These quarterly financial reports will include budgetary information for each fund along with the actual resources received to date and the use of these resources in fulfilling each funds financial plan. The reports will also provide year to date information for the General Fund, Reidy Creek, Water and Wastewater Funds.

Respectfully submitted,



Gilbert Rojas  
Director of Finance



February 16, 2010

## OVERVIEW

This report summarizes the City's overall financial position for the period of July 1, 2009 through December 31, 2009. The purpose of this report is to provide the City Council, management and the citizens with an update on the City's financial status based on the most current financial information available.

### Adjusted Budget and Revenue Estimates

The revenue projections and budgets include adjustments for encumbrances, carryovers and any supplemental appropriations presented to the City Council as of December 31, 2009. The revised revenue budget presented in this report is still pending approval by the City Council.

## GENERAL FUND

General Fund Financial Conditions - At the end of the second quarter, General Fund revenues are at 30% of revised budget, while expenditures are at 47%.

General Fund Balance	Original Budget	Revised Budget	YTD Actual	Actual/ Original	Actual/ Revised
Revenues	72,966,985	66,022,620	19,829,167	27.18%	30.03%
Expenditures	76,242,815	76,981,820	36,632,232	48.05%	47.59%
Other Sources (Uses)	(1,336,765)	(1,336,765)	(1,336,765)	100.00%	100.00%
Fund Balance, Beg of Year (1)	28,970,975	28,970,975	28,970,975	-	-
Fund Balance, Year-to-Date (1)	24,358,380	16,675,010	10,831,145	-	-

(1) This amount excludes the reserved balance, which is a portion of the City's fund balance that is not available for appropriations. Reserved Fund balance at the Beginning of the Year and Year to Date was \$10,763,363 and \$10,752,923, respectively.

Revenues by Category – For the second quarter, several revenues were adjusted downward by a total of \$6.9 million dollars. A brief summary of the proposed revised revenue projections are listed below.

Overall, the City's total revenues were 3% lower than original projections at midyear, due mainly to declining trends in sales tax and property tax revenues. All revenue sources fell below the original projected outcomes, except Fines and Forfeitures, and Paramedic and Other Charges for Services.

## Quarterly Financial Report – Second Quarter Ending December 31, 2009

Sales tax and property tax were and continue to be the City's largest revenue sources, representing about 63% of the General Fund revenue. These revenues represent about \$5.8 million of the total proposed reduction to projected revenues.

In addition to the declining revenues, the year to date revenues were lower than projected because there are certain revenues like Property Tax in Lieu of Sales Tax and Property Tax in Lieu of VLF which are disbursed to the City later in the year during the 3<sup>rd</sup> and 4<sup>th</sup> quarters. Due to the significant decline in revenues, we have reduced our revenue projection for FY 2009-10 by \$6.9 million. We are requesting City Council to adopt the revised revenue budget of \$66 million.

Revenues by Category	Original Budget	Revised Budget	YTD Actual	% Received
Sales Tax & Prop Tax in Lieu of Sales Tax	25,925,000	20,600,400	5,819,136	28.25%
Property Tax and Prop Tax in Lieu of VLF	21,473,000	20,978,800	4,396,658	20.96%
Franchise Fees	5,903,000	5,400,000	1,059,910	19.63%
All Other Taxes	3,783,000	3,520,000	1,519,625	43.17%
Permits and Licenses	1,043,000	935,000	559,412	59.83%
Fines and Forfeitures	2,380,000	2,380,000	970,855	40.79%
Intergovernmental	3,030,000	2,730,000	1,023,811	37.50%
Building/Planning/Engineering Fees	752,000	618,000	383,966	62.13%
Paramedic & Other Charges for Services	4,434,365	4,800,200	2,521,276	52.52%
Interest and Other Revenues	4,243,620	4,060,220	1,574,518	38.78%
<b>Total Revenues</b>	<b>72,966,985</b>	<b>66,022,620</b>	<b>19,829,167</b>	<b>30.03%</b>

### Sales Tax and Property Tax In Lieu of Sales Tax

Sales Tax and Property Tax in Lieu of Sales Tax account for approximately 31% of the General Fund revenue. Both these revenues have experienced the greatest reduction in revenues, as compared to all the other nine revenue segments outlined in this report. From a high of \$33.4 million in FY 2005/06, sales tax revenue has dropped \$12.8 million or 38%.

In June 2009, the City adopted the FY 2009/10 budget with a projected decrease in sales tax revenue of 4%, in order to reach a projected sales tax revenue of \$25.9 million. This amount was revised in January 2010 to reflect the results in sales tax revenue for our 1<sup>st</sup> quarter in FY 2009/10. The results indicated a 16% decrease compared to the prior year same quarter, in addition to a FY 2008/09 yearly sales tax decline of 17%. Based on this information, a 4% decrease in sales tax seemed overly optimistic; therefore, projected sales tax revenue was revised down by \$5.3 million to \$20.6 million to account for the continued slow down in the economy.

A more detailed analysis of the 1<sup>st</sup> quarter FY 2009/10 sales tax revenue, revealed a decline in almost every economic segment in the City. Segments that have been significantly affected are: service stations, auto parts/repair shops, and construction materials shops, which are down 22.9%, 18.9% and 22.5% respectively. These segments make up 35% of all sales tax revenue generated to the City. Sales tax revenue from new auto sales was also down 6.8%. Many local governments had hoped to see a cash windfall from the Cash-for-Clunkers program. However, our sales tax consultant reported that this did not occur, because the Cash-for-Clunkers portion of the purchase price was exempt from sales tax, and consumers were purchasing less expensive cars which did not generate as much sales tax.

## **Quarterly Financial Report – Second Quarter Ending December 31, 2009**

### **Property Tax and Property Tax In Lieu of Vehicle License Fees (VLF)**

Property tax and Property Tax in Lieu of VLF, the City's second largest revenue sources, are approximately 32% of General Fund revenue. These revenues grew by 1% in Fiscal Year 2008/09 to reach \$22.7 million. In Fiscal Year 2009/10, these revenues are projected to drop significantly in conjunction with home prices declining, an increase in home foreclosures, and a daunting credit crisis. Based on the most recent property assessed value report received in June 2009, the assessed value in Escondido dropped by 6.77% from \$13.2 billion to \$12.3 billion. To reflect this trend, the current projections for property tax and property tax in lieu of VLF are being adjusted downwards by \$.5 million.

### **Franchise Fees**

Franchise fees and the franchise in lieu fees represent approximately 8% of General Fund revenue. The City receives franchise fees from Cox Cable, AT&T, Escondido Disposal and SDG&E. Generally, the franchise fees are fairly stable, except for franchise fees received from SDG&E, which fluctuate based on the price of natural gas. In Fiscal Year 2008/09, the City received franchise fees of \$5.7 million. Due to the falling prices of natural gas in 2009, the projected franchise fee revenue had been revised down by \$.5 million.

### **All Other Taxes**

All other taxes make up 5% of the General Fund revenue. These taxes include transient occupancy tax (TOT), property transfer tax, transfer station fee, and business licenses. In FY 2009/10, the adopted budget projected other tax revenue of \$3.8 million. In Fiscal Year 2008/09, the City received other tax revenue of \$3.8 million. After reviewing revenue received through December 2009, it appears that TOT and the property transfer tax are coming in lower than what was originally projected. TOT receipts and the property transfer tax were down 20% and 25% respectively compared to last year at this time. Taking this into account, other tax revenue projections were revised down by \$.3 million to reach projected revenue of \$3.5 million.

### **Permits and Licenses**

Permits and Licenses make up 1% of General Fund revenue, and come from building, plumbing, electrical, mechanical, fire code and mobile home permit fees as well as the tow license fee. In FY 2009/10 the adopted budget projected permit and license fees of \$1 million. In FY 2008/09 the City received permits and license fees of about \$1 million. Permit revenue receipts through December 2009 were down approximately 10% compared to last year at this time. To account for this decline, permit and license revenue has been reduced by 10% to reach a revised revenue projection of \$.9 million.

## **Quarterly Financial Report – Second Quarter Ending December 31, 2009**

### **Fines and Forfeitures**

Fines and forfeitures account for approximately 4% of General Fund revenue. Fines are collected by the City for red light photo citations, vehicle code fines, parking ticket fines, other court fines, library fines, code enforcement citations and impound fees. For FY 2009/10, these fines were projected to produce revenue of \$2.4 million. In FY 2008/09, the City received fine and forfeiture revenue of \$2.5 million. Revenue received through December 2009 appears to be on target to reach the FY 2009/10 projected amount.

### **Intergovernmental**

Intergovernmental revenue makes up 4% of General Fund revenue and is comprised of: vehicle in lieu fees, grants and fees from the Rincon fire agreement. In FY 2009/10, intergovernmental revenue was originally budgeted at \$3 million. The Rincon fire agreement was the largest component in this category; revenues received under this agreement through December 2009 indicate a decrease of approximately \$100,000 compared to last year at this time. In FY 2008/09, Rincon fire agreement revenue received was \$2 million. This revenue is a property tax based fee, the decrease in fees correlates with the decline in property assessed values. To account for this decline, the intergovernmental revenue projection has been revised down by \$.3 million.

### **Building/Planning/Engineering Fees**

Building plan check fees, planning charges and engineering fees make up 1% of General Fund revenue. In FY 2009/10 budgeted revenue for these fees was projected to reach \$.8 million. In FY 2008/09, the City received \$.7 million from these fees. Overall, these revenue fees are right on target, with the exception of engineering fees. According to revenues received through December 2009, engineering fees were 6% lower than last year at this time. The decrease in these fees is consistent with the slowing down in development. To account for the decrease, revenue estimates for Building, Planning, and Engineering fees will be revised down by \$.1 million.

### **Paramedic and Other Charges for Services**

Paramedic and other charges for services make up approximately 7% of the General Fund revenue. Other charges for services include false alarm fees, fingerprinting revenue, alarm registration, library fees, senior center fees, the OASIS program, fire prevention inspection fees, fire mutual aid and passport processing fees. As mentioned above these revenues are right on target. Paramedic fees represent \$3 million of the 4.8 million budgeted in this category. In FY 2008/09 actual revenue received from paramedic fees was \$ 3.4 million. According to revenue received through December 2009, paramedic fees are about the same as last year. Based on this information, paramedic and other charges for service revenue were increased by \$.4 million to reach revised revenue of \$4.8 million.

## Quarterly Financial Report – Second Quarter Ending December 31, 2009

### Interest and Other Revenue

Interest and other revenue makes up the remaining 6% of the General Fund revenue. Other revenue includes rent received from leased City property, contributions to the City, NSF check charges, damages to City property, mobile home fees and other miscellaneous revenue. Based on actual interest earnings in FY 08/09, \$1 million was budgeted to interest income. The budgeted interest income needs to be reduced by \$.2 million, because there has been a decline in the General Fund cash balance from a six month average of \$20.7 million in FY 2008/09 to \$17.3 million in FY 2009/10. Additionally, the City's portfolio yield dropped from 4% to 3%.

Expenditures- Operating cost and departmental operating expenditures are on target for the second quarter of the year as summarized below.

Expenditures by type	Original Budget	Revised Budget	YTD Actual	Percent Expended
Employee services	66,794,190	66,880,565	32,898,527	49.19%
Contract services	4,205,995	4,511,735	2,008,247	44.51%
Buildings Repairs and Maint	2,045,490	2,050,485	1,025,244	50.00%
Equipment	3,827,135	3,909,815	1,913,568	48.94%
Insurance	1,889,640	1,890,040	945,012	50.00%
Utilities	2,764,310	2,792,380	1,179,425	42.24%
Other operating cost	4,788,265	5,367,160	2,002,155	37.30%
Total by Type	86,315,025	87,402,180	41,972,178	48.02%
Allocations	(10,072,210)	(10,420,360)	(5,339,946)	51.25%
<b>Total Expenditures</b>	<b>76,242,815</b>	<b>76,981,820</b>	<b>36,632,232</b>	<b>47.59%</b>

Total expenditures are \$1.6 million lower than prior year second quarter, which represents savings of 4%.

Expenditures by department	Original Budget	Revised Budget	YTD Actual	Percent Expended
General Government	11,556,360	11,564,200	5,545,268	47.95%
Community Development	3,928,110	3,921,905	1,845,522	47.06%
Public Works	12,621,555	12,543,570	5,759,690	45.92%
Community Service	4,652,790	4,620,070	2,240,521	48.50%
Police	34,869,470	35,380,410	17,085,769	48.29%
Fire	17,851,725	17,906,475	9,070,348	50.65%
Other	1,183,165	1,465,550	425,060	29.00%
Total Departmental	86,663,175	87,402,180	41,972,178	48.02%
Allocations	(10,420,360)	(10,420,360)	(5,339,946)	51.25%
<b>Total Expenditures</b>	<b>76,242,815</b>	<b>76,981,820</b>	<b>36,632,232</b>	<b>47.59%</b>

## Quarterly Financial Report – Second Quarter Ending December 31, 2009

### ENTERPRISE FUNDS

In general, enterprise fund revenues and expenditures are performing as projected.

#### Water Fund

Water revenues were projected to drop by about \$1 million during FY 09/10 as the City declared a Water Shortage Level II, forcing citizens to reduce water usage by 8%. Rate increases of approximately 8% were necessary to cover the operating costs, increases in imported water costs, and lost revenues from the decrease in water sales. Based on the new water rates, the total revenues were \$1.2 million higher than last year during the same quarter. We anticipate water revenues will meet our projections.

Working Capital	Budget	YTD Actual	Percent
Revenues	43,944,700	23,507,318	53%
Expenditures			
Operating programs	34,636,685	15,996,699	46%
Debt service	2,531,365	425,953	17%
Allocations	4,237,980	2,258,039	53%
Other sources (uses)	(2,025,530)	(2,025,530)	100%
Net changes in assets & liabilities	-	440,945	-
Net Assets, Beg of Year	5,069,200	5,069,200	-
Net Assets, Year to Date	5,582,340	8,311,242	-

Currently, the water net assets are slightly higher than budgeted. We are anticipating the net assets will continue to be slightly better than previous projections, due to operating efficiencies.

#### Wastewater Fund

Total revenues year to date are \$1.8 million higher than last year's revenue at this time. This increase in revenue can be attributed to an increase in service charge rates. Based on revenues collected through December 31, 2009, it appears that we are on target to meet our projected revenue.

Working Capital	Budget	YTD Actual	Percent
Revenues	29,086,300	14,189,479	49%
Expenditures			
Operating programs	16,869,820	6,436,382	38%
Debt service	2,108,225	292,040	14%
Allocations	2,431,600	1,066,815	44%
Other sources (uses)	(3,615,800)	(3,615,800)	100%
Net changes in assets & liabilities	-	(31,721)	-
Net Assets, Beg of Year	10,658,800	10,658,800	-
Net Assets, Year to Date	14,719,655	13,405,522	-

The wastewater net assets are slightly lower than budgeted. We anticipate the net assets will meet our projections at year end.

## Quarterly Financial Report – Second Quarter Ending December 31, 2009

The Utilities Department is currently conducting a rate study. The study will look at anticipated CIP costs, various rate structures, possible implementation of automated meter reading, and various financing plans. The purpose of the study is to determine the best recommendation for rates, debt service and financing alternatives. The results of the rate study should be presented to City Council in July or August, 2010.

### Reidy Creek Fund- Special Revenue Fund

Revenues generated by the Reidy Creek Golf Course were approximately \$28 thousand, or 8% less than same quarter last year. The decline in revenues can be attributed to both economic factors and weather conditions. Current economic conditions coupled with an increased amount of rainfall, have contributed to a decrease of 4% in the number of golf rounds played compared to the same quarter last year. However, total expenditures were also reduced by 13%, which made the operating loss 75% lower than last year same quarter. The city will continue to monitor its golf operations.

Working Capital	Budget	YTD Actual	Percent
Revenues	727,260	330,745	45%
Expenditures	724,905	335,763	46%
Other Sources & (uses)	50,000	50,000	100%
Balance, Beg of Year	25,700	25,700	-
Balance, Year to Date	78,055	70,682	-
Debt Service	357,300	218,680	61%