

Economic and Financial Update Second Quarter – Fiscal Year 2020-21

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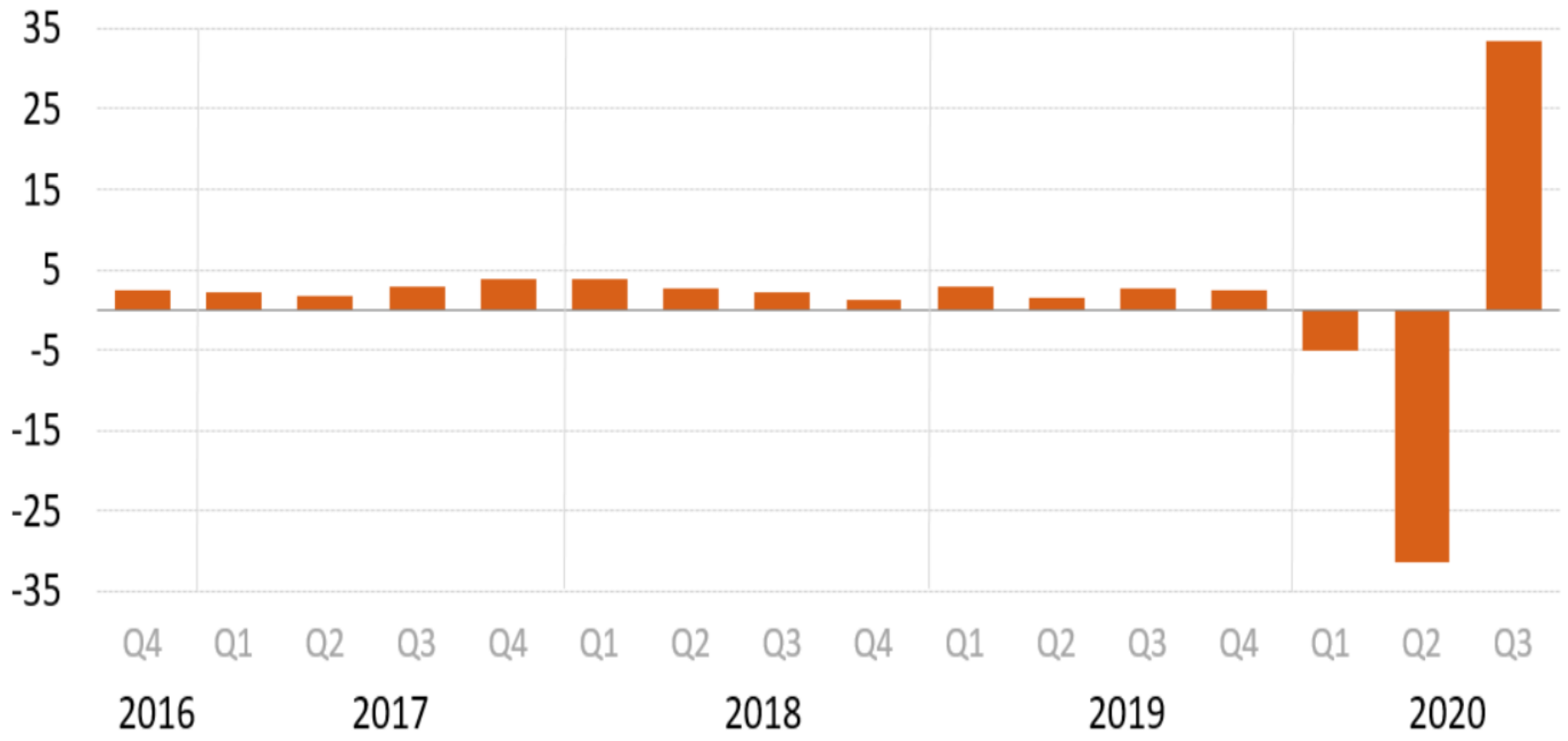
Economic Update

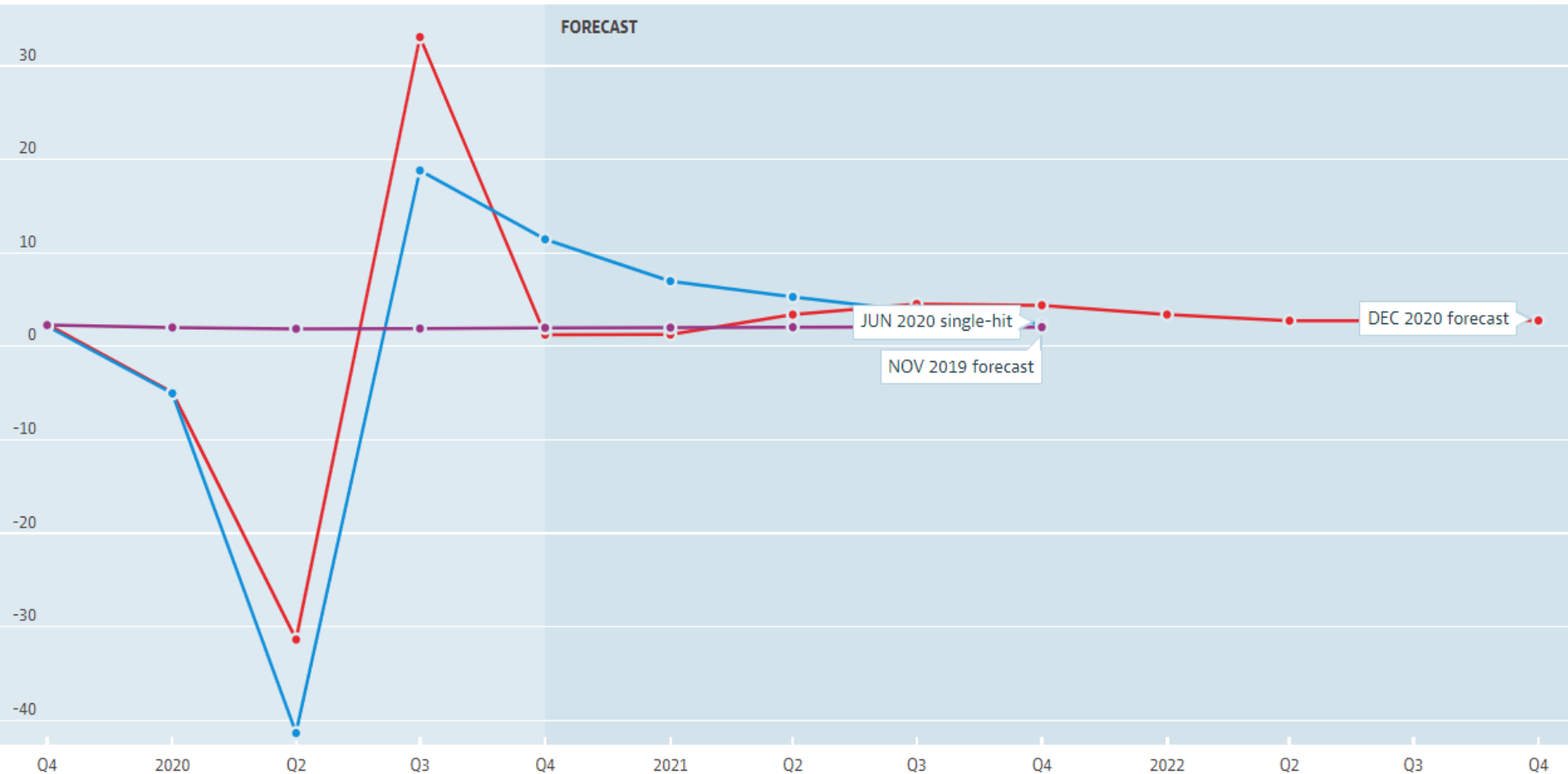
- Timeframe analyzed
 - Second quarter FY2020-2021 (October – December)
 - Calendar year 2020
- National Context
- State Context
- Local Data

National trends

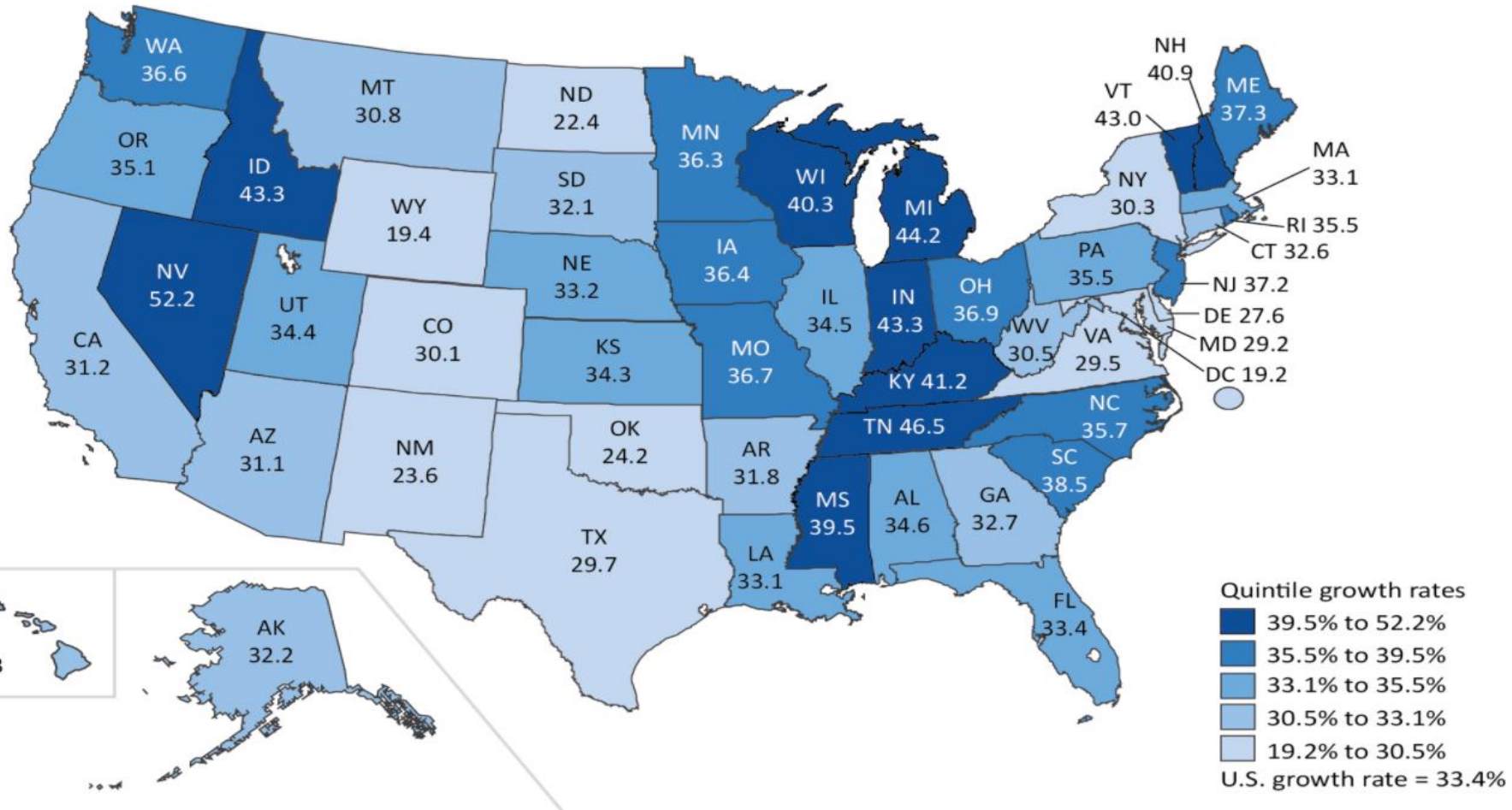
- GDP had a steep decline in the first and second quarter of 2020
- There was significant recovery in the third quarter
- Personal income and consumer spending has also fluctuated wildly
- Forecasting is still difficult given surging case rate, corresponding health orders, and vaccine roll out

Real GDP: Percent change from preceding quarter

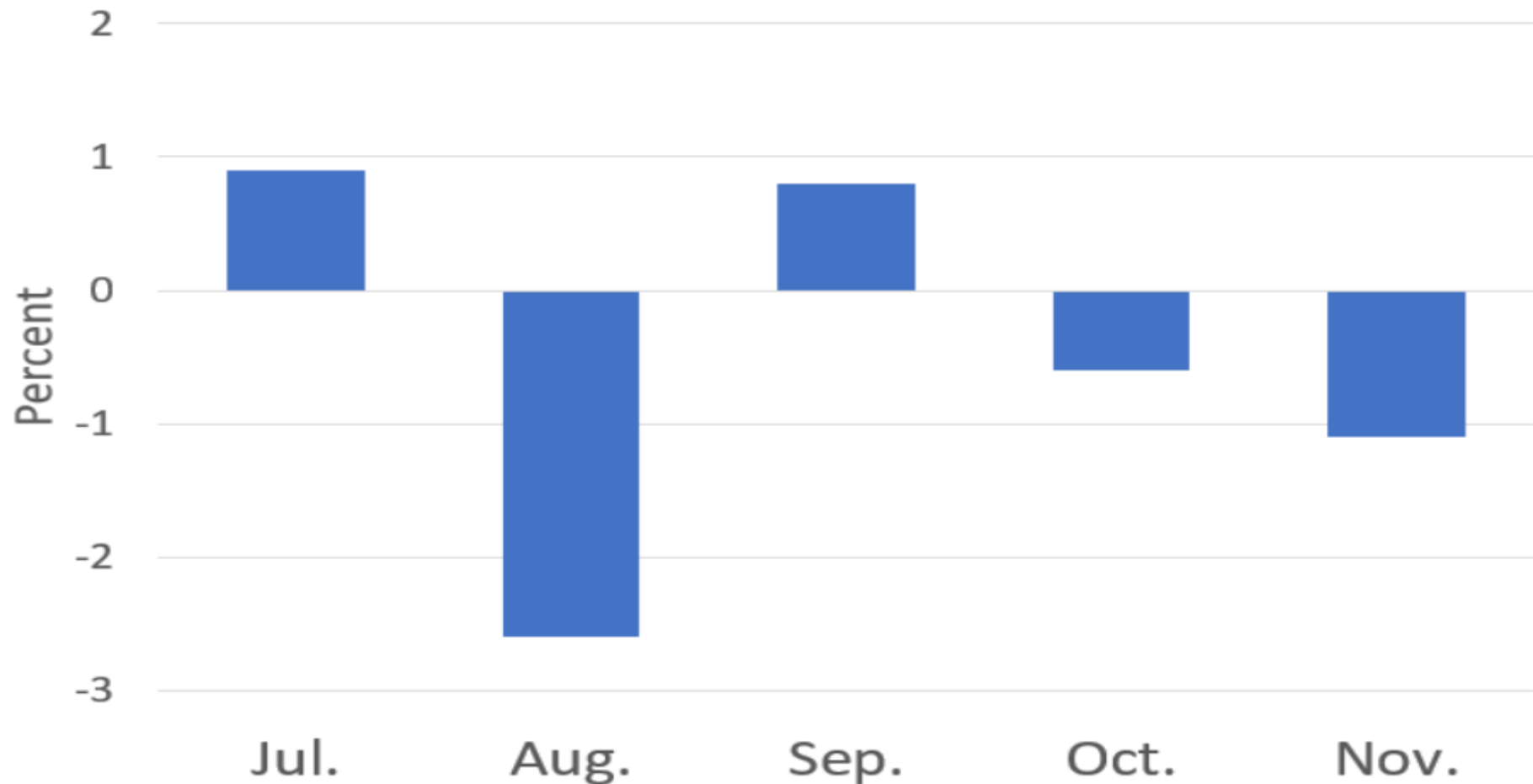




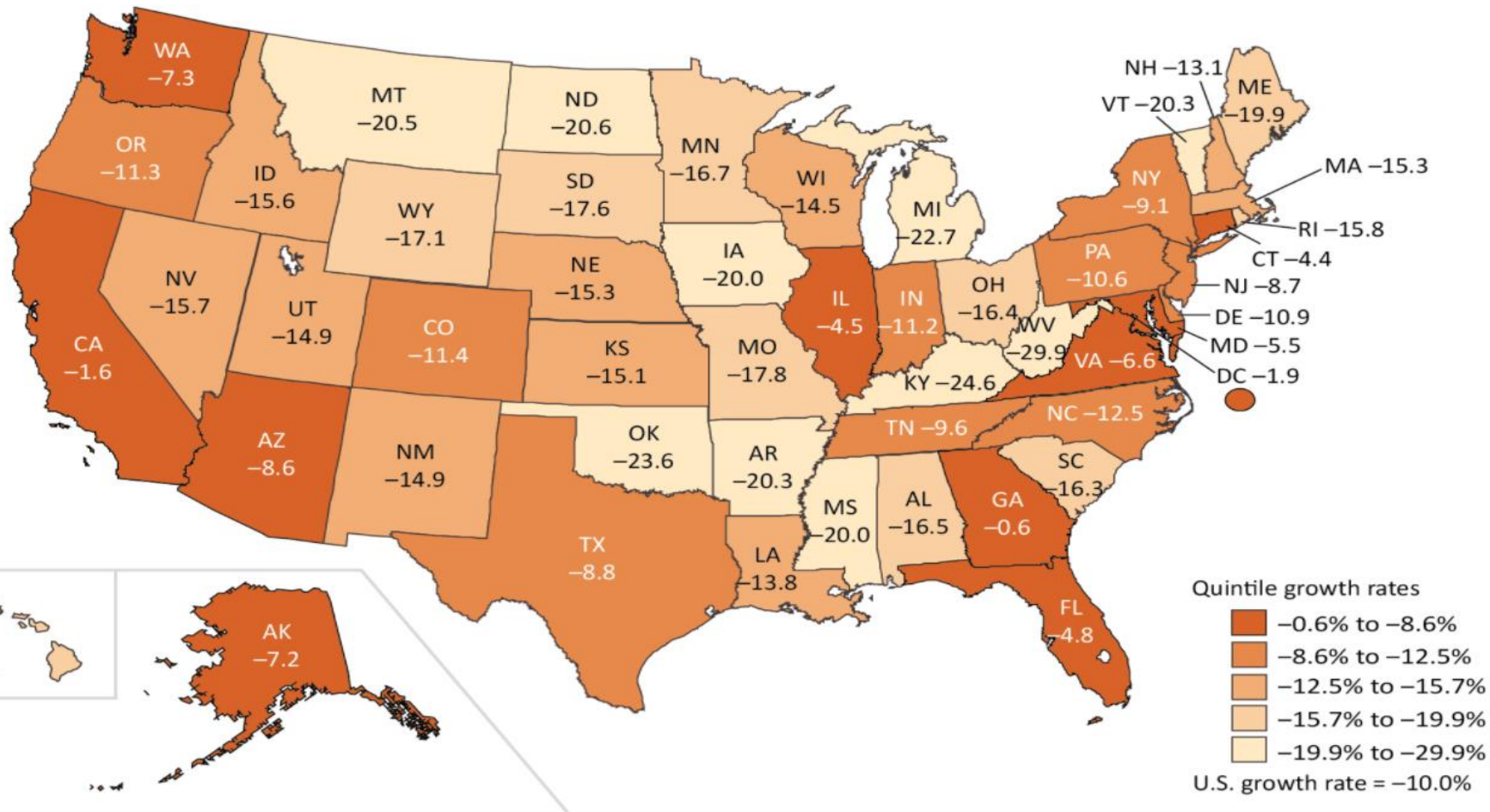
Real GDP: Percent Change at Annual Rate, 2020:Q2–2020:Q3



Month-to-Month Change in Personal Income



Personal Income: Percent Change at Annual Rate, 2020:Q2–2020:Q3



Economic Uncertainty

- Regional Stay at Home Order heavily impacted businesses
- Reopening has been in flux, remains reduced
- Restaurants, personal services, hotels and fitness are most impacted
- Some COVID-19 related sectors, like life sciences and some tech and businesses are experiencing expansion
- Employment trends vary by sector

Financial Relief

- Reauthorized federal stimulus providing much needed relief
 - \$284 billion for PPP
 - \$20 billion for EIDL
 - \$300 per week in additional unemployment benefits
 - Further potential for additional federal relief programs
- State grant program also contributing significant relief
 - \$500 million in small business grants
 - Additional \$504 million for small business grants is contained in Governor's FY21-22 budget proposal

Tracking Carlsbad's Economy

- Developed increased economic analysis capacity in order to:
 - Publish quarterly economic data (Exhibit 2)
 - Increase city's awareness of economic trends
 - Improve agility in how city responds to economic conditions

Carlsbad Economy

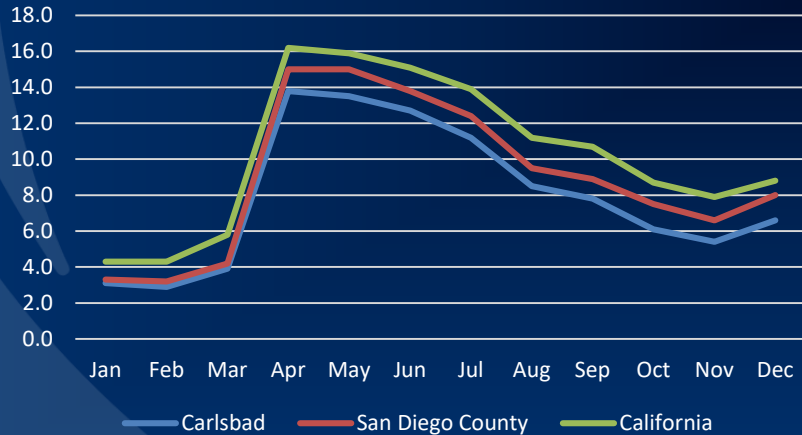
- Carlsbad's GRP was \$15.3 billion in 2019 (latest year available)
- GRP increased \$800 million from the previous year
- Certain industry clusters, like life sciences continue to do well

\$15.3 Billion

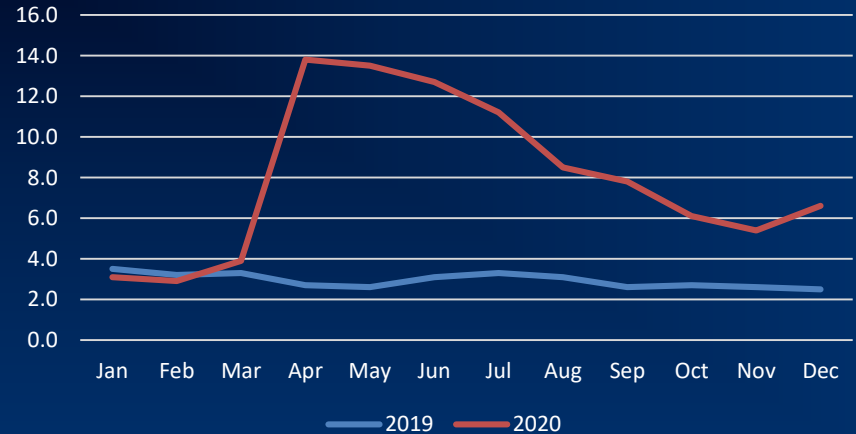
Carlsbad Unemployment

- California unemployment rate 8.8% - a 0.9% monthly increase
- County unemployment rate 8.0% - a 1.4% monthly increase
- Carlsbad unemployment rate 6.6 % - a 1.2% monthly increase

Unemployment Rate 2020



Carlsbad Unemployment Rate, 2019 vs 2020



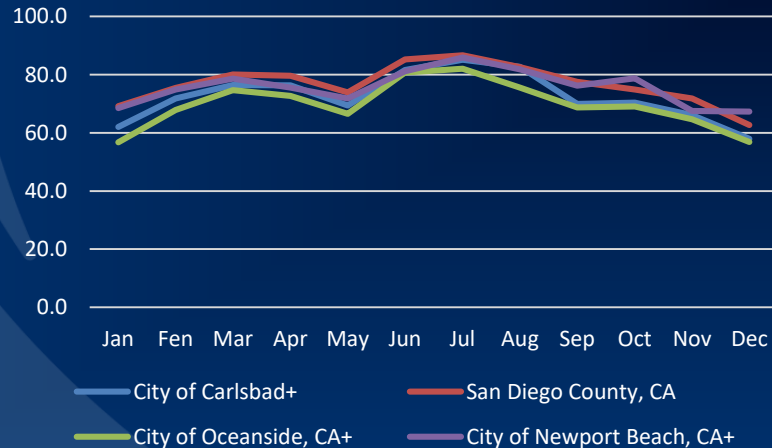
Carlsbad Jobs

- February 2020 unemployment was at 2.9%
- April spike to 13.8%, down to 5.4% in November.
- October through December saw 9,542 unique job postings
- Increase of 703 from previous quarter
- Continued upswing in hiring in
 - Manufacturing
 - Administrative Services
 - Professional, Scientific & Technical

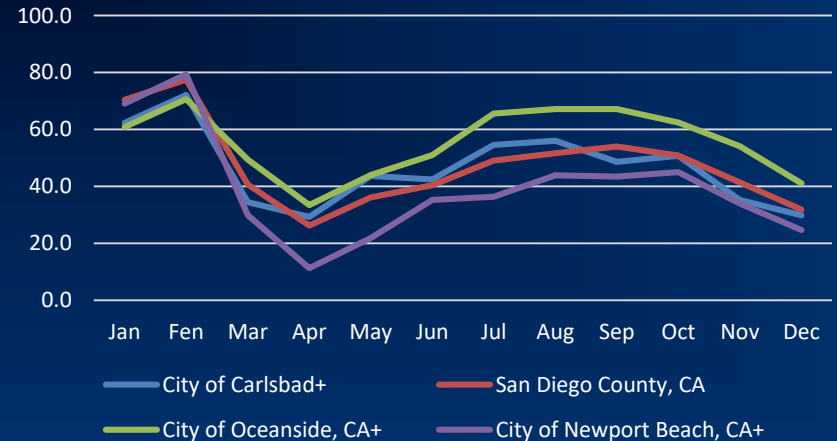
Carlsbad Tourism

- Regional Stay at Home Order impact on hotels has been severe
- Hotels unable to accept guests on non-essential travel
- December occupancy down 49% year over year

Hotel Occupancy 2019



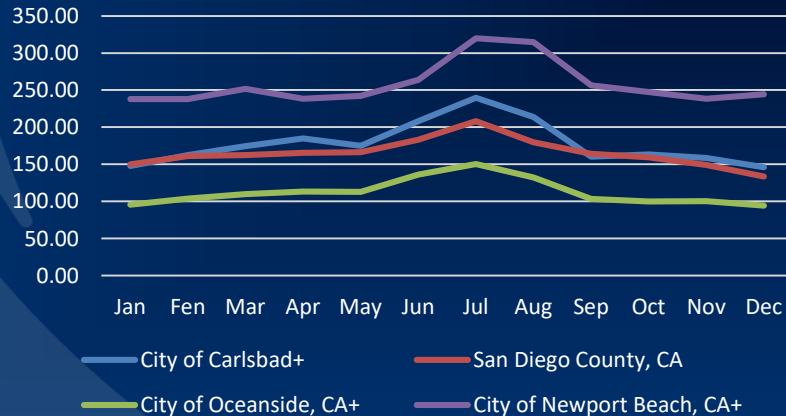
Hotel Occupancy 2020



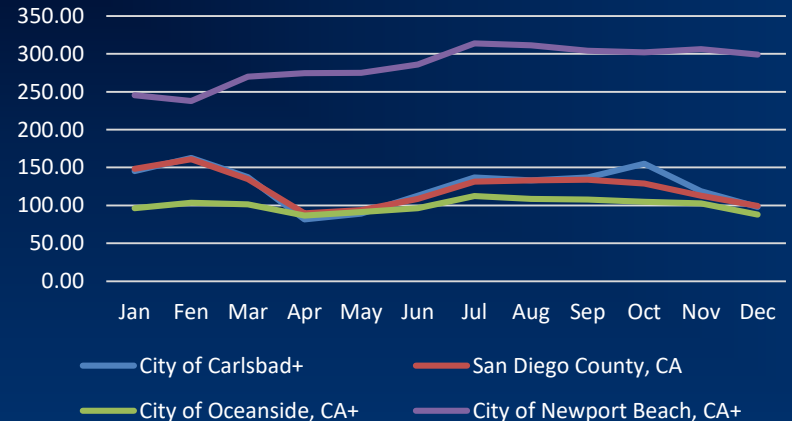
Carlsbad Tourism

- Average daily rates in December, down \$48
- For the year average daily rates down 29.3%
- Resort properties particularly hard hit

Avg. Daily Rate 2019

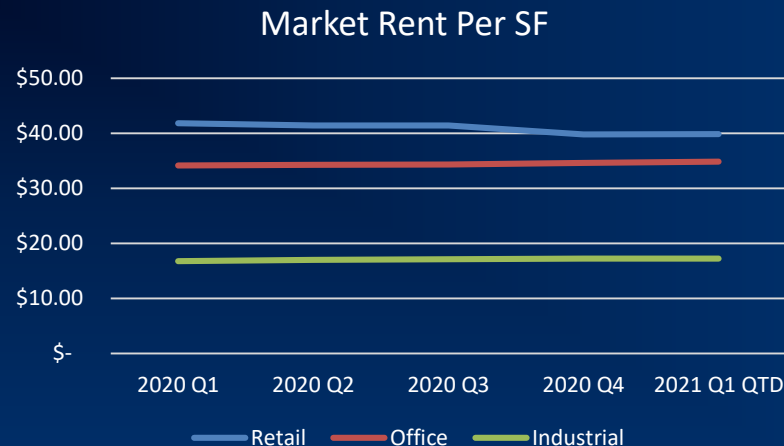
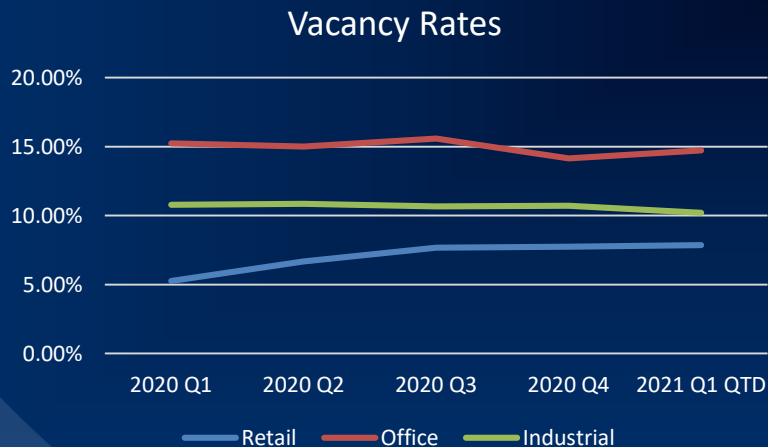


Average Daily Rate 2020



Commercial Real Estate

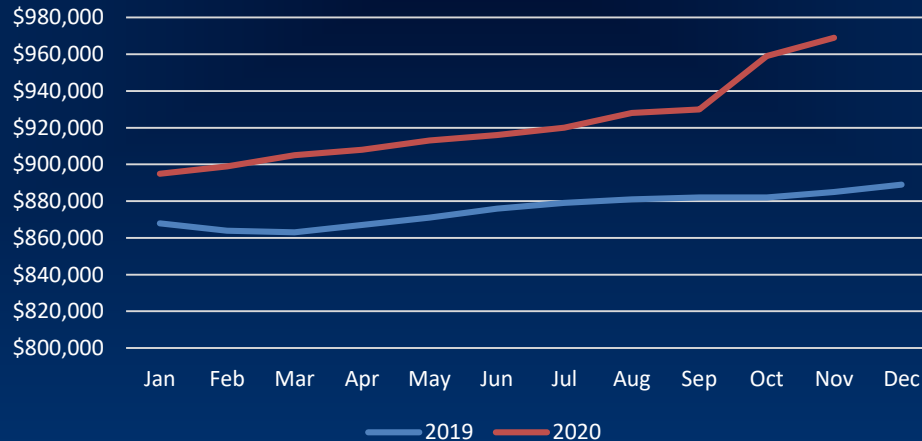
- Vacancy rates for industrial properties are down to 10.2%
- Retail vacancy has leveled off after climbing from 5% to 8%
- Retail rents have dipped 3.5%, lowest in past five years



Residential Real Estate

- Carlsbad home values have risen more than 9.5% over the past year
- Zillow's forecast predicts there will be an additional rise of 4.6% next year
- The continued rise in home values is generally attributed to constrained supply, low interest rates, and a strong demand in the region

Median Home Price



Key Takeaways

- Economic recovery will be based on several factors including:
 - Case rates
 - Health Orders
 - Availability of vaccine
 - Continued relief programs
- The more stability in operating conditions, the faster the recovery will be

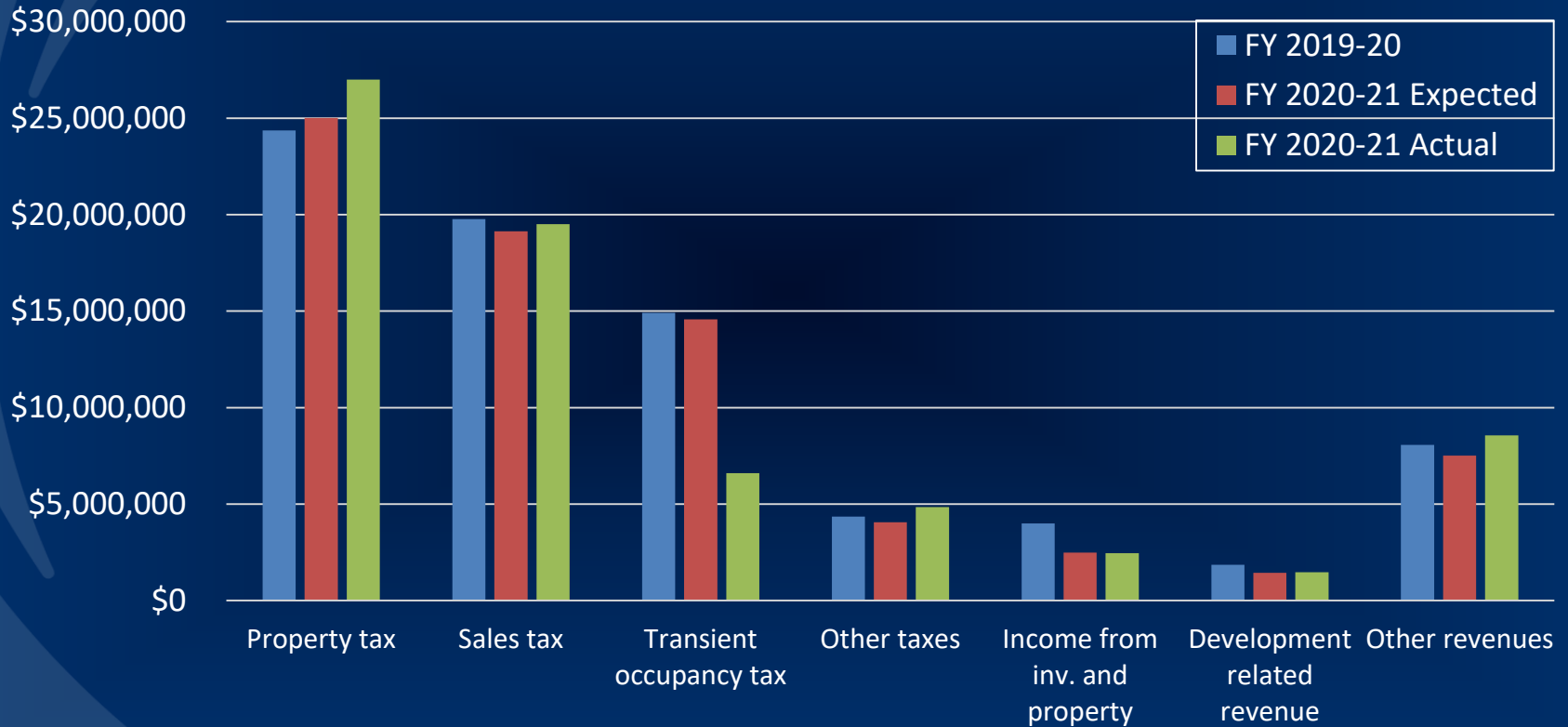
Industry Insights

- Carlsbad's "Innovation Economy" employers continue to grow
 - More resilient to economic downturn
 - Provide higher than average wages
 - Employees are generally able to work remotely
- Tourism (including hospitality and related industries) will continue to be hard hit when health orders restrict leisure travel.
 - Impacts city revenue that is received in sales tax and TOT

Financial Update

- General Fund revenues
- General Fund expenditures
- Water and Wastewater funds
- Golf Course Fund

General Fund Revenues Through Dec. 31

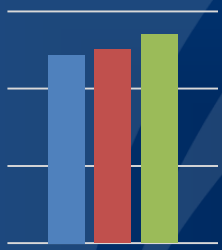


General Fund Revenues vs. Expectations

<u>Revenue category</u>	<u>Expected FY 2020-21</u>	<u>Actual FY 2020-21</u>	<u>\$ difference</u>	<u>% difference</u>
Property tax	\$25,006,958	\$26,995,194	\$1,988,236	8%
Sales tax	19,135,761	19,510,183	374,422	2%
Transient occupancy tax	14,571,998	6,604,990	(7,967,008)	-55%
Other taxes	4,051,373	4,838,380	787,007	19%
Income from inv. and property	2,491,331	2,446,352	(44,979)	-2%
Development related revenue	1,438,669	1,464,407	25,738	2%
Other revenues	7,508,417	8,555,331	1,046,914	14%
Total	\$74,204,506	\$70,414,837	(\$3,789,669)	-5%

General Fund Revenues Through Dec. 31

<u>Revenue category</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>\$ change</u>	<u>% change</u>
Property tax	\$24,357,174	\$26,995,194	\$2,638,020	11%
Sales tax	19,762,217	19,510,183	(252,034)	-1%
Transient occupancy tax	14,915,580	6,604,990	(8,310,590)	-56%
Other taxes	4,346,496	4,838,380	491,884	11%
Income from inv. and property	3,988,675	2,446,352	(1,542,323)	-39%
Development related revenue	1,849,776	1,464,407	(385,369)	-21%
Other revenues	8,070,850	8,555,331	484,481	6%
Total	\$77,290,768	\$70,414,837	(\$6,875,931)	-9%



Property Tax

- Majority of property taxes are collected in Dec. and April of every year
- According to the Assessor's Office, assessed values in Carlsbad have increased by 4.76%
- To date, the increase in property tax revenue is partially due to timing differences and has been driven by increases in:
 - Unsecured taxes
 - Aircraft taxes
 - Delinquent taxes
- We expect property taxes for the fiscal year to slightly exceed the originally projected amount

Sales Tax

- To date, the city has received:
 - Cleanup payments from Q4 of 2019 and Q1 of 2020
 - A large portion of Q2 2020 payments
 - Three payments from Q3 of 2020
 - First advance of Q4 2020 projected revenue
- Small decrease for the first half of FY 2020-21 was driven by:
 - COVID-19 related economic impacts
 - Offset by Collection of Q2 deferrals and increased county pool revenues
- Avenu is now projecting that revenues will slightly exceed forecast for the year



Transient Occupancy Tax (TOT)

- Revenues to date represent:
 - Hotel stays through Nov.
 - Average occupancy during the last 12 months has been 49% compared to 74% for the same period in the previous year
- The majority of TOT collected to date is from tourists versus group events
- TOT revenues are now projected to fall short of original expectations

Other Taxes

- Business license taxes are moderately up when compared to the same period in the prior year
 - Increase in gross receipts for some businesses where gross receipts is the factor to determine the tax
 - Offset partially by some businesses that have closed
- Franchise taxes:
 - Majority comes in April from SDG&E
 - Essentially the same as last year at this time
- Transfer taxes are up significantly due to the housing resale market and timing differences

Income from Inv. and Property

- Down 39% for the year due to:
 - Drop in yield on the portfolio of 31.9%
 - Drop in property sales and rentals:
 - Sale of Fire Station #3 last fiscal year
 - Decrease in property rentals (parks, facilities, etc.) of \$117,000
 - Small increase in average cash balance of 2.1%



Development Related Revenues

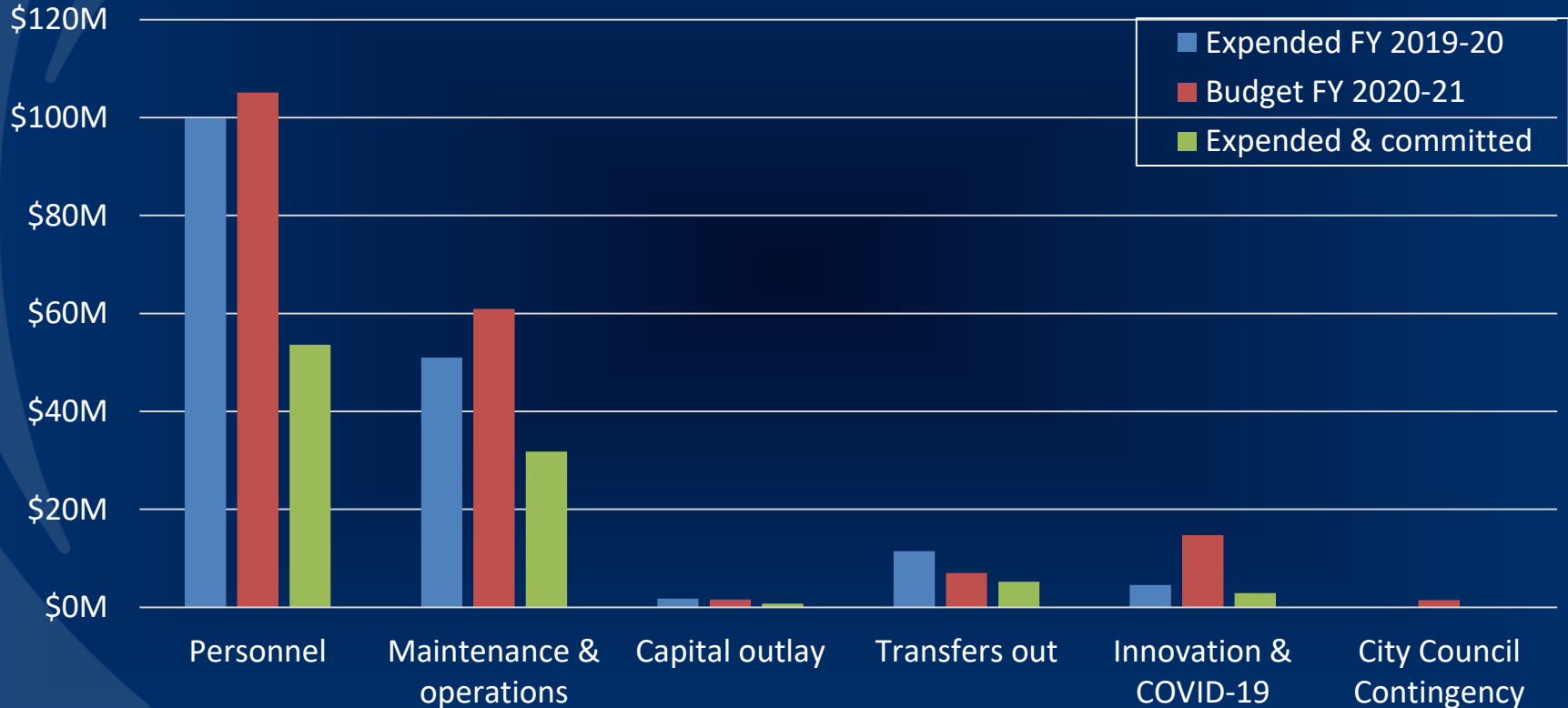
- In total, development related revenues are down by 21%
 - Budget for these revenues were projected to be down by 24% for the fiscal year
- Residential permits issued for the year are 148 compared to 101 last year
- Commercial/industrial square feet of permits issued are 206,297 square feet as compared to 220,078 square feet last year
- Planning, building and engineering fees are all down for the year, creating the negative variance

Other General Fund Revenues



- Other intergovernmental revenues are up due to COVID-19 CARES Act assistance and a homeless program grant
- Recreation revenues are down \$1 million compared to the prior year due to reductions across all programs
- Ambulance fees are slightly down due to a small decrease in the number of billable transports
- Other General Fund revenues are down by \$102,000

General Fund Expenditures Through Dec.



General Fund Expenditures Through Dec.

<u>Expenditure type</u> <i>(in millions)</i>	<u>Expended</u>	<u>Budget</u>	<u>Expended & committed</u>	
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>\$</u>	<u>%</u>
Personnel	\$99.8	\$105.1	\$53.6	51%
Maintenance & operations	51.0	61.0	31.8	52%
Capital outlay	1.8	1.6	0.8	48%
Transfers out	11.5	7.0	5.2	74%
Innovation & COVID-19	4.5	14.8	2.9	20%
City Council contingency	0.0	1.5	0.0	0%
Total	\$168.5	\$190.9	\$94.3	49%

General Fund Expenditures

- Adopted budget of \$163.4 million plus carryforwards and encumbrances totals \$190.9 million for FY 2020-21
- Through Dec. expenditures and encumbrances total \$94.8 million compared to \$106.8 million at the same time last year
 - Personnel includes \$8 million upfront CalPERS payment
 - M&O expenditures are \$19.6 million and encumbrances total \$12.2 million
 - Closely monitoring departmental spending and are performing another scrub of open encumbrances



Water and Wastewater Funds

- Water
 - When compared to the same prior in the year, revenues are up 1.4% and expenses are up 8.7%
 - Net operating income significantly above of the full year forecast due to increased water delivery revenue and lower outside services
- Wastewater
 - Revenues are down 2.9% and expenses are up 17.8% when compared to the same prior in the year
 - Net operating income is ahead of plan due to and lower outside services and a higher than expected reimbursement

Golf Course Fund

<u>Category</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>\$ change</u>	<u>% change</u>
Golf revenue	\$1,997,480	\$3,159,828	\$1,162,348	58%
Food & beverage revenue	1,665,089	883,809	(781,280)	-47%
Total revenue	3,662,569	4,043,637	381,068	10%
Expenses, excluding depreciation	3,744,044	3,327,740	(416,304)	-11%
Net cash activity	(81,474)	715,897	797,372	979%

<u>Category</u>	<u>Budgeted FY 2020-21</u>	<u>Actual FY 2020-21</u>	<u>\$ change</u>	<u>% change</u>
Golf revenue	\$2,296,034	\$3,159,828	\$863,795	38%
Food & beverage revenue	854,152	883,809	29,657	3%
Total revenue	3,150,185	4,043,637	893,452	28%
Expenses, excluding depreciation	3,213,237	3,327,740	114,503	4%
Net cash activity	(63,051)	715,897	778,949	1,235%

Next Steps

- No budget adjustments proposed at this point
- Continue to monitor revenues and expenses
- Continue to issue monthly financial status report
- Bring third quarter update to City Council in April 2021

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Questions & Discussion