THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 24, 2023 **IBA Report Number:** 23-34

City Council Docket Date: October 30, 2023

Item Number: TBD

IBA Review of the FY 2023 Year-End Financial Performance Report

OVERVIEW

The FY 2023 Year-End Financial Performance Report (Year-End Report) was issued on October 11, 2023 and presented to the Budget and Government Efficiency Committee on October 18, 2023. The Year-End Report compares revenue and expenditure projections reported in the FY 2023 Third Quarter Budget Monitoring Report (Third Quarter Report) to unaudited actual revenue and expenditure activity for July 1, 2022 through June 30, 2023.

Our Office's review of the Year-End Report highlights changes in General Fund revenues and expenditures, reviews the status of the General Fund Reserve and Excess Equity, provides additional context and updates on those items, and offers a review of homelessness expenditures. We note that changes in overall revenues and expenditures are moderate, with General Fund revenues coming in $4.3 million below Third Quarter Report projections, and General Fund expenditures $10.2 million under Third Quarter Report projections. The result is a $5.9 million increase to Excess Equity for FY 2023, which we discuss in the Excess Equity section of this report.

FISCAL & POLICY DISCUSSION

GENERAL FUND REVENUES

Total General Fund revenue in the Year-End Report is $2.01 billion, a decrease of $4.3 million from third quarter projections, reflecting slower than anticipated growth in the last quarter of FY 2023 for sales taxes and Transient Occupancy Tax (TOT) receipts. This follows a significant rebound for these revenue sources, which were the most impacted by the COVID-19 pandemic. Although the General Fund revenues in the Year-End Report show a decrease from third quarter projections, total year-end General Fund revenues are still coming in above the Adopted Budget

OFFICE OF THE INDEPENDENT BUDGET ANALYST
202 C STREET MS 3A SAN DIEGO, CA 92101
TEL (619) 236-6555 FAX (619)-236-6556

by $63.1 million. The $2.01 billion revenue in the Year-End Report does include $147.6 million in American Rescue Plan Act (ARPA) funding.

General Fund Revenue Projections by Quarter *($ in millions)*							
	Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Third-Quarter Projection**	**Year-End Performance**	**Variance: Adopted to Year-End**	**Variance: Third Quarter to Year-End**
Property Tax	$ 706.2	$ 720.4	$ 715.7	$ 715.5	$ 721.4	$ 15.2	$ 6.0
Sales Tax	380.2	386.0	384.6	395.7	384.7	4.5	(11.0)
Transient Occupancy Tax	135.2	149.9	155.8	163.6	161.8	26.6	(1.8)
Franchise Fees	93.8	94.5	91.8	110.9	111.3	17.5	0.4
Other Major Revenues	101.2	101.2	112.8	111.4	112.5	11.3	1.0
Subtotal Major Revenues	***1,416.6***	***1,452.0***	***1,460.6***	***1,497.1***	***1,491.7***	***75.1***	***(5.4)***
Departmental Revenues	***384.6***	***384.6***	***373.7***	***371.5***	***372.6***	***(12.0)***	***1.1***
American Rescue Plan Act	***147.6***	***147.6***	***147.6***	***147.6***	***147.6***	***0.0***	***0.0***
Total	**$ 1,948.8**	**$ 1,984.2**	**$ 1,982.0**	**$ 2,016.2**	**$ 2,012.0**	**$ 63.1**	**$ (4.3)**

Note: Table may not total due to rounding.

As shown in the table above, overall General Fund revenue projections increased through the year, peaking in the Third Quarter Report. Ultimately, sales tax and TOT came in below what was projected in the Third Quarter Report, which was anticipated in our review of that report. Sales tax and TOT coming in below third quarter projections indicates a slowing of the robust growth that followed pandemic recovery. The property tax revenue projection was at the highest level in the First Quarter Budget Monitoring Report projections, and the Year-End Report came in $1.0 million above the first quarter projection. Of note, the anticipated use of $147.6 million in ARPA funds remained the same throughout the year, leaving $52.1 million to be used in FY 2024 before the December 31, 2024 (FY 2025) deadline.

Significant General Fund revenues are further discussed below.

Property Taxes

Property tax revenue increased by $6.0 million from the Third Quarter Report, mostly due to a $4.4 million increase in the 1.0% base property tax receipts due to higher than anticipated collections from the sale of new property of new construction. The remaining $1.5 million is associated with increased residual tax sharing revenue from the Redevelopment Property Tax Trust Fund (RPTTF), which our Office anticipated in our review of the Third Quarter Report, and was incorporated into the available Excess Equity[1] that was considered as part of the Council's adoption of the IBA's recommended modifications to the Proposed FY 2024 Budget.

Overall, property tax collections ended the year $15.2 million above the FY 2023 Adopted Budget, with $17.2 million in increases from the 1.0% base property tax, $2.6 million from the Motor Vehicle License Fee, and $1.0 million in overall RPTTF revenue. The only decrease in property

[1] Excess Equity, as described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation."

taxes from the Adopted Budget is associated with the delayed sale of Tailgate Park, which decreased revenues by $5.8 million, and was highlighted in the Mid-Year Budget Monitoring Report (Mid-Year Report).

Sales Taxes

Projected sales tax revenue decreased by $11.0 million from the Third Quarter Report but came in above the Adopted Budget by $4.5 million. Throughout FY 2023, sales tax revenue projections remained above the Adopted Budget. However, the quarterly growth rate when compared to FY 2022 declined in each quarter of FY 2023 (first quarter: 8.26%, second quarter: 3.98%, third quarter: 0.33%, and fourth quarter: -2.70%). The Third Quarter Report projected a 3.4% quarterly growth rate for the last quarter of FY 2023, while our Office suggested a 1.8% quarterly growth rate and incorporated the May sales tax payment as part of our review of the Third Quarter Report. This was also incorporated into the available Excess Equity that was considered as part of the Council's adoption of the IBA's recommended modifications to the Proposed FY 2024 Budget.

The actual growth rate for the last quarter of FY 2023 is -2.70%, resulting in a further decrease of $4.4 million. This decrease is likely due to both changes in consumer spending driven by the prolonged pressure of inflation, as well as inflation rates being lower in FY 2023 than FY 2022. For context, the fourth quarter of Fiscal Year 2022 (April to June) was the period of highest inflation in 2022. In May 2022, the Consumer Price Index (CPI) in the San Diego area was measured at an 8.3% increase over the previous 12 months, compared to 5.2% in May 2023. Though inflation is still playing a role in sales tax receipts, the role it played in FY 2023 was different than in FY 2022; FY 2023 has seen lower rates of overall inflation, but the period of time that consumers have been under high inflation has extended the pressure on consumers and resulted in decreased spending.

Transient Occupancy Taxes

General Fund Transient Occupancy Tax (TOT) revenue, or hotel tax revenue, surpassed what was projected in the Adopted Budget by $26.6 million, although General Fund TOT revenue decreased by $1.8 million from the Third Quarter Report. FY 2023 unaudited actuals for General Fund TOT revenue of $161.8 million does exceed TOT revenue received in 2022 by $25.3 million. Throughout most of FY 2023, demand for leisure travel was greater than expected, and elevated hotel room prices led to higher than anticipated TOT revenue. However, the demand for leisure travel softened towards the end of FY 2023, and the price of rooms declined in April and May, leading to the $1.8 million decline between the third quarter projections and year-end actuals. Our Office included a decrease of $0.7 million in our review of the Third Quarter Report, and we incorporated that decrease into the available Excess Equity that was considered as part of the Council's adoption of the IBA's recommended modifications to the Proposed FY 2024 Budget.

Franchise Fees

Franchise fee revenue increased by $0.4 million from the Third Quarter Report, which is mostly related to a minimum bid payment received for a renewed temperature-controlled water system franchise contract in May 2023. Overall, the unaudited actuals for franchise fee revenues are above the FY 2023 Adopted Budget by $17.5 million. The majority of this increase was projected in the Third Quarter Report, which highlighted a higher than anticipated clean-up payment from SDG&E that resulted in additional revenue of $15.3 million.

Federal American Rescue Plan Act (ARPA)
ARPA was signed into law on March 11, 2021, providing the City with a total of $299.7 million. ARPA funds must be used by December 2024 (FY 2025) and are available to provide government services and replace a significant portion of revenue lost due to the COVID-19 pandemic. The Year-End Report reported that $147.6 million in ARPA funds were utilized in FY 2023 – unchanged throughout FY 2023. Of the City's $299.7 million ARPA allocation, $100.0 million was used in FY 2022, and $147.6 million was used in FY 2023. The remaining $52.1 million is budgeted for use in FY 2024, which will exhaust this one-time funding source.

Departmental Revenue
Overall departmental revenue increased by $1.1 million from the Third Quarter Report, but finished the year $12.0 million below the Adopted Budget. The two largest decreases as compared to the Adopted Budget are for Cannabis Business Tax revenues ($6.8 million, City Treasurer), and General Fund transfers from Gas Tax collections ($6.0 million, Transportation). Declines in the Cannabis Business Tax receipts were noted in both the Mid-Year Report and the Third Quarter Report, with revenues decreasing only by $0.2 million from the projection in the Third Quarter Report. Gas Tax revenues were also projected to decline in the Third Quarter Report, but that decline has increased by $1.7 million from the third quarter projections. As revenues from the Gas Tax decline, the transfer to the General Fund for road maintenance services within the Transportation Department also declines, as opposed to reducing Gas Tax funding from CIP projects or other activities. This issue should be closely monitored in FY 2024, as the level of budgeted support from the Gas Tax to the General Fund did not assume a decline in Gas Tax revenues.

Two of the larger increases in departmental revenues noted in the Year-End Report included $1.7 million in Parks and Recreation due to higher than anticipated reimbursements from the Environmental Growth funds, as well as $1.0 million within Homelessness Strategies and Solutions mainly attributable to a settlement reimbursement from United Site Service of California for overpayment of portable showers at the San Diego Convention Center. Both of these revenue increases were identified as part of our Office's updated Excess Equity estimate that was considered for use as part of the Council's adoption of the FY 2024 Budget.

GENERAL FUND EXPENDITURES

The Year-End Report shows unaudited actual General Fund expenditures of $1.96 billion, which is $6.4 million higher than the FY 2023 Adopted Budget (a negative expenditure variance). This variance is 0.3% of the Adopted Budget, as shown in the following table. Note that our expenditure variance review below uses the Adopted Budget as a base for comparison, whereas the Department of Finance uses the current budget as a base in its Year-End Report. Therefore, the figures in our tables are different from the variances reflected in the Department of Finance's Report.

FY 2023 General Fund Expenditures *($ in millions)*						
	Adopted Budget	**3rd Quarter Projections**	**Year-End Unaudited Actuals**	**Variance: 3rd Qtr to Year-End**	**Variance: Adopted to Year-End**	**Variance %: Adopted to Year-End**
Salaries and Wages	$ 767.0	$ 764.4	$ 765.3	$ (0.9)	$ 1.7	0.2%
Fringe Benefits	511.4	516.9	518.0	(1.1)	(6.6)	(1.3%)
Non-Personnel Expenditures (NPE)	675.1	688.8	676.6	12.2	(1.5)	(0.2%)
Total General Fund Expenditures	**$ 1,953.5**	**$ 1,970.1**	**$ 1,959.9**	**$ 10.2**	**$ (6.4)**	**(0.3%)**

Notes: (1) Table may not total due to rounding.
(2) Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.
(3) The Adopted Budget amounts exclude $1.5 million budgeted for the General Fund Reserve contribution.

Some of the most significant variances to the FY 2023 Adopted Budget are highlighted in the following sections, including expenditure increases that are partially offset by expenditure decreases.

Some of the largest expenditure increases from the Adopted Budget include:

- $36.1 million in additional overtime, largely related to the Fire-Rescue and Police Departments, as discussed later
- $8.5 million in additional energy and utilities spending, primarily due to increased electricity usage and rates and the reclassification of smart streetlights expenditures
- $7.3 million in special pay largely due to increased overtime and increases related to labor negotiations that were not fully known at the time the Budget was finalized
- $7.1 million in additional transfers to the Parks Improvement Funds

The higher spending levels listed above are partially offset by decreased spending in other areas, including:

- $47.5 million in salary savings, primarily due to vacancy savings
- $8.3 million in savings relating to Proposition B unwinding mainly due to the approach chosen by SDCERS for City payment of related pension liability costs

Personnel Expenditures

The following table compares the FY 2023 unaudited actuals to the Adopted Budget for various salaries and wages categories. The second column from the right shows that total salaries and wages expenditures net to $1.7 million less than what was included in the FY 2023 Adopted Budget (shown as a positive spending variance).

FY 2023 Salaries and Wages Expenditures - General Fund *($ in millions)*						
	Adopted Budget	**3rd Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3rd Qtr to Year-End**	**Variance: Adopted to Year-End**	**Variance %: Adopted to Year-End**
Salaries	$ 620.3	$ 577.0	$ 572.8	$ 4.2	$ 47.5	7.7%
Special Pay	47.5	54.2	54.8	(0.6)	(7.3)	(15.4%)
Overtime	77.6	109.7	113.7	(4.0)	(36.1)	(46.5%)
Hourly	13.1	12.3	12.7	(0.4)	0.4	3.0%
Vacation Pay in Lieu/Termination Pay	8.5	11.2	11.3	(0.1)	(2.8)	(32.8%)
Total Salaries and Wages	**$ 767.0**	**$ 764.4**	**$ 765.3**	**$ (0.9)**	**$ 1.7**	**0.2%**

Notes: Table may not total due to rounding.
Positive variances are spending below budget (third-quarter) levels. Negative variances are overages, or spending above budget (third-quarter) levels.

There is $47.5 million in net salary savings, primarily due to delays in hiring and a higher vacancy level than anticipated in the Adopted Budget. This $47.5 million in savings offsets the overages in other personnel expenditures categories, including overtime, special pay, and pay-in-lieu/termination pay.

The most significant overage, $36.1 million in overtime, is largely related to the Fire-Rescue, Police, and Transportation Departments – $18.6 million, $10.7 million, and $2.1 million, respectively. Overtime is addressed in more detail on the next page.

Departmental Variances

As previously mentioned, total salaries and wages expenditures net to $1.7 million less than what was included in the FY 2023 Adopted Budget. These savings include all salaries and wages types (salaries, special pay, overtime, hourly, pay-in-lieu, and termination pay costs). The net $1.7 million savings includes departments with salaries and wages savings, which are partially offset by departments with overages.

Departments with the highest salaries and wages savings include:

- $3.4 million – Parks and Recreation (largely salary and hourly wage savings, partially offset with overtime overage)
- $1.9 million – Library (largely salary savings)
- $1.4 million – Transportation (largely salary savings, partially offset with overtime overage)
- $1.4 million – Facilities Services (largely salary savings)
- $1.1 million – Real Estate & Airport Management (largely salary savings)
- $1.0 million – City Treasurer (largely salary savings)
- $964,000 – Commission on Police Practices (largely salary savings, about three-fourths its salaries and wages budget)
- $765,000 – Development Services (largely salary savings)
- $726,000 – Purchasing & Contracting (largely salary savings)

Departments with the largest salaries and wages overages include:

- $13.6 million[2] – Fire-Rescue (largely overtime overage, partially offset with salary savings)
- $763,000 – Stormwater (largely overtime overage, partially offset with salary savings)
- $576,000 – City Attorney (largely hourly and termination pay overage, partially offset with salary savings)

<u>Overtime</u>

The salaries and wages category with the largest FY 2023 projected overage is overtime, netting to an over-budget total of $36.1 million. Of this amount, $18.6 million is within the Fire-Rescue Department and $10.7 million is in the Police Department. The next largest overtime overages are $2.1 million in Transportation, $1.8 million in Parks and Recreation, $1.6 million in Stormwater, and $943,000 in Environmental Services. The Fire-Rescue and Police Departments together comprise approximately 90% of total General Fund overtime costs. These two departments' overtime expenditures are discussed below.

<u>Fire-Rescue Overtime</u>

At FY 2023 year-end, actual Fire-Rescue overtime expenditures totaled $51.3 million and exceeded budgeted amounts in the Adopted Budget by $18.6 million. This overage is $1.5 million more than the year-end projection at the time of the Third Quarter Report. Of the $18.6 million overtime overage in FY 2023, $6.3 million is offset by reimbursements ($263,000 over budgeted revenue from strike-team deployments) and projected net savings in salary and special pay (approximately $6.0 million[2]), resulting in a net General Fund impact of about $12.3 million. Consistent with the Third Quarter Report, issues related to fire-suppression staffing shortfalls and Backfill Overtime account for the majority of the projected overage at $15.0 million, or 81%.

Staffing shortfalls at fire suppression posts is the cause for $7.2 million, or 39%, of the overall overtime expenditure overage in FY 2023. The Department anticipates reaching full staffing in FY 2025, at which point, overall overtime expenditures for this overtime subcategory would be expected to return to a level closer to budget ($1.7 million) to account for ordinary/normal vacancy turnover.

Backfill Overtime, budgeted in FY 2023 at $17.2 million, is the Department's largest and most significant overtime component. When constant staffing positions utilize Leave Time, such as sick, vacation, military, or other leave, Backfill Overtime is required to fill those absences in order to maintain constant staffing levels for all fire suppression posts. At FY 2023 year-end, Backfill Overtime exceeded budget by $7.8 million, accounting for 42% of the overall average. A majority of the Backfill Overtime overage was due to increased "Industrial Leave," of which COVID-19 related absences were a significant factor, and "Comp Time Taken." The latter is indicative of

---

[2] Includes mid-year appropriation adjustments which reallocated $5.2 million in personnel expenditures originally budgeted in Citywide Program Expenditures for anticipated salary increases to the Fire-Rescue Department as a result of labor negotiations.

firefighters choosing to accept additional leave time rather than compensation for overtime hours worked; as such, this increase indirectly relates to the Department's staffing shortfalls.

The Fire-Rescue Department created a Relief Pool in the FY 2020 and FY 2021 Adopted Budgets, which added 37.00 FTEs in each of those years (74.00 FTEs total) above what is required for constant staffing. The intent of the Relief Pool is to utilize firefighters on regular time to backfill for those firefighters out on leave or otherwise unable to work, in order to reduce Backfill Overtime spending. However, the Relief Pool cannot function as intended until all constant staffing positions are fully staffed; for this reason, anticipated reductions in overtime expenditures have not been realized given recent vacancy issues. Considering normal attrition over the course of FY 2024, fully staffing all constant staffing positions is not anticipated to occur until FY 2025, after which the Department estimates that they can begin filling Relief Pool positions.

While overtime expenditures due to staffing shortfalls and Backfill Overtime will remain elevated in FY 2024, budgetary impacts are likely to be mitigated given the significant increase of $15.7 million to the Department overtime budget in FY 2024. With that said, more information will be known when the FY 2024 First Quarter Report is released on November 9, 2023.

For additional context, historical information on Fire-Rescue Department overtime expenditures is provided in the following table.

Fire-Rescue Overtime – Historical Budget vs. Actuals *($ in millions)*										
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Actual	$ 29.7	$ 31.5	$ 31.8	$ 32.5	$ 45.4	$ 45.2	$ 41.1	$ 51.3	$ 50.7	$ 51.3
Budget	23.7	26.7	29.9	30.2	32.8	38.1	36.6	33.3	32.8	32.8
Overage	**$ 6.0**	**$ 4.8**	**$ 1.9**	**$ 2.3**	**$ 12.5**	**$ 7.0**	**$ 4.5**	**$ 18.0**	**$ 17.9**	**$ 18.6**

NOTES: Table may not total due to rounding.
FY 2014 through FY 2023 Actual amounts are based on unaudited actuals.

Police Overtime

The Police Department ended FY 2023 with $50.8 million in total overtime expenditures, which exceeded its budget by $10.7 million at fiscal year-end. The budgetary overage represents a $1.7 million increase compared to the Third Quarter Report. Approximately $5.9 million of the Department's overall overtime expenditures are expected to be reimbursed for special event and grant-funded task force activity resulting in a projected net General Fund impact of $44.9 million.

The primary cause for the overage in overtime expenditures in FY 2023 was due to significant sworn staffing shortages, which our Office discussed in our review of previous Budget Monitoring Reports throughout the fiscal year. For FY 2024, $9.2 million was added to the Department's budget to more appropriately account for overtime expenditures which are expected to remain elevated as SDPD's staffing issues persist.

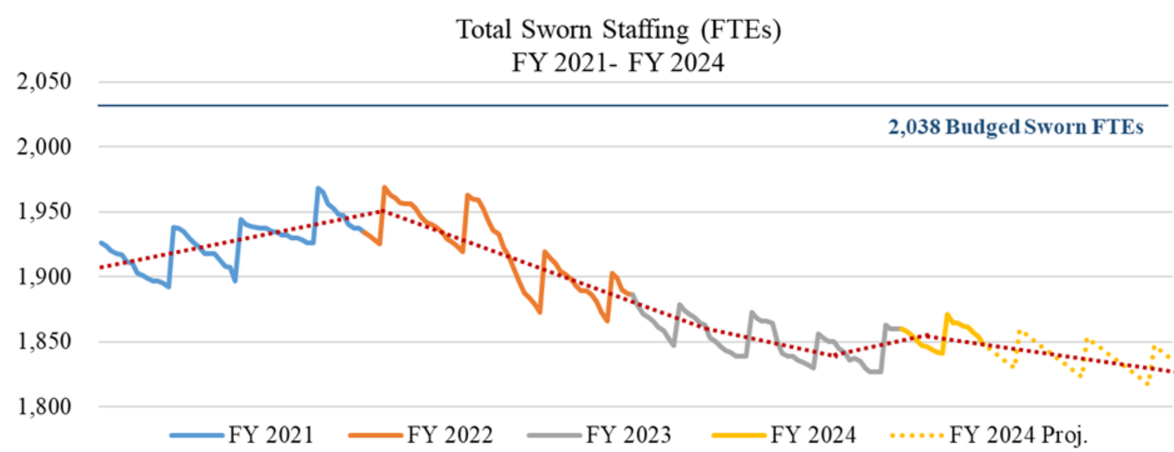
SDPD Average Attrition FY 2019 - FY 2024	
FY 2019	13 per month
FY 2020	13 per month
FY 2021	13 per month
FY 2022	20 per month
FY 2023	15 per month
FY 2024*	12 per month

* Through October 16, 2023.

As of October 16, 2023, SDPD had 190 sworn vacancies (1,848 of 2,038 budgeted positions filled) with an average of 12 additional officers leaving the Department per month thus far in FY 2024. This level of attrition represents a return to normal and a significant moderation compared to the elevated number of officers lost in FY 2022 and FY 2023, as shown in the table to the right. Should attrition continue at this rate through the remainder of FY 2024, the Department is projected to lose 144 officers this fiscal year, which is expected to be partially offset through the addition of new officers as discussed below.

Four Police Academies are scheduled to graduate in FY 2024. The 134th academy graduated in August 2023 producing 29 officers and two additional academies are currently in progress with 29 and 30 recruits, respectively, which is below the Department's goal of 50 recruits per academy. Assuming the final graduating academy in FY 2024 produces 30 officers consistent with recent trends, the total number of new officers joining SDPD would amount to 118, resulting in a net loss of 26 officers in FY 2024 based on the current rate of attrition. The Department's ability to increase academy sizes to a level closer to their recruitment goal will be a critical factor towards addressing their sworn staffing issues over the next several years. To that end, the City Council may want to request more information from SDPD regarding actions that can be taken to further enhance recruitment activities.

The chart below reflects SDPD's weekly sworn staffing level in FY 2021 through FY 2024, and includes a trendline that illustrates the Department's net gain/loss in sworn officers over this time period.



Finally, for additional context, historical information on Police overtime expenditures is provided in the following table.

Police Overtime - Historical Budget vs. Actuals *($ in millions)*										
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 [1]	FY 2020 [2]	FY 2021 [3]	FY 2022	FY 2023
Actual	$ 17.8	$ 23.1	$ 25.0	$ 26.0	$ 29.7	$ 31.9	$ 44.8	$ 37.2	$ 40.9	$ 50.8
Budget	11.8	11.1	18.0	21.0	26.3	24.6	35.9	38.1	30.7	40.2
Overage/ (Savings)	**$ 6.0**	**$ 12.0**	**$ 7.0**	**$ 5.0**	**$ 3.4**	**$ 7.4**	**$ 8.9**	**$ (0.9)**	**$ 10.2**	**$ 10.7**

NOTES: Table may not total due to rounding.

FY 2014 through FY 2023 Actual amounts are based on unaudited actuals.

[1] The $31.9 million FY 2019 actual amount includes approximately $29.3 million of General Fund and $2.7 million of Seized Assets Fund (SAF) expenditures.

[2] The $44.8 million FY 2020 actual amount includes $41.4 million and $3.4 million for the General Fund and SAF, respectively; and the $35.9 million budget amount includes $32.1 million and $3.9 million for the General Fund and SAF, respectively.

[3] The $37.2 million FY 2021 actual amount includes $32.9 million and $4.3 million for the General Fund and SAF, respectively; and the $38.1 million budget amount include $33.7 million and $4.4 million for the General Fund and SAF, respectively.

Non-Personnel Expenditures as Compared to the Third Quarter Report

Non-personnel Expenditures (NPE) overall decreased from third quarter projections by $12.2 million, with savings noted across all spending categories with the exception of Energy and Utilities. However, most of the changes in categories for Energy and Utilities, Capital Expenditures, and Other were due to expenses being incurred in different NPE categories than where the expenditures were budgeted. The table below shows how the variances between the Third Quarter Report and the Year-End Report would have looked if various large, identified expenditures had occurred where budgeted. With this reconciliation, most of the NPE categories had variances of less than $1.0 million, and the total decrease in expenditures outside of Contracts and Services and Transfers Out was $3.5 million.

Non-Personnel Expenditure Category Adjustments			
Expenditure Category	**3rd Quarter to Year-End Variance**	**Spending Category Adjustments**	**Modified NPE Variances**
Supplies	$ 0.5	$ -	$ 0.5
Contracts and Services	2.2	2.7	4.9
Information Technology	1.2	(0.3)	0.9
Energy and Utilities	(2.3)	2.9	0.6
Other	3.7	(2.9)	0.8
Transfers Out	3.9	-	3.9
Capital Expenditures	3.0	(2.4)	0.6
Debt	0.1	-	0.1
Total	**$ 12.2**	**$ -**	**$ 12.2**

Note: Table may not total due to rounding.

Within Contracts and Services, the net spending decrease is $4.9 million. As noted in the Year-End Report, this is due to a variety of decreases, including adjustments to Fleet Assignment Fees, lower spending within the Police Department for rent at the firing range training facility and Central Jail processing fees, and a variety of expenses that were deferred to FY 2024, including Parks and Recreation maintenance activities, delivery of electric vehicle charging equipment in the Sustainability and Mobility Department, and deferral of invoice payments for security services in the Library Department. Most of the deferred expenses will take place in FY 2024, but are not anticipated to require an adjustment to the FY 2024 Budget.

Finally, Transfers Out expenditures decreased by $3.9 million, with the two largest changes being a reduction of $2.6 million related to a credit within the 101 Ash St. settlement, and a reduction of $1.1 million in transfers to the San Diego Regional Parks Improvement and the Mission Bay Park Improvement Funds. Neither of these expenditure decreases impact overall Excess Equity, however, since there were corresponding revenue reductions.

Homelessness Program Updates

Given the importance of addressing the City's homelessness crisis, this section provides additional updates on homelessness programs below.

Homelessness Strategies and Solutions Department

The Year-End Report reflects expenditures largely in line with third quarter projections for the Homelessness Strategies and Solutions Department (HSSD), with a $48,000 overspend in General Fund or less than a 1.0% variance. Although minor, variances were driven by two main factors. First, some overages were due to anticipated savings in the third quarter projections that did not ultimately materialize, as was the case with the storage center operations at Lea Street ($274,000), the Coordinated Outreach program ($111,000), and inclement weather shelter operations at the Old Central Library ($56,000). Second, some invoices for FY 2023 spending were delayed to the following fiscal year resulting in variances. Additionally, we highlight two unanticipated cost drivers in the FY 2023 HSSD budget.

Downtown Portable Restrooms

In response to rising public health concerns for individuals experiencing homelessness at the beginning of 2023, particularly related to hepatitis A, the County requested the City deploy additional hand-washing stations and portable restrooms to serve the unsheltered. To meet the County's request, HSSD set up 13 portable restrooms in the Downtown area in late spring. Year-end expenditures for operating and maintaining these portable restrooms totaled $317,000 from the General Fund, and annualized costs for FY 2024 could total $3.8 million. According to HSSD staff, these restrooms will be in operation until the County instructs otherwise. As a separate program update, contracts for portable restrooms throughout the City will be transferred to HSSD to manage starting in FY 2024. These contracts and associated costs were previously managed and absorbed by the Parks and Recreation Department.

High Contract Costs for Food and Ancillary Services

Some shelter sites reported overages totaling $426,000 due to increased food and ancillary service contract costs. These overages will be covered by funding advanced to the program operator for FY 2024 expenditures and are not reflected in the Year-End Report. HSSD staff have indicated that they intend to benchmark food service prices through an upcoming request for proposal (RFP) process, related to food service at a new Safe Sleeping site at "O" Lot near Balboa Park. The RFP for food services at "O" Lot should inform competitive pricing for meals served at City-funded shelter operations. Additionally, HSSD worked with the San Diego Housing Commission and program operators to review ancillary service costs and negotiate improved rates for services moving forward.

GENERAL FUND RESERVE AND EXCESS EQUITY

General Fund Reserve

The City's Reserve Policy goal for the General Fund Reserve is to reach 16.7% of operating revenues, which is to be phased-in through FY 2030.[3] As of FY 2022, the Reserve balance was $205.6 million, or 14.9% of operating revenues. The FY 2023 Adopted Budget includes a one-time contribution of $1.5 million to the Emergency Reserve, bringing the total balance of General Fund Reserve to $207.1 million, or 14.3% of operating revenues, consistent with the Reserve Policy target for FY 2023.

General Fund Reserve Policy vs Reserve Balance *($ in millions)*		
	FY 2022	**FY 2023**
Reserve Policy Target Percent	***14.9%***	***14.3%***
Reserve Policy Target	$ 205.6	$ 207.1
Reserve Balance (FY 2022) / Reserve Projection (FY 2023)	205.6	207.1
Difference: Amount Reserve Balance Is Below the Policy Target	**$ -**	**$ -**
Reserve Balance as Percent of Operating Revenues	***14.9%***	***14.3%***

Note: Table may not total due to rounding.
The Reserve Policy targets are based on the average of the prior three years' actual operating revenues.

Excess Equity

Excess Equity, as described in the Reserve Policy, is "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." The FY 2023 Year-End Report shows year-end Excess Equity of $128.9 million; however, the report also notes that $72.2 million of this amount has already been anticipated as a resource in the FY 2024 Adopted Budget, leaving $56.7 million in remaining available balance.[4] The ending Excess Equity of $128.9 million is $5.9 million higher than projected in the Third Quarter Report, largely due to decreased Non-personnel Expenditures, which are partially offset by an overall decrease in revenue, as discussed earlier.

[3] The City's Reserve Policy is delineated in Council Policy 100-20.
[4] The $72.2 million use of Excess Equity in the Adopted Budget includes $64.1 million to balance the budget and $8.1 million set aside to fund the General Fund Reserve.

CONCLUSION

The Office of the IBA's review of the FY 2023 Year-End Financial Performance Report documents changes to General Fund revenues, expenditures, and Excess Equity since the Third Quarter Budget Monitoring Report projections, and provides a high-level summary of year-end expenditure variances as compared to the FY 2023 Adopted Budget. We present this information to provide another tool for evaluating City expenditures for FY 2023 and to help guide Council's discussions around future budget decisions. Additional information on the City's finances is anticipated to be provided in the FY 2024 First Quarter Budget Monitoring Report and the Mayor's FY 2025-2029 Five-Year Financial Outlook, both of which are scheduled to be released November 9, 2023.

Nicky Bennett
Associate Fiscal and Policy Analyst

Ruixin Chen
Fiscal & Policy Analyst

Amy Li
Fiscal and Policy Analyst

Baku Patel
Senior Fiscal and Policy Analyst

Lisa Byrne
Principal Fiscal and Policy Analyst

Jordan More
Principal Fiscal and Policy Analyst

APPROVED: Charles Modica
Independent Budget Analyst