THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 21, 2024 **IBA Report Number:** 24-04

City Council Docket Date: February 26, 2024

Item Number: 203

IBA Review of the FY 2024 Mid-Year Budget Monitoring Report

OVERVIEW

The FY 2024 Mid-Year Budget Monitoring Report (Mid-Year Report) was issued on February 2, 2024 and was presented to the Budget and Government Efficiency Committee on February 7, 2024. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections using actual (unaudited) data from the first five months of the fiscal year (July through November 2023). Additionally, among a number of attachments, the Mid-Year Report includes several attachments responsive to Council requirements:

- Attachment 6 to the Mid-Year Report includes the Police Department report on overtime and Neighborhood Policing expenditures in accordance with the FY 2024 Appropriation Ordinance (O-21675).
- Attachment 7 is also presented in accordance with the Appropriation Ordinance and includes a report on grant funds awarded to the City for the City Attorney's prosecutorial function.
- Attachment 8 responds to the City Council's request in Resolution 313615 that Homelessness Strategies and Solutions Department provide updates on homelessness programs and spending.

The Mid-Year Report is projecting a $105.6 million General Fund spending deficit. Over half of this deficit, $64.1 million, was anticipated as part of the FY 2024 Adopted Budget, as a portion of Excess Equity[1] from FY 2023 was used as a resource to balance the Budget in accordance with

[1] Excess Equity, is 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." Excess Equity generally results from increases to General Fund revenues and/or General Fund expenditures that come in under-budget during any given fiscal year.

City Charter requirements.[2,3] The remaining $41.5 million of the projected deficit is the result of a $28.3 million decline in projected revenues and a $13.2 million increase in projected expenditures over the Adopted Budget.

It is anticipated the deficit projected in the Mid-Year Report can be mitigated with additional available Excess Equity. However, this additional Excess Equity was anticipated to be used as a resource to balance the upcoming FY 2025 budget. The FY 2025-2029 Five-Year Financial Outlook projected a $171.9 million shortfall for FY 2025 before the use of Excess Equity, and $115.4 million after the use of all projected Excess Equity. Any additional use of Excess Equity in the current fiscal year will result in less resources available to balance the FY 2025 budget. ***Given the likelihood that a significant amount of additional Excess Equity will be used in the current fiscal year to mitigate this deficit, it is unlikely that significant amounts of Excess Equity will be available to address the projected FY 2025 deficit, absent significant reductions in expenditures that are not projected in the Mid-Year Report.*** Further information regarding Excess Equity is discussed after the General Fund Revenues and Expenditures sections of this report.

The IBA's review of the Mid-Year Report provides related clarification and additional information for Council and the public. In this report, we review: major General Fund revenues; cannabis business tax revenue; General Fund expenditures, focusing on salaries and wages (including public safety and Transportation Department overtime, as well as Parks and Recreation hourly wages); and Excess Equity considerations. We also provide additional information on homelessness expenditures, as well as the most up-to-date projections on how much of the $2.25 million approved by the Housing Authority for the San Diego Housing Commission (redirected internally from their FY 2024 Budget) to implement short-term emergency hotel voucher and shelter programs will be utilized to house flood victims, as requested by the Budget & Government Efficiency Committee on February 7, 2024. Further, we discuss the Mid-Year Report's requested appropriation adjustments, and provide a status update on all items City Council added to the FY 2024 Adopted Budget as part of its final budget resolution.

FISCAL/POLICY DISCUSSION

General Fund Revenues

General Fund revenues are made up of major General Fund revenues (property tax, sales tax, Transient Occupancy Tax [TOT], and franchise fees) and departmental revenues. Overall General Fund revenues are projected below the FY 2024 Adopted Budget by $28.3 million. The majority of this decrease, as discussed further below, is due to the continued slowdown in consumer spending responding to persistent inflation and a higher interest rate environment. This decrease is a combination of a decline of $21.7 million in major General Fund revenues as well as a decrease of $6.7 million in departmental revenues. The largest variance in major General Fund revenues is the Sales Tax projection, which is $27.6 million, or 6.9%, below the Adopted Budget and $11.1

[2] A total of $72.2 million of Excess Equity was programmed to be used in FY 2024: $64.1 million to balance the Adopted Budget, and $8.1 million set aside for the FY 2024 General Fund Reserve contribution.

[3] In addition to the $64.1 million of Excess Equity, $73.0 million in one-time revenues were also used to balance the FY 2024 Adopted Budget, including $52.1 million in one-time federal American Rescue Plan Act (ARPA) funds.

million, or 2.9%, below the projection included in the FY 2024 First Quarter Budget Monitoring Report (First Quarter Report). As in the Adopted Budget, the City continues to project use of all remaining American Rescue Plan Act (ARPA) funds of $52.1 million.

Of note, both sales tax and TOT revenue are projected to come in *below* FY 2023 actual revenue received, by $10.7 million and $3.6 million respectively. Fortunately, the projected TOT revenue decline from FY 2023 is more than offset by unanticipated settlement proceeds related to online travel agency remittances, but the unanticipated payments do not fully offset TOT revenue declines relative to the FY 2024 Adopted Budget (actuals being $12.3 million below) or the projections from the First Quarter ($9.6 million below). Considering both actual revenue trends so far and projections for the rest of the fiscal year, it appears these sources are experiencing a correction from the robust growth experienced in FY 2023. This contrasts with moderate growth that was anticipated for these revenue sources at the time of the Adopted Budget. If projections hold, this would be the first time since 2017 for Sales Tax and 2009 for TOT that the City would experience associated declines not tied to the pandemic.

Our Office generally finds the revenue projections in the Mid-Year Report to be reasonable, though given increased volatility particularly in sales tax revenue, heightened scrutiny and monitoring will be important moving forward. **With regard to sales tax and TOT revenue, we provide additional discussion below that suggests lower revenue projections may also be reasonable.**

Major General Fund Revenues

Major General Fund revenues in the Mid-Year Report are projected to be $21.7 million below the amounts included in the Adopted Budget. This is a decrease of $17.3 million from First Quarter Report projections, as shown in the table below. Compared to the Adopted Budget, most major revenues projections are below the Adopted Budget, with the exception of Property Tax and Other Major Revenues. We note that the Other Major Revenues line in the table below shows an increase of $4.1 million as compared to the Adopted Budget (the First Quarter Report does not provide updated projections for those revenues). This increase is primarily related to unbudgeted interest earnings of $3.2 million that accumulated while the City was drawing from the ARPA funds.

Mid-Year Report Major General Fund Revenues Comparison *($ in millions)*					
	Adopted Budget	**First-Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
Property Tax	$ 758.6	$ 771.9	$ 768.2	$ 9.6	$ (3.7)
Sales Tax	401.7	385.2	374.0	(27.6)	(11.1)
Transient Occupancy Tax[1]	172.6	171.2	166.2	(6.5)	(5.0)
Franchise Fees	108.5	108.7	107.2	(1.3)	(1.5)
Other Major Revenues[2]	97.1	97.1	101.2	4.1	4.1
Subtotal	**$ 1,538.5**	**$ 1,534.1**	**$ 1,516.8**	**$ (21.7)**	**$ (17.3)**
American Rescue Plan Act	52.1	52.1	52.1	-	-
Total	**$ 1,590.6**	**$ 1,586.2**	**$ 1,568.9**	**$ (21.7)**	**$ (17.3)**

[1] These amounts represent the 5.5% protion of the 10.5% TOT rate that is apportioned directly to General Fund revenues. The additional 1.0% "Council Discretionary" allocation, and the 4.0% "Special Promotional Programs" allocation also impact total General Fund revenue and are discussed in the TOT section of this report.

[2] Note that updates for Other Major Revenues were not included in the First Quarter Report. Therefore, first quarter projection amounts shown here are the same as those of the Adopted Budget.

<u>Property Tax</u>

The mid-year projection for Property Taxes is $768.2 million, which is an increase of $9.6 million from the Adopted Budget of $758.6 million, but a decrease of $3.7 million compared to the first quarter projection of $771.9 million. City property taxes are derived from three major sources: the Proposition 13 1% levy on the assessed value of property throughout the City, of which the City receives approximately 17%, Motor Vehicle License Fee (MVLF) backfill payments; and distributions from the Redevelopment Property Tax Trust Fund (RPTTF), which represents payments to the City as a result of the dissolution of the former Redevelopment Agencies.

The main change to property tax projections between the First Quarter and Mid-Year Reports is a decrease in the RPTTF projection due to the delayed sale of Tailgate Park, a former redevelopment asset. This delay is due to litigation (a trial date is scheduled for June 2024) and is projected to decrease projected revenues between first-quarter and mid-year by $5.8 million. As these proceeds were directed to go to the Bridge to Home program, there is a corresponding decrease in expenditures noted in the report, and thus no net impact to the General Fund.

Setting aside Tailgate Park related changes, total property tax revenue is projected to be $15.5 million above the Adopted Budget, an increase of $2.2 million above the First Quarter Report. The major differences from the first quarter projection to the mid-year projection are increased projections from the RPTTF ($1.4 million) and the 1% property tax ($0.9 million). Our Office concurs with the Mid-Year Report's projections for property tax.

<u>Sales Tax</u>

The Mid-Year Report projects sales tax revenues to be $27.6 million below the Adopted Budget, and $11.1 million below projections in the First Quarter Report. The Department of Finance further modified the growth rates projected for FY 2024: sales tax growth rates were decreased from 0.20% for the last three quarters of the year to -3.2% in the second and third quarters and +2.5%

in the last quarter. The revised growth rates are based on assumptions and projected growth rates from the City's sale tax consultant. The updates to the sales tax projection for FY 2024 make the projection 2.8% lower than actual sales tax revenues in FY 2023.

Since the release of the Mid-Year Report, an additional sales tax revenue payment posted, closing out the second quarter of FY 2024. Sales tax revenue continues to decline with second quarter actuals coming in $669,000 lower than mid-year projections, reflecting a -6.2% growth rate from the second quarter of FY 2023. Incorporating this latest payment, sales tax revenues are now projected to be $28.3 million below Adopted Budget, and 3.0% lower than actual sales tax revenues in FY 2023.

The revised growth rates in the Mid-Year Report are in alignment with projections from the City's sales tax consultant and the UCLA Anderson Economic Forecast. The City's sales tax consultant projected FY 2024 year-end sales tax revenues to total $376.5 million; the Mid-Year Report's projected year-end sales tax revenues are under this amount due to payments for the second quarter of FY 2024 coming in lower than projected. The UCLA Anderson December 2023 Economic Forecast predicts that growth in taxable sales in California will be higher in calendar year 2024 than 2023, suggesting that positive growth towards the end of FY 2024 could be reasonable.

However, with sales tax revenue actuals coming in lower than projected for the first two quarters of FY 2024, our Office believes it would be reasonable to expect sales tax revenues will continue to be lower than mid-year projections for the remainder of FY 2024. This would result in downward adjustments to the sales tax consultant's projected growth rates, to reflect actual growth rates to date. Using the sales tax consultant's underlying assumption that growth rates for the second and third quarters will be the same, one could reasonably apply the -6.2% growth rate from second quarter actuals to the third quarter, and further revise the fourth quarter's projected growth rate down from 2.5% to 0%, given that there is no clear indication of positive growth from FY 2023 based on actuals to date. These modified assumptions would result in a decrease of $5.7 million from mid-year projections.

Consumer trends offer a mixed picture of future economic activity, creating some uncertainty regarding sales tax projections. The projected decline in year-over-year sales tax revenue reflects a slowing of consumer spending, especially in goods, after a particularly strong post-pandemic recovery. High inflation and high interest rates continue to be large concerns, though there are early indications that consumer spending and sentiment could rebound by the end of FY 2024. Surveys of consumers from both the University of Michigan and the Conference Board reported national consumer confidence hitting a two-year high in January 2024, with expectations of slower inflation, favorable employment and wage growth, and potential interest rate cuts which increases the availability of credit and consumer borrowing. The UCLA Anderson Forecast projects price inflation to drop from 4.2% in 2023 to 3.2% in 2024 and anticipates real personal income to increase from 0.2% reported in 2023 to 1.7% in 2024 and 2.7% in 2025 in California. Overall, this suggests consumer purchasing power is likely to increase in 2024. The Federal Reserve also signaled the possibility of cutting interest rates for the first time since March 2022, but the first cuts will likely not occur until May at the earliest, with the UCLA Anderson Forecast predicting rate cuts beginning only after the end of FY 2024 (beginning in the last quarter of calendar year 2024). Our Office will continue to closely monitor sales tax revenue throughout the fiscal year.

Transient Occupancy Tax

Transient Occupancy Taxes (TOT) – or hotel taxes – are the third largest major General Fund revenue source. San Diego's TOT rate is 10.5%, with 5.5% of that amount allocated to the General Fund (to support general City services), 4.0% to Special Promotional Programs (to support programs and services that encourage tourism to the San Diego area), and 1.0% allocated as discretionary/Council directed funding. While the Mid-Year Report references the 5.5% General Fund allocation of TOT, it is important to note that changes in TOT receipts impact all these allocations, as shown in the table below. The figures also reflect an unanticipated one-time payment of $5.8 million and $1.3 million ongoing TOT receipts associated with a settlement related to online travel agency TOT remittances. These partially offset TOT revenue declines.

Transient Occupancy Tax Revenue *($ in millions)*					
	FY 2024 Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
General Fund Allocation (5.5%)	$ 172.6	$ 171.2	$ 166.2	$ (6.5)	$ (5.0)
Special Promotional Programs (4.0%)	124.4	123.4	119.7	(4.7)	(3.7)
Council Discretionary (1.0%)	31.1	30.8	29.9	(1.2)	(0.9)
Total	**$ 328.2**	**$ 325.5**	**$ 315.9**	**$ (12.3)**	**$ (9.6)**

Note: Figures may not sum due to rounding.

Since the first quarter, the Department of Finance revised FY 2024 year-end projections of TOT revenue downwards to reflect actual TOT receipts consistently coming in lower than projected for all but one of the first six months of FY 2024. The projected monthly growth rates were modified from 5.9% for all of FY 2024 (in the First Quarter Report) to 2.0% and 3.0% in the last two quarters of the fiscal year (in the Mid-Year Report), respectively. Reflecting these revised projected growth rates, combined TOT revenues are projected to decrease by $12.3 million from the FY 2024 Adopted Budget, and $9.6 million from the First Quarter Report. The General Fund allocation of TOT is projected to come in under the FY 2024 Adopted Budget by $6.5 million, which is a 3.8% decrease from the Adopted Budget. Since the release of the Mid-Year Report, one additional month of TOT actual receipts has posted; it came in higher than mid-year projections by $1.1 million. With the most recent TOT receipt actuals, year-over-year growth in TOT revenues is currently projected at -0.8%, which is higher than the -1.2% projected in the Mid-Year Report, excluding the previously mentioned unanticipated one-time and ongoing payments.

The San Diego Tourism Authority and Tourism Economics release a forecast for lodging demand and revenue growth every few months. The Department of Finance's mid-year projections for the remainder of FY 2024 align with year-over-year quarterly growth rates in hotel room demand forecasted by Tourism Economics in October 2023. Since the release of the Mid-Year Report, Tourism Economics released an updated forecast with downward revisions for hotel room demand, with the growth rate in the third quarter of FY 2024 decreasing from 2.0% to 1.6% and the fourth quarter growth rate decreasing from 3.0% to 1.2%, as seen in the table below. Tourism Economics' forecast for room revenue growth was similarly revised downward to 2.3% and 3.0% in the last two quarters of FY 2024, which is aligned with the mid-year projections. Our office believes room revenue growth is a more appropriate indicator for TOT revenue, since TOT is collected as a percentage of hotel room revenue, which incorporates hotel room demand, occupancy, and nightly room rates.

Transient Occupancy Tax Projected Growth Rates				
		Tourism Economics		
	Mid-Year Projections	Oct 2023 Hotel Room Demand	Jan 2024 Hotel Room Demand	Jan 2024 Room Revenue Growth
Third Quarter FY 2024	2.0%	2.0%	1.6%	2.3%
Fourth Quarter FY 2024	3.0%	3.0%	1.2%	3.0%

Potential for Further TOT Revenue Reductions

Although Tourism Economics' forecast shows a higher room revenue growth rate than the mid-year projections in the third quarter, we do not advise revising the year-end projections upwards at this time. Despite higher than projected TOT actual receipts in January (reflecting December activity), tourism and travel trends remain far from certain, as evidenced by the downward revisions in the Tourism Economics forecast between October 2023 and January 2024.

Given that FY 2024 actuals have come in $6.7 million below FY 2023 actuals to date, one conservative approach would be to assume a "no growth" scenario for the remainder of the fiscal year. In other words, based on actual trends, there is no clear indication that FY 2024 TOT receipts will surpass prior year actuals, and no growth relative to FY 2023 may be a reasonable possibility. Under the "no growth" scenario, total year-end TOT revenues would be $305.7 million, or $4.2 million under the mid-year projections, resulting in a -2.2% year-over-year growth rate.

As a comparison point, our Office inputted TOT revenue data between December 2009 and January 2024 into forecasting software that is able to seasonally adjust data and statistically analyze present and past data to predict future trends.[4] The forecast predicts year-end total TOT revenues will come in under mid-year projections by $4.2 million, resulting in -2.2% year-over-year growth. The similarities between the forecasting software and our "no growth" scenario suggest that based on actual FY 2024 receipts and historical trends, a steeper decline in year-over-year TOT receipts relative to the mid-year projection is also reasonable. Given the uncertainty in consumer behavior and travel trends, our Office will continue to closely monitor TOT revenue receipts.

<u>Franchise Fees</u>

Franchise fee revenues are projected to be below the Adopted Budget by $1.3 million, which is a decline from the First Quarter Report of $1.5 million. Franchise fees represent payments made by private companies to operate within the City's right-of-way. The main sources of franchise fee revenue are: San Diego Gas & Electric (SDG&E), which provides City residents and businesses with gas and electric services; Cox Communications, AT&T, and Spectrum which provide cable services to City residents; and private refuse haulers operating within City limits.

The decrease in franchise fee revenues from the First Quarter Report is mainly due to the continued decline in cable franchise revenue, with a projected decrease of $1.9 million (the First Quarter Report did not project a change in this revenue). Cable franchise fees are decreasing at a faster rate

[4] Specifically, we used X-13ARIMA-SEATS, a seasonal adjustment program released by the U.S. Census Bureau. The program uses present and past values to predict future values in a time series, utilizing linear regression and minimizing predictive errors. See the software reference manual for additional information, starting on page 40.

each year as fewer consumers pay for cable. Of note, federal and State laws prohibit the City from collecting franchise fee revenue from internet services.

The decrease in cable franchise revenues is offset by additional revenue from refuse haulers, which is projected to be $0.5 million above the Adopted Budget and $0.3 million above the First Quarter Report as the tonnage deposited into the landfill continues to increase. Additionally, there is no change in the revenue projections from SDG&E as the City does not receive its final clean-up payment for the prior year until late in February.

Departmental Revenues

<u>Cannabis Business Tax</u>

The Cannabis Business Tax (CBT) revenue is projected to be under the FY 2024 Adopted budget by $2.3 million, or 10.7%. CBT is imposed on non-medical cannabis businesses that provide services such as manufacturing, transporting, and retail sales of non-medical cannabis in the City of San Diego, whether the businesses are operating from a location within the City or coming into the City from an outside location for delivery or distribution. Retail sales are taxed at a rate of 8% of gross receipts, and other activities are taxed at 2%. The great majority of the CBT is paid by retail sales businesses.

The projected revenue decline represents an additional decrease of $1.2 million from the first-quarter projection. Aggregate revenue from July to November of 2023 was $670,000 lower than the same period of calendar year 2022. The projected revenue decline is likely due to increased competition from neighboring jurisdictions, delivery services, the illegal cannabis market, an oversupply of cannabis goods, depressing the prices of cannabis goods and taxable gross receipts, and the proliferation of Intoxicating Hemp products that are widely sold in non-cannabis retail outlets. Revenues are also affected by the decreased number of Cannabis Production Facilities (21 currently operational out of 40 allowed) due in part to the high cost of energy and water. The revenue projection factors in additional tax collection as a result of compliance efforts and audits conducted by the Office of the City Treasurer, though a portion of the tax owed to the City by non-compliant businesses is not anticipated to be received in the current fiscal year.

General Fund Expenditures

The Mid-Year Report projects FY 2024 total General Fund expenditures to be $2.10 billion, $13.2 million higher than the FY 2024 Adopted Budget (this is a negative expenditure variance). This variance is 0.6% of the Adopted Budget, as shown in the following table.

FY 2024 General Fund Expenditures *($ in millions)*				
	Adopted Budget	Mid-Year Projection	Variance: Adopted to Mid-Year	Variance %: Adopted to Mid-Year
Salaries and Wages	$ 850.1	$ 878.6	$ (28.5)	(3.4%)
Fringe Benefits	551.2	540.9	10.4	1.9%
Non-Personnel Expenditures (NPE)	680.5	675.5	4.9	0.7%
Total General Fund Expenditures	**$ 2,081.8**	**$ 2,095.0**	**$ (13.2)**	**(0.6%)**

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.

Overall, salaries and wages are projected higher than the Adopted Budget by a net $28.5 million (shown above as a negative expenditure variance), driven by a number of overages in salaries and wage components, the largest of which is overtime. Savings in fringe benefits and non-personnel expenditures (NPE) partially offset the salaries and wages overage for a net overage of $13.2 million.

The main focus of our General Fund expenditures analysis is salaries and wages, which is addressed in the following sections. Our report does not discuss fringe benefits and most NPE variances, as the Department of Finance covers these in the Mid-Year Report.[5]

Salaries and Wages – Variances by Category

The following table compares the FY 2024 mid-year projections to the Adopted Budget for the various salaries and wage categories. The bottom row in the variance columns shows that salaries and wages in total are $28.5 million, or 3.4%, higher than what was included in the FY 2024 Adopted Budget.

FY 2024 Salaries and Wages Expenditures - General Fund *($ in millions)*				
	Adopted Budget	Mid-Year Projection	Variance: Adopted to Mid-Year	Variance %: Adopted to Mid-Year
Salaries	$ 668.3	$ 670.5	$ (2.2)	(0.3%)
Overtime	102.6	121.7	(19.1)	(18.6%)
Special Pay	54.8	59.0	(4.1)	(7.5%)
Hourly	12.7	16.1	(3.4)	(27.1%)
Vacation Pay in Lieu	7.7	8.0	(0.3)	(4.4%)
Termination Pay	4.1	3.3	0.7	18.3%
Total Salaries and Wages	**$ 850.1**	**$ 878.6**	**$ (28.5)**	**(3.4%)**

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

As the table shows, there are overages in all salaries and wage categories (salaries, overtime, special pay, hourly, and pay-in-lieu) except for termination pay. We note that for FY 2023 there

[5] Decreases in expenditure projections associated with fringe benefits are largely due to a shift in the City's methodology for paying down its Other Post-Employment Benefits (OPEB) obligation, which is discussed in more detail in IBA Report 23-37 – *IBA Review of the FY 2024 First Quarter Budget Monitoring Report*.

was significant vacancy savings as compared to the Mid-Year Report's $2.2 million projected overage in salaries. While improvements in hiring and retention efforts across the City have reduced vacancy levels, delays in anticipated hiring may reduce the salaries overage; the Third Quarter Budget Monitoring Report (Third Quarter Report) will provide more informed projections on salaries spending. The largest General Fund overages and savings in salaries and wage categories are highlighted below:

- Salaries (net $2.2 million overage)
  - $5.4 million – Fire-Rescue
  - $2.3 million – Police
  - $898,000 – Transportation
  - $559,000 – Sustainability & Mobility
  - $510,000 – City Planning
  - Salary overages are partially offset with savings in Parks and Recreation ($1.3 million), Library ($759,000), Commission on Police Practices ($749,000), and Purchasing & Contracting ($553,000)
- Overtime (net $19.1 million overage)
  - $7.8 million – Police
  - $3.2 million – Fire-Rescue
  - $3.0 million – Transportation
  - $2.1 million – Environmental Services
  - $1.8 million – Parks and Recreation
  - $979,000 – Stormwater
- Special Pay[6] (net $4.1 million overage)
  - $1.3 million – Fire-Rescue
  - $923,000 – Police
  - $707,000 – Library
- Hourly (net $3.4 million overage)
  - $3.2 million – Parks and Recreation
  - $580,000 – City Attorney
  - Hourly overages are partially offset with savings in Police ($817,000)

Salaries and Wages – Departmental Variances

As noted, total salaries and wage expenditures net to $28.5 million more than what was included in the FY 2024 Adopted Budget. Above, this report notes variances by salaries and wages expenditure category. If we instead focus on total salaries and wages expenditure variances for each department, the departments with the largest salaries and wage overages include:

- $10.2 million – Fire-Rescue (largely salary, overtime and special pay overages)
- $9.4 million – Police (largely overtime and salary overages, partially offset with termination pay and hourly savings)

[6] Special Pay expenditures cover additional wages provided to certain employees who meet specific requirements or who provide certain specialized services (such as paramedic pay, river rescue team pay, and bilingual pay).

- $4.0 million – Parks and Recreation (largely hourly and overtime overages, partially offset with salary savings)
- $3.9 million – Transportation (largely overtime and salary overages)
- $2.5 million – Environmental Services (largely overtime and salary overages)
- $1.8 million – Stormwater (largely overtime, salary, and special pay overages)
- $612,000 – City Planning (largely salary overage)
- $534,000 – Sustainability & Mobility (largely salary overage)

Departments with the highest salaries and wage savings include:

- $699,000 – Commission on Police Practices (largely salary savings, partially offset with termination pay overage; note that salaries and wage spending is projected to be only 46% of the budgeted amount)
- $538,000 – Purchasing & Contracting (largely salary savings due to vacancies)

Certain departmental variances are discussed below, including Police overtime, Fire-Rescue overtime, Transportation overtime, and Parks and Recreation hourly wages.

Police – Overtime

The Police Department is projected to exceed its overtime budget by $7.8 million at fiscal year-end for total projected overtime expenditures of $57.1 million, which is in-line with the First Quarter Report. Approximately $6.4 million of the Department's overall projected overtime expenditures is expected to be reimbursed for special event and grant-funded task force activity, resulting in a projected net General Fund impact of $50.8 million. The Department attributes the majority of the projected overage to sworn staffing shortages.

As of February 12, 2024, SDPD has 182 sworn vacancies (1,856 of 2,038 budgeted positions are filled), with an average of 10 officers leaving the Department per month in FY 2024. This level of attrition represents a significant decrease over prior years; a significantly higher number of officers left in FY 2022 (15 per month) and FY 2023 (20 per month). Recruitment has also recently improved, with 42 recruits in the 137th Academy that began on December 12, 2023. While this is still below the Department's goal of 50 recruits per academy, it is the first time an academy has started with more than 40 recruits since the 130th Academy began in February 2021. Should these attrition and recruitment trends continue, the Department would return towards a net positive staffing trajectory, though it will still take several years before reaching full budgeted sworn staffing levels.

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

Police Overtime - Historical Budget vs. Actuals *($ in millions)*										
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 [1]	FY 2020 [2]	FY 2021 [3]	FY 2022	FY 2023	FY 2024
Actual	$ 23.1	$ 25.0	$ 26.0	$ 29.7	$ 31.9	$ 44.8	$ 37.2	$ 37.6	$ 50.8	$ 57.1
Budget	11.1	18.0	21.0	26.3	24.6	35.9	38.1	30.7	40.2	49.3
Overage/ (Savings)	**$ 12.0**	**$ 7.0**	**$ 5.0**	**$ 3.4**	**$ 7.4**	**$ 8.9**	**$ (0.9)**	**$ 6.9**	**$ 10.7**	**$ 7.8**

NOTES: Table may not total due to rounding.

FY 2015 through FY 2023 Actual amounts are based on unaudited actuals. FY 2024 Actual amount is based on mid-year

[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.

We note projections in the Mid-Year Report are based on actual expenditures through November 2023 (Period 5), and do not account for SDPD's overtime activities in response to recent storm events. The budgetary impacts related to these activities are unknown at this time but are anticipated to be included in the Third Quarter Report. More discussion about the City's response to the storm events is included in the "Storm Recovery Efforts" section below.

<u>Fire-Rescue – Overtime</u>

The Fire-Rescue Department is projected to exceed its overtime budget by $3.2 million at fiscal year-end, for a total projected expenditure of $51.6 million. The projected overtime expenditure overage is offset by $2.9 million in reimbursements resulting in a net General Fund impact of $48.7 million. Consistent with the First Quarter Report, issues related to fire-suppression staffing shortfalls and Backfill Overtime account for the majority of the projected overage at $2.9 million, or 91%.

The $3.2 million overage projected in the Mid-Year Report represents a $1.5 million increase compared to the First Quarter Report. According to the Fire-Rescue Department, this variance is primarily due to the fact that approximately $1.0 million in costs associated with general wage increases effective January 1, 2024 for sworn personnel were inadvertently unaccounted for by the Department in their First Quarter Report projections. We note that, projected overtime specifically attributable to fire-suppression staffing shortfalls is mostly unchanged from the First Quarter Report. This a positive reflection of the Department's expectation that overtime use due to staffing shortfalls will abate as it works towards filling its 57 current sworn vacancies by the end of FY 2024 and reaching full staffing during FY 2025. If the Department is successful, overtime expenditures due to staffing shortfall should materially reduce in FY 2025 and FY 2026.

Fire-Rescue Overtime – Historical Budget vs. Actuals *($ in millions)*										
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Actual	$ 31.5	$ 31.8	$ 32.5	$ 45.4	$ 45.2	$ 41.1	$ 51.3	$ 50.7	$ 51.3	$ 51.6
Budget	26.7	29.9	30.2	32.8	38.1	36.6	33.3	32.8	32.8	48.4
Overage	**$ 4.8**	**$ 1.9**	**$ 2.3**	**$ 12.5**	**$ 7.0**	**$ 4.5**	**$ 18.0**	**$ 17.9**	**$ 18.6**	**$ 3.2**

NOTES: Table may not total due to rounding.

FY 2015 through FY 2023 Actual amounts are based on unaudited actuals. FY 2024 Actual amount is based on mid-year

We note projections in the Mid-Year Report are based on actual expenditures through November 2023 (Period 5), and do not account for the Fire-Rescue Department's overtime activities in response to recent storm events. The budgetary impacts related to these activities are unknown at this time but are anticipated to be included in the Third Quarter Report. More discussion about the City's response to the storm events is included in the "Storm Recovery Efforts" section below.

Transportation – Overtime

The Transportation Department is projected to exceed its overtime budget by $3.0 million at fiscal year-end, for total projected overtime expenditures of $4.3 million. This is the third largest overage by department, and one of the largest overages as a percentage of budget (226%). This overage is occurring despite Transportation filling vacancies at higher rates than it historically has, resulting in lower salary savings that would otherwise cover overtime overages.

Transportation's overtime projections are largely due to two factors. First, Transportation has made additional effort to prevent increasing work backlogs on various assets, particularly streetlights, sidewalks, potholes, and signage. Even with increased staffing, Transportation is experiencing increased calls for service on these assets. As discussed in IBA Report 24-03 – *IBA Review of the FY 2025-2029 Five-Year Capital Infrastructure Planning Outlook*, there is a large unfunded backlog for these assets, as many are beyond their useful life or have known defects that require additional funding to address. Transportation requested additional staff to address these backlogs, including additional sidewalk repair and electrical engineering support, but this was not funded in the FY 2024 Adopted Budget.

Exacerbating this is the number of special projects that Transportation has been directed to perform. Some of these projects include work to stand up the Lot O Safe Camping site, installation of new or additional signage for the vehicle habitation and camping prohibition ordinances, and additional repairs required for the installation of smart streetlights. The Adopted Budget for Transportation did not include allocations for this work, and Transportation was required to stop other work in order to complete these tasks. In many cases this prevented Transportation staff from performing their regular maintenance duties without additional overtime. Transportation is working to track expenditures for unbudgeted work in order to specifically quantify those expenses.

Notably, there are also non-personnel expenditure (NPE) overages related to these increased workloads as well, including an overage in supplies ($1.2 million). In total, including personnel expenditure and NPE overages noted in the Mid-Year Report, Transportation's expenditures are projected to be $9.9 million over the Adopted Budget. This does not include storm-related overages that Transportation is currently incurring (more information on storm-related expenditures is provided in the "Storm Recovery Efforts" section below). The additional work should be monitored closely going forward, both for the current year as well as for FY 2025. Even with additional staff being onboarded, this level of overtime could lead to personnel burnout. Additionally, this additional work could require Transportation to reduce service levels in other areas, such as tree trimming, tree planting, graffiti removal, and weed removal, if the Department is not provided additional budgetary resources.

Parks and Recreation – Hourly Wages
The Parks and Recreation Department's hourly wage expenditures for FY 2024 are projected to exceed budget by $3.2 million. In the FY 2023 Adopted Budget, the Parks and Recreation Department converted 19.35 FTE hourly positions to 30.00 part-time benefited positions with the goal of improving the recruitment of recreation aides, recreation leaders, pool guards and swimming pool managers; however, the Department has faced difficulties filling these benefited (non-hourly) positions and has needed to use unbudgeted hourly employees to staff recreation centers. The City Council may wish to hear more information from the Department regarding these challenges, any associated operational impacts, and the Department's plans moving forward.

General Fund Excess Equity Considerations

As mentioned, Excess Equity is anticipated as resource for mitigation of the $41.5 million projected deficit that has developed since the FY 2024 Adopted Budget was approved. However, this is a significant concern for the upcoming FY 2025 budget, since utilizing Excess Equity as a mitigation in FY 2024 would reduce the amount available for FY 2025. The 2025-2029 Five-Year Financial Outlook anticipated that $56.5 million of Excess Equity would be available to help balance the $171.9 million projected shortfall for FY 2025, bringing the net shortfall to $115.4 million. Now, with the FY 2024 mid-year projections in hand, the projected Excess Equity available to balance the FY 2025 Budget has been greatly diminished.

With the mid-year projections showing a $28.3 million decline in revenues[7] and a $13.2 million increase in expenditures as compared to the Adopted Budget, projected Excess Equity has been reduced to $14.9 million. Further, the Mid-Year Report indicates that the recent storms will have an increasing effect on expenditures beyond the amounts projected in the report. The Mayor is requesting $10.0 million be appropriated for storm impacts (see the "Proposed Appropriation Adjustments" section of this report) which would further reduce available Excess Equity to $4.9 million.

We note that there is some uncertainty in the mid-year projections. First, in early December departments were requested to suspend all non-essential General Fund spending. Although some savings are projected at mid-year, further savings may be garnered. Additionally, in late January departments were notified of "future establishment of a funds block for non-discretionary budgets (i.e., Electricity, Fuel, IT, Debt, etc.) and one-half of projected overtime that exceeds budget by each respective department". We understand that this funds block has not been implemented yet due to the storms; it is expected to be implemented during the week of February 20th for most departments that are not working on storm emergency efforts. The impacts of these directives on future spending, and thus FY 2024 projected expenditures, is unknown, which is the reason the Mayor is not requesting additional appropriations for the Mid-Year Report's projected $13.2 million over-budget expenditures at this time.

[7] The FY 2024 First Quarter Budget Monitoring Report projected a decline of $4.4 million in major General Fund revenues as compared to the Adopted Budget, which we anticipated in our review of the First Quarter Report to be an $11.8 million decline. There was also an anticipated decline in departmental revenues. Now, with the mid-year projections, major General Fund revenues are projected to be even lower, at $21.6 million under-budget, with departmental revenues under-budget by $6.7 million – yielding a $28.3 million overall revenue decline as compared to the Adopted Budget.

The foregoing issues aside, the diminishment of Excess Equity available to help balance the FY 2025 budget is a significant development. If the City only has $4.9 million of Excess Equity to balance the FY 2025 budget, the deficit to be mitigated would increase from the $115.4 million projected in the FY 2025 Outlook to about $167.0 million. This projected deficit does not include potential decreases in revenues or increases in expenditures which were not anticipated in the Outlook. For example, we note that the projected decrease of $28.3 million in revenues reduces the base upon which FY 2025 revenues were forecasted in the Outlook, therefore exacerbating the FY 2025 deficit.

Homelessness Expenditures

Consistent with recent years, the Mid-Year Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending. In the following section, we highlight significant changes reflected in the memorandum regarding the major General Fund variances, unanticipated expenditures due to the recent storms, and a recent update regarding one-time State grant funds.

Projected General Fund Expenditures

The HSSD memorandum projects City General Fund expenditures for homelessness services and programs to be about $860,000 higher than the Adopted Budget (shown as a negative expenditure variance in the table below).[8] Overall, the memorandum reflects funding for new activities, expanded programs, and some higher than anticipated contract costs. The table below summarizes the major increases and decreases in projected spending for programs.

Summary of Major General Fund Changes Since FY 2024 Adopted Budget
(Subject to Change)

Program	Variance
Golden Hall Upstairs	$ 4,102,000
New Family Shelter - Operations and Ancillary	1,512,000
Shelter Site Preparations	1,452,000
New Safe Parking	741,000
Inclement Weather - Operations and Ancillary	471,000
Non-congregate Family Shelter - Operations	(100,000)
Shelter Repairs	(209,000)
Supplies *(mostly Safe Sleeping)*	(579,000)
Other Expenditures	(663,000)
Safe Sleeping Operations	(1,987,000)
Restrooms	(5,600,000)
Total	**$ (860,000)**

Note: "Other Expenditures" include other variances in Golden Hall ancillary costs for concourse fees, other ancillary costs systemwide (including charges from Engineering and Capital Projects Department), expenses associated with Hurricane Hilary, payments for FY 2023 expenditures in various categories, Emergency Harm Reduction shelter ancillary savings, and net departmental savings.

[8] As with previous Mid-Year Reports, HSSD's variance (around 2.0%) relative to the Department's General Fund budget is partially due to the lack of updated year-end projections for programs administered by the San Diego Housing Commission due to delayed invoicing.

Below we provide additional context for changes that are not already discussed in the memorandum.

Golden Hall Upstairs, New Family, and Inclement Weather Shelter Savings

Notable savings came from shelter programs due to various reasons, including planned shelter relocations, new grant funds to cover operational costs, and right-sizing budgeted funding. As announced in HSSD's June 2023 *Comprehensive Shelter Strategy*, the planned relocation of youth and families staying on the second floor of Golden Hall resulted in $4.1 million in General Fund savings that cover other overages in the Department's budget. HSSD and the San Diego Housing Commission (SDHC) are currently planning for the relocation of single adults staying on the first floor of Golden Hall (324 beds) through natural attrition, permanent housing options, family reunification, relocation to other shelters, and other options. The relocation of the first floor is planned to be complete by April 6, 2024. HSSD anticipates restarting operations on the second floor of Golden Hall, which can provide up to 272 beds, since the Department was informed that the second floor can continue to operate as an emergency shelter under existing fire safety requirements.

For the new domestic violence shelter for families that is currently in development, operations will be covered using one-time County grant funds, which provide $6.2 million over two years. Operational costs for FY 2024 will likely be lower than anticipated due to delayed program start-up as the facility undergoes site improvements and repairs, but ancillary costs are higher by $100,000 due to needing security services longer than anticipated to secure the site in the interim. The new family shelter is expected to open by the end of February 2024.

For inclement weather shelters, projected operations costs were reduced by 52% since the FY 2024 Adopted Budget anticipated several sites for inclement weather shelter, but currently only one site at the Old Central Library operates in this capacity.

Safe Sleeping Operations and Supplies

The FY 2024 Adopted Budget provided $5.0 million for expanded shelter capacity, which ultimately was used for the City's two new Safe Sleeping sites at 20th and B Street and the "O" Lot at Balboa Park. The two sites are anticipated to cost an additional $2.0 million beyond the budgeted amount to operate for the partial fiscal year. FY 2025 operational costs are anticipated to be $9.1 million, based on the FY 2025-2029 Five-Year Financial Outlook released November 2023. The overages in HSSD's supplies category also reflect additional costs to procure tents, platform materials, and other supplies and equipment to implement Safe Sleeping.

Repairs for Senior Non-Congregate Shelter and Homelessness Response Center

Unexpected repairs for shelter facilities also contributed to overages in the Department's budget. Costs to address plumbing issues at the Pacific Inn non-congregate senior shelter are yet to be finalized but are currently estimated at $100,000. Laundry services were also added at the facility, contributing to the overages. Repairs totaling $62,000 were also required at the Homelessness Response Center for a broken HVAC, doors, windows, as well as heater and fan rentals.

Other Program Changes

- *Shelter Site Preparations.* Although the FY 2024 Adopted Budget included $1.5 million ongoing for shelter site preparations, only $48,000 is anticipated to be expended this fiscal year.
- *New Safe Parking.* As mentioned in the HSSD memorandum, an additional Safe Parking site is still being planned. Specifically, new Safe Parking for families is being considered at the site of the former Central Elementary School, to begin operation by the end of April 2024. HSSD anticipates FY 2024 expenditures for a new Safe Parking site will total $100,000, leaving the remaining funding to cover overages. The Department is pursuing grant funds from the Regional Task Force on Homelessness to help cover operational costs.
- *Non-congregate Family Shelter Operating Costs.* Operating costs for the non-congregate family shelter reflect a $100,000 overage to cover unanticipated SDHC administrative costs. Although HSSD had originally planned to administer the City's non-congregate shelter contracts, a procurement issue resulted in SDHC unexpectedly administering the program instead. There are no plans for HSSD to administer this contract in the near future.

Unknown Storm Impacts to HSSD Budget

Notably, HSSD programs were affected by recent storms, including temporary relocations at the 20th and B Street Safe Sleeping site, the women's shelter, and the 16th and Newton sprung shelter. Due to severe damage to the sprung structure, the 16th and Newton shelter has not yet resumed operations, and households are temporarily staying at the Balboa Park Activity Center. According to HSSD, the sprung structure will need to be assessed for damage before total repair costs can be identified. The sprung structure assessment will likely be delayed due to potentially hazardous conditions after portable bathrooms tipped over into the tent during the storm, requiring additional clean up before contractors can safely enter to conduct assessments. HSSD staff are uncertain when total costs associated with the recent storms will be known.

State Grant Funds Update

Since FY 2019, the City has relied on one-time State grant funds, namely Homeless Housing, Assistance and Prevention (HHAP) grants, to support ongoing homelessness operations. For FY 2025, the City anticipated a $29.9 million allocation from HHAP 5.0 to cover existing programs and services. However, State guidance released on November 27, 2023 stated that the second allocation of HHAP 5.0, which amounts to $15.0 million for the City, will not be released until 2026. As a result, only half of the anticipated HHAP 5.0 funds will be available for FY 2025, with the second allocation only available in the second half of FY 2026, *at the earliest*. This results in an unanticipated $15.0 million drop in FY 2025 funding and indicates that the State is unlikely to provide further funding for homelessness until *after* FY 2026, which is a departure from annually renewed one-time State homelessness funding in recent years.

Update on State Homelessness Grant Funding
(Subject to Change)

State Grant	Amount (in millions)	Available for FY 2025 (in millions)
Homeless Emergency Aid Program (HEAP)	$ 14.1	$ -
HHAP-1	22.5	0.3
HHAP-2	10.6	0.7
HHAP-3	27.5	0.6
HHAP-4	22.5	2.9
HHAP-5	29.9	15.0
	Total	**$ 19.5**

Note: The table does not account for interest income, which is planned to cover some expenses for Rapid Rehousing from HHAP-1 and homelessness outreach from HHAP-3.

At the same time, the HHAP carryover funds from the first four rounds of HHAP are anticipated to be reduced by $805,000 based on mid-year projections. Between the timing of the HHAP 5.0 allocations and the slight reduction of past HHAP carryover funding, the amount of HHAP funding available for FY 2025 is $7.8 million lower than was assumed in the FY 2025-2029 Five-Year Financial Outlook projections. Assuming funding needs for FY 2025 have not changed since the release of the Five-Year Outlook, the HSSD funding gap for FY 2025 is now projected to be $29.3 million, increased from the previously projected gap of $21.4 million.

SDHC Emergency Hotel Voucher and Shelter Programs – Year-End Projection Update

On February 6, 2024, the Housing Authority authorized SDHC to redirect and expend $1.5 million (and, as needed, up to $2.25 million) from its FY 2024 budget to implement short-term emergency hotel voucher and shelter programs for households displaced by recent floods. On February 7, 2024, the Budget and Government Efficiency Committee requested that our Office, along with the Department of Finance and SDHC, collaborate to provide the most up-to-date projections on approved emergency funds prior to Council consideration of the Mid-Year Report. In response to the request, SDHC shared the attached memorandum (Attachment 1) on February 20, 2024. Per the memorandum, SDHC anticipates $2.0 million will be spent on the emergency hotel vouchers and shelter in FY 2024. Of the funds, $1.6 million will cover an estimated 354 hotel rooms for 28 days at $160 per night, and $259,000 will cover operations and expenses for 49 rooms at the recently acquired SDHC Midway Drive property. The remaining funding will cover contracts with community-based organizations and ongoing case management. SDHC continues to work with the County to transition services for households participating in the SDHC emergency hotel voucher and shelter programs.

Proposed Appropriation Adjustments

The Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year General Fund deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The "Council may approve the Mayor's recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor."

Although the Mid-Year Report is projecting $13.2 million in over-budget General Fund expenditures, along with a decrease in projected General Fund revenues of $28.3 million, the Mayor is not requesting a related appropriation adjustment at this time. As mentioned, future impacts of recent spending mitigation measures (including a required suspension of non-essential spending that would impact the General Fund and the future establishment of a funds block) is unknown, making the expenditure projections somewhat uncertain.

However, the Council *is* being asked to approve an additional $10.0 million General Fund appropriation for storm recovery efforts, which is discussed in the following section. Additionally, several non-General Fund appropriation increases are requested, including to the Central Stores Fund, Environmental Growth Fund, Golf Course Fund, Major Events Revolving Fund, PETCO Park Fund, Seized Assets – Federal Treasury Fund, and Transient Occupancy Tax Fund. ***Our Office supports the proposed appropriation adjustments***, though it is also important to note that increased FY 2024 expenditures will result in fewer resources available to balance the FY 2025 budget.

Storm Recovery Efforts

As mentioned, the Mayor is requesting an additional mid-year appropriation of $10.0 million for storm recovery efforts. This appropriation is designed to cover increased expenditures associated with the response to the major storm on January 22, 2024. As the storm occurred after development of the Mid-Year Report, none of the costs related to the storm were included in the report's expenditure projections. However, the Department of Finance and many City departments anticipated the need for additional expenditures, based on the magnitude of the storm and the City's response.

At the Budget & Government Efficiency Committee meeting on February 7, our Office was directed to prepare an analysis of potential expenditure implications, and in particular how the $10.0 million appropriation adjustment would be spent, and if all of it would be spent.

As of February 16, total City spending tied to the storm recovery efforts is $6.1 million. The table below provides a breakdown of storm-related expenditures by department, including personnel expenditures (PE) and non-personnel expenditures (NPE).[9] The department with the most expenditures to date is Stormwater, followed by Transportation and the Office of Emergency Services. Most PE are for regular staff time, with overtime accounting for only $1.2 million of the total PE spend. However, the time that City staff were required to support the flood recovery efforts in many cases had to be backfilled with either other staff at that same time, or required additional

[9] The amounts in the table are a combination of actual expenditures as well as encumbrances for contracts procured for services rendered to the City. The encumbrances are an estimate and are subject to change once invoices for services are provided.

overtime expenditures to continue the regular, non-storm-related activities of those departments. The largest NPE are for contracts and services ($1.1 million) and supplies ($0.9 million). Contracts spending is primarily for equipment rentals and private provider services related to clean-up operations.

Storm Recovery Expenditures			
Department	**Personnel**	**Non-Personnel**	**Total**
Stormwater	$ 795,843	$ 962,006	$ 1,757,849
Transportation	824,019	28,671	852,690
Office of Emergency Services	103,388	727,889	831,277
Police	722,710	-	722,710
Fire-Rescue	603,796	21,170	624,966
Parks & Recreation	375,367	88,122	463,489
Environmental Services	284,341	164,809	449,150
Other Departments[1]	319,854	72,529	392,383
Total	**$ 4,029,318**	**$ 2,065,194**	**$ 6,094,513**

[1]Other Departments includes all other departments without a spend above $100,000

It should be noted that spending as of February 16 only included payroll related expenditures for hours incurred from January 22 through February 2. While this should cover the majority of storm-related hours, it will not capture all of them. It is expected that these costs will represent between 70-80% of the hours that will be related to the storm.

Other expenditures related to storm activities will not occur in FY 2024, but in subsequent fiscal years. One of the largest expenditures will be for wetland mitigation work required as part of the emergency channel clearings Stormwater performed following the storm. The Mid-Year Report includes an additional appropriation request of $3.1 million for wetland mitigation work, which is due to previous emergency work conducted by Stormwater, and is similar to the work that the City will have to perform due to the recent emergency clearings. Typically, these costs are borne by the General Fund, with this year being an exception as the Environmental Growth Fund had additional revenue available for this expense. This is also the first time that the EGF has been used for this purpose. Given the level of activity conducted following the January 22 storm, the City should expect a large required expense for compensatory mitigation in the coming years.

Fee Waivers

Development Services Department

On February 12, City Council authorized the waiver of City fees charged by the Development Services Department (DSD) for building and demolition permits as an emergency response to the January 22, 2024 storm damage. Under the fee waiver, applicants who previously paid permit fees for flooding-related repairs or reconstruction as a result of the storm may be eligible for a refund. According to DSD, the cost to waive permit fees for flood-related demolition and reconstruction is estimated to be $1.0 million in FY 2024 and $500,000 in FY 2025, based on the number of property owners who self-reported storm damage to the City immediately following the January storm and commercial structure damages. We note that DSD permit review services are funded by the Development Services Enterprise Fund. Costs incurred for the fee waiver program will, therefore, need to be reimbursed by a non-Enterprise Fund resource.

Environmental Services Department

Also on February 12, City Council authorized the waiver of City fees charged by the Environmental Services Department (ESD) for the Construction and Demolition (C&D) Debris Diversion Deposit Program and authorized the development and implementation of a Debris Assistance Program to provide for debris management services at no cost to eligible impacted flood properties. The C&D Debris Deposit is intended to increase diversion of C&D material away from the landfill by requiring a refundable deposit at the time of permit issuance. Waiving this deposit requirement will made the upfront costs for permits cheaper, and since the deposit is normally refunded, there is no anticipated fiscal impact. The Debris Assistance Program will provide dumpster and roll off containers to impacted addresses at no cost through selected managed program vendors through a program currently being developed by ESD, the Mayor's Office, and Council offices. The estimated fiscal impact for this program is $268,000 for FY 2024 and $642,000 for FY 2025.

Status of Items City Council Added in FY 2024 Budget

In its action to approve the FY 2024 Budget on June 12, 2023, the City Council identified resources and took action to add programs and services in the final Adopted Budget. These items represented some of the Council's top budget priorities for FY 2024. The following table shows the implementation status for each of these additions.

Status of City Council's Modifications in FY 2024 Adopted Budget			
	FTE	**Amount**	**Status**
General Fund Expenditure Items			
Operating Budget - Ongoing			
Gas Tax Median Maintenance Program	1.00	$ 534,000	Grounds Maintenance Manger position filled in October 2023.
Tenant Protection Ordinance Eviction Notice Registry	-	400,000	Implementation requires exemption from TRUST Ordinance requirements, which the Housing Commission aims to bring to Council in April. Once exemption is approved, Housing Commission can continue developing Registry in anticipation of launch in Fall 2024.
Cannabis Equity Study and Program Implementation	3.00	400,000	Positions transferred from DSD to Race & Equity; anticipated to be filled in April and June.
Building Decarbonization Roadmap - Program Manager	1.00	175,000	Position hired in January.
Office of the City Attorney - Legal Secretary 2 for Criminal and Community Justice Division	1.00	99,000	Position anticipated to be hired in March.
Office of the City Auditor - Performance Auditor and Administrative Position	2.00	-	Both positions have been filled as of February.
Operating Budget - One-Time			
Eviction Prevention Program	-	3,000,000	Housing Commission anticipates FY 2024 funding needs to exceed the $3M budgeted, due to increased demand for services after recent storms. Since the start of FY 2024, $1.2 million has been expended with 815 low income tenants receiving program assistance.
Youth Care and Development Program	-	1,000,000	Organizations to contract with have been identified and contract execution is anticipated in April
Cannabis Equity Study and Program Implementation	-	600,000	Funding transferred from DSD to Race & Equity. Funding of $250,000 is anticipated to be spent this fiscal year.
Small Business Enhancement Program (SBEP)	-	500,000	Funds anticipated to be expended by fiscal year-end on Capacity Building and Storefront Improvement programs and to help fund Emergency Response Grant.
Gas Tax Median Maintenance Program	-	375,000	Funds anticipated to be expended by fiscal year-end
Library Materials	-	250,000	Funds anticipated to be expended by fiscal year-end
Lifeguard NPE (incl. repower and repair Marine III)	-	200,000	Funds anticipated to be expended by fiscal year-end
Pacific Highlands Ranch Fire Station 47 Apparatus Doors	-	155,000	Funds anticipated to be expended by fiscal year-end
Opioid Education & Prevention Program/Campaign	-	135,000	See "Non-General Fund Expenditures" category below.
Council Community Projects, Programs & Services Funds (CPPS)	-	130,424	Implemented through the budget. Funds provided an equal minimum allocation to two Council Districts
Tenant Protection Ordinance Eviction Notice Registry	-	100,000	Implementation requires exemption from TRUST Ordinance requirements, which the Housing Commission aims to bring to Council in April. Once exemption is approved, Housing Commission can continue developing Registry in anticipation of launch in Fall 2024.

Status of City Council's Modifications in FY 2024 Adopted Budget *(con't)*			
	FTE	**Amount**	**Status**
General Fund Expenditure Items			
One-Time Capital Items			
Fix the City's Most Dangerous Intersections	-	1,500,000	Allocated to various projects for installation of high-intensity activated crosswalk beacons (HAWKs), traffic signal modifications, and installation of medians and roundabouts.
Saturn Boulevard Sidewalk Installation	-	1,500,000	In design
Barrio Logan Traffic Calming Truck Route	-	1,200,000	Studies complete, converted from P22003 to L24005, in preliminary planning; funds have yet to be expended
Mission Beach Sea Wall Repair	-	750,000	Currently with Parks & Recreation; expected to be transferred to E&CP soon
City Heights Urban Village/Henwood Park	-	750,000	Preliminary planning is ongoing; funds have yet to be expended
North Park Recreation Center	-	750,000	Preliminary planning is ongoing; funds have yet to be expended
Paradise Hills Community Park Trail	-	750,000	Preliminary planning is ongoing; funds have yet to be expended
Convoy District Gateway Sign	-	500,000	Sign expected to be installed by spring 2024; the additional $500,000 is anticipated to be used for pedestrian and mobility improvements.
Repaving of Mission Blvd from Loring to Chalcedony	-	300,000	Paving in FY 2025 as part of a utility undergrounding project; no funds expended yet
Total General Fund Expenditure Items	**8.00**	**$16,053,424**	
General Fund Resources			
Excess Equity	-	$ 9,536,424	Implemented through the budget - amount was adjusted to $9.2 million, largely due to budgeted vacancy savings for position additions.
General Fund Reimbursements from TOT Fund Balance - Fire-Rescue and HSSD	-	3,377,000	Implemented through the budget.
Residual RPTTF	-	1,882,000	Implemented through the budget.
Sidewalk Vending Ordinance - Impounding Reduction	11.00	1,460,000	Implemented through the budget.
Smart Streetlights Reduction	-	500,000	Implemented through the budget.
TOT Revenue Reduction	-	(702,000)	Implemented through the budget.
Total General Fund Resources	**11.00**	**$16,053,424**	
Non-General Fund Expenditures *(one-time)*			
Penny for the Arts/World Design Capital 2024	-	$ 3,000,000	WDC is expected to spend $2.2M in FY 2024, with remaining $790,000 carrying over into FY 2025. WDC is implementing a marking plan and contracting with a selected design team that will install a pavilion in Balboa Park in Fall 2024. More than 300 community programs have been selected and begun activation. Submissions for the WDC grant program are in the process of peer review.
Opioid Education & Prevention Program/Campaign	-	1,215,000	Settlement funding, together with $135,000 from the General Fund, is anticipated to be utilized towards: Fentanyl/Opioid Education and Outreach Campaign (County Partnership; $1.0 million) and UCSD Health Bridge Program Enhancement ($350,000)
Total Non-General Fund Expenditures		**$ 4,215,000**	
Non-General Fund Resources			
TOT Fund Balance	-	$ 3,000,000	Implemented through the budget.
Additional Opioid Settlement Fund Revenue	-	1,215,000	Settlement funding was received in August 2023
Total Non-General Fund Resources		**$ 4,215,000**	

CONCLUSION

The Mid-Year Report is projecting a $28.3 million decline in General Fund revenues and a $13.2 million increase in General Fund expenditures as compared to the Adopted Budget, resulting in a $41.5 million budgetary deficit. As we note in our report, additional declines in revenue projections would not be unreasonable, which would further increase this projected deficit. The future impacts of recent spending mitigation measures (including a required suspension of non-essential spending that would impact the General Fund and the future establishment of a funds block) is unknown, and the $13.2 million over-budget expenditure projection is somewhat uncertain; thus, a General Fund appropriation increase for the projected over-budget expenditures has not been requested. However, the Mid-Year Report does indicate that recent storm-related impacts will have an effect on General Fund expenditures beyond the deficit projected in the report, for which the Mayor is requesting a $10.0 million appropriation.

In addition to this $10.0 million General Fund appropriation for storm recovery efforts, several non-General Fund appropriation increases are requested, including to the Central Stores Fund, Environmental Growth Fund, Golf Course Fund, Major Events Revolving Fund, PETCO Park Fund, Seized Assets – Federal Treasury Fund, and Transient Occupancy Tax Fund. ***Our Office supports the proposed appropriation adjustments***, though as we note below, this will result in fewer resources available to balance the upcoming FY 2025 budget.

If both the $41.5 million projected deficit and $10.0 million storm-related estimate were to be realized, they could be mitigated with $56.5 million in available Excess Equity, which would leave only $4.9 million in Excess Equity to balance the FY 2025 budget. In the FY 2025-2029 Five-Year Financial Outlook the entire $56.5 million of available Excess Equity was anticipated to be used as a resource to balance the upcoming FY 2025 budget; and use of Excess Equity in the current fiscal year will result in less resources available to balance the FY 2025 budget. ***Given the likelihood that a significant amount of additional Excess Equity will be used in the current fiscal year to mitigate this deficit, it is unlikely that significant amounts of Excess Equity will be available to address the projected FY 2025 deficit, absent significant reductions in expenditures that are not projected in the Mid-Year Report.*** The Excess Equity estimate could change as the year progresses; and the next completed update to projections will be in the FY 2024 Third Quarter Budget Monitoring Report, scheduled to be released mid-May.

Amy Li
Fiscal and Policy Analyst

Ruixin Chen
Fiscal & Policy Analyst

Baku Patel
Senior Fiscal and Policy Analyst

Jordan More
Principal Fiscal and Policy Analyst

Lisa Byrne
Principal Fiscal and Policy Analyst

Jillian Andolina
Deputy Director

APPROVED: Charles Modica
Independent Budget Analyst

Attachment 1: San Diego Housing Commission Memorandum issued February 20, 2024

SAN DIEGO HOUSING COMMISSION

MEMORANDUM

To: **Ryan Schuler, Finance Analyst, City of San Diego**
Amy Li, Fiscal & Policy Analyst, City of San Diego Office of the Independent Budget Analyst (I.B.A.)

From: **Suket Dayal, Chief Financial Officer, San Diego Housing Commission**

Date: **February 20, 2024**

Subject: **San Diego Housing Commission Expenditure of Funds Toward Hotel Shelter and Short-Term Emergency Shelter and Assistance Programs**

On February 6, 2024, the Housing Authority of the City of San Diego (Housing Authority) authorized the San Diego Housing Commission's (SDHC) expenditure of $1,500,000 toward Hotel Shelter and Short-Term Emergency Shelter and Assistance programs, plus additional $250,000 intervals, up to a maximum expenditure of $2,250,000 with the condition that SDHC provide advance written notice to the Housing Authority for each $250,000 interval.

On February 8, 2024, SDHC received your request from the City Finance Department for "the most up-to-date projection on how much of the $2.25m approved by the Housing Authority will be utilized to house flood victims." Your request was based on a specific recommendation from Councilmember Vivian Moreno during the Budget and Government Efficiency Committee's consideration of the Fiscal Year 2024 Mid-Year Budget Monitoring Report the day before, on February 7, 2024.

On February 9, 2024, SDHC sent the first written notice to the Housing Authority members regarding the first additional $250,000 expenditure. On February 10, 2024, SDHC sent the second notice regarding another $250,000 additional expenditure. At that point, SDHC had continued to see high need for emergency hotel assistance for households displaced from their homes due to the storm and flooding that occurred January 22, 2024.

Since then, SDHC has been working with the County of San Diego. As their assistance program ramped up, SDHC looked forward to the County taking on new households in need of emergency hotel assistance and taking over assistance for existing households served by SDHC's short-term, emergency programs.

Besides securing hotel rooms ensuring proximity to family needs, SDHC also equipped its latest acquisition on Midway Drive to serve as a short-term emergency shelter. Alpha Project is operating the short-term emergency shelter program through an amendment to an existing contract.

Based on current information, below are updated budget numbers for SDHC's Hotel Shelter and Short-Term Emergency Shelter and Assistance Programs. Please note that most of the stays in hotels are booked for 14 days intervals, and the actual expenses will not be fully realized until the client has checked out or the term is complete. Households may stay for up to 28 days in hotels SDHC procured for its emergency shelter programs.

HOTEL SHELTER PROGRAM & SHORT-TERM EMERGENCY SHELTER PROGRAM

HOTEL (ESTIMATED 354 ROOMS FOR 28 DAYS AT $160 A NIGHT)	$ 1,585,920
SDHC MIDWAY DRIVE PROPERTY EXPENSES (49 ROOMS)	54,000
ALPHA PROJECT (SDHC MIDWAY DRIVE PROPERTY OPERATIONS)	205,500
COMMUNITY-BASED ORGANIZATIONS (CBOs) CONTRACTS	75,000
ONGOING CASE MANAGEMENT	60,000
TOTAL	**$ 1,980,420**

Please let me know if you have any questions.