

Recommended City Council Modifications to the Mayor's Proposed FY 2024 Budget and Review of the May Revision

City Council

Item 200 – Approval of the City's FY 2024 Budget

June 12, 2022



Office of the Independent Budget Analyst



IBA Report 23-12: Released June 7th

Report includes IBA recommended budget modifications and May Revise Review

- Recommended modifications are based on:
 - Analyses of the FY 2024 Proposed Budget, FY 2024 May Revision, and FY 2023 Third Quarter Report
 - Review of Councilmember budget priority memoranda (received May 26)
 - Feedback from the public, City staff, and City Council during the Budget Review Committee and Town Hall meetings
- Attachment 2 to the report reviews the May Revision



May Revision Review

General Fund Revenues

| General Fund Revenues in the May Revision (\$ in millions) | | | |
|--|-------------------|-------------------|----------------|
| | Proposed Budget | May Revision | Change |
| Major General Fund Revenues | | | |
| Property Tax | \$ 756.9 | \$ 756.7 | \$ (0.2) |
| Sales Tax | 392.2 | 401.7 | 9.4 |
| Transient Occupancy Tax | 168.0 | 173.2 | 5.2 |
| Franchise Fees | 108.1 | 108.5 | 0.4 |
| Other Major General Fund Revenues | 87.2 | 97.2 | 10.0 |
| Subtotal Major General Fund Revenues | \$ 1,512.4 | \$ 1,537.4 | \$ 24.8 |
| Departmental Revenues | | | |
| General Services - Facilities Services | \$ 3.9 | \$ 4.2 | \$ 0.3 |
| Fire-Rescue | 63.2 | 67.7 | 4.5 |
| Parks & Recreation | 48.6 | 50.2 | 1.6 |
| Stormwater | 12.2 | 12.6 | 0.4 |
| Other Departments | 289.0 | 289.0 | 0.1 |
| Departmental Revenues Subtotal | \$ 416.8 | \$ 423.8 | \$ 7.0 |
| American Rescue Plan Act | \$ 52.1 | \$ 52.1 | \$ - |
| Total General Fund Revenue | \$ 1,981.5 | \$ 2,013.2 | \$ 31.8 |

Note: Figures may not total due to rounding.



May Revision Review

General Fund Expenditures

| General Fund Expenditure Adjustments in the May Revision (\$ in millions) | | | |
|--|----------------------|------|--------|
| Item | Department | FTEs | Amt |
| Transfer to Infrastructure Fund (one-time) | Citywide | - | \$ 9.4 |
| Fringe Benefits Adjustments Not Included Elsewhere (ongoing, including \$7.0m for Workers' Compensation) | Multiple Departments | - | 6.8 |
| Salary/Wage Adjustments Not Included Elsewhere (ongoing; primarily related to negotiated compensation increases) | Multiple Departments | - | 6.5 |
| Termination Pay (ongoing; including \$2.0m for Police) | Multiple Departments | - | 2.9 |
| Animal Services Contract (one-time) | Parks & Rec | - | 1.2 |
| Budgeted PE Savings Adjustment (ongoing) | Library | - | 0.9 |
| Community Projects, Programs, and Svcs. Adjustments (one-time) | City Council | - | 0.9 |
| Sidewalk Ramping Crew (one-time; incl. \$703k vehicle purchase) | Transportation | - | 0.7 |
| Non-Discretionary Fuel Adjustment (ongoing) | Multiple Departments | - | 0.5 |
| IT Project Mgmt. for Billing Solution/Software Integration to Implement Measure B (one-time) | ESD | - | 0.5 |
| Lease Management Software (one-time) | DREAM | - | 0.4 |
| Harbor Drive Pedestrian Bridge Elevator Security Services (ongoing) | Facilities Services | - | 0.3 |
| CIP/WIFIA Support (ongoing; partial year) | Stormwater | 3.00 | 0.3 |
| Conversion of HR Analyst FTEs to Program Coordinators (ongoing) | Human Resources | - | 0.3 |
| Enhanced Police Officer Recruiting (one-time) | Police | - | 0.2 |

| General Fund Expenditure Adjustments in the May Revision (\$ in millions) | | | |
|---|--------------------------------|-------------|----------------|
| Item | Department | FTEs | Amt |
| Recruiting Section Program Coordinator (ongoing) | Personnel | 1.00 | \$ 0.2 |
| Sidewalk Ramping Crew (ongoing; partial year) | Transportation | 4.00 | 0.2 |
| Network Access at Your Safe Place (one-time) | City Attorney | - | 0.2 |
| Biannual SDG&E Franchise Audit (one-time) | Sustainability | - | 0.2 |
| Litigation/Claims Support (ongoing; partial year) | Transportation | 1.00 | 0.1 |
| Reservoir Recreation Services (ongoing) | Public Utilities | - | 0.1 |
| Tenant Improvements/Rent for Montgomery Gibbs Executive Airport Office (ongoing) | DSD | - | 0.1 |
| Outside General Counsel (one-time) | Commission on Police Practices | - | 0.1 |
| Office Relocation to Montgomery Gibbs Exec. Airport (one-time) | DSD | - | 0.1 |
| City Council District Budget Equity (one-time) | City Council | - | (0.1) |
| Park Ranger NPE Budget Correction (\$95.2k ongoing increase, offset with \$168.8k one-time reduction) | Parks & Rec | - | (0.1) |
| Reduction of Public Use Lease Budget (ongoing) | Citywide | - | (0.1) |
| Animal Services Contract (ongoing) | Parks & Rec | - | (0.8) |
| Debt Service Reduction (ongoing) | Citywide | - | (3.2) |
| Budgeted Personnel Expenditure Savings Adjustment Not Included Elsewhere (ongoing; including \$2.1m for Police) | Multiple Departments | - | (3.8) |
| Total General Fund Expenditure Adjustments | | 9.00 | \$ 25.0 |

IBA Recommended Budget Modifications

Recommendations include ongoing and one-time resources and operating expenditures, and expenditures for specific one-time capital projects

- Resource additions include those we believe are available to allocate responsibly, considering the existing structural budget deficit.
- Expenditure additions are supported by a majority of Councilmember Budget Modification Memoranda.
 - These are based on CMs priorities, taking into account past IBA recommendations and priorities that are necessary to supporting existing or critical City programs.

IBA Recommended Budget Modifications

General Fund Resources, Expenditures, and Amounts Remaining

| General Fund Recommended Modifications | | | |
|---|---------------------|-----------------------|-----------------------|
| | Ongoing | One-Time | Total |
| <i>Resources</i> | | | |
| Residual RPTTF | \$ 1,882,000 | \$ - | \$ 1,882,000 |
| Sidewalk Vending Ordinance - Impounding Reduction | 1,460,000 | - | 1,460,000 |
| TOT Revenue Reduction | (702,000) | - | (702,000) |
| Excess Equity | - | 4,454,000 | 4,454,000 |
| General Fund Reimbursements from TOT Fund Balance | - | 3,377,000 | 3,377,000 |
| Smart Streetlights Reduction | - | 500,000 | 500,000 |
| <i>Total Resources</i> | \$ 2,640,000 | \$ 8,331,000 | \$ 10,971,000 |
| <i>Total Expenditures</i> | \$ (975,000) | \$ (2,085,000) | \$ (3,060,000) |
| General Fund Amount Remaining | \$ 1,665,000 | \$ 6,246,000 | \$ 7,911,000 |

IBA Recommended Budget Modifications

Excess Equity

- Estimated at \$123.0m in Third Quarter Report.
 - \$63.0m used as a FY 2024 resource, leaving \$60m.
- However, new revenue projection changes affect the balance.

| Adjustments to Unallocated Excess Equity (in millions) | |
|---|----------------|
| Revenue Impacts | Amount |
| <i>Unallocated Excess Equity in May Revision</i> | \$ 60.0 |
| Updated Sales Tax Impacts | (6.6) |
| Updated TOT Impacts | (0.7) |
| Updated FY 2023 Residual RPTTF Impacts | 1.8 |
| Additional Environmental Growth Fund Reimbursements | 1.6 |
| Portable Shower Settlement | 0.9 |
| Updated Unallocated Excess Equity | \$ 57.1 |

- With the net revenue reduction, the \$57.1m balance is more than the \$52.6m unallocated in the Proposed Budget – by \$4.5m.
 - We recommend only \$4.5m as a resource, due to the structural budget imbalance.



IBA Recommended Budget Modifications

Non-General Fund Resources and Expenditures

| Non-General Fund Recommended Modifications | | |
|---|-------------|----------------|
| | Ongoing | One-Time |
| <i>Resources</i> | | |
| Additional Opioid Settlement Fund Revenue | \$ - | \$ 1,215,000 |
| TOT Fund Balance | - | 3,000,000 |
| <i>Expenditures</i> | | |
| Opioid Education & Prevention Program/Campaign | \$ - | \$ (1,215,000) |
| Penny for the Arts/World Design Capital 2024 | - | (3,000,000) |
| Total Non-General Fund Resources Remaining | \$ - | \$ - |



IBA Recommended Budget Modifications

General Fund Expenditures – Ongoing

| General Fund Recommended Expenditure Additions - Ongoing | | | |
|--|------------------|-------------|-------------------|
| Item | # CMs in Support | FTEs | Amount |
| Office of the City Auditor | 7 | 2.00 | \$ - |
| Building Decarbonization Roadmap - Program Manager | 8 | 1.00 | 175,000 |
| Tenant Protection Ordinance Eviction Notice Registry | 7 | - | 400,000 |
| Cannabis Equity Study and Program Implementation | 5 | 3.00 | 400,000 |
| Total Ongoing General Fund Expenditure | | 6.00 | \$ 975,000 |



IBA Recommended Budget Modifications

General Fund Expenditures – One-Time

| General Fund Recommended Expenditure Additions - One-Time | | |
|--|-------------------------|---------------------|
| Operating Budget Items | # CMs in Support | Amount |
| Opioid Education & Prevention Program/Campaign | 5 | 135,000 |
| Tenant Protection Ordinance Eviction Notice Registry | 7 | 100,000 |
| Cannabis Equity Study and Program Implementation | 5 | 600,000 |
| <i>Total Operating Budget Items</i> | | \$ 835,000 |
| Capital Items | | |
| Mission Beach Sea Wall Repair | 5 | \$ 750,000 |
| Convoy District Gateway Sign | 8 | 500,000 |
| <i>Total Capital Items</i> | | \$ 1,250,000 |
| Total General Fund One-Time Expenditures | | \$ 2,085,000 |

IBA Recommended Budget Modifications

*Available resources remain after IBA recommendations:
Option 1 (includes all other priorities receiving support from 8 or more Councilmembers)*

| Table 4 - Option 1 for Budget Modification Priorities (see Final Budget Actions, #3a) | | | |
|---|------------------|------|---------------|
| FY 2024 Expenditures | # CMs in Support | FTEs | Amount |
| <i>IBA Recommended Modifications (see Table 3)</i> | | 6.00 | \$ 7,275,000 |
| <i>Additional Modifications</i> | | | |
| <i>Homelessness/Housing</i> | | | |
| Eviction Prevention Program (one-time) | 8 | - | 3,000,000 |
| Middle-Income First-Time Homebuyers Pilot Program (one-time) | 8 | - | 6,000,000 |
| <i>Other Items</i> | | | |
| Library Materials (one-time) | 8 | - | 250,000 |
| Subtotal Additional Modifications | | 0.00 | \$ 9,250,000 |
| Total Council Budget Modifications | | 6.00 | \$ 16,525,000 |

Option 1 would require reduction of \$1.3m in expenditures or additional Excess Equity use (not recommended)



IBA Recommended Budget Modifications

Available resources remain after IBA recommendations:

Option 2 (includes all other priorities receiving support from 7 or more Councilmembers, except the Middle-Income First-Time Homebuyers Pilot Program)

| Option 2 for Budget Modification Priorities | | | |
|---|------------------|--------------|----------------------|
| FY 2024 Expenditures | # CMs in Support | FTEs | Amount |
| <i>IBA Recommended Modifications</i> | | 6.00 | \$ 7,275,000 |
| <i>Additional Modifications</i> | | | |
| <i>Homelessness/Housing</i> | | | |
| Eviction Prevention Program (one-time) | 8 | - | 3,000,000 |
| Affordable Housing Preservation (one-time) | 7 | - | 1,000,000 |
| <i>Other Items</i> | | | |
| Library Materials (one-time) | 8 | - | 250,000 |
| Bicycle Master Plan Update (one-time) | 7 | - | 350,000 |
| Library Maintenance (one-time) | 7 | - | 500,000 |
| Youth Services Librarians (ongoing) | 7 | 8.00 | 793,000 |
| <i>Capital Items</i> | | | |
| Fix the City's Most Dangerous Intersections | 7 | - | 1,500,000 |
| Subtotal Additional Modifications | | 8.00 | \$ 7,393,000 |
| Total Council Budget Modifications | | 14.00 | \$ 14,668,000 |

Option 2 would leave \$518,000 in IBA-identified resources that could be used for other priorities or fall to Excess Equity.

Final Budget Recommendations

City Council is being asked to approve final budget actions:

1. Approve the Mayor's FY 2024 Proposed Budget, as modified by the Mayor's May Revision.
2. Approve the IBA's recommended final budget expenditure and resource modifications to also include 3.00 FTEs for Cannabis Equity Study and Program Implementation

Final Budget Recommendations

City Council is being asked to approve final budget actions:

3. Allocate the remaining \$7.9 million in identified resources to selected budget modifications; options include **one** of the following:
 - a. Option 1
 - b. Option 2
 - c. Allocating this funding to some other combination of budget modifications that totals up to \$7.9 million.
4. Transfer \$3.4 million from TOT Fund balance to support eligible General Fund activities in FY 2024.