



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 17, 2021

IBA Report Number: 21-05

City Council Docket Date: February 22, 2021

Item Number: TBD

IBA Review of the FY 2021 Mid-Year Budget Monitoring Report

OVERVIEW

The [FY 2021 Mid-Year Budget Monitoring Report](#) (Mid-Year Report) was issued on January 29, 2021 and was presented to the Budget and Government Efficiency Committee on February 3, 2021. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections based on actual (unaudited) data from the first five months of the fiscal year. The Mid-Year Report includes useful details about major General Fund revenues, significant expenditure variances for General Fund departments and non-general funds, and updates on reserve levels. In addition, as an attachment, the Police Department provides a report on overtime and Neighborhood Policing expenditures through mid-year, in accordance with the [FY 2021 Appropriation Ordinance \(O-21206\)](#).

The purpose of the IBA review of the Mid-Year Report is to provide clarification and additional information for items outlined in that report. The Mid-Year Report is projecting a General Fund year-end budgetary deficit of approximately \$85.4 million. The impact for the General Fund's fund balance is the projected use of \$14.5 million in excess equity and an additional \$71.0 million of General Fund Reserve. The Mayor is not recommending any actions or appropriation adjustments in the Mid-Year Report.

In this report, we review major General Fund revenues, select departmental revenues, salaries and wages, vacancy savings, contract spending, and reserves. We discuss the policies, pros, and cons of the Mayor's mitigation proposal. We also offer updates and additional information on Police Department appropriations and homelessness programs. Finally, we provide a status update on all items City Council added to the FY 2021 Adopted Budget as part of their final budget resolution.

FISCAL/POLICY DISCUSSION

General Fund Revenues

Overall General Fund revenues are projected to be below the Adopted Budget by \$86.0 million. This includes a \$30.3 million reduction in the Major General Fund Revenues, such as property tax, sales tax, Transient Occupancy Tax, and franchise fees, which are discussed in detail in this report. The mid-year projection also estimates a \$55.7 million reduction in departmental revenues. Of this amount, \$25.0 million is attributable to a decline in reimbursements from Special Promotional Programs, while an additional \$16.3 million is due to decreased revenue from leases related to the COVID-19 pandemic. Both of these reductions are also discussed in this report.

Major General Fund Revenues

Major General Fund revenues in the Mid-Year Report are projected to be \$30.3 million under amounts included in the Adopted Budget. This represents a decrease in projected revenues of \$20.0 million from projections that were included in the [FY 2021 First Quarter Budget Monitoring Report](#) (First Quarter Report). Franchise Fee revenue is anticipated to increase over both projections in the Adopted Budget and the First Quarter Report, but all other major General Fund revenue sources are anticipated to come in below First Quarter projections. As shown in the table below, variances in Property Tax, Sales Tax, and Franchise Fee revenue projections are relatively small, and current projections for those revenue sources still represent higher amounts than were included in the Adopted Budget. Transient Occupancy Tax (TOT) Revenue, however, is projected to come in significantly below budgeted amounts and First Quarter projections.

Major General Fund Revenues (<i>\$ in millions</i>)					
	Adopted Budget	First-Quarter Projection	Mid-Year Projection	Variance from Budget	Variance from First-Quarter
Property Tax	\$ 630.6	\$ 635.4	\$ 633.4	\$ 2.8	\$ (2.0)
Sales Tax	274.4	284.0	283.3	8.8	(0.7)
Transient Occupancy Tax ¹	90.5	66.2	54.6	(35.9)	(11.6)
Franchise Fees	67.7	67.4	68.4	0.7	1.0
Other Major Revenues ²	100.7	100.7	94.0	(6.7)	(6.7)
Total	\$ 1,163.9	\$ 1,153.7	\$ 1,133.7	\$ (30.3)	\$ (20.0)

¹ These amounts represent the 5.5% portion 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 - Updates for Other Major Revenues were not included in the First Quarter Budget Monitoring Report. Therefore First-Quarter Projection amounts shown here are the same as those of the Adopted Budget.

The "Other Major Revenues" line in the table above includes revenue that is derived from TOT allocations, and the bulk of the variance in that line is the result of general declines in TOT revenue. Each revenue source is discussed in more detail below.

Transient Occupancy Tax

Transient Occupancy Tax revenue continues to be the revenue source that has been most impacted by the COVID-19 pandemic, and it is difficult to overstate the declines in TOT revenue that the pandemic has caused. As a point of reference, the FY 2020 Adopted Budget assumed that the 10.5% TOT rate would generate \$260.3 million in revenue. Actual revenue in FY 2020, with the

last quarter of the year impacted by the early outbreak of COVID-19 and initial stay-at-home orders, came in at \$181.2 million. The Adopted Budget for the current fiscal year assumed additional declines, with TOT revenue projected to total \$171.6 million. The Mid-Year Report further increases the projected year-over-year decline to 43% of prior year actuals, consistent with projections from the Tourism Marketing District that recognize impacts from the new stay-at-home order and prohibitions on hotel-stays that went into effect on December 7, 2020. Total TOT revenue across all TOT allocations now projected at \$103.3 million. In just over one year, projected annual TOT receipts have declined by over \$150 million.

These declines impact the City’s General Fund in multiple ways. The City’s TOT revenue is derived from a 10.5% tax on short-term stays in the region; that amount is broken into three separate allocations – a General Fund allocation of 5.5%, an allocation for Special Promotional Programs that support the promotion of the City’s cultural amenities and natural attractions of 4.0%, and a 1.0% “Council Discretionary” allocation that ultimately ends up allocated to the City’s General Fund. Projected revenues for these allocations are shown below:

Transient Occupancy Tax Revenue (<i>\$ in millions</i>)					
	Adopted Budget	First-Quarter Projection	Mid-Year Projection	Variance from Budget	Variance from First-Quarter
General Fund Allocation (5.5%)	\$ 90.5	\$ 66.2	\$ 54.6	\$ (35.9)	\$ (11.6)
Special Promotional Programs (4.0%)	64.9	47.3	38.9	(26.0)	(8.4)
Council Discretionary (1.0%)	16.2	11.8	9.7	(6.5)	(2.1)
Total	\$ 171.6	\$ 125.3	\$ 103.2	\$ (68.4)	\$ (22.1)

The General Fund is most directly impacted by the General Fund and the Council Discretionary Allocations, with focus in Budget Monitoring Reports generally given to the General Fund Allocation.¹ However, as noted in our review of the First Quarter Report and the FY 2022-26 Five Year Financial Outlook ([IBA Report 20-24](#) and [IBA Report 20-25](#) respectively), a portion of revenue in the Special Promotional Programs allocation is used to reimburse various General Fund Departments for expenses such as lifeguards and street sweeping in high-tourism areas that ultimately help support bringing tourism to the City.

The Adopted Budget assumed that \$26.4 million from the Special Promotional Programs allocation would be used to reimburse General Fund departments for related expenses; that reimbursement is now projected at just \$1.3 million, which exacerbates the General Fund impacts of declining TOT revenue. This decline is reflected in the Mid-Year Report’s “Departmental Revenue” section; we provide additional information on the impacts by department below.

¹ The Council Discretionary Allocation is included in “Other Major Revenues” in the Department of Finance’s Mid-Year Report.

Special Promotional Programs - General Fund Reimbursements (<i>\$ in millions</i>)			
	Adopted Budget	Mid-Year Projection	Variance
Mayor's Office	\$ 0.2	\$ -	\$ (0.2)
Library	0.5	0.0	(0.5)
TSW - Street Sweeping	1.1	-	(1.1)
Facilities	0.1	0.1	-
Parks & Recreation	0.5	-	(0.5)
Fire-Rescue - Lifeguards	21.4	0.4	(21.0)
Special Events	1.6	-	(1.6)
Treasurer	0.9	0.9	-
Total	\$ 26.3	\$ 1.4	\$ (25.0)

We note that nearly all of the \$26.0 million decline in Special Promotional Programs revenue is being absorbed by General Fund departments above. Remaining funding from this allocation is largely dedicated to debt service and arts and cultural grants and programs.

Property Tax

Property tax revenues are projected to be \$2.7 million above the current budget, and \$2.0 million below the First Quarter Report projection. The increase above current budget is still mainly due to an increase in the Motor Vehicle License Fee (MVLFF) backfill payments of \$2.5 million. However, revised estimates related to the Redevelopment Property Tax Trust Fund (RPTTF) result in an increase of only \$1.0 million above the current budget, which is \$1.1 million less than projected in the First Quarter Report. The largest source of property tax revenue, from the 1% levy on the assessed value of property throughout the City, is also projected to be lower than the current budget, with a projected decrease of \$0.8 million from the current budget (this is a \$0.9 million projected decrease from the First Quarter Report). This is mostly due to a decrease in current unsecured revenue based on the most recent actuals received.

Sales Tax

Sales tax revenues are projected to be \$8.8 million above the Adopted Budget, but \$0.7 million below projections in the First Quarter Report. Projections for the Adopted Budget were developed during the initial outbreak of the COVID-19 pandemic and assumed that the pandemic and the response to it would result in significant declines in overall sales throughout the San Diego region. While many industries have seen declining sales, growth in online sales has helped to compensate for that decrease and is largely responsible for the above-budget projections.

While the increases in sales tax revenues attributable to online sales continue to result in above-budget sales tax projections, the decrease in projections from the First Quarter Report is largely due to the impacts of the Regional Stay at Home Order that was implemented on December 7, 2020. Sales Tax projections in the Mid-Year Report closely track those provided by MuniServices, the City's Sales Tax Consultant, and are consistent with broader economic outlooks.

Franchise Fees

Franchise fee revenues are projected to be \$0.7 million above the current budget, which is an increase of \$1.0 million above the First Quarter Report. This is mostly due to an estimated increase in cable franchise fees of \$0.6 million above both the current budget and first quarter projection.

Based on actuals received, cable franchisees have been losing less market share than initially estimated due to the COVID-19 pandemic. Overall cable franchise fees are still projected to be less than the total revenue received in FY 2020 by \$0.7 million. The other significant variance is due to an increase in refuse collection fees, which are projected to once again be in line with the current budget. These revenues were projected to decline by \$0.3 million in the First Quarter Report.

Franchise fee revenue from SDG&E, which makes up 60% of all General Fund franchise fee revenues, continues to be projected at budget. This projection does not change until after the City receives the February clean-up payment from SDG&E. The projections also assume that the current franchise agreements, which now expire on June 1, remain in place for the entire fiscal year.

Departmental Revenues

Cannabis Business Tax (City Treasurer)

The Office of the City Treasurer was the lone department mentioned in the Mid-Year Report with a significant positive projected revenue variance. A \$1.9 million positive variance is projected, approximately 4.7% over the amount budgeted for FY 2021. This variance is primarily attributable to a \$3.1 million increase in Cannabis Business Tax (CBT) revenue in FY 2021. The FY 2021 Budget assumed \$19.7 million in CBT revenue which was an increase of \$7.5 million over the FY 2020 Budget.

It is difficult to explain the unexpected additional growth in CBT revenue as it is likely attributable to a variety of potential factors (COVID stay-at-home orders, increased popularity, better marketing, increased delivery options, etc.). Based on data from the City Treasurer, average CBT revenue received from the City's 20 retail outlets has increased by approximately 17.6% in FY 2021 (year-to-date) over FY 2020. It should be noted that the State is similarly experiencing growth in cannabis revenue that is significantly in excess of amounts budgeted for FY 2021. While strong growth in CBT revenue continues, the City's retail outlets will face increased competition in the coming years from a growing number of outlets/distributors in surrounding cities and differences in cannabis tax rates.

Lease Revenues (Real Estate Assets)

Revenues that the City receives through the lease of City owned property to outside entities is projected to total \$33.5 million, which is \$16.3 million or 33% below revenue assumed in the Adopted Budget, largely due to lower-than-projected revenue from Mission Bay leases. Mission Bay lease revenue is largely derived from Sea World and hotel properties, with many leases requiring tenants to pay to the City a percentage of their gross revenue. Those operations have been significantly impacted by the COVID-19 pandemic, with many hotels either closed or operating at reduced capacity, and Sea World limiting capacity and attendance to comply with State and regional health orders.

General Fund Expenditures

Our review of General Fund expenditures is intended as an historical resource for the FY 2022 budget development process. We begin with the following table, which summarizes overall

expenditures. The Mid-Year Report projects FY 2021 total General Fund expenditures to be \$1.62 billion, \$569,000 less than the FY 2021 Adopted Budget (which is a positive expenditure variance). This variance is essentially 0% of the Adopted Budget, as shown in the following table.

FY 2021 General Fund Expenditures (\$ in millions)				
	Adopted Budget	Mid-Year Projection	Variance: Adopted to Mid-Year¹	Variance %: Adopted to Mid-Year
<i>Personnel Expenditures (PE)</i>				
Salaries and Wages	\$ 647.9	\$ 649.7	\$ (1.8)	(0.3%)
Fringe Benefits	491.9	495.3	(3.4)	(0.7%)
Subtotal PE	\$ 1,139.8	\$ 1,145.0	\$ (5.2)	(0.5%)
Non-Personnel Expenditures (NPE)	481.1	475.3	5.8	1.2%
Total General Fund	\$ 1,620.9	\$ 1,620.4	\$ 0.6	0.0%

Note: Table may not total due to rounding.

¹ Negative variances are overages, or spending above budget levels. Positive variances are spending below budget levels.

The main focus of our analysis is salaries and wages. Overall, salaries and wages are projected higher than the Adopted Budget by a net \$1.8 million (shown above as a negative expenditure variance). However, there are a number of offsetting variances in salaries and wages' components, the largest of which is overtime. We do not discuss fringe benefits and most Non-Personnel Expenditures (NPE) variances, which the Department of Finance addresses in the Mid-Year Report. We *do* discuss contracts expenditures in relation to the City Council approved 2.6% contacts budget reduction for FY 2021.

Salaries and Wages

The following table compares the FY 2021 mid-year projections to the Adopted Budget for the various salaries and wages categories. The bottom row in the variance column shows that salaries and wages in total are \$1.8 million higher than what was included in the FY 2021 Adopted Budget (again, a negative variance).

FY 2021 Salaries and Wages Expenditures - General Fund (\$ in millions)				
	Adopted Budget	Mid-Year Projection	Variance: Adopted to Mid-Year¹	Variance %: Adopted to Mid-Year
Salaries	\$ 510.3	\$ 503.6	\$ 6.7	1.3%
Special Pay	43.9	44.8	(0.9)	(2.1%)
Overtime	71.4	81.2	(9.8)	(13.7%)
Hourly	15.3	10.3	5.0	32.9%
Pay-in-Lieu of Annual Leave	5.2	5.7	(0.5)	(9.4%)
Termination Pay	1.8	4.1	(2.3)	(131.2%)
Total	\$ 647.9	\$ 649.7	\$ (1.8)	(0.3%)

Note: Table may not total due to rounding.

¹ Negative variances are overages, or spending above budget levels. Positive variances are spending below budget levels.

Departmental Variances

The table on the next page displays the departmental variances for the various salaries and wages spending categories (as compared to the Adopted Budget). Again, the net salaries and wages negative spending variance – which is the net of all categories’ overages and under budget spending – is the \$1.8 million overage shown in the right-most column, bottom row.

The first column, bottom row of the table shows the \$6.7 million net under budget salaries – a positive expenditure variance. This net \$6.7 million of salary savings includes two offsetting amounts: \$11.0 million for departments with higher salary savings than budgeted, which is partially offset by \$4.3 million for departments with salary overages.

Departments with higher salary savings than budgeted include:

- \$5.4 million – Fire-Rescue
- \$1.1 million – Library
- \$848,000 – Storm Water
- \$552,000 – Mobility
- \$415,000 – Office of Race and Equity (no positions filled yet, hiring process underway)
- \$371,000 – Smart and Sustainable Communities
- \$348,000 – Environmental Services

Departments with salaries overages include:

- \$2.0 million – City Attorney
- \$611,000 – Police
- \$327,000 – Economic Development
- \$304,000 – City Treasurer

The net \$6.7 million in salary savings is additional salary savings above the \$40.2 million salary/vacancy savings that was included in the FY 2021 Adopted Budget. Salary/vacancy savings and staffing level issues are discussed further beginning on page 9.

Note in the table on the next page that the \$6.7 million in net salary savings combined with the net \$5.0 million savings in hourly wages largely offsets the overages in the remaining salaries and wages categories – again, for a net overage of \$1.8 million. Departments with the largest savings in hourly wages include Library, Parks and Recreation, and Police, at \$2.4 million, \$2.1 million, and \$1.2 million, respectively. These hourly wages savings are partially offset with overages in other departments.

The largest overage is in overtime, at \$9.8 million, which is discussed in the section that follows the table on the next page.

FY 2021 Variances for Salaries and Wages Expenditures - General Fund							
Variances: Adopted Budget to Mid-Year Projection ¹	Salaries	Special Pay	Overtime	Hourly	Pay-in-Lieu	Termination Pay	Net Variance
Fire-Rescue	\$ 5,372,595	\$ (311,488)	\$ (8,483,622)	\$ (589,514)	\$ (37,098)	\$ (427,452)	\$ (4,476,580)
City Attorney	(2,039,145)	(7,741)	(54,682)	(25,480)	(49,726)	(157,071)	(2,333,844)
Environmental Services	347,596	(9,019)	(1,143,633)	(5,455)	(2,851)	(93,457)	(906,819)
Police	(610,783)	(98,778)	0	1,235,766	(382,048)	(880,755)	(736,597)
Economic Development	(326,926)	(1,381)	2,065	3,722	(2,147)	(12,910)	(337,578)
City Treasurer	(304,190)	4,222	25,102	898	(13,331)	(3,682)	(290,980)
City Council	253,204	-	-	(216,307)	7,677	(263,124)	(218,549)
Real Estate Assets	(149,455)	(7,721)	-	(22,659)	1,813	(20,872)	(198,894)
Human Resources	(130,396)	(347)	-	-	(34)	3,970	(126,808)
Personnel	(194,982)	1,797	10,408	62,565	(2,771)	-	(122,983)
Homeland Security	(136,141)	2,876	(91)	22,979	(1,280)	-	(111,657)
Planning	(66,445)	(15,614)	892	(959)	1,345	(26,116)	(106,898)
Performance & Analytics	(57,773)	-	-	77	(11,856)	-	(69,553)
Ethics Commission	(20,285)	-	-	-	6,177	(40,000)	(54,108)
Office of the IBA	(40,007)	-	-	-	524	-	(39,484)
Office of the COO	157,126	-	-	(159,040)	5,786	(42,408)	(38,537)
Debt Management	(28,416)	-	570	-	(65)	(2,939)	(30,849)
General Services	(2,988)	-	(131)	-	-	-	(3,118)
Sustainability	(190)	(1,461)	-	-	-	-	(1,651)
Boards & Commissions	2,987	1,456	-	-	(5,921)	-	(1,478)
Department of Finance	42,245	(2,149)	9,383	-	(5,699)	(42,359)	1,420
Neighborhood Services	11,218	-	(106)	-	32,668	(35,951)	7,829
Office of the CFO	16,048	-	-	-	(1,985)	-	14,063
Office of the Mayor	126,514	1,456	-	-	3,463	(109,104)	22,329
Communications	19,198	2,060	7,344	-	3,617	(9,116)	23,102
Purchasing & Contracting	75,977	1,453	(34,510)	20,263	629	(17,027)	46,786
Transportation	(149,515)	(93,206)	90,658	278,930	(36,724)	(31,778)	58,365
City Auditor	87,730	-	-	(26,516)	(1,404)	-	59,811
Development Services	116,889	(11,168)	10,624	(10,466)	1,824	(2,057)	105,645
City Clerk	121,468	1,593	9,880	12,699	(1,990)	(18,043)	125,607
READ-Facilities Services	290,544	(35,871)	(101,494)	(629)	8,678	(33,813)	127,415
Public Works & Utilities	130,499	-	-	-	381	-	130,880
Homelessness Strategies	155,778	(3)	(11,037)	-	(9,962)	-	134,775
Office of the ACOO	129,194	-	-	-	14,208	-	143,402
Government Affairs	172,525	-	-	-	406	(17,420)	155,510
Smart & Sustainable Communities	371,419	-	(131)	-	1,983	-	373,271
Office of Race & Equity	415,018	-	-	-	-	-	415,018
Storm Water	847,625	(237,972)	(60,019)	7,391	13,582	15,481	586,088
Mobility	551,695	53,636	(934)	328	(7,596)	-	597,129
Parks and Recreation	54,288	(67,323)	20,018	2,059,712	(8,962)	(566)	2,057,167
Library	1,089,594	(81,161)	(80,361)	2,394,456	(6,384)	(78,732)	3,237,411
Total	\$ 6,701,336	\$ (911,854)	\$ (9,783,807)	\$ 5,042,761	\$ (485,077)	\$ (2,347,299)	\$ (1,783,940)

¹ Negative variances are overages, or spending above budget levels. Positive variances are spending below budget levels.

Significant Overtime Overages

As stated earlier, overtime is the salaries and wages category with the largest projected overage, at \$9.8 million, as shown in the previous table. The \$9.8 million overage is largely related to the \$8.5 million in the Fire-Rescue Department (related to constant staffing, strike team deployment, and COVID-19 activities) and \$1.1 million in Environmental Services (related to COVID-19 absences and vacancies).

Overall Overtime Expenditures

The most significant annual overtime expenditures occur in the Police and Fire-Rescue Departments, which are addressed below.

Police Overtime

For additional context, historical information on Police overtime expenditures is provided in the following table. Note, the FY 2021 actual amount is based on the projections in the Mid-Year Report, which are equal to the budgeted amount. For more detailed information on FY 2021 Police overtime expenditures, see our discussion of “Police Appropriations” beginning on page 16 of this report.

Police Overtime - Historical Budget vs. Actuals (\$ in millions)								
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 ²	FY 2020 ³	FY 2021 ⁴
Actual ¹	\$ 17.8	\$ 23.1	\$ 25.0	\$ 26.0	\$ 29.7	\$ 31.9	\$ 44.8	\$ 38.1
Budget	11.8	11.1	18.0	21.0	26.3	24.6	35.9	38.1
Overage	\$ 6.0	\$ 12.0	\$ 7.0	\$ 5.0	\$ 3.4	\$ 7.4	\$ 8.9	\$ -

Note: Table may not total due to rounding.

¹ FY 2014 through FY 2020 amounts are based on unaudited actuals, whereas the FY 2021 amount in the "Actual" line is based on the projections in the Mid-Year Report.

² 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.

³ 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.

⁴ The \$38.1 million FY 2021 budget and projected amounts include \$33.7 million and \$4.4 million for the General Fund and SAF, respectively.

Fire-Rescue Overtime

As shown in the following table, Fire-Rescue’s actual overtime expenditures have significantly increased in FY 2018 through FY 2021 when compared to the previous several fiscal years. From FY 2014 to FY 2017 average overtime expenditures were about \$31.4 million, compared to the most recent expenditures in FY 2018 through FY 2021, which average \$43.3 million. The Fire-Rescue Department has indicated that contributing factors for increases over the years include general salary increases and other effects of MOU changes, increases in strike team deployments and weather-related events, and higher vacancies yielding more constant-staffing overtime. Note that strike team deployment overtime is reimbursable, and therefore will not have an impact on the General Fund.

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
Actual ¹	\$ 29.7	\$ 31.5	\$ 31.8	\$ 32.5	\$ 45.4	\$ 45.2	\$ 41.1	\$ 41.8
Budget	23.7	26.7	29.9	30.2	32.8	38.1	36.6	33.3
Overage	\$ 6.0	\$ 4.8	\$ 1.9	\$ 2.3	\$ 12.5	\$ 7.0	\$ 4.5	\$ 8.5

Note: Table may not total due to rounding.

¹ FY 2014 through FY 2020 amounts are based on unaudited actuals, whereas the FY 2021 amount in the "Actual" line is based on the projections in the Mid-Year Report.

Salary/Vacancy Savings

As discussed earlier in the Departmental Variances section, projected salary savings nets to \$6.7 million. This \$6.7 million is in addition to the \$40.2 million of budgeted vacancy savings (the “vacancy factor”) for FY 2021, as shown in the first row of the following table.

Salary/Vacancy Savings Comparison - General Fund (\$ in millions)			
	Budgeted Savings	Additional Savings	Total Savings ¹
FY 2021	\$ 40.2	\$ 6.7	\$ 46.9
FY 2020	38.0	19.8	57.8
FY 2019	33.2	22.2	55.4
FY 2018	29.7	19.9	49.6
FY 2017	30.4	15.7	46.1
FY 2016	21.5	21.9	43.4

Note: Table may not total due to rounding.

¹ Total salary/vacancy savings for FY 2016 through FY 2020 are unaudited actual amounts. For FY 2021 the amount is the projection as of the Mid-Year Report.

The FY 2021 Adopted Budget states that the “[v]acancy factor is used as a budgeting tool to allocate resources that are projected to remain unspent to other priority needs. As part of the development of the Fiscal Year 2021 Adopted Budget, the City estimates an amount of personnel savings or vacancy savings by department that is attributed to the following: normal attrition, extended leaves of absence, under-filled positions, and newly hired employees that may start at a lower salary than the salary of the prior incumbent.” This budgeting tool can be used by management to assist in identifying departments or other organizational areas having staffing difficulties, which may be the case when projected or actual spending varies from the expectation that was assumed in the budget.

Issues related to employee staffing levels, recruitment and retention challenges, and uncompetitive compensation have been discussed by a number of Councilmembers. In their recent budget priorities memos ², eight Councilmembers spoke to addressing City employees’ compensation. Some Councilmembers have also indicated a desire for analysis of the extent to which departments are having difficulty performing work and meeting service levels as a result of departments’ staffing levels/vacancy levels.

We have included Attachment 1 to this report to provide a frame of reference for the General Fund staffing levels in City departments. Attachment 1 includes an average of filled FTEs for both FY 2020 and FY 2021 as compared to budgeted FTEs. It also includes columns for the average filled FTEs as a percent of budgeted FTEs to roughly assess staffing levels for the various departments. Attachment 1 includes a number of caveats to the data to illustrate the complexity and superficial nature of the data and the need for a more in-depth analysis of staffing levels. It is important for the City to identify the level of vacant positions and the filled positions needed to provide budgeted service levels.

Historical Salary/Vacancy Savings

The following table shows the historical budgeted vacancy factor, annual salary/vacancy savings (projected amount for FY 2021), as well as the percentages in relation to budgeted salaries.

² The FY 2022 City Council budget priorities resolution was passed February 2, 2021.

Salary/Vacancy Savings Comparison - General Fund (\$ in millions)					
	<i>Budgeted Salaries¹</i>	Budgeted Vacancy Factor	Budgeted Vacancy Factor as a Percent of Salaries	Annual Salary/Vacancy Savings²	Annual Savings as a Percent of Salaries
FY 2021	\$ 550.6	\$ 40.2	7.3%	\$ 46.9	8.5%
FY 2020	548.8	38.0	6.9%	57.8	10.5%
FY 2019	500.5	33.2	6.6%	55.4	11.1%
FY 2018	463.9	29.7	6.4%	49.6	10.7%
FY 2017	459.2	30.4	6.6%	46.1	10.0%
FY 2016	444.1	21.5	4.8%	43.4	9.8%

Note: Table may not total due to rounding.

¹ The Budgeted Salaries are the salaries in the Adopted Budgets before each year's vacancy savings is removed.

² Annual vacancy savings for FY 2016 through FY 2020 are unaudited actual amounts. For FY 2021 the amount is the projection as of the Mid-Year Report.

The annual salary/vacancy savings in the preceding table is projected to decline from FY 2020 to FY 2021, from \$57.8 million to \$46.9 million, or \$10.9 million. This is based on the filled position levels assumed for FY 2021 compared with available salaries budget for FY 2021. Unless vacancies vary from the assumed level in the FY 2021 projections, salary/vacancy savings for FY 2021 are projected to be lower than in FY 2020.

The projected \$10.9 million decline in salary/vacancy savings for FY 2021 is largely due to reductions in FY 2021 salaries budget due to the following: increased budgeted vacancy savings, the 4% reductions applied to non-Mayoral departments, and the reduction of a net 81.11 FTEs in budgeted standard hour positions. Note that even though these salaries reductions were incorporated in the budget, overall salaries budget for FY 2021 is close to the FY 2020 level after accounting for increases in budgeted salaries related to special salary adjustments, across-the-board increases, and other increases.

Departmental Non-Personnel Expenditures

Contracts Spending

The mid-year projection for FY 2021 Contracts spending is \$11.9 million higher than the Adopted Budget. This is \$2.0 million higher than the \$9.9 million the Department of Finance reports as the Contracts overage because the Department of Finance is comparing the mid-year projection to the Current Budget. The Current Budget has been increased by a net \$2.0 million from the Adopted Budget largely due to the Economic Development Department's \$2.0 million transfer of budget from the Transfer Out category to the Contracts category.

As our Office explained in [IBA Report 20-10](#), the Contracts spending category is comprised of more spending line items than consulting, maintenance, or other service contacts. The Contracts category also includes rent payments, payments to the Public Liability Fund, other insurance premiums, charges from the Fleet Department to other departments for vehicle usage, and other costs that are non-discretionary in nature and are assigned to departments by the Department of Finance.

As part of the FY 2021 budget actions, the Council removed \$6.3 million in appropriations from Contracts, which was approximately 2.6% of the Proposed Budget level prior to the May Revision. This reduction, while recognizing that not all line items within Contracts can be reduced, was designed to be a general reduction. Council only directed the Department of Finance to remove the funds from the Adopted Budget and left the implementation of the reduction to the discretion of the Department of Finance.

To effectuate this reduction, the Department of Finance initially placed the entire reduction within the Citywide Program Expenditures budget and did not allocate the reduction to the various departmental budgets in the Adopted Budget. Thus, within the published Adopted Budget, and the presented Current Budget in the Mid-Year Report, the entire reduction is still solely contained in Citywide Program Expenditures. However, the Department of Finance, in a memo dated August 7, provided each department with a Contracts reduction target. This target was determined by the size of each department’s Contracts budget after removing all non-discretionary amounts and CARES Act funded budgets. The memo also states that the Department of Finance has placed a funds block for the reduction amount to each departments’ General Fund budget. However, the Department of Finance has not further identified the actual contracts or line items from which the reductions are to be made. It has only provided guidance for departments to monitor their spending and take appropriate action, if necessary, thus leaving the impact of the reduction targets up to the discretion of the various departments.

In the following table, we have highlighted certain departments that are projected to significantly spend over or under their Current Budget for Contracts, adjusted for the reduction targets determined by the Department of Finance. In the table, our Office reduced departments’ Current Contracts Budget by the Department of Finance determined reduction targets (with an offsetting increase to Citywide Program Expenditures), which is shown in the Adjusted Current Budget column. Comparing this adjusted budget to the mid-year projection yields the amounts departments will be over or under their target budget spending level.

General Fund Contracts Spending					
Department	Adopted Budget	Current Budget	Adjusted Current Budget	Midyear Projection	Over/(Under) Adjusted Budget
Citywide Program Expenditures	\$ 53,055,408	\$ 52,690,808	\$ 57,097,776	\$ 61,769,746	\$ 4,671,970
Storm Water	19,925,894	19,925,894	19,280,624	21,944,683	2,664,059
Parks and Recreation	20,863,784	20,863,784	20,290,493	22,128,416	1,837,923
Fire-Rescue	18,485,983	18,449,846	18,238,932	20,009,293	1,770,361
Homelessness Strategies	38,098,337	38,098,337	37,747,543	36,641,434	(1,106,109)
All Other Departments	130,985,357	133,349,957	130,723,258	130,772,301	49,043
Total	\$ 281,414,763	\$ 283,378,626	\$ 283,378,626	\$ 293,265,873	\$ 9,887,247

Projected expenditures above the target budget spending level occur primarily in four departments, while one department is projected to be significantly below budget, as shown above. Outside of these five departments, projected contract spending across all the other departments within the General Fund is projected to be slightly over the Adjusted Current Budget. Thus, if the variances within these five departments were removed, overall Contracts spending would be more in line with the amount authorized by the Council.

Our Office also notes that this level of contract spending by other departments is being achieved because most departments are taking active measures, based upon the reduction targets and the funds block, to lower their spending on Contracts items in FY 2021, mostly through lower travel and training expenditures. As mentioned, however, the Department of Finance has not identified specific contracts or other spending items for reduction and is also not requiring departments to track any savings directly related to the general Contracts reduction. Without additional tracking information, it is not possible to quantify how much of the Contracts savings in departments is directly related to the funds block and the general reduction targets versus how much is just “naturally” occurring savings.

For the four departments that are significantly over their Adjusted Current Budget, most of the activities creating the overages are either increases in non-negotiable costs which are billed to the Contracts category, unanticipated spending items related to the COVID-19 pandemic, or other large unanticipated costs related to emergencies or urgent work. The largest overage is for costs associated with the November 2020 General Election. The elections costs, which the City is obligated to pay, are contained within Citywide Program Expenditures, and are \$2.9 million over the Adopted Budget. The additional overage in Citywide Program Expenditures of \$1.8 million is due to the fact that the allocated target for the general Contracts reduction is not projected to be achieved because most of these costs are non-negotiable. Other large overages by departments include:

- Storm Water Department expenditures over budget include maintenance costs related to the transfer of the stadium property to SDSU, as well as COVID-19 related vehicle rentals and sanitation costs, consulting costs for the Stormwater Funding Strategy, and contractual monitoring services for emergencies and other mitigation expenditures.
- Fire-Rescue Department expenditures over budget are primarily for COVID related testing and telemedicine services, underfunded firefighter wellness costs, additional expenses related to helicopter maintenance, rent expenses, and an increase in the psychological services contract, among other items.
- Parks and Recreation Department overages include unanticipated vehicle replacements, as well as expenses that were initially budgeted in the Transfers Out category but that will be shown as expenses in the Contracts category.

Savings within the Homelessness Strategies Department are mostly due to costs related to CARES Act funding being budgeted to Contracts but spent in other categories such as Supplies and Energy and Utilities, as well as delays in the SMART and Outreach programs.

The Department of Finance notes in the Mid-Year Report that the overages in Contracts spending are more than offset by other NPE savings, and net NPE spending is projected to be \$5.8 million less than budgeted.

Reserves

Projected Use of General Fund Reserve and Excess Equity

The following table shows the FY 2021 projected use of General Fund Reserve based on the Mid-Year Report projections for revenues and expenditures. The FY 2021 Adopted Budget did not include a contribution to fund the General Fund Reserve to the FY 2021 15.75% Reserve target level designated in Council Policy 100-20. As such, the Reserve target level for FY 2021 remains at \$205.6 million (which was the 15.5% Reserve target level for FY 2020). After accounting for the current Reserve of \$205.6 million, there is \$14.5 million in excess equity before FY 2021 projected activity is considered.

The Mid-Year Report projects General Fund expenditures to be \$85.4 million higher than projected revenues for FY 2021. Barring any changes in projected trends or new funding sources, this would result in depleting the \$14.5 million of excess equity and drawing down \$71.0 million of the General Fund Reserve, as reflected in the following table.

FY 2021 Projected Use of General Fund Reserve (\$ in millions)	
Audited Beginning Fund Balance at June 30, 2020	\$ 220.1
Less: Current General Fund Reserve ¹	(205.6)
Excess Equity Before FY 2021 Projected Activity	\$ 14.5
<i>FY 2021 Projected Activity</i>	
Projected Revenue	1,535.0
Projected Expenditures	(1,620.4)
FY 2021 Projected Surplus/(Deficit)	\$ (85.4)
FY 2021 Projected Use of General Fund Reserve	\$ (71.0)

Note: Table may not total due to rounding.

¹ The FY 2021 Adopted Budget did not include a contribution to fund the General Fund Reserve to the FY 2021 15.75% Reserve target level designated in Council Policy 100-20. As such, the Reserve level for FY 2021 remains at \$205.6 million.

Risk Management Reserves

Risk Management Reserves are one of the General Fund deficit mitigations identified in the Mid-Year Report. The General Fund projected balances in these Reserves are shown in the bottom row of the following table.

General Fund Portion of Risk Management Reserves (\$ in millions)			
	Public Liability	Workers' Compensation	Long-Term Disability
FY 2021 Reserve Projection	\$ 33.8	\$ 32.0	\$ 4.1
Budgeted General Fund Percentage	100.0%	87.0%	68.6%
Projected General Fund Portion	\$ 33.8	\$ 27.8	\$ 2.8

For additional reference, the following table shows the FY 2021 projected balances for the Risk Management Reserves as compared to the FY 2021 Reserve targets. Each of these Reserves is projected to have a deficit as compared to the Reserve target.

Current Projected Deficits in Risk Management Reserves (\$ in millions)			
	Public Liability	Workers' Compensation	Long-Term Disability
FY 2021 Reserve Projection	\$ 33.8	\$ 32.0	\$ 4.1
FY 2021 Reserve Target	36.0	32.5	4.2
Projected Surplus/(Deficit)	\$ (2.2)	\$ (0.5)	\$ (0.1)

Mayor’s Mitigation Proposal

Each year’s Mid-Year Budget Monitoring Report provides important information for elected officials to consider and use to prudently manage the current year budget. This year’s report is projecting a \$85.4 million deficit for the fiscal year ending June 30, 2021 (FY 2021). The City Charter requires a balanced budget. City Council Policy 000-02 says “The Mayor must identify any mid-year surplus or deficit that exists and provide Council with a recommendation to address the reported surplus or deficit.” This statement in Council Policy 000-02 references San Diego Municipal Code (SDMC) Section 22.0229 which provides the following with respect to the Mid-Year Budget Monitoring Report:

“In the month of February or at such time during any fiscal year after the City has six months of actual budgetary data and the Mid-Year Budget Monitoring Report is projecting a surplus or a deficit relative to the adopted General Fund budget, the Mayor shall report such deficit or surplus to the City Council and provide a recommendation to the City Council, and accompanying budget amendment resolution, to address the reported deficit or surplus.”

The projected \$85.4 million deficit largely results from a COVID-related reduction in Transient Occupancy Tax that was even greater than expected at the time of budget adoption last June. Citing a dynamic environment and continued uncertainty, the Mid-Year Report indicates the Mayor is exploring various mitigation options to address the projected budget shortfall and will communicate next steps in the coming weeks. The possibility of a new Federal Stimulus Package that could provide significant relief to state and local governments is discussed in the Report, but the potential amount and restrictions associated with such funding remain unknown at this time. The Mid-Year Report anticipates the status and use of any federal and/or State stimulus monies will be fully known prior to the Third Quarter Monitoring report scheduled for release on May 18, 2021.

The Department of Finance has preliminarily identified the following mitigation options for consideration to address the projected \$85.4 million shortfall:

- \$14.5 million in unassigned fund balance (excess equity)
- Potentially significant federal or State relief funds

- Operational or capital project reductions
- General Fund or Risk Management Reserves

Excluding the possibility of federal or State relief funds, the use of these mitigation options represent very difficult choices in the short run that will only intensify budget challenges going forward, particularly considering the continued uncertainty associated with the pandemic and a projected budget shortfall in excess of \$150 million for the fiscal year beginning July 1, 2021 (FY 2022). In addition to these challenges, the City's General Fund must address other critical issues like priority infrastructure needs and employee compensation.

The Mid-Year Report states that the Mayor is not recommending any deficit mitigation actions at this time due to the uncertainty associated with federal or State relief funding and other pandemic related impacts. The Report indicates that even if federal or State relief funds are not received, the City has available General Fund Reserve that is more than two times the amount of the projected deficit. While it would be appropriate to use General Fund Reserve to address the unanticipated adverse fiscal impacts resulting from this pandemic, it will also create a new burden for the City to quickly develop a reasonable plan to rebuild the General Fund Reserve and amend its Reserve Policy.

On February 10, 2021, the Interim Chief Operating Officer (COO) sent a memorandum to all department directors indicating that, in the absence of additional federal funding, the City will need to address the projected \$85.4 million deficit through a combination of budget reductions and use of reserves. The memorandum further informs directors that hiring General Fund positions will need to meet specific criteria and require review/approval by senior management and the COO. Additionally, departments were directed to suspend all non-public safety/non-public health related overtime expenditures and keep all non-personnel spending to the minimum needed to accomplish department objectives. Our Office commends the COO for taking these immediate actions as we believe they are prudent and in keeping with the provisions of Council Policy 000-02 and SDMC Section 22.0229.

While our Office understands that the Mayor does not wish to unnecessarily disrupt public programs, services, or reserves given the possibility of receiving federal relief funds soon, we also must acknowledge the uncertainty surrounding the receipt of relief funding and the potential opportunity cost of time lost while we wait for better information. With that in mind, **we support the plan to provide Council with a major General Fund revenue update in mid-March and encourage the immediate implementation of any other reasonable cost-saving measures/actions.**

Police Appropriations

The City Council included provisions in the Appropriations Ordinance for FY 2021 (AO) intended to limit the Police Department's funding for General Fund Overtime and its Neighborhood Policing Division, and to require the Chief of Police to inform them about expenditures in these areas during the Mid-Year Budget Monitoring Process. For overtime, the stated authorization was limited to \$17.0 million of the \$33.7 million General Fund overtime budget; for Neighborhood Policing, it was limited to \$12.0 million of the \$24.3 million budget. A memorandum from the Chief of Police is attached to the Mid-Year Report (Attachment VII) which fulfills the Council's

request and, according to the City Attorney’s Office, the Mayor has authority to move forward with full funding for the remainder of the year.

The memorandum confirms that the Department has not exceeded the authorization limits conveyed by the Council in the AO for either category through the first five months of the fiscal year (i.e., the period of actual activity that is factored into the Mid-Year Budget Monitoring Process). Our Office can further confirm that these limits were not exceeded through the first six months of the fiscal year, as reflected in the table below.

SDPD General Fund Expenditures Limited by FY 2021 Appropriation Ordinance				
Description	Adopted Budget	AO Limit	Expenditures Through Period 5 (Nov. 2020)	Expenditures Through Period 6 (Dec. 2020)
Overtime	\$33,715,021	\$17,000,000	\$13,466,289 (40%)	\$15,913,801 (47%)
Neighborhood Policing	24,283,469	12,000,000	9,535,980 (39%)	11,464,520 (47%)

The memorandum also discusses the activities associated with expenditures to date for both categories, as well as the Department’s plan for the expenditure of the remaining budgeted balances for the rest of the fiscal year.

With respect to the Department’s General Fund overtime budget, of note are the impacts associated with COVID-19 and recent citizen protests. For COVID-19 related overtime activity, this constitutes a projection of \$3.9 million, or 286% over budget; for citizen protests the Department is projected to be \$1.8 million, or 1,224% over budget. Despite these significant overages, the Department expects to end the year at budget given that expenditures for other overtime categories are projected to end the fiscal year under budget, including Special Events, Court, and Extension of Shift for Communications Staffing. We note however that much of the Department’s Special Event overtime is reimbursable through special event fees. Therefore, despite projecting to end the fiscal year at budget, approximately \$3.0 million in budgeted special event revenue which would otherwise offset the overtime expense, is not expected to be realized. This loss of revenue is factored into the overall \$55.7 million shortfall in Departmental Revenue discussed in the Mid-Year Report. A complete breakdown of the Police Department’s FY 2021 General Fund overtime budget is provided in the following table.

SDPD FY 2021 General Fund Overtime Breakdown						
Category	Subcategory	Adopted Budget	Expenditures Through Period 5		FY 2021 Mid-Year Projection	
			(\$)	(%)	(\$)	(%)
Extension of Shift	Extension of Shift	\$ 3,921,137	\$ 1,875,334	48%	\$ 3,921,137	100%
	Reports	1,214,838	517,948	43%	1,214,838	100%
	Training & Support	874,667	197,719	23%	874,667	100%
	Emergency Calls	23,867	11,935	50%	23,867	100%
	Patrol Staffing Backfill	3,261,396	681,339	21%	3,261,396	100%
	Community Policing	423,898	8,977	2%	423,898	100%
	Communications Staffing	2,333,440	347,088	15%	1,358,733	58%
Call Back	Call Back	1,418,177	662,462	47%	1,589,910	112%
Court	Court	2,084,808	356,656	17%	855,975	41%
Holidays	Holiday Worked Premium Pay	4,292,865	2,096,829	49%	4,292,865	100%
Special Events	Special Events Commercial	1,183,328	178,383	15%	295,832	25%
	Special Events - Non-Profit	1,150,955	62,311	5%	287,739	25%
	July 4th Holiday Support	196,857	151,035	77%	151,035	77%
	Ballpark Events	1,376,894	124,144	9%	344,223	25%
	Stadium Events	229,451	-	0%	-	0%
	Other Special Events	426,451	-	0%	106,613	25%
Grants/Task Forces	Grants/Task Forces	2,521,300	787,989	31%	2,521,300	100%
Other Events ¹	Presidential/Dignitary Visits	72,394	-	0%	-	0%
	Protests & Other Events	156,400	1,666,036	1065%	1,913,883	1224%
	Clean SD	3,549,407	938,293	26%	3,549,407	100%
	Other (inc. COVID-19)	2,077,665	2,475,940	119%	5,942,255	286%
Miscellaneous	FLSA Overtime (Flores)	924,827	327,270	35%	785,449	85%
TOTAL		\$33,715,021	\$13,467,688	40%	\$33,715,021	100%

¹ Excludes Neighborhood Policing overtime which is budgeted in the Seized Assets Fund (Non-General Fund); 33% of the \$4.4 million budget has been expended through Period 5; full expenditure is projected at fiscal year-end.

Homelessness Programs

Concourse Fund Support for Golden Hall Bridge Shelter

The Mid-Year Report states that expenditures in the Concourse and Parking Garages Operating Fund are expected to increase in the latter half of FY 2021, primarily due to the expected reopening of the homeless shelter at Golden Hall in the spring. Increased use of the facility is expected to result in increased costs to run the facility, such as utilities and maintenance. This, together with an expected decline in revenue since events are not being held, is driving the projected \$2.3 million fund deficit at year-end.

While it is reasonable for the Concourse Fund to provide funding for ongoing facility maintenance, we believe that the Concourse Fund is an inappropriate long-term funding source for the Golden Hall Bridge Shelter. We understand that Real Estate Asset Department staff is working to determine the appropriate cost to allocate to Homelessness Strategies to support the shelter's use of the facility.

For background, Council directed the upstairs of Golden Hall continue to be used as one of the Bridge Shelter locations on June 11, 2019. Then on October 6, 2020, Council approved the expansion of the shelter to include the downstairs to provide additional shelter capacity once residents leave the Convention Center. It is important to note that due to permitting restrictions,

the downstairs is currently intended to be used temporarily as significant facility upgrades will be needed if it were to be used long-term.

Monitoring Homeless Program Expenditures

Beginning with the FY 2019 Mid-Year Report, Budget Monitoring Reports have included extensive reporting on homeless program expenditures for both General Funds and non-General Funds in response to Councilmember requests for comprehensive homelessness expenditure data. Reporting on this information has been discontinued. Instead, the FY 2021 Mid-Year Report limits discussion of homelessness programs to significant projected variances from the FY 2021 Adopted Budget for General Funds.

General Fund resources constitute a relatively small amount of the funds allocated for homelessness programs. In FY 2021 they made up less than 30% of the \$149.3 million available in City funds (the San Diego Housing Commission also allocates funds for homelessness programs). The Council may wish to continue to receive updated information about the expenditure status of the following significant resources used to address homelessness that are not discussed in the Mid-Year Report:

- \$36.6 million from two multi-year State grants
- \$27.4 million in federal Emergency Solutions Grant funding, most of which is designated to respond to COVID-19
- \$16.8 million in federal Community Development Block Grant funds allocated for FY 2021
- \$4.1 million in General Funds provided in the FY 2021 budget to “...help make neutral the loss of 200 beds from the transfer of the Midway district bridge shelter to Chula Vista.”

It is useful for the Council and the public to receive regular program updates in order to understand how programs are being implemented, and how funds are being expended. For example, savings from several other homelessness programs were used to partially support the recent extension of Operation Shelter to Home but it was unclear at the time why those programs were underspending and whether there would be program impacts by reallocating funds. Regular updates on homelessness program expenditures could have addressed this issue.

We recognize that this reporting would be more digestible as a separate stand-alone report outside of Budget Monitoring Reports and warrants its own discussion. Therefore, **Council could consider requesting biannual reports on homelessness expenditures similar to what used to be reported in FY 2020 Budget Monitoring Reports.** For example, the FY 2020 Third Quarter Budget Monitoring Report included a breakdown of the current budget and projected expenditures for over 20 programs and discussed significant variances and other notable programmatic changes. These reports could come to a committee as information items.

Status of Items City Council Added in FY 2021 Budget

On June 8, 2020, the City Council identified sufficient resources and took action to add or restore programs and services to the Mayor’s Proposed Budget. These items represented the Council’s top

budget priorities for FY 2021. They were developed after months of reviewing IBA analyses and recommendations, carefully reviewing the Mayor’s Proposed Budget and May Revision, listening to their constituents, holding hearings with every City Department Director, and holding virtual Town Halls in the community. The Council’s modifications totaled \$26.4 million, or 1.7% of the FY 2021 General Fund Proposed Budget and brought back numerous City services critical to the community. None of these items had been funded in the Mayor’s Proposed Budget or May Revision.

The table on the following page shows the implementation status for each of the Council’s final budget decisions for FY 2021. Some funding has been fully spent to date while other areas show budget available to continue these services through the end of the fiscal year. We note this information was gathered by our office shortly before the Interim Chief Operating Officer released a memo to all departments on Wednesday, February 10, 2021 which put stronger processes in place for new hires and limits on use of non-personnel funding. The status column of the table shows several departments have yet to hire these important budgeted positions and are planning to do so in the final months of the fiscal year. The pending hires noted are those for a Pothole Repair Crew, STAR/PAL Unit, Weed Abatement, Recreation Center Hours, Living Wage Program, and Office of Race and Equity. Other important services, that require expending funds for contractual or other work through the fiscal year, include tree trimming, brush management, climate action support, tree planting, internet for low-income communities, and establishing a community equity fund. We also note that the COVID-19 pandemic has impacted and continues to impact the degree to which some services can be fully implemented.

While waiting for better information about the possibility of additional federal or State relief funding, the Mayor has yet to provide a recommendation for how he plans to mitigate the \$85.4 million deficit in the current fiscal year. **Should eliminations or reductions in services be necessary to balance the current year budget, the Mayor must notify and provide fiscal justification to the City Council for any revisions being considered to programs funded in the FY 2021 Adopted Budget.** The [FY 2021 Statement of Budgetary Principles \(IBA Report 20-16\)](#) states the following:

“Consistent with Chapter 2, Article 2, Division 2 of the Municipal Code, prior to any reduction in service levels or elimination of programs or services as represented and funded in the FY 2021 Adopted Budget, the Mayor, or designee, shall provide written notice to the City Council regarding such reductions and provide a fiscal justification thereof and a description of expected service levels impacts.”

The full list of budget changes made by City Council in the final budget action on June 8, 2020 ([Resolution R-313071](#)) are listed in the following table with a brief status on the implementation of those items.

Status of City Council's Modifications in FY 2021 Adopted Budget			
	FTE	Amount	Status
General Fund Expenditure Items			
Restore Library Hours	93.01	\$ 6,556,386	Personnel Expenditure savings projected due to reduced staffing levels
Tree Trimming		1,817,193	Projected to be fully expended by end of fiscal year
Pothole Repair Crew	2.00	130,649	Estimated fill date of March 2021
City Auditor Restoration		253,908	Implemented in Adopted Budget
STAR/PAL Unit	2.00	191,997	Interviews conducted on January 27, 2021
Brush Management		411,473	Projected to be fully expended
Infrastructure Fund FY 2019 True-Up		5,663,897	Allocation to CIP to backfill some defunded projects
Restore Living Wage Program Position	1.00	102,887	Position was restored in Adopted Budget but department has been unable to fill position, candidates who were offered position declined for other opportunities, department will be initiating recruiting process again soon
Weed Abatement	1.00	756,228	Estimated fill date of March 2021, all NPE projected to be fully expended by end of fiscal year
Graffiti Abatement	2.00	267,917	Both positions already filled, all NPE projected to be fully expended by end of fiscal year
City Attorney Budgeted Vacancy Savings Reduction		1,765,776	Implemented in Adopted Budget
Restore City Clerk		239,660	Implemented in Adopted Budget, no status change
Climate Action Plan Support		250,000	Projected to be fully expended by end of fiscal year on either CAP Annual Report or CAP 2.0 update
Internet Access for Low-Income Communities		500,000	Approximately 54% of funds have been expended or committed, staff is finalizing expenditure plans for remaining funds
Restore Reservoir Recreation Programs		648,501	Funding restored in Adopted Budget and recreation programs are fully operational
Sherman Heights Community Center		547,000	Funding is for construction which will begin in spring
Tree Planting		300,000	Projected to be fully expended by end of fiscal year
Restore Remaining Recreation Center Hours	2.50	202,384	Projected to be fully expended
New Office of Race & Equity (ORE)	3.00	825,000	Positions have yet to be filled, Mayor recently announced that a national recruiting process is underway to hire a Director
Establish Community Equity Fund		3,000,000	This fund is to be administered by ORE which has yet to be staffed, funds that remain unexpended in FY 2021 will be re-appropriated for use in FY 2022
Person-Centered Unsheltered Outreach Program		1,500,000	Council approved FY 2021 Operating Agreement October 27, 2020
Changing Position Reductions from Filled to Vacant Positions			Implemented in Adopted Budget
Mayoral Staff Work with AFSCME L127 to Place or Maintain 28 Employees Impacted by Cut Positions			Only 8 L127 employees were ultimately impacted by position cuts - 4 transferred to different departments, 2 took demotions and 2 retired
Total General Fund Expenditure Items	106.5	\$25,930,856	
General Fund Resources			
General Fund's Fleet Replacement Fund Balance		\$ 16,700,000	\$4M has been transferred to the General Fund, remaining amount will be transferred by end of fiscal year
Reduced Transfer to Public Liability Fund		1,700,000	Implemented in Adopted Budget
General Contract Reduction of 2.6%		6,275,000	See discussion earlier in report for status update
Stadium Operations to SDSU by August 1		1,255,856	Transfer was made to SDSU in August, Mid-Year projects Stadium Operations Fund expenditures to be \$778,000 under budget
General Plan Maintenance Fund		447,414	Projected to be fully utilized for key Work Program initiatives
Total General Fund Resources		\$26,378,270	
Other			
Establish COVID-19 Rent Relief Fund		\$ 15,100,000	Fully spent, all qualified households (3,717) received a payment
Restore Parking Meter Technicians	2.00	156,553	Positions were proposed as budget reductions in FY 2021 and subsequently restored by City Council with their final budget resolution on June 9, 2020, restored positions were to be cost neutral

CONCLUSION

The Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The FY 2021 Mid-Year Report is projecting a General Fund year-end budgetary deficit of approximately \$85.4 million. The Mayor is recommending no actions or appropriation adjustments at this time.

While there is uncertainty about potential federal or State relief funding that may mitigate this deficit, the Chief Operating Officer recently notified departments of new requirements to receive approval to fill vacant positions and imposed limitations on discretionary spending. In addition, the Department of Finance has indicated an intent to return to City Council in March 2021 with an update on major General Fund revenues.

It is critical for City Council to receive regular updates regarding plans and actions taken to mitigate the projected deficit, particularly any impacts those mitigation efforts may have to service levels. The next complete update to projections will be in the FY 2021 Third-Quarter Budget Monitoring Report, scheduled to be released on May 18, 2021 and reviewed by the Budget Review Committee on May 20, 2021.

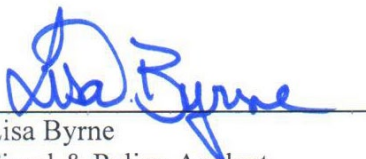
Attachment 1: Budgeted FTEs vs Filled FTEs (FY 2020 and FY 2021)



Baku Patel
Fiscal & Policy Analyst


Jillian Kisse
Fiscal & Policy Analyst

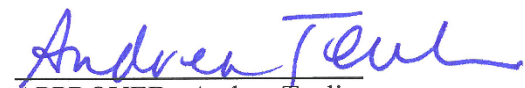
Charles Modica
Fiscal & Policy Analyst


Jordan More
Fiscal & Policy Analyst

Lisa Byrne
Fiscal & Policy Analyst


Angela Colton
Fiscal & Policy Analyst

Jeff Kavar
Deputy Director


APPROVED: Andrea Tevlin
Independent Budget Analyst

Budgeted FTEs vs Filled FTEs						
General Fund Department/ Business Area	FY 2020			FY 2021		
	Budgeted FTEs (Standard Hour Positions)	Average Filled FTEs (Active Positions)	Average Filled FTEs as a % of Budgeted FTEs	Budgeted FTEs (Standard Hour Positions)	Average Filled FTEs (Active Positions)	Average Filled FTEs as a % of Budgeted FTEs
Office of Race & Equity	N/A	N/A	N/A	3.00	-	-
Public Works & Utilities	2.00	1.75	87.5%	1.50	0.67	44.4%
Smart & Sustainable Communities	10.50	4.88	46.4%	10.50	6.50	61.9%
Mobility	N/A	N/A	N/A	16.50	10.67	64.6%
Homelessness Strategies	N/A	N/A	N/A	9.00	6.00	66.7%
Purchasing & Contracting	52.00	36.00	69.2%	47.00	33.67	71.6%
Development Services	72.00	61.50	85.4%	69.00	57.33	83.1%
Office of the ACOO	3.00	2.75	91.7%	2.00	1.67	83.3%
Debt Management	20.00	17.75	88.8%	17.00	14.33	84.3%
Environmental Services	172.68	152.72	88.4%	172.90	147.80	85.5%
Government Affairs	7.00	6.00	85.7%	7.00	6.00	85.7%
City Council	109.00	97.88	89.8%	109.00	94.00	86.2%
Homeland Security	18.00	13.25	73.6%	17.00	14.67	86.3%
Transportation	628.25	555.69	88.5%	412.25	360.50	87.4%
Communications	33.00	30.00	90.9%	32.00	28.00	87.5%
Planning	65.75	54.75	83.3%	51.75	45.75	88.4%
City Clerk	47.00	44.25	94.1%	47.00	42.00	89.4%
Library	358.00	338.88	94.7%	358.00	320.33	89.5%
Storm Water	N/A	N/A	N/A	209.50	188.33	89.9%
READ-Facilities Services	211.50	187.38	88.6%	176.33	158.67	90.0%
Office of the IBA	10.00	9.00	90.0%	10.00	9.00	90.0%
Personnel	67.00	63.50	94.8%	67.00	60.33	90.0%
Fire-Rescue	1,248.00	1,171.00	93.8%	1,293.67	1,175.33	90.9%
City Auditor	22.00	18.75	85.2%	22.00	20.00	90.9%
Performance & Analytics	15.00	12.75	85.0%	15.00	13.67	91.1%
Economic Development	59.00	49.25	83.5%	53.00	48.33	91.2%
City Treasurer	128.00	110.00	85.9%	118.00	110.00	93.2%
Police	2,605.00	2,390.25	91.8%	2,582.00	2,412.33	93.4%
Parks and Recreation	747.42	701.25	93.8%	727.83	682.58	93.8%
Human Resources	33.00	28.75	87.1%	31.00	29.33	94.6%
Office of the Mayor	24.00	21.00	87.5%	20.00	19.00	95.0%
Real Estate Assets	32.00	25.25	78.9%	26.00	25.00	96.2%
Department of Finance	111.00	103.50	93.2%	106.00	102.00	96.2%
City Attorney	382.25	366.31	95.8%	381.25	367.25	96.3%
Office of the COO	5.00	5.00	100.0%	4.00	4.00	100.0%
General Services	N/A	N/A	N/A	1.50	1.50	100.0%
Boards & Commissions	5.00	5.00	100.0%	6.00	6.00	100.0%
Office of the CFO	2.00	2.00	100.0%	2.00	2.00	100.0%
Sustainability	4.00	3.75	93.8%	4.00	4.00	100.0%
Neighborhood Services	11.00	10.75	97.7%	1.50	1.50	100.0%
Ethics Commission	5.50	5.25	95.5%	6.25	6.67	106.7%
Internal Operations	1.50	1.38	91.7%	N/A	N/A	N/A
Total General Fund	7,327.35	6,709.09	91.6%	7,246.23	6,636.71	91.6%

NOTES:

FTEs in this table are standard hour FTEs (full-time, half-time, etc.). They do not include FTEs for workers traditionally considered to be "hourly".

Because vacancies are constantly changing, the filled position status is an average of multiple snapshots in time (8/1/19, 11/1/19, 2/1/20, and 5/1/20 for FY 2020; 8/1/20, 11/1/20, and 2/1/21 for FY 2021). Larger departments would not expect to have all budgeted positions filled on average during the year, as turnover occurs. Filled position data was extracted on 2/3/21 for all time periods.

Filled FTEs include supplemental positions that are not included in the budget. However, some employees (but not all) in supplemental positions may be filling operational gaps for other employees who are on extended leaves but are still considered "active" employees in the system. In such cases, there are two employees included in the filled FTE category: but operationally, one of those filled positions is a vacancy. Further, there are other employees in the City who occupy budgeted positions and are on some type of extended leave, which even though is not a technical vacancy in the system, may be creating an operational vacancy. Again, these additional operational vacancies are not captured in this table.