



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Date Issued: June 9, 2021

IBA Report Number: 21-18

City Council Docket Date: June 14, 2021

Item Number: 602

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# Recommended City Council Modifications to the Mayor's Proposed FY 2022 Budget and Review of the May Revision

This report presents the Office of the Independent Budget Analyst's final FY 2022 budget review and recommendations for Council budget modifications. The recommendations are based on the following: our analysis of the May Revision to the FY 2022 Proposed Budget (May Revision), the FY 2021 Third Quarter Budget Monitoring Report (Third Quarter Report), and the FY 2022 Proposed Budget. Recommendations also primarily reflect our review of Councilmember budget modification memoranda that were submitted to our Office on May 26, 2021 and released separately as [IBA Report 21-17](#), as well as consideration of feedback from the public, City staff, and City Councilmembers received during the Budget Review Committee hearings.

This report is released at the end of a budget development process that has included extensive reviews of the Mayor's FY 2021 Proposed Budget by the City Council and the IBA, including:

- The IBA's review of the Mayor's FY 2022 Proposed Budget issued on April 30, 2021 as [IBA Report No. 21-10](#)
- Departmental and agency budget hearings with the Budget Review Committee that took place on May 5-11, 2021
- An evening Budget Review Committee meeting held on May 5, 2021 and an evening City Council meeting held on May 17, 2021 to solicit input from the community on the Mayor's budget proposals and City Council's budget priorities for FY 2022
- Department of Finance responses to Budget Review Committee requests for additional information released following Budget Review Committee hearings
- The discussion of the May Revision and Third Quarter Report (both of which were released on May 18, 2021) at the Budget Review Committee on May 20, 2021

Our recommendations for Council budget modifications and other requests for Council authority are itemized in the concluding section of this report. Our review of the May Revision to the FY 2022 Proposed Budget is attached to this report.

## IBA RECOMMENDED BUDGET MODIFICATIONS

Following the release of the May Revision and Council’s subsequent review at the Budget Review Committee hearing on May 20, 2021, Councilmembers submitted budget modification memoranda to our Office on May 26, 2021. These memos identified expenditure priorities and potential new funding sources that were not included in the FY 2022 Proposed Budget or May Revision. Our Office reviewed all budget priorities mentioned in Councilmembers’ memos. **We recommend funding those items which are supported by a majority (five or more) of the Council**, though in some cases we have adjusted proposed funding amounts based on information from impacted departments on whether they can expend the full amount supported in Council memoranda, or if additional amounts for Council’s majority-supported priorities are needed.

### Recommended Modifications to FY 2022 Expenditures

**Our Office recommends expenditure modifications totaling \$9.1 million, \$7.1 million in the General Fund and \$2.0 million in the Climate Equity Fund** as summarized in the table below. This funds items that received majority support in Councilmember memoranda.

<b>Table 1 - Recommended Expenditure Modifications to the FY 2022 Budget</b>		
<b>Expenditures</b>	<b>FTE</b>	<b>Amount</b>
<b><i>Ongoing Items</i></b>		
Increased Support for Arts		\$ 2,000,000
Tree Trimming		900,000
Additional City Attorney Positions	3.00	504,303
Office of Child and Youth Success	1.00	350,000
Fire-Rescue Helicopter Maintenance		350,000
Weed Abatement/Brush Management		328,000
Additional Graffiti Abatement		150,000
Restore City Auditor Funding		91,251
<b><i>Subtotal Ongoing</i></b>	<b>4.00</b>	<b>\$ 4,673,554</b>
<b><i>One-Time Items</i></b>		
<b><i>One-Time Operating Budget Items</i></b>		
Streets Condition Assessment		\$ 700,000
Public Power Feasibility Study		500,000
<b><i>One-Time Capital Items (General Fund)</i></b>		
New Streetlights		\$ 500,000
Kelly Street Park GDP		400,000
Unimproved Street - S. Bancroft at Greely		250,000
Barrio Logan Traffic Calming		100,000
<b><i>One-Time Capital Items (Climate Equity Fund)</i></b>		
Emerald Hills Park Design		\$ 1,000,000
Boston Avenue Linear Park GDP		400,000
Berardini Field GDP		400,000
Streetlights in Communities of Concern		200,000
<b><i>Subtotal One-Time</i></b>		<b>\$ 4,450,000</b>
<b>Total Additional Expenditures</b>	<b>4.00</b>	<b>\$ 9,123,554</b>

The following section contains further details on the recommended adjustments identified in Table 1, including descriptions for each line item.

Increased Support for the Arts - \$2.0 million (Ongoing)

A majority of Councilmembers expressed support for providing additional funding for arts in FY 2022, with several mentioning a desire to further increase arts funding in future years as well. The addition of \$2.0 million in arts funding would bring total arts and cultural funding in the FY 2022 Budget to \$9.1 million. As a reference, the “Penny for the Arts” target for arts and cultural funding in FY 2022 is \$17.4 million. If the Council wishes to meet that target in future fiscal years, additional resources will need to be identified.

Tree Trimming - \$900,000 (Ongoing)

There was unanimous Council support to add funding for tree trimming activities, in particular shade tree trimming. The Proposed Budget includes \$2.3 million for contractual tree services, including \$1.6 million for tree trimming and \$0.7 million for tree removals. Adding \$900,000, for a total tree services budget of \$3.2 million, would allow the department to dramatically increase the shade tree trimming cycle from once every 24 years to once every 10 years, while also allowing the department to respond to all emergency removals.

Additional City Attorney Positions - \$504,303, 3.00 FTE (Ongoing)

A majority of Council budget modification memoranda supported the addition of three Deputy City Attorney positions to support the Office’s Civil Litigation and Criminal Divisions. The City Attorney’s office included these requests in its submissions for the Proposed Budget, but they were not included in either the Proposed Budget or the May Revision. The City Attorney’s Office reports that these positions are expected to reduce the need for outside counsel, and that they will help to maintain key institutional knowledge and experience in the Office.

Office of Child and Youth Success - \$350,000, 1.00 FTE (Ongoing)

All nine Councilmembers prioritized additional funding for child and youth coordination services in their budget modification memoranda, including eight Councilmembers that requested the creation of a new Office of Child and Youth Success. Areas of responsibilities that were discussed for the new office included the coordination of existing youth and family services that are currently spread across various City departments (e.g., Parks and Recreation, Library, etc.), developing programs to increase childcare access and availability, and other collaborative efforts with school districts, community based organizations, and other regional partners.

Our Office recommends initially funding the new Office of Child and Youth Success with 1.00 FTE Executive Director and \$350,000 in total ongoing expenditures.

Fire-Rescue Helicopter Maintenance - \$350,000 (Ongoing)

A majority of Councilmember budget modification memoranda supported the restoration of \$350,000 for Fire-Rescue helicopter maintenance that was reduced in the FY 2021 Adopted

Budget and not restored in the FY 2022 Proposed Budget. Our Office recommends appropriating \$350,000 in funding to restore Fire-Rescue's helicopter maintenance funding.

Weed Abatement/Brush Management - \$328,000 (Ongoing)

There is unanimous Council support to restore the weed abatement budget within the Transportation Department. The Proposed Budget currently includes \$572,000 for this purpose. This addition would restore the proposed reduction due to the allocation of the FY 2021 2.6% across-the-board Contracts Reduction and would increase the total weed abatement budget to \$900,000, which is the level included in the FY 2021 Adopted Budget.

Additional Graffiti Abatement - \$150,000 (Ongoing)

There is unanimous Council support to add funding for residential graffiti abatement. The Proposed Budget includes \$150,000 for residential graffiti abatement, which is the same amount as included in the FY 2021 Adopted Budget. A majority of Council budget modification memoranda supported adding \$100,000 for additional graffiti abatement, which would allow the Transportation Department to respond to most, but not all, of the expected abatement requests in FY 2022. Adding an additional \$50,000, for an increase of \$150,000 and a total budget of \$300,000, would allow the Transportation Department to respond to all of the expected requests for graffiti abatement on residential property. Our office therefore recommends adding \$150,000 for graffiti abatement.

Restore City Auditor Funding - \$91,251 (Ongoing)

Six Councilmembers supported restoration of \$91,251 in wages that had been removed in the FY 2022 Mayor's Proposed Budget for the City Auditor's Office. In April, the Audit Committee had recommended that Council make this restoration.

Street Condition Assessment - \$700,000 (One-Time)

A majority of Councilmembers support the addition of funding for a new Street Condition Assessment. This assessment has not been done since 2016, and it is recommended that a new condition assessment of pavement be conducted once every four to five years. Adding \$700,000 would allow the department to procure a contractor to conduct the assessment, which should be completed in early FY 2023.

Public Power Feasibility Study - \$500,000 (One-Time)

The City Council recently adopted new 10 to 20-year gas and electric franchise agreements with San Diego Gas & Electric. The City maintains its right to terminate the new agreements at any time should the Council or electors subsequently decide to pursue public power (sometimes referred to as municipalization). A majority of Councilmembers support allocating at least \$500,000 in the FY 2022 Budget to further study the feasibility of the City pursuing public power.

It should be noted that in April of 2020 the City received a preliminary public power feasibility analysis in a report from a consulting team led by NewGen Strategies and Solutions entitled "Electric and Gas Franchise Agreements Consultant Report". This report provided initial estimates/analysis that would need to be further analyzed and developed to provide Council with

more comprehensive public power feasibility information and recommendations. The NewGen Report included a preliminary estimate of the value of SDG&E’s electric and gas distribution infrastructure in the City, cost estimates for severance costs that would be incurred, and customer cost implications under various scenarios.

Our Office recommends the scope of the new consultant agreement begin with consideration of the preliminary work and findings in the NewGen Report so as not to lose the value of that analysis. We expect that a more comprehensive public power feasibility study will cost much more than \$500,000 and require a significant amount of time to complete. Given these expectations, our Office further recommends that any request for proposals contemplate a phased approach to the feasibility study that accommodates the limited initial funding of \$500,000 in FY 2022.

General Fund Capital Improvement Projects - \$1.3 million (One-Time)

Additional capital investments were broadly supported by Councilmembers. A majority of Councilmembers supported seven capital improvement projects in their budget priority memoranda. Some of these projects are eligible to be funded by the Climate Equity Fund, which is discussed further below. The remaining projects are recommended to be funded with \$1.3 million in General Funds as shown in the following table.

Although they did not receive majority support, we note that other capital priorities expressed multiple times in budget priority memoranda include: sidewalk repair, additional funding for new sidewalks beyond what is included in the Proposed Budget, additional park improvements, a new library, and storm water.

Table 2 - Recommendations for General Fund Capital Improvement Projects		
Project	General Fund Allocation	Additional Information
Installation of City Owned Streetlights (AIH00001)	\$ 500,000	Increases the Proposed Budget allocation of \$1.2 million to \$1.7 million for installation of streetlights <i>Citywide</i> .
Kelly Street Park GDP	400,000	Funding would support a General Development Plan, as part of preliminary engineering, to identify park improvements.
Unimproved Street - S. Bancroft at Greely	250,000	Funding would support a study, as part of preliminary engineering, to identify the project scope.
Barrio Logan Traffic Calming Truck Route	100,000	Funding would support a study, as part of preliminary engineering, to identify the project scope.
<b>Total</b>	<b>\$ 1,250,000</b>	

Climate Equity Fund Capital Improvement Projects - \$2.0 million (One-Time)

The May Revision allocates \$5.0 million in Climate Equity Funds to eligible Capital Improvement Program (CIP) projects after seeking input from Councilmembers. Council’s recent approval of a new Franchise Agreement on May 25, 2021 allows for the City to receive \$2.0 million in additional Climate Equity Funds in FY 2022 that would have otherwise been received in future years.

The Climate Equity Fund is intended to support City infrastructure within underserved communities to help them effectively respond to the impacts of climate change. Projects must have

an impact on reducing greenhouse gas emissions, enhancing safety in the public right-of-way, relieving congestion, or achieving other climate equity concerns, and be located in a disadvantaged community within an area that scores between 0 and 60 on the Climate Equity Index. According to the Mayor’s “Call for Recommended Projects for the Climate Equity Fund” dated April 27, 2021, these projects can include increasing park acreage and constructing parks.

Our Office reviewed the capital improvement projects that were supported by five or more Councilmembers and found that three park projects met the eligibility criteria for the Climate Equity Fund. There was also broad support for other eligible projects including increased funding for installation of new streetlights as well as the Barrio Logan Traffic Calming Truck Route. Because Climate Equity Fund resources are limited, we recommend funding the Barrio Logan Traffic Calming Truck Route within the General Fund, especially since the project scope is unclear at this time. The following table reflects our Office’s recommended Climate Equity Fund projects with additional information.

<b>Table 3 - Recommendations for Climate Equity Fund Capital Improvement Projects</b>		
<b>Project</b>	<b>Allocation</b>	<b>Additional Information</b>
Emerald Hills Park Design (P20003)	\$ 1,000,000	Funding would support design and would be in addition to \$104,000 included in the May Revision. Design phase will begin after completion of the General Development Plan which is estimated to be in April 2022.
Boston Ave Linear Park GDP	400,000	Funding would support a General Development Plan, as part of preliminary engineering, for the creation of an approximately 3-acre park.
Berardini Field GDP	400,000	Funding would support a General Development Plan, as part of preliminary engineering, to identify park improvements. Amenities could include more connection to adjacent Chollas Creek, play areas, adult fitness, etc.
Increase Allocation for New Streetlights in Underserved Communities (AIH00001)	200,000	The May Revision includes \$250,000 for installation of streetlights in underserved communities. An additional \$200,000 would bring the total to \$450,000. Additional street lighting is intended to increase pedestrian and biking activity.
<b>Total</b>	<b>\$ 2,000,000</b>	

We note that Council may adopt any or all of these recommendations, or fund different eligible priorities.

**Recommended Resources for Council Modifications to the FY 2022 Budget**

The following table lists out \$10.4 million in resources available to support the additional \$9.1 million in expenditures. Several resources included were identified by in Councilmember memoranda, and we have further included additional RPTTF distributions that came to our attention subsequent to receiving Councilmembers memoranda. As will be discussed, additional funding from American Rescue Plan Act is proposed to balance the additional ongoing expenditure items supported by a majority of Councilmembers. One-time resources identified below exceed the majority-supported one-time additions by \$1.3 million; allocations for this excess amount could be identified during Council’s budget deliberations. Following the table are descriptions of each recommended resource.

<b>Table 4 - Recommended Resources for Modifications to FY 2022 Budget</b>	
<b>Resource</b>	<b>Amount</b>
<b><i>Ongoing Resources</i></b>	
Additional Franchise Fee Minimum Bid Revenue	\$ 1,700,000
Port Municipal Services Agreement	750,000
Increased RPTTF Revenue	788,000
Additional ARP Funding	1,435,554
<b><i>Subtotal Ongoing</i></b>	<b>\$ 4,673,554</b>
<b><i>One-Time Resources</i></b>	
Refund from County Registrar of Voters	\$ 3,000,000
Additional Climate Equity Fund Resources	2,000,000
Increased RPTTF Revenue	775,000
<b><i>Subtotal One-Time</i></b>	<b>\$ 5,775,000</b>
<b>Total Additional Resources</b>	<b>\$ 10,448,554</b>

Refund from the Registrar of Voters - \$3.0 million (one-time)

On May 13<sup>th</sup>, the City Clerk issued a memo to the Council noting that the County Registrar of Voters had projected that the City would receive a refund of approximately \$3.0 million for its advance deposit for the November 2020 Election. Initially the City paid a deposit of \$6.4 million for its portion of election costs, but since that deposit was made the Registrar of Voters has offset some election costs with reimbursements from the CARES Act and the Help America Vote Act (HAVA). The Secretary of State has approved the Registrar of Voters' claim for \$6.9 million of HAVA Funds, and the Registrar of Voters continues to seek reimbursement for the purchase of \$400,000 of PPE equipment. This is expected to result in the \$3.0 million refund to the City.

Additional Climate Equity Fund Resources - \$2.0 million (one-time)

As discussed in our review of CIP modifications above, Council's recent approval of new Franchise Agreements accelerated the funding of the Climate Equity Fund, increasing funding available to support projects in FY 2022 by \$2.0 million. This funding is part of the \$20 million commitment proposed by the Mayor and SDG&E. As part of the final terms approved by Council, SDG&E will provide \$2.0 million per year for the next five years to the Climate Equity Fund. As noted, these funds must be used to support City infrastructure in underserved communities that meet specified requirements.

Additional Franchise Fee Minimum Bid Revenue - \$1.7 million (ongoing)

On May 25<sup>th</sup>, the City Council approved new Franchise Agreements for gas and electric services with San Diego Gas & Electric. The Proposed Budget included an assumption that the bid proceeds for these agreements would bring in an additional \$8.8 million in General Fund revenue for the City, based on the terms proposed in the Invitation to Bid. However, the final agreements changed some of the payment terms for the minimum bid, resulting in a total of \$10.5 million in General Fund revenue in FY 2022, as well as \$10.5 million in FY 2023-2026. These amounts are \$1.7 million higher than what is included in the Proposed Budget and May Revision, as well as \$2.3 million higher than what is assumed in the outyears. We propose to utilize the additional revenue

of \$1.7 million in FY 2022. Because the City will receive this revenue annually through FY 2026, we are characterizing this as an ongoing source of revenue in anticipation of an alternative ongoing revenue source being identified by FY 2027.

For more information on the terms of the franchise agreements, refer to [IBA Report 21-15](#).

Increased RPTTF Revenue - \$1.6 million (\$775,000 one-time, \$788,000 ongoing)

Based on the actual distributions within the Redevelopment Property Tax Trust Fund (RPTTF) which the County released on June 1, there is an additional \$1.6 million in General Fund revenue for the City above the estimates included in the May Revision and Third Quarter Monitoring Report. This is made up of \$775,000 in one-time revenue attributable to a higher distribution in FY 2021, and \$788,000 in ongoing revenue due to a revised projection for FY 2022.

Our previous analysis indicated that there could be additional RPTTF revenue of about \$2.9 million in one-time funding and \$1.3 million in ongoing funding. However, the May Revision, which based its estimates off the County's projection for RPTTF as of April, indicated that RPTTF funding would be \$1.0 million below the Proposed Budget as opposed to an increase. This was due to a number of factors.

The May Revision did account for all of the changes that our Office brought up in our analysis, including changes made by the State to the Recognized Obligation Payment Schedule (ROPS). The City did win its appeal of numerous denied items, but the overall changes to the ROPS still resulted in an overall higher amount of residual distributions. However, what our analysis did not include, but was included in the May Revision, is the County changing its residual distribution methodology following a victorious outcome at the appellate court level over the City and other cities. This change resulted in higher distributions for the County, and lower distributions for the other taxing entities, including the City. This change resulted in the overall \$1.0 million loss. Subsequent to the May Revision, the County released the final distributions on June 1. Those figures included higher overall RPTTF deposits, which results in the approximately \$1.5 million in new revenue that could be used for Council additions.

Port Municipal Services Agreement - \$750,000 (ongoing)

The City is currently in the final stages of negotiating a new agreement with the Port of San Diego under which the City receives reimbursement for police, fire, and EMS services that are provided on certain Port tidelands and property (e.g., Shelter Island and Harbor Island). Based on the existing agreement which expires on June 30, 2021, there is currently \$752,000 in total revenue budgeted in the FY 2022 Proposed Budget between the Fire-Rescue Department (\$593,000) and the Police Department (\$158,000). According to the Chief Financial Officer, the overall reimbursement amount from the Port is expected to increase to \$1.5 million under the new agreement based on the status of current negotiations. This represents a net increase of approximately \$750,000 in revenue that can be utilized as a resource for ongoing programmatic expenditures in FY 2022.



### American Rescue Plan Act Funding - \$1.4 million (ongoing)

The City expects to receive \$299.7 million of American Rescue Plan Act (ARP) funding before the end on FY 2022. The May Revision to the Proposed FY 2022 Budget indicates the Mayor is now proposing to use \$37.7 million to balance the FY 2021 Budget and \$147.2 million to balance his Proposed Budget for FY 2022, leaving the remaining \$114.8 million to help balance a large estimated revenue shortfall in FY 2023.

Councilmember budget modification memos identified approximately \$4,674,000 of consensus ongoing expenditures for inclusion into the FY 2022 Budget (as shown in Table 1). Our Office has identified approximately \$3,238,000 of ongoing revenues to fund most of these ongoing expenditures. We recommend using ARP funds to cover the remaining \$1,436,000 in FY 2022. This will slightly reduce the amount of ARP funding the Mayor is proposing to save for FY 2023 from \$114.8 million to approximately \$113.4 million.

In our review of the FY 2021 Proposed Budget ([IBA Report #21-10](#)), we noted the proposed use of \$91.7 million of one-time resources to fund ongoing expenditures. The FY 2022 Proposed Budget states that as the pandemic subsides and the economy recovers, ongoing revenue will return to more normal levels thereby reducing this imbalance. Our Office believes this is a reasonable assumption consistent with ARP's purpose. ARP funds are intended to temporarily replace revenue lost due to the pandemic until revenues recover to pre-pandemic levels.

### **Additional Resources Available for FY 2022**

#### One-Time Resources Not Yet Allocated

Our Office has identified \$5,775,000 of additional one-time resources to address the \$4,450,000 of additional Councilmember consensus one-time expenditures in the FY 2022 Budget (as shown in Table 4). After funding all consensus one-time expenditures, there is \$1,325,000 of one-time revenue remaining to address other Councilmember one-time expenditure priorities. Potential one-time expenditures the Council could consider allocating these funds to include: sidewalk repairs; street resurfacing; stormwater projects; additional funding for the Public Power Feasibility Study; or any other one-time Council priority.

**It is important to note that the Council will need to specifically indicate how they would like to allocate the remaining one-time \$1,325,000 in their final budget motion on June 14, 2022.**

#### Potential Increased Use of ARP funding in FY 2022

As noted above, we have proposed using an additional \$1,436,000 in ARP funding in FY 2022 to balance budget modifications that add new on-going expenditures to the FY 2022 Budget, which saves \$113.4 million to balance potential FY 2023 deficits. Given the potential for future revenue growth, **the Council cautiously could consider using slightly more than the \$1,436,000 identified above to add or restore other ongoing or one-time critical services or projects in FY 2022.**

## OTHER ISSUES

### **Library Department Hours and Resources**

While the Mayor’s May Revision to the Proposed Budget makes restorations to Library Department funding that allow for increased hours, *it is important to note that those revisions do not fully restore library hours to pre-pandemic levels*. Library hours that would be supported with May Revision funding are shown in the following table.

<b>Table 5 - Library Hours</b>			
<b>Location</b>	<b>Pre-Pandemic</b>	<b>Proposed Budget</b>	<b>May Revision</b>
Central Library (inc. Sundays)	61 hours	42.5 hours	52 hours
Branches w/ Sundays	55.5 hours	42.5 hours	52 hours
Branches (22 locations)	51 hours	42.5 hours	46 hours
<b>Total Annual Hours</b>	<b>99,034 hours</b>	<b>79,560 hours</b>	<b>90,480 hours</b>

Additional discussion of the impacts of the May Revision to the Library Department are included in the attachment to this report.

We also note that several councilmembers budget modification memoranda suggested reprioritizing which 14 locations should receive Sunday service. Several memoranda further advocated accelerating the re-opening of libraries and proposed providing additional funding for that purpose. However, according to the Department, acceleration is not feasible given the speed in which they are able to fill vacancies and hire new staff, and that this is not a funding limitation.

**We recommend that the Department: (1) present to the Public Safety and Livable Neighborhoods Committee more information regarding their proposed plan for prioritizing both branch reopenings and Sunday service once those details have been finalized; and (2) inform the Council on the status of each phased opening as it occurs.**

### **Funding for Community Projects, Programs and Services (CPPS) Requires Clarification**

Each Council Office was allocated \$100,000 of CPPS funding in the FY 2022 Proposed Budget. In accordance with Council Policy #100-06, each Councilmember uses their discretion to allocate CPPS funding to City Departments, Public Agencies, and to Non-Profit community organizations for one-time community, social, environmental, cultural, or recreational needs which serve a lawful public purpose.

While each Council Office received \$100,000 of CPPS funding in the FY 2022 Proposed Budget (with a supporting reference to Council Policy #100-06), there was a potentially conflicting statement in Volume 1 of the Proposed Budget suggesting CPPS funds would be used “to provide grants to businesses and non-profits in their districts that are impacted by the COVID-19 pandemic.” If followed, this conflicting statement would reduce Councilmember discretion with respect to their CPPS funding and create administrative challenges for the City Council Administration Department. Among other issues, Council Policy #100-06 does not allow Councilmembers to make discretionary allocations (grants) to for-profit businesses.

To preserve Councilmember discretion with respect to their CPPS funding and resolve potential administrative issues, we recommend Council stipulate in their final budget motion that CPPS funds are budgeted to be used strictly in accordance with Council Policy #100-06. If Councilmembers elect to use some or all of their CPPS funding to support businesses in their district impacted by the COVID-19 pandemic, they may still be able to facilitate this by allocating CPPS funding to the Economic Development Department for this purpose.

**Process for Dedicating Climate Equity Fund Resources**

The Climate Equity Fund was approved by Council on March 9, 2021. Therefore, no process has been established yet to allocate Climate Equity Funds to eligible infrastructure projects. This year, project allocations have been made in the May Revision and an additional allocation of \$2.0 million is being recommended in this report. This has allowed limited time for vetting projects and gathering input. **We recommend that a process be developed for the allocation of future Climate Equity Fund resources.** We note that two Council offices included in their budget priority memoranda a request to develop a participatory budgeting process to guide the allocation of Climate Equity Funds.

**Scripps Miramar Ranch FBA Allocation Correction**

The May Revision includes a \$1.0 million allocation in Scripps Miramar Ranch Facilities Benefit Assessment revenue for community park improvements in Mira Mesa. Department of Finance and Parks and Recreation staff have informed our Office that this allocation was done in error since this funding source may not be used in a different community, such as Mira Mesa. **Therefore, our Office is recommending, consistent with staff’s request, that Council remove this allocation so that staff can identify an eligible use for these funds.**

Table 6 - Recommendation for CIP Technical Clean Up		
Project	Allocation	Additional Information
Mira Mesa Community Pk Improvements (L16002)	\$ 1,018,290	Remove Scripps Miramar Ranch FBA (Fund 400086) allocation in May Revision for Mira Mesa Community Park Improvements

**Waiver of the Infrastructure Fund Contribution**

The Mayor’s Proposed Budget for FY 2022 includes a waiver of the annual General Fund contribution to the Infrastructure Fund. In accordance with City Charter section 77.1, this must be approved by a two-thirds vote of the Council and is reflected in the budget resolution prepared by the Office of the City Attorney. Following City Council’s approval of the budget, the City Clerk will send the approved budget resolution to the Mayor in accordance with the City Charter.

**FINAL BUDGET ACTIONS**

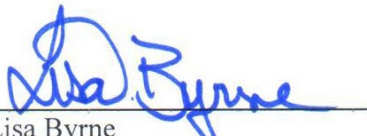
In order to approve the FY 2022 budget, the City Council is being asked to approve the following actions:

1. Approve the Mayor’s FY 2022 Proposed Budget, as modified by the Mayor’s May Revision.
2. Approve the IBA’s recommended final budget expenditure and resources modifications included in IBA Report 21-18, as summarized in Table 1 (page 2), and Table 4 (page 7), and as modified by the City Council.

3. Stipulate that CPPS funds are budgeted to be used strictly in accordance with Council Policy #100-06.
4. Approve the Scripps Miramar Ranch FBA allocation correction as summarized in Table 6 (page 11).
5. Approve the requested waiver of the annual General Fund contribution to the Infrastructure Fund, in accordance with City Charter section 77.1.

Additionally, we recommend Council take the following two non-budget actions:

6. Request the Library Department present to the Public Safety and Livable Neighborhoods Committee more information regarding their proposed plan for prioritizing both branch re-openings and Sunday service once those details have been finalized, and inform the Council on the status of each phased opening as it occurs.
7. Request City staff develop an open and public process for determining future allocations from the Climate Equity Fund.



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Lisa Byrne  
Fiscal & Policy Analyst



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Jillian Kisse  
Fiscal & Policy Analyst



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Charles Modica  
Fiscal & Policy Analyst




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Jordan More  
Fiscal & Policy Analyst



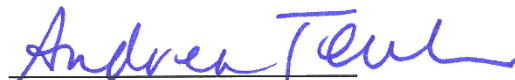
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Baku Patel  
Fiscal & Policy Analyst



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Jeff Kavar  
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APPROVED: Andrea Tevlin  
Independent Budget Analyst

Attachment - IBA Review of the May Revision to the FY 2022 Proposed Budget

# IBA Review of the May Revision to the FY 2022 Proposed Budget

Our Office reviewed the adjustments included in the May Revision and found no significant concerns, though we do suggest that the City establish clear procedures for determining how to allocate Climate Equity Fund resources in the future, as we discuss in our Recommended Modifications to the Proposed Budget. In the discussion that follows, we highlight selected items included in the May Revision that may be of particular interest to the City Council or to provide additional information.

## SUMMARY OF GENERAL FUND CHANGES IN THE MAY REVISION

As shown in this review, the May Revision overall adds \$3.7 million in new revenues and expenditures to the FY 2022 Proposed Budget for the General Fund. While major General Fund revenues in the May Revision have increased by \$2.4 million, departmental revenues have decreased by \$4.6 million.<sup>1</sup> To support the additional expenditures, the May Revision increases the amount of revenue used from the American Recovery Plan Act by \$5.9 million.

Net General Fund expenditure increases in the May Revision total \$3.7 million; the bulk of this increase is associated with \$5.1 million in additional expenditures for the restoration of library hours; this review provides additional details on this increase, impacts to the Library Department, and the impacts on library operations going forward. Other large increases include \$3.8 million for the transition of IT service providers, and \$1.4 million for increased animal services contract costs. These are offset by decreases in debt service, as well as the transfer of stormwater activity to the Storm Drain Fund, as will be discussed.

Agreements for employee compensation increases for FY 2022 have been approved for the Municipal Employees Association (MEA), Deputy City Attorneys Association (DCAA), and AFSCME Local 127; and adjusted cost estimates for the related compensation increases have been incorporated in the May Revision.

Continued negotiations with public safety employee organizations (Police Officers Association [POA], Local 145 - Firefighters, and Local 911 - Lifeguards) have occurred since the May Revision was released, and agreements with Local 145 and POA are believed to be close to final approval. Changes to estimated public safety compensation increases have not been incorporated into the May Revision for these late developing agreements. These cost adjustments are preliminarily estimated to be between \$2.7 million and \$3.2 million. Management has stated that the impacted departments have agreed to absorb any cost increases that may occur; and should any appropriation adjustments be needed during FY 2022 for compensation, they will be addressed during the budget monitoring process.

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<sup>1</sup> Departmental revenue reductions include \$5.6 million in reduced revenue from the Storm Drain Fee; this decrease is offset by an equal reduction in storm water expenditures, as both these revenues and expenditures will exist in the City's Storm Drain Fund as required by new storm water SRF loan requirements. This is explained further in this report. If this revenue reduction is excluded from Departmental Revenue changes, total Departmental Revenue is increasing by \$1.0 million.

## MAY REVISION CHANGES TO REVENUE PROJECTIONS

As shown in the table below, overall revenues have increased by \$3.7 million in the May Revision. Significant changes in revenue projections are derived from increases in property tax projections, decreases in departmental revenue, and increased use of American Rescue Plan Act funding in FY 2022. Significant changes are further discussed in additional detail.

<b>General Fund Revenues in the May Revision (\$ in millions)</b>			
	<b>Proposed Budget</b>	<b>May Revision</b>	<b>Change</b>
<b><i>Major General Fund Revenues</i></b>			
Property Tax	\$ 669.3	\$ 671.5	\$ 2.2
Sales Tax	320.8	320.8	-
Transient Occupancy Tax	95.5	95.5	-
Franchise Fees	76.1	76.3	0.2
Other Major General Fund Revenues	105.5	105.5	-
<b><i>Subtotal Major General Fund Revenues</i></b>	<b>\$ 1,267.2</b>	<b>\$ 1,269.6</b>	<b>\$ 2.4</b>
<b><i>Departmental Revenues</i></b>			
Economic Development	\$ 6.0	\$ 6.2	\$ 0.2
Fire-Rescue	51.6	51.8	0.2
Homelessness Strategies	0.2	0.5	0.3
Police	39.2	41.3	2.1
Stormwater	14.5	8.9	(5.6)
Transportation	60.6	58.9	(1.7)
Other Departments	148.1	148.1	-
<b><i>Departmental Revenues Subtotal</i></b>	<b>\$ 320.2</b>	<b>\$ 315.7</b>	<b>\$ (4.6)</b>
<b><i>American Rescue Plan Act</i></b>	<b>\$ 141.3</b>	<b>\$ 147.2</b>	<b>\$ 5.9</b>
<b>Total General Fund Revenue</b>	<b>\$ 1,728.7</b>	<b>\$ 1,732.5</b>	<b>\$ 3.7</b>

### Property Tax

The May Revision increased Property Taxes by \$2.2 million, from \$669.3 million to \$671.5 million. This is primarily due to an increase in the assumed rate of growth, from 4.00% in the Proposed Budget to 4.50% in the May Revision. This change increased the 1% Property Tax projection by \$2.4 million, and the Motor Vehicle Licensing Fee backfill projection by \$0.8 million. However, these increases were partially offset by a decrease of \$1.0 million in the Redevelopment Property Tax Trust Fund (RPTTF). This decrease was attributable to decreases in residual distributions based on the County's projections that were published in April. More information on changes to the RPTTF was provided earlier.

### Franchise Fees

Franchise Fees are projected to increase by \$0.2 million based on recent actuals for cable franchise fee revenue received in FY 2021. There is no assumed change in the growth rate for cable franchise fee revenue.

### **Departmental Revenue - Stormwater**

Stormwater Department revenues decrease by \$5.6 million due to the removal of Storm Drain Fund revenue. There is also a decrease of \$5.6 million in expenditures. We explain this change in greater detail in our review of the Third Quarter Monitoring Report ([IBA Report #21-16](#)).

### **Departmental Revenue - Transportation**

Transportation revenue decreased in the May Revision by \$1.7 million. This is due to a decrease of \$2.5 million due to a technical correction relating to Gas Tax and TransNet revenue transfers. This is offset by additional TransNet revenue for the new Safe & Sustainable Transportation for All Ages & Abilities Team (STAT) in the amount of \$0.8 million.

### **American Rescue Plan Act Funding**

As discussed in our review of the Third Quarter Monitoring Report and the Recommended FY 2022 Budget Modifications, the proposed timeline for use of American Rescue Plan Act funding has shifted since release of the Proposed Budget. In the May Revision to the Proposed FY 2022 Budget, the Mayor is now proposing to use \$147.2 million in FY 2022, an increase of \$5.9 million from the Proposed Budget.

## **MAY REVISION CHANGES TO GENERAL FUND EXPENDITURES**

The following table shows adjustments to General Fund expenditures in the May Revision that net to the \$3.7 million increase in expenditures over those of the FY 2022 Proposed Budget. Many of these items are described or explained in the May Revision itself; our office offers additional context and information on the several of the largest changes – the restoration of library hours, the reallocation of storm drain activity, and the Safe & Sustainable Transportations All Ages & Abilities Team following the table.

<b>General Fund Expenditures Adjustments in the May Revision (\$ in millions)</b>	
<b>Item</b>	<b>Amount</b>
Restoration of Library Hours	\$ 5.1
IT Service Provider Transition Costs	3.8
Animal Services Contract	1.4
Safe & Sustainable Transportations All Ages & Abilities Team	0.8
GASB 87 Compliance	0.4
Pay Equity Study Phase 2	0.3
DSD Small Business Liason Transfer	0.2
Support for Commission on Police Practices	0.2
Surveillance Ordinance Implementation	0.2
Fiscal Operations Program Manager	0.1
California Coastal Commission Support	0.1
Tentative Agreements/Fringe Adjustments	0.1
Revised SDAcces4All Expenditures	0.1
Transit Pass Subsidy	(0.1)
Reduction in Open+ Solution	(0.1)
Duplicate Debt Pauyments for PC Replacemnt	(0.2)
Debt Service Adjustment	(3.0)
Reallaction of Storm Drain Activity to Storm Drain Fund	(5.6)
<b>Total General Fund Expenditure Adjustments</b>	<b>\$ 3.7</b>

### Restoration of Library Hours - \$5.1 million (54.47 FTE Positions)

The May Revision includes 54.47 FTEs and \$5.1 million in expenditures to restore library hours that were reduced in the Proposed Budget back to near pre-pandemic levels by the end of FY 2022. These additions in the May Revision reflect a proration of FTEs and funding based on a phased reopening plan that parallels the Department's estimated timeline for hiring new benefited staff to replace hourly employees.

Under the Department's reopening plan, the twelve library locations that are currently open for limited in-person services (see chart) will see most services return to normal and allowable indoor capacity increased from 25% to 50% beginning July 1, 2021. These locations will be open 46 hours per week, Monday through Saturday, and will be staffed with existing employees.

Beginning in the 2<sup>nd</sup> quarter of FY 2022 and coinciding with the timeframe that the Department expects to be able to begin filling new benefited positions, the Department plans to incrementally begin reopening additional branch locations (46 hours per week) and reintroducing Sunday service (6 hours) to locations that previously had this service prior to the pandemic (see chart). The first locations that would have Sunday hours restored under the Department's current plan would be the Central Library and those library branches located in communities of concern that previously offered Sunday service. Thereafter, the incremental process of reopening remaining branch locations and restoring Sunday service would continue into the 3<sup>rd</sup> and 4<sup>th</sup> quarters of FY 2022 on a branch-by-branch basis, as the Department's hiring process and staffing allows. It is expected that all locations would be reopened by the end of FY 2022.

The Department is still in the process of determining the specific order for which individual branch reopenings and the reintroduction of Sunday hours are to occur; however, they indicated that they plan to use several factors to determine prioritization, such as ease of access (e.g., proximity to public transportation), population density, and median household income.

Council District	Library Location	Currently Open for Limited Service	Previously had Sunday Service
1	Carmel Valley	✓	✓
	La Jolla/Riford	✓	✓
	North University		✓
	University		
2	Clairemont		
	Ocean Beach		
	Pacific Beach/Taylor		✓
	Point Loma/Hervey	✓	✓
3	Central Library	✓	✓
	Mission Hills	✓	
	North Park		
	University Heights		
4	Mtn. View/Beckwourth		
	Oak Park		
	Paradise Hills		
	Skyline Hills		
5	Valencia Park/Malcolm X	✓	✓
	Carmel Mountain Ranch		
	Rancho Bernardo	✓	✓
	Rancho Peñasquitos		
6	Scripps Miramar Ranch		
	Balboa		
	Mira Mesa	✓	✓
	North Clairemont		
7	Allied Gardens/Benjamin		
	Linda Vista		
	Mission Valley	✓	✓
	San Carlos		
	Serra Mesa-Kearny Mesa		✓
8	Tierrasanta		
	Logan Heights	✓	✓
	Otay Mesa-Nestor		✓
	San Ysidro	✓	
9	City Heights/Weingart		✓
	College-Rolando	✓	
	Kensington-Normal Hts		



We note that several Councilmembers communicated in their budget modification memoranda an interest in reprioritizing which 14 locations are to receive Sunday service based on need rather than past practice. This reprioritization is not expected to have a budgetary impact and the Department indicated that revisions are possible. **We recommend that the Department: (1) present to the Public Safety and Livable Neighborhoods Committee more information regarding their proposed plan for prioritizing both branch reopenings and Sunday service once those details have been finalized; and (2) inform the Council on the status of each phased opening as they occur.** This will allow both the public and committee to provide their feedback and input to ensure an equitable library reopening process.

Councilmembers also advocated for the acceleration of library reopenings into the 1<sup>st</sup> quarter of FY 2022; however, according to the Department, acceleration is not feasible given that their anticipated restoration schedule is limited by the speed in which they are able to fill vacancies and hire new staff, and not due to a lack of funding.

It should be noted that while the restorations in the May Revision represent an increase in operating hours compared to the reductions included in the Proposed Budget, overall hours will still remain short of where they were pre-pandemic, as reflected in the table below.

Location	Pre-Pandemic	Proposed Budget	May Revision
Central Library (inc. Sundays)	61 hours	42.5 hours	52 hours
Branches w/ Sundays (13 locations)	55.5 hours	42.5 hours	52 hours
Branches (22 locations)	51 hours	42.5 hours	46 hours
<b>Total Annual Hours</b>	<b>99,034 hours</b>	<b>79,560 hours</b>	<b>90,480 hours</b>

Of the 54.47 FTEs included in the May Revision, 33.68 FTE represents a prorated fraction of what will ultimately consist of 93.50 new benefited FTEs (once annualized) to replace the 77.92 hourly-FTEs that were reduced in the Proposed Budget. In total, the Department's staffing restructure from hourly to benefitted positions constitutes a net increase of 15.58 FTEs which the Department states is necessary to right size staffing levels for enhanced services that were added during COVID-19 and expected to continue (i.e., virtual programming, outdoor labs, etc.). Given the proration in the May Revision, 62.03 FTEs and approximately \$5.8 million will need to be added to the Library Department's budget in FY 2023 to annualize the prorated additions in the May Revision.

The following table reflects the projected net change in library expenditures over the next five fiscal years (FY 2022-2026) associated with the proposed library restoration and staffing restructure included in the May Revision. As noted above, the restoration does not fully return hours to pre-pandemic levels despite increased costs associated with the staffing restructure.

	FY 2022 <sup>(1)</sup>	FY 2023 <sup>(1)</sup>	FY 2024	FY 2025	FY 2026
<b><u>Proposed Budget:</u></b> Reduction <sup>(2)</sup>	(\$7,122,183)	(\$7,431,598)	(\$7,431,598)	(\$7,431,598)	(\$7,431,598)
<b><u>May Revision:</u></b> Restoration/Restructure	\$5,099,743	\$10,866,086	\$10,866,086	\$10,866,086	\$10,866,086
<b>Net Change</b>	<b>(\$2,022,440)</b>	<b>\$3,434,488</b>	<b>\$3,434,488</b>	<b>\$3,434,488</b>	<b>\$3,434,488</b>

(1) FY 2022 and FY 2023 include 4% and 5% salary increases, respectively, based on the tentative agreement between the City and the Municipal Employees Association (MEA); no changes assumed thereafter.

(2) Based the \$6.9 million expenditure reduction included in the Proposed Budget and adjusted to account for salary increases per footnote 1 above.

Our Office inquired how much additional funding would be necessary to fully reach pre-pandemic operating hours; however, the Department was unable to provide an estimate. They indicated that it is their intent to proceed this fiscal year with the positions provided for in the May Revision and to explore whether staffing schedules can be further optimized to increase hours next fiscal year after they have reached full staffing. As a rough approximation based on the annualized cost of \$10.9 million to restore approximately 10,900 annual library operating hours, our Office estimates that it could require an additional \$8.5 million to fully reach pre-pandemic hours (i.e., restoring an additional 8,500 annual library hours).

### ***Safe & Sustainable Transportation All Ages & Abilities Team***

Within the May Revision, there is an addition of 12.00 FTEs and \$829,000 in the General Fund for a new team that will be responsible for the design and installation of approximately nine miles of new or upgraded bicycle facilities through the City per year. This includes the addition of two engineering positions and an installation team of ten positions to conduct work including the design and installation of bollards, striping, and signage, as well as new detectors, signal enhancements, and other improvements. Also known as the STAT Team, this team and its associated expenditures are funded with TransNet revenue that the Proposed Budget had initially incorporated into the City's Overlay program. The total amount of funding diverted from the Overlay Program is \$1.1 million, which includes a revenue transfer to cover these 12 positions, as well as an additional \$271,000 to cover supplies and equipment for this team. This proposed change will only reduce the number of miles of overlay projects by approximately 1.5 miles, while enhancing the City's ability to conduct quick-build projects and other enhancements for both bicycle and pedestrian facilities.

### ***Reallocation of Storm Drain Activities***

The City's Storm Drain Fund generates its revenue from the current stormwater fee of \$0.95 per single family home per month, with a corresponding fee for multi-family and commercial water customers. This fund currently has a budgeted revenue of \$5.7 million, which for many years has been transferred from this fund to the City's General Fund to support Stormwater Division activities.

In both the Third Quarter Monitoring Report, as well as the May Revision for FY 2022, this transfer is no longer proposed to happen, and instead stormwater spending, mostly includes consultant and other contractual services related to watershed planning and monitoring, will occur directly out of the fund. This change is necessitated by the City's recent award of State Revolving Loan Funds

related to storm drain projects. As part of the application, Storm Drain Fund revenue was pledged to repay the loan in future fiscal years, with the first payment of \$1.1 million not due until FY 2026. Due to this pledge, activities funded by the Storm Drain Fund must be expended within the Storm Drain Fund. While this action has no net impact to the General Fund for FY 2021 or FY 2022, the activities that are now funded in the Storm Drain Fund may need to be transferred back to the General Fund in FY 2026 and future fiscal years as the repayments for the State Revolving Loan Funds become due.

## **OTHER NOTABLE ADJUSTMENTS (NON-GENERAL FUND)**

### ***Engineering and Capital Projects Department Consultant***

The May Revision includes \$250,000 in Engineering and Capital Projects Funds to support a consultant to review department operations so that it can increase its execution of the Capital Improvements Program Budget (CIP) and to better keep up with the growing CIP budget. To illustrate, the FY 2022 Proposed CIP Budget is \$786.6 million (including the May Revision adjustments), while FY 2020 CIP expenditures were \$584.0 million.

### ***Capital Improvements Program Adjustments***

The May Revision adds \$39.2 million to the Capital Improvements Program (CIP), bringing the total Fiscal Year 2022 CIP Proposed Budget to \$786.6 million. A little over half (56%) is comprised of impact fee revenue restricted for use in certain communities which will largely fund parks projects, as well as bicycle facilities, Fire Station 49, and drainage projects. Other major adjustments include the appropriation of almost \$5.0 million in Climate Equity Funds to specific CIP projects and \$10.0 million for “Sexy Streets” in which specific projects are being determined. Of note, the May Revision **reduces \$1.1 million for street overlay** to instead fund an in-house team to work on bicycle and pedestrian facilities referred to as Safe & Sustainable Transportation All Ages & Abilities Team (STAT). According to staff, specific streets impacted by this reduction are unknown since staff have not finalized the list of streets planned for resurfacing in FY 2022. However, the reallocation of \$1.1 million equates to one to two miles of asphalt overlay.