THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: TBD

IBA Review of the Mayor's FY 2023-2027 Five-Year Financial Outlook

OVERVIEW

Importance of the City's Outlook

On November 10, 2021, Mayor Gloria released his *Fiscal Year 2023-2027 Five-Year Financial Outlook* (Outlook), one of the City's annual financial planning tools. The Outlook is an integral part of the budget development process and is described in *Council Policy 000-02: Budget Policies* as *"the basis for determining the coming year's operating budget allocations."* Former Mayor Sanders initiated the Five-Year Financial Outlook process in 2006 which was continued by subsequent Mayors. In 2015, the City Council initiated a Charter Review process with a focus on greater clarity of the budget process including the requirement for the Mayor to issue a multi-year financial outlook annually. In June 2016, with a vote of the people, Section 69 of the City's Charter was amended to require the Mayor to annually prepare a multi-year financial outlook for the General Fund.

"The Mayor shall annually prepare a multi-year financial outlook for the general fund projecting anticipated revenues and expenditures in future years as a fiscal planning document and basis for the proposed budget."

The City's Budget Policy was also amended to state: the Outlook *"shall…include projections for committed expenditures which are defined as the operational costs for new facilities, contractual obligations, federal and State legal mandates, and adopted Council policies."* While the Outlook should not be interpreted as a budget, it provides the Council and the public with a longer-term financial perspective and a preliminary indication of the Mayor's budget priorities. While each year many Council priorities will overlap with the Mayor's, Council has final authority in the budget process to determine the City's budget priorities for the next fiscal year.

We note that Mayor Gloria approached the Outlook differently this year than both last year's Outlook and prior Outlooks. Last year, due to ongoing financial challenges and uncertainty related to the COVID-19 Pandemic, the Outlook included only General Fund Baseline projections, and was limited to then existing programs, services, operations, and service levels. Outlooks in prior years additionally included 'Critical Strategic Expenditures,' which were expenditures associated with new or expanded City services. This year's Outlook moves back to the prior best practice of including both baseline expenditure projections, *as well as* anticipated expenditures beyond the baseline, though new expenditures in the current Outlook are split into three categories: New Facilities and Planned Commitments, Compliance Requirements, and Department Service Level Improvements.

While our Office is encouraged to see that the Outlook reflects needs beyond existing service levels, we also note that additional expenditures beyond baseline amounts – especially in the Compliance and Department Service Level Improvements categories – are shown as both larger and more immediate than it is reasonable to project. These increased expenditure needs *may* represent ideal service level targets[1], but we caution that including increases of this magnitude shifts the Outlook from being a budget planning tool to an aspirational statement of service level goals and objectives. A detailed discussion of these concerns is included in corresponding sections of this review.

While the Council cannot change the Mayor's Outlook, the Council remains the ultimate budget authority, and can make changes to the budget following Mayor Gloria's release of the FY 2023 Proposed Budget. In doing so, the budget must stay balanced through identifying alternate budget reductions or new resources, delaying new facilities, consolidating or eliminating other programs, or other mitigation tools.

IBA Review and Analysis of Mayor's Outlook and Other Significant Annual Budget Reports

The release of the Mayor's Five-Year Financial Outlook is the first major step in the City's budget process. While the Executive Branch develops the Five-Year Financial Outlook, the Office of the Independent Budget Analyst (IBA) is charged with providing the City Council with a comprehensive review and analysis of the annual Outlook as well as all major budget reports – such as Quarterly Budget Monitoring Reports (including the First Quarter, Mid-Year and Third Quarter Reports), the Mayor's Proposed Budget, the Mayor's May Revision to the Proposed Budget, and the Five-Year Capital Infrastructure Planning Outlook and CIP Budget Monitoring Reports. Each fiscal year we also develop the Council's Budget Priorities Resolution based on individual Councilmember's priorities memoranda, which is provided to the Mayor in February to help inform Mayoral budget priorities. In the last stage of the Council budget process, we provide a report to Council which recommends

"Councilmembers shall . . . communicate their budget priorities to the IBA, who will analyze and consolidate the priorities into a proposed Council budget priorities resolution"

[1]The Outlook's approach of using the City's "Get It Done" application to determine department service level targets by reviewing residents' 'greatest demands' and slow City response times does not adequately identify critical priority or policy needs, nor does it determine or address the root causes of existing deficiencies. While "Get It Done" application data is valuable, it should not be the sole driver of service level targets.

modifications to the Mayor's Proposed Budget based on final Council priorities, and Council can approve or revise these recommendations.

Review of the Mayor's Outlook

Baseline Revenue and Expenditure projections for this year's Outlook show steady increases and decreased volatility as the City moves past the worst impacts of the COVID-19 pandemic. The Outlook also projects large additional expenditures beyond the baseline, and significantly more review and analysis of those additions will be necessary during the budget process. Our Office would like to thank staff from the Department of Finance and other City Departments for responding to our numerous questions in preparing this report. The IBA's role is to analyze the Outlook objectively, through various perspectives, and identify issues and options to assist the Council in decision-making. This information may also assist the public in understanding the budget process and the numerous challenges facing the City.

Overview of the IBA's Analysis of the Outlook and Other Related Issues

Our report consists of seven sections as shown below; some snapshots of the sections are also provided below and discussed in greater detail in the body of our report.

<u>Review and analysis of projected Baseline Revenue Assumptions included in the Outlook</u>

- We comment on all General Fund revenue categories and agree with the projections in the Outlook for property tax, sales tax, and transient occupancy tax.
- For franchise fee revenue, we agree with overall projections of franchise fee growth, but provide a technical correction relating to SDG&E bid payments that increases revenues in FY 2023-26, but decreases revenues in FY 2027.

<u>Review and analysis of Baseline General Fund Expenditures</u>

- Our report addresses changes from the FY 2022 Adopted Budget to the FY 2023 Baseline, including a table that lists the largest cost increases and decreases.
- We review personnel-related expenditures and discuss the following topics: compensation increases, staffing levels needed for budgeted service levels, the defined benefit pension payment (ADC), and unwinding Proposition B.
- Non-personnel expenditures are also highlighted, and we note there are no overall growth rates in the Outlook for supplies and contracts, which could impact current service levels.
- Projected Reserve levels for the General Fund Reserve and the Pension Payment Stabilization Reserve are reviewed and discussed, and we note that the Outlook assumes contributions to the General Fund Reserve to bring it to policy target levels.

<u>Review and analysis of Facilities and Planned Commitments</u>

- We discuss needs for new Parks & Recreation, Library, and Fire-Rescue facilities coming online during the Outlook period, and note that two of the six facilities assumed to come online currently have capital funding gaps.
- Planned commitments for Homelessness Services and the Homeless Strategies and Solutions Department are reviewed, as well as impacts from continuing to operate Golden Hall as a shelter.

Review and analysis of Compliance Requirements

- Increased expenditures for compliance with Regional Water Quality Control Board stormwater mandates and SB 1383 organics recycling requirements are reviewed, and we note that adding 227.00 new FTE positions for stormwater compliance in FY 2023 presents significant challenges.
- Two potential revenue sources to help the City comply with regulatory requirements – a stormwater fee and a trash fee – are briefly discussed.

Review and analysis of Department Service Level Increases

- Our Office identifies concerns with using "Get It Done" application data to set service level targets, and notes that this approach does not identify critical priorities or determine the root cause of any service deficiencies.
- Increased FTEs and expenditures for service levels in the Police, Environmental Services, and Parks and Recreation Departments are discussed.
- Large increases in Transportation Department expenditures associated with increased service levels are analyzed, and we note that some new service levels are set to impractical levels, and that it is unrealistic to expect the Department to add and hire 132.00 new FTE positions in FY 2023 alone, especially given existing vacancies.

Potential Future Funding Needs Not Included in the Outlook

- We identify existing priorities and programs that are not included in the Outlook that Council may want to consider during the budget process if not addressed in Mayor Gloria's FY 2023 Proposed Budget.
- Examples include affordable housing preservation, the Penny for the Arts Blueprint, equity in parks and recreation programming, and the SDAccess4All Program.
- We raise issues related to the growing backlog of infrastructure repair and maintenance for existing City facilities for further Council consideration.

IBA Discussion of Potential Mitigation Measures in the Outlook and Other IBA-Identified Potential Measures

- We note that while deficits shown in the Outlook may be overstated as a result of the Outlook's unrealistic staffing increases in early years, some action to mitigate deficits once final service level increases are determined will still be required.
- Potential mitigations discussed include:
    - American Rescue Plan Act funding
    - General Fund Reserve and Excess Equity
    - Infrastructure Fund
    - Potential Budget Reduction Proposals
    - Potential funding from the Infrastructure Investment and Jobs Act
    - Potential new revenues such as a stormwater fee or a trash fee

REVIEW OF BASELINE GENERAL FUND REVENUES

Review of Baseline Revenues
- Property Tax
- Sales Tax
- Transient Occupancy Tax
- Franchise Fees
- Cannabis Business Tax

Overall, General Fund revenues in the Outlook show consistent year-over-year growth, with the four major General Fund revenues – Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees - reaching pre-pandemic levels in FY 2023 (though Transient Occupancy Tax revenue is not projected to recover to pre-pandemic levels until FY 2024). Cannabis Business Tax revenue is also expected to increase throughout the Outlook period. Each of these revenue sources is discussed in additional detail in this section.

While major General Fund revenue sources show growth throughout the Outlook, it is also important to note that the FY 2022 Adopted Budget was balanced through use of $149.3 million in American Rescue Plan Act (ARPA) funding; while the Outlook suggests that additional ARPA funding be used to help balance budget deficits in FYs 2023-25, amounts of ARPA money proposed for those years decrease, and they are not considered to be *baseline* revenues. As a consequence of this, baseline General Fund revenue in the Outlook show steady growth, but total revenues – inclusive of ARPA funding – grow more slowly from FY 2022 through FY 2024, as shown on the table below.

Baseline General Fund Revenues *($ in millions)*

	FY 2022 Adopted	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection
Property Tax	$ 672.2	$ 662.0	$ 700.2	$ 740.2	$ 781.0	$ 823.1	$ 864.9
Sales Tax	320.8	331.8	348.4	364.1	379.0	393.0	406.0
Transient Occupancy Tax	95.5	113.0	130.2	135.3	140.7	146.2	152.1
Franchise Fees	78.3	78.3	85.3	85.6	86.6	87.6	86.6
Cannabis Business Tax	23.1	23.1	27.1	28.8	31.5	33.3	33.8
All Other Revenue Categories[1]	404.3	411.5	422.1	430.0	443.5	453.2	462.1
Total Baseline Revenues	**$ 1,594.2**	**$ 1,619.7**	**$ 1,713.2**	**$ 1,784.0**	**$ 1,862.3**	**$ 1,936.5**	**$ 2,005.5**
ARPA Funding	149.3	149.3	103.3	38.8	8.2	-	-
Total General Fund Revenues	**$ 1,743.5**	**$ 1,769.0**	**$ 1,816.5**	**$ 1,822.8**	**$ 1,870.5**	**$ 1,936.5**	**$ 2,005.5**

[1]Includes Transfers In, Charges for Services, Special Promotional Programs reimbursements, etc.

In general, our Office agrees that revenue projections in the Outlook are reasonable and represent fair projections for future budgets. We do note that revenue associated with payment of bid-proceeds from SDG&E's electricity franchise agreement should be adjusted; this is further discussed in the Franchise Fee section below.

Property Tax

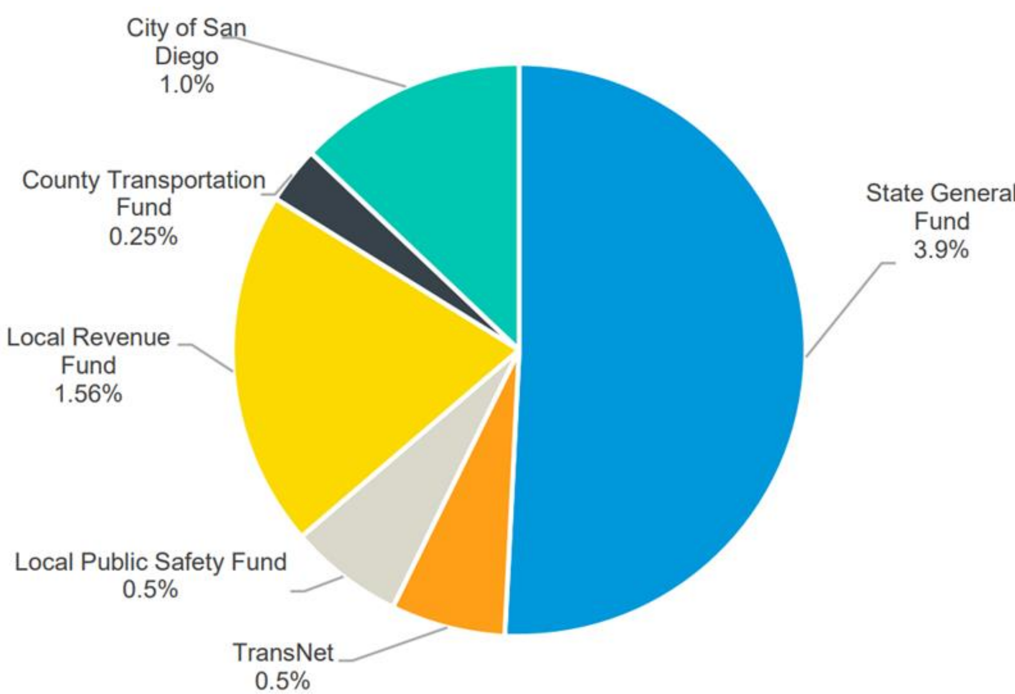
Property taxes represent the single largest source of General Fund revenue. City property taxes are derived from three major sources: the Proposition 13 1% levy on the assessed value of property throughout the City, of which the City receives approximately 17%; Motor Vehicle License Fee (MVLF) backfill payments; and distributions from the Redevelopment Property Tax Trust Fund (RPTTF), which represents payments to the City as a result of the dissolution of the former Redevelopment Agencies.

Property taxes are projected to continue to grow throughout the projection period, with robust growth projected in the near term of the Outlook and lower growth towards the end. FY 2023 and FY 2024 are projected to grow at 5.75%, which is a large increase from the current projected growth rate of 4.00% in FY 2022. As mentioned in our report on the First Quarter Monitoring Report (IBA Report 21-27), the FY 2022 projected growth rate has been lowered from 4.50% to 4.00% based on most properties (those not sold, transferred, or improved) only increasing in assessed value by 1% in FY 2022. Based on current inflation trends, the normal 2% allowable growth in assessments under Proposition 13 is expected to return in FY 2023, which, along with other positive housing indicators, potentially justifies the increase in property tax growth rates for FY 2023. However, we would note that this would be one of the highest growth rates utilized for property taxes in recent years, and that any dramatic slowdown in the housing market could require DOF to readjust these rates prior to the Proposed Budget.

Following FY 2024, growth rates in the out years of the Outlook decrease by 0.25% in each year, ending at 5.00% in FY 2027. Assuming that the 4.00% projected growth rate holds in FY 2022, the rest of the forecast is consistent with current trends in housing and property markets as well as previous forecasts and Outlooks produced by DOF. Our Office agrees with these projections.

Sales Tax

Sales tax is the second largest single source of General Fund revenue and is derived from a tax on all sales made in or delivered to the San Diego region. While the effective sales tax rate in the City of San Diego is 7.75%, only 1.0% of that amount goes directly to the City's General Fund. The remainder is split among the State and various other regional programs, as shown below.



Sales tax revenues have historically been correlated with overall economic activity, employment, and consumer confidence. During the initial outbreak of the COVID-19 pandemic, the City saw decreases in sales tax revenues, with FY 2019 revenues of $304.4 million declining to $282.8

million in FY 2020. Declines continued into the early quarters of FY 2021, though the fourth quarter saw significant increases in sales tax revenues that brought total FY 2021 revenue to $303.7 million, near pre-pandemic levels. The FY 2022 Adopted Budget included sales tax revenue of $320.8 million, though based on increased fourth-quarter performance in FY 2021, FY 2022 sales tax revenues are now projected to total $331.8 million. For more detail on this adjustment, see *IBA Report 21-27: IBA Review of the FY 2022 First Quarter Budget Monitoring Report*.

The Outlook projects the City's sales tax revenues to increase throughout the Outlook period, and assumes year-over-year growth in sales tax revenue of 5.0% in 2023, 4.5% in FY 2024, 4.1% in FY 2025, 3.7% in FY 2026, and 3.3% in FY 2027. These projections closely track those provided by Avenu Insights & Analytics/MuniServices (the City's sales tax consultant), economic forecasts, and recent economic trends. Our Office believes that these projections are reasonable. We do note that as sales tax remains sensitive to overall economic activity in the region, it will be important to monitor whether the City sees any revenue impacts associated with ongoing supply chain disruptions or any future COVID-19 pandemic developments.

Transient Occupancy Tax

Transient Occupancy Taxes (TOT) – or hotel taxes – are the third largest major General Fund revenue source. TOT receipts have been severely impacted by the COVID-19 pandemic: FY 2021 General Fund TOT revenues of $67.8 million represent roughly half of FY 2019's pre-pandemic TOT revenue of $131.9 million. TOT revenues are beginning to recover – the projected General Fund TOT revenue for FY 2022 is $113.0 million – an increase of 67% from FY 2021, though this is still well below pre-pandemic levels.

The Outlook projects continued growth in TOT revenues as the City continues its recovery from the pandemic, though that growth is projected to slow throughout the Outlook period. FY 2023 growth is projected at 15.3% above FY 2022 projections, with FY 2024-27 TOT revenues projected to grow by 4.0% per year. These growth rates are consistent with a strong recovery in TOT revenues in FY 2022 and 2023 as travel resumes, and San Diego hotels begin increasing occupancy and room rates. Recent recovery in TOT revenues has largely been associated with increased regional leisure travel, though business and group travel is also beginning to slowly return. Our Office believes that projected TOT revenues in the Outlook are reasonable and supported by relevant economic and tourism data.

Expanded View of TOT Projections and Operational Impacts

San Diego's TOT rate is 10.5%, with 5.5% of that amount allocated to the General Fund (to support general City services), 4.0% to Special Promotional Programs (to support programs and services that encourage tourism to the San Diego), and 1.0% allocated as discretionary/Council directed funding. While the Outlook focuses on the 5.5% General Fund allocation of TOT, it is important to note that changes in TOT receipts impact all of these allocations. As discussed in our review of the First Quarter Budget Monitoring Report, the City's operations are impacted by changes in revenue to each of these allocations. While the 5.5% General Fund TOT allocation has the most direct impact on the City's General Fund finances, as projections in the other allocations will impact City services we believe it is important that they be presented for consideration and review. Accordingly, the Department of Finance's projections for each allocation are shown on the following table.

Transient Occupancy Tax Revenue *($ in millions)*							
	FY 2022 Adopted	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection
General Fund Allocation (5.5%)	95.5	113.0	130.2	135.3	140.7	146.2	152.1
Special Promotional Programs (4.0%)	70.5	81.3	93.8	97.6	101.4	105.5	109.7
Council Discretionary (1.0%)	17.1	20.3	23.4	24.4	25.4	26.4	27.4
Total	**$ 183.1**	**$ 214.6**	**$ 247.4**	**$ 257.3**	**$ 267.5**	**$ 278.1**	**$ 289.2**

The Council Discretionary allocation directly impacts overall General Fund revenues, as revenues from that allocation are transferred directly to the General Fund. Additionally, a proportion of the Special Promotional Programs revenue is used to reimburse the City's General Fund for various expenses associated with Parks and Recreation and Lifeguards. In the past, reimbursements also supported City facilities, street sweeping in high-tourism areas, tourism support from the Library and the Mayor's Office, and other operations. Additional amounts from the Special Promotional Programs allocation are used to support the Commission for Arts and Culture, and various arts, culture, and community festivals and programs.

At present, Department of Finance projections show growth in the Special Promotion Programs allocation will be largely dedicated to General Fund reimbursements, with projected reimbursements increasing from $37.0 million assumed for FY 2022 to $64.0 million in FY 2027. Amounts supporting arts programs are held flat at FY 2022 levels throughout the Outlook period, though unallocated Special Promotional Programs amounts grow from $1.7 million in FY 2022 to $9.5 million in FY 2027. **While these projections may represent an initial approach towards allocating growth in TOT revenues, it is important to note these reimbursement amounts are policy decisions, and Council will have the authority to use different priorities in allocating funds**, so long as those allocations remain within the overall purposes set out for the Special Promotional Programs allocation.

Franchise Fees

Franchise fees represent payments made by private companies to the City for the right to operate within the City's right-of-way. The main sources of franchise fee revenue are: from San Diego Gas & Electric (SDG&E) for the right to provide City residents and businesses with gas and electric services; from Cox Communications, AT&T, and Spectrum for the right to provide cable services to City residents; and from private refuse haulers that conduct business within City limits. Franchise fees from SDG&E and cable companies are based upon a percentage of revenue generated, while franchise fees from refuse haulers are based on tonnage.

Overall, franchise fees are projected to grow modestly during the Outlook period. SDG&E franchise fees, which represent over 66% of the overall franchise fee revenue, are projected to grow at 7.36% in FY 2023, and then decrease to 2.68% in FY 2024 and continue to grow around that pace throughout the rest of the Outlook period. These projected growth rates are based on historical trends in the growth of these fees, which are based on revenue receipts from SDG&E and can vacillate dramatically during any given year based on numerous factors.

The Outlook continues to assume that an additional $2 million will be provided by SDG&E for the Climate Equity Fund each year, and that the City will continue to provide 10% of the revenues from the regular SDG&E franchise fee payments into the Climate Equity Fund within each year of the Outlook. The revenue transfer based on this 10% target vary from $5.3 million to $5.9

million, which when combined with the additional payments from SDG&E increases the annual allotment to between $7.3 million and $7.9 million. However, our Office would note that while the Outlook includes the transfer of $7.9 million in FY 2027, the additional $2.0 million payments from SDG&E end in FY 2026, overstating the expenditures in FY 2027 by $2.0 million.

Cable franchise fees are projected to continue declining by 4.04% based on historical trends, while refuse hauler fees are projected to increase by $700,000 due to a $1 fee increase per ton in FY 2023, with 1% growth after that. Our Office agrees with the overall franchise fee projections.

SDG&E Bid Proceeds
Also included in the Outlook is the schedule of payments from the bid proceeds that were part of the new franchise agreements with SDG&E approved by Council in May 2021. The FY 2022 Adopted Budget includes $10.5 million in General Fund revenue from these proceeds (this is in addition to the additional $2 million per year related to the Climate Equity Fund). The Outlook maintains these payments for each year from FY 2023-2027. However, the franchise agreements, while maintaining the $500,000 payments for the gas franchise throughout the Outlook period, only call for the $10 million payments for the electric franchise to take place for five years, which would only be FY 2022 through FY 2026. The final two $10 million payments would take place in later years beyond the Outlook.

Further, the franchise agreements also call for an interest payment increase of 3.38% for each subsequent payment since the payments are being made in installments. As such, the current Outlook underestimates the revenue from these payments in FY 2023 through FY 2026, while overestimating the revenue in FY 2027, as seen in the table below.

Franchise Fee Bid Payment Schedule *($ in millions)*

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Outlook	10.5	10.5	10.5	10.5	10.5
Payment Schedule	10.9	11.2	11.6	12.0	0.6
Difference	**$ 0.4**	**$ 0.7**	**$ 1.1**	**$ 1.5**	**$ (9.9)**

Cannabis Business Tax
The Outlook includes projected revenue from the City's non-medical cannabis business tax (CBT). The tax applies to cannabis related business activities which includes but is not limited to transporting, manufacturing, packaging, and retail sales at a rate of 8.0%. The Outlook's revenue projection shows an average annual increase of $2.1 million through FY 2027 when the revenue is anticipated to be $33.8 million. Growth in CBT revenue in the Outlook's projection is primarily due to an increase in the number of outlets remitting taxes.

It should be noted that the Economic Development and Intergovernmental Relations Committee recently discussed a proposal to reduce the CBT for Cannabis Production Facilities (CPFs) from 8% to 2%. CPFs currently account for approximately 8% of total CBT revenue. If approved, the proposed tax reduction could either increase or decrease total CBT revenue depending on whether the proposed tax reduction stimulates current permit holders to start their businesses. Our Office will continue to review the CBT revenue throughout the FY 2023 budget development process as the cannabis business continues to develop with the advent of additional cannabis outlets and dispensaries, as well as the addition of potential changes to State, federal, and local regulations.

REVIEW OF BASELINE GENERAL FUND EXPENDITURES

General Fund Baseline Expenditures support existing service levels; and therefore, there are no increases for new FY 2023 programs in the Outlook's Baseline. However, we note that decision-makers may ultimately determine that continuation of certain Baseline services assumed in the Outlook is not an optimal approach. In other words, some service levels could be reduced or eliminated in order to fund other needs and priorities that are determined to be more important. The City Council is the ultimate budget authority and can determine priority services that are different than those proposed by the Mayor.

Our review of Baseline General Fund Expenditures provides important context by addressing changes from the FY 2022 Adopted Budget to the FY 2023 Outlook Baseline. As shown in the table on the following page, the Outlook's FY 2023 General Fund Baseline expenditure projection is a ***net increase*** of $36.5 million (or 2.1%) from the FY 2022 Adopted Budget – including a number of increases and partially offsetting decreases.

The largest cost ***increases*** shown in the table include:

- $25.5 million for compensation increases based on previously negotiated agreements with employee organizations
- $25.6 million for reserve contributions, including $22.2 million for the General Fund Reserve and $3.1 million for the Public Liability Reserve
- $18.4 million for the Infrastructure Fund transfer, which was waived in the FY 2022 Adopted Budget
- $9.9 million for compensation increases based on an assumed 3.05% salary increase for public safety employee organizations
- $6.9 million in increased payments to the Public Liability Fund, including $3.5 million for insurance premium increases and $3.4 million for other operating cost increases
- $6.2 million for the Actuarially Determined Contribution (ADC) pension payment increase
- $5.5 million for annualization of positions that were added to the FY 2022 Adopted Budget, including for Library and the Commission on Police Practices (Note that annualizations of positions added in FY 2022 for SB 1383/Organics Collections are not included in the Baseline Expenditures, but rather the Compliance Requirements section of the Outlook. For more information see the 'Review of Compliance Requirements' section of this report).

Baseline increases are partially offset with a number of expenditure ***decreases***, largely related to FY 2022 expenditures that were onetime in nature and include:

- $10.2 million for Convention Center operational support
- $10.0 million for "Sexy Streets" funding for communities of concern
- $10.0 million in funding for homelessness programs
- $10.0 million for Back to Work SD, Small Business Relief Funds
- $5.9 million for SB 1383 facility upgrades
- $3.8 million for IT service provider transition costs
- $3.4 million for Back to Work SD, youth programming

More detailed components of Baseline expenditures are discussed in the sections following the table.

Increases/(Decreases) from the FY 2022 Adopted Budget to the FY 2023 Outlook Baseline Projection *($ in millions)*		
FY 2022 Adopted Budget		**$ 1,743.5**
Personnel Expenditure (PE) and Fringe Benefit Changes		**49.4**
Net Compensation Increases (based on current labor agreements)	$ 25.5	
Assumed 3.05% General Salary Increase for Public Safety	9.9	
Actuarially Determined Contribution (ADC) - Defined Benefit Pension Payment Increase	6.2	
FY 2022 Position Annualizations (incl. for Library and Commission on Police Practices)	5.5	
Step Increases	2.5	
Net Other Changes	(0.3)	
Non-Personnel Expenditure (NPE) Changes		**54.9**
Reserve Contributions (incl. General Fund - $22.2m; Public Liability - $3.1m)	25.6	
Charter Section 77.1 - Prop H, Infrastructure Fund Transfer	18.4	
Public Liability: Insurance Premium Increase ($3.5m); Other Operating Cost Increase ($3.4m)	6.9	
Increase in Transfers to Parks Improvement Funds	2.3	
Increase in Deferred Capital Debt Service Payments (for Capital Improvements Program)	1.8	
Energy and Utilities - Electric, Fuel, Water, Other (incl. increased water - $923k; fuel - $395k)	1.6	
Elections Costs (includes November 2022 general election)	1.3	
IT Cost Increases (Voice/Data Network - $1m; Cyber Security - $68k; Help Desk - $41k)	1.1	
Increase in Climate Equity Fund Transfer	0.4	
Decrease in Capital Lease Payments	(1.1)	
IT Cost Decreases (Data Center - $367k; Application Services - $792k)	(1.2)	
Arts Funding Support (to be funded through TOT Special Promotional Programs in FY 2023)	(2.0)	
Net Other NPE Changes	(0.1)	
Removal of FY 2022 One-Time Expenditures (includes PE and NPE) [1]		**(67.8)**
Convention Center Operational Support	(10.2)	
"Sexy Streets" Funding for Communities of Concern	(10.0)	
Funding for Homelessness Programs	(10.0)	
Back to Work SD - Small Business Relief Funds	(10.0)	
SB 1383 - Facility Upgrades	(5.9)	
IT Service Provider Transition Costs	(3.8)	
Back to Work SD - Youth Programming	(3.4)	
Stormwater Funding Strategy - Consulting Services	(2.5)	
Back to Work SD - Connect2Careers ($750k); Streets Condition Assessment ($700k)	(1.5)	
New Joint Use Facilities	(1.1)	
COVID-19 Public Safety Expenditures	(1.0)	
Public Power Feasibility Study	(1.0)	
City Council Funds for Community Projects, Programs, and Services	(0.9)	
Net Other One-Time Expenditure Adjustments	$ (6.6)	
FY 2023 Outlook Baseline Projection		**$ 1,780.0**
Total Increase: FY 2022 Adopted Budget to FY 2023 Outlook Baseline (2.1% Increase)		**$ 36.5**

Note: Table may not total due to rounding.

[1] Attachment 1 to the Five-Year Outlook, One-Time Uses section, includes one-time expenditures of $73.0m - only $67.8m of which is shown in the "Removal of FY 2022 One-Time Expenditures" section of this table. The remaining FY 2022 one-time expenditures are addressed among other components of this table, and the related Outlook, Attachment 1 amounts are: $7.0m Transfer to the Climate Equity Fund; and a negative $1.8m for Debt Service Adjustment.

PERSONNEL-RELATED EXPENDITURES IN THE OUTLOOK BASELINE

Review of Baseline Personnel Expenditures
• Compensation Increases • Staffing Levels Needed for Budgeted Service Levels • Defined Benefit Pension Payment/ADC • Unwinding Proposition B

This section includes information on personnel-related expenditures in the Outlook's Baseline, including: compensation increases, which are largely related to labor agreements; staffing levels needed for budgeted service levels; the defined benefit pension payment; and the pending unwinding of Proposition B.

Compensation Increases

As shown in the table on the preceding page, the Outlook forecast for FY 2023 includes $25.5 million for estimated compensation increases related to current labor agreements. Labor agreements for MEA, AFSCME Local 127, and DCAA run through FY 2023.[2] These agreements, combined with estimated compensation increases for unclassified/unrepresented employees, add $21.3 million to FY 2023 Baseline Expenditures, largely for general salary increases (5% for MEA and unclassified/unrepresented employees and 4% for Local 127 and DCAA, beginning July 2022), as well as special salary adjustments and add-on pay increases for certain positions. DCAA members will also receive an additional 2% general salary increase beginning January 2023. The remaining $4.2 million increase is for adjustments to estimated compensation increases, largely a true-up of FY 2022 estimated spending related to unfinished negotiations with public safety employee organizations at the time the FY 2022 Budget was being finalized.

For FY 2023, the Outlook also includes a $9.9 million compensation increase for public safety employee organizations,[3] even though negotiations for FY 2023 have not been completed and are currently just starting up. Prior Outlooks only included estimated increases for negotiations which had been completed. Because the public safety employee labor agreements have only been negotiated through FY 2022, the $9.9 million estimate is based on an assumed 3.05% general salary increase, which is subject to change based on completed negotiations. The Outlook also includes an assumed 3.05% general salary increase for all recognized employee organizations (REOs) during the remaining years of the Outlook; again, a change from prior Outlooks. The 3.05% annual general salary increase is consistent with the wage inflation assumption in the latest SDCERS[4] actuarial valuation, a reasonable approach.

Unlike past outlooks, this Outlook contains estimates for potential new negotiated compensation increases for FY 2023 and beyond.

[2] The three employee organizations referenced include: MEA (Municipal Employees Association); AFSCME Local 127 (American Federation of State, County & Municipal Employees, Local 127); and DCAA (Deputy City Attorneys Association).
[3] Public safety employee organizations include: POA (Police Officers Association); IAFF Local 145 (International Association of Fire Fighters, Local 145); and Teamsters Local 911, which represents the Lifeguards.
[4] SDCERS is the San Diego City Employees' Retirement System.

Staffing Levels Needed to Provide Budgeted Service Levels

Over the past year a number of Councilmembers have raised issues related to employee staffing levels, recruitment and retention challenges, and uncompetitive compensation.[5] For example, in the Council's FY 2022 budget priorities resolution, which was passed February 2, 2021, eight Councilmembers spoke to addressing City employees' compensation. As a step toward attaining a more competitive compensation position, for FY 2022 the Council approved across-the-board salary increases for all employees (which varied by REO), and certain positions received special salary adjustments or add-on pays. 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 and vacancy levels.

In our FY 2021 mid-year and third quarter budget monitoring report reviews, we presented staffing level summaries for General Fund departments; and the FY 2023-2027 Five-Year Outlook includes a similar Vacancy Analysis table on page 50 (Table 2.34). Table 2.34 includes the total approved positions/FTEs, as well as filled and vacant FTEs, by department (data as of November 5, 2021). We would note that larger departments would not expect to have all budgeted positions filled the entire year, as turnover occurs; but Table 2.34 shows that a number of departments have very high vacancy levels even considering staff turnover. For example, some larger departments with higher vacancy levels include Environmental Services, Storm Water, Facilities, Transportation, Library, and Parks & Recreation. There are other departments with high vacancy levels as well.

Beyond the data in Table 2.34, there are other factors which need to be considered when analyzing staffing levels. For example, there may be employees who occupy budgeted positions and are on some type of extended leave, which could create an operational vacancy even though it is not a technical vacancy in the system. ***Considering these types of complexities and the importance of identifying the level of filled positions needed to provide budgeted service levels, we recommend Council request departments of concern provide an analysis of their staffing levels by operational category; reasons for deficiencies; the extent to which they are having difficulty meeting service levels; and approaches for addressing excessive vacancies.***

We further note that the Outlook contemplates the creation of hundreds of new positions in departments that already have high vacancy levels; if the reasons behind high vacancy rates are not addressed, simply adding positions may not significantly increase service levels (for more information, see the 'Review of Compliance Requirements' and 'Review of Department Service Level Increases' sections of this report).

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[5] In the IBA Review of the Mayor's FY 2022-2026 Five-Year Financial Outlook (released December 4, 2020, Report 20-25), our Office presented an analysis speaking to the City's generally uncompetitive compensation levels (beginning on page 32, under "Future MOU Considerations"). This analysis included information with respect to historical compensation adjustments the City had negotiated with its REOs. Additionally, in a report released in April 2020, the City Auditor examined compensation competitiveness and other related issues (see the Performance Audit of the City's Strategic Human Capital Management). The Office of the City Auditor also released a report in July 2018, Citywide Human Capital Fact Book, which includes information on the City's workforce, retention and separations, employee satisfaction, compensation, and other matters. In November 2020, the City Auditor's Office released another human capital report, Performance Audit of Strategic Human Capital Management Part II: Employee Performance Management, which discusses incentives and discipline in the City's workforce.

Defined Benefit Pension Payment – Actuarially Determined Contribution (ADC)
The ADC is the retirement payment made by the City for its defined benefit pension. The Outlook's citywide ADC estimate for FY 2023 is $423.1 million, which is an increase of $8.2 million from FY 2022. Of the citywide amount, $320.7 million is for the General Fund, an increase of $6.2 million from FY 2022. The Outlook shows the citywide ADC increasing to about $434.7 million in FY 2027 (about $329.5 million for the General Fund).

The Outlook's FY 2023 ADC *estimate* and out-year ADC projections are based on the most recently provided estimates from SDCERS' actuary, Cheiron, which were included in the FY 2020 actuarial valuation. The *actual* FY 2023 ADC has yet to be determined. Because of the complexity of the pension system variables, the total of all impacts to the FY 2023 ADC (as well as out-year projections) will not be known until the FY 2021 valuation has been completed. The FY 2021 valuation is anticipated to be available in January 2022 and will incorporate all impacts of FY 2021 experience as compared to what was previously assumed for FY 2021 in the FY 2020 valuation.

In general, changes between initial ADC estimates and the actual ADC relate to two types of factors:

- Changes in actuarial valuation assumptions used to calculate the ADC – for example, those related to mortality, salary increases, and investment returns
- "Experience gains and losses" – the differences between actual results and what was assumed in the prior valuation (For example, if future investment earnings are lower than assumed in the actuarial valuations, future ADCs could be increased.)

The main factors anticipated to impact the actual FY 2023 ADC are related to FY 2021 investment earnings and potential impacts related to pensionable pay increases. Investment earnings were assumed at a rate of 6.5% in the FY 2020 valuation; and actual FY 2021 investment earnings were significantly higher, at 24.9%. Assuming this experience gain for higher investment earnings far outweighs any experience losses, including potential impacts related to pensionable pay increases, the ADC for FY 2023 could be markedly lower than forecasted in the Outlook.

Unwinding Proposition B
The City anticipates significant onetime costs with respect to unwinding Proposition B. Due to the uncertain magnitude and timing of such costs, estimates have not been included in the Outlook. The preliminary estimate for active employees who were with the City on March 5, 2021 (excluding police officers and recruits) was almost $78.0 million citywide, including about $46.0 million for the General Fund. The City is currently negotiating with the four REOs involved in the legal challenges to Proposition B. The results of negotiations with the REOs will impact the onetime costs of unwinding Proposition B, as will the performance of financial markets and how they impact the existing defined contribution plan (SPSP-H) balances.[6]

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[6] Under Proposition B, employees hired on or after July 20, 2012 and before July 10, 2021, except new sworn police officers, were not eligible to participate in the defined benefit (DB) pension. (Police recruits are still ineligible to enter the DB pension until they become sworn officers.) Instead, those employees who were ineligible for the DB pension were offered a DC (defined contribution) plan. Following voter approval of Proposition B in 2012, retirement plan provisions were negotiated with the City's REOs, and agreement for an interim DC plan was reached. The interim DC plan is incorporated in the Supplemental Pension Savings Plan H (SPSP-H), which was previously for hourly employees but was modified to include these new participants.

Considering that the variables in the cost analyses are complex and that cost analyses have not been completed for employees hired after March 5, 2021 or for impacted employees who no longer worked for the City as of March 5, 2021, ***changes to the preliminary cost estimates for unwinding Proposition B could be significant***. Further, with respect to police officers and recruits, there has not been resolution regarding whether there will be any potential costs resulting from negotiations with the POA. The unwinding of Proposition B is anticipated to begin within the next several months, but as mentioned earlier, the timing related to the payment of onetime costs is uncertain. Increases in ongoing ADC costs due to the unwinding of Proposition B are anticipated to be largely offset with reductions in SPSP-H costs.

NON-PERSONNEL EXPENDITURES (NPE) IN THE OUTLOOK BASELINE

The Outlook discusses Baseline NPEs for the following categories: supplies, contracts, information technology, energy and utilities, reserve contributions, City Charter section 77.1 Infrastructure Fund, and other expenditures. The table on page 11 provides a summary of major NPE changes from the FY 2022 Adopted Budget to the FY 2023 Outlook Baseline projection.

A general observation regarding the Outlook's NPEs is that there are no overall growth rates assumed for supplies or contracts. Although a higher than needed growth rate could lead to expenditure estimates that are too high, zero growth rates may be akin to a service level reduction. Some current contracts may have growth rates included in their terms, and inflation could be a factor in the future. However, some contracts or supplies expenditures may be discontinued, should future revenue shortfalls persist. These areas should be analyzed to ensure that needed service levels are achieved and any short-funding of these areas is done strategically.

RESERVES

General Fund Reserve

The City's Reserve Policy goal for the General Fund Reserve is to reach 16.7% of operating revenues, which is to be phased-in through FY 2025.[7] To realize this phase-in, over the past several years, the Policy's Reserve target percentage has increased by 0.25% annually. For example, the Reserve Policy's General Fund target increased from 15.5% of operating revenues in FY 2020 to 15.75% in FY 2021 and to 16% in FY 2022.

However, as a result of declining revenues due to the COVID-19 pandemic, neither the FY 2021 nor FY 2022 Adopted Budgets included a General Fund Reserve contribution. Thus, the FY 2021 and projected FY 2022 Reserve levels remain at the FY 2020 balance of $205.6 million, as shown in the third row of the following table. The fourth row shows that, in the absence of a Reserve contribution, the FY 2021 Reserve was $8.2 million below the Reserve Policy target; and the FY 2022 Reserve is projected to be $14.8 million below the Reserve Policy target.

[7] The City's Reserve Policy is delineated in Council Policy 100-20.

General Fund Reserve Policy vs Reserve Balance *($ in millions)*			
	FY 2020	**FY 2021**	**FY 2022**
Reserve Policy Target Percent	***15.5%***	***15.75%***	***16%***
Reserve Policy Target [1]	$ 205.6	$ 213.8	$ 220.4
Reserve Balance (FY 2020 and FY 2021) / Reserve Projection (FY 2022)	$ 205.6	$ 205.6	$ 205.6
Difference: Amount Reserve Balance Is Below the Policy Target	**$ -**	**$ (8.2)**	**$ (14.8)**
Reserve Balance as Percent of Operating Revenues	***15.5%***	***15.1%***	***14.9%***

Note: Table may not total due to rounding.

[1]The Reserve Policy targets are based on the average of the prior three years' actual operating revenues.

For FY 2023, the Outlook's projected $22.2 million General Fund Reserve contribution is anticipated to bring the Reserve to the 16.25% policy target, estimated at $227.8 million. Beyond FY 2023, the Outlook continues to show additional contributions that fund the Reserve to the anticipated policy target levels through FY 2027.

Pension Payment Stabilization Reserve

The purpose of the Pension Payment Stabilization Reserve (PPSR) is to have a source of funds available "to mitigate service delivery risk due to increases in the annual pension payment, the Actuarially Determined Contribution (ADC)." The PPSR was incorporated into the City's Reserve Policy (Council Policy 100-20) in April 2016. This section discusses only the General Fund portion of the PPSR.

As a result of declining revenues due to the COVID-19 pandemic, the City did not include contributions to the General Fund PPSR in the FY 2021 and FY 2022 Adopted Budgets. Additionally, the $7.9 million General Fund PPSR balance was utilized as a onetime resource in the FY 2022 Adopted Budget to help pay for the City's General Fund pension costs in FY 2022. In accordance with the City's Reserve Policy, this was an appropriate use of the PPSR, as there was further risk to City operations in FY 2022 resulting from the $36.8 million General Fund ADC increase in FY 2022. Note that the General Fund PPSR had been fully utilized once before in FY 2018, and it was subsequently funded to the $7.9 million balance.

The City's Reserve Policy requires the Mayor to prepare a plan for replenishment of the PPSR within a year of (full or partial) depletion. However, the Outlook shows that the General Fund PPSR will be depleted in FY 2022 after use of the $7.9 million balance, and there are no PPSR contributions forecast in any of the Outlook years. The Department of Finance anticipates bringing forward additional information regarding the City's Reserve Policy, including the PPSR, in the next several months.

REVIEW OF FACILITIES AND PLANNED COMMITMENTS

New Facilities

Review of Facilities and Planned Commitments
• New Facilities ○ Parks and Recreation ○ Libraries ○ Fire Stations • Homelessness Services

The Outlook includes forecasted funding for new Parks and Recreation, Library, and Fire-Rescue facilities assumed to open during the Outlook period. Opening dates for the new facilities in the Outlook are not certain as timelines can be impacted by project delays. As our Office has highlighted in previous years, some new facilities currently in development are projected to open during the Outlook period, but they lack full funding for construction. These facilities include: the Ocean Beach Library expansion and Fairmount Avenue Fire Station. The Outlook assumes funding will be received, but the funding source is unidentified. Without a clear funding plan, it may be premature to project the opening of these facilities and corresponding operating costs in the Outlook.

It should be noted that although new facilities are contemplated in the Outlook, they can be delayed for budgetary reasons if necessary.

Parks and Recreation: New Parks and Joint Use Facilities

The Department anticipates 12 new or expanded parks to open, and 19 new Joint Use Agreements (Agreements) with local school districts to become effective during the Outlook period. The Outlook projects expenses for the new parks and the Agreements to be $4.5 million in FY 2023 and increasing to an aggregate expense of $6.8 million in FY 2027 once all the new parks and Agreements have come on-line. The projected operating costs include the addition of 59.50 FTE positions throughout the Outlook period to maintain the new parks and playgrounds.

We note that most of the required FTEs are needed in FY 2023 and FY 2024. The Outlook projection shows that 28.50 FTE positions are needed in FY 2023 and another 22.00 FTEs in FY 2024. Staff indicate that the opening dates of new parks and joint use facilities will be reevaluated as the budget process approaches. Many of the positions required are Grounds Maintenance Worker IIs; as of November 2021, the Parks and Recreation Department has 33.50 vacancies in existing Ground Maintenance Worker II positions.

Library: New Branch Library (Pacific Highlands Ranch) and Library Expansion (Ocean Beach)

The Outlook identifies 9.50 FTEs and approximately $854,000 in new ongoing annual operational costs for the Pacific Highlands Ranch branch library which is currently anticipated to open in FY 2023. In FY 2023, costs are prorated to correspond with the timing of opening the new library, totaling $770,000. Thereafter, $854,000 in expenses are projected for the first full year of operations and beyond.

Beginning in FY 2024, the Outlook shows the need for an additional 1.00 position to support the Ocean Beach library expansion. However, staff has indicated that this position will actually be needed in FY 2026, which is one year prior to the anticipated opening of the library. We note that the expansion project needs an additional $5.0 million for completion. Total ongoing costs for both library openings is expected to be $1.2 million for 10.50 FTEs.

Fire-Rescue: New Fire Stations

The Outlook assumes funding for operational expenses for three new fire stations assumed to open within the Outlook period. Total annual costs are $6.8 million beginning in FY 2025, and includes the addition of 36.00 FTEs. Operational expenses include personnel expenditures and non-personnel expenditures such as equipment and supplies, as well as debt service for one fire engine each for the Torrey Pines and Fairmount Avenue stations. The three new fire stations identified in the Outlook as requiring operational funding over the next five years are listed below:

- FY 2024 – Black Mountain Ranch (developer funded)
- FY 2025 – Torrey Pines (funded by UCSD)
- FY 2025 – Fairmount Avenue (land purchased; lacks capital funding for construction)

All three stations were identified as high-priority sites by the 2017 Citygate Report, which recommended the addition of up to 12 new fire stations as well as other increased services such as Peak Hour Engines in order to improve the Fire-Rescue Department's ability to meet its response time standards.

Of the three fire stations included in the Outlook, only the Fairmount Avenue Fire Station does not have full funding identified for construction at this time with an estimated gap of approximately $20 million based on latest cost estimates.

A list of expenses for all new facilities anticipated to open or become operational within the Outlook period is attached to this report.

Planned Commitments: Homelessness Services

The Outlook includes planned commitments related to homelessness services that generally continue existing programs that have been funded using onetime State grants as well as onetime General Funds provided in the FY 2022 Adopted Budget. It also includes the addition of 3.00 FTE positions to the Homeless Strategies and Solutions Department (Department) to provide increased administrative and financial management support. The Outlook assumes that FY 2023 program costs are covered by a State grant anticipated to be awarded to the City totaling $27.5 million. Although it is unknown whether the State will continue to provide onetime funding or establish an ongoing funding source for homelessness services, the Outlook assumes the State will provide funding in some capacity in the outyears. In the event the State does not, the City will have to reevaluate its budget priorities as this obligation would fall to the General Fund.

We note that Measure C on the March 3, 2020 ballot proposed an increase in San Diego's transient occupancy tax to, among other things, provide additional funding for homelessness services. The City is currently seeking a court determination that Measure C is an approved ballot measure and that the City's issuance of certain bonds under Measure C is valid. If the City obtains a favorable trial court judgement or outcome in the lawsuit (the timing for which is unknown), proceeds from future bonds issued could become a viable ongoing funding source for homelessness programs.

It is important to note that not all homelessness programs provided by the City are included in the Department's budget. Additional programs and services are provided by other City departments as well as the San Diego Housing Commission. Those programs are not discussed in this section.

Below we comment on two significant items pertaining to planned commitments for homelessness services.

Golden Hall Shelter (Downstairs)

The Outlook assumes the shelter in the downstairs portion of Golden Hall will end after FY 2022 due to permitting restrictions requiring facility upgrades should the shelter operate in this location long-term. **However, since the release of the Outlook staff have been informed that the downstairs shelter can remain open through FY 2023. With this recent development, General Fund expenditures reflected in the Outlook would need to increase by $1.9 million to maintain the shelter**, which would exceed anticipated revenue available in FY 2023 by about $849,000, as shown in the table on the next page.

Shelter Ancillary Costs

The Outlook includes about $500,000 in additional ancillary costs compared to FY 2022 for the operation of the City shelters as other City departments are now charging related costs to the Department (e.g. engineering, water, and sewer). In addition, the Concourse property management costs have been shifted to the Department since all of Golden Hall is being used as a homeless shelter.

Looking Ahead

As Council thinks about the upcoming budget process in relation to efforts to address homelessness, it is important to keep in mind how the programs outlined in the table below further the ambitious goals of the Community Action Plan on Homelessness, approved by Council in October 2019. Although the plan did not contemplate the pandemic, it set out three goals that could be reached by October 2022: 1) decrease unsheltered homelessness by 50%, 2) finish the job of ending Veteran homelessness, and 3) prevent and end youth homelessness. **In preparation of upcoming budget decisions for FY 2023, Council may wish to request an update from staff on progress towards meeting these goals, including how programs outlined in the table below support them.** We note that Department staff are preparing a program and fiscal update for Council, though the date has not yet been determined.

The following table below provides a breakdown of existing homelessness programs anticipated to be supported by the General Fund in FY 2023. Although anticipated expenditures needed to continue existing programs is $28.2 million, the City anticipates receiving $27.5 million in State grant funds. The projected funding need for these programs may change depending on how much State grant funding awarded in previous years is carried forward into FY 2023.

Breakout of FY 2023 Homelessness Planned Commitments (*Subject to Change)*

System Component	Program		General Fund
Housing and Services	Permanent Housing	Landlord Engagement	$ 333,333
		Rapid Rehousing	1,543,654
	Prevention and Diversion	Diversion: Family Reunification	500,000
		Prevention and Diversion[1]	-
		Flexible Spending Pool for Housing	1,000,000
Crisis Response and Stabilization	Shelters	Bridge Shelters - 17th and Imperial	1,869,098
		Bridge Shelters - 16th and Newton	4,198,746
		Bridge Shelters-Golden Hall Downstairs	(1,970,779)
		Bridge Shelters-Golden Hall Upstairs	3,915,447
		Bridge Shelters - City Ancillary Svs	950,000
		Interim Shelter Beds added in FY 22 TBD	2,967,306
		Youth Case Management/New Beds	1,254,495
	Substance Use Disorder	Sustance Use Disorder Interventions TBD	1,192,486
		PLEADS	207,514
		Harm Reduction Shelter	2,078,199
	Outreach	Outreach Program, plus Coordinator	2,500,000
		Caltrans-Related Outreach	500,000
Engagement Services	Storage	Storage Connect Center I (Sherman Heights)	1,132,410
		Storage Connect Center II (Lea St.)[1]	-
		Think Dignity Storage Facility	182,000
		Storage Lease and Ancillary Costs	270,463
	Other	Day Center for Homeless Adults	125,000
		Peer Curriculum	300,000
		Safe Parking (2 sites), plus Ancillary Costs	965,921
Admin	Admin	3 Addn'l Homelessness Dept Positions	343,401
Subtotal			**26,358,694**
Update since Outlook		Add back Golden Hall: Downstairs	1,970,779
Expense Grand Total			**$ 28,329,473**
Projected State Grant Revenue Available			**$ 27,480,939**
Difference			**$ (848,534)**

Notes: Table only includes programs in the Homeless Strategies and Solutions Department Budget.

Table only reflects the General Fund need for each program, not total costs for each program.

[1] Although no General Fund expenditures are reflected, programs are assumed to be funded with State grants awarded in previous years. Also, we note that continuation of the Lea St Storage Facility is assumed to be reevaluated after FY 2023.

REVIEW OF COMPLIANCE REQUIREMENTS

Review of Compliance Requirements
• Stormwater Compliance
• Environmental Services – SB 1383
• Potential Resources for Mitigation

In addition to baseline activities and new facilities, the Outlook contains additional expenditures characterized as necessary to come into compliance with state or federal requirements. In particular, the Outlook contains expenditure estimates for the Stormwater and Environmental Services (ESD) departments. For Stormwater, these include expenditures for staff and the repayment of debt to build or rehabilitate stormwater infrastructure to comply with stormwater regulations enforced by the Regional Water Quality Control Board (RWQCB). These include activities that are a part of the most recent Watershed Asset Management Plan but are not currently funded in the FY 2022 Adopted Budget. For ESD, the expenditures represent staff and other expenses required to collect organic waste from all residents served by the City to comply with state law SB 1383.

Stormwater Compliance

The Outlook estimates that the Stormwater Department will require 227.00 FTEs and $84.6 million in FY 2023 for various stormwater compliance activities. These estimates increase to 305.00 FTEs and $87.8 million in FY 2027. In addition, the Outlook assumes that these activities will generate $6.1 million of revenue in FY 2023, increasing to $10.3 million in FY 2027. Additions are mostly for new repair and maintenance crews for various stormwater assets, including channel clearance and mitigation, levee maintenance and repair, and pump station repair and automation, among other activities. Further, within the Outlook period there is the assumption of repayment of various debt financing measures that would fund approximately $600 million of near-term CIP work. These activities are summarized in the table on the next page. Some of these activities have associated revenue as well; these are reflected in the table with negative numbers. Revenue sources for these activities include revenue from the CIP for work conducted by operating crews and other personnel that are capital in nature, increased parking citations due to enhanced street sweeping routes, and new fees or fines levied by new inspection and enforcement entities.

While these activities may be needed, our Office notes that many of these asks are much larger than what was requested in previous budget cycles. For instance, the Stormwater Department requested a levee maintenance team for the FY 2022 budget, which was only 9.00 FTEs and $1.4 million. The Department has traditionally only asked for partial teams or partial needs in order to alleviate budget deficits while also being more realistic about the amount of staff that can be brought on at one time. The Outlook, however, adds many teams, particularly for critical maintenance needs, *all at once* in order to illustrate the needs of the Department more directly.

While this may be useful as an illustrative tool, it is less helpful from a budget planning perspective since it is unrealistic to expect that the Department would be able to hire this many new positions in a single year. In fact, in FY 2022 the Department added 39.50 FTEs for a pipe repair crew as well as other activities. However, the Department noted that the hiring process for these positions has already had an impact on departmental operations, as existing staff must make room in their existing workloads to assist with the hiring process. *In this regard, adding 227.00 FTEs to the Department's budget in one year is most likely unrealistic, and important* *prioritizing decisions will need to be made with the development of the FY 2023 Proposed Budget as to which additions are most critical to fulfilling the Department's mission and service levels.*

Stormwater Compliance Additions ($ in millions)										
	FY 2023		FY 2024		FY 2025		FY 2026		FY 2027	
Activity	**FTE**	**Exp**	**FTE**	**Exp**	**FTE**	**Exp**	**FTE**	**Exp**	**FTE**	**Exp**
Funding Strategy Implementation & Administration	2.00	$3.1	2.00	$0.5	2.00	$0.5	2.00	$0.5	2.00	$0.5
Levee Maintenance & Repair Team	44.00	15.6	44.00	10.2	44.00	10.2	44.00	10.2	44.00	10.2
Capital Projects Program Ramp	13.00	11.8	19.00	8.5	20.00	6.1	20.00	5.7	20.00	5.6
Up for WIFIA		(1.6)		(2.4)		(2.5)		(2.5)		(2.5)
Street Sweeping Efficiency	20.00	8.0	26.00	4.7	30.00	4.5	34.00	4.3	38.00	4.6
and Expansion		(2.5)		(3.9)		(3.9)		(3.9)		(3.9)
San Diego Bay Sediment Investigative Orders	-	1.8	-	2.3	-	1.3	-	8.6	-	4.4
Catch Basin, Green Infrastructure & Trash Capture	25.00	6.1	29.00	5.7	31.00	5.1	33.00	4.6	35.00	4.8
Channel Cleaning and Mitigation	45.00	20.6	59.00	21.1	68.00	21.6	76.00	19.7	77.00	18.9
Pump Station Repairs and Automation	28.00	5.9	28.00	5.2	28.00	5.2	28.00	4.5	28.00	4.0
Storm Pipe Emergency Response	28.00	5.9	28.00	4.7	28.00	4.7	28.00	4.7	28.00	4.7
Team		(2.0)		(2.1)		(2.1)		(2.1)		(2.1)
Increase Business & Green	6.00	1.5	8.00	0.8	10.00	1.0	10.00	1.0	10.00	1.0
Infrastructure Inspections		-		(1.4)		(1.5)		(1.6)		(1.7)
Proactive Pollutant Discharge	2.00	0.2	3.00	0.3	5.00	0.4	6.00	0.5	7.00	0.6
Enforcement		(0.0)		(0.0)		(0.1)		(0.1)		(0.1)
Dig Alert	4.00	0.6	4.00	0.3	4.00	0.3	4.00	0.3	4.00	0.3
Compliance Monitoring Program	2.00	0.7	4.00	0.8	4.00	0.5	4.00	0.5	4.00	0.5
Greenwood Cemetery Water Quality Compliance	2.00	0.3	2.00	0.3	2.00	0.3	2.00	0.3	2.00	0.3
Pollutant source control regulations development	2.00	0.5	2.00	0.5	2.00	0.3	2.00	0.3	2.00	0.3
SD River Jurisdictional Monitoring	-	0.5	-	0.4	-	0.4	-	0.4	-	0.4
Alternative Compliance Program Administration	1.00	0.2	1.00	0.3	1.00	0.3	1.00	0.2	1.00	0.2
Water Quality Improvement Plan Updates & Pilot Studies	1.00	0.7	1.00	3.0	1.00	1.5	1.00	0.9	1.00	0.9
Information Technology Innovation & Support	2.00	0.5	2.00	0.4	2.00	0.4	2.00	0.4	2.00	0.6
WIFIA Loan ($294M)	-	-	-	0.2	-	5.0	-	5.7	-	7.7
Stormwater Lease Revenue Bond FY25 ($131M)	-	-	-	-	-	-	-	7.6	-	7.6
Stormwater Lease Revenue Bond FY26 ($131M)	-	-	-	-	-	-	-	-	-	7.6
SRF Los Penasquitos	-	-	-	-	-	-	-	1.1	-	1.1
SRF South Mission Beach	-	-	-	-	-	-	-	1.1	-	1.1
Total FTE and Expenditures	**227.00**	**$84.6**	**262.00**	**$70.2**	**282.00**	**$69.7**	**297.00**	**$83.0**	**305.00**	**$87.8**
Total Revenues		**($6.1)**		**($9.9)**		**($10.1)**		**($10.2)**		**($10.3)**

Environmental Services – SB 1383/Organic Waste Program

For compliance with SB 1383, the Outlook estimates that ESD will require 92.47 FTEs and $15.7 million in FY 2023, which increases to 107.47 FTEs but decreases in cost to $13.2 million by FY 2027. In particular, the funding included in the Outlook falls into one of three categories: annualizations of partial funding requests included in the FY 2022 Adopted Budget; transfers of positions and activities currently funded within the Recycling Fund that per the requirements of the People's Ordinance must now be funded by the General Fund; and new requests for additional enhancements to help the City come into compliance.

The Five-Year Outlook includes 51.17 FTEs and $5.3 million in FY 2023, which is mostly for the annualization of various positions and activities that were included in the FY 2022 Adopted Budget. This request mainly includes the addition of 40 Sanitation Drivers and associated costs, as well as various other personnel that were partially added to the FY 2022 Adopted Budget. Of this amount in FY 2023, 5.00 FTEs and $0.6 million are *not* annualizations, but are additional positions of the same type that have been phased in within FY 2023. These additions grow to 64.17 FTEs but cost only $5.0 million in FY 2027. The additional FTEs are for 10 additional Sanitation Drivers added in FY 2025, but costs decrease as onetime costs associated with additional food waste pails end following FY 2024.

The Outlook also assumes that 31.30 FTEs and $5.8 million in expenses will be transferred from the Recycling Fund to the General Fund in FY 2023 for the collection of organics waste. This represents existing staffing and expenditures associated with the current collection of yard waste from a subset of City residents that already receive this service. As this has been a voluntary service, it had been funded by the Recycling Fund. However, with the implementation of SB 1383, the collection of yard waste and organics will become mandatory and therefore must be covered from the General Fund to comply with the People's Ordinance.

Finally, the Outlook includes 10.00 FTEs and $4.5 million in new additions that have not been requested yet as part of the City's effort to comply with SB 1383. This amount increases to 12.00 FTEs but decreases in cost to $1.2 million by FY 2027. The cost decrease is due to the fact that a majority of these costs are for near term expenses that only last for a couple of years. This includes increased marketing and outreach costs of $1.6 million in FY 2023, which is reduced to $400,000 in ongoing costs in FY 2024, as well as $125,000 for a food recovery consultant and $1.4 million FYs 2023 and 2024 for the roll out and delivery of green rolling containers. Additional positions include 4.00 Utility Workers and 2.00 Area Refuse Collection Supervisors, as well as various administrative positions, including a Cashier, Payroll Specialist, Administrative Aide, Program Manager, and two Public Information Officers.

While compliance with SB 1383 will result in a substantial increase in General Fund expenses, the Outlook does note that the State is currently in the process of providing grants for cities in order to cover some of the costs of compliance. However, it should also be noted that most of these expenses are ongoing in nature, and while grants may help with some of the immediate cost burdens, the impact of SB 1383, along with the requirement to fund these activities from the General Fund under the People's Ordinance, will result in significantly higher ongoing General Fund expenses for refuse collection.

Potential Resources for Mitigation of Compliance Requirement Expenses

The Outlook currently shows that compliance for stormwater and organic waste activities are funded by the General Fund. This significantly contributes to the Outlook's dramatic deficits in all five years. Our Office notes that both of these activities have potential revenue options that are either currently in development or that we have highlighted in the past.

The Stormwater Department is currently in the process of completing a funding strategy and is on track to return to the Environment Committee in January with a proposed ballot measure for a stormwater fee. The proceeds from this fee, which will most likely require a two-thirds approval on the November 2022 ballot, could be used to offset both current and new operating costs projected in the Outlook, as well as debt service for capital projects in the future depending on how much revenue is generated by the new fee.

Further, with respect to ESD expenses, as explained in IBA Report 21-23 *Analysis of the Fiscal Impact of the People's Ordinance*, most other cities within California charge their residents for refuse, recycling, and other collection services. If the People's Ordinance were amended by a majority vote of the electorate through a ballot measure, the City could develop a fee in line with the Proposition 218 process to cover the costs for not only the new expenditures under SB 1383, but also current General Fund spending for collection services as well. As noted in our report, the FY 2022 Adopted Budget includes $43.2 million in General Fund expenses that could be covered by a trash fee.

REVIEW OF DEPARTMENT SERVICE LEVEL INCREASES

Beyond baseline estimates, new facilities additions, and compliance activities, the Outlook further includes numerous expenditure increases, mostly for added personnel, to improve service levels across four departments: Police, Environmental Services, Parks & Recreation, and Transportation. The additions total 205.00 FTEs and $64.8 million in FY 2023, increasing to 327.00 FTEs but decreasing in costs to $48.3 million by FY 2027. These service level requests were all identified by utilizing the "Get It Done" application and were prioritized based on greatest demand from residents and slow response times.

Review of Department Service Level Increases

- Police Department
  - Parking Complaint Response Times
- Environmental Services Department
  - Missed Collections and Encampment Abatement
- Parks and Recreation Department
  - Increased Trash Collection in Parks
- Transportation Department
  - Pothole Repairs
  - Streetlight Repair and Maintenance
  - Sidewalk Repair and Maintenance
  - Tree Planting and Maintenance
  - Traffic Signal Repair
  - Graffiti Abatement
  - Weed Abatement
  - Street Resurfacing

Our Office has concerns with this prioritization approach. **In particular, we note that the approach in the Outlook of using the City's "Get It Done" application data does not identify critical policy priorities in a comprehensive manner, and does not determine or address root causes of deficiencies. This leads to the Outlook's addition of large numbers of FTEs in departments that have significant existing vacancies.** While "Get It Done" application data should help inform service level targets, it should *not* be the sole source of those targets. Policy considerations and root causes should be considered as well. Otherwise, key priorities like restoring or enhancing library hours or extending digital access programs like SDAccess4All may be neglected. We provide more detail on these concerns, as well as potential priorities that were not included in the Outlook, later in this report.

Additionally, we note that in some cases, service level goals included in the Outlook may not be realistic, such as repairing all traffic signals within 30 minutes of notification, or may be at a level that is beyond what is desired by the Council. Lower and more targeted service levels could require fewer resources than what is currently presented in the Outlook. Details on the increased department service levels and expenditures included in the Outlook are provided below.

<u>Police Department – 72 Hour Response Time for Parking Complaints</u>
The Outlook contains 6.00 FTEs and $0.7 million for additional Police Code Compliance Officers (5.00 FTE) and a Work Processing Operator (1.00 FTE) to enable the Police Department to address 72-hour parking complaints within 6 days, including 3 days to mark the vehicle and three days to tow. Expenditures decrease to $0.5 million for the duration of the Outlook once onetime startup costs are removed.

Currently, the Police Department has 5.00 Police Code Compliance Officers to handle these complaints, with a current service level response time between 45-60 days. The existing service level is due to a combination of factors, including vacancies, prior budget reductions, and increased workload due to increased complaints from the "Get It Done" application.

<u>Environmental Service Department – Missed Collections and Encampment Abatements</u>
The Outlook also includes 16.00 FTEs and $6.1 million in FY 2023 (decreasing to $4.7 million throughout the rest of the Outlook after onetime startup costs are removed) to address both missed trash and recycling collections as well as improve encampment abatement response times.

Missed collections are currently handled through staff overtime and have a current response time from 48 to 72 hours, depending on staff availability. This proposal would add one supervisor and seven drivers as a dedicated team to work Tuesday through Saturday, which would be solely responsible for addressing missed collections reported from the previous day. This would result in a response time of under 24 hours. **While this proposal would alleviate some of the overtime pressures that ESD is experiencing and create a routine process for missed collections, we note that the 7 added Sanitation Drivers would be in addition to 40 drivers that the Department is currently hiring to comply with SB 1383. Further, the Department currently has numerous vacancies to fill within its already budgeted positions, and thus policy decisions would have to be made as far as where newly hired drivers are added to the workforce.**

The additions for encampment abatement include the addition of three new response teams, each of which would include an additional Heavy Truck Driver, Code Compliance Officer, and a contracted labor crew, additional Neighborhood Policing overtime, and other expenses. Each team costs $1.0 million annually throughout the rest of the Outlook, with additional onetime startup costs of $0.4 million per team in FY 2023, for a total of $4.3 million in FY 2023 and $3.1 million in subsequent fiscal years. This addition would reduce response times from 30 days to 14 days. Currently, ESD has eight teams that conduct this work. In addition, the proposal would add $0.6 million for additional sidewalk sanitation services, increasing the amount of days this service is offered from two to five while also providing additional flexibility to address "Get It Done" requests within 24 hours.

<u>Parks and Recreation Department - Increased Trash Collection in Parks</u>
The Outlook includes projected funding to increase garbage can collection in high-use community parks, developed regional parks, and open spaces. It includes 51.00 additional FTEs and $6.1 million in personnel and non-personnel expenses (i.e. additional trash receptables and recycling cans, increase dumpster fees, and additional vehicles) in FY 2023 and $3.6 million in ongoing expenses in the outyears. The FTEs and funding would increase garbage can collections from weekday mornings to also include afternoon and weekend collections.

We note that the 51.00 additional FTEs associated with this initiative combined with the 28.50 FTEs needed to support new park facilities opening in FY 2023, results in a total of 79.50 new FTEs for the Parks and Recreation Department for FY 2023. Of this amount, 37.50 FTEs are anticipated to be Grounds Maintenance Worker IIs, a classification within the department that has 33.50 vacancies as of November 5, 2021. Despite the existing vacancies, staff is optimistic about being able to hire for positions included in the Outlook.

A more conservative approach to onboarding 51.00 FTEs in one year for increased trash collection warrants consideration. According to staff, a phase-in option could include adding resources and positions based on parks with the greatest need for additional trash collection, although details for this approach have not been outlined.

Transportation Department – Various Service Level Improvements

The vast majority of the service level improvements are for the Transportation Department and include a variety of services that either repair or improve infrastructure in the right-of-way. In total, the Outlook contains an additional 132.00 FTEs and $51.9 million for the Transportation Department in FY 2023, as well as $2.1 million in revenue from the CIP for reimbursable work. The FTEs increase to 254.00 in FY 2027, but expenses decrease to $39.5 million in FY 2027 due to lower General Fund support projected for the street resurfacing program.

Each service level enhancement contained in the Outlook represents the estimated need for the Department to achieve the new service level target, *assuming that no vacancies exist within the current workforce*. For each service level improvement, our Office gathered additional information on the current resources, the amount of vacancies within those respective budgets, and how current resources would work with the newly proposed resources.

Overall, our Office notes that while the Outlook phases in many of the workforce additions over a number of years, the magnitude of the proposed new staff may not be reasonable or achievable for the Department from a hiring perspective. Further, some of these service programs have had some challenges hiring and retaining employees, particularly for positions related to streetlights and traffic signals. Given that it is unlikely the Department will be able to incorporate all these resources in their workload within the Outlook's timeframe, as the Proposed Budget is developed and considered, the Council should weigh: whether these targeted service levels appear reasonable or desirable; how these service levels should be prioritized against each other; and which can be the most meaningfully achieved given difficulties in hiring and retaining employees.

Pothole Repairs

The Outlook adds up to nine additional pothole repair teams by FY 2027, starting with 5.00 FTE and $1.8 million in FY 2023 and increasing to 19.00 FTE and $2.35 million in FY 2027. This addition would double the number of pothole repair teams currently in the City and further add an additional supervisor for the new teams. This would lower the response time from 33 days to 3 days. Currently, one of the existing pothole repair teams is vacant.

Streetlight Repair and Maintenance

This addition contains 15.00 FTEs and $5.0 million in FY 2023, increasing to 39.00 FTEs but lowering in cost to $4.0 million in FY 2027. These additions would increase the City workforce from two dedicated electrical crews up to four crews, and add administrative positions including supervisors, a GIS analyst, and other positions to manage projects and inventory. This would reduce the streetlight repair time from 230 days to 3 days. Within existing crews, 6 of 23 electrician positions are vacant.

Sidewalk Repair and Maintenance – The Outlook proposes to add 67.00 FTEs and $17.7 million in FY 2023, which increases to 109.00 FTE but decreases to $11.9 million in FY 2027. Even in FY 2027, this addition would be three times the current budget of 30.00 FTEs and $4.2 million that are currently dedicated to this service. This addition would increase the number of dedicated sidewalk repair crews from two to nine, with each crew containing 13.00 FTE. This would also increase the sidewalk ramping team from two employees to ten. Additional personnel would also be added to administer the CIP program for sidewalks and to manage ADA related projects. Further, the slicing contract would increase from $625,000 up to $3.4 million. All of this would decrease the response time for initial patching and ramping from 30 days to 1 day, while long term repairs would decrease from months or years to 30 days. Currently, there are a total of five vacancies out of 30 positions within the sidewalk repair teams.

Tree Maintenance and Planting

This addition includes 5.00 FTEs and $1.1 million in FY 2023, increasing to 8.00 FTEs and $1.7 million in FY 2027. The City currently has 13.00 positions in the tree trimming program, with a budget of $5.1 million (of which $3.2 million is for contractual tree trimming services and $362,000 is for new planting). This addition would add 8.00 FTEs as support staff for the program, add an additional $670,000 for the removal of dead palms and street trees in FY 2024, and add $400,000 for new planting in FY 2025. The goal of these additions would be to reduce the current response time for high priority requests from 6 months down to 1 day, and to 30 days for medium priority requests. There are two existing vacancies within the current tree maintenance staff.

Traffic Signal Repair

This addition includes 18.00 FTEs and $4.7 million in FY 2023, increasing to 39.00 FTEs and $5.4 million in FY 2027. This would more than double the current budget for traffic signal repair, which is currently budgeted at $4.2 million and 21.00 FTE, excluding energy costs. The additions would include an additional 20 Traffic Signal Technicians, which would equal one per 50 intersections in the City, and 10 Utility Workers and one Equipment Operator. Other support personnel would be added as well, with the goal of reducing the response time for repair from 1 day to 30 minutes. It is worth noting of the 21 existing FTE for this work, 10 are currently vacant, of which 9 are Traffic Signal Technicians.

Graffiti Abatement Program

The Outlook adds 4.00 FTEs and $1.4 million in FY 2023, ramping up to 14.00 FTEs but expending between $1.4 and $1.5 million through FY 2027 to decrease response times for graffiti abatement within the right-of-way from 32 days to 2 days. This would increase the City workforce from four dedicated two-person teams up to nine dedicated two-person teams, as well as an additional two two-person teams for hot spot and high-volume locations. This addition would not increase resources for graffiti abatement on residential property. Currently, there is only one vacancy within the graffiti abatement teams.

Weed Abatement

This addition includes 4.00 FTEs and $0.8 million in FY 2023, increasing to 12.00 FTEs and $1.2 million in FY 2027. This would also be the first time City staff was hired for this service, as currently weed abatement services are handled by an outside vendor with a budget of $0.9 million. This addition would create five dedicated two-person crews to assist in pesticide application, and one additional two-person crew for emergency hot spot locations. In addition, $0.4 million would also be added for additional contractual services for medians, shoulders, sidewalks, and bike lanes.

Street Resurfacing Program

Finally, the largest monetary addition for the Transportation Department is 14.00 FTEs and $19.5 million in FY 2023, which decreases to $11.5 million in FY 2027, to support the City's street resurfacing program. The additional 14 positions would supplement 20 existing FTEs and would include transferring management of the overlay construction program to the Transportation Department from Engineering and Capital Projects. In addition, the Outlook proposes to spend $17.4 million in General Fund money for slurry seal services in FY 2023 to maintain a goal of 370 miles of slurry seal each year. This amount of slurry seal is estimated to cost $48.1 million, with the balance covered by a combination of Road Maintenance and Rehabilitation Fund and Gas Tax Fund dollars. The amount of General Fund support decreases in the outyears as available resources from these two funds increase. We note that almost no General Funds have been used on the slurry seal program in recent years.

POTENTIAL FUNDING NEEDS NOT INCLUDED IN OUTLOOK

While the Outlook includes significant expenditure and staffing increases for compliance requirements and select department service level increases, a number of additional needs and priorities were not included in the Outlook. These include priorities for which Councilmembers have expressed support, other known needs, and maintenance of existing City facilities and infrastructure. This section provides an overview of select priorities and needs that were not included in the Outlook. These priorities should be considered alongside proposed department service level increases to ensure that Council's priorities are properly reflected in future budgets.

Affordable Housing Preservation

On October 27, 2020, the Council approved a resolution accepting numerous recommendations from the San Diego Housing Commission's Affordable Housing Preservation Study. One of these recommendations was to establish a strategic goal, with appropriations in one-year increments and within the framework of the City's annual budget process, of using at least 20% of the FY 2021 RPTTF residuals as an annual base figure, and adding any additional growth in RPTTF residuals in future years, for an appropriation to support numerous affordable housing preservation projects.

Our Office, as discussed in IBA Report 20-15, noted that any amount redirected would have a corresponding negative impact to the General Fund, as the RPTTF residuals are all currently unrestricted General Fund revenue. Based on the methodology discussed in our report and as put forth in the resolution, 20% of the FY 2021 RPTTF residuals, as contained in the FY 2021 Adopted Budget, would have been $5.8 million. While no appropriation was made in FY 2021 or FY 2022, an appropriation consistent with this policy and the projections contained in the Outlook would be approximately $8.8 million in FY 2023. This would increase to $20.3 million by FY 2027 and would result in an overall negative adjustment to the baseline within the Outlook as provided in the table below.

RPTTF Affordable Housing Preservation Appropriation *($ in millions)*				
FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
$ 8.8	$ 11.2	$ 13.8	$ 17.2	$ 20.3

Penny for the Arts Blueprint Funding Target

During the FY 2022 Budget adoption process, a majority of Councilmembers expressed support for increasing funding for arts programs consistent with the Penny for the Arts Blueprint. The Blueprint calls for the City to dedicate an amount equal to 9.5% of total TOT revenue (1.0% of the 10.5% total TOT rate) to arts and cultural programs. As noted in our review of TOT revenue, arts program support in the Outlook is held flat at FY 2022 Adopted Budget levels. The table below shows the target funding levels as compared to funding amounts included in the Outlook.

Penny for the Arts Funding Levels *($ in millions)*					
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
1.0% TOT Target	$ 23.4	$ 24.4	$ 25.4	$ 26.4	$ 27.4
Funding Level in Outlook	9.3	9.3	9.3	9.3	9.3
Funding Gap	(14.1)	(15.1)	(16.1)	(17.1)	(18.1)

While the City has not met Penny for the Arts Blueprint targets in recent years, Council may wish to weigh additional arts funding against other budget priorities in FY 2023 and beyond.

Fire-Rescue Department – Peak Hour Engines

One item that has been included in prior Outlooks, but that is not included in the current Outlook, is the funding for Peak Hour Engines within the Fire-Recue Department. PHEs are fire engines that do not operate out of a fire station but are instead flexibly deployed in various areas based on need for 12 hours per day. These PHEs are a new deployment concept that has not yet been utilized by the Fire-Rescue Department, but they were a key recommendation of the 2017 Citygate Report. Due to the nature of Firefighters' shifts, the budgetary impact of staffing one 12-hour PHE is 8.00 FTEs and $1.3 million in expenses. Previous outlooks have included phase-in plans to add up to 6 of these teams. However, none of these teams have ever been included within the budget due to resource constraints.

Parks & Recreation Department – Equity in Recreation Programming

On November 10, 2021 the City Auditor released the Performance Audit of Equity in Recreation Programming, which identified significant inequities in recreation program funding, availability, and access. The audit included 16 recommendations, and the Parks and Recreation Department's (P&R) response to the first Audit recommendation indicates that initial resources will be needed to implement several recommendations included in the Audit. These resources were not included in the Outlook.

As alluded to in the response to the Audit, P&R plans to request these initial resources during the FY 2023 budget process, including $1.2 million for 10.00 FTEs and consultant support for marketing/outreach, as well as for recreational needs assessments and related survey and data analysis. We note that these initial resources do not include the *program funding* needed to further equity goals (e.g., for fee reductions/waivers or extended free programming in communities of concern). The level of program funding and other Department resources will be determined as the Mayor and Council weigh funding levels for all of the City's competing priorities.

The Performance Audit of Equity in Recreation Programming was heard by the Audit Committee on November 17, 2021. In response to an Audit Committee member's question on whether P&R could use existing resources to begin the implementation of marketing and outreach activities, the P&R Director indicated that it would not be best to repurpose existing staff because a comprehensive effort by a dedicated team is needed to develop the area surveys and needs assessments that will inform the development of marketing/outreach efforts. The Committee unanimously passed a motion made by Committee Chair Moreno, which included a request for consideration of a FY 2022 mid-year budget adjustment that will help P&R move forward in implementing the Audit's recommendations.

SDAccess4All Program

Funding for the SDAccess4All program is not included in the Five-Year Outlook. The Department of Information Technology's (DoIT) budget included onetime funding of $500,000 and $450,000 in FY 2021 and FY 2022, respectively, for this digital equity program intended to provide internet access in low- and moderate-income communities. The City Council added funding to the FY 2021 budget to address gaps in internet access and to work towards closing the digital divide that was exacerbated by COVID-19. The City Council included continuation of the program in their FY 2022 Budget Priorities Resolution. With the funding allocated in FY 2021, DoIT purchased 410 Chromebooks and, in partnership with various City departments and community organizations, established free internet access at over 300 locations in the City, including most of the City's libraries and recreation centers.

Library Locations Loaning Mobile Wi-Fi Hotspots and Chromebooks

- Allied Gardens-Benjamin Library
- Balboa Library
- Central Library
- City Heights-Weingart Library
- College-Rolando Library
- Kensington-Normal Heights Library
- La Jolla-Riford Library
- Linda Vista Library
- Logan Heights Library
- Mira Mesa Library
- Mission Hills-Hillcrest Knox Library
- Mission Valley Library
- North Park Library
- North University Community Library
- Otay Mesa-Nestor Library
- Pacific Beach-Taylor Library
- Paradise Hills Library
- Point Loma-Hervey Library
- Rancho Bernardo Library
- San Carlos Library
- San Ysidro Library
- Scripps Miramar Ranch Library
- Skyline Hills Library
- University Heights Library
- Valencia Park-Malcolm X Library

In FY 2022, the City qualified for federal Emergency Connectivity Funding (ECF) to cover expenses for mobile Wi-Fi hotspots and Chromebook expenses for SDAccess4All Library programs which is up and running. The Library Department currently has 1,000 hotpots at 25 of 36 library locations (as shown in the figure to the right), with 1,000 additional hotspots being processed and prepared to be distributed in the next 1-2 weeks. The loan period is 90 days and 88% of hotspots are currently checked out. The Library Department used the ECF to purchase 2,000 more Chromebooks this fiscal year for loan and will be implementing a digital navigation program and technology training program. According to the Library Department, Chromebooks are to be distributed to locations on a 1 to 1 (hotspot to Chromebook) basis.

The Department of IT is currently evaluating the effectiveness of the services developed during the pilot program, including areas that may qualify for new federal funding and the adoption of the outdoor Wi-Fi at libraries, parks, San Diego Unified Schools, and the street-level hotspots in San Diego neighborhoods; digital navigation services; and a new mobile digital literacy training partnership with the San Diego Futures Foundation. The Department would like to make sure that the programs with the highest level of adoption can be continued, however some of the programs were implemented recently and it may take time for adoption to ramp up. There are also new requests for public Wi-Fi in the San Diego Promise Zone and other opportunities to expand digital equity resources in the City under consideration. The Department is assessing the potential for continued federal funding for FY 2023 and will be submitting an FY 2023 budget request for the new projected needs.

Climate Action Plan 2.0

As presented at the Environment Committee on November 18, the Sustainability and Mobility Department is currently developing a new Climate Action Plan (CAP), known as CAP 2.0. This new draft CAP has more ambitious greenhouse gas (GHG) reduction goals than the previous CAP, including a goal to have no net GHG emissions by 2035 (the previous goal was a 50% reduction by 2035). This new goal has necessitated more aggressive targets on existing strategies within the current CAP, including mode shift and mobility targets, as well as new strategies that were not in the previous CAP, such as the electrification of existing municipal and private buildings. CAP 2.0

is still under development by staff and is undergoing a public input process, with a final CAP expected sometime next year.

As has been noted numerous times by our Office, and further recommended by the City Auditor in their report on the CAP, City staff need to develop implementation plans, and subsequent funding plans based on those implementation plans, in order to ensure that the goals and objectives of the CAP are achieved. Staff have committed to completing these processes. However, since these plans have not been developed, it is unknown at this time what these action items will cost in the future. Many of the strategies contained in the draft CAP 2.0, including mode shift infrastructure, building electrification, and other activities could require significant additional resources that are not included within this Outlook.

Electric Vehicle (EV) Conversions

As mentioned previously, the City is currently updating its CAP. The City's CAP goals are very similar to the California Air Resource Board's (CARB) "Advanced Clean Fleets" draft regulations. According to the City's Fleet Operations Division (Fleet), CARB's proposed regulations are expected to be approved in the next few months and would go into effect on January 1, 2024 and require that 50% of all new vehicles purchased must be Electric Vehicles (EVs), with some exceptions for emergency vehicles. Fleet noted that both CAP and CARB goals are aggressive and will require significant investment in infrastructure and upgrades to the City's service yards and facilities.

Fleet included a request in the FY 2023-27 Capital Improvement Program (CIP) Five-Year Outlook for $500,000 in FY 2023 to fund a consultant study to assess the City's needs and costs for converting to electric. This study will build on the charging needs assessment in the Municipal Energy Implementation Plan scheduled for release spring 2022 to develop the electrical infrastructure needs and cost analysis for fleet conversion. Essentially the feasibility study will determine how much charging infrastructure will be needed, where to best place it, and what costs will be anticipated.

Fleet anticipates significant capital and additional staff positions will be needed, but will not have full projections until the consultant study is completed. Known personnel needs include a near term addition of 1.0 FTE, which may be added supplementally in FY 2022 and made permanent in FY 2023. The position will sit in DGS-Fleet. Fleet also noted that there is an existing 0.5 FTE in Sustainability and Mobility tasked with leading development and implementation of citywide electrification policy. It is anticipated that another 0.5 FTE will be identified for that effort through the CAP staffing analysis that is currently being prepared by the Sustainability and Mobility Department.

Fleet indicates that there is urgency to secure funding given the timeframes for CIPs and the installation of the infrastructure. Fleet is working collaboratively with the Sustainability and Mobility Department, which is also involved in converting the City's fleet.

Infrastructure Investments - Cost-effectively Planning and Budgeting for Needed Maintenance and Capital Investments for Assets

Asset Management and the Enterprise Asset Management (EAM) System

Effectively managing the City's billions of dollars of infrastructure assets impacts the quality of life for residents and visitors and is critical for keeping the City safe and beautiful. Asset Management is a best business practice for sustainably managing the City's infrastructure assets – such as facilities, streets, and water mains – in the most cost-effective manner. Similar to period maintenance and oil-changes on a car, infrastructure assets have predictable and preventive maintenance strategies that support effective lifecycle management. Asset Management uses a condition-based, data-driven approach to planning and budgeting. An Enterprise Asset Management (EAM) system a is tool to support work management, and uses data to help staff identify projects needed for cost-effective maintenance and repair. This ultimately helps inform the efficient allocation of City resources. As the City has many competing priorities for limited resources, it is critical to ensure its resources are spent wisely.[8] However, as discussed below, departments continue to face challenges in fully implementing Asset Management and EAM.

The City's Asset Management system (SAP Enterprise Asset Management – EAM) went live to support work management and Asset Management Planning for five department/groups in FY 2018.[9] At that time, the City also developed a Strategic Asset Management Plan to serve as a roadmap to ensure significant investments in Asset Management and EAM are realized. DoIT is currently planning EAM Phase 2 to expand the system to additional departments, although no resources are included in the Outlook for this effort. The City has Asset Management plans for several asset types – such as facilities and storm water infrastructure – which outline the funding needed to maintain assets at targeted service levels in the most cost-effective way, including preventative maintenance.

Despite this investment in Asset Management and EAM, over the past few years City operations such as Facilities Services Division have experienced significant budget reductions and currently have vacancies and hiring challenges. According to the Facilities Division, they need additional resources to better use the full capabilities of the EAM system, including 1.0 Project Officer II and 1.00 Construction Estimator. A Project Coordinator was also recommended by the Department of Information Technology (DoIT).

It will be difficult for staff to plan maintenance and repair of City assets in the most cost-effective manner without realizing the full capability of the EAM system, proper training and support for using the system, and expanding to Phase 2 departments. Our Office believes that asset management will be a critical component to prioritizing and tackling the estimated $3.02 billion five-year capital infrastructure backlog reflected in the most recent Five-Year Capital Outlook. We encourage greater use of the EAM system and Asset Management planning and budgeting to

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[8] It also will be important for the City to lean into Asset Management planning and budgeting to be competitive for infrastructure-related funds, given that state and federal departments generally require Asset Management plans when participating in grant programs.

[9] The five departments/groups implementing SAP EAM included: Public Utilities, Transportation & Storm Water, Public Works/Facilities, Public Works/Engineering and Capital Projects, and Information Technology/Wireless Services.

prioritize the City's limited resources, and we plan to review the City's use of Asset Management and EAM in more detail in the coming months.

Preventive Maintenance and Asset Investment Planning for Facilities Services Division

Given that the services and program additions included in the Outlook are the most requested service level improvements identified through the City's "Get It Done" application, no service level improvements were included for General Services Department/Facilities Services Division. We are concerned that the Outlook does not place a high enough priority on maintenance and repair of critical City facilities. Chronic underfunding of maintenance and repair has been a significant contributing factor to the current deferred maintenance and capital backlog and funding shortfall of $538 million for City facilities reflected in the most recent Five Year Capital Outlook.

Work of Facilities Division staff is currently split between reactive and preventative maintenance, with reactive repair of broken systems and facilities accounting for 80% of their work, and preventative maintenance only accounting for 20%. According to the 2012 City Auditor report, best practices suggest that preventative maintenance should account for at least 70% of repairs.[10] The Auditor's report noted that achieving the correct balance between these activities is a key factor in an effective and efficient maintenance program, and helps manage costs by minimizing expensive emergency repairs and unplanned shutdowns. According to Facilities, their initial goal for preventive maintenance would be 50% (rather than the 70% recommended in the Audit report) considering limited resources, existing maintenance plans, and challenges filling trade staff vacancies. The Division noted a phased approach would help to achieve this goal and additional resources (including doubling the existing 21.00 HVAC staff and $100,000 in non-personnel expense) will be required as trade-specific maintenance plans are developed.

In response to the Audit, Facilities participated in a Zero-Based Budget effort that was completed in FY 2016 that identified the needs of the Division to provide enhanced services. This effort resulted in the highest resource allocation to the division in FY 2017, including an addition of 21.00 positions and increase of approximately $400,000 in non-personnel expenditures. However, due to the city-wide revenue shortfalls in FYs 2018-2021, Facilities ultimately experienced reductions amounting to 43.00 FTE and $747,000 over the period.

Another large contributing factor to the Division's inability to complete preventive maintenance on time and reach a goal above 20% is a high vacancy rate, with 27.50 vacancies out of 174.50 FTEs. According to Facilities, these are chronic vacancies due to insufficient compensation and are not specifically related to pandemic impacts. The majority of vacancies are for trade staff including Carpenters, Electricians and HVAC Technicians. According to Facilities, while the City has managed to provide incremental salary increases to select trades, it is still not enough to keep current with salaries of other entities. Facilities is currently working with the Personnel Department to fill vacant positions, with individuals either pending certifications or in the interview process. Another factor impacting the preventive maintenance goal is that Facilities Division staff have recently been tasked with assisting with homeless shelter build outs, tenant

[10] City of San Diego, Ca, Office of the City Auditor, Performance Audit of the General Services Department – Facilities Maintenance Division: Insufficient Resources Lead to Maintenance Deficiencies, a Weak Organizational Model, and Reduced Management Capacity, November 2012.

improvements, COVID-19 pandemic-related projects, and other priorities that shifts their work away from preventative maintenance.

By not using an Asset Management approach with a goal to get to at least the 50% preventive maintenance over the period of the Outlook, infrastructure assets will continue to age, and the consequence of City facilities failures will continue to increase. Asset failures lead to higher cost emergency repairs and often costly collateral damage, as the City saw with recent water main breaks, flooding, and closures on I-5.

POTENTIAL MITIGATION MEASURES

Potential Mitigation Measures
• American Rescue Plan Act
• General Fund Reserve & Excess Equity
• Infrastructure Fund
• Potential Budget Reduction Proposals
• Infrastructure Investment and Jobs Act
• Potential New Revenues

The Outlook shows that General Fund baseline expenditures exceed revenues in FYs 2023-2025, with baseline surpluses in FYs 2026 and 2027. As discussed below, baseline deficits are shown to be mitigated by use of American Rescue Plan Act (ARPA) funding.

The addition of expenditures for new facilities and planned commitments, compliance requirements, and department service level increases, however, leads to the Outlook showing annual deficits that average $117.2 million over the Outlook period (with a high of $142.6 million in FY 2024 and a low of $86.6 million in FY 2027). While it is likely that much of the deficit in early years is overstated as a result of the inclusion of unrealistically large increases in staffing levels, it is also likely that some degree of increased service levels will still lead to deficits that require mitigation. This section explores planned and potential mitigations that could be considered over the course of the Outlook.

American Rescue Plan Act

The American Rescue Plan Act of 2021 (ARPA) was signed into law on March 11, 2021. The City expects to receive a total of $299.7 million from ARPA, half of which was received in May 2021 with the other half expected no sooner than May 2022. ARPA funds must be used by December 2024 and are available to provide government services and replace much of the City revenue lost because of the pandemic.

The City is planning to use $149.3 million of its ARPA funds in the FY 2022 Adopted Budget which leaves the remaining $150.4 million to be used by December 31, 2024. Given this deadline for use, the Outlook plans using the $150.4 million of ARPA funds in FY 2023 ($103.3 million), FY 2024 ($38.8 million), and FY 2025 ($8.2 million). While ARPA funds enable the City to balance projected baseline revenue shortfalls in FY 2023, FY 2024, and FY 2025, they are not sufficient to mitigate projected shortfalls in these same fiscal years after adding expenditures for new facilities and planned commitments, compliance requirements, and department service level increases. As noted above, the Outlook projects large shortfalls when these expenditures are added to the baseline after fully utilizing ARPA funds and available excess equity (discussed below).

General Fund Reserve and Excess Equity

The City could consider the use of any available Excess Equity for FY 2023 onetime needs. The amount that may be available is uncertain because the current $26.7 million estimate is not based on comprehensive projections for FY 2022, but rather the FY 2022 Adopted Budget amounts. The FY 2022 projections that will be included in the Mid-Year Report (expected to be released at the end of January 2022) will provide an updated sense of the projected Excess Equity.

Additionally, when balancing the City’s funding priorities for FY 2023, the City could consider forgoing the FY 2023 General Fund Reserve contribution. This would produce onetime funding for critical priorities. This is not a recommendation, as our Office has always advocated for maintaining strong reserve balances. However, it is one consideration if circumstances become severe.

Infrastructure Fund

The Infrastructure Fund was put in place after passage of Proposition H in 2016 required the City to dedicate a portion of revenue increases to infrastructure spending. Contributions to the fund were waived in the last two fiscal years due to revenue decreases associated with the COVID-19 pandemic, but the Outlook includes contributions to the City's Infrastructure Fund in each of its five years as shown below, totaling $159.3 million.

Infrastructure Fund Contributions *($ in millions)*				
FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
$ 18.4	$ 26.1	$ 33.0	$ 38.7	$ 43.1

Money in the Infrastructure Fund can be used for both capital infrastructure investments, *as well as the repair and maintenance of infrastructure that is already assumed in baseline expenditures*. Given that the Outlook includes General Fund expenditures for repair and maintenance that exceed Infrastructure Fund contributions, the City could fund a portion of those amounts with the Infrastructure Fund to mitigate deficits.

We do note that using Infrastructure Fund dollars to *support* baseline infrastructure expenditures, rather than *supplement* investments in the City's infrastructure would contribute to the ever-growing capital infrastructure shortfall, last estimated at $3.02 billion.

Potential Budget Reduction Proposals

In November 2019, the Chief Operating Officer released a memorandum directing departments to submit 4% budget reduction proposals as part of the FY 2021 budget development process. The memorandum further noted that departments *"are required to suspend all nonessential discretionary expenditures in Fiscal Year 2020"*. As of the date of this report, there has been no such request to departments regarding budget reduction proposals for the FY 2023 budget or suspending FY 2022 discretionary expenditures.

If a request for submission of FY 2023 budget reductions is distributed to departments, it is likely that not all department reductions submitted would be accepted and implemented due to potential operational impacts. However, if the Council is weighing the relative importance of various programs and services for inclusion in the budget, some departmental cuts may be unavoidable.

Infrastructure Investment and Jobs Act

On November 15, 2021 the Infrastructure Investment and Jobs Act became federal law which will allocate an estimated $1.2 trillion nationwide over ten years, of which $550 billion is estimated to be allocated over the next five years. The extent to which the City will benefit from this new funding is unclear as much of it will be made available through competitive grants or passed through the State. These funds will take time to roll out, especially new grant programs which will need to go through design and federal rule making. If the City is successful in receiving funds, this could relieve pressure on the General Fund to support transportation capital improvement projects or other General Fund obligations. Examples of competitive grant opportunities that will be made available to local governments are:

- Bridge rehabilitation or replacement
- Vision Zero projects and other improvements that reduce crashes and fatalities, especially for cyclists and pedestrians
- Planning, design, demolition, and reconstruction of street grids, parks, or other infrastructure
- Projects that improve transportation safety and efficiency
- Large-scale water recycling and reuse programs (this would not have a General Fund impact)
- Electric vehicle charging and increased broadband access

Potential New Revenue Sources

As noted in our review of compliance requirements, the Stormwater Department is currently developing a funding strategy and potential stormwater fee for consideration on the November 2022 ballot. The Department is expected to report to the Environment Committee in January with a proposed ballot measure. If the measure were to be put on the ballot and approved, the proceeds from this fee could be used to offset large stormwater costs.

Additionally, as our Office has noted several times in the past – most recently in IBA Report 21-23 – most other cities charge their residents for refuse, recycling, and other collection services. If the People's Ordinance were amended by a majority vote of the electorate through a ballot measure, the City could develop a fee in line with the Proposition 218 process to cover the costs for residential trash collection that are currently borne by the General Fund.

SUMMARY AND CONCLUSION

Our Office appreciates that this year's Outlook returns to the best practice of projecting baseline revenues and expenditures *as well as* expenditures for regulatory compliance and increased service levels and priorities. However, we do have concerns that many of the additional positions and expenditures included in the Outlook – especially the large additions shown in FY 2023 – cannot be feasibly implemented so quickly, and that the Outlook's utility as a budget-planning document is diminished when expenditure projections reflect immediately achieving service levels and goals that will in practice take years to implement. We also note that "Get It Done" application data can be a useful tool in developing department service levels, but that it must not be the *sole* driver in setting those service levels.

While this year's Outlook projects baseline deficits that can be mitigated through use of Excess Equity and American Rescue Plan Act funding, the addition of new expenditures for facilities, planned commitments, compliance requirements, and department service level increases leads to dramatic projected deficits throughout the Outlook period that average $117.2 million annually. While our Office believes that the deficits projected by the Outlook are overstated, as they assume the addition of over 550 new positions in FY 2023 alone, we also recognize that even a more realistic increase in staffing and service levels – and/or providing funding for other priorities and needs – will still require mitigations. Much of the projected deficits could be alleviated by increasing or implementing fees for services – like stormwater management and trash collection – that are commonly charged in other cities.

The information provided in the Outlook and in our review of the Outlook allows the Council to begin identifying its top budget priorities and to develop a strategy for achieving a balanced budget in FY 2023. The next step in the annual budget process is for each City Councilmember to identify their priorities for the FY 2023 budget and submit them to our Office by January 14, 2022. In February 2022, the Council will adopt its City Council Budget Priorities Resolution, which will be developed based on the memos submitted to our Office. This resolution will provide the Mayor with input for developing the FY 2023 Proposed Budget.

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Attachment: New Facilities and Joint Use Agreement Annual Costs

NEW FACILITIES AND JOINT USE AGREEMENT ANNUAL COSTS

Fiscal Year 2023 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Parks & Recreation	Dennery Ranch	8	1.50	$ 321,877
Parks & Recreation	East Village Green	3	12.00	1,456,886
Parks & Recreation	Hickman Elementary Joint Use	6	0.50	109,453
Parks & Recreation	Mission Beach High School Tennis Courts Joint Use	2	0.50	66,669
Parks & Recreation	Olive Street Mini Park	3	0.50	69,469
Parks & Recreation	Riviera Del Sol Neighborhood Park	8	1.50	288,680
Parks & Recreation	Salk Neighborhood Park & Joint Use	6	1.00	217,360
Parks & Recreation	Taft Middle Joint Use	7	0.50	132,934
Parks & Recreation	Wagenheim Joint Use Facility	6	0.50	116,498
Parks & Recreation	Facility Maintenance, Irrigation, Playgrounds, and Turf	Citywide	10.00	1,739,233
Library	Pacific Highlands Ranch Branch Library	1	9.50	854,000
Total Fiscal Year 2023			**38.00**	**$5,373,059**

Fiscal Year 2024 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Parks & Recreation	3 Roots	6	2.00	550,717
Parks & Recreation	Baker Elementary Joint Use	9	0.50	77,619
Parks & Recreation	Balboa Elementary Joint Use	8	0.50	75,564
Parks & Recreation	Burbank Elementary Joint Use	8	0.50	71,748
Parks & Recreation	Emerson Elementary Joint Use	9	0.50	73,275
Parks & Recreation	Hidden Trails Neighborhood Park	8	0.50	116,643
Parks & Recreation	Junipers	5	1.00	175,571
Parks & Recreation	Lindbergh-Scheweitzer Joint Use	6	0.50	114,012
Parks & Recreation	Marston Middle Joint Use	6	1.00	145,900
Parks & Recreation	McGonigle Canyon Neighborhood Park	1	1.00	199,050
Parks & Recreation	North Central Square	3	0.50	64,146
Parks & Recreation	NTC Building 619	2	4.00	422,670
Parks & Recreation	NTC/Esplanade	2	0.50	71,558
Parks & Recreation	Facility Maintenance, Irrigation, Playgrounds, Turf, Mowing & Sweeping and Park Forestry	Citywide	9.00	1,639,055
Fire-Rescue	Torrey Pines (UCSD) Fire Station[1]	1	12.00	2,324,140
Fire-Rescue	Black Mountain Ranch Fire Station[1]	5	12.00	2,215,692
Total Fiscal Year 2024			**46.00**	**$8,337,360**

Fiscal Year 2025 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Parks & Recreation	Boone Elementary School	4	0.50	103,211
Parks & Recreation	Pacific View Elementary Joint Use	4	0.50	100,863
Parks & Recreation	Perry Elementary School Joint Use	4	0.50	116,125
Parks & Recreation	Spreckels Elementary Joint Use	1	0.50	101,802
Parks & Recreation	Whitman Elementary School	6	0.50	114,834
Parks & Recreation	Playground Maintenance, Mowing & Sweeping, Pesticide and Park Forestry	Citywide	4.00	546,663
Fire-Rescue	Fairmount Ave Fire Station	4	12.00	2,269,916
Total Fiscal Year 2025			**18.50**	**$3,353,414**

Fiscal Year 2026 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Parks & Recreation	Lafayette Elementary Joint Use	6	0.50	137,257
Parks & Recreation	Pacific Beach Elementary Joint Use	1	0.50	77,971
Parks & Recreation	Rowan Elementary Joint Use	9	0.50	96,168
Parks & Recreation	Park Forestry	Citywide	1.00	73,941
Library	Ocean Beach expansion[2]	2	1.00	87,317
Total Fiscal Year 2026			**3.50**	**$ 472,654**

Fiscal Year 2027 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Library	Ocean Beach expansion[2]	2	1.00	173,702
Total Fiscal Year 2027			**1.00**	**$ 173,702**

Note: Facilities include one-time expenses for items such as vehicles in the first year of operation. One-time expenses are eliminated from subsequent years operating costs.

[1]Costs for Torrey Pines and Black Mountain Ranch fire stations include a full 12 months of cost for each facility. The Outlook includes prorated amounts for these stations in FY 2024 (Torrey Pines for 11 months, and Black Mountain Ranch for 4 months).

[2]Although the expanded Ocean Beach library is expected to open in FY 2027, staff anticipate the need for one position in the fiscal year prior to opening the facility (FY 2026). The Outlook reflects the position being added in FY 2024, but it will actually be needed in FY 2026. Additional costs in FY 2027 and ongoing are for supplies, contracts, and utilities.