THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2023 Mid-Year Budget Monitoring Report

OVERVIEW

The FY 2023 Mid-Year Budget Monitoring Report (Mid-Year Report) was issued on February 3, 2023 and was presented to the Budget and Government Efficiency Committee on February 8, 2023. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections using actual (unaudited) data from the first five months of the fiscal year (July through November 2022). Requested appropriation adjustments included in the Mid-Year Report are based on those projections. Additionally, among a number of attachments, the Mid-Year Report includes several attachments responsive to Council requirements:

- Attachment 6 to the Mid-Year Report includes the Police Department report on overtime expenditures in accordance with the FY 2023 Appropriation Ordinance (O-21476).
- Attachment 7 is also presented in accordance with the Appropriation Ordinance and includes a report on grant funds awarded to the City for the City Attorney's prosecutorial function.
- Attachment 8 responds to the City Council's request in Resolution 313615 that Homelessness Strategies and Solutions Department provide updates on homelessness programs and spending.

The Mid-Year Report is projecting a $27.1 million surplus of General Fund revenues over expenditures. This largely due to a $33.2 million net increase in revenues over the FY 2023 Adopted Budget. We note that revenues include the use of $147.6 million of one-time American Rescue Plan Act (ARPA) funds, which would leave $52.1 million of these federal funds available for use in future fiscal years.

The purpose of the IBA review of the Mid-Year Report is to provide related clarification and additional information. In this report, we review: major General Fund revenues; select

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departmental revenues; General Fund expenditures, focusing on salaries and wages (including public safety overtime); and the General Fund Reserve and Excess Equity. We also provide additional information on homelessness expenditures; impacts related to the June 2012 Proposition B; and (the non-general fund) Engineering and Capital Projects (E&CP). Further, we review the Mid-Year Report's requested appropriation adjustments, as well as provide a status update on all items City Council added to the FY 2023 Adopted Budget as part of its final budget resolution.

FISCAL/POLICY DISCUSSION

General Fund Revenues

General Fund revenues are made up of major General Fund revenues (property tax, sales tax, Transient Occupancy Tax [TOT], and franchise fees) and departmental revenues. Overall General Fund revenues are projected to be over the Adopted Budget by $33.2 million. These over budget projections are due to high price levels and pent-up demand for travel as well as high property turnover in the housing market that occurred in calendar year 2021 which are being realized in current revenues. This includes a projected $44.0 million increase in the major General Fund revenues, though projected departmental revenues are below budget by $10.8 million. The largest variance in major General Fund revenues is the TOT projection, which is $5.9 million, or 15.3%, above the projections in the FY 2023 First Quarter Budget Monitoring Report (First Quarter Report). Even though major General Fund revenues are over budget, the City plans to use the same amount of ARPA funds, $147.6 million in FY 2023, leaving $52.1 million for future fiscal years. Our Office finds the revenue projections in the Mid-Year Report to be reasonable given the degree of uncertainty around whether elevated price levels will meaningfully change consumption patterns.

Major General Fund Revenues

Major General Fund revenues in the Mid-Year Report are projected to be $44.0 million over amounts included in the Adopted Budget. This is an $8.7 million increase from the First Quarter Report projections. As shown in the table below, major General Fund revenue sources are anticipated to decrease from projections in the First Quarter Report, except TOT. Compared to the Adopted Budget, all projections are above the Adopted Budget except Franchise Fees. The primary drivers of the changes in major General Fund revenues are discussed further in this section. We note that the "Other Major Revenues" line in the table below shows an increase of $11.6 million as compared to the FY 2023 Adopted Budget. The increase is primarily due to the litigation settlement over the 101 Ash Street and Civic Center Plaza buildings, which included a one-time payment of $7.5 million to the City.

Mid-Year Report Major General Fund Revenues Comparison *($ in millions)*					
	Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First Quarter**
Property Tax	$ 706.2	$ 720.4	$ 715.7	$ 9.4	$ (4.8)
Sales Tax	380.2	386.0	384.6	4.3	(1.4)
Transient Occupancy Tax[1]	135.2	149.9	155.8	20.6	5.9
Franchise Fees	93.8	94.5	91.8	(2.0)	(2.7)
Other Major Revenues[2]	101.2	101.2	112.8	11.6	11.6
Subtotal	**1,416.6**	**1,452.0**	**1,460.6**	**44.0**	**8.7**
American Rescue Plan Act	**147.6**	**147.6**	**147.6**	**0**	**0**
Total	**$ 1,564.2**	**$ 1,599.6**	**$ 1,608.3**	**$ 44.0**	**$ 8.7**

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

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

Property Tax

The mid-year projection for Property Taxes is $715.7 million, which is an increase of $9.4 million from the Adopted Budget of $706.2 million, but a decrease of $4.8 million compared to the first quarter projections of $720.4 million. City property taxes are derived from three major sources: the Proposition 13 1% levy on the assessed value of property throughout the City, of which the City receives approximately 17%; Motor Vehicle License Fee (MVLF) backfill payments; and distributions from the Redevelopment Property Tax Trust Fund (RPTTF), which represents payments to the City as a result of the dissolution of the former Redevelopment Agencies.

The main change between the First Quarter and Mid-Year Reports is the decrease within the RPTTF projection due to the delayed sale of Tailgate Park, a former redevelopment asset. This delay is due to litigation and is projected to decrease the projected revenues between first-quarter and mid-year by $5.8 million. As these proceeds were directed to go to the Bridge to Home program, there is a corresponding decrease in expenditures noted in the report, and thus there is no net impact to the General Fund. This sale is expected to occur in the next fiscal year, at which point sale proceeds will materialize. It is worth noting that RPTTF projections are subject to change, as many legal complexities exist with regard to closing on former redevelopment assets as well as the role the State of California Department of Finance has in making final determinations of what enforceable obligation are.

Overall, property tax projections are still above the FY 2023 Adopted Budget because the 1% property tax collections are projected to increase by $13.7 million compared to the current budget. The sale of a house triggers a reassessment of property value and a typically larger tax payment for the new homeowner. There is a lag in property tax assessing, so the property tax revenues in for FY 2023 are reflective of calendar year 2021 where turnover increased the assessed value of property. Between November 2021 and November 2022 there was a 31% decrease in property turnover, but that decline in reassessments for property tax will not show up in the property tax revenues for several months, at which point current growth projections are expected to slow. Our Office concurs with maintaining the Mid-Year Report's projection for the time being.

Sales Tax

Sales tax revenues are projected to be $4.3 million above the Adopted Budget, and $1.4 million below projections in the First Quarter Report. The decline reflects a plateau after the faster than projected recovery from the worst impacts of the pandemic. During the first half of FY 2023, consumer confidence declined, but consumption has not decreased at the same rate as consumer sentiment, which creates some uncertainty about future sales tax revenue projections. Additionally, between November 2022 and January 2023 prices in the San Diego area increased by 1.8% as measured by the Consumer Price Index for All Urban Consumers (CPI-U), furthering the conditions that may contribute to an economic slowdown. However, inflation has decreased from the highs experienced in calendar year 2022. Prices have increased by 6.4% from a year ago between January 2022 and January 2023, which is a reduction from 8.2% from September 2021 to September 2022. Although there has been some relief in inflation, prices remain higher than the Federal Reserve's goal of 2%[1] and therefore interest rate increases are expected to continue. As consumers continue to face high inflation for a longer period of time, the risk of economic slowdown increases. At a certain point, price levels and federal actions to combat inflation may begin to constrain consumption and result in slower growth of, or even potential decreases to, sales tax revenues.

The sales tax projection included in the FY 2023 Adopted Budget took into account some of these risks by anticipating a slowdown in sales tax revenue growth. During the first quarter, actual sales tax receipts continued to come in higher than expected but we are seeing preliminary signs that this could be slowing. Therefore, we believe adjusting the FY 2023 projection to $384.6 million, representing a 2.4% increase over FY 2022, to be a reasonable response to current economic conditions and sales tax revenues received to date. This projection is close to the City's sales tax consultant's projection of $388.5 million for FY 2023, representing a 3.4% growth over FY 2022 sales tax revenue. Our Office will continue to closely monitor sales tax revenue throughout the fiscal year.

Transient Occupancy Tax (TOT)

The City's TOT – or hotel tax – revenue is derived from a 10.5% tax on short-term stays in the region. That amount is broken into three separate allocations – a General Fund allocation of 5.5%, an allocation for Special Promotional Programs that support the promotion of the City's cultural amenities and natural attractions of 4.0%, and a 1.0% "Council Discretionary" allocation that ultimately ends up being allocated to the City's General Fund. It is important to note that changes in TOT receipts impact all these allocations, as shown in the table below.

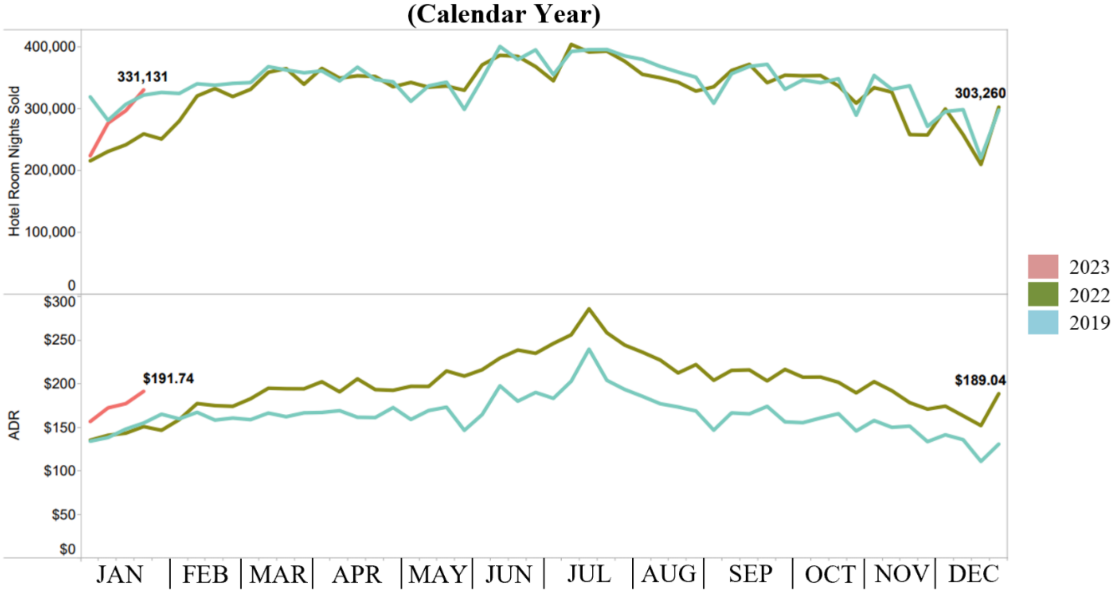
[1] The Federal Reserve uses Personal Consumption Expenditures excluding food and energy (or core PCE) for monitoring progress towards its goal for inflation. Core PCE increased by 4.4% from one year ago; still significantly higher than its goal of 2%.

Transient Occupancy Tax Revenue *($ in millions)*					
	Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
General Fund Allocation (5.5%)	$ 135.2	$ 149.9	$ 155.8	$ 20.6	$ 5.9
Special Promotional Programs (4.0%)	97.2	107.9	112.2	15.0	4.3
Council Discretionary (1.0%)	24.3	27.0	28.1	3.8	1.1
Total	**$ 256.7**	**$ 284.8**	**$ 296.1**	**$ 39.4**	**$ 11.3**

Combined TOT revenues are projected to increase by $39.4 million from the FY 2023 Adopted Budget, and $11.3 million from the First Quarter Report. The General Fund portion of TOT revenue is $20.6 million over the Adopted Budget. This increase drives the projected TOT year-over-year growth rate from a 5.5% (FY 2023 Adopted Budget) to a 14.3% projected growth rate. Year-to-date growth in TOT revenues is currently projected at 32.1%. We note that Tourism Economics has recently revised its projections which indicate that the City's year-end actuals for combined TOT could potentially be an additional $5 million higher than what is included in the Mid-Year Report.

Even though there is a large increase in TOT revenues, it is important to note that there have been fewer visitors in the first half of FY 2023 compared to pre-pandemic levels. Thus, a smaller set of visitors is driving TOT revenue increases. This may reflect type of travel – consumers with a larger disposable income may be staying at rooms with a higher price point and/or elevated price levels due to inflation. The hotel average daily rate (ADR) in San Diego County during the 2022 calendar year was higher than 2019 ($190.98/night and $166.44/night respectively). The graph below shows the calendar year comparison between ADR and demand for hotel rooms. Demand in January 2023 is just beginning to hover above 2019 levels. This high ADR is a likely driving factor for the recovery of TOT, as demand has not been significantly above 2019 levels.

San Diego County Weekly Demand & Average Rate Trend (Calendar Year)



Source: San Diego Tourism Authority

For future projections, leisure travel trends are expected to continue to be driven by this smaller subset of travelers who are staying in rooms with prices significantly above 2019 levels. Tourism Economics expects TOT revenues to decelerate or plateau over the coming months. Our office finds these projections reasonable and consistent with all information currently available. It will be important to closely monitor TOT revenues for any potential impacts from declining economic conditions that might impact tourism activity.

The General Fund is most directly impacted by the General Fund and the Council Discretionary allocations, with focus in Budget Monitoring Reports generally given to the General Fund allocation. However, a portion of revenue in the Special Promotional Programs allocation is used to reimburse certain General Fund departments. Therefore, if TOT revenues increase, there is often a corresponding benefit to respective departments. The Mid-Year Report does not include new reallocations to departments. Instead, the special promo fund will continue to carry a balance into FY 2024 for potential future use.

Franchise Fees

Franchise fee revenues are projected to be below the current budget by $2.0 million, which is a decline from the First Quarter Report of $2.7 million. 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; Cox Communications, AT&T, and Spectrum for the right to provide cable services to City residents; and private refuse haulers for conducting business within City limits.

The decrease in franchise fee revenues from the First Quarter Report is due to a $2.2 million reallocation to the Energy Independence Fund from the General Fund portion of the SDG&E bid payment and a decrease of $618,000 in cable franchise fees. Cable franchise fees are decreasing at a faster rate each year as fewer consumers pay for cable. Annual franchise fee revenues from SDG&E total $67.2 million in the Adopted Budget. This projection typically does not change until after the City receives the February clean-up payment from SDG&E. Projections for other franchise fees remain unchanged.

Cannabis Business Tax

The Office of the City Treasurer projects Cannabis Business Tax revenues will decrease by $5.9 million, from $25.7 million in the FY 2023 Adopted Budget. This projected $5.9 million decrease represents additional decrease of $1.8 million from the First Quarter Report. Year-over-year growth for July 2022 to September 2022 in cannabis business revenues is currently projected to decline by 17%.

The tax on Cannabis Production Facilities (CPF) was decreased from 8% to 2% on May 1, 2022, but the tax rate on retail entities remains at 8%. It is worth noting the anticipated declines related to the CPF tax decrease were already incorporated in the Adopted Budget. Thus, the projected declines in the First Quarter Report and Mid-Year Report likely reflect a combination of increased competition from other jurisdictions and growth of illegal delivery services.

Departmental Revenues

Lease Revenues (Department of Real Estate and Airport Management)

The Mid-Year Report projects the departmental revenues of the Department of Real Estate and Airport Management to be over budget by 10.9 million, or 19.5%, primarily driven by $7.7 million in lease and concession revenues in Mission Bay. The projected total departmental revenue of $66.7 million exceeds the FY 2019 revenue level of $54.4 million, the full fiscal year prior to the COVID-19 pandemic. As discussed in the *Transient Occupancy Tax* section of this report, the City benefited from the higher than expected hotel average daily rate (ADR) in San Diego County and increased demand for leisure and concession services compared to earlier years of the pandemic. We note that the anticipated revenue growth is based on the five-month actuals in the current fiscal year and updated projections from all the lessees. It does not include any outstanding back rent payment from SeaWorld.

Purchasing & Contracting Revenues

The Mid-Year Report projects Purchasing and Contracting Department departmental revenues to be $1.2 million under budget at the end of FY 2023. This decrease is primarily attributed to a reduction in billable work conducted by the Department due to vacancies and challenges with recruiting and retention. Departmental programs with the highest vacancy rates include the following:

- Equal Opportunity Contracting (EOC) Program has a vacancy rate of 61% with 8.00 vacant positions: 1.00 program coordinator; 4.00 associate analyst; and 3.00 senior analyst.
- Public Works Contracting (PWC) Program has a vacancy rate of 23.8% with 5.00 vacant contract specialist positions.

Although the Department has had some success in recruitment and retention efforts to fill vacant positions, such as implementing pay increases for the procurement contracting officer series, departmental vacancies have not improved. This is due to staff turnover from retirements and staff taking positions with other employers. Purchasing and Contracting also has an ongoing effort to address recruitment and retention for the EOC Program. In June 2022 the Department submitted a request to the Personnel Department to reclassify positions that conduct contract wage or EOC compliance.[2] The goal is to align the actual work being conducted with the position classification and with the related compensation, which would ultimately help to recruit and retain qualified staff. The results of this study are anticipated in early March.

Department officials told us that, in the meantime, the significant number of vacancies in the EOC Program will lead to longer response times related to review of Mayoral and Council actions and bid evaluations for subcontracting requirements. Additionally, Council has been recommending that the EOC Program conduct audits for contractor Equal Employment Opportunity (EEO) Plans, but it is not possible at this time given the number of vacant positions at this time.

[2] This request was submitted jointly with the Compliance Department, which has similar positions and challenges.

General Fund Expenditures

The Mid-Year Report projects FY 2023 total General Fund expenditures to be $1.95 billion, $1.4 million higher than the FY 2023 Adopted Budget (which is a negative expenditure variance). This variance is 0.1% of the Adopted Budget, as shown in the following table. Note that the figures in our tables are slightly different than those of the Department of Finance, as we are using the Adopted Budget as a base for comparison, whereas Department of Finance is using the Current Budget.

One item of note with respect to the Current Budget relates to the July 2022 litigation settlement over the 101 Ash Street and Civic Center Plaza buildings. As part of the actions associated with the settlement, the City Council approved a number of appropriations adjustments. One of these adjustments was a $7.5 million increase in FY 2023 General Fund expenditures appropriations, which increased the $1.954 billion General Fund Adopted Budget to the Current Budget level of $1.961 billion.[3]

FY 2023 General Fund Expenditures *($ in millions)*				
	Adopted Budget	Mid-Year Projection	Variance: Adopted to Mid-Year	Variance % : Adopted to Mid-Year
Salaries and Wages	$ 767.0	$ 764.5	$ 2.5	0.3%
Fringe Benefits	511.4	491.8	19.7	3.8%
Non-Personnel Expenditures (NPE)	675.1	698.7	(23.6)	(3.5%)
Total General Fund Expenditures	**$ 1,953.5**	**$ 1,954.9**	**$ (1.4)**	**(0.1%)**

Notes: (1) Table may not total due to rounding.
(2) Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.
(3) The Adopted Budget and Mid-Year Projection amounts exclude $1.5 million budgeted for the General Fund Reserve contribution.

The main focus of our General Fund Expenditures analysis is salaries and wages. Overall, salaries and wages are projected lower than the Adopted Budget by a net $2.5 million (shown above as a positive expenditure variance). There are a number of variances in salaries and wages' components, the largest of which are salaries and overtime. Our report does not address the details of fringe benefits and Non-Personnel Expenditures (NPE) variances, as the Department of Finance covers these in the Mid-Year Report. However, we would note that of the $19.7 million in under-budget fringe benefits, the largest components include $4.2 million in flexible benefits (primarily due to higher vacancies than assumed in the Adopted Budget and changes in benefits selections) and $15.1 million related to SPSP-H expenditures.

The $15.1 million in SPSP-H savings relates to (June 2012) Proposition B employees who were transferred to SDCERS and are no longer accruing SPSP-H benefits. This amount is partially offset with a $9.1 million NPE overage relating to Proposition B costs for the active employees transferred to SDCERS. As a result, the overall General Fund budget for Proposition B is $6.0

[3] Note that the Adopted Budget and Current Budget amounts do not include the $1.5 million allocation to the General Fund Reserve, as the $1.5 million will not become an actual expenditure, but rather will close to fund balance at year-end.

million more than the current projected costs. We provide additional information on Proposition B in the *June 2012 Proposition B Impacts* section on page 20 of this report.

Salaries and Wages

The following table compares the FY 2023 mid-year projections to the Adopted Budget for the various salaries and wages categories. The bottom row in the variance column shows that salaries and wages in total are $2.5 million lower than what was included in the FY 2023 Adopted Budget.

FY 2023 Salaries and Wages Expenditures - General Fund *($ in millions)*				
	Adopted Budget	**Mid-Year Projection**	**Variance: Adopted to Mid-Year**	**Variance %: Adopted to Mid-Year**
Salaries	$ 620.3	$ 581.3	$ 39.0	*6.3%*
Special Pay	47.5	52.0	(4.5)	(9.5%)
Overtime	77.6	106.7	(29.1)	(37.5%)
Hourly	13.1	13.1	(0.1)	(0.7%)
Vacation Pay in Lieu/Termination Pay	8.5	11.2	(2.7)	(31.8%)
Total Salaries and Wages	**$ 767.0**	**$ 764.5**	**$ 2.5**	**0.3%**

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

Looking at the separate rows in the table, we see that there is $39.0 million in net salary savings, primarily related to delays in hiring and higher vacancies than anticipated in the Adopted Budget. We also see that this $39.0 million in salary savings is partially offsetting overages in all other salaries and wage categories (overtime, special pay, pay-in-lieu, and hourly). The most significant overage, $29.1 million in overtime, is largely related to the Fire-Rescue and Police Departments – $15.7 million and $9.2 million, respectively. Overtime is addressed in a following section of this report.

Termination Pay

For FY 2023, the projected Termination Pay overage is $2.6 million. Termination Pay is projected based on anticipated retirements and annual leave balance data for DROP participants. We note that Termination Pay expenditures for the General Fund have historically exceeded budgets during recent five years with an average over-budget amount of $2.7 million, as reflected in the table below. The Department of Finance is considering using a historical trend analysis to project Termination Pay expenditures in the future to provide a more accurate spending projection.

Termination Pay - General Fund *($ in millions)*					
	FY19	**FY20**	**FY21**	**FY22**	**FY23**
Actual	$ 3.6	$ 4.2	$ 5.0	$ 6.6	$ 4.4
Budget	2.4	2.2	1.8	2.3	1.8
Overage	**$ 1.2**	**$ 2.0**	**$ 3.2**	**$ 4.3**	**$ 2.6**

Note: FY 2019 though FY 2022 amounts are based on unaudited actuals included in the Year-End Financial Performance reports for the respective years. The FY 2023 amount is based on the mid-year projection.

Departmental Variances

As previously mentioned, total salaries and wage expenditures net to $2.5 million less than what was included in the FY 2023 Adopted Budget. This projected savings includes all salaries and wage types (salaries, special pay, overtime, hourly, and pay-in-lieu costs).

The $2.5 million under-budget amount includes departments with salaries and wage savings, which are partially offset by departments with overages. Departments with the largest salaries and wage savings include:

- $16.2 million – Citywide Program Expenditures Budget associated with negotiated Police and Fire-Rescue compensation increases[4]
- $2.1 million – Transportation (largely salary and hourly savings, partially offset with overtime overage)
- $1.6 million – Library (largely salary and hourly savings, partially offset with overtime and termination pay overage)
- $1.2 million – Facilities Services (largely salary savings, partially offset with special pay and overtime overage)
- $980,000 – Commission on Police Practices (largely salary savings, about two thirds its salaries and wages budget)
- $824,000 – Real Estate and Airport Management (largely salary and pay-in-lieu savings)
- $650,000 – Parks and Recreation (largely salary savings, partially offset with overtime overage)
- $633,00 – Development Services (largely salary savings, partially offset with overtime overage)
- $632,000 – Economic Development (largely salary savings, partially offset with termination pay overage)
- $533,000 – Purchasing and Contracting (largely salary savings, partially offset with termination pay overage)
- $503,000 – City Treasurer (largely salary savings, partially offset with termination pay overage)

Departments with the highest salaries and wage overages include:

- $11.2 million[5] – Police (largely overtime overage, partially offset with hourly and salary savings)

[4] The $16.2 million under-budget amount will be eliminated if City Council approves requested appropriation adjustment reallocating personnel expenditures originally budgeted in Citywide Program Expenditures for anticipated salary increases to the Police and Fire-Rescue Departments. See the *Proposed Appropriation Adjustments* section of this report under *Budget Transfer of Personnel Expenditures* for additional information.

[5] The $11.2 million overage will be reduced to $0.3 million if City Council approves the requested appropriation adjustment reallocating $11.0 million in personnel expenditures originally budgeted in Citywide Program Expenditures for anticipated salary increases to the Police Department. See the *Proposed Appropriation Adjustments* section of this report under *Budget Transfer of Personnel Expenditures* for additional information.

- $10.6 million[6] – Fire-Rescue (largely overtime overage, partially offset with salary savings)
- $1.3 million – Stormwater (largely overtime overage, partially offset with pay-in-lieu savings)
- $988,000 – City Attorney (largely salary overage)
- $572,000 – Environmental Services (largely overtime overage, partially offset with salary and hourly savings)
- $458,000 – Personnel (largely salary and special pay overages, partially offset with hourly savings)

Overtime Expenditures – Overall General Fund

The category of salaries and wages with the largest FY 2023 projected overage is overtime, netting to an over-budget total of $29.1 million. Of this amount, $15.7 million is within the Fire-Rescue Department and $9.2 million is in the Police Department. The next largest overtime overages are $1.4 million in Parks & Recreation, $1.0 million in Stormwater, $1.0 million in Environmental Services, and $607,000 in Transportation. The Fire-Rescue and Police Departments together comprise 92% of total General Fund overtime costs. These two departments' overtime expenditures are discussed in more detail below.

Police Overtime

The Police Department is projected to exceed its overtime budget by $9.2 million at fiscal year-end, for total projected expenditures of $49.3 million. This represents a $738,000 net decrease in projected overtime expenditures compared to the First Quarter Report. Approximately $6.3 million of the Department's overall projected overtime expenditure is expected to be reimbursed for special event and grant-funded task force activity resulting in a projected net General Fund impact of $43.0 million.

The primary cause for the projected overage in overtime expenditures remains the same from the First Quarter Report: significant sworn staffing shortages. See IBA Report 22-33: IBA Review of the FY 2023 First Quarter Budget Monitoring Report for a detailed discussion regarding the Department's staffing issues.

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

[6] The $10.6 million overage will be reduced to $5.3 million if City Council approves requested appropriation adjustment reallocating $5.2 million in personnel expenditures originally budgeted in Citywide Program Expenditures for anticipated salary increases to the Fire-Rescue Department. See the *Proposed Appropriation Adjustments* section of this report under *Budget Transfer of Personnel Expenditures* for additional information.

Police Overtime - Historical Budget vs. Actuals *($ in millions)*										
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019** [1]	**FY 2020** [2]	**FY 2021** [3]	**FY 2022**	**FY 2023**
Actual	$ 17.8	$ 23.1	$ 25.0	$ 26.0	$ 29.7	$ 31.9	$ 44.8	$ 37.2	$ 40.9	$ 49.3
Budget	11.8	11.1	18.0	21.0	26.3	24.6	35.9	38.1	30.7	40.2
Overage/ (Savings)	**$ 6.0**	**$ 12.0**	**$ 7.0**	**$ 5.0**	**$ 3.4**	**$ 7.4**	**$ 8.9**	**$ (0.9)**	**$ 10.2**	**$ 9.2**

NOTES: Table may not total due to rounding.

FY 2014 through FY 2022 Actual amounts are based on unaudited actuals. FY 2023 Actual amount is based on mid-year projections.

[1] The $31.9 million FY 2019 actual amount includes approximately $29.3 million of General Fund and $2.7 million of Seized Assets Fund (SAF) expenditures.

[2] The $44.8 million FY 2020 actual amount includes $41.4 million and $3.4 million for the General Fund and SAF, respectively; and the $35.9 million budget amount includes $32.1 million and $3.9 million for the General Fund and SAF, respectively.

[3] The $37.2 million FY 2021 actual amount includes $32.9 million and $4.3 million for the General Fund and SAF, respectively; and the $38.1 million budget amount include $33.7 million and $4.4 million for the General Fund and SAF, respectively.

How Sworn Vacancies Impact SDPD Overtime Spending

At the Budget and Government Efficiency Committee meeting on February 8, 2023, Councilmember LaCava requested more information concerning how police officer vacancies are impacting SDPD overtime expenditures.

To address this question, it is important to understand that while the budgetary overtime expenditure *overage* projected in the Mid-Year Report is largely due to staffing shortages, the majority of the Department's overtime budget is not directly impacted by staffing levels. To illustrate, the following table provides a categorical breakdown of the Department's overtime budget,[7] including mid-year projections through fiscal year-end.

[7] For descriptions of each overtime subcategory, see IBA Report 20-21: Analysis of the Police Department's Fiscal Year 2021 Budget, Pages 8-10 (https://www.sandiego.gov/sites/default/files/iba-report-20-21.pdf)

SDPD FY 2023 General Fund Overtime Breakdown					
Category	**Subcategory**	**Adopted Budget**	**FY 2023 MY Projection**		**Projected Variance Over/(Under)**
			($)	**(%)**	
Extension of Shift	**Extension of Shift (General)**	$ 5,168,011	$ 8,248,545	160%	$ 3,080,533
	Reports	$ 1,291,325	$ 1,953,896	151%	$ 662,572
	Training & Support	$ 929,736	$ 1,199,085	129%	$ 269,349
	Emergency Calls	$ 25,369	$ 37,954	150%	$ 12,585
	Patrol Staffing Backfill	$ 6,403,773	$ 13,607,546	212%	$ 7,203,772
	Community Policing	$ 450,586	$ 407,341	90%	$ (43,245)
	Communications Staffing	$ 1,456,116	$ 1,387,247	95%	$ (68,869)
Call Back	**Call Back**	$ 1,507,465	$ 2,014,205	134%	$ 506,740
Court	**Court**	$ 2,216,067	$ 1,620,500	73%	$ (595,567)
Holidays	**Holiday Worked Premium Pay**	$ 4,563,144	$ 5,417,352	119%	$ 854,208
Special Events	**Special Events Commercial** (1)	$ 1,271,576	$ 1,271,576	100%	$ -
	Special Events - Non-Profit (1)	$ 1,236,789	$ 1,236,789	100%	$ -
	July 4th Holiday Support	$ 209,251	$ 693,652	331%	$ 484,401
	Ballpark Events (1)	$ 1,479,576	$ 1,715,614	116%	$ 236,038
	Other Special Events (1)	$ 458,254	$ 458,254	100%	$ -
Grants/Task Forces	**Grants/Task Forces** (1)	$ 2,573,745	$ 2,145,453	83%	$ (428,292)
Other Events	**Presidential/Dignitary Visits**	$ 76,952	$ 10,648	14%	$ (66,304)
	Protests & Other Events	$ 166,247	$ 12,280	7%	$ (153,967)
	Neighborhood Policing(2)	$ 7,265,664	$ 4,587,693	63%	$ (2,677,971)
	Other (inc. Covid-19)	$ 429,772	$ 1,169,135	272%	$ 739,363
Miscellaneous	**FLSA Overtime (Flores)**	$ 983,054	$ 143,730	15%	$ (839,324)
TOTAL		**$ 40,162,474**	**$ 49,338,496**	**123%**	**$ 9,176,022**

(1) Overtime expense is 100% reimbursable, with the exception of Non-Profit Special Events for which 60% cost recovery is budgeted.
(2) Includes CleanSD related overtime expenditures.

Highlighted are the only two specific subcategories that are utilized for purposes of meeting sworn staffing needs: "Patrol Staffing Backfill" and "Extension of Shift (General)."

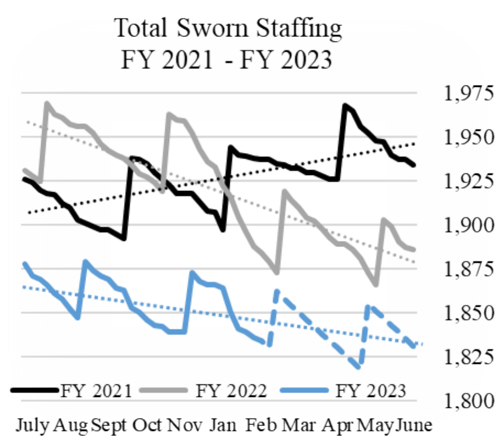
"Patrol Staffing Backfill," budgeted at $6.4 million in FY 2023, is the primary and most significant. This type of overtime is utilized when an officer works at a different patrol area command than he/she is assigned to address their staffing needs. SDPD budgets Patrol Staffing Backfill overtime based on prior year actual expenditures and anticipated vacancies. However, it should be noted that a staffing need requiring the use of Patrol Staffing Backfill overtime may arise due to a cause other than vacancies, such as sick, vacation, military, or other leave. For this reason, some amount of Patrol Staffing Backfill overtime will always be necessary even if the Department were to reach "full staffing." While it is difficult to determine how much of the current $6.4 million budget for Patrol Staffing Backfill could be reduced assuming full staffing, it is likely to be a significant portion. We note that in FY 2021, the Department was in a better sworn staffing position, reaching a high point of 1,968 filled sworn positions compared to 1,834 filled sworn positions as of February 13, 2023; actual expenditures for Patrol Staffing Backfill in FY 2021 totaled approximately $2.1 million.

"Extension of Shift (General)," budgeted at $5.2 million in FY 2023, is a catch-all subcategory for any type of "Extension of Shift" overtime (i.e., when an officer's shift is extended beyond its normal start/end time) that does not have its own specific subcategory (e.g., Reports, Training & Support, Emergency Calls, etc.). While uses for this type of overtime includes staffing needs (i.e., to address both vacancies and various leave types), it may also be utilized for operational purposes, such as significant investigations (e.g., homicide) or to address a specific cause of crime increase. Therefore, while a reduction would be expected, it is difficult to determine the extent that full staffing would impact the $5.2 million budget for this subcategory.

Those two overtime categories constitute 29% of total overtime dollars budgeted for SDPD in FY 2023. While they would likely see funding reductions as a result of full staffing, all other overtime categories would either remain unaffected or could require funding increases. For example, "Holiday Worked Premium Pay," which is overtime compensation for when an officer works on a City-observed holiday, would likely increase.

Sworn Staffing Update

As of February 13, 2023, SDPD has 202 sworn vacancies (1,834 of 2,036 budgeted positions filled) with an average of 16 additional officers leaving the Department per month. While it is the Department's goal to fill these vacancies as quickly as possible, this elevated rate of attrition and reduced academy sizes currently has the Department on a negative staffing trajectory, as depicted in blue on the chart on the right. To illustrate, we can compare the number of recruits that advanced out of the Department's most recent academy graduation on February 17, 2023 (30 graduates) against the number of officers that have left the Department since the prior graduation in November 2022 (39 officers lost) which results in a net loss of 9 officers over this three month period. The Department's next police academy is anticipated to graduate in May 2023 with 35 recruits; assuming the average annual attrition rate of 16 officers lost per month, the net loss over the upcoming three months could be another 13 officers.



As we discussed in [IBA Report 22-33: IBA Review of the FY 2023 First Quarter Budget Monitoring Report](), even under a best case scenario which assumes the Department is able to reach its recruitment goal of 50 recruits for each of its four police academies, and attrition returns to a normalized level of 13 officers lost per month, it will take 4-5 years before the Department is able to reach full budgeted staffing (2,036). Given this prolonged timeframe, police overtime expenditures are unlikely to be abated in the near future. As the FY 2024 proposed budget is prepared, further review by the Department of Finance and SDPD is necessary to ensure that overtime is appropriately budgeted. Additionally, the City Council may want to request more information from SDPD regarding actions that can be taken to further enhance recruitment and retention activities.

Street Racing and Sideshow Enforcement Overtime

The FY 2023 Adopted Budget included $200,000 for specialized enforcement on an overtime basis related to unregulated street racing, car sideshows, and related activities including loud exhaust issues. Actual expenditures at Mid-Year (July – Nov) were $28,300, or approximately 14% of the total budget. According to the Department, Street Racing/Sideshow enforcement overtime has been limited primarily due to the Department's staffing challenges. Many overtime opportunities, which also includes Neighborhood Policing and Clean SD, have not been staffed over the last several months due to the Police Department's prioritization of first staffing vacancies in patrol operations with overtime shifts so officers can be responsive to priority radio calls and emergencies.

Six street racing enforcement details have occurred to date, and the Department believes that they have resulted in a positive impact as evidenced by the fact that there has not been a Takeover/Sideshow event in the City since September of 2022. The Department indicated that additional street racing enforcement details continue to be scheduled citywide for the remainder of FY 2023.

<u>Fire-Rescue Overtime</u>

The Fire-Rescue Department is projected to exceed its overtime budget by $15.7 million at fiscal year-end, for a total projected expenditure of $48.4 million. This represents a $68,000 net increase in projected overtime expenditures compared to the First Quarter Report. The projected overtime expenditure overage is offset by $8.2 million in projected salary savings resulting in a net General Fund impact of $7.5 million. Consistent with the First Quarter Report, issues related to fire-suppression staffing shortfalls and backfill overtime account for the majority of the projected overage at $13.2 million, or 84%.

Fire Suppression: Staffing Shortfalls and Backfill Overtime

The Fire-Rescue Department utilizes a "constant staffing" model to fill all required operational fire suppression posts at fire stations throughout the City. Currently, the Department needs a total of 855 fire-suppression employees to fill every post among the Department's 51 fire stations for constant staffing. As firefighter absences at posts occur, either due to short-staffing due to vacancies or utilization of leave time, other firefighters are assigned to staff these posts on an overtime basis.

Fire-Rescue Sworn Vacancies	
Fire Captain	**39**
Fire Engineer	**29**
Fire Fighter II	**3**
Total	**71**

Staffing shortfalls at fire suppression posts is the cause for half of the overall projected overtime expenditure overage at $7.8 million. Based on current firefighter attrition rates (approximately 5 lost per month) and anticipated fire academy graduations (three graduations per year each producing approximately 30 graduates), the Department hopes to reach "full staffing" for its constant staffing positions during the first quarter of FY 2024, though normal attrition will continue to occur through FY 2024. In this case, full staffing means that the number of filled firefighter positions is equal to the number of required operational posts in the Department. Additionally, the Department has made improvements to the Engineer promotional process that are anticipated to enhance their ability to promote existing firefighters into positions which have had elevated vacancies over the last few years. Once full staffing is reached and has normalized (potentially in late-FY 2024), overall overtime expenditures for this overtime subcategory would be expected to return to a level closer to budget ($1.7 million) to account for ordinary/normal vacancy turnover.

Backfill Overtime, budgeted in FY 2023 at $17.2 million, is the Department's largest and most significant overtime component. When constant staffing positions utilize Leave Time, such as sick, vacation, military, or other leave, Backfill Overtime is required to fill those absences in order to maintain constant staffing levels for all fire suppression posts. The Mid-year Report projects backfill overtime to exceed budget by $5.3 million. Similar to the First Quarter Report, this overage is primarily due to increased "Industrial Leave," of which COVID-19 related absences are a significant factor, and "Comp Time Taken." The latter is indicative of firefighters choosing to accept additional leave time rather than compensation for overtime hours worked; as such, this increase indirectly relates to the Department's staffing shortfalls.

The Fire-Rescue Department created a Relief Pool in the FY 2020 and FY 2021 Adopted Budgets, which added 37.00 FTEs in each of those years (74.00 FTEs total) above what is required for constant staffing. The intent of the Relief Pool is to utilize firefighters on regular time to backfill for those firefighters out on leave, or otherwise unable to work, in order to reduce Backfill Overtime spending. When originally proposed, a third round adding an additional 37.00 FTEs (which would bring the total Relief Pool staffing level to 111.00 FTEs) was contemplated. This addition was also included in the City Council FY 2024 Budget Priorities Resolution that was approved on February 13, 2023.[8] However, the Relief Pool cannot function as intended until all constant staffing positions are fully staffed; for this reason, anticipated reductions in overtime expenditures have not been realized given recent short staffing issues. Considering normal attrition over the course of FY 2024, fully staffing all constant staffing positions is not anticipated to occur until late-FY 2024, after which the Department estimates that they can begin filling Relief Pool positions.

For additional context, historical information on Fire-Rescue Department overtime expenditures is provided in the following table.

Fire-Rescue Overtime – Historical Budget vs. Actuals *($ in millions)*

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Actual	$ 29.7	$ 31.5	$ 31.8	$ 32.5	$ 45.4	$ 45.2	$ 41.1	$ 51.3	$ 50.7	$ 48.4
Budget	23.7	26.7	29.9	30.2	32.8	38.1	36.6	33.3	32.8	32.8
Overage	**$ 6.0**	**$ 4.8**	**$ 1.9**	**$ 2.3**	**$ 12.5**	**$ 7.0**	**$ 4.5**	**$ 18.0**	**$ 17.9**	**$ 15.7**

NOTES: Table may not total due to rounding.
FY 2014 through FY 2022 Actual amounts are based on unaudited actuals. FY 2023 Actual amount is based on mid-year projections.

[8] See IBA Report 23-02 REV: FY 2024 Updated City Council Budget Priorities

General Fund Reserve and Excess Equity

General Fund Reserve

The City's Reserve Policy was amended and approved by the City Council in December 2022. The revised Reserve Policy[9] extends the timeline to reach the General Fund Reserve target of 16.7% of General Fund operating revenues by five years to FY 2030. 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, as reflected in the table below, the FY 2022 Reserve level remained at the FY 2020 balance of $205.6 million, which for FY 2022 was 14.9% of operating revenues. The FY 2023 Adopted Budget includes a one-time contribution of $1.5 million to the Emergency Reserve, bringing the total balance of General Fund Reserve to $207.1 million, or 14.3% of operating revenues, consistent with the revised Reserve Policy target for FY 2023. We would note that the proposed appropriation adjustments in the Mid-Year Report have no impact on the FY 2023 General Fund Reserve funding level.

General Fund Reserve Policy vs Reserve Balance *($ in millions)*		
	FY 2022	**FY 2023**
Reserve Policy Target Percent	***14.9%***	***14.3%***
Reserve Policy Target	$ 205.6	$ 207.1
Reserve Balance (FY 2022) / Reserve Projection (FY 2023)	205.6	207.1
Difference: Amount Reserve Balance Is Below the Policy Target	**$ -**	**$ -**
Reserve Balance as Percent of Operating Revenues	***14.9%***	***14.3%***

The FY 2024-2028 Five-Year Financial Outlook assumes a $5.0 million contribution in FY 2024, which would bring the General Fund Reserve to the proposed policy target of 13.58%, estimated to be $212.1 million. We anticipate this contribution will be included in the FY 2024 Proposed Budget.

Excess Equity

Excess Equity, as described in the Reserve Policy, is "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation". In the FY 2023 First Quarter Budget Monitoring Report, year-end Excess Equity was estimated to be $72.1 million. The FY 2023 mid-year projections now show an overall revenue increase of $33.2 million, with an offsetting $1.4 million increase in expenditures, yielding a net projected Excess Equity increase of $31.8 million – to $103.9 million. Excess Equity can be used as a one-time resource, and Councilmembers supported its use in their updated FY 2024 budget priorities resolution, which was approved on February 13, 2023. The Excess Equity amount could change as the fiscal year progresses.

Homelessness

This year's Mid-Year Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending, in keeping with practice from last year that was requested by the City Council and recommended by our

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

Office. The Mid-Year Report uses the FY 2023 Adopted Budget as a base for comparison, which we assume for our analysis for consistency across reports. For additional information on the FY 2023 Adopted Budget, our Office produced a comprehensive list of FY 2023 projected homelessness expenditures in IBA Report 22-20 for all funds and programs. In the following section, we highlight a few significant changes reflected in the memorandum regarding the overall homelessness budget, grant savings, lack of updated expenditure data for certain programs, and major General Fund variances.

Projected Variances in Overall Homelessness Budget, Driven by Grant Savings

As the memorandum states, the FY 2023 Adopted Budget provided $70.6 million for homelessness programs and services overseen by HSSD, but the Department now projects $69.4 million to be spent by year-end, resulting in $1.2 million in overall variance, as seen in the table below.

Summary of Major Homelessness Budget Changes Since FY 2023 Adopted Budget *(Subject to Change)*	
Fund Source	**Variance**
Three New State and County One-Time Grants	$ 2,958,536
City General Fund	274,693
Emergency Solutions Grant (ESG)	1,661
Savings from Homelessness Housing, Assistance and Prevention (HHAP)	(4,392,713)
Total	**$ (1,157,823)**

Although the homelessness budget includes a variety of funds, such as City General Fund and state and federal grant funding, the primary driver of savings is underspending of state Homeless Housing, Assistance and Prevention (HHAP) funds, resulting in $4.4 million in HHAP savings to be carried over into FY 2024. Of the total savings, $2.3 million is due to delayed start-up of two non-congregate shelters for seniors and families. The remaining $2.1 million is from a youth program set-aside that is required under HHAP grant rules. Specifically, HHAP requires a certain portion of funds, ranging from 8% to 10% depending on the round of HHAP funding, to be allocated to homeless youth services. Since the $2.1 million available from the youth set-aside is from the third round of HHAP, HSSD has until the end of FY 2026 to spend down this funding.

Although less HHAP funding is projected to be used in FY 2023 than originally expected, HSSD has been awarded three new grants for new programs and services totaling $5 million, of which $3 million is anticipated to be spent in FY 2023, including (1) the County Capital Grants ($2.1 million) for capital and start-up costs for four new shelters, (2) the state Encampment Resolution Grant ($510,000) targeting intensive outreach and support services for an encampment in the East Village area focused on the C Street corridor, and (3) the Family Homelessness Challenge Grant ($352,921) providing flexible housing resources for families living in vehicles utilizing the Safe Parking Program.

Updated Shelter Year-End Projections Not Yet Available

As with previous reports, there is a delay in receiving updated expenditure data for San Diego Housing Commission (SDHC) run programs, namely congregate shelters; hence, the memorandum reflects status quo for SDHC-run programs, but updated data will be available in the Third Quarter Budget Monitoring Report. Often there is a two to three-month delay between when an operator issues an invoice and when an invoice is paid, since many invoices currently go through several entities – from shelter operators to SDHC to HSSD.

Projected Additional General Fund Expenditures

The HSSD memorandum projects City General Fund expenditures for homelessness services and programs to be about $275,000 higher than the Adopted Budget. This relatively small variance (around 1%) in the Department's City General Fund budget is partially due to the lack of updated year-end projections for SDHC-run programs, as previously discussed. Overall, the memorandum reflects funding for new activities, expanded programs, and some higher than anticipated contract costs. The table below summarizes the major increases and decreases in projected spending for programs.

Summary of Major General Fund Changes Since FY 2023 Adopted Budget
(Subject to Change)

Program	Variance
New Third Non-Congregate Shelter	$ 1,200,000
Other Expenditures	618,315
Outreach Programs	498,076
New RV Safe Parking Site	451,535
New Inclement Weather Shelter at Old Downtown Central Library	416,914
Safe Parking Programs - Ancillary Costs	386,215
PLEADS Diversion Program Increased Contract Costs	228,572
Golden Hall Emergency Repairs	178,705
Shelter at Palm Ave (formerly SMART Program)	(800,000)
Savings from Planned New Shelter Start-Up Costs	(2,903,639)
Total	**$ 274,693**

Note: "Other Expenditures" include other variances in homeless shelters and services programs, coordinated outreach, and coordination of City Homeless Programs and Services. "Delayed New Shelter Start-Up" includes senior non-congregate, family non-congregate, Rosecrans, Safe Haven, and LGBTQ+ Youth shelters.

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

Savings from Planned New Shelter Start-Up Costs

An estimated $2.9 million in savings is projected due to ramp-up time needed for new shelters, including the new Rosecrans shelter (opened September 2022), senior non-congregate shelter (November 2022), Safe Haven shelter (January 2023), family non-congregate shelter (anticipated to open March 2023), and LGTBQ+ Youth shelter. Of the new shelters, only the LGTBQ+ Youth shelter does not yet have a clear timeline, due to challenges securing an appropriate site. Savings from new shelter start-up costs are anticipated to cover costs for new activities that were not originally budgeted, such as a new non-congregate shelter, a new inclement weather shelter, and a new Safe Parking RV Program at Rose Canyon.

<u>Inclement Weather Shelter</u>
Although funding for the inclement weather shelter was not included in the FY 2023 Adopted Budget, the Department now expects to spend $566,914 for the inclement weather shelter at the Old Downtown Central Library in FY 2023.

<u>Safe Parking Ancillary Costs</u>
The memorandum reflects an anticipated overage of $386,215 for Safe Parking ancillary costs in FY 2023, related to higher generator costs for lighting and diesel. The Safe Parking Program also receives HHAP funding, and the year-end projection includes $267,727 in additional HHAP funding for program ancillary costs.

June 2012 Proposition B Impacts

Page 25 of the Mid-Year Report provides an overview of Proposition B unwinding, including a discussion of amounts budgeted for unwinding versus amounts projected to be spent. Table 17 shows that the overall General Fund Adopted Budget amount of $45.5 million is $8.4 million more than the projected spend of $37.1 million. However, after release of the Mid-Year Report it was determined that $2.4 million in costs related to SPSP-H had not been included in the Table 17 projected spend. Adjusting for this SPSP-H spend, the excess General Fund Proposition B budget over projected expenditures would be only $6.0 million (versus the $8.4 million mentioned above). *Note that this difference will not affect Excess Equity*, as the related SPSP-H amounts are already included in the overall Mid-Year Report projections.

With respect to other potential impacts on Excess Equity, the Mid-Year Report General Fund allocation of Proposition B costs is about 61%, with 39% being allocated to non-general funds. The Department of Finance will be reviewing updated actuarial information in the coming months to determine whether this allocation should change. Any deviation may impact Excess Equity – for example, if additional Proposition B costs are allocated to the General Fund, Excess Equity would decrease (all else being equal). Additionally, the impacts discussed above relate to active employees who have transitioned to SDCERS.[10] Negotiations with the City's Recognized Employee Organizations (REOs) have not been fully completed and/or approved with respect to those employees who are no longer employed with the City, as well as for members of the San Diego Police Officers Association (POA).

Non-General Funds

Engineering and Capital Projects (E&CP)
The E&CP Fund is a special revenue fund used by E&CP to bill asset managing departments for engineering services related to Capital Improvement Program (CIP) project delivery. E&CP has carried some level of cash deficit (resulting in a negative fund balance) since becoming a special

[10] SDCERS is the San Diego City Employees' Retirement System.

revenue fund.[11] The deficit increased to $11.0 million at the end of FY 2022 as pandemic-related challenges, such as departmental vacancies and supply chain issues, resulted in a reduction of billable time charged to CIP projects. The FY 2023 Mid-Year Report projects revenues to be under budget by $3.0 million at year-end. This is partially offset by expenditures which are projected to exceed budget by $4.2 million year-end primarily due to about $3.7 million in personnel expenditures and fringe benefits associated with extensive recruitment efforts to fill positions.

E&CP is projecting approximately $18.0 million more revenue than FY 2022 due to streamlining and efficiency measures and a reduction in the department's vacancy rate from 20% to 13% (at the end of FY 2022). The reduction was the result of active recruitment and retention initiatives. Note that E&CP currently has a vacancy rate of 16%, however, as 30.00 new positions were added in the FY 2023 Adopted Budget. According to officials, in order for E&CP Fund revenues to fully cover expenditures, they will need to reduce the vacancy rate under 10% and increase billable time charged to CIP projects. Officials also indicated that the Department of Finance has adjusted E&CP's overhead rate for FY 2024 to 168.3% in order to pay down the deficit, which is anticipated to take about two years.

Proposed Appropriation Adjustments

With regard to the General Fund, the Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The Mayor may budget all, none, or any portion of a surplus. The "Council may approve the Mayor's recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor." The Mayor is only recommending General Fund budget reallocations and is not recommending the use of any of the $39.2 million in budgetary surplus (the variance from the Current Budget). In accordance with the Mid-Year Ordinance, the Council is therefore precluded from authorizing use of any such surplus without an initial recommendation from the Mayor.

The Council is being asked to approve several General Fund appropriation reallocations (that have no bottom-line impact on total General Fund appropriations) and several non-General Fund appropriation increases, including to the Fleet Operations Operating Fund, Golf Course Fund, Mission Bay/Balboa Park Improvement Fund, and TOT Fund. **Our Office supports the proposed appropriation adjustments.** We provide additional context below for the three General Fund budget transfer requests.

[11] The General Fund covers the variance each year by loaning E&CP the cash at the end of the year to reconcile the year-end statements. E&CP is then responsible for paying down that debt over the course of the year.

Budget Transfer of Personnel Expenditures

As described on page 37 of the Mid-Year Report, the Mayor is requesting authority to reallocate personnel expenditures appropriations (salaries and wages only) among three General Fund Departments. Specifically, this transfer would include a decrease of $16.2 million in the Citywide Program Expenditures Department, which would be offset by increases in the Fire-Rescue and Police Departments, of $5.2 million and $11.0 million, respectively. There would be no net change to overall General Fund appropriations.

The personnel expenditure appropriations in the FY 2023 Citywide Program Expenditures budget were included to accommodate negotiated public safety compensation increases that were approved by the City Council. Agreements between the City and its public safety employee organizations were reached at the end of the FY 2023 budget process. Therefore, compensation increases were included as a lump sum in the Citywide Program Expenditures budget, rather than being allocated to affected employees in the Fire-Rescue and Police Departments. This budget transfer for which approval is requested would properly reallocate personnel expenditures budget to the Fire-Rescue and Police Departments, and we support Council approval of this transfer.

After the budget is transferred, the over-budget salaries and wages projected in the Mid-Year Report would be reduced from $10.6 million to $5.3 million for the Fire-Rescue Department and from $11.2 million to $0.3 million for the Police Department.

Budget Reallocation in City Council Districts

The Mid-Year Report corrects a technical error to Council District budgets which occurred when implementing IBA recommended changes to the FY 2023 Proposed Budget that were approved by the City Council. Our Office supports this budget-neutral change.

As noted in the Mid-Year Report, Council approved the transfer of committee consultant positions from the Council Administration budget to each respective Council office budgets, as well as the option to hire an additional 4.00 FTE positions (for a total increase of up to five positions) with no additional funding for those 4.00 new positions. If Council offices wish to hire additional positions, the intent is that offices would do so within their existing budgets. As stated in our Office's recommended FY 2023 budget modifications report (IBA Report 22-15), costs related to transferring the consultants would result in a net increase of $107,000 for each Council office. To implement this recommendation, adjustments were made largely to the Fringe category with a small negative impact to the Personnel Expenditure category, for a net budget increase of $107,000. The proposed appropriation adjustments are necessary to align with the Council's intent to reflect the entire increase within the Personnel Expenditure category. The net impact of the proposed mid-year adjustments would eliminate changes made to the Fringe category and increase the Personnel Expenditure category to reflect the $107,000 increase as well as make up for the previously made reduction as reflected in the following table. As this adjustment would be a transfer from Fringe to Personnel Expenditure appropriations, there would be no net change to overall General Fund appropriations.

Council Office Personnel Expenditure (PE) Budgets			
Council District	**Adopted Budget**	**Mid Year Adjustment**	**Revised PE Budget**
District 1	$ 926,370	$ 130,630	$ 1,057,000
District 2	926,370	130,630	1,057,000
District 3	926,370	130,630	1,057,000
District 4	926,370	130,630	1,057,000
District 5	926,370	130,630	1,057,000
District 6	926,370	130,630	1,057,000
District 7	926,370	130,630	1,057,000
District 8	926,370	130,630	1,057,000
District 9	926,370	130,630	1,057,000

Proposition B Reallocation

The third General Fund appropriation adjustment requested in the Mid-Year Report is a reallocation of budget amounts to better align (June 2012) Proposition B costs among departments. The total proposed adjustment decreases three departments' budgets by a total of $10.5 million, which is offset by $10.5 million in total increases across several other departments – with no overall impact to the General Fund. We support this request and note that further budget adjustments may be considered later in the year for costs that have been paid from the Citywide Program Expenditures Department.

Status of Items City Council Added in FY 2023 Budget

In its action to approve the FY 2023 budget on June 13, 2022, the City Council identified resources and took action to add or restore programs and services in the final Adopted Budget. These items represented some of the Council's top budget priorities for FY 2023. The following table shows the implementation status for each of the additions Council made when adopting the final budget for FY 2023.

Status of City Council's Modifications in FY 2023 Adopted Budget			
	FTE	**Amount**	**Status**
General Fund Expenditure Items			
Operating Budget - Ongoing			
City Attorney: Fix Vacancy Factor, Add Staff	1.00	$ 1,494,000	Implemented through the budget, recruitment in progress.
Homeless Outreach for Downtown & Urban Core	-	1,000,000	Funding was split across (1) increasing outreach workers under the Downtown San Diego Partnership contract, (2) including flexible housing assistance for individuals in the downtown core and offsetting higher costs in a contract with PATH, and (3) enhancing housing options provided through medical street outreach team for the downtown area.
Graffiti Abatement	6.00	684,000	Five positions filled. Sixth position pending, expected fill date April 2023.
Library Position Restructure	6.80	672,000	Of the18.00 half-time benefited positions added, 12.00 have been filled; hiring process to fill remaining 6.00 positions is in progress.
Office of Race and Equity - Two Program Managers	2.00	211,252	Recruitment in progress.
City Treasurer: Restore Position	1.00	77,000	Position has been maintained; aiming to fill in the next recruitment.
Council Admin Transfer & Position Authority	(5.00)	(765,000)	Adjustment correction proposed in the Mid Year Report.
Council Offices Transfer & Position Authority	45.00	961,000	Adjustment correction proposed in the Mid Year Report.
Operating Budget - One-Time			
Housing Stability Fund	-	$ 3,570,000	Funding is currently being provided to eligible households. As of February 15, 2023, there are 73 families enrolled. SDHC is making recommendations to shift from a fixed subsidy amount to a tiered subsidy approach, within the current program budget. SDHC aims to serve 300 households in FY 2023.
General Fund Reserve Increase	-	1,500,000	Implemented through the budget.
LGBT Youth Services and Shelter Transfer to SDHC	-	1,500,000	Provider has been identified; contract anticipated to go before SDHC Board on March 15th. A few potential sites have been identified, but not yet finalized.
Climate Equity Fund - Additional Transfer	-	1,100,000	Funding allocated within CIP through Mid-Year CIP appropriations request ($780k Willie Henderson Sports Complex, $160k for streetlight installation in each of District 4 and 8.
Graffiti Abatement	-	900,000	Funding projected to be spent as last position is filled.
Small Business Enhancement Program	-	695,000	Established new Capacity Building Grant Program ($350,000). Currently accepting applications to expend all funding for Outdoor Business Grant ($100,000). Work expected to begin in March for Technical Assistance for business owners ($100,000). Contract being finalized for Nonprofit Support - Fundraising Training ($40,000). Contract in place for Nonprofit Support – Contract Compliance ($10,000). These expenditures total $600,000 of $695,000.
Broadband Master Plan	-	500,000	RFP is expected to be awarded in late FY 2023 and (due to complexity of the project) work will begin in FY 2024. As a result, the Mid Year Report reflects $500,000 in savings. The department will request $500,000 for this item in FY 2024 Proposed Budget.
Multidisciplinary Outreach Team Pilot Transfer to SDHC	-	500,000	Services are currently being provided to clients. Team is approximately 50% staffed, with some temporary positions currently supporting daily programming. RTFH provided additional funding. SDHC is looking for additional funding from state and federal opportunities.
CPPS Funding - $150,000 Minimum	-	614,000	Implemented through the budget.
SDPD Street Racing and Sideshow Enforcement	-	200,000	Expenditures through November 2022 total approximately $28,000; see Police Overtime section for more information.
Nexus Study for Rental Registry	-	200,000	RFP released in the fall and closed on Nov 30, 2022. No proposals received, despite outreach to potential applicants.
Regional Film Office	-	123,000	Funds have not been expended at this time. Department of Special Events is in negotiations with the County regarding the best vehicle for a regional film effort.
Free4Me Pilot	-	100,000	Projected to fully expend.
Restroom Security at Clay Park	-	42,000	Security services in place.

Status of City Council's Modifications in FY 2023 Adopted Budget			
	FTE	**Amount**	**Status**
General Fund Expenditure Items			
One-Time Capital Items			
Beyer Park Development	-	$ 2,200,000	RFP for construction to be advertised in the next two months.
San Carlos Branch Library Design	-	1,500,000	Early design stage is in progress.
Redland Dr Loop & 55th St Reconstruction	-	1,171,000	This project was created and budgeted as B-23016 and bundled with Redland water pipeline improvements (B-23015). ECP manages this project. Construction contract award is scheduled in March/April 2023. Closeout is anticipated in August 2025.
Repaving of Section of Via Capri	-	1,080,000	E&CP is the lead for this project and it is pending project creation/set up. It will be created as La Jolla Improv 3 (P). Once created, funds will be transferred.
Convoy District Gateway Sign	-	1,000,000	A nonprofit agreement was approved with a total budget of $986,000.
Rancho Bernardo Community Park Improvements	-	750,000	Procuring an as-needed Electrical Design Consultant for Lighting Project; 60% of the design phase for Dog Park and ADA improvements complete.
Marie Widman Memorial Park GDP	-	500,000	Preliminary engineering is underway; soon to be routed for GDP Amendment.
47th St & Hartley St HAWK Hybrid Beacon	-	500,000	This new project was submitted to E&CP in December 2022 and is pending project setup/ creation. Once created, funds will be transferred.
Stockton Community Unimproved Streets Design [a]	-	350,000	Planning phase of the project to conduct a feasibility study was completed by E&CP and submitted to Transportation Department in June 2022.
Barrio Logan Truck Route Traffic Calming	-	250,000	Project has been created as a preliminary project (P-22003) being managed by Transportation Department, and funds have been allocated. If deemed feasible, it will be converted to a standalone project.
Traffic Control Measures at San Ysidro Middle School	-	250,000	This will be a sublet project within AIL00001 and is pending project setup/ creation by E&CP.
Guardrail Improvements at Torrey Pines Road	-	281,300	Funds were allocated to Project B-19056 which was transferred to E&CP in November 2022. The project was recently awarded a Caltrans grant and the Transportation Department is identifying remaining needed funds. The project is expected to move forward in the next couple of months.
Beach Access: Spindrift Drive	-	100,000	Project has yet to be initiated.
Park Gates and Bollards Construction [b]	-	100,000	Waiting on vendor to install gates.
Total General Fund Expenditure Items	**56.80**	**$ 25,910,552**	
General Fund Resources			
Revised Sales Tax Revenue Projection	-	$ 4,168,231	Implemented through the budget. Total sales tax revenue is projected to be $4.3 million over budget.
Reimbursable Revenue from Environmental Growth Funds	-	2,193,725	Implemented through the budget, projected at budget in Mid Year.
Sidewalk Vending Permit Revenue Reduction	-	(192,000)	Implemented through the budget, overall permit revenue projected to be $25,000, which is $13,000 under budget.
Monsanto Settlement	-	9,000,000	Implemented through the budget, projected at budget in Mid Year.
Excess Equity [c]	-	6,740,596	Implemented through the budget.
Reimbursable Revenue from the Transient Occupancy Tax Fund	-	4,000,000	Implemented through the budget. GF TOT tax revenue is projected to be $20.6 million over budget.
Total General Fund Resources		**$ 25,910,552**	
Non-General Fund Expenditures			
Risk Management: Restore Position	1.00	$ 73,000	Implemented through the budget, interviews are planned for February 2023.
Shade Structures for North Park Mini Park funded by Capital Outlay Fund	-	425,000	Construction contract negotiations are in process.
Total Non-General Fund Expenditures		**$ 498,000**	

[a] Unimproved streets infrastructure is located at South Bancroft Street and Greely Avenue in the community of Stockton.
[b] Park gates and bollards construction is at Fourth District Seniors Resource Center and Paradise Hills Recreation Center.
[c] After budget realignment of fixed fringe benefits, only $6.2 million was utilized to balance the FY 2023 budget.

CONCLUSION

The Mid-Year Report projections show a net $33.2 million increase in General Fund revenues over the FY 2023 Adopted Budget. Even though revenues are over budget, the mid-year projection continues to include the use $147.6 million in ARPA funds, a one-time resource, to help in closing out the fiscal year. After using the $147.6 million in FY 2023, the City's remaining balance of ARPA funds will be left at $52.1 million for future years.

The net $33.2 million in over-budget revenues are offset with a net $1.4 million in over-budget expenditures, yielding a projected $31.8 million increase in Excess Equity – now totaling $103.9 million. Excess Equity is a one-time resource that can be used to support one-time expenditures in future years, or in FY 2023 if the Mayor proposes such use to the City Council. The Excess Equity estimate could change as the year progresses; and the next completed update to projections will be in the FY 2023 Third Quarter Budget Monitoring Report, scheduled to be released mid-May.

As discussed, in accordance with the Mid-Year Ordinance, the Council is precluded from authorizing use of budgetary surplus without an initial recommendation from the Mayor. The Mayor is not recommending use of budgetary surplus as part of the Mid-Year Report's requested actions. Given the ongoing structural imbalance in the City's budget, we believe it is appropriate to not allocate the projected FY 2023 budgetary surplus at this time. When considering and approving the upcoming FY 2024 Budget, it will be important to ensure that the City moves back towards a structurally balanced budget, with ongoing expenditures supported fully by ongoing revenues.

In the Mid-Year Report, the Mayor is requesting approval of several General Fund appropriation reallocations (that have no bottom-line impact on total General Fund appropriations) and several non-General Fund appropriation increases. These appropriation adjustments reflect the City's intentions that were noted during adoption of the FY 2023 Budget, and **our Office recommends approval of these adjustments.**

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