THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of the FY 2023 Third Quarter Budget Monitoring Report

OVERVIEW

The Fiscal Year 2023 Third Quarter Budget Monitoring Report (Third Quarter Report) was issued on May 16, 2023 and presented to the Budget Review Committee on May 18, 2023. The Third Quarter Report describes the status of revenues and expenditures and provides year-end projections based on actual (unaudited) data from nine months of the fiscal year. The Third Quarter Report also provides useful details about major revenues, departmental operations, and other programmatic items. With respect to requested actions, the Third Quarter Report requests Council approval of several appropriation adjustments and year-end budget authorities that assist the Chief Financial Officer in closing out the fiscal year. The purpose of the IBA review of the Third Quarter Report is to provide clarification and additional information for items outlined in that report.

Overall, the year-end expenditure projections included in the FY 2023 Third Quarter Report appear reasonable, as do the third quarter appropriation adjustment requests. Most revenue projections are generally reasonable, though we anticipate sales tax receipts will come in below projections by $6.6 million, and note impacts of recent declines in Transient Occupancy Tax (TOT) receipts. Areas discussed in the following sections include details of select revenue and expenditure projections in the Third Quarter Report, including major General Fund revenue projections and expenditure variances in salaries and wages, the status of the City's General Fund Reserve and Excess Equity, updates to homelessness issues, and the proposed appropriation adjustments.

GENERAL FUND REVENUES

As shown in the table below, overall FY 2023 General Fund revenues are projected to be $2.02 billion at the end of the fiscal year, which is an increase of $67.4 million (or 3.5%) from the FY 2023 Adopted Budget and an increase of $34.3 million (or 1.7%) over the Mid-Year Budget Monitoring Report (Mid-Year Report). Major General Fund revenues are projected to increase by

$80.5 million as compared to the Adopted Budget, primarily driven by an extended rebound in sales tax and Transient Occupancy Tax (TOT). However, since Departmental Revenues decreased by $13.1 million (or a decrease of 3.4%) from the FY 2023 Adopted Budget, the net increase of the General Fund Revenues is $67.4 million compared to the FY 2023 Adopted Budget. Additional details on revenue changes are provided below.

FY 2023 PROJECTED GENERAL FUND REVENUES *($ in millions)*

	Adopted Budget	Mid-Year Projection	Third-Quarter Projection	Variance: Adopted to Third-Quarter	Variance: Mid-Year to Third-Quarter
Major General Fund Revenues	***$ 1,416.6***	***$ 1,460.7***	***$ 1,497.1***	***$ 80.5***	***$ 36.4***
Property Tax	706.2	715.7	715.5	9.2	(0.2)
Sales Tax	380.2	384.6	395.7	15.5	11.1
Transient Occupancy Tax	135.2	155.8	163.6	28.4	7.8
Franchise Fees	93.8	91.8	110.9	17.1	19.1
Other Major Revenues	101.2	112.8	111.4	10.2	(1.4)
Other General Fund Revenues	***$ 532.2***	***$ 521.3***	***$ 519.1***	***$ (13.1)***	***$ (2.2)***
American Rescue Plan Act Funds	147.6	147.6	147.6	-	-
Other Revenues	384.6	373.7	371.5	(13.1)	(2.2)
Total Revenue	**$ 1,948.8**	**$ 1,982.0**	**$ 2,016.2**	**$ 67.4**	**$ 34.3**

Table may not total due to rounding

Major General Fund Revenues

Property Tax

Total property tax revenue in FY 2023 is projected to be $715.5 million in the Third Quarter Report, which is an increase of $9.2 million from the Adopted Budget, but a slight decrease of $178,000 when compared to the Mid-Year Report. The Department of Finance updated the adopted growth rate of 6.00% to 7.91% to reflect the projected year-over-year growth. There are increases in three of the property tax components compared to the Adopted Budget: $12.8 million in the 1% base, $2.6 million in the motor vehicle license fee, and $0.1 million in the Redevelopment Property Tax Trust Fund (RPTTF) tax sharing pass-through. The component that has declined since the Adopted Budget is the RPTTF residual property tax, which has decreased by $6.2 million compared to the Adopted Budget.

The $9.2 million increase from the Adopted Budget is primarily attributable to growth in the number of home sales and assessed values in properties, which created a $12.8 million increase over the Adopted Budget for the 1% base. Compared to the Mid-Year Report, there was a slight decrease of $948,000 based on the most recent receipt from the County. The motor vehicle license fee (MVLF) backfill revenue projection remains consistent with the Mid-Year Report and is expected to increase from the Adopted Budget by $2.6 million.

Partially offsetting these increases from the Adopted Budget is a decline of $6.2 million in RPTTF payments. Compared to the Mid-Year Report this is an increase of $770,000 due to changes in the estimates provided by the County related to the wind-down of redevelopment assets.

Together the increase of $770,000 related to redevelopment wind-down and the decrease of $948,000 related to estimates from the County for the 1% base represent the decrease of $178,000 from the Mid-Year Report.

On June 5, the County released the final distributions for the RPTTF for FY 2023. Based on the final distribution information, the City will receive $378,000 more from the tax sharing payments, and $1.4 million from the residual payments, for a total increase of $1.8 million. These increases are due to higher than anticipated RPTTF deposits for the current distribution. As discussed later in this report, these increases will increase the amount of Excess Equity potentially available at the end of the fiscal year. Inclusive of this update to the RPTTF, our Office agrees with the third quarter property tax projections.

Sales Tax

Sales tax revenue in the Third Quarter Report is projected to total $395.7 million, an increase of $15.5 million or 4.1% above the Adopted Budget. This also represents an $11.1 million increase over projections in the Mid-Year Report. There are two changes to the FY 2023 projection in the Third Quarter Report that are driving the $11.1 million increase. These include: 1) a projected increase to the May sales tax payment bringing the year-over-year growth rate for the quarter up from 3.4% to 6.2%, and 2) a change to the base from which the fourth quarter of FY 2023 projections were built to tie to FY 2022 actual receipts.[1]

The FY 2023 May sales tax payment was increased from $30.7 million at mid-year to $36.1 million in the Third Quarter Report. We note, however, after the Third Quarter Report was released, the City received the *actual* May payment totaling $31.1 million, which is $5.1 million lower than the Third Quarter Report projection. Throughout FY 2023 we have seen the year-over-year quarterly growth rate steadily decline. The actual quarterly growth rates have gone from 8.3% in the first quarter, to 4.0% in the second quarter, and 0.3% in the third quarter. We believe a reasonable year-over-year growth rate for the fourth quarter is 1.8%, as opposed to 3.4%, in line with our Office's projection at the time of the FY 2023 Adopted Budget as well as the City's sales tax consultant's projection for the fourth quarter. Combined, this would result in a FY 2023 sales tax projection that is $6.6 million less than the Third Quarter projection, which would reduce the year-end Excess Equity projected in the Third Quarter Report – see the General Fund Reserve section of this report under Excess Equity.

Transient Occupancy Tax

The City's Transient Occupancy Tax (TOT) revenue, 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% (which is one of the City's four major General Fund revenues) and the remaining two allocations are budgeted in the TOT Fund. The two allocations include: 4.0% for Special Promotional Programs that support the promotion of the City's cultural amenities and natural attractions, and 1.0% is "Council Discretionary" that ultimately ends up being allocated

[1] The previous methodology attempted to discount for what was thought to be at the time a temporary surge in revenues coming out of the pandemic.

to the City's General Fund. Projected FY 2023 revenues for the full 10.5% TOT tax are included in the table below.

Transient Occupancy Tax Revenue *($ in millions)*					
	Adopted Budget	**Mid-Year Projection**	**Third-Quarter Projection**	**Vaiance: Adopted to Third-Quarter**	**Variance: Mid-Year to Third Quarter**
General Fund Allocation (5.5%)	$ 135.2	$ 155.8	$ 163.6	$ 28.4	$ 7.8
Special Promotional Programs (4.0%)	97.2	112.2	117.9	20.7	5.7
Council Discretionary (1.0%)	24.3	28.1	29.5	5.2	1.4
Total	**$ 256.7**	**$ 296.1**	**$ 311.0**	**$ 54.3**	**$ 14.9**

As shown, projected TOT revenues in the Third Quarter Report are expected to surpass those projected in the FY 2023 Adopted Budget, by $54.3 million or 21.1% (an increase of $14.9 million from the Mid-Year Report). Similarly, the General Fund TOT allocation is expected to come in $28.4 million over the FY 2023 Adopted Budget (an increase of $7.8 million from the Mid-Year Report).

The largest driver of the increase between the third quarter projection and mid-year projection is an assumed increase in the projected fourth quarter growth rate. For the remainder of the fiscal year, a more optimistic growth rate of 23.9% is assumed (relative to FY 2019 to reflect pre-pandemic seasonality) as compared to 11.5% in the Mid-Year Report. This projected growth rate increase was determined by taking an average of the actual growth rate for the first three quarters of FY 2023 (27%, 28%, 17% respectively).

Our Office believes increasing the fourth quarter growth rate is reasonable considering the extent to which actual TOT revenue has surpassed expectations in FY 2023. Although increasing it to 23.9% is plausible, we do note some risks. The beginning of the fiscal year experienced more robust growth than the most recent third quarter. There has been consistent deceleration in revenue growth year to date of approximately 1% each month since October 2022 (30.7% to 23.5%) relative to FY 2019. Also, since the release of the Third Quarter Report, the most recent TOT disbursement (April 2023) came in $1.1 million lower than the updated third quarter projections assuming the higher growth rate. Finally, we note that recent hotel performance indicates that hotel room demand has been trending below 2019 and 2022 levels since early March. Though average daily rates have remained well above pre-pandemic levels, rates have normalized back to 2022 levels in recent weeks.[2] A decrease in room demand coupled with a decrease in average daily rates could lead to revenue coming in lower than projected. However, it is unknown whether slower growth will continue as we get into the summer months. Preliminary data suggests that the City had a strong Memorial Day weekend in terms of hotel occupancy, room night demand, and room rates. It will be important to continue to closely monitor and adjust for potential softening of TOT revenue growth.

[2] Weekly Hotel Performance Update – May 14-20, 2023, https://connect.sandiego.org/2023/05/24/weekly-hotel-performance-update-may-14-may-20-2023/

Since the most recent TOT disbursement came in lower than expected by $1.1 million, this results in a reduction in TOT Fund balance of $408,000 and Excess Equity of $663,000 at the end of FY 2023.

Franchise Fees

Franchise Fees are projected to be at $110.9 million at the end of FY 2023, which is as increase of $17.1 million from the Adopted Budget, and an increase of $19.1 million from the Mid-Year Report. The majority of the increase from mid-year is due to a higher than anticipated clean-up payment from SDG&E, resulting in additional revenue of $15.3 million for FY 2023, which was discussed in more detail in our review of the FY 2024 Proposed Budget. Other franchise fees from cable and refuse haulers continue to be projected close to the Adopted Budget, with cable franchise revenues projected to be $0.2 million below the Adopted Budget, and refuse hauler fees projected to be $0.7 million above the Adopted Budget. Our Office agrees with these projections.

American Rescue Plan Act

The FY 2023 Adopted Budget included $147.6 million of the City's $299.7 million allocation of federal American Rescue Plan Act (ARPA) funds. The City plans to fully recognize the FY 2023 allocation of $147.6 million, which leaves $52.1 million remaining to be used in FY 2024.

GENERAL FUND EXPENDITURES

The Third Quarter Report projects FY 2023 total General Fund expenditures to be $1.97 billion, $16.6 million higher than the FY 2023 Adopted Budget (which is a negative expenditure variance). This variance is 0.9% of the Adopted Budget, as shown in the following table. Note that the figures in our tables are different than those of the Department of Finance, as we are using the Adopted Budget as a base for comparison, whereas the Department of Finance is using the current budget.

FY 2023 General Fund Expenditures *($ in millions)*

	Adopted Budget	Mid-Year Projection	3rd Quarter Projections	Variance: Mid-Year to 3rd Quarter	Variance: Adopted to 3rd Quarter	Variance %: Adopted to 3rd Quarter
Salaries and Wages	$ 767.0	$ 764.5	$ 764.4	$ 0.0	$ 2.5	0.3%
Fringe Benefits	511.4	491.8	516.9	(25.2)	(5.5)	(1.1%)
Non-Personnel Expenditures (NPE)	675.1	698.7	688.8	9.9	(13.7)	(2.0%)
Total General Fund Expenditures	**$ 1,953.5**	**$ 1,954.9**	**$ 1,970.1**	**$ (15.2)**	**$ (16.6)**	**(0.9%)**

Notes: (1) Table may not total due to rounding.
(2) Positive variances are spending below budget (or mid-year) levels. Negative variances are overages, or spending above budget (or mid-year) levels.
(3) The Adopted Budget 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), consistent with the mid-year projection. However, there are a number of offsetting variances in salaries and wages' components, as discussed in the next section.

Before moving to the salaries and wages discussion, there are several fringe benefits variances of note. With respect to the $5.5 million fringe benefits overage (as compared to the Adopted Budget), there are several offsetting overages and under-budget areas that net to this amount. First, there is an overage of $4.4 million in Workers' Compensation (related to increased claims and claims costs) which is offset with $7.2 million in flexible benefits savings (primarily due to higher vacancies than assumed in the Adopted Budget and changes in benefits selections). The largest fringe variance is $21.3 million associated with FY 2022 and FY 2023 normal cost payments for Proposition B employees (made to SDCERS[3] in February 2023), which is partially offset with $15.8 million related to SPSP-H expenditure savings. The $15.8 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. Note that in addition to the $15.8 million offset, the $21.3 million in normal cost payments is further offset by $13.6 million in NPE savings relating to Proposition B unwinding. As a result, the overall General Fund budget for Proposition B is $8.1 million more than current projected costs.

Additional details on fringe and Non-Personnel Expenditures (NPE) variances are addressed by the Department of Finance in the Third Quarter Report.

Salaries and Wages

The following table compares the FY 2023 third quarter expenditure projections to the Adopted Budget for various salaries and wages categories. The second column from the right shows that salaries and wages in total are projected to be $2.5 million lower than what was included in the FY 2023 Adopted Budget (shown as a positive spending variance).

FY 2023 Salaries and Wages Expenditures - General Fund *($ in millions)*						
	Adopted Budget	**Mid-Year Projection**	**3rd Quarter Projection**	**Variance: Mid-Year to 3rd Quarter**	**Variance: Adopted to 3rd Quarter**	**Variance %: Adopted to 3rd Quarter**
Salaries	$ 620.3	$ 581.3	$ 577.0	$ 4.3	$ 43.3	7.0%
Special Pay	47.5	52.0	54.2	(2.2)	(6.7)	(14.2%)
Overtime	77.6	106.7	109.7	(3.0)	(32.1)	(41.3%)
Hourly	13.1	13.1	12.3	0.9	0.8	6.1%
Vacation Pay in Lieu/Termination Pay	8.5	11.2	11.2	(0.0)	(2.7)	(32.1%)
Total Salaries and Wages	**$ 767.0**	**$ 764.5**	**$ 764.4**	**$ 0.0**	**$ 2.5**	**0.3%**

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

Looking at the separate rows in the table, we see that there is $43.3 million in projected salary savings, primarily related to delays in hiring and higher vacancies than anticipated in the Adopted Budget. We also see that this $43.3 million in salary savings is partially offset by overages in other salaries and wages categories (overtime, special pay, and pay-in-lieu).

The most significant overage, $32.1 million in overtime, is largely related to the Fire-Rescue and Police Departments – $17.1 million and $9.0 million, respectively. Overtime is addressed in a separate section that follows.

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

Departmental Variances

As previously mentioned, total salaries and wage expenditure projections 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:

- $3.1 million – Parks and Recreation (largely salary and hourly savings, partially offset with overtime overage)
- $2.0 million – Library (largely salary and hourly savings, partially offset with special pay and overtime overages)
- $1.5 million – Transportation (largely salary savings, partially offset with overtime overage)
- $1.2 million – Facilities Services (largely salary savings, partially offset with overtime and special pay overages)
- $1.1 million – Real Estate and Airport Management (largely salary savings)
- $966,000 – Commission on Police Practices (largely salary savings, about three quarters of its salaries and wages budget)
- $872,000 – City Treasurer (largely salary savings, partially offset with termination pay overage)
- $678,00 – Development Services (largely salary savings, partially offset with overtime and special pay overages)
- $629,000 – Purchasing and Contracting (largely salary savings, partially offset with termination pay overage)
- $566,000 – Council Administration (largely salary savings)

Departments with the highest salaries and wage overages include:

- $11.6 million[4] – Fire-Rescue (largely overtime and special pay overage, partially offset with salary savings)
- $1.0 million – City Attorney (largely salary, hourly, and termination pay overages)
- $627,000 – Stormwater (largely overtime overage, partially offset with salary savings)

[4] Although our overall expenditures analysis compares Adopted Budget to third-quarter projections, the $11.6 million overage is an exception. This overage takes into account a $5.2 million mid-year budget adjustment which reallocated to the Fire-Rescue Department personnel expenditures that were originally budgeted in the Citywide Program Expenditures Department (Citywide). This was also the case for the Police Department, which received an $11.0 million reallocation from Citywide. Because compensation increase agreements with the public safety employee organizations were reached at the end of the FY 2023 budget process, the Adopted Budget included a total of $16.2 million as a lump sum in the Citywide budget, rather than being allocated to affected employees in the Fire-Rescue and Police Departments. The mid-year budget adjustment, which was approved by City Council, properly reallocated personnel expenditures budget to the Fire-Rescue and Police Departments.

Overtime
The category of salaries and wages with the largest FY 2023 projected overage is overtime, netting to an over-budget total of $32.1 million. Of this amount, $17.1 million is within the Fire-Rescue Department and $9.0 million is in the Police Department. The next largest overtime overages are $1.7 million in Transportation, $1.6 million in Parks and Recreation, $1.4 million in Stormwater, and $848,000 in Environmental Services. The Fire-Rescue and Police Departments together comprise 90% of total General Fund overtime costs. These two departments' overtime expenditures are discussed briefly below.

Police Overtime
The Police Department is projected to exceed its overtime budget by $9.0 million at fiscal year-end, for total projected expenditures of $49.2 million. This represents a $184,000 net decrease in projected overtime compared to the Mid-Year 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 net General Fund impact of $42.9 million.

The primary cause for the projected overage in overtime expenditures remains the same from the Mid-Year Report: significant sworn staffing shortages. See IBA Report 23-04, *IBA Review of the FY 2023 Mid-Year Budget Monitoring Report,* for more information regarding the Department's staffing issues.

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

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	$ 49.2
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**	**$ 9.0**

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 third-quarter 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.

Fire-Rescue Overtime
The Fire-Rescue Department is projected to exceed its overtime budget by $17.1 million at fiscal year-end, for total projected expenditures of $49.8 million. This represents a $1.4 million net increase in projected overtime expenditures compared to the Mid-Year Report. The projected overtime expenditure overage is offset by $6.1 million in projected salary savings resulting in a net General Fund impact of $11.0 million.

For a more detailed break-down of the $17.1 million overtime overage, the Fire-Rescue Department provided the following components:

- $14.0 million – constant staffing for essential fire suppression posts
- $788,000 – dispatcher vacancies
- $644,000 – required training/continuing education
- $449,000 – lifeguard services
- $446,000 – COVID-19 related overtime
- $364,000 – fire academies
- $332,000 – special events

For additional context, historical information on Fire-Rescue 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	$ 49.8
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**	**$ 17.1**

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 third-quarter projections.

GENERAL FUND RESERVE

The City's Reserve Policy, amended in December 2022, extends the timeline to reach the General Fund Reserve target of 16.7% of General Fund operating revenues to FY 2030.[5] As of FY 2022, the Reserve balance was $205.6 million, or 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 Third-Quarter 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%***

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.

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

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." 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. In the FY 2023 Mid-Year Report, year-end Excess Equity was estimated to be $103.9 million. The FY 2023 third-quarter projections now show an overall revenue increase of $34.3 million, with an offsetting $15.2 million increase in expenditures, yielding a net projected Excess Equity increase of $19.0 million – to $123.0 million. However, new information received after release of the Third Quarter Report has resulted in the following revenue projection changes that impact Excess Equity.

Updated Excess Equity Estimate	
	Amount
Excess Equity in Third Quarter Report	***$ 123.0***
Updated Sales Tax Impacts [1]	(6.6)
Updated TOT Impacts [1]	(0.7)
Updated FY 2023 Residual RPTTF Impacts [1]	1.8
Additional Environmental Growth Fund Reimbursements [2]	1.6
Portable Shower Settlement [3]	0.9
Updated Excess Equity Estimate	***$ 120.1***

[1] Sales Tax, TOT and RPTTF impacts are described in the General Fund Revenues section of this report.

[2] Utilizing $1.6 million in Environmental Growth Fund balance to reimburse the Parks and Recreation Department's General Fund budget for eligible expenditures incurred in FY 2023 will increase available Excess Equity.

[3] Portable Shower Settlement funds were awarded to the City for the overcharge of showers for homeless individuals during the COVID-19 pandemic. Of the total $1.2 million settlement, $942,000 is General Fund revenue.

The net result of these revenue projection changes is to decrease estimated Excess Equity by $2.9 million, from $123.0 million to $120.1 million. After the planned use of $63.0 million of Excess Equity in FY 2024 (as of the May Revision), the remaining available balance is estimated to be $57.1 million. This revised Excess Equity estimate is anticipated to change as the fiscal year progresses, consistent with actual revenue and expenditure experiences.

OTHER UPDATES

Homelessness Strategies and Solutions Department

The Homelessness Strategies and Solutions Department (HSSD) is projected to end the year with $2.3 million in General Fund savings. The savings are largely the result of start-up time needed for new shelters, specifically two non-congregate shelters for seniors ($339,000) and families ($799,000), as well as lower than expected contract costs from the Safe Haven shelter ($774,000). Actual costs for some planned expenditures were also lower than anticipated resulting in additional savings, compared to the Mid-Year Report. For instance, costs associated with start-up and operations of the Rose Canyon Safe Parking site and the Inclement Weather shelter were lower than projected in the Mid-Year Report by $302,000 and $179,000, respectively. The Third Quarter report also removed funding for a new third non-congregate site ($1.2 million) and Safe Camping Pilot for seniors ($200,000). However, staff indicated that FY 2023 Safe Camping funding would likely be used to cover some start-up costs associated with the two new planned Safe Camping sites at 20th and B Street and the O Lot in Balboa Park. After reviewing the memorandum attached to the Third Quarter Report, entitled "HSSD FY 2023 Third Quarter Monitoring and Grant Funding Update", we would like to highlight the following two programs.

LGBTQ+ Youth Shelter

The Adopted Budget included $1.5 million in General Fund expenditures to start a LGBTQ+ Youth shelter, but due to the start-up time needed, the Department anticipates $800,000 to remain unspent by year-end. The unspent funding is not reflected in the Third Quarter Report, however, as the Department intends to carry over these savings into FY 2024 to fund another program, the Multidisciplinary Outreach Team, since funding for this program was not included in the Proposed Budget. (The Adopted Budget included $500,000 for the Multidisciplinary Outreach Team pilot.) Both programs are administered by the San Diego Housing Commission.

Coordinated Outreach

The Adopted Budget included $2.1 million in State grant funds to expand and enhance Coordinated Outreach services across the City. The Third Quarter Report projects funding to be underspent by $850,000 due to time needed to hire six new outreach workers. As of this writing, the Department has indicated that the Coordinated Outreach teams are fully staffed.

PROPOSED APPROPRIATION ADJUSTMENTS

Appropriation adjustment requests in the Third Quarter Report include $12.9 million for the General Fund, as well as several appropriation adjustments for non-general funds. The Council is being asked to approve these appropriation adjustments as well as several budget control authorities to assist in closing out the fiscal year. Our Office recommends approval of the FY 2023 appropriation adjustments and authorities as proposed.

Community Development Block Grant Program Refund

There is one component of the appropriation requests for which we would like to provide additional context. The Citywide Program Expenditures Department is one of the General Fund departments with a requested appropriation increase (totaling $8.3 million). In the Third Quarter Report's discussion beginning on page 41, one of the expenditure increases mentioned is related to the City's need to refund the Community Development Block Grant (CDBG) program. This reimbursement to the CDBG program is related to prior expenditures for smart streetlights. The City utilized $2.9 million of CDBG funds to purchase 1,000 smart sensors; however, all of the purchased sensors currently remain in storage and have not been put into service. Due to changes in the program, the sensors will not be placed into service, and therefore no longer meet the strict funding guidelines required for the use of CDBG funds, including being able to meet one of the National Objective criteria. As such, the Economic Development Department has requested a refund for the CDBG program and has closed out this project with the federal Department of

Housing and Urban Development (HUD). This action will also create additional unprogrammed funds within the CDBG program, which staff has indicated will be included in future Bridge to Home programming.

CONCLUSION

Overall, our Office believes the year-end expenditure projections included in the FY 2023 Third Quarter Report are reasonable. Revenue projections are also generally reasonable, though we believe sales tax projections could come in below projections by about $6.6 million, and note impacts of recent declines in Transient Occupancy Tax (TOT) receipts. Our Office recommends approval of the FY 2023 appropriation adjustments and authorities as proposed in the FY 2023 Third Quarter Report.

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