

# IBA Review and Analysis of the FY 2021 First Quarter Report

City Council, Item 332

December 15, 2020



Office of the Independent Budget Analyst



# Overview

## IBA Review and Analysis of the FY 2021 First Quarter Report includes:

- Analysis of major General Fund revenues, General Fund Reserve, and Excess Equity.
- Additional information on public safety overtime.
- Discussion of financial support needed for the San Diego Convention Center.

# Major General Fund Revenues

- General Fund revenues in First Quarter are projected \$10.2M below Adopted Budget levels.
- Property Tax & Sales Tax projected to increase.
- Franchise Fees and Transient Occupancy Tax (TOT) projections projected to decrease.

Major General Fund Revenues <i>(in millions)</i>							
	FY 2020 Unaudited Actual <sup>1</sup>	FY 2021 Adopted Budget	FY 2021 Projection	FY 2021 Projected Variance	Variance %	FY 2021 Projection vs FY 2020 Actual	Variance %
Property Tax	\$ 609.3	\$ 630.6	\$ 635.4	\$ 4.8	0.8%	\$ 26.1	4.3%
Sales Tax	282.8	274.4	284.0	9.6	3.5%	1.2	0.4%
Transient Occupancy Tax	95.2	90.5	66.2	(24.3)	-26.8%	(29.0)	-30.5%
Franchise Fees	76.0	67.7	67.4	(0.3)	-0.4%	(8.6)	-11.3%
<b>Total</b>	<b>\$ 1,063.3</b>	<b>\$ 1,063.2</b>	<b>\$ 1,053.0</b>	<b>\$ (10.2)</b>	<b>-1.0%</b>	<b>\$ (10.3)</b>	<b>-1.0%</b>

<sup>1</sup> FY 2020 Unaudited Actuals from the FY 2020 Year-End Financial Performance Report

# Major General Fund Revenues cont'd

- **Property Tax**

- First quarter projection is \$635.4M, which is \$4.7M above Adopted Budget of \$630.6M.
- Increases mainly due to projected increase in City's share of Motor Vehicle License Fee backfill payments of \$2.5M, and \$2.2M in projected increases from the Redevelopment Property Tax Trust Fund (RPTTF).

- **Sales Tax**

- Projected at \$284.0M, increase of \$9.6M or 3.5% over the FY 2021 Adopted Budget.
- Represents a decline when compared to the FY 2020 Adopted Budget by (\$13.9M).

# Major General Fund Revenues cont'd

- Transient Occupancy Tax (TOT)**

- First Quarter Report references 5.5% General Fund allocation of TOT, but all allocations will be impacted as well:

Transient Occupancy Tax Revenue <i>(in millions)</i>						
	FY 2020 Adopted Budget	FY 2020 Unaudited Actual	FY 2020 Variance	FY 2021 Adopted Budget	FY 2021 Current Projection	FY 2021 Variance
General Fund Allocation (5.5%)	\$ 136.9	\$ 95.2	\$ (41.7)	\$ 90.5	\$ 66.2	\$ (24.3)
Special Promotional Programs (4.0%)	98.7	68.8	(29.9)	64.9	47.3	(17.6)
Council Discretionary (1.0%)	24.7	17.2	(7.5)	16.2	11.8	(4.4)
<b>Total (10.5%)</b>	<b>\$ 260.3</b>	<b>\$ 181.2</b>	<b>\$ (79.1)</b>	<b>\$ 171.6</b>	<b>\$ 125.4</b>	<b>\$ (46.2)</b>

- We note that declines in the Special Promotional Programs allocation may further impact City's General Fund.

# Major General Fund Revenues cont'd

- **Franchise Fees**

- Revenues projected at \$67.4M, which is \$290,000 below FY 2021 Adopted Budget.
- Primarily due to decrease in refuse collection franchise fees.
  - Projections typically do not change until Third Quarter Budget Monitoring Report.

# General Fund Reserve and Excess Equity

- FY 2020 ending fund balance in GF was \$220.1M.
  - Includes \$205.6M in General Fund Reserve and \$14.5M in Excess Equity.
  - Excess Equity available to mitigate any revenue shortfalls in FY 2021.
  - FY 2021 Adopted Budget did not include contribution to fund General Fund Reserve.

<b>FY 2020 Fund Balance Components for the General Fund</b>	
	<i>(in millions)</i>
FY 2020 Unaudited Ending Fund Balance	\$ 220.1
Less: 15.5% Reserve Target for FY 2020	(205.6)
<b>FY 2020 Year-End Excess Equity</b>	<b>\$ 14.5</b>

# Select General Fund Expenditures

## Fire-Recue Overtime

- Department projected to spend \$38.5M on overtime in FY 2021, exceeding budget by \$5.3M.
  - \$1.9M of overtime related to staffing shortfalls
  - \$1.3M for Strike Team deployments
  - \$1.1M related to constant staffing needs
- Increase is offset by salary savings of \$5.6M and deployment reimbursements of \$1.1M (\$6.7M total).
- Department is in process of building up Relief Pool to mitigate overtime related to constant staffing needs.



# Select General Fund Expenditures cont'd

## Police Overtime

- Department projected to spend \$38.1M on overtime in FY 2021.
  - Includes \$33.7M in the GF, and \$4.4M in the Seized Assets Fund.
- Overtime authorization per the FY 2021 Appropriation Ordinance is limited to \$17.0M of the \$33.7M GF overtime budget.
  - Neighborhood Policing is limited to \$12.0M of the \$24.3M budget.
- As of October 31, 2020, Police Department is not projected to exceed either of the limits before mid-fiscal year.

# Support of the San Diego Convention Center Corporation (SDCCC)

- SDCCC created in 1984 to manage and operate Convention Center.
- Convention Center operation significantly contributes to the regional economy and City hotel and sales tax revenue (approximately \$29 million in FY 2019).
- SDCCC has maintained a largely self-sufficient budget for years receiving only a \$2.1 million annual budget contribution from the City for long-term marketing in recent years; however, SDCCC did not receive this operating support payment in FY 2021 due to the impact of the pandemic on City revenues.

# Support of the San Diego Convention Center Corporation (SDCCC)

- Pandemic has halted convention activity in FY 2021 which has severely impacted SDCCC's budget.
- Despite aggressive actions to mitigate the pandemic related loss of budgeted revenue, **SDCCC is currently projecting a \$4.2 million budget shortfall in FY 2021.**
- This projection assumes Operation Shelter to Home closes in December 2020 consistent with the Council's previous allocation of federal COVID-19 relief funding.
- City began paying SDCCC \$2.3 million/month in July for rent and services rendered in support of the temporary homeless shelter - the payment is scheduled to be discontinued after this month.

# Support of the San Diego Convention Center Corporation (SDCCC)

- **Barring a change in circumstances (i.e., a decision to extend the temporary shelter at the Convention Center into 2021), SDCCC's Board will likely be forced to ask the City for a \$4.2 million operating subsidy to cover their projected FY 2021 budget shortfall.**
- Mayor Gloria has indicated that he has directed staff to explore funding options to potentially extend the shelter into 2021.
- SDCCC CFO believes a 2-month extension may enable them to mitigate their projected budget shortfall – this would potentially relieve the City of having to consider the use of General Fund revenue for this purpose.
- Even if SDCCC's projected budget shortfall can be mitigated, they will have exhausted all of their reserves and still have critical capital needs to be addressed in the near term.

# Conclusion

- Our Office will continue to monitor items discussed in this report as part of our ongoing efforts to monitor the FY 2021 budget.
- The Department of Finance (DoF) will release their Mid-Year Budget Monitoring Report on January 27, 2021.
- IBA review of the Mid-Year Budget Monitoring Report is scheduled for release on February 17, 2021.