

IBA Crash Course: Understanding the FY 2022 Budget Process

April 2021



Office of the Independent Budget Analyst
Providing the City Council and the public with clear, objective, and unbiased information and analysis.



Role of the Office of the Independent Budget Analyst

Why was the IBA Created?

In 2003, serious financial problems led to a loss of confidence at City Hall:

- Serious budget shortfalls, irresponsible expenditures
- Underfunding of pension system while increasing benefits
- City lost its credit rating, could not issue debt (no bonding for streets, sidewalks, etc.)
- SEC was charged with oversight of our financial operations

Why was the IBA Created? *cont*

Loss of confidence led to citizen initiative to do away with City Manager form of government and switch to “Strong Mayor”:

- Approved by voters Fall 2004
- Sitting Mayor resigns, election for new Mayor held
- “Strong Mayor” went into effect January 2006

Why was the IBA Created? *cont*

Strong Mayor ballot also included creation of the Office of the IBA to advise the Council

- Elected Mayor, not professional manager, is now running the City
- The majority of City employees now report to Mayor, carrying out his/her agenda
- Councilmembers no longer have a City Manager to advise them on complex matters
- Council consists of nine individuals with very different perspectives (not necessarily in line with the Mayor's)
- Council needs unbiased, objective information and advice for effective decision-making
- Public also needs objective information to effectively participate in public process

Why our Office's role is important . . .

It is critical to have checks and balances between the Executive Branch (Mayor) and the Legislative Branch (City Council) in a Strong Mayor form of government.

Our Mission . . .

To provide clear, objective, and unbiased analysis and advice to the City Council and the public on important financial and policy issues.

- In order for us to provide clear, objective, and unbiased analysis and advice, we have to be independent.

Public Involvement in the Process is Key

- Several years ago, we recognized there was little helpful information on the City budget or budget process for the public.
- The City's Annual Operating Budget and the Annual Capital Improvements Program Budget are two of the most important, significant documents the City develops each year.
- It is vital that the Mayor and Council hear from the public about current community priorities during the process.
- To be effective in participating, we felt the public could benefit from more and better information about this complex process.

Public Involvement in the Process is Key

- Our Office decided to develop both a *"Citizen's Guide to the City's Budget Process"* and a *"Citizen's Guide to Infrastructure"*, the first ones for the City.
 - Available on our website at <https://www.sandiego.gov/iba>
- More recently, we developed both an *"IBA Budget Academy"* and an *"IBA Crash Course on the Budget Process"*.
- With COVID around this time last year, we were not prepared to do our presentations virtually.
- This year we decided to bring back the *"Crash Course"* virtually.
- Thank you for your interest and time! We hope you find it valuable!

Roles and Authorities in the Budget Process

Mayor/Council/IBA Roles and Authorities in the Budget Process

The Mayor:

- Developing and releasing the Mayor's Five-Year Financial Outlook in November
- Providing quarterly budget monitoring reports to the Council and the public
- Proposing a balanced budget to Council by April 15
- Providing any known changes to the budget in the May Revision, for Council consideration
- Carrying out the City's goals, policies, programs, and services reflected in the budget following adoption by Council

Mayor/Council/IBA Roles and Authorities in the Budget Process *cont*

The Council:

- Reviews Mayor's Five-Year Financial Outlook and the IBA's analysis of the Outlook
- Adopts Budget Priorities Resolution to convey their budget priorities to the Mayor before the budget is developed
- Holds public budget hearings and Town Halls in early May
- Has the authority to change budgeted line items or services and programs proposed in the Mayor's budget, as long as the budget remains balanced
- Is responsible for reviewing and approving the Proposed Budget on or before June 15
- Has final budget authority

Mayor/Council/IBA Roles and Authorities in the Budget Process *cont*

The Office of the IBA:

- Reviews and analyzes the Mayor's Five-Year Financial Outlook for Council and the public, analyzes DOF's quarterly monitoring reports
- Develops the Budget Priorities Resolution for Council adoption
- Reviews and analyzes the Mayor's Proposed Budget for Council and the public
- Provides support to the City Council and its Committees throughout the process
- Participates in all Council Budget Hearings, Committee meetings and Budget Town Halls
- Develops final budget recommendations for City Council consideration

IBA Review and Analysis of the Mayor's FY 2022 Proposed Budget

Things we review:

- All projected revenues and expenditures
- Comparison to City Council's FY 2022 Budget Priorities
- Impacts of any potential cuts or reductions on service levels
- Review of key issues or areas of interest
- Assuring the budget is structurally balanced and ensuring financial practices and policies have been applied
- Highlighting issues for further discussion during the budget review process
- <https://www.sandiego.gov/iba>



Mayor/Council/IBA Roles and Authorities in the Budget Process *cont*

- The Mayor can veto Council changes to the Proposed Budget
- The Council can override a Mayoral veto with six votes
- After the budget is adopted, the Mayor, Council, and IBA monitor expenditures, revenues, and significant City programs and services throughout the fiscal year
- Once the budget is adopted, only the Mayor can initiate budget changes during the fiscal year (by recommending changes for Council approval)

City Council Budget Policy Guides the Budget

Standards for developing and monitoring the City's annual operating and capital budget include:

- A balanced budget (expenditures shall not exceed annual revenues plus available unrestricted fund balances)
- Performance measures and reporting of results during the budget process
- Mayor is required to prepare five-year forecasts for both operating and capital budgets
- Mayor provides quarterly budget monitoring reports to Council
- Public involvement (public hearings and outreach)
- One-time revenues shall be used to fund one-time expenditures; ongoing expenditures shall be supported by ongoing revenues
- The City shall fully fund the annual pension payment; and funding for retiree health shall also be a priority (based on existing labor agreements)

Operating Budget Process

Why is the City's Budget Important?

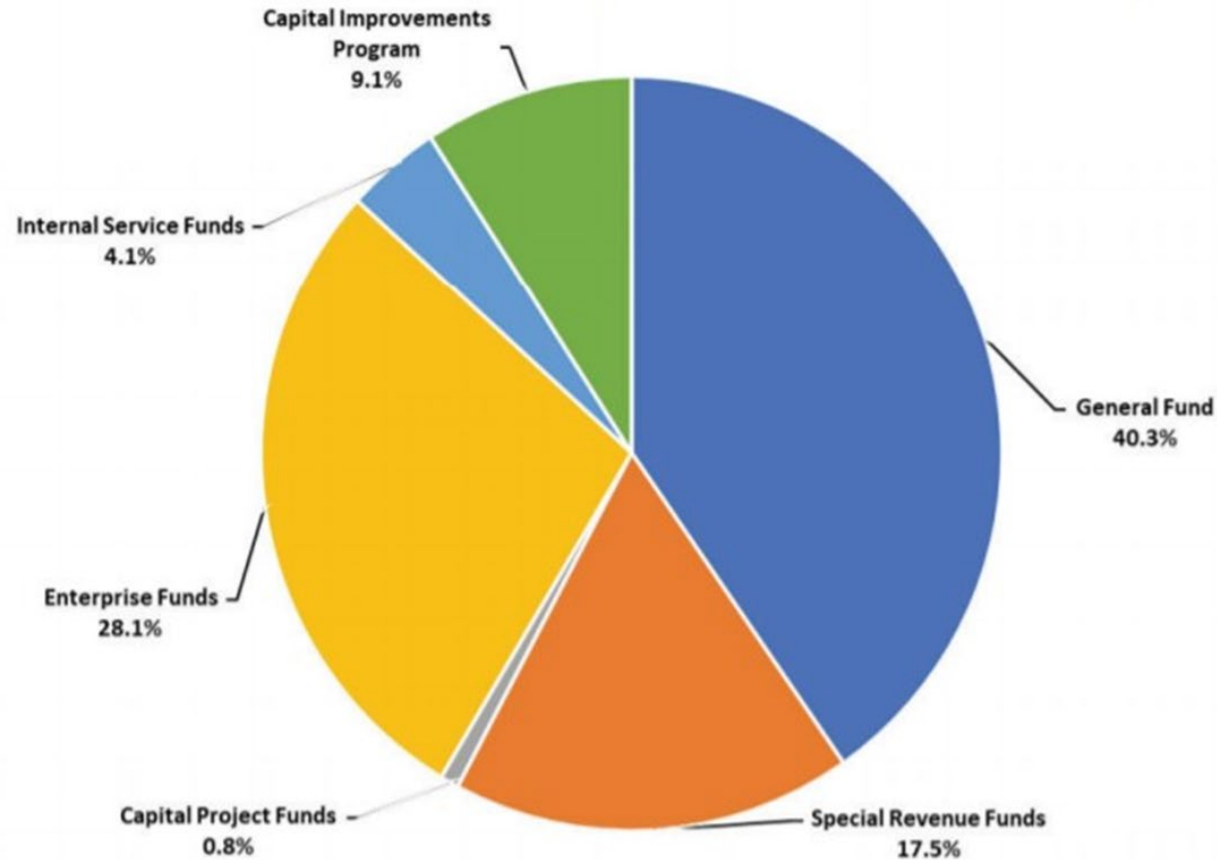
The Budget reflects City policies and community priorities, and allocates available funds for City programs and services

- Public Safety
- Infrastructure
- Parks and Recreation
- Libraries
- Climate Action Plan
- Code Enforcement
- Arts & Culture
- Homeless Services
- Economic Development
- Environmental Services

FY 2021 Budget Overview

Total City Budget

Figure 1: Fiscal Year 2021 Adopted Expenditure Budget by Fund Type/Program

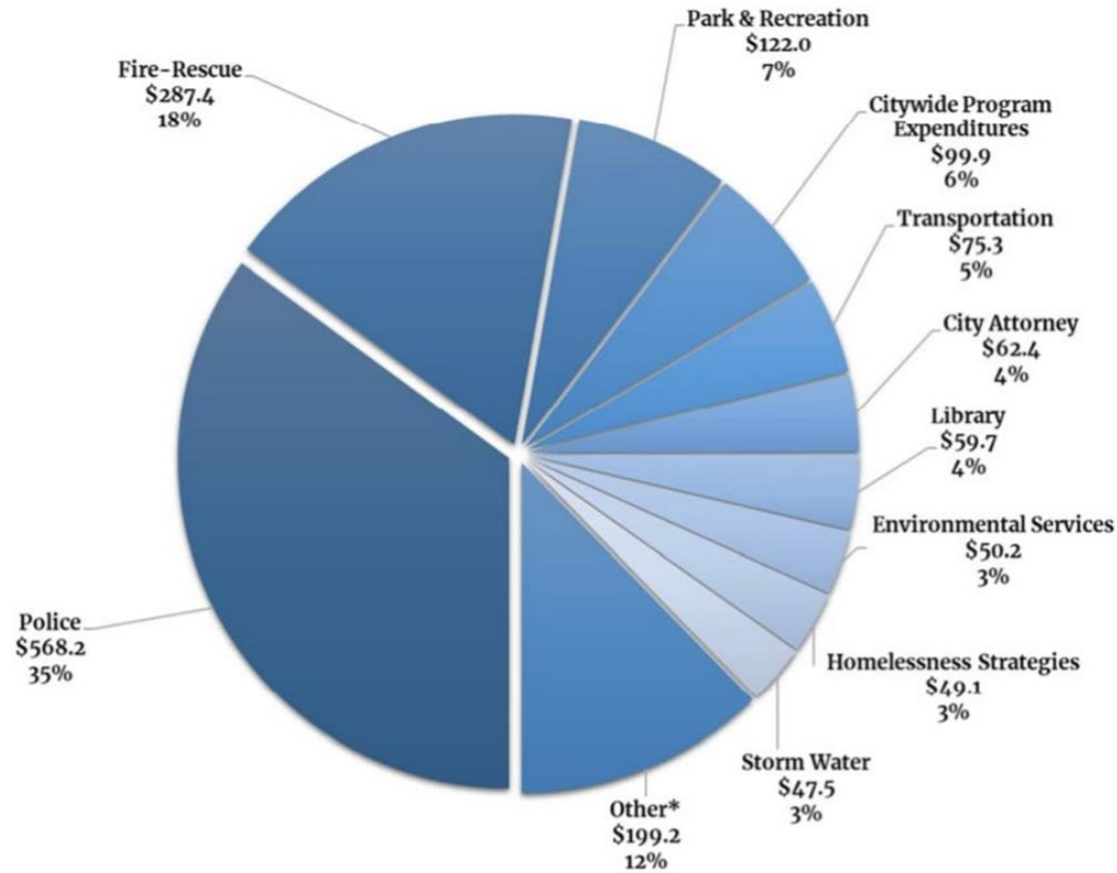


Note: Percentages may not add to 100 percent due to rounding.

FY 2021 Budget Overview *cont*

General Fund

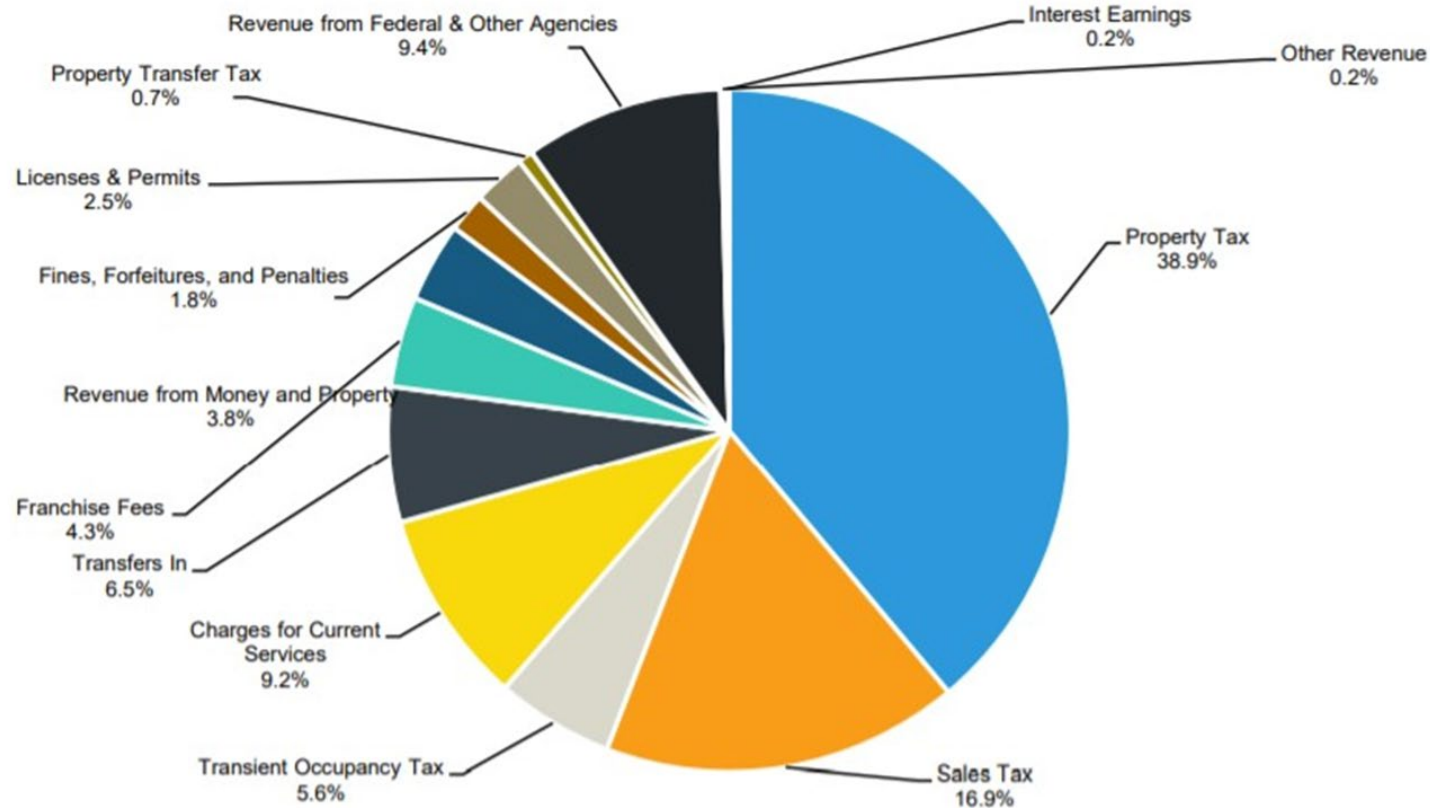
FY 2021 General Fund Expenditures by Department
(Total: \$1.62 Billion; \$ in millions)



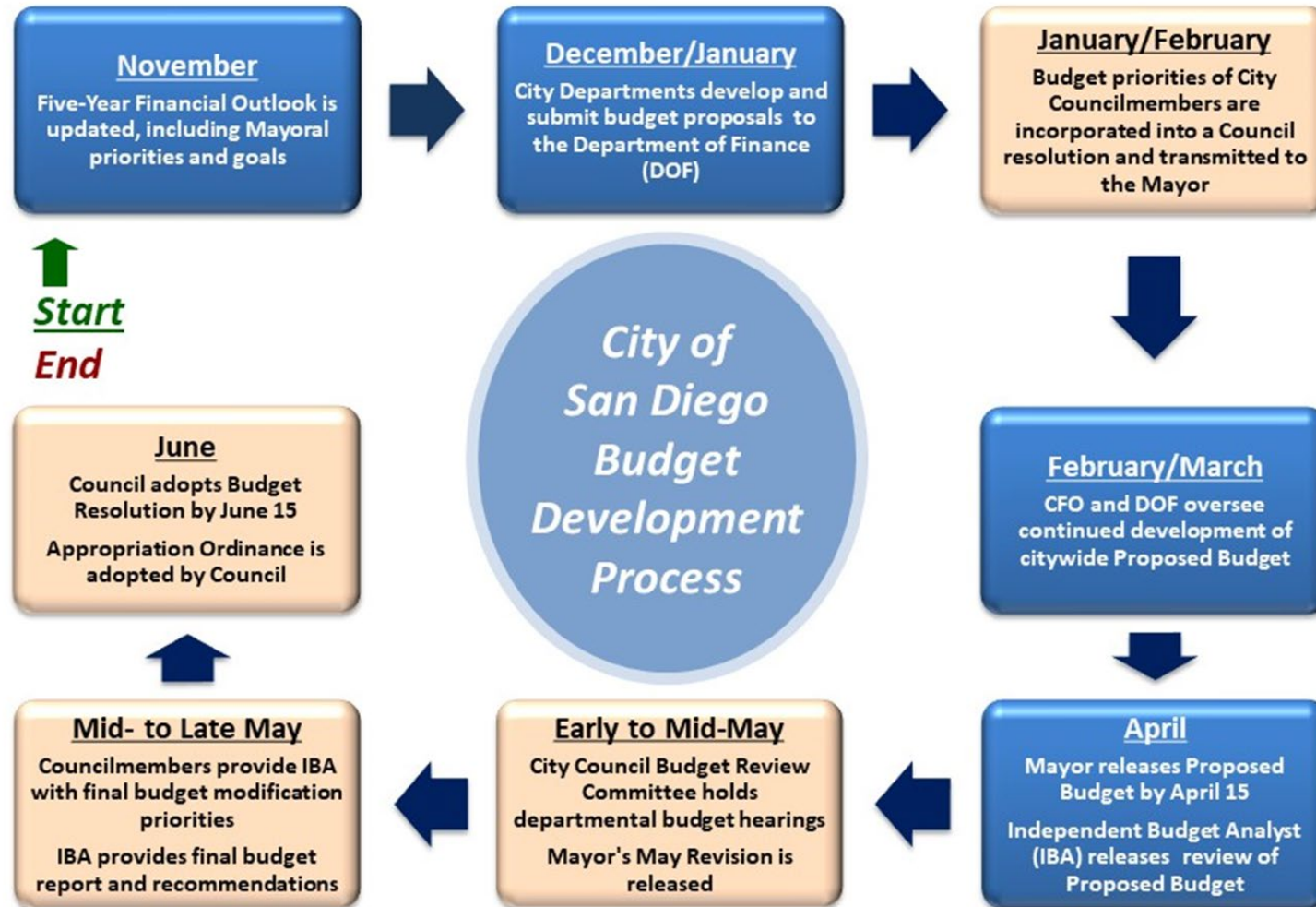
FY 2021 Budget Overview *cont*

General Fund

Figure 1: Fiscal Year 2021 General Fund Revenues - \$1.62 Billion



FY 2022 Budget Development Timeline



Mayor's Five-Year Outlook FY 2022-2026

Table 1.1 - Fiscal Year 2022-2026 Financial Outlook Summary of Key Financial Data (\$ in Millions)					
	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026
Property Tax	\$664.2	\$689.1	\$716.9	\$747.6	\$782.1
Sales Tax	\$300.5	\$317.9	\$335.7	\$347.4	\$358.2
Transient Occupancy Tax	\$105.5	\$114.5	\$124.5	\$129.4	\$134.6
Franchise Fees	\$71.0	\$73.0	\$74.4	\$75.8	\$77.4
All Other Revenue Categories	\$404.0	\$415.0	\$433.6	\$447.1	\$450.5
BASELINE GENERAL FUND REVENUES	\$1,545.2	\$1,609.5	\$1,685.1	\$1,747.4	\$1,802.8
Salaries & Wages	\$653.1	\$652.2	\$652.0	\$652.7	\$653.2
Retirement Actuarially Determined Contributions (ADC)	\$317.5	\$324.4	\$329.7	\$334.2	\$335.0
All other Personnel Expenditures	\$215.9	\$217.2	\$218.6	\$220.1	\$221.6
Non-Personnel Expenditures	\$455.7	\$470.0	\$492.1	\$497.3	\$519.4
Charter Section 77.1 - Infrastructure Fund Contribution	\$11.3	\$0.0	\$0.0	\$0.0	\$0.0
Reserve Contributions	\$1.2	\$1.3	\$24.1	\$17.0	\$15.8
Other Baseline Adjustments	\$14.5	\$51.1	\$52.9	\$53.9	\$51.9
BASELINE GENERAL FUND EXPENDITURES	\$1,669.3	\$1,716.2	\$1,769.3	\$1,775.2	\$1,796.9
BASELINE (SHORTFALL)/SURPLUS	(\$124.1)	(\$106.7)	(\$84.2)	(\$27.8)	\$5.9

FY 2021 Mid-Year Budget Monitoring

Summary of FY 2021 General Fund Projections					
<i>Table 1</i>					<i>in millions</i>
Revenue/ Expenditures	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	\$ 1,620.9	\$ 1,620.9	\$ 1,535.0	\$ (86.0)	-5.3%
Personnel Expenditures	\$ 647.9	\$ 647.9	\$ 649.7	\$ (1.8)	-0.3%
Fringe & Non-Personnel Expenditures	\$ 973.0	\$ 973.0	\$ 970.6	\$ 2.4	0.2%
Expenditures	\$ 1,620.9	\$ 1,620.9	\$ 1,620.4	\$ 0.6	0.0%
Net Projected Activity	\$ -	\$ -	\$ (85.4)	\$ (85.4)	

FY 2022 Council Priorities Receiving Majority Support

Operating Budget Priorities

- Maintain Core Services/Clean Communities
- Homelessness & Housing
- Equity & Relief Programs
- Climate Action
- Human Capital & Employee Compensation
- Arts & Cultural Programs Funding
- Constituent Relations Mgmt Platform

Infrastructure Budget Priorities

- Transportation Safety & Mobility
- Sidewalks
- Streets
- Parks & Recreation Facilities
- Storm Water
- Library Facilities
- Fire-Rescue Facilities
- Transit Infrastructure

Potential Budget Mitigation Priorities

- Use of General Fund Reserve/Excess Equity
- Use of Pension Payment Stabilization Reserve

2021 American Rescue Plan Act Funds

City expects to receive approximately \$306 million

- Relief funds received in two tranches in May 2021 and 2022
- All funds must be fully expended by December 31, 2024
- Allowable uses for relief funds:
 - May be used for the provision of government services up to the amount of COVID-19 related revenue loss
 - Making necessary investments in water, sewer, or broadband infrastructure
 - Expenditures in response to the public health emergency to include assistance to households, small businesses and nonprofits
 - Provide aid to impacted industries such as tourism, travel, and hospitality

Overview of the Capital Improvements Program (CIP) Budget Process

City Infrastructure

The City Owns and Maintains a Variety of Infrastructure Assets

- Streets and sidewalks
- Libraries
- Park and recreation facilities
- Police, fire, and lifeguard facilities
- Storm drainage and flood control facilities
- Water and sewer facilities and pipelines
- Street lights and traffic signals
- Three golf courses and two airports

City is NOT Responsible for:

- ◆ Trolley
- ◆ Rail
- ◆ Bus system
- ◆ County, state, and federal facilities, roads, freeways

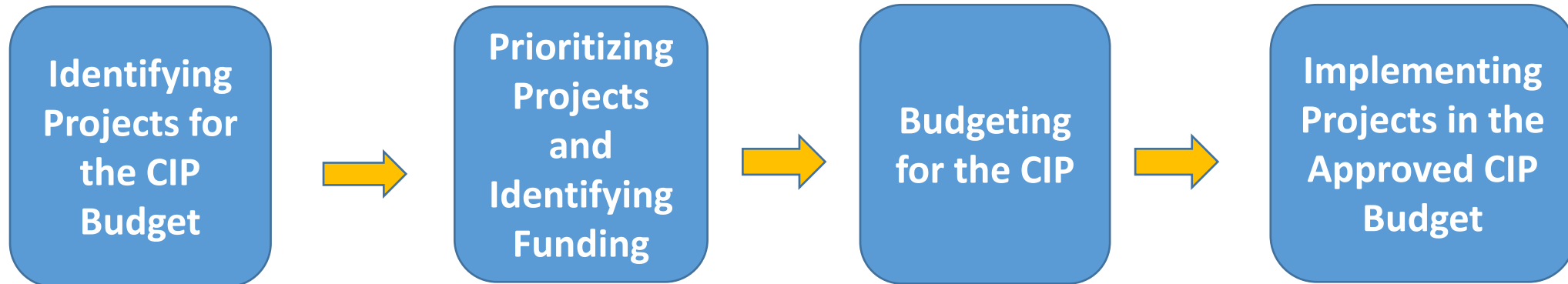
City Infrastructure *cont*

Large Infrastructure Projects are Implemented through the CIP

- What is the CIP?
 - The CIP is a multi-year program that is comprised of capital improvement projects and their funding sources
- What are capital improvement projects?
 - CIP projects are construction projects that provide long-term improvements or additions and extend the useful life of an asset
- CIP projects do NOT include routine maintenance
 - Ex. Patching a roof is a maintenance project, while replacing a roof is a capital project

City Infrastructure *cont*

There are 4 Major Steps in the CIP Budget Process



CIP Budget Process

Step 1: Identifying Projects for the CIP Budget

Projects are generally driven by the following:

- Mayor and City Council
- Legal requirements or mandates
- City plans (i.e. Bicycle Master Plan, community plans)
- Condition Assessments
- Department staff
- City Council priorities and requests
- Public input through City Councilmembers, planning or advisory committees, and budget hearings

CIP Budget Process *cont*

Step 2: Prioritizing Projects and Identifying Funding

- Department staff determine a score for each project based on Council Policy 800-14
 - Policy includes weighted factors that determine a project's score
- Finding funding for projects is difficult
 - City's needs far exceed available resources so many priorities compete for limited funds
 - Much of the limited funds available have restrictions on how they can be spent

Project Scores are weighted for (examples):

- ◆ Risk to health and safety
- ◆ Asset condition and impact of deferring project
- ◆ Community investment
- ◆ Sustainability and Conservation
- ◆ Funding availability
- ◆ Project readiness

CIP Budget Process *cont*

Step 3: Budgeting for the CIP

- July – October: City reviews status of CIP projects and solicits input from Councilmembers and the public. Formal public input is gathered every other year
- October – January: Departments identify needs based on the Five-Year Capital Outlook and submit funding requests to Department of Finance
- January – March: Dept. of Finance works with departments to prepare proposed budget
 - Special committee composed of City departments reviews requests and submits proposed budget for Mayor's approval
- April 15: Mayor releases proposed budget
- May – June: City Council holds budget hearings and can make changes to CIP budget
- Throughout the year: Additional budget changes can be made as needs arise

CIP Budget Process *cont*

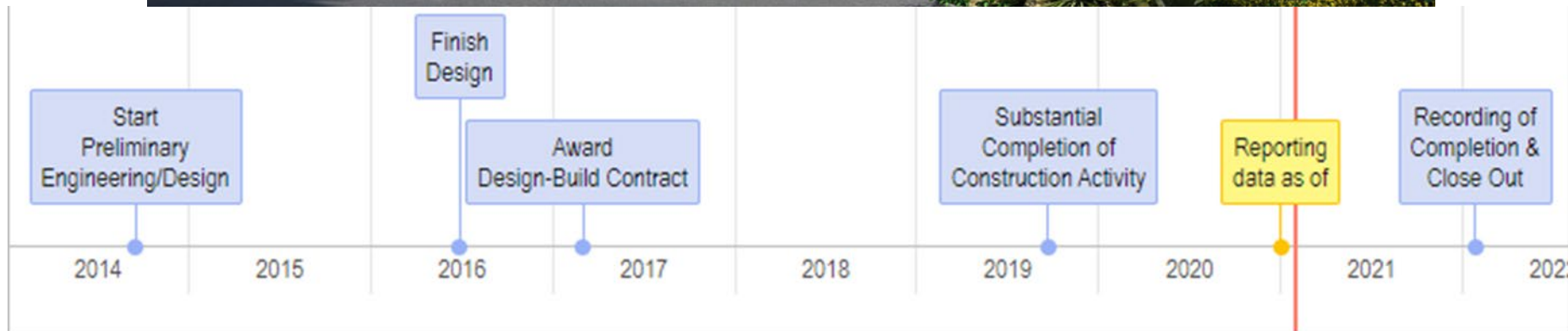
Step 4: Implementation of Projects in the Approved CIP Budget

- The CIP Budget adds funding to projects that will allow them to move forward to the next phase
- This funding is spent over multiple years because projects take multiple years to complete

Project Implementation Phases



Example of Project Timeline

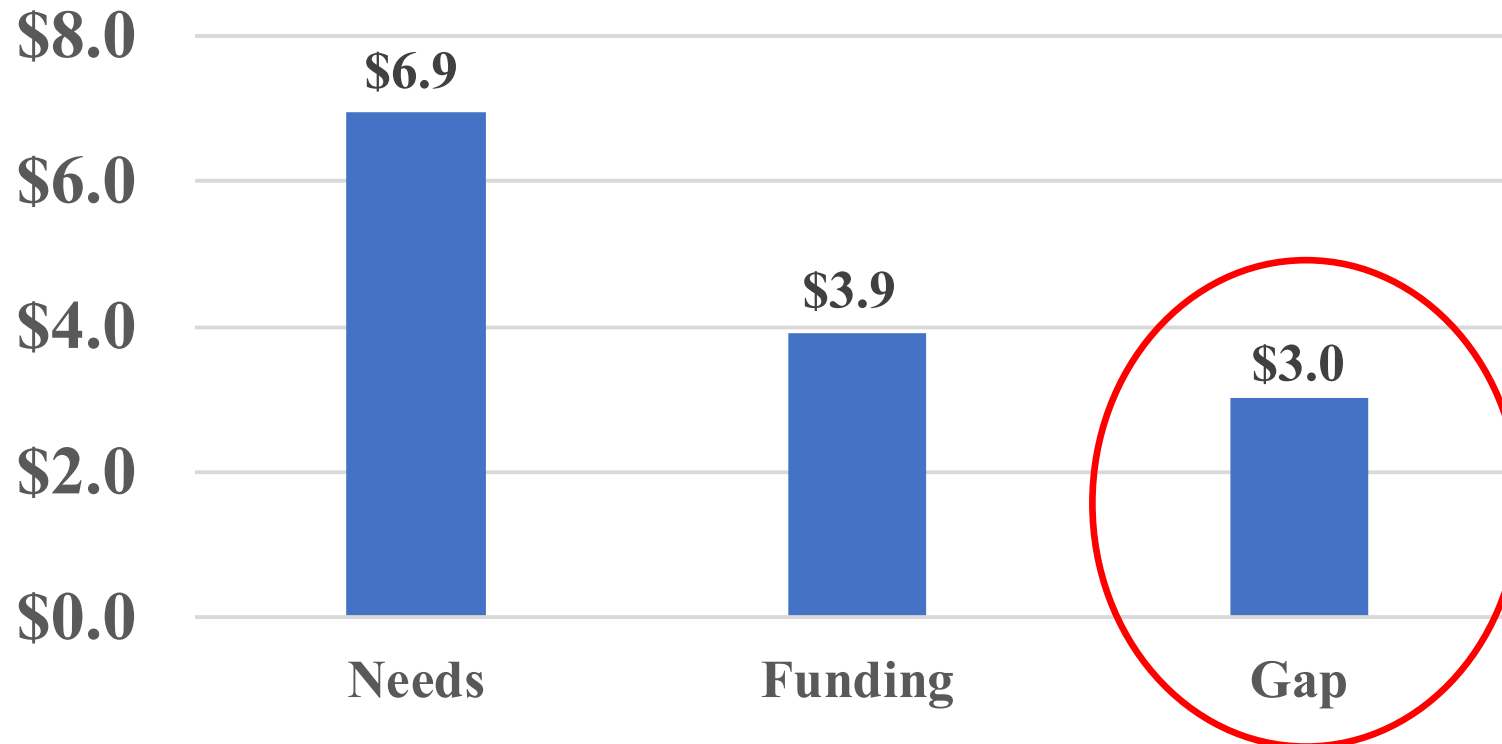


Overview of the CIP Budget

Infrastructure is a Major Challenge for City

City's Needs Far Exceed Funding Available

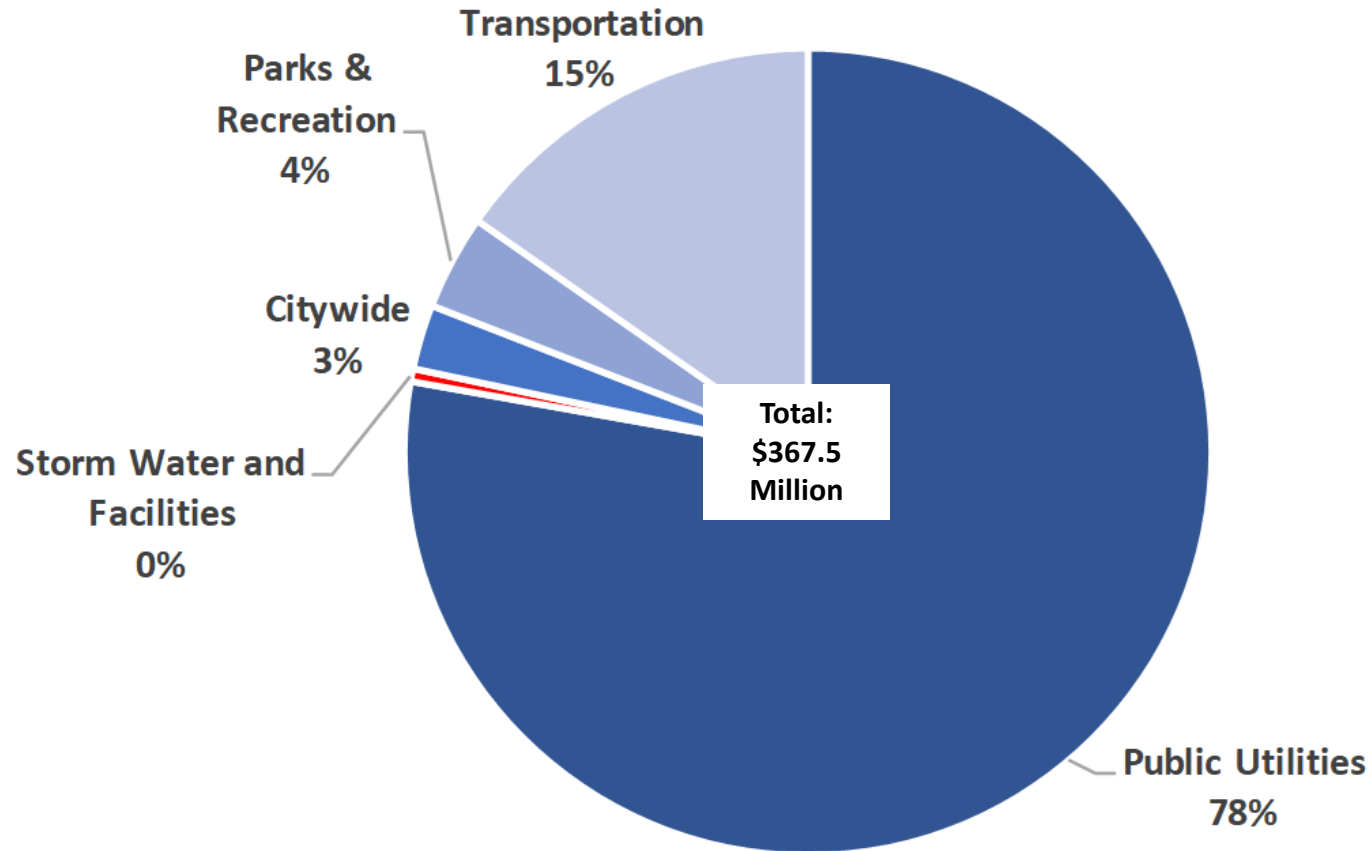
City's 5-Year Capital Infrastructure Funding Gap
(*\$ in billions*)



What are the top Assets not Funded?

Asset	Amount Unfunded (\$ in millions)
Storm Water	\$1,275.9
Existing Facilities	538.8
Streets and Roads - Pavement	280.5
Streetlights	232.1
Parks	198.2
Traffic Signals	116.0
Bike Facilities	108.1
Sidewalks	107.2

FY 2021 CIP Adopted Budget by Department

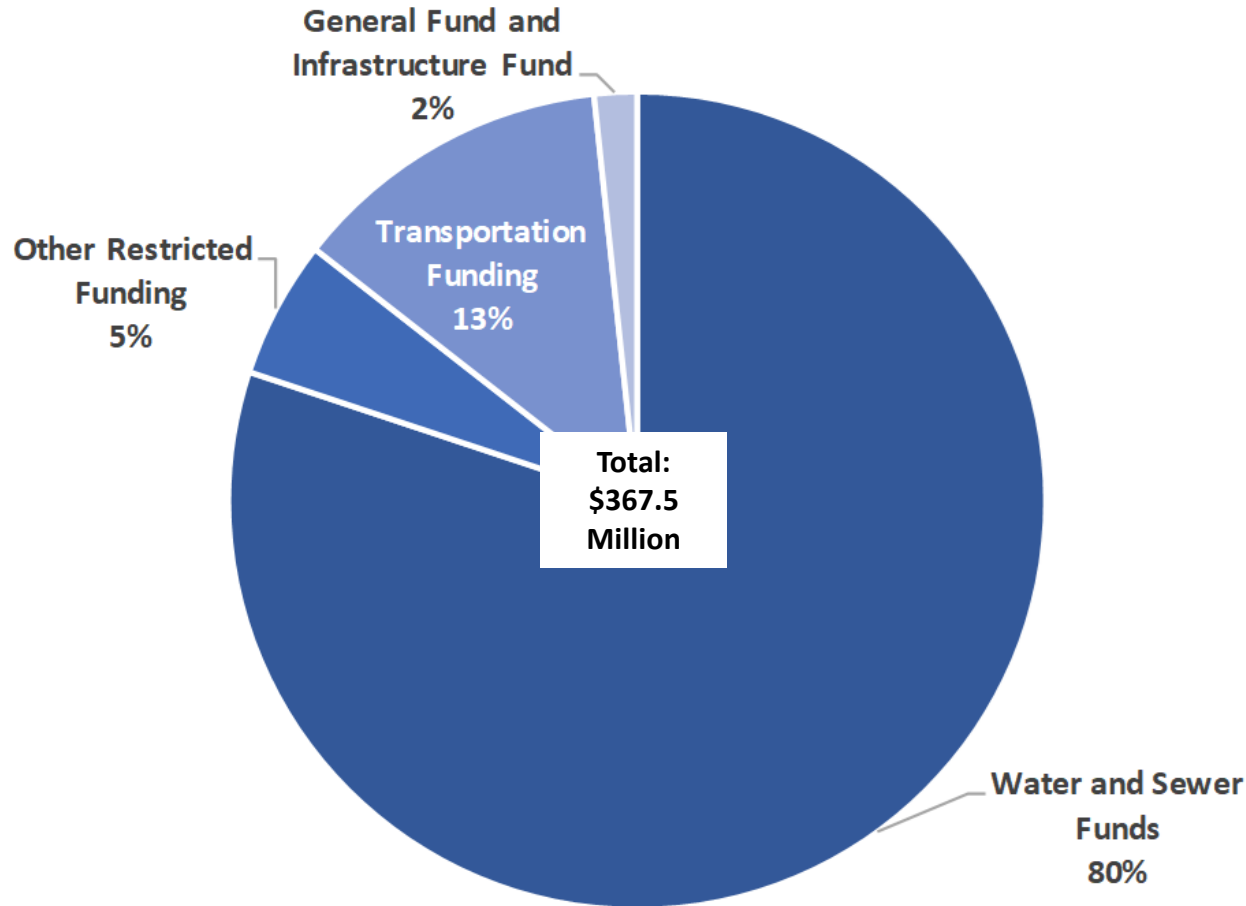


Key Takeaways:

- ◆ *Storm Water and Facilities make up less than 1% of budget but have highest unfunded needs*
- ◆ *Public Utilities Department's projects (water and sewer system) make up largest portion of the budget*

* Does not reflect budget adjustments approved after the Adopted Budget

FY 2021 CIP Adopted Budget by Funding Source



Key Takeaways:

- ◆ *Funding sources drive the types of projects that get funded in the CIP budget (water and sewer funds must support those project types)*
- ◆ *2% of the budget can be used for any asset (e.g. sidewalks, parks)*

* Does not reflect budget adjustments approved after the Adopted Budget

How do I get Involved in the CIP Budget?

- Contact your City Councilmember, especially at the beginning of the budget process (July - January)
- Participate in public outreach process done every other year through your Community Planning Group (August/September)
- Participate in budget town halls for your Council district and City Council budget hearings (May)
- Get It Done App - if you see an issue in the City (e.g. bad street or sidewalk)
- Get involved year-round in community planning, recreation committees, and other groups
- Contact appropriate City department staff

Contact information to get involved can be found here:

<https://www.sandiego.gov/sites/default/files/citizens-guide-to-infrastructure.pdf>

Get Involved

Opportunities for Public Input

There are a number opportunities for public input on the budget throughout the year, but especially in the January – June timeframe

- Contact the Mayor and/or his staff during the development of Mayor's Proposed Budget (November-April)
- Contact Councilmembers at any point in the year, but especially:
 - September: when they identify capital project priorities prior to the Mayor's request for Councilmember CIP input
 - November: during Council's review of the Mayor's Five-Year Outlook
 - January: as Councilmembers develop their budget priority memos for the Mayor

Opportunities for Public Input *cont*

- May:
 - Participate in Budget Review Committee hearings (May 5-11; plus City Council meeting May 17)
 - Attend Council District Town Halls or budget discussions
 - Contact Councilmembers prior to them sending their final budget priority memoranda to the IBA on May 26
- June: When City Council makes final budget decisions
- Throughout the year:
 - Review Mayoral or IBA budget reports released
 - Contact the IBA with any questions

More City of San Diego Budget Information

Information on the City's budget and other legislative items can be found on the IBA website:

- <https://www.sandiego.gov/iba>
 - IBA reports
 - Full list of key budget dates
 - A Citizen's Guide to the City's Budget Process
 - A Citizen's Guide to Infrastructure
- Call our Office for additional information: [619-236-6555](tel:619-236-6555)
- Follow us on Twitter: [SanDiegoIBA](https://twitter.com/SanDiegoIBA)