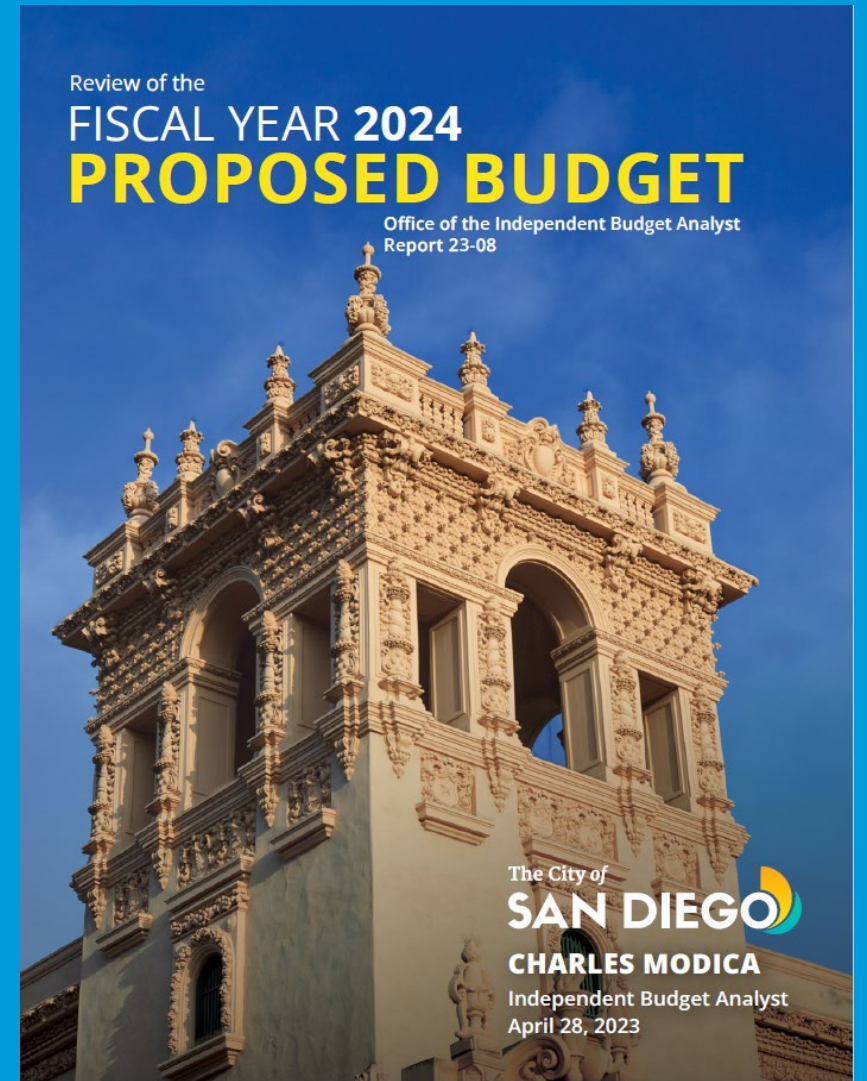


# IBA Review of the Fiscal Year 2024 Proposed Budget

Budget Review Committee  
May 3, 2023



## Office of the Independent Budget Analyst





# Overview

# Overview

## Mayor, IBA, and Council Roles

- Mayor releases a Proposed Budget that is balanced and carries out the City's goals, policies, programs, and services
- IBA thoroughly analyzes Proposed Budget
- Council reviews budget and holds hearings and public town halls
  - Budget Review Committee hearings offer opportunity for department presentations and public input
- Charter vests budget authority for finalizing the FY 2024 budget in the hands of Council

# Overview

## Key Findings

- First time equity included in budget process
- Budget maintains or increases resources across almost all City functions
- City revenues and expenditures are at all-time highs
- About half of Council's priorities are included
- Vacancies: progress made, but challenges remain
- Infrastructure funding remains insufficient

# Overview

## Key Findings - Budget Structural Imbalance

- Proposed Budget presents more accurate view of City finances with recategorization of some recurring one-time expenses as ongoing expenses
- One-Time Resources (\$129.6M) exceed One-Time Expenditures (\$16.5M) by \$113.2M.
  - Budget was balanced with one-time resources:
    - American Rescue Plan Act (ARPA) funding of \$52.1M
    - Excess Equity of \$68.6M

***Committing to ongoing expenses now without dedicated ongoing resources to support them handicaps the City's ability to make budget adjustments in the future without cutting services***

# Economic Outlook and General Fund Revenues

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## Economic Outlook

- Total Revenues increase by \$32.7M
  - Major Revenues up \$109.8M
- City's economy has performed above state and national averages for key economic indicators
- Revenues **reflect slower, moderate growth** that balances economic risks with continued strong actual revenue performance
- Projections are reasonable

# Economic Outlook and General Fund Revenues

## Property Tax

- FY 2024 Proposed Budget is \$756.9M, an increase of \$50.7M (7.2%)
- Growth rate of 5.64% – driven by metrics within the housing market and the return of normal Proposition 13 inflation (2%)

## Sales Tax

- FY 2024 Proposed Budget is \$392.2M, an increase of \$12.0M (3.2%)
- Growth rate of 1.5% – though low – is supported at this time

## Transient Occupancy Tax

- FY 2024 Proposed Budget is \$319.3M, an increase of \$32.8M (24.3%)
- Growth rate of 5.9% based on historical average – reasonably balances the uncertainty and economic indicators



# Economic Outlook and General Fund Revenues

## Franchise Fees

- Franchise Fees total \$109.9M, an increase of \$14.3M (15.0%)
- **SDG&E Franchise Fees** total \$76.9M, an increase of \$17.8M
  - Increase appears to stem from direct access customers and a projected growth rate of 8.0%
  - Will continue to monitor
- **Cable television fees** total \$11.1M, a decrease of \$1.2M
  - Cable television fees have been declining since FY 2011
- **Refuse hauler fees** total \$13.2M, a decrease of \$0.4M

# General Fund Expenditure Overview

# General Fund Expenditure Overview

Expenditures Budget Overview: \$2.04B and 8,507.00 FTE

Net Budget Change: \$88.2M and 170.61 FTE increase

- Personnel Expenditures (PE) changes – \$109.2M **net** increase
  - Increases
    - \$41.1M – ADC pension payment increases
    - \$32.1M – wages increases– incl. those negotiated prior years
    - \$29.3M – wages increases – estimate for recent and ongoing negotiations
    - \$25.0M – overtime expenditures increase, primarily in Police and Fire-Rescue
    - \$22.1M – net departmental position additions (net 170.61 FTE)
  - Decreases
    - \$24.1M – Budgeted PE Savings adjustment, mainly in Police and Fire-Rescue
    - \$15.0M – Supplemental Pension Savings Plan H (SPSP-H) payment decrease associated with the unwinding of Proposition B

# General Fund Expenditure Overview

## Non-Personnel Expenditure Changes

- Non-Personnel Expenditures (NPE) changes – \$21.0M **net** decrease
  - Decreases – Removals of FY 2023 One-time Costs totaling \$165.1M
    - \$40.2M – Capital Improvements Program (CIP) Transfer
    - \$28.0M – pension payment transition costs for Post-Proposition B Employees
    - \$23.4M – homelessness and housing programs
  - Other Decreases
    - \$10.3M – removal of 101 Ash and CCP lease-to-own rent

# General Fund Expenditure Overview

## Non-Personnel Expenditure Changes *Cont'd*

- Increases:
  - \$31.9M – homeless shelters and services
  - \$14.0M – gas (\$3.4M) and electric (\$10.6M) services
  - \$12.0M – capital infrastructure debt service
  - \$9.7M – public liability (\$8.9M insurance; \$833K claims costs)
  - \$8.0M – Parks Improvement Funds transfer
  - \$7.2M – refuse disposal fees - incl. \$5.1M for increased tipping fees
  - \$5.8M – transfer to the Bridge to Home Program
  - \$4.0M – Smart Streetlights Deployment

# Notable General Fund Additions

**Net General Fund FTE increase *(net increase 170.61 FTE)***

Department	FTE	PE	Program Areas/Positions
Environmental Services	49.48	\$4.6M	Refuse Disposal Fund reallocations; waste collection cost of service process; enhanced hot spot teams; Corrective Action Plan support; other positions
Police	23.00	\$2.7M	Sworn and civilian supplemental positions; Police Investigative Service Officers (PISOs); Assistant Police Chief
Fire-Rescue	21.88	\$4.1M	Community Risk Reduction; Lifeguards; new Operations Staffing Unit; Advanced Lifeguards Academy; department support staff
Parks & Recreation	21.58	\$4.0M	New park facilities, Supervising Park Rangers, Get It Done App support; Citywide Maintenance Services Deputy Director
Human Resources	13.50	\$1.2M	Employ & Empower Internships, recruitment, labor and employee relations support for departments
Other Departments	41.17	\$5.5M	Staffing to support various programs

# Notable General Fund Additions

## Funding for City Equity Efforts

Department/Program	FTE	Amount	Program Areas/Positions
Climate Equity Funds	-	\$9.2M	To support capital improvement projects responding to climate change impacts in communities of concern
SD Access 4 All	4.00	\$1.2M	To support the SD Access 4 All Digital Equity Program and a hotspot and Chromebook lending program
Tree Planting	3.00	\$1.1M	To support tree planting in historically disadvantaged communities in line with a legal settlement with the Air Pollution Control District
Human Resources Recruitment Program	3.00	\$0.7M	To promote diversity in the City's workforce by broadcasting recruitments to a diverse candidate pool; targeted outreach to historically underrepresented populations as part of overall strategy

# Notable General Fund Additions

## Homelessness and Housing Programs and Services

- \$18.8M increase
- Significant additions for *new* activities include:
  - \$8.8M ongoing increase, includes expanding shelter capacity (\$5.0M) and shelter bed replacement (\$1.5M)
  - \$0.5M increase for Neil Good Day Center
- Significant additions for *existing* activities include:
  - \$3.3M for homelessness outreach efforts
  - \$2.3M for the Housing Instability Prevention Program, maintains existing service levels



# City Council Budget Priorities



# Council Priorities Resolution Review

## Compared to Mayor’s FY 2024 Proposed Budget

### *Partially Added:*

Category	City Council Operating Budget Priorities
Homelessness and Housing	Rental Assistance – Housing Instability Prevention Program
	San Diego (Neil Good) Day Center
Public Safety	Lifeguards
	Security Measures
Arts and Culture	Overall Funding and Penny for the Arts Blueprint
Other Operating Budget Priorities	Office of the City Auditor
	ADA Transition Plan and Complaint Projects Backlog
Transportation and Mobility Safety	Pedestrian and Bicycle Safety
	Traffic Calming
	Traffic Signals
Streets, Sidewalks, Stormwater	Streets
	Sidewalks
	Stormwater
Facilities	Fire-Rescue
	Parks & Recreation
	Police

# Council Priorities Resolution Review

## Compared to Mayor’s FY 2024 Proposed Budget *(cont.)*

### *Added:*

Category	City Council Operating Budget Priorities
Homelessness and Housing	Homeless Shelters for LGBTQ+ and Senior Populations
Environment and Climate Action	Urban Forestry Program
	Climate Equity Fund
Other Operating Budget Priorities	Human Capital and Employee Compensation
Resource and Mitigation	American Rescue Plan Act (ARPA) Funds

### *Maintained:*

Category	City Council Operating Budget Priorities
Environment and Climate Action	Climate Action Plan Implementation
Neighborhood Services	Brush and Weed Abatement

### *Reduced:*

Category	City Council Operating Budget Priorities
Homelessness and Housing	Homelessness Outreach



# Council Priorities Resolution Review

## Compared to Mayor’s FY 2023 Proposed Budget *(cont.)*

### *Not Included:*

Category	City Council Operating Budget Priorities
Homelessness and Housing	Affordable Housing
	Middle-Income First-Time Homebuyer Pilot Program
	Eviction Prevention Program
Environment and Climate Action	Bicycle Master Plan
Public Safety	Firefighter Relief Factor Study and Relief Pool
Neighborhood Services	Library Support
	Code Enforcement
Youth Services	Childcare Facilities/Facilities Assessments
	Youth Services Librarians
	Youth Care and Development Program
	Youth Commission
Other Operating Budget Priorities	World Design Capital 2024
	Office of Labor Standards and Enforcement
Transportation and Mobility Safety	Streetlights
Facilities	Library
Americans with Disabilities Act (ADA)	ADA Transition Plan and Complaint Projects Backlog
Security-Related Infrastructure	Installations/Repairs to Various City Facilities

# Key Budget Issues

- Equity
- Infrastructure Funding Needs
- Departmental Vacancies
- Climate Action Plan
- Homelessness and Housing
- Opioid Settlement Fund
- Pension

# Key Budget Issues

## Equity

- Budget includes additional steps to more deeply integrate equity considerations, we believe to be a positive step

### Issues for Council Consideration:

Not every request needs to have an equity component

Be specific in defining disparities and desired outcomes

Establish clear desired equity outcomes before allocating resources

Focus should be placed on evaluating the effect of equity investments through meaningful metrics

Consider making the Tactical Equity Plans publicly available

# Key Budget Issues

## Infrastructure

- Absent a new funding source, capital backlog will continue to grow along with risk due to failing infrastructure
  - Budget includes \$204.0M for General Fund capital infrastructure but needs total \$1.9B for FY 2024

## Vacancies

- Progress with general wage increases, special wage adjustments and other compensation programs, improving hiring processes, and a citywide career fair
- Challenges with compensation and lengthy recruitment processes puts City at competitive disadvantage

# Key Budget Issues

## Climate Action Plan

FY 2024 Proposed Budget by Cap Funding Strategy (\$ in millions)						
Strategy	Funded Requests			Unfunded Requests		
	Direct*	Indirect	Total	Direct*	Indirect	Total
Strategy 1 - Decarbonization of the Built Environment	\$0.7	\$0.5	\$1.2	\$5.9	\$0.0	\$5.9
Strategy 2 - Access to Clean & Renewable Energy	\$1.0	\$0.3	\$1.3	\$25.1	\$0.0	\$25.1
Strategy 1 & 2	\$0.1	\$0.0	\$0.1	\$1.8	\$0.0	\$1.8
Strategy 3 - Mobility & Land Use	\$3.7	\$1.7	\$5.4	\$23.4	\$2.4	\$25.8
Strategy 4 - Circular Economy & Clean Communities	\$3.2	\$0.5	\$3.7	\$0.5	\$0.4	\$0.9
Strategy 5 - Resilient Infrastructure & Healthy	\$3.6	\$0.3	\$3.9	\$21.4	\$13.0	\$34.4
Overarching Implementation	\$0.0	\$ (0.5)	\$ (0.5)	\$0.0	\$0.2	\$0.2
<b>Total</b>	<b>\$12.3</b>	<b>\$2.8</b>	<b>\$15.1</b>	<b>\$78.1</b>	<b>\$16.0</b>	<b>\$94.1</b>

\*Includes funding counted as Direct & Indirect

- Additional CAP related funds:
  - Climate Equity Fund funded at \$9.2M
  - Energy Independence Fund funded at \$2M (projected fund balance: \$3.4M)



# Key Budget Issues

## Homelessness and Housing

- Community Action Plan, approved in 2019, is being updated
  - Need to understand changes in the updated plan, track implementation progress, and report program outcomes and trends
- Housing affordability remains an issue
  - Only 4.7% of the total 108,000 units needed were built in 2022

# Key Budget Issues

## Opioid Settlement Fund

- Estimated \$40M to be received over 18 years; \$4.4M received in FY2024
- Mayor's Proposed Expenditure of Opioid Settlement Funds:
  - \$2.7M for Emergency Harm Reduction Shelter and the Safe Haven Shelter operating costs
  - \$0.8M for Resource Access Program (RAP) vehicles
  - \$0.8M for the Prosecution and Law Enforcement Assisted Diversion Services (PLEADS) program
  - \$0.2M for Police Department training and equipment
- 80% of opioid settlement funding proposed for FY 2024 would support *existing* service levels rather than enhancing current efforts
  - Maintaining existing efforts is important, but supplanting existing funding instead of expanding programs will have limited impact

# Key Budget Issues

## Pension

- \$448.1M Actuarially Determined Contribution (ADC) pension payment
  - \$324.9M for the General Fund
- \$63.8M ADC increase from FY 2023 Adopted Budget (\$41.1M General Fund)
  - \$47.6M related to Proposition B unwinding
  - Remaining largely related to investment returns less than expected and salary increases higher than expected

# Potential Resources

# Potential Resources

## Council Modifications to the Proposed Budget

- Excess Equity – \$52.6M
  - Likely needed in FY 2025, but funds could be used in FY 2024 budget
- Transient Occupancy Tax Fund Balance – \$8.6M
  - Allocate to reimburse eligible expenses to free up resources
- Reduced Debt Service Projections - \$3.2M
  - Anticipated to be reflected in May Revision
- Increased Residual Redevelopment Property Tax Trust Fund Distribution - \$1.2M
  - Anticipated to be reflected in May Revision

# Conclusion and Next Steps

# Next Steps/Conclusion

## Overall Thoughts

- Mayor's Proposed Budget is balanced
  - Several issues to discuss, but in general the Proposed Budget maintains most existing service levels in the City
- Future needs substantially larger than existing resources
  - The Proposed Budget is balanced with the use of \$129.6M in one-time funding
  - Projected baseline deficits through FY 2026 and significant overall deficits exist through FY 2028 and beyond
  - Needs include a growing capital backlog, stormwater compliance requirements, and expanded programs to address homelessness and climate impacts
  - City should consider potential new revenue sources to meet those growing needs

# Next Steps/Conclusion

- Council now has opportunity to review and revise the Proposed Budget
  - Revisions can be made, but budget must remain balanced
- Timeline
  - **May 3-9** – Budget Review Committee Hearings
  - **May 3, 10** – Evening Hearings to receive further public input
  - **May 18** – May Revision and 3<sup>rd</sup> Quarter Report to be heard in consideration of final budget decisions
  - **May 26** – Councilmembers issue final budget modification priority memos
  - **June 7** – IBA issues final recommended revisions
  - **June 12** – Council makes final budget decisions and takes action on FY 2023 budget revisions
  - **June 27** – Council Adopts FY 2024 Appropriation Ordinance