

IBA Review of the FY 2022 Mid-Year Budget Monitoring Report

City Council

Item 203

February 14, 2022



Office of the Independent Budget Analyst



Overview

- IBA Report 22-03 covers:
 - General Fund Revenues
 - Notable Expenditures (i.e. Police and Fire Overtime)
 - General Fund, Risk Management, & Pension Reserves
 - Proposed Appropriation Adjustments
 - Status Update on Council Additions to FY 2022 Budget
 - Homelessness

General Fund Revenues

Showing Positive Recovery from Pandemic

- All sources anticipated to increase, except for Property Tax and Other Major Revenues
- As a result, use of ARPA funds projected to decrease

Mid-Year Report Major General Fund Revenues Comparison <i>(\$ in millions)</i>					
	Adopted Budget	First-Quarter Projection	Mid-Year Projection	Variance from Budget	Variance from First-Quarter
Property Tax	\$ 672.2	\$ 662.0	\$ 658.5	\$ (13.7)	\$ (3.5)
Sales Tax	320.8	331.8	341.1	20.3	9.3
Transient Occupancy Tax ¹	95.5	113.0	119.9	24.4	6.9
Franchise Fees	78.3	78.3	86.2	7.9	7.9
Other Major Revenues ²	111.0	111.0	103.2	(7.8)	(7.8)
Subtotal	1,277.8	1,296.1	1,308.9	31.1	12.8
American Rescue Plan Act	149.3	149.3	120.4	(28.9)	(28.9)
Total	1,427.2	1,445.4	1,429.4	2.2	(16.0)

Departmental General Fund Revenue

Projected Increase of \$18.5 million from Adopted Budget

- Reflects TOT increase through Special Promotional reimbursements to Parks & Rec and Fire-Rescue Lifeguard
- Other significant driver is revenue from City leases (\$6.6 million)

Special Promotional Programs - General Fund Reimbursements (<i>\$ in millions</i>)			
	Adopted Budget	Mid-Year Projection	Variance
Parks & Recreation	\$ 8.0	\$ 17.0	\$ 9.0
Fire-Rescue - Lifeguards	20.0	25.0	5.0
Total	\$ 28.0	\$ 42.0	\$ 14.0

General Fund Expenditures

Salaries and Wages Projected to be \$11.0 million Over Adopted Budget

- Primary driver is Police and Fire-Rescue Overtime

FY 2022 Salaries and Wages Expenditures - General Fund (<i>\$ in millions</i>)				
	Adopted Budget	Mid-Year Projection	Variance: Adopted to Mid-Year	Variance %: Adopted to Mid-Year
Salaries	\$ 546.7	\$ 530.9	\$ 15.7	2.9%
Special Pay	43.9	46.9	\$ (2.9)	(6.7%)
Overtime	67.8	90.2	\$ (22.3)	(32.9%)
Hourly	13.3	12.4	\$ 0.8	6.3%
Vacation Pay in Lieu/Termination Pay	9.1	11.5	\$ (2.3)	(25.4%)
Total Salaries and Wages	\$ 680.9	\$ 691.8	\$ (11.0)	(1.6%)

General Fund Expenditures

Police Overtime Projected to be \$6.9 Million Over Adopted Budget, with 2 Main Drivers

- Extension of Shift (\$2.5 million)
 - Recent violent crime cited as underlying cause
- Patrol Staffing backfill (\$4.4 million)
 - At nearly 300% of budget, suggesting significant staffing issues
 - Department may be operating too close to minimum staffing levels even during times of normal call volume
 - Call volumes have increased 20% since 2019

General Fund Expenditures

Police Attrition Levels Worse than Same Time Last Year

SDPD – Sworn Staffing and Attrition Comparison		
<i>2,036 Budgeted Officers</i>	As of Feb. 1, 2021	As of Jan. 31, 2022
Staffing Level	1,938 filled	1,888 filled
Total Attrition	101 (13 per month)	140 (20 per month)
Lost to other Agencies	6 (1 per month)	26 (4 per month)
Retirement	53	53

- **Recommend** Police provide updates to the Public Safety and Livable Neighborhoods Committee on officer staffing issues, overtime, and impact to service levels

General Fund Expenditures

Fire-Rescue Overtime Projected to be \$13.5 Million Over Adopted Budget

- Major Components
 - \$10.0 million – Constant staffing for essential fire suppression posts
 - \$1.1 million – Strike team deployments (\$711,000 is reimbursable)
 - \$760,000 – Other divisional (largely for dispatcher/lifeguard vacancies)
 - \$617,000 – COVID-19 related overtime (\$320,000 is reimbursable)
 - \$575,000 – Fire academies

General Fund Reserves

- **General Fund Reserve**

- Level remains at FY 20 balance of \$205.6 million
- Financial Outlook anticipated a \$22.2 million contribution for FY 23

- **Risk Management Reserves**

- Financial Outlook included contributions to cover reserve deficits in FY 23

- **Pension Payment Stabilization Reserve**

- Future discussions about replenishing reserve will be needed once Prop B impacts are more certain

Proposed Appropriation Adjustments

Our Office Supports Recommended Adjustments

- Mid-Year projects net \$20.7 million General Fund revenue surplus and \$20.5 million in over-budget expenditures
- Mayor proposes to address over-budget expenditures with \$20.5 million in appropriation and corresponding revenue increases
- Council may approve the Mayor's recommendation or modify it in whole or in part, up to the total amount recommended

Status of Items Council Added in FY 2022 Budget

Report Provides Additional Information on 4 Items

1. Library Department re-openings
 - Department is close to filling needed positions
 - Department intends to first reopen 4 libraries currently closed, then phase-in restoration of Sunday hours
 - If remaining positions are filled, vacancies expected to be reduced from 124.50 FTES to 23.5 FTES

Status of Items Council Added in FY 2022 Budget

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2. Parks and Recreation Pool and Recreation Center Hours

- All facilities are open except for the 7 that are under repair or capital development
- Complete list with opening dates included as Attachment to our report

Status of Items Council Added in FY 2022 Budget

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3. Public Power Feasibility Study

- Department not projecting to spend most of \$1.0 million allocation
- Request for Proposal to hire consultant is expected to be released in upcoming months
- Additional appropriations will be required in FY 23 and subsequent years, depending on study scope

Status of Items Council Added in FY 2022 Budget

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4. Street Condition Assessment

- Department projects to spend \$200k of the \$700k allocation
- Assessment anticipated to begin in April 2022
- Additional one-time budget needed in FY 23 to complete assessment

Homelessness

Memo Indicates \$3.8 Million in Additional Expenditures

- **Council may wish to ask:**

- What's driving increased costs for Golden Hall Shelter?
- Are there barriers to spending Rapid Rehousing and Flexible Spending funds?

Summary of Major Changes Since IBA Report 21-19	
Program	Variance
Golden Hall Shelter - Downstairs	\$ 2,498,304
Golden Hall Shelter - Upstairs	866,635
Increase of Ancillary Costs (Golden Hall)	611,314
Additional Shelter	606,355
Day Center Program	425,000
Expansion of Outreach (Partnership with Caltrans)	415,000
No SMART Program Expenditures	(1,249,262)
Underspend of Rapid Rehousing	(519,219)
Reduced Allocation for Flexible Spending	(500,000)
Total	\$ 3,154,127

Note: This table does not reflect all projected overages and underspending that equate to \$3.8 million.

Conclusion

Key Takeaways

- Revenue projections are encouraging, but need to be monitored as City continues to face risks related to the pandemic
- IBA supports reduction of the use of ARPA funds in FY 22
- IBA supports recommended appropriation adjustments
- Looking forward, \$26.7 million in Excess Equity can be used as a one-time resource, but estimate could change upon release of Third Quarter Report in May