

IBA Review of the FY 2023 Mid-Year Budget Monitoring Report

City Council

Item 201

February 27, 2023



Office of the Independent Budget Analyst



Overview

IBA Report 23-04 includes:

- General Fund Revenues
- General Fund Expenditures (including Police and Fire-Rescue Overtime)
- General Fund Reserve and Excess Equity
- Homelessness
- June 2012 Proposition B Impacts
- Non-General Funds – E&CP
- Proposed Appropriation Adjustments
- Status Update on Council Additions to FY 2023 Budget



General Fund Revenues

Major General Fund revenues \$44.0M over budget

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	\$ 706.2	\$ 720.4	\$ 715.7	\$ 9.4	\$ (4.8)
Sales Tax	380.2	386.0	384.6	4.3	(1.4)
Transient Occupancy Tax ¹	135.2	149.9	155.8	20.6	5.9
Franchise Fees	93.8	94.5	91.8	(2.0)	(2.7)
Other Major Revenues ²	101.2	101.2	112.8	11.6	11.6
Subtotal	1,416.6	1,452.0	1,460.6	44.0	8.7
American Rescue Plan Act	147.6	147.6	147.6	0	0
Total	\$ 1,564.2	\$ 1,599.6	\$ 1,608.3	\$ 44.0	\$ 8.7
Cannabis Business Tax Revenue	\$ 25.7	\$ 21.6	\$ 19.8	\$ (5.9)	\$ (1.8)

General Fund Revenues

Transient Occupancy Tax (including non-general fund)

Transient Occupancy Tax Revenue (<i>\$ in millions</i>)					
	Adopted Budget	First Quarter Projection	Mid-Year Projection	Variance from Budget	Variance from First-Quarter
General Fund Allocation (5.5%)	\$ 135.2	\$ 149.9	\$ 155.8	\$ 20.6	\$ 5.9
Special Promotional Programs (4.0%)	97.2	107.9	112.2	15.0	4.3
Council Discretionary (1.0%)	24.3	27.0	28.1	3.8	1.1
Total	\$ 256.7	\$ 284.8	\$ 296.1	\$ 39.4	\$ 11.3



General Fund Expenditures

Salaries and Wages variances primarily due to vacancies and overtime

FY 2023 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	\$ 620.3	\$ 581.3	\$ 39.0	6.3%
Special Pay	47.5	52.0	(4.5)	(9.5%)
Overtime	77.6	106.7	(29.1)	(37.5%)
Hourly	13.1	13.1	(0.1)	(0.7%)
Vacation Pay in Lieu/Termination Pay	8.5	11.2	(2.7)	(31.8%)
Total Salaries and Wages	\$ 767.0	\$ 764.5	\$ 2.5	0.3%

General Fund Expenditures

Police Overtime projected to be \$9.2M over budget *

Two main drivers:

- Extension of Shift (\$3.1 M) and Patrol Staffing backfill (\$7.2M)
 - Overage indicates significant staffing issues
 - Officer attrition remains high and is exceeding recruitments
 - Overtime expenditures unlikely to abate in near future

* The overage will be mitigated upon approval of requested transfer of salary and wages budget from Citywide Program Expenditures

General Fund Expenditures

Fire-Rescue Overtime projected to be \$15.7M over budget*

- Fire suppression staffing shortfalls (\$7.8M) and Backfill Overtime (\$5.3M) account for 84% of projected overage
- Full staffing may be achieved by late-FY 2024, at which time relief pool positions can be filled

* The overage will be partially mitigated upon approval of requested transfer of salary and wages budget from Citywide Program Expenditures

General Fund Reserve

- **General Fund Reserve**

- \$1.5M contribution in FY 2023 will yield balance of \$207.1M
- This is 14.3% of operating revenues, in line with updated Reserve Policy

- **Excess Equity**

- Increase of \$31.8M, largely due to higher revenues
- Balance now projected to be \$103.9M
- Can be used as a one-time resource

Homelessness

Variations in overall Homelessness budget

- \$1.2M underspend in overall budget
- \$4.4M from HHAP savings to be carried over to FY 2024
 - Ramp-up time for two non-congregate shelters for seniors and families (\$2.3M)
 - Youth program set-aside (\$2.1M)
- \$3M new spending from three new State and County Grants
- SDHC year-end projections not yet updated
- Largest General Fund variations
 - \$2.9M savings for new shelter start-up costs
 - \$1.2M new expenditures for third non-congregate shelter

Non-General Fund – E&CP

- E&CP has carried some level of cash deficit since becoming a special revenue fund
- Both revenues and expenditures projected to increase in FY 2023 due to successful recruitment and retention efforts
- However, to fully cover expenditures:
 - Billable time charged to CIP projects should be increased
 - Vacancy rate should be under 10%
- DoF has adjusted E&CP overhead rate to 168.3% for FY 2024 to pay down the deficit

Proposed Appropriation Adjustments

Our Office Supports Requested Adjustments

General Fund

- No recommended use of budgetary surplus
 - We agree with this approach due to the ongoing structural imbalance in the General Fund budget
- Three requested appropriation **reallocations** with no bottom-line impact on total appropriations

Non-General Funds

- Requested appropriation **increases** for Fleet Operations, Golf Course, Mission Bay/Balboa Park Improvements, TOT

Conclusion

- Revenue projections are encouraging, uncertainties exist
 - Without ARPA funds there would be no surplus
- IBA supports requested appropriation adjustments
- Looking forward, \$103.9 million in Excess Equity can be used as a one-time resource
 - This estimate could change upon release of Third Quarter Report in May