THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** June 4, 2024 **IBA Report Number:** 24-16

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**Item Number:** TBD

# Review of the FY 2024 Third Quarter Budget Monitoring Report

## OVERVIEW

The Fiscal Year 2024 Third Quarter Budget Monitoring Report (Third Quarter Report) was issued on May 14, 2024 and presented to the Budget Review Committee on May 16, 2024. The Third Quarter Report describes the status of revenues and expenditures and provides year-end projections based on actual (unaudited) data from nine months of the fiscal year. The Third Quarter Report also provides useful details about major revenues, departmental operations, and other programmatic items. With respect to requested actions, the Third Quarter Report requests Council approval of several appropriation adjustments and year-end budget authorities that assist the Chief Financial Officer in closing out the fiscal year. The purpose of the IBA review of the Third Quarter Report is to provide clarification and additional information for items outlined in that report.

Overall, the year-end expenditure projections included in the FY 2024 Third Quarter Report appear reasonable, as do the third quarter appropriation adjustment requests. Revenue projections are generally reasonable. Areas discussed in this report include details of select revenue and expenditure projections in the Third Quarter Report, including major General Fund revenue projections and expenditure variances in salaries and wages, including for overtime; the status of the City's General Fund Reserve and Excess Equity; the Development Services Fund Operating Reserve; updates on homelessness issues; and the proposed appropriation adjustments.

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# GENERAL FUND REVENUES

**Major General Fund Revenues**

As shown in the table below, overall FY 2024 General Fund revenues are projected to be $1.61 billion at the end of the fiscal year, which is an increase of $14.6 million (or 0.9%) from the FY 2024 Adopted Budget and an increase of $36.3 million (or 2.3%) over the Mid-Year Budget Monitoring Report (Mid-Year Report). Major General Fund revenues are projected to increase by $14.6 million as compared to the Adopted Budget, primarily driven by an increase of $28.2 million in other major revenues, $10.3 million in property tax revenues, and $7.4 million from franchise fees. The other major revenues increase can be attributed to $10.8 million associated with the replacement of cash in various Capital Improvements Program projects with debt financing, $7.3 million in earlier than anticipated proceeds from the Monsanto settlement, and various other revenue adjustments. However, since sales tax and Transiency Occupancy Tax (TOT) revenues decreased by $31.3 million combined (or a decrease of 5.5%) from the FY 2024 Adopted Budget, the net increase in General Fund Revenues is $14.6 million compared to the FY 2024 Adopted Budget. Additional details on revenue changes are provided below.

| Third Quarter Report Major General Fund Revenues Comparison *($ in millions)* | | | | | |
|---|---|---|---|---|---|
| | **Adopted Budget** | **Mid-Year Projection** | **Third-Quarter Projection** | **Variance from Adopted Budget** | **Variance from Mid-Year** |
| Property Tax | $ 758.6 | $ 768.2 | $ 768.9 | $ 10.3 | $ 0.7 |
| Sales Tax | 401.7 | 374.0 | 377.5 | (24.2) | $ 3.5 |
| Transient Occupancy Tax[1] | 172.6 | 166.2 | 165.5 | (7.1) | $ (0.7) |
| Franchise Fees | 108.5 | 107.2 | 115.9 | 7.4 | $ 8.7 |
| Other Major Revenues | 97.1 | 101.2 | 125.3 | 28.2 | $ 24.1 |
| **Subtotal** | **$ 1,538.5** | **$ 1,516.8** | **$ 1,553.1** | **$ 14.6** | **$ 36.3** |
| American Rescue Plan Act | 52.1 | 52.1 | 52.1 | - | - |
| **Total** | **$ 1,590.6** | **$ 1,568.9** | **$ 1,605.2** | **$ 14.6** | **$ 36.3** |

[1] These amounts represent the 5.5% protion of the 10.5% TOT rate that is apportioned directly to General Fund revenues. The additional 1.0% "Council Discretionary" allocation, and the 4.0% "Special Promotional Programs" allocation also impact total General Fund revenue and are discussed in the TOT section of this report.

***Property Tax***

Total property tax revenue in FY 2024 is projected to be $768.9 million in the Third Quarter Report, which is an increase of $10.3 million from the Adopted Budget and an increase of $0.7 million when compared to the Mid-Year Report. This increase is mostly due to an increase of $1.6 million in the Proposition 13 1% base due to increased collections throughout the year. This increase is offset by $1.0 million decrease from the Redevelopment Property Tax Trust Fund (RPTTF), due to a decreased expectation on total RPTTF deposits based on a forecast from the County.

RPTTF actuals for FY 2024 were released in the first week of June. Our Office compared the final distributions from the County to current estimates to determine if any additional excess equity will be generated in FY 2024. Based on this analysis, the actual distributions are $592,000 higher than projected in the Third Quarter Monitoring Report. This amount should accrue to excess equity in FY 2024, and can be used as a resource for budget modifications.

***Sales Tax***

Sales tax revenue in the Third Quarter Report is projected to total $377.5 million, a decrease of $24.2 million or 6.4% below the Adopted Budget. This also represents a $3.5 million increase over projections in the Mid-Year Report – denoting a recent recovery in the third quarter following lower than projected actual receipts in the first two quarters of FY 2024. Based on projections from the City's sales tax consultant, the projected year-over-year growth rate for the May sales tax payment in the third quarter was revised upwards from -3.2% to -1.7%. The fourth quarter projected growth rate remains unchanged from the mid-year at 2.5%, suggesting a continued rebound in sales tax revenue is anticipated through the end of FY 2024.

The FY 2024 May sales tax payment was increased from $28.8 million at the mid-year to $29.1 million in the Third Quarter Report. After the Third Quarter Report was released, the City received the *actual* May payment totaling $29.0 million, which ties closely to the Third Quarter Report projection although slightly below by $112,000. This brings year-over-year quarterly growth to 1.1% for the third quarter, which is above the growth rate of -1.7% projected in the Third Quarter Report.

For the fourth quarter, both the City's sales tax consultant and the Third Quarter Report forecast the recovery in the third quarter to continue into the fourth quarter, but the Third Quarter Report predicts stronger growth in the fourth quarter at 2.5% than the sales tax consultant's projections at 0.1%. We believe the projected growth rate in the Third Quarter Report is reasonable, given that the third quarter actual receipts came in above the City's sales tax consultant projections.

***Transient Occupancy Tax***

The City's Transient Occupancy Tax (TOT) revenue, or hotel tax revenue, is derived from a 10.5% tax on short-term stays in the region. That amount is broken into three separate allocations – a General Fund allocation of 5.5% (which is one of the City's four major General Fund revenues) and the remaining two allocations are budgeted in the TOT Fund. The two allocations include: 4.0% for Special Promotional Programs that support the promotion of the City's cultural amenities and natural attractions, and 1.0% is "Council Discretionary" that historically ends up being allocated to the City's General Fund. Projected FY 2024 revenues for the full 10.5% TOT tax are included in the table below.

**Transient Occupancy Tax Revenue *($ in millions)***

| FY 2024 | Adopted Budget | Mid-Year Projection | Third-Quarter Projection | Variance from Adopted Budget | Variance from Mid-Year |
|---|---|---|---|---|---|
| General Fund Allocation (5.5%) | $ 172.6 | $ 166.2 | $ 165.5 | $ (7.1) | $ (0.7) |
| Special Promotional Programs (4.0%) | 124.4 | 119.7 | 119.4 | $ (5.1) | $ (0.4) |
| Council Discretionary (1.0%) | 31.1 | 29.9 | 29.8 | $ (1.3) | $ (0.1) |
| | **$ 328.2** | **$ 315.9** | **$ 314.7** | **$ (13.5)** | **$ (1.1)** |

Note: Figures may not sum due to rounding.

As shown, projected total TOT revenues in the Third Quarter Report are expected to be below those projected in the FY 2024 Adopted Budget by $13.5 million or 4.1%. This is a decrease of $1.1 million compared to the Mid-Year Report. The decrease from mid-year is driven by two offsetting factors. First, actual TOT receipts in the third quarter surpassed projections from the Mid-Year Report, resulting in a net increase of $5.4 million in total TOT base revenue. This was primarily due to strong receipts March, which was $4.6 million above mid-year projections. However, a $6.6 million reduction in anticipated TOT revenue associated with a settlement related to online travel agency remittances resulted in a net decrease in overall TOT revenue projected for FY 2024. This reduction reflects more recent revenue projections related to the online travel agency remittances, as well as accounting for a revenue split between the City and the San Diego Tourism Marketing District. The Third Quarter Report does not reflect any changes to the projected growth rates for the remainder of FY 2024.

***Franchise Fees***

Franchise Fees are projected to be at $115.9 million at the end of FY 2024, which is an increase of $7.4 million from the Adopted Budget, and an increase of $8.7 million from the Mid-Year Report. The majority of the increase from mid-year is due to a higher than anticipated clean-up payment from SDG&E, resulting in additional revenue of $7.7 million for FY 2024. This increase was discussed in more detail in our review of the FY 2025 Proposed Budget. Other Franchise Fees are projected near their same levels in the Adopted Budget. Our Office agrees with these projections.

# GENERAL FUND EXPENDITURES

The Third Quarter Report projects FY 2024 total General Fund expenditures to be $2.07 billion, $9.2 million lower than the FY 2024 Adopted Budget (this is a positive expenditure variance). This variance is 0.4% of the Adopted Budget, as shown in the following table.

**FY 2024 Third Quarter Report General Fund Expenditures Comparison** *($ in millions)*

| | Adopted Budget | Mid-Year Projection | Third Quarter Projection | Variance: Mid-Year to 3rd Quarter | Variance: Adopted to 3rd Quarter | Variance %: Adopted to 3rd Quarter |
|---|---|---|---|---|---|---|
| Salaries and Wages | $ 850.1 | $ 878.6 | $ 874.9 | $ 3.7 | $ (24.8) | (2.9%) |
| Fringe Benefits | 551.2 | 540.9 | 536.2 | $ 4.7 | 15.0 | 2.7% |
| Non-Personnel Expenditures | 680.5 | 675.5 | 661.5 | $ 14.0 | 18.9 | 2.8% |
| **Total** | **$ 2,081.8** | **$ 2,095.0** | **$ 2,072.7** | **$ 22.4** | **$ 9.2** | **0.4%** |

Note: Figures may not sum due to rounding.
Positive variances are spending below budget or mid-year levels. Negative variances are overages, or spending above budget or mid-year levels.

Overall, salaries and wages are projected higher than the Adopted Budget by a net $24.8 million (shown above as a negative expenditure variance), driven by a number of overages in salaries and wage components, the largest of which is overtime. Savings in fringe benefits and non-personnel expenditures (NPE) offset the salaries and wages overage for a net savings of $9.2 million.

The main focus of our General Fund expenditures analysis is salaries and wages, which is addressed in the following sections. Our report does not discuss fringe benefits and most NPE variances, as the Department of Finance covers these in the Third Quarter Report.[1]

## Salaries and Wages

### *Variances by Category*

The following table compares the FY 2024 Third Quarter projections to the Adopted Budget and mid-year projections for the various salaries and wage categories. The second column from the right shows that salaries and wages in total are $24.8 million, or 2.9%, higher than what was included in the FY 2024 Adopted Budget (a negative variance).

| FY 2024 Salaries and Wages Expenditures - General Fund *($ in millions)* | Adopted Budget | Mid-Year Projection | Third Quarter Projection | Variance: Mid-Year to 3rd Quarter | Variance: Adopted to 3rd Quarter | Variance %: Adopted to 3rd Quarter |
|---|---|---|---|---|---|---|
| Salaries | $ 668.3 | $ 670.5 | $ 664.4 | $ 6.1 | $ 3.9 | 0.6% |
| Overtime | 102.6 | 121.7 | 122.5 | (0.8) | (19.9) | (19.4%) |
| Special Pay | 54.8 | 59.0 | 60.8 | (1.8) | (5.9) | (10.8%) |
| Hourly | 12.7 | 16.1 | 15.7 | 0.4 | (3.0) | (24.0%) |
| Vacation Pay in Lieu | 7.7 | 8.0 | 7.7 | 0.3 | - | 0.0% |
| Termination Pay | 4.1 | 3.3 | 3.9 | (0.5) | 0.2 | 5.8% |
| **Total** | **$ 850.1** | **$ 878.6** | **$ 874.9** | **$ 3.7** | **$ (24.8)** | **(2.9%)** |

Note: Figures may not sum due to rounding.
Positive variances are spending below budget or mid-year levels. Negative variances are overages, or spending above budget or mid-year levels.

As the table shows, there are overages in the overtime, special pay, and hourly categories, which are partially offset by savings in salaries and termination pay. While the mid-year projection showed a $2.2 million overage in salaries, the third quarter projection includes $6.1 million in salary savings compared to mid-year, due to higher vacancies than anticipated including from the implementation of the "Request to Fill" process that requires executive approval prior to filling all vacant positions. The $6.1 million salary savings variance includes $3.3 million associated with a historical trend savings adjustment made by the Department of Finance.

The largest General Fund overages and savings in salaries and wage categories as compared to the FY 2024 Adopted Budget are highlighted below:

- Salaries (net $3.9 million savings)
    - $3.3 million –General Fund historical trend savings adjustment
    - $2.8 million – Parks & Recreation
    - $795,000 – City Treasurer
    - $772,000 – Commission on Police Practices
    - $5.0 million – departments with salary savings less than $500,000

[1] Decreases in expenditure projections associated with fringe benefits are largely due to a shift in the City's methodology for paying down its Other Post-Employment Benefits (OPEB) obligation, which is discussed in more detail in IBA Report 23-37 – *IBA Review of the FY 2024 First Quarter Budget Monitoring Report*.

    - Salary savings are partially offset with overages, including Police ($3.8 million), Fire-Rescue ($3.5 million), Transportation ($904,000), Stormwater ($658,000)

- Overtime (net $19.9 million overage)
    - $7.3 million – Police
    - $3.9 million – Transportation
    - $2.3 million – Environmental Services
    - $2.2 million – Fire-Rescue
    - $2.1 million – Stormwater
    - $1.7 million – Parks & Recreation

- Special Pay (net $5.9 million overage)
    - $2.0 million – Police
    - $1.9 million – Fire-Rescue
    - $542,000 – Stormwater
    - $447,000 – Parks & Recreation
    - $422,000 – Library

- Hourly (net $3.0 million overage)
    - $3.0 million – Parks & Recreation
    - $535,000 – City Attorney
    - Hourly overages are partially offset with savings, including Police ($825,000)

***Departmental Variances***
As noted, total salaries and wage expenditures net to $24.8 million more than what was included in the FY 2024 Adopted Budget. The section above notes variances by salaries and wages expenditure category. If we instead focus on total salaries and wages expenditure variances for each department, the departments with the largest salaries and wage overages include:

- $11.4 million – Police (largely overtime, salary, and special pay overages, partially offset with termination pay and hourly savings)
- $7.8 million – Fire-Rescue (largely salary, overtime, and special pay overages)
- $4.8 million – Transportation (largely overtime and salary overages)
- $3.3 million – Stormwater (largely overtime, salary, and special pay overages)
- $2.4 million – Environmental Services (largely overtime overage)
- $2.4 million – Parks and Recreation (largely hourly, overtime, and special pay overages, partially offset with salary savings)

Departments with the largest salaries and wage savings include:

- $3.3 million – Citywide Program Expenditures associated with the General Fund historical trend savings adjustment

- $749,000 – City Treasurer (largely salary savings, partially offset with special pay overage)
- $599,000 – Commission on Police Practices (largely salary savings, partially offset with hourly overage)

Overtime variances for the Police and Fire-Rescue Departments are discussed below.

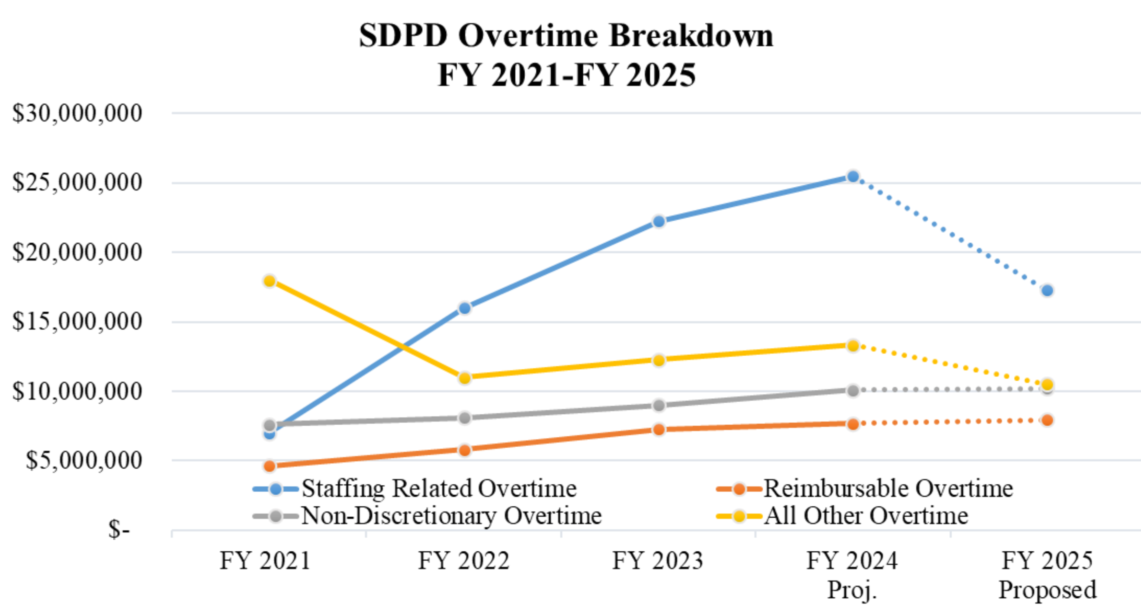
Police Overtime

The Police Department is projected to exceed its overtime budget by $7.3 million at fiscal year-end, for total projected expenditures of $56.6 million. This represents a $545,000 net decrease in projected overtime compared to the Mid-Year Report, primarily due to reduced Extension of Shift ($429,000), Neighborhood Policing ($374,000), and Call Back ($122,000) overtime, offset with $340,000 in overtime related to the January 2024 storm events.

The primary cause for the projected overage in overtime expenditures over the last several years continues to be related to the Department's significant sworn staffing shortages. As reflected in the chart below, as sworn officer attrition increased in FY 2022 and FY 2023, SDPD overtime that is utilized primarily for purposes of meeting sworn staffing needs (Patrol Staffing Back Fill and Extension of Shift (General)) increased significantly from approximately $7.0 million in FY 2021 to $22.2 million in FY 2023 (217% increase over two years). For FY 2024, staffing-related overtime is projected to increase to $25.5 million, or approximately 15% compared to FY 2023.

| SDPD Average Attrition FY 2019 - FY 2024 | |
|---|---|
| FY 2019 | 13 per month |
| FY 2020 | 13 per month |
| FY 2021 | 13 per month |
| FY 2022 | 20 per month |
| FY 2023 | 15 per month |
| FY 2024* | 10 per month |

* Through May 20, 2024.



Including adjustments reflected in the May Revision, the FY 2025 Proposed Budget for Police Department overtime totals $46.4 million, which is $10.2 million less than the expenditure level projected in the Third Quarter Report. As discussed in *IBA Report 24-09, Review of the Fiscal Year 2025 Proposed Budget*, the Department plans to move towards a more centralized planning of overtime to better prioritize and more efficiently deploy is overtime allocation. By implementing this change, the Department hopes to be able to achieve this level of reduction. With that said, given the outsized impact that the Department's sworn staffing challenges has had on its overtime use over the last several years, it will be difficult for the Department to meet its budgeted overtime expenditure level without a significant improvement in sworn staffing levels, even with the anticipated changes regarding overtime planning.

Fire-Rescue Overtime

The Fire-Rescue Department is projected to exceed its overtime budget by $2.2 million at fiscal year-end, for total projected expenditures of $50.7 million. This represents a $938,000 net decrease in projected overtime expenditures compared to the Mid-Year Report, primarily due to a reduced amount of leave time being taken that requires overtime backfill. Additionally, $411,000 in overtime associated with the storm events that occurred in January 2024 are included in the year-end projections. This impact was not known at the time of the Mid-Year Report.

Including adjustments reflected in the May Revision, the FY 2025 Proposed Budget for Fire-Rescue Department overtime totals $44.8 million, which is$5.9 million less than the expenditure level projected in the Third Quarter Report. As we noted in *IBA Report 24-09, Review of the Fiscal Year 2025 Proposed Budget*, given that staffing shortfalls are a significant cause for the Department's increased use of overtime, their ability to achieve the reduced level of overtime proposed for FY 2025 will largely depend on their ability to reach full staffing. The Department maintains its expectation that full staffing could be reached during the second quarter of FY 2025.

## GENERAL FUND RESERVE

In accordance with the City's Reserve Policy, the Reserve target percentage is 13.58% for FY 2024, a slight decrease as compared to the FY 2023 target of 14.30%. However, increasing operating revenues result in an increased target dollar amount for FY 2024. The FY 2024 Mid-Year Report assumed a Reserve contribution of $8.4 million, which would have brought the total General Fund Reserve balance to $215.4 million to meet the FY 2024 target.

However, the Mayor has proposed waiving the FY 2024 General Fund Reserve contribution to preserve Excess Equity, in order to fund other critical expenditures in FY 2025. With the waiver of the Reserve contribution, the City's General Fund Reserve will remain at FY 2023 Reserve balance of $207.1 million, as shown in the table below.

| General Fund Reserve Policy vs Reserve Balance (*$ in millions*) | | |
|---|---|---|
| | **FY 2023** | **FY 2024** |
| Reserve Policy Target Percent | ***14.30%*** | ***13.58%*** |
| Reserve Policy Target | $ 207.1 | $ 215.4 |
| Reserve Balance (FY 2023) / Reserve Projection (FY 2024) | 207.1 | 207.1 |
| **Difference: Amount Reserve Balance Is Below the Policy Target** | **$ 0.0** | **$ 8.4** |
| ***Reserve Balance as Percent of Operating Revenues*** | ***14.30%*** | ***13.05%*** |

Note: Table may not total due to rounding.

**Excess Equity**

Excess Equity, as described in the Reserve Policy, is "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." and can be used as a one-time resource. In the FY 2024 Mid-Year Report, year-end Excess Equity was estimated to be $14.9 million. In light of the storm event in January 2024, Council authorized $10.0 million to be appropriated for storm recovery efforts, which further reduced available Excess Equity to $4.9 million.

The FY 2024 third-quarter projections now show an overall revenue increase of $36.8 million, an expenditure decrease of $32.4 million, and a waiver of the FY 2024 General Reserve contribution of $8.4 million, yielding a net projected Excess Equity increase of $77.5 million – from $4.9 million to $82.5 million. A significant portion of the increase in Excess Equity was created through mitigation actions, anticipated to help support the FY 2025 Proposed Budget. These mitigation actions include suspension of non-essential spending, the requirement for executive approval prior to filling vacant positions, the waiver of the FY 2024 General Fund Reserve contribution, and the utilization of a cash swap for debt financing in the Capital Improvements Program (discussed below).

Of the $82.5 million in projected Excess Equity, $82.1 million is proposed to be used to balance the FY 2025 Proposed Budget (as of the May Revision); the remaining available balance is estimated to be about $332,000. This Excess Equity estimate could change as the fiscal year progresses, consistent with actual revenue and expenditure experiences.

***Capital Improvement Program (CIP) Cash Swap for Debt Financing***

To create Excess Equity to support the FY 2025 Proposed Budget, $25.0 million in CIP projects that were initially funded with cash funding sources – that is, the General Fund, Climate Equity Fund (CEF), and Infrastructure Fund – were identified to be swapped for debt financing. The $25.0 million swap was part of the Year-End CIP Budget Monitoring Report action which was recommended for Council approval by the Active Transportation and Infrastructure Committee on May 22, 2024.[2] Since the swap will occur in one action, no negative impacts to projects schedules are anticipated, and funding will be available for projects when it is needed.

[2] The swap included 20 CIP projects and these are included in Attachment 1 to the report.

Of the $25.0 million, $10.8 million in CIP projects initially funded from the General Fund and CEF were swapped for debt financing. If the swap is approved by Council, these monies will be returned to the General Fund, becoming part of the Excess Equity that is currently planned as a resource for the FY 2025 Proposed Budget. The remaining $14.2 million of the $25.0 million in CIP projects were initially funded from the Infrastructure Fund and are similarly anticipated to be swapped for debt financing to create Excess Equity. However, the Department of Finance noted there is not an easy mechanism for staff to transfer funds from the Infrastructure Fund back to the General Fund. Therefore, the Third Quarter Report transfers $14.2 million in debt service expenses from the General Fund (in Citywide Program Expenditures) to the Infrastructure Fund.

## DEVELOPMENT SERVICES FUND OPERATING RESERVE

The FY 2024 Reserve Target for the Development Services Fund Operating Reserve is 13.50% of the Fund's most recent three years of audited actual expenditures, or $12.9 million. The mid-year projection assumed that the user fee adjustments proposed by the Development Services Department would have been finalized and approved by the City Council in February 2024; however, the fee proposal was not presented to City Council until May 2024. On May 14, the City Council adopted the fee proposal, which will take effect in FY 2025. The delay in approval of the fee proposal resulted in a projected revenue decrease of $15.4 million from the mid-year projection.

The third quarter projection now shows that total expenditures will exceed revenues by $26.0 million. To make up the gap between projected revenue and expenditures, the Development Services Fund's fund balance of $21.2 million will be depleted. Additionally, the reserve balance of $10.9 million will need to be reduced by $4.8 million to $6.1 million. As a result, the Development Services Fund Operating Reserve will be under target by $6.8 million, as reflected in the table below. After the fee proposal takes effect on July 1st, 2024, the Fund's financial position could improve with additional permit revenues. When the reserve target will be met, however, will depend on the market conditions and development activities.

| **Development Services Fund Operating Reserve<br>Policy Target vs Reserve Balance** *($ in millions)* | | |
|---|---|---|
| | **FY 2023** | **FY 2024** |
| ***Reserve Policy Target Percent*** | ***12.00%*** | ***13.50%*** |
| Reserve Policy Target [1] | $ 10.9 | $ 12.9 |
| Reserve Balance (FY 2023) / Reserve Projection (FY 2024) | $ 10.9 | $ 6.1 |
| **Difference: Amount Reserve Balance Is Below the Policy Target** | **$ -** | **$ (6.8)** |
| ***Reserve Balance as Percent of Operating Revenues*** | ***12.0%*** | ***6.4%*** |

Note: Table may not total due to rounding.

[1] The Reserve Policy targets are based on the average of the prior three years' operating expenditures.

# HOMELESSNESS ISSUES

**<u>Homelessness Strategies and Solutions Department</u>**

The Homelessness Strategies and Solutions Department (HSSD) is projected to end the year with an overage of $144,000 compared to the FY 2024 Adopted Budget, but savings of $684,000 compared to the Mid-Year Report. The Third Quarter Report reflects lower than projected expenditures for homelessness programs that were adjusted upwards in the Mid-Year Report, but ultimately expenditures came in closer to the Adopted Budget than mid-year projections. This was partly driven by the shifting of expenditures from the General Fund to grant funds. For instance, expenditures for Coordinated Outreach were shifted to State Homeless Housing, Assistance and Prevention (HHAP) grant funds ($117,000), while operations and ancillary costs for the City's new domestic violence shelter were moved to State grants for the shelter ($203,000). After reviewing the memorandum attached to the Third Quarter Report, entitled "HSSD FY 2024 Third Quarter Monitoring and Grant Funding Update", we would like to highlight the following three updates:

***Bathroom Security Cost Savings***

Although expenditures associated with operating public restrooms were not budgeted in the FY 2024 Adopted Budget, the Mid-Year Report included $5.6 million for these operations. The Third Quarter Report projects year-end expenditures related to public restrooms will total $4.3 million, resulting in savings of $1.3 million compared to the Mid-Year Report. These savings reflect HSSD's analysis of operational costs, which showed that a significant share of restroom expenditures was from security services, as well as implemented cost containment measures to reduce security costs. Specifically, the Department reduced the number of security guards needed and switched to the use of roaming guards to monitor restrooms on a regular basis. These savings are also reflected in the associated base budget for the May Revise.

***Golden Hall Contract Increase***

Year-end expenditures were also updated for Golden Hall operations based on the latest contract agreement with the service provider, resulting in a $910,000 increase in the Third Quarter Report, bringing the year-end projection to $5.8 million for FY 2024 (with $1.4 million from General Fund and $4.4 million from State HHAP funds). The latest contract was approved by the Housing Commission Board on February 16, 2024, in anticipation of the relocation of the single adult shelter program from the first floor to second floor of Golden Hall, which occurred in April 2024. The contract increases account for higher staffing, security, and operating expenses due to the relocation, but we note that the program capacity has decreased by 52 beds after the relocation, from 324 beds on the first floor to 272 beds on the second floor, despite higher operation costs. **Council may wish to get more information from the San Diego Housing Commission regarding the need for an additional $910,000 to run the Golden Hall shelter despite the reduction of 52 beds.**

***Other Homelessness Program Updates***

Additionally, we note the following program updates based on the Third Quarter Report and HSSD memo:

- *Portable Restroom Servicing Costs at "O" Lot:* "O" Lot Safe Sleeping ancillary costs increased by $250,000 compared to the Mid-Year Report. In response to a potential public health outbreak at the site in January, the County requested the City increase the number of portable restrooms available at the site, along with increased frequency for servicing and sanitizing of the restrooms. The increase reflects a higher level of services from the added restrooms.
- *January Storm Expenditures:* As mentioned in the HSSD memo, the Third Quarter Report includes $788,000 in additional expenditures related to the January storms, including the clean-up and repair of the 16th and Newton sprung shelter. The 16th and Newton sprung shelter sustained damage from the storms, including the release of hazardous materials from portable restrooms. Affected households were moved into the Balboa Park Activity Center in the interim and were recently relocated back into the 16th and Newton site in early May 2024, following the necessary tent repairs and cleaning.
- *Delayed New Safe Parking:* The HSSD memo also mentions $841,000 in savings due to the delay of new Safe Parking. The FY 2024 Adopted Budget included these funds for a new Safe Parking program; the Mid-Year Report noted delays with the program and reduced projected expenditures needed for new Safe Parking to $100,000, assumed to start at the end of FY 2024. The Third Quarter Report notes a further delay and that the new Safe Parking funds will not be used to implement new programming until after FY 2024. The May Revise assumes this funding will be used for the proposed 200 Safe Parking spaces at H-Barracks.
- *Assumed Lease Operating Costs for Proposed Kettner and Vine Shelter:* The year-end projections in the Third Quarter Report also include a $65,000 increase for lease operating costs associated with a former industrial facility at Kettner Street and Vine Street that the Mayor is proposing to lease and convert into a new 1,000-bed shelter. Lease operating costs include expenditures the City would assume in the lease, such as property taxes and insurance, but exclude rent costs in FY 2024, since rent would be abated for a certain period at the start of the lease. As the Kettner and Vine lease remains under negotiation, the Department does not anticipate associated lease operating expenditures to begin in FY 2024; hence, these funds will likely not be used for lease operating costs.

# PROPOSED APPROPRIATION ADJUSTMENTS

The Council is being asked to approve the following appropriation adjustments as well as several budget control authorities to assist in closing out the fiscal year. Our Office recommends approval of the FY 2024 appropriation adjustments and authorities as proposed.

Appropriation adjustment requests in the Third Quarter Report reallocate General Fund appropriations among General Fund departments as well as to two non-General Funds. Specifically, $8.8 million from Citywide Program Expenditures non-personnel expenditure savings is requested to be reallocated to cover corresponding overages in the Transportation Department, and $5.3 million from Police Department non-personnel savings is requested to cover corresponding overages in the Fire-Rescue Department.

Additionally, $14.2 million in expenditures is requested to be reallocated from the General Fund to the Infrastructure Fund as a budget mitigation to cover capital infrastructure debt financing which will ultimately increase Excess Equity; and $1.2 million is requested to be reallocated from the General Fund to the newly created Solid Waste Management Fund to support restructuring expenditures for solid waste collection services to that fund. Note that the Solid Waste Management Fund is not anticipated to generate fees for waste management and collection services until FY 2026. If such fees are ultimately not adopted, any waste management expenses incurred in the Fund would have to be paid back from another revenue source, which would most likely be the General Fund. See our review of the FY 2025 Proposed Budget beginning on page 138 for additional information on the Solid Waste Management Fund, the anticipated solid waste collection fee, and the timing and mechanism for implementation of the Fund.

## CONCLUSION

Overall, our Office believes the year-end revenue and expenditure projections included in the FY 2024 Third Quarter Report are reasonable. As compared to mid-year projections, the third-quarter projections show an overall revenue increase of $36.8 million, an expenditure decrease of $32.4 million, and a waiver of the FY 2024 General Reserve contribution of $8.4 million, yielding a net projected Excess Equity increase of $77.5 million – from $4.9 million to $82.5 million. A significant portion of the increase in Excess Equity was created through mitigation actions, anticipated to help support the FY 2025 Proposed Budget. With respect to requested Council actions, our Office recommends approval of the FY 2024 appropriation adjustments and authorities as proposed in the FY 2024 Third Quarter Report.