



# 2021 Adopted Budget

## A Message From Former Mayor Faulconer

To my fellow San Diegans:

The global COVID-19 pandemic is taking a toll on everyone, and the City of San Diego is certainly no exception. Every day we are confronted by extraordinary challenges that require us to make decisions in a situation never experienced before. In the face of these difficulties, I am confident we will rise to this occasion together, as One San Diego.

The City Council and I have worked together to build up our reserves and restore service levels since the Great Recession of 2008. This proactive planning has helped us save for a rainy day. Unfortunately, the fiscal impacts of the pandemic are more like a hurricane. Despite the significant loss in City revenues from the ongoing closure of the local and national economy due to the COVID-19 pandemic, we have adopted a balanced budget for Fiscal Year 2021 that maintains the City's reserve levels. The Adopted Budget for Fiscal Year 2021 is \$4 billion — a \$323 million, or 7% decrease, from the Fiscal Year 2020 Adopted Budget.

This Adopted Budget includes \$42 million in General Fund reductions across all branches to help balance the General Fund budget. Essential services were given priority during this unparalleled crisis, and we continue to protect essential functions such as public safety, trash collection, water and wastewater, and homelessness programs. The Adopted Budget prioritizes federal CARES Act relief funds for public safety, homeless services, small businesses, and rental relief for our residents. The use of COVID-19 state and federal relief funds as well as other one-time sources have helped maintain essential services and reserves in Fiscal Year 2021. While the Adopted Budget takes a fiscally responsible approach to closing the largest budget deficit in the City of San Diego's history, one-time resources were needed to balance the budget. As a result, budget shortfalls will continue in Fiscal Year 2022; however, this budget does not use reserves to maintain healthy rainy-day funds for future City leaders to consider.

The City will continue to monitor the impacts of the COVID-19 pandemic on revenues and expenditures, and additional modifications will be made, as needed, during the budget monitoring process in Fiscal Year 2021. I will continue my commitment to effectively and proactively manage the City's finances as the devastation from the pandemic continues to unfold. I want to thank our City employees who have continued to step up every day during this unprecedented health and economic crisis, and who proudly serve San Diegans day after day. We are united in overcoming these challenges, and we will get through this together.

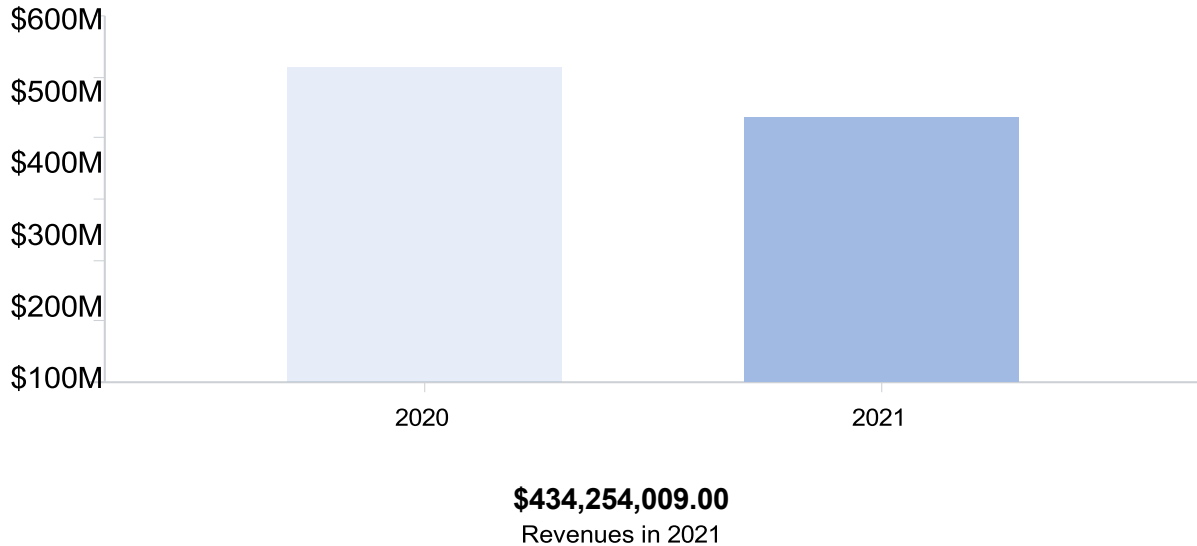
Sincerely,

Kevin L. Faulconer

Mayor

Signed on August 28, 2020

## FY20-21 Change in Sales Tax, TOT, and Franchise Fees



### An Extraordinary Challenge

**Revenues will be significantly impacted.**

At the start of 2020, San Diego's economic outlook was trending stable and positive. However, with the start of the COVID-19 pandemic and the economic recession, City revenues have declined significantly and are projected to continue to decline into Fiscal Year 2021. There have been many fiscal challenges attributed to the COVID-19 pandemic, including a projected GDP decline, historic increases in unemployment claims in the region, travel restrictions and a decline in consumer spending resulting from business closures and changes in the way goods and services are sold to consumers.

In comparison to the Fiscal Year 2020 Adopted Budget, the Fiscal Year 2021 Adopted Budget includes projected decreases to three of the four major General Fund revenues—sales tax, transient occupancy tax, and franchise fees—primarily based on the projected impacts of the COVID-19 pandemic. The combined difference is a drop of \$82.5 million in revenues from the Fiscal Year 2020 Adopted Budget.

### General Fund Revenues

Departments within the General Fund provide core community services such as public safety (including police/fire protection and life safety), parks and recreation, library services, and refuse collection. These core services are primarily supported by major revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. These four sources alone account for 65.7 of the City's General Fund revenue and are projected to decrease by \$53.8 million, or 4.8 percent, from the Fiscal Year 2020 Adopted Budget.

Despite the steep drop in the General Fund's major revenue sources, the Fiscal Year 2021 Adopted Budget General Fund revenue has increased by \$71.7 million or 4.6 percent from the Fiscal Year 2020 Adopted Budget. Offsetting the decrease in the major General Fund revenues is an increase of \$146.1 million in COVID-19 State and federal relief funds for Fiscal Year 2021. The majority of relief funds are provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the federal government in March 2020 to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic.

| Revenue Category          | FY 2019<br>Actual<br>Revenue | FY2020<br>Adopted<br>Budget | FY 2021<br>Adopted<br>Budget | FY20-21<br>Change    | %<br>Change  | Revenue Assumption  |
|---------------------------|------------------------------|-----------------------------|------------------------------|----------------------|--------------|---|
| Property Tax              | \$ 570,626,954               | \$ 601,925,242              | \$ 630,628,270               | \$ 28,703,028        | 4.77%        | Assumes 4.25% growth rate, a decrease from the rate projected in the Outlook as the market conditions have changed since the release of the Outlook. Property tax has a general delay of 12-18 months from when assessed valuations are established to when taxes are received by the City. Therefore, the City continues to project growth from the FY2020 Adopted Budget and does not anticipate a major impact from COVID-19.          |
| Sales Tax                 | \$ 304,383,596               | \$ 297,858,391              | \$ 274,432,582               | \$ (23,425,809)      | -7.86%       | Assumes -8.77% growth rate from decreases in spending in travel, leisure, and entertainment sectors, all impacts from the COVID-19 pandemic.  |
| Transient Occupancy Taxes | \$ 131,926,269               | \$ 136,880,341              | \$ 90,483,905                | \$ (46,396,436)      | -33.90%      | Assumes -36.7% annual growth rate due to a decline in occupancy levels and weaker growth in average daily room rates and revenue per available room from the effects. The City has experienced reduced spending in travel, leisure, and entertainment sectors, all impacts from the COVID-19 pandemic. Lower tourism activity continues to be forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District. |
| Franchise Fees            | \$ 80,555,947                | \$ 82,026,603               | \$ 69,337,522                | \$ (12,689,081)      | -15.47%      | Assumes a -9.47% growth rate for SDG&E which is the single largest generator of franchise fees based on historical declines in commercial energy consumption levels.  |
| Other Sources             | \$ 404,135,113               | \$ 430,535,921              | \$ 556,054,522               | \$ 125,518,601       | 29.15%       |   |
| <b>Total</b>              | <b>\$ 1,491,627,879</b>      | <b>\$ 1,549,226,498</b>     | <b>\$ 1,620,936,801</b>      | <b>\$ 71,710,303</b> | <b>4.63%</b> |   |

## New Critical Expenditures

The Fiscal Year 2021 Adopted Budget includes General Fund expenditures of \$1.62 billion to provide core community services, as well as funding for new critical expenditures primarily in response to the COVID-19 pandemic. These expenditures are primarily supported by major General Fund revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees.

The Fiscal Year 2021 Adopted Budget includes critical expenditures that focus on three strategic goals:

- Achieve clean, safe, and livable neighborhoods
- Create an economically prosperous City
- Provide high quality public service

The list below highlights some of the General Fund critical new expenditures.

| <b>Achieve Clean, Safe, and Livable Neighborhoods</b>  |  |
|--|--|
| CARES Act Funding - COVID-19 Operational Expenditures  | One-time funding to support CARES Act Fund eligible expenditures for enhanced refuse collections, emergency medical services, upstaffing, and patrols.       |
| CARES Act Funding - Operation Shelter-to-Home          | One-time funding to support CARES Act Fund eligible expenditure for the Operation Shelter-to-Home Program.   |
| CARES Act Funding - Rent Relief Fund                   | One-time funding to support CARES Act Fund eligible expenditures for the transfer to the new Rent Relief Fund.   |
| Citizens' Advisory Board on Police/Community Relations | One-time funding and position to lead the Citizens Advisory Board on Police/Community Relations.   |
| Clean SD   | Funding and positions to maintain prior year service levels and expand the Mayor's Clean SD initiative in the Environmental Services and Police Departments. |
| Fire-Rescue Relief Pool                                | Funding and positions to support the Relief Pool.  |
| Homeless Shelters and Services                         | Funding for homeless shelters and services to maintain or increase the homeless shelter capacity.  |
| Homelessness Strategies Department                     | Funding and positions for the new Homelessness Strategies Department and programmatic support for Person-Centered Unsheltered Outreach.                      |
| Infrastructure Fund                                    | Funding for the transfer to the Infrastructure Fund for General Fund infrastructure projects.  |
| North University Fire Station                          | Funding and positions to support operations of the new North University Fire Station.  |
| Sexual Assault Evidence Testing                        | Funding and positions for sexual assault evidence testing.   |
| Structural Personnel Protection Equipment (PPE)        | One-time funding to replace structural personnel protective equipment (PPE) in the Fire-Rescue Department.   |
| Tree Planting  | One-time funding to support the backlog of new tree plantings.   |
| Zero-Based Budgeted Overtime                           | Funding in the Fire-Rescue and Police Departments to maintain current service levels.  |
| <b>Create an Economically Prosperous City</b>          |  |
| CARES Act Funding - Small Business Relief Funds        | One-time funding to support CARES Act Fund eligible expenditures for the Small Business Relief Fund.   |
| City Council Redistricting                             | One-time funding and positions to support the Redistricting Commission.  |
| Climate Action Plan                                    | Funding to support the City's Climate Action Plan.   |

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| Community Equity Fund                              | Funding to support the new Community Equity Fund.  |
| Internet Access for Low Income Communities         | One-time funding to establish a pilot program to provide Internet Access for Low Income Communities.                               |
| Mobility Department                                | Funding and positions to support the new Mobility Department.  |
| Office of Race & Equity                            | Funding for the new Office of Race & Equity.   |
| <b>Provide High Quality Public Service</b>         |  |
| Animal Services Program                            | Funding to support the spay/neuter program and contractual increases to the Animal Services contract.                              |
| City Attorney's Office Internship Program          | Funding for the City Attorney's Office Internship Program.   |
| Citywide Election Expenditure                      | Funding to support Citywide Elections in Fiscal Year 2021.   |
| Flexible Benefits Plan                             | Funding to support negotiated changes in City's flexible benefit plan for the City's six Recognized Employee Organizations (REOs). |
| Energy Franchise Agreement Consultant              | One-time funding for professional services to evaluate and negotiate the City's energy franchise agreement.                        |
| Ethics Commission Succession Plan                  | Funding to support the Ethics Commission succession plan.  |
| General Fund PC Replacement Plan                   | Funding for lease payments related to the General Fund PC Replacement Lease Plan.  |
| Parks and Recreation Facilities                    | Funding and positions to support maintenance and operations of new park facilities.  |
| Public Liability                                   | Funding to support the Public Liability insurance.   |
| Right-of-Way Utility Permits                       | Funding for inspection of right-of-way utility permits.  |
| Storm Water Department                             | Funding for the new Storm Water Department.  |
| Transfer to the Capital Improvements Program (CIP) | One-time funding to support the Sherman Heights Community Center.  |

## Budget Reductions

In order to offset critical new General Fund expenditures and decreases in major General Fund revenues due to the COVID-19 pandemic, the Fiscal Year 2021 Adopted Budget includes budget reductions that were strategically chosen to minimize impacts to core service levels and limit the impact to public safety and public health. The list below includes major budgeted reductions grouped by organizational branch for the General Fund and Non-General Funds.

| Reduction  | Description  |
|--|--|
| <b>Finance</b>                                       |  |
| Debt Management Department Programmatic Reductions   | Reduction of funding and positions associated with the following functions and programs: Administrative Bond Finance; Economic Support; and State Revolving Fund (SRF) Loan Program Support. |
| Department of Finance Programmatic Reductions        | Reduction of funding and positions for Customer Support sections.  |
| Purchasing & Contracting Procurement Support         | Reduction of funding and positions to support the procurement of services and goods.   |
| Office of the City Treasurer Programmatic Reductions | Reduction of funding and positions associated with the following functions: Business Tax Support, Delinquent Accounts Support, Parking Administration, and treasury accounting.              |
| <b>Mayoral</b>                                       |  |
| Docket Office Support                                | Reduction of funding and position in the Docket Office.  |
| Mayoral Initiatives Support                          | Reduction of funding and positions in support of the Office of the Mayor's initiatives.  |
| Public Information Section Support                   | Reduction of funding and position in support of the Public Information section.  |
| <b>Non-Mayoral</b>                                   |  |
| City Council Office Support                          | Reduction of funding in the nine City Council Offices.   |
| Council Administration                               | Reduction of funding to support the Council Administration.  |
| Independent Departments                              | Reduction of funding in the City Attorney's Office, Ethics Commission, Office of the Independent Budget Analyst, and the Personnel Department.   |
| <b>Public Safety</b>                                 |  |
| Civilian and Sworn Positions                         | Reduction of funding and positions in the Police Department associated to STAR/PAL unit, Domestic Violence unit, and Patrol Operations.  |

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| Helicopter Maintenance                        | Reduction of funding for the maintenance of helicopters in the Fire-Rescue and Police Departments.  |
| Lifeguard Training                            | Reduction of funding related to Swift Water Rescue and Cliff Rescue Instructor training.  |
| Mobile Operation Detail Unit                  | Reduction of funding to support the mobile unit response in the Gaslamp area.   |
| South UC Fast Response Squad                  | Reduction of funding related to the elimination of the University City Fast Response Squad to align with the operations of the new North University Fire Station.                   |
| <b>Public Works &amp; Utilities</b>           |   |
| EAM Contractual Support                       | Reduction of funding for Enterprise Asset Management contractual support in the Public Works & Utilities Branch.  |
| Environmental Services Staff                  | Reduction of funding and positions related to residential refuse collection program, disposal and environmental protection, hazardous waste storage, and waste reduction.           |
| Storm Water Channel Maintenance               | Reduction of funding to support storm water channel maintenance.  |
| Storm Water Compliance Monitoring             | Reduction of funding for pro-active storm water compliance monitoring studies and investigations.   |
| Storm Water Drainage                          | Reduction of funding for storm water drainage and erosion.  |
| Storm Water Mitigation and Permitting Efforts | Reduction of funding for environmental permitting work for channel maintenance.   |
| Storm Water Policy                            | Reduction of funding related to consulting services for policy implementation and lobbying in support of the following: storm water regulations, watershed, and water effect ratio. |
| Storm Water Pump Station                      | Reduction of funding for pump station materials and equipment.  |
| <b>Smart &amp; Sustainable Communities</b>    |   |
| Citywide Planning                             | Reduction of funding and positions for the coordination and support of Community Planning, Conservation Programs, and Geographic Information Systems.                               |
| Economic Development Programs                 | Reduction of funding and positions for the following areas of service: Business Cooperation Program; and the Small Business Enhancement Program (SBEP).                             |
| Facilities Division Support                   | Reduction of funding and positions in support of Facilities Division operations.  |
| Real Estate Assets Programmatic Support       | Reduction of funding and positions to support the management of real estate assets.   |

|                                  |   |
|----------------------------------|---|
| Smart Streetlight Program        | Reduction of funding for Smart Streetlights program.  |
| Stadium Operating Support        | Reduction of funding and positions to support the operations of the Stadium.  |
| <b>Non-General Fund Overview</b> |   |
| Capital Outlay                   | Funding for Stadium debt service and one-time General Fund debt service supported by Stadium sale proceeds.                         |
| Central Stores                   | Reduction of funding and associated revenue to align with inventory purchases.  |
| Community Equity                 | Funding for the creation of the Community Equity Fund to invest in underserved communities.   |
| COVID-19 Rent Relief Fund        | One-time funding to provide rent relief for low-income tenants impacted by the COVID-19 pandemic.                                   |
| Development Services             | Funding and positions for the establishment of the cannabis permit bureau and digital permit software.                              |
| Environmental Growth Funds       | Reduction of funding in General Fund reimbursements as a result of a decrease in franchise fees.                                    |
| Fleet Operating                  | Reduction of funding for fuel costs.  |
| Fleet Replacement                | Funding for vehicle acquisitions and a one-time transfer of excess fund balance for General Fund programs.                          |
| Gas Tax                          | Reduction of funding for non-personnel expenditures associated to revised State of California Gas Tax Projections.                  |
| Information Technology           | Funding to support CARES Act Fund eligible expenditures to support and service work from home technology solutions.                 |
| PETCO Park                       | Reduction of funding and revenue associated with a decrease in special events.  |
| Recycling                        | Funding for the Curbside Recycling Program.   |
| Refuse Disposal                  | Funding for the purchase of heavy equipment and Landfill Gas Collection System.   |
| Stadium Operations               | Reduction of funding for operations associated with the sale and closure of the stadium.  |
| Transient Occupancy Tax          | Reduction of funding for: special events, marketing contract, and support for safety and maintenance of visitor-related facilities. |
| Utilities Undergrounding Program | Funding for construction costs to support the Utilities Undergrounding Program.   |

## **General Fund Departments**

The City's Fiscal Year 2021 Adopted Budget reflects General Fund expenditures totaling \$1.62 billion, which is an increase of \$30.9 million or 1.9 percent

## **Balanced Budget and Conclusion**

Despite volatile revenue impacts and effects on the local and national economy due to the COVID-19 pandemic, the Mayor has proposed a balanced and fiscally responsible budget for Fiscal Year 2021 that considers all information available in this uncertain time.

The Fiscal Year 2021 Adopted Budget continues to focus on the City's strategic plan goals. This budget remains balanced and includes funding for core community services, new critical strategic expenditures, budget reductions with minimal service level impacts.

