THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of the FY 2025 Third Quarter Budget Monitoring Report

OVERVIEW

The Fiscal Year 2025 Third Quarter Budget Monitoring Report (Third Quarter Report) was issued on May 14, 2025 and presented to City Council on May 19, 2025. 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 2025 Third Quarter Report appear consistent with year-to-date actuals, 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.

GENERAL FUND REVENUES

Major General Fund Revenues

As shown in the table below, overall FY 2025 General Fund revenues are projected to be $2.1 billion at the end of the fiscal year, which is a decrease of $11.1 million (or 0.5%) from the FY 2025 Adopted Budget, but an increase of $8.5 million (or 0.4%) over the Mid-Year Budget Monitoring Report (Mid-Year Report). The overall decrease in General Fund revenues from the Adopted Budget is primarily driven by declines in sales tax and franchise fee revenues, which are further described in more detail below. In the Other Major Revenues category, the increase of $5.6 million from the Mid-Year Report is almost entirely due to the transfer of $5.0 million in cash from the CIP, as requested in the FY 2025 CIP Year-End Budget Monitoring Report, to mitigate to the projected deficit for FY 2025.

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	$ 808.9	$ 808.5	$ 808.7	$ (0.2)	$ 0.2
Sales Tax	393.5	364.1	369.2	(24.3)	5.1
Transient Occupancy Tax[1]	172.8	170.4	168.0	(4.8)	(2.4)
Franchise Fees	121.9	122.5	97.4	(24.5)	(25.1)
Other Major Revenues	100.6	105.3	110.9	10.3	5.6
Major Revenues Subtotal	**$ 1,597.7**	**$ 1,570.8**	**$ 1,554.2**	**$ (43.5)**	**$ (16.6)**
Departmental Revenues	478.8	486.1	511.2	32.4	25.1
Total	**$ 2,076.5**	**$ 2,056.9**	**$ 2,065.4**	**$ (11.1)**	**$ 8.5**

[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 2025 is projected to be $808.7 million in the Third Quarter Report, which is a decrease of $0.2 million from the Adopted Budget but an increase of $0.2 million when compared to the Mid-Year Report. The change from Mid-Year is driven by a $1.8 million increase in Redevelopment Property Tax Trust Fund (RPTTF) receipts based on the county's April projections for the June payment. This is offset by a projected $1.6 million decrease in payments from the Proposition 13 1% property tax allocation.

Sales Tax

Sales tax revenue in FY 2025 is projected to be $369.2 million, which is a decrease of $24.3 million from the Adopted Budget but an increase of $5.1 million when compared to the Mid-Year Report. The increase is driven by higher-than-expected actual receipts at the end of the second quarter. This also led to an increase in the projected growth rate assumed in the fourth quarter aligning with the City's sales tax consultant projections. Although the projection from the Mid-Year Report to the Third Quarter Report grew by $5.1 million, sales tax revenue is still projected to be $7.8 million, or 2.1%, below actual sales tax revenue received in FY 2024. **We note that since the release of the Third Quarter Report, actual receipts have come in $4.4 million above Third**

Quarter Report projections, which will also feed into the base projections for FY 2026. This increase will likely mitigate the amount of reserves the City will draw upon to close out the fiscal year. As of this writing, preliminary data suggests that this increase could be related to making purchases ahead of the federal administration's tariff policy being in effect, although how much of the increase is directly related is unclear. However, as with the overall annual projection, the third quarter of FY 2025 actuals came in below the same quarter in FY 2024 by $3.2 million, reflecting a slowdown of the overall economy, even with some pre-tariff purchasing.

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 2025 revenues for the full 10.5% TOT tax are included in the table below.

Transient Occupancy Tax Revenue *($ in millions)*					
FY 2025	**Adopted Budget**	**Mid-Year Projection**	**Third-Quarter Projection**	**Variance from Adopted Budget**	**Variance from Mid-Year**
General Fund Allocation (5.5%)	$ 172.8	$ 170.4	$ 168.0	$ (4.9)	$ (2.5)
Special Promotional Programs (4.0%)	124.6	122.8	121.1	(3.6)	(1.8)
Council Discretionary (1.0%)	31.2	30.7	30.3	(0.9)	(0.4)
Total	**$ 328.6**	**$ 324.0**	**$ 319.3**	**$ (9.3)**	**$ (4.7)**

Note: Figures may not sum due to rounding.

Transient Occupancy Tax revenue in the FY 2025 Third Quarter Report is projected to be $319.3 million, which is a decrease of $9.3 million from the Adopted Budget and a further decrease of $4.7 million when compared to the Mid-Year Report. The additional decrease beyond the mid-year is a result of less-than-expected March receipts which led to a revised lower growth rate projected for the remainder of the fiscal year, resulting in the 4.2% growth rate over FY 2024 in the Mid-Year Report being lowered to 2.7% in the Third Quarter Report. **We note that April receipts also came in lower than projected by $2.4 million** resulting in a revised annual projection of $316.8 million, resulting in an even lower year-over-year growth rate of 1.9%.

Franchise Fees

Franchise Fees are projected to be $97.4 million at the end of FY 2025, which is a decrease of $24.5 million from the Adopted Budget and $25.1 million from the Mid-Year Report. This decrease is driven by a $24.9 million decline in receipts from the SDG&E franchise agreements based on the February clean-up payment. While the clean-up payment came in after the Mid-Year

Report, its impacts were accounted for within the FY 2026 Proposed Budget. Additional discussion of this issue is included in [our review of the FY 2026 Proposed Budget](#).

<u>Other General Fund Revenues</u>

Cannabis Tax

The Third Quarter Report projects Cannabis Business Tax (CBT) year-end revenue to come in at $16.5 million, which is $2.9 million below the Adopted Budget and $100,000 below mid-year projections.

Following Council action, the CBT rate for retail outlets was increased from 8% to 10%, beginning May 1, 2025. The Mid-Year Report estimated that this rate increase would generate up to $720,000 in additional CBT revenue for FY 2025. However, current projections do not anticipate additional revenue to be recognized by year end. Competition from the illegal market, the unregulated hemp market, neighboring municipalities, and delivery services, as well as lower prices driven by an oversupply of cannabis products, has continued to negatively impact revenues and offset additional revenue from the increased CBT rates for outlets.

EMS Fund Transfer

The Third Quarter Report assumes an increased Transfer Out of $3.2 million in available fund balance from the EMS Fund to the General Fund as a budget mitigation that reduces the extent to which use of the General Fund Reserve may be necessary to balance the FY 2025 budget at year end. Transfers to the General Fund to reimburse eligible expenditures in FY 2025 will total approximately $9.3 million including this increase, bringing the EMS Fund's projected FY 2025-ending Fund Balance to $5.8 million. Additional transfers to the General Fund are assumed in the FY 2026 Proposed Budget and May Revision which would result in a projected FY 2026-ending Fund Balance of $132,000.

GENERAL FUND EXPENDITURES

The Third Quarter Report projects FY 2025 total General Fund expenditures to be $2.18 billion, $19.5 million higher than the FY 2025 Adopted Budget (this is a negative expenditure variance). This variance is 0.9% of the Adopted Budget, as shown in the following table.

FY 2025 General Fund Expenditures *($ in millions)*						
	Adopted Budget	**Mid-Year Projection**	**Third Quarter Projections**	**Variance: Mid-Year to 3rd Quarter**	**Variance: Budget to 3rd Quarter**	**Variance %: Budget to 3rd Quarter**
Salaries and Wages	$ 925.7	$ 956.9	$ 961.9	$ (5.0)	$ (36.3)	(3.9%)
Fringe Benefits	577.5	574.7	576.0	(1.3)	1.6	0.3%
Non-Personnel Expenditures (NPE)	657.7	634.2	642.5	(8.4)	15.2	2.3%
Total General Fund Expenditures	**$ 2,160.9**	**$ 2,165.8**	**$ 2,180.4**	**$ (14.6)**	**$ (19.5)**	**(0.9%)**

Notes: Table may not add 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 to be higher than the Adopted Budget by a net $36.3 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) partially offset the salaries and wages for a net General Fund expenditure overage of $19.5 million.

The main focus of our General Fund expenditures analysis is salaries and wages, which is addressed in the following sections. Additionally, we discuss contracts and services for the Department of Information Technology.

We note that the Department of Finance incorporated overall General Fund expenditure savings adjustments of $2.1 million for salaries and wages and $8.0 million for non-personnel expenditures. These savings adjustments are based on historical trends between third quarter projections and year-end actual expenditures, as well as consideration of the implemented mitigation directives. The Department of Finance notes that it is unable to predict the departments or categories where these savings will occur. If these savings do not materialize by year-end, the resulting negative impact could further exacerbate the overall deficits projected for Excess Equity[1] and the General Fund Reserve, which are discussed later.

Salaries and Wages

Variances by Category

The following table compares the FY 2025 third quarter projections to the Adopted Budget and third-quarter projections for the various salaries and wage categories. The second column from the right shows that salaries and wages in total are $36.3 million, or 3.9%, higher than what was included in the FY 2025 Adopted Budget (a negative variance).

FY 2025 Salaries and Wages Expenditures - General Fund *($ in millions)*						
	Adopted Budget	**Mid-Year Projection**	**Third Quarter Projections**	**Variance: Mid-Year to 3rd Quarter**	**Variance: Budget to 3rd Quarter**	**Variance %: Budget to 3rd Quarter**
Salaries	$ 736.2	$ 738.2	$ 734.2	$ 3.9	$ 1.9	0.3%
Overtime	96.0	122.9	130.4	(7.5)	(34.4)	(35.8%)
Special Pay	60.7	64.1	65.8	(1.7)	(5.1)	(8.3%)
Hourly	19.6	18.6	17.2	1.4	2.5	12.7%
Vacation Pay in Lieu	8.8	8.8	9.2	(0.4)	(0.5)	(5.5%)
Termination Pay	4.3	4.4	5.1	(0.7)	(0.7)	(16.5%)
Total Salaries and Wages	**$ 925.7**	**$ 956.9**	**$ 961.9**	**$ (5.0)**	**$ (36.3)**	**(3.9%)**

Notes: Table may not add 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 several salaries and wage categories (including overtime, special pay, pay-in-lieu, and termination pay), which are partially offset by savings in salaries and

[1] Excess Equity is described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from General Fund revenue growth above projections and/or General Fund expenditures that come in under-budget during any given fiscal year.

hourly wages. The largest General Fund overages and savings in salaries and wage categories are highlighted below:

- Salaries – net $1.9 million savings (shown as a positive variance)
  - $7.5 million – Fire-Rescue
  - $2.1 million – Citywide adjustment based on historical trends
  - $1.5 million – Parks and Recreation
  - $1.2 million – Library
  - $767,000 – Facilities Services
  - $550,000 – City Planning
  - Salary savings are partially offset with $5.9 million overages from Police; $4.5 million from the City Attorney's Office; $1.5 million from Transportation; $728,000 from Human Resources; $592,000 from Development Services; and $591,000 from Real Estate.
- Overtime – net $34.4 million overage (shown as a negative variance)
  - ($16.8 million) – Fire-Rescue
  - ($9.5 million) – Police
  - ($4.5 million) – Transportation
  - ($1.3 million) – Environmental Services
  - ($1.3 million) – Stormwater
  - ($883,000) – Parks and Recreation
- Special Pay[2] – net $5.1 million overage (shown as a negative variance)
  - ($2.3 million) – Fire-Rescue
  - ($1.5 million) – Police
- Hourly – net $2.5 million savings (shown as a positive variance)
  - $1.3 million – Police
  - $838,000 – Library
  - $618,000 – Human Resources
  - Hourly savings are partially offset with $1.6 million in overages from Parks and Recreation and $855,000 million from Fire-Rescue

Departmental Variances

As noted, total salaries and wage expenditures net to $36.3 million more than what was included in the FY 2025 Adopted Budget. In the section above, variances are discussed 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:

- Police – $16.1 million above budget (largely overtime, salary, and special pay overages, partially offset with hourly savings)

[2] Special Pay expenditures cover additional wages provided to certain employees who meet specific requirements or who provide certain specialized services (such as paramedic pay, river rescue team pay, and bilingual pay).

- Fire-Rescue – $12.7 million above budget (largely overtime, special pay, and hourly overages, partially offset with salary savings)
- Transportation – $6.0 million above budget (largely overtime and salary overages)
- City Attorney – $4.7 million above budget (largely salary overage)
- Stormwater – $1.4 million above budget (largely overtime overage)
- Parks and Recreation – $1.3 million above budget (largely hourly and overtime overages, partially offset with salary savings)
- Environmental Services – $1.3 million above budget (largely overtime overage)
- Development Services – $620,000 above budget (largely salary overage)
- Real Estate – $564,000 above budget (largely salary overage)

Departments with the highest salaries and wage *savings* include:
- Citywide Program Expenditures – $2.1 million below budget (for the citywide savings adjustment based on historical trends)
- Library – $1.9 million below budget (largely salary and hourly savings)
- City Planning – $846,000 below budget (largely salary savings)
- Facilities Services – $569,000 below budget (largely salary savings)
- Economic Development – $524,000 (largely salary and hourly savings)

The next two sections discuss specific departmental variances: overtime overages for the Fire-Rescue and Police Departments.

<u>Police Overtime</u>
The Police Department is projected to exceed its overtime budget by $9.5 million at fiscal year-end, for total projected expenditures of $55.8 million. This represents a $311,000 net decrease in projected overtime compared to the Mid-Year Report which is largely attributed to overtime expenditure controls that were implemented by the Chief of Police beginning in January 2025. These actions will carryforward into the upcoming fiscal year where the Police Chief has committed to maintaining FY 2026 overtime spending within budget, barring a significant public safety emergency.

The Department is anticipating the City will receive approximately $841,000 in revenue above what is budgeted for reimbursable overtime activities in FY 2025, which reduces the projected net impact of Police Department overtime to $8.6 million. As noted earlier in this report, the Police Department is also projected to exceed its budget for Salaries by $5.9 million and Special Pay by $1.5 million. When these categories are combined, the net impact to the General Fund totals $16.0 million.

<u>Fire-Rescue Overtime</u>
The Fire Rescue Department is projected to exceed its overtime budget by $16.8 million at fiscal year-end, for total projected expenditures of $61.6 million. Overtime to meet fire suppression

constant staffing requirements accounts for approximately $8.7 million, or 52%, of the projected overage, including $4.1 million due to staffing shortfalls and $3.6 million to backfill leave time taken by fire fighters. The other significant cause is due to an abnormally high number of strike-team deployments compared to prior years, which accounts for $7.4 million, or 44% of the projected overage. These activities are reimbursable and largely budget neutral.

The projected overtime overage is offset by $5.2 million in salary and special pay savings and approximately $6.4 million in revenue above what is budgeted for reimbursable strike team deployments in FY 2025, which results in a projected net General Fund impact of $5.2 million.

City Attorney
The City Attorney's Office's expenditures in the Mid-Year Report were projected to be over budget by $4.8 million (accounting for offsetting revenue) by the end of FY 2025. Of this amount, $2.1 million was related to a budgeting error, leaving a projected overage of $2.7 million. At that time, it appeared that the Office would not be able to implement its FY 2025 operational efficiency reduction of $1.7 million. However, as of the Third Quarter Report, the overage is mitigated by increased revenue. The Office's expenditures are projected to be overbudget by $2.5 million (after discounting the budgeting error), but the Office's revenue is projected to cover this overage since revenues are also projected to come in $2.5 million over budgeted amounts. The increase in revenues is primarily due to increased billable work performed under service level agreements with other departments, as well as increased billing to special funds and grants.

Non-personnel Expenditures - Contracts and Services

Department of Information Technology (IT)
There is a decrease of $1.1 million in the Department of IT primarily due to the reclassification of $958,000 in expenditures for the Digital Equity SD Access 4 All program from the contracts category to the information technology category. The expenditures in this program are IT-related, including public Wi-Fi service, hotspot devices and service, and digital literacy, so expenditures are more appropriately posted in IT commitment items. In addition, the budget for FY 2026 has been redistributed and SD Access 4 All program expenditures will be in the IT category going forward.

The Department of IT also has a $189,000 decrease in expenditures for the SD Access 4 All mobile hotspot lending program due to staffing limitations, as no positions have been added to manage the program since its inception. This has resulted in operational challenges that impact inventory management, device deployment, and device recovery. For example, there has been a high rate of patrons who do not return the hotspots in a timely manner or return them damaged. To address this, the Department of IT and Library have increased interdepartmental coordination and developed standardized processes. For example, when hotspots are lost, stolen or damaged, Library suspends those devices while awaiting their return and repair. Suspending devices at a quicker rate has resulted in increased savings.

Additionally, to comply with federal E-rate grant requirements, Library paused lending devices starting in early April and will resume in July, resulting in a larger number of devices being out of service and not billed to the City, resulting in savings. Note, to comply with E-rate grant requirements, the City is currently switching out the hotspots to add content filters and upgrade the technology, replacing old models with newer versions. When this effort in completed, hotspot levels are expected to remain the same as current levels (about 4,000). If E-rate grant funding is canceled by the federal government, the number of hotspots will be reduced in FY 2026 to about 2,100 funded through the City's SD Access 4 All budget.

EXCESS EQUITY AND THE GENERAL FUND RESERVE

Excess Equity

Excess Equity is described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from General Fund revenue growth above projections and/or General Fund expenditures that come in under-budget during any given fiscal year.

At the beginning of FY 2025, projected available Excess Equity was estimated to be $20.6 million. With the release of the third quarter projections, that estimate has dropped to *negative* $10.1 million, which is $6.3 million lower than mid-year projections. If year-end activity ultimately equals third quarter revenue and expenditure projections, the $20.6 million Excess Equity projected at the beginning of the year would be fully used, and further, the General Fund Reserve will be tapped by $10.1 million. The resulting impact to the General Fund Reserve is shown in the following table. Note that actual revenues and expenditures continue to shift, and the ultimate impact on General Fund reserves will be determined at fiscal year-end.

FY 2025 General Fund Reserve Policy vs Reserve Estimate (*$ in millions*)	
Reserve Policy Target Percent	***13.58%***
Year-End Reserve Balance Projected at Budget Adoption	$ 207.1
Reserve Policy Target [a]	(238.3)
Third Quarter Projection for Use of Reserve	(10.1)
Difference: Amount Projected Reserve Is Below Policy Target	**$ (41.4)**
Projected Year-End Reserve Balance as Percent of Operating Revenues	***11.22%***

Note: Table may not total due to rounding.

[a] The Reserve target is based on the average of the prior three years' operating revenues.

General Fund Reserve Considerations

Per the City's Reserve Policy,[3] the FY 2025 General Fund Reserve target is 13.58%, and the target Reserve balance is $238.3 million, as shown in the previous table. Going into the fiscal year with a beginning Reserve balance of only $207.1 million, the City anticipated it would be $31.2 million below its FY 2025 Reserve Policy target, due to the City's decision to waive Reserve contributions in FY 2024 and FY 2025. Now, the Third Quarter Report projects the City will need to use $10.1

[3] The City's Reserve Policy is delineated in Council Policy 100-20.

million of the General Fund Reserve, decreasing the Reserve balance to $197.0 million. This is further discussed in the *Excess Equity* section below.

Since the City is anticipated to continue delaying contributions in FY 2026, given shortfalls between revenues and critical expenditures, the City should consider revising the Reserve Policy for the General Fund. An alternative approach, such as contributing a set percentage of year-over year revenue growth until the 16.7% ultimate policy goal is reached, or an approach that takes into account fluctuations in revenues, should be examined.

DEVELOPMENT SERVICES FUND

The Third Quarter Report projects year-end expenditures for the Development Services Fund to exceed revenues by $15.0 million. With a beginning Reserve balance of $3.4 million, the Fund is projected to have a shortfall of $11.6 million and end the fiscal year with no Reserve balance – likely necessitating a one-day inter-fund loan transfer at the close of FY 2025. The revised projection is slightly improved from the mid-year projections due to anticipated expenditure reductions totaling $3.9 million, partially offset by a $2.1 million decrease in projected revenues, resulting in an overall improvement of $1.8 million in the projected shortfall. According to staff, DSD took additional mitigation measures to further reduce expenditures following the mid-year projections, including reducing the staff overtime budget by half, eliminating travel and trainings, restricting IT enhancements and upgrades to as-needed repairs, and nearly eliminating the supplies budget.

For background, year-end revenue for the Fund is projected at $125.7 million, which is $13.9 million lower than the Adopted Budget. Revenue declines are attributed to (1) an extension on building permit applications implemented starting June 2024 that allows developers more time to secure financing and obtain permits, which results in delayed permit-related revenues and (2) a general decline in licensing and permitting activity due to challenging market conditions. Year-end expenditures are projected at $140.7 million, which is $972,000 higher than the Adopted Budget. Expenditure overages are largely due to filling vacant positions more quickly than anticipated to address demand for processing permits more efficiently, as well as tenant improvements, furnishing, and relocation costs associated with leased office spaces at 550 C Street and 7650 Mission Valley. These overages are partially offset by delaying expenditures for the Department's efforts to digitalize records, and the suspension of other non-essential expenditures, as previously mentioned. According to staff, DSD is developing a mitigation plan to replenish the Development Services Reserve potentially over a two-to-three-year timeline. **Council may wish to ask DSD to provide additional details on their plans to cover the current year's shortfall and replenish the Development Services Reserve in the near-term.**

HOMELESSNESS ISSUES

Expenditures in the Homelessness Strategies and Solutions Department (HSSD) are projected to end the year $6.7 million under budget. This is an increase of $3.4 million in savings compared to the Mid-Year Report. The Third Quarter Report reflects lower than projected expenditures for several homelessness programs; after reviewing the memorandum attached to the Third Quarter Report, entitled "HSSD FY 2025 Third Quarter Monitoring and Grant Funding Update", we highlight the following updates:

- ***Shelter Closure Savings.*** Several programs show savings in the Third Quarter due to ceased operations. This includes closure of the Golden Hall shelter along with operational savings from shelter ramp-down due to attrition ($3.0 million relative to Adopted Budget), closure of the Women's Winter Weather shelter ($453,000), and halting the proposed Kettner and Vine permanent shelter site ($1.9 million). These savings are mostly offset by new expenditures associated with the Short-Term Action Plan, as well as replacement beds for the Rachel's Promise Women's Shelter.
- ***Program Operational Savings.*** Some programs also realized savings due to right-sizing expenditures based on historical spending. This includes savings at the Rose Canyon Safe Parking Site ($155,000) and the Family Non-Congregate Shelter, which was expected to be overbudget by $162,000 at Mid-Year but is now in line with the Adopted Budget.
- ***Staffing Vacancies.*** HSSD staff noted some program savings are due to staff vacancies, despite past increases in budgeted frontline worker compensation. Specifically, staffing vacancies impact the Coordinated Outreach Program and Downtown Outreach, as well as Safe Sleeping programs following the expansion of Safe Sleeping earlier in Fall 2024.
- ***Public Restrooms.*** Public restrooms are projected to have savings of $2.5 million relative to the Adopted Budget, a $490,000 increase in savings relative to mid-year. The additional savings are attributed to pauses in operations when handwashing stations or portables are missing or damaged at the original site and cannot be operational until replaced.

PROPOSED APPROPRIATION ADJUSTMENTS

The Council is being asked to approve several non-General Fund appropriation increases – including to the Airports Fund, Concourse and Parking Garages Operating Fund, and PETCO Park Fund – as well as several budget control authorities to assist in closing out the fiscal year. No General Fund appropriation adjustments are being requested for the third quarter. ***Our Office recommends approval of these FY 2025 appropriation adjustments and authorities as proposed.***

However, we would like to highlight the requested budget control authority regarding the use of the General Fund Stability Reserve. The request reads as follows:

> *In response to significant revenue shortfalls, authority is requested to draw from the General Fund Stability Reserve, in accordance with Charter Section 91.1 and Council Policy 100-2, if the continued efforts to increase revenue and decrease expenditures for the remainder of the fiscal year are insufficient to offset the decrease in major revenues. The one-time funding will be used solely to offset shortfalls in the General Fund to ensure the fund does not close the fiscal year with a negative fund balance, in accordance with applicable financial reporting standards and guidance on transparent disclosures of General Fund balances and reserves.*

As mentioned earlier, the Third Quarter Report projects the City will need to use $10.1 million of the Reserve. As actual revenues and expenditures continue to shift, the ultimate impact on the Reserve will be determined at fiscal year-end.

CONCLUSION

Overall, our Office believes the year-end revenue and expenditure projections included in the FY 2025 Third Quarter Report are reasonable. As compared to mid-year projections, the third-quarter projections show an overall revenue increase of $8.5 million and an expenditure increase of $14.6 million, yielding a net projected Excess Equity decrease of approximately $6.3 million – from *negative* $3.9 million to *negative* $10.1 million. If year-end activity ultimately equals third quarter revenue and expenditure projections, the City would be required to draw on General Fund Reserves by $10.1 million. With respect to requested Council actions, our Office recommends approval of the FY 2025 appropriation adjustments as proposed in the FY 2025 Third Quarter Report.

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