




COUNCILMEMBER VIVIAN MORENO

**City of San Diego
Council District Eight**

MEMORANDUM

DATE: December 30, 2024

TO: Councilmember Henry Foster III, Chair, Budget and Government Efficiency Committee

FROM: Councilmember Vivian Moreno 

SUBJECT: 2025 Budget and Government Efficiency Committee Priorities

In response to your memorandum soliciting priorities for the Budget and Government Efficiency Committee, I urge your careful consideration of the following:

Funding Strategy for Continued Investment in Underserved Communities

In light of the projected budget deficit outlined in the FY26-FY30 Five-Year Outlook, the city will need to take steps to balance the budget. However, it is critical that the burden of budget reductions not fall on the backs of underserved communities. For decades, even in years without a major budget deficit, the city neglected to invest in communities south of Interstate 8 with funding to build and maintain infrastructure like parks, libraries, sidewalks and storm channels. The city has also failed to invest proper levels of funding for programming at parks and recreation facilities in underserved communities as highlighted in the City Auditor's 2022 Performance Audit of Equity in Recreation Programming. Park and library capital improvement projects in underserved areas that have previously received funding must continue to move towards construction. Additionally, city efforts to increase programming at existing facilities that do not receive the same programming more affluent communities must be a priority in the upcoming budget.

Continuing to upgrade and properly maintain stormwater channels and drains during this fiscal year, and the coming years, is absolutely essential because such investment can protect communities from devastating flooding events. The city must remain dedicated to funding projects and maintenance efforts in Chollas Creek that will prevent the type of flooding that has occurred in adjacent communities to this watershed, including upgrades to the Southcrest

recreation center area and the Beta Street Drainage Project, which are both directly impacted by flood waters from Chollas Creek. Other areas, such as the Tijuana River Valley and stormwater channel maintenance needed in Otay Mesa and Nestor should also be prioritized to prevent future flooding disasters.

This committee should request city staff provide a report and strategy on how the city will prioritize and protect infrastructure and programming investment in underserved communities for the next several fiscal years.

Development of a Council Procedure for Consideration of Additional Unclassified Positions

Each year, the City Council holds multiple public hearings to discuss the Mayor's proposed fiscal year budget. During these hearings the public and City Council are able to discuss any management positions that are proposed to be added in the next fiscal year. This process is transparent and allows the public to weigh the pros and cons of each additional position in the context of the full budget. However, throughout the year and after passage of the adopted budget, staff often proposes adding new unclassified positions. Sometimes, these are positions that were specifically not approved for inclusion in the budget during the Council's final budget approval, while other times, the positions were never proposed in the budget at all and are materially new positions for Council consideration. Adding supplemental, unclassified positions to the annual budget in this piecemeal fashion is not transparent. The Committee should develop a process that restricts the addition of unclassified positions throughout the fiscal year other than during discussion of the Mayor's proposed budget or within the Mayor's mid-year budget, except in cases where the unclassified position is needed to meet the needs of an emergency.

Recommended Use of Council Discretionary TOT Funds

Council Policy 100-03 outlines the use of Transient Occupancy Tax (TOT) funds. In 2023, the Council revised this policy to require that the City Council make a recommendation directly related to the 1% of the 10.5% TOT revenue described in SDMC Section 35.0128(b), commonly referred to as the "Council's discretionary 1%." In September, the Economic Development and Intergovernmental Relations Committee will make a recommendation on the use of these funds for FY27 budgets. This committee should discuss the recommendations made by the ED&IR Committee when it discusses the FY27 City Council Budget Resolution.

Analyze Potential Cost Savings of Insourcing Street Slurry Sealing

The city slurry seals streets in almost every community each year, however, slurry seal work is largely contracted out. Since slurry sealing is ongoing work that must be done each year, the city could potentially realize long term savings by performing this work with city employees. Staff should provide the Committee with an analysis of whether city employees could perform this work more efficiently and at a reduced overall cost over the long term.

Citywide Contract Oversight and Purchasing and Contracting Audit Recommendations

Good contract administration and oversight is critical to ensure the city is managing taxpayer dollars efficiently when it obtains outside services. In the last decade, the City Auditor has released several audits concerning how the city manages external contracts, including:

- Performance Audit of Citywide Contract Oversight (15-016)
- Audit concerning the need to “Address the Lack of Contract Administration and Monitoring on Citywide Goods and Services Contracts” (15-012)
- Performance Audit of Selected Contracts (16-016)
- Performance Audit of the Purchasing and Contracting Department’s Small Local Business Enterprise Program (21-005)

Many of the recommendations fall under the Purchasing and Contracting Department for implementation. Some recommendations have been successfully implemented, however, per the City Auditor’s June 30, 2024, Audit Recommendation Follow-Up Report, multiple recommendations remain unfinished with varying target implementation dates. Implementing all recommendations would likely result in long-term savings and value for the city. The Committee should receive an update from the Purchasing and Contracting Department regarding implementation of these contract oversight safeguards and contract administration improvements including actionable items the committee can recommend to the City Council for adoption.

Contracts and Outside Consultants

Each year the city utilizes contracts for various reasons, ranging from legal consultants to engineering services. The current 5-year outlook projects annual spending on outside contracts and services to grow from \$387.6M in FY25 to \$449.3M by FY30 with an assumed growth rate ranging from 2.3% to 2.1%. In many cases, city departments have too many vacant positions or a lack of expertise, making it necessary to hire outside contractors rather than hire new city employees. The Committee should receive a report regarding the status of spending on outside contracts, including categorization of the types of existing contracts, reducing the growth rates for FY26, and review strategies to reduce reliance on expensive outside contracts in areas where services can be provided by hiring additional city employees.

Increased State and Federal Grant Funding Efforts

The Committee should discuss increasing the number of grant writers directly working in city departments familiar with the subject areas of specific grants to ensure the city is receiving the maximum amount of grant funding for projects and services each year. The cost of such positions could easily be cost recoverable via additional successful grant applications resulting from the work performed by these employees. Additionally, the Committee should be updated by staff on the progress made in implementing any recommendations made by the City Auditor in an upcoming performance audit of the Department of Finance and Department of Government Affairs regarding grants.

Inflation Reduction Act (IRA), Infrastructure Investment and Jobs Act (IIJA) and Community Development Block Grant (CDBG) Funding

In 2022, Congress passed two major pieces of legislation that will provide funding for a variety of infrastructure projects and city services, the IRA and the IIJA. Additionally, the city receives an annual allocation of CDBG funding. Protecting and maximizing these sources of funding is critical. This committee should receive an informational update regarding the city's ongoing strategy to compete for this funding and a projection for how anticipated funding from these programs could impact the FY26 budget and beyond. With the incoming federal administration, staff should also include strategies to protect allocated funding that has yet to be utilized.

Strategic Human Capital Audit Implementation

In 2020 and 2021, the City Auditor released the following performance audits:

- Strategic Human Capital Management (20-011)
- Strategic Human Capital Management II: Employee Performance Management (21-006)

These audits evaluated how the city is monitoring and responding to important metrics related to its workforce and made recommendations regarding how the city could better manage its workforce. Some recommendations have been successfully implemented, however, per the City Auditor's June 30, 2024, Audit Recommendation Follow-Up Report, three recommendations were listed as unfinished. The Personnel Department and Human Resources Department should provide an update on progress made in implementing these audit recommendations and request that actionable items be brought forward to the Committee in 2025 for discussion.

Monitoring Vacant Positions

Each year the city's budget anticipates a certain amount of budgeted positions to remain vacant. As each fiscal year progresses, additional positions often remain unfilled. As the vacancy factor fluctuates throughout the year, the Committee should remain updated and begin discussing how best to utilize vacancy savings in advance of the FY25 mid-year and end of year budget updates. Additionally, as mentioned earlier, due to vacancies, the city relies on expensive outside contractors to perform jobs that would otherwise be performed by city employees. Ongoing vacant positions can result in costly overtime for public safety departments and in delays to important projects. The Committee should request an updated overview of vacant positions from staff that identifies vacant positions of most urgent need and strategies to fill those vacancies.

Monitoring Bond Debt

The city currently holds \$604.2M in outstanding General Fund Lease Revenue bond debt, which results in \$67.4M in annual debt service. Additionally, the city holds \$89.1M in General Fund Supported Capital Leases, resulting in \$25.8M in annual debt service. The city also holds \$66.6M in General Fund Commercial Paper Notes. It is critical that the city balance the need to borrow funding to build critical infrastructure projects with maintaining sustainable debt

payments and remaining in compliance with the city's Debt Policy. With anticipated commercial paper and bond issuances in 2025, the Committee should receive a prospective report from staff outlining the city's current and projected debt levels.

Monitoring State and Federal Funding due to Flooding Events

The flooding that occurred in Chollas Creek on January 22, 2024, devastated communities like Southcrest. The State of Emergency declared by the City, County, State and Federal governments due to these conditions allows the city to access emergency funding to assist with the city's response to the emergency and ongoing efforts to mitigate the impacts of the flooding on the residents whose lives have been completely upended. Some emergency funding will continue to be received by the city in 2025. This committee should receive regular updates on the status and use of funding received by the city to address this disaster.

Monitoring Compliance with Equal Opportunity Contracting

The city's Equal Opportunity Contracting (EOC) policies are critical to enhancing diversity and safeguarding against discrimination in city contracts, ensuring fairness in the expenditure of taxpayer dollars, and providing technical assistance to small and emerging contractors. The Committee should request an update from staff on the city's compliance efforts, including steps taken to address EOC deficiencies identified in specific city contracts over the last 1-2 years.

Thank you for the opportunity to submit priorities for the 2025 Budget and Government Efficiency Committee. For additional details concerning my FY26 budget priorities, please reference my FY26 Budget Priority memorandum.