



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** June 9, 2021

**IBA Report Number:** 21-16

**City Council Docket Date:** June 14, 2021

**Item Number:** 600

---

# Review of the FY 2021 Third Quarter Budget Monitoring Report

## OVERVIEW

The Fiscal Year 2021 Third Quarter Budget Monitoring Report (Third Quarter Report) was issued on May 18, 2021 and was presented to the Budget Review Committee on May 20, 2021. 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. 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, our Office concurs with the year-end expenditure and revenue projections included in the FY 2021 Third Quarter Report. Additionally, the Third Quarter Report appropriation adjustment requests appear reasonable. Details of select revenue and expenditure projections included in the Third Quarter Report, including major General Fund revenue projections, expenditure variances in salaries and wages, as well as significant issues identified by our Office, are discussed in the following sections.

## GENERAL FUND REVENUES

General Fund revenues for FY 2021 are projected to be \$1.56 billion at the end of the fiscal year, which is a decrease of \$61.0 million (3.8%) from the FY 2021 Adopted Budget, but an increase of \$24.9 million from the Mid-Year Monitoring Report. Major General Fund Revenues are projected to decline from the Adopted Budget by \$14.3 million (1.2%) while other revenues are projected to decline by \$4.1 million (4.1%). The majority of the declines are related to decreases in the City's Transient Occupancy Tax (TOT), which is projected to decline by \$31.6 million from the Adopted Budget. These declines are offset with increases in Property Tax of \$4.2 million, Sales Tax of \$9.4 million, and Franchise Fees of \$7.7 million.

FY 2021 Projected General Fund Revenue (\$ in millions)					
	Adopted Budget	Mid-Year Projection	Third-Quarter Projection	Variance: Adopted to Third-Quarter	Variance: Mid-Year to Third-Quarter
Property Tax	\$ 630.6	\$ 633.4	\$ 634.8	\$ 4.2	\$ 1.4
Sales Tax	274.4	283.3	283.8	9.4	0.5
Transient Occupancy Tax	90.5	54.6	58.9	(31.6)	4.3
Franchise Fees	67.7	68.4	75.4	7.7	7.0
Other Major Revenues	100.7	94.0	96.6	(4.1)	2.6
Departmental Revenues	457.0	401.4	410.3	(46.7)	8.9
<b>Total Revenue</b>	<b>\$ 1,620.9</b>	<b>\$ 1,535.0</b>	<b>\$ 1,559.9</b>	<b>\$ (61.0)</b>	<b>\$ 24.9</b>

## **Major General Fund Revenues**

### ***Property Tax***

Total Property Tax revenue in FY 2021 is projected to be at \$634.8 million, which is an increase of \$4.2 million from the Adopted Budget. This increase is primarily attributable to increased motor vehicle license fee backfill payments (\$2.5 million), as well as increases to the Redevelopment Property Tax Trust Fund (RPTTF) (\$1.0 million), and both of these projected increases are in line with increases projected in the Mid-Year Report. The largest change for Property Taxes in the Third quarter is an increase in the projected receivables from the base 1% property tax collection, which is now projected to be \$0.7 million over the Adopted Budget. This is an increase in the projection from Mid-Year of \$1.5 million and is based of the most recently received actuals. Our Office agrees with these projections.

### ***Sales Tax***

Sales tax revenue in the Third Quarter Report is projected to total \$283.8 million, an increase of \$9.4 million or 3.4% above the Adopted Budget. This is a slight increase over projections in the Mid-Year report, which projected FY 2021 sales tax revenue of \$283.3 million. Increases in sales tax projections over the Adopted Budget are consistent with increased online sales throughout the year, as well as a rebound in retail and food sales as the City begins to move out of the pandemic. These projections are supported by both actual sales tax receipts received to date as well as projections from the City's sales tax consultant. Our office believes these projections are reasonable.

### ***Transient Occupancy Tax***

Transient Occupancy Tax (TOT) revenue has been severely impacted by the COVID-19 pandemic, with health orders, travel restrictions, and COVID-19 concerns leading to enormous declines in the tourism and hospitality industries. Those impacts continue to be felt. Total TOT revenue for FY 2021 was budgeted at \$171.6 million, and is now projected at \$111.4 million, a reduction of \$60.2 million or 35% from the Adopted Budget.<sup>1</sup> This amount represents less than half of pre-pandemic TOT revenue amounts, which had been projected to generate over \$260 million in FY 2020 before the outbreak of the pandemic.

<sup>1</sup> This amount represents total TOT revenue received from the entire 10.5% TOT rate; additional detail on the different portions of TOT revenue is included on the following page.

However, recent trends and indications have been encouraging, with increasing occupancy rates leading to significant growth in year-over-year TOT revenue from pandemic-level lows. The \$111.4 million projected in the Third Quarter Report represents an increase of \$8.2 million over the Mid-Year projection, with increased tourism and hotel occupancy resulting from the earlier-than-expected lifting of statewide travel restrictions and increasing distribution of the COVID-19 vaccines.

The City’s TOT 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%, an allocation for Special Promotional Programs that support the promotion of the City’s cultural amenities and natural attractions of 4.0%, and a 1.0% “Council Discretionary” allocation that ultimately ends up allocated to the City’s General Fund. Projected revenues for these allocations are shown below:

<b>Transient Occupancy Tax Revenue (\$ in millions)</b>					
	<b>Adopted Budget</b>	<b>Mid-Year Projection</b>	<b>Third-Quarter Projection</b>	<b>Variance: Adopted to Third-Quarter</b>	<b>Variance: Mid-Year to Third-Quarter</b>
General Fund Allocation (5.5%)	\$ 90.5	\$ 54.6	\$ 58.9	\$ (31.6)	\$ 4.3
Special Promotional Programs (4.0%)	64.9	38.9	42.0	\$ (22.9)	\$ 3.1
Council Discretionary (1.0%)	16.2	9.7	10.5	\$ (5.7)	\$ 0.8
<b>Total</b>	<b>\$ 171.6</b>	<b>\$ 103.2</b>	<b>\$ 111.4</b>	<b>\$ (60.2)</b>	<b>\$ 8.2</b>

The General Fund is most directly impacted by the General Fund and the Council Discretionary Allocations, with focus in Budget Monitoring Reports generally given to the General Fund Allocation.<sup>2</sup> However, as noted in our review of Mid-Year Budget Monitoring Report ([IBA 21-05](#)), a portion of revenue in the Special Promotional Programs allocation is used to reimburse various General Fund Departments for expenses such as lifeguards and street sweeping in high-tourism areas that ultimately help support bringing tourism to the City. In the Adopted Budget, these reimbursements were assumed to total \$26.4 million; in the Mid-Year Report these reimbursements were projected at \$1.4 million, though the Third Quarter report increases the projected reimbursements to \$4.5 million.

***Franchise Fees***

Franchise Fees are projected to be at \$75.4 million at the end of FY 2021, which is an increase of \$7.7 million (11.4%) from the Adopted Budget. The majority of this increase is due to a higher than anticipated clean-up payment from SDG&E, resulting in additional revenue of \$7.0 million for FY 2021. Cable franchise revenues are projected to be \$0.9 million over the Adopted Budget as well, with a small projected decline of \$0.2 million for refuse hauler fees. Our Office agrees with these projections.

**Departmental Revenues**

***Real Estate Assets***

Revenues that the City receives through the lease of City owned property to outside entities is projected to total \$33.8 million, which is \$16.3 million or 32% below revenue assumed in the Adopted Budget, largely due to lower-than-projected revenue from Mission Bay leases. Mission

<sup>2</sup> The Council Discretionary Allocation is included in “Other Major Revenues.”

Bay lease revenue is largely derived from Sea World and hotel properties, with many leases requiring tenants to pay to the City a percentage of their gross revenue. Those operations have been significantly impacted by the COVID-19 pandemic, with many hotels either closed or operating at reduced capacity, and Sea World limiting capacity and attendance to comply with State and regional health orders.

### ***Stormwater***

The City's Storm Drain Fund generates its revenue from the current stormwater fee of \$0.95 per single family home per month, with a corresponding fee for multi-family and commercial water customers. This fund currently has a budgeted revenue of \$5.7 million, which for many years has been transferred from this fund to the City's General Fund to support Stormwater Department (or previously, Stormwater Division) activities.

In both the Third Quarter Monitoring Report, as well as the May Revise for FY 2022, this transfer is no longer proposed to happen. Instead, some stormwater spending, which mostly includes consultant and other contractual services related to watershed planning and monitoring, will occur directly out of the Storm Drain Fund. This change is necessitated by the City's recent award of State Revolving Loan Funds related to storm drain projects. As part of the application, Storm Drain Fund revenue was pledged to repay the loan in future fiscal years, with the first payment of \$1.1 million not due until FY 2026. Due to this pledge, activities funded by the Storm Drain Fund must be expended within the Storm Drain Fund. While this action has no net impact to the General Fund for FY 2021 or FY 2022, the activities that are now funded in the Storm Drain Fund may need to be transferred back to the General Fund in FY 2026 and future fiscal years as the repayments for the State Revolving Loan Funds become due.

## **GENERAL FUND EXPENDITURES**

As of the Third Quarter Report, projected year-end General Fund expenditures of \$1.61 billion are \$8.9 million less than the FY 2021 Adopted Budget, or 0.5%. The third quarter projected expenditures are \$8.3 million lower than projected at mid-year. The Department of Finance has provided explanations for many of the budget variances in the Third Quarter Report. Some of the more significant changes since the Mid-Year Report are highlighted in the following paragraphs, including expenditure decreases that are partially offset with expenditure increases.

Projected expenditure decreases since the Mid-Year Report include:

- \$5.8 million in additional salary savings (primarily due to vacancy savings)
- \$4.4 million in additional fringe savings (primarily due to one-time savings from a change in how certain fixed fringe benefits are recognized budgetarily)
- \$5.7 million in expenditures to be incurred in the Storm Drain Fund (rather than the General Fund)
- \$3.8 million savings in IT expenditures for certain contract transition costs that are delayed until FY 2022
- \$2.3 million of Operation Shelter to Home expenses paid directly from the Coronavirus Relief Fund

The lower spending levels listed above are partially offset with projected spending increases. Projected increases since the Mid-Year Report include:

- \$5.3 million for anticipated new Public Liability claims costs

- \$5.2 million for increased overtime, largely related to the Fire-Rescue Department
- \$3.1 million largely for COVID-related expenditures in Fire-Rescue and Library
- \$2.0 million related to cancellation of the 101 Ash property management contract (return of advances from non-general funds for CBRE working capital)
- \$1.2 million transfer to the Concourse and Parking Garages Operating Fund to support operations

The remainder of this General Fund Expenditures section will focus on salaries and wages, which are projected to be higher than the Adopted Budget by a net \$3.2 million, as well as Contracts Spending. As reported in our review of the Mid-Year Budget Monitoring Report, there are significant overages in overtime and other wage components which are partially offset by salary and hourly wage savings. Our report discusses those aspects in the following pages.

### **Salaries and Wages**

The following table compares the FY 2021 Third Quarter expenditure projections to the Adopted Budget for various salaries and wages categories. The second column from the right shows that salaries and wages in total are projected to be \$3.2 million higher than what was included in the FY 2021 Adopted Budget (shown as a negative spending variance).

<b>FY 2021 Salaries and Wages Expenditures - General Fund</b> ( <i>\$ in millions</i> )						
	<b>Adopted Budget</b>	<b>Mid-Year Projections</b>	<b>3d Quarter Projections</b>	<b>Variance: Mid-Year to 3d Quarter</b>	<b>Variance: Adopted to 3d Quarter</b>	<b>Variance %: Adopted to 3d Quarter</b>
Salaries	\$ 510.3	\$ 503.6	\$ 497.8	\$ 5.8	\$ 12.5	2.4%
Special Pay	43.9	44.8	45.6	(0.8)	(1.7)	(3.9%)
Overtime	71.4	81.2	86.4	(5.2)	(15.0)	(21.0%)
Hourly	15.3	10.3	10.8	(0.5)	4.5	29.6%
Pay-in-Lieu of Annual Leave	5.2	5.7	5.6	0.1	(0.4)	(7.4%)
Termination Pay	1.8	4.1	4.9	(0.8)	(3.1)	(174.2%)
<b>Total</b>	<b>\$ 647.9</b>	<b>\$ 649.7</b>	<b>\$ 651.1</b>	<b>\$ (1.4)</b>	<b>\$ (3.2)</b>	<b>(0.5%)</b>

NOTES: Table may not total due to rounding.

Negative variances are overages, or spending above budget (or mid-year) levels. Positive variances are spending below budget (or mid-year) levels.

Looking at the separate rows in the table, we can see that there is \$12.5 million in projected salary savings, primarily related to higher vacancies than anticipated in the Adopted Budget. We can also see that this \$12.5 million in salary savings is offsetting to overages in other salaries and wages categories (special pay, overtime, pay-in-lieu, and termination pay). Salary savings are discussed further under the Departmental Variances section.

There is also \$4.5 million in projected hourly wage savings, primarily related to the following departments: \$2.0 million in Parks and Recreation; \$1.8 million in Library; and \$966,000 in the Police Department.

The most significant overage, \$15.0 million in overtime, is largely related to the Fire-Rescue and Environmental Services Departments – \$13.7 million and \$1.2 million, respectively. Overtime is addressed in a separate section that follows.

## Departmental Variances

The table below displays FY 2021 projected departmental spending variances (as compared to the Adopted Budget) for various salaries and wages categories. Again, projected spending is \$3.2 million higher than budgeted for total salaries and wages (a negative variance). The right-most column in the following table shows the \$3.2 million negative variance, which is the net of all categories' overages and under-budget projected spending in the other columns of the table.

FY 2021 Variances for Salaries and Wages Expenditures - General Fund							
Variances: Adopted Budget to 3d Quarter Projection	Salaries	Special Pay	Overtime	Hourly	Pay-in- Lieu	Termination Pay	Net Variance
Fire-Rescue	6,342,721	(524,355)	(13,714,731)	(414,476)	(37,098)	(528,866)	(8,876,806)
City Attorney	(1,705,826)	(7,263)	(65,571)	5,071	(35,850)	(239,479)	(2,048,919)
Environmental Services	634,075	(22,841)	(1,199,534)	(22,408)	(2,853)	(82,459)	(696,020)
Police	(230,657)	(446,169)	604,508	966,084	(314,299)	(1,051,413)	(471,945)
Economic Development	(302,815)	(3,474)	(323)	3,722	(2,147)	(16,841)	(321,878)
Real Estate Assets	(143,630)	(11,090)	0	(35,151)	2,266	(30,867)	(218,471)
Human Resources	(77,804)	(347)	0	0	(34)	(23,951)	(102,136)
City Council	171,757	0	0	(11,266)	(617)	(251,545)	(91,670)
Performance & Analytics	(78,010)	0	0	77	(11,485)	0	(89,418)
Personnel	(128,329)	1,740	4,742	68,936	(2,772)	(32,040)	(87,724)
Office of the COO	149,104	0	0	(153,080)	5,786	(73,403)	(71,594)
City Treasurer	(53,347)	4,834	4,472	898	(457)	(7,950)	(51,550)
Ethics Commission	(1,258)	0	0	0	6,177	(54,968)	(50,049)
Homeland Security	(96,387)	140	(299)	70,125	(2,688)	(9,398)	(38,507)
Citywide Program Expenditures	(37,654)	0	0	0	0	0	(37,654)
Planning	17,723	(20,498)	11,250	(1,314)	5,195	(37,476)	(25,119)
Boards & Commissions	(156)	1,456	0	0	(5,921)	(18,967)	(23,588)
Office of the IBA	(21,824)	0	0	0	524	0	(21,301)
General Services	(8,992)	0	(131)	0	0	0	(9,123)
Neighborhood Services	(1,783)	(13)	(155)	0	32,668	(37,263)	(6,545)
Debt Management	11,110	0	540	0	(3,383)	(14,299)	(6,032)
Sustainability	(447)	(1,467)	0	0	0	0	(1,914)
Office of the Mayor	103,342	1,456	0	0	3,462	(109,104)	(843)
Office of the CFO	6,964	0	0	0	0	0	6,964
Communications	26,295	2,067	4,437	0	3,616	(14,883)	21,532
Department of Finance	134,024	(8,184)	2,210	0	(5,699)	(58,334)	64,016
City Auditor	111,258	0	0	(25,313)	(1,905)	0	84,039
Purchasing & Contracting	204,424	1,450	(52,565)	14,934	630	(43,472)	125,401
Government Affairs	162,913	0	0	0	6,654	(40,985)	128,582
Office of the ACOO	121,255	0	0	0	14,208	0	135,463
Public Works & Utilities	140,903	0	0	0	381	0	141,284
City Clerk	190,282	491	9,001	12,699	(1,991)	(33,010)	177,472
Homelessness Strategies	226,602	(162)	(12,559)	0	(12,016)	0	201,864
Development Services	239,003	(17,378)	10,379	0	299	(26,768)	205,535
Storm Water	1,069,229	(236,700)	(536,100)	(35,287)	5,427	167	266,735
Office of Race & Equity	390,018	0	0	0	0	0	390,018
Smart & Sustainable Communities	392,028	0	(131)	0	1,924	0	393,822
READ-Facilities Services	704,565	(75,028)	(61,765)	(629)	12,123	(43,992)	535,275
Mobility	644,454	46,920	(1,191)	328	(7,585)	1,312	684,238
Transportation	800,799	(136,277)	102,355	279,877	(15,592)	(40,376)	990,786
Parks and Recreation	840,029	(112,487)	(55,767)	1,971,501	(9,657)	(85,581)	2,548,038
Library	1,548,758	(138,259)	(69,234)	1,836,199	(8,407)	(109,147)	3,059,909
<b>Total</b>	<b>\$12,494,714</b>	<b>(\$1,701,437)</b>	<b>(\$15,016,161)</b>	<b>\$4,531,527</b>	<b>(\$381,119)</b>	<b>(\$3,115,359)</b>	<b>(\$3,187,834)</b>

NOTE: Negative variances are overages, or spending above budget levels. Positive variances are spending below budget levels.

The first column, bottom row of the previous table shows the \$12.5 million net projected under-budget salaries – a positive expenditure variance. This net \$12.5 million of salary savings includes two offsetting amounts: \$15.4 million for departments with higher salary savings than budgeted, which is partially offset by \$2.9 million for departments with salary overages.

Departments with the highest salary savings than budgeted include:

- \$6.3 million – Fire-Rescue
- \$1.5 million – Library
- \$1.1 million – Storm Water
- \$840,000 – Parks and Recreation
- \$801,000 – Transportation
- \$705,000 – Facilities Services
- \$644,000 – Mobility
- \$634,000 – Environmental Services
- \$392,000 – Smart and Sustainable Communities
- \$390,000 – Office of Race and Equity (no positions filled yet, hiring process underway)

Departments with the largest salary overages include:

- \$1.7 million – City Attorney
- \$303,000 – Economic Development

Issues related to employee staffing levels, recruitment and retention challenges, and uncompetitive compensation have been discussed by a number of Councilmembers. In the Council’s FY 2022 budget priorities resolution, which was passed February 2, 2021, eight Councilmembers spoke to addressing City employees’ compensation. Some Councilmembers have also indicated a desire for analysis of the extent to which departments are having difficulty performing work and meeting service levels as a result of departments’ staffing levels/vacancy levels.

We have included Attachment 1 to this report to provide a frame of reference for the General Fund staffing levels in City departments. Attachment 1 includes an average of filled FTEs for both FY 2020 and FY 2021 as compared to budgeted FTEs. It also includes columns for the average filled FTEs as a percent of budgeted FTEs to roughly assess staffing levels for the various departments. Attachment 1 includes a number of caveats to the data to illustrate the complexity and superficial nature of the data and the need for a more in-depth analysis of staffing levels. It is important for the City to identify the level of vacant positions and the filled positions needed to provide budgeted service levels.

### ***Overtime***

The largest salaries and wages category overage is in overtime, at \$15.0 million, as shown, by department, in the previous table. The largest components of this \$15.0 million overage is related to the \$13.7 million in the Fire-Rescue Department (related to constant staffing, COVID-19 activities, strike team and other deployments, dispatcher vacancies, and lifeguard services) and \$1.2 million in Environmental Services (related to COVID-19 and injury absences, as well as vacancies). The departments with the largest total overtime expenditures are the Police and Fire-Rescue Departments, which are discussed briefly in the following sections.

### Police Overtime

For additional context, historical information on Police overtime expenditures is provided in the following table. Note, the FY 2021 actual amount is based on the projections in the Third Quarter Report. Overtime increases in FY 2020 and FY 2021 are largely related to reimbursable COVID-19 activities, contractual salary increases, and Neighborhood Policing and Clean SD activities. Additionally, for FY 2020 there were overtime increases related to civil protest events.

<b>Police Overtime - Historical Budget vs. Actuals</b> (\$ in millions)								
	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b> <sup>1</sup>	<b>FY 2020</b> <sup>2</sup>	<b>FY 2021</b> <sup>3</sup>
Actual	\$ 17.8	\$ 23.1	\$ 25.0	\$ 26.0	\$ 29.7	\$ 31.9	\$ 44.8	\$ 37.5
Budget	11.8	11.1	18.0	21.0	26.3	24.6	35.9	38.1
<b>Overage</b>	<b>\$ 6.0</b>	<b>\$ 12.0</b>	<b>\$ 7.0</b>	<b>\$ 5.0</b>	<b>\$ 3.4</b>	<b>\$ 7.4</b>	<b>\$ 8.9</b>	<b>\$ (0.6)</b>

NOTES: Table may not total due to rounding.

FY 2014 through FY 2020 "Actual" amounts are based on unaudited actuals, whereas the FY 2021 amount in the "Actual" line is based on the projections in the Third Quarter Report.

<sup>1</sup> The \$31.9 million FY 2019 actual amount includes approximately \$29.3 million of General Fund and \$2.7 million of Seized Assets Fund (SAF) expenditures.

<sup>2</sup> The \$44.8 million FY 2020 actual amount includes \$41.4 million and \$3.4 million for the General Fund and SAF, respectively; and the \$35.9 million budget amount includes \$32.1 million and \$3.9 million for the General Fund and SAF, respectively.

<sup>3</sup> The \$37.5 million FY 2021 "actual" amount (based on Third Quarter projection) includes \$33.1 million and \$4.4 million for the General Fund and SAF, respectively; and the \$38.1 million budget amount include \$33.7 million and \$4.4 million for the General Fund and SAF, respectively.

### Fire-Rescue Overtime

As shown in the following table, Fire-Rescue's actual overtime expenditures have significantly increased in FY 2018 through FY 2021 when compared to the previous several fiscal years. From FY 2014 to FY 2017 average overtime expenditures were about \$31.4 million, compared to the most recent expenditures in FY 2018 through FY 2021, which average \$44.7 million.

The Fire-Rescue Department has indicated that contributing factors for increases over the years include general salary increases and other effects of MOU changes, increases in strike team deployments and weather-related events, and higher vacancies yielding more constant-staffing overtime (related vacancy savings partially offsets certain overtime for constant-staffing). Note that strike team deployment overtime is reimbursable, and therefore will not have an impact on the General Fund. For FY 2021 there was also increased overtime backfill for COVID-related absences and for personnel pulled from operations primarily to perform reimbursable COVID-19 activities, including the City's vaccination operations. For more detailed information on FY 2021 Fire-Rescue overtime expenditures, see the "Other Updates" section of this report on page 12.

<b>Fire-Rescue Overtime – Historical Budget vs. Actuals</b> (\$ in millions)								
	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Actual	\$ 29.7	\$ 31.5	\$ 31.8	\$ 32.5	\$ 45.4	\$ 45.2	\$ 41.1	\$ 47.0
Budget	23.7	26.7	29.9	30.2	32.8	38.1	36.6	33.3
<b>Overage</b>	<b>\$ 6.0</b>	<b>\$ 4.8</b>	<b>\$ 1.9</b>	<b>\$ 2.3</b>	<b>\$ 12.5</b>	<b>\$ 7.0</b>	<b>\$ 4.5</b>	<b>\$ 13.7</b>

NOTES: Table may not total due to rounding.

FY 2014 through FY 2020 "Actual" amounts are based on unaudited actuals, whereas the FY 2021 amount in the "Actual" line is based on the projections in the Third Quarter Report.



## **Contracts Spending**

The third quarter projection for FY 2021 Contracts spending is \$5.2 million higher than the Current Budget.

As our Office explained in [IBA Report 20-10](#), the Contracts spending category is comprised of more spending line items than consulting, maintenance, or other service contracts. The Contracts category also includes rent payments, payments to the Public Liability Fund, other insurance premiums, charges from the Fleet Department, Department of Information Technology, and other internal service departments where costs are assigned to City departments by the Department of Finance.

As part of the FY 2021 budget actions, the Council removed \$6.3 million in appropriations from Contracts, which was approximately 2.6% of the Proposed Budget level prior to the May Revision. This reduction, while recognizing that not all line items within Contracts can be reduced, was designed to be a general reduction. Council only directed the Department of Finance to remove the funds from the Adopted Budget and left the implementation of the reduction to the discretion of the Department of Finance.

To effectuate this reduction, the Department of Finance, in a memo dated August 7, provided each department with a Contracts reduction target. These targets were determined by the size of each department's Contracts budget after removing all non-discretionary amounts and CARES Act funded budgets. The amounts in this memo have now been allocated to all of the appropriate departments and are currently reflected within the Current Budget amount for each department. In making the allocation, the Department of Finance did not further identify the actual contracts or line items from which the reductions are to be made. Thus, the impact of the reduction targets is up to the discretion of the various departments.

The following table highlights certain departments that are projected to significantly spend over or under the Current Budget for Contracts, and it includes the Adopted Budget, Current Budget, Mid-year Projection, and Third Quarter Projection. Overall, the third quarter Contracts projection is less than the Mid-year projection, and as was the case during mid-year, the vast majority of departments are projected to meet their overall spending target for contracts. The main overage is within Citywide Program Expenditures, which is projected to overspend by \$12.3 million. This is mostly due to a \$5.3 million transfer to the Public Liability Fund, as well as a projected overage for election costs at \$2.9 million, and \$2.6 million for activities related to the 101 Ash property.

<b>General Fund Contracts Spending</b>					
<b>Department</b>	<b>Adopted Budget</b>	<b>Current Budget</b>	<b>Midyear Projection</b>	<b>Third Quarter Projection</b>	<b>Over/Under Current Budget</b>
Citywide Program Expenditures	53,055,408	57,899,581	61,769,746	70,168,222	12,268,642
Fire-Rescue	18,485,983	18,238,932	20,009,293	20,322,605	2,083,672
Parks and Recreation	20,863,784	21,400,461	22,128,416	22,009,513	609,052
Homelessness Strategies	38,098,337	37,747,543	36,641,434	33,923,573	(3,823,970)
Storm Water	19,925,894	19,280,624	21,944,683	14,666,330	(4,614,294)
All Other Departments	130,985,357	130,779,258	130,772,301	129,411,117	(1,368,141)
<b>Total</b>	<b>281,414,763</b>	<b>285,346,398</b>	<b>293,265,873</b>	<b>290,501,359</b>	<b>5,154,961</b>

In addition to Citywide Expenditures, the other two departments with significant Contracts overages were Fire-Rescue and Parks & Recreation. For Fire-Rescue, the overage is mostly due to

increased costs related to the COVID-19 pandemic and underfunded Wellness Program expenses, while for Parks and Recreation the overage is for unanticipated purchases related to mowers and other equipment, as well as unexpected repairs and COVID-19 expenditures.

Offsetting these overages, both Homelessness Strategies and Stormwater are projected to significantly underspend their Contracts budget. For Homelessness Strategies, this is due to expenses being incurred in other spending categories and funds, but budgeted within General Fund Contracts, while for Stormwater this is mainly due to the transfer of expenditures from the General Fund to the Storm Drain Fund. This transfer is explained in more detail earlier in this report.

Overall, the vast majority of other departments are projected to underspend their Contracts budget. However, many of these departments are utilizing one-time savings, such as savings due to lack of travel and training opportunities due to the COVID-19 pandemic, to meet their Contracts reduction targets. As the reduction is proposed to be ongoing for many departments in FY 2022, it will be important to monitor the ongoing potential service level impacts of this reduction.

As was the case in the Mid-Year Report, the overall overage in Contracts is still projected to be covered by other non-personnel expenditure categories (NPE), as overall NPE spending is projected to be \$12.0 million below the Adopted Budget, inclusive of the Contracts overage.

## RESERVES

### General Fund Reserve and Excess Equity

As a result of declining revenues due to the COVID-19 pandemic, the City did not budget a General Fund Reserve contribution in the FY 2021 Adopted Budget. The FY 2022 Proposed Budget also does not include a Reserve contribution.

Thus, the FY 2021 and FY 2022 Reserve is projected to remain at the FY 2020 balance of \$205.7 million, as shown in the third row of the following table. The fourth row shows that, in the absence of a Reserve contribution, the FY 2021 Reserve is \$8.2 million less than the Reserve Policy target; and the FY 2022 Reserve is projected to be \$11.8 million less than the Reserve Policy target.

<b>General Fund Reserve Policy vs Reserve Projection<sup>1</sup> (\$ in millions)</b>			
	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Reserve Policy Target Percent</b>	<b>15.5%</b>	<b>15.75%</b>	<b>16%</b>
Reserve Policy Target <sup>2</sup>	\$ 205.7	\$ 213.8	\$ 217.4
Reserve Balance (FY 2020) / Reserve Projection (FY 2021 and FY 2022)	\$ 205.7	\$ 205.7	\$ 205.7
<b>Difference: Amount Reserve Projection Is Below the Policy Target</b>	<b>\$ -</b>	<b>\$ (8.2)</b>	<b>\$ (11.8)</b>
<b>Reserve Projection as Percent of Operating Revenues</b>	<b>15.5%</b>	<b>15.1%</b>	<b>15.1%</b>

Note: Table may not total due to rounding.

<sup>1</sup> The Reserve Projection is based on the approach presented in the FY 2022-2026 Five-Year Financial Outlook, for which there is no contribution to the General Fund Reserve for FY 2021 through FY 2023.

<sup>2</sup> For FY 2020 and FY 2021, the Reserve Policy targets are based on the average of the prior three years' actual operating revenues. The FY 2022 Reserve Policy target is based on actual operating revenues for FY 2019 and FY 2020 and estimated operating revenues for FY 2021.

### *Use of Excess Equity*

The FY 2020 General Fund budgetary fund balance was approximately \$14.5 million higher than the current \$205.7 million General Fund Reserve. This \$14.5 million of available fund balance is known as Excess Equity. The Mayor is requesting authorization to utilize the full \$14.5 million

Excess Equity, as well as an estimated \$37.7 million of American Rescue Plan (ARP) funds to mitigate the \$52.2 million revenue shortfall projected in the FY 2021 Third Quarter Report. The actual revenue shortfall for FY 2021 will not be known until year-end, and thus, the amount of ARP funds needed is subject to change, accordingly.

### **Risk Management Reserves**

The following table shows the projected surplus or deficits in the Risk Management Reserves, when comparing the FY 2021 projected balances to the current FY 2021 Reserve targets.

<b>Current Projected Deficits in Risk Management Reserves</b> ( <i>\$ in millions</i> )			
	<b>Workers' Compensation</b>	<b>Long-Term Disability</b>	<b>Public Liability</b>
FY 2021 Reserve Projection	\$ 34.1	\$ 4.1	\$ 33.8
FY 2021 Reserve Target	32.5	4.2	36.0
<b><i>Projected Surplus/(Deficit)</i></b>	<b><i>\$ 1.6</i></b>	<b><i>\$ (0.1)</i></b>	<b><i>\$ (2.2)</i></b>

The Workers' Compensation Reserve is the only Risk Management Reserve for which there is a projected surplus, at \$1.6 million. However, this largely due to the postponement of medical procedures during the COVID-19 pandemic. The anticipation is that delayed procedures will take place in the future and need to be covered by the surplus.

Additionally, there are no FY 2022 budgeted contributions to the any of the Risk Management Reserves. This is despite the fact that the Public Liability (PL) Fund is projected to have a \$2.2 million deficit for FY 2021, as shown in the previous table. The FY 2022 Proposed Budget is forgoing funding of a PL Reserve contribution, which provides budget relief for the General Fund. Note that the actual FY 2022 targets for the Risk Management Reserves will not be known until the FY 2021 valuations are completed in the fall of 2021.

### **DEFICIT MITIGATION**

While the Third Quarter Report projects decreases in expenditures and increases in revenues as compared to the Mid-Year Budget Monitoring Report, General Fund expenditures are still projected to exceed General Fund revenues by \$52.2 million. As noted above in the discussion of reserves, \$14.5 million in Excess Equity is proposed to help close that gap. The remaining \$37.7 million is proposed to come from the American Rescue Plan Act of 2021 (ARP).

The ARP was signed into law on March 11, 2021, and provides \$360 billion of Coronavirus State and Local Fiscal Funds. On May 10<sup>th</sup>, the United States Department of the Treasury announced the City will receive \$299.7 million. Half of this amount, \$149.85 million, is expected to be received this month with the remaining \$149.85 million expected in May of 2022. The Department of Finance anticipates needing \$37.7 million of this federal relief funding to close the projected budget deficit in FY 2021, leaving the remaining \$262 million to help address projected revenue shortfalls in FY 2022 and FY 2023.

Additionally, the ARP provides \$54 million in Emergency Rental Assistance to the City to assist those in need with rent, utilities, and other expenses. The City also received \$20.9 million in HOME funding for homelessness assistance and supportive services programs. ARP funding will further provide the City with 470 Emergency Housing Vouchers to transition to stable housing those experiencing or at risk of homelessness, survivors of domestic violence, and victims of

human trafficking. The City will apply for some portion of \$3 billion in ARP Economic Disaster Assistance funding and the Government Affairs Department continues to monitor other ARP funding opportunities.

## **OTHER UPDATES**

### **Fire-Rescue Overtime**

The Fire-Rescue Department is projected to exceed its overtime budget by \$13.7 million at fiscal year-end, for a total projected expenditure of \$47.0 million. A majority of this overage in projected overtime expenditures is offset by a net salary and special pay savings of \$5.8 million, \$4.8 million in strike team deployment reimbursements, and \$1.7 million in COVID-19 vaccination operations reimbursements from the County of San Diego and FEMA, resulting in a net impact of \$1.4 million.

Approximately \$3.7 million of the overall \$13.7 million overtime overage is related to constant staffing needs. According to the Department, this is due to sworn vacancies, impacts stemming from the postponement of the third fire academy in FY 2020 (due to COVID-19), and the timing of the second fire academy graduation occurring late this fiscal year (June 2021).

Additionally, \$4.2 million is due to COVID-19 related impacts, including \$1.7 million associated with the Department's vaccination operations which are fully reimbursed through the County of San Diego and FEMA.

Other notable drivers impacting overtime expenses are strike team deployments at \$4.5 million (\$4.8 million in reimbursements are expected to be realized this fiscal year) and \$887,000 in other divisional overtime associated with Dispatcher and Lifeguard Services vacancies.

### **Homelessness Strategies**

The Third Quarter Report notes that there is \$1.1 million in anticipated General Fund savings related to the San Diego Misdemeanants At Risk Track (SMART) Program for FY 2021. The FY 2021 Adopted Budget included \$1.1 million for SMART, therefore there have been no General Fund expenditures for this program in FY 2021. However, the SMART Program has been operating at scattered sites supported by Proposition 47 grant funds until May 2021, when grant funds were fully expended. The program has since been discontinued, despite the \$1.1 million General Fund allocation provided in the FY 2021 Adopted Budget.

The SMART Program was envisioned to expand and consolidate operations at a facility that the City purchased in 2017 and recently rehabilitated. However, these plans have been put on hold since the facility has been used to shelter families during the pandemic instead.

As our Office indicated at the Budget Review Committee on May 5, 2021 as well as in our review of the Proposed Budget, it is unclear what the plan is for the SMART Program. The FY 2022 Proposed Budget includes \$1.2 million in General Funds for the program but, as mentioned earlier, the program has recently ended operations at scattered sites and the SMART facility is still being used as a family shelter.

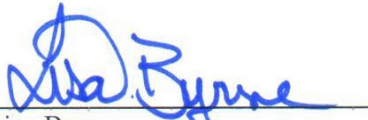
**Our Office continues to raise the need for an update from staff on the SMART Program, and when the program will be reinstated. It remains unclear whether the \$1.2 million allocation in the FY 2022 Proposed Budget will be used, and whether staff intends to reinstate the**

**program in its previous form, operating out of scatted sites, while the SMART facility is still occupied.**

Although the Third Quarter Report cites an anticipated \$1.1 million in savings from the SMART Program, the report indicates that the savings will be redirected to overages incurred by the Golden Hall Bridge Shelter operations related to management of the facility (e.g. utilities, water, building management, and maintenance costs). We note that the May Revision does not provide an increase to the Golden Hall Bridge Shelter for FY 2022 to reflect these increased costs. Staff indicate that they are working to identify other resources to cover these costs.

## **CONCLUSION**

Overall, our Office concurs with the year-end expenditure and revenue projections included in the FY 2021 Third Quarter Report and recommend approval of the FY 2021 appropriation adjustments and authorities as proposed in the FY 2021 Third Quarter Report.



Lisa Byrne  
Fiscal & Policy Analyst



Jillian Kisse  
Fiscal & Policy Analyst



Charles Modica  
Fiscal & Policy Analyst



Jordan More  
Fiscal & Policy Analyst



Baku Patel  
Fiscal & Policy Analyst



Jeff Kavar  
Deputy Director



APPROVED: Andrea Tevlin  
Independent Budget Analyst

Attachment: Budgeted FTEs vs Filled FTEs

Budgeted FTEs vs Filled FTEs						
General Fund Department/ Office	FY 2020			FY 2021		
	Budgeted FTEs (Standard Hour Positions)	Average Filled FTEs (Active Positions)	Average Filled FTEs as a % of Budgeted FTEs	Budgeted FTEs (Standard Hour Positions)	Average Filled FTEs (Active Positions)	Average Filled FTEs as a % of Budgeted FTEs
Office of Race & Equity	N/A	N/A	N/A	3.00	-	-
Public Works & Utilities	2.00	1.75	87.5%	1.50	0.50	33.3%
Smart & Sustainable Communities	10.50	4.88	46.4%	10.50	6.25	59.5%
Mobility	N/A	N/A	N/A	16.50	10.50	63.6%
Homelessness Strategies	N/A	N/A	N/A	9.00	6.25	69.4%
Purchasing & Contracting	52.00	36.00	69.2%	47.00	33.00	70.2%
Office of the ACOO	3.00	2.75	91.7%	2.00	1.50	75.0%
Development Services	72.00	61.50	85.4%	69.00	56.75	82.2%
Homeland Security	18.00	13.25	73.6%	17.00	14.00	82.4%
Debt Management	20.00	17.75	88.8%	17.00	14.50	85.3%
City Council	109.00	97.88	89.8%	109.00	93.50	85.8%
Planning	65.75	54.75	83.3%	51.75	44.75	86.5%
Environmental Services	172.68	152.72	88.4%	172.90	149.55	86.5%
Transportation	628.25	555.69	88.5%	412.25	360.25	87.4%
Communications	33.00	30.00	90.9%	32.00	28.00	87.5%
City Clerk	47.00	44.25	94.1%	47.00	41.50	88.3%
READ-Facilities Services	211.50	187.38	88.6%	176.33	157.00	89.0%
Library	358.00	338.88	94.7%	358.00	319.13	89.1%
Government Affairs	7.00	6.00	85.7%	7.00	6.25	89.3%
Personnel	67.00	63.50	94.8%	67.00	60.00	89.6%
Office of the IBA	10.00	9.00	90.0%	10.00	9.00	90.0%
Storm Water	N/A	N/A	N/A	209.50	189.25	90.3%
Fire-Rescue	1,248.00	1,171.00	93.8%	1,293.67	1,175.00	90.8%
Economic Development	59.00	49.25	83.5%	53.00	48.50	91.5%
Neighborhood Services	11.00	10.75	97.7%	1.50	1.38	91.7%
City Treasurer	128.00	110.00	85.9%	118.00	108.25	91.7%
Parks and Recreation	747.42	701.25	93.8%	727.83	674.50	92.7%
Human Resources	33.00	28.75	87.1%	31.00	28.75	92.7%
City Auditor	22.00	18.75	85.2%	22.00	20.50	93.2%
Performance & Analytics	15.00	12.75	85.0%	15.00	14.00	93.3%
Police	2,605.00	2,390.25	91.8%	2,582.00	2,417.25	93.6%
Office of the COO	5.00	5.00	100.0%	4.00	3.75	93.8%
City Attorney	382.25	366.31	95.8%	381.25	366.25	96.1%
Department of Finance	111.00	103.50	93.2%	106.00	102.00	96.2%
Office of the Mayor	24.00	21.00	87.5%	20.00	19.25	96.3%
Real Estate Assets	32.00	25.25	78.9%	26.00	25.25	97.1%
General Services	N/A	N/A	N/A	1.50	1.50	100.0%
Boards & Commissions	5.00	5.00	100.0%	6.00	6.00	100.0%
Office of the CFO	2.00	2.00	100.0%	2.00	2.00	100.0%
Sustainability	4.00	3.75	93.8%	4.00	4.00	100.0%
Ethics Commission	5.50	5.25	95.5%	6.25	6.25	100.0%
Redistricting Commission	N/A	N/A	N/A	N/A	0.25	N/A
Internal Operations	1.50	1.38	91.7%	N/A	N/A	N/A
<b>Total General Fund</b>	<b>7,327.35</b>	<b>6,709.09</b>	<b>91.6%</b>	<b>7,246.23</b>	<b>6,626.05</b>	<b>91.4%</b>

**NOTES:**

FTEs in this table are standard hour FTEs (full-time, half-time, etc.). They do not include FTEs for workers traditionally considered to be "hourly". Because vacancies are constantly changing, the filled position status is an average of multiple snapshots in time (8/1, 11/1, 2/1, and 5/1 for each fiscal year). Larger departments would not expect to have all budgeted positions filled on average during the year, as turnover occurs. Filled position data was extracted on 2/3/21 for all time periods, except 5/1/21, which was extracted on 5/28/21.

Filled FTEs include supplemental positions that are not included in the budget. However, some employees (but not all) in supplemental positions may be filling operational gaps for other employees who are on extended leaves but are still considered "active" employees in the system. In such cases, there are two employees included in the filled FTE category: but operationally, one of those filled positions is a vacancy. Further, there are other employees in the City who occupy budgeted positions and are on some type of extended leave, which even though is not a technical vacancy in the system, may be creating an operational vacancy. Again, these additional operational vacancies are not captured in this table.