THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 10, 2022 **IBA Report Number:** 22-03

City Council Docket Date: February 14, 2022

Item Number: 203

IBA Review of the FY 2022 Mid-Year Budget Monitoring Report

OVERVIEW

The FY 2022 Mid-Year Budget Monitoring Report (Mid-Year Report) was issued on January 28, 2022 and was presented to the Budget and Government Efficiency Committee on February 2, 2022. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections using actual (unaudited) data from the first five months of the fiscal year (July through November 2021). In addition, as an attachment, the Police Department provides a report on overtime and Neighborhood Policing expenditures through mid-year, in accordance with the FY 2022 Appropriation Ordinance (O-21348). New this year, is an attachment that responds to the City Council's request in Resolution 313615 that Homelessness Strategies and Solutions Department provide updates on homelessness programs and spending.

The Mid-Year Report is projecting a balanced budget even though General Fund expenditures are expected to exceed the amounts in the current budget by $20.5 million (or $20.7 million over the Adopted Budget). This is made possible by a projected increase in General Fund revenues of $49.6 million. Of this amount, $20.5 million offsets the increases in expenditures. Additionally, the Mayor plans to use $28.9 million of the increased revenues to reduce the City's use of its one-time allocation of American Rescue Plan Act (ARPA) funds in FY 2022. This will leave $179.3 million in ARPA funding available for use in future fiscal years.

The purpose of the IBA review of the Mid-Year Report is to provide clarification and additional information on significant items in that report. In our report, we review major General Fund revenues, select departmental revenues, salaries and wages (including public safety overtime), public liability costs, and reserves. We also provide a closer look at the status of homelessness expenditures. Further, we review the $20.5 million in General Fund and $2.2 million in non-General Fund proposed appropriation increases and express our concurrence with them. Finally, we provide a status update on all items City Council added to the FY 2022 Adopted Budget as part of their final budget resolution.

FISCAL/POLICY DISCUSSION

General Fund Revenues

General Fund revenues are made up of Major General Fund Revenues (property tax, sales tax, Transient Occupancy Tax [TOT], and franchise fees) and departmental revenues. Overall General Fund revenues are projected to be over the Adopted Budget by $49.6 million, which is a positive indicator that the City is continuing to rebound from the COVID-19 pandemic. This includes a projected $31.1 million increase in the Major General Fund Revenues and a $18.5 million increase in departmental revenues. Within departmental revenues, $14.0 million of the increase is attributable to an increase in reimbursements from Special Promotional Programs, and the remainder is primarily due to increased revenue from City leases. With these projections, the City expects to use $28.9 million less of its one-time allocation of ARPA funds, leaving a total of $179.3 million remaining to address future needs as it continues to recover from the economic impacts of COVID-19. Our Office finds the revenue projections in the Mid-Year Report to be reasonable.

Major General Fund Revenues

Major General Fund revenues in the Mid-Year Report are projected to be $31.1 million over amounts included in the Adopted Budget. This is a $12.8 million increase from the FY 2022 First Quarter Budget Monitoring Report (First-Quarter Report) projections. As shown in the table below, all major General Fund revenue sources are anticipated to increase over projections in both the Adopted Budget and the First-Quarter Report, except for Property Tax and Other Major Revenues. The primary drivers of the changes in major General Fund revenues are discussed further in this section.

Mid-Year Report Major General Fund Revenues Comparison *($ in millions)*					
	Adopted Budget	**First-Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
Property Tax	$ 672.2	$ 662.0	$ 658.5	$ (13.7)	$ (3.5)
Sales Tax	320.8	331.8	341.1	20.3	9.3
Transient Occupancy Tax[1]	95.5	113.0	119.9	24.4	6.9
Franchise Fees	78.3	78.3	86.2	7.9	7.9
Other Major Revenues[2]	111.0	111.0	103.2	(7.8)	(7.8)
Subtotal	**1,277.8**	**1,296.1**	**1,308.9**	**31.1**	**12.8**
American Rescue Plan Act	**149.3**	**149.3**	**120.4**	**(28.9)**	**(28.9)**
Total	**1,427.2**	**1,445.4**	**1,429.4**	**2.2**	**(16.0)**

[1] These amounts represent the 5.5% portion 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.

[2] Note - Updates for Other Major Revenues were not included in the First Quarter Monitoring Report. Therefore First-Quarter Projection amounts shown here are the same as those of the Adopted Budget.

The "Other Major Revenues" line in the table above shows a decrease of $7.8 million as compared to the FY 2022 Adopted Budget. The decrease is primarily due to new franchise fee minimum bid payments being accounted for under Franchise Fees as opposed to Other Major Revenue.

Property Tax

Property tax revenues are projected to be $13.7 million below the current budget, and $3.5 million below the First-Quarter Report projection. Similar to the decreases described in the First-Quarter Report, the Department of Finance is projecting decreases to all of the property tax categories, including the 1.0% Property Tax ($8.5 million decrease), the Motor Vehicle License Fees (MVLF) ($2.8 million decrease) and Redevelopment Property Tax Trust Fund (RPTTF) ($2.4 million). The main changes between the First Quarter and Mid-Year reports are decreases within the 1.0% property tax allocation ($2.7 million) and the RPTTF ($1.0 million). In all instances, the decreases in projected property tax revenues are primarily attributable to the fact that allowable inflation on assessed values for FY 2022 under Proposition 13 is only 1%, which was the Consumer Price Index (CPI) growth rate from October 2019 to October 2020. Thus, all properties that are not sold, transferred, or significantly improved have assessments that have grown at half the usual cap of 2%. All other market indicators, such as homes sales and price growth, remain strong, and thus the projected growth rate, which was decreased in the First-Quarter Report from 4.50% to 4.00%, remains at 4.00% in the Mid-Year Report. Our Office agrees with these projections.

Of note, some of the decrease in the RPTTF allocation is due to updated projections based on the most recently approved Recognized Obligation Payment Schedule (ROPS), which was approved by the Council and the County Oversight Board in January, and is currently awaiting approval from the State Department of Finance (DOF). The former successor agency is only allowed to place items on the ROPS for which the agency had an obligation at the time of redevelopment dissolution in 2012. Further, all items on the ROPS are subject to State DOF approval. The preliminary State approval is due by April 15, with final approval by May 15 should the City decide to appeal any of the State's determinations. If the State disallows any line items during their approval process, this will change the projected General Fund revenue from the RPTTF, as it has done in the past.

Sales Tax

Sales tax revenues are projected to be $20.3 million above the Adopted Budget, and $9.3 million above projections in the First-Quarter Report reflecting positive economic impacts from things such as opening the economy more fully in June 2021 as well as the infusion of government stimulus and assistance. This positive growth continues a trend that was reflected in the FY 2021 Year-End Financial Performance Report, primarily driven by growth at the end of the fiscal year and reflects accelerated growth from projections in the First Quarter Budget Monitoring Report.

Included in projections for sales tax at the time of the preparation of the Adopted Budget was the assumption that sales tax would reach pre-pandemic levels in Fiscal Year 2022. The Mid-Year Report projects that sales tax revenue will total $341.1 million in FY 2022, which is $36.7 million over the amount of sales tax revenue actually received in FY 2019. Unemployment rates and levels of consumer confidence are also trending positively. However, we do note that not all industries have recovered to pre-pandemic levels and the Omicron variant, increased inflation, and future federal interest rate increases could impact projections. Despite these risks, our Office believes that the mid-year projections for sales tax are reasonable and are in line with those of the City's sales tax consultant.

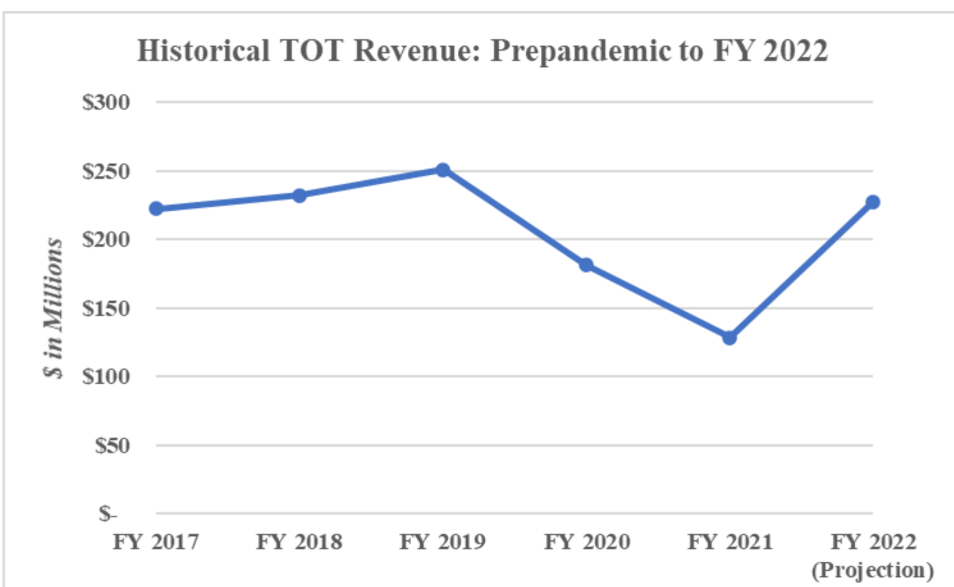
Transient Occupancy Tax

The City's Transient Occupancy Tax (TOT) – 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%, 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 being allocated to the City's General Fund. It is important to note that changes in TOT receipts impact all these allocations, as shown in the table below.

Transient Occupancy Tax Revenue *($ in millions)*					
	Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
General Fund Allocation (5.5%)	$ 95.5	$ 113.0	$ 119.9	$ 24.4	$ 6.9
Special Promotional Programs (4.0%)	68.5	81.3	86.2	17.6	4.9
Council Discretionary (1.0%)	17.1	20.3	21.5	4.4	1.2
Total	**$ 181.1**	**$ 214.6**	**$ 227.6**	**$ 46.5**	**$ 13.0**

TOT revenues are projected to increase by $46.5 million from the FY 2022 Adopted Budget, and $13.0 million from the First-Quarter Report. This increase drives the projected TOT year-over-year growth rate from 62.5% to 77.4%. As with Sales Tax, we are seeing continuing economic recovery from the COVID-19 pandemic as more people participated in leisure travel in the first five months of the fiscal year than previously anticipated. Again, as with sales tax, it will be important to closely monitor revenues for any potential impacts from COVID-19 variant surges that might have impacted tourism activity since the Mid-Year Report projections.

Because TOT has been the hardest hit revenue source by the pandemic, we illustrate the magnitude of its projected recovery in the graph below. The FY 2022 year-end projection is about 9.2% below actual TOT revenue in FY 2019. However, we note that TOT revenue was anticipated to have otherwise grown between FY 2019 and FY 2022.



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.[1] However, a portion of revenue in the Special Promotional Programs allocation is used to reimburse certain General Fund Departments. Therefore, if TOT revenues increase, there is often a corresponding benefit to respective departments.

The Adopted Budget assumed that $28.0 million from the Special Promotional Programs allocation would be used to reimburse the Parks & Recreation Department and Fire-Rescue Lifeguards for tourism-related expenses. That reimbursement is now projected to be $42.0 million. This increase allows for additional reimbursement to these departments as shown in the table below.

Special Promotional Programs - General Fund Reimbursements *($ in millions)*			
	Adopted Budget	**Mid-Year Projection**	**Variance**
Parks & Recreation	$ 8.0	$ 17.0	$ 9.0
Fire-Rescue - Lifeguards	20.0	25.0	5.0
Total	**$ 28.0**	**$ 42.0**	**$ 14.0**

We note that most of the $17.6 million increase in Special Promotional Programs revenue is flowing to the General Fund departments above. The remaining $3.6 million increase is projected to remain in the Special Promotional Programs fund balance for potential future use.

<u>Franchise Fees</u>
Franchise fee revenues are projected to be at the current budget, which is similar to the First-Quarter Report, with the exception that proceeds from the minimum bids for the new franchise agreements with SDG&E are now accounted for under Franchise Fees as opposed to Other Major Revenues. This increases the franchise revenues by $7.9 million, with a corresponding decrease in Other Major Revenues.

Annual franchise fee revenues from SDG&E, which make up 60% of all General Fund franchise fee revenues, continue to be projected at budget. This projection typically does not change until after the City receives the February clean-up payment from SDG&E. However, within the Other Major Revenues, there is a projected decrease of $2.6 million due to a determination by the City Attorney that the minimum bid proceeds are subject to Charter Section 103(1a), which states that 25% of franchise revenue received from gas and electric franchises must be transferred to the Environmental Growth Fund (EGF). Per the City Charter, the EGF is used either for bonds for acquisition, improvement and maintenance of park and recreation open space, or, to the extent that funds exist over and above the requirements for debt service, for other purposes so long as it preserves and enhances the environment and is approved by the City Council. Since FY 2009, when the last bonds were retired, revenues have been utilized to reimburse the General Fund for eligible park and open space maintenance. The City Attorney's determination that minimum bid proceeds must also be split with the EGF means the EGF has an additional $2.6 million in revenue,

[1] The Council Discretionary Allocation is included in "Other Major Revenues" in the Department of Finance's Mid-Year Report.

but at this time Parks & Recreation has not made a determination as to how this revenue will be utilized.

Minimum Bid Proceeds and the Climate Equity Fund
Following up from a conversation at the Budget & Government Efficiency meeting, our Office also reviewed the resolution creating the Climate Equity Fund (CEF) (R-2021-345) and the implications of the minimum bid for the fund. It is important to note that City Charter Section 103(1a) governing the EGF and the CEF resolution use different terms and have different language associated with how franchise revenues are to be dispersed or budgeted into the funds.

For the EGF, the Charter states that *"Into this fund each year there shall be placed 25 percent of all moneys derived from the revenues accruing to the City from any franchises for the transmission and distribution of gas, electricity and steam within the City of San Diego." In contrast, the CEF resolution states that "through the City's annual budget process, the Mayor and Council may allocate funding to the CEF from any source of revenue, but at a minimum, shall consider making allocations to the CEF from the following revenue sources during the annual budget process, unless waived by the Council:….**c. Annual Gas and Electric Franchise Fees**: Ten percent of the General Fund revenue received through the annual gas and electric franchise fees…"*

In comparing the two documents, the CEF language has notably more leeway than the EGF, including the various waivers built into the language that allow the Mayor and Council discretion as to how much funding is allocated during the budget process. While we do not think that the current CEF criteria requires an additional appropriation to the CEF at this time, we would note that there is no maximum to how much funding the Mayor and Council may budget for the CEF during the budget process. Our Office is available to continue to work with the Council to refine the funding mechanisms for this fund, and we will continue to work with staff to refine the policies regarding CEF financing during the upcoming budget process.

Departmental Revenues

The projected $18.5 million increase in departmental revenues is largely driven by TOT revenue that is expected to reimburse Fire-Rescue Lifeguards and Parks & Recreation, making up $14.0 million of the total increase. Another significant driver of the overall increase stems from growth in revenues received through the lease of City-owned property to outside entities, which is discussed further below. The Mid-Year Report lists other variances bringing the net change in departmental revenue to $18.5 million.

Lease Revenues (Department of Real Estate and Airport Management)
The Department of Real Estate and Airport Management revenue is estimated to come in $6.6 million over budget, totaling $55.1 million. Of this increase, $3.8 million is related to revenue generated from leases the City has in Mission Bay. Mission 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 closures and operating at reduced capacity in response to health orders, but the Mid-Year Report reflects some recovery similar to TOT revenue. The remaining increase in revenue is expected to be from receipt of back rent and additional hotel revenue on Pueblo Land, as well as increased revenue from rents and concessions.

The $3.8 million increase in Mission Bay revenue will be transferred to the Mission Bay and Regional Parks Improvement funds for related capital improvement projects, pursuant to requirements of the City Charter.

General Fund Expenditures

The Mid-Year Report projects FY 2022 total General Fund expenditures to be $1.76 billion, $20.7 million higher than the FY 2022 Adopted Budget (which is a negative expenditure variance). This variance is 1.2% of the Adopted Budget, as shown in the following table. Note that the figures in our tables are slightly different than the Department of Finance, as we are using the Adopted Budget as a base for comparison, whereas Department of Finance is using the current budget, which includes minor carryforward amounts.

FY 2022 General Fund Expenditures *($ in millions)*				
	Adopted Budget	**Mid-Year Projection**	**Variance: Adopted to Mid-Year**	**Variance %: Adopted to Mid-Year**
Salaries and Wages	$ 680.9	$ 691.8	$ (11.0)	(1.6%)
Fringe Benefits	533.4	528.7	$ 4.6	0.9%
Non-Personnel Expenditures (NPE)	529.3	543.7	$ (14.4)	(2.7%)
Total General Fund Expenditures	**$ 1,743.5**	**$ 1,764.2**	**$ (20.7)**	**(1.2%)**

Notes: Table may not total due to rounding.
Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

The main focus of our General Fund Expenditures analysis is salaries and wages. Overall, salaries and wages are projected higher than the Adopted Budget by a net $11.0 million (shown above as a negative expenditure variance). However, there are a number of offsetting variances in salaries and wages' components, the largest of which is overtime. Our report does not discuss fringe benefits and most Non-Personnel Expenditures (NPE) variances, as the Department of Finance addressed these in the Mid-Year Report. We *do* discuss public liability expenditures.

Salaries and Wages

The following table compares the FY 2022 mid-year projections to the Adopted Budget for the various salaries and wages categories. The bottom row in the variance column shows that salaries and wages in total are $11.0 million higher than what was included in the FY 2022 Adopted Budget (again, a negative variance).

FY 2022 Salaries and Wages Expenditures - General Fund *($ in millions)*				
	Adopted Budget	**Mid-Year Projection**	**Variance: Adopted to Mid-Year**	**Variance %: Adopted to Mid-Year**
Salaries	$ 546.7	$ 530.9	$ 15.7	*2.9%*
Special Pay	43.9	46.9	$ (2.9)	(6.7%)
Overtime	67.8	90.2	$ (22.3)	(32.9%)
Hourly	13.3	12.4	$ 0.8	6.3%
Vacation Pay in Lieu/Termination Pay	9.1	11.5	$ (2.3)	(25.4%)
Total Salaries and Wages	**$ 680.9**	**$ 691.8**	**$ (11.0)**	**(1.6%)**

Notes: Table may not total due to rounding.
Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

Looking at the separate rows in the table, we see that there is $15.7 million in net salary savings, primarily related to delays in hiring and higher vacancies than anticipated in the Adopted Budget. We also see that this $15.7 million in salary savings is partially offsetting overages in other salaries and wage categories (special pay, overtime, and pay-in-lieu).

The most significant overage, $22.3 million in overtime, is largely related to the Fire-Rescue and Police Departments – $13.5 million and $6.9 million, respectively. Overtime is addressed in a following section of this report.

Departmental Variances

As previously mentioned, total salaries and wage expenditures net to $11.0 million more than what was included in the FY 2022 Adopted Budget. This overage includes all salaries and wage types (salaries, special pay, overtime, hourly, and pay-in-lieu costs). The $11.0 million overage includes departments with salaries and wage overages, which are partially offset by departments with savings.

Departments with the largest salaries and wage overages include:

- $7.4 million – Fire-Rescue (largely overtime overage, partially offset with salary savings, including the requested appropriation transfer from Citywide Program Expenditures)
- $6.8 million – Police (largely overtime overage when salary savings from the requested appropriation transfer from Citywide Program Expenditures is incorporated)
- $3.2 million – City Attorney (largely salary overage)
- $428,000 – Human Resources (largely hourly overage)

Departments with the highest salaries and wage savings include:

- $1.3 million – Parks and Recreation (largely hourly and salary savings, partially offset with overtime overage)
- $708,000 – Transportation (largely salary savings)
- $597,000 – Stormwater (largely salary savings, partially offset with overtime overage)
- $354,000 – Economic Development (largely salary savings)
- $319,000 – Compliance (largely salary savings)
- $318,000 – Commission on Police Practices (largely salary savings, about half its salaries and wages budget)

- $309,000 – Homelessness Strategies (largely salary savings)

Overtime Expenditures

The category of salaries and wages with the largest FY 2022 projected overage is overtime, netting to an over-budget total of $22.3 million. Of this amount, $13.5 million is within the Fire-Rescue Department and $6.9 million is in the Police Department. The next largest overtime overages are $613,000 in Environmental Services, $564,000 in Stormwater, and $531,000 in Parks & Recreation. The Fire-Rescue and Police Departments together comprise 93% of total General Fund overtime costs. These two departments' overtime expenditures are discussed briefly below.

Police Overtime

The FY 2022 Adopted Budget for Police Department overtime, at $30.7 million, is $7.4 million lower than what was budgeted in FY 2021. This reduction includes $2.0 million for extension of shift, as well as reductions in other overtime categories such as Neighborhood Policing ($1.0 million), COVID-19 related overtime funded by federal dollars ($2.0 million), CleanSD overtime ($1.0 million), special events ($1.0 million), and other categories ($0.4 million). However, even with savings garnered in most of these categories in FY 2022, the FY 2022 mid-year projection of $37.6 million is $6.9 million higher than the FY 2022 Adopted Budget. All Police overtime is budgeted in the General Fund in FY 2022.

For additional context, historical information on Police overtime expenditures is provided in the following table.

Police Overtime - Historical Budget vs. Actuals *($ in millions)*

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 [1]	FY 2020 [2]	FY 2021 [3]	FY 2022
Actual	$ 17.8	$ 23.1	$ 25.0	$ 26.0	$ 29.7	$ 31.9	$ 44.8	$ 37.2	$ 37.6
Budget	11.8	11.1	18.0	21.0	26.3	24.6	35.9	38.1	30.7
Overage/ (Savings)	**$ 6.0**	**$ 12.0**	**$ 7.0**	**$ 5.0**	**$ 3.4**	**$ 7.4**	**$ 8.9**	**$ (0.9)**	**$ 6.9**

NOTES: Table may not total due to rounding.

FY 2014 through FY 2021 Actual amounts are based on unaudited actuals. FY 2022 Actual amount is based on mid-year projections.

[1] 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.

[2] 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.

[3] The $37.2 million FY 2021 actual amount includes $32.9 million and $4.3 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.

The following table provides a categorical breakdown of the Department's overtime budget, including actual expenditures through period 5 (November 2021) and mid-year projections through fiscal year-end.

SDPD FY 2022 General Fund Overtime Breakdown						
Category	Subcategory	Adopted Budget	Exp. Through Period 5 ($)	Exp. Through Period 5 (%)	FY 2022 MY Projection ($)	FY 2022 MY Projection (%)
Extension of Shift	Extension of Shift	$ 3,921,137	$ 2,765,632	71%	$ 6,384,924	163%
	Reports	$ 1,214,838	$ 703,446	58%	$ 1,721,118	142%
	Training & Support	$ 874,667	$ 295,570	34%	$ 554,559	63%
	Emergency Calls	$ 23,867	$ 11,842	50%	$ 39,265	165%
	Patrol Staffing Backfill	$ 2,261,396	$ 3,022,591	134%	$ 6,659,310	294%
	Community Policing	$ 423,898	$ 105,745	25%	$ 241,455	57%
	Communications Staffing	$ 1,333,440	$ 439,064	33%	$ 1,134,112	85%
Call Back	Call Back	$ 1,418,177	$ 699,030	49%	$ 1,677,672	118%
Court	Court	$ 2,084,808	$ 689,678	33%	$ 1,655,227	79%
Holidays	Holiday Worked Premium Pay	$ 4,292,865	$ 2,459,443	57%	$ 4,736,338	110%
Special Events	Special Events Commercial	$ 887,496	$ 420,355	47%	$ 887,496	100%
	Special Events - Non-Profit	$ 863,217	$ 153,204	18%	$ 863,217	100%
	July 4th Holiday Support	$ 196,857	$ 465,513	236%	$ 465,513	236%
	Ballpark Events	$ 1,032,670	$ 689,661	67%	$ 1,032,670	100%
	Stadium Events	$ -	$ (294)	0%	$ -	0%
	Other Special Events	$ 319,838	$ (26,212)	-8%	$ 319,838	100%
Grants/Task Forces	Grants/Task Forces	$ 2,421,300	$ 965,362	40%	$ 2,421,300	100%
Other Events	Presidential/Dignitary Visits	$ 72,394	$ 2,721	4%	$ 6,530	9%
	Protests & Other Events	$ 156,400	$ 76,750	49%	$ 184,200	118%
	Neighborhood Policing*	$ 5,876,457	$ 2,693,175	46%	$ 5,876,457	100%
	Other (inc. Covid-19)	$ 77,665	$ 321,925	415%	$ 500,000	644%
Miscellaneous	FLSA Overtime (Flores)	$ 924,827	$ 106,273	11%	$ 255,055	28%
TOTAL		**$ 30,678,213**	**$ 17,060,473**	**56%**	**$ 37,616,257**	**123%**

* Includes CleanSD related overtime expenditures

Two subcategories – Extension of Shift and Patrol Staffing Backfill – are the primary drivers of the projected overage and are projected to exceed budget by $2.5 million and $4.4 million, respectively. All of the Department's other overtime subcategories taken together are projected to result in a nominal net overage of approximately $76,000.

According to the Department, the overage in Extension of Shift is primarily attributable to the Department's response to a rise in violent crime that has been experienced through November 2021. As such, the overage in Extension of Shift may not necessarily reflect an ongoing trend.

Of greater concern is the overage in Patrol Staffing Backfill, which is utilized when a patrol area command does not meet its minimum patrol staffing requirement and necessitates officers from other patrol area commands to backfill the staffing shortage on an overtime basis. Unlike the Fire-Rescue Department, which utilizes a constant staffing model, the Police Department's minimum patrol staffing requirement fluctuates based on, among other factors, the volume of 911 and other calls for service. According to the Department, there has been an approximate 20% increase in the volume of 911 calls compared to 2019. The magnitude of the projected Patrol Staffing backfill at nearly 300% of budget is indicative of significant staffing issues, and the inability to respond to the increased call volume using regular standard time (not overtime) suggests that the Department may be operating too close to minimum staffing levels even during times of normal call volume.

SDPD – Sworn Staffing and Attrition Comparison		
2,036 Budgeted Officers	**As of Feb. 1, 2021**	**As of Jan. 31, 2022**
Staffing Level	1,938 filled	1,888 filled
Total Attrition	101 (13 per month)	140 (20 per month)
Lost to other Agencies	6 (1 per month)	26 (4 per month)
Retirement	53	53

As shown in the table above, overall staffing and attrition metrics are worse compared to the same time last year. With that said, Police Academy sizes have remained mostly unchanged at approximately 45-50 recruits per academy. While this has limited the impact to the Department's overall staffing level, the recent trend over the last few years that saw overall sworn staffing slowly increasing has now reversed. For illustrative purposes, assuming 45 recruits graduate from each of the Department's four Police Academies (180 graduates annually) and attrition rate of 13 per month (156 lost officers annually), sworn staffing levels would see a net increase of 24 officers; at an attrition rate of 20 per month (240 lost officers annually), there would be a net decrease of 60 officers. **Given the recent pace of officer attrition, we recommend the Police Department provide updates to the Public Safety and Livable Neighborhoods Committee on officer staffing issues, overtime, and impact to service levels.**

Fire-Rescue Overtime

As shown in the following table, Fire-Rescue's actual overtime expenditures have significantly increased in FY 2018 through FY 2022 when compared to the previous 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 2022, which average $45.8 million.

The Fire- Rescue Department has indicated that contributing factors for increased overtime levels over the years include general salary increases; a Local 145 Memorandum of Understanding (MOU) change beginning in FY 2018 that allows leave time (non-productive time) to count towards the threshold above which overtime is earned; 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 and FY 2022 there was also increased backfill overtime for COVID-related absences (which includes increased absences for industrial leave) and for personnel pulled from operations to perform reimbursable COVID-19 activities, including the City's FY 2021 vaccination operations.

Fire-Rescue Overtime – Historical Budget vs. Actuals *($ in millions)*									
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Actual	$ 29.7	$ 31.5	$ 31.8	$ 32.5	$ 45.4	$ 45.2	$ 41.1	$ 51.3	$ 46.2
Budget	23.7	26.7	29.9	30.2	32.8	38.1	36.6	33.3	32.8
Overage	**$ 6.0**	**$ 4.8**	**$ 1.9**	**$ 2.3**	**$ 12.5**	**$ 7.0**	**$ 4.5**	**$ 18.0**	**$ 13.5**

NOTES: Table may not total due to rounding.

FY 2014 through FY 2021 Actual amounts are based on unaudited actuals. FY 2022 Actual amount is based on mid-year projections.

Of the $13.5 million overtime overage in FY 2022, $5.3 million is or will be offset by reimbursements ($1.0 million)[2] and projected net savings in salary and special pay (approximately $4.3 million), resulting in a net General Fund impact of about $8.2 million.

For a more detailed break-down of the $13.5 million overtime overage, the Fire-Rescue Department provided the following components:

- $10.0 million – constant staffing for essential fire suppression posts
- $1.1 million – strike team deployments ($711,000 is reimbursable)
- $760,000 – other divisional overtime, largely for dispatcher and lifeguard services vacancies
- $617,000 – COVID-19 related overtime ($320,000 is reimbursable)
- $575,000 – fire academies, which have been impacted by COVID-19
- $221,000 – required continuing education and fire recruit exams
- $138,000 – weather related overtime

Non-Personnel Expenditures

The Mid-Year Report projects non-personnel expenditures to be $14.4 million higher than the Adopted Budget, with the largest overage occurring in the Contracts category. The overage is primarily driven by a $15.1 million transfer to the Public Liability Operating Fund to support ongoing claims, which is discussed further below.

<u>Public Liability Expenditures</u>

The Mid-Year Report indicates that Public Liability (PL) expenditure projections exceed resources by $24.5 million; however, due to the volatile nature of litigation, there is some uncertainty regarding the timing and amounts of PL payments. Because of this uncertainty, the Department of Finance and Risk Management have decided to only include an additional $15.1 million of projected expenditures in the Mid-Year Report for PL payments. The Departments will continue to monitor this area, and it is possible that expenditure amounts in excess of the additional $15.1 million may occur in FY 2022.

In FY 2022 the City has experienced more settlements with higher dollar values than anticipated, and Risk Management predicts the same occurring for the remainder of the fiscal year. Projections are based on confidential consultations with the City's legal counsel and can vary significantly from the eventual resolution of claims. Risk Management has relayed that across California there is an upward trend of high plaintiff demands, high jury verdicts, and high dollar claims.

Reserves

This section discusses the status of several of the City's reserves, including the General Fund Reserve, Risk Management reserves, and the Pension Payment Stabilization Reserve (PPSR).

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[2] Fire-Rescue indicated that it anticipates receiving and additional $1.3 million in FY 2021 COVID-19 related reimbursements. Because these are for FY 2021 expenditures, they are not included as offsetting to the FY 2022 overtime overages. We included FY 2021 reimbursable overage amounts as an offsetting component to overtime overages in our review of the FY 2021 Year-End Financial Performance Report (IBA Report #21-24).

General Fund Reserve and Excess Equity

General Fund Reserve

The City's Reserve Policy goal for the General Fund Reserve is to reach 16.7% of operating revenues, which is to be phased-in through FY 2025.[3] To realize this phase-in, over the past several years, the Policy's Reserve target percentage has increased by 0.25% annually. For example, the Reserve Policy's General Fund target increased from 15.5% of operating revenues in FY 2020 to 15.75% in FY 2021 and to 16% in FY 2022.

However, as a result of declining revenues due to the COVID-19 pandemic, neither the FY 2021 nor FY 2022 Adopted Budgets included a General Fund Reserve contribution. Thus, the FY 2021 and projected FY 2022 Reserve levels remain at the FY 2020 balance of $205.6 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 was $8.2 million below the Reserve Policy target; and the FY 2022 Reserve is projected to be $14.8 million below the Reserve Policy target.

General Fund Reserve Policy vs Reserve Balance *($ in millions)*			
	FY 2020	**FY 2021**	**FY 2022**
Reserve Policy Target Percent	***15.5%***	***15.75%***	***16%***
Reserve Policy Target [1]	$ 205.6	$ 213.8	$ 220.4
Reserve Balance (FY 2020 and FY 2021) / Reserve Projection (FY 2022)	$ 205.6	$ 205.6	$ 205.6
Difference: Amount Reserve Balance Is Below the Policy Target	**$ -**	**$ (8.2)**	**$ (14.8)**
Reserve Balance as Percent of Operating Revenues	***15.5%***	***15.1%***	***14.9%***

Note: Table may not total due to rounding.

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

For FY 2023, the Five-Year Outlook's projected $22.2 million General Fund Reserve contribution is anticipated to bring the Reserve to the 16.25% policy target, estimated at $227.8 million. We anticipate this contribution will be included in the FY 2023 Proposed Budget.

Excess Equity

Excess Equity, as described in the Reserve Policy, is "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation". For FY 2021, year-end Excess Equity totaled $26.7 million. Now, with the FY 2022 mid-year projections for increased operating revenues and decreased use of American Rescue Plan Act (ARPA) funding, estimated Excess Equity is still $26.7 million. Excess Equity can be used as a one-time resource, and Councilmembers supported its use in their FY 2023 budget priorities resolution, which was approved on February 7, 2022. The Excess Equity amount could change as the fiscal year progresses.

Risk Management Reserves

The following table shows the FY 2022 projected balances for the Risk Management Reserves as compared to the FY 2022 Reserve targets. While the Workers' Compensation Reserve is projected

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

to have a small surplus, the Long-Term Disability and Public Liability Reserves are projected to have a deficit.

Current Projected Deficits in Risk Management Reserves *($ in millions)*			
	Workers' Compensation	**Long-Term Disability**	**Public Liability**
FY 2022 Reserve Projection	$ 33.9	$ 4.3	$ 33.8
FY 2022 Reserve Target	33.3	4.7	36.9
Projected Surplus/(Deficit)	***$ 0.6***	***$ (0.5)***	***$ (3.1)***

Note: Table may not total due to rounding.

The FY 2023-FY 2027 Five-Year Outlook included contributions in FY 2023 to cover the FY 2022 Reserve deficits, and we anticipate those contributions will be included in the FY 2023 Proposed Budget. Note that the FY 2023 Reserve targets will be based on the average outstanding actuarial liabilities for FY 2020 through 2022, which will not be known until the FY 2022 valuations are completed in the fall of 2022.

Pension Payment Stabilization Reserve (PPSR)

Fiscal Year 2022

The mid-year projections do not include $7.9 million of revenue that had been included in the Adopted Budget for a transfer from the PPSR[4] to the General Fund. Because of increases in other projected revenues over budgeted amounts, this transfer is no longer needed. The Department of Finance notes that maintaining the $7.9 million in the PPSR will enable its use as a mitigation for impacts due to the unwinding of Proposition B.

Future Considerations

Currently, at $7.9 million, the PPSR is not funded to the level required in the Reserve Policy. However, since the $7.9 million is contemplated for inclusion in the FY 2023 Budget as a mitigation for Proposition B impacts, decisions regarding full funding of the PPSR are premature. The Mayor is required to prepare a plan for replenishment of the PPSR within a year of (full or partial) depletion. There will need to be future discussions about replenishing the PPSR to its required funding level, once the Proposition B impact on the Reserve is more certain.

Non-General Funds

The Mid-Year Report provides an update on various Non-General Funds. Several of these funds are projecting to run a deficit at the end of FY 2022, where expenditures exceed revenues. Our Office reviewed the health of these funds and although they show deficits in the current fiscal year, they do not present significant concerns. For example, overages in the Airports Fund and Concourse and Parking Garages Operating Fund are expected to be covered by the respective fund balances.

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[4] The purpose of the Pension Payment Stabilization Reserve (PPSR) is to have a source of funds available "to mitigate service delivery risk due to increases in the annual pension payment, the Actuarially Determined Contribution (ADC)." The PPSR was incorporated into the City's Reserve Policy (Council Policy 100-20) in April 2016.

However, of note, the Engineering & Capital Projects (E&CP) Fund has shown a continuing deficit over the years, which the department attributes to historically low overhead rates and high vacancies. We note that engineers bring in revenue for the E&CP fund as they can bill time for their work on capital improvements projects. The overhead rate that is charged to projects was increased to 155.9% in FY 2020 with a goal of reducing the deficit in two years; however, the department is dealing with pandemic-related impacts affecting employee productivity such as COVID-related absences. Additionally, E&CP staff noted while they continue to struggle filling vacancies, they are optimistic that recent engineering salary increases will help to fill vacancies and improve employee retention. The department has been aggressively recruiting this past year and have reduced the vacancy rate from 20% to 15%.

Homelessness

New to this year's Mid-Year Report is an attached memorandum from the Homelessness Strategies and Solutions Department that provides updates on programs and spending as requested by City Council and recommended by our Office. Most of the funding for homelessness programs is supported by grants and therefore allocated *outside* the budget process and can be spent over multiple years. Therefore, there is little opportunity for Council to view total planned expenditures for a particular fiscal year, monitor expenditures, and be apprised of programmatic changes. We appreciate the Department providing this information.

Because information was not available during the budget process, our Office produced a comprehensive listing of FY 2022 projected homelessness expenditures in IBA Report 21-19 for all funds and programs. In the following section we highlight a few of the significant changes reflected in the memorandum that have occurred since our report was before City Council. We note that the memo in the Mid-Year Report uses the Adopted Budget as a base for comparison. However, significant grant funding was appropriated right after the budget was approved and IBA Report 21-19 reflects these appropriations. Therefore, we compare mid-year projections to our report.

Use of Carryforward Federal Grant Funds

In May and October 2020, the City Council approved a total of $26.4 million in federal COVID-19 Emergency Solutions Grant funding (ESG-CV). Since these funds were not fully expended in FY 2021, the remaining $13.3 million was carried forward to FY 2022 to continue to respond to the COVID-19 pandemic. Since ESG-CV funds must be used to address COVID-19 and be fully expended by September 30, 2022, staff is prioritizing this funding source over other State grant funds, with longer spending deadlines. The remaining State grant funds will be used in future fiscal years. Our Office supports this approach.

Projected $3.8 Million in Additional Expenditures

As the memorandum states, a total of $53.1 million is expected to be spent in FY 2022 for homelessness program across the Homelessness Strategies and Solutions Department and the Economic Development Department and across various funding sources. This is about $3.8 million more than was anticipated at the time of IBA Report 21-19. Overages can be covered with the use of carryforward funds referenced above. We summarize the major increases and decreases in projected spending for programs in the following table.

Summary of Major Changes Since IBA Report 21-19	
Program	**Variance**
Golden Hall Shelter - Downstairs	$ 2,498,304
Golden Hall Shelter - Upstairs	866,635
Increase of Ancillary Costs (Golden Hall)	611,314
Additional Shelter	606,355
Day Center Program	425,000
Expansion of Outreach (Partnership with Caltrans)	415,000
No SMART Program Expenditures	(1,249,262)
Underspend of Rapid Rehousing	(519,219)
Reduced Allocation for Flexible Spending	(500,000)
Total	**$ 3,154,127**

Note: This table does not reflect all projected overages and underspending that equate to $3.8 million.

Below we provide additional context for the above changes that are not already discussed in the memorandum.

<u>Golden Hall Shelter</u>

The City, in partnership with the San Diego Housing Commission, runs a shelter in both the upstairs and downstairs portions of the Golden Hall building within the City Concourse.[5] Mid-year projections indicate that an additional $867,000 will be needed to operate the upstairs and an additional $2.5 million will be needed to run the downstairs in FY 2022. This brings FY 2022 projected costs for both portions of the Golden Hall shelter to $11.4 million, including the youth shelter beds and related case management. Council may wish to ask what is driving these unanticipated cost increases.

Not included in the $11.4 million figure, are "ancillary costs", which include things such as rental of restrooms, showers, laundry units, storage units, and building management costs. As seen in the table above, shelter ancillary costs are projected to increase by about $611,000 in FY 2022, primarily driven by the Golden Hall operation.

<u>Other Program Changes</u>

Additional Shelter

In addition to the $6.3 million included in the FY 2022 Adopted Budget to increase shelter beds, another $606,000 is planned for this purpose, for a total of approximately $7.0 million. Of this amount $1.4 million is projected to be spent on the new Emergency Harm Reduction Center and the remaining $5.5 million is to be determined.

[5] The downstairs portion is intended to be temporary due to permitting restrictions requiring facility upgrades should the shelter operate in this location long-term.

Day Center
According to staff, additional funds are needed to maintain current operations of the Day Center. The Mid-Year Report projects an additional $425,000 for this program, which is a 79% increase from an original budget of $541,000. Of this amount, about $120,00 is anticipated to make improvements to the facility.

Reduced Spending for Flexible Spending and Rapid Rehousing
As shown in the table above, about $500,000 more was expected to be spent on both the Flexible Spending Program and the Rapid Rehousing Program. Both are rental assistance programs that help households get permanent housing or remain permanently housed. In FY 2022, $500,000 is projected to be spent on Flexible Spending and $1.8 million for rapid rehousing. Increased rental assistance is a Council budget priority for FY 2023. Council may wish to ask about any barriers that exist to spending these funds.

Proposed Appropriation Adjustments

City Council is being asked to approve General Fund appropriation increases, General Fund appropriation transfers between departments, and one non-General Fund appropriation increase to the Fleet Operations Operating Fund. We provide additional context, where needed, for most of the General Fund requests below. **Our Office supports the proposed appropriation adjustments.**

With regard to the General Fund, the Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The Mayor may budget all, none, or any portion of a surplus. The "Council may approve the Mayor's recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor."

The FY 2022 Mid-Year Report projects a net $20.7 million General Fund revenue surplus as compared to the current budget and a net $20.5 million in over-budget expenditures. The Mayor is proposing expenditures appropriation increases of $20.5 million, offset with $20.5 million in revenue increases. Council could approve these appropriations as requested in the Mid-Year Report, which will balance projected operations, or modify the recommendation in whole or in part.

Revenues
In order to balance the expenditure appropriations request within the General Fund, the Mid-year Appropriation Request recognizes $20.5 million in additional General Fund revenues, the majority of which are within various departments. This includes $8.3 million in Parks & Recreation, $6.5 million in Real Estate and Airport Management (DREAM), $3.5 million in Fire-Rescue, and $2.2 million from the Major Revenues.

For the Major Revenues, the increase of only $2.2 million shown in the Mid-Year Report recognizes the anticipated overage in revenues after taking into account the anticipated $28.9 million reduction in use of ARPA funds. The departmental revenues represent a combination of increases in TOT reimbursements (Parks & Recreation and Fire-Rescue), Fire-Rescue deployment reimbursements, and increases in Mission Bay revenue, Pueblo Land revenue, and other increases related to properties managed by DREAM. With the exception of the revenue increases from Mission Bay, which cover the corresponding additional appropriation requested within Citywide Program Expenditures, the remaining departmental revenues are covering existing departmental expenses, thereby freeing up resources for the additional expenditure adds included in the appropriation request.

Citywide Program Expenditures

The Mayor is requesting an expenditures appropriation increase of $17.6 million for the Citywide Program Expenditures budget. The biggest drivers of the deficit include two items. The first is a projected $3.8 million increase in transfers to the Parks Improvement Funds due to increased Mission Bay revenues. The second is a projected $15.1 million increase in needed support for ongoing Public Liability claims. Public Liability expenditures are discussed further in the General Fund Expenditures section of this report under Non-Personnel Expenditures.

Environmental Services

The Environmental Services Department (ESD) is requesting an appropriation of $496,000, which is to cover sidewalk sanitation services for the remainder of the fiscal year. During recent months, ESD increased the frequency of sanitation services from two days per week to seven days per week in response to the Shigella outbreak within the City. In response to the County declaring the outbreak over, ESD will now reduce sanitizing services down to five days per week. This funding allocation will cover the increased costs required to maintain the five days per week service level.

Library

The Library Department required increased security and janitorial services associated with the reopening of in-person services at most Library locations, which occurred on July 6, 2021. These enhancements are projected to result in a budget deficit for these services totaling $600,000. A $450,000 expenditure appropriation is included in the Mid-Year Report to mitigate this deficit.

Public Utilities

The Public Utilities Department (PUD) is requesting $330,000 to mitigate overages within the City's Lakes Recreation Program. Due to increases in staffing costs for those employees that bill some of their time to the Lakes Recreation Program, PUD requires the $330,000 to cover these increases.

Stormwater

The Stormwater Department is requesting $1.5 million in increased appropriations to cover a wide array of unanticipated expenses. Some of the largest include the following:

- $277,000 to investigate opportunities for stormwater capture to reduce dependence on imported water;
- $200,000 to lease vehicles for new City staff due to a lengthy process to purchase new vehicles for these employees;
- $200,000 for new modular furniture and IT equipment for staff;
- $180,000 for materials and services for emergency repairs which are not reimbursed by the Capital Improvements Program (CIP);
- $150,000 for emergency work for three channel emergencies above and beyond the planned channel maintenance budget;

- $150,000 to plan and initiate CIPs as part of an upcoming financing action; and
- $135,000 for storm drain work required to be done by the sales agreement on the Mission Valley property to San Diego State University.

Budget Transfer of Personnel Expenditures

As described on page 33 of the Mid-Year Report, the Mayor is requesting authority to reallocate personnel expenditures (salaries and wages) appropriations among three General Fund Departments. Specifically, this transfer would include a decrease of $7.4 million in the Citywide Program Expenditures Department, which would be offset by increases in the Fire-Rescue and Police Departments, of $2.4 million and $4.9 million, respectively. There would be no net change to overall General Fund appropriations.

The personnel expenditure appropriations in the FY 2022 Citywide Program Expenditures budget were included to accommodate negotiated public safety compensation increases that were approved by the City Council. Agreements between the City and its public safety employee organizations were reached at the end of the FY 2022 budget process. Therefore, compensation increases were included as a lump sum in the Citywide Program Expenditures budget, rather than being allocated to affected employees in the Fire-Rescue and Police Departments. This budget transfer for which approval is requested would properly reallocate personnel expenditures budget to the Fire-Rescue and Police Departments, and we support Council approval of this transfer.

After the budget is transferred, the over-budget salaries and wages projected in the Mid-Year Report would be reduced from $9.8 million to $7.4 million for the Fire-Rescue Department and from $11.7 million to $6.8 million for the Police Department.

Status of Items City Council Added in FY 2022 Budget

In its action to approve the FY 2022 budget on June 14, 2021, the City Council identified resources and took action to add or restore programs and services to the Mayor's Proposed Budget. These items represented some of the Council's top budget priorities for FY 2022. The following table shows the implementation status for each of the additions Council made when adopting the final budget for FY 2022. We also expand on the following four items that have been of particular interest to City Council: 1) Library Department re-openings, 2) Parks and Recreation Pool and Recreation Center Hours, 3) Public Power Feasibility Study, and 4) Streets Condition Assessment.

Status of City Council's Modifications in FY 2022 Adopted Budget			
	FTE	**Amount**	**Status**
General Fund Expenditure Items			
Increased Support for Arts		$ 2,000,000	Implemented through the budget.
Public Power Feasibility Study		1,000,000	Mostly unspent. See below.
Tree Trimming		900,000	Projecting savings of $500,000 due to COVID-19 staffing shortages.
Streets Condition Assessment		700,000	Savings of $500,000 due to delays. See below.
Additional City Attorney Positions	3.00	504,303	Positions have been filled.
Office of Child and Youth Success	1.00	350,000	Estimated fill date by the end of FY 2022 and partial NPE on electronics projected to be expended by end of fiscal year.
Fire-Rescue Helicopter Maintenance		350,000	Funding restored in Adopted Budget allowing SDFD's Copter 1 to be available for service.
Weed Abatement/Brush Management		328,000	Projected to fully expend.
Code Enforcement officers	4.00	250,000	The positions were added as Zoning Investigators and are in the process of hiring.
Additional Graffiti Abatement		150,000	Projected to fully expend.
Real Estate Assets Department, Agricultural Lease Program Coordinator Position	1.00	140,000	In the process of hiring.
Restoration of 2 Park Rangers	2.00	105,000	Interviews have been conducted and conditional offers have been made.
Restore City Auditor Funding		91,251	Implemented in Adopted Budget.
Second pickup of residential refuse in Mission Beach during the Summer		70,000	Projected to fully expend.
Infrastructure Items			
New Streetlights		$ 500,000	Two new streetlight projects have been requested to be initiated and transferred to E&CP. Once established, they will be budgeted. The scopes have been established.
Kelly Street Park GDP		400,000	E&CP is currently working on consultant procurement, and expects to have them on board by spring.
Oak Park Public Library Design		300,000	The project is currently awaiting funding transfer. E&CP staff initiated the Charter Process 55 (converting land from Park & Rec to Library) and environmental process.
Unimproved Street - S. Bancroft at Greely		250,000	The project has been established and budgeted and has been transferred to E&CP to conduct the study.
Design phase of the San Carlos Library		250,000	The owner’s representative (Stantec) started work on well destruction. E&CP is beginning the process to renew the bridging architect’s contract to update documents to current code.
University Heights (UH) Joint Use Park with San Diego Unified School District (SDUSD)		250,000	A project for a temporary Dog Park at the SDUSD’s Education Center is being planned.A (Note this is not joint use, the City will pay an annual license agreement fee.) The UH Community Recreation Group approved the project, and it will be presented to the Parks & Recreation Board on March 17. The Education Center is slated to move to Kearny Mesa in 2026 and SDUSD intends to redevelop the current site via Request for Proposal (RFP). The most current version of the site plan includes a permanent dog park.

Status of City Council's Modifications in FY 2022 Adopted Budget			
	FTE	**Amount**	**Status**
General Fund Expenditure Items			
Boston Avenue Linear Park General Development Plan (GDP)		$ 100,000	E&CP will begin design when GDP, currently underway, is completed.
Barrio Logan Traffic Calming Truck Route		100,000	The project has been established, budgeted, and scope is currently being developed. Staff are using information from the recently updated Barrio Logan Community Plan to help identify locations for treatments.
South University City (UC) Library Expansion		40,000	The Library has been working with E&CP to assess whether the feasibility study can be conducted in house for $40,000. If the funds are not sufficient, Library may request the funds be used for small improvement projects in the South UC Library.
Climate Equity Fund Projects			
Emerald Hills Park Design		$ 1,000,000	Environmental review was initiated for this project (including biological and archeological surveys/reports) and will be completed in early 2023. The GDP Amendment then will be presented to the Park & Recreation Board for approval, and E&CP will begin design.
Boston Avenue Linear Park project		400,000	E&CP will begin design when GDP, currently underway, is completed.
Berardini Field GDP		400,000	E&CP is currently working on a preliminary environmental assessment and on establishing a project schedule. Consultant procurement is anticipated to start in late January.
Increase Streetlights in Communities of Concern		200,000	As part of two new streetlight projects which have been requested and transferred to E&CP, 12 new street lights will be added in 6 communities of concern.
Total General Fund Expenditure Items	**11.00**	**$ 11,128,554**	
General Fund Resource			
Refund from County Registrar of Voters		$ 3,000,000	Implemented through the budget.
Additional Unallocated General Funds		2,115,554	Implemented through the budget.
Additional Climate Equity Fund (CEF) Resources		2,000,000	As part of the final terms of the franchise agreement approved by Council, SDG&E will provide $2.0 million/year for the next five years to the CEF to support City infrastructure in underserved communities that meet specified requirements.
Additional Franchise Fee Minimum Bid Revenue		1,700,000	Implemented through the budget.
Increased RPTTF Revenue		1,563,000	Implemented through the budget.
Port Municipal Services Agreement		750,000	Revenue was received from the Port on July 1, 2021.
Total General Fund Resources		**$ 11,128,554**	
Other			
Library Department Update on Reopenings and Sunday Service at Committee			See below.
City staff develop an open and public process for determining future allocations from Climate Equity Fund (CEF)			The Mayor's office developed a CEF allocation process and timeline. A call memo was sent to Council Offices on Jan 21 requesting eligible priority projects (responses due February 9). After review and feedback from the Equity Stakeholder Working Group, the draft project list will be provided to the Mayor's Office in March.

Additional Information on Key Items

Library Department Re-openings

Our Office provided an update in IBA Report 21-27: IBA Review of the FY 2022 First Quarter Budget Monitoring Report on the Library Department's progress towards reorganizing their staffing model, reopening the four locations (Ocean Beach, Clairemont, North Clairemont, and Mountain View/Beckwourth) that are currently closed for in-person services, and restoring Sunday hours. Since that time, the Department confirmed that they have fully completed the hiring process to fill all Librarian and Library Assistant 3 positions. The remaining positions that are left to fill are in the Library Assistant 1 and 2 classifications. According to the Department, the interview process for these positions is complete and they are currently in the process of making candidate selections and will be sending out employment offers shortly. Given this progress, they are on target to fill the remaining positions by or before March/April 2022. As the remaining new staff positions get brought onboard, the Library Department intends to first reopen the four libraries currently closed and then phase-in restoration of Sunday hours for the 14 libraries previously open on Sundays, beginning with communities of concern. Assuming the Department is able to fill all open Library Assistant 1 and 2 positions, the number of vacancies for the Department that is reflected in Attachment 4 of the Mid-Year Report is expected to be reduced from 124.50 FTEs to 23.5 FTEs.

The Department has indicated that they are currently working with the Public Safety and Livable Neighborhood's Committee Consultant to schedule an informational item discussing their re-opening progress at an upcoming committee meeting.

Parks and Recreation Department: Pool and Recreation Center Hours

According to the Parks and Recreation Department, all pool and recreation center facilities are currently open, with the exception of the following:

- Old San Ysidro Library Community Center (CD 8): Anticipated to open in March 2022 pending the start date of the Recreation Center Director
- City Heights Pool (CD 9): Anticipated to open early-March 2022 (currently under capital development)
- Standley Joint Use Pool (CD 1): Anticipated to open early-March 2022 (currently in the final stages of construction
- Tierrasanta Pool (CD 7): Anticipated to open mid-Spring 2022 (boiler currently being repaired/replaced)
- Kearney Mesa Pool (CD 6): Anticipated to open mid-Spring 2022 (boiler currently being repaired/replaced)
- Colina del Sol Pool (CD 9): Anticipated to open mid-Spring 2022 (boiler currently being repaired/replaced)
- Bud Kearns Pool (CD 3): Anticipated to open late-Spring 2022 (currently under capital development)

A complete list of all open Parks and Recreation Pools and Recreations Centers and their respective opening dates was provided by the Department and is included as Attachment 1 to this report. Unless otherwise noted in the list, all facilities are currently operating at normal hours.

Public Power Feasibility Study

In the Mid-Year Report, the Sustainability and Mobility Department is not projecting to spend the vast majority of the $1.0 million allocation added to the FY 2022 Adopted Budget for a Public Power Feasibility Study. This is due to the fact that staff are currently still working on the Request for Proposals (RFP) to hire an appropriate consultant for this study, and that only one staff member not within the General Fund is currently working on the project (this staff member is charging the General Fund for time, while other staff working on the project are already budgeted in the General Fund elsewhere). The Department expects to release the RFP in the upcoming months, with a contract awarded towards the end of the fiscal year. In order for the study to continue, additional appropriations will be required in FY 2023 and subsequent years, depending on the size and scope of the study.

Streets Condition Assessment

The Transportation Department is projecting to only spend $200,000 of the $700,000 allocated for the Streets Condition Assessment. This is due to delays in the onboarding of the contractor to work on the assessment. The assessment itself is anticipated to begin in April 2022, and additional one-time budget will need to be added in FY 2023 to complete the assessment.

CONCLUSION

The Mid-Year Report projections indicate an accelerated recovery from the economic impacts of COVID-19 as revenue projections have increased beyond the First-Quarter Report, particularly among resources that were the hardest hit by the pandemic: Sales Tax and TOT. This is encouraging as the City prepares to go into the FY 2023 budget process. However, as noted in the Mid-Year Report, COVID-19 still poses significant challenges in projecting expenditures. For example, the Mid-Year Report projections do not include impacts of the recent Omicron variant surge and effects on City staffing due to the mandatory vaccine requirement. Considering these and other risks, our Office agrees with reducing the amount of ARPA funds to be used in FY 2022 to put the City in a better position to face uncertainty in future years.

The Mayor is proposing General Fund expenditure appropriation increases of $20.5 million, offset with $20.5 million in revenue increases. Council could approve these appropriations as requested in the Mid-Year Report, which will balance projected expenditure increases, or modify the recommendation in whole or in part. **Our Office recommends approval of these adjustments.**

With the FY 2023 budget process in mind, we highlight in our review that Excess Equity is still projected to be $26.7 million and can be used as a one-time resource for either FY 2022 or FY 2023, but this figure could change as the year progresses. The next complete update to projections will be in the FY 2022 Third-Quarter Budget Monitoring Report, scheduled to be released in mid-May.

Attachment 1: Parks and Recreation Facilities Update

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Parks and Recreation Department - Pool and Recration Centers Open as of Feberuary 2, 2022		
Park & Recreation Facility	**Council District**	**Opening Date**
Carmel Valley Pool	1	6/17/2020
Martin Luther King Jr. Pool	4	6/17/2020
Memorial Pool	8	6/17/2020
Vista Terrace Pool	8	6/17/2020
Clairemont Pool	2	2/15/2021
Dolores Magdaleno Memorial Rec Center	8	5/3/2021
Encanto Rec Center	4	5/3/2021
Martin L. King, Jr. Memorial Rec Center	4	5/3/2021
Mountain View Rec Center	4	5/3/2021
Allied Gardens Pool	7	5/17/2021
Adams Rec Center	3	6/1/2021
Allied Gardens Rec Center	7	6/1/2021
Canyonside Rec Center	6	6/1/2021
Colina Del Sol Rec Center	9	6/1/2021
Doyle Rec Center	1	6/1/2021
Golden Hill Rec Center	3	6/1/2021
Hourglass Rec Center	6	6/1/2021
La Jolla Rec Center	1	6/1/2021
Linda Vista Rec Center *(Reduced Hours @ 50 hours per week)*	7	6/1/2021
Mid-City Gymnasium	9	6/1/2021
North Clairemont Rec Center	6	6/1/2021
North Park Rec Center	3	6/1/2021
Ocean Air Rec Center	1	6/1/2021
Ocean Beach Rec Center	2	6/1/2021
Park de la Cruz Community Center	9	6/1/2021
Presidio Rec Center	3	6/1/2021
Rancho Bernardo Rec Center	5	6/1/2021
South Clairemont Rec Center	2	6/1/2021
Southcrest Rec Center	9	6/1/2021
Silver Wing Rec Center	8	6/14/2021
Balboa Park Activity Center	3	6/15/2021
Carmel Mtn Ranch/Sabre Springs Rec Center	5	6/15/2021
Cesar Chavez Community Center	8	6/15/2021
Gil Johnson Mira Mesa Rec Center	6	6/15/2021
Montgomery Waller Rec Center	8	6/15/2021
Nobel Rec Center	1	6/15/2021
Robert Egger Sr. South Bay Rec Center	8	6/15/2021
San Carlos Rec Center *(Reduced Hours @ 56 hours per week)*	7	6/15/2021
San Ysidro Comm. Activity Center	8	6/15/2021
Scripps Ranch Rec Center	5	6/15/2021
Ned Baumer Aquatic Center (Miramar College Joint Use)	6	6/21/2021
Swanson Pool	1	6/21/2021
Carmel Valley Rec Center	1	6/28/2021
Kearny Mesa Rec Center	6	6/28/2021
Tierrasanta Rec Center	7	6/28/2021
Lopez Ridge Rec Center	6	6/29/2021
Standley Rec Center	1	6/29/2021
Serra Mesa Rec Center	7	7/12/2021
Azalea Rec Center	9	7/19/2021
City Heights Rec Center	9	7/19/2021
Pacific Highlands Ranch Rec Center *(Reduced Hours @ 56 Hours per week)*	1	7/19/2021
Paradise Hills Rec Center	4	7/19/2021
Park de la Cruz Gym	9	7/19/2021
Penn Athletic Field Rec Center	4	7/19/2021
Skyline Hills Rec Center	4	7/19/2021
Robb Field Rec Center/Jim Howard Hall	2	8/1/2021
Balboa Park Municipal Gym	3	8/2/2021
Bay Terrace Community and Senior Center	4	8/2/2021
Hilltop Rec Center/Black Mtn Gym	5	9/6/2021
Santa Clara Point Rec Center	2	9/6/2021
Cabrillo Rec Center *(Reduced Hours @ 28 Hours per week)*	2	9/13/2021
Tecolote Rec Center	2	9/13/2021
Pacific Beach Rec Center	2	11/1/2021
Willie Henderson Sports Complex Rec Ctr	9	12/1/2021
Cadman Rec Center	2	1/11/2022
Stockton Rec Center (18.5 hours per week)	8	1/20/2022