



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 604

Recommended City Council Modifications to the Mayor's Proposed FY 2023 Budget and Review of the May Revision

This report presents the Office of the Independent Budget Analyst's (IBA's) final FY 2023 budget review and recommendations for Council budget modifications. Recommendations primarily reflect our review of Councilmember budget modification memoranda that were submitted to our Office on May 27, 2022 and released separately as IBA Report 22-14, as well as consideration of feedback from the public, City staff, and City Councilmembers received during the Budget Review Committee hearings. Recommendations are also based on the following: our analysis of the May Revision to the FY 2023 Proposed Budget (May Revision), the FY 2022 Third Quarter Budget Monitoring Report (Third Quarter Report), and the FY 2023 Proposed Budget.

This report is released at the end of a budget development process that has included extensive reviews of the Mayor's FY 2023 Proposed Budget by the City Council and the IBA, including:

- The IBA's review of the Mayor's FY 2023 Proposed Budget issued on April 29, 2022 as [IBA Report No. 22-08](#)
- Departmental and agency budget hearings with the Budget Review Committee that took place on May 4-10, 2022
- An evening Budget Review Committee meeting held on May 4, 2022 and an evening City Council meeting held on May 16, 2022 to solicit input from the community on the Mayor's budget proposals and City Council's budget priorities for FY 2023
- Department of Finance responses to Budget Review Committee requests for additional information released following Budget Review Committee hearings
- The discussion of the May Revision and Third Quarter Report (both of which were released on May 17, 2022) at the Budget Review Committee on May 19, 2022

Our recommendations for Council budget modifications are itemized below and our review of the May Revision to the FY 2023 Proposed Budget is attached to this report.

IBA RECOMMENDED BUDGET MODIFICATIONS

Following the release of the May Revision and Council’s subsequent review at the Budget Review Committee hearing on May 17, 2022, Councilmembers submitted budget modification memoranda to our Office on May 27, 2022. These memos identified expenditure priorities and potential new funding sources that were not included in the FY 2023 Proposed Budget or May Revision. Our Office reviewed all budget priorities mentioned in Councilmembers’ memos. **We recommend funding all but one item supported by a majority (five or more) of the Council, and recommend one item that had near majority support as discussed in our report.** In some cases, we have adjusted proposed funding amounts based on information from impacted departments on whether they can expend the full amount supported in Council memoranda. Below, we discuss our rationale for not recommending an item that received majority Council support.

Council Priority Not Recommended

Street Vending Outreach, Education and Support

Five councilmembers supported the addition of \$500,000 for increased Sidewalk Vending outreach, education, and support which would bring total funding budgeted in the Economic Development Department up to \$733,000 for these services when including adjustments in the May Revision (see Attachment 1). **However, when discussing this increase with the Department, Economic Development indicated it is unsure whether contractors identified to provide outreach and education have the ability to further scale up their efforts, and that the Department does not believe that increased funding above what is included in the May Revision is necessary.** The Department expects to have more information to determine if additional funding is needed after it has the opportunity to evaluate data and performance during the initial contract term. Currently, \$233,000 in one-time funding is allocated for this purpose in the May Revision. The Department plans to award \$100,000 each to the Logan Heights CDC and the City Heights CDC, respectively, to provide outreach, education, and technical assistance related to Street Vending Ordinance; remaining funds are anticipated for necessary translations services and printed materials. More information regarding proposed expenditures related to the Street Vending Ordinance can be found in Attachment 1 to this report.

Recommended Modifications to FY 2023 Expenditures

Our Office recommends expenditure modifications totaling \$18.9 million, \$18.4 million in the General Fund and \$498,000 in non-General Funds, as summarized in the table below. This funds all remaining items that received majority support in Councilmember memoranda. Additionally, we recommend adjustments to the City Attorney’s Office budget which is an item that received near majority support.

Table 1: Recommended Expenditure Modifications to the FY 2023 Budget		
General Fund Expenditures	FTE	Amount
<i>Ongoing Items</i>		
City Attorney: Fix Vacancy Factor, Add Staff	1.00	\$ 1,494,000
Homeless Outreach for Downtown & Urban Core	0.00	1,000,000
Graffiti Abatement	6.00	684,000
Library Position Restructure	6.80	672,000
City Treasurer: Restore Position	1.00	77,000
Council Admin Transfer & Position Authority	(5.00)	(765,000)
Council Offices Transfer & Position Authority	45.00	961,000
<i>Subtotal Ongoing</i>	54.80	\$ 4,123,000
<i>One-Time items</i>		
<i>One-Time Operating Budget Items</i>		
Housing Stability Fund	-	\$ 3,570,000
Graffiti Abatement	-	900,000
Small Business Enhancement Program	-	695,000
Broadband Master Plan	-	500,000
CPPS Funding	-	352,000
SDPD Street Racing and Sideshow Enforcement	-	200,000
Free4Me Pilot	-	100,000
<i>One-Time Capital Items</i>		
Beyer Park Development	-	\$ 2,200,000
San Carlos Branch Library Design	-	1,500,000
Redland Dr Loop & 55th St Reconstruction	-	1,171,000
Convoy District Gateway Sign	-	1,000,000
Rancho Bernardo Community Park Improvements	-	750,000
Marie Widman Memorial Park GDP	-	500,000
47th St & Hartley St HAWK Hybrid Beacon	-	500,000
Barrio Logan Truck Route Traffic Calming	-	250,000
Beach Access: Spindriff Drive	-	100,000
<i>Subtotal One-Time</i>		14,288,000
Total Additional General Fund Expenditures	54.80	18,411,000
<i>Non General Fund Expenditures</i>		
<i>Ongoing Item (Risk Management Fund Balance)</i>		
Risk Management: Restore Position	1.00	\$ 73,000
<i>One-Time Capital Item (Capital Outlay Fund)</i>		
Shade Structures for North Park Mini Park	-	\$ 425,000
Total Additional Non General Fund Expenditures	1.00	498,000
Total Recommended Expenditures: All Sources	55.80	\$ 18,909,000

The following section contains further details on the recommended adjustments identified in Table 1.

Recommended Expenditure Modification Descriptions

City Attorney's Office – Add 1.00 DCA for Lease Backlog Efforts, Adjust Vacancy Factor – 1.00 FTE, \$1.5 million (ongoing)

Four Councilmember memoranda requested various positions be added to the City Attorney's Office. Several specified additional City Attorney support for DREAM's efforts to address the backlog of City leases that remain in holdover. While positions were added to DREAM to address this backlog, no corresponding positions were added to the City Attorney's office. To ensure that the City has sufficient resources to address the lease backlog, our Office recommends including an additional Deputy City Attorney position, and \$194,000 in associated expenditures, in the FY 2023 budget for that purpose.

Additionally, as noted in our review of the Proposed Budget and by the City Attorney's Office, the vacancy factor assumed for the City Attorney's Office is artificially high due to the Office holding positions vacant to attempt to come in at budget. In conversations, the Department of Finance also agreed that the City Attorney's personnel budget does not allow the Office to hire more DCAs without going overbudget. We therefore recommend an increase of \$1.3 million in personnel funding for the Office to bring the Budget's vacancy factor more in line with historical levels.

Homeless Outreach for Downtown and Urban Core – \$1.0 million (ongoing)

A majority of Councilmembers supported \$1.0 million in additional dedicated homeless outreach efforts in downtown and the urban core (Barrio Logan, Sherman Heights, Logan Heights, Grant Hill, Memorial and Stockton). This program would be administered by the Homelessness Strategies and Solutions Department and staff indicate that funding could be deployed quickly.

Graffiti Abatement – 6.00 FTEs and \$1,584,000 (\$684,000 ongoing, \$900,000 one-time)

Five Council Offices requested additional support for the City's graffiti abatement efforts. In particular, the offices requested the addition of three City crews to address graffiti complaints within the right-of-way. The addition of three teams would add 6.00 FTEs and associated expenditures for the addition of three new abatement teams. Each team is comprised of a Utility Worker 2 and a Utility Worker 1, adding \$362,000 in personnel expenditures. Additionally, this would add \$322,000 in non-personnel expenditures for oil and paint supplies on an ongoing basis, and \$900,000 in one-time costs for vehicles and other equipment purchases. This addition would increase the number of dedicated personnel for graffiti abatement from 8 to 14 positions. The new teams should be focused on reducing disparities in the response times for graffiti abatement, including within Council Districts 4, 8, & 9.

Do Your Homework @ the Library Position Restructure – 6.80 FTEs and \$672,000 (ongoing)

Five councilmembers supported a staffing restructure for the Library Department's Do Your Homework @ the Library (DYH@L) Program which provides homework help and other services at 18 library locations. Current staffing for the program consists of one half-time Tutor Learner Coordinator (TLC) position for each location (9.00 FTEs) and 1-2 hourly positions (2.20 FTEs) depending on the library size. According to the Department, the hourly positions have been difficult to recruit and retain despite the success of the program. The proposed restructure would eliminate 2.20 hourly FTEs and add 9.00 benefitted FTEs (18 half-time positions); the net increase

in personnel expenditures amounts to approximately \$672,000.

City Treasurer – Restore 1.00 FTE Collections Investigator I - \$77,000 (ongoing)

Seven Councilmembers prioritized the restoration of a Collections Investigator I and \$77,000 in personnel expenditures in their budget modification memoranda. This position was reduced in the Proposed Budget in exchange for the addition of one Program Manager.

Council Administration and Council District Budgets – 45.00 FTEs – \$196,000 (ongoing)

The May Revision provided \$196,000 for salary adjustments to Council Administration, including adjustments to salaries for committee consultant positions.

A majority of Councilmembers support transferring eight committee consultants and associated \$765,000 in personnel expenditures currently funded in Council Administration, to each of the nine Council offices. We further recommend that the \$196,000 included in the May Revision be allocated evenly across the personnel budgets for each Council Office to support this transfer. This would result in each Council Office receiving \$107,000 to support the transfer of committee consultant positions. Because this is a transfer, this is a budget neutral request.

Several Councilmembers also requested that the Council Administration Department be provided an additional 3.00 FTEs. Council Administration indicates that it could fund these positions in FY 2023 with the \$196,000 that had been allocated for salary adjustments; we therefore recommend the addition of \$196,000 to support these positions. With the transfer of eight committee consultants described above, and three additional positions, this creates a net reduction of five positions in the Council Administration.

Several Councilmembers also requested that each Council office have the option of employing up to 15.00 FTEs (an increase of 5.00 FTEs per office) working within the constraints of each office's budget. We recommend this amount be inclusive of committee consultant positions. The intent is to provide Council offices with flexibility on the number of positions they choose to fill or alternatively, leave unspent for Community Projects, Programs and Services. Although no additional funding is needed to implement this change, we do note that providing authority to hire an additional 5.00 FTEs in each office without associated funding may create budget pressure to fund these positions in the future.

Housing Stability Fund for New Rental Subsidy Pilot Program – \$3,570,000 (one-time)

Eight Councilmembers supported the creation of a Housing Stability Fund program to be administered by the San Diego Housing Commission. This would be a pilot program that would provide rental subsidy of up to \$500 per month for households that would otherwise not meet their rental obligations. The subsidy would be for up to 24 months targeting the following populations: seniors, families with children, people with disabilities, and transitional age youth up to 25 years old regardless of immigration status.

Most Councilmembers requested the pilot to be funded at \$3.6 million which would serve about 300 households. These costs also include program ramp-up, case management, and administration. Other Councilmembers requested \$2.5 million to serve 200 households. We note that because this is a pilot program, we have categorized expenditures as one-time. However, since participants will receive a subsidy for up to 24 months, funding will be needed through FY 2025. **Our Office**

recommends that the funding for this program, \$3.6 million, be allocated to the Economic Development Department to be subsequently transferred to the San Diego Housing Commission.

Small Business Enhancement Program – \$695,000 (one-time)

Five Councilmembers supported the addition of \$695,000 for the Economic Development Department's (EDD) Small Business Enhancement Program (SBEP) which would bring total funding in FY 2023 up to \$2.0 million in accordance with Council Policy 900-15. According to the Department, this additional funding would allow for EDD to continue the Micro-District Capacity Building Program for nonprofits serving underserved business communities at \$350,000 and expand Technical Assistance Grants by \$200,000 to improve compliance of contractors managing business districts and improve overall effectiveness of nonprofits serving small business communities across the City. In addition, this level of funding would allow EDD to improve small business engagement and outreach, and establish a Spaces as Places Grant Program designed to help businesses transition to the new regulations for outdoor dining.

Increased Support for SD Access 4 All Digital Equity Program – \$500,000 for Citywide Broadband Master Plan (one-time)

A majority of Council budget modification memoranda supported additional funding for the SD Access 4 All Digital Equity Program to conduct a Citywide Broadband Master Plan which will strengthen the City's position to qualify for both federal broadband infrastructure funding and the [State's Last Mile Broadband Program \(SB 156\)](#) funding.¹ The City is currently pursuing a SB 156 Technical Assistance Grant of \$500,000 for a Broadband Master Plan, however this funding is not guaranteed. Allocating this funding up front would allow the City to proceed without delays waiting for grant funding, or fully cover costs if the grant is not awarded. If \$500,000 in funding is provided to the Department of Information Technology SD Access 4 All for FY 2023, and the Department also received grant funding, the reallocations of funds could be managed in the budget monitoring process. If funding were to become available for other SD Access 4 All priorities, this would include: \$115,500 for Library costs for implementing the program (that are not eligible for grant funds) and \$100,000 for community outreach to provide information and assistance to 30,000 digitally disconnected residents on SD Access 4 All programs and how to enroll in the federal Affordable Connectivity Program (no- or low-cost home internet services).

The May Revise added \$1.1 million from the federal Emergency Connectivity Fund (ECF) for SDAccess4All Digital Equity to cover the monthly recurring service costs for 4,000 (2,000 current and 2,000 additional) hotspots for a 12-month period. ECF funding is restrictive and this funding cannot be repurposed.²

Providing a Minimum CPPS Funding Level – \$352,000 (one-time)

Seven councilmembers supported the addition of Community Projects, Programs and Services (CPPS) funding to ensure that each Council District was allocated a minimum of \$100,000. The majority of Councilmember memoranda specified allocating a total of \$400,000 for this purpose.

¹ The City has partnered with SANDAG on a regional digital equity plan but specific planning for the City is required to pursue federal and state funding.

² Note that the City is seeking an additional \$800,000 to purchase 2,000 additional Chromebooks. This payment would go directly from ECF to the reseller, so no budget was requested for that item.

Based on Third Quarter projections and amounts in the May Revise, \$352,000 would be sufficient to allocate a total of \$100,000 to the four Council Districts currently set to receive under \$100,000 in CPPS in FY 2023 (Districts 2, 3, 7 and 9). There would be no change for Council Districts currently projected to receive over \$100,000 in CPPS allocations.

SDPD Street Racing and Sideshow Enforcement Operations – \$200,000 (one-time)

Six councilmembers supported the addition of \$200,000 for specialized enforcement related to unregulated street racing, car sideshows, and related activities including loud exhaust issues. According to the Police Department, up to 60 individual enforcement operations conducted on an overtime basis would be provided with the identified funding.

Free4Me Pilot Program to Increase Feminine Health Access – \$100,000 (one-time)

Seven Councilmembers supported the addition of \$100,000 to initiate a pilot program similar to the County’s “Free4Me” Program that would make free feminine hygiene products available at City-owned facilities, including libraries, recreation centers, pools, and beach comfort stations, especially within communities of concern. Given that this program would involve more than one City department, our Office recommends budgeting the \$100,000 in one-time non-personnel expenditures in the Citywide Program Expenditures budget. **We also recommend that the Council request staff to develop an implementation plan for the pilot program and present it to the Public Safety and Livable Neighborhoods (PS&LN) committee for consideration and input sometime before the end of the first quarter of FY 2023.**

Risk Management – Restore Administrative Aide 2 – \$73,000 Non-General Funds (ongoing)

Seven Councilmembers supported the restoration of an Administrative Aide 2 position in the Risk Management Department to assist with workloads experienced in the Workers’ Compensation Division. The Proposed Budget eliminated 1.00 Administrative Aide 2 as part of restructuring the Workers’ Compensation Division, while adding a Supervising Workers’ Compensation Claims Representative. The goal was to train and mentor clerical staff towards the Claims Representative series and better align them with their units by having them report to a Supervising Claims Representative, rather than to the Administrative Aide 2. Restoring this position would increase the Risk Management Administration budget (non-general fund) by \$73,000, which the Department anticipates would be covered with fund balance.

Capital Improvement Projects – \$8.4 million (one-time)

A majority of Councilmembers supported ten capital improvement projects in their budget priority memoranda. Table 2 summarizes recommended capital improvement projects to be funded with \$8.0 million in General Funds and \$425,000 in available Capital Outlay funds.

Table 2: Recommendations for Capital Improvement Projects		
Project	Amount	Additional Information
General Fund Capital Improvement Projects		
Parks & Recreation		
Beyer Park Development (S00752)	\$ 2,200,000	Funding would fill funding gap for Phase I construction and to the extent funding is remaining, it would begin to close the gap for Phase 2.
Rancho Bernardo Community Park Improvements (L20000)	750,000	Allocation would fully fund project, based on current estimates.
Marie Widman Memorial Park General Development Plan	500,000	Funding would support a General Development Plan, as part of preliminary engineering.
Library		
San Carlos Branch Library Design (S00800)	1,500,000	Allocation would support the design phase.
Transportation		
Redland Drive Loop & 55th Street, North of Redland Drive Reconstruction (AID00005)	1,171,000	Funding would support the complete reconstruction of Redland Drive.
Convoy District Gateway Sign	1,000,000	Allocation would fund the sign installation.
47th St & Hartley St HAWK Hybrid Beacon (AIL00004)	500,000	Allocation would fund installation of a Hybrid HAWK Beacon at that intersection.
Barrio Logan Truck Route Traffic Calming (P22003)	250,000	Funding would support design and installation of traffic calming features, including roundabouts, along Beardsley St and Boston Ave.
Beach Access: Spindrif Drive (AGF00006)	100,000	Funding would support installation of a free-standing handrail and replace stairs at beach access point.
Total Contributions from General Fund	\$ 7,971,000	
Project	Amount	Additional Information
Non General Fund Capital Improvement Projects		
Parks & Recreation		
Shade Structures for North Park Mini Park (S10050)	425,000	Allocation would fully fund project.
Capital Outlay Fund Total	\$ 425,000	
Total Recommended CIP Expenditures	\$ 8,396,000	

Recommended Resources for Council Modifications to the FY 2023 Budget

The following table lists \$26.4 million in resources (\$25.9 million in General Funds and \$509,000 in non-General Funds) available to support the additional recommended \$18.9 million in expenditures. Only Excess Equity was identified in most Councilmember memoranda, but we have further identified additional resources described below. As indicated, we have identified \$7.5 million more in resources than we recommend as expenditures; allocations for this excess amount should be identified during Council’s budget deliberations.

Table 3: Recommended Resources for Modifications to FY 2023 Budget	
General Fund Resources	Amount
<i>Ongoing Resources</i>	
Revised Sales Tax Revenue Projection	\$ 4,168,231
Reimbursable Revenue from Environmental Growth Funds	2,193,725
Sidewalk Vending Permit Revenue Reduction	(192,000)
<i>Subtotal Ongoing</i>	6,169,956
<i>IBA Recommended Ongoing</i>	4,123,000
<i>Amount Remaining</i>	2,046,956
<i>One-Time Resources</i>	
Monsanto Settlement	\$ 9,000,000
Excess Equity ¹	6,758,027
Reimbursable Revenue from the Transient Occupancy Tax Fund	4,000,000
<i>Subtotal One-Time</i>	19,758,027
<i>IBA Recommended One-Time</i>	14,288,000
<i>Amount Remaining</i>	5,470,027
Total Identified General Fund Resources	\$ 25,927,982
Total IBA Recommended Expenditures	\$ 18,411,000
Total General Funds Remaining	\$ 7,516,982
Non General Fund Resources	
<i>Ongoing Resource</i>	
Risk Management Department Fund Balance	\$ 73,000
<i>IBA Recommended Ongoing</i>	73,000
<i>Amount Remaining</i>	-
<i>One-Time Resource</i>	
Capital Outlay Funds	436,000
<i>IBA Recommended One-Time</i>	425,000
<i>Amount Remaining</i>	11,000
Total Non General Funds Remaining	\$ 11,000
Total Identified Resources	\$ 26,436,982

¹ Per the Third Quarter Report, there is an additional \$40.0 million in Excess Equity which we assume remains as a set aside for unanticipated Proposition B transition costs.

Revised FY 2023 Sales Tax Revenue Projection – \$4.2 million (ongoing)

As discussed in our review of the May Revision in Attachment I, the methodology used to project sales tax revenue for the third and fourth quarters of FY 2023 aims to account for the impact of elevated inflation in the latter part of FY 2022 by assuming that some level of activity is of a one-time nature in those periods. Since at the time of the release of the May Revision it was assumed that inflation will begin to normalize in the third and fourth quarters in FY 2023, the Department of Finance used a lower base when applying growth rates in these latter quarters rather than basing growth off actual and projected activity in FY 2022. Our Office believes that an adjustment to this methodology is warranted based on new information that has become available since the release

of the Third Quarter Report and the May Revision: 1) an updated UCLA Anderson Forecast, and 2) increased actual sales tax receipts in FY 2022.

The updated UCLA Anderson June Forecast extends assumptions of higher inflation through FY 2023 due to supply chain disruptions exacerbated by lockdowns in China and higher prices associated with the war in Ukraine. The forecast anticipates inflation not starting to normalize until the beginning of FY 2024 (not mid-FY 2023, as was assumed in the May Revision). Because inflation is expected to persist, our Office believes a logical approach is to use actuals and projected activity for the third and fourth quarters of FY 2022 as the base for growth in the third and fourth quarters of FY 2023, rather than utilizing a modified base (or “rebasing”). Unless there is an abnormal level of one-time spending happening in the economy in quarters three and four of FY 2022, we think that rebasing could distort projections.

Also, since the release of the Third Quarter Report and the May Revision, the City received updated actual sales tax receipts through March 2022 which yield an additional \$6.8 million above third quarter projections. Given this new information, we note that if the sales tax projection is *not* updated, the projection would assume a 6.0% quarter-over-quarter *contraction* in the third quarter and a virtually flat fourth quarter.³ However, we do not see economic indicators or clear data that support this. Not updating FY 2023 sales tax projections would also reduce the assumed annual growth rate in the May Revision projection from 3.8%, to 1.9% when incorporating the additional sales tax receipts in FY 2022.

We do, however, agree with the Department of Finance’s assumption that the continued robust growth in sales tax that we have seen in FY 2022 is likely to become more moderate. Although higher inflation has been associated with strong growth in sales tax revenue, overall economic growth is anticipated to slow as the Federal Reserve increases interest rates to combat persistent inflation. If the Federal Reserve overcorrects, a mild recession *could* result; however, we note that the UCLA Anderson June Forecast assumes a recession is unlikely in the next two years.

Given this, we do not recommend rebasing the third and fourth quarters of FY 2023, and instead recommend adopting a sales tax revenue projection that directly uses actual and projected FY 2023 receipts, and that assumes a lower quarterly growth rate to reflect a slowing economy. This produces a projection with a more gradual ease in growth, as opposed to a 6.0% contraction in the third quarter and a flat fourth quarter. Below is a table reflecting assumed quarterly growth rates as compared to the prior year for each respective quarter, as well as the annual year-over-year change. The table reflects the assumption that the main impact of the Federal Reserve rate increases will be felt from the second quarter going into the third quarter, consistent with the assumption in the UCLA Anderson June Forecast.

Assumed FY 2023 Sales Tax Growth Rates				
Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
5.00%	3.00%	2.00%	2.00%	3.00%

Note that the growth rate is applied to the prior year's respective quarter. The annual growth rate is the projected year-over-year growth in total sales tax revenue.

³ For a graphic illustrating the FY 2023 May Revision sales tax projection compared to FY 2022 actual and projected sales tax activity, please refer to our review of the May Revision in Attachment I of this report.

Taken together, the annual year-over-year growth rate would be 3.0% which is lower than the 3.8% assumed in the May Revision, but higher than the 1.9% when considering the most recent FY 2022 actuals. The following table summarizes the annual change in sales tax revenue using the following comparisons: 1) Third Quarter and May Revision; 2) updated FY 2022 year-end projection using the most up-to-date actuals and May Revision; and 3) updated FY 2022 year-end projection and the IBA proposed alternative.

Sales Tax Revenue Projection Comparison		
Scenario	Annual Total	% Change
<i>Projection at May Revision</i>		
FY 2022 Third Quarter	\$ 362,373,892	-
FY 2023 May Revision	376,076,340	3.8%
<i>Update for FY 2022 Actuals through March</i>		
FY 2022 Updated Third Quarter	369,131,919	-
FY 2023 May Revision	376,076,340	1.9%
<i>IBA Proposed Alternative</i>		
FY 2022 Updated Third Quarter	369,131,919	-
FY 2023 IBA Proposed ¹	\$ 380,244,571	3.0%

¹ This also incorporates the correction of a technical error in the May Revision projection resulting in a \$2.8 million reduction.

Adopting the IBA methodology would bring total projected FY 2023 sales tax revenue to \$380.2 million, which is an increase of \$4.2 million from the May Revision. We note that our revised projection remains below the City’s sales tax consultant’s “most-likely” scenario of \$384.1 million, which we believe is prudent at this time.

If this projection is adopted, the Proposition H calculation should also be updated to incorporate increased inflation assumptions in the UCLA Anderson June Forecast. The updated contribution to the Infrastructure Fund, as required by Proposition H would be \$25.5 million. Because the Proposed Budget includes a \$28.4 million contribution, no additional funding is required to be allocated to the Infrastructure Fund. Therefore, the additional \$4.2 million in the IBA projection should be considered unrestricted General Fund revenue.

Reimbursable Revenue from Environmental Growth Funds – \$2.2 million (ongoing)

The May Revision includes \$2.7 million in Environmental Growth Funds (EGFs) revenue which represents the EGFs’ 25% share of SDG&E’s annual minimum bid payment. Offsetting this is a \$520,000 transfer from the EGF to the Energy Independence Fund (EIF). The resulting net revenue increase from these adjustments is \$2.2 million which may be utilized as ongoing reimbursable revenue that is transferred from the EGFs to the General Fund for existing eligible Parks and Recreation Department expenditures.

Sidewalk Vending Permit Revenue – \$192,000 reduction (ongoing)

The May Revision includes \$230,000 in projected Sidewalk Vending Permit revenue which was based on staff’s original proposal for a fee of \$230 and 1,000 total permits estimated to be issued.

The City Council considered this proposal on May 17th and approved a lower fee of \$38 which is projected to produce \$38,000 in revenue. To account for this change, an ongoing revenue reduction of \$192,000 for the City Treasurer's Office is required.

Monsanto Class Action Settlement – \$9.0 million (one-time)

The City was part of a class action lawsuit against the company Monsanto, which sought compensatory damages and relief for chemicals that caused environmental impairment. The amount associated with this settlement is \$9.0 million, which was included in the FY 2022 Adopted Budget but is now projected to be received in FY 2023.

Use of Excess Equity from FY 2022 Sales Tax increase – \$6.8 million (one-time)

Five Councilmembers supported the use of General Fund Excess Equity as a onetime resource in FY 2023. The most recent FY 2022 year-end projection for Excess Equity is \$40.0 million, cited in the FY 2022 Third Quarter Budget Monitoring Report. The Excess Equity amount could change as the fiscal year progresses; and new information subsequent to release of the FY 2022 Third Quarter Report indicates that the City will receive an additional \$6.8 million in sales tax revenue above the third quarter projection. Three of the Councilmembers supporting use of Excess Equity mentioned this additional sales tax amount as part of their support for its use.

Excess Equity can be used as a onetime resource, and Councilmembers can modify the FY 2023 Proposed Budget to include utilization of part or all of the anticipated balance. We note that Excess Equity has not been included as a resource in the FY 2023 Proposed Budget or May Revision, but rather has been held aside for unanticipated Proposition B unwinding costs. For example, if FY 2023 Proposition B costs are higher than currently estimated, or if SDCERS⁴ decides that it requires upfront payment of amounts the City has assumed will be amortized as part of the pension system's Unfunded Actuarial Liability (\$56.3 million General Fund estimate), the Department of Finance anticipates covering those increased costs using Excess Equity and General Fund Reserve. See the Unwinding Proposition B section this report, in Attachment I, for additional Proposition B information.

Of the \$46.8 million estimated Excess Equity, we believe that using up to \$6.8 million in FY 2023 could be considered prudent, leaving the remaining \$40.0 million as a set aside for unanticipated Proposition B transition costs.

Reimbursable Revenue from the Transient Occupancy Tax Fund – \$4.0 million (one-time)

The Transient Occupancy Tax Fund (TOT Fund) is projected to end FY 2023 with an ending fund balance of approximately \$4.4 million. Our Office supports utilizing \$4.0 million of TOT Fund balance as one-time reimbursable revenue that is transferred from the TOT Fund to the General Fund for existing eligible Parks and Recreation Department expenditures, similar to the EGF adjustment described above.

Capital Outlay Funds – \$436,000 (one-time)

The FY 2022 Capital Improvement Program (CIP) Year-End Report projects that \$436,000 will be remaining at the end of the current fiscal year and is currently not programmed to any CIP

⁴ SDCERS is the San Diego City Employees Retirement System.

project. Of the \$436,000, we recommend using \$425,000 to fund shade structures at the North Park Mini Park.

FINAL BUDGET ACTIONS

In order to approve the FY 2023 budget, the City Council is being asked to approve the following actions:

1. Approve the Mayor's FY 2023 Proposed Budget, as modified by the Mayor's May Revision.
2. Approve the IBA's recommended final budget expenditure and resources modifications included in IBA Report 22-15, as summarized in Table 1 (page 3) and Table 3 (page 9), and as modified by the City Council.
3. To effectuate items in Tables 1 and 3 we recommend:
 - a. Reimbursable revenue from the Environmental Growth Funds and the Transient Occupancy Tax Fund be transferred from these funds to the General Fund for existing eligible Parks and Recreation Department expenditures.
 - b. Funding for the Housing Stability Fund Pilot Program of \$3.6 million in General Funds be allocated to the Economic Development Department to be subsequently transferred to the San Diego Housing Commission.

Additionally, we recommend Council take the following non-budget action:

4. Request staff to develop an implementation plan for the Free4Me pilot program and present it to the Public Safety and Livable Neighborhoods (PS&LN) committee for consideration and input sometime before the end of the first quarter of FY 2023.

CONCLUSION

As noted in this report, our Office has identified \$26.4 million in resources available to support \$18.9 million in recommended expenditures, leaving \$7.5 million unallocated. Uses for these excess funds should be identified during Council budget deliberations. Council could alternatively elect to preserve excess funds for future use.

Some options for allocating excess funds could include:

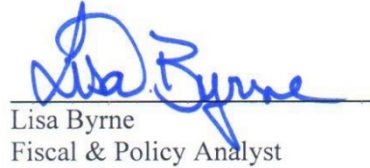
- Allocate funding to the City's resurfacing annual allocation since most Councilmembers requested street repaving in their memos but no consensus was reached for a particular location as requests were district-specific
- Contribute towards the City's General Fund reserve which, as of the Proposed Budget, is projected to be \$25.8 million less than the Reserve Policy target in FY 2023
- Allocate funding towards Council priorities that were identified in Council Budget Modification Memoranda, but that were not included in 5 or more memoranda
- Partially fund an increase to the FY 2023 Proposed Budget amount for negotiated public safety compensation increases, based on tentative agreements that have been reached since the release of the May Revision. Our report indicates \$2.2 million in ongoing resources remains unallocated and available to partially fund the \$3.8 million increased cost estimate. If the \$2.2 million is allocated for this purpose, the remainder of the compensation increase would either be absorbed by impacted departments or potentially requested for an

appropriation adjustment during the budget monitoring process. This amount is further discussed in the attached Review of the May Revision.

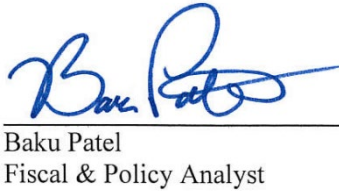
Considering the City's structural deficit as it recovers from the impacts of the COVID-19 pandemic and its reliance on one-time American Rescue Plan Act funds to balance the FY 2023 budget, we advise that if Council wishes to further allocate excess funds identified in this report, it do so only for one-time purposes.



Jordan More
Fiscal & Policy Analyst



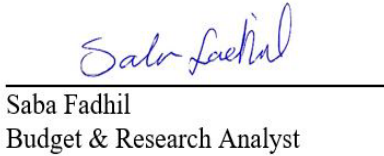
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Attachment – IBA Review of the May Revision to the FY 2023 Proposed Budget

IBA Review of the May Revision to the FY 2023 Proposed Budget

Our Office reviewed the adjustments included in the May Revision and found no significant concerns, although we do suggest a revised sales tax revenue projection which is discussed in more detail in our main report providing recommended modifications to the FY 2023 Proposed Budget. In the following sections, we highlight significant issues or selected items included in the May Revision that may be of particular interest to the City Council or to provide additional information.

SUMMARY OF GENERAL FUND CHANGES IN THE MAY REVISION

The May Revision overall adds approximately \$43.0 million in new revenues and expenditures to the FY 2023 Proposed Budget for the General Fund. Over half (56%) of the additional revenue is attributed to increased use of federal American Rescue Plan Act funds, leaving \$52.1 million of the City's \$299.7 million allocation for future fiscal years. Major General Fund Revenue projections continue to reflect strong growth leading into the upcoming fiscal year.

Net General Fund expenditure increases in the May Revision total \$43.0 million, over half of which (52%) is attributed to Proposition B transition costs. The next two largest increases are a \$5.8 million transfer to the Bridge to Home Program for the creation of affordable housing and \$5.4 million to expand shelter capacity which was anticipated to occur in FY 2022 but due to delays are expected in FY 2023. Together, these three adjustments make up 78% of the total net General Fund expenditure increases.

In our review we provide an in-depth discussion of unwinding Proposition B and related transition costs, providing important context to the \$22.4 million increase seen in the May Revision (\$22.6 million when including increased SPSP-H budget amounts). We also discuss notable personnel adjustments and issues related to the Personnel, Police, and Fire-Rescue departments. Finally, our Office provides a detailed discussion regarding changes to various departments implementing the Sidewalk Vending Ordinance.

Negotiations with the City's public safety employee organizations¹ over FY 2023 compensation increases have continued since the May Revision was released, and tentative agreements have been reached. These tentative agreements are subject to member ratification and City Council approval. Changes to estimated public safety compensation increases have not been incorporated into the May Revision for these anticipated and late developing agreements. Compensation increases are preliminarily estimated to be \$3.8 million higher than the \$16.2 million included in the Mayor's budget proposal as of the May Revision. Management has stated that the impacted departments will absorb any cost increases that may occur; and should any appropriation adjustments be needed during FY 2023 for compensation, they will be addressed during the budget monitoring process.

¹ The City's three public safety recognized employee organizations (REOs) include: POA (San Diego Police Officers Association); IAFF Local 145 (International Association of Fire Fighters, Local 145); and California Teamsters Local 911, which represents the Lifeguards.

MAY REVISION CHANGES TO REVENUE PROJECTIONS

As shown in the following table, overall revenues have increased by \$43.0 million, largely attributed to the increased use of federal American Rescue Plan Act (ARPA) funds in FY 2023. Significant changes in revenue projections are also included for property tax, sales tax, and Transient Occupancy Tax (TOT) projections. We describe these changes in more detail below.

General Fund Revenues in the May Revision (\$ in millions)			
	Proposed Budget	May Revision	Change
<i>Major General Fund Revenues</i>			
Property Tax	\$ 700.1	\$ 706.2	\$ 6.2
Sales Tax	369.3	376.1	6.8
Transient Occupancy Tax	132.2	135.2	3.0
Franchise Fees	95.8	93.8	(2.0)
Other Major General Fund Revenues	91.6	92.2	0.5
<i>Subtotal Major General Fund Revenues</i>	\$ 1,389.0	\$ 1,403.4	\$ 14.5
<i>Departmental Revenues</i>			
Parks & Recreation	\$ 46.7	48.8	\$ 2.1
Stormwater	10.7	12.2	1.5
Department of Information Technology	-	1.1	1.1
Fire-Rescue	56.2	56.9	0.7
Police	53.2	53.5	0.3
City Treasurer	54.3	52.8	(1.5)
Other Departments	153.1	153.4	0.3
<i>Departmental Revenues Subtotal</i>	\$ 374.4	\$ 378.7	\$ 4.3
<i>American Rescue Plan Act</i>	\$ 123.5	\$ 147.6	\$ 24.2
Total General Fund Revenue	\$ 1,886.8	\$ 1,929.8	\$ 43.0

Note: Figures may not total due to rounding.

American Rescue Plan Act

As shown in the table above the FY 2023 May Revision projects that the City will use an additional \$24.2 million in ARPA funds in the upcoming fiscal year, bringing total ARPA use to \$147.6 million. Of the \$24.2 million increase, \$20.4 million was planned for use in the FY 2022 budget but, as indicated in the Third Quarter Budget Monitoring Report, projected revenues continue to surpass expectations, and this amount is no longer needed in FY 2022. A total of \$52.1 million remains for use in FY 2024. The table below summarizes projected ARPA use at the time of the FY 2023 Proposed Budget and the May Revision.

Point-in-Time Projections of ARPA Use (\$ in millions)			
Fiscal Year	FY 2023 Proposed Budget	FY 2023 May Revision	Change
FY 2022	\$ 120.4	\$ 100.0	\$ (20.4)
FY 2023	123.5	147.6	24.2
FY 2024	55.8	52.1	(3.7)
FY 2025 ¹	-	-	-
Total	\$ 299.7	\$ 299.7	\$ -

¹ ARPA Funds can be spent through December 31, 2024 (or half way through FY 2025)

Property Tax

The May Revision increased Property Taxes by \$6.2 million, from \$700.1 million to \$706.2 million. This is primarily due to an increase in one-time revenue from the Redevelopment Property Tax Trust Fund due to the anticipated sale of Tailgate Park. This transaction, which happened subsequent to the release of the Proposed Budget, is also related to the increases contained in the May Revision for the Long Range Property Management Fund as well as the increase in the Low to Moderate Income Housing Asset Fund. During the action approving the Development and Disposition Agreement for the sale, the Council requested that these residual revenues be appropriated for the Bridge to Home program. The May Revision includes this transfer.

The remaining increase for Property Taxes in the May Revision of \$0.3 million is due to an increase in the base 1% property tax based on the most recent actuals for FY 2022. The growth rate for Property Tax remains at 6.00%. Our Office agrees with the projection for Property Taxes.

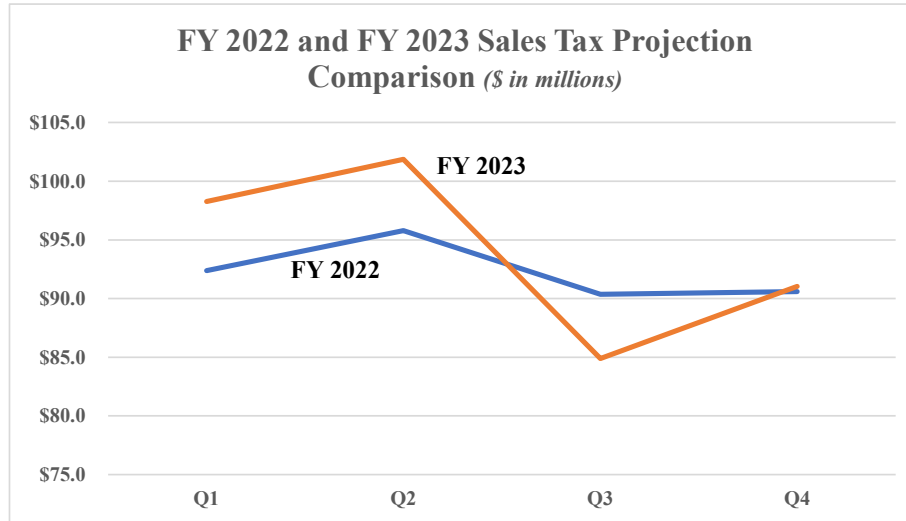
Sales Tax

The May Revision increases the FY 2023 sales tax projection by \$6.8 million, for a total of \$376.1 million. The projection grows sales tax revenue by 5.6% from FY 2022 for the first two quarters (up from 3.7% used in the Proposed Budget). To account for elevated inflation impacts for the latter portion of the fiscal year, the projection applies the growth rate to a lower base, with the assumption that some level of activity was of a one-time nature in those periods. The third quarter grows relative to FY 2021, and the fourth quarter builds off a three-year quarterly average of actual receipts instead of using the fourth quarter of FY 2021 as it had abnormal growth following the end to State health orders.

The net result of this methodology produces a year-over-year growth rate of 3.8% comparing the FY 2022 third quarter projection to the FY 2023 May Revision projection. However, as discussed in our review of the Third Quarter Report, newly available information provides that updated sales tax receipts through March 2022 are \$6.8 million above the third-quarter projection, bringing the FY 2022 total to \$369.1 million. Assuming no changes to the May Revision sales tax projection despite this new information, the year-over-year growth rate would decrease from 3.8% to 1.9%.

Our Office agrees with the Department of Finance's assumption that the continued robust growth in sales tax that we have seen in FY 2022 is likely to become more moderate. However, the methodology used to rebase the third and fourth quarters of FY 2023 may distort projections, especially in light of the additional \$6.8 million in FY 2022 sales tax revenue. When comparing the respective third and fourth quarters of FY 2022 (including updated actual activity) and FY 2023, we see a 6.0% *decrease* in the third quarter and a virtually flat fourth quarter, illustrated in

the following graph. Although the current economic environment is volatile and uncertain, we are currently not seeing economic indicators that would suggest these outcomes. Therefore, we are recommending a revised sales tax projection as discussed in our main report providing recommended modifications to the FY 2023 Proposed Budget.



Transient Occupancy Tax

Of the 10.5% tax on short-term stays in the region, 5.5% is allocated to the General Fund and is one of the City's four major General Fund revenues. The FY 2023 General Fund TOT allocation is projected to be \$135.2 million, which is a \$3.0 million increase from the Proposed Budget.

The projections in the Proposed Budget had assumed that revenues would not reach pre-pandemic levels until the second half of FY 2023. The May Revision instead assumes that the entire fiscal year will grow at a rate of 2.4% over FY 2019. This is consistent with the February TOT forecast prepared by Tourism Economics. We note that actual TOT revenues for April 2022 exceeded FY 2019 actuals for the same period. Given the current trend and the reduced public health concern regarding future variants, our Office believes the May Revision TOT projections are reasonable.

Franchise Fees

Franchise Fees overall decrease by \$2.0 million in the May Revision. This decrease is due to an accounting change, which will account for a \$2.0 million distribution from SDG&E for the Climate Equity Fund (CEF) directly in the CEF as opposed to being received by the General Fund and subsequently transferred to the CEF. There is a corresponding decrease in expenditures to account for this change. There is no net decrease in funding for the CEF from these actions. Our Office agrees with the projections for Franchise Fees.

MAY REVISION CHANGES TO GENERAL FUND EXPENDITURES

The following table shows adjustments to General Fund expenditures in the May Revision that net to a \$43.0 million increase in expenditures over those of the FY 2023 Proposed Budget. Many of these items are described or explained in the May Revision itself but in the sections that follow, our Office discusses issues surrounding the most significant change – Proposition B Transition

Costs – providing additional important context for unwinding Proposition B, as well as budgeting for it. We also discuss one of the largest staffing changes which is for the Personnel Department.

General Fund Expenditure Adjustments in the May Revision (\$ in millions)		
Item	FTEs	Amount
Proposition B Transition Costs	-	\$ 22.4
Transfer to the Bridge to Home Program	-	\$ 5.8
Homelessness Shelter Capacity Expansion (FY 2022 Carryforward)	-	\$ 5.4
Environmental Services - Refuse Disposal Fees	-	\$ 1.9
Parks & Recreation - Restroom Cleaning	16.00	\$ 1.5
Broadband Access Expansion	-	\$ 1.1
Sidewalk Vending Ordinance Support (DSD, EDD, ESD, P&R)	-	\$ 1.0
Net Non-Discretionary Changes (incl. fuel, vehicle assignment fees)	-	\$ 1.0
Facilities Maintenance (onetime)	-	\$ 1.0
Personnel Department - Staffing/Funding (largely to assist in hiring process)	12.00	\$ 0.9
Consulting Services - Downtown Office Space Analysis	-	\$ 0.7
Police - Laboratory Technicians and Funding for Crime Lab	7.00	\$ 0.6
City Attorney - Support for Conservatorship Unit	3.00	\$ 0.5
Transfer to CIP (MLK Community Park - Mountain View Racquet Club)	-	\$ 0.5
Fire-Rescue - Lifeguard Sergeants (Boating Safety Unit & night operations)	5.00	\$ 0.5
Consulting Services - Sport Arena Development & Lease Negotiations	-	\$ 0.5
Fire-Rescue - Fire Captain (Local 145 President)	1.00	\$ 0.3
City Clerk - Support for Records Management Program	2.00	\$ 0.2
Library - Restoration of Librarian 2 Positions	2.00	\$ 0.2
Office of the IBA - Budget/Legislative Analyst 1	1.00	\$ 0.2
Parks & Recreation - Program Coordinator for Animal Services Program	1.00	\$ 0.1
Performance & Analytics - Program Coordinator for STRO Program	1.00	\$ 0.1
Development Services - Support Training and Hearings	1.00	\$ 0.1
Economic Development - Support for Successor Agency	1.00	\$ 0.1
Transportation - Payroll Supervisor	1.00	\$ 0.1
Environmental Services - Reduction of Limited Code Compliance Positions	(8.00)	\$ (0.1)
Economic Development - Reduction of Community Development Coordinators	(2.00)	\$ (0.1)
Environmental Services - Missed Collection Crew (delayed implementation)	-	\$ (0.6)
Clean SD Services	-	\$ (0.9)
Climate Equity Fund Transfer (removes General Fund pass-through)	-	\$ (1.5)
Public Liability Operating Fund Transfer	-	\$ (4.3)
Net Other Changes	(0.12)	\$ 3.7
Total General Fund Expenditure Adjustments	43.88	\$ 43.0

Notes: Table may not total due to rounding.

Unwinding Proposition B

This section discusses ongoing and onetime costs related to the unwinding of Proposition B², as well as FY 2023 budgeting for such costs. Proposition B, which was approved by voters in June 2012, was legally challenged, and based on a California Superior Court ruling, the City must take all necessary steps to strike the Proposition B provisions from the City Charter and make conforming amendments to the San Diego Municipal Code and other related enactments. The City has been negotiating with its recognized employee organizations (REOs) regarding the impacts of unwinding Proposition B on affected employees.

With respect to current Proposition B employees participating in SPSP-H, the City Council has approved a negotiated joint agreement with two of the City's REOs (MEA and AFSCME Local 127³). This agreement allows current employees who are in SPSP-H the choice of transferring into the SDCERS⁴ pension system or remaining in SPSP-H.

The City has also reached tentative agreements with DCAA, Teamsters Local 911, and IAFF Local 145⁵ regarding current employees participating in SPSP-H. Additionally, the City is negotiating with the POA⁶ regarding recruits who were members of SPSP-H, as well as other matters. Negotiations regarding Proposition B employees who were in SPSP-H but have left City employment are pending.

The ultimate costs for resolution of the Proposition B legal challenges are dependent upon the remaining negotiations with the REOs, the number of employees who choose to enter the SDCERS pension system, and the performance of financial markets and how they impact the affected employees' SPSP-H balances. A brief discussion of the latest cost estimates for current Proposition B employees follows.

Estimated Costs Related to Unwinding Proposition B

Ongoing Costs for Current Employees

Ongoing costs would be either in the form of the "normal cost" portion of the SDCERS pension payment for current employees choosing to enter SDCERS, or SPSP-H matching contributions for those choosing to remain in SPSP-H. *The preliminary estimate for the FY 2023 citywide normal*

² Under Proposition B, employees hired on or after July 20, 2012 and before July 10, 2021, except new sworn police officers, were not eligible to participate in the defined benefit (DB) pension. (Police recruits are still ineligible to enter the DB pension until they become sworn officers.) Instead, those employees who were ineligible for the DB pension were offered a DC (defined contribution) plan. Following voter approval of Proposition B in 2012, retirement plan provisions were negotiated with the City's recognized employee organizations (REOs), and agreement for an interim DC plan was reached. The interim DC plan is incorporated in the Supplemental Pension Savings Plan H (SPSP-H), which was previously for hourly employees but was modified to include these new participants.

³ MEA is the San Diego Municipal Employees Association, and AFSCME Local 127 is the American Federation of State, County & Municipal Employees, Local 127.

⁴ SDCERS is the San Diego City Employees Retirement System.

⁵ DCAA is the Deputy City Attorneys Association; California Teamsters, Local 911 represents the Lifeguards; and IAFF Local 145 is the International Association of Fire Fighters, Local 145.

⁶ POA is the San Diego Police Officers Association.

cost component, should all employees choose to enter SDCERS, is \$33.2 million⁷ (\$20.2 million for the General Fund), although this amount is anticipated to be higher based on recent pensionable pay increases for employees.

Onetime Costs for Current Employees

The estimated onetime cost for unwinding Proposition B for current employees, \$149.9 million citywide (\$82.3 million for the General Fund), has been recently updated from the amount included in the Citywide Budget Overview in Volume I of the FY 2023 Proposed Budget (and in the Pension section of our review of the Proposed Budget – [IBA report #22-08](#)). The updated estimate is based on recent analysis of SDCERS’ actuary, Cheiron. This estimate assumes that all eligible employees will be transferred into the SDCERS pension system. The actual cost for current employees transferring into SDCERS will be dependent on the number of employees choosing to transfer into SDCERS and the balances in their SPSP-H accounts when funds are transferred in July 2022.

*The City estimates it will need to pay about \$44.7 million of the \$149.9 million in cash payments during FY 2023. The remaining portion of the onetime cost estimate for current employees is \$105.2 million (\$56.3 million General Fund portion) and will be a debt to SDCERS. It may be included in the Unfunded Actuarial Liability (UAL) and amortized, such that it is paid to SDCERS as part of the annual pension payment. Alternatively, it may be required to be paid to SDCERS upfront. Payment terms are ultimately dependent on how the SDCERS Board decides this debt should be treated. **None of the \$105.2 million in estimated debt to SDCERS has been included in the FY 2023 Proposed Budget or May Revision. If SDCERS decides that it requires upfront payment of this debt, the Department of Finance anticipates covering the \$56.3 million General Fund portion using Excess Equity (estimated at \$40.0 million in the Third Quarter Budget Monitoring Report) and General Fund Reserve. We note that Excess Equity has not been budgeted in the FY 2023 Proposed Budget or May Revision, but rather has been held aside for this contingency.***

Budgeting for Unwinding Proposition B (Costs for Current Employees)

Based on the discussion above, the estimated citywide costs for FY 2023 include \$33.2 million in ongoing costs (“normal cost” estimate) and \$44.7 million in onetime costs (cash payment estimate), which totals \$77.9 million, as shown in the left three columns of the following table. Of these amounts, the FY 2023 General Fund portion for the estimated ongoing/normal cost is \$20.2 million and onetime/cash payment is \$26.0 million, totaling \$46.2 million.

The table’s right three columns show the FY 2023 budget amounts proposed. For the General Fund those amounts are \$22.9 million in the initial Proposed Budget⁸ and \$22.6 million in the May

⁷ The cost estimate for current employees is based on a preliminary cost analysis for eligible employees who were employed with the City as of March 5, 2021.

⁸ The \$22.9 million General Fund amount in the initial Proposed Budget includes \$17.3 million budgeted in SPSP-H for ongoing costs and \$5.6 million in additional transition cost funding.

Revision⁹, for a total of \$45.5 million. There is a relatively small difference between the total cost estimate and total budget proposal; however, because the difference is relatively small and the cost estimates are not final, the difference is not of significant concern.

Proposition B Unwinding						
FY 2023 Cost Estimate vs. FY 2023 Mayor's Budget Proposal (\$ in millions)						
	Estimated Normal Cost	Estimated Onetime Cash Payments	Total Cost Estimate	Initial Proposed Budget	May Revision	Total Mayor's Budget Proposal
General Fund Amounts	\$ 20.2	\$ 26.0	\$ 46.2	\$ 22.9	\$ 22.6	\$ 45.5
Citywide Amounts	\$ 33.2	\$ 44.7	\$ 77.9	\$ 36.5	\$ 41.1	\$ 77.6

Notes: Table may not total due to rounding.

As mentioned previously, in addition to Proposition B costs for current employees, the City may incur additional costs related to unwinding Proposition B. The City is also negotiating with the POA regarding recruits who were members of SPSP-H, as well as other matters; and negotiations regarding employees who were in SPSP-H but have left City employment are pending. Potential cost impacts associated with these negotiations are not included in the FY 2023 Proposed Budget and May Revision, nor is any SDCERS Proposition B related debt that may require upfront payment (as discussed earlier in the section on onetime costs).

Notable Personnel Adjustments

Additional Personnel Department Positions - \$865,000, 12.00 FTE (ongoing)

The Personnel Department had requested 12.00 positions and full restoration of their 4% budget reduction as part of the May Revision process. Positions include those that will reinstate the Recruiting Section (2.00 FTE) and the Outstation Section (6.00 FTE), as well as support the Exam Management Section (2.00 FTE), Certification Section (1.00 FTE), and Equal Employment Investigations Office (1.00 FTE). Most of these positions will assist hiring departments in filling their vacancies and help make the hiring process more efficient. The 12.00 additional FTEs equate to a 17% increase in number of standard hour positions as compared to the Proposed Budget.

The May Revision includes the 12.00 FTE and corresponding funding (\$1.3 million), as well as restoration of the other half of the 4% budget reductions (\$194,000). However, anticipating the 12.00 positions will only be filled for a partial year, these funding additions are reduced by \$598,000, which yields a net addition of \$865,000 in General Fund expenditures.

We would note that it is possible there could be Service Level Agreement (SLA) reimbursements from non-general funds for Outstation work in certain departments. Personnel needs to further evaluate where Outstation work will be most needed and whether any SLA reimbursements are feasible.

⁹ The \$22.6 million General Fund increase in the May Revision includes \$193,000 in additional SPSP-H budget for ongoing costs and \$22.4 million in additional transition cost funding.

Police Department Vacancy Savings and Overtime (\$58,000 ongoing)

The May Revision includes a \$4.0 million increase in Budgeted Personnel Expenditure Savings for the Police Department¹⁰. This is a reasonable adjustment based on the increased number of sworn vacancies between the time that the Proposed Budget was developed (1,933 filled positions as of December 27, 2021) and the preparation of the May Revision (1,889 filled as of April 25, 2022); since then the Department has 23 additional vacancies (1,866 filled as of May 23, 2022).

Offsetting this budget reduction is a corresponding \$4.0 million increase in the Police Department's Overtime budget for Patrol Staffing Backfill, plus \$58,000 in related fringe expenses. Patrol Staffing Backfill 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. As we discuss in our review of the FY 2022 Third Quarter Budget Monitoring Report, the Police Department is projected to end FY 2022 \$10.4 million over budget. Of this projected overage, \$6.9 million is attributable specifically to Patrol Staffing Backfill due to increased 911 call volumes which have necessitated increased patrol staffing requirements. In addition to the \$4.0 million increase in the May Revision, the FY 2023 Proposed Budget included a \$1.0 million budget restoration for Patrol Staffing backfill (\$5.0 million total increase compared to the FY 2022 Adopted Budget).

Fire-Rescue Department Personnel (\$809,000, 6.00 FTEs ongoing)

The May Revision includes several personnel related budget adjustments, including the following:

- addition of 5.00 Lifeguard Sergeants and \$528,000 in personnel expenditures to support nighttime lifeguard operations. These positions were identified as a priority by a majority of the City Council in their Proposed Budget priority memoranda, and by Local 911;
- addition of 1.00 Fire Captain and \$279,000 in personnel expenditures to serve as the Local 145 President per the requirements of the City Memorandum of Understanding with Local 145; and
- reduction of 1.00 Program Manager (vacant) and the addition of 1.00 Fire Captain to serve as the Administrator of the Aircraft Rescue Firefighting Program. The net Personnel Expenditure increase of \$1,300 is offset with \$2,300 in associated revenue.

The May Revision does not include two administrative positions, including 1.00 Logistics Division Clerical Assistant 2 (\$62,000) and 1.00 Employee Services Division Clerical Assistant 2 (\$62,000), that were prioritized by a majority of Councilmembers in their Proposed Budget priority memoranda and identified as a significant staffing need by the Fire Rescue Department.

At the May 6, 2022 Budget Review Committee meeting, Council President Elo-Rivera asked if our Office could determine whether there may be any offsetting savings associated with the addition of these positions after Chief Stowell indicated that sworn Fire Captains are currently conducting the administrative duties that these positions would otherwise perform. From a budgetary perspective, there would not be any savings to offset the \$124,000 increase in budgeted personnel expenditures associated with these two positions given that overtime that is currently being incurred by these divisions due to administrative workloads is unbudgeted.

¹⁰ An *increase* in Budgeted Personnel Expenditure Savings results in a Personnel Expenditure (PE) budget *reduction*.

With that said, while there is no budgetary offset, it is estimated that there would be a \$53,000 reduction in overbudget overtime expenditures. In addition, the overall capacity for sworn personnel within the Logistics Division and the Employee Services Division to perform their core duties would increase. While we are unable to quantify this impact, the additional positions would allow sworn staff within the Professional Standards Unit to address increased casework demands, handle complaints, conduct investigations, and process discipline within the one-year requirement pursuant to the Meyers-Milias-Brown Act (MMBA) and the Firefighter’s Bill of Rights; allow the Recruitment and Community Education Office to attend more recruitment events; and for Logistics personnel to focus on facility repairs, equipment inventory, and contract administration.

In the absence of these positions, Fire-Rescue will continue to see delays in inventory and supply replenishment, fall short of paying invoices timely, and exceed workload expectations of existing administrative staff.

Sidewalk Vending Ordinance

The May Revision includes a net increase of \$1.0 million in expenditures and \$230,000 in revenue associated with the City’s recently approved Sidewalk Vending Ordinance (SVO) which will go into effect on July 1, 2022. Together with the 44.00 FTEs and \$4.1 million that was included in the FY 2023 Proposed Budget, total expenditures associated with SVO activities amount to \$5.1 million spread across several departments, as reflected in the table below.

Offsetting the SVO-related expenditure increase in the May Revision is \$230,000 in projected Sidewalk Vending Permit revenue which was based on staff’s original proposal for a fee of \$230 with 1,000 total permits estimated to be issued. The City Council considered this proposal on May 17th and approved a lower fee of \$38 which is projected to produce \$38,000 in revenue, a difference of \$192,000. This adjustment is accounted for in our recommended modifications to the FY 2023 Adopted Budget.

Sidewalk Vending Ordinance – Proposed Expenditures by Department			
Department	Proposed Budget	May Revision⁽¹⁾	Total
Parks & Recreation (27.00 FTEs)	\$1,250,559	\$1,207,915	\$2,458,474
Environmental Services (12.00 FTEs)	2,277,987	(666,712)	1,611,275
Development Services (5.00 FTEs)	547,305	243,000	790,305
Economic Development	-	232,500	232,500
Total (44.00 FTEs)	\$4,075,851	\$1,016,703	\$5,092,554

(1) The May Revision includes a \$59,000 reduction for the Parks & Recreation Department associated with the transfer of SVO positions from the Administrative Services Division to Developed Regional Parks Division and a \$667,000 reduction for the Environmental Services Department to correct a system error.

Below we provide additional information concerning each department’s proposed staffing and budgeted expenditures related to the SVO.

Parks & Recreation – 27.00 FTEs and \$2.5 million

The largest SVO staffing component is for the Parks & Recreation Department which consists of 27.00 FTEs, including 1.00 Senior Park Ranger, 12.00 Park Rangers, 11.00 Grounds Maintenance Worker IIs, 2.00 Utility Worker IIs, and 1.00 Administrative Aide II.

According to the Department, the Senior Park Ranger and 12.00 Park Rangers will be preliminary focused on outreach and education, as well as enforcement of SVO regulations throughout the parks system. The Park Rangers will also track all outreach and education contacts and the result of any enforcement action. Based on current observations within Park areas, the Department estimates there to be on average approximately 500 vendors active per day, with a majority of this activity occurring in Balboa Park, Mission Beach, and other beach areas (primarily Ocean Beach, La Jolla, and Pacific Beach). Using this information, the Department developed their staffing proposal which assumes two, two-person teams to provide 7-days of coverage per week each for Balboa Park, Mission Beach, and the other Beach areas, respectively (4.00 Park Rangers per area equates to 12.00 FTEs total). While this methodology was used to develop an initial staffing proposal, the new Park Rangers will in actuality supplement existing Park Ranger staffing in these areas. As the SVO goes into effect and vending activities a better known, the Department plans to adjust staffing schedules/locations, as needed; this could include Park Ranger staffing at certain community and neighborhood parks which currently does not occur. Overall, the Department expects all new and existing Park Rangers to be cross trained in all aspects of ranger duty (i.e., safety, park maintenance, cleanliness, inspections, etc.) including the new SVO-related responsibilities.

The proposed 11.00 Grounds Maintenance Worker II's, and the 2.00 Utility Worker II's will be used throughout the park system to address the maintenance needs that are a result of the Sidewalk Vending activities, which include debris and trash pick-up, additional litter containers, grease removal, drain protection, and power washing. Maintenance staff will also support of the Environmental Services Department's impounding activities (discussed below). According to the Department, current maintenance staffing levels are insufficient given the impact that current vending activities are having at the high-traffic park locations discussed above.

Finally, the proposed 1.00 Administrative Aide II will track all park ranger and maintenance activities as a result of the SVO, administer and process administrative citations that are a result of the enforcement action, and support information inquires, complaints, and enforcement requests related to the Sidewalk Vending program.

The Department is currently in the middle of hiring processes to fill existing vacancies for both Park Rangers and Ground Maintenance Workers. If there are enough qualified candidates remaining after existing vacancies are filled, they may be able to begin hiring for the new positions shortly after the new fiscal year begins. However, if they are unable to do so, they would need to restart the recruitment process which could take six months or more to fill the positions.

Environmental Services – 12.00 FTEs and \$1.6 million

The Environmental Services Department's role will solely be related to SVO impounding activities. Under the SVO, the City may impound vending equipment and goods after four or more violations occur involving one of the following: (1) leaving vending equipment or goods

unattended; (2) vending prohibited goods; or (3) vending without a Sidewalk Vending Permit. According to ESD, their impounding activities would include itemizing equipment and goods at the time/place of impounding, transporting and documenting these items at a secure location (yet-to-be identified) for storage, and staffing the storage site to allow retrieval by the vendor/owner of the impounded items. To carry out these duties, ESD is proposing its staffing to consist of 1.00 Deputy Director to oversee and manage the program, 2.00 Code Compliance Supervisors and 8.00 Code Compliance Officers to conduct the impounding activities and staff the storage/retrieval site, and 1.00 Administrative Aide 1 for administrative support. According to ESD, this proposed staffing level is based their expected hours of operations of 6:00 A.M. to 2:00 A.M., Monday through Sunday. We note that ESD is currently in discussions with the Personnel Department to determine whether the Code Compliance Officer position classification is eligible to perform the unique duties outlined above. If it is not, a new position classification may need to be created which will impact how quickly ESD will be able to implement their role related to SVO impounding activities.

Development Services – 5.00 FTEs and \$790,000

The Development Services Department’s role will primarily be associated with the enforcement of SVO regulations Citywide, with the exception of activity occurring in public parks and beach areas. The Department determined that 2.00 Zoning Investigator 2 would be necessary to start enforcement and 1.00 Senior Zoning Investigator would be required to oversee, assign, supervise and approve notices issued by the two Zoning Investigators. In addition, a Program Manager is proposed to manage this program within the Department’s Code Enforcement Division, as well as an Administrative Aide II for administrative support.

Given that SVO enforcement activities will sometimes be occurring outside of typical operating hours, the Department is anticipating that its proposed enforcement staff will be dedicated to SVO activity as their primarily role; general DSD code enforcement of the Land Development Code and DSD-issued permits are unlikely to be addressed by the proposed SVO staff.

The Department is currently in various stages of the hiring process to fill existing vacancies for similar positions and they expect to be able to utilize those related hiring process to begin recruitment once the budget is adopted.

Economic Development - \$233,000

In the FY 2022 Adopted Budget, \$250,00 was budgeted on a one-time basis to provide assistance to street vendors in anticipation of the SVO. According to the Economic Development Department, \$18,000 of this appropriation has been utilized following Council’s approval of the SVO on March 7, 2022, to support the Office of the City Treasurer’s permitting system. The remaining unspent funds (\$232,000 one-time) have been reallocated in the May Revision and are anticipated to be awarded to two community-based organizations (logan Heights CDC and City Heights CDC) to provide outreach, education, and technical assistance related to the SVO and for necessary translation services and printed materials.

Other Items

City Treasurer

The May Revision includes a net decrease of \$1.5 million in the City Treasurer's General Fund revenue. This is primarily due to a \$1.8 million reduction for the Cannabis Business Tax revenue to reflect the reduction associated with a decrease in the tax rate from 8% to 2% for manufacturing production facilities when Council modified code section 34.0112 on the manufacturing production facilities, which took effect on May 1st, 2022.

Communications

The May Revision includes the addition of \$200,000 in ongoing General Fund support for the expansion of Citywide marketing and advertising outreach programs and services. These include marketing such as: paying for billboard or bus stop advertisements and/or printing posters and flyers to distribute, and bridge the digital divide in underserved communities by putting information in a format that people can find it without access to social media or the internet. This effort will be managed by a new Program Coordinator position that was requested in the FY 2023 Proposed Budget.

Performance and Analytics

The May Revision includes the addition of \$100,000 for the second Pay Equity Study. The contract for the study is expected to be awarded next month. The Department anticipates finishing the study and incurring expenditures by the end of the calendar year.

The report also includes 1.00 FTE Program Coordinator to support the Short-Term Residential Occupancy (STRO) program. The position would allow for system oversight, data governance, advanced analytics, and performance level tracking that is intended to help ensure the City meets objectives laid out in the STRO ordinance. The City Treasurer is currently expecting the Performance and Analytics Department to develop the lottery methodology and build the application to assign the licenses, and to develop a methodology to determine compliance for license holders. This information would then be used by the Development Services Department for enforcement purposes.

Office of the Chief Operating Officer

The May Revision includes the reduction of 3.00 FTE positions and expenditures of \$511,000 associated with the transfer of the Office of Immigrant Affairs from the Office of the Chief Operating Officer to the Office of the Mayor. Per staff this transition is no longer in effect. The Office of Immigration Affairs will remain under the Office of the Chief Operating Officer and this decision has been communicated with the Department of Finance.