

IBA Review of the FY 2021 Mid-Year Budget Monitoring Report

City Council

Item 601

February 22, 2021



Office of the Independent Budget Analyst



Overview

Mayor's FY 2021 Mid-Year Report projects General Fund year-end budgetary deficit of approximately \$85.4M

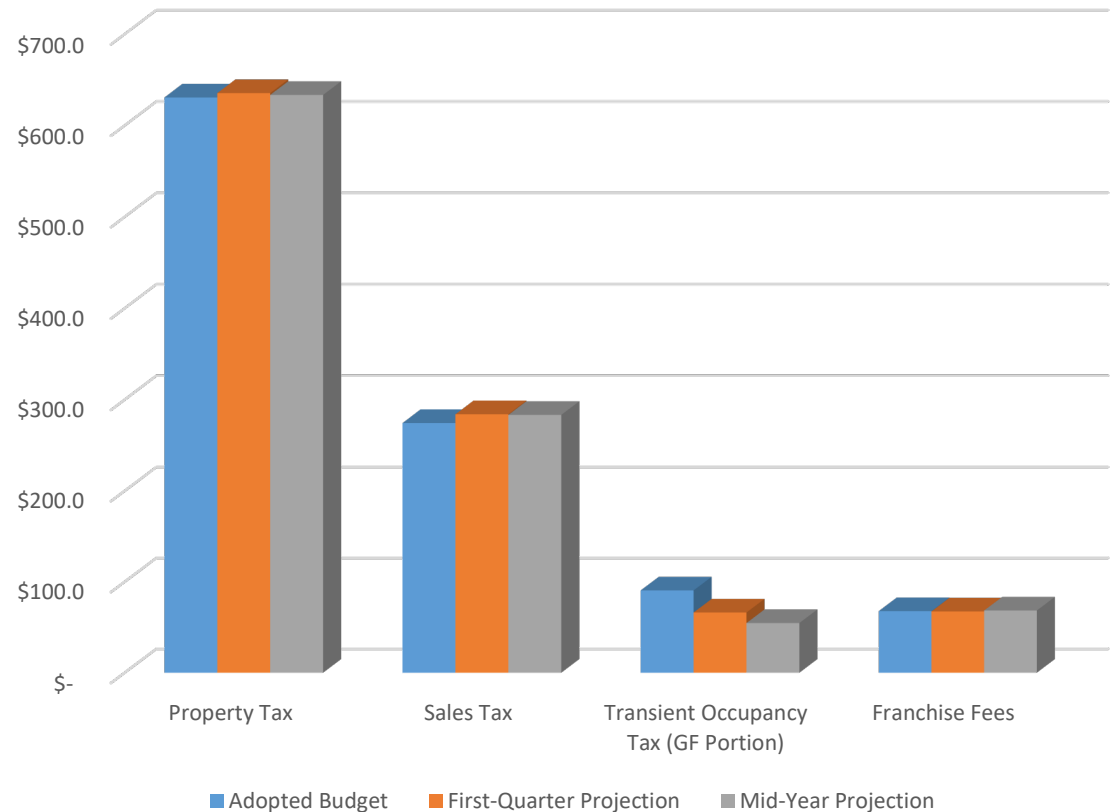
- IBA Report 21-05 reviews:
 - General Fund Revenues
 - General Fund Contracts Reduction
 - General Fund Salaries & Wages
 - General Fund & Risk Management Reserves
 - Police Appropriations
 - Homelessness Programs
 - Status of City Council Additions to Budget
 - Mayor's Mitigation Proposal

General Fund Revenues

Overview

- Total General Fund revenue is projected at \$1,535.0M, which is \$86.0M below the Adopted Budget
- Major General Fund Revenues close to projections in Adopted Budget & First-Quarter Report, with exception of TOT
 - General Fund portion of TOT revenue now projected at \$54.6M, decrease of \$35.9M from Adopted Budget & \$11.6M from First-Quarter Report
- Total Major General Fund revenue in Mid-Year projected at \$1,133.7M, decrease of \$30.3M from Adopted Budget & \$20.0M from First-Quarter

Major General Fund Revenues (\$ in millions)

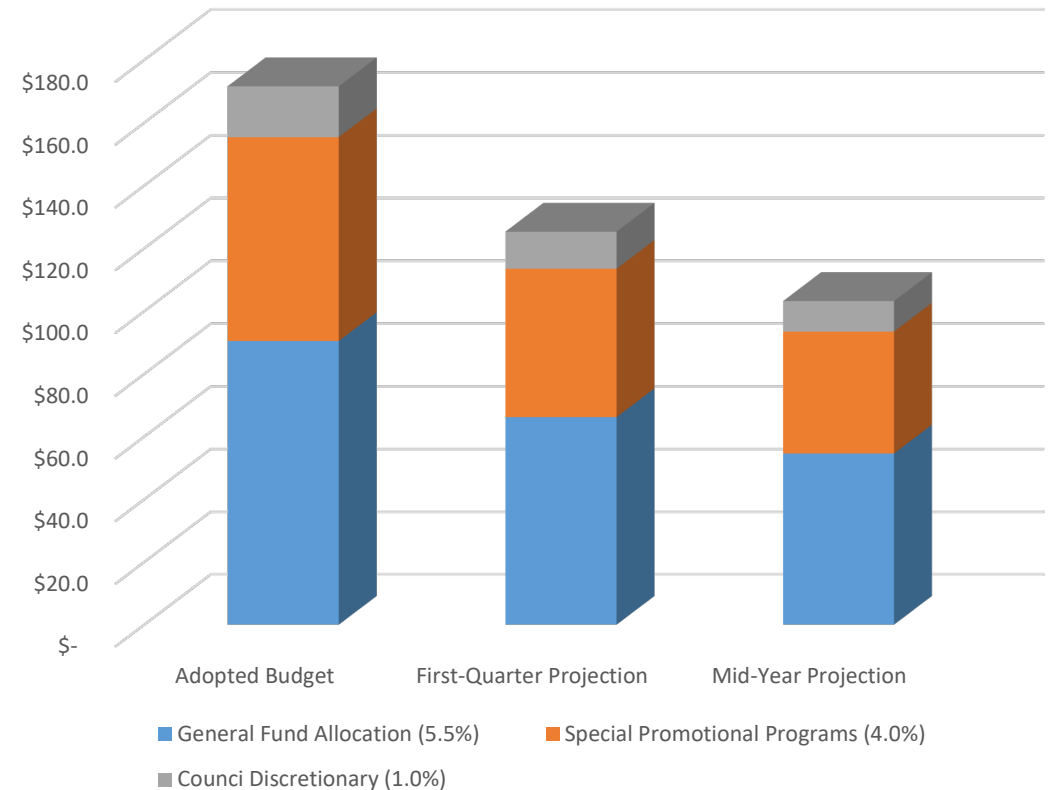


General Fund Revenues

Transient Occupancy Tax

- TOT has been heavily impacted by the COVID-19 pandemic
- Revenue projections from the total 10.5% tax projections declined from \$171.6M in the Adopted Budget to \$125.3M in the First-Quarter Report to \$103.2M in the Mid-Year Report
 - Additional impacts due to stay-at-home order & restrictions on hotel stays that began in December
- General Fund impacts extend to declines in Special Promotional Programs & Council Discretionary allocations – combined General Fund impact from declines is \$67.4M

FY 2021 Transient Occupancy Tax Revenue Projections
(\$ in millions)



General Fund Revenues

Transient Occupancy Tax

- Special Promotional Programs allocation used to support programs that draw tourism to the San Diego region; a portion of this revenue is used to reimburse General Fund expenses that ultimately help maintain San Diego as a desirable place to travel (Lifeguards, Parks, Street Sweeping in High Tourism areas)
- Special Promotional Programs revenue projected at \$38.9M, a decline of \$26.0M from the Adopted Budget
 - Reimbursements to General Fund for expenditures is absorbing \$25.0M of this decline

Special Promotional Programs - General Fund Reimbursements (\$ in millions)			
	Adopted Budget	Mid-Year Projection	Variance
Mayor's Office	\$ 0.2	\$ -	\$ (0.2)
Library	0.5	0.0	(0.5)
TSW - Street Sweeping	1.1	-	(1.1)
Facilities	0.1	0.1	-
Parks & Recreation	0.5	-	(0.5)
Fire-Rescue - Lifeguards	21.4	0.4	(21.0)
Special Events	1.6	-	(1.6)
Treasurer	0.9	0.9	-
Total	\$ 26.3	\$ 1.4	\$ (25.0)

General Fund Revenues

Property Tax

- Mid-Year projects Property Tax revenue to total \$633.4M, \$2.7M above projections in the Adopted Budget, but \$2.0M below projections in the First-Quarter Report
- Increase mainly due to increase in Motor Vehicle License Fee (MVLF) backfill payments of \$2.5M

General Fund Revenues

Sales Tax

- Sales Tax in the Mid-Year Report is projected at \$283.3M, \$8.8M above the Adopted Budget, but \$0.7M below First-Quarter projections
- Declines in sales tax revenue from brick-and-mortar sales & restaurants are partially offset by increases in revenue from online sales
- Projections closely track with those from the City's sales tax consultant & broader economic indicators

General Fund Revenues

Franchise Fees

- Franchise Fee revenue in Mid-Year projected at \$68.4M, increase of \$0.7M over Adopted Budget, & \$1.0M over First-Quarter projections
- Increase is attributable to revised estimates for Cable Franchise Fee revenue & refuse collection fees
- SDG&E Franchise Fee Revenue continues to be projected at budget
 - SDG&E projections assume the current franchise agreement, set to expire on June 1st, will remain in place for the entire fiscal year
 - Projections to be updated after City receives February clean-up payment from SDG&E

General Fund Revenues

Cannabis Business Tax

- Collected by the City Treasurer; lone department in the Mid-Year with significant increase in projected revenues
- Cannabis Business Tax revenue projected at \$22.8M, an increase of \$3.1M over Adopted Budget, & \$10.6M over FY 2020 Adopted Budget
- Revenue increases similar to those seen throughout the State; potential for increased competition for retail sales from other cities in the region exists in the future

General Fund Revenues

Lease Revenue

- Lease revenue received by the City is projected at \$33.5M in the Mid-Year report, a decrease of \$16.3M or 33% from the Adopted Budget
- Declines largely due to lower-than-projected revenue from Mission Bay leases
 - These include leases for Sea World & large hotels that have been impacted by the COVID-19 pandemic & State & regional health orders
 - City's leases generally are based on a percentage of revenue, so the City receives lower lease revenue when those businesses experience declines in revenue & attendance

General Fund Contracts Reduction

Allocating the 2.6% General Reduction

- As part of the FY 2021 budget actions, Council removed \$6.3M in appropriations from Contracts, which was approximately 2.6% of the Proposed Budget
 - Contracts spending is comprised of more spending line items than consulting, maintenance, & other service contracts
 - Contracts also includes rent payments, payments to Public Liability Fund, Fleet charges, & other non-discretionary items
- Total reduction within the Current Budget is contained in Citywide Program Expenditures; however, a memo from DOF provided departments with reduction targets based on each department's relative contract spending

General Fund Contracts Reduction

Contracts overage covered by other NPE

- Overall, Contracts are projected over the Adopted Budget by \$9.9M, this overage is mainly contained within 4 departments
- Overages are primarily for required expenditures or other unexpected costs, many of which are related to the COVID-19 pandemic
- Overall, the entire Contracts overage is more than offset by other NPE savings, with net NPE spending projected to be \$5.8M less than budgeted

General Fund Contracts Spending					
Department	Adopted Budget	Current Budget	Adjusted Current Budget	Midyear Projection	Over/(Under) Adjusted Budget
Citywide Program Expenditures	\$ 53,055,408	\$ 52,690,808	\$ 57,097,776	\$ 61,769,746	\$ 4,671,970
Storm Water	19,925,894	19,925,894	19,280,624	21,944,683	2,664,059
Parks and Recreation	20,863,784	20,863,784	20,290,493	22,128,416	1,837,923
Fire-Rescue	18,485,983	18,449,846	18,238,932	20,009,293	1,770,361
Homelessness Strategies	38,098,337	38,098,337	37,747,543	36,641,434	(1,106,109)
All Other Departments	130,985,357	133,349,957	130,723,258	130,772,301	49,043
Total	\$ 281,414,763	\$ 283,378,626	\$ 283,378,626	\$ 293,265,873	\$ 9,887,247

General Fund Salaries & Wages

Overall, salaries & wages are projected to be overbudget by \$1.8M, after netting various categories

- The overtime category has the largest projected overage, at \$9.8M
 - Historical overtime spending for the Police & Fire-Rescue Departments is included on page 9 of our report
 - Police overtime projections for a number of subcategories (e.g. extension of shift, patrol staffing backfill, holidays worked, Clean SD, etc.) is included on page 18 of our report

General Fund Salaries & Wages

Projected decline in salary/vacancy savings is \$10.9M from FY 2020 (\$57.8M) to FY 2021 (\$46.9M)

- This decline is based on the current projection for vacancy levels
 - If vacancy levels are higher than projected, there will be more savings
- The projected decline is largely due to reductions in the FY 2021 salaries budget due to the following:
 - Increased vacancy savings
 - 4% reductions applied to non-Mayoral departments
 - 81.11 FTE net reduction for standard hour positions

General Fund Salaries & Wages

Excess salary/vacancy savings may be an indicator of staffing level difficulties

- Issues related to employee staffing levels, recruitment & retention challenges, & uncompetitive compensation have been discussed by a number of Councilmembers
- There has also been interest in analysis of the extent to which departments are having difficulty performing work & meeting budgeted service levels as a result of their staffing levels/vacancy levels
- Attachment 1 to our report provides a general frame of reference for the General Fund staffing levels in City departments, but information needs to be further refined to help identify the levels of vacancies, as well as the filled positions needed to provide budgeted service levels

Reserves

Projected Use of Excess Equity & General Fund Reserve (based on FY 2021 mid-year projections)

FY 2021 Projected Use of General Fund Reserve <i>(\$ in millions)</i>	
Audited Beginning Fund Balance at June 30, 2020	\$ 220.1
Less: Current General Fund Reserve	(205.6)
<i>Excess Equity Before FY 2021 Projected Activity</i>	<i>\$ 14.5</i>
<i>FY 2021 Projected Activity</i>	
Projected Revenue	1,535.0
Projected Expenditures	(1,620.4)
<i>FY 2021 Projected Surplus/(Deficit)</i>	<i>\$ (85.4)</i>
FY 2021 Projected Use of General Fund Reserve	\$ (71.0)

Reserves

Risk Management Reserves are one of the other deficit mitigations contemplated in the Mid-Year Report

General Fund Portion of Risk Management Reserves (<i>\$ in millions</i>)			
	Public Liability	Workers' Compensation	Long-Term Disability
FY 2021 Reserve Projection	\$ 33.8	\$ 32.0	\$ 4.1
Budgeted General Fund Percentage	100.0%	87.0%	68.6%
Projected General Fund Portion	\$ 33.8	\$ 27.8	\$ 2.8

Police Appropriations

FY 2021 AO required an update on SDPD General Fund Overtime & Neighborhood Policing Expenditures

- Memorandum from Chief (Attachment VII) fulfills this requirement & confirms that the limits within the AO have not been exceeded
- According to the City Attorney’s Office, the Mayor has authority to move forward with full funding for the remainder of the year

SDPD General Fund Expenditures Limited by FY 2021 Appropriation Ordinance				
	Adopted Budget	AO Limit	Expenditures Through Period 5 (Nov. 2020)	Expenditures Through Period 6 (Dec. 2020)
Overtime	\$33,715,021	\$17,000,000	\$13,466,289 (40%)	\$15,913,801 (47%)
Neighborhood Policing	24,283,469	12,000,000	9,535,980 (39%)	11,464,520 (47%)

Homelessness Programs

Concourse Funding for Golden Hall Bridge Shelter

- Contributes to projected \$2.3M fund deficit at year-end
- Inappropriate long-term funding source
- Staff is working to assign appropriate costs to Homelessness Strategies

Homelessness Programs

Monitoring Homeless Program Expenditures

- Extensive reporting on homeless program expenditures has been discontinued
- Council may still wish to receive updates on significant resources such as State grants, federal Community Development Block Grant (CDBG) & Emergency Solutions Grant (ESG)
- Council could request regular reports that go to committee as information items

Status of City Council Additions to Budget

25 Programs & Services Added/Restored in FY 2021 Budget

- Represent Council’s top priorities after months of budget review, IBA analysis & public input
- Council’s modifications totaled \$26.4M or 1.7% of General Fund FY 2021 Proposed Budget
- IBA report includes a table (on page 21) showing status of all Council added items
 - 18 items implemented or ongoing/on-target
 - 7 items in progress, all related to filling positions

Status of City Council's Modifications in FY 2021 Adopted Budget			
General Fund Expenditure Items	FTE	Amount	Status
Restore Library Hours	93.01	\$ 6,556,386	Personnel Expenditure savings projected due to reduced staffing levels
Tree Trimming		1,817,193	Projected to be fully expended by end of fiscal year
Pothole Repair Crew	2.00	130,649	Estimated fill date of March 2021
City Auditor Restoration		243,908	Implemented in Adopted Budget
STAR.PAL Unit	2.00	191,997	Interviews conducted on January 27, 2021
Brush Management		411,473	Projected to be fully expended
Infrastructure Fund FY 2019 Trust-Up		5,663,897	Allocation to CIP to backfill some defunded projects
			Position was restored in Adopted Budget but department has been unable to fill position, candidates who were offered position declined for other opportunities, department will be initiating recruiting process again soon
Restore Living Wage Program Position	1.00	102,887	Estimated fill date of March 2021, all NPE projected to be fully expended by end of fiscal year
Weed Abatement	1.00	756,228	Both positions already filled, all NPE projected to be fully expended by end of fiscal year
Graffiti Abatement	2.00	267,917	Implemented in Adopted Budget
City Attorney Budgeted Vacancy Savings Reduction		1,765,776	Implemented in Adopted Budget, no status change
Restore City Clerk		239,660	Projected to be fully expended by end of fiscal year on either CAP Annual Report or CAP 2.0 update
Climate Action Plan Support		250,000	Approximately 54% of funds have been expended or committed, staff is finalizing expenditure plans for remaining funds
Internet Access for Low-Income Communities		500,000	Funding restored in Adopted Budget and recreation programs are fully operational
Restore Reservoir Recreation Programs		648,501	Funding is for construction which will begin in spring
Sherman Heights Community Center		547,000	Projected to be fully expended by end of fiscal year
Tree Planting		300,000	Projected to be fully expended
Restore Remaining Recreation Center Hours	2.50	202,384	Positions have yet to be filled, Mayor recently announced that a national recruiting process is underway to hire a Director
New Office of Race & Equity (ORE)	3.00	825,000	This fund is to be administered by ORE which has yet to be staffed, funds that remain unexpended in FY 2021 will be re-appropriated for use in FY 2022
Establish Community Equity Fund		3,000,000	Council approved FY 2021 Operating Agreement October 27, 2020
Person-Centered Unsheltered Outreach Program		1,500,000	Implemented in Adopted Budget
Changing Position Reductions from Filled to Vacant Positions			Only 8 L127 employees were ultimately impacted by position cuts - 4 transferred to different departments, 2 took demotions and 2 retired
Mayoral Staff Work with AFSCME L127 to Place or Maintain 28 Employees Impacted by Cut Positions			
Total General Fund Expenditure Items	106.5	\$25,930,856	
General Fund Resources			
General Fund's Fleet Replacement Fund Balance		\$16,700,000	\$4M has been transferred to the General Fund, remaining amount will be transferred by end of fiscal year
Reduced Transfer to Public Liability Fund		1,700,000	Implemented in Adopted Budget
General Contract Reduction of 2.6%		6,275,000	See discussion earlier in report for status update
Stadium Operations to SDSU by August 1		1,255,856	Transfer was made to SDSU in August, Mid-Year projects Stadium Operations Fund expenditures to be \$778,000 under budget
General Plan Maintenance Fund		447,414	Projected to be fully utilized for key Work Program initiatives
Total General Fund Resources		\$26,378,270	
Other			
Establish COVID-19 Rent Relief Fund		\$15,100,000	Fully spent, all qualified households (3,717) received a payment
			Positions were proposed as budget reductions in FY 2021 and subsequently restored by City Council with their final budget resolution on June 9, 2020, restored positions were to be cost neutral
Restore Parking Meter Technicians	2.00	156,553	

Status of City Council Additions to Budget

Potential Future Impacts to Council Adds/Restorations

- Interim COO issued memo to department directors February 10th
 - Stronger process for filling positions
 - Limiting use of non-personnel funding
- Mayor has yet to provide mitigation plan for projected \$85.4M deficit
- **FY 2021 Statement of Budgetary Principles:**
"... prior to any reduction in service levels or elimination of programs or services as represented and funded in the FY 2021 Adopted Budget, the Mayor, or designee, shall provide written notice to the City Council regarding such reductions and provide a fiscal justification thereof and a description of expected service levels impacts."

Mitigating the Projected FY 2021 Deficit

Council Policy & Municipal Code Requirements

- **Council Policy 000-02:**

"The Mayor must identify any mid-year surplus or deficit that exists and provide Council with a recommendation to address the reported surplus or deficit."

- **Municipal Code Section 22.0229:**

" ... the Mayor shall report such surplus or deficit to the City Council and provide a recommendation to the City Council, and accompanying budget amendment resolution, to address the reported surplus or deficit."

Mitigating the Projected FY 2021 Deficit

Mayor's Response to Projected \$85.4M Deficit

- Not recommending specific mitigating actions at this time, citing uncertainty about potential federal or State relief funding & other pandemic related impacts
- Department of Finance has identified the following Mitigation Strategies:
 - \$14.5M in unassigned fund balance (excess equity)
 - Potentially significant federal or State relief funds
 - Operational or capital project reductions
 - \$205.6M in General Fund Reserve
 - \$64.4 in projected Risk Management Reserves (General Fund portion)
- In addition, February 10th memo from COO limits hiring to critical positions, suspends all non-public safety/non-public health overtime, & all non-personnel expense kept to a minimum

Mitigating the Projected FY 2021 Deficit

Comments on Mayor's Response to Projected Deficit

- Understand Mayor does not wish to unnecessarily disrupt public programs or services until more is known about the possibility of receiving Federal relief funds, but also must acknowledge the opportunity cost of time lost by not immediately recommending mitigation measures
- Commend the Mayor/COO for their memo/action on February 10th
- Agree with viability of possible mitigation strategies identified by the Department of Finance but also note that the use of Reserves &/or reducing capital project funding will create new fiscal or infrastructure challenges going into the FY 2022 budget year

Conclusion

Office of the IBA Supports:

- Plan to provide Council with major General Fund revenue update in mid-March
- Plan to communicate next steps regarding mitigation options to Council in the coming weeks
- Immediate implementation of any other reasonable cost-saving measures/actions to begin to address the projected \$85.4M deficit