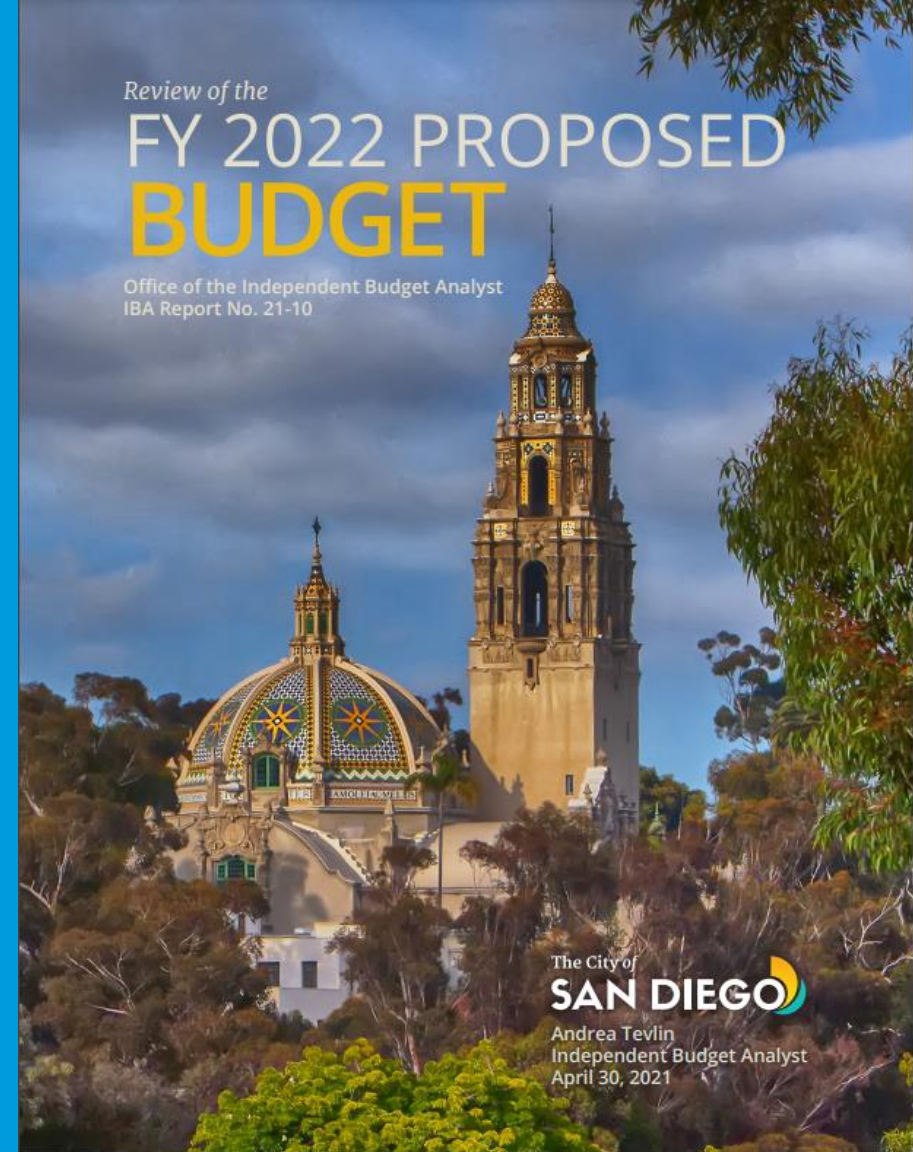


# IBA Review of the Fiscal Year 2022 Proposed Budget

Presentation to Downtown  
Partnership  
May 13, 2021



Office of the Independent Budget Analyst



# Budget Hearing Process Overview

## Mayor, IBA, and Council Roles

- Mayor is responsible for releasing a Proposed Budget that is balanced and carries out the City's goals, policies, programs, and services
  - Proposed Budget was released on April 15<sup>th</sup>
- IBA thoroughly reviews and analyzes proposed budget for the Council and the Public
  - IBA Review was released April 30<sup>th</sup>
- Council examines the Proposed Budget in depth, and holds hearings with department heads and public town halls
  - Hearings held between May 5<sup>th</sup> and May 11<sup>th</sup>
  - Town Halls scheduled throughout May
- Council has final authority in the Budget Process

# FY 2022 Proposed Budget Overview

## Unique Challenges

- City's revenues continue to feel impact from the COVID-19 pandemic
  - FY 2021 Mid-Year Financial Monitoring Report showed \$85.4 million deficit for FY 2021; Five-Year Financial Outlook showed \$124.4 million deficit for FY 2022
  - Situation has improved more recently with updated revenue projections and Federal relief funding
- City's expenses continue to slowly increase
  - Pension ADC costs expected to increase by \$36.8 million in FY 2022
- Many City services anticipated to need additional support in future years (staffing, capital program, storm water, etc)

# FY 2022 Proposed Budget Overview (*cont.*)

## Proposed Budget

- Despite challenges, Proposed Budget is balanced
  - \$1.73 Billion in Expenditures
  - \$1.73 Billion in Revenues
- Mayor used a variety of mitigations to Balance the Proposed Budget
  - Largest mitigating factor is the City's receipt of American Rescue Plan Act (ARP) funding: \$51.1 million anticipated use to close deficit FY 2021, \$141.3 million proposed for FY 2022.
  - Additional use of one-time funds, expenditure reductions, and other revenues as shown on following slide
  - Our Office supports the mitigation measures in the Proposed Budget

# FY 2022 Proposed Budget Overview (*cont.*)

## Noteworthy Items

- Proposed Budget is balanced and reasonable; includes funding for a number of critical services. Areas of note include:

### New/Expanded Critical Programs

- Funding for New Commission on Police Practices
- Back to Work SD Program
- Stormwater Funding Additions and Needs
- Sexy Streets #ForAllofUs Initiative
- Compliance with SB 1383 – Organics Collection

### Areas Needing Further Discussion

- Homelessness Programs and Expenditures
- Capital Infrastructure
- Reduced Library Hours
- Police Budget
- Citywide Staffing Increases

- Overview of Proposed Budget Revenues and Expenditures, and brief discussion of issues on following slides

# General Fund Revenues

## Economic Outlook

- Total Revenues increase by \$107.8 million, with Major Revenues (Property Tax, Sales Tax, Transient Occupancy Tax [TOT], and Franchise Fee) up \$98.5 million.
- COVID-19 impact still significantly impact TOT
- However, growth in all major revenues consistent with improving economic outlook as vaccine distribution increases, restrictions are eased, and economic activity increases

# General Fund Revenues (*cont.*)

## Property Tax

- FY 2022 Proposed Budget is \$669.3 million, increase of \$38.7 million (6.1%)
  - Growth rate lowered from 4.25% in FY 2021 to 4.00% in FY 2022.
  - Collection rates also projected to increase as pandemic subsides

## Sales Tax

- FY 2022 Proposed Budget is \$320.8 million, which is an increase of \$46.4 million (16.9%)
  - Consistent with overall economic activity and projections from City's sales tax consultant



# General Fund Revenues (*cont.*)

## Transient Occupancy Tax

- FY 2022 Proposed Budget is \$95.5 million, which is an increase of \$5.0 million (5.5%).
- Hardest hit revenue due to COVID-19, especially in FY 2020; TOT revenue especially volatile with 60%+ decrease since pre-pandemic highs.
  - Revenue for February and March \$3.7 higher than projected at mid-year, consistent with improving conditions (lifting of travel restrictions, increased vaccine distribution, etc)
  - Potential to increase FY 2022 TOT revenue by \$0.5 to \$1.5 million based on actual receipts in recent months
  - Revenue remains sensitive to any potential pandemic-related setbacks



# General Fund Revenues (*cont.*)

## Franchise Fees

- Total Franchise Fees total \$76.1 million, which is an increase of \$8.4 million (12.4%)
- The three largest fees are:
  - 3% surcharge on SDG&E revenue
  - 5% surcharge on cable television provider subscriptions
  - Charges to refuse haulers based on tonnage
- SDG&E Franchise Fees total \$49.7 million, which is an increase of \$8.4 million.
  - The SDG&E increase is due to higher gross SDG&E revenue in calendar 2020 and a projected calendar 2021 growth rate of 1.9%
- Cable Franchise Fees total \$13.0 million, and Refuse Hauler Fees total \$12.8 million, both roughly flat from FY 2021.

# General Fund Revenues (*cont.*)

## Potential Adjustments

- RPTTF likely to be increased in the May Revision based on State denial of ROPS items
  - Actual amount must wait for final State decisions
  - Current range of increased revenue is \$2.9-\$3.8 million in FY 2021 and \$1.3-\$1.8 million in FY 2022
- Increases to Sales Tax and TOT potentially appropriate
  - Range of \$0.8-\$2.0 million in FY 2022
- Total potential increase of \$2.1-\$3.8 million
- City's Department of Finance is considering an increase in the 4.00% growth rate for Property Taxes, based on recent actuals and performance

# General Fund Expenditures

*Expenditures Budget Overview: \$1.73B and 7,650.89 FTE*

*Net Budget Change: increase of \$107.8M and 10.87 FTE*

- Personnel Expenditures (PE) changes – \$67.5M, 10.87 FTE *net* increase
  - Total Increase of \$85.1M, 125.20 FTE positions
  - Offsetting Reductions of \$17.7M, 114.33 FTE positions
- Non Personnel Expenditures (NPE) changes - \$40.3M *net* increase
  - Total Increase of \$115.5M
  - Offsetting Reductions of \$75.1M

# General Fund Expenditures (cont.)

## *Significant Personnel Expenditure Changes*

- Personnel Expenditure Increases
  - \$36.8M ADC pension payment increase
  - \$22.1M estimated employee compensation increases (subject to negotiations)
  - \$10.6M in departmental position additions
  - \$5.4M Budgeted PE Savings adjustment (increases PE budget)
  - \$4.3M neighborhood policing overtime (covered by Seized Assets Fund in FY 2021)
- Offsetting Personnel Expenditure Reductions
  - \$7.8M in departmental position reductions
  - \$5.4M Police Department overtime (including extension of shift, Clean SD, special events, neighborhood policing)
  - \$4.0M for one-time FY 2021 COVID-19 overtime

# General Fund Expenditures (cont.)

## *Significant Non-Personnel Expenditure Changes*

### • Non-Personnel Expenditure Increases

- \$10.2M – Convention Center operations
- \$10.0M – "Sexy" Streets #ForAllOfUs Initiative
- \$10.0M – homelessness programs
- \$10.0M – small business forgivable loans
- \$6.0M – facility upgrades/other costs for SB 1383 organics collections
- \$5.0M – Climate Equity Fund contribution
- \$2.5M – Stormwater funding strategy
- \$2.4M – Back to Work SD youth programming
- \$8.0M – debt service, largely due to 2021 issuance (to be reduced by \$3.0M in the May Revise)
- \$7.2M – non-discretionary IT costs (largely due to increased vendor costs)
- \$6.3M – Fleet fees for vehicle replacements
- \$3.4M – Public Liability insurance cost increases
- \$2.6M – net capital lease increases (largely public safety radio replacements and departmental PC replacements)

### • Offsetting Non-Personnel Expenditure Reductions

- \$30.0M – Operation Shelter to Home
- \$12.8M – Small Business Relief Fund
- \$9.7M – Rent Relief Fund
- \$5.7M – Infrastructure Fund Transfer (for FY 2019 true-up)
- \$7.8M in departmental position reductions
- \$5.4M Police Department overtime (including extension of shift, Clean SD, special events, neighborhood policing)
- \$4.0M for one-time FY 2021 COVID-19 overtime
- \$3.0M – Community Equity Fund

# Citywide Staffing Increases

*Net FTE Position Increase is 10.87 (\$2.8M)*

- FTEs Increases: 125.20 Positions (\$10.6M PE)
  - **Stormwater** – 39.50 FTE (\$2.9M PE): second pipe repair team, human bacteria source investigation team, other FTEs
  - **Environmental Services** – 17.83 FTE (\$1.2M PE): positions related to organics collections (SB 1383), Clean SD code compliance
  - **Parks & Rec** – 16.02 FTE (\$1.0M PE): maintenance staff, Standley Middle School Joint Use Pool, other FTEs
  - **Compliance Department** – 7.00 FTE (\$940,000 PE): Safety and Environment Program transfer from non-general fund
  - **Library** – 6.43 FTE (\$559,000 PE): Do Your Homework at the Library (hourly), administrative support
  - **Commission on Police Practices**: 5.33 FTE (\$529,000 PE)
  - **Fire-Rescue** – 4.33 FTE (\$239,000 PE): including Advanced Lifeguard Academy (hourly), other positions
  - **Transportation** – 4.25 FTE (\$318,000 PE): positions for State-mandated Dig Alert and other activities
  - **Other Departments** – 24.50 FTE (\$2.9M PE): Communications, Department of Finance, Homelessness Strategies, Human Resources, Personnel, Economic Development, Police, other departments/offices

# Citywide Staffing Increases (cont.)

## *Full Time Equivalent Position Changes (cont.)*

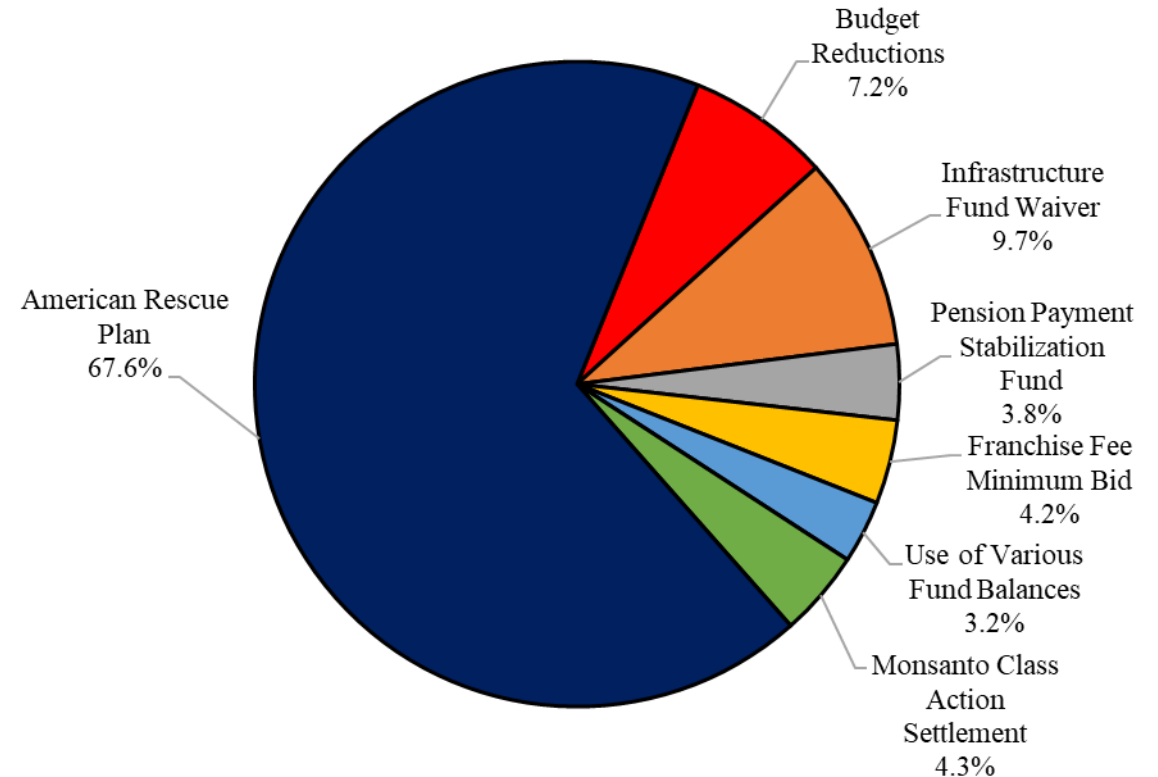
- Offsetting FTE decreases total 114.33 and \$7.8M
  - **Library** – 100.92 FTE (\$6.0 PE): reduction to Tuesday through Saturday schedule (77.92 hourly FTE and 23.00 standard-hour FTE reductions)
    - The Mayor has since announced that he will revisit this reduction in his May Revise
  - **Smart & Sustainable Communities** – 8.00 FTE (\$746,000 PE): Urban Planning Review Program transfer to non-general fund
  - **Other Departments** – 5.41 FTE (\$1.1M PE): Fleet Operations-Facilities, Assistant COO, Public Works & Utilities, Purchasing & Contracting, Council Administration, Ethics Commission



# Mitigating Actions for FY 2022

## Total Mitigations - \$209 million

- The Proposed Budget required a total of \$209M in mitigation actions
- This is due to a combination of
  - \$107.6M – Revised Outlook Shortfall
  - \$57.5M – New or Enhanced Services
  - \$44.0M – New Expenditures to Maintain Current Services
- Largest mitigation action is the use of American Rescue Plan funding (\$141.3M, or 67.6% of total actions)



# Mitigating Actions for FY 2022 (cont.)

## American Rescue Plan Act (ARP)

- City to receive approximately **\$299.7M** in ARP relief funds: \$150M in May of 2021 and another \$150 million as soon as May 2022
- ARP funds may be used through December 31, 2024
- **1X resource** – combined with other 1X revenues to fund \$91.7M of ongoing expenses in FY 2022 Proposed Budget
- Mayor proposing to **save \$107.3M of ARP funds for FY 2023** to help offset projected \$116.5M revenue shortfall
- **Other significant resources available** to City in ARP legislation

Mayor's Proposed Use of ARP Funds (\$ in millions)	
FY 2021	\$ 51.1
FY 2022	\$ 141.3
FY 2023	\$ 107.3
<b>Total</b>	<b>\$ 299.7</b>

# Mitigating Actions for FY 2022 *(cont.)*

## Budget Reductions - \$15 million

- Combination of ongoing reductions, one-time reductions, and revenue enhancements
  - \$11.7M in ongoing reductions
    - Largest reductions are for Library (\$6.9M, 100.92 FTE) and Police Overtime (\$4.0M)
  - \$1.6M in one-time reductions
    - \$900,000 for CleanSD efficiencies and \$700,000 for Fleet Equipment Rentals
  - \$1.7M in revenue enhancements
    - \$900,000 ongoing, \$800,000 one-time

# Mitigating Actions for FY 2022 *(cont.)*

## Other Mitigating Actions

- \$20.3M - Infrastructure Fund Waiver
  - One-time request to waive the requirements of Charter Section 77.1
  - Requires two-thirds vote of Council
- \$9.0M - Monsanto Class Action Settlement
- \$8.8M - Use of Franchise Fee Minimum Bid
  - Current agreement expires June 1
  - New bids expected to be presented to Council on May 12
  - Granting new franchise agreements requires a two-thirds vote

# Mitigating Actions for FY 2022 *(cont.)*

## Other Mitigating Actions cont.

- \$7.9M - Use of Pension Payment Stabilization Reserve
  - This action uses the full Reserve balance (General Fund portion)
  - The Reserve is designed to cover increases in the ADC
    - FY 2022 General Fund ADC increase is \$36.8M
- \$6.6M - Use of Various Fund Balances
  - Includes Environmental Growth Fund, Emergency Medical Services Fund, Stadium Operations Fund, and Public Safety Services and Debt Fund

# Mitigation Actions (*cont.*)

## Previous Actions that have Carried Over to FY 2022

- General Fund Reserve – Similar to FY 2021, there is no budgeted General Fund Reserve Contribution
- 2.6% Across-the-Board Contracts Reduction
  - \$6.3M allocated to departments on ongoing basis
  - Impact by department varies
- 4% Reduction for Non-Mayoral Departments
  - \$3.5M in reductions for all non-Mayoral Departments, except City Auditor and City Clerk (FY 2021 Council Restorations)
  - Impact by department varies

# Noteworthy Items and Key Issues

## Other Areas that merit additional discussion

- As noted in our introduction, the Proposed Budget includes a number of noteworthy items. Our report covers these as well as several other Key Citywide Issues:
  - Climate Action Plan
  - Facilities Updates
  - Homelessness
  - Capital Infrastructure Needs
  - Labor Negotiations
  - Pension Impacts
- The following slides include more detail on several noteworthy items and citywide issues; additional information is included in our report.



# Noteworthy Items and Key Issues

## Reduced Library Hours

- Systemwide Closures Sunday and Monday
  - Reduction of 100.90 FTEs and \$6.9 million
  - All branches and Central would be open 42.5 hours per week (8.5 hours per day Tuesday-Saturday)
- Proposed Budget returns \$1.5 million of savings for
  - Electronic materials
  - Increased programming
  - Library Out-of-School Camps
  - Trial 'Open+' Program to allow extended library access

## Potential May-Revise Restoration

- Mayor has committed to work with Library Department and Department of Finance to avoid service-level reductions and prepare a plan to return to 7 days of operation within 12 months
  - Adjustments to make these changes are expected in the May Revise
- Operational difficulties cited by Library Director surrounding the impact of hourly employees receiving no benefits and significant vacancies post-COVID-19 still remain

# Noteworthy Items and Key Issues

## Police Budget

- SDPD General Fund Budget totals \$591.8 million, an increase of \$23.5 million, or 4.1%
  - Largely due to pension and other non-discretionary costs increases
- Majority of Councilmembers prioritized the reallocation of SDPD funding and reallocation of SDPD services
  - \$4.0 million in ongoing overtime reduced
- *IBA Report 20-21: Analysis of Police Department FY 2021 Budget* is a resource to explore options for funding reallocation and/or reassignment of services

# Noteworthy Items and Key Issues

## Labor Negotiations - Employee Compensation Increases

- City has been negotiating with all six of the recognized employee organizations regarding terms and conditions of employment for FY 2022, including compensation levels
- Estimated compensation increase in FY 2022 Proposed Budget is \$22.1M
- Actual cost for employees' compensation increases will not be known until the good faith bargaining process has been completed
- City is endeavoring to take steps toward attaining a more competitive compensation position
- Brief background/history of compensation issues included in our report

# Noteworthy Items and Key Issues

## Pension - Defined Benefit Pension Costs

- \$414.9M Actuarially Determined Contribution (ADC) pension payment
  - \$314.5M for the General Fund
- \$49.3M ADC increase for FY 2022 (\$36.8M General Fund)
  - \$30.9M for demographic assumption changes, largely due to changes in mortality assumptions
  - \$12.3M primarily related to investment returns lower than expected
  - \$6.9M largely due to salary increases greater than expected
- Most recent FY 2023 ADC estimate is \$423.1M

# Noteworthy Items and Key Issues

## Pension - Unwinding Proposition B

- Proposition B (approved by voters June 2012) was challenged by four of the City's recognized employee organizations
- Recent ruling by California Superior Court – Proposition B is invalid
  - City must take 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
  - City has begun the meet-and-confer process with the recognized employee organizations regarding affected member employees
  - Ultimate cost and process for resolution is dependent on pending negotiations and compliance with federal tax laws and regulations with respect to retirement plans

# Noteworthy Items and Key Issues

## Homelessness

- Budget makes a one-time investment of \$10 million for five programs (some are still under development)
- Many other homelessness programs are planned for FY 2022 with the use of nearly \$25 million in state grants, but will be considered outside the Budget Process
  - Council would benefit from having all planned homelessness expenses available during the budget process in the future
- While the City has gained momentum in systematically addressing homelessness, there are issues to consider:
  - Ongoing homelessness programs are primarily funded with one-time resources; ongoing resource needs to be identified
  - Need to track progress on the Community Action Plan on Homelessness as well as program outcomes to keep City accountable on its investments

# Noteworthy Items and Key Issues

## Capital Infrastructure Needs

- Proposed Budget only includes \$49.0 million for General Fund capital infrastructure which falls well below the \$661 million in needs identified in the Capital Outlook for FY 2022
- CIP infrastructure gap of \$3 billion expected to continue to grow
- Closing the gap would require significant revenue and significant increased capacity of Engineering and Capital Projects to spend funds
- Capacity has been constrained due to competitiveness of construction industry and vacancies



# Conclusion and Next Steps

## Overall Thoughts

- Mayor's Proposed Budget is reasonable and balanced
  - Several issues to discuss, but in general the Proposed Budget is clean and maintains most existing service levels in the City
- Future needs exceed existing resources
  - While the Proposed Budget is balanced, the City's funding needs over the next several years cannot be met solely by existing revenues
  - Needs include a growing capital backlog, storm water regulatory requirements, and expanded programs to address homelessness and climate impacts
  - City should consider potential new revenue sources, such as a trash fee, storm water fee, or other revenue to meet those growing needs

# Conclusion and Next Steps

- Council now reviewing and proposing priorities for revisions to the Proposed Budget
  - Because of overall financial constraints, important to identify funding for any proposed revisions
- Timeline/Next Steps:
  - **May 17** – Evening Hearing for Public Input
  - **May 18** – Mayor releases 3<sup>rd</sup> Quarter Report and May Revision
  - **May 20** – May Revision and 3<sup>rd</sup> Quarter Report Heard
  - **May 26** – Councilmembers issue final budget modification priority memos
  - **June 9** – IBA issues final recommended revisions
  - **June 14** – Council makes final budget decisions
  - **June 29** – Council Adopts Appropriation Ordinance