



THE CITY OF SAN DIEGO
M E M O R A N D U M

DATE: April 15, 2020

TO: Honorable Council President Georgette Gómez and Members of the City Council

FROM: Kris Michell, Chief Operating Officer
Rolando Charvel, Chief Financial Officer
Matthew Vespi, Department of Finance Director and City Comptroller

SUBJECT: Fiscal Year 2021 Proposed Budget

This memorandum presents the Mayor's Fiscal Year 2021 Proposed Budget, and includes an opening message from Mayor Faulconer.

To my fellow San Diegans:

The global COVID-19 pandemic is taking a toll on everyone, and the City of San Diego is certainly no exception. Every day we are confronted by extraordinary challenges that require us to make decisions in a situation never experienced before. In the face of these difficulties, I am confident we will rise to this occasion together, as One San Diego.

The City Council and I have worked together to build up our reserves and restore core service levels since the Great Recession of 2008. This proactive planning has helped us save for a rainy day. Unfortunately, the ongoing fiscal impacts of the pandemic are more like a hurricane. Despite volatile revenue projections due to the ongoing closure of the local and national economy, I have proposed a balanced and fiscally responsible budget for Fiscal Year 2021 that takes into account all information available in this uncertain time. The Proposed Budget for Fiscal Year 2021 is \$3.9 billion — a \$427 million, or 10% decrease from the Fiscal Year 2020 Adopted Budget.

This Proposed Budget includes \$46 million in General Fund reductions across all branches, and almost \$15 million in reductions to non-General Fund expenditures to help balance the General Fund budget. I am proposing to access reserves in Fiscal Year 2020 to mitigate more significant reductions and eliminations of staff and core services. Core community services are given priority during this unparalleled crisis, and we continue to protect essential functions such as public safety, trash collection, water and wastewater, and homelessness programs. Minimal additions are proposed for Fiscal Year 2021, primarily for critical public safety needs and \$2.0 million for the recently created Small Business Relief Fund to continue offering financial assistance to local businesses affected by the coronavirus.

The City will continue to monitor the impacts of COVID-19 on revenues and expenditures, and additional modifications will be made in the May Revise based on new available information. Additionally, I am committed to a quarterly budget process in Fiscal Year 2021 to more effectively and proactively manage the City's finances as the results of the pandemic continue to unfold. I want to thank our City employees who have continued to step up every day during this unprecedented health and economic crisis, and who serve San Diego day after day. We are united in overcoming these challenges, and we will get through this together.

Sincerely,

A handwritten signature in black ink that reads "Kevin Faulconer". The signature is written in a cursive style with a long horizontal line extending to the right.

Kevin L.
Faulconer
Mayor

Citywide Budget Overview

The City of San Diego's Fiscal Year 2021 Proposed Budget of \$3.92 billion is comprised of five operating fund types and the Capital Improvements Program (CIP):

- General Fund;
- Special Revenue Funds;
- Capital Project Funds;
- Enterprise Funds;
- Internal Service Funds; and
- Capital Improvements Program.

This represents a decrease of \$427.0 million or 9.8 percent compared to the Fiscal Year 2020 Adopted Budget. The Fiscal Year 2021 Operating Proposed Budget by Department and Fund is listed in **Attachment 1** while the Fiscal Year 2021 Proposed CIP Budget is detailed by Project in **Attachment 3**.

Table 1 shows the change in expenditures from Fiscal Year 2019 to Fiscal Year 2021 by fund type or program.

Table 1: Change in Total City Expenditures from Fiscal Years 2019 - 2021 by Fund Type/Program

Fund Type	FY 2019 Actuals	FY 2020 Adopted Budget	FY 2021 Proposed Budget	FY 2020 – FY 2021 Change	Percent Change
General Fund	\$ 1,462,584,451	\$ 1,589,984,689	\$ 1,539,758,040	\$ (50,226,649)	(3.2%)
Special Revenue Funds	532,936,909	755,910,131	706,111,094	(49,799,037)	(6.6%)
Capital Project Funds	13,536,140	17,593,606	36,261,445	18,667,839	106.1%
Enterprise Funds	934,564,412	1,118,672,626	1,126,849,497	8,176,871	0.7%
Internal Service Funds	142,527,331	151,580,954	149,594,859	(1,986,095)	(1.3%)
Capital Improvements Program	582,193,928	710,812,155	358,929,467	(351,882,688)	(49.5%)
Total	\$ 3,668,343,171	\$ 4,344,554,161	\$ 3,917,504,402	\$ (427,049,759)	(9.8%)

Table 2 presents the changes in revenues from Fiscal Year 2019 to Fiscal Year 2021 by fund type.

Table 2: Changes in Total City Revenue from Fiscal Years 2019 – 2021 by Fund Type

Fund Type	FY 2019 Actual	FY 2020 Adopted Budget	FY 2021 Proposed Budget	FY 2020 – FY 2021 Change	Percent Change
General Fund	\$ 1,491,627,879	\$ 1,549,226,498	\$ 1,539,758,040	\$ (9,468,458)	(0.6%)
Special Revenue Funds	608,518,382	656,120,577	622,909,464	(33,211,113)	(5.1%)
Capital Project Funds	56,545,554	47,029,997	104,701,068	57,671,071	122.6%
Enterprise Funds	1,324,814,679	1,781,535,967	1,418,701,575	(362,834,392)	(20.4%)
Internal Service Funds	132,900,079	158,293,430	152,110,073	(6,183,357)	(3.9%)
Total¹	\$ 3,614,406,572	\$ 4,192,206,469	\$ 3,838,180,220	\$ (354,026,249)	(8.4%)

¹Operating revenues may be less than operating expenditures due to the use of fund balance in excess of reserves.

Budget Development Process

The **Budget Development Process** consists of three main phases: budget development, budget review, and budget adoption. The **Budget Development** phase began in November 2019 with the release of the General Fund Fiscal Year 2021-2025 Five-Year Financial Outlook (Outlook), which is prepared each year to establish the framework for the development of the Proposed Budget. Based on this year's Outlook, General Fund departments (as well as non-general funds that impact the General Fund) were directed to only submit reduction proposals and budget requests that maintain core service levels. These budget adjustments were then submitted to the Department of Finance in January 2020 and were reviewed and prioritized by the City's Executive Team in February 2020. In early March 2020, the City had nearly finalized the Budget Development phase with the completion of projected revenues and expenditures for the General Fund, non-general funds, and the CIP for Fiscal Year 2021.

In mid-March 2020, the United States and the City were impacted seemingly overnight by the global pandemic caused by the novel coronavirus, also known as COVID-19. The initial transmittal of COVID-19 was identified in Wuhan, China in December 2019, and the United States reported its first case in January 2020. Spreading rapidly across the nation, the County of San Diego reported its first case of COVID-19 on March 7, 2020. To-date, the City has 899 reported cases of COVID-19, as reported by the County of San Diego on April 13, 2020. Consistent with orders from the County of San Diego and the State of California, on March 12, 2020, Mayor Faulconer issued a State of Emergency in the City of San Diego. Subsequently, on March 16, 2020, Mayor Faulconer issued an Executive Order to combat the virus, including limiting public gatherings, prohibiting the operation of bars, and requiring restaurants to only

serve patrons with to-go or delivery orders. With the current (as of April 2020) social distancing restrictions, travel warnings and closing of non-essential businesses, sales tax and transient occupancy tax revenues have declined significantly and are projected to continue to have major decreases in Fiscal Year 2020 and Fiscal Year 2021. Other revenues have also been impacted.

Based on the most current Fiscal Year 2021 Proposed Budget assumptions, revenues are projected to sharply decline over the remainder of Fiscal Year 2020, and continue to decline at a slower rate in Fiscal Year 2021 due to the ongoing impacts of COVID-19 and the current economic recession. This sharp and sudden decline in revenues that support City expenditures resulted in significant updates to projected revenues and expenditures in the Fiscal Year 2021 Proposed Budget, including additional budget reduction proposals.

During the **Budget Review** phase, the City Council will hold a series of public meetings in the month of April and May of 2020 to obtain input from San Diego residents on spending priorities. The Mayor and City Council will use the information at these hearings to recommend changes to the Fiscal Year 2021 Proposed Budget. The **Budget Adoption** phase begins with the City Council approving the budget, and once the final changes have been made by the Department of Finance, the City Council will be presented with the Appropriation Ordinance, where it is anticipated that the Fiscal Year 2021 Adopted Budget will be enacted into law, concluding the **Budget Development Process**.

Expenditure Overview by Fund Type/Program

General Fund

Departments within the General Fund provide core community services such as public safety (including police/fire protection and life safety), parks and recreation, library services, and refuse collection, as well as vital support functions such as finance, legal, and human resources. These core services are primarily supported by major revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. The City's Fiscal Year 2021 Proposed Budget reflects General Fund expenditures totaling \$1.54 billion, which is a decrease of \$50.2 million or 3.2 percent from the Fiscal Year 2020 Adopted Budget. For additional details about the Proposed General Fund Budget, please see the Summary of Adjustments in the General Fund Section and **Attachment 1** of this document.

Special Revenue Funds

Special Revenue Funds account for revenues that are received for specifically identified purposes. The two largest special revenue funds are Transient Occupancy Tax (TOT) and Engineering & Capital Projects. The Fiscal Year 2021 Proposed Budget for Special Revenue Funds is \$706.1 million, representing a decrease of \$49.8 million or 6.6 percent from the Fiscal Year 2020 Adopted Budget. For a list of the Proposed Special Revenue Funds Budget, please see **Attachment 1** of this document.

Capital Project Funds

Capital Project Funds are primarily used for the acquisition or construction of major capital facilities, or for debt service expense associated with general fund capital bonds. When used to fund capital projects, these funds typically make up a small portion of the overall Capital Improvements Program, which can be supported by all fund types. The Fiscal Year 2021 Proposed Budget for Capital Project Funds is \$36.3 million, which is an increase of \$18.7 million or 106.1 percent from the Fiscal Year 2020 Adopted Budget, and is being allocated primarily to support general fund debt service obligations. For a list of the Proposed Capital Project Funds Budget, please see **Attachment 1** of this document.

Enterprise Funds

Enterprise Funds account for specific services that are funded directly through user fees. These funds include Water, Wastewater, Development Services, Refuse Disposal, Recycling, Golf Course, and Airports. Typically, these funds are intended to be fully self-supporting and are not subsidized by the General Fund. The Fiscal Year 2021 Proposed Budget for Enterprise Funds is \$1.13 billion, representing an increase of \$8.2 million or 0.7 percent from the Fiscal Year 2020 Adopted Budget. For a list of the Proposed Enterprise Funds Budget, please see **Attachment 1** of this document.

Internal Service Funds

Internal Service Funds support the City's internal operations on a cost-reimbursable basis. The Fiscal Year 2021 Proposed Budget for Internal Service Funds totals \$149.6 million, which is a decrease of \$2.0 million or 1.3 percent from the Fiscal Year 2020 Adopted Budget. For a list of the Proposed Internal Service Funds Budget, please see **Attachment 1** of this document.

Capital Improvements Program

The Fiscal Year 2021 Proposed Capital Improvements Program (CIP) budget allocates available revenue to rehabilitate, restore, improve, enhance and increase the City's capital assets. The allocation of funds is based upon an analysis of available funding sources as well as a review of project needs and priorities. This fiscal year's budget is comprised of various funding sources such as sewer and water rate fees, a one half-cent local sales tax for transportation improvements (TransNet Extension), Mission Bay lease revenue, other City funds, and is summarized in **Table 3** below.

The Fiscal Year 2021 Proposed CIP Budget totals \$358.9 million and will support various project types such as water and sewer pipelines, buildings, and transportation projects. The proposed allocation is a decrease of \$351.9 million or 49.5 percent from the Fiscal Year 2020 Adopted CIP Budget of \$710.8 million, primarily due to a decrease in Public Utilities Department Enterprise Fund projects for the Pure Water Program.

Table 3: Fiscal Year 2021 Proposed CIP Budget

Funding Source	FY 2021 Proposed Budget	Percent of Total CIP Budget
Gas Tax Fund	\$ 18,929,301	5.27 %
Golf Course Enterprise Fund	2,063,816	0.57 %
Mission Bay Park Improvement Fund	7,900,000	2.20 %
Other Funding	1,323,165	0.37 %
Parking Meter Districts	1,500,000	0.42 %
San Diego Regional Parks Improvement Fund	3,200,000	0.89 %
Sewer Funds	136,604,341	38.06 %
TransNet Funds	22,023,904	6.14 %
Trench Cut/Excavation Fee Fund	2,000,000	0.56 %
Utilities Undergrounding Program Fund	10,000,000	2.79 %
Water Fund	153,384,940	42.73 %
Total	\$ 358,929,467	

The CIP budget also projects anticipated funding as shown in **Attachment 3**. For Fiscal Year 2021, a total of \$281.0 million in anticipated funding for CIP projects is included but is not being appropriated in the Fiscal Year 2021 Proposed Budget at this time. Anticipated funding may include a variety of sources such as commercial paper, lease revenue bonds, donations, grants, developer funding, and Facilities Benefit Assessments. As anticipated sources of funds are received, separate City Council actions will be brought forward to appropriate any anticipated funding during Fiscal Year 2021.

Additionally, the majority of capital project budget proposals were established prior to COVID-19 events. It is anticipated that both the adopted and anticipated CIP budgets will need to be revised as a result of the economic downturn, as well as shifting priorities. The economic recession is likely to impact all CIP funding sources in the long term, with the largest near-term impacts to funds that support General Fund asset improvements—TransNet, Gas Tax, Infrastructure, Regional Park and Mission Bay Improvement funds—among others.

However, the CIP Program is currently awaiting revised revenue projections from state and other municipal agencies before implementing capital budget reductions. The CIP Program's large continuing appropriation, which is in excess of \$1.9 billion, is predominantly cash backed and will enable the Program to continue project progress with minimal near-term impacts.

This budget allocates additional funding to both new and continuing projects in the City's \$10.61 billion multi-year CIP. The City's multi-year CIP includes assets which are maintained and operated by a variety of City departments, as shown in **Table 4**.

Table 4: Multi-Year CIP

Department	Prior Years	FY 2021 Proposed Budget	Future Years	Total
Airports	\$ 11,257,990	\$ -	\$ -	\$ 11,257,990
Citywide	41,355,337	9,525,696	702,833,766	753,714,799
Environmental Services	83,690,903	-	800,000	84,490,903
Fire-Rescue	119,226,115	-	59,872,694	179,098,809
Library	61,060,461	-	38,356,800	99,417,261
Parks & Recreation	445,542,885	12,538,816	165,046,398	623,128,099
Police	18,585,096	-	2,896,018	21,481,114
Public Utilities	2,393,997,889	281,536,750	2,382,422,911	5,057,957,550
Real Estate Assets - Facilities Services	39,534,930	875,000	70,374,703	110,784,633
Sustainability	31,732,349	-	1,500,000	33,232,349
Transportation & Storm Water ¹	1,120,088,909	54,453,205	2,459,383,318	3,633,925,432
Total	\$ 4,366,072,865	\$ 358,929,467	\$ 5,883,486,608	\$ 10,608,488,940

¹Will be reflected as two departments in the Adopted Budget, once the restructure is approved by Council.

The Fiscal Year 2021 Proposed CIP Budget will add \$358.9 million to a planned \$10.61 billion multi-year CIP. For additional details about the specific projects included in the Proposed CIP Budget, please see **Attachment 3** of the Fiscal Year 2021 Proposed Budget.

Citywide Reorganization/Restructuring

The Fiscal Year 2021 Proposed Budget reflects the restructures of several departments and programs as a result of executive management decisions and department-initiated reorganizations. Reorganizations include the restructuring of departments and major divisions within a department, and are intended to increase the overall efficiency and effectiveness of City operations. The following provides an overview of the newly created departments in the Fiscal Year 2021 Proposed Budget that add to the City's organizational structure. These departments were created to provide additional oversight for critical City functions, and are largely budget neutral due to the repurpose of existing positions, and the use of new revenue to offset costs when possible.

Cultural Affairs Department

The Cultural Affairs Department is a newly created department dedicated to the centralization of the City's engagement with the arts, culture and creative industries. This new department merges the Commission for Arts and Culture and Office of Special Events & Filming to position the new department as a consolidated resource for other City departments and the private creative economy. Through the restructure and repurpose of existing positions, this restructure is budget neutral.

General Services Branch

The General Services Branch is a newly created branch which currently oversees the Public Works Department, the Fleet Operations Department, and the 101 Ash Street project. Through the restructure of existing non-personnel expenditures and repurpose of existing positions, this restructure is budget neutral.

Homelessness Strategies Department

The Homelessness Strategies Department is a newly created department dedicated to the centralization of homelessness-related programs and initiatives. The establishment of the department will help the City expand and improve programs and services available for individuals experiencing homelessness, and support oversight over state grant funds. Through the repurpose of an existing position, and the use of state grant funds to reimburse the department for eligible staff costs, this restructure is budget neutral.

Mobility Department

The newly created Mobility Department is the proposed cornerstone of the Shared Mobility Program citywide. The Mobility Department will coordinate and assist with the implementation of all mobility programs and includes significant contributions of existing positions and resources from the Planning Department, Economic Development Department, and Neighborhood Services branch. The budgeted filled positions that are anticipated to be transferred from the Planning Department include 8.00 Planners. The Economic Development Department is contributing 3.00 FTE positions including 1.00 dedicated Program Manager for the Shared Mobility Device Program. In addition, the Office of ADA Compliance & Accessibility will be transferred with 3.00 FTE positions (with 1.00 FTE position being transferred to the newly created Homelessness Services Department) to support ADA-related mobility projects. Through the repurpose of existing positions, and the addition of Community Parking District and Shared Mobility Device revenue, the creation of this department is budget neutral.

Storm Water Department and Transportation Department

The Transportation & Storm Water (TSW) Department was formed in 2011 and merged the Storm Water Department with transportation-related functions from multiple departments. Since that time, storm water and transportation needs have grown significantly, making it necessary to reorganize them into stand-alone departments to better manage and plan for these critical functions. The newly created Storm Water Department is largely budget neutral due to the transfer of over 200.00 FTE positions primarily from the existing Storm Water Division, except for the addition of 1.00 Department Director. Additional expenditures associated with the new Storm Water Department will be offset by revenue from Community Parking District funds. Except for the transfer of the Storm Water Division, the Transportation Department remains largely unchanged. Significant budget adjustments for both departments are included later in the Proposed Budget.

Summary of Adjustments in the General Fund

The Fiscal Year 2021 Proposed Budget includes General Fund revenues and expenditures of \$1.54 billion and maintains a focus on core essential services. General Fund expenditures are primarily supported by major General Fund revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. These four major General Fund revenue sources account for \$1.10 billion or 71.7 percent of the revenue in the Fiscal Year 2021 Proposed Budget, with the remainder of revenues generated by a variety of sources. These four major general revenue sources are discussed in greater detail in the General Fund Revenues Section of this document. As described earlier, the impacts of COVID-19 and the current economic recession have resulted in significant impacts to City revenues, including all four major General Fund revenue sources. The Fiscal Year 2021 Proposed Budget General Fund revenue represents a decrease of \$9.5 million or 0.6 percent from the Fiscal Year 2020 Adopted Budget and a decrease of \$68.4 million or 5.8 percent when compared to the Fiscal Year 2021-2025 Five-Year Financial Outlook (Outlook).

In recent years, the General Fund Proposed Budget has included the use of one-time fund balance (Excess Equity) as reported in the Mid-Year Budget Monitoring Report. Although the Fiscal Year 2020 Mid-Year Budget Monitoring Report projected Excess Equity of \$27.9 million, the reductions in the major General Fund revenues due to COVID-19—Transient Occupancy Tax and Sales Tax in particular—will eliminate the availability of that resource in Fiscal Year 2021 as it will be used to support Fiscal Year 2020 expenditures. It is also projected that the impacts of COVID-19 will require the City to use General Fund Emergency Reserves in Fiscal Year 2020. The Emergency Reserve is maintained for the purpose of sustaining General Fund operations in the case of a public emergency determined by a two-thirds vote of the City Council. The Fiscal Year 2020 Year-End Budget Monitoring Report (Third Quarter Monitoring Report) which will be released in May 2020 will include additional details on the fiscal impacts of COVID-19 to Fiscal Year 2020 and include recommendations for City Council action to mitigate those impacts.

The unanticipated decline in revenue due to COVID-19, along with anticipated increases in baseline expenditures and additions for public safety have resulted in a significant revenue shortfall in Fiscal Year 2021. In order to balance the General Fund budget, the Fiscal Year 2021 Proposed Budget includes significant budget reductions in General Fund departments and non-general funds that impact the General Fund. The significant revenue shortfall has also been mitigated through the use of other revenue sources as discussed in the Fiscal Actions section of this document. After incorporating all adjustments, the Fiscal Year 2021 Proposed Budget maintains a balanced budget in accordance with the City Charter.

The following sections provide a summary of General Fund Revenues and significant General Fund budget adjustments, including baseline adjustments, additions, reductions, and other fiscal actions included in the Fiscal Year 2021 Proposed Budget for the General Fund.

General Fund Revenues

The General Fund Revenue section provides background information describing trends, economic factors, and methods of allocation for each of the City’s revenue sources. In addition, proposed revenues reflect revised projections as a result of the recent global COVID-19 pandemic.

This information provides insight into the formulation of the Fiscal Year 2021 Proposed Budget for the General Fund revenues, which funds essential City services including police, fire, refuse collection, library services, and parks and recreation programs. The Fiscal Year 2021 General Fund revenue budget is \$1.54 billion, which represents a decrease of \$9.5 million or 0.6 percent from the Fiscal Year 2020 Adopted Budget.

Table 5: Fiscal Year 2021 General Fund Revenue Change illustrates the components of the projected decrease of \$9.5 million, or 0.6 percent, in General Fund revenues from the Fiscal Year 2020 Adopted Budget.

Table 5: Fiscal Year 2021 General Fund Revenue Change

	Percent Change from FY 2020 Adopted Budget	Change (in millions)
Major Revenues	(1.25%)	\$ (14.0)
Other Revenue Sources	1.0%	4.5
Total	(0.6%)	\$ (9.5)

The four major General Fund revenue sources are property taxes, sales taxes, transient occupancy taxes (TOT), and franchise fees. These sources account for 71.7 percent of the City's General Fund revenue in the Fiscal Year 2021 Proposed Budget and are projected to decrease by \$14.0 million, or 1.25 percent, from the Fiscal Year 2020 Adopted Budget.

Table 6: Fiscal Year 2021 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2019 actual amounts, as well the Fiscal Year 2020 Adopted Budget.

Table 6: Fiscal Year 2021 General Fund Revenues (in millions)

Revenue Category	FY 2019 Actual	FY 2020 Adopted Budget	FY 2021 Proposed Budget	FY 2020 - FY 2021 Change	Percent Change	% of Total General Fund Revenue
Property Tax	\$ 570.6	\$ 601.9	\$ 629.6	\$ 27.7	4.6%	40.9 %
Sales Tax	304.4	297.9	282.2	(15.7)	(5.3%)	18.3 %
Transient Occupancy Tax	131.9	136.9	123.0	(13.9)	(10.1%)	8.0 %
Franchise Fees	80.6	82.0	69.9	(12.1)	(14.8%)	4.5 %
Property Transfer Tax	10.8	10.3	11.9	1.6	15.5%	0.8 %
Licenses & Permits	28.4	34.7	41.7	7.0	20.2%	2.7 %
Fines, Forfeitures, and Penalties	28.5	31.1	30.2	(0.9)	(3.0%)	2.0 %
Revenue from Money and Property	63.9	61.4	62.5	1.1	1.8%	4.1 %
Interest Earnings	3.9	3.0	3.5	0.5	15.0%	0.2 %
Revenue from Other Agencies	6.9	6.4	6.7	0.2	3.6%	0.4 %
Charges for Current Services	170.8	176.4	169.2	(7.1)	(4.0%)	11.0 %
Transfers In	84.9	104.1	106.2	2.1	2.1%	6.9 %
Other Revenue	4.7	3.2	3.2	0.0	1.4%	0.2 %
Total	\$ 1,490.3	\$ 1,549.2	\$ 1,539.8	\$ (9.5)	(0.6%)	100.0 %

Numbers may not foot due to rounding.

Percent change represents the change from the FY 2020 Adopted Budget to the FY 2021 Proposed Budget. Budgeted growth rates for revenues may differ, as FY 2021 Proposed Budget amounts are based on updated FY 2020 projections.

The major General Fund revenue projections included in the Fiscal Year 2021 Proposed Budget are based on the most current Fiscal Year 2020 projections, and based on the most recent economic data and information available on COVID-19 at the time the Proposed Budget was developed. In light of the current economic environment and impacts from the COVID-19 outbreak, actual economic and financial conditions may change materially from those assumed. The Department of Finance will continue to monitor the situation closely and will incorporate these changes as needed and report significant changes in quarterly budget monitoring reports. The Third Quarter Budget Monitoring Report will be released in May 2020. Changes in the local, State, and national economies can impact each of the General Fund revenue sources and the effects on the City's finances in Fiscal Year 2021 are outlined below. Due to the City's stable financial position leading into the global COVID-19 pandemic, and through the swift response in the development of prudent estimates and close monitoring of revenue receipts, the City maintains a strong position to weather the economic impacts of this global pandemic.

San Diego's Economic Environment

At the start of 2020, San Diego's economic outlook was trending stable and positive. However, with the recent events of COVID-19, a sharp decline in revenues is now projected for the remainder of Fiscal Year 2020 and into Fiscal Year 2021. There have been many fiscal challenges attributed to the global COVID-19 pandemic, including a projected GDP decline, historic increases in unemployment claims in the region, travel restrictions and a decline in consumer spending resulting from closures of non-essential goods and services. Additionally, uncertainty exists with inflation, and federal and international policies that may affect these indicators in the future. The overall expectation and projection for the City's revenues is consistent with information received from the City's sales tax consultant, the San Diego Tourism Authority, Tourism Economics—an Oxford Economics Company, the San Diego Tourism and Marketing District, the UCLA Anderson School of Management Forecast, and California independent research firm Beacon Economics.

In comparison to the Fiscal Year 2020 Adopted Budget, the Fiscal Year 2021 Proposed Budget includes projected decreases to three of the four major General Fund revenues—sales tax, TOT, and Franchise Fees—primarily based on the projected impacts of COVID-19.

The Fiscal Year 2021 Proposed Budget for base property tax assumes that the City will experience 4.25 percent growth based on increasing home prices offset by fewer home sales. This growth rate represents a decline when compared to the Outlook. The property tax growth rate is in line with current San Diego County estimates, but includes an offset of reduced collection rates as a result of COVID-19 impacts to the economy.

The Fiscal Year 2021 Proposed Budget for sales tax assumes a negative 23.06 percent growth rate in the first quarter of Fiscal Year 2021, primarily from decreases in projected sales tax receipts as a result of decreased spending in travel, leisure, and entertainment sectors, all impacts from the COVID-19 pandemic. The sales tax growth rate for the remainder of Fiscal Year 2021 is projected at negative 4.00 percent based on current estimates from the City's sales tax consultant, the projected continued volatility in consumer confidence, and a continued decline in the economy.

The Fiscal Year 2021 Proposed Budget incorporates a projected average annual growth rate for TOT of negative 10.9 percent. This growth rate has been lowered from the Outlook to account for lower tourism activity as forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District, compounded by uncertainty regarding global health conditions from COVID-19.

The Fiscal Year 2021 Proposed Budget for franchise fees is based on updated Fiscal Year 2020 projections and are anticipated to decrease primarily due to the continued decrease in cable franchise fee revenue and lower than expected SDG&E franchise fee revenue. The SDG&E franchise fee revenue incorporates a projected negative 9.47 percent growth which includes historical declines in commercial energy consumption levels.

The main economic drivers of General Fund revenues include consumer discretionary spending and housing market indicators, such as home sales and prices. Mortgage rates are still historically low, which supports a healthy real estate market, however as median home prices continue to rise and with the economic uncertainty from COVID-19, we will continue to

monitor how this may impact the housing market. Consumer discretionary spending is greatly influenced by employment levels and consumer confidence. Consumer confidence had increased steadily since its low of 26.0 in March 2009 before settling at 120.0 in March 2020. However, as a result of COVID-19, it is anticipated that consumer confidence will continue to decrease significantly until the virus is contained.

“Consumer confidence declined sharply in March due to a deterioration in the short-term outlook,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “The Present Situation Index remained relatively strong, reflective of an economy that was on solid footing, and prior to the recent surge in unemployment claims. However, the intensification of COVID-19 and extreme volatility in the financial markets have increased uncertainty about the outlook for the economy and jobs. March’s decline in confidence is more in line with a severe contraction – rather than a temporary shock – and further declines are sure to follow” as reported by The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch.

In addition, the unemployment rate for the City of San Diego is anticipated to significantly increase over the next several months as a result of impacts from COVID-19. As more restaurants, retail stores and other non-essential businesses temporarily close, more people are left without work. As workers lose their jobs and income decreases, consumers will stop spending money. The reduced consumer spending could result in additional job losses across the City and nation. The magnitude of these effects is difficult to predict. There are many variables that will contribute to the final outcome, including how long social distancing measures will be in place, how effectively state and federal governments provide relief, and the timing for the ultimate containment and treatment of COVID-19. The City’s unemployment rate is currently at 3.2% as of February 2020. This percentage is projected to increase in the months to come as unemployment insurance claims increase. The Nation’s unemployment insurance claims have increased significantly over the last few weeks reaching historic levels. National initial jobless claims reached 3.3 million for the week of March 21st and 6.6 million for the week of March 28th.

While the UCLA and Beacon Economics data both agree that COVID-19 has brought on a sharp and sudden economic decline to the region that is expected to continue through Fiscal Year 2021; consensus has not been reached on the degree to which the economy will decline. The revenue projections included in this budget incorporate the sharp decline in economic growth impacting revenue projections, and assume an economic recession in Fiscal Year 2021. However, the magnitude and duration of the recession is impossible to predict considering the limited data and the inability to compare this unprecedented event to any other event in history. The Department of Finance will continue to monitor economic indicators and expert reports to determine the severity and length of the economic downturn and impacts of a recession.

Impacts to the four General Fund major revenues are discussed in further detail in the following sections.

Table 7: Fiscal Year 2021 Growth Rates for General Fund Major Revenues displays the Fiscal Year 2020 Adopted Budget growth rates, the projected growth rates for Fiscal Year 2020, and the Fiscal Year 2021 Proposed Budget growth rates for the four General Fund major revenues.

Table 7: Fiscal Year 2021 Growth Rates for General Fund Major Revenues

Major General Fund Revenues	FY 2020 Adopted Budget Growth Rates	FY 2020 Projected Growth Rates	FY 2021 Proposed Budget Growth Rates
Property Tax	5.25%	5.25%	4.25%
Sales Tax ¹	3.75%	-20.95%	-13.53%
Transient Occupancy Tax ²	3.00%	-27.10%	-10.91%
Franchise Fees (SDGE-Electricity/Cable)	3.2%/-2.2%	-6.88%/-4.50%	-9.47%/-9.38%

¹ The Sales Tax FY 2021 Proposed Budget growth rate is based on an average annual rate for the fiscal year.

² The Transient Occupancy Tax FY 2021 Proposed Budget growth rate reflects an average annual rate.

Property Tax

Property tax revenue is the City's largest revenue source, representing 40.9 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property's assessed value may increase at the rate of the California Consumer Price Index but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The 1.0 percent property tax levy is collected and distributed to a number of agencies including the County, the City, school districts, and special districts. According to the County of San Diego Assessor's Office, for every \$100 collected in Fiscal Year 2020, the allocation to the cities in San Diego County total \$18.00. Additionally, per City Charter requirement, a special tax levy, held separate from the General Fund, of \$0.005 per \$100 of assessed value is collected for funding the maintenance of zoological exhibits in Balboa Park.

As a result of the dissolution of redevelopment agencies in Fiscal Year 2012, funding for continuing obligations as approved by the State Department of Finance are distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF) after the Recognized Obligations Payment Schedule (ROPS) is met. These residual funds in the RPTTF are distributed to the local taxing entities per their individual allocation formulas at a rate ranging from 17.0 to 22.0 percent.

The Fiscal Year 2021 Proposed Budget for property tax is \$629.6 million, which assumes 4.25 percent growth for the base property tax (which is covered by Proposition 13) and a projected increase in collection rates for "in-lieu of motor vehicle license fee" payments. The property tax in lieu of motor vehicle license fee is property tax from the State of California that is provided to the City to replace the Motor Vehicle License fee (MVLFF) that was repealed in 2004. This growth rate is a decrease from the rate projected in the Outlook as the market conditions have changed since the release of the Outlook. Property tax has a general delay of 12-18 months from when assessed valuations are established to when taxes are received by the City. Therefore, the City continues to project growth in property tax from the Fiscal Year 2020 Adopted Budget and does not anticipate a major impact from the COVID-19 pandemic. The anticipated impact to property tax revenue as a result of COVID-19 is the rate of collection.

The rate of collection for the past three years during economic expansion has been historically high at a rate of 99.2 percent. The Fiscal Year 2021 Proposed Budget estimates a decrease of 1.6 percent in collection rates for the first half of the fiscal year, at a collection rate of 97.6 percent.

The \$629.6 million property tax budget consists of an estimated \$432.1 million in base property tax, \$160.8 million "in-lieu of motor vehicle license fee" payment, \$8.8 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and \$27.9 million in anticipated residual property tax payments. The total property tax for the Fiscal Year 2021 Proposed Budget is \$6.5 million lower than the Outlook due to updated projections from COVID-19, and updated ROPS activity.

Sales Tax

Sales tax is the second largest General Fund revenue source totaling \$282.2 million and, representing 18.3 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly payments. According to the Bradley-Burns Sales and Use Tax law, the City is to receive one cent of the total statewide sales tax levied on each dollar of taxable sales.

The total citywide sales tax rate in San Diego is 7.75 percent. Included in the 7.75 percent sales tax rate are two voter approved supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet) and safety sales tax. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures.

The Fiscal Year 2021 Proposed Budget for sales tax was developed assuming a negative 23.06 percent growth rate in the first quarter of Fiscal Year 2021, primarily from decreases in projected sales tax receipts as a result of decreased spending in travel, leisure, and entertainment sectors, all impacts from the COVID-19 pandemic. The sales tax growth rate for the remainder of Fiscal Year 2021 is projected at negative 4.00 percent based on the projected continued volatility in consumer confidence and a continued decline in the economy.

Economic indicators that drive spending and growth in sales tax receipts include unemployment rate, total number of persons employed, and consumer confidence. While CY 2020 showed record numbers for these indicators, recent uncertainty, volatility, and slower growth estimates have tempered our projections. The City of San Diego had 710,500 persons employed as of December 2019 resulting in a near all-time low unemployment rate of 2.7 percent. However, recent COVID-19 impacts have resulted in a sharp increase in the unemployment rate across the nation and within the City of San Diego within the last few weeks.

Consumer confidence, which is highly correlated with sales tax, is reported at 120.0 in March 2020, a 10.6 percent decrease from the 134.2 reported in March 2019. The March 2020 San Diego Consumer Price Index has increased by 1.8 percent from 297.226 in March 2019 to 302.589, leading to higher prices of goods, and therefore sales tax. The U.S. Bureau of Labor Statistics notes the impacts of COVID-19 on March 2020 data stating “The Consumer Price Index (CPI) program suspended data collection by personal visit on March 16, 2020. Data collection in March was affected by the temporary closing or limited operations of certain types of establishments. These factors resulted in an increase in the number of prices being considered temporarily unavailable and imputed. While the CPI program attempted to collect as much data as possible, many indexes are based on smaller amounts of collected prices than usual, and a small number of indexes that are normally published were not published this month.” Additional information is available at www.bls.gov/bls/effects-of-covid-19-pandemic-on-bls-price-indexes.htm#CPI.

It is unclear how current uncertainties around the global health conditions will ultimately impact the full fiscal year. The City will closely monitor sales tax revenues and adjust the projections as necessary.

General Fund Transient Occupancy Tax (TOT)

Transient Occupancy Tax is the third largest revenue source and makes up 8.0 percent of the City's General Fund revenue budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general government purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. The Fiscal Year 2021 total Transient Occupancy Tax (TOT) proposed budget for the City of San Diego is \$233.7 million, of which, \$123.0 million is applied directly to the General Fund. The remainder supports Special Promotional Programs which develop, maintain, and enhance visitor-related facilities and support the promotion of the City's cultural amenities and natural attractions. Of the remainder, \$46.6 million reimburses tourism and safety related expenditures in the General Fund.

The Fiscal Year 2021 Proposed Budget incorporates an annual average growth rate of negative 10.9 percent, a decrease from the projected growth rate of 3.8 percent as reported in the Outlook. This decrease is primarily due to lower tourism activity as forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District, which incorporates the immediate impacts of the COVID-19. However, as noted in the Economic Environment section of this report, uncertainty around global health conditions and the duration of non-essential business closures still exists.

Additionally, the City has entered into a compliance contract with VRBO (Vacation Rentals by Owner) and anticipates new revenue from this contract which is not incorporated into the average annual rate of negative 10.9 percent.

Franchise Fees

The Fiscal Year 2021 total Franchise Fee proposed budget for the City of San Diego is \$69.9 million. Franchise fee revenue makes up 4.5 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for use of the City's rights-of-way. The largest of the franchise fee payers in the City are San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum TV, AT&T U-verse, and California American Water (Cal AM). In addition, the City collects franchise fees from private refuse haulers that conduct business within the City limits. The revenue received from the agreements with SDG&E, cable companies, and Cal AM is based on a percentage of gross sales, while the revenue received from refuse haulers is based on tonnage. SDG&E is the single largest generator of franchise fee revenue in the General Fund and remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego. Revenue from SDG&E is split between the General Fund (75.0 percent) and the Environmental Growth Funds (25.0 percent), based on the City Charter. Cable providers, which are the second largest contributors to franchise fees, remit 5.0 percent of gross revenues.

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2021 Proposed Budget for total SDG&E franchise fee revenue of \$55.1 million is based on updated Fiscal Year 2020 projections and assumes a negative 9.47 percent growth rate for Fiscal Year 2021. The projected growth rate includes historical declines in commercial energy consumption levels. This growth rate represents a decrease from the growth rate assumed in the Outlook.

In accordance with the City Charter, 75.0 percent of the revenue received from SDG&E, or \$41.3 million, is allocated to the General Fund. The remaining 25.0 percent of revenue received from SDG&E, or \$13.8 million, is deposited into the Environmental Growth Funds (EGF). One-third of the EGF is used to fund the maintenance of parks that would otherwise be supported by the General Fund; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. This will provide funding for park and open space maintenance. The impacts of less revenue deposits in EGF have been reflected in the Fiscal Year 2021 Proposed Budget.

The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2021 Proposed Budget for SDG&E undergrounding utility fee revenue is \$54.2 million. This revenue is budgeted in the Underground Surcharge Fund.

CABLE COMPANIES. The Fiscal Year 2021 Proposed Budget for cable franchise fee revenue of \$13.0 million is based on updated Fiscal Year 2020 projections and assumes a negative 9.38 percent growth rate for Fiscal Year 2021. The projected growth rate is based on four years of historical actuals compounded by the cancellation of major televised events such as national sports leagues and live studio performances due to COVID-19.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2021 Proposed Budget for refuse hauler and other franchise fee revenues is \$15.6 million and is based on updated Fiscal Year 2020 projections. The City anticipates \$13.5 million from refuse collection fees, \$1.5 million in revenue related to the Police Department vehicle tow program, \$0.2 million in franchise fees from the EDCO facilities, and \$0.4 million from other franchise fee sources.

General Fund Baseline Budget Adjustments

The Fiscal Year 2021 Proposed Budget includes baseline budget adjustments in the General Fund. These adjustments primarily reflect increases in existing contractual obligations and other non-discretionary payments. The Fiscal Year 2021 Proposed Budget reflects the current Memoranda of Understanding (MOU) with the City's six Recognized Employee Organizations (REOs), which are all currently being negotiated. This budget includes no salary increases while negotiations are ongoing. In addition to the significant departmental baseline adjustments below, General Fund fringe benefits have increased by \$15.8 million or 3.4 percent from the Fiscal Year 2020 Adopted Budget, of which \$12.7 million is due to an increase in the annual pension payment, Actuarially Determined Contribution (ADC).

Table 8 provides a summary of significant baseline budget adjustments by department in the General Fund included in the Fiscal Year 2021 Proposed Budget.

Table 8: Significant Baseline Budget Adjustments by General Fund Department

Department	Description	FTE	FY 2021 Proposed Budget ¹
Citywide Program Expenditures	Public Liability Insurance	-	3,400,000
	Citywide election costs	-	1,989,015
	Transfer to E&CP Fund for inspection of right-of-way utility permits	-	1,096,258
	Redistricting commission	-	198,411
Citywide Program Expenditures Total		-	\$ 6,683,684
Fire-Rescue	Fringe benefit costs associated with overtime	-	1,680,267
	Fire-Rescue Total	-	\$ 1,680,267
Homelessness Strategies	Use of grant funds for homelessness expenditures	-	(2,174,085)
	Homelessness Strategies Total	-	\$ (2,174,085)
Police	Restoration of holiday credit on day off benefit	-	3,011,628
	Annualized overtime costs due to salary increases in FY 2020	-	876,304
Police Total		-	\$ 3,887,932
Purchasing & Contracting	Animal services contract	-	1,842,910
	Continuation of FY 2020 funding for disparity study	-	124,392
Purchasing & Contracting Total		-	\$ 1,967,302
Grand Total		-	\$ 12,045,100

¹FY 2021 Proposed Budget column reflects the net impact to the General Fund - Expenditures less Revenues

General Fund Budget Additions

The Fiscal Year 2021 Proposed Budget includes approximately \$18.6 million of expenditure budget additions, including the addition of 64.16 FTE positions in the General Fund. The budget additions identified in the Fiscal Year 2021 Proposed Budget are primarily in support of public safety and maintain current service levels and resources.

Table 9 provides a summary of significant budget additions by department in the General Fund included in the Fiscal Year 2021 Proposed Budget.

Table 9: Significant Budget Additions by General Fund Department

Department	Description	FTE	FY 2021 Proposed Budget ¹
Citywide Program Expenditures	FY 2021 Commercial Paper Issuance: Debt service	-	500,000
	Citywide Program Expenditures Total	-	\$ 500,000
Economic Development	Small Business Relief Fund	-	2,000,000
	Economic Development Total	-	\$ 2,000,000
Environmental Services	Maintain Clean SD Current Service Levels - Positions and Contractual Services	3.00	2,869,586
	Clean SD Positions and Equipment	4.00	320,782
	Environmental Services Total	7.00	\$ 3,190,368
Ethics Commission	Ethics Commission Director Succession Plan	0.25	(15,346)
	Total	0.25	\$ (15,346)
Fire-Rescue	New Facility: North University Fire Station	9.00	1,456,920
	Grant match requirement for lifeguard vessel	-	250,000
	Replacement plan of structural Personal Protective Equipment (PPE)	-	237,986
	Fire-Rescue Relief Pool	37.00	(503,427)
Fire-Rescue Total	46.00	\$ 1,441,479	
Homelessness Strategies	Veteran's Village bridge shelter	-	5,687,965
	Creation of Homelessness Strategies Department	3.00	(439)
Homelessness Strategies Total	3.00	\$ 5,687,526	
Mobility	Creation of Mobility Department	2.50	(579,793)
	Mobility Total	2.50	\$ (579,793)
Parks and Recreation	New Facility: Bay Terraces Senior Center	1.66	148,524
	New Facility: Harriet Tubman Charter Joint-Use	0.50	100,670
	New Facility: 14th Street Promenade	0.25	48,078
Parks and Recreation Total	2.41	\$ 297,272	
Police	Maintain Clean SD Current Service Levels: Overtime	-	3,600,873
	Sexual Assault Evidence Testing	2.00	342,861
Police Total	2.00	\$ 3,943,734	
Smart & Sustainable Communities	Energy Franchise Fee Agreement Consultant	-	750,000
	Smart & Sustainable Communities Total	-	\$ 750,000
Storm Water	Creation of Storm Water Department	1.00	(16,086)
	Storm Water Total	1.00	\$ (16,086)
Sustainability	Maintain Smart Streetlights Program current service levels: Data hosting, cellular service, and Lightgrid software	-	1,358,280
	Sustainability Total	-	\$ 1,358,280
Grand Total		64.16	\$ 18,557,434

¹FY 2021 Proposed Budget column reflects the net impact to the General Fund - Expenditures less Revenues.

The following sections include summaries of key programmatic additions for the Clean SD program and for homeless programs and services.

Clean SD

In May of 2017, the City began a pilot program for litter and graffiti abatements throughout the City called Clean SD. The program proactively addresses illegal dumping throughout the City and responds to public requests. The objective of Clean SD is to maintain the public right of way, keep City property clear of waste, and ensure that private property owners and other public agencies comply with the City’s Municipal Code. The program utilizes City staff and non-profit contractors to conduct waste abatements associated with illegal encampments, remove illegal dumping and litter, and enforce applicable municipal codes.

The Fiscal Year 2021 Proposed Budget includes additional funding of \$7.5 million to support the Clean SD Program, including \$3.2 million in the Environmental Services Department and \$3.6 million in the Police Department. Of the \$7.5 million added, \$6.5 million will be used to maintain service levels for items that were funded on a one-time basis in Fiscal Year 2020. An additional \$1.0 million will expand Clean SD efforts, with \$320,000 budgeted in the General Fund and \$720,000 budgeted in the Refuse Disposal Fund. **Table 10** displays the Fiscal Year 2021 Proposed Budget additions for Clean SD by fund and department.

Table 10: Clean SD

General Fund	FY 2021 Proposed Budget
Environmental Services Department	
Restoration of funding and positions to maintain FY 2020 service levels	\$ 2,869,586
4.00 FTE positions and truck rentals for encampment abatements	320,782
Environmental Services Total	\$ 3,190,368
Police Department	
Restoration of Neighborhood Policing overtime to maintain FY 2020 service levels	3,600,873
Police Department Total	\$ 3,600,873
General Fund Total	\$ 6,791,241
Refuse Disposal Fund	
2.00 FTE positions and vehicles for community clean ups and abatements	718,528
Refuse Disposal Total	\$ 718,528
Clean SD Programs and Services Total	\$ 7,509,769

Homeless Programs and Services

The Fiscal Year 2021 Proposed Budget includes \$13.7 million in funding for homeless programs and services, with \$13.4 million budgeted in the General Fund and \$250,000 budgeted in the Low to Moderate Income Housing Asset Fund. In the coming months and based on Federal guidance regarding the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the City Council will be asked to approve an item that includes Community Development Block Grant (CDBG) funding for homelessness and housing related programs for Fiscal Year 2021. In addition to these three funding sources, the City will leverage \$26.6 million from the State’s Homeless Emergency Aid Program (HEAP) and Homeless Housing, Assistance and Prevention

(HHAP) program in Fiscal Year 2021 to address the immediate emergency needs of individuals and families experiencing homelessness or at imminent risk of homelessness. **Table 11** displays the Fiscal Year 2021 Proposed Budget for homeless programs and services by department and fund.

Table 11: Homeless Programs and Services by Department and Fund

General Fund	FY 2021 Proposed Budget
Homelessness Strategies Department	
Coordination of City Homeless Programs and Services ¹	\$ 1,335,173
Veteran's Village Bridge Shelter	6,636,652
Homeless Shelters and Services Programs	2,162,106
Housing Navigation Center	300,000
Total Homelessness Strategies Department	\$ 10,433,931
Police Department	
Homeless Outreach Team (HOT)	\$ 2,972,210
Total Police Department	\$ 2,972,210
Total General Fund	\$ 13,406,141
Low to Moderate Income Housing Asset Fund	
Housing Navigation Center Operations	\$ 250,000
Total Low to Moderate Income Housing Asset Fund	\$ 250,000
Total Citywide Resources	\$ 13,656,141

Note: Table not intended to capture all staff related costs.

¹The General Fund is anticipated to be reimbursed \$648,269 by HEAP and HHAP grant funds for eligible expenses associated with the administration of the grants.

Community Development Block Grant (CDBG) Funding

It is anticipated that proposed Fiscal Year 2021 CDBG program allocations, including those related to homelessness and housing, will be available to the public in April or May 2020. The Economic Development Department anticipates that \$1.0 million in CDBG funding will be proposed for Housing Navigation Center operations in Fiscal Year 2021, pending approval by the City Council in the spring.

Homeless Emergency Aid Program (HEAP) and Homeless Housing, Assistance and Prevention (HHAP) Funding

In September 2018, the State of California approved the City's application for \$14.1 million from the Homeless Emergency Aid Program (HEAP), and in December 2018, the City Council voted to accept, appropriate, and expend the block grant. The HEAP funding allows the City to address the immediate emergency needs of individuals experiencing homelessness and individuals at imminent risk of homelessness. The funding was 50 percent contractually obligated by January 1, 2020 and will be fully expended by June 30, 2021. To continue the success of HEAP, the State announced a second round of funding called the Homeless Housing, Assistance and Prevention (HHAP) program in July of 2019. HHAP is a \$650 million one-time block grant that provides local jurisdictions with funding to support regional coordination and expand or develop local capacity to address immediate homelessness challenges. These funds are expected to be available in July 2020 and must be spent within five years.

During the development of the Fiscal Year 2021 Proposed Budget, the City anticipated using \$26.6 million in HEAP and HHAP funding for the homeless programs and services included in the bullet points below; however, due to recent developments with COVID-19, it is anticipated that the \$26.6 million will be reevaluated for how it can best meet the immediate emergency needs of individuals and families experiencing homelessness or at imminent risk of homelessness during this crisis. As of the release of this Proposed Budget, the homelessness strategies division is evaluating the impacts of the Convention Center shelter, and any potential savings to existing bridge shelters, to determine the impacts to this budget. The division will also be evaluating new grant opportunities to support these new costs.

- Operating costs and ancillary services for the bridge shelters operated by Alpha Project and Father Joe's Villages at 16th & Newton, 17th & Imperial, and Golden Hall
- Sherman Heights, Lea Street, and Think Dignity Transitional Storage Facilities
- Aero, Balboa, and Mission Valley Safe Parking Program lots
- Family Reunification
- Rapid Rehousing
- Youth Focused Programs
- Flexible Spending Pool
- Prosecution and Law Enforcement Assisted Diversion Services (PLEADS)
- Prevention and Diversion
- Landlord Engagement and Assistance Program (LEAP)
- San Diego Misdemeanants at Risk Track (S.M.A.R.T.) Program
- Administrative Costs

General Fund Budget Reductions

Based on the projected revenue shortfall in the Outlook, General Fund departments were required to submit budget reduction proposals equating to 4.0 percent of the department's Fiscal Year 2020 Adopted Budget. But as summarized earlier, due to the impacts of COVID-19 to the City's major general fund revenues, General Fund departments were required to submit additional reductions. A total of \$45.7 million in budget reductions, including 341.93 FTE positions, are reflected in General Fund departments. As mentioned earlier, non-general funds that impact the General Fund were also required to submit budget reduction proposals. The approximate impact of these reductions on the General Fund totals \$15.5 million, primarily due to a 50 percent reduction in Arts, Culture, and Community Festivals funding; fleet fuel savings; and savings associated with the lease of the Stadium assumed for July 1, 2020. Although budget reductions that provided efficiency and minimized impacts to service levels were prioritized first, the loss of revenue projected as a result of COVID-19 required that reductions with significant service level impacts also be taken to ensure the City maintains a balanced budget.

Table 12 provides a summary of budget reductions by General Fund department included in the Fiscal Year 2021 Proposed Budget. For a more detailed list of reductions by Department, please see **Attachment 2**.

Table 12: Budget Reductions by General Fund Department

Department	FTE	FY 2021 Proposed Budget ¹
City Treasurer	(9.00)	(899,389)
Communications	(1.00)	(148,032)
Debt Management	(3.50)	(407,928)
Department of Finance	(7.80)	(789,270)
Development Services	(16.00)	(1,621,752)
Economic Development	(5.00)	(1,109,822)
Environmental Services	(8.00)	(1,497,317)
Fire-Rescue	(2.33)	(616,363)
Homelessness Strategies	-	(420,106)
Human Resources	(3.00)	(381,825)
Internal Operations	(1.00)	(412,941)
Library	(96.51)	(7,001,480)
Non-Mayoral Departments	-	(3,919,289)
Office of Boards and Commissions	(1.00)	(123,581)
Office of the Assistant COO	-	(1,700)
Office of the Chief Operating Officer	(1.00)	(134,501)
Office of the Mayor	(2.00)	(364,481)
Parks and Recreation	(88.79)	(5,904,206)
Performance & Analytics	-	(220,593)
Planning	(10.00)	(1,467,572)
Police	(23.00)	(6,292,379)
Public Utilities	-	(648,501)
Public Works & Utilities	-	(22,452)
Purchasing & Contracting	(5.00)	(533,217)
READ - Facilities Services	(40.00)	(942,898)
Real Estate Assets	(6.00)	(874,971)
Smart & Sustainable Communities	-	(79,130)
Storm Water	-	(4,872,864)
Transportation	(12.00)	(3,961,273)
Grand Total	(341.93)	\$ (45,669,833)

¹FY 2021 Proposed Budget column reflects the net impact to the General Fund - Expenditures less Revenues.

Other Fiscal Actions

City staff strategically evaluated all available funding sources as part of the Fiscal Year 2021 Proposed Budget to ensure those resources were deployed to maintain public safety and minimize impacts to current service levels. In addition to the budget reduction proposals noted previously, the Fiscal Year 2021 Proposed Budget includes the following fiscal actions:

- Due to the sudden and sharp decline in revenue growth in Fiscal Year 2020 and Fiscal Year 2021, the Mayor is requesting to suspend the requirements of section 77.1 of the City Charter for one fiscal year to allow for the use of approximately \$29.4 million for other general fund purposes in lieu of the transfer to the Infrastructure Fund;
- Use of \$20.9 million in anticipated Stadium sale proceeds that will be deposited in the

Capital Outlay Fund for ongoing Stadium debt service and one-time General Fund debt service in Fiscal Year 2021 in accordance with section 77 of the City Charter allowing sale proceeds to be used for capital financing costs;

- Delay the anticipated contribution of \$13.6 million to General Fund Reserves for Fiscal Year 2021 that would have achieved the 15.75 percent target level;
- Use of \$8.0 million from the Pension Payment Stabilization Reserve that is projected to be available in Fiscal Year 2021 for increases in the annual pension payment, Actuarially Determined Contribution (ADC). The Pension Payment Stabilization Reserve is maintained to mitigate service delivery risk due to increases in the ADC as calculated in the most recent Actuarial Valuation Report produced by the San Diego City Employees' Retirement System's actuary. The most recent Actuarial Valuation Report reflects an annual increase of \$15.1 million citywide, of which \$12.7 million is in the General Fund;
- Delay the anticipated contribution of \$4.2 million to the Pension Payment Stabilization Reserve for Fiscal Year 2021;
- Use of \$4.2 million in excess General Fund fleet replacement funds over five fiscal years to provide annual ongoing rate relief in anticipated vehicle replacement costs. The General Fund Fleet Replacement Fund utilizes the City's Equipment Vehicle Financing Program on all General Fund vehicles, except for Police black and white patrol vehicles and Police motorcycles. The transition from cash to debt financing in Fiscal Year 2020 and 2021 has reduced the need for cash on hand in the General Fund Fleet Replacement Fund resulting excess and available fund balance. The available fund balance is being reduced to provide ongoing rate relief to the General Fund;
- Reduction in anticipated Other Post-Employment Benefit contributions of approximately \$1.0 million in the General Fund based on an actuarial analysis of current cash and investments held in the retiree medical trust fund and projected payments pursuant to obligations under the Retiree Healthcare Memorandum of Understanding between the City and the Represented Employee Organizations; and
- Increase to General Fund budgeted vacancy factor of \$3.2 million, or 8.3 percent, from the Fiscal Year 2020 Adopted Budget to address personnel savings associated with projected vacant or underfilled positions. **Table 13** displays the citywide budgeted vacancy factor from Fiscal Year 2019 to Fiscal Year 2021.

Table 13: Budgeted Vacancy Factor Fiscal Years 2019 - 2021

Departments/Funds	FY 2019 Adopted Budget	FY 2020 Adopted Budget	FY 2021 Proposed Budget
City Attorney	\$ 603,241	\$ 2,489,386	\$ 2,369,017
City Auditor	-	-	91,333
City Clerk	39,084	40,373	36,941
City Council	-	64,803	85,852
City Treasurer	265,548	276,872	710,696
Communications	44,950	85,849	119,745
Debt Management	-	57,691	126,672
Department of Finance	189,005	-	67,829
Development Services	179,540	326,226	339,123
Economic Development	120,152	128,940	547,445
Environmental Services	355,877	498,444	599,694
Facilities Services	313,049	857,936	596,234
Fire-Rescue	3,873,144	6,616,559	9,789,879
Human Resources	55,843	57,691	115,398
Library	566,134	587,508	363,704
Office of Homeland Security	43,983	-	194,636
Parks and Recreation	696,569	1,407,745	1,377,888
Performance & Analytics	-	85,849	117,229
Personnel	37,236	-	33,613
Planning	254,469	545,318	488,903
Police	23,248,651	21,248,895	19,757,193
Purchasing & Contracting	414,987	535,820	744,285
Real Estate Assets	117,165	57,691	255,611
Storm Water	-	-	451,754
Transportation	-	-	1,770,632
Transportation & Storm Water	1,790,712	2,026,413	-
Total General Fund	\$ 33,209,339	\$ 37,996,009	\$ 41,151,306

Departments/Funds	FY 2019 Adopted Budget	FY 2020 Adopted Budget	FY 2021 Proposed Budget
Airports Fund	\$ 32,810	\$ 43,068	\$ 117,229
Central Stores Fund	-	-	57,090
Development Services Fund	2,987,202	1,326,664	2,998,384
Engineering & Capital Projects Fund	4,212,166	5,323,300	7,435,254
Facilities Financing Fund	-	-	69,950
Fire/EMS Transport Program Fund	-	-	47,986
Fleet Operations Operating Fund	134,400	229,518	810,557
GIS Fund	-	-	133,058
Golf Course Fund	63,084	56,187	169,143
Information Technology Fund	144,431	85,849	306,696
Metropolitan Sewer Utility Fund	1,290,991	2,085,092	3,451,825
Municipal Sewer Revenue Fund	1,179,582	1,955,768	3,378,643
OneSD Support Fund	-	-	171,704
Recycling Fund	307,275	431,956	705,912
Refuse Disposal Fund	396,154	345,953	539,355
Risk Management Administration Fund	115,639	149,782	368,317
Underground Surcharge Fund	119,550	123,504	33,613
Water Utility Operating Fund	2,553,972	2,906,138	6,095,062
Wireless Communications Technology Fund	109,624	101,760	94,674
Total Non-General Fund	\$ 13,646,880	\$ 15,164,539	\$ 26,984,452
Citywide Total	\$ 46,856,219	\$ 53,160,548	\$ 68,135,758

Conclusion

The City of San Diego's Fiscal Year 2021 Proposed Budget is \$3.92 billion, and is comprised of five operating fund types and the CIP:

- General Fund;
- Special Revenue Funds;
- Capital Project Funds;
- Enterprise Funds;
- Internal Service Funds; and
- Capital Improvements Program.

This represents a decrease of \$427.0 million or 9.8 percent compared to the Fiscal Year 2020 Adopted Budget. The Fiscal Year 2021 Proposed Budget reflects a balanced budget proposal, and is based on currently available information. It includes economic impacts associated with COVID-19, and utilizes significant budget reductions and other fiscal actions to protect essential core services and public safety.

The Department of Finance will continue to monitor the impacts of COVID-19 on revenues and expenditures, and will propose additional modifications to the budget as part of the Mayor's May Revision.

Attachments:

1. Financial Summary and Schedules
2. Fiscal Year 2021 Proposed Budget Reductions by Department - General Fund
3. Fiscal Year 2021 Capital Improvements Program Proposed Budget - Project Pages

cc: Honorable Mayor Kevin L. Faulconer
Honorable City Attorney Mara Elliott
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Andrea Tevlin, Independent Budget Analyst
Jeff Sturak, Assistant Chief Operating Officer
David Nisleit, Chief of Police, Police Department
Colin Stowell, Fire Chief, Fire-Rescue Department
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Department Directors