

REVIEW OF THE
Fiscal Year 2021
Proposed Budget

Analysis by the
Office of the Independent Budget Analyst
Report 20-06

IBA Review of the Fiscal Year 2021 Proposed Budget

Budget Review Committee
May 4, 2020



The City of
SAN DIEGO

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April 29, 2020



Office of the Independent Budget Analyst

The City of
**SAN
DIEGO**

FY 2021 Proposed Budget Review

Unique Budget Year due to COVID-19

- Constantly evolving economic factors, even as we evaluate the Mayor's FY 2021 Proposed Budget
 - DOF has projected further revenue declines (particularly TOT and sales tax)
 - Conferences and large events cancel, most notably Comic-Con
 - Likely to see significant changes in the May Revision this year, further reductions were requested from departments
- Further information and analysis needed regarding eligible uses for the \$248 million in CARES Act funding

FY 2021 Proposed Budget Review *cont'd*

Unique Budget Year due to COVID-19 *cont'd*

- Despite all the unknowns and changing factors, we have presented an analysis of the Mayor's budget as proposed at this time
 - We identify service level impacts of budget reductions and other issues for City Council's consideration

Looking Back to November 2019: Mayor's Five-Year Outlook

FY 2021 Deficit Projected at \$83.7 million

- \$21.2 million - baseline expenditures/existing services
- \$62.5 million - Mayor's Critical Strategic Expenditures to expand existing programs or initiate new programs
- Due to the lack of resources, most of the Outlook's Critical Strategic Expenditures not funded in the Proposed Budget
- With COVID-19 pandemic impacts, the Outlook is no longer relevant

February 2020: Council Budget Priorities

Council Develops Priorities Resolution to Guide Mayor in the FY 2021 Budget Process

- One unanimous priority: transportation safety and mobility improvements
- Other priorities include:
 - City facility improvements (Fire-Rescue, Library, Parks & Recreation)
 - Homelessness
 - Public Safety
 - Street and sidewalk improvements
 - Arts & Culture
 - Support for Libraries
 - Climate Action Plan

March 2020: Mayor Develops FY 2021 Budget

Revenues Begin to Decline

- Due to COVID-19 stay-at-home orders, revenue begins to plummet (initial projections: \$258M for FYs 2020 & 2021)
- For FY 2020: \$109M (TOT - \$83M; Sales Tax - \$26M)
- For FY 2021: \$149M (all major revenues impacted)
- City Revenue projections revised over a dozen times just in the month of March
- IBA review: revenues reasonable at the time; high degree of uncertainty regarding future impacts

March 2020: Mayor Develops FY 2021 Budget *cont'd*

General Fund Expenditure Reductions Proposed to Address Deficit - \$149M

- FY 2021 Proposed Budget expenditures - \$1.54 billion
 - Expenditures decrease - \$50.2M (3.2%) over FY 2020 Budget
- Positions decrease by a net 277.87 positions, largest FTE reductions:
 - Library (96.51 positions) - hours reduced (closures Sun. and Mon.)
 - Parks & Rec (88.79 positions) - recreation center hours reduced from 60 to 45 hours per week; pool/swim programs
 - All other department reductions are discussed later in the report

April 15, 2020: Mayor Releases Proposed Budget

Also Addresses: FY 2020 General Fund (GF) Mitigation Actions-\$109M

- \$4.5M - expenditure reductions
 - Hiring freeze (\$1.5 M); other spending freeze (\$3.0M)
- \$10M - use of GF CIP (to be backfilled with borrowing)
- \$12.8M - delayed FY 2020 GF Reserve contribution
- \$27.9M - use of FY 2020 projected excess equity
- \$54M - use of GF Emergency Reserve

April 15, 2020: Mayor Releases Proposed Budget *cont'd*

FY 2021 Other Mitigation Actions - \$149M (citywide) *cont'd*

- \$29.5M - waiving Infrastructure Fund contribution
- \$20.9M - use of stadium sale proceeds
- \$13.6M - delay of General Fund Reserve contribution
- \$12.2M - use of Pension Reserve & FY 2021 contribution
- \$4.2M - use of fund balance in Fleet Replacement Fund
- \$3.2M - budgeted vacancy factor increase
- \$1.0M - retiree health/OPEB funding reduction

General Fund Expenditures Review & Analysis

FY 2021 Proposed Budget expenditures - \$1.54 billion

- Includes a net decrease of 277.87 FTEs: \$19M
 - 341.93 FTE programmatic reductions: \$27.4M
 - 3.15 net FTE transfers from the General Fund to non-general funds; and 4.53 FTE in other hourly reductions
 - 71.74 FTE offsetting additions: \$8.6M
- Includes a net NPE reduction of \$54.2M
- Offsetting increases include \$14.2M for other salaries and wages costs; and \$12.8M for ADC pension payment

General Fund Expenditures Review & Analysis *cont'd*

Expenditure Reductions

- \$45.7M & 341.93 FTEs (see major budget reductions, later)
- \$24.1M Infrastructure Fund contribution
- \$16.2M General Fund & Pension Reserve contributions
- \$13.2M deferred capital bond payments (largely covered by anticipated proceeds from stadium sale)
- \$3.9M Arts & Culture Commission funding
- \$4.9M net decrease in Fire-Rescue overtime

General Fund Expenditures Review & Analysis *cont'd*

Expenditure Reductions *cont'd*

- \$3.2M Fire-Rescue vacancy savings increase
- \$2.1M Bridge Shelter costs covered by State grants
- \$1.8M in vacancy/salary savings increase for various departments
- \$1.8M termination pay and pay-in-lieu
- \$1.5M Community Projects, Programs, & Services (CPPS)
- \$1.3M mobility expenditures (FY 2020 one-time funding)
- \$800,000 Companion Unit Fee Waiver Program

General Fund Expenditures Review & Analysis *cont'd*

Offsetting Expenditure Increases

- \$14.2M salaries/wages increases (negotiated, promotions, merit increases)
- \$12.8M ADC pension payment
- \$10.6M non-discretionary IT costs (e.g. network, help desk, data center, wireless, general IT, SAP support)
- \$5.7M increase for Veterans' Village Bridge Shelter

General Fund Expenditures Review & Analysis *cont'd*

Offsetting Expenditure Increases *cont'd*

- \$4.6M Workers' Comp & Long-term Disability funding
- \$3.4M for Public Liability insurance transfer
- \$2.0M Small Business Relief Fund
- \$1.8M citywide elections costs funding
- \$1.5M Police vacancy savings decrease (increase to salaries/wages)
- \$1.5M post-Prop B defined contribution funding

General Fund Revenues Review and Analysis

Economic Outlook / COVID-19 Impacts

- Pre-COVID-19, revenues were increasing in projections, unemployment was at a low, and consumer confidence was rising
- Stay-at-home orders come in the middle of March, economy slows
- Unemployment now predicted to be higher than 20%
- Conventions have been cancelled through July (including Comic-Con) and possibly later
- Revenue projections only through March 30, Mayor is required to release the proposed budget on April 15
- COVID-19 revenues losses in both years estimated at \$250 million
- Additional \$50 million expected loss announced in April, after the Mayor's Budget has been released

General Fund Revenues Review and Analysis *cont'd*

Property Tax

- FY 2021 Proposed Budget is \$629.6 million, increase of \$27.7 million (4.6%).
- Growth rate revised down from Outlook from 5.00% to 4.25%.
- Property taxes are largely insulated from recessionary impacts in the first year, but larger declines could come in later years depending on real estate conditions moving forward.

General Fund Revenues Review and Analysis *cont'd*

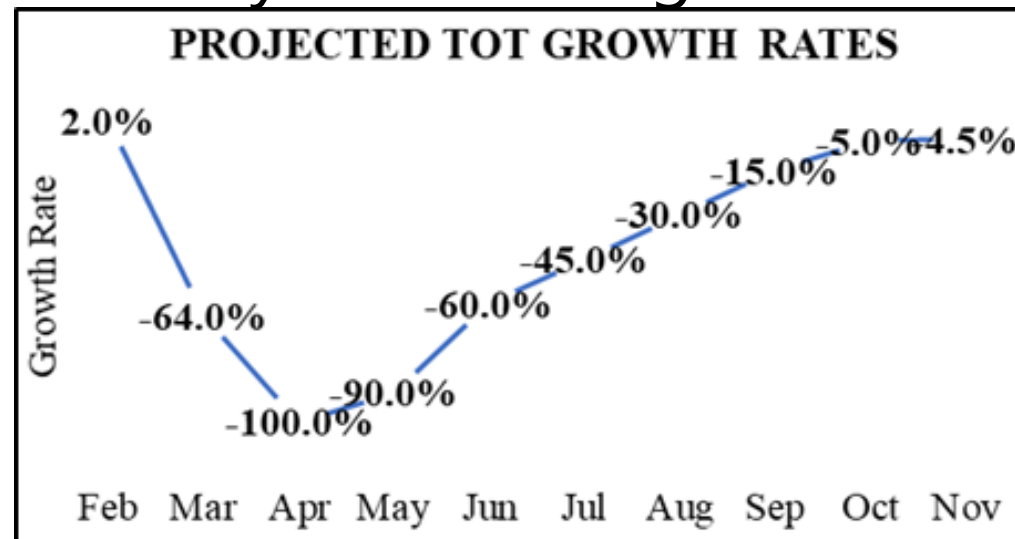
Sales Tax

- FY 2021 Proposed Budget is \$282.2 million, which is a decline of \$15.7 million (5.3%).
- Average growth rate applied to FY 2021 is -13.53%. Outlook assumed a 3.4% growth rate.
- Estimates are varied by sector, and range from a -70% growth for brick-and-mortar apparel stores to 10% growth for drug stores.
- The shift from brick-and-mortar to online sales could temper some of the shortfall, but it is too early to predict now.

General Fund Revenues Review and Analysis *cont'd*

Transient Occupancy Tax

- FY 2021 Proposed Budget is \$123.0 million, which is a reduction of \$13.9 million (10.2%).
- Hardest hit revenue due to COVID-19, especially in FY 2020.
- Projected growth rates by month range from -100% to -4.5%.



General Fund Revenues Review and Analysis *cont'd*

Transient Occupancy Tax *cont'd*

- Projections as of March 30, prior to the cancellation of numerous large conventions, including Comic-Con and ESRI
- The projection of \$0 revenue could continue into May and possible through July.
- This is also a different recession than previous recessions, and it is unknown how fast tourism will recover.

General Fund Revenues Review and Analysis *cont'd*

Franchise Fees

- Total Franchise Fees total \$68.2 million, which is a reduction of \$11.8 million (14.8%).
- The three largest fees are:
 - 3% surcharge on SDG&E revenue
 - Charges to refuse haulers based on tonnage
 - 5% surcharge on cable television provider subscriptions
- SDG&E Franchise Fees total \$47.3 million, which is a reduction of \$9.8 million.
 - The SDG&E reduction is due to lower gross SDG&E revenue in calendar 2019 and a projected calendar 2020 growth rate of -9.47%

General Fund Revenues Review and Analysis *cont'd*

Franchise Fees *cont'd*

- Refuse hauler fees total \$13.5 million, which is no change from FY 2020
- Cable television fees total \$13.0 million, which is a decline of \$1.8 million (12.2%)
 - Cable television fees have been declining since FY 2011, and FY 2021 includes a steeper projected annual decline of -9.4%.

General Fund Revenues Review and Analysis *cont'd*

Departmental and Other Revenues

- All other revenues total \$436.8 million, including departmental revenues and other citywide revenues.
- Many of the departmental revenue projections predate the onset of COVID-19, and the May Revision may include some other substantial decreases.

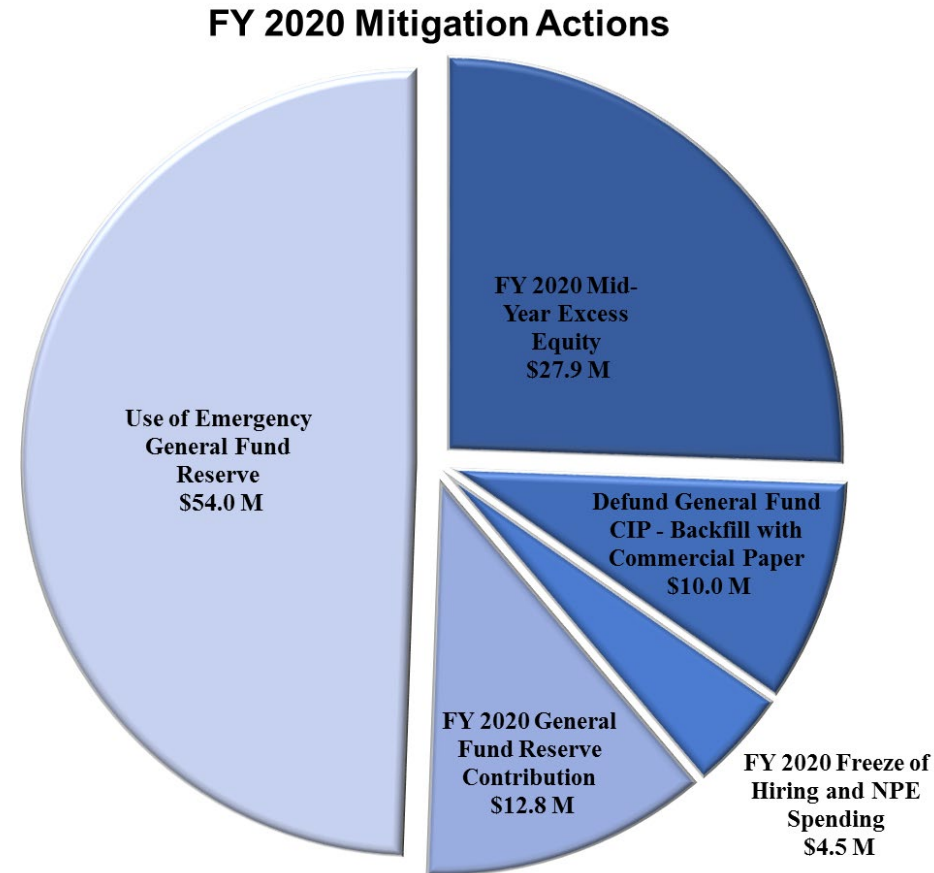
General Fund Revenues Review and Analysis *cont'd*

Departmental and Other Revenues *cont'd*

- Potential reductions include
 - Gasoline taxes and Road Maintenance and Rehabilitation Act funds
 - TransNet
 - Performance-based rents and leases
 - Additional TOT losses that result in decreased General Fund support from Special Promotional Programs budget
 - Other city user fees
 - Parking Citations

Balancing the FY 2020 and FY 2021 Budgets

FY 2020 Mitigations



Balancing the FY 2020 and FY 2021 Budgets *cont'd*

FY 2020 Mitigations *cont'd*

- Expenditure reductions - \$4.5 million
 - Includes a non-public safety hiring freeze (\$1.5 million) and non-personnel expenditure freeze (\$3.0 million)
- Defund General Funds from existing CIP projects - \$10 million.
 - Intention is pay projects back with commercial paper financing sometime during FY 2021.
 - Council will be asked to defund these projects in the FY 2020 CIP Year-End Budget Monitoring Report.

Balancing the FY 2020 and FY 2021 Budgets *cont'd*

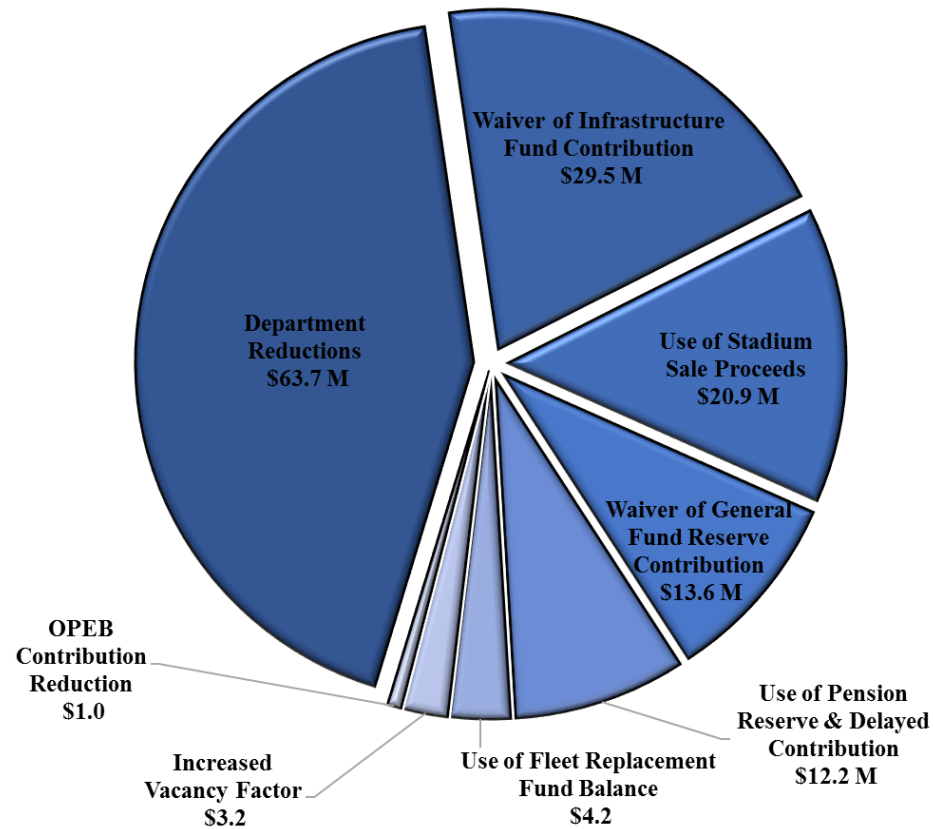
FY 2020 Mitigations *cont'd*

- Use of FY 2020 Mid-year Excess Equity - \$27.9 million.
 - Due to revenue declines, there is no longer any excess equity projected at year end
- Delay the FY 2020 Contribution for General Fund reserves - \$12.8 million
- Use of General Fund Emergency Reserve - \$54 million
 - Both of the reserve actions will leave the FY 2020 Ending Reserve at \$138.8 million, which is \$66.8 million below the initial reserve target.
 - Any Council actions necessary to approve these mitigations will be requested in the Third Quarter Budget Monitoring Report.

Balancing the FY 2020 and FY 2021 Budgets *cont'd*

FY 2021 Mitigations

FY 2021 Mitigation Actions



Balancing the FY 2020 and FY 2021 Budgets *cont'd*

FY 2021 Mitigations *cont'd*

- Budget Reductions - \$63.7 million and 354.93 FTEs.
 - Detailed later in the report
- Waiver of the Infrastructure Fund Contribution - \$29.5 million
 - One-time request to waive the requirements of Charter Section 77.1
 - Requires two-thirds vote of Council
- Use of Stadium Sale Proceeds - \$20.9 million
 - Includes one-time funding for various debt commitments of \$16.9 million and funding for Stadium debt of \$4.0 million
 - **Based on current negotiations, our Office believes that the total revenue assumption of \$55.2 million is too high by \$2.4 million**

Balancing the FY 2020 and FY 2021 Budgets *cont'd*

FY 2021 Mitigations *cont'd*

- Delay General Fund Reserve Contribution - \$13.6 million
 - This action will leave the reserve at \$138.8 million, which is \$74.6 million below the initial reserve target for FY 2021.
- Use of Pension Payment Stabilization Reserve and Delayed Contribution - \$12.2 million
 - This action will use the entirety of the current reserve of \$7.9 million as well as delay the scheduled contribution of \$4.3 million
 - This reserve is designed to cover increases in the ADC, which increases in FY 2021 by \$15.1 million overall, of which \$12.8 million is in the General Fund.

Balancing the FY 2020 and FY 2021 Budgets *cont'd*

FY 2021 Mitigations *cont'd*

- Use of Fleet Replacement Fund Balance - \$4.2 million
 - This action is using excess and available fund balance to provide rate relief to the General Fund, with no service level impacts.
- Reduced OPEB Contributions - \$1.0 million
- Increase Vacancy Factor - \$3.2 million
 - Increase in budgeted vacancy factor of 8.3% from FY 2020 level
 - In past years, vacancy savings have been used to offset overages in overtime and other wage categories.
 - If other wage categories are not adequately funded in the Proposed Budget, this increase in vacancy savings will leave less of a cushion.

Major Budget Reductions (\$63.7M & 354.93 FTEs)

- **Library** - \$7M & 96.51 FTEs: hours reduced - closures Sundays and Mondays
- **Parks & Rec** - \$5.9M & 88.79 FTEs: rec. center hours reduced from 60 to 45 hrs./week; pool/swim programs
- **Police** - \$6.3M & 23 FTEs: including reduced overtime, civilian positions, and elimination of STAR/PAL
- **Storm Water** - \$4.9M: consulting contracts, drainage projects
- **Transportation** - \$4.0M & 12 FTEs: tree trimming, road maintenance, landscaping, weed and graffiti abatement
- **Non-Mayoral Departments** - \$3.9M: 4% applied reduction

Major Budget Reductions *cont'd*

- ***Development Services*** - \$1.6M & 16 FTEs: code enforcement
- ***Planning*** - \$1.5M & 10 FTEs: incl. Community Plan updates
- ***Economic Development*** - \$1.1M & 5 FTEs: small and local business programs, Business Cooperation Program
- ***READ-Facilities Services*** - \$943,000 & 40 FTEs: stadium support, other maintenance functions
- ***City Treasurer*** - \$899,000 & 9 FTEs: incl. delinquent accounts
- ***Real Estate Assets*** - \$875,000 & 6 FTEs: acquisition, disposition, asset management; central plant maintenance

Major Budget Reductions *cont'd*

Arts and Culture Funding

- Arts and Culture Grant Programs reduced by 50% to \$5.8 million
- Funding for the Public Art Fund and Arts, Culture and Community Festivals (ACCF), including Mayoral and Council Allocations eliminated
- Overall Arts and Culture funding as a % of TOT is 3.4% - lower than the percentage of funding when the Penny for the Arts Blueprint was approved by Council in FY 2013

Major Budget Reductions *cont'd*

Climate Action Plan Funding

- Proposed Budget removes \$400,000 for funding related to Climate Action Plan and Climate Resiliency studies
- Outlook included \$800,000 and two new positions for these initiatives
 - NO additional funding will result in delays to improvements for CAP reporting, additional reports, resiliency mitigation measures, and a significant delay in the CAP update

CPPS

- Elimination of Community Projects, Programs and Services Funding

Major Budget Reductions *cont'd*

Development Services

- Reduction of Code Enforcement Staff (13.00 FTEs)
 - Zoning Investigators reductions will impact zoning and land use violation investigations
 - Department identified Zoning Investigators for reduction given that they are less essential for life/safety inspections
 - 42.00 total code enforcement positions, including 16.00 Zoning Investigators will remain budgeted

Major Budget Reductions *cont'd*

Library

- Reduction of Library Hours Systemwide – Closures Sunday and Monday
 - \$6.4 million in expenditures and 93.01 FTEs reduced
 - All branches and Central would be open 42.5 hours per week (8.5 hours per day Tuesday-Saturday)
- Permanent Closure of the Mountain View/Beckwourth Library
 - \$435,000 in expenditures and 3.50 FTEs reduced
 - Staff chose this location for closure given that is the smallest branch location and has the lowest circulation and attendance.
 - Facility is not City owned; leased from the San Diego Community College District

Major Budget Reductions *cont'd*

Parks & Recreation

- Reduction of Recreation Center Hours from 60 to 45 hours systemwide
 - \$3.4 million in expenditures and 56.25 FTEs reduced
 - 46 Recreation Center currently operating at 60 hours per week to be impacted
 - Remaining 12 Recreation Centers already operating at 45 hours per week
 - Programmatic impacts not yet known
- Reduction of Swimming Pool Service Levels
 - \$358,000 in expenditures and 11.54 FTEs; \$129,000 in revenue loss
 - Closure of all pools for 14 weeks and elimination of swim team/water polo during winter season
 - Reductions to hours during summer season

Major Budget Reductions *cont'd*

Parks & Recreation

- Other Reductions
 - Various Staff Reductions - Developed Regional Parks (13.00 FTEs), Park Maintenance (5.00 FTEs), Administrative Support (2.00 FTEs), Mission Trails Park Ranger (1.00 FTE)
 - Brush Management - \$411,000 in expenditures; will reduce brush abatement frequency from 21 months (509 acres) to 26 months (412 acres)

Major Budget Reductions *cont'd*

Police

- Elimination of STAR/PAL Unit
 - \$1.4 million in expenditures and 7.00 FTEs
 - Impact to programming benefiting more than 3,000 at risk youth
- Reduction to various civilian staff (13.00 FTEs)
 - Includes reduction of 7.00 Police Investigative Service Officers (PISOs)
 - Workload to be redistributed to other staff, including sworn officers



Major Budget Reductions *cont'd*

Real Estate Assets Department (READ)

- Facilities Services reduction of 10 positions for City facility maintenance

Major Budget Reductions *cont'd*

Storm Water Contracts

- Total reductions of \$4.9 million
- Drainage Engineering, Channel Maintenance and Flood Risk Reductions - \$1.9 million
 - These reductions increase the risk of flooding and erosion, especially if deferred maintenance results in asset failure
- Watershed Planning & Consulting Reductions - \$1.4 million
 - Delays in the production and implementation of new plans could result in fines or increased compliance costs.

Major Budget Reductions *cont'd*

Storm Water Contracts *cont'd*

- Habitat Mitigation Reduction - \$750,000
 - Delays payment for mitigation, could result in fines or delays to other projects.
- Water Quality Monitoring Reductions - \$700,000
 - Limits City's ability to respond to Regional Board and could result in either fines or increased compliance project costs.
- Street Sweeping Reductions - \$165,000
 - Limits City's ability to optimize and improve street sweeping operations.

Major Budget Reductions *cont'd*

Street and Sidewalk Improvements

- Funding for numerous positions is reduced including
 - 5 Traffic installation positions (\$430,000) which will slow the installation of new traffic features including signs, bike lanes, curb painting, scooter corrals, crosswalks and other features
 - 2 pothole repair positions (\$131,000) which will increase the average number of business days to respond to potholes from 10 days to 12 days
 - 1 street engineer (\$88,000) which will slow down the planning process for repaving projects
 - 1 heavy truck driver (\$71,000) which will result in slower and less efficient in-house paving

Major Budget Reductions *cont'd*

Street and Sidewalk Improvements

- No funding included for sidewalk improvements
 - Includes no funding for a new sidewalk repair team (21 FTEs and \$4.4 million)
 - No funding for the Sidewalk Repair Incentive Program (\$200,000)

Major Budget Reductions *cont'd*

Tree Maintenance

- Tree trimming and maintenance contracts reduced by \$1.8 million.
- This reduces planned shade tree trimming to 0 trees, and increases the maintenance cycle for palm trees from 2 years to 8 years.
- This reduction has been proposed by the Mayor in previous budgets back to FY 2018, and restored by the Council each year.
- This is the first time that the Mayor has proposed reducing palm tree maintenance (previous years only included shade trees).

Major Budget Reductions *cont'd*

Weed and Graffiti Abatement

- Graffiti abatement reductions include 2 FTEs (\$268,000) for right-of-way abatement as well as the removal of one-time funding of \$300,000
 - Removal of one-time funding eliminates funding for private property abatement
 - Position reductions will increase response time from 8 days to 10 days.
- Weed abatement funding reduced by \$756,000 and 1 FTE
 - Eliminates funding for routine site abatement and only partially funds Fire Marshal identified sites
 - Right-of-way abatement will only include spraying and no removal

FY 2021 City Council Budget Priorities

Compared to Mayor's FY 2021 Proposed Budget

COMPARISON OF COUNCIL FY 2021 BUDGET PRIORITIES TO MAYOR'S FY 2021 PROPOSED BUDGET (A=Added, M=Maintained, R=Reduced)		
General Fund Budget Priorities (mentioned by five or more Councilmembers)	Status in FY 2021 Budget	Notes
Addressing Vacancies		
Challenges filling positions and budgeted vacancy savings	R	Positions were reduced and vacancy savings increased.
Arts and Culture		
Increase funding or maintain at FY 2020 level	R	Funding for Arts and Culture grant programs was reduced by approximately 50% to \$5.8 million.
Clean Communities		
Clean SD and neighborhood cleanliness programs	A	4.00 FTEs and \$321,000 in expenditures were added to the Clean SD Program within the Environmental Services' General Fund Budget and an additional 2.00 FTEs and \$719,000 was added in the Refuse Disposal Fund; additions are to increase operational efficiencies of the program and vehicle purchases; no service level increases

FY 2021 City Council Budget Priorities

Compared to Mayor's FY 2021 Proposed Budget *cont'd*

General Fund Budget Priorities	Status	Notes
Climate Action Plan (CAP)		
Implementation and expansion of reporting	R	One-time FY 2020 funding removed, no additional funding added.
Maintain and expand the Urban Forestry program	R	Tree trimming contracts significantly reduced for both shade and palm trees. Only funding for about 25% of regular palm tree maintenance and emergency response included.
De Anza Revitalization Plan		
Include "Wildest" option as an alternative in the EIR	M	No funding allocated for this purpose; however, the Department has indicated that they are pursuing other funding sources that may allow include this alternative in the EIR.
Fire Rescue Facilities		
Increase funding to repair and improve facilities	R	One-time funding for facilities removed, no additional funding included. Unfunded request from Facilities Services to repair elevators.

FY 2021 City Council Budget Priorities

Compared to Mayor's FY 2021 Proposed Budget *cont'd*

General Fund Budget Priorities	Status	Notes
Homelessness		
Maintain or expand existing homelessness programs	R	Homelessness programs are not fully budgeted so unable to determine completely. 3.00 FTE positions added with the creation of a new department. 3.00 FTE positions reduced from San Diego Housing Commission. \$200,000 in General Funds for Wheels for Change program within CleanSD is not included.
Library		
Increase funding for materials and technology upgrades	R	One-time funding from FY 2020 removed; no additional funding included
Increase funding for programming	R	One-time funding from FY 2020 removed; no additional funding included
Maintain Library hours	R	Library hours significantly reduced; Central and Branch library hours all closed on Sunday's and Monday's; permanent closure of Mountain View/Beckwourth Library
Funding for facility improvements at City libraries	M	No funding for capital projects

FY 2021 City Council Budget Priorities

Compared to Mayor's FY 2021 Proposed Budget *cont'd*

General Fund Budget Priorities	Status	Notes
Park and Recreation Facilities		
Facility improvements at parks and recreation centers	A	\$3.2 million in San Diego Regional Park Improvement Funds and \$7.9 million in Mission Bay Park Improvement funds for capital projects.
Public Safety		
Maintain or increase brush management	R	Transportation weed abatement funding reduced to only most critical Fire Marshal sites and spot spraying of medians. Parks and Recreation brush management frequency reduced from 21 months (509 acres) to 26 months (412 acres).
Add Lifeguard positions in Boating Safety Unit	M	No additional lifeguard positions.
Sidewalks		
Maintenance, repair, replacement and new sidewalks	M/A	No new funding for sidewalk repair; \$2.5 million for new walkways capital projects.

FY 2021 City Council Budget Priorities

Compared to Mayor's FY 2021 Proposed Budget *cont'd*

General Fund Budget Priorities	Status	Notes
Streets		
Resurfacing, slurry seal, and paving unpaved roads	M	Funding targets for slurry seal and overlay retained, assuming use of future commercial paper financing. No additional funding for unpaved roads
Transportation Safety and Mobility		
Vision Zero programs and projects	R/A	5.00 FTEs reduced for traffic installations, including new signs and striping that would improve mobility; \$8.8 million in funded capital projects.

CARES Act Funding

City Has Received \$248M from Federal Government

- City in receipt of the funding last week
- Funds are for COVID-19 related costs between March 1 and December 30, may not backfill revenue loss or costs funded in FY 2020 budget
- City management is working to determine the eligibility requirements and gather COVID-19 costs, City Council input is in progress
- Anticipate eligible reimbursements to be considered in Third Quarter Report and May Revision
- Goal is to maximize use of all \$248M

CARES Act Funding *cont'd*

City Has Received \$248M from Federal Government *cont'd*

- At Council President's request, IBA is involved in conversations related to spending these funds
- Beyond \$248 million, additional funding is available
 - FEMA reimbursement of 75% of eligible costs
 - \$7.2 million CDBG funding
 - \$3.6 million ESG funding targeting the homeless population

FY 2021 Budget Issues

Importance of Service Levels for Decision-Making

- Our office has consistently advocated for service level data to be a major component of the City Council's portion of the budget process.
 - Service levels are valuable for monitoring performance of operations and for understanding impacts of proposed reductions
 - Very few service levels have been provided to date (also known as Department's Key Performance Indicators)
- With projected loss of \$300M in revenue between FY 2020 and FY 2021, service level data is critical for prioritizing and making informed decisions as to balancing the City's budget

FY 2021 Budget Issues *cont'd*

Proposed Reorganizations

- Cultural Affairs Department (\$3.0 million)
- General Services Branch (\$499,000)
- Homelessness Strategies Department (\$10.4 million)
- Mobility Department (\$3.0 million) (new funding \$550,000, 2.50 FTE)
- Storm Water Department (\$48.0 million) (new funding \$380,000, 1.00 FTE)
- Transportation Department (72.4 million)

FY 2021 Budget Issues *cont'd*

Budget Reductions of 4% for non-mayoral departments pre-determined in Mayor's Proposed Budget (\$3.9 million):

- City Attorney (\$2.4 million)
- City Auditor (\$161,000)
- City Clerk (\$240,000)
- Council Administration (\$121,000)
- Council District Offices (\$458,000) + CPPS + ACCF
- Ethics Commission (\$52,000)
- Office of the IBA (\$88,000)
- Personnel (\$389,000)

FY 2021 Budget Issues *cont'd*

New Funding & Staffing Increases for Some Departments

- While Proposed Budget necessarily includes significant service level reductions, it also includes increases
- This creates a difficult balancing act for Council's consideration:

What is worth reducing in order to support increases in other areas?

- New funding increases include:
 - Police: \$5.4M overtime (incl CleanSD) FTE to 3.00 FTE
 - Environmental Services: 4.00 FTEs & \$321,000 CleanSD
 - Storm Water: Director position & \$382,000 new department
 - Mobility: Director + 1.50 FTE & \$551,000 new department, reduction of ADA Office from 5.00
 - Economic Development: \$2.0M Small Business Relief Program
 - Parks & Recreation: 2.42 FTE & \$297,000 three new facilities
 - Fire-Rescue: 9 FTE & \$1.5M new North University City fire station

FY 2021 Budget Issues *cont'd*

Continued COVID-19 Revenue Uncertainty

- Most Proposed Budget projections are as of March 30, and substantial revisions are expected with May Revision.
- The extent and duration of pandemic-related events remains uncertain, including the following
 - Duration of the stay-at-home orders?
 - When will tourism and conventions resume?
 - Will overseas tourism return, or only local? And when?
 - Potential fall or winter resurgence and additional cancellations?

FY 2021 Budget Issues *cont'd*

Potential Impacts to FY 2022 ADC Pension Payment

- Changes to assumptions used in the June 30, 2020 actuarial valuation
 - For example, whether higher than anticipated salary increases over the past couple years should affect the calculation of the ADC
- FY 2020 actual experience that is different than what was assumed in the actuarial valuation
 - For example, if investment return ends up being higher or lower than the 6.5% return assumed in the FY 2019 valuation

FY 2021 Budget Issues *cont'd*

Labor Negotiations

- Current MOUs with the City's employee organizations expire June 30, 2020.
- Negotiations for successor agreements are underway.
- The Proposed Budget does not contain funding for any potential new negotiated compensation increases for FY 2021.
- If compensation increases are negotiated, funding would need to be identified for the FY 2021 budget.

FY 2021 Budget Issues *cont'd*

Use of One-time Resources for Ongoing Expenditures

- City goal: maintain a structurally balanced budget, where ongoing expenditures are supported by ongoing revenues.
- With the COVID-19 pandemic, one-time resources are used to support ongoing General Fund expenditures, e.g.:
 - Pension Reserve (\$7.9M)
 - Anticipated stadium sale proceeds (\$16.9M)
 - State funds for homelessness (\$26.6M)
- Costs not funded in the Proposed Budget include: General Fund and Pension Reserves, and the Infrastructure Fund.

FY 2021 Budget Issues *cont'd*

101 Ash Street Building

- City staff moved out of the 101 Ash Street building in mid-January due to asbestos concerns
- Current Status:
 - Staff are reviewing a draft report from Shefa Enterprises, Inc. (asbestos consultant)
 - They intend to conduct condition assessments to see if other work should be performed before staff move back in
- The plan, timeline and cost estimate for getting the building operational are pending
- The FY 2021 Proposed Budget does not include funding for construction or remediation work.

FY 2021 Budget Issues *cont'd*

Vacancies

- In past years, vacancy/salary savings have offset overages in overtime and other wage types.
 - Decreasing the salaries budget, via increased budgeted vacancy savings or position cuts leaves less cushion for those overages
- In the Proposed Budget, vacancy savings has been increased, and also salaries have been reduced by cutting positions.
- These budget changes and their implementation will need to be monitored.

FY 2021 Budget Issues *cont'd*

Capital Infrastructure Needs

- Proposed General Fund investment of \$66 million falls well below the \$469 million needs identified in CIP Outlook for FY 21
- CIP infrastructure gap of \$2 billion expected to continue to grow
- Closing the gap would require significant revenue and significant increased capacity of Public Works to spend funds
- Capacity has been constrained due to competitiveness of construction industry and vacancies

Future: Focus on Key Goals and Objectives During Economic Recovery

1) Restore General Fund Reserves to Healthy Levels

- GFOA recommends 16.7% reserve
- Before pandemic, City was on track to grow to 15.75% in FY 2021 and 16.7% by FY 2025
- Will now be back to approximately 10.25% in FY 2021
- Need to recalibrate the plan to grow to 16.7% as soon as possible

Future: Focus on Key Goals and Objectives During Economic Recovery *cont'd*

2) Develop Plan to Address Backlog of Infrastructure Needs

- The City has an enormous and growing backlog of unaddressed needs
- The challenge is multi-faceted:
 - City's capacity to take on additional projects
 - The aging infrastructure
 - Escalating project costs
 - Insufficient dedicated annual funding

Future: Focus on Key Goals and Objectives During Economic Recovery *cont'd*

3) Provide Ongoing Shelter and Services for Homeless

- In the last few weeks, the City converted the Convention Center into shelter for over 1,000 homeless individuals in response to the COVID-19 pandemic
- As we emerge from this crisis, we must develop a strategy to provide continued services and shelter
 - To ensure the well-being of these individuals
 - Facilitate returning the Convention Center to its intended purpose and rebuilding the City's tourism economy

Future: Focus on Key Goals and Objectives During Economic Recovery *cont'd*

4) Make Progress on Climate Action Plan (CAP)

- The City has claimed credit for close to \$400M annually to further CAP strategies
 - Yet over 90% has been for Pure Water which does not directly address the major goals of the CAP
- There is opportunity for progress with San Diego Community Power and lessons learned in adapting to the COVID-19 pandemic
- As the City updates the CAP, we should develop a better spending plan to achieve CAP goals and objectives

Future: Focus on Key Goals and Objectives During Economic Recovery *cont'd*

5) Address the City's Human Capital Needs

- City has approximately 11,500 employees
- Employees represent about 70% of all General Fund expenditures
- Employees are City's most important resource in providing service to citizens
- The City Auditor recently released a performance audit of Strategic Human Capital Management which made a few key findings:
 - Widespread uncompetitive compensation
 - Workforce data deficiencies
- The City has fallen behind in compensation competitiveness

FY 2021 Proposed Budget Review

Final Thoughts

- We will continue to monitor further changes throughout the budget process,
 - Including changing revenue projections and potential uses of \$248M of CARES Act funding,
- We will conduct a thorough analysis of changes presented in the May Revision,
- We will evaluate City Councilmembers requested budget changes, &
- We will make our recommendations for City Council's final budget in our report on June 3, 2020.

Next Steps in the Process

City Council's Role and Community Involvement

- The City Council has final budget authority
- Key dates include:
 - **April 30 and May 11:** Evening public hearings on the budget
 - **May 4-8:** Budget Review Committee hearings on all departments
 - **May 19:** Mayor releases the May Revision
 - **May 21:** Budget Review Committee hears the May Revision and Third Quarter Budget Monitoring Report
 - **May 22:** Councilmembers issue final budget modification memoranda
 - **June 3:** IBA issues final report on recommended revisions based on Council memoranda
 - **June 8:** Council makes final FY 2021 budget decisions and takes action on any FY 2020 budget revisions
 - **June 29:** City Council introduces and adopts FY 2021 Appropriation Ordinance