

Review of the May Revision and Recommended City Council Modifications to the Mayor's Proposed FY 2021 Budget

Item 602 – Approval of the FY 2021 Budget

June 8, 2020



Office of the Independent Budget Analyst



Review of the May Revision

Re-Balanced FY 2021 General Fund Budget

- May Revision overall added \$63.0M in new revenues and expenditures to the FY 2021 Proposed General Fund Budget
- Added \$146.1M CARES Act funding
 - Offsets overall reduction of \$75.2M in City revenues
 - No longer using \$7.9M from the Pension Payment Stabilization Reserve
- Expenditures increase by \$56.3M for CARES Act
 - Primarily Operation Shelter to Home \$39.7M and Small Business Relief Fund \$10.8M
- Mayor proposes restorations of \$5.6M reduced in the Proposed Budget
 - New spending of \$10.1M
 - Reductions of \$9.0M



Review of the May Revision cont'd

Re-Balanced FY 2021 General Fund Budget cont'd

| How the Mayor Balanced the May Revision | |
|--|-------------------------|
| | Amount (in millions) |
| Major Revenues | |
| Revenue Reductions | \$ (47.0) |
| Revenue Increases | 1.0 |
| Pension Stabilization Change | (7.9) |
| <i>Subtotal Major Revenue Changes</i> | \$ (53.9) |
| Departmental Revenues | |
| TOT Reimbursement Decrease | (20.8) |
| Revenue Increases | 4.0 |
| Revenue Decreases | (12.4) |
| <i>Subtotal Departmental Revenue Changes</i> | \$ (29.2) |
| CARES Act Funding | 146.1 |
| Total Revenue Changes | \$ 63.0 |
| CARES Act Expenditures | |
| Operation Shelter To Home | 39.7 |
| Small Business Relief | 10.8 |
| Other New CARES Expenditures | 5.8 |
| <i>Subtotal CARES Expenditures</i> | \$ 56.3 |
| Reductions in Spending | (9.0) |
| Restorations | 5.6 |
| New Spending | 10.1 |
| Total Spending Changes | \$ 63.0 |

Review of the May Revision cont'd

Updated General Fund Revenue Projections for FY 2021

| May Revision Revenue Changes (\$ in millions) | | | |
|--|------------------------|---------------------|------------------|
| Revenue Source | Proposed Budget | May Revision | Variance |
| Major General Fund Revenues | | | |
| Property Tax | \$ 629.6 | \$ 630.6 | \$ 1.0 |
| Sales Tax | 282.2 | 274.4 | (7.8) |
| Transient Occupancy Tax | 123.0 | 90.5 | (32.5) |
| Franchise Fees | 68.2 | 67.7 | (0.5) |
| TOT Discretionary | 22.1 | 16.2 | (5.9) |
| Pension Payment Stabilization | 7.9 | - | (7.9) |
| Other Major Revenues | 67.2 | 66.9 | (0.3) |
| <i>Subtotal Major Revenues</i> | <i>\$ 1,200.2</i> | <i>\$ 1,146.3</i> | <i>\$ (53.9)</i> |
| Other Major Changes | | | |
| TOT Fund Reimbursement | 46.6 | 25.8 | (20.8) |
| READ Lease Revenue | 54.4 | 49.8 | (4.6) |
| Transportation Revenue | 59.4 | 56.9 | (2.5) |
| Other Departmental Revenue | 179.2 | 177.9 | (1.3) |
| <i>Subtotal Other Revenue</i> | <i>\$ 339.6</i> | <i>\$ 310.4</i> | <i>\$ (29.2)</i> |
| CARES Funding | - | 146.1 | 146.1 |
| Total Revenue | \$ 1,539.8 | \$ 1,602.7 | \$ 63.0 |

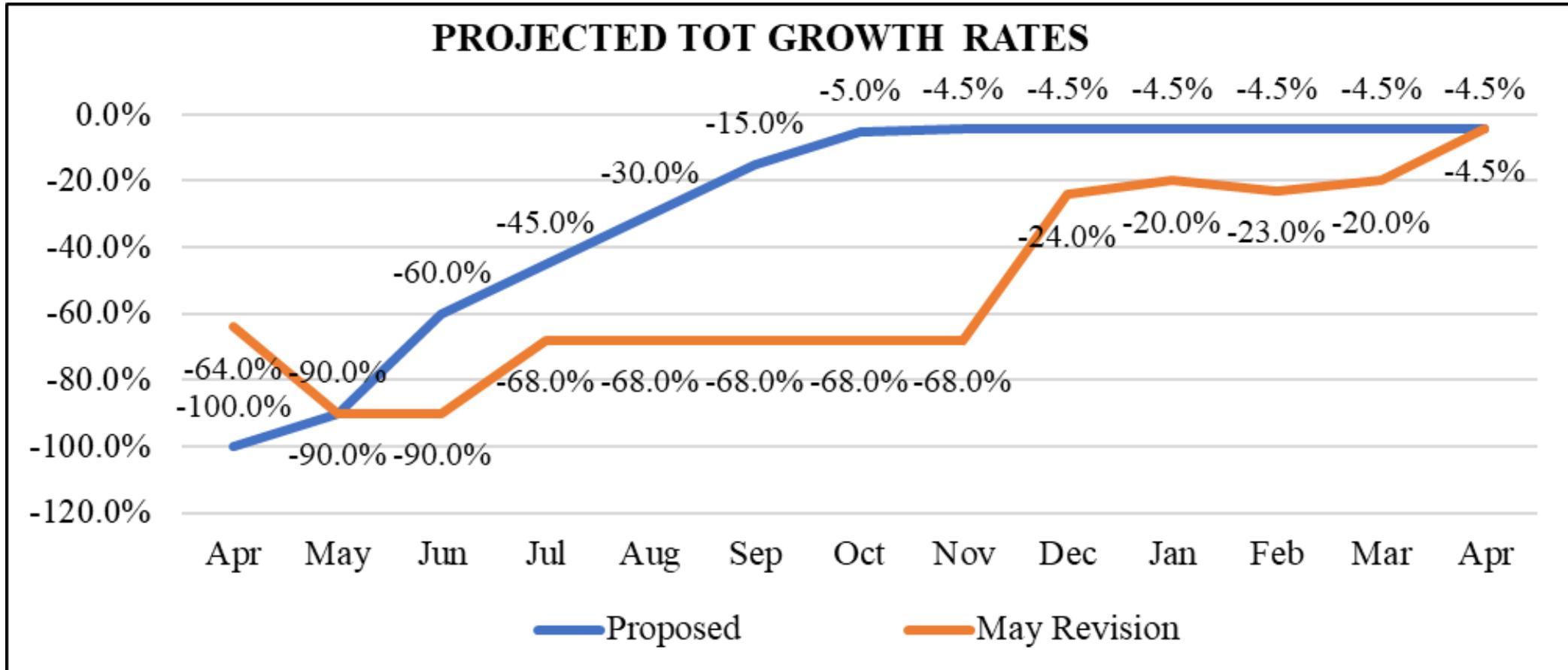
Review of the May Revision cont'd

Updated General Fund Revenue Projections for FY 2021 cont'd

- Transient Occupancy Tax (TOT) revenue is revised further downward, largest revenue impact to the General Fund in the May Revision at \$59.2M:
 - \$32.5M reduction in the 5.5 cents of TOT deposited in the General Fund
 - \$20.8M reduction in reimbursements to General Fund departments from Special Promotional Programs for tourism and safety activities
 - \$5.9M reduction in the 1.0 cent of discretionary TOT deposited in Special Promotional Programs and transferred to the General Fund

Review of the May Revision cont'd

Updated General Fund Revenue Projections for FY 2021 cont'd



Review of the May Revision cont'd

Updated General Fund Revenue Projections for FY 2021 cont'd

- Other significant reductions in General Fund revenue due to COVID-19:
 - Sales Tax revised downward by another \$7.7M
 - Real Estate Asset Department: reduced lease revenue by \$4.6M
 - Transportation Department: TransNet and Gas Tax revenue reduced by \$2.5M
 - City Treasurer: reduced Business Tax and Collections Referral Fee revenue by combined \$930,000

Review of the May Revision cont'd

May Revision Changes to General Fund Expenditures

| FY 2021 May Revision Changes to the Proposed Budget | | |
|--|--------------|---------------------------|
| Description | FTEs | Total Expenditures |
| Personnel Expenditures | | |
| Restorations | 90.29 | \$ 5,474,638 |
| New Adjustments | (11.47) | \$ 9,346,119 |
| <i>Subtotal Personnel Expenditures</i> | <i>78.82</i> | <i>\$ 14,820,757</i> |
| Non-Personnel Expenditures - New Adjustments | - | \$ 48,142,124 |
| Total FY 2021 May Revision Changes | 78.82 | \$ 62,962,881 |

Review of the May Revision cont'd

May Revision Changes to General Fund Expenditures cont'd

- City Treasurer: Reduction of 1.00 Accountant II – \$94,000 (1.00 FTE position)
- Development Services: Restoration of Code Enforcement Staff – \$1.3M (16.00 FTE positions)
- Homelessness Strategies: Operation Shelter to Home – \$39.7M
- Library: Restoration of Mountain View/Beckwourth Library – \$250,000 (3.50 FTE positions)

Review of the May Revision cont'd

May Revision Changes to General Fund Expenditures cont'd

- Parks and Recreation
 - Recreation Center Service Levels Mostly Restored - \$3.2M (53.75 FTE positions)
 - Full Restoration of Swimming Pool Service Levels - \$487,000 (11.54 FTE positions)
- Police: Reduction of Word Processing Operators - \$625,000 (8.00 FTE positions)

Review of the May Revision cont'd

Non-General Fund Adjustments

- Development Services Fund – Added \$3.3M (6.50 FTE positions)
- Publishing Services Fund: Revenue Correction - \$494,000 reduction
- Seized Assets Fund: Police Department Neighborhood Policing Overtime – Added \$4.4 million
- Stadium Operations Fund – Added \$3.0M (0.5 FTE position)
 - Also related increase in the General Fund Facilities Division budget - \$385,000 (5.50 FTE positions)
- State COPs Fund: Police Department SART Kit Backlog Testing – Added \$1.1M
- Recycling Fund: Postponement of AB 939 Fee Increase – Revenue reduction \$2.8M

Review of the May Revision cont'd

Capital Improvement Program Adjustments

- Street Resurfacing and Reconstruction Annual Allocation - Reduced \$1.4M
 - Due to reduced Gas Tax and TransNet revenue
- Mission Beach Golf Course Clubhouse – Added \$936,000
- Carroll Canyon Road Planning Study – Added \$800,000

| FY 2021 Total Street Funding <i>(\$ in millions)</i> | |
|--|-----------------|
| Slurry Seal (Operating Budget) | |
| Prior Year Appropriations | \$ 28.5 |
| Road Maintenance and Rehabilitation Account | 8.5 |
| <i>Subtotal for Operating Budget</i> | <i>\$ 37.0</i> |
| Repair and Reconstruction (CIP Budget) | |
| Future Commercial Paper/Prior Year Appropriations | 43.1 |
| Road Maintenance and Rehabilitation Account | 18.3 |
| TransNet | 4.1 |
| Trench Cut Fees/Excavation Fee | 2.0 |
| State Funds | 0.3 |
| <i>Subtotal for CIP Budget</i> | <i>\$ 67.8</i> |
| Total Funding for Street Repair | \$ 104.8 |

Recommended City Council Modifications to the Mayor's Proposed FY 2021 Budget

IBA recommendations are based on multiple sources

- Our analyses of the FY 2021 Proposed Budget, FY 2021 May Revision, and the FY 2020 Third Quarter Report
- Review of Councilmember budget priority memoranda submitted to our Office on May 22
 - **All majority-support items were included in IBA scenario**
- Feedback from the public, City staff, and City Council during the Budget Review Committee hearings

IBA Recommended Budget Modifications

Our recommended modifications total \$31.0M - \$20.6M in the General Fund and \$10.4M of CARES Act and CDBG funding

| Recommended Modifications to the Mayor's FY 2021 Budget | | |
|--|----------------------|-----------------------------|
| | FTE Positions | Amount (in millions) |
| General Fund Restorations and Priority Programs | 103.51 | \$ 20.6 |
| Establish COVID-19 Rent Relief Fund with CARES/CDBG | | 10.4 |
| Total Recommended Budget Modifications | 103.51 | \$ 31.0 |

IBA Recommended Budget Modifications cont'd

| Recommended Expenditure Modifications to the General Fund FY 2021 Budget | | | |
|--|-------------------------------|---------------|---------------------|
| Item | Department | FTE | Amount |
| Library Hours | Library | 93.01 | \$ 6,556,386 |
| Tree Trimming | Transportation | | 1,817,193 |
| Pothole Repair Crew | Transportation | 2.00 | 130,649 |
| City Auditor Restoration | City Auditor | | 253,908 |
| STAR/PAL Unit | Police | 2.00 | 191,997 |
| Brush Management | Parks & Recreation | | 411,473 |
| Infrastructure Fund FY 2019 True-Up | Citywide Program Expenditures | | 5,663,897 |
| Living Wage Program | Purchasing & Contracting | 1.00 | 102,887 |
| Weed Abatement | Transportation | 1.00 | 756,228 |
| Graffiti Abatement | Transportation | 2.00 | 267,917 |
| City Attorney Budgeted Vacancy Savings Reduction | City Attorney | | 1,765,776 |
| City Clerk Restoration | City Clerk | | 239,660 |
| Climate Action Plan Support | Sustainability | | 250,000 |
| Internet Access for Low-Income Communities | Information Technology | | 500,000 |
| Reservoir Recreation Programs | Public Utilities | | 648,501 |
| Sherman Heights Community Center | Capital Improvements Program | | 547,000 |
| Tree Planting | Transportation | | 300,000 |
| Remaining Recreation Center Hours | Parks & Recreation | 2.50 | 202,384 |
| Total General Fund Expenditures | | 103.51 | \$20,605,856 |

IBA Recommended Budget Modifications cont'd

Highlights

- Restoration of 14 high priority programs and community services that were reduced or eliminated in the Mayor's FY 2021 Proposed Budget and not included in May Revision
- 103 City jobs will be restored
- All library hours will be restored citywide including Sunday and Monday hours
- A new pilot program will be funded to begin to develop free and low-cost internet access for low income communities
- \$5.7M will be restored to the Infrastructure Fund and available for Capital Projects

IBA Recommended Budget Modifications cont'd

Results of Councilmembers' Final Budget Modifications

- Library Hours - \$6.6M (93.01 FTE positions)
- Tree Trimming - \$1.8M
- Pothole Repair Crew - \$131,000 (2.00 FTE positions)
- City Auditor Restoration - \$254,000
- STAR/PAL Unit - \$192,000 (2.00 FTE positions)
- Brush Management - \$411,000
- Infrastructure Fund FY 2019 True-Up - \$5.7M
- Living Wage Program - \$103,000 (1.00 FTE position)
- Weed Abatement - \$756,000 (1.00 FTE position)
- Graffiti Abatement - \$268,000 (2.00 FTE positions)

IBA Recommended Budget Modifications cont'd

- City Attorney Budgeted Vacancy Savings Reduction - \$1.8M
- City Clerk Restoration - \$240,000
- Climate Action Plan Support - \$250,000
- Internet Access for Low-Income Communities - \$500,000
- Reservoir Recreation Programs - \$649,000
- Sherman Heights Community Center - \$547,000
- Tree Planting - \$300,000
- Remaining Recreation Center Hours - \$202,000 (2.50 FTE positions)

Resources Available for Council Modifications

\$20.6M in Resources Available for Recommended Budget Modifications

| Recommended Resources for Modifications to the General Fund FY 2021 Budget | | |
|---|-------------------------------|---------------------|
| Item | Department | Amount |
| General Fund's Fleet Replacement Fund Balance | Fleet Operations | \$15,200,000 |
| Public Liability Fund | Risk Management | 1,700,000 |
| General Contract Reduction of 1% | Citywide Program Expenditures | 2,450,000 |
| Stadium Operations to SDSU by August 1 | Stadium Operations | 1,255,856 |
| Total General Fund Revenues | | \$20,605,856 |

Resources Available for Council Modifications cont'd

- General Fund's Fleet Replacement Fund Balance - \$15.2M
- Public Liability Fund - \$1.7M
- General Contract Reduction of 1% - \$2.4M
- Stadium Operations to SDSU by August 1 - \$1.3M
 - Total of \$20.6M that could be applied towards recommended budget modifications

Other Issues

- Waiver of the annual General Fund contribution to the Infrastructure Fund
 - Must be approved by a two-thirds vote of the Council and is reflected in the budget resolution prepared by the Office of the City Attorney
- Housing Navigation Center total FY 2021 budget of \$1.6M
 - Defer appropriations to when the \$1.0M in CDBG funds comes back to Council so that the program's funding sources are treated consistently
- Status of Mayor Proposal to Create New Departments: Cultural Affairs, Homelessness Strategies, Storm Water and Mobility
 - 3 of the 4 are largely cost neutral, other concerns were cited during hearings
 - Funding for all four remain in the FY 2021 Proposed Budget
 - However, a 2/3 vote of the City Council is required before implementation

CARES Act Funding

\$155.0M in May Revision, and \$1.2M Federal Department of Justice grant authorized by the CARES Act, totaling \$156.2M

| CARES Act Funding Offsetting and New Costs | | | |
|---|----------------------|----------------------|-----------------------|
| Department/Fund | Offsetting Costs | New Costs | Total |
| Police | \$ 6,000,000 | | |
| | 33,937,134 | \$ 2,250,000 | \$ 42,187,134 |
| Operation Shelter to Home | - | 39,696,579 | 39,696,579 |
| Fire-Rescue | 3,060,605 | | |
| | 33,937,136 | 1,912,365 | 38,910,106 |
| Small Business Relief Fund | - | 12,848,365 | 12,848,365 |
| Parks & Recreation Staffing and Supplies | 9,760,694 | 400,000 | 10,160,694 |
| Environmental Services Staffing and Supplies | 30,308 | 1,121,118 | 1,151,426 |
| Library Staffing and Supplies | 816,716 | 76,721 | 893,437 |
| Economic Development Staffing and Supplies | 209,449 | - | 209,449 |
| Development Services - Code Enforcement | 50,000 | - | 50,000 |
| General Fund Total | \$ 87,802,042 | \$ 58,305,148 | \$ 146,107,190 |
| Information Technology Fund | - | 8,518,759 | 8,518,759 |
| Public Utilities Department Staffing and Supplies | 408,000 | 895,500 | 1,303,500 |
| Emergency Medical Services Fund Staffing and Supplies | 187,478 | 123,167 | 310,645 |
| Non-General Fund Total | 595,478 | 9,537,426 | 10,132,904 |
| Citywide Total | \$ 88,397,520 | \$ 67,842,574 | \$ 156,240,094 |

CARES Act Funding cont'd

CARES Act – Coronavirus Relief Fund total of \$10.4M

| Recommended Modifications to Establish a COVID-19 Rent Relief Fund | | |
|---|--------------------|---------------------|
| CARES Act Expenditure Item | Department | Amount |
| Establish COVID-19 Rent Relief Fund | Housing Commission | \$10,400,000 |
| CARES Act Revenue Sources | | Amount |
| CARES Act and Entitlement CDBG | | \$ 5,400,000 |
| CARES Act Fund Allocations from Operation Shelter to Home ¹ | | 5,000,000 |
| Total CARES Act Revenues | | \$10,400,000 |

CARES Act Funding cont'd

Recommendations to Establish COVID-19 Rent Relief Fund

- Establish COVID-19 Rent Relief Fund using CARES Act CDBG - \$5.4M
 - **Objective:** To provides rent relief to benefit low-income individuals and families struggling to pay rent due to COVID-19 pandemic
 - Use Public Services Category of CDBG: \$1.8M of the FY 2021 Entitlement Grant and \$3.6M of CDBG-CV
 - Must adhere to HUD CDBG funding requirements: 1) Benefit low-income renters experiencing financial hardship due to COVID-19; 2) Can cover rent for a maximum of three months; 3) Must be paid directly to the landlord on behalf of the qualifying tenant
 - Would be administered by the San Diego Housing Commission (SDHC). SDHC staff indicate they can adhere to the HUD funding requirements

CARES Act Funding cont'd

Recommendations to Establish COVID-19 Rent Relief Fund cont'd

- Redirect Proposed CARES Act Fund Allocation from Operation Shelter to Home - \$5.0M
 - Assumes Convention Center Emergency Homeless Shelter can close one month earlier (by November 30th) thereby making \$5.0M of CARES Act funds available for redeployment for COVID-19 Rent Relief Fund.
 - In the event the Shelter must remain open through December, the \$5M could be taken from the \$10M budgeted in Operation Shelter to Home to support successful exits (purchase hotels, expand shelters, interventions, etc.)
 - A total of \$48.4M currently budgeted to support successful Shelter exists – combination of CARES Act funds, SDHC budget, and CDBG funds

Final Budget Recommendations

City Council is being asked to approve the following actions:

1. Approve the Mayor's FY 2021 Proposed Budget, as modified by the Mayor's May Revision.
2. Approve the IBA's recommended final budget modifications included in IBA Report 20-11 and as modified by the City Council.

Next Steps in the Budget Process

City Charter requires that the Budget be adopted by June 15, and the Appropriation Ordinance adopted by June 30

- **Monday, June 8:** City Council FY 2021 budget decisions and final budget adoption
- **Tuesday, June 9:** City Clerk to transmit resolution to Mayor within 48 hours of passage
- **Wednesday, June 10:** Mayor's veto period begins (5 business days)

Next Steps in the Budget Process cont'd

- **Wednesday, June 17:** Mayor's veto period ends; Council has five days to override Mayor's veto if necessary
- **Wednesday, June 24:** Budget & Government Efficiency Committee review of Appropriation Ordinance
- **Tuesday, June 30:** City Council adoption of FY 2021 Appropriation Ordinance