

IBA Review of the FY 2023 First Quarter Budget Monitoring Report

City Council

Item 330

December 13, 2022



Office of the Independent Budget Analyst



Review of FY 2023 First Quarter Budget Monitoring Report

IBA Report Covers:

- Changes in General Fund Revenues
 - Net increase of \$35.4M
- Changes in Projected Expenditures
 - Energy and Utilities
 - Public Safety Overtime
- Proposition B Unwinding

General Fund Revenue

Major General Fund Revenues \$35.4M above Adopted Budget

Major General Fund Revenues (\$ in millions)							
	FY 2022 Unaudited Actuals ¹	FY 2023 Adopted Budget	FY 2023 Projection	1st Quarter Projections vs Adopted Budget	Variance from Adopted Budget (%)	1st Quarter Projection vs FY 2022 Actuals	Variance from FY 2022 Actuals (%)
Property Tax	\$ 663.1	\$ 706.2	\$ 720.4	\$ 14.2	2.0%	\$ 57.3	8.6%
Sales Tax	375.6	380.2	386.0	5.8	1.5%	10.4	2.8%
Transient Occupancy Tax	136.5	135.2	149.9	14.7	10.9%	13.4	9.8%
Franchise Fees	89.8	93.8	94.5	0.7	0.7%	4.7	5.2%
Total	\$ 1,265.0	\$ 1,315.4	\$ 1,350.8	\$ 35.4	2.7%	\$ 85.8	6.8%

¹FY 2022 Unaudited Actuals are from the FY 2022 Year-End Financial Performance Report.

Largest Increases:

- Property Tax (\$14.2M) – hot housing market in 2021
- Transient Occupancy Tax (\$14.7M) – leisure travel recovery

General Fund Revenue

Property Tax

- \$14.2M increase from Adopted Budget
 - FY 2023 Adopted Budget already projected 6% growth
 - Largest category of property taxes projected to grow at 7.83%

Transient Occupancy Tax

- \$14.7M increase in General Fund allocation
 - 10.9% increase from the FY 2023 Adopted Budget
 - Continued revenue recovery throughout FY 2022, coming off huge pandemic related declines
 - Expected slowdown after FY 2023

General Fund Revenue

Sales Tax

- \$5.8M increase from Adopted Budget
 - Inflation large driver of 8.2% growth from FY 2023, does not explain all
 - We do not anticipate remaining quarters in FY 2023 to increase at this high rate due to an anticipated slowdown of the economy

Franchise Fees

- \$0.7M increase from Adopted Budget
 - Change due to increase in refuse tonnage
 - Other franchise fees remain as projected

Cannabis Business Tax

- \$4.1M decrease from Adopted Budget
 - Lower revenue from retail outlets in recent months due to increased competition

Projected Expenditure Increases

Non-Discretionary Energy & Utilities

- Projected to be \$8.1M over budget across all funds (\$46.6M)
 - Projected to be \$4.8M over budget in General Fund (\$15.6M)
- Two unanticipated rate increases dramatically increased energy prices above FY 2023 projections
- Monitoring the implications of fuel switches as well as other energy price changes will be important moving forward

Projected Expenditure Increases

Fire-Rescue

- Overtime projected to be \$15.6M over budget by fiscal year end
 - Overage offset by salary savings and deployment reimbursement (\$6.2M)
 - Staffing shortfall and backfill overtime account for the majority (\$12.9M) of the projected overage

Police

- Overtime projected to be \$9.9M over budget by fiscal year end
 - Mostly for Extension of Shift Overtime
 - Majority driven by sworn staffing shortages that are reaching critical levels
 - Police overtime expenditures are unlikely to be abated in the immediate future

Proposition B Unwinding

- Initial transition of active Prop B employees to SDCERS - \$142M
 - Interest penalty has been paid - \$22.8M (\$14M General Fund)
 - \$119M anticipated to be treated as long-term debt to SDCERS
- FY 2022 and 2023 “Normal Cost” for active Prop B employees
 - \$37.9M (\$23.1M General Fund) if paid before FY 2024
 - Funded in FY 2023 Adopted Budget
 - Estimated FY 2023 Prop B budget remaining after payment of Prop B costs - \$17.8M (\$9.2M General Fund)
- Additional Prop B aspects to negotiate and determine costs

Conclusion

- First Quarter Monitoring Report year-end projections are reasonable
 - Net increase in Major General Fund revenues of \$35.4M
- Energy and utility costs as well as Public Safety overtime should be monitored in FY 2023 and beyond
- Updated projections and overall City expenditures projections are expected in the Mid-Year Budget Monitoring Report
 - Anticipated to be released February 3rd