

IBA Review of the Fiscal Year 2025 Proposed Budget

Budget Review Committee
May 1, 2024



Office of the Independent Budget Analyst



Overview

Overview

Mayor, IBA, and Council Roles

- Mayor releases a Proposed Budget that is balanced and carries out the City's goals, policies, programs, and services
- IBA thoroughly analyzes Proposed Budget
- Council reviews budget and holds hearings and public town halls
 - Budget Review Committee hearings offer opportunity for department presentations and public input
- Charter vests budget authority for finalizing the FY 2025 budget in the hands of Council

Overview

Key Findings

- Difficult budget year was anticipated
- Programmatic additions are limited and reductions are proposed, many of which were prior-year additions to address inequities
- Significant structural budget imbalance remains, as ongoing expenses/services expanded during the use of one-time ARPA funds
- To close the deficit, FY 2025 relies on mitigation efforts both in FY 2024 and FY 2025 and projected FY2024 Excess Equity
- New revenue or far deeper cuts will be needed for FY 2026
- To assist Council with budget modifications, compiled major additions, mitigations, and modification options

Economic Outlook and General Fund Revenues

Economic Outlook and General Fund Revenues

Economic Outlook

SUMMARY OF GENERAL FUND REVENUES (\$ in millions)							
	FY 2024 ADOPTED	FY 2024 MID-YEAR PROJECTED YEAR-END	FY 2025 PROPOSED	CHANGE, ADOPTED/ PROPOSED	% CHANGE, ADOPTED/ PROPOSED	CHANGE, MID-YEAR/ PROPOSED	% CHANGE, MID-YEAR/ PROPOSED
Major General Fund Revenues	\$ 1,441.4	\$ 1,415.7	\$ 1,496.0	\$ 54.6	3.8%	\$ 80.3	5.6%
<i>Property Tax</i>	758.6	768.2	807.4	48.8	6.4%	39.2	5.2%
<i>Sales Tax</i>	401.7	374.0	392.7	(9.0)	-2.2%	18.7	4.6%
<i>Transient Occupancy Tax</i>	172.6	166.2	173.9	1.3	0.8%	7.8	4.5%
<i>Franchise Fees</i>	108.5	107.2	121.9	13.4	12.4%	14.7	13.5%
Other Revenues	\$ 576.4	\$ 573.8	\$ 583.0	\$ 6.6	1.2%	\$ 9.2	1.6%
<i>American Rescue Plan Act Funds</i>	52.1	52.1	-	(52.1)	-100.0%	(52.1)	-100.0%
<i>Other Major Revenues</i>	97.1	101.2	111.4	14.3	14.7%	10.2	10.5%
<i>Departmental Revenues</i>	427.2	420.5	471.6	44.4	10.4%	51.1	12.0%
Total Revenue	\$ 2,017.8	\$ 1,989.4	\$ 2,079.0	\$ 61.2	3.0%	\$ 89.5	4.4%

Economic Outlook and General Fund Revenues

Property Tax

- Growth in Major General Fund Revenues driven by property taxes (\$48.8M)
- Assumes lower growth rate than FY 2024 due to lower sales volumes and slower growth in median home price

Sales Tax and Transient Occupancy Tax

- Sales tax projected to come in \$9.0M below FY 24 Adopted Budget
- TOT projected to come in very slightly (\$1.3M) above FY 24 Adopted Budget
- Both sales tax and TOT experienced lower-than projected receipts in first half of FY 2024

Franchise Fees

- Increase of \$13.4M driven by: assumed increases in SDG&E rates, addition of Sycamore Facility franchise fees, and waiver of contribution to Energy Independence Fund

City Council Budget Priorities

Council Priorities Resolution Review

Compared to Mayor's FY 2025 Proposed Budget

Added

Category	City Council Operating Budget Priorities
Homelessness and Housing	Expand Shelter Capacity
Environment and Climate Action	Flood Disaster Response and Recovery
	Urban Forestry Program*
Other	City Recruitment, Retention, & Employee Compensation

*Other tree planting funding outside Communities of Concern are reduced.

Partially Added

Category	City Council Operating Budget Priorities
Arts and Culture	Penny for the Arts

Category	City Council CIP Budget Priorities
Transportation and Mobility Safety	Pedestrian and Bicycle Safety (including Vision Zero)
	Streetlights
	Traffic Signals
Streets, Sidewalks, Stormwater	Sidewalks
	Stormwater
Facilities	Parks & Recreation
	Fire-rescue
	Library
Americans with Disabilities Act (ADA)	ADA Project

Council Priorities Resolution Review

Compared to Mayor's FY 2025 Proposed Budget (*cont'd*)

Maintained

Category	City Council Operating Budget Priorities
Homelessness and Housing	Housing Instability Prevention Program
	LGBTQ+ Youth Housing and Related Services
	Homelessness Outreach
Environment and Climate Action	Mobility Master Plan/Mobility Action Plan
Neighborhood Services	Weed Abatement
	Brush Management
Other	Enhanced Security at Parkade and City Concourse

Category	City Council CIP Budget Priorities
Transportation and Mobility Safety	Traffic Calming
Streets, Sidewalks, Stormwater	Streets

Reduced

Category	City Council Operating Budget Priorities
Environment and Climate Action	Climate Action Plan Implementation

Council Priorities Resolution Review

Compared to Mayor's FY 2025 Proposed Budget (*cont'd*)

Not Included

Category	City Council Operating Budget Priorities
Environment and Climate Action	Heat Action Plan
	Shuttle and Other Transit Programs
Public Safety	Lifeguards
	Police Recruitment and Retention
	Police Cadet Program
Neighborhood Services	Library Support
Homelessness and Housing	Eviction Prevention Program
	Affordable Housing Preservation and Creation
	Old Central Library Redevelopment
	Tenant Termination Registry
	Affordable Housing Universal Application & Navigation System
	Middle-Income First-Time Homebuyer Programs
Other	Office of the City Clerk
	Global Sports Event Fund
	LGBTQ+ Community Fund

Category	City Council CIP Budget Priorities
Facilities	Police

Budget Additions, Mitigations, and Modification Options

Top Programmatic Additions (without offsetting revenue)

Department	FTE	Total Expenditures
<i>Citywide Program Expenditures</i>		
Capital Infrastructure Debt Financing	-	\$7,596,287
Public Liability (\$3.8m operating costs; \$1.1m insurance)	-	\$4,891,119
Increase in Citywide Elections Costs	-	\$4,716,439
Corporate Master Lease Rent Increase	-	\$3,202,515
Right-of-Way Permit Reimbursement	-	\$3,015,808
<i>Homelessness Strategies & Solutions</i>		
Continued Shelter Operations	-	\$9,723,398
Start-Up Costs for 1,000 Beds and New Safe Parking Site	-	\$7,125,735
Safe Sleeping Sites	-	\$4,033,387
Public Restrooms in Downtown area	-	\$3,710,000
Other Programs (Shelter Staff Salary Increases: \$1.0m ; Day Center: \$500k, Family Shelter Expansion: \$450k)	-	\$1,999,234
<i>Parks & Recreation</i>		
New Open Space Area	9.00	\$2,487,451
New Park Facilities	6.00	\$1,236,963
San Diego River Park Rangers	3.00	\$734,521
Human Resources Support	2.00	\$231,434
Additional Programming for Memorial Senior Center	2.50	\$103,103
<i>Fire-Rescue</i>		
Torrey Pines Fire Station	12.00	\$2,567,930
Addition of Various NPE	-	\$1,766,697

Top Mitigation Measures

GENERAL FUND MAJOR BUDGET MITIGATION MEASURES	
Mitigation	Amount
Total Departmental Adjustments <i>(largest items noted to right)</i>	\$96,148,946
Use of Excess Equity	\$68,668,061
Use of Various Fund Balances, including Community Equity Fund	\$23,388,689
Waive General Fund and Workers' Compensation Reserves Contributions	\$22,445,253
Other: Monsanto Settlement, Sycamore Facility Franchise Revenue	\$12,000,000
Eliminate Eviction Prevention Program and PEER Program	\$3,250,000
Use of Fund Balance of Emergency Medical Services Transportation Fund*	\$1,758,334
FY 2024 Youth Care and Development Program	\$1,000,000
Total	\$228,659,283

*The Emergency Medical Services Transportation Fund may not be able to support the proposed transfer

Largest Departmental Adjustments	FTE	Total Expenditures
Reduction of Expenditures to Infrastructure Fund	-	\$18,944,235
Funds Withheld from San Diego Housing Commission Allocation	-	\$15,000,000
Waive Climate Equity Fund Contribution	-	\$8,469,702
Creation of Solid Waste Management Fund	16.00	\$6,147,367
Waive Transfer to Bridge to Home	-	\$5,847,660
Waive Energy Independence Fund Contribution and Use of Fund Balance	-	\$5,765,741
Various Depts Reduction to Non-Personnel Expenditures	-	\$4,449,922
Police Reduction in Sworn Academies	-	\$3,869,810
Police Staffing Reductions	20.00	\$3,599,302

Modification Options \$16.8M GF, \$2.7M non-GF

General Fund		
Description	FTE	Total Expenditures
New Safe Parking Delay	-	\$4,290,000
1,000 New Shelter Bed Delay	-	2,835,000
Delay additions for New Open Space Areas	9.00	2,487,451
Shelter Contract Compensation Increases Delay	-	1,048,784
Mill and Pave Team Delay	10.00	895,202
Delay Addition of San Diego River Park Rangers	3.00	734,521
Parks and Recreation Department Water Expenditure Reduction	-	724,415
Expanded Family Shelter Delay	-	450,450
Packer RFID Install - Shift Funding or Delay	-	379,389
Rent Payments for Proposed New Leases for DSD	-	377,000
Contractual Services for Downtown Office Space Analysis	-	250,000
Eliminate Addition of Parks & Recreation HR Analysts	2.00	231,434
Air Pollution Control District (APCD) Tree Planting Delay	-	114,000
Delay addition of New Programming for Memorial Senior Center	2.50	103,103

General Fund			
Description	FTE	Total Expenditures	Total Revenues
Project Labor Agreement Monitoring Program: Vacancy Savings	-	85,000	
Zero Emission Vehicle Position Expected Savings	-	30,000	-
Additional Transfer from Civil Penalty Fund	-	-	1,244,136
Revised Revenue Projections Associated with Development Impact Fee Program Transfer	-	-	346,445
FY 2024 Clerk Revenue Projection	-	-	154,000
	26.50	\$15,035,749	\$1,744,581

Non-General Fund			
TOT Fund Balance	-	-	496,611
Emergency Rental Assistance Fund (ERA2)	-	1,611,183	-
FY 2025 HUD Plan - Restore Full CDBG Homeless Set-Aside	-	318,078	-
HOME-ARP	-	240,000	-
	-	\$2,169,261	\$496,611

Key Budget Issues

- Climate Action Plan
- Departmental Vacancies
- Equity
- Homelessness and Housing
- Infrastructure Funding Needs
- Pension

Key Budget Issues

Climate Action Plan

- Proposed Budget includes \$761M; 97% in CIP, primarily Pure Water
 - \$201M for direct support; potential funding gap of \$188M, primarily for stormwater
- CAP-related funds not fully funded
 - Unfunded Climate Equity Fund (\$8.5M), Energy Independence Fund (\$5.8M including swept fund balance)

Departmental Vacancies

- Progress in addressing persistent high vacancy issues in recent years
- However, Request to Fill Process could increase vacancy rates as only critical positions can be filled with approval

Key Budget Issues

Equity

- \$18.7M in notable equity investments
 - \$9.0M citywide DIF for infrastructure in Communities of Concern
 - \$7.6M new homelessness programs
- \$36.5M in reductions
 - \$15.0M withheld from Housing Commission
 - \$8.5M Climate Equity Fund waiver
 - \$5.8M Bridge to Home waiver
 - \$3.1M elimination of Community Equity Fund
 - \$3.1M elimination of programs: FY 24 youth drop-in, After School and Teen Center Programs, Immigrant Affairs Office, Cannabis Social Equity program, No Shots Fired
 - \$960,000 in other reductions, including \$57,000 for SD Access for All

Key Budget Issues

Infrastructure Funding Needs

- Budget mitigations from the CIP totaling \$53M help support operating budget, therefore bond financing heavily relied upon
- City has been appropriating future bond financing to projects but \$652M in projects await financing, as proposed
- IBA concerns about earmarking debt proceeds this far in advance

Key Budget Issues

Homelessness and Housing

- Increases: \$9.7M to backfill grant funding and \$7.6M for new safe parking, 1,000 shelter beds, and expanded family shelter
- Decreases: \$15M for Housing Commission (implementation unclear); \$952,000 for PEER, outreach, storage, Interim shelter

Pension

- Pension costs make up 16.5% of General Fund expenditures
- Increases from prior year largely due to higher salaries and changes in how the pension is calculated

Conclusion and Next Steps

Next Steps/Conclusion

Overall Thoughts

- Mayor's Proposed Budget is balanced overall
 - Balanced with the use of \$198M in one-time funding for ongoing services & programs
- Since ARPA funds were exhausted, the City is now left to rely on growth of existing revenues, but structural budget deficit remains
- City is currently considering two revenue measures on the November 2024 ballot that are necessary to support existing services and/or expand services
- Without new revenue, far deeper cuts will be needed in FY 2026 and beyond

Next Steps/Conclusion

- Council now has opportunity to review and revise the Proposed Budget
 - Revisions can be made, but budget must remain balanced
- Timeline:
 - **May 1-7** – Budget Review Committee Hearings
 - **May 1, 8** – Evening Hearings to receive further public input
 - **May 16** – May Revision and 3rd Quarter Report to be heard in consideration of final budget decisions
 - **May 22** – Councilmembers issue final budget modification priority memos
 - **June 4** – IBA issues final recommended revisions
 - **June 7** – BRC discusses the recommended budget revisions
 - **June 11** – Council makes final budget decisions and takes action on FY 2025 budget revisions
 - **June 25** – Council Adopts FY 2025 Appropriation Ordinance