THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 22, 2024 **IBA Report Number:** 24-31

City Council Docket Date: October 28, 2024

Item Number: TBD

IBA Review of the FY 2024 Year-End Financial Performance Report

OVERVIEW

The FY 2024 Year-End Financial Performance Report (Year-End Report) was issued on October 9, 2024 and presented to the Budget and Government Efficiency Committee on October 16, 2024. The Year-End Report compares revenue and expenditure projections reported in the FY 2024 Third Quarter Budget Monitoring Report (Third Quarter Report) to unaudited actual revenue and expenditure activity for July 1, 2023 through June 30, 2024.

Our Office's review of the Year-End Report highlights changes in General Fund revenues and expenditures, reviews the status of the General Fund Reserve and Excess Equity[1], and discusses the Public Liability Reserve, providing additional context and updates on those items. Additionally, we provide a review of certain homelessness expenditures. We note that changes in overall revenues and expenditures from the Third Quarter Report are moderate, with General Fund revenues coming in $4.6 million higher, and expenditures $18.0 million lower, resulting in a $22.6 million increase to FY 2024 year-end Excess Equity. Notably, a portion of this amount ($2.0 million) was already assumed during adoption of the FY 2025 Budget.

FISCAL & POLICY DISCUSSION

GENERAL FUND REVENUES

Total General Fund revenue in the Year-End Report is $2.03 billion, an increase of $4.6 million from third quarter projections. This is mostly due to growth in other major revenues, and particularly interest earnings within the General Fund. Overall, FY 2024 General Fund revenues

[1] Excess Equity is described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from increases to General Fund revenues and/or General Fund expenditures that come in under-budget during any given fiscal year.

ended $13.1 million above the Adopted Budget. This includes the use of $52.1 million in American Rescue Plan Act (ARPA) funds, which fully exhausts that funding source.

General Fund Revenue Projections by Quarter *($ in millions)*							
	Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Third-Quarter Projection**	**Year-End Performance**	**Variance: Adopted to Year-End**	**Variance: Third Quarter to Year-End**
Property Tax	$ 758.6	$ 771.9	$ 768.2	$ 768.9	$ 770.8	$ 12.2	$ 2.0
Sales Tax	401.7	385.2	374.0	377.5	377.0	(24.7)	(0.5)
Transient Occupancy Tax	172.6	171.2	166.2	165.5	163.8	(8.9)	(1.7)
Franchise Fees	108.5	108.7	107.2	115.9	116.7	8.2	0.8
Other Major Revenues	97.1	97.1	101.2	125.3	129.0	31.9	3.7
Subtotal - Major Revenues	**$ 1,538.5**	**$ 1,534.1**	**$ 1,516.8**	**$ 1,553.1**	**$ 1,557.3**	**$ 18.8**	**$ 4.2**
American Rescue Plan Act	52.1	52.1	52.1	52.1	52.1	-	-
Departmental Revenues	427.2	427.2	420.5	421.0	421.4	(5.8)	0.4
Total	**$ 2,017.8**	**$ 2,013.4**	**$ 1,989.4**	**$ 2,026.2**	**$ 2,030.8**	**$ 13.1**	**$ 4.6**

Note: Table may not total due to rounding.

As shown in the table above, overall General Fund revenue projections decreased from the Adopted Budget to the mid-year projections, before rebounding in the third quarter. However, as noted in our report on the Third Quarter Report, this was mostly due to increases in the other major revenues category, including replacing $10.8 million in cash associated with various Capital Improvement Program projects with debt financing, and receiving $7.3 million in proceeds from the Monsanto Settlement earlier than anticipated. Other major revenue sources had mixed results throughout the year, with property taxes and franchise fees increasing, and sales taxes and transient occupancy taxes (TOT) decreasing from the Adopted Budget.

Significant General Fund revenues are further discussed below.

Property Taxes

Property tax revenue increased by $2.0 million from the Third Quarter Report, mostly due to a $1.3 million increase in the 1.0% base property tax receipts due to higher than anticipated collections from the sale of property or new construction. The remaining $0.6 million is associated with increased residual tax sharing revenue from the Redevelopment Property Tax Trust Fund (RPTTF), which our Office anticipated in our review of the Third Quarter Report and was incorporated into the available Excess Equity that was considered as part of the Council's adoption of the IBA's recommended modifications to the FY 2025 Proposed Budget.

Overall, property tax collections ended the year $12.2 million above the FY 2024 Adopted Budget, with $14.1 million in increases from the 1.0% base property tax, $2.9 million from the Motor Vehicle License Fee, and $1.1 million in overall RPTTF revenue. The only decrease in property taxes from the Adopted Budget is associated with the delayed sale of Tailgate Park, which decreased revenues by $5.8 million, and was highlighted in the Mid-Year Budget Monitoring Report (Mid-Year Report).

Sales Taxes

For most of FY 2024, sales tax revenue projections trended below the Adopted Budget. Projected year-end sales tax revenue decreased by $537,000 from the Third Quarter Report, and $24.7 million from Adopted Budget. The quarterly growth rate when compared to FY 2023 declined in the first two quarters of FY 2024 (first quarter: -4.55% and second quarter: -6.16%), largely due to a slowing of consumer spending that began in the prior year. Although the Third Quarter Report projected the decline would continue into the third quarter at a -1.7% quarterly growth rate, the actual growth rate for the third quarter of FY 2024 was 1.11%, which represents the first quarter of growth in FY 2024. The actual growth rate for the last quarter of FY 2024 is 2.01%, which is below the 2.5% quarterly growth rate projected in the Third Quarter Report.

The reversal of the decline from the first half of FY 2024 suggests that consumer activity is beginning to rebound as prolonged high inflation eases, but such growth is likely to be weak in the near term. For context, the fourth quarter of Fiscal Year 2022 (April to June) was the period of highest inflation in 2022. In May 2022, the Consumer Price Index (CPI) in the San Diego area was measured at an 8.3% increase over the previous 12 months, compared to 3.2% in May 2024. However, early indications from the last quarter of FY 2024 signal slow growth in sales tax revenue and that a return to historical growth rates may take longer than initially expected. For instance, the City's sales tax consultant recently lowered FY 2025 sales tax projections from a 4.25% annual growth rate to 2.12%, given lower-than-anticipated revenues from the last quarter of FY 2024. (The FY 2025 Adopted Budget assumes an overall 4.25% annual growth rate.) The sales tax consultant's downward revision is despite the Federal Reserve cutting interest rates for the first time in four years in September 2024 by 50 basis points with the potential for additional cuts in the coming months, which is expected to spur economic activity. Our Office will continue to closely monitor sales tax revenue with the upcoming release of the First Quarter Budget Monitoring Report.

Transient Occupancy Taxes

The City's Transient Occupancy Tax (TOT) revenue, or hotel tax revenue, is derived from a 10.5% tax on short-term stays in the region. That amount is broken into three separate allocations – a General Fund allocation of 5.5% (which is one of the City's four major General Fund revenues), with the remaining two allocations budgeted in the TOT Fund. The two allocations include: 4.0% for Special Promotional Programs that support the promotion of the City's cultural amenities and natural attractions, and the remaining 1.0% is "Council Discretionary" that typically ends up being allocated to the City's General Fund. As shown in the table on the following page, FY 2024 unaudited actual revenues for the full 10.5% TOT tax are $17.3 million below the Adopted Budget and $3.8 million below the Third Quarter Report projections. This decrease is due to a normalization of demand for leisure travel and hotel stays in FY 2024 following a robust post-pandemic recovery for most of FY 2023.

Transient Occupancy Tax Revenue *($ in millions)*							
FY 2024	Adopted Budget	First Quarter Projection	Mid-Year Projection	Third-Quarter Projection	Year-End Performance	Variance: Adopted to Year-End	Variance: Third Quarter to Year-End
General Fund Allocation (5.5%)	$ 172.6	$ 171.2	$ 166.2	$ 165.5	$ 163.8	$ (8.9)	$ (1.7)
Special Promotional Programs (4.0%)	124.4	123.4	119.7	119.4	117.7	(6.7)	(1.6)
Council Discretionary (1.0%)	31.1	30.8	29.9	29.8	29.4	(1.7)	(0.4)
	$ 328.2	**$ 325.4**	**$ 315.9**	**$ 314.7**	**$ 310.9**	**$ (17.3)**	**$ (3.8)**

Note: Figures may not sum due to rounding.

The General Fund portion of citywide TOT fell below projections in the Adopted Budget by $8.9 million, and Third Quarter Report projections by $1.7 million. The decrease relative to the Third Quarter Report is largely due to delayed payments from one business that is now making scheduled payments which will continue into FY 2025, thereby shifting receipt of a portion of TOT from FY 2024 to FY 2025. FY 2024 unaudited actuals for General Fund TOT revenue of $163.8 million is higher than FY 2023 year-end TOT revenue by $2.0 million.

Franchise Fees

Franchise fee revenue increased by $0.8 million from the Third Quarter Report, which is mostly related to additional revenue from refuse collector fees, as well as a one-time payment associated with an audit of cable provider payments. Overall, actuals for franchise fee revenue are above the FY 2024 Adopted Budget by $8.2 million This is mostly due a higher than anticipated clean-up payment from SDG&E, which resulted in an increase of $7.7 million and was included in the Third Quarter Report.

Federal American Rescue Plan Act (ARPA)

ARPA was signed into law on March 11, 2021, providing the City with a total of $299.7 million. These funds had to be used by December 2024, and were available to provide government services and replace a significant portion of revenue lost due to the COVID-19 pandemic. As indicated in the Year-End Report, the City used $52.1 million in ARPA funding in FY 2024. Combined with $100.0 million utilized in FY 2022 and $147.6 million in FY 2023, the City has now fully exhausted its ARPA allocation. Additionally, as noted in the Mid-Year Report, there was $3.2 million in recognized interest earnings on the funds while the City was drawing them down over three years, which was included as additional revenue in the Other Major Revenues category for FY 2024.

Departmental Revenue

Overall departmental revenue increased by $0.4 million from the Third Quarter Report, but finished the year $5.8 million below amounts in the Adopted Budget. The two largest decreases in departmental revenues were within the City Treasurer's Office (CTO) and the Fire-Rescue Department. The decrease in the CTO is mostly due to lower Cannabis Business Tax revenue, with a total decrease of $4.2 million from Adopted Budget projections. This is mostly due to a decline in monthly gross receipts reported by outlets, likely due to increased competition from the illicit cannabis market and the sale of unregulated intoxicating hemp, which ultimately drives down demand for legal cannabis goods. The decline in the Fire-Rescue Department was also noted in the Third Quarter Report and is due to the suspension of the $5.3 million transfer from the Emergency Medical Services (EMS) Transport Program Fund, which is consistent with the City Council's actions related to the implementation of the Alliance Model for EMS delivery.

These declines were offset by other departmental revenue increases. The most significant increase is for additional reimbursements within the Parks and Recreation Department from the Environmental Growth Funds. This reimbursement, totaling $1.6 million, is for eligible park and open space maintenance activities, and is possible due to higher than anticipated revenues in the EGF due to higher franchise fee receipts. There were also other significant increases, including $2.0 million within the Economic Development Department for grant reimbursements from the Community Development Block Grant (CDBG) and Housing and Urban Development (HUD) programs for billable work performed, and $1.5 million within the Compliance Department for billable work performed by the Prevailing Wage Program in support of various Capital Improvement Projects.

GENERAL FUND EXPENDITURES

The Year-End Report shows unaudited actual General Fund expenditures of $2.05 billion, which is $27.1 million lower than the FY 2024 Adopted Budget (a positive expenditure variance). This variance is 1.3% of the Adopted Budget, as shown in the following table. Note that our expenditure variance review below uses the Adopted Budget as a base for comparison, whereas the Department of Finance uses the current budget as a base in its Year-End Report. Therefore, the figures in our tables are different than the variances reflected in the Department of Finance's Report.

FY 2024 General Fund Expenditures *($ in millions)*

	Adopted Budget	Third Quarter Projection	Year-End Unaudited Actuals	Variance: 3rd Quarter to Year-End	Variance: Adopted to Year-End	Variance %: Adopted to Year-End
Salaries and Wages	$ 850.1	$ 874.9	$ 879.7	$ (4.8)	$ (29.6)	(3.5%)
Fringe Benefits	551.2	536.2	539.4	(3.2)	11.8	2.1%
Non-Personnel Expenditures (NPE)	680.5	661.5	635.6	26.0	44.9	6.6%
Total	**$ 2,081.8**	**$ 2,072.7**	**$ 2,054.7**	**$ 18.0**	**$ 27.1**	**1.3%**

Note: Figures may not sum due to rounding.
Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

Some of the most significant variances from the FY 2024 Adopted Budget are highlighted in the following sections, including savings that are partially offset by expenditure increases.

Some the largest expenditure decreases from the Adopted Budget[2] include:

- $14.2 million transfer of debt service expenses from the General Fund to the Infrastructure Fund, after using bond financing to support CIP projects formerly scheduled to be funded by the Infrastructure Fund

[2] Although not an expenditure decrease from the FY 2024 Adopted Budget, the City also deferred the $8.4 million planned contribution to the General Fund Reserve. The FY 2024 General Fund Reserve contribution was not categorized as a budgeted expenditure, but rather a set-aside of fund balance. Instead of making the $8.4 million contribution to the Reserve, the City used it to help balance the FY 2025 Adopted Budget.

- $11.8 million in fringe expenditures, largely due to a shift in the City's methodology for paying down its Other Post-Employment Benefits (OPEB) obligation, which is discussed in more detail in IBA Report 23-37 – IBA Review of the FY 2024 First Quarter Budget Monitoring Report
- $9.2 million in energy and utilities, largely related to decreases in Parks & Recreation water use, Environmental Services natural gas expenditures, and Police fleet fuel expenditures
- $8.9 million in decreased contributions to the Public Liability Fund, largely due to decreased insurance premiums
- $6.2 million in salary savings, primarily due to higher than anticipated vacancies and delays in filling positions due to mitigation actions taken during the fiscal year
- $5.8 million from budgeted amounts that were not transferred to the Bridge to Home Program due to delays in the sale of Tailgate Park[3]
- $3.7 million for deferred contractual expenditures budgeted in the Police Department for rent paid to the County of San Diego for use of the Central Jail ($3.0 million) and for misdemeanant booking ($730,000)[4]

The decreased expenditures listed above are partially offset with other areas of increased spending, including:

- $24.3 million in additional overtime, over half of which is related to the Fire-Rescue and Police Departments – as will be discussed later
- $7.8 million for Non-Personnel Expenditures related to the City's response to the January 2024 winter storm
- $6.8 million in additional special pay[5], largely related to the Fire-Rescue and Police Departments

Salaries and Wages

Variances by Category

The table on the following page compares the FY 2024 unaudited actuals to the Adopted Budget for various salaries and wages categories. The second column from the right shows that total salaries and wages expenditures net to $29.6 million greater than what was included in the FY 2024 Adopted Budget (shown as a negative spending variance).

---

[3] Note that the $5.8 million Bridge to Home expenditure budget was associated with $5.8 million in budgeted revenue from the sale of Tailgate Park, which did not occur in FY 2024. Since neither the revenue nor expenditure materialized in FY 2024, there is no net impact to the General Fund. The $5.8 million in revenue from the Tailgate Park sale is now anticipated in the FY 2025 Adopted Budget. However, the FY 2025 Adopted Budget does not include a corresponding expenditure that transfers funds to support the Bridge to Home Program. Rather, the anticipated revenue is used to help balance the General Fund.

[4] According to the Police Department, negotiations for a new Memorandum of Understanding with the San Diego County Sheriff's Department related to these contractual expenditures are in progress; the actual amount that is to be deferred and due in FY 2025 for these services provided in FY 2024 will not be known until negotiations are complete.

[5] Special Pay expenditures cover additional wages provided to certain employees who meet specific requirements or who provide certain specialized services (such as paramedic pay, river rescue team pay, and bilingual pay).

FY 2024 Salaries and Wages Expenditures - General Fund *($ in millions)*						
	Adopted Budget	3rd Quarter Projection	Year-End Unaudited Actuals	Variance: 3rd Quarter to Year-End	Variance: Adopted to Year-End	Variance %: Adopted to Year-End
Salaries	$ 668.3	$ 664.4	$ 662.1	$ 2.3	$ 6.2	0.9%
Overtime	102.6	122.5	126.9	(4.4)	(24.3)	(23.7%)
Special Pay	54.8	60.8	61.6	(0.9)	(6.8)	(12.4%)
Hourly	12.7	15.7	17.0	(1.3)	(4.3)	(34.0%)
Vacation Pay in Lieu	7.7	7.7	8.1	(0.4)	(0.4)	(4.8%)
Termination Pay	4.1	3.9	4.0	(0.2)	0.0	1.1%
Total	**$ 850.1**	**$ 874.9**	**$ 879.7**	**$ (4.8)**	**$ (29.6)**	**(3.5%)**

Note: Figures may not sum due to rounding.
Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

As shown in the second column from the right, when comparing the Adopted Budget to year-end expenditures, there are overages in the overtime, special pay, hourly, and vacation pay-in-lieu categories, which are partially offset by savings in salaries. The largest General Fund overages and savings in salaries and wage categories as compared to the FY 2024 Adopted Budget are highlighted below:

- Salaries – net $6.2 million savings (shown as a positive variance)
  - $2.4 million – Parks & Recreation
  - $1.3 million – City Council
  - $951,000 – City Treasurer
  - $926,000 – City Attorney
  - $5.5 million – combined total for all departments with salary savings less than $900,000
  - Salary savings are partially offset with overages, including for Police ($2.9 million), Fire-Rescue ($1.4 million), and Stormwater ($614,000)

- Overtime – net $24.3 million overage (shown as a negative variance)
  - ($7.9 million) – Police
  - ($5.6 million) – Fire-Rescue
  - ($4.1 million) – Transportation
  - ($2.3 million) – Environmental Services
  - ($2.0 million) – Parks & Recreation
  - ($2.0 million) – Stormwater

- Special Pay – net $6.8 million overage (shown as a negative variance)
  - ($2.2 million) – Police
  - ($2.1 million) – Fire-Rescue
  - ($651,000) – Stormwater

    - ($489,000) – Library
    - ($487,000) – Parks & Recreation

- Hourly – net $4.3 million overage (shown as a negative variance)
    - ($3.7 million) – Parks & Recreation
    - ($1.0 million) – Fire-Rescue
    - ($599,000) – City Attorney
    - Hourly overages are partially offset with savings, including $892,000 for Police

Departmental Variances

As noted, total salaries and wage expenditures net to $29.6 million above what was included in the FY 2024 Adopted Budget. The section above notes variances by salaries and wages expenditure category. If we instead focus on total salaries and wages expenditure variances for each department, the departments with the largest salaries and wage overages include:

- Police – $11.3 million above budget (largely overtime, salary, and special pay overages, partially offset with termination pay and hourly savings)
- Fire-Rescue – $10.1 million above budget (largely overtime, special pay, salary, and hourly overages)
- Transportation – $4.6 million above budget (largely overtime overage)
- Parks & Recreation – $3.9 million above budget (largely hourly and overtime overages, partially offset with salary savings)
- Stormwater – $3.2 million above budget (largely overtime, salary, and special pay overages)
- Environmental Services – $2.0 million above budget (largely overtime overage, partially offset with salary savings)

Departments with the largest salaries and wage savings include:

- City Council – $927,000 below budget (largely salary savings, partially offset with termination pay and vacation pay-in-lieu overages)
- City Treasurer – $885,000 below budget (largely salary savings, partially offset with special pay overage)
- Commission on Police Practices – $650,000 below budget (largely salary savings, partially offset with hourly overage)

Public Safety Overtime

<u>Fire-Rescue Overtime</u>

At FY 2024 year-end, actual Fire-Rescue overtime expenditures totaled $54.0 million, which exceeds budgeted amounts in the Adopted Budget by $5.6 million. This overage is $3.3 million more than the year-end projection at the time of the Third Quarter Report. Of the $54.0 million spent on overtime in FY 2024, $3.8 million is offset by special event and strike-team deployment reimbursements resulting in a net General Fund impact of approximately $50.1 million. Consistent with the Third Quarter Report, issues related to fire-suppression staffing shortfalls and Backfill Overtime were the primary drivers for the overage at $5.7 million, or 103% (all other overtime categories net to approximately $190,000 under budget).

Backfill Overtime, budgeted in FY 2024 at $24.3 million, is the Department's largest and most significant overtime component. When constant staffing positions utilize Leave Time, such as sick, vacation, military, or other leave, Backfill Overtime is required to fill those absences in order to maintain constant staffing levels for all fire suppression posts. At FY 2024 year-end, Backfill Overtime exceeded budget by $2.2 million, which is $1.6 million more than the projection in the Third Quarter Report. This variance is primarily due to inclusion of backfill for enhanced Parental Leave benefits that were not accounted for in the Third Quarter projection.

Staffing shortfalls at fire suppression posts is the cause for $3.6 million of the overall overtime expenditure overage in FY 2024, which is $1.4 million more than the projection in the Third Quarter Report. According to the Department, this variance was due to higher than projected attrition, including retirements, and the transfer of 10.00 sworn FTEs from Fire Suppression Operations to the Community Risk Reduction Division as Fire Prevention Inspectors.

Fire-Rescue overtime expenditures in FY 2025 will continue to be elevated until the Department reaches full staffing for its fire suppression positions. As of September 30, 2024, the SDFD had 55 sworn staffing vacancies for fire suppression positions and the Department does not anticipate reaching full staffing until the fourth quarter of FY 2026. This is a noteworthy change from the FY 2024 Third Quarter Report which anticipated that full staffing would be reached in FY 2025.

Notably, the FY 2025 Adopted Budget reduced the number of Fire Academies to two academies per fiscal year as a budget mitigation action, generating $431,000 in savings. At the time, the Department indicated that this reduction would not impact their ability to reach full staffing in FY 2025, even when accounting for the 12.00 FTEs added to staff the new Torrey Pines Fire Station. However, given current staffing levels and trends, our Office recommends that the Department evaluate whether there is a need to restore this reduction during the FY 2026 budget development process. Additionally, we recommend that the Fire-Rescue Department provide regular staffing reports at least monthly via email which would allow our Office and the City Council to better track the Department's progress towards reaching full staffing.

The Council may wish to hear more information from the Department regarding the current sworn staffing situation, changes that have occurred since the Third Quarter Report, and their outlook for FY 2025 and beyond. For additional context, historical information on Fire-Rescue overtime expenditures is provided on the following page.

Fire-Rescue Overtime – Historical Budget vs. Actuals *($ in millions)*										
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
Actual	$ 31.5	$ 31.8	$ 32.5	$ 45.4	$ 45.2	$ 41.1	$ 51.3	$ 50.7	$ 51.3	$ 54.0
Budget	26.7	29.9	30.2	32.8	38.1	36.6	33.3	32.8	32.8	48.4
Overage	**$ 4.8**	**$ 1.9**	**$ 2.3**	**$ 12.5**	**$ 7.0**	**$ 4.5**	**$ 18.0**	**$ 17.9**	**$ 18.6**	**$ 5.6**

Note: Table may not total due to rounding.
FY 2015 through FY 2024 Actual amounts are based on unaudited actuals.

Police Overtime

The Police Department ended FY 2024 with $57.3 million in total overtime expenditures, which exceeded its budget by $7.9 million. The budgetary overage represents a $664,000 increase compared to the Third Quarter Report. Approximately $6.2 million of the Department's overall overtime expenditure is estimated to be reimbursed in FY 2024 for special event and grant-funded task force activity, resulting in a net General Fund impact of $51.1 million. As noted in the Year-End Report, an additional $690,000 in reimbursement revenue is expected to be received in FY 2025 for special event activities that occurred in FY 2024.

The primary cause for the overage in overtime expenditures in FY 2024 continues to be related to the Department's significant sworn staffing shortages, which our Office discussed in our review of previous Budget Monitoring Reports throughout the fiscal year. For FY 2025, SDPD's overtime budget was reduced to $46.4 million, which the Department hopes to achieve by implementing the City Auditor's recommendation to move towards centralized planning of overtime to better prioritize and more efficiently deploy its overtime allocation. We note that the level of budgeted overtime for FY 2025 represents a substantial reduction of $10.9 million, or 19%, from FY 2024 year-end actuals, and this will likely be difficult to achieve, even with the anticipated changes regarding overtime planning, if SDPD's staffing issues persist. As of October 14, 2024, SDPD had 150 sworn vacancies (1,888 of 2,038 budgeted positions filled) with an average of 10-11 officers leaving the Department per month thus far in FY 2025.

For additional context, historical information on Police overtime expenditures is provided below.

Police Overtime - Historical Budget vs. Actuals *($ in millions)*										
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019** [1]	**FY 2020** [2]	**FY 2021** [3]	**FY 2022**	**FY 2023**	**FY 2024**
Actual	$ 23.1	$ 25.0	$ 26.0	$ 29.7	$ 31.9	$ 44.8	$ 37.2	$ 40.9	$ 50.8	$ 57.3
Budget	11.1	18.0	21.0	26.3	24.6	35.9	38.1	30.7	40.2	49.3
Overage/ (Savings)	**$ 12.0**	**$ 7.0**	**$ 5.0**	**$ 3.4**	**$ 7.4**	**$ 8.9**	**$ (0.9)**	**$ 10.2**	**$ 10.7**	**$ 7.9**

Notes: Table may not total due to rounding.
FY 2015 through FY 2024 Actual amounts are based on unaudited actuals.
[1] The $31.9 million FY 2019 actual amount includes approximately $29.3 million of General Fund and $2.7 million of Seized Assets Fund (SAF) expenditures.
[2] The $44.8 million FY 2020 actual amount includes $41.4 million and $3.4 million for the General Fund and SAF, respectively; and the $35.9 million budget amount includes $32.1 million and $3.9 million for the General Fund and SAF, respectively.
[3] The $37.2 million FY 2021 actual amount includes $32.9 million and $4.3 million for the General Fund and SAF, respectively; and the $38.1 million budget amount include $33.7 million and $4.4 million for the General Fund and SAF, respectively.

HOMELESSNESS PROGRAM UPDATES

Consistent with past practice, the Year-End Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending. The HSSD memorandum reflects expenditures below third quarter projections for the Department, with $2.0 million in General Fund savings. State Homeless Housing, Assistance and Prevention (HHAP) grant funds are another major funding source in the HSSD budget, and year-end HHAP expenditures totaled $34.8 million, which is $3.4 million below third quarter projections. Given the importance of addressing the City's homelessness crisis, this section provides additional context for changes that are not already discussed in the memorandum.

Ancillary Cost Savings

Expenditure reductions from program ancillary services total $1.2 million and are a major driver for overall Department General Fund savings. These savings are attributable to various factors, including:

- Reconfiguration of security services implemented in the Third Quarter Report that reduced security costs
- Lower-than-projected contract costs for ancillary services at the Safe Sleeping O Lot ($379,000); contract costs were not finalized at the time of projection development, and the awarded contracts were ultimately below projections
- Over-budgeting of utilities and energy for City leased facilities at Pacific Inn ($462,000) and the family non-congregate shelter ($181,000) due to utilities and energy costs being inadvertently factored into two separate line items in the HSSD budget, essentially double counting those expenditures

Shelter Staff Vacancies

In the HSSD memorandum, underspending in HHAP funds was partially attributed to shelter staff vacancies at the 16th and Newton shelter and 17th and Imperial shelter, as well as lower personnel expenses and related administration costs at the Rosecrans shelter. Although shelter staff vacancies have been cited as a persistent challenge, according to the San Diego Housing Commission (SDHC) staffing vacancies have fallen in recent years. In FY 2022, the first year SDHC began tracking data, staffing vacancies averaged 21% across SDHC-administered shelter and outreach programs. Average staff vacancy rates across SDHC-administered programs fell to 14% in FY 2023 and 11% in FY 2024 – likely due to subsequent efforts to address staffing shortages, including completing a Homelessness Services Compensation Study and the City approving shelter staff compensation increases beginning in FY 2024.

GENERAL FUND RESERVE AND EXCESS EQUITY

General Fund Reserve

In accordance with the City's Reserve Policy, the Reserve target percentage is 13.58% for FY 2024, a slight decrease as compared to the FY 2023 target of 14.30%. However, increasing operating revenues result in an increased target dollar amount for FY 2024. The FY 2024 Mid-

Year Report assumed a Reserve contribution of $8.4 million, which would have brought the total General Fund Reserve balance to $215.4 million to meet the FY 2024 target.

However, the Mayor proposed waiving the FY 2024 General Fund Reserve contribution to preserve Excess Equity, in order to fund other critical expenditures in FY 2025. With the waiver of the Reserve contribution, the City's General Fund Reserve will remain at FY 2023 Reserve balance of $207.1 million, as shown in the table below.

General Fund Reserve Policy vs Reserve Balance (*$ in millions*)		
	FY 2023	**FY 2024**
Reserve Policy Target Percent	***14.30%***	***13.58%***
Reserve Policy Target	$ 207.1	$ 215.4
Reserve Balance (FY 2023) / Reserve Projection (FY 2024)	207.1	207.1
Difference: Amount Reserve Balance Is Below the Policy Target	**$ 0.0**	**$ 8.4**
Reserve Balance as Percent of Operating Revenues	***14.30%***	***13.05%***

Note: Table may not total due to rounding.

In accordance with the City's Reserve Policy, the Mayor, working with the Department of Finance, will prepare a plan that addresses the reduced Reserve level and the steps needed to meet the policy target for the Reserve.

Excess Equity

Excess Equity, as described in the Reserve Policy, is "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from increases to General Fund revenues and/or General Fund expenditures that come in under-budget during any given fiscal year.

The FY 2024 Year-End Report shows estimated year-end Excess Equity of $105.0 million[6], up from the $84.4 million identified and utilized in the FY 2025 Adopted Budget. The $20.6 million in increased Excess Equity is largely due to decreased Non-Personnel Expenditures and increased revenues as previously discussed, and could be used to address future needs. The available Excess Equity could change during FY 2025, consistent with actual revenue and expenditure experiences.

PUBLIC LIABILITY RESERVE

The Year-End Report discusses the implementation of an interfund loan to the City's sewer fund from the Public Liability (PL) Reserve – see page 29 of the Year-End Report and the attached October 8, 2024 memorandum from the CFO to the City Council for details. This loan is intended to use non-rate payer funds to cover a short-term subsidy of FY 2023 to FY 2025 Industrial

[6] Per the Year-End Report, the "estimated Excess Equity will be final upon the completion of the FY 2024 ACFR [Annual Comprehensive Financial Report] in December 2024."

Wastewater Control Program (IWCP) fees that are currently being phased-in, and will reach full cost recovery in FY 2026.

In FY 2024, $3.4 million was transferred to the sewer fund to cover the subsidy. Per the CFO's memo, it is estimated that an additional $6.2 million could be transferred from the PL Reserve over the next two fiscal years, yielding an estimated $9.6 million total loan amount from the PL Reserve.

The FY 2024 balance in the PL Reserve after the $3.4 million transfer is $35.0 million, which is $3.4 million below the $38.4 million Reserve Policy target. The Reserve Policy target is 50% of outstanding PL claims; and the $35.0 million reduced balance is equivalent to 45.5% of outstanding claims. Should the additional transfers mentioned above occur in FY 2025 and FY 2026, the Reserve balance will drop to about $28.8 million, which is approximately 37.5% of the outstanding claims associated with the FY 2024 Reserve Policy target; the balance as a percent of outstanding claims (37.5%) is anticipated to change with updated claims figures in the future.

As mentioned in the Year-End Report and CFO's memo, the plan is for the sewer fund to pay the PL Reserve back, with interest, over five years beginning in FY 2027. Additionally, it is anticipated that starting in FY 2027, IWCP fees will incorporate amounts to cover the debt service associated with paying back the loan from the PL Reserve.

CONCLUSION

The Office of the IBA's review of the FY 2024 Year-End Report documents changes to General Fund revenues, expenditures, and Excess Equity since the Third Quarter Report projections, and provides a high-level summary of year-end variances as compared to the FY 2024 Adopted Budget. It also provides highlights on the status of the Public Liability Reserve, as well as homelessness program updates.

We present this information to provide another tool for evaluating City expenditures for FY 2024 and to help guide Council's discussions around future budget decisions. Additional information on the City's finances is anticipated to be provided in the FY 2025 First Quarter Budget Monitoring Report, which is scheduled to be released November 7, 2024, and the Mayor's FY 2026-2030 Five-Year Financial Outlook, which is scheduled for release December 4, 2024.

Lisa Byrne
Principal Fiscal and Policy Analyst

Jordan More
Principal Fiscal and Policy Analyst

Amy Li
Senior Fiscal and Policy Analyst

Baku Patel
Senior Fiscal and Policy Analyst

Sergio Alcalde
Associate Fiscal and Policy Analyst

APPROVED: Charles Modica
Independent Budget Analyst

Attachment 1: October 8, 2024 memorandum from the CFO to the City Council

THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 8, 2024

TO: Honorable Council President Sean Elo-Rivera and Members of the City Council

FROM: Matthew Vespi, Chief Financial Officer

SUBJECT: Industrial Wastewater Control Program - Interfund Loan

---

The Public Utilities Department Industrial Wastewater Control Program ("IWCP") program is responsible for regulating industrial users' discharges into the City's sewer system. This program currently has ongoing litigation claiming the City allegedly undercharged IWCP permittees and unlawfully used Municipal Ratepayer funds.

The Public Utilities Department ("PUD") has worked to address the IWCP funding shortfall in two steps. First, on September 22, 2021, the City Council agreed to phase in increased IWCP fees instead of imposing a full increase all at once to lessen the financial burden on IWCP permit holders. The new gradually increasing fee schedule was effective July 1, 2022, and will recover the costs of the IWCP in increasing amounts to fully reach cost recovery on July 1, 2025. Second, to fund the subsidy during the phase-in period (FY 2023-FY 2025) using non-ratepayer funds, the City will make an interest-bearing interfund loan from the Public Liability Reserve to the Sewer Utility's Muni Fund. The expectations are that this loan will remove any perceived or actual subsidy. The IWCP fees for Fiscal Year 2026 are expected to be at the cost recovery rate and will be adjusted by Fiscal Year 2027 to include debt service (principal and interest) covering the repayment term of the interfund loan (5 years) and included in the cost recoverable rates of the Sewer Utility.

Interfund Loan:

- **Borrowing Fund**: Sewer Utility's Muni Fund
- **Lending Fund**: Public Liability Fund Reserve
- **Principal amount**: $10,161,137 (projected)
  The borrowed amount has already been determined for Fiscal Year 2023 and will be determined at the end of each fiscal year for Fiscal Years 2024 and 2025. The final amount will equal the cumulative principal borrowed plus total accrued interest as of the end of Fiscal Year 2025. With the gradual fee increase to recover the costs of the IWCP as noted above, the loan necessary to fund the subsidy is expected to reduce annually (as reflected in the table below).
- **Interest rate**: 2.5% (projected)
  The interest rate shall be established based on the City's Investment Pooled Investment annualized investment return.

	Borrowed Amount per year	Cumulative Borrowed Amount	Interest	Total Principal Amount
Fiscal Year 2023 (actual)	$3,432,449	$3,432,449	$61,235	
Fiscal Year 2024 (yearend estimate)	$3,200,000	$6,500,000	$190,617	
Fiscal Year 2025 (projected)	$3,000,000	$9,500,000	$276,837	
Total (projected)	$9,500,000		$528,688	$10,161,137

- **Repayment Term of the Loan**: 5 years starting Fiscal Year 2027
  The loan will be repaid by the Sewer Utility Fund supported by IWCP Fees starting in Fiscal Year 2027 with a final maturity in Fiscal Year 2031. The loan will be prepayable at any time prior to the final maturity.
- **Annual Debt Service**: $2,200,000 (projected)

The loan amount, interest rate, and annual debt service are based on current projections. The City Council will receive updates on the Public Liability Fund Reserve and the Interfund Loan through budget monitoring reports and annual audited financial statements.

As of June 30, 2024, the Public Liability Fund Reserve had a balance of approximately $35 million. The issuance of this loan from the Public Liability Fund Reserve in FY 2024 has caused the fund to fall below its reserve targets, and it may remain below reserve target levels through the term of the loan, which is anticipated to mature in FY 2031. PUD has agreed that should the Public Liability Fund Reserve have insufficient funds to meet any financial obligations, the Sewer Utility Fund will be required to prepay the loan immediately using other legally available funds. The Department of Finance will work with PUD to identify alternative legally available funds in the event such a prepayment is required.

Matthew Vespi
Chief Financial Officer

MC/JP/cb

Attachment: Industrial Wastewater control Program – Interfund Loan Agreement

cc: Honorable Mayor Todd Gloria
Honorable City Attorney Mara W. Elliott
Paola Avila, Chief of Staff, Office of the Mayor
Eric K. Dargan, Chief Operating Officer
Charles Modica, Independent Budget Analyst
Kris McFadden, Deputy Chief Operating Officer
Matt Yagyagan, Director of Policy, Office of the Mayor
Rolando Charvel, Department of Finance Director and City Comptroller
Angela Colton, Director, Risk Management
Juan Guerreiro, Director, Public Utilities Department
Lisa Celaya, Executive Assistant Director, Public Utilities Department
Bret Bartolotta, Senior Chief Deputy City Attorney

Industrial Wastewater control Program – Interfund Loan Agreement

- **Borrowing Fund**: Sewer Utility's Muni Fund
- **Lending Fund**: Public Liability Fund Reserve
- **Principal amount**: $10,161,137 (projected)
  The borrowed amount has already been determined for Fiscal Year 2023 and will be determined at the end of each fiscal year for Fiscal Years 2024 and 2025. The final amount will equal the cumulative principal borrowed plus total accrued interest as of the end of Fiscal Year 2025. With the gradual fee increase to recover the costs of the IWCP as noted above, the loan necessary to fund the subsidy is expected to reduce annually (as reflected in the table below).
- **Interest rate**: 2.5% (projected)
  The interest rate shall be established based on the City's Investment Pooled Investment annualized investment return.

	Borrowed Amount per year	Cumulative Borrowed Amount	Interest	Total Principal Amount
Fiscal Year 2023 (actual)	$3,432,449	$3,432,449	$61,235	
Fiscal Year 2024 (yearend estimate)	$3,200,000	$6,500,000	$190,617	
Fiscal Year 2025 (projected)	$3,000,000	$9,500,000	$276,837	
Total (projected)	$9,500,000		$528,688	$10,161,137

- **Repayment Term of the Loan**: 5 years starting Fiscal Year 2027
  The loan will be repaid by the Sewer Utility Fund supported by IWCP Fees starting in Fiscal Year 2027 with a final maturity in Fiscal Year 2031. The loan will be prepayable at any time prior to the final maturity.
- **Annual Debt Service**: $2,200,000 (projected)

The loan amount, interest rate, and annual debt service are based on current projections.

PUD has agreed that should the Public Liability Fund Reserve have insufficient funds to meet any financial obligations, the Sewer Utility Fund will be required to prepay the loan immediately using other legally available funds. The Department of Finance will work with PUD to identify alternative legally available funds in the event such a prepayment is required.

By signing below, the Public Utilities Department agrees to repay the Public Liability Fund Reserve in accordance with the terms noted above.

Matthew Vespi, Chief Financial Officer — October 8, 2024 Date

Juan Guerreiro, Director, Public Utilities Department — October 9, 2024 Date