



THE CITY OF SAN DIEGO  
OFFICE OF CITY COUNCILMEMBER HENRY L. FOSTER III  
FOURTH COUNCIL DISTRICT

## MEMORANDUM

DATE: January 29, 2025

TO: Honorable City Council Committee on Budget and Government Efficiency

FROM: Councilmember Henry L. Foster III, Chair, Budget and Government Efficiency Committee

SUBJECT: 2025 Budget and Government Efficiency Committee Work Plan

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I am honored to serve as Chair of the Budget and Government Efficiency (B&GE) Committee in 2025. My priority is to protect core City services while identifying innovative solutions to balance the budget and ensure long-term fiscal sustainability. With a challenging FY 2026 budget ahead, tough decisions will be necessary to uphold public safety, maintain core services, and comply with the City Charter. I am particularly concerned about the impact of across-the-board cuts on Communities of Concern. Integrating a focused approach into budget proposals will help identify areas for improvement, maximize efficiencies, and reduce disparities in historically underinvested communities. I look forward to working with the Mayor, the Independent Budget Analyst (IBA), and Committee Members this year to address the areas of responsibility of this Committee.

**BUDGET**

The Committee will be focused on providing an efficient, effective, and transparent forum for the public and City Council to participate in the development of the Fiscal Year 2026 Budget. Further, the Committee will uphold the Statement of Budgetary Principles in IBA Report 24-23 throughout the FY 2025 budget process. Thus, the Mayor, or designee, should provide written notice of any significant service reductions, delays, or eliminations, including fiscal justifications and potential unintended consequences and/or burdens that create disproportionate inequity for Communities of Concern. The Committee will place these notices on its next available agenda for discussion, ensuring public oversight and informed decision-making. Efficiency improvements to the delivery of public services that align with legislative intent do not require prior notice. However, the Mayor should provide Council Members with an informational memo upon implementation. Maintaining these principles ensures transparency, accountability, and effective service delivery.

**No “Across the Board” Cuts**

“Across-the-board” cuts are inequitable. It is critical that the burden of budget reductions do not fall on the backs of communities of concern. City Staff should specifically assess the impacts of potential reductions on critical services, especially where closures and service cuts can have lasting consequences on community opportunity and well-being. The Committee will work to protect essential services and ensure responsible fiscal planning.

**Budget Equity**

The Committee will advance budgetary policies that drive equitable investments, transparency, and the prioritization of resources in communities and ensure budget adjustments apply an equity lens. The Committee will be holding City departments accountable for their roles in the implementation of the our budget equity framework. The aim is to operationalize and systematically integrate an equity lens into all budget proposals, adjustments, and requests. The City should provide the Committee with detailed reports on the implementation of budgeting with an equity lens as well as provide a plan on how this effort will be leveraged in future fiscal year Adopted Budgets.

**Budget Development and Addressing the Budget Deficit**

The Committee will request that the Office of the Mayor, Chief Operating Officer, Chief Financial Officer, and Office of the Independent Budget Analyst make regular presentations to the Committee on the status of the development of the Fiscal Year 2026 Budget prior to its release in April 2025 to ensure the Committee and the public can weigh in on important budgetary and policy decisions impacting City finances and operations. Any reduction in service, or failure to deliver a program that was approved in Fiscal Year 2025, adopted last June, should be immediately communicated to committee members to ensure the City Council can maintain its budgetary authority and provide appropriate financial oversight. The Committee will monitor the current five-year outlook as well as hold City Staff accountable to actively work to reduce the structural budget deficit.

**Revenue Opportunities Identified in IBA Report 22-31**

In 2022, the IBA analyzed various revenue opportunities in IBA Report 22-31, including options aimed at non-residents. To improve the City’s financial position, the Committee will work with the Office of the Independent Budget Analyst to consider and analyze the potential for new revenue.

**General Fund Excess Equity**

The Committee will explore using excess equity for possible one-time FY2026 expenditures.

**Maximizing State and Federal Funding**

With a variety of significant funding needs across the City, especially as it relates to homelessness prevention and natural disaster mitigation and recovery efforts, it is critical that the City remains equipped to competitively seek and then maximize state and federal funding. This funding should allow the City to address housing in addition to the significant infrastructure and transportation deficits, while also simultaneously addressing climate change. This Committee will continue to exercise its authority to increase the City's capacity to compete for state and federal funds that have both one-time as well as multi-year or even permanent opportunities.

**Inflation Reduction Act (IRA), Infrastructure Investment and Jobs Act (IIJA) and Community Development Block Grant (CDBG) Funding**

In 2022, Congress passed two major pieces of legislation that will provide funding for a variety of infrastructure projects and city services, the IRA and the IIJA. Additionally, the city receives an annual allocation of CDBG funding. Protecting and maximizing these sources of funding is critical. This committee should receive an informational update regarding the City's ongoing strategy to compete for this funding and a projection for how anticipated funding from these programs could impact the FY26 budget and beyond. With the incoming federal administration, staff should also include strategies to protect allocated funding that has yet to be utilized.

**Measure B Implementation**

Approved by the voters in 1919, the People's Ordinance made it the responsibility of the City to collect and dispose of refuse. However, with the voter-approved Measure B, the City can now charge a fee for city-provided waste. As the City implements the measure, all neighborhoods should have equitable service delivery per week. City Staff should provide regular updates on the rollout of this measure, ensuring that all neighborhoods receive equitable weekly service. Additionally, City Staff should present a clear timeline and strategy for cost recovery, including the completion of the required Proposition 218 process and the immediate implementation of fees thereafter.

**Measure C Implementation**

In 2020, voters were presented with Measure C, which proposed increasing the Transient Occupancy Tax (TOT) to fund key initiatives, including expanding the convention center, homelessness solutions, and road repairs. Litigation around Measure C is expected to be resolved this calendar year, and the resulting increase in TOT revenue should be used, to the greatest extent possible, to support core City services. City Staff should provide updates to the Committee on the resolution of Measure C litigation and the anticipated timeline for revenue collection. The Committee should examine how these funds are maximized to address the City's most pressing needs.

**Transient Occupancy Tax Reallocation per SDMC 35.0128**

Council Policy 100-03 outlines the use of Transient Occupancy Tax (TOT) funds. In 2023, the Council revised this policy to require that the City Council make a recommendation directly related to the 1% of the 10.5% TOT revenue described in SDMC Section 35.0128(b), commonly referred to as the "Council's discretionary 1%." In September, the Economic Development and Intergovernmental Relations Committee will make a recommendation on the use of these funds for FY27 budgets. This Committee should discuss the recommendations made by the ED&IR Committee when it discusses the FY27 City Council Budget Resolution.

**City Owned Property Leases**

The City's management of leases for City-owned property presents an opportunity for improved revenue generation. A 2022 City audit revealed that 25% of the City's property leases were in holdover, and renewal of these leases could result in an average rent increase of 11%. With annual lease revenue at approximately \$80 million, addressing holdover leases could generate an estimated \$2.2 million in additional annual revenue. The City should provide an update on City leases and provide a proposal to maximize revenue and ensure efficient management of its property portfolio.

**City Boat Storage Program**

The City's boat storage program generates approximately \$30,000 in annual revenue due to below-market fees and the failure to issue over 100 available permits. A November 2024 City Auditor investigation identified opportunities to significantly increase revenue by benchmarking fees with other jurisdictions and addressing clerical errors to ensure all permits are issued. Implementing these changes could increase annual revenue to approximately \$108,000 annually. City Staff should provide a detailed report to the Committee on the findings of the November 2024 City Auditor investigation and a plan for implementing recommended improvements. Specifically, City Staff should present a strategy to adjust boat storage fees to align with market rates and correct clerical errors to ensure all available permits are issued.

**Other Revenue Opportunities**

The Administration should also consider amending the municipal code to allow for more advertising revenue, implement a fee on vacant storefronts, and charge admission to major City-run events.

**GOVERNMENT EFFICIENCY****Key Performance Indicators (KPIs)**

KPIs are expected to assist the community and Council members in evaluating City services and enable the City to quantify service levels for all departments accurately. Additionally, as part of the implementation of the Budget Equity Framework, City departments are also tasked to identify "equity-centered" KPIs for the FY26 Budget. The Committee should be briefed in advance by the Department of Race and Equity and PANDA on how KPIs have been re-imagined for the FY26 Budget. Additionally, the Office of the IBA should conduct a comprehensive analysis of departmental KPIs, assessing their impact and effectiveness in achieving intended goals and objectives. The analysis should include recommendations on how all City departments can better utilize KPIs to enhance service delivery and regularly report on their progress toward key performance benchmarks.

**Strategic Human Capital Audit Implementation**

In 2020 and 2021, the City Auditor released the following performance audits:

- Strategic Human Capital Management (20-011)
- Strategic Human Capital Management II: Employee Performance Management (21-006)

These audits evaluated how the City is monitoring and responding to important metrics related to its workforce and made recommendations regarding how the City could better manage its workforce. Some recommendations have been successfully implemented, however, per the City Auditor's June 30, 2024, Audit Recommendation Follow-Up Report, three recommendations were listed as unfinished. City Staff should provide the Committee an update on progress made in implementing these audit recommendations and request that actionable items be brought forward to the Committee in 2023 for discussion.

**Vacancies**

Each year the City's budget anticipates a certain amount of budgeted positions to remain vacant. As each fiscal year progresses, additional positions often remain unfilled. As the vacancy factor fluctuates throughout the year, the Committee should remain updated and begin discussing how best to utilize vacancy savings in advance of the FY25 mid-year and end-of-year budget updates. Additionally, over the last few years, the City has experienced an alarming number of persistently vacant positions in critical departments. This has resulted in the City relying on expensive outside contractors to perform the jobs that would otherwise be performed by City employees, overtime for public safety departments, and in delays to important projects. The Committee should request a holistic overview of vacant positions from City Staff that identifies vacant positions of most urgent need and strategies to fill those vacancies.

**Equal Employment Opportunity & Pay Equity**

Each year, the City reaffirms its commitment to the principles of Equal Employment Opportunity and to working in an environment free of discrimination, harassment, and retaliation. The Committee should ensure that the principles of fair and equal treatment are understood, respected, and practiced throughout the organization. The City of San Diego has committed to paying employees equal wage rates for equal or substantially similar work, regardless of an employee's gender, race or ethnicity. The Committee should receive updates from City Staff and monitor any issues regarding Equal Employment Opportunity and Pay Equity, and review policies and procedures related to the selection and promotions of all classified employees.

**Citywide Contract Oversight and Purchasing and Contracting Audit Recommendations**

Good contract administration and oversight is critical to ensure the City is managing taxpayer dollars efficiently when it obtains outside services. In the last decade, the City Auditor has released several audits concerning how the city manages external contracts, including:

- Performance Audit of Citywide Contract Oversight (15-016)
- Audit concerning the need to “Address the Lack of Contract Administration and Monitoring on Citywide Goods and Services Contracts” (15-012)
- Performance Audit of Selected Contracts (16-016)
- Performance Audit of the Purchasing and Contracting Department’s Small Local Business Enterprise Program (21-005)

Many of the recommendations fall under the Purchasing and Contracting Department for implementation. Some recommendations have been successfully implemented, however, per the City Auditor’s June 30, 2024, Audit Recommendation Follow-Up Report, multiple recommendations remain unfinished with varying target implementation dates. Implementing all recommendations would likely result in long-term savings and value for the city. The Committee should receive an update from the Purchasing and Contracting Department regarding implementation of these contract oversight safeguards and contract administration improvements including actionable items the committee can recommend to the City Council for adoption.

**Contracts and Outside Consultants**

Each year the City utilizes contracts for various reasons, ranging from legal consultants to engineering services. In recent budgets, the City Council has approved a reduction in some outside contracts. In many cases, City departments must resort to using outside contracts due to having a large number of vacant positions, making it easier to hire outside contractors rather than hire new City employees. The Committee should receive a report regarding the status of spending on outside contracts, including categorization of the types of existing contracts, and review strategies to reduce reliance on outside contracts in areas where services can be provided by hiring additional City employees.

### **Equitable Deployment of Resources**

Equity should rely on more than a geographical designation and this Committee must work to ensure that various communities who may not always have their voices represented (including students and seniors). Additionally, the City should work to deliver the needed infrastructure, transportation, and facility investments desperately needed in aging communities that will anticipate growth and density soon. The Committee should be provided updates on how this would be implemented.

### **Public Safety Overtime**

Public Safety overtime has consistently exceeded budget levels due to considerable recruitment and retention issues. The Committee will monitor public safety overtime as well as have City Staff explore all approaches for reducing overtime and maintaining appropriate staffing levels to enable better response times and improve overall service delivery.

### **City Procurement Efficiency**

The B&GE Committee plays an important regulatory role in ensuring City procurement practices are effective at controlling financial costs, promote diversity, and are compliant with existing wage and labor laws to prevent waste, fraud, and discriminatory behavior. To facilitate this oversight role, I recommend the following:

- The Committee should review and monitor large contracts relating to City operations and provide significant oversight as it relates to Equal Opportunity Contracting, prevailing wage, and living wage requirements.
- The Committee should explore strategies for improved contract oversight and management to monitor the status of existing contracts more effectively. Improved oversight will reduce requests for extensions of expired contracts and unnecessary sole source agreements required to maintain services of expired contract. These actions will result in more competitively priced goods and services.

### **Performance Measures & Analytics**

The utilization of data science and analytics is a core function of the Performance & Analytics department to create efficiencies and transition from reactive to predictive solutions. However, the IBA review of the FY 2023-FY2027 outlook, indicates that the approach in the City's "Get It Done" application data does not determine or address the root causes of deficiencies. City Staff should report to the Committee on the data-driven methods that inform its decision-making as it relates to service level targets.

### **Impacts on Workers**

Pay and benefit reductions, furloughs, and layoffs should be considered a last resort and only after every revenue opportunity and every other cost-saving opportunity have been explored or implemented. At the same time, the FY26 budget should eliminate open positions, particularly those that are unrepresented and at the managerial level.

### **Council District Priorities**

Finally, the Committee should consider the budget priorities that each of our offices submitted in September and January as the FY26 budget is developed.

I look forward to addressing these priorities and issues in the upcoming year. For questions or further assistance, please contact Chandra Clady, at (619) 236-6644.

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