OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2025 Mid-Year Budget Monitoring Report

OVERVIEW

The FY 2025 Mid-Year Budget Monitoring Report (Mid-Year Report) was issued on January 31, 2025 and was presented to the Budget and Government Efficiency (B&GE) Committee on February 5, 2025. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections using actual (unaudited) data from the first five months of the fiscal year (July through November 2024).

The Mid-Year Report is projecting a $108.9 million General Fund revenue shortfall. Over three quarters of this deficit, $84.4 million, was anticipated in the FY 2025 Adopted Budget, as a portion of Excess Equity[1] from FY 2024 was used as a resource to balance the Budget in accordance with City Charter requirements.[2] The remaining $24.4 million of the projected deficit (the budgetary deficit) is the result of a $19.6 million decline in projected revenues and a $4.9 million increase in projected expenditures over the Adopted Budget.

It is anticipated the $24.4 million increased deficit projected in the Mid-Year Report could at least be partially mitigated with additional available Excess Equity, and there are some mitigation actions discussed in the Mid-Year Report that could also help reduce the projected deficit. We note in the *General Fund Reserve and Excess Equity Considerations* section of this report that there is some uncertainty with respect to the mid-year projections. ***Regardless of what the actual shortfall for FY 2025 turns out to be, it is important to note that any additional use of Excess Equity in***

[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.

[2] In addition to the $84.4 million of Excess Equity, $141.7 million in other one-time resources were used to balance the FY 2025 Adopted Budget, including $77.3 million in expenditure reductions and $64.5 million in increased revenues – about half of which was through reliance on non-general fund monies.

the current fiscal year will result in less resources available to balance the FY 2026 budget.[3] Updated projections will be provided in the FY 2025 Third Quarter Budget Monitoring Report, anticipated to be released May 14.

The IBA's review of the Mid-Year Report provides clarifying and additional information for Council and the public. In this report, we review: major General Fund revenues; cannabis business tax revenue; General Fund expenditures, focusing on salaries and wages (including public safety overtime); non-personnel expenditures (including Library security and Transportation contractual expenditures); and General Fund Reserve and Excess Equity considerations. We also provide additional information on homelessness expenditures including: a summary of major General Fund expenditure variances; updates on efforts to maintain shelter bed capacity; a discussion on the Housing Instability Prevention Program (HIPP) funding swap; and updates on other homelessness programs. Further, we discuss the Development Services Fund Reserve and operational deficits; review the Mid-Year Report's requested appropriation adjustments; and provide a status update on all items City Council added to the FY 2025 Adopted Budget as part of its final budget resolution.

FISCAL/POLICY DISCUSSION

GENERAL FUND REVENUES

The City's General Fund revenue is mainly derived from four major sources: Property Taxes, Sales Tax, Transient Occupancy Tax, and Franchise Fees. Along with Other Major General Fund revenues, these sources make-up 77% of General Fund revenue in the FY 2025 Adopted Budget.

As of January 2025, the City's major General Fund revenues for FY 2025 are currently projected to end the year $26.9 million, or 1.7%, below the Adopted Budget. The year-end shortfall projected in the Mid-Year Report is $16.7 million larger than what was previously projected in the First Quarter Budget Monitoring Report.

The primary driver of this decline is actual Sales Tax revenues coming in $29.4 million, or 7.5%, below amounts assumed in the Adopted Budget, which will be discussed in further detail in the Sales Tax section below.

Those decreases are slightly offset by increases in Franchise Fees and Other Major Revenues, which are projected to end the year $600,000, or 0.5%, and $4.7 million, or 4.7%, above the Adopted Budget, respectively.

[3] Preliminary projections and partial solutions for the FY 2026 revenue shortfall are discussed in our review of the FY 2026-2030 Five-Year Financial Outlook.

Major General Fund Revenues *($ in millions)*					
	Adopted Budget	**First-Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
Property Tax	$ 808.9	$ 814.4	$ 808.5	$ (0.3)	$ (5.9)
Sales Tax	393.5	381.8	364.1	(29.4)	(17.8)
Transient Occupancy Tax[a]	172.8	168.7	170.4	(2.4)	1.8
Franchise Fees	121.9	122.1	122.5	0.6	0.4
Other Major Revenues[b]	100.6	100.6	105.3	4.7	4.7
Total	**$ 1,597.7**	**$ 1,587.5**	**$ 1,570.8**	**$ (26.9)**	**$ (16.7)**

[a] These amounts represent the 5.5% portion of the 10.5% TOT rate that is apportioned directly to General Fund revenues. The additional 1.0% "Council Discretionary" allocation, and the 4.0% "Special Promotional Programs" allocation also impact total General Fund revenue and are discussed in the TOT section of this report.

[b] Note that updates for Other Major Revenues were not included in the First Quarter Report. Therefore, first quarter projection amounts shown here are the same as those of the Adopted Budget.

Property Tax

Property Tax revenue is projected to end the year at $808.5 million, which is $340,000, or less than 0.1%, below the Adopted Budget and $5.9 million, or 0.7%, below the First Quarter projection.

Property Tax revenue continues to show consistent growth, with FY 2025 year-end projections expected to be $37.7 million, or 4.9%, above FY 2024 actuals.

Property Tax revenue coming from the 1.0% tax on real property is projected to end the year $5.1 million, or 0.9%, above the Adopted Budget. However, that increase is offset by a $6.3 million, or 14.4%, reduction from the Redevelopment Property Tax Trust Fund (RPTTF) Residual Property Tax distribution to the City. The reduction is primarily due to delays associated with the sale of Tailgate Park, which would result in $5.8 million in RPTTF revenue for the City, associated with ongoing litigation that is unlikely to be resolved in FY 2025. Should the trial court's ruling be appealed by either party, it may be overly optimistic to include the $5.8 million sales proceeds in the FY 2026 budget.

Sales Tax

Sales Tax revenue is projected to end the year at $364.1 million, which is $29.4 million, or 7.5%, below the Adopted Budget, and $17.8 million, or 4.7%, below the First Quarter projection.

The Sales Tax growth rate in the Adopted Budget was 4.3%, which was later revised down to 1.3% during the First Quarter Report, and has now been revised down again to *negative* 3.4% as of the Mid-Year Report. The revised growth rates in the Mid-Year Report are in alignment with projections from the City's sales tax consultant, but diverge slightly from the UCLA Anderson Forecast statewide growth projections, which suggested that taxable sales will stay flat at a 0.6% growth rate in FY 2025; after the most recent second-quarter clean-up payment (discussed below), year-over-year growth is now projected to be -0.55%. Notably, other cities throughout California are also experiencing declines in their sales tax revenue as well, such as Los Angeles and San Jose.

Sales Tax Growth Rate Projections *(FY 2024 to FY 2025)*			
Fiscal Year Quarter	**Adopted Budget**	**First Quarter Projection**	**Mid-Year Projection**
First Quarter (Q1)	2.4%	(3.4%)	(6.9%)
Second Quarter (Q2)	8.5%	3.3%	(4.5%)
Third Quarter (Q3)	3.0%	(0.1%)	(2.2%)
Fourth Quarter (Q4)	3.1%	5.6%	0.1%
Annual Y-o-Y Growth	**4.3%**	**1.3%**	**(3.4%)**

As of the Mid-Year Report, Sales Tax distributions continue a trend that began in FY 2024 of actual receipts from the California Department of Tax and Fee Administration (CDTFA) coming in below budgeted amounts. The gap between the Sales Tax budget and actuals is worrisome in-part because:

- The FY 2025 year-end projection, as of the Mid-Year Report, is $12.9 million, or 3.4%, below the FY 2024 year-end actuals. Year-over-year declines in Sales Tax revenue typically occur only during recessionary periods; while California's economy has been in an extended slowdown for about two years, it is not in a recession;[4] and
- FY 2025 Sales Tax projections are atypical because the economic indicators that normally correspond with the sales tax projections (employment, consumer confidence, and inflation) are generally trending in a positive direction despite actual declines in Sales Tax revenues. The divergence between forecast models that inform the projections used to develop the City's budget and the actual receipts the City receives should be closely monitored to assess if this is a one-time phenomenon or a new normal.

Our Office believes that the sales tax consultant's and Department of Finance's projections for the remainder of FY 2025 are generally reasonable, as they are in line with actual receipts to date. We do note that since the release of the Mid-Year Report, the second quarter sales tax clean-up payment from CDTFA came in at $42.6 million, which is $10.8 million more than was projected. This increase helps reduce the $29.4 million variance between the Adopted Budget and projected year end actuals, but given increased volatility in actual sales tax receipts, our Office will continue to closely monitor sales tax payments from CDTFA in the second half of FY 2025 and the updated Spring 2025 UCLA Anderson Forecast in early March.

Transient Occupancy Tax

All Transient Occupancy Tax (TOT) revenue is projected to end the year at $324.0 million, which is $4.7 million, or 1.4%, below the Adopted Budget, and $3.4 million, or 1.1%, above the First Quarter projection.

[4] San Diego Economic Review – Q3 2024, *Avenue Insight and Analytics*, December 2024.

The portion of TOT revenue that goes directly to the General Fund is projected to end the year at $170.4 million, which $2.4 million below the Adopted Budget and $1.8 million above the First Quarter projection, consistent with the trends noted above.[5]

Transient Occupancy Tax Revenue *($ in millions)*					
	FY 2025 Adopted Budget	**First Quarter Projection**	**Mid-Year Projection**	**Variance from Budget**	**Variance from First-Quarter**
General Fund Allocation (5.5%)	$ 172.8	$ 168.7	$ 170.4	$ (2.4)	$ 1.8
Special Promotional Programs (4.0%)	124.6	121.5	122.8	$ (1.8)	$ 1.3
Council Discretionary (1.0%)	31.2	30.4	30.7	$ (0.4)	$ 0.3
Total	**$ 328.6**	**$ 320.5**	**$ 324.0**	**$ (4.7)**	**$ 3.4**

Note: Table may not total due to rounding.

The FY 2025 Adopted Budget assumed that TOT would grow by 5.9% from the FY 2024 actuals, but has since been revised down to 4.2% to reflect actual monthly TOT receipts to date.

Since the release of the Mid-Year Report, one additional month of TOT receipts was received by the City for the month of January which are slightly below what was projected, but otherwise closely aligned with the overall new projected growth rate.

Our Office believes that the TOT revenue growth rate and year-end projections in the Mid-Year are reasonable, and will continue to monitor actual receipts through the remainder of the year.

Franchise Fees

As of the Mid-Year Report, Franchise Fee revenue is projected to end the year at $122.5 million, which is $600,000, or 0.5%, above the Adopted Budget and $400,000, or 0.3%, above the First Quarter projection. This is because it was assumed there would be no changes in the projected Franchise Fee payments from San Diego Gas and Electric (SDG&E), which make up nearly 70% of Franchise Fee revenue in the Adopted Budget.

However, future revisions are anticipated: the February 2025 clean-up payment the City received from SDG&E was $33.2 million below projections ($24.9 million in the General Fund, and $8.3 million in the Environmental Growth Fund). Our Office will work closely with City staff to understand what accounts for the decrease and how it will impact franchise fee revenue moving forward.

[5] San Diego's TOT rate is 10.5%, with 5.5% of that amount allocated to the General Fund (to support general City services), 4.0% to Special Promotional Programs (to support programs and services that encourage tourism to the San Diego area), and 1.0% allocated as discretionary/Council directed funding.

Departmental Revenues

Cannabis Business Tax

The Mid-Year Report projects Cannabis Business Tax (CBT) year-end revenue to come in at $16.6 million, which is $2.8 million below the Adopted Budget and $650,000 below first-quarter projections. This decrease in revenue is likely due to ongoing competition from the illegal market, the unregulated hemp market, neighboring municipalities, and delivery services, as well as lower prices driven by an oversupply of cannabis products.

The City is in the early stages of considering a potential CBT rate increase for retail outlets from 8% to 10%. If this proposal moves forward and is approved by Council, the Department of Finance estimates that the increase, if implemented in May 2025, could generate up to $720,000 of additional CBT revenue for the current fiscal year. We note that this potential additional revenue is not included in the City Treasurer's mid-year CBT projections. Updated projections will be provided as part of the Third Quarter Budget Monitoring Report, to be released on May 14, 2025.

Other Major Revenues

Various other sources of smaller ongoing or one-time General Fund revenue make up 6.3% of Major General Fund Revenue in the FY 2025 Adopted Budget. Other Major Revenues include Property Transfer Tax, lease revenue, reimbursements to the General Fund, Refuse Collection Business Tax, and others.

Other Major Revenues are projected to end the year at $105.3 million, which is $4.7 million, or 4.7%, above the Adopted Budget. The increase is due to nine projected and actual revenue adjustments to the General Fund which are detailed on page 13 of the Mid-Year Report.

GENERAL FUND EXPENDITURES

The Mid-Year Report projects FY 2025 total General Fund expenditures to be $2.17 billion, $4.9 million higher than the FY 2025 Adopted Budget (this is a negative expenditure variance). This variance is 0.2% of the Adopted Budget, as shown in the following table.

FY 2025 General Fund Expenditures *($ in millions)*				
	Adopted Budget	Mid-Year Projection	Variance: Budget to Mid-Year	Variance %: Budget to Mid-Year
Salaries and Wages	$ 925.7	$ 956.9	$ (31.3)	(3.4%)
Fringe Benefits	577.5	574.7	2.8	0.5%
Non-Personnel Expenditures (NPE)	657.7	634.2	23.6	3.6%
Total General Fund Expenditures	**$ 2,160.9**	**$ 2,165.8**	**$ (4.9)**	**(0.2%)**

Notes: Table may not add due to rounding.
Positive variances are spending below budget levels. Negative variances are overages or spending above budget levels.

Overall, salaries and wages are projected to end FY 2025 $31.3 million (shown above as a negative expenditure variance) above amounts in the Adopted Budget, driven by a number of overages in salaries and wage components, the largest of which is overtime. Savings in fringe benefits and non-personnel expenditures (NPE) partially offset the salaries and wages overage for a net General Fund expenditure overage of $4.9 million.

The main focus of our General Fund expenditures analysis is salaries and wages, which is addressed in the following sections. Our report does not discuss fringe benefits and most NPE variances, with the exception of Library security and Transportation contractual expenses, as these are covered in the Mid-Year Report. Note that the salaries and wages and NPE projections include savings adjustments based on historical trends: these adjustments are discussed in the *General Fund Reserve and Excess Equity Considerations* section of this report.

Salaries and Wages – Variances by Category
The following table compares the FY 2025 mid-year projections to the Adopted Budget for the various salaries and wage categories. The bottom row in the variance column shows that salaries and wages in total are $31.3 million, or 3.4%, higher than what was included in the FY 2025 Adopted Budget (shown as a negative variance).

FY 2025 Salaries and Wages Expenditures - General Fund *($ in millions)*				
	Adopted Budget	**Mid-Year Projection**	**Variance: Budget to Mid-Year**	**Variance %: Budget to Mid-Year**
Salaries	$ 736.2	$ 738.2	$ (2.0)	(0.3%)
Overtime	96.0	122.9	(26.9)	(28.0%)
Special Pay	60.7	64.1	(3.4)	(5.6%)
Hourly	19.6	18.6	1.0	5.3%
Vacation Pay in Lieu	8.8	8.8	(0.0)	(0.5%)
Termination Pay	4.3	4.4	(0.0)	(0.5%)
Total Salaries and Wages	**$ 925.7**	**$ 956.9**	**$ (31.3)**	**(3.4%)**

Notes: Table may not add due to rounding.
Positive variances are spending below budget levels. Negative variances are overages or spending above budget levels.

As the table shows, there are overages in all salaries and wage categories (salaries, overtime, special pay, pay-in-lieu, and termination pay) except for hourly pay. The largest General Fund overages and savings in salaries and wage categories are highlighted below:

- Salaries – net $2.0 million overage (shown as a negative variance)
    - ($5.4 million) – Police
    - ($4.7 million) – City Attorney
    - ($1.5 million) – Transportation
    - ($712,000) – Real Estate
    - ($658,000) – Human Resources
    - ($645,000) – Development Services
    - ($521,000) – Environmental Services

    - Salary overages are partially offset with $4.4 million in savings from Fire-Rescue; a $3.7 million citywide adjustment based on historical trends; $1.3 million from Library; $763,000 from Parks and Recreation; $753,000 from Facilities Services; and $518,000 from City Planning.
- Overtime – net $26.9 million overage (shown as a negative variance)
    - ($10.9 million) – Fire-Rescue
    - ($9.8 million) – Police
    - ($3.3 million) – Transportation
    - ($1.4 million) – Environmental Services
    - ($594,000) – Stormwater
    - ($585,000) – Parks and Recreation
- Special Pay[6] – net $3.4 million overage (shown as a negative variance)
    - ($1.6 million) – Fire-Rescue
    - ($1.0 million) – Police
- Hourly – net $1.0 million savings (shown as a positive variance)
    - $1.2 million – Police
    - $812,000 – Library
    - $485,000 – Human Resources
    - Hourly savings are partially offset with $1.3 million in overages from Fire-Rescue and $1.3 million from Parks and Recreation

Salaries and Wages – Departmental Variances

As noted, total salaries and wage expenditures net to $31.3 million more than what was included in the FY 2025 Adopted Budget. In the section above, variances are discussed 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 – $15.2 million above budget (largely overtime, salary, and special pay overages, partially offset with hourly savings)
- Fire-Rescue – $9.5 million above budget (largely overtime, special pay, and hourly overages, partially offset with salary savings)
- Transportation – $4.9 million above budget (largely overtime and salary overages)
- City Attorney – $4.8 million above budget (largely salary overage)
- Environmental Services – $2.0 million above budget (largely overtime and salary overages)
- Parks and Recreation – $1.5 million above budget (largely hourly and overtime overages, partially offset with salary savings)
- Stormwater – $803,000 above budget (largely overtime, salary, and special pay overages, partially offset with hourly savings)

[6] 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).

- Real Estate – $665,000 above budget (largely salary overage)
- Development Services – $641,000 above budget (largely salary overage)

Departments with the highest salaries and wage *savings* include:

- Citywide Program Expenditures – $3.7 million below budget (for the citywide savings adjustment based on historical trends)
- Library – $2.1 million below budget (largely salary and hourly savings)
- City Planning – $642,000 below budget (largely salary and hourly savings)
- Facilities Services – $620,000 below budget (largely salary savings, partially offset with overtime overage)

The next two sections discuss specific departmental variances: overtime overages for the Fire-Rescue and Police Departments.

Fire-Rescue – Overtime

The Fire-Rescue Department is projected to exceed its overtime budget by $10.9 million at fiscal year-end, for total projected overtime expenditures of $55.7 million. The projected overtime overage is offset by $2.9 million in salary and special pay savings and approximately $3.9 million in revenue above what is budgeted for reimbursable strike team deployments in FY 2025, which results in a projected net General Fund impact of $4.1 million.

Total projected overtime expenditures represent a $5.2 million increase compared to the First Quarter Report, of which $3.3 million is primarily due to ongoing difficulties reaching full staffing. Reaching full staffing is critical given that the Fire-Rescue Department utilizes a "constant staffing" model to fill all required operational fire suppression posts at fire stations through the City.

All vacancies require that other fire fighters be assigned to each vacant post on an overtime basis. As of January 24, 2025, the SDFD has 57 sworn vacancies within its Fire Suppression Operations, the majority of which are Fire Captains and Fire Engineers. Difficulties promoting existing fire fighters specifically into the Fire Engineer rank has been an issue for several years. While the Department has taken steps to increase the number of fire fighters seeking promotion by making changes to the Fire Engineer exam process, the number of applicants remains below expectations.

Fire Suppression Vacancies as of January 24, 2025	
Fire Battalion Chief	1
Fire Captain	24
Fire Engineer	24
Fire Fighter II	7
Fire Pilot	1
Total	**57**

The First Quarter Report assumed that the Department would be able to fill most vacancies in the Fire Captain and Fire Engineer ranks through promotions by the end of FY 2025, and achieve full staffing among all Fire Suppression Operations during the fourth quarter of FY 2026; the Department is now anticipating most Fire Captain and Engineer vacancies to be filled by the end of FY 2026 and reaching full staffing by the end of FY 2027. We note that the Department has requested restoration of its third fire academy in the FY 2026 budget; if received, the Department believes that full staffing could be reached by the end of FY 2026, as previously anticipated. Council may wish to receive more information from the Department concerning its ongoing challenges with the Fire Engineer promotional process and the impacts those difficulties have on its ability to reach full staffing. Fire-Rescue overtime will remain elevated until these issues can be resolved.

The other significant cause for the projected increase in overtime since the First Quarter Report is an increase in strike-team deployments ($1.8 million). These activities are reimbursable and largely budget neutral. We note that the January 2025 wildfires in Los Angeles County occurred after the development of mid-year projections and are therefore not accounted for in the Mid-Year Report.

Police – Overtime

The Police Department is projected to exceed its overtime budget by $9.8 million at fiscal year-end for total projected overtime expenditures of $56.2 million. This represents a $339,000 increase in projected overtime compared to the First Quarter Report. The Department is anticipating that the City will receive approximately $872,000 in revenue above what is budgeted for reimbursable overtime activities in FY 2025, which would result in a projected net General Fund impact of $8.9 million.

The primary cause for the projected overage in overtime expenditures over the last several years continues to be related to the Department's significant sworn staffing shortages. As of February 24, 2025, the SDPD has 175 sworn vacancies (1,863 of 2,038 budgeted positions are filled), with an average of 13 officers leaving the department per month in FY 2025 (101 officers departed in total). While this level of attrition is higher than FY 2024, it is in-line with historical averages prior to FY 2022. However, attrition due to retirement has increased significantly and already exceeds FY 2024 totals (29 retirements in FY 2025 to date as compared to 26 total retirements in all of FY 2024); an additional 40 sworn officers are currently in the City's Deferred Retirement Program (DROP) and anticipated to retire in FY 2025.

SDPD Average Attrition FY 2019 - FY 2025	
FY 2019	13 per month
FY 2020	13 per month
FY 2021	13 per month
FY 2022	20 per month
FY 2023	15 per month
FY 2024	10 per month
FY 2025*	13 per month

* Through February 24, 2025

The FY 2025 Adopted Budget reduced the number of budgeted Police Recruits in each of the Department's four police academies from 43 to 30 given the recent downward trend in starting academy sizes. Recruitment has improved since the start of the fiscal year, exceeding budgeted levels but still below the department's goal of 50 recruits per academy. Two of the Department's four budgeted academies are in progress with a combined total of 73 recruits currently in attendance (together they started with 84 recruits total). While this has contributed to the Department's projected overage in salary expenditures, the larger academy sizes also help offset the overall rate of sworn officer attrition.

As our Office has previously discussed, SDPD is in the process of establishing a dedicated unit responsible for centralizing overtime planning to better prioritize and more efficiently deploy its use of overtime. The meet-and-confer process required under the Meyers-Milias-Brown Act (MMBA) is underway, though it is unknown when this process will be completed.

Non-Personnel Expenditures

Library Security

The Library Department's contract services expenditures are projected to end the year above budget by $662,000. This is largely due to a projected overage of $809,000 for security guard services, partially offset by $331,000 in maintenance and janitorial services savings.

In July 2024, the City's previous contract for security services expired, prompting the Library Department to obtain security services for library locations on a month-to-month basis, which increased costs by approximately 30%. Additionally, the Department also required extra security for locations experiencing high rates of overnight homelessness encampments and vandalism. As a result, the department projects year-end security services contract expenditures to come in at $3.3 million, which is $809,0000 higher than budgeted, but $181,000 lower than first quarter projections.

According to Purchasing and Contracting Department (P&C), the City is in the process of finalizing a new sole-source contract with Allstate Security to provide security guard services for one year, beginning February 2025. The contract would include an option for a one-year extension and will have a not-to-exceed (NTE) amount of $3.0 million, which allows the contract to be executed via mayoral approval. Staff has indicated this was done to enable the City to receive security guard services as soon as possible. That said, our Office notes that an amendment to this contract is anticipated later this year to increase NTE *above* $3.0 million, which *would* then require Council's approval. In addition to the Library Department, the security services under this contract will be utilized by Parks and Recreation, Development Services, and General Services (Facilities Division).

This sole-source contract with Allstate Security is intended to serve as an interim contract. P&C anticipates releasing a Request for Proposal for a long-term security guard services contract once the City approves a policy that enables further evaluation of contractors, particularly concerning living wage violations. **Council may wish to request updates on the status of security services contract procurement.**

Transportation Contractual Expenditures

The Transportation Department is projecting to end the year $2.2 million over budget in contractual expenses. This amount would likely be higher were it not for Transportation taking proactive steps to reduce other expenses in order to mitigate the overage.

As detailed in the Mid-Year Report, actual overages for contractual expenses within the Department due to unforeseen expenses total $4.0 million, and are mostly related to vehicle and equipment rentals due to delayed procurements of permanent vehicles ($2.0 million), as well as numerous other overages for increased debris being disposed ($500,000), services provided by Engineering and Capital Projects ($370,000), security services ($336,000), and office space ($300,000), among other expenses. To mitigate these overages, Transportation has reduced other projected expenditures by $1.8 million, primarily through reductions to tree trimming ($1.2 million), brush and weed abatement ($526,000), and graffiti expenditures ($91,000).

These reductions will reduce service levels within the FY 2025 Adopted Budget for these services, including:

- Reducing and eventually halting palm tree trimming through the rest of the year, resulting in about half of the originally scheduled trees not being pruned;
- Reducing and eventually halting the trimming of shade trees for the remainder of the year, resulting in about one-third of the originally scheduled trees not being trimmed;
- Stopping work once current purchase orders are completed for abatement within center medians, shoulders, bike lanes, and paper streets, while maintaining funding only for Fire Marshal referred brush and weed mitigation; and
- Potentially stopping graffiti abatements on private property once the current purchase orders are completed, which would potentially reduce by less than half the amount of abatement conducted in FY 2025.

While most of the other spending adjustments within the Mid-Year Report are due to unforeseen changes in spending for the year, these reductions constitute potentially significant service level decreases to mitigate expenditure overages elsewhere. The Department identified these savings in response to the Mayor's directive to identify potential reductions related to contractual services, with a focus on keeping City crews operating as much as possible while curtailing services like these that are contractually funded. Many of these services have not yet been halted, and thus associated savings may not materialize to the extent projected in the Mid-Year Report. **The Council may wish to ask Transportation and the Administration how they chose to these services, and how they plan to mitigate any liability and other impacts from these service level reductions.**

GENERAL FUND RESERVE AND EXCESS EQUITY CONSIDERATIONS

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.

At the beginning of FY 2025, projected available Excess Equity was estimated to be $20.6 million. With the release of the mid-year projections, it has dropped to negative $3.9 million. This means if year-end activity were to equal the mid-year revenue and expenditure projections, the $20.6 million Excess Equity projected at the beginning of the year would be fully utilized, and further, the General Fund Reserve would need to be tapped by $3.9 million. The resulting impact to the General Fund Reserve is shown in the following table.

FY 2025 General Fund Reserve Policy vs Reserve Balance (*$ in millions*)	
Reserve Policy Target Percent	***13.58%***
Reserve Policy Target [a]	$ 238.3
Year-End Reserve Balance Projected at Budget Adoption	207.1
Mid-Year Projection for Use of Reserve	(3.9)
Difference: Amount Projected Reserve Is Below Policy Target	**$ (35.1)**
Reserve Balance as Percent of Operating Revenues	***11.58%***

Note: Table may not total due to rounding.

[a] The Reserve target is based on the average of the prior three years' operating revenues.

It is important to consider that there is always some uncertainty in mid-year projections. Some more significant areas of uncertainty in FY 2025 include impacts of several recent mitigation directives,[7] such as the current hiring freeze and suspension of non-essential spending; and future impacts of the more recent operational consolidations and position reductions have not been factored into the mid-year projections.[8] Additionally, the Department of Finance incorporated overall General Fund expenditure savings adjustments totaling $16.5 million, including $3.7 million for salaries and wages, $1.1 million for fringe benefits, and $11.7 million for non-personnel expenditures. These savings adjustments are based on historical trends between mid-year projections and year-end actual expenditures, as well as consideration of the recently implemented mitigation directives. The Department of Finance notes that it is unable to predict the departments or categories where these savings will occur. If these savings do not materialize by year-end, the resulting negative impact could further reduce the General Fund Reserve.

With respect to revenues, based on information received after the release of the Mid-Year Report, franchise fee revenue from SDG&E is also anticipated to come in $24.9 million below the Adopted Budget as discussed on page 5. On the other hand, as discussed on page 4, the second quarter sales tax clean-up payment from the CDTFA came in $10.8 million more than projected. Note that updated projections for FY 2025 will be provided in the FY 2025 Third Quarter Budget Monitoring Report, anticipated to be released May 14.

Notwithstanding uncertainties in the mid-year projections, the Mid-Year Report, as mentioned, projects a negative $3.9 million impact to the General Fund Reserve. To address this projected Reserve reduction, the City plans to implement various additional mitigation measures, which total

[7] On December 4, 2024, the Mayor announced several deficit mitigation efforts to begin immediately, including: a hiring freeze; suspension of non-essential overtime and other nonessential expenditures; zero-based review of outside contracts for opportunities to reduce expenditures; prioritization of capital projects; halting the Civic Center revitalization effort; evaluation of City leased office space for efficiencies; and evaluation of revenue-generating measures such as increased fees and fines. Cost savings have not been quantified.

[8] On February 18, 2025, the Mayor announced operational consolidations and position reductions including: the Mayor's assumption of the City Manager role; consolidation of the Mayor's Office, Office of the COO, Government Affairs, and Office of Boards and Commissions; consolidation of the Sustainability and Mobility Department into other departments; consolidation of the Department of Race and Equity into the Department of Human Resources; consolidation of the Office of Child and Youth Success into the Library Department; consolidation of the Department of Cultural Affairs into the Economic Development Department; and additional reductions in unclassified positions that are not included in the consolidations. Annual savings were cited at an estimated $5.4 million.

$12.7 million in estimated resources that are not included in the mid-year projections. As shown in the following table, these resources are anticipated to result from increased parking meter rates and use of Parking Meter Fund balance; higher parking citation fines; user fee increases; and a 2% increase in Cannabis Business Tax for retail outlets. If all measures are implemented, the FY 2025 fund balance projected in the Mid-Year Report would improve to a positive $8.9 million – meaning there would be $8.9 million in available Excess Equity. For additional information on these mitigation measures, please refer to the Mid-Year Report.

Estimated Impacts of Additional FY 2025 Mitigation Actions *($ in millions)*		
FY 2025 Projected Use of General Fund Reserve	**$**	**(3.9)**
Total Projected Funding from Mitigation Actions		**12.7**
Parking Meter Rate Increase		*4.0*
Use of Parking Meter Fund Balance		*4.0*
Parking Citation Increase		*3.3*
Category 2 and 3 User Fee Increase		*0.7*
2% Cannabis Business Tax Increase for Retail Outlets		*0.7*
FY 2025 Projected Excess Equity with Mitigation Actions	**$**	**8.9**

Note: Table may not total due to rounding.

HOMELESSNESS EXPENDITURES

Consistent with recent years, the Mid-Year Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending. In the following section, we highlight significant changes reflected in the memorandum regarding the major General Fund variances and provide some notable program updates.

Projected General Fund Expenditures

The HSSD memorandum projects City General Fund expenditures will be $3.3 million lower than assumed in the Adopted Budget. Overall, the memorandum reflects the implementation of replacement shelter beds as part of the Short-Term Action Plan, savings from reconfiguring security services and delayed expansion of shelter capacity at the proposed Kettner and Vine site, and a funding swap to fully fund the Housing Instability Prevention Program in FY 2025. The table in the following page summarizes the major increases and decreases in projected spending for programs, with savings shown as a positive expenditure variance.

Summary of Major General Fund Changes Since FY 2025 Adopted Budget (in thousands) *Subject to Change*				
Program	**Adopted Budget**	**Year-End Projection**	**Variance**	**Notes**
FY 2025 Replacement Shelter Beds				
New Permanent Shelter/Kettner & Vine	$ 1,915	$ -	$ 1,915	Not proceeding as of February 2025
Interim Housing for Homeless Adults (PMC)	1,820	533	1,287	Closed December 2024
Golden Hall Upstairs	4,503	2,024	2,480	Closed December 2024
Adult & Seniors Interim Shelter (VVSD)	-	1,979	(1,979)	Open January 2025, replacement beds
Veterans Interim Shelter (VVSD)	-	632	(632)	Open December 2024, replacement beds
Lighthouse Interim Shelter	-	572	(572)	Open December 2024, replacement beds
Alcohol Use Disorder Interim Shelter	-	374	(374)	Open December 2024, replacement beds
Rachel's Promise Center for Women and Children	-	1,239	(1,239)	Anticipated March 2025
Subtotal	**$ 8,238**	**$ 7,354**	**$ 884**	
Housing Instability Prevention Program Funding Swap				
Connections Interim Housing	1,224		1,224	Funded with PLHA, previously General Fund
Bishops Shelter	658		658	Funded with PLHA, previously General Fund
Housing Instability Prevention Program	-	1,882	(1,882)	Funded with General Fund, previously PLHA
Subtotal	**$ 1,882**	**$ 1,882**	**$ -**	
Other				
Restrooms	4,210	2,054	2,156	Additional savings from security reconfiguration
Other Expenditures	39,586	39,302	284	Remaining programs (e.g., Safe Sleeping, Safe Parking, Outreach, HSSD admin, etc.)
Subtotal	**$ 43,796**	**$ 41,356**	**$ 2,440**	
Total	**$ 53,917**	**$ 50,593**	**$ 3,324**	

PMC = Paul Mirabile Center; VVSD = Veterans Village of San Diego; PLHA = Permanent Local Housing Allocation

[a] Includes $1.4 million in various expenditures covered with San Diego Housing Commission advanced/carryforward funds.

Below we provide additional context for changes that are not already discussed in the memorandum.

Updates on FY 2025 Replacement Shelter Beds

The HSSD memorandum reflects the City's efforts to replace relocated shelter beds, including 614 beds that went offline in December 2024 and an additional 40 beds at a women's shelter anticipated to go offline in June 2025. Released December 5, 2024, IBA Report 24-34 summarizes the Short-Term Action Plan developed by HSSD and the San Diego Housing Commission (SDHC) to maintain the City's shelter capacity in response to the December shelter relocations through a combination of expanded Safe Sleeping, diversion efforts, and 263 replacement shelter beds at four alternative sites (which are detailed in the table above).

Since then, SDHC and HSSD announced plans to replace the remaining 40 beds going offline this fiscal year with a 210-bed shelter for women and children planned to open March 2025. The replacement shelter will be located in the East Village community and include non-congregate, semi-congregate, and congregate beds for women (including seniors) and children. On February 14, 2025, the SDHC Board approved the contract to operate the shelter for an initial four-month term. Partial-year operation and start-up costs in FY 2025 total $1.7 million, of which $1.2 million is assumed in the mid-year projections and the remaining will be funded through redirected operating funds from the relocated shelter beds. Notably, annualized costs for the new 210-bed women and children's shelter total $5.6 million, of which $5.0 million is for program operations, $309,000 for start-up costs, and the remaining $81,000 for SDHC administration. Once fully operational, the shelter will operate at $65.69 per bed night, which is lower than the systemwide average of $84 per bed night, based on the 2023 Community Action Plan Update. According to HSSD, future operating costs for the women and children's shelter can be funded within the existing HSSD budget by reallocating funds from the relocated women's shelter – along with consolidating higher-cost shelter beds at this location, such as non-congregate beds for seniors.

Expenditure increases associated with replacement beds totaling $4.8 million are fully offset with $5.7 million in savings from both partial-year operations of the relocated shelters and budgeted funds for new permanent shelter at Kettner and Vine, which is no longer being pursued. The remaining $884,000 in savings from replacement bed activities contributes to the overall mid-year savings identified in the HSSD budget.

<u>Housing Instability Prevention Program (HIPP) Funding Swap</u>
The HSSD memorandum also incorporates Council action to permit a funding swap to fully fund HIPP in FY 2025. Specifically, HIPP will receive $1.9 million from General Fund appropriations initially allocated to fund two shelters – Connections Interim Housing and Bishops Shelter. In exchange, the two shelters will receive an equal amount of funds from the City's Permanent Local Housing Allocation (PLHA), which were initially allocated to support HIPP. This funding swap has no overall impact to the General Fund budget, as seen in the table on the previous page.

For context, the City receives PLHA allocations from a flat State fee charged to real estate transactions (SB 2, 2017). Although the State allows PLHA funds to support a variety of specified housing and homelessness initiatives, including rental assistance and emergency shelter, the City's PLHA plan adopted in 2020 prohibited use of these funds for shelter operations and capital costs. As part of the FY 2025 Adopted Budget, Council allocated $5.2 million from PLHA to fund HIPP, which is operated by SDHC and provides financial assistance to low-income, housing-unstable renters. However, PLHA can only fund rental assistance for households earning up to 30% area median income, and does not allow paying rental arrears, whereas HIPP offers financial assistance to households up to 80% area median income and can cover arrears. Given the eligibility incompatibilities, SDHC estimated needing a minimum of $1.9 million from an alternative funding source to cover HIPP households who would not be eligible for PLHA funds. During the Council meeting on November 19, 2024, Council took action to remove the prior restriction on PLHA going to shelter operations and capital costs, thereby, permitting HIPP to be funded with a blend of PLHA for eligible families and General Fund for the remaining families through a funding swap with two emergency shelters.

<u>Other Homelessness Program Updates</u>

- *Old Central Library.* HSSD notes a $770,000 overage to fund unanticipated security services at the Old Central Library, which was last used as a temporary 34-bed winter weather shelter for women before permanently closing in July 2024. Three security guards are stationed at the site at any given time to help deter further vandalism of the building. We note that these security services costs are slightly higher than the $753,000 initially budgeted in FY 2025 to operate the winter weather shelter at the Old Central Library. These funds were redirected to the expansion of O Lot as part of the Short-Term Action Plan. Additionally, the City was previously awarded $312,000 from County Capital Grants to improve the Old Central Library. Since the site will no longer be operational as a shelter, HSSD is working with the County to request these funds be reallocated to other homelessness-related capital improvement needs.

- *Domestic Violence Shelter Grant Underspend.* Opened in FY 2024, the City's domestic violence shelter was allocated $3.0 million to support FY 2025 operations from a County grant totaling $6.2 million. HSSD projects that only $1.3 million of the allocation will be expended in FY 2025 due to the time needed to ramp up capacity, especially related to streamlining the referral process as the shelter serves families countywide. As an estimated $5.0 million will remain available and must be spent by December 2025, HSSD is working with the County to request an extension for expenditure of funds.
- *Closure of Storage Connect II.* Following the expiration of legal settlement agreements and under-utilization, Storage Connect II located on Lea Street closed in fall 2024. Storage center operations at the City's other two sites are expected to continue unaffected.

DEVELOPMENT SERVICES FUND

The Mid-Year Report projects year-end expenditures for the Development Services Fund to exceed revenues by $16.7 million. With a beginning Reserve balance of $3.4 million, the Fund is projected to have a shortfall of $13.4 million and end the fiscal year without any Reserve balance. Both declines in projected revenue and higher than anticipated expenditures contribute to this shortfall. Year-end revenue for the Fund is projected at $127.8 million, which is $11.8 million lower than in the Adopted Budget. Revenue declines are attributed to trends first noted in the FY 2024 Year-End Report; this includes (1) a nearly six-month delay in the implementation of updated user fees and (2) an extension on building permit applications implemented starting June 2024 to allow developers more time to secure financing and obtain permits, which resulted in delayed permit-related revenues. Year-end expenditures are projected at $144.6 million, which is $4.9 million higher than in the Adopted Budget. Expenditure overages are largely due to filling vacant positions more quickly than anticipated to address demand for processing permits more efficiently, as well as tenant improvements, furnishing, and relocation costs associated with leased office spaces at 550 C Street and 7650 Mission Valley. These overages are partially offset by a delay in expenditures for the Department's efforts to digitalize records, and the suspension of other non-essential expenditures.

According to staff, the Department is developing a plan to reduce its current year shortfall and address its structural deficit in FY 2026 to mitigate future shortfalls. Mitigation measures that have been implemented or are pending include paring back furnishings at the two leased office spaces; filling only critical vacancies (and prioritizing internal promotions when hiring); reducing Department overtime; seeking Public, Educational, and Governmental (PEG) fees the City charges on cable and video service providers to offset tenant improvements for the public hearing room planned at the Mission Valley office location; and increasing billable work on right-of-way inspections currently transitioning from the Engineering and Capital Projects Department. Additional mitigation measures could include encouraging early retirement and reviewing potential changes to staffing given slower permit-related activity. The Department is also considering a future user fee update study to fully cover the cost of providing services through those fees. For instance, although the leases for the two new office spaces were factored into the

2024 user fee study, the one-time costs of $4.5 million for tenant improvements, moving, and furnishing were not. The Department of Finance indicates that it will continue to monitor the Fund and will consider options to address the FY 2025 shortfall closer to the end of the fiscal year, when the outlook of the Fund is clearer.

The Department intends to maintain a reserve, which aims to provide financial stability and consistent service levels when there are unanticipated losses of revenue, most often due to economic downturns or emergencies. The FY 2025 Reserve Policy target for the Development Services Fund Reserve is 15.0% of the Fund's most recent three-year average of audited actual expenditures, or $15.9 million. As seen in the following table, the Mid-Year Report projects the Development Services Fund Reserve will end FY 2025 with *no balance*, as the $3.4 million beginning Reserve balance will be exhausted in FY 2025 after partially covering the Fund's $16.7 million operating shortfall. After exhausting the Reserve balance, the Development Services Fund will then be left with a *$13.4 million shortfall*.

Council may wish to learn more about the Department's planned timeline for replenishing their Reserve balance under best-case and worst-case scenarios and whether extending the timeframe for Reserve targets to meet the 15% target level established in Council Policy 100-20 **may be appropriate in the near-term.** For context, Council last revised Council Policy 100-20 with respect to the Department in June 2018 (City Council Resolution 311817) to extend the timeframe to meet the Reserve target level from FY 2022 to FY 2025, consistent with IBA Report 18-18. Given uncertainty over future development activity, several years may be needed to address the Development Services Fund structural deficit and subsequently begin replenishing the Reserve.

Development Services Fund Reserve
Policy Target vs Reserve Balance *($ in millions)*

	FY 2023	**FY 2024**	**FY 2025**
Reserve Policy Target Percent	***12.0%***	***13.5%***	***15.0%***
Reserve Policy Target [a]	$ 10.9	$ 12.9	$ 15.9
Reserve Balance [b]	10.9	3.4	-
Difference: Amount Reserve Balance Is Below Policy Target	**$ 0.0**	**$ (9.5)**	**$ (15.9)**
Reserve Balance as Percent of Operating Expenditures	***12.0%***	***3.5%***	***0.0%***

Note: Table may not total due to rounding.
[a] The Reserve targets are based on the average of the prior three years' operating expenditures.
[b] FY 2025 Reserve Balance is a projection and subject to change.

PROPOSED APPROPRIATION ADJUSTMENTS

The Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year General Fund deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The "Council may approve the Mayor's recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor."

The Mid-Year Report projects a budgetary deficit of $24.4 million. It also conveys that in response to this deficit, the City plans to implement various mitigation efforts; in the absence of sufficient resources from mitigation efforts, the City will utilize available Excess Equity and the General Fund Reserve as needed to support operating expenditures. Discussions regarding mitigation actions and uncertainties with respect to the mid-year projections are also included in *General Fund Reserve and Excess Equity Considerations* section of this report.

The Council is being asked to approve several General Fund and non-General Fund appropriation increases, including to the Transportation Department (General Fund), Airports Fund, PETCO Park Fund, Solid Waste Management Fund, and Metropolitan Sewer Utility Fund. We note that Table 20 in the Mid-Year Report incorrectly includes a $1.1 million increase in Airports Fund revenue, which matches the $1.1 million of increased expenditure appropriation. However, the Mid-Year Report language accurately states that the increased expenditure appropriation is supported by available fund balance in the Airports Fund, rather than by increased revenue.

Our Office supports the proposed appropriation adjustments, though it is also important to note that increased FY 2025 expenditures will result in fewer resources available to balance the FY 2026 budget.

STATUS OF ITEMS CITY COUNCIL ADDED IN FY 2025 BUDGET

In its action to approve the FY 2025 Budget on June 11, 2024, the City Council identified resources and took action to add programs and services in the final Adopted Budget. These items represented some of the Council's top budget priorities for FY 2025. The table in Attachment 1 shows the implementation status for each of these additions.

CONCLUSION

This report provides clarifying and additional information for Council and the public with respect to the Mid-Year Report. We review: major General Fund revenues; cannabis business tax revenue; General Fund expenditures, focusing on salaries and wages (including public safety overtime); non-personnel expenditures (including Library security and Transportation contractual expenditures); and General Fund Reserve and Excess Equity considerations. We also provide additional information on homelessness expenditures; discuss the Development Services Fund Reserve and operational deficits; review the Mid-Year Report's requested appropriation adjustments; and provide a status update on all items City Council added to the FY 2025 Adopted Budget as part of its final budget resolution.

The Mid-Year Report is projecting a $19.6 million decline in General Fund revenues and a $4.9 million increase in General Fund expenditures as compared to the Adopted Budget, resulting in a $24.4 million budgetary deficit. The mid-year projections are somewhat uncertain as discussed in the *General Fund Reserve and Excess Equity Considerations* section of this report, including with respect to future impacts of recent mitigation directives (such as the hiring freeze and suspension of non-essential spending). Additionally, several notable items have not been factored into the projections, including recent operational consolidations and position reductions; additional mitigation measures (such as parking meter rate increases and potential parking citation increases); a $24.9 million projected decrease in General Fund franchise fee revenue; and the second quarter sales tax clean-up payment from the CDTFA, which came in $10.8 million higher than projected. The total net result of all these variables is yet to be determined, given most of them are based on future outcomes.

Regardless of what the actual shortfall for FY 2025 turns out to be, it is important to note that any additional use of Excess Equity in the current fiscal year will result in less resources available to balance the FY 2026 budget. Updated projections will be provided in the FY 2025 Third Quarter Budget Monitoring Report, anticipated to be released May 14.

Lastly, the Council is being asked to approve several General Fund and non-General Fund appropriation increases, including to the Transportation Department (General Fund), Airports Fund, PETCO Park Fund, Solid Waste Management Fund, and Metropolitan Sewer Utility Fund. ***Our Office supports the proposed appropriation adjustments***, though it is also important to note that increased FY 2025 expenditures will result in fewer resources available to balance the FY 2026 budget.

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Attachment 1: Status of City Council's Modifications in FY 2025 Adopted Budget

Status of City Council's Modifications in FY 2025 Adopted Budget			
Description	**Item**	**Amount**	**Status**
General Fund (GF) Expenditures			
GF Operating Budget - One-Time			
Small Business Enhancement Program (SBEP)	1	$ 1,061,000	Council modified the FY 2025 SBEP base budget of $775,000 to increase the total budget by $1.06 million to $1.84 million. As of February 4, EDD expended $789,000 and encumbered $506,000 in accordance with Council Policy 900-15. The Department expects to commit the budgeted amount of $1.8 million in FY 2025 as additional reimbursement requests for SBEP programs, such as Capacity Building Grants Program, come in throughout the latter half of the fiscal year.
Youth Care and Development Drop-In Pilot Program	2	1,002,000	The pilot program's scope-of-work has been drafted by the program's managing organizations. The draft contract is currently being reviewed by Purchasing & Contracting and by the City Attorney's Office. Once the contract is finalized, funds will be awarded.
City Council: Community Projects, Programs, and Services (CPPS)	3	900,000	$100,000 per Council District allocated for the benefit of the City's neighborhoods and communities (see Council Policy 100-06). The application period was July- August 2024; tentative awards were announced in October 2024; Council may approve these awards sometime between October 2024 - March 2025; and the funds will be dispersed between March - July 2025.
Multidisciplinary Outreach Support (funding for SDHC)	4	750,000	With the $750,000 addition, program funding from the City totals $1.1 million. Program also received $750,000 from the State in FY 2024 to augment services. Fiscal year-to-date, $373,000 from the City allocation has been spent. In the first half of FY 2025, the program had served 38 persons, with 60% of those exiting the program placed in permanent housing or other long-term housing (i.e., positive exits).
Midway Sprung Shelter Support (funding for SDHC)	5	577,660	Supports continued hot lunch service. With Council modification, program funding totals $5.1 million.
Support for Meal Services at Family Shelter (funding for SDHC)	6	350,783	Supports continued hot lunch service. With Council modification, program funding totals $2.6 million.
Bridge Shelter Support at 17th and Imperial (funding for SDHC)	7	289,864	Fully funds operational and service-related costs under current staffing structure. With Council modification, program funding totals $3.9 million.
Harm Reduction Interim Shelter Support (funding for SDHC)	8	238,614	Supports operational and service-related costs, along with continued hot lunch service. With Council modification, program funding totals $2.4 million.
Library Materials	9	230,000	Department anticipates spending the full amount by fiscal-year end.
Pothole Repair Vehicle	10	174,000	The vehicle was ordered on 10/1/2024 and the City is awaiting delivery, which is anticipated at 9-12 months.

Status of City Council's Modifications in FY 2025 Adopted Budget			
Description	**Item**	**Amount**	**Status**
General Fund (GF) Expenditures			
GF Operating Budget - One-Time			
Your Safe Place - Case Management System (CMS) Support	11	91,000	Total anticipated costs have been reevaluated and reduced to $84,000, including software licenses and support services. The budget will be fully expended in FY 2025.
Miscellaneous Adjustments	12	4,679	Rounding and other miscellaneous adjustments.
Replacement of the Golden Hall Shelter	13	-	No budget change for the reallocation of $3.0 million from Golden Hall (272 beds) shelter to replacement shelter. Alongside Council action on Item 14 below, total available allocation for identifying replacement shelter beds is $4.2 million. Funds support 263 replacement beds identified as part of the Short-Term Action Plan, presented to Council on December 9, 2024. Full-year operating costs starting in FY 2026 are estimated at $6.6 million.
Support New Emergency Shelter Location With Savings from the Paul Mirabile Center	14	-	No budget change for the reallocation of $1.2 million from Paul Mirable Center (350 beds) for identification of new emergency shelter location. See Item 13 above for additional information.
Appropriation for New Emergency Shelter Beds Is Contingent on Future Council Action	15	-	No budget change. Following an announcement that a long-term lease for new shelter beds at Kettner and Vine site will not be pursued, these funds are identified as savings in the Mid-Year Report.
GF One-Time Capital Items			
Jeremy Henwood Park Improvements	16	1,000,000	Project is currently with Parks & Recreation in the community input phase. Final recommendation from the Community Recreation Group (CRG) will be submitted March 2025. It will then be transferred to Engineering & Capital Projects to determine best delivery method, timeline, and total project costs.
Installation of Three Streetlights in the University City Community	17	150,000	This amount will fund the project through the Pre-Design Engineering report with approximately $90,000 being expended in FY 2025. Total project is initially estimated to be $565,000 and to be completed in three years. Total project cost will be refined after the Pre-Design Engineering report is completed.
Total GF Expenditures		**$ 6,819,600**	

Status of City Council's Modifications in FY 2025 Adopted Budget			
Description	**Item**	**Amount**	**Status**
GF Resources			
GF Operating Budget - One-Time			
Reduced GF Expenditures for the Housing Instability Prevention Program (HIPP)	18	$ 3,000,000	Council budget action transferred support for HIPP from the General Fund to PLHA. See Item 34 below for additional information.
New Parks & Recreation Positions - Fleet Savings	19	1,498,000	These vehicles are now being funded through the Equipment and Vehicle Financing Program instead of with cash from the General Fund. Most vehicles have already been ordered and are awaiting delivery.
FY 2024 Elections Refund	20	1,200,000	Utilized as Excess Equity to help balance the budget.
Parks & Recreation Open Space and River Park Rangers - Delayed to January 1, 2025	21	974,000	Hiring has been paused; positions are not anticipated to be filled in FY 2025
Parks & Recreation Water Adjustment	22	724,000	Mid-Year Report projects non-discretionary water expenditures to be $753,000 over budget due to dry weather conditions and lack of rainfall
FY 2024 Residual RPTTF	23	592,000	Utilized as Excess Equity to help balance the budget.
TransNet Maintenance Fund Balance	24	367,000	Incorporated in the FY 2025 budget for overall TransNet Transfers.
Additional Excess Equity	25	332,000	Utilized to help balance the budget.
HOME-ARP Fund Balance	26	240,000	In progress. EDD and HSSD are coordinating to allow HSSD to directly charge eligible homelessness outreach expenditures to the HOME-ARP fund balance. The full balance is anticipated to be expended this fiscal year.
FY 2024 Additional Interest Earnings	27	200,000	Utilized as Excess Equity to help balance the budget.
Reduced Budget for Downtown Office Space Analysis Contract	28	150,000	Implemented as an ongoing budget reduction.
Civil Penalty Fund Balance	29	124,000	Transfer will occur before the end of FY 2025, likely last quarter.
Reduced Transfer from Energy Independence Fund to General Fund	30	(500,000)	Reduced transfer leaves this amount in the EIF for Phase 2 of the Public Power Feasibility Study.
Reduced Transfer from Community Equity Fund to General Fund	31	(3,085,400)	Reversed the transfer from the CEF to the General Fund, leaving this amount in the CEF for a transfer to SDHC for flood victims. See Item 35 below for additional information.
GF Operating Budget - Ongoing			
Ongoing Residual RPTTF	32	1,004,000	Included in GF revenue budget.
Total GF Resources		**$ 6,819,600**	

Status of City Council's Modifications in FY 2025 Adopted Budget			
Description	**Item**	**Amount**	**Status**
Non-GF Expenditures			
Non-GF Operating Budget - One-Time			
Allocate CDBG to SDHC Notice of Funding Availability (NOFA)	33	$ 6,000,000	Following an announcement that a long-term lease for Kettner and Vine shelter will not be pursued, $6 million from CDBG funds are intended to be made available for the next SDHC NOFA for affordable housing. As an initial step, City and SDHC would need a MOU for SDHC to access CDBG funds, which could take at least three months.
Allocate PLHA to SDHC for the Housing Instability Prevention Program (HIPP)	34	5,200,000	In November 2024, Council took action to allow a funding swap between PLHA and City General Fund to address income eligibility differences between HIPP and PLHA, and fully fund HIPP in FY 2025 (previously mentioned in IBA Report 24-33 REV, Attachment 1). As of the end of January, SDHC has spent $2.2 million on HIPP, including $1.3 million from PLHA and $856,000 from City General Fund. As of mid-February, HIPP has 300 active households enrolled, including 105 households newly enrolled in FY 2025. SDHC commenced new enrollment on October 17, 2024.
Community Equity Fund (CEF) Transfer to SDHC for Flood Victim Recovery Program	35	3,085,400	As of mid-February, SDHC has spent $2.3 million of the CEF allocation on housing assistance to flood victims, along with the full County allocation of $4.2 million. A total of 424 families have received assistance through the program, as of January 29th.
Public Power Feasibility Study	36	500,000	This funding allows work to continue on the Public Power Feasibility Study, as opposed to pausing that work indefinitely. A final report is anticipated to be completed in FY 2026, although at a potentially more limited scope and pending additional funding in FY 2026.
City Council: Arts, Culture, and Community Festivals	37	450,000	$50,000 per Council District to provide access to arts and cultural events and resources (see Council Policy 100-23). The application period was August - September 2024; tentative awards were announced in November 2024; Council may approve these awards sometime between November 2024 - March 2025; and the funds will be dispersed between April - August 2025.

Status of City Council's Modifications in FY 2025 Adopted Budget			
Description	**Item**	**Amount**	**Status**
Non-GF Expenditures			
Non-GF One-Time Capital Items			
Climate Equity Fund Eligible Projects	38	5,917,000	Bond funding was included in the CIP budget for the projects listed on page 11 of IBA Report 24-14. Please see footnote below for update on project status.
Fix Most Dangerous Intersections	39	785,000	The $785,000 was allocated to two projects: •**$521,600** was allocated to B24119 (Traffic Signal First Ave & Market St) in FY 2025 for a total project allocation of $573,080 to date. $50,000 is anticipated to expend in FY 2025. Project is currently in the planning phase. Design anticipated to be completed by the end of FY 2025, with anticipated construction to be completed by September 2027. Total project cost is estimated at $650,500. •**$263,400** was allocated to B20075 (Traffic Signal Mods Grp 20-01) for a total project allocation of $1,570,044 to date. $800,000 is anticipated to expend in FY 2025. Project is currently in the bid/award phase, with anticipated construction to be completed by December 2025. Total project cost is estimated at $1,840,000.
Southcrest Recreation Center	40	500,000	Southcrest Rec Center & Drainage Improvement project (P25004) was created in FY 2025. $500,000 is anticipated to be expended in FY 2025 for the feasibility study to produce specific analysis and modeling for the park site.
North Pacific Beach Lifeguard Station	41	120,000	Amount is anticipated to expend in FY 2025 to complete property acquisition.
Total Non-GF Expenditures		**$ 22,557,400**	

Item 38 - Status of Climate Equity Fund-Eligible projects included on page 11 of IBA Report 24-14:

•***Grove Neighborhood Park (S22002)*** - Project is currently in design. Anticipated total project cost is $27M. Phase 1 expected to be completed in December 2027.
•***Parks Hardcourt Improvements (Emerald Hills and Encanto) (B22045)*** - Parks and Recreation staff has completed the scoping of the project and will be transferring the project to Engineering and Capital Projects shortly. E&CP will then determine the best delivery method, budget, and timeline for the project.
•***Installation of City Owned SL 2201 (NSG) (B22149)*** - Design is anticipated to be completed in FY 2025. Total anticipated project cost is $701,800. Anticipated construction completion is 10/28/2027 and project completion of 11/13/2028.
•***Streetlight Installations in CD4 (B23127)*** - 60% of design is anticipated to be completed in FY 2025. Total anticipated project cost is $1,320,500. Anticipated construction completion is 5/24/2028 and project completion of 5/30/2029.
•***Willie Henderson Lighting (B23011)*** - Construction award is anticipated to occur in September 2025. Anticipated total project cost is $1.9M and anticipated completion in calendar year 2026.
•***Streetlight Installations in CD8 (B23129)*** - Design is anticipated to be completed in FY 2025. Total anticipated project cost is $1,314,900. Anticipated construction completion is 5/58/2028 and project completion of 5/31/2029.
•***Beyer Park Phase 1 (S00752)*** - Project is currently in construction. Anticipated total project cost is $22.5M and anticipated completion in October 2030 including a 5-year mitigation program.
•***Streetlight Installations in CD7 (B23128)*** - Design is anticipated to be completed in FY 2025. Total anticipated project cost is $572,300. Anticipated construction completion is 11/29/2027 and project completion of 11/30/2028.
•***Chicano Park Improvements Phase III (B20060)*** - Currently in the community outreach phase to develop a scope of work.
•***Castle Neighborhood New Street Lights (B19080)*** - Construction completed in July 2024. Project completion anticipated for 6/30/2025. Anticipated total project cost is $1,450,000.

Status of City Council's Modifications in FY 2025 Adopted Budget			
Description	**Item**	**Amount**	**Status**
Non-GF Resources *(one-time)*			
CDBG (for SDHC NOFA)	42	$ 6,000,000	See Item 33 above for additional information.
Debt Financing for Capital Projects	43	5,917,000	Bond funding was included in the CIP budget for the projects listed on page 11 of IBA Report 24-14. See Item 38 above for additional information on these projects.
PLHA (for HIPP)	44	5,200,000	See Item 34 above for additional information.
Restore Community Equity Fund (to support Flood Victim Recovery Program)	45	3,085,400	Council budget action reversed the transfer from the CEF to the General Fund, leaving this amount in the CEF for a transfer to SDHC for flood victims. See Item 35 above for additional information.
Infrastructure Fund (after swap with RMRA Fund Balance)	46	785,000	Funding included in CIP budget.
Infrastructure Fund (after swap with Citywide Park DIF) - for Southcrest Rec Center	47	500,000	The Adopted Budget included funding from Citywide Park DIF; CIP Mid-Year Report adjustments swapped the Citywide Park DIF for Infrastructure Funds.
Reduced Transfer of Energy Independence Fund Balance to General Fund	48	500,000	Council budget action leaves this amount in the EIF for Phase 2 of the Public Power Feasibility Study.
TOT Fund Balance for Arts, Culture, and Community Festivals (ACCF)	49	450,000	Amount allocated to ACCF as part of final budget approval.
Citywide Fire DIF for Fire-Rescue Deficient Communities	50	120,000	Funding included in CIP budget.
Total Non-GF Resources		**$ 22,557,400**	