

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

City Council Meeting
March 3, 2025
Item 200



Office of the Independent Budget Analyst



Review of FY 2025 Mid-Year Report

IBA Report 25-06 covers:

- General Fund (GF) revenue analysis
- GF expenditures
- GF Reserve and Excess Equity Considerations
- Homelessness expenditures
- Development Services Fund
- Proposed appropriation adjustments
- Status of items City Council added in FY 2025 Budget

GF Revenues

Major GF revenue projections generally reasonable

| 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 ¹ | 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 ² | 100.6 | 100.6 | 105.3 | 4.7 | 4.7 |
| Total | \$1,597.7 | \$1,587.5 | \$1,570.8 | \$(26.9) | \$(16.7) |

¹ 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.

² 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.

GF Revenues *(cont'd)*

Sales Tax considerations

- Actual receipts coming in below budget since FY 2024.
- Growth rates have been revised down twice in FY 2025.
- FY 2025 projections are lower than FY 2024 actuals.
 - Typically only occurs during recessionary periods; not currently the case
- Economic indicators (employment, consumer confidence, inflation) are generally trending positive.
 - The divergence between forecast models and actual receipts needs close monitoring.

GF Revenues *(cont'd)*

Additional information on sales tax and franchise fees received after Mid-Year Report's release:

Sales Tax

- 2nd Qtr sales tax clean-up payment came in \$10.8M more than projected.

Franchise Fees

- February 2025 clean-up payment from SDG&E came in \$33.2M below budget:
 - \$24.9M for GF
 - \$8.3M for Environmental Growth Fund (also GF impact)



GF Expenditures

Salaries and Wages variances primarily due to overtime

| FY 2025 Salaries and Wages Expenditures - General Fund (<i>\$ in millions</i>) | | | | |
|--|-----------------|---------------------|------------------------------|--------------------------------|
| | 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.

GF Expenditures *(cont'd)*

Overtime Overages

Fire-Rescue – \$10.9M over-budget

- Net GF impact of \$4.1M due to \$2.9M in salary savings and \$3.9M in revenue from reimbursable strike team deployments.
- Difficulties filling Fire Captain and Fire Engineer ranks.
- Fire-Rescue believes that full staffing can be reached by the end of FY 2026, if 3rd fire academy is restored in FY 2026.

Police – \$9.8M over-budget

- Net GF impact of \$8.9M as SDPD anticipates \$872K in revenue from reimbursable overtime activities.
- Largely due to continued sworn staffing shortages.

GF Expenditures *(cont'd)*

Non-Personnel Expenditures

Security Guard Services for Libraries – \$809K over-budget

- New sole-source contract pending: NTE of \$3.0M
 - NTE amount allows contract execution by Mayor.
 - Request to increase NTE is anticipated later this year – requires Council approval.

Transportation Contracts – \$2.2M over-budget

- Due to vehicle equipment rentals, other overages – \$4.0M.
 - Mitigated by savings from reduced tree trimming, brush & weed and graffiti abatement – potentially significant service level decreases.
 - Savings are in response to Mayor's directive to reduce contractual services – many services have not yet been halted.

Homelessness Expenditures

Projected GF expenditures \$3.3M lower than budgeted

- FY 2025 Replacement Shelter Beds – \$884K net savings
 - \$4.8M in expenditures from Short-Term Action Plan and replacing women’s shelter
 - Offset by \$5.7M redirected from relocated shelters and Kettner & Vine no longer being pursued.
- Housing Instability Prevention Program (HIPP) Funding Swap – No GF impact
 - HIPP will receive \$1.9M from GF appropriations initially allocated for two shelters.
 - Two shelters will receive equal amount from PLHA initially allocated for HIPP.
- Other Homelessness Program Updates:
 - \$770K overage for security services at the Old Central Library
 - Domestic violence shelter underspending due to ramp-up time
 - Closure of the Storage Connect II

Development Services Fund

Projected expenditures exceed revenues by \$16.7M

- Attributed to:
 - Delayed implementation of updated user fees; delayed permit-related revenues from extensions
 - Filling vacant positions faster than anticipated; leased office costs
- \$3.4M beginning Reserve partially offsets \$16.7M revenue shortfall.
 - Fund projected to have **\$13.4M shortfall** and **no Reserve balance**.

| FY 2025 Development Services Fund Reserve | |
|---|------------------|
| Reserve Policy Target Percent | 15.0% |
| Reserve Policy Target | \$15.9M |
| Projected Year-End Reserve Balance | - |
| Difference: Projected Reserve Balance Is Below the Policy Target | \$(15.9M) |
| Projected Reserve Balance as Percent of Operating Revenues | 0.0% |

GF Reserve and Excess Equity Considerations

Without any mitigation actions, the City is projected to use \$20.6M Excess Equity and \$3.9M from the GF Reserve

| FY 2025 General Fund Reserve Policy vs Reserve Balance (<i>\$ in millions</i>) | |
|--|------------------|
| <i>Reserve Policy Target Percent</i> | 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) |
| <i>Reserve Balance as Percent of Operating Revenues</i> | 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.

GF Reserve and Excess Equity Considerations *(cont'd)*

There is some uncertainty in mid-year projections

- Impacts of recent mitigation directives – impacts not quantified
- GF expenditure savings adjustments – \$16.5M in savings

Items not factored in mid-year projections

- Sales tax clean-up payment – \$10.8M in revenue
- Franchise Fee clean-up payment from SDG&E – -\$24.9M in revenue
 - An additional \$8.3M reduction to EGF will also impact reimbursements to GF.
- Additional Mitigation Actions – \$12.7M in revenue (\$4.7M not yet approved by Council)
- Recent operational consolidations and position reductions

Conclusion

- Mid-Year Report projecting \$24.4M GF budgetary deficit.
 - Projections somewhat uncertain, several notable items not factored into the projections.
- Regardless of actual FY 2025 shortfall: ***any additional use of Excess Equity in the current fiscal year will result in less resources to help balance the FY 2026 Budget.***
 - Updated projections will be provided in 3rd Quarter Report, set to be released on May 14.
- We support Council approval of appropriation adjustment requests.
 - This and any future appropriation needs will result in fewer resources available to balance the FY 2026 Budget.