



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: June 3, 2020

IBA Report Number: 20-11

City Council Docket Date: June 8, 2020

Item Number: 602

Recommended City Council Modifications to the Mayor's Proposed FY 2021 Budget and Review of the May Revision

This report presents the Office of the Independent Budget Analyst's final FY 2021 budget review and recommendations for Council budget modifications. The recommendations are based on the following: our analysis of the May Revision to the FY 2021 Proposed Budget (May Revision), the FY 2020 Third Quarter Budget Monitoring Report (Third Quarter Report), and the FY 2021 Proposed Budget. Recommendations also reflect our review of Councilmember budget modification memoranda that were submitted to our Office on May 22, 2020 and released separately as IBA Report 20-12, as well as consideration of feedback from the public, City staff, and City Councilmembers received during the Budget Review Committee hearings.

This report is released at the end of a budget development process that has included extensive reviews of the Mayor's FY 2021 Proposed Budget by the City Council and the IBA, including:

- The IBA's review of the Mayor's FY 2021 Proposed Budget issued on April 29, 2020 as IBA Report No. 20-06
- Departmental and agency budget hearings with the Budget Review Committee that took place on May 4-8, 2020
- An evening Budget Review Committee meeting held on April 30, 2020 and an evening City Council meeting held on May 11, 2020, in order to solicit input from the community on the Mayor's budget proposals and City Council's budget priorities for FY 2021
- Department of Finance responses to Budget Review Committee requests for additional information released following Budget Review Committee hearings
- The discussion of the May Revision and Third Quarter Report (both of which were released on May 19, 2020) at the Budget Review Committee on May 21, 2020

- The IBA’s response to Budget Review Committee Request for Information Regarding Development of the FY 2021 Budget issued on May 20, 2020 as IBA Report No. 20-10

Our recommendations for Council budget modifications and other requests for Council authority, are itemized in the concluding section of this report. Our review of the May Revision to the FY 2021 Proposed Budget is attached to this report.

IBA RECOMMENDED BUDGET MODIFICATIONS

Following the release of the May Revision and Council’s subsequent review at the Budget Review Committee hearing on May 21, 2020, Councilmembers submitted budget modification memoranda to our Office on May 22, 2020. These memos identified expenditure priorities and potential new funding sources that were not included in the FY 2021 Proposed Budget or May Revision. Our Office reviewed all budget priorities mentioned in Councilmembers’ memos. **We recommend funding all items which are supported by a majority (five or more) of the Council.**

Our recommended modifications total \$31.0 million, \$20.6 million in the General Fund and \$10.4 million of CARES Act and CDBG funding as summarized in the table below. This funds all items which received majority support from the Councilmembers and several items that are high priority and/or high impact and can be supported by the available funding. The following discussion contains further details on the recommended adjustments, including descriptions for each line item.

Recommended Modifications to the Mayor's FY 2021 Budget		
	FTE Positions	Amount (in millions)
General Fund Restorations and Priority Programs	103.51	\$ 20.6
Establish COVID-19 Rent Relief Fund with CARES/CDBG		10.4
Total Recommended Budget Modifications	103.51	\$ 31.0

Recommended General Fund Expenditure Additions

The table on the following page lists out the adjustments that total an additional \$20.6 million in expenditures for priority General Fund programs, including 103.51 FTE positions. A majority of these items are restorations of programs proposed for reduction in the Mayor’s FY 2021 Proposed Budget that were not restored in the May Revision. As noted above, all items supported by a majority (five or more) of Councilmembers are included, plus several items that are high priority and/or high impact and can be supported by the available funding identified in the subsequent section. This includes additional funding for 18 programs. Following the table are descriptions of each item.

Recommended Expenditure Modifications to the General Fund FY 2021 Budget			
Item	Department	FTE	Amount
Library Hours	Library	93.01	\$ 6,556,386
Tree Trimming	Transportation		1,817,193
Pothole Repair Crew	Transportation	2.00	130,649
City Auditor Restoration	City Auditor		253,908
STAR/PAL Unit ¹	Police	2.00	191,997
Brush Management	Parks & Recreation		411,473
Infrastructure Fund FY 2019 True-Up	Citywide Program Expenditures		5,663,897
Living Wage Program	Purchasing & Contracting	1.00	102,887
Weed Abatement	Transportation	1.00	756,228
Graffiti Abatement	Transportation	2.00	267,917
City Attorney Budgeted Vacancy Savings Reduction	City Attorney		1,765,776
City Clerk Restoration	City Clerk		239,660
Climate Action Plan Support	Sustainability		250,000
Internet Access for Low-Income Communities	Information Technology		500,000
Reservoir Recreation Programs ²	Public Utilities		648,501
Sherman Heights Community Center	Capital Improvements Program		547,000
Tree Planting	Transportation		300,000
Remaining Recreation Center Hours	Parks & Recreation	2.50	202,384
Total General Fund Expenditures		103.51	\$ 20,605,856

¹ Proposed restoration assumes an alternative staffing level consisting of 2.00 sworn FTEs that was determined in collaboration with the STAR/PAL program. The full reduction in the Proposed Budget included 7.00 FTEs and \$1.4 million.

² Amount is net of revenue. Mayoral staff is currently in discussions with the County regarding matching funds to support opening of the reservoirs.

Library Hours - \$6.6 million (93.01 FTE positions)

The FY 2021 Proposed Budget reduced the hours of operation for all library locations systemwide, including the permanent closure of the Mountain View/Beckwourth Library, for a total reduction of 96.51 FTE positions and \$6.8 million. While 3.50 FTE positions and \$250,000 was included in the May Revision to restore operations at the Mountain View/Beckwourth Library, the overall reduction to Library hours was maintained, which would result in closures of all library locations on Sundays and Mondays. Councilmember budget memoranda unanimously supported some level of restoration to library hours. Given that a majority of Councilmembers specifically requested full restoration back to FY 2020 operating levels, **our final recommendations include restoration of \$6.6 million, including 93.01 FTE positions, to restore Sunday and Monday library hours systemwide.**

Tree Trimming - \$1.8 million

The Mayor's FY 2021 Proposed Budget reduced \$1.8 million for tree trimming services. This reduction, which has been proposed each year going back to FY 2018, would eliminate the planned trimming of shade trees, and increase the number of years for routine palm tree maintenance from 2 years to 8 years. While the palm tree reduction was new this year, reductions to shade tree trimming have been proposed by the Mayor going back to FY 2018 and restored every year in some capacity by the City Council. This year, there was unanimous support among Councilmembers for restoring these services. **Our Office recommends appropriating approximately \$1.8 million to restore tree trimming services.**

Pothole Repair Crew - \$131,000 (2.00 FTE positions)

The FY 2021 Proposed Budget reduced one of nine pothole repair crews, resulting in a reduction of 2.00 FTE positions and approximately \$131,000. Restoring these positions, which received support from a majority of Councilmembers, would maintain the average response time for pothole repair at 10 business days. **Our Office recommends restoring the 2.00 FTE positions, for \$131,000, to the pothole repair crews.**

City Auditor Restoration - \$254,000

In accordance with the City Charter section 39.1 requirement to recommend the City Auditor's budget to the City Council, the Audit Committee unanimously recommended that Council adopt the City Auditor's FY 2021 budget as proposed by the Office of the City Auditor, with no discretionary cuts or new additions to the FY 2020 Adopted Budget. FY 2021 Proposed Budget cuts include the following: the \$161,000 4% budget reduction to non-Mayoral departments' salaries and wages expenditures; a \$91,000 increase to vacancy savings (which decreases salaries and wages); and a \$2,000 decrease to professional/technical services and discretionary information technology expenditures. **In their budget priority memoranda, a majority of Councilmembers supported restoring the cuts to the City Auditor's FY 2021 budget, which total \$254,000.**

STAR/PAL Unit - \$192,000 (2.00 FTE positions)

A majority of Councilmembers supported the restoration of the Police Department's STAR/PAL Unit which was eliminated in the FY 2021 Proposed Budget (7.00 FTE positions and \$1.4 million). The Department has collaborated with STAR/PAL program staff to determine an alternative minimum staffing level which would allow them to execute upcoming programming plans that have been modified due to COVID-19. **The minimum staffing level for the STAR/PAL Unit would include 2.00 sworn FTE positions at an estimated annual cost of \$192,000, which our Office recommends adding to the Police Department budget.** According to STAR/PAL program staff, they are working to streamline law enforcement staff duties by bringing in nonprofit staff members to offset the administrative workload previously required of SDPD officers. In addition, they plan to seek new relationships with other law enforcement agencies. Going forward, the Department plans to work with STAR/PAL to reevaluate the program needs for FY 2022.

Brush Management - \$411,000

A majority of Councilmember budget modification memoranda support the restoration of \$411,000 in funding for brush management that was reduced in the FY 2021 Proposed Budget. **Our final budget recommendations include restoring this \$411,000 in funding to the Parks and Recreation Department budget which will return the frequency of brush abatement to 21 months (509 acres) from 26 months (412 acres).**

Infrastructure Fund FY 2019 True-Up - \$5.7 million

The May Revision continues to suspend the Infrastructure Fund payment of \$29.4 million from General Fund revenues in FY 2021 to help balance the budget. Included in this amount, is \$5.7 million to true-up the amount allocated in the FY 2019 Adopted Budget. Since the amount required to be deposited into the Infrastructure Fund is largely driven by growth in General Fund revenues, each year the payment is reconciled using actual audited revenues against the point-in-time estimate used in the adopted budget. **We recommend continuing to suspend the Infrastructure**

Fund for FY 2021 but providing the additional \$5.7 million to fully fund the contribution for FY 2019.

Council may choose to fund any General Fund capital or maintenance infrastructure priority with these funds. **Council could consider allocating Infrastructure Funds to several projects that are proposed to be defunded in the CIP Budget Monitoring Report to address the FY 2020 budget shortfall:**

- Sidewalk Repair and Replacement – \$3.3 million
- Installation of City Owned Streetlights – \$1.4 million
- Streetlight Circuit Upgrades – \$1.0 million

Below is a list of the rest of the projects that were reduced in order to balance the FY 2020 budget, as well as projects that Council approved on May 12, 2020 to temporarily defund to support emergency storm water projects:

- Olive Grove Community Park ADA Improvement – \$1.1 million
- Hickman Fields Athletic Area – \$1.0 million
- Fire-Rescue Air Ops Facility - PH II – \$7.0 million
- Regional Park Improvements (no specific project) – \$3.0 million
- Balboa Park Federal Building Improvements – \$2.7 million
- San Carlos Branch Library – \$463,000
- Beyer Park Development – \$400,000
- Ocean Beach Pier Improvements – \$264,000
- Fire Station No. 51 - Skyline Hills – \$250,000

All of the above projects are currently anticipated to receive the next round of commercial paper funding, expected to come to Council for approval in FY 2021. Use of the \$5.7 million to true-up FY 2019 on these projects would allow future commercial paper to fund other City capital infrastructure priorities.

Living Wage Program - \$103,000 (1.00 FTE position)

The FY 2021 Budget as proposed by the Mayor includes a reduction of 6.00 FTE positions in the Purchasing and Contracting Department. One of these positions is a Senior Management Analyst that supports the Living Wage Program. In their memoranda, a majority of Councilmembers expressed concerns with any reductions to staffing levels in this program. As such, **we recommend reinstating the Senior Management Analyst position in the Living Wage Program** to maintain current levels of oversight and enforcement of the City’s wage policies.

Weed Abatement - \$756,000 (1.00 FTE position)

The FY 2021 Proposed Budget reduced weed abatement services for the right of way and paper streets by \$756,000, including the reduction of 1.00 FTE position. This reduction would eliminate

the routine abatement of sites throughout the City, resulting in only spraying of weeds with no manual removal on the medians and road shoulders. This reduction would have also limited the ability of the City to abate sites recommended by the Fire Marshal. Restoring these services received support from a majority of Councilmembers. **Our Office recommends restoring \$756,000, including 1.00 FTE position, for weed abatement.**

Graffiti Abatement - \$268,000 (2.00 FTE positions)

The FY 2021 Proposed Budget reduced \$268,000, including 2.00 FTE positions, related to graffiti abatement in both the public right of way and on private property. Restoring this funding will keep the number of business days to respond to graffiti on public property at eight days, as well as provide \$150,000 to fund abatement for approximately 500 locations and 50,000 square feet of residential property abatement. This restoration is supported by a majority of Councilmembers in their memoranda. **Our Office recommends restoring the \$268,000, including 2.00 FTE positions, for graffiti abatement.**

City Attorney Budgeted Vacancy Savings Reduction - \$1.8 million

The City Attorney requested, and several Councilmembers supported, restoring reductions to the City Attorney's Office budget. However, the requested amount was up to \$5.0 million, reflecting both the 4% reduction applied to all non-Mayoral departments and the budgeted vacancy savings. In subsequent discussions with the City Attorney's Office, they indicated that their priority, in order to meet the City Attorney's Charter-mandated service levels, is to correct the budgeted vacancy savings by returning it to the FY 2019 level and reducing the proposed budget reduction from 4% to 3%, which would require roughly \$2.4 million.

Our Office concurs with reducing the budgeted vacancy savings as we have raised concerns throughout the year with the amount being too high in our reviews of both the FY 2020 Mid-Year Budget Monitoring Report and FY 2021 Proposed Budget. We note in our Review of the FY 2020 Third Quarter Budget Monitoring Report (IBA Report No. 20-13) that the City Attorney's Office continues to project going over budget in personnel expenses this fiscal year. Therefore, **we support reducing the budgeted vacancy savings in the City Attorney's Office by approximately \$1.8 million.**

City Clerk Restoration - \$240,000

As part of the FY 2021 Proposed Budget, non-mayoral departments budgets were reduced by 4% across the board. This included a reduction of \$240,000 for the City Clerk's Office. The City Clerk indicated that this reduction could hinder her Office's ability to respond to Council requests for special meetings, as well as support the upcoming election and Redistricting Commission. Several councilmembers recommended restoring this reduction in their budget memoranda. **Our Office recommends restoring the \$240,000 to the City Clerk's Office** based on their justification of increasing workloads, including the impacts of COVID-19, which requires significant logistical changes to all public meetings; the increased support that will be needed for the upcoming elections, and the support that the Office needs to provide to the Redistricting Commission.

Climate Action Plan Support - \$250,000

The FY 2020 Adopted Budget included one-time funding to support additional Climate Action Plan (CAP) items, including consultant funding to update the overall CAP as well as funding to

complete a Climate Resiliency study. While the one-time funding was not reinstated in the FY 2021 Proposed Budget, the FY 2021-2025 Five-Year Financial Outlook did include additional ongoing Critical Strategic Expenditures for these purposes. During the Budget Review Committee hearings, the Sustainability Department also indicated that, without additional support, they would not be able to make progress on the update of the CAP, nor would they be able to complete the next 2020 CAP Annual Report. Several Councilmembers requested funding be added to support the CAP. **Our Office recommends adding \$250,000 to provide support for the CAP.** This funding should enable the Department to complete the 2020 CAP Annual Report and continue to make progress on updating the overall CAP.

Internet Access for Low-Income Communities Pilot Program (Free or Low-Cost) - \$500,000

The COVID-19 pandemic has highlighted the growing importance of internet access to connect citizens with government, education, telemedicine, employment opportunities, and other services. Several Councilmembers mentioned the need to close the digital divide by providing free or low-cost internet access for the City's low-income communities. There are different approaches and technologies that can be pursued to achieve this outcome on a temporary and more permanent basis. Four Councilmembers suggested different funding allocations for a pilot program that would begin to close the digital divide for low-income residents.

Our Office discussed possible approaches for free or low-cost internet access with Council staff and the City's Information Technology Director. Based on these discussions, **we recommend the Council consider budgeting \$500,000 on a one-time basis to:**

- 1. Develop free public Wi-Fi hot spots at appropriate City facilities (libraries, parks, etc.) in low-income communities;**
- 2. Explore and develop partnerships with internet service providers and non-profit partners to provide free or low-cost internet access; and**
- 3. Create an internal team with representatives from the Information Technology Department, Corporate Partnership Program, Council staff, and other appropriate City departments to lead the internet access effort.**

The goal would be to use this funding allocation to increase internet access to low-income communities on a pilot program basis and develop a longer-term approach to improve the program with new technologies and opportunities. Other municipalities have used different approaches to provide free or low-cost internet access for their low-income residents and it may be useful to review their programs. It is anticipated that funding would be used to acquire and maintain equipment to stand-up new Wi-Fi hot spots, ensure internet security measures are in place, and retain outside consultant expertise if necessary to advance the objectives of this program.

Reservoir Recreation Programs - \$649,000

During the Budget Review Committee hearings, many members of the public requested restoration of the recreational programs at the City's water reservoirs. Several Councilmembers also supported this in their budget modification memoranda. **We recommend restoring all reservoir recreation programs to FY 2020 levels at a net cost of \$649,000,** which includes the following:

- Restoring recreation days at the reservoirs to FY 2020 levels - \$400,000

- Water contact programs at El Capitan and Barrett Reservoirs - \$108,000 (net of revenue)
- Wastewater disposal services for the reservoirs - \$140,000

In addition, Mayoral staff is currently in discussions with the County regarding matching funds to support opening of the reservoirs.

Sherman Heights Community Center - \$547,000

Several Councilmembers included funding the Sherman Heights Community Center (B18006) project in their budget priority memoranda. According to Engineering and Capital Projects, the latest estimate needed to fully fund the project is \$547,000. The project scope includes removal of existing playground equipment, picnic tables, and safety surfacing. The existing ADA ramp is being evaluated and necessary modifications will be made to make the playground area accessible from the public way. **Our Office recommends allocating \$547,000 to the Sherman Heights Community Center project.**

Tree Planting - \$300,000

The Transportation and Storm Water Department currently has a backlog of 1,800 new tree plantings that, with additional funding, it would be able to implement with current staff. To address this backlog, the Department would need \$300,000. Several Councilmembers requested funding for additional tree planting in their budget modification memoranda. **Our Office recommends adding \$300,000 to address the tree planting backlog.**

Remaining Recreation Center Hours - \$202,000 (2.50 FTE positions)

The May Revision includes the restoration of 53.75 FTE positions and \$3.2 million which is a majority of the reductions in the FY 2021 Proposed Budget impacting hours of operations at recreations centers. The remaining 2.50 FTE positions, for \$202,000, that were not restored impact recreation centers in the Parks and Recreation Department's Developed Regional Parks Division:

- 1.00 Assistant Recreation Center Director and 0.25 Hourly Recreation Leader at the Balboa Park Activity Center (D3) - \$101,000
- 1.00 Assistant Recreation Center Director and 0.25 Hourly Recreation Leader at the Municipal Gym (D3) - \$101,000

Our Office recommends restoring the remaining \$202,000 and 2.50 FTE positions necessary to return all recreation centers back to FY 2020 service levels.

Resources Available for Council Modifications to General Fund FY 2021 Budget

The table below lists out \$20.6 million in resources available to support the additional \$20.6 million of expenditures in the General Fund. All resources identified by a majority (five or more) of Councilmembers are included, plus items that came to our attention subsequent to receiving Councilmembers memoranda. Following the table are descriptions of each recommended resource.

Recommended Resources for Modifications to the General Fund FY 2021 Budget		
Item	Department	Amount
General Fund's Fleet Replacement Fund Balance	Fleet Operations	\$ 15,200,000
Public Liability Fund	Risk Management	1,700,000
General Contract Reduction of 1%	Citywide Program Expenditures	2,450,000
Stadium Operations to SDSU by August 1	Stadium Operations	1,255,856
Total General Fund Revenues		\$20,605,856

General Fund's Fleet Replacement Fund Balance - \$15.2 million

In our response to the Budget Review Committee's request for additional information (IBA Report No. 20-10), we noted that an additional \$15.2 million of the General Fund's Fleet Replacement Fund balance could be used as a one-time funding source to address gaps in the FY 2021 budget as a result of the economic impacts of COVID-19. A majority of Councilmembers identified this funding source in their budget modification memoranda. The Fleet Department intended to use this balance to provide rate relief to the General Fund over the subsequent four fiscal years (FY 2022 – FY 2025). With the switch from a pay-go model to debt financing for the majority of General Fund vehicles, the General Fund will see some reduced costs in the short term which will level-off into ongoing debt payments in future years. The projected increase in debt payments for FY 2022 is \$3.9 million and debt payments are projected to increase by another \$2.5 to \$4.0 million each year through FY 2025. However, in light of the unique economic situation this fiscal year, **our Office is supportive of using \$15.2 million of the General Fund's Replacement Fund balance to address immediate concerns in the FY 2021 budget**, while acknowledging that the General Fund's expenses for future vehicle replacements will be increasing next fiscal year.

Public Liability Fund - \$1.7 million

In our review of the FY 2021 Proposed Budget, we wrote about Public Liability (PL) projections, specifically "the Risk Management Department is currently working on PL operating projections for FY 2020 year-end. There is potential for expenditures to come in less than the anticipated resources, in which case there could be available funds to help balance the FY 2021 General Fund budget. This information is anticipated to be available in the May Revision." The May Revision does include a \$324,000 reduction in expenditures to support to the PL Operating Fund. After speaking with Risk Management, we learned that there is an estimated \$1.7 million in further excess PL funds available for use as a resource in the FY 2021 Adopted Budget. A majority of Councilmembers cited this resource in their budget modification memoranda. **Our Office supports using the excess Public Liability Fund balance of \$1.7 million as part of the FY 2021 Budget approval process.**

General Contract Reduction of 1% - \$2.5 million

As discussed in IBA Report 20-10, contract spending in the FY 2021 Proposed Budget (prior to reductions or additions contained in the May Revision) increased from FY 2019 Actuals by \$11.4 million, or 4.9%. While these cost increases are not all within the category of outside contracts, and include increases in items such as rent, reimbursements to other City funds, and maintenance payments, a further reduction of these costs could be feasible. **Our Office recommends a reduction of approximately \$2.5 million, which is approximately 1% of contract spending in the General Fund.**

Stadium Operations to SDSU by August 1 - \$1.3 million

In the May Revision, the Mayor added \$3.0 million in expenditures and 0.5 FTE positions to the Stadium Operations Fund to support Stadium operations for the first three months of FY 2021. This was based on an updated timeline regarding the eventual anticipated sale and operational transition to SDSU. Since that time, the negotiating parties have reached a new agreement that was preliminarily approved by Council on May 29, 2020, which would have SDSU take over operations of the Stadium on or around August 1, 2020, assuming that the final PSA receives approval from Council in early June. This would be either due to the close of escrow on the site, or the implementation of a new lease for the property if the parties miss the Primary Target Closing Date. As such, the Stadium will only be the responsibility of the City for the month of July. Considering the revenues of the Stadium and anticipated expenses for July, our Office estimates that \$1.3 million in relief to the General Fund could be realized from the new agreement. **Our Office recommends the Council reduce the Stadium Operating Fund’s budget by approximately \$1.3 million and utilize this funding as a resource for other programs.**

Recommended CARES Act Expenditure Addition - Establish COVID-19 Rent Relief Fund

A majority of Councilmembers requested funds be allocated to create a COVID-19 Rent Relief Fund. This Fund would provide a limited amount of rent assistance to benefit low-income tenants who are facing financial hardship attributable to the COVID-19 pandemic. We have identified up to \$10.4 million of potential funding for this purpose, as reflected in this table and discussed below.

Recommended Modifications to Establish a COVID-19 Rent Relief Fund		
CARES Act Expenditure Item	Department	Amount
Establish COVID-19 Rent Relief Fund	Housing Commission	\$10,400,000
CARES Act Revenue Sources		Amount
CARES Act and Entitlement CDBG		\$ 5,400,000
CARES Act Fund Allocations from Operation Shelter to Home ¹		5,000,000
Total CARES Act Revenues		\$10,400,000

¹ \$5 million would be available for other CARES Act eligible expenses (e.g., COVID-19 Rental Assistance Program) if the Convention Center Emergency Shelter were to close by November 30th – one month earlier than expected. If the Shelter needs to remain open through December, the Mayor’s Office has suggested \$5 million could alternatively be taken from the proposed \$10 million budget allocation for Shelter exits in Operation Shelter to Home as significant other funds are already budgeted for this purpose.

Establish COVID-19 Rent Relief Fund using CARES Act and Entitlement CDBG - \$5.4 Million

In considering proposed amendments to the availability and allocation of CDBG funds on May 19, 2020, several Councilmembers expressed support for using additional and unanticipated CDBG funds (in the Public Services category) for this purpose. More specifically, there is \$1.8 million of unallocated FY 2021 CDBG entitlement funding and \$3.6 million of unallocated CDBG-CV funding that is eligible **to provide a total of \$5.4 million of rent relief to benefit low-income individuals and families struggling to pay rent due to the pandemic.** This Fund would also provide a benefit to landlords who may be having difficulty making their mortgage payments because tenant rent payments have been deferred.

HUD regulations stipulate that this CDBG funding:

1. Must benefit low-income individuals who are experiencing financial hardship due to COVID-19;

2. Can only be used to cover rent for a maximum of three months; and
3. Must be paid directly to the landlord on behalf of the qualifying tenant.

It is envisioned that the San Diego Housing Commission (SDHC) would be asked to administer the COVID-19 Rent Relief Fund. Our Office spoke with SDHC staff about their ability to administer this Fund if requested by the City Council and they expressed confidence in their ability to do so while adhering to HUD regulations. Other parameters regarding the use of the Fund (e.g., the maximum amount of rent relief allowed per household) could be established by the Council and SDHC so long as they comport with HUD regulations.

Several Councilmembers suggested some funds be set aside for tenant outreach, counseling, and education to ensure the program is a success. Given the significant economic hardship being experienced in low-income communities, there will not be enough money in this Fund to meet the needs of all qualifying tenants who apply for rent relief (this has been the case with the City's Small Business Relief Fund). Our Office supports setting some funds aside for tenant outreach and education to raise awareness and provide equitable access to the Fund. If a decision is made to establish the COVID-19 Rent Relief Fund using some or all of the referenced CDBG funds, the Council could elect to increase the amount of money in the Fund by redirecting other proposed CARES funding allocations as described in the following section.

Redirect Proposed CARES Act Fund Allocations from Operation Shelter to Home - \$5.0 million

Several Councilmembers suggested the possibility of redirecting a portion of the proposed \$39.7 million allocation of CARES Act funds in FY 2021 from Operation Shelter to Home to other CARES eligible expenses (e.g., a COVID-19 Rent Relief Fund). For this proposal to be viable, the City needs to successfully relocate its homeless citizens from the temporary Convention Center emergency shelter to other shelter or housing locations on or before December 30, 2020. It is estimated that approximately \$5.0 million of CARES Act funds will be available for redeployment for every month the Convention Center emergency shelter is no longer required.

Ideally, the Convention Center emergency shelter would no longer be needed by October 31, 2020, or sooner. This would allow the Convention Center to clean and reorganize during their slowest month of November and be ready for their largest scheduled convention in December. It is important to mention there are several uncertainties that impact the likelihood of this scenario – notably the availability of other shelter/housing options, the development of safety protocols to protect the sheltered homeless and convention attendees, and the speed at which the economy opens up and convention activity resumes.

Our Office has discussed the possibility of an earlier close to the Convention Center emergency shelter with staff from the Mayor's Office, Convention Center, SDHC, and the City's Homelessness Strategies Division. While the possibility of an earlier close to the emergency shelter is not certain, we believe there is a reasonable possibility the emergency shelter could close by November 30 - a month sooner than expected. If the Council agrees, then \$5.0 million of CARES Act funding can be redirected for rental relief or any other CARES Act eligible expense.

In the event the emergency shelter needs to remain open through December 2020, the Mayor's Office has suggested it may be possible to reduce the proposed \$10.0 million allocation to support

successful exits from the emergency shelter by \$5.0 million (\$10.0 million is included to support successful exits in the \$39.7 million allocated to Operation Shelter to Home). Their rationale is that other funding sources exist to further support successful shelter exits as shown in the table on page 10 of Attachment 1. Considering this feedback, **we believe it is reasonable for the Council to consider redirecting \$5.0 million from Operation Shelter at Home to any other CARES Act eligible expense.**

OTHER ISSUES

Council Vote Required for Creation of New Departments

We note that several Councilmembers had concerns with all or some of the new departments proposed in the Mayor's FY 2021 budget. While three of the four are essentially cost neutral, a separate two-thirds vote by the City Council in favor of these departments is required in order for the Mayor to implement. This matter will be docketed in the near future.

Housing Navigation Center

The total FY 2021 budget for the Housing Navigation Center is \$1.6 million, which comes from three different funding sources. On May 19, 2020, Council reviewed an item allocating funding for U.S. Department of Housing and Urban Development entitlement grant programs and voted to remove \$1.0 million in Community Development Block Grant (CDBG) funds for the Housing Navigation Center. Staff committed to bringing the funding request back to Council with a plan to enhance the program. Our Office notes that the Proposed Budget includes appropriations for the program's other two funding sources: \$300,000 in General Funds and \$250,000 in Low to Moderate Income Housing Asset Funds. **Council may wish to also defer these appropriations to when the \$1.0 million in CDBG funds comes back to Council so that the program's funding sources are treated consistently.**

FINAL BUDGET ACTIONS

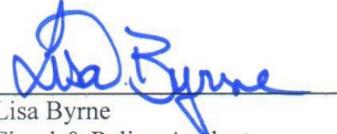
In order to approve the FY 2021 budget, the City Council is being asked to approve the following actions:

1. Approve the Mayor's FY 2021 Proposed Budget, as modified by the Mayor's May Revision.
2. Approve the IBA's recommended final budget modifications included in IBA Report 20-11 and as modified by the City Council.

The Mayor's Proposed Budget for FY 2021 includes a waiver of the annual General Fund contribution to the Infrastructure Fund. In accordance with City Charter section 77.1, this must be approved by a two-thirds vote of the Council and is reflected in the budget resolution prepared by the Office of the City Attorney. Following City Council's approval of the budget, the City Clerk will send the approved budget resolution to the Mayor in accordance with the City Charter.



Angela Colton
Fiscal & Policy Analyst



Lisa Byrne
Fiscal & Policy Analyst



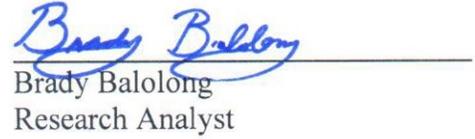
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Fiscal & Policy Analyst



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Fiscal & Policy Analyst



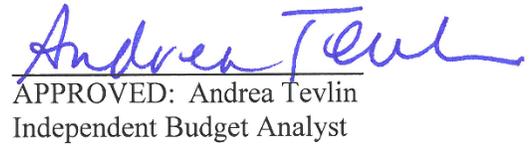
Jordan More
Fiscal & Policy Analyst



Brady Balolong
Research Analyst



Jeff Kavar
Deputy Director



APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment

IBA Review of the May Revision to the FY 2021 Proposed Budget

Our Office has reviewed the adjustments included in the May Revision and notes no significant concerns. We recommend further restorations of certain items that remain reduced from the FY 2021 Proposed Budget earlier in this report in our Recommended City Council Modifications to the Mayor's Proposed FY 2021 Budget. In the discussion that follows, we highlight selected items included in the May Revision that may be of particular interest to the City Council or to provide additional information.

HOW THE MAYOR RE-BALANCED THE FY 2021 BUDGET

As shown in the table on the following page, the May Revision overall added \$63.0 million in new revenues and expenditures to the FY 2021 Proposed Budget. While there were some City revenue increases of about \$5.0 million, the vast majority of the revenue added during the May Revision is from the inclusion of the federal CARES Act funding of \$146.1 million. Overall, there were \$88.1 million in revenue declines recognized in the May Revision, mostly from Major Revenues (\$47.0 million), departmental revenue reductions from the Transiency Occupancy Tax (TOT) Fund (\$20.8 million) and other departmental revenue decreases (\$12.4 million). Also in the May Revision, the Mayor is no longer proposing to utilize the balance of the Pension Payment Stabilization Reserve, reducing General Fund revenues by an additional \$7.9 million. More information on specific revenue changes can be found later in this report.

For expenditures, which increased by \$63.0 million, the majority of this increase is directly related to items completely funded by the CARES Act revenue. This funding, totaling \$56.3 million, is mostly comprised of Operation Shelter to Home (\$39.7 million) and additional funding for the Small Business Relief Fund (\$10.8 million). The Mayor is also proposing restorations of items reduced in the Proposed Budget of \$5.6 million, as well as \$10.1 million in additional new spending. There are also reductions totaling \$9.0 million. Further information on these expenditure changes can also be found in this report.

How the Mayor Balanced the May Revision	
Major Revenues	Amount (in millions)
Revenue Reductions	\$ (47.0)
Revenue Increases	1.0
Pension Stabilization Change	(7.9)
<i>Subtotal Major Revenue Changes</i>	<i>\$ (53.9)</i>
Departmental Revenues	
TOT Reimbursement Decrease	(20.8)
Revenue Increases	4.0
Revenue Decreases	(12.4)
<i>Subtotal Departmental Revenue Changes</i>	<i>\$ (29.2)</i>
CARES Act Funding	146.1
Total Revenue Changes	\$ 63.0
CARES Act Expenditures	
Operation Shelter To Home	39.7
Small Business Relief	10.8
Other New CARES Expenditures	5.8
<i>Subtotal CARES Expenditures</i>	<i>\$ 56.3</i>
Reductions in Spending	(9.0)
Restorations	5.6
New Spending	10.1
Total Spending Changes	\$ 63.0

CARES ACT – CORONAVIRUS RELIEF FUND

Of the \$248.5 million that the City received in Coronavirus Relief Funds (CRF) authorized by the federal CARES Act, \$155.0 million has been included in May Revision for eligible expenses expected to occur through December 30, 2020.

Some costs are anticipated for needed supplies, or for new programs that have arisen due to COVID-19. Most costs are anticipated for existing staff to respond to COVID-19. Public safety expenses are targeted for a significant portion of CRF. This is reflective of federal guidance that allows jurisdictions to presume that payroll costs for public safety employees are payments for services substantially dedicated to responding to COVID-19 and therefore eligible CRF expenses. The use of CRF for existing staff, like public safety, to adjust their duties to respond to COVID-19 results in offsetting costs as staff expenses would otherwise largely have to be covered by the General Fund with reserves or additional reductions.

The table on the following page displays the use of \$155.0 million in CRF and \$1.2 million in a federal Department of Justice grant also authorized by the CARES Act, totaling \$156.2 million. It breaks out the use of these funds towards new and offsetting COVID-19 related costs anticipated in FY 2021.

CARES Act Funding Offsetting and New Costs			
Department/Fund	Offsetting Costs	New Costs	Total
Police ¹	\$ 6,000,000		
	33,937,134	\$ 2,250,000	\$ 42,187,134
Operation Shelter to Home	-	39,696,579	39,696,579
Fire-Rescue ¹	3,060,605		
	33,937,136	1,912,365	38,910,106
Small Business Relief Fund	-	12,848,365	12,848,365
Parks & Recreation Staffing and Supplies	9,760,694	400,000	10,160,694
Environmental Services Staffing and Supplies	30,308	1,121,118	1,151,426
Library Staffing and Supplies	816,716	76,721	893,437
Economic Development Staffing and Supplies	209,449	-	209,449
Development Services - Code Enforcement	50,000	-	50,000
General Fund Total	\$ 87,802,042	\$58,305,148	\$146,107,190
Information Technology Fund	-	8,518,759	8,518,759
Public Utilities Department ² Staffing and Supplies	408,000	895,500	1,303,500
Emergency Medical Services Fund Staffing and Supplies	187,478	123,167	310,645
Non-General Fund Total	595,478	9,537,426	10,132,904
Citywide Total	\$ 88,397,520	\$67,842,574	\$156,240,094

¹ Police's offsetting costs are broken out by Staffing and Supplies, and Public Safety Payroll Expenses. Fire-Rescue's offsetting costs are broken out by Upstaffing and Public Safety Payroll Expenses. Payroll Expenses are reflected in the larger amount.

² Public Utilities Department expenses are across three funds: Metropolitan Sewer Utility Fund, Municipal Sewer Revenue Fund, and Water Utility Operating Fund.

We note that the Third Quarter Report includes \$88.4 million in CRF to support eligible expenses in FY 2020 between March 1, 2020 and the end of the fiscal year. On May 19, 2020, Council approved \$5.0 million in CRF to provide childcare vouchers for essential workers and other vulnerable populations. These funds, in addition to the \$155.0 million reflected in the May Revision, reflect full utilization of the City's \$248.5 million CRF allocation.

UPDATED REVENUE PROJECTIONS FOR FY 2021

As shown in the table below, revenues overall have increased by \$63.0 million in the May Revision. However, this increase is almost entirely attributable to the inclusion of \$146.1 million in CARES federal funding for FY 2021. Other revenue sources decreased by a total of \$83.1 million, including \$53.9 in reductions for the major revenue categories and \$29.2 million in other revenue adjustments. The majority of these decreases are due to continued downward revisions in the Transient Occupancy Tax (TOT), which included total reductions impacting the General Fund of \$59.2 million. These changes are discussed in more detail below.

May Revision Revenue Changes (\$ in millions)			
Revenue Source	Proposed Budget	May Revision	Variance
Major General Fund Revenues			
Property Tax	\$ 629.6	\$ 630.6	\$ 1.0
Sales Tax	282.2	274.4	(7.8)
Transient Occupancy Tax	123.0	90.5	(32.5)
Franchise Fees	68.2	67.7	(0.5)
TOT Discretionary	22.1	16.2	(5.9)
Pension Payment Stabilization	7.9	-	(7.9)
Other Major Revenues	67.2	66.9	(0.3)
<i>Subtotal Major Revenues</i>	<i>\$ 1,200.2</i>	<i>\$ 1,146.3</i>	<i>\$ (53.9)</i>
Other Major Changes			
TOT Fund Reimbursement	46.6	25.8	(20.8)
READ Lease Revenue	54.4	49.8	(4.6)
Transportation Revenue	59.4	56.9	(2.5)
Other Departmental Revenue	179.2	177.9	(1.3)
<i>Subtotal Other Revenue</i>	<i>\$ 339.6</i>	<i>\$ 310.4</i>	<i>\$ (29.2)</i>
CARES Funding	-	146.1	146.1
Total Revenue	\$ 1,539.8	\$ 1,602.7	\$ 63.0

Sales Tax

The FY 2021 proposed sales tax revenue budget is revised downward by another \$7.7 million in the May Revision. This revised budget is a \$36.7 million reduction from the \$311.1 million anticipated for FY 2021 in the FY 2021-2025 Five-Year Financial Outlook which projected an overall 3.4% growth rate for the year. The first quarter (July-September 2020) is projected to receive roughly \$18.0 million less revenue than the same time last year with revenues improving but still below prior years for the remainder of the fiscal year. This additional reduction to the proposed budget is directly related to COVID-19 impacts such as continued business closures, unemployment, and potential sales tax deferment.

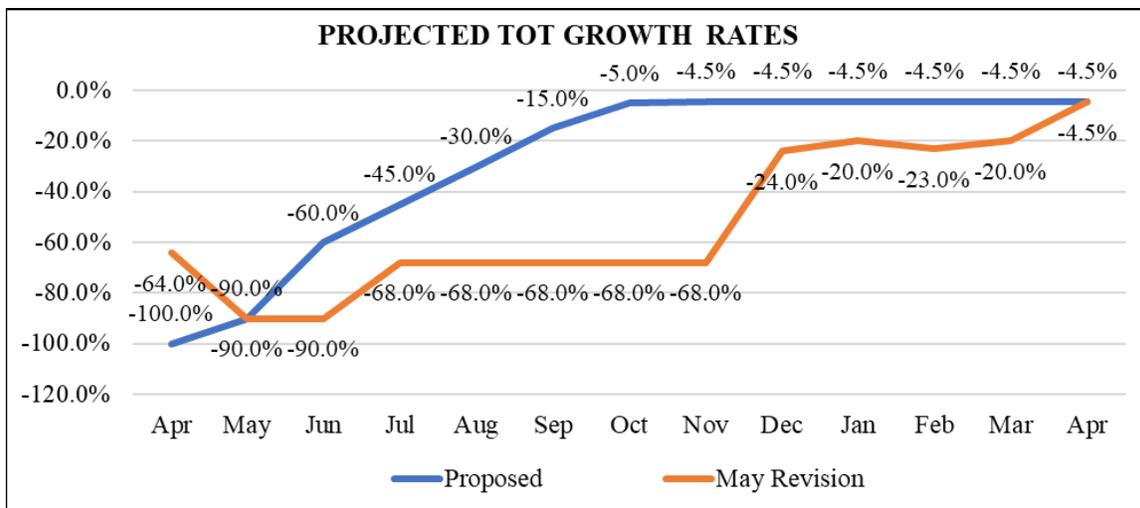
Transient Occupancy Tax

The General Fund Transient Occupancy Tax (TOT) budget has been revised downward by \$32.5 million. However, this is just one component of the TOT revenue that impacts the General Fund. The total City TOT budget for FY 2021 was revised downward by \$62.1 million, or 26.6%, from the \$233.7 million in the Proposed Budget released in April to \$171.6 million in the May Revision. While a significant portion (5 of the 10.5 cents) of TOT revenue is budgeted in Special Promotional Programs, \$59.2 million of the \$62.1 million reduction impacts the General Fund's FY 2021 budget as follows:

- The 5.5 cents of TOT that is directly deposited in the General Fund is reduced by \$32.5 million.
- Reimbursements of TOT revenue from Special Promotional Programs to General Fund departments (primarily Parks and Recreation and Fire-Rescue) for tourism and safety related activities are reduced by \$20.8 million.

- The 1.0 cent of discretionary TOT that is deposited into Special Promotional Programs but then transferred to the General Fund upon approval of the budget has been reduced by \$5.9 million.

The May Revision reports that this new proposed budget for TOT revenue reflects an average growth rate of -36.71%, as compared to the average growth rate of -10.91% anticipated when the Proposed Budget was released in April. The chart below shows the growth rates by month of what was presented in the Proposed Budget compared to the updated growth rates reflected in the May Revision. At the time of the Proposed Budget slow but steady growth in tourism was anticipated to begin in June with revenues leveling off in October. However, due to continued cancellations of conventions and other large events with COVID-19 physical distancing requirements and travel restrictions, the tourism industry is now projecting activity to remain slow through the fall, with slight improvement in the winter but not leveling off until April of 2021.



Other Major Revenue Changes

For the other two major revenue sources, the changes were more minor. Property Taxes are actually increased by \$1.0 million due to changes in the projections for the ROPS and based on the latest apportionment data. For Franchise Fees, the decline of \$0.5 million is attributable to a decline in the refuse hauler franchise fees. Due to the COVID-19 pandemic, the tonnage of waste being sent to the landfill has declined, which decreases the franchise fees collected. Our Office agrees with these projections.

Also under the Major Revenues category, there is a decrease of \$7.9 million in revenue from the Pension Payment Stabilization Reserve. As part of the May Revision, the Mayor is now proposing to keep these funds in the reserve and not transfer the balance to the General Fund. However, there will not be a FY 2021 contribution made to the Pension Payment Stabilization Reserve.

Significant Departmental Revenue Changes

Real Estate Assets: Leases

Revenue in the Real Estate Assets Department has been revised downward by \$4.6 million in the May Revision. As we noted in our review of the Mayor’s FY 2021 Proposed Budget (IBA Report

No. 20-06), the lease revenue budget at that time was prepared pre-COVID-19. The May Revision adjusts the Department's revenue downward from \$54.4 million to approximately \$49.8 million, reflecting a reduction of 8.5%. The largest reductions are in Mission Bay (\$1.9 million) and Pueblo Lands (\$1.1 million) rents and concessions, with reductions also reflected in Belmont Park and other rents and concessions plus instructional camp fees. All of these reductions are related to projected continued COVID-19 business closures and/or reduced activities, resulting in reduced performance-based lease revenues. The budget for FY 2021 assumes some rent repayment of rents deferred in FY 2020, as noted in our Review of the FY 2020 Third Quarter Budget Monitoring Report (IBA Report No. 20-13).

Transportation Department: TransNet and Gas Tax

Revenues for the Transportation Department decrease by \$2.5 million in the May Revision. This is due to more updated forecasts for two of the main revenue sources for the Department: TransNet and the Gas Tax. TransNet is based on countywide sales tax projections, while the Gas Tax is based on the per gallon tax revenue levied on gasoline, which is allocated by the State. Based on the most recent projections, support to the General Fund from TransNet is reduced by \$1.5 million, while support from the Gas Tax is reduced by \$1.0 million. Overall reductions related to TransNet total \$4.9 million and total reductions related to the Gas Tax total \$1.8 million in FY 2021. The balance of these reductions are to the Street Resurfacing and Reconstruction Annual Allocation.

City Treasurer: Business Tax

The estimated \$430,000 reduction in Business Tax assumes a reduction in employee count as well as the closure of some businesses in the coming Fiscal Year. The amount includes a \$180,000 reduction for businesses with 13 or more employees and \$250,000 reduction for businesses with 12 or fewer employees. The Department is also currently experiencing a delay in Business Tax payments associated with the Mayor's March 30th Executive Order, 2020-2 which creates a 120-day deferment for Business Tax payments.

City Treasurer: Collection Referral Fee

The May Revision requests a reduction of \$500,000 in the Collections Referral Fee associated with parking citations, since the Police Department started suspending enforcement mid-March. This would result in an estimated loss of 100,000 citations from mid-March through June. Due to a 2.5-month delay between issuance and referral, the \$500,000 projected reduction for this fund will occur in FY 2021.

MAY REVISION CHANGES TO GENERAL FUND EXPENDITURES

The table on the following page shows the \$63.0 million in May Revision changes to FY 2021 Proposed Budget General Fund expenditures. It is broken into several components:

- Personnel Expenditures – \$14.8 million in net additions (net 78.82 added FTEs) are divided into two categories: \$5.5 million of restorations (reversals of Proposed Budget actions), and \$9.3 million in new budget adjustments.
- Non-Personnel Expenditures – \$48.1 million in net additions are primarily new adjustments in the May Revision.

FY 2021 May Revision Changes to the Proposed Budget			
Department/Description		FTEs	Total Expenditures
Personnel Expenditures <i>(salaries/wages and fringe benefits)</i>			
Restorations <i>(reversals of FY 2021 Proposed Budget actions)</i>			
Parks and Recreation	Recreation Centers (45 to 60 hours at 44 sites)	53.75	\$ 3,154,564
Development Services	Code Enforcement (offset with revenue from Civil Penalty Fund)	16.00	1,336,718
Parks and Recreation	Swimming Pool Operations	11.54	428,609
READ-Facilities Services	Stadium Operations for Three Months	5.50	385,027
Library	Mountain View/Beckwourth Library Branch (restore salaried wages reduction with hourly wages addition)	3.50	180,376
Department of Finance	Position Realignment (net salaried wages increase)	1.00	72,953
Office of Boards & Commissions	Associate Management Analyst Reduction (removal of erroneously added Proposed Budget position)	(1.00)	(83,609)
Subtotal - Restorations		90.29	\$ 5,474,638
New Budget Adjustments in May Revise			
Citywide Program Expenditures	Flexible Benefits (actual amount of increase will be based on negotiations with employee organizations)	-	6,859,227
Police	Overtime for COVID-19 Response	-	2,000,000
Fire-Rescue	Overtime for COVID-19 Response	-	1,576,018
Parks and Recreation	Overtime for COVID-19 Response	-	400,000
Department of Finance	Position Realignment (hourly wages reduction)	(1.47)	(44,655)
Office of Boards & Commissions	Executive Assistant (administrative support for several boards and commissions)	(1.00)	(81,158)
City Treasurer	Accountant 2 (revenue audits)	(1.00)	(93,586)
Planning	Reduction of 1.00 Associate Planner, Offset by 1.00 Assoc. Eng.-Traffic Addition (budgeted as vacant)	-	(109,641)
Police	Word Processing Operators	(8.00)	(624,738)
Various Departments	Other Salaries/Wages and Fringe Adjustments	-	(535,348)
Subtotal - New Adjustments in May Revise		(11.47)	\$ 9,346,119
Subtotal Personnel Expenditures		78.82	\$ 14,820,757
Non-Personnel Expenditures <i>(separately listed items are new adjustments)</i>			
Homelessness Strategies	Operation Shelter to Home	-	39,696,579
Economic Development	Small Business Relief Fund	-	10,848,365
Citywide Program Expenditures	Debt Service Increase (due to lower coverage by anticipated stadium sale proceeds)	-	2,359,400
Environmental Services	Refuse Disposal Fees - Enhanced COVID-19 Collections	-	1,028,277
Citywide Program Exp.	Revised Rent Expense (incl. for 101 Ash backfill)	-	857,804
Fire-Rescue	EMS - Enhanced COVID-19 Response	-	336,347
READ-Facilities Services	Revised Energy Expenditures	-	(278,834)
Citywide Program Exp.	Reduced Transfers to Public Liability Operating Fund	-	(323,604)
Fire-Rescue	Repair & Maintenance - New Sikorsky Helicopter	-	(350,000)
Storm Water	Consulting Services	-	(382,282)
Sustainability/Transportation	Smart Streetlights Program Support	-	(1,718,780)
Citywide Program Exp.	Parks Improvement Funds Transfers	-	(1,936,040)
Homelessness Strategies	Veterans' Bridge Shelter Relocation	-	(2,500,000)
Various Departments	Net Other NPE Changes	-	504,892
Subtotal Non-Personnel Expenditures		-	\$ 48,142,124
Total FY 2021 May Revision Changes to the Proposed Budget		78.82	\$ 62,962,881

DISCUSSION OF SELECT GENERAL FUND ADJUSTMENTS

City Treasurer: Reduction of 1.00 Accountant II

The May Revision includes a reduction of 1.00 vacant Accountant II position, and \$94,000 in personnel expenditures. The position supports revenue auditing services related to Transient Occupancy Tax (TOT) receipts. Additionally, this is a revenue generating position that would provide an estimated 1,500 hours of auditing and generate an average of \$250,000 in TOT revenue if the position were filled. However, due to the ongoing vacancy of the position, the Department does not expect a decrease in revenue or in the number of audits completed in comparison to prior years.

Development Services: Restoration of Code Enforcement Staff

The May Revision includes the addition of \$1.3 million in revenue from the Code Enforcement Civil Penalties Fund (CPF) to restore 16.00 FTE positions, including 13.00 Zoning Investigator 2s, 1.00 Public Information Clerk, 1.00 Senior Clerk/Typist, and 1.00 Word Processing Operator.

Pursuant to Municipal Code, civil penalties collected from code enforcement activities are deposited in the CPF *“for the enhancement of the City’s code enforcement efforts and to reimburse City Departments for investigative costs and costs associated with the hearing process that are not paid by the Responsible Person.”* Examples of typical expenditures from this fund include staff training, inspector certification expenses, hearing officer costs, and IT expenditures. According to the Department, these funds have never been used in the past for personnel expenditures as is proposed in the May Revision.

Our Office discussed the potential conflict of interest that may be perceived given the planned use of code enforcement penalty funds for the salaries of staff responsible for code enforcement. The Department noted that policies and procedures are maintained which mitigate this conflict, including initial steps to provide property owners with assistance and information so that violations can be brought into compliance voluntarily, as well as limitations on the issuance of Civil Penalty Notices only when significant violations are present, warnings or administrative cites have been unsuccessful, and/or there is an ongoing or repeated issue. Various levels of internal department and City Attorney review are required to ensure that the Civil Penalty Notice is appropriate and warranted. If a property owner remains non-compliant, penalties can only be requested by participating in a detailed hearing process held by a State Hearing Officer who makes the final determination whether penalties are fair and appropriate.

The current balance in the CPF is approximately \$8.4 million. After accounting for the proposed use in the May Revision, including \$1.3 million to restore the Code Enforcement positions and \$1.0 million for IT enhancements, \$6.1 million would remain in the fund. The Department has stated that they plan to use the CPF as a funding source for these 16.00 FTE positions (\$1.3 million) for at least one more fiscal year (FY 2022).

Homelessness Strategies: Operation Shelter to Home

The May Revision includes \$39.7 million in Coronavirus Relief Funds (CRF) authorized by the federal CARES Act to support Operation Shelter to Home from July 1 through December 30, 2020. These costs are in addition to the Bridge Shelter Program budget. We note that the FY 2021

budgets for three bridge shelters have not come before Council, but staff anticipate bringing an item forward in June that allocates one-time state grant funds for the shelters as well as other programs. It is important to note that there are many unknowns in the current pandemic environment and therefore future Operation Shelter to Home costs are subject to change.

The CRF allocation includes \$29.8 million for program operations, ancillary costs, as well as rent and costs to operate the Convention Center. As of this writing, 1,268 individuals are being housed at the Convention Center, but the budgeted amount assumes full capacity of 1,500 individuals. An additional \$10.0 million is provided to support successful exits from the Convention Center when the City transitions the Convention Center back to its normal operations.

Exit Strategy from the Convention Center

According to staff, the current plan to exit residents from the Convention Center involves:

1. The lease or purchase of hotels;
2. Assisting newly homeless individuals with one-time interventions to quickly move them back to permanent housing or obtain other support to stay out of shelters (i.e. diversion); and
3. Expanding shelter opportunities at existing facilities.

The City will need to plan to continue to serve additional unsheltered individuals taken in as part of Operation Shelter to Home that are not housed by the time the program vacates the Convention Center.

Part of the exit strategy includes housing individuals that are residents of the Veterans Village of San Diego (VVSD) bridge shelter (the tent for which is being transferred to Chula Vista) by streamlining housing placements using vouchers and housing individuals within VVSD's main campus. The May Revision repurposes the \$4.1 million planned in the Proposed Budget to operate the VVSD shelter, to instead create additional shelter capacity to maintain the 200 beds that the VVSD shelter currently provides. According to the May Revision, staff is contemplating the following additional shelter opportunities: a further expansion of Golden Hall (improvements to the facility are underway), expansion at Father Joe's Imperial Avenue campus, and the funding of shelter related to criminal justice diversion. On May 26, 2020, the Mayor announced that a recently rehabilitated motel planned for San Diego Misdemeanants At-Risk Track (S.M.A.R.T) program will instead temporarily serve families and children experiencing homelessness during COVID-19 until January 2021. This facility offers 42 transitional housing rooms.

Summary of Funding Available

The tables below summarize the available funding for Operation Shelter to Home and for successful exits. Funding has been provided in several locations including the May Revision, the San Diego Housing Commission's (SDHC) Proposed Budget, and a separate item considered by Council on May 19, 2020 for federal entitlement grant programs. In addition to the funding sources below, Federal Emergency Management Agency (FEMA) reimbursements may become available in FY 2021 to help support Operation Shelter to Home.

Regarding the separate item considered by Council on May 19, staff proposed that \$2.2 million in FY 2021 Community Development Block Grant funds and \$3.2 million in COVID-19 Emergency

Solutions Grant funds support urgent need and/or housing recovery programs. The item’s backup documentation states that “*Eligible activities may include the acquisition and rehabilitation of housing for emergency, transitional or permanent supportive units.*” Council requested additional details be brought back on the use of these funds. Homelessness Strategies Division is working with other City staff and the Incident Command Team to determine the best use for this funding.

Operation Shelter to Home	
Additional Program Costs Through December 2020	
<i>(\$ in millions)</i>	
Program Operation	\$ 16.1
Convention Center Rent and Operations	13.7
Total Program Costs	\$ 29.8

Note: Above costs are in addition to the Bridge Shelter Program Budget.

Additional Funding for Successful Exits	
<i>(\$ in millions)</i>	
May Revision	
CARES Act Funding	\$ 10.0
San Diego Housing Commission Budget	
Acquisition of hotels/Single Room Occupancy (SRO)	19.0
Potential rehabilitation of Hotel/SRO	4.0
Rapid Rehousing for Hotel/SRO	10.0
Subtotal	33.0
Federal Funds Approved Outside Budget Process	
Emergency Solutions Grant - CARES Act	3.2
CDBG Entitlement	2.2
Total Funding Available for Successful Exits	\$ 48.4

Note: Above costs do not include state Homeless Emergency Aid Program (HEAP) and Homeless Housing, Assistance, and Prevention (HHAP) funding that may support housing solutions in FY 2021.

Staffing Required for Operation Shelter to Home

Operation Shelter to Home is a project involving staff from many entities coming together, including the Homelessness Strategies Division, Fire-Rescue, Police, Library, Fleet Operations, Purchasing and Contracting, the county, the Regional Task Force on the Homeless, SDHC, and service providers.

With respect to Homelessness Strategies Division, two positions are currently working at the Convention Center at more than a full-time capacity. This leaves three staff to implement daily departmental activities. Departmental activities broadly include overseeing the implementation of over a dozen programs, being the coordinating entity for all City departments involving homelessness issues, monitoring homelessness expenses Citywide, and processing Council actions. Therefore, increased output from the division in FY 2021 with existing staff will be difficult given staffing limitations.

Roles of Homelessness Staff for Operation Shelter to Home

Homelessness Strategies Division has several roles in the Operation Shelter to Home program including:

1. Coordinating the policy team which drives strategic direction for the program;
2. Serving as a liaison between shelter operations and the policy team to ensure strategic direction is being implemented throughout the program, as well as raising issues to the policy team regarding shelter operations, coordinating solutions, and facilitating communication among agencies; and
3. Overseeing financial operations, including budget monitoring and developing projections.

According to staff, some examples of specific activities the Homelessness Strategies Division handles include working with the branches of the Incident Command to plan living and eating arrangements as well as medical testing. It also helps coordinate the layout of space, staffing, and supply needs. Finally, the Homelessness Strategies Division participates in daily tactical meetings to help review and improve operations.

Library: Restoration of Mountain View/Beckwourth Library

The May Revision includes 3.50 FTE positions and \$250,000 to prevent closure of the Mountain View/Beckwourth Library. This level of staffing and funding restores operations Tuesday through Saturday consistent with the overall reduction of Library systemwide hours included in the Proposed Budget (i.e., Sunday and Monday closure). As noted in our report on Recommended City Council Modifications to the Mayor's Proposed FY 2021 Budget, our Office is recommending the full restoration of library hours systemwide and returning hours at all library locations back to FY 2020 levels, including the Mountain View/Beckwourth Library.

Parks and Recreation: Recreation Center Service Levels Mostly Restored

The May Revision includes the restoration of 53.75 FTE positions and \$3.2 million which is a majority of the reductions in the Proposed Budget impacting hours of operations at Recreation Centers. The remaining 2.50 FTE positions and \$202,000 that were not restored impact Recreation Centers in the Department's Developed Regional Parks Division, including the Balboa Park Activity Center (\$101,000) and the Municipal Gym (\$101,000). As noted in our report on Recommended City Council Modifications to the Mayor's Proposed FY 2021 Budget, our Office is recommending the restoration of the remaining \$202,000 in funding necessary to return all Recreation Centers back to FY 2020 service levels.

Parks and Recreation: Full Restoration of Swimming Pool Service Levels

The May Revision includes 11.54 FTE positions and \$487,000 in expenditures which fully restores the reductions to Swimming Pool operations that were included in the Proposed Budget and returns these services to FY 2020 levels. Approximately \$129,000 in revenue associated with restoring these service levels is also added back for a net impact of \$358,000.

Police: Reduction of Word Processing Operators

The May Revision includes the reduction of 8.00 Word Processing Operators and \$625,000 of personnel expenditures in the Police Department. According to the Department 7.00 of 8.00 FTE positions proposed for reduction are currently filled. The workload of these positions is primarily

expected to be absorbed by existing civilian staff; however, any administrative delays as a result of these reductions may impact the efficiency of the sworn personnel and various units they support.

DISCUSSION OF SELECT NON-GENERAL FUND ADJUSTMENTS

Development Services Fund

The May Revision includes the addition of 6.50 FTE positions and \$3.3 million in expenditures in the Development Services Fund (DSF). Notable additions include 4.50 FTEs and \$499,000 in expenditures for the formation of a Cannabis Permit Bureau to centralize cannabis related activities, including permitting, performing inspections and monitoring compliance with approved Conditional Use Permits and state regulations. The May Revision assumes a starting date no sooner than mid-fiscal year for 9.00 positions; they are therefore reflected as nine 0.50 FTE positions (4.5 FTEs total). Expenditures for this additional staff is expected to be fully offset by revenue from permittees.

In addition, 1.00 FTE and \$335,000 in expenditures are added to address audit recommendations concerning the administration of deposit accounts. The positions include a Program Manager and an Administrative Aide, each reflected as 0.50 FTEs assuming a mid-fiscal year start date. Non-personnel expenditures include \$225,000 to enhance Project Tracking System (PTS) deposit account management and operational support software.

Lastly, two management positions are added, including 0.50 Assistant Department Director and 0.50 Assistant Deputy Director. According to the Department, the Assistant Department Director will develop and implement department-wide management policies and strategies, including those intended to mitigate the current affordable housing situation and to oversee the Department's significant IT initiatives. The Assistant Deputy Director will support the management of structural engineering permit review activity.

With respect to DSF revenue, the May Revision includes \$534,000 in additional revenue. This adjustment includes the use of the final 3.5% fee increase that the City Council authorized in June 2018¹, which translates to approximately \$2.5 million in increased revenue. This fee increase was originally not included in the Proposed Budget given that permit activity for FY 2020 was up approximately 10% from the prior year during budget development in December 2019. However, since that time, revenues have seen declines as a result of the COVID-19 outbreak and associated stay-at-home orders. To account for the reduced activity, the Department revised their FY 2021 revenue projections downward by approximately \$2.0 million, resulting in a net increase of \$534,000 after the 3.5% fee increase. Total revenues are projected at \$85.4 million, exceeding budgeted revenues by approximately \$200,000.

Publishing Services Fund: Revenue Correction

In our review of the Mayor's FY 2021 Proposed Budget (IBA Report No. 20-06), we noted that the revenue budget for the Publishing Services Fund needed to be revised downward to reflect the

¹ On June 18, 2018, City Council approved increases to DSD User Fees based on a three-year phasing schedule 6.0% in FY 2019, up to 4.5% in FY 2020, and up to 3.5% in FY 2021.

personnel and expenditure reductions included in the Proposed Budget. The revenue budget has been reduced by \$494,000 to \$1.6 million.

Seized Assets Fund: Police Department Neighborhood Policing Overtime - \$4.4 million

The May Revision includes \$4.4 million in one-time funding from the Seized Assets Fund to maintain and continue the expanded Neighborhood Policing overtime levels that were funded on a one-time basis in FY 2020 (\$4.3 million including \$3.9 million from the Seized Assets Fund and \$447,000 in the General Fund). Service levels, which we discuss on pages 125-126 of our review of the Mayor's FY 2021 Proposed Budget (IBA Report No. 20-06), are not expected to change. A small increase in funding necessary to maintain these service levels, approximately \$63,000, accounts for Medicare costs associated with the overtime.

Stadium Operations Fund

As part of the changes in the May Revision, the Mayor added \$3.0 million in expenditures, 0.5 FTE positions, and \$0.9 million in revenue to the Stadium Operations Fund. These changes reflect the costs and resources required to operate the Stadium for three months, from July through September. Expenditures include billable costs for services provided by the General Fund (such as Facilities personnel) as well as utility and supply costs. Additional revenue is comprised of \$524,000 from the TOT Fund, as well as \$354,000 in revenue generated by the Stadium, including naming rights and rent. Additional funding beyond these revenue sources is coming from fund balance.

In addition to the increased appropriations in the Stadium Operations Fund, the May Revision also includes related funding within the Facilities budget in the General Fund. This includes 5.50 FTE positions for \$385,000, using \$709,000 in one-time revenue for billable services to the Stadium Operations Fund. The 5.50 FTE positions are reflective of the existing 22 positions maintaining the Stadium for three months. According to the Department of Finance, the revenue covers the cost of these positions as well as additional load (e.g. holidays and vacation time) and overhead costs.

While the May Revision assumed three months of operating expenditures, the latest developments regarding the sale of the Stadium property to SDSU envision the university taking over the property much earlier than that. Specifically, the deal approved in concept by the City Council on May 29, 2020, and substantially agreed to by SDSU, would have SDSU assume operations for the facility on or around August 1, 2020, assuming that the transaction is approved for a first reading in early June. This would mean that a majority of the costs budgeted to operate the Stadium will not be required.

Assuming that fund balance is used to pay for estimated expenditures until SDSU is able to take over the site, there should be approximately \$1.5 million left in the fund balance, which includes the additional TOT revenue, but does not include approximately \$236,000 in naming rights revenue that would have been accrued in August or September. The fund balance can be utilized for debt service on the stadium, which would free up an equal amount of resources for General Fund support. These new revenues would be offset by a loss of General Fund revenue from billable services of approximately \$216,000. Thus, the overall impact to the General Fund to operate the

Stadium for only one month instead of three months would be additional revenue of approximately \$1.3 million.

State COPS Fund: Police Department SART Kit Backlog Testing - \$1.1 million

The May Revision includes \$1.1 million in one-time funding from the COPS Fund for the Police Department to outsource the testing of sexual assault evidence (SART) kits that were in the Department's backlog. According to the Department, all 1,775 backlogged SART kits have been sent to the third-party laboratory for testing. The \$1.1 million in funding assumes 900 kits can be tested in FY 2021 (75 per month) based on an estimate of SDPD crime lab's capacity to conduct follow-up evaluations on eligible SART kits that are returned from the outside laboratory. At this rate, it is estimated that all kits will be tested by FY 2022.

Recycling Fund: Postponement of AB 939 Fee Increase

The May Revision includes a \$2.8 million reduction in revenue for the Recycling Fund due to the postponement of a \$2/ton AB 939 fee increase that was assumed in the Proposed Budget. According to the Department, the postponement of the fee increase is due to the rapid change in the local economy as a result of COVID19. They plan to monitor the status of the Recycling Fund and local economy and bring the fee increase to Council for consideration as soon as feasible, sometime in FY 2021.

We note that \$600,000 was included in the Proposed Budget for the General Fund to account for this anticipated \$2/ton fee increase on the more than 300,000 tons of materials collected by the City. This funding was maintained in the May Revision given the uncertainty of when the fee increase may be brought forward and to buffer against additional General Fund costs associated with increased tonnage that is being experienced as a result of COVID-19 stay-at-home orders.

CAPITAL IMPROVEMENTS PROGRAM ADJUSTMENTS

The May Revision reduces funding for the Street Resurfacing and Reconstruction Annual Allocation by \$4.1 million due to reductions in projected Gas Tax and TransNet revenue caused by COVID-19. This is not anticipated to impact the overall funding for streets as it will be covered by either prior year appropriations or future commercial paper.

The table below is a summary of total FY 2021 funding for street repair to support the goal of fixing a total of 474 miles to maintain streets in good condition. All the amounts included in the table below are proposed for FY 2021 except for prior year appropriations, as funds have already been allocated, as well as commercial paper which will come to Council separately for authorization in FY 2021.

FY 2021 Total Street Funding <i>(\$ in millions)</i>	
Slurry Seal (Operating Budget)	
Prior Year Appropriations	\$ 28.5
Road Maintenance and Rehabilitation Account	8.5
<i>Subtotal for Operating Budget</i>	<i>\$ 37.0</i>
Repair and Reconstruction (CIP Budget)	
Future Commercial Paper/Prior Year Appropriations	43.1
Road Maintenance and Rehabilitation Account	18.3
TransNet	4.1
Trench Cut Fees/Excavation Fee	2.0
State Funds	0.3
<i>Subtotal for CIP Budget</i>	<i>\$ 67.8</i>
Total Funding for Street Repair	\$ 104.8

Other notable additions include \$936,000 for Mission Beach Golf Course Clubhouse in funds restricted for this golf course and \$800,000 in Facilities Benefit Assessment funds for Carroll Canyon Road Planning Study.