

Introduction to the Budget

2023 City Council Workshop Series

February 7, 2023



Agenda



Budget Overview

Purpose

Timeline



Guiding Documents

City Charter & Municipal Code

Council Policies & Financial Policies



Resources & Uses

Revenues and Reserves

Expenditures

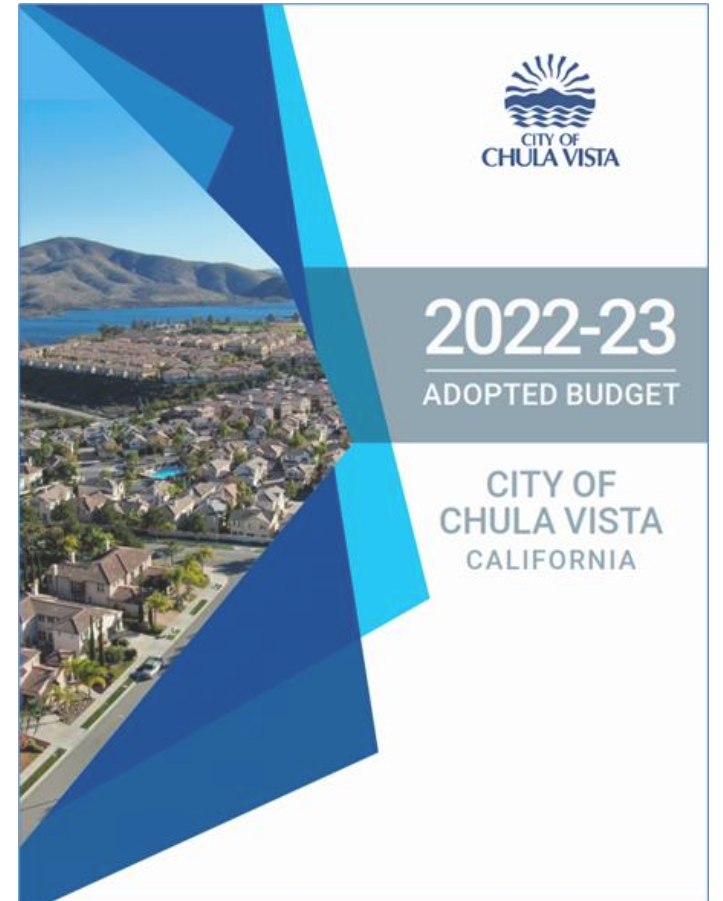
The Budget

Central policy document

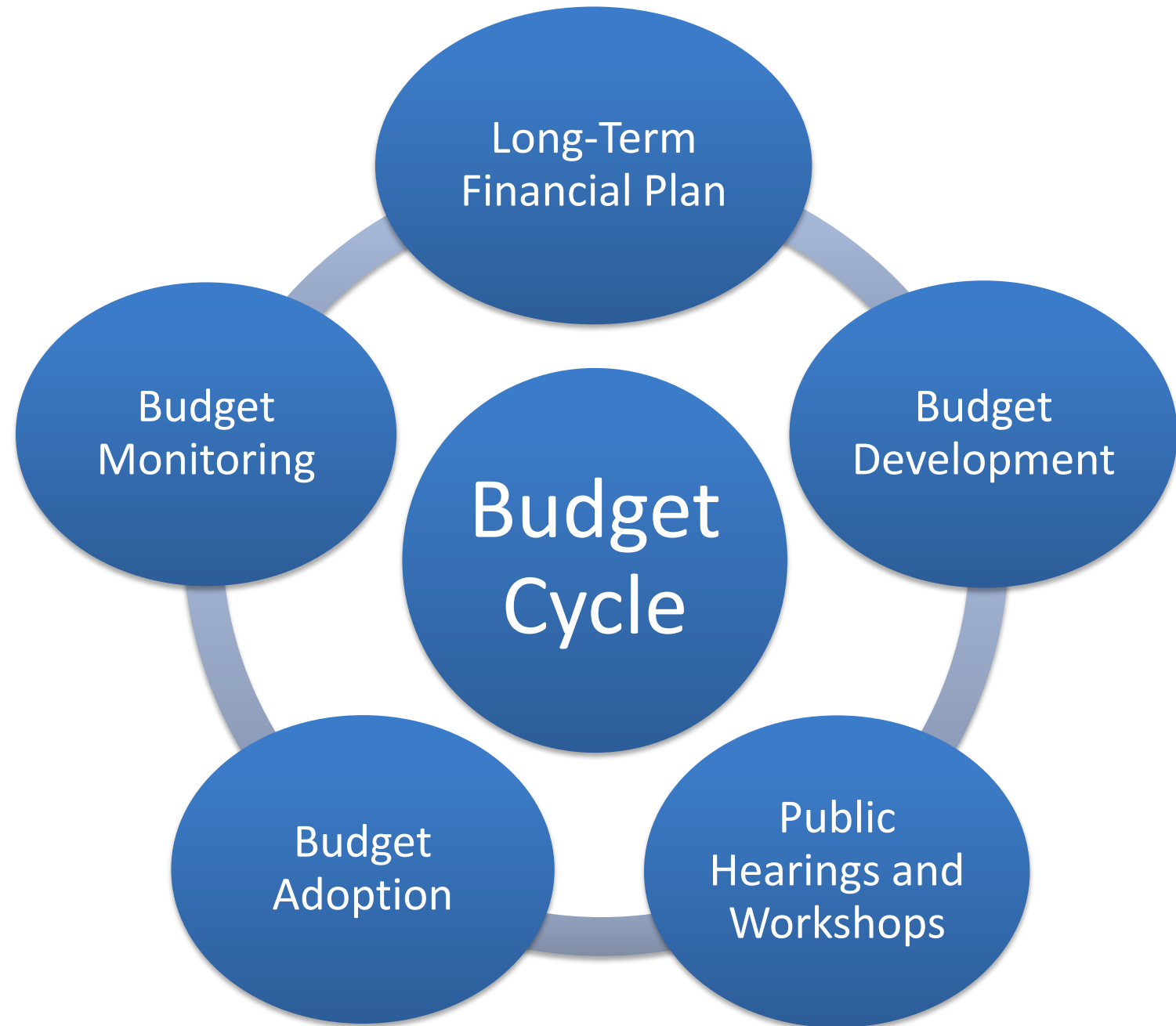
Spending plan

Management and evaluation tool

Communication tool



Annual Budget Cycle



Budget Timeline

| | |
|---------------------------|--|
| February 7 th | • Long-Term Financial Plan |
| February 21 st | • FY 2022-23 Second Quarter Financial Report |
| April 19 th | • Public community workshop |
| April 26 th | • Public community workshop |
| May 9 th | • Proposed Budget |
| May 23 rd | • Public Hearing and Adoption of Budget |
| June 6 th | • FY 2022-23 Third Quarter Financial Report |
| June 13 th | • GANN Limit Approval |

Guiding Documents

- City Charter
- Municipal Code
- Labor Agreements
- Council Policies



Budget Considerations

- **Fund restrictions** – Fund type (ex: endowments, special purpose funds), grant terms (ex: "Uniform Guidance)
- **State laws** – California Constitution (ex: City personal income tax is illegal)
- **Gann Limit** (1979) – Tax expenditure limits
- **Proposition 13** (1978) – Limits on property tax growth (2%) and assessment percentage (1%)
- **Proposition 218** (1996) – Ensure all taxes and most charges on property owners are subject to voter approval
- **Proposition 26** (2010) – Clarifications on taxes vs. charges, fees, fines benefit assessments
- **General versus special taxes**
- **Local measures** – Measures A & P (sales tax), Q (Cannabis)

Types of Budgeted Funds

Governmental

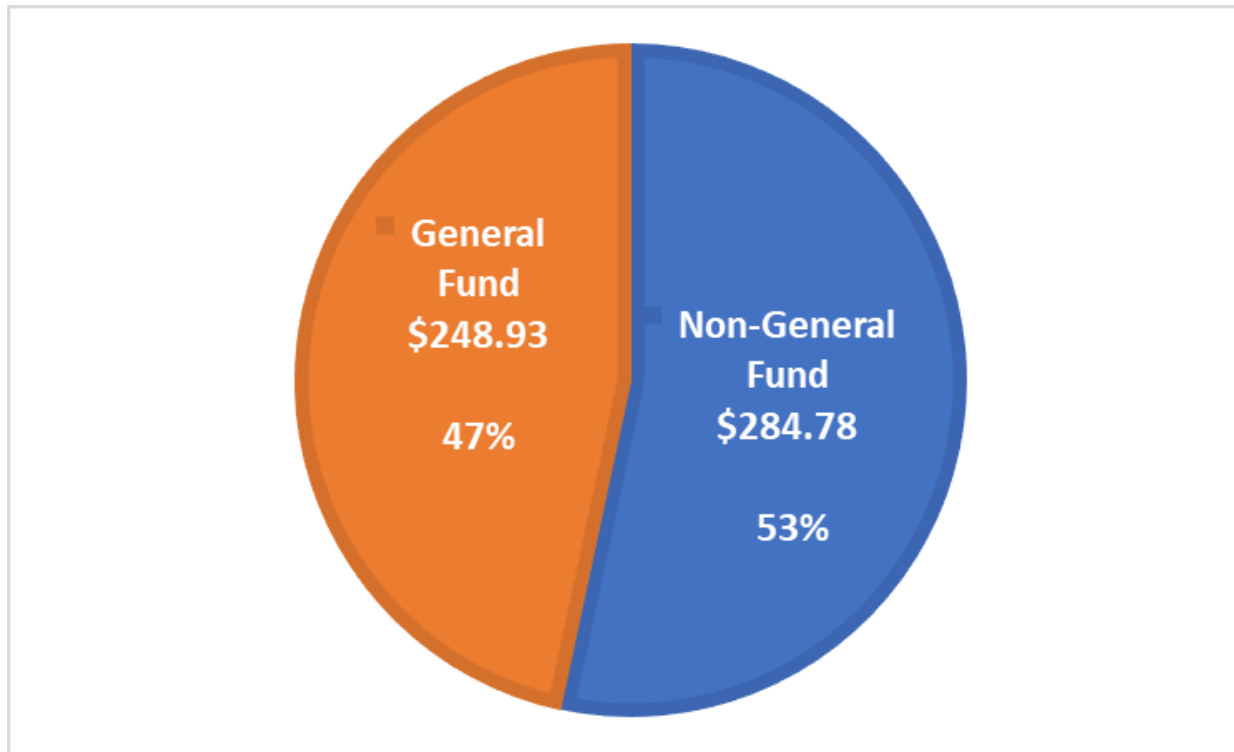
- General Fund
- Capital Projects
- Debt Service
- Special Revenue

Proprietary

- Enterprise
- Internal Service

All Funds Resources – FY 2023

Fiscal Year 2023 Adopted Budget (In Millions)





GENERAL FUND REVENUES

Major GF Revenues

| Revenue | Source | General Fund Adopted FY23 | % General Fund Revenues |
|---|--|---------------------------|-------------------------|
| Sales Tax | 1% sales tax on tangible goods | \$42.3M | 17.0% |
| Property Tax | Property tax roll, based on assessed value | \$40.9M | 16.4% |
| Motor Vehicle License Fee (MVLF) | State allocation, additional property tax in lieu of vehicle registration fees | \$26.9M | 10.8% |
| Measure P (Sales Tax) | 0.5% sales tax on tangible goods | \$25.9M | 10.4% |
| Measure A (Sales Tax) | 0.5% sales tax on tangible goods | \$25.9M | 10.4% |
| Franchise Fees | Agreements with Cox, SDGE, AT&T and Republic Services for use of public right-of-way | \$14.5M | 5.8% |
| Transient Occupancy Tax (TOT) | 10% tax on hotel/motel/campsite rental revenues | \$5.2M | 2.1% |
| Utility Users' Tax (UUT) | Tax on usage of natural gas, electric and telecommunications | \$3.8M | 1.5% |
| Total | | \$185.5M | 74.5% |

City Share of Sales Tax

Sales Tax (General Fund)

- Bradley-Burns Sales Tax
- 1% City share from County pool
- **Discretionary** use of funds
- *The County Pool is the tax reported by the taxpayer to be distributed to each jurisdiction in that county on a pro-rata share of taxable sales.*

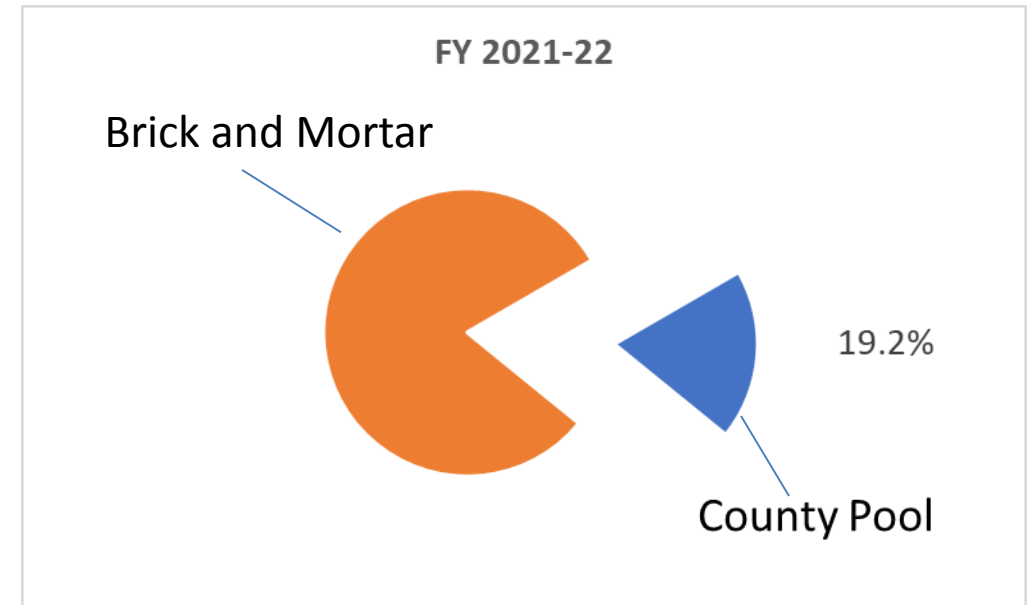
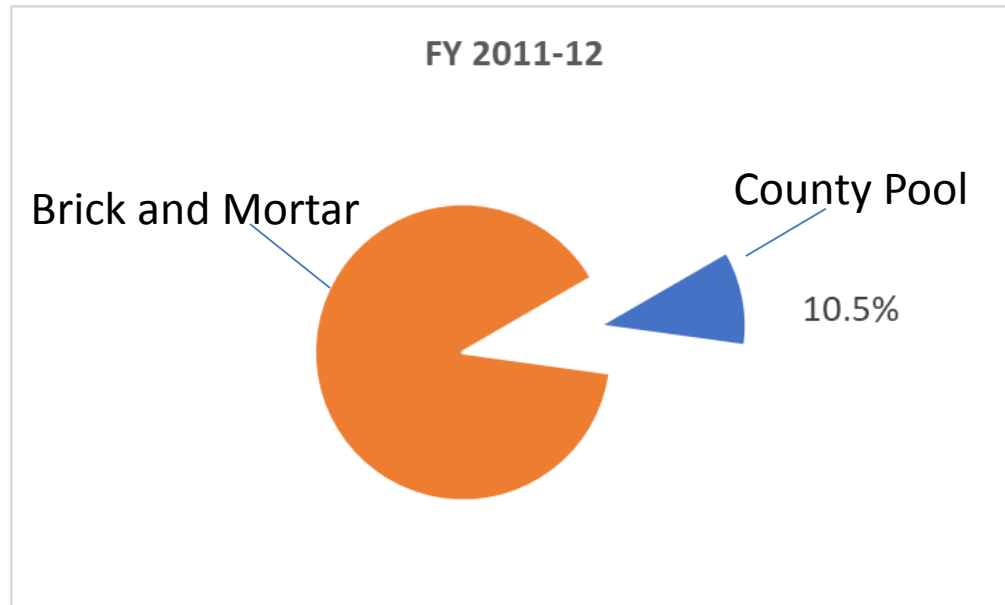
Measure A Sales Tax (Measure A Fund)

- District Tax
- Voters approved in 2018 to begin October 1, 2018
- General Fund passthrough
- **Restricted** funds for public safety staffing and services
- Citizen's Oversight Commission

Measure P Sales Tax (Measure P Fund)

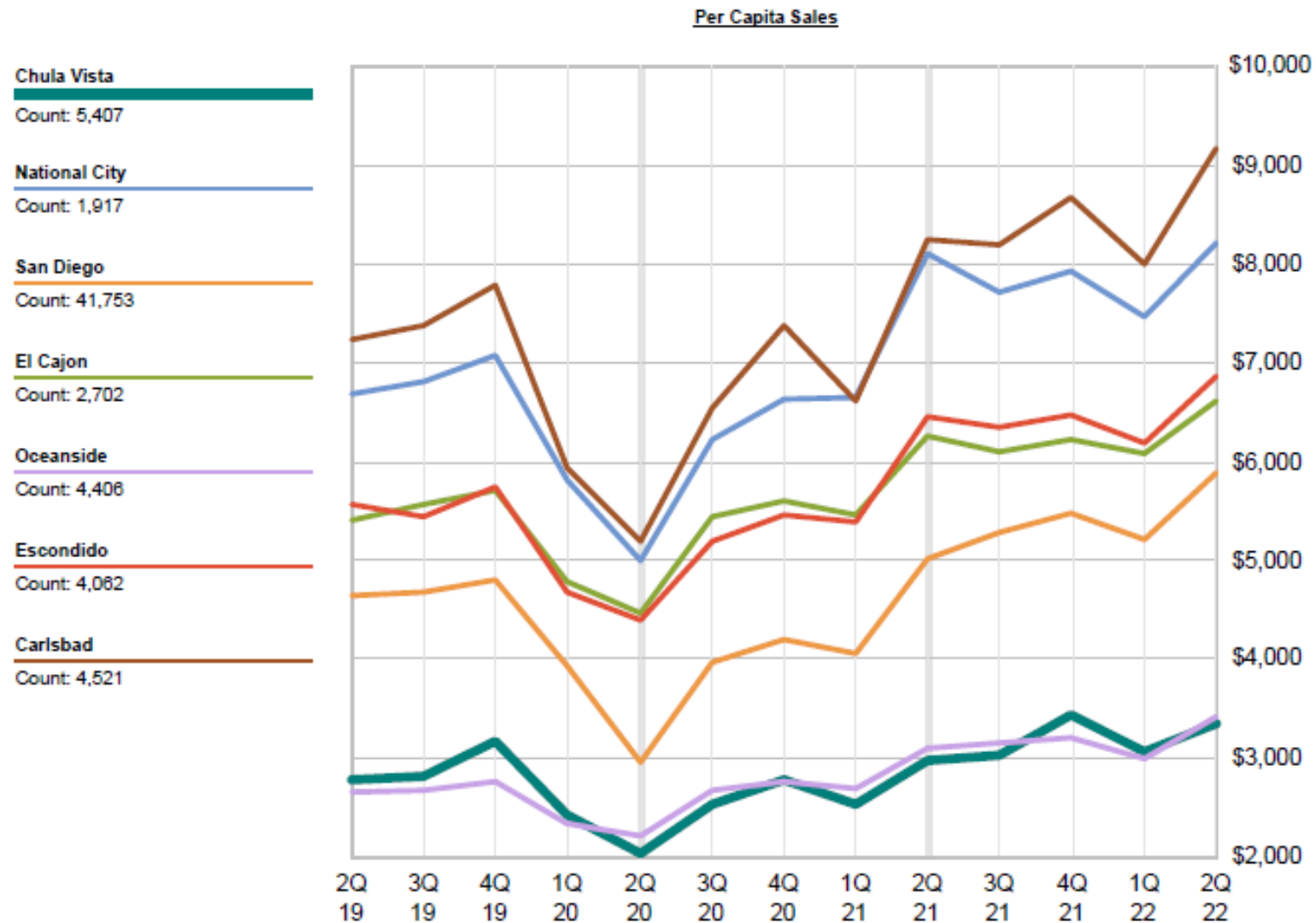
- District Tax
- Voters approved in 2016 to begin April 1, 2017
- General Fund passthrough
- **Restricted** funds for high priority deferred maintenance and capital needs (infrastructure, fleet, technology)
- Citizen's Oversight Commission
- Sunsets in 2027

Percent Sales Tax – State & County Pools



- *Increase* from ongoing shift from brick-and-mortar retail to internet purchases, exacerbated by the pandemic
- *Increase* from *Wayfair*/Assembly Bill 147 legislative change that made additional internet purchases taxable
- *Decrease* from major retailer changed structure, resulting in shift of revenue from pools to fulfillment centers in specific jurisdiction

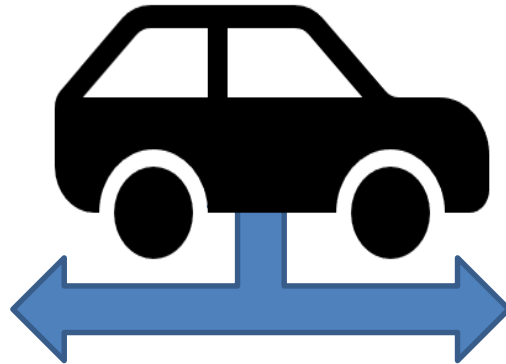
Per Capita Sales



Sales Taxes vs. District Taxes

- District Taxes (Measures A & P) follow the merchandise.
- Distributed to the district where the goods are delivered (and presumably used)
- Example: Car buyer pays total sales tax rate where vehicle will be registered

Sales Tax
Allocated to city
where dealership is
located



District Taxes
(Measures A & P)
Allocated to city where
the vehicle is registered
(city of residence)

Property Tax

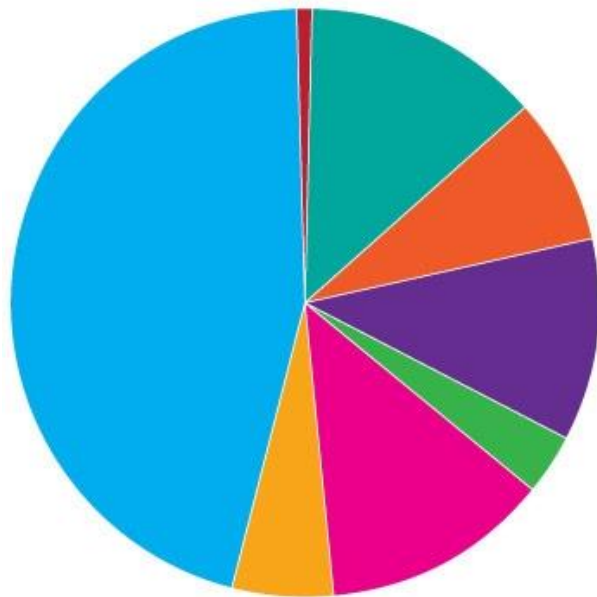
- General Fund revenues (discretionary)
- Stays local to County, City, Special Districts, etc.
- Includes special taxes, special assessments
- City receives property tax allocations monthly
- Taxes due November and February, annually



County of San Diego Allocations

TAX ALLOCATION CHART

Last Fiscal Year: **2021-2022**



45.0% Schools

0.7% Library

13.1% County

7.9% County In Lieu of Vehicle License Fee (VLF)

12.1% Redevelopment Property Tax Trust Fund (RPTTF)*

3.3% Special Districts

12.5% Cities

5.4% Cities In Lieu of Vehicle License Fee (VLF)

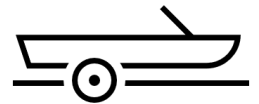
This chart was calculated by the County of San Diego Auditor and Controller's office. For more information on how your 1% Property Taxes are allocated, please contact Property Tax Services at 858.694.2901 or visit: www.sdpts.com

*Funds are distributed to Redevelopment Successor Agencies, County, Cities, Schools, Special Districts, and the State Controller's Office for administrative cost.

Note: Enhanced Infrastructure Financing District revenue is less than 0.1% of the total revenue.

Property Tax

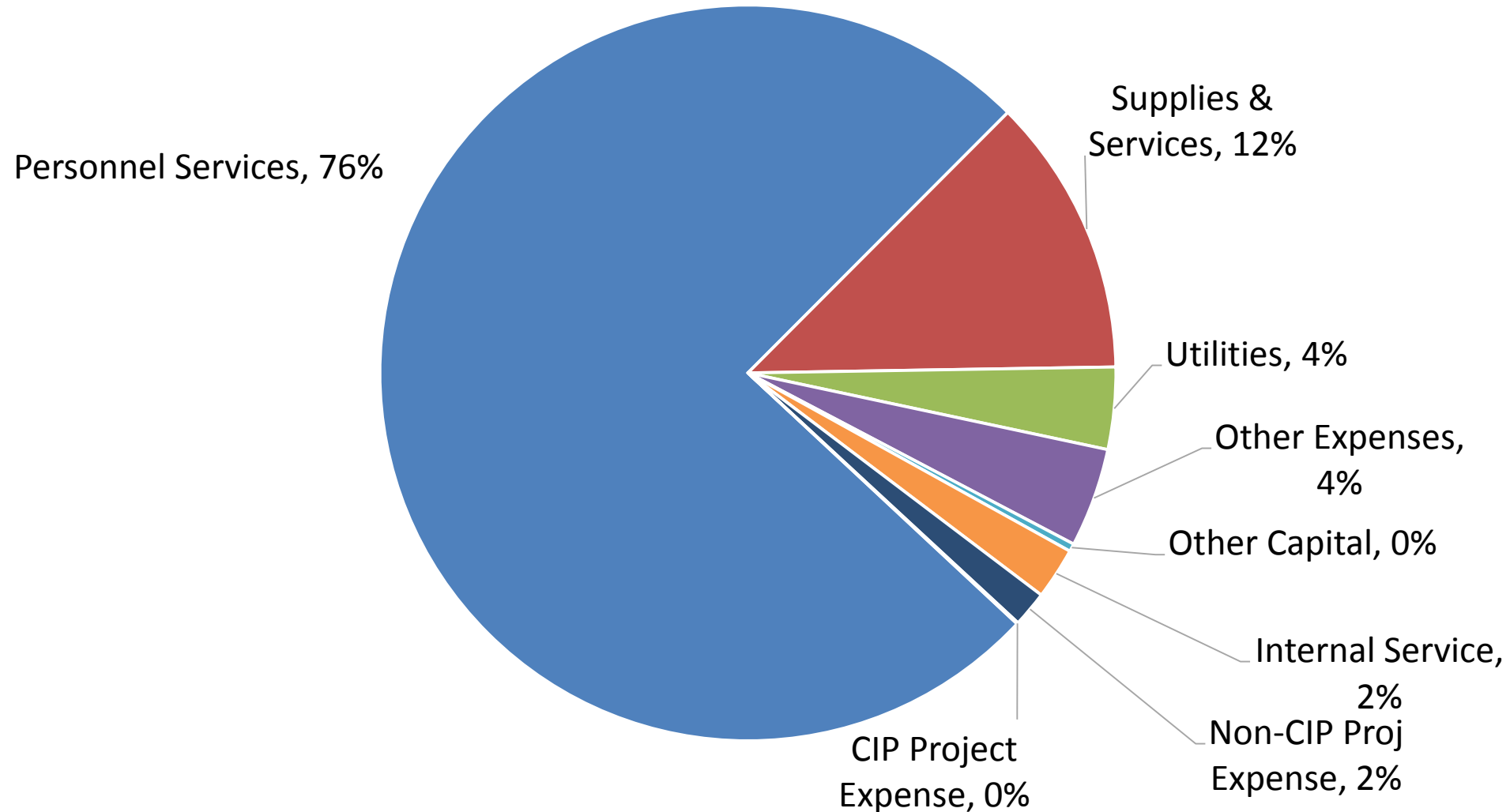
- Taxable Property
 - Secured property (real property/land), unsecured property (boats, business fixtures, mobile homes), utility property
- Tax Assessment
 - Limited to 1% of assessed value of property; annual maximum increase lesser of 2% or annual CPI (Proposition 13)
- Allocation
 - Assembly Bill 8: City share of the 1% General Property Tax (County pool) is based on property taxes levied in 1970s
 - Receive what you got prior year, plus the change in current year for population growth in your jurisdiction



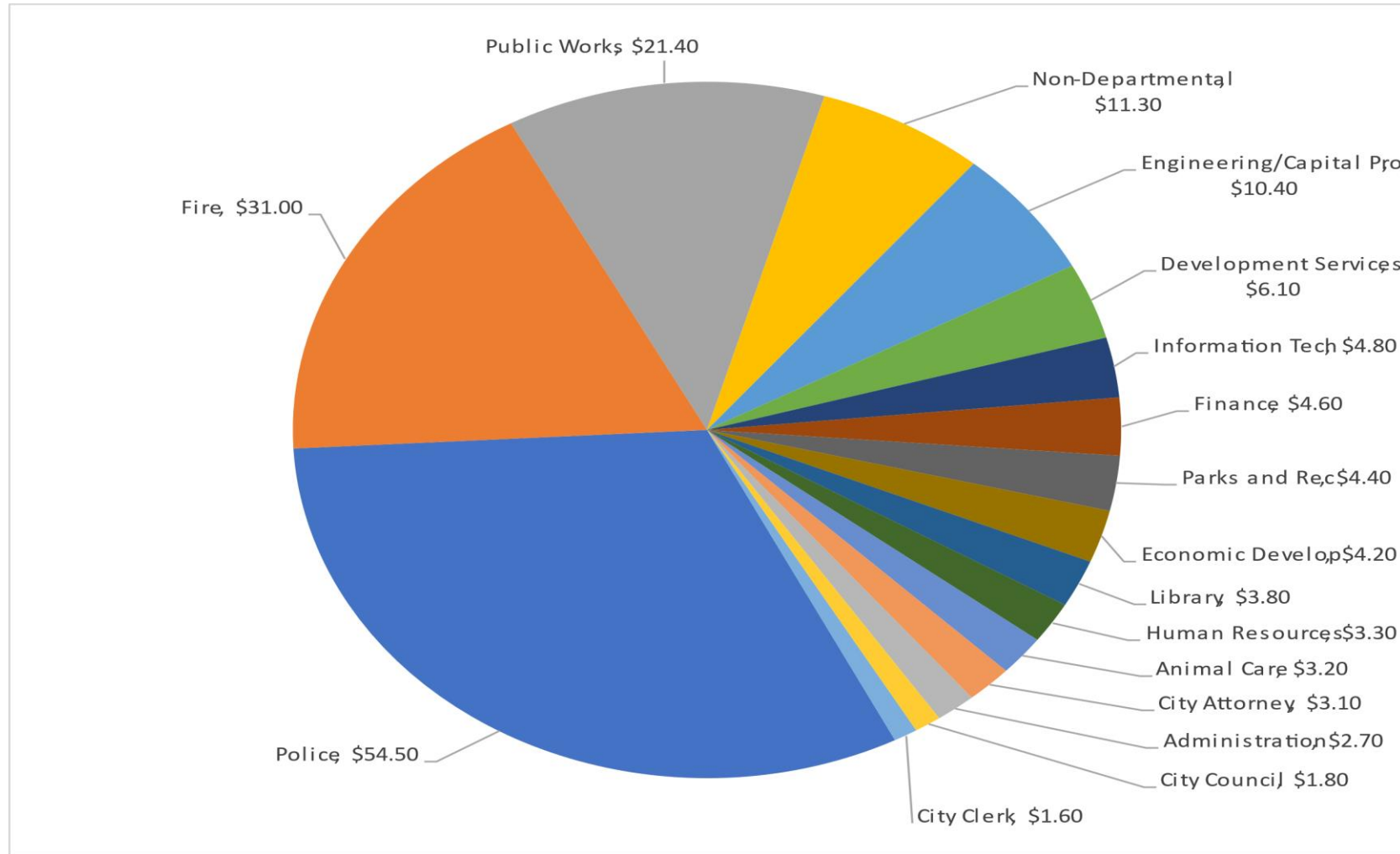


GENERAL FUND EXPENDITURES

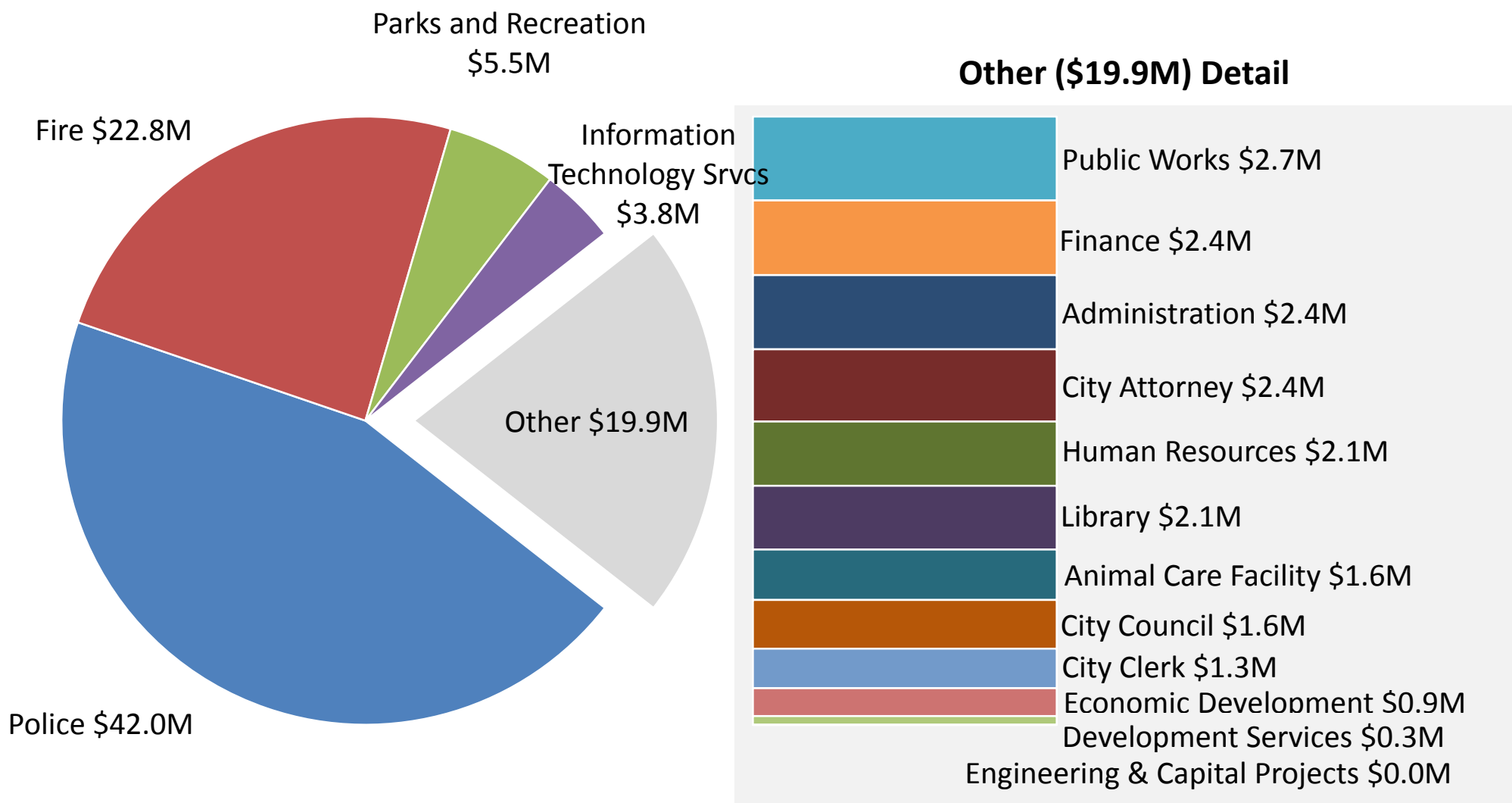
2023 General Fund Expenditures by Budget Category (Excludes Transfers Out)



2023 General Fund Expenditures by Department (Excludes transfers out)



2023 General Fund Net Cost by Department (Excludes transfers out)



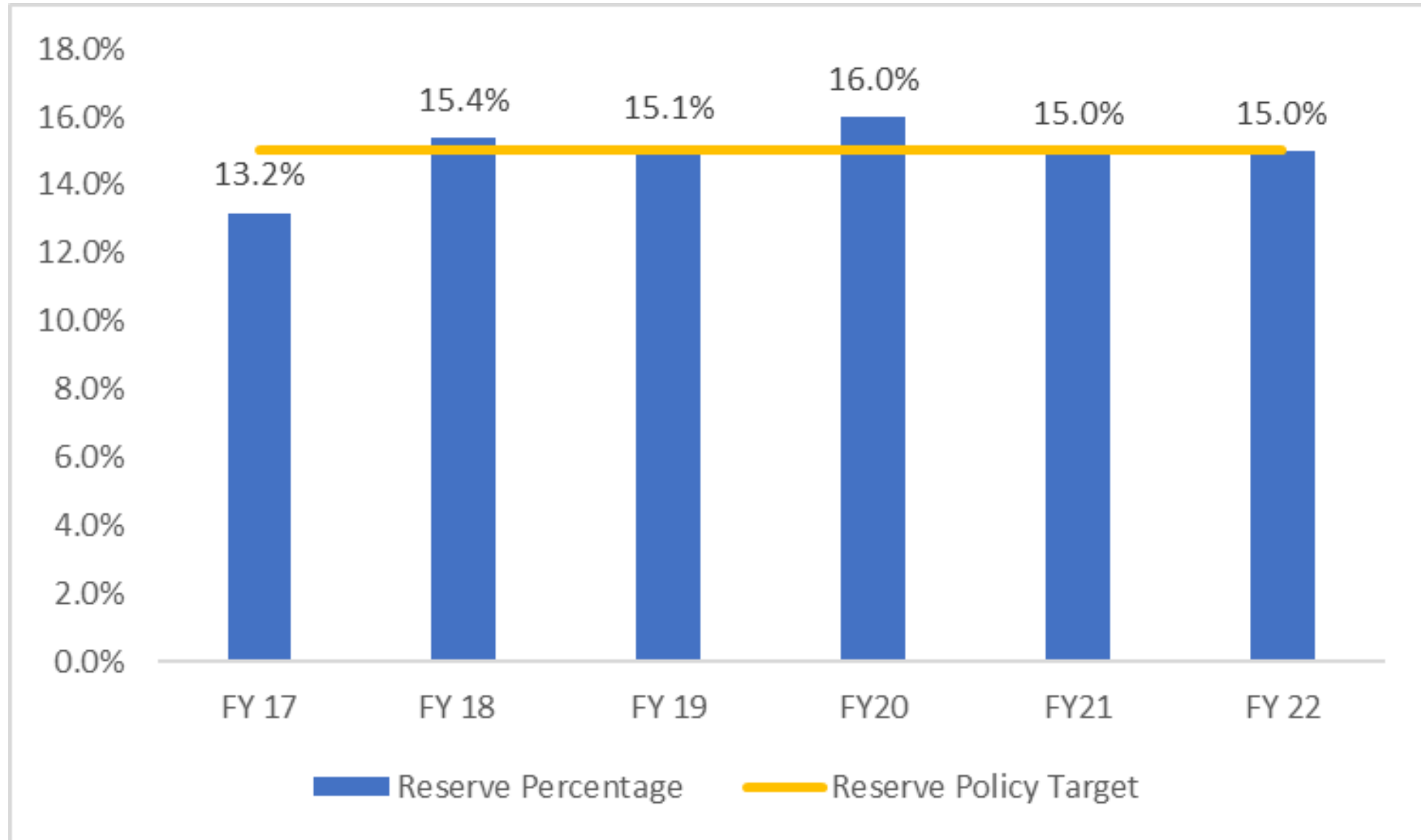
Major General Fund Expenditures

- **Personnel Services**
 - 76% of General Fund expenses in FY 2023 when including health insurance and retirement costs
 - Driven by labor agreements with City bargaining groups
 - Health care cost increases (“Flex”)
 - Pension Costs, mitigated in part by POBs
 - Vacancies / Salary savings
- **Supplies & Services**
 - Contracts with professional services
- **Utilities**
 - Water, natural gas, electricity

City Reserves

| RESERVE | TARGET PERCENTAGE | |
|--|-----------------------------|---|
| General Fund Operating Reserve | 15% | ✓ |
| Economic Contingency Reserve | 5% | ✓ |
| Catastrophic Event Reserve | 3% | |
| Pension & Other Post-Employment Benefits Reserve | 15% | |
| Measure A Reserve | 60 days of operating budget | ✓ |

General Fund Operating Reserve





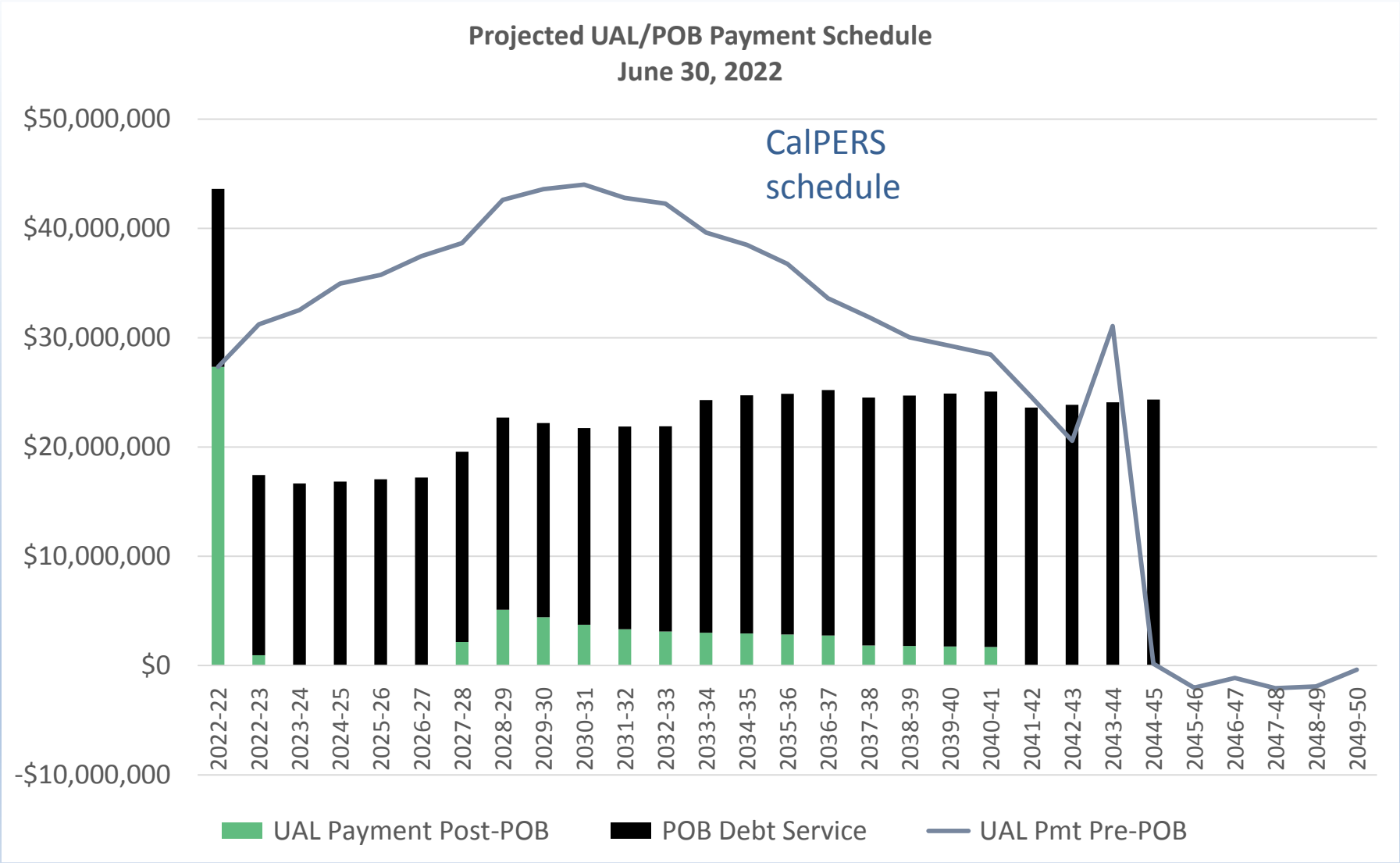
OTHER HIGHLIGHTS

City Pension Costs

- In recent years, large Unfunded Accrued Liability to CalPERS retirement system
- Feb. 2021, City issued \$355 million in Pension Obligation Bonds (POBs) at an interest rate of 2.54%, to pay off UAL*
- Policy to set aside 75% of any surpluses generated into the Pension Reserve Fund (Section 115 Trust) to fund future liabilities/UAL that may arise
- Potential for new UALs to arise based on changes in staffing/labor agreements, CalPERS market performance, other factors

*as of June 30, 2019 CalPERS valuation report

Pension Obligation Bonds



Operating Budget vs. Capital Budget

- **Operating Budget**
 - Ongoing expenditures = ongoing revenues
 - One-time revenues fund one-time expenditures
- **Capital Improvement Projects (CIP) Budget**
 - The capital budget is for long-term capital improvements, facilities, and equipment where revenues are collected over time. Capital programs often extend beyond a single fiscal year and because of this capital budgets often include expenditures funded by both current year revenues and funds previously collected.
 - Procurement, construction or installation of facilities or related equipment which improves, preserves, enhances or modernizes the City's provision of municipal services
 - Useful life of at least 5 years, costs in excess of \$50K

CIP Sources – FY 2021-2023

| Funding Source | FY 2021 | FY 2022 | FY 2023 |
|---|----------------------|----------------------|----------------------|
| American Rescue Plan (ARPA) | \$ - | \$ - | \$ 9,500,000 |
| Capital Improvement Projects (CIP) Fund | 202,052 | - | 11,700,000 |
| State Gas Tax/Road Maintenance and Rehabilitation | 8,092,505 | 7,751,588 | 9,860,065 |
| Measure P | 3,674,630 | 27,452,933 | 9,659,500 |
| Sewer Facility Replacement Fund | 2,650,000 | 2,754,000 | 782,000 |
| TransNet County Sales Tax | 6,224,329 | 7,204,500 | 8,799,500 |
| Other | 1,031,000 | 4,057,841 | 229,940 |
| Total | <u>\$ 21,874,516</u> | <u>\$ 49,220,862</u> | <u>\$ 50,531,005</u> |

CIP Uses – FY 2021-2023

| Project Type | FY 2021 | FY 2022 | FY 2023 |
|--------------------|----------------------|----------------------|----------------------|
| Buildings | \$ 2,957,582 | \$ 20,720,338 | \$ 26,257,500 |
| Drainage | 50,000 | 4,124,790 | 3,414,000 |
| General Government | 703,052 | 764,000 | 310,000 |
| Parks | 717,048 | 2,825,636 | 1,359,940 |
| Roadway | 14,796,834 | 16,679,098 | 18,709,565 |
| Wastewater | 2,650,000 | 4,107,000 | 480,000 |
| Total | <u>\$ 21,874,516</u> | <u>\$ 49,220,862</u> | <u>\$ 50,531,005</u> |

Budget Monitoring

- Quarterly Financial Reports
- Mid-year budget amendments
- Mid-year personnel changes
- Updates to Long-Term Financial Plan

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COUNCIL FEEDBACK