REVIEW OF THE FISCAL YEAR

2026 PROPOSED BUDGET

OFFICE OF THE INDEPENDENT BUDGET ANALYST • REPORT 25-11

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IBA Review and Analysis of the Mayor's FY 2026 Proposed Budget

Each year, the Independent Budget Analyst (IBA) provides a comprehensive analysis of the Mayor's Proposed Budget for the City Council and the public – reviewing expenditures and revenues, consistency with City Council and community priorities, identifying service level impacts, ensuring the application of City budget policies and best practices, and pointing out potential impacts on future years.

This involves significant cooperation from the Executive Branch to understand the workings of the $6.0 billion Proposed Budget, and we appreciate the time taken by the Department of Finance, Mayor's Office, and all operating departments to meet with our Office and to answer our many questions over the past two weeks.

Budget Process and Draft / Proposed Budget

The City Charter requires the Mayor to present a proposed budget to the City Council by April 15th each year, and to propose any necessary revisions in a timely manner to allow for Council consideration. These revisions are generally proposed in May, and the City's Adopted Key Budget Dates for development of the FY 2026 budget details that the May Revision will be released on May 14, 2025. Adoption of a final FY 2026 Budget is scheduled for June 10, 2025.

This year, the Mayor released a Draft Budget for review on April 15, 2025, and announced that more substantial revisions than are typical may come during the May Revision, to reflect discussion during Council's review of the budget and due to the City's financial condition and volatility in overall economic conditions. While the initial budget proposed to Council has been presented as a draft budget, for the purposes of this review it is referred to as the FY 2026 Proposed Budget, which is consistent with past practice and language in the City Charter.

Role of the City Council in the FY 2026 Budget Process

After release of the Mayor's Proposed Budget on April 15, 2025, the City Charter vests budget authority for finalizing the FY 2026 budget in the hands of the City Council. The Council holds many public hearings reviewing the budget proposals for City departments, hosts meetings to solicit more feedback from constituents and communities, and fully reviews the Proposed Budget.

Council ultimately is tasked with determining whether modifications to the Proposed Budget are necessary to fund critical community priorities that are not addressed in the Proposed Budget, and/or whether additional modifications to the Proposed Budget are necessary to balance community needs and fiscal constraints. The Council has the authority to change budget line items and programs, provided the overall budget remains balanced.

Over the next several weeks, Council will hold evening meetings to solicit public feedback, and meet as the Budget Review Committee to hear presentations from operating departments on the proposed budget for their departments. During these meetings, the

Office of the IBA will also present issues of interest, areas of concern, and potential questions for each department, with the goal of working with Councilmembers and staff to provide information that assists the Council in making informed decisions. Our Office will also participate in Council Budget Town Halls held throughout the City.

In May, we will also review and analyze the FY 2025 Third Quarter Budget Monitoring Report and evaluate the Mayor's May Revision to the FY 2026 Proposed Budget (scheduled to be released on May 14, 2025). Councilmembers will issue memos to our Office on May 21, 2025 that detail each Council Office's budget modification priorities, and we will issue a final report on recommended modifications to the FY 2026 Proposed Budget and Mayor's May Revision on June 3, 2025.

Council will then meet as the Budget Review Committee on June 6, 2025 to review those final recommended modifications, during which it can request additional information or suggest additional modifications. Following that meeting, Council is scheduled to consider final adoption of the budget, with any proposed modifications, on June 10, 2025. At that time the Council will have the authority to adopt a final budget, including changing line items or services and programs in the Proposed Budget, provided the Budget remains balanced. The Mayor has the authority to veto Council changes, but the Council can override the Mayor's veto with six votes of the Council.

Overview of IBA Review and Analysis

This report provides an overview of the City's revenues, expenditures, and reserves in the Proposed Budget, discusses key citywide issues identified by our Office for Council's consideration, and reviews the proposed budgets for each department in the City.

Given the City's current finances, it will be impossible to adopt a balanced budget that avoids significant cuts to City programming and services, and the City is faced with the need to make substantial structural changes to adopt a balanced budget and return to the practice of adopting structurally balanced budgets.

As our Office noted in its reviews of the Proposed Budgets for FY 2023, 2024, and 2025, as well as in analyses of various Budget Monitoring Reports and Five-Year Financial Outlooks, while the City's General Fund budgets over the past three years were balanced, they were *structurally imbalanced* and relied on one-time resources such as federal COVID relief funding and prior-year savings to support ongoing expenditures. That structural imbalance totaled $203.7 million in the FY 2025 Adopted Budget. While the City was hopeful this imbalance could be relieved through a 1-cent sales tax measure presented to voters on the November 2024 ballot,[1] that measure ultimately fell 3,506 votes short of passing.

Subsequently, the Mayor released a Five-Year Financial Outlook that projected a baseline FY 2026 deficit of $258.2 million. In January 2025, our Office identified $198.3 million in

[1] In addition to relieving the City's persistent structural budget imbalance, the sales tax measure would have also provided critically needed infrastructure funding; as will be discussed in various sections of this report, the City's infrastructure needs significantly exceed the City's current resources.

potential mitigations that could be implemented before the need to make expenditure cuts. Those mitigations included implementing a cost-recoverable fee for trash collection as allowed by 2022's Measure B, collection of additional Transient Occupancy Tax revenue pursuant to 2020's Measure C, increases to parking meter and Cannabis Business Tax rates, and suspension of FY 2026 reserve contributions.[2] All of those mitigations have since been implemented or are assumed in the Proposed Budget.

Additional General Fund revenue mitigations are also assumed in the Proposed Budget, such as expanded parking meter hours, charges for parking at Balboa Park, and implementation of increased user fees. Notably, several of the revenue mitigations assumed in the Proposed Budget will require future Council or external actions and rely on various economic assumptions; if the revenue assumed from them does not actually materialize, additional expenditure reductions would be required in the future. Additional discussion on these items is included throughout this report.

Even with those mitigations, declines in current-year Sales Tax, Transient Occupancy Tax, and Franchise Fee receipts, combined with increases to City expenses – including the City's annual pension payment – still result in the need for significant reductions in ongoing expenditures.

As part of development of the FY 2026 Proposed Budget, all General Fund departments were requested to propose expenditure reductions, with most departments requested to identify reductions totaling 20% of their FY 2025 budgets.[3] While not all reductions proposed by departments were ultimately included in the Proposed Budget, many were, and the total reduction in General Fund expenditures in the Proposed Budget totals $88.6 million, and 309.33 FTE positions. Detail on these reductions, and associated impacts, is included in this report's ***General Fund Overview: Major Additions and Mitigations*** and various ***Department Review*** sections.

Overall, the Proposed Budget is balanced, and makes significant progress towards a structural balance, though additional work will be necessary in FY 2027 to fully right-size the City's ongoing expenses and revenues. Importantly, there are insufficient resources to add or restore programs and services without the identification of corresponding efficiencies or cuts elsewhere in the Proposed Budget; while Council has the authority to make modifications to the Proposed Budget prior to its adoption, given the City's existing and projected revenues and resources, any budget ultimately adopted will need to include reductions to current service levels.

Economic uncertainty – including the potential for a recession – associated with the unpredictable policies and actions of the current

[2] Regarding suspension of reserve contributions, while the City has significant balances in most of its reserves, those balances in aggregate are currently slightly below targeted FY 2025 levels. Withholding reserve contributions in FY 2026 is essentially the equivalent of drawing from reserves if they were fully funded, which is likely appropriate given the City's current finances. That noted, once the City's finances have stabilized, it will be important to return to the practice of making regular contributions to reserves until targeted levels are met.

[3] Lower reduction targets were requested for some departments: the Transportation was requested to identify 10% reductions, and the Homelessness Strategies & Solutions, Police, and Fire-Rescue Departments were requested to identify 5% reductions.

Presidential administration also merits additional caution; in order for the City to be best positioned to respond to additional economic volatility or downturns, it is critical to make substantial progress towards structural balance in the upcoming fiscal year.

General Fund Revenue Overview

The Proposed Budget includes $2.15 billion in General Fund revenues. Of this amount, $1.49 billion is derived from the City's four major General Fund revenues: Property Tax, Sales Tax, Transient Occupancy Tax (TOT), and Franchise Fees. These revenues are sensitive to the overall economic condition of the San Diego region. Compared to FY 2025 year-end projections at the mid-year, the Proposed Budget projects moderate growth in Property Tax revenue, minimal growth in Sales Tax and TOT revenue, and declines in Franchise Fee revenue.

In total, major General Fund revenues are proposed to decrease by $8.2 million from the FY 2025 Adopted Budget, but increase by $23.4 million from year-end projections that were included in the FY 2025 Mid-Year Budget Monitoring Report.

Notably, revenue from Sales Tax is projected to come in $26.2 million *below* amounts included in the FY 2025 Adopted Budget; during the first half of FY 2025, actual sales tax receipts came in under budget, which reduced both FY 2025 revenue and the base from which future revenue growth is projected. Similarly, Franchise Fee revenue for FY 2026 is proposed to be $18.9 million below the FY 2025 Adopted Budget, reflecting a significant decrease in current year franchise fee payments from SDG&E.

Our Office's discussion of these revenues and projected growth rates is included in this report's ***General Fund Overview: Revenue*** section.

General Fund Expenditure Overview

Total General Fund expenditures are decreasing by $12.3 million, or 0.6%, from the $2.16 billion in the FY 2025 Adopted Budget. This includes a net increase in Personnel Expenditures (PE) and a net decrease Non-Personnel Expenditures (NPE).

The net General Fund PE increase totals $50.5 million. This represents a 3.4% increase, largely related to previously negotiated increases in employee compensation associated with approved contracts with the City's Recognized Employee Organizations (REOs), step increases, and promotions ($65.3 million); an increase in the City's pension payment/Actuarially Determined Contribution (ADC) ($20.4 million); a net decrease to estimated vacancy savings (which means increased wage expenses) ($7.7 million); an increase in fringe costs associated with workers' compensation, long-term disability, and Risk Management ($7.3 million); and overtime increases for the Fire-Rescue Department ($6.2 million); among other changes.

Partially offsetting these are decreases to employee salaries and wages associated with the net reduction, including transfers, of 568.06 FTE positions ($43.9 million) from the General Fund, and decreases related to reductions in overall wages that mitigate the budget shortfall ($8.5 million).

General Fund NPE in the Proposed Budget are decreasing by a net of $62.9 million. This net amount includes additional General Fund expenses associated both with one-time FY 2025 funding sources falling off (in FY 2025 the

Infrastructure Fund supported ongoing General Fund expenses including $14.7 million in infrastructure maintenance expenses, and $8.0 million was withheld from the Housing Commission to support other homelessness programs; these amounts are included as General Fund expenses for FY 2026), and new or increased ongoing expenses such as increased debt service payments ($12.1 million), increased support for the Housing Instability Prevention Program ($5.8 million), establishment of a low-income trash fee subsidy program ($3.0 million), and increased support for the Eviction Protection Program ($2.0 million net increase), among others. Offsetting these increases are more substantial decreases in NPE, including decreased General Fund refuse disposal expenses ($26.1 million), decreased fleet and fuel costs ($17.1 million), and decreased elections costs ($7.2 million), among others. More detail on these changes can be found in this report's ***General Fund Overview: Expenditures*** section.

How the Mayor Balanced the FY 2026 Budget

As noted, the FY 2026-2030 Five Year Financial Outlook projected a baseline General Fund FY 2026 deficit of $258.2 million. This shortfall further grew due to declines in Sales Tax, TOT, and Franchise Fee revenue, as well as increases in expenditure needs, as discussed above.

The Proposed Budget addresses that shortfall through various mitigations, including both new revenues and programmatic reductions. Altogether, major General Fund mitigations total $346.0 million.

Major new General Fund revenues and resources in the Proposed Budget include:

- $40.5 million in additional revenue from expanded paid parking and increased parking citation amounts;
- $33.8 million in additional TOT revenue to support homelessness services from 2020's Measure C;
- $18.3 million in reimbursements and transfers from other funds;
- $6.1 million in revenue from increased user fees;
- $4.3 million from the Sycamore Facility Franchise Fee;
- $4.0 million from increased Cannabis Business Tax rates; and
- $2.4 million in grant funding and reimbursements.

Major General Fund expenditure reductions include:

- Elimination of Sunday and Monday library hours ($8.6 million; 71.00 FTEs);
- Waiver of the Climate Equity Fund ($6.6 million);
- Reduced parks maintenance ($6.4 million; 49.50 FTEs) ;
- Reduced Stormwater medium and low priority operations ($5.3 million);
- Reduced recreation center hours ($4.8 million; 53.70 FTEs);
- Closure of the Rosecrans Shelter ($4.8 million);
- Reduced funding for public restrooms ($4.6 million; 13.00 FTEs);
- Proposed reductions to the City Attorney budget ($4.4 million; 0.50 FTEs);
- Reduced Homelessness Strategies and Solutions NPEs and use of grant funds ($3.6 million);
- Reduction to animal services contract ($3.5 million);

- Sworn staffing reductions in Police Department ($2.6 million; 7.00 FTEs);
- Reduced Human Resources programming and positions ($2.0 million; 11.00 FTE positions;
- Reductions to the Development Services Department ($1.8 million; 12.00 FTEs);
- Consolidation of the Police Department's Northern and Northwestern Divisions ($1.7 million; 6.00 FTEs);
- Reduced Sustainability and Mobility programs ($1.7 million; 5.50 FTEs);
- Reduced Planning Department programming and positions ($1.5 million; 5.50 FTEs);
- Rent savings for Fire-Rescue Department office space ($1.2 million);
- Reduced Police Overtime expenses ($1.1 million);
- Reductions to the City Council's personnel budget ($1.1 million); and
- Reductions in security services at City parks ($1.0 million).

Additionally, the Proposed Budget includes the following mitigation measures which shift expenses to non-General Fund sources or otherwise delay previously planned expenditures:

- $73.8 million in General Fund expenditures associated with trash collection are shifted to the Solid Waste Management Fund, which would be supported by trash fees upon Council adoption of those fees in June;
- $64.0 million in contributions to the General Fund and Risk Management Reserves that would otherwise be needed to meet targeted reserve levels are proposed to be waived;
- Debt service costs are reduced by 7.8 million by delaying the anticipated $465.0 million FY 2025 capital bond issuance ($7.8 million); and
- $2.1 million in various fund balances are proposed to support General Fund expenditures.

This is not an exhaustive list of mitigations; these and other mitigation measures are summarized in this report's ***General Fund: Major Additions and Mitigations*** section. Several mitigation measures are dependent on future Council Action.

Additionally, as will be discussed in that sections and throughout this report's various ***Key Citywide Issues*** and ***Department Review*** sections, there are real programmatic and service-level impacts associated with the mitigations that are proposed. Council should discuss those impacts during its Budget Review Committee meetings; the Mayor has indicated that his May Revision will reflect discussion and input provided at those hearings. Council ultimately retains the authority to make modifications to the budget as reflected in the Proposed Budget and May Revision, and depending on Council's priorities, a different combination of resources and mitigations could be considered. However, given the City's finances, some manner of reductions to current service levels will be necessary.

Key FY 2026 Budget Issues

Our Office has also identified several key issues that merit additional discussion. As noted, the Budget remains structurally unbalanced, and additional resources will be needed to address many of these issues.

Classified and Unclassified Positions

As requested during the initial presentation of the Proposed Budget to the City Council on April 21, 2026, our Office prepared additional information on the proportion of classified to unclassified positions in General Fund departments. Across the General Fund, 90.2% of budgeted standard hour FTEs are classified; among Mayoral departments, this proportion increases to 95.1%. That noted, the proportion of classified and unclassified FTEs in each department varies significantly.

Additional discussion and detail by individual department is included in this report's ***Key Citywide Issues: Classified and Unclassified Positions*** section.

Climate Action Plan

The Proposed Budget includes $299.6 million in support for the Climate Action Plan, including $185.9 million in direct support. The vast majority of spending supporting the Climate Action Plan comes from various enterprise and special funds, with a reduction of $9.7 million in support from the General Fund. This level of support is potentially $1.7 million below the level of spending contained in the Climate Action Implementation Plan, with the majority of the funding gap related to tree planting and care services.

Climate-related funds also did not receive a full allocation, with the Climate Equity Fund not receiving $6.6 million from franchise fees, and the Energy Independence Fund not receiving $1.8 million from the franchise minimum bid payments.

Additional considerations are discussed in this report's ***Key Citywide Issues: Climate Action Plan*** section.

Council Budget Priorities

In October 2024, the Council approved an initial Budget Priorities Resolution that indicated the priorities it wanted to see reflected in the Mayor's FY 2026 Proposed Budget; that Priorities Resolution was then updated in February 2025. While many priorities were included or maintained in the budget, given the City's budget limitations, not all were.

Details on how the Proposed Budget compares to the Council's Budget Priorities are included in this report's ***Key Citywide Issues: Council Budget Priorities*** section.

Departmental Vacancies

Over the last several years, the City made significant progress in addressing departmental vacancies through recent labor contracts that increased salaries and benefits and other steps taken to address hiring challenges, enabling successful recruitments. However, some departments still face challenges in filling certain job classifications. Additionally, a strategic hiring freeze implemented in December 2024 to slow down hiring and reduce personnel expenses due to projected budget shortfalls, has led to increased vacancies.

The Proposed Budget includes personnel expenditure reductions across various departments, reflecting anticipated savings. While these reductions are necessary, they will result in increased workloads for existing staff, delayed services, and challenges in meeting service levels, ultimately requiring corresponding reductions in programs and services. The Administration issued a memorandum dated April 21, 2025 indicating that vacancies created by the strategic hiring freeze will provide opportunities for employees who will be impacted by the Reduction In Force (RIF) process to remain in the organization. The RIF process will begin for filled positions reduced in the FY 2026 Adopted Budget soon after the budget's adoption; the hiring freeze that is currently in place is anticipated to extend into early FY 2026.

The April 21 memo also refers to significant savings due to the hiring freeze for the second half of FY 2025. Given that the FY 2025 Mid-Year Budget Monitoring Report projected slight overages in salaries, any anticipated savings based on an additional quarter of actual data should be updated in the upcoming Third Quarter Report. Should spending projections continue to be close to budget for FY 2025, the hiring freeze may need to continue into FY 2026 for longer than anticipated.

Additional considerations are discussed in this report's ***Key Citywide Issues: Departmental Vacancies*** section.

Equity

Despite the difficult budget environment, high priority, equity-focused programs are maintained in the FY 2026 Proposed Budget, including No Shots Fired, SD Access for All, Eviction Prevention Program, and Housing Instability Prevention Program. The City will also continue to implement the Employ & Empower Internship Program, though at reduced levels due to grant funding constraints. Newly created infrastructure funds targeting communities of concern are also included in the Proposed budget totaling $2.3 million, with more anticipated in the May Revision.

There are also significant proposed reductions in the budget that could have equity impacts. For park maintenance reductions, the budget reflects an effort to reduce impacts to communities of concern by applying a smaller reduction to those communities (Districts 3, 4, 8, and 9) as compared to other communities. However, a proposal to reduce recreation center hours could impact communities of concern to a greater extent since they are less likely able to pay more fees to support continued recreation programming than wealthier communities.

The elimination of Sunday and Monday library hours may also have a larger impact on library users in southern San Diego because they have higher in-person and program usage rates. Finally, the reduction of the City's library donation matching funds reduces funds that can be allocated to libraries using an equity-focused distribution model.

Additional considerations are discussed in this report's ***Key Citywide Issues: Equity*** section.

Homelessness and Housing

The City continues to see rising homelessness, which grew by 4.4% based on the January 2024 Point-in-Time Count compared to the prior year. The Proposed Budget includes $53.2 million in the General Fund to continue emergency shelter, Safe Sleeping, Safe Parking, outreach, and other homelessness services. Of the General Fund resources budgeted, $33.8 million is expected from the portion of Measure C revenue restricted to homelessness and not otherwise available for non-homelessness General Fund expenses; 2020's Measure C (pending a final court decision) represents the City's first long-term funding stream dedicated to homelessness. Many of the City's homelessness services will also be supported with grant funds outside of the budget process totaling $33.5 million in FY 2026.

The Proposed Budget also provides full, ongoing funding for prevention efforts through the Housing Instability Prevention Program and Eviction Prevention Program.

As part of budget mitigations, funding is not included for the 150-bed Rosecrans Shelter and Caltrans Outreach, and funding will be reduced for the operation of public restrooms. The Proposed Budget also includes a reduction of $3.6 million from shelter operations transferred to grant funds and ongoing reductions in non-essential spending. Given the challenging budget environment, Council will want to consider how to prioritize limited resources across different homelessness interventions, as well as relative to other City departments.

Additional considerations are discussed in this report's ***Key Citywide Issues: Homelessness and Housing*** section.

Infrastructure Funding Needs

The City faces a $6.51 billion capital funding gap over the next five years. This gap, nearly four times larger than in FY 2016, is driven by the lack of dedicated General Fund revenue for infrastructure, leading to deferred maintenance and costly emergency repairs, especially in stormwater systems.

The FY 2026 Proposed CIP Budget totals $845.9 million, a $104.0 million reduction from FY 2025, mainly due to limited funding for General Fund assets. Contributions to the Infrastructure Fund and Climate Equity Fund (CEF) are also reduced, with minimal funding available for General Fund infrastructure.

To address infrastructure needs, the Proposed Budget includes $95.8 million in additional CIP appropriations to be funded by future financing proceeds, accounting for 11.3% of citywide funding. Our Office believes that this level of new appropriations is reasonable and additional debt capacity is anticipated to remain over the next five years, as projected by the most recent Financial Outlook. However, General Fund bond financing is ultimately limited by available General Fund revenue which will not be able to support General Fund CIP needs indefinitely.

The most recent Five-Year Capital Infrastructure Planning Outlook identified $1.14 billion in General Fund-supported infrastructure needs for FY 2026, but only $170.8 million is included in the Proposed Budget. This underscores the insufficiency of current revenue sources. A comprehensive financial strategy, including new revenue, is critical to closing the growing funding gap.

Additional considerations are discussed in this report's ***Key Citywide Issues: Infrastructure Funding Needs*** section.

Pension

The FY 2026 Proposed Budget includes $533.2 million for the City's defined benefit pension payment, a $46.9 million increase from FY 2025. The General Fund portion is increasing by $20.4 million, to $377.5 million. The City's budgeted pension payment amounts are significant: the ADC is 17.6% of budgeted expenditures for the General Fund and 8.8% citywide.

The budget amounts are based on the required pension payment included FY 2024 actuarial valuation report to the San Diego City Employees' Retirement System (SDCERS), dated February 2025. The most significant factor for the year-over-year increase to the pension payment was that salary increases were higher than expected in the FY 2023 valuation.

Additional information is included in this report's ***Key Citywide Issues: Pension*** section.

Next Steps in the Process – City Council's Role and Community Involvement

May 5-9: Budget Review Committee hears "IBA Review of the FY 2026 Proposed Budget" and holds public hearings on City departments, functions, and agency budget proposals. The Budget Review Committee also holds an evening 6:00 PM hearing to receive public input on May 5th.

May 14: Mayor releases May Revision and FY 2025 Third Quarter Budget Monitoring Report.

May 19: City Council hears the Mayor’s May Revision and Third Quarter Budget Monitoring Report as information items, providing additional context for final budget decisions. The Council also holds an evening 6:00 PM meeting for public input on the FY 2026 Proposed Budget and May Revision.

May 21: City Councilmembers issue final budget modification priority memoranda, including recommendations for potential budget revisions, to the Office of the IBA.

June 3: Office of the IBA releases final report on recommended revisions to the Mayor’s FY 2026 Proposed Budget including the May Revision, based on input from City Council memoranda and feedback, public comment, and independent analysis.

June 6: Budget Review Committee hears and discusses IBA’s report on recommended revisions to the Proposed Budget.

June 10: City Council makes final FY 2026 budget decisions and takes action on any FY 2025 budget revisions.

June 24: City Council considers and adopts the FY 2026 Appropriations Ordinance.

Additional Reports

Our Office will also be issuing individual reports for the following agencies prior to their budget hearings, scheduled for May 8, 2025:

- San Diego City Employees’ Retirement System
- San Diego Housing Commission
- San Diego Convention Center Corporation

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Revenue Overview

SUMMARY OF GENERAL FUND REVENUES (*$ in millions*)							
	FY 2025 ADOPTED BUDGET	FY 2025 MID-YEAR PROJECTED YEAR-END	FY 2026 PROPOSED	Adopted to Proposed		Mid Year to Proposed	
				CHANGE ($)	*CHANGE (%)*	*CHANGE ($)*	*CHANGE (%)*
Major General Fund Revenues							
Property Tax	$ 808.9	$ 808.5	$ 843.4	$ 34.6	4.3%	$ 34.9	4.3%
Sales Tax	$ 393.5	$ 364.1	$ 367.3	$ (26.2)	-6.7%	$ 3.2	0.9%
Transient Occupancy Tax	$ 172.8	$ 170.4	$ 175.2	$ 2.4	1.4%	$ 4.8	2.8%
Franchise Fees	$ 121.9	$ 122.5	$ 103.0	$ (18.9)	-15.5%	$ (19.5)	-15.9%
Subtotal	*$ 1,497.1*	*$ 1,465.5*	*$ 1,488.9*	*$ (8.2)*	*-0.5%*	*$ 23.4*	*1.6%*
Other Revenues							
Other Major Revenues	$ 100.6	$ 105.3	$ 113.6	$ 13.0	12.9%	$ 8.3	7.9%
Departmental Revenues	$ 478.8	$ 486.1	$ 546.1	$ 67.3	14.1%	$ 60.0	12.3%
Subtotal	*$ 579.4*	*$ 591.4*	*$ 659.7*	*$ 80.3*	*13.9%*	*$ 68.3*	*10.4%*
Total Revenue	**$ 2,076.5**	**$ 2,056.9**	**$ 2,148.6**	**$ 72.1**	**3.5%**	**$ 91.7**	**4.5%**

Table may not total due to rounding

The FY 2026 Proposed Budget for the General Fund includes approximately $2.15 billion in revenues, an increase of $72.1 million, 3.5%, from the FY 2025 Adopted Budget. Revenue in the Proposed Budget is $91.7 million, 4.5%, more than the FY 2025 year-end revenue forecast in the Mid-Year Budget Monitoring Report.

Four major sources of revenue make up approximately 69.3% of General Fund Revenue in FY 2026: Property Taxes, Sales Tax, Transient Occupancy Tax, and Franchise Fees.

The four major sources of General Fund revenue are budgeted to have a net decrease of $8.2 million, 0.5%, from the FY 2025 Adopted. While there is projected growth in property tax revenues, those gains are offset by year-over-year declines in sales tax and franchise fee revenue projections for FY 2026.

In addition to the four major sources that make up most General Fund revenue, there are many other, smaller sources that contribute to the General Fund revenues, such as rent, fines & penalties, interest, and other miscellaneous revenue. Other General Fund revenue is budgeted to increase by $80.3 million, or 13.9%, beyond the FY 2025 Adopted Budget.

Major General Fund revenue projections in the FY 2026 Proposed Budget reflect FY 2025 actual receipts from sales tax and franchise fees falling below budgeted amounts. The significant increases to other General Fund revenue, which are primarily related to increased parking related revenue and user fees moving closer to full cost recovery, are significant contributors to growth in total General Fund revenues. Overall, revenue projections in the FY 2026 Proposed Budget are reasonable, but we will closely monitor economic conditions that may affect these assumptions over the coming weeks.

Economic Outlook

Inflation, as measured by the Personal Consumption Expenditures (PCE) Price Index, increased slightly in February 2025 to 2.5%, and the core PCE, which excludes food and energy, increased by 2.8% from a year ago.

While inflation has decreased in the last two years, it remains above the Federal Reserve's 2.0% long run target, which has led the Federal Open Market Committee (FOMC) to keep the Federal Funds Rate between 4.25% to 4.50%. This has kept the cost of borrowing money and doing business at relatively high levels compared to the last 15 years.

The UCLA Anderson Spring 2025 economic

outlook for the U.S. and California forecasted slower growth in 2025 through 2026, driven by higher prices and higher unemployment. The forecast, from early March 2025, cited uncertainty from tariffs, weakening consumer sentiment, and a reduced labor force as contributors to a negative outlook.

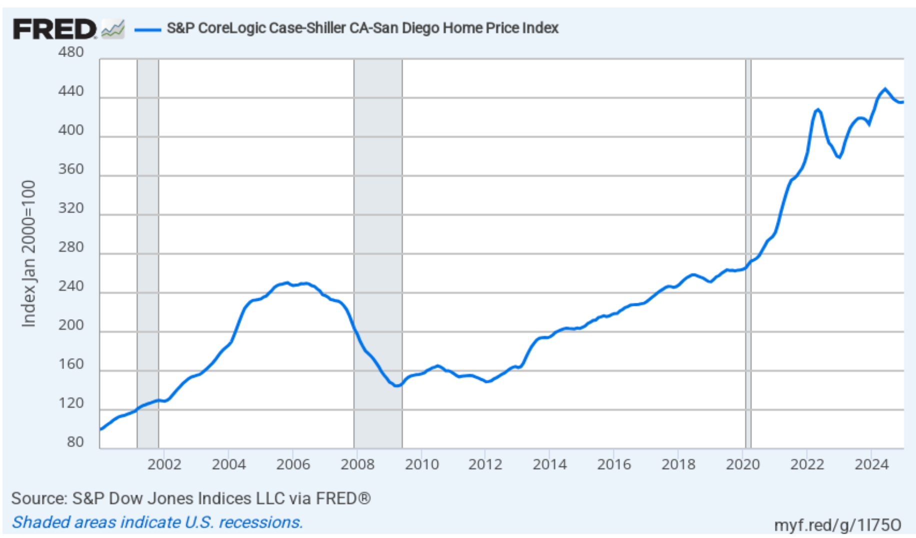
The increased risk of a recession and the perceived fear of one happening have resulted in significant consumer sentiment declines. The University of Michigan's April 2025 Consumer Sentiment Index survey had its lowest reading since June 2022.

Locally in San Diego County, there are indications of continued growth in the real estate sector, as shown below.

increased slightly in recent months. The San Diego CPI-U remains above the average CPI-U of all U.S. cities but has come down greatly over the last three years.

San Diego is a bi-national city with close economic ties to Tijuana, particularly in manufacturing. The direction and impacts of international trade policy in the coming months may increase inflation over the near term, as indicated by private sector forecasts, but the extent of the impact will depend on whether businesses pass through additional costs to consumers.

Additional details on how the economic outlook may impact each major General Fund revenue source are discussed below.



However, national weakening of consumer sentiment and indications of rising inflation are indicators that consumers may reduce their spending on taxable goods.

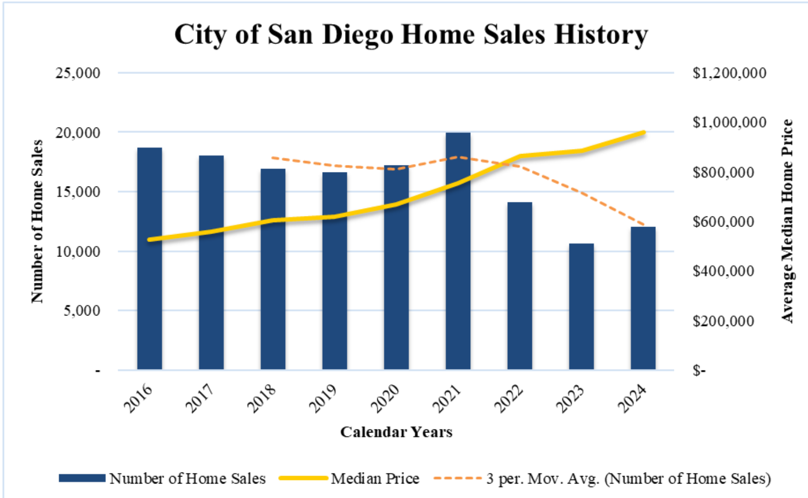
As of January 2025, San Diego's unemployment remains at 4.5%, a slight increase from a year ago and slightly above the national average, but still close to the 20-year low of 3.1% before the pandemic.

Like the national inflation rate measured by PCE, the Consumer Price Index for All Urban Consumers (CPI-U) in the San Diego region has decreased over the last two years but has

Property Tax

The FY 2026 Proposed Budget forecasts \$843.4 million in property tax revenue, a \$34.6 million, or 4.3%, increase above the FY 2025 Adopted Budget.

Per State law, the County of San Diego may levy a general property tax of 1.0% on the assessed value of a property. Unless a property is reassessed after it is sold or undergoes a major remodel, the assessed value of a property for tax purposes can only increase by 2.0% or



Source: HdL Coren & Cone

the annual change in the California Consumer Price Index (CPI) each year, whichever is lower. Of the 1.0% general property tax levied by the County, the City of San Diego receives only 18¢ of every dollar collected, with the rest going to the County, special districts, and schools and universities.

The 1.0% property tax levy is based on value assessed at the beginning of each calendar year, so assessed values in the current calendar year will reflect real estate activities (sales, major remodeling, new construction, etc.) that happened in the previous calendar year. The lag between a property reassessment triggering event, the property's value assessment date, the date that property taxes are paid to the County, and the date that the County distributes the City's share of revenue means that the FY 2026 property tax revenue forecast largely reflects real estate market trends in calendar year 2024.

The budget assumes a 4.6% growth rate in the 1.0% property tax revenue and 4.0% growth rate in the property tax in lieu of motor vehicle license fee (MVLF) payment (discussed below) in FY 2026; at $574.4 million and $212.1 million respectively, these two sources make up 93.2% of property tax revenue.

The 4.3% property tax growth rate assumed in the Proposed Budget is lower than the 6.8% actual growth rate from FY 2023 to FY 2024 and the projected 4.9% growth rate from FY 2024 to FY 2025. However, the lower annual growth rate in FY 2026 may accurately reflect declining property tax growth rates over the last four fiscal years and a 30-year fixed rate mortgage interest rate maintained at a relatively high rate. The growth rate is nearly identical to the 4.2% growth rate for FY 2026 presented in the FY 2026 – 2030 Five-Year Financial Outlook.

While the median home price in the City of San Diego continues to increase, there is softening in the actual number of home sales in the last three calendar years. The declining average number of home sales corresponds with higher-than-average interest rates on the 30-year fixed mortgage.

Additionally, while not a significant source of the City's property tax revenue base, there have been several reassessments and sales of large-scale commercial buildings in Downtown San Diego at significantly lower amounts than previous purchase prices. These sales signal a continued post-COVID trend of high commercial vacancy rates in the city's downtown core, suggesting investors see greater value and stability in other locations or asset classes. Our Office will continue to monitor these trends.

In addition to the 1.0% property tax allocation, the City's property tax revenue also includes revenue received in lieu of the motor vehicle license fee (MVLF) and residual Redevelopment Property Tax Trust Fund (RPTTF) revenue distributions, which are reflected in the chart below.

PROPERTY TAXES (*$ in millions*)				
	FY 2025 ADOPTED BUDGET (AB)	FY 2026 PROPOSED BUDGET (PB)	FY 2025 AB to FY 2026 PB	
			CHANGE ($)	*CHANGE (%)*
Property Tax	***$ 808.9***	***$ 843.4***	***$ 34.6***	***4.3%***
1% Prop Tax	549.0	574.4	25.4	4.6%
MVLF	203.9	212.1	8.2	4.0%
RPTTF	56.0	57.0	1.0	1.8%

Sales Tax

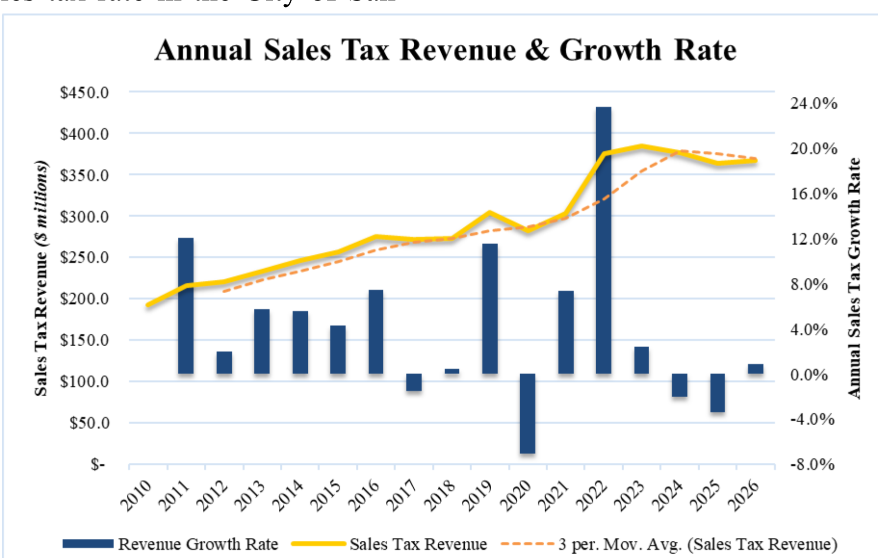
The FY 2026 Proposed Budget includes $367.3 million in projected General Fund revenue from sales tax. Notably, the FY 2026 Proposed Budget amount is $26.2 million, or 6.7%, *lower* than what was assumed in the FY 2025 Adopted Budget.

The current sales tax rate in the City of San Diego is 7.75%. Of this 7.75%, the City receives 1.0%, which is known as the Bradley Burns 1% Local Sales and Use Tax. This means that for every dollar of sales tax paid in the City, only 13¢ actually goes to the City as a municipal entity, with the rest going to SANDAG, the County, and the State.

As of the FY 2025 Mid-Year report, actual sales tax revenues are projected to end the year at $364.1 million. At $367.3 million, the FY 2026 Proposed Budget for sales tax would be $3.2 million, 0.8%, more than FY 2025 year-end projection. We note that additional actual sales tax revenue has come in under-budget since the Proposed Budget revenue projections were prepared, which has caused the FY 2026 projection to be lower by $3.8 million.

Sales tax revenue is historically volatile (as shown below), particularly during times of economic uncertainty, making the statistical margin of error in a revenue forecast much larger than other General Fund revenue sources like property taxes.

From FY 2023 to FY 2024, there was a 2.0% decline in sales tax receipts, and there is



Note: FY 2025 data is from the Mid-Year projection and FY 2026 data is from the Proposed Budget. All others are actual.

currently a projected 3.4% decline between FY 2024 and the FY 2025 mid-year projection. Therefore, sales tax revenue has been contracting since it rebounded from the pandemic.

The 0.9% growth rate from the Mid-Year FY 2025 projection and the FY 2026 Proposed Budget reflects a conservative growth outlook into the upcoming fiscal after recent year over year declines. The growth rate is below the Spring 2025 UCLA Anderson Forecast, which predicts taxable sales in California will increase by 3.1% in FY 2026. However, that forecast assumes a consumer price index (CPI) inflation rate of about 3.0% which is a full percentage point lower than recent CPI data for San Diego County. The UCLA forecast also does not reflect the actual sales tax revenue growth that San Diego is seeing locally.

In April 2025, the City's sales tax consultant, Avenue Insights & Analytics, provided the City with a Sales and Use Tax Forecast for FY 2026 that stated the "most likely scenario" for sales tax revenue would be $376.6 million, which is $9.3 million, or 2.5%, above the FY 2026 Proposed Budget. This projection is nearly equal to the amount of sales tax revenue the City received in FY 2024. The FY 2026 Proposed Budget for sales tax is more conservative than the City's sales tax consultant's forecast, which continues to be reasonable given the latest actual receipts.

Our Office will continue to closely monitor sales tax receipts in the current fiscal year to determine impacts for the upcoming fiscal year, and if any modifications are appropriate to consider during review of the May Revision or at budget adoption in June.

Impacts on the Infrastructure Fund

The City Charter requires that the annual incremental increases in sales tax revenue above a 2016 baseline, adjusted for inflation, be deposited into the Infrastructure Fund.

The FY 2025 sales tax forecast projects sales tax revenue will come in below the 2026 inflation adjusted base, so there will not be an Infrastructure Fund contribution in FY 2026.

Transient Occupancy Tax

The FY 2026 Proposed Budget for Transient Occupancy Tax (TOT), or hotel tax, revenue is $333.0 million, of which $175.2 million is allocated directly to the General Fund (known as General Fund TOT). This is a $2.4 million, or 1.4%, increase in General Fund TOT over FY 2025 Adopted Budget amounts, and a $4.8 million, or 2.8%, increase over the FY 2025 Mid-Year Report projection.

The FY 2026 TOT projection reflects a 4.0% base growth rate, except in January 2026 where it is 2.6% due to the annual American Society of Hematology conference taking place in Orlando, FL and not San Diego. The growth rate is largely in-line with the 3.2% base growth rate for which FY 2025 is projected to end. However, additional actual TOT revenue remitted since the Proposed Budget revenue projections were prepared is under budget by $1.3 million in total, ($704,000 for the General Fund TOT portion). Any reduction in FY 2025 revenues would carry forward to FY 2026.

The City's TOT revenue is derived from a 10.5% tax on short-term stays at hotels, motels, short-term rentals, RV parks, and campgrounds in the City. Revenue from hotels makes up about 85% of total TOT. Per the Municipal Code, the 10.5% is broken out as:

- 5.5% – General Fund Allocation
- 4.0% – Special Promotional Programs
- 1.0% – Council Discretionary

This section discusses just the 5.5% General Fund allocation, which equals $175.2 million in the FY 2026 Proposed Budget. The other portions are discussed in the *Department Review: Special Promotional Programs* section of this report, though overall growth-rates and trends are consistent across each allocation.

TOT revenue is driven by the demand for hotel rooms, reflected in the price per room, the occupancy rate of rooms, and the supply of rooms. That demand is in turn determined by leisure travel, international travel, business travel, and group travel.

The San Diego Tourism Marketing District (TMD), San Diego Tourism Authority, (SDTA), and Tourism Economics all work together to prepare hotel demand forecasts which can be used as a barometer for TOT revenue.

SDTA, with data from CoStar, reported that six new hotels with over 900 combined units are in the construction pipeline in San Diego and expected to open between March 2025 and the end of FY 2026. While this does not account for rooms taken-offline due to repairs, upgrades, or other reasons, it does show a strong hotel pipeline in the City.

In its December 2024 forecast, Tourism Economics predicted that hotel room night demand in FY 2026 for the County of San Diego would increase year-over-year by 3.0% in the first quarter, 4.0% in the second quarter, 6.0% in the third quarter, and 3.0% in the fourth quarter. The total average annualized growth rate for hotel room demand in FY 2026 was projected at 4.0%. Additionally, Tourism Economics forecasted that room revenue per available room in the City would increase by 5.0% in FY 2026.

Tourism Economics' model uses economic assumptions from its outlook in November 2024. While there have been economic changes since then, many of those changes are already baked into their model.

Our Office believes that the growth rates used in the FY 2026 Proposed Budget are reasonable at this point, but our Office will continue to closely monitor projections before the May Revision.

Measure C (2020)

On the March 2020 ballot, San Diego voters considered Measure C, a citizens' initiative that would increase TOT rates across three tax zones in the City to 11.75%, 12.75%, or 13.75% based on their proximity to the San Diego Convention Center. In accordance with Measure C, associated incremental revenue above the existing 10.5% TOT rate can only be used to fund homelessness programs and convention center improvements, and eventually street repairs.

While aspects of Measure C are still in litigation, in August 2024, a trial court ruled in favor of the City and the validity of the measure as approved by citizens.

On March 20, 2025, the City announced it would begin requiring hotels, motels, short-term rentals, RV parks, and campgrounds to start collecting the Measure C TOT increase starting on May 1, 2025. While actual Measure C TOT receipts will be collected starting May 2025, they will not be remitted to the City until early June 2025 at the earliest.

Preliminary forecasts from the Department of Finance show Measure C will generate an additional $82.4 million in FY 2026; $48.6 million of this amount would be dedicated to the convention center, and $33.8 million would be available to support efforts to address homelessness in the City. This does not include $13.2 million projected to be collected at the end of FY 2025 in May and June which could be used for additional eligible expenses in the future.

The measure approved by voters requires the revenue to be deposited into three separate funds, for homelessness programs, convention center improvements, and street repairs, so that they can be independently audited and only used for the purposes voters intended. The convention center fund will get 59% of the additional tax revenue, and per the measure, could issue bonds supported the proceeds within the first 10 years. If bonds are issued in the first 10 years, the measure states that the additional tax will continue for 42 years after the first bonds are issued.

The other 41% of the additional tax revenue will go to homelessness programs and street repairs. During the first five years after the measure becomes effective, this entire 41% will go to the homelessness programs fund. In year six, 31% will go to the homelessness programs fund and 10% will go to the street repair fund.

The FY 2026 Proposed Budget assumes $33.8 million for homelessness programs and $48.6 million for the convention center from Measure C. This is further discussed in the *Department Review: Homelessness Strategies and Solutions* section later in this report, and in our Office's review of the San Diego Convention Center Corporation's (SDCCC) FY 2026 budget which will be released in early May 2025.

Franchise Fees

The FY 2026 Proposed Budget projects General Fund franchise fees will total $103.0 million.[1] Notably, this is a reduction of $18.9 million, or 15.5%, from the FY 2025 Adopted Budget.

Franchise fee revenue comes from three main sources:

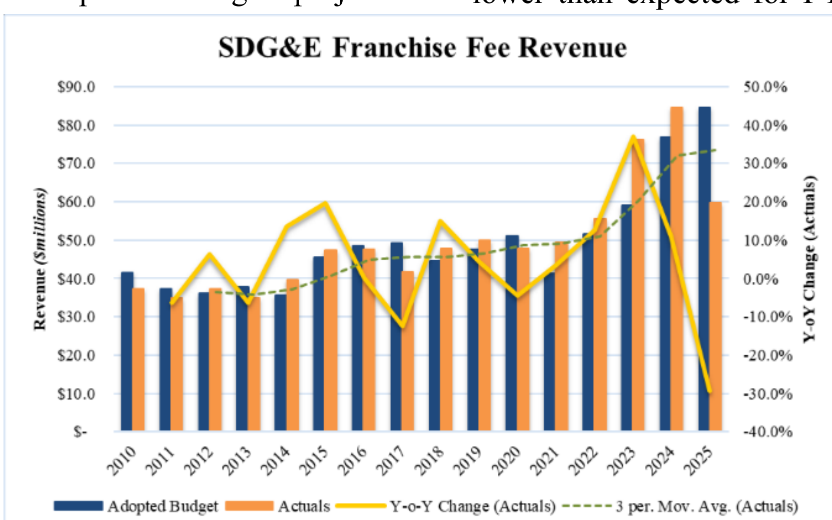
- A 3% surcharge on SDG&E's total gross sales;
- A 5% surcharge on cable television provider subscriptions in the City; and
- Charges to private refuse haulers based on tonnage of refuse disposed.

Additional smaller franchise fees are received from other energy, railroad, and towing franchises in the City.

SDG&E

The largest source of General Fund franchise fee revenue is the surcharge on San Diego Gas & Electric (SDG&E), which accounts for $66.3 million, 64.4%, of major General Fund franchise fees in the FY 2026 Proposed Budget. This is a reduction of $18.4 million, or 21.7%, from the FY 2025 Adopted Budget.

The most recent quarterly payment from SDG&E came in $24.9 million, or 29.4%, lower than expected for FY 2025. The way



[1] The Mayor's FY 2026 Proposed Budget projects Franchise Fee revenue at $105.8 million, which includes $200,000 and $2.7 million from ESD's EDCO Facility Franchise Fee and SDPD's Towing Franchise Fee, respectfully. Our Office reports those two revenue sources as part of Departmental Revenue.

that SDG&E remits payments to the City through advances and true-up payments means that the FY 2025 actuals become part of FY 2026 projections. This is why the FY 2026 Proposed Budget for franchise fees is also $21.8 million, or 24.7%, lower than what was forecast in the Five-Year Outlook.

It is not unusual for SDG&E franchise fee revenue to vary significantly from its projected growth rate, as historically SDG&E franchise fees have been hard to predict. This is due to both substantial volatility in the energy market, and because SDG&E does not normally share its more detailed financial forecasts for electricity and natural gas rates or sales volume with the City.

We have been told that since SDG&E is a subsidiary of Sempra Energy, a publicly traded company, it may violate U.S. Securities and Exchange Commission (SEC) laws to share non-publicly available information with the City for the purposes of forecasting the City's revenue. However, SDG&E has agreed to work with the Department of Finance on a quarterly basis to review publicly available data to better inform the City's revenue forecasts going forward.

Refuse Franchise Fees

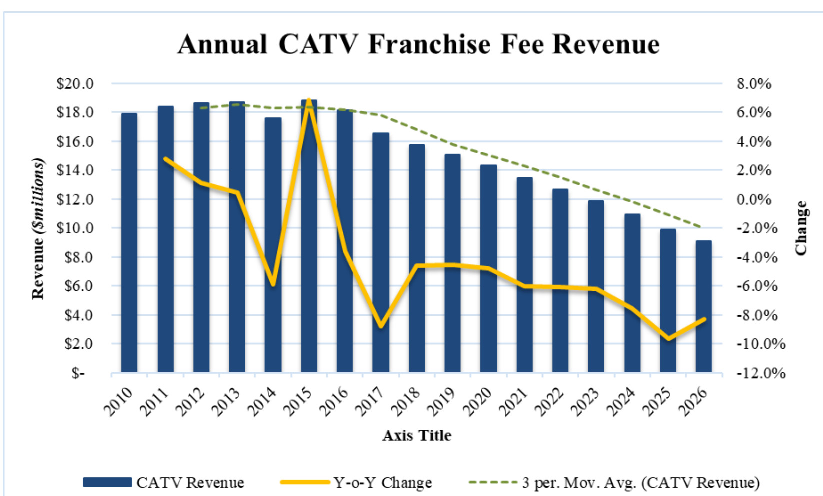
The second largest portion of franchise fee revenue is derived from refuse hauler and landfill disposal fees. Refuse hauling franchise fees are based on the tonnage of refuse disposed. $18.5 million, or 17.9% of major General Fund franchise fees is derived from this source. Refuse franchise fee revenue in FY 2026 includes the transfer of $4.3 million in Sycamore Facilities fee revenues from the Recycling Fund to the General Fund, which began in FY 2025.

The remaining refuse franchise fee revenue is budgeted at $14.2 million, an increase of $670,000 from the FY 2025 Adopted Budget.

Cable

The third largest portion of franchise fee revenue is from cable television franchise fees, which totals $9.1 million or 8.8% of major General Fund franchise fees in the Proposed Budget. This amount assumes an 8.3% decline in cable franchise fee revenue from the FY 2025 Adopted Budget.

Cable television (CATV) franchise fee revenue has shown consistent year-over-year declines since FY 2011 (with one exception in FY 2015), as cable television customers have switched to online and streaming services. The decrease in the Proposed Budget reflects this trend. The assumed rate of growth used in the Proposed Budget is based on historical



Note: FY 2025 data is from the Adopted Budget and FY 2026 data is from the Proposed Budget. All others are actual.

averages, and our Office agrees with this projection.

Other Revenues

Beyond Major General Fund revenues, the FY 2026 Proposed Budget includes $659.7 million in other revenues, which is an increase of $80.3 million, or 13.9%, from the FY 2025 Adopted Budget. This includes parking meter collections and parking citations, Cannabis Business Tax, the 1.0% "Council Discretionary" TOT allocation, charges for services provided to non-general fund departments, and various other revenues. Cannabis Business Tax revenue is discussed here. For additional information on parking meter revenue, refer to the City Treasurer section of *Department Reviews*. For additional information on revenue coming from City property, see the Economic Development Department section of *Department Reviews*.

Cannabis Business Tax

In 2016, San Diego voters passed Measure N, which imposed a 5% tax on non-medical cannabis businesses that increased to 8% in 2019. Businesses that provide services such as manufacturing, transportation, and retail sales of non-medical cannabis in the City of San Diego are subject to this tax, including those with physical locations inside the City and/or conducting business in the City, such as delivery or distribution. The measure allows the City to adjust the tax, up to 15%. The tax on Cannabis Production Facilities (CPFs) was decreased from 8% to 2% on May 1, 2022, at which time the 8% tax levied on cannabis retail outlets remained unchanged. Earlier this year, the City Council authorized the tax on cannabis retail outlets to increase from 8% to 10%, beginning in May 2025.

The FY 2026 Proposed Budget includes $22.2 million in revenues from the Cannabis Business Tax, which is an increase of approximately $2.8 million, or 14.3%, as compared to FY 2025 Adopted Budget. This is primarily increased tax rates for retail outlets, which is expected to offset continued revenue decreases associated with increased competition from the illicit market, neighboring jurisdictions, and intoxicating hemp products, as well as an oversupply of cannabis goods. For additional information on Cannabis Business Tax revenues, see the City Treasurer section of *Department Reviews*.

Expenditures Overview

As shown in the following table, General Fund expenditures are decreasing by $12.3 million, or 0.6%, from $2.16 billion to $2.15 billion. Non-Personnel Expenditure (NPE) changes net to a $62.9 million decrease. Larger changes are shown below. Personnel Expenditure (PE) changes net to a $50.5 million increase and are shown on the next page.

GENERAL FUND EXPENDITURE CHANGES				
(dollars in millions)	**FTE**	**PE**	**NPE**	**TOTAL**
FY 2025 Adopted Budget	8,733.16	$ 1,503.2	$ 657.7	$ 2,160.9
Budget Change Highlights				
FY 2026 PE Increase (See Next Page for Listing)	**(568.06)**	**50.5**	**-**	**50.5**
Reverse FY 2025 One-time Reduction of Eligible Expenditures Supported by the Infrastructure Fund (not including debt service)	-	-	14.7	14.7
Capital Infrastructure Debt Financing (ongoing)	-	-	12.1	12.1
Reverse FY 2025 One-time Reduction in Homelessness Program Expenditures Supported by the Affordable Housing Fund	-	-	8.0	8.0
Housing Instability Prevention Program Increase (HIPP) (ongoing) [a]	-	-	5.8	5.8
Net Change in Capital Leases & Energy Efficiency Loans (largely related to helicopter leases; ongoing)	-	-	3.2	3.2
Lifeline Rate Assistance Program (waste collection fee assistance; ongoing)	-	-	3.0	3.0
Net Change: Right-of-Way Fees for SDG&E Permits (ongoing)	-	-	2.4	2.4
Eviction Prevention Program Increase (now funded at $3.0m; ongoing)	-	-	2.0	2.0
Balboa Park New Paid Parking Program ($1.1m ongoing; $325k one-time)	-	-	1.4	1.4
Net Non-Discretionary IT Adjustments (ongoing)	-	-	1.3	1.3
Community Projects, Programs, & Svcs. (removal of FY 2025 one-time add)	-	-	(0.9)	(0.9)
Rent Savings - Fire-Rescue Office Consolidation (ongoing)	-	-	(1.2)	(1.2)
Elimination of Small Business Enhancement Program	-	-	(1.8)	(1.8)
Portable Restrooms (now funded on one-time basis, at $750k)	-	-	(3.0)	(3.0)
San Diego Humane Society Services Reduction (ongoing)	-	-	(3.5)	(3.5)
Homeless Shelter Operating Cost Reduction ($1.9m moved to one-time grant funding; $1.7m ongoing reduction)	-	-	(3.6)	(3.6)
Gas and Electric Services Adjustments (ongoing) [b]	-	-	(4.5)	(4.5)
Reduction of Medium Priority Compliance Stormwater Activities and Low Priority Stormwater Operations (ongoing)			(4.6)	(4.6)
Reduction of Rosecrans Shelter Operations (ongoing)	-	-	(4.8)	(4.8)
Decreased Fuel Costs (ongoing)	-	-	(4.8)	(4.8)
Reduction of Citywide Elections Budget (ongoing)	-	-	(7.2)	(7.2)
Decreased Fleet Fees (ongoing) [b]	-	-	(12.3)	(12.3)
Infrastructure Fund Contribution (threshold not met for contribution)	-	-	(21.1)	(21.1)
Decreased Refuse Disposal Fees (ongoing) [b]	-	-	(26.1)	(26.1)
FY 2025 One-time Cost Removal: General Fund Supported CIP projects	-	-	(2.4)	(2.4)
FY 2025 One-time Cost Removal: Expenditures for Homelessness Support [c]	-	-	(4.1)	(4.1)
FY 2025 One-time Cost Removal: Net Other One-Time Expenditures	-	-	(4.9)	(4.9)
Net Other Budget Changes	-	-	(6.1)	(6.1)
FY 2026 Proposed Budget	**8,165.10**	**$ 1,553.7**	**$ 594.9**	**$ 2,148.6**
Net Increase (Decrease): FY 2025 to FY 2026 (0.6% decrease)	***(568.06)***	***$ 50.5***	***$ (62.9)***	***$ (12.3)***

Note: Table may not total due to rounding.

[a] In FY 2025 the Permanent Local Housing Allocation Fund supported the $5.2m HIPP Program .
[b] Reductions are largely due to the transfer of trash collection services budget to the Solid Waste Management Fund.
[c] Includes continued homeless shelter operations ($1.5m), start-up costs for 1,000 Beds and the Safe Parking Program ($1.2m), the Multi-Disciplinary Outreach Program ($1.1m), and Family Shelter operating costs ($315k).

General Fund Overview: Expenditures

General Fund Personnel Expenditure (PE) Changes (Salaries/Wages & Fringe Benefits)				
(dollars in millions)	**FTE**	**Wages**	**Fringe**	**Total PE**
FY 2025 Adopted Budget	8,733.16	$ 925.7	$ 577.5	$ 1,503.2
Net Departmental Position Additions, Reductions, Transfers				
Environmental Services	(197.52)	(18.3)	(11.5)	(29.8)
Parks & Recreation	(144.99)	(7.4)	(4.0)	(11.4)
Library	(79.12)	(4.8)	(3.3)	(8.0)
Sustainability & Mobility	(34.59)	(4.9)	(2.1)	(7.0)
Office of the Chief Operating Officer	(22.68)	(4.1)	(2.2)	(6.3)
Police	(13.30)	(2.0)	(2.3)	(4.2)
Fire-Rescue	(16.88)	(1.6)	(1.5)	(3.1)
Development Services	(12.00)	(1.1)	(0.7)	(1.8)
Human Resources	(20.56)	(1.3)	(0.3)	(1.6)
Government Affairs	(7.00)	(1.0)	(0.5)	(1.5)
Race & Equity	(8.50)	(1.2)	(0.3)	(1.5)
Personnel	(6.00)	(0.7)	(0.2)	(0.9)
City Clerk	(7.62)	(0.6)	(0.2)	(0.8)
Office of Boards & Commissions	(4.00)	(0.5)	(0.3)	(0.8)
City Treasurer	(5.42)	(0.4)	(0.2)	(0.6)
Compliance	(4.00)	(0.4)	(0.2)	(0.5)
Communications	(3.16)	(0.3)	(0.1)	(0.4)
Office of Emergency Services	(2.00)	(0.2)	(0.1)	(0.3)
Real Estate	(4.25)	(0.1)	(0.2)	(0.2)
Department of Finance	(2.49)	(0.2)	(0.1)	(0.2)
Facilities Services	(1.00)	(0.1)	(0.0)	(0.2)
Performance & Analytics	(1.31)	(0.1)	(0.0)	(0.2)
Stormwater	(3.50)	(0.1)	(0.0)	(0.1)
Commission on Police Practices	(1.96)	(0.1)	(0.0)	(0.1)
Ethics Commission	(0.25)	(0.1)	0.0	(0.0)
Economic Development	(1.75)	(0.2)	0.2	(0.0)
Homelessness Strategies & Solutions	(0.38)	(0.0)	(0.0)	(0.0)
Council Administration	0.12	0.0	0.0	0.0
Purchasing & Contracting	-	0.1	(0.0)	0.0
Council Districts 1-9	3.77	0.2	0.0	0.2
City Attorney	(0.05)	0.4	0.2	0.6
Transportation	6.10	0.9	0.4	1.3
City Planning	11.50	2.4	0.9	3.3
Office of the Mayor	16.73	3.7	2.5	6.2
Subtotal - Net Departmental Position Changes	**(568.06)**	**$ (43.9)**	**$ (26.1)**	**$ (70.0)**
Removal of Fringe Above (avoids double counting in this table)	-	-	26.1	26.1
Other Wage Adjustments (including previously negotiated compensation increases, equity increases, step increases, promotions) [a]	-	65.3	-	65.3
Actuarially Determined Contribution (ADC)	-	-	20.4	20.4
Net Budgeted PE Savings Adjustment (largely to align vacancy savings)	-	7.7	-	7.7
Increased Fringe Contributions to the Workers' Compensation ($4.7m), Risk Management ($1.4m), and Long Term Disability Funds ($1.2m)	-	-	7.3	7.3
Overtime Increase in Fire-Rescue	-	6.2	-	6.2
Net Salary Reductions for Budget Mitigation	-	(8.5)	-	(8.5)
Net Overtime Decreases ($1.1m in Police; $1.1m in ESD)	-	(2.2)	-	(2.2)
Flexible Benefits Plan Decreases	-	-	(3.6)	(3.6)
Other Post-Employment Benefits (OPEB)	-	-	(2.0)	(2.0)
Net Other Wage and Fringe Adjustments	-	3.8	0.2	3.9
FY 2026 Proposed Budget	**8,165.10**	**$ 954.0**	**$ 599.8**	**$ 1,553.7**
Net Increase/(Decrease) FY 2025 to FY 2026 - 3.4% PE Increase	***(568.06)***	***$ 28.3***	***$ 22.2***	***$ 50.5***

Notes: Table may not total due to rounding.

[a] The other wage adjustments are somewhat higher than expected; we are continuing to analyze these amounts.

Personnel Expenditures (PE)

As shown in the table on the preceding page, the net General Fund PE increase (salaries/wages and fringe benefits) from the FY 2025 Adopted Budget to the FY 2026 Proposed Budget is $50.5 million. This net amount is comprised of a number of increases and offsetting decreases. The largest ***increases*** are listed below.

- The largest increase, $65.3 million shown in the bottom portion of the Wages column, is largely related to previously negotiated compensation increases, equity increases, step increases, and promotions. This increase reflects the current Memoranda of Understanding (MOUs) with the City's Recognized Employee Organizations (REOs), which run through FY 2026, as well as impacts related to unrepresented employees. Focusing *only on salaried wages*, after backing out net position reductions, there is an overall budget increase of about 7.5%.

- The second largest increase, $20.4 million in the bottom portion of the Fringe column, is the increase to the General Fund portion of the FY 2026 Actuarially Determined Contribution (ADC) pension payment. This amount was determined using the ADC included in the FY 2024 actuarial valuation. The $20.4 million increase is largely related to higher than expected salary increases. For more on the ADC see the *Key Citywide Issues: Pension* section of this report.

- The next largest increase shown in the bottom portion of the Wages column is $7.7 million in *decreased* Budgeted PE Savings. Budgeted PE Savings are used to balance wage costs by accounting for vacancies and turnover. A decrease in Budgeted PE savings means increased wage expenditures. The decrease in Budgeted PE Savings is across multiple departments, and has been adjusted to align with current spending trends and the decrease in overall budgeted positions for the General Fund.

- The next largest increase shown in the bottom portion of the Fringe column is $7.3 million in *increased* contributions to cover increasing workers' compensation (WC), Risk Management (RM) Administration, and long-term disability (LTD) costs. Increased WC and LTD contributions are due to increased salaries and other costs within those Funds. The increase in General Fund support for RM Administration is largely due to increases in salaries and fringe costs and the addition of 14.00 FTEs to support the Public Liability & Loss Recovery Division. See the following sections for additional information: *Reserves: Workers' Compensation Fund; Reserves: Long-Term Disability Fund;* and *Department Review: Risk Management*.

- The next largest increase shown in the bottom portion of the Wages column is $6.2 million in *increased* Fire-Rescue overtime. This net adjustment is largely made to better align the budget with prior years' overtime expenditures and negotiated increases in salaries and wages. See the *Department Review: Fire-Rescue* section for additional details.

Partially offsetting the General Fund PE increases is a ***net decrease of 568.06 FTEs and corresponding $43.9 million in wages.*** There is also a net $8.5 million decrease related to reductions in overall wages to mitigate the budget.

The net reduction of 568.06 FTEs and $43.9 million in wages[1] is shown in the "Subtotal - Net Departmental Position Changes" on the previous table. There is also a table summarizing FTE changes at the end of this section – which includes, by department, FY 2025 FTEs, reductions, additions, transfers, the resulting FY 2026 FTEs, and the net year-over-year changes.

- The largest component of the $43.9 million departmental wage reductions is $18.3 million in the Environmental Services Department. This reduction is primarily related to the transfer of trash collection services from the General Fund to the Solid Waste Management Fund, which is intended to be supported by user fees. See the *Department Review: Environmental Services* section for additional information.
- The Parks & Recreation and Library Departments are listed next on the table, with wage reductions of $7.4 million and $4.8 million. These reductions come with significant programmatic impacts. Please see the respective departmental sections for additional information, as well at the *Key Citywide Issues: Equity* section of this report.
- Fourth on the table, with a wage reduction of $4.9 million, is in the Sustainability & Mobility Department, which has been consolidated into several other departments. Please see the *Key Citywide Issues: Sustainability & Mobility Reorganization* section of this report for details about the transfer of the Department's positions and costs, as well as the position reductions that have been made as part of the consolidation.
- The Proposed Budget includes other consolidations and transfers of positions among departments. The table at the end of this section summarizes FTE changes and provides an overview of total transfers in and out of General Fund departments. The *Department Review* sections of this report provide additional details.
- Lastly, embedded in the net departmental position reductions table (on the second page of this section) are reductions to FTEs and corresponding expenditures across multiple departments for Interns that are part of the Employ & Empower Internship Program. This Program continues to be funded in the FY 2026 Proposed Budget, though at reduced levels given the funding limitations of the supporting grant. Please see the *Key Citywide Issues: Equity* section of this report for additional information.

For a high-level listing of programmatic additions and mitigations across General Fund departments, see the "General Fund Programmatic Additions" and "General Fund Major Budget Mitigations" tables in the *General Fund: Major Additions and Mitigations* section. Also, refer to the *Department Review* sections for further details and analysis of specific FTE and PE changes.

Non-Personnel Expenditures (NPE)

Significant NPE changes are included in the table on the first page of this section. NPEs are decreasing by $62.9 million in the FY 2026 Proposed Budget. This net decrease includes a number of large offsetting increases and

[1] Note that associated fringe benefits are not discussed here, as the largest changes to fringe were previously reviewed in this section. Fringe benefits associated with the departmental position changes are shown for each department in the table on the second page of this section; however, those amounts are reversed in the table to avoid double counting.

decreases; several are highlighted below.

Some of the ***larger additions*** include:

- $14.7 million to reverse a one-time General Fund expenditure reduction in FY 2025 due to eligible costs in several departments being supported by the Infrastructure Fund. In FY 2026, these costs are anticipated to again be supported by the General Fund.
- $12.1 million for capital infrastructure debt financing. There are two primary drivers of the debt service increase: $7.9 million for an anticipated 2025 bond issuance and a $5.1 million increase in the 2024A bond debt service schedule. See the *Department Review: Citywide Program Expenditures* section in this report for additional information.
- $8.0 million to reverse a one-time General Fund expenditure reduction in FY 2025, which was due to homelessness program expenditures being supported by the Affordable Housing Fund. In FY 2026, these costs are anticipated to again be supported by the General Fund. See the *Department Review: Homelessness Strategies and Solutions* section in this report for more information.
- $5.8 million for the Housing Instability Prevention Program (HIPP), which provides financial assistance to low-income families. See the *Department Review: Homelessness Strategies and Solutions* section in this report for more information.
- $3.2 million for capital leases and energy efficiency loans, largely related to public safety helicopter leases.
- $3.0 million for the Lifeline Rate Assistance Program, which is intended to provide new waste collection fee subsidies to eligible low-income property owners. See the *Department Review: Environmental Services* section in this report for more information.
- $2.4 million to cover costs for SDG&E utility permit inspections within the right-of-way. See the *Department Review: Citywide Program Expenditures* section in this report for more information.
- $2.0 million for the Eviction Prevention Program, which provides legal services and other assistance for low-income renters facing eviction. See the *Department Review: Economic Development* section in this report for more information.
- $1.4 million to implement a new paid parking program within Balboa Park. See the *Department Review: Parks and Recreation* section in this report for additional information.

There are a number of year-over-year NPE decreases which more than offset the NPE increase listed above, many of which are addressed in the appropriate *Department Review* sections of this report. Some of the ***larger reductions*** are highlighted below.

- Several large NPE reductions are related to the transfer of trash collection services budget from the General Fund to the Solid Waste Management Fund. See the *Department Review: Environmental Services* section for additional information on the transfer to the Solid Waste Management Fund. These include the bulk of:
    - $26.1 million in refuse disposal fees.
    - $12.3 in decreased fees paid to the Fleet Operations Division for maintenance and replacement of City vehicles. See the *Department Review: General Services* section, under Fleet

Operations for discussion about the Division's budget.

  - $4.5 million for gas and electric services.

- $21.1 million for the transfer to the Infrastructure Fund, as no contribution is required for FY 2026. See the *Key Citywide Issues: Infrastructure Funding Needs* and *Program Review: Capital Improvements Program (CIP)* sections for more information.
- $7.2 million for decreased citywide elections costs. The reduced FY 2026 budget reflects the estimated costs for the June 2026 Primary Election. See the *Department Review: Citywide Program Expenditures* section in this report for more information.

Other significant NPE reductions include those to homelessness services and portable restrooms (included in the *Department Review: Homelessness Strategies and Solutions* section); stormwater operations (see the *Department Review: Stormwater* section); the San Diego Humane Society services contract (covered in the *Department Review: Parks & Recreation* section); the Small Business Enhancement Program (see the *Department Review: Economic Development* section); and the City Council's Community Projects, Programs and Services (CPPS); among others.

General Fund Overview: Expenditures

GENERAL FUND FULL-TIME EQUIVALENT (FTE) CHANGES						
Department	**FY 2025**	**Reductions[a]**	**Additions**	**Transfers[b]**	**FY 2026**	**Net Change**
Environmental Services	328.25	-	1.22	(198.74)	130.73	(197.52)
Parks & Recreation	1,120.56	(154.49)	10.50	(1.00)	975.57	(144.99)
Library	484.12	(82.12)	-	3.00	405.00	(79.12)
Sustainability & Mobility	34.59	(8.59)	-	(26.00)	-	(34.59)
Office of the Chief Operating Officer	22.68	(6.68)	-	(16.00)	-	(22.68)
Human Resources	69.56	(25.56)	-	5.00	49.00	(20.56)
Fire-Rescue	1,408.38	(19.88)	3.00	-	1,391.50	(16.88)
Police	2,691.64	(13.30)	-	-	2,678.34	(13.30)
Development Services	85.00	(12.00)	-	-	73.00	(12.00)
Race & Equity	8.50	(3.50)	-	(5.00)	-	(8.50)
City Clerk	52.73	(7.62)	-	-	45.11	(7.62)
Government Affairs	7.00	(2.00)	-	(5.00)	-	(7.00)
Personnel	86.49	(6.00)	-	-	80.49	(6.00)
City Treasurer	123.25	(8.00)	2.58	-	117.83	(5.42)
Real Estate	42.25	(2.50)	-	(1.75)	38.00	(4.25)
Office of Boards & Commissions	4.00	-	-	(4.00)	-	(4.00)
Compliance	41.00	(4.00)	-	-	37.00	(4.00)
Stormwater	305.00	(3.50)	-	-	301.50	(3.50)
Communications	38.16	(3.16)	-	-	35.00	(3.16)
Department of Finance	140.49	(3.49)	1.00	-	138.00	(2.49)
Office of Emergency Services	19.37	(2.00)	-	-	17.37	(2.00)
Commission on Police Practices	14.54	(1.96)	-	-	12.58	(1.96)
Economic Development	60.50	(3.50)	-	1.75	58.75	(1.75)
Performance & Analytics	19.31	(1.31)	-	-	18.00	(1.31)
Facilities Services	185.50	(1.00)	-	-	184.50	(1.00)
Homelessness Strategies & Solutions	16.38	(0.38)	-	-	16.00	(0.38)
Ethics Commission	6.25	(0.25)	-	-	6.00	(0.25)
City Attorney	423.53	(5.05)	5.00	-	423.48	(0.05)
Office of the IBA	11.00	-	-	-	11.00	-
City Auditor	24.00	-	-	-	24.00	-
Department of Information	4.00	-	-	-	4.00	-
Purchasing & Contracting	69.00	(2.00)	2.00	-	69.00	-
Council Administration	14.46	-	0.12	-	14.58	0.12
Council Districts 1-9	142.31	(0.46)	4.23	-	146.08	3.77
Transportation	509.34	-	1.10	5.00	515.44	6.10
City Planning	92.75	(9.50)	-	21.00	104.25	11.50
Office of the Mayor	27.27	(6.27)	1.00	22.00	44.00	16.73
General Fund Totals	**8,733.16**	**(400.07)**	**31.75**	**(199.74)**	**8,165.10**	**(568.06)**

Notes: Table may not total due to rounding.
FTE positions in this table include both hourly and non-hourly positions.
Please see the department sections of this report for a break-down and additional details regarding these FTE changes.

[a] Department reductions total 400.07 FTEs, including 298.25 non-hourly positions and 101.82 hourly positions.

[b] The 199.74 FTE decrease in the transfers column is the net transfer from the General Fund to non-general funds. This decrease is largely due to the transfer of 195.74 positions from Environmental Services General Fund to the Solid Waste Management Fund. Additionally, a net of 4.00 other FTEs are transferred from the General Fund to non-general funds: 3.00 from Environmental Services (to the Recycling Fund), 2.00 from Sustainability and Mobility (to E&CP), and 1.00 from Parks & Recreation (to the Maintenance Assessment District Management and Golf Course Funds), with 2.00 offsetting FTE additions in City Planning (from the Energy Conservation Program Fund). The remaining transfers are among various General Fund departments, and as these FTEs remain in the General Fund, they net to zero.

Major Additions and Mitigations

This section provides an overview of the major programmatic additions proposed for the General Fund, as well as budget mitigation measures in the Proposed Budget. The information is presented in separate tables to provide a snapshot of programmatic funding changes that Council can use to weigh its priorities. It is important to note that **these tables are not inclusive of all budget changes**, and additional information on most of these items is included in separate sections of this report, such as the *General Fund Expenditures Overview, General Fund Revenue Overview,* and *Department Review* sections.

The *General Fund Programmatic Additions* table includes $68.6 million in funding additions to support critical expenditures such as homelessness programs, public safety, new park facilities, and debt financing for capital infrastructure projects. This table summarizes funding additions included in the FY 2026 Proposed Budget that have programmatic impacts. It excludes non-programmatic adds such as salary increases.

GENERAL FUND PROGRAMMATIC ADDITIONS					
Department	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
City Attorney					
Additional Staffing	4.00	$ 894,484	$ 16,500	$ 910,984	$ 908,311
Digital Evidence Management System Support	-	$ -	$ 101,686	$ 101,686	$ -
Citywide Program Expenditures					
Capital Infrastructure Debt Financing	-	$ -	$ 12,067,558	$ 12,067,558	$ -
Net Right-of-Way Permit Reimbursement (DSD & E&CP)	-	$ -	$ 2,411,888	$ 2,411,888	$ -
Additional Tranfser to the Public Liability Fund	-	$ -	$ 982,620	$ 982,620	$ -
Financial Consulting Services for Mid-Way District	-	$ -	$ 38,250	$ 38,250	$ -
Other Citywide Programs	-	$ -	$ 387,566	$ 387,566	$ -
Economic Development Department					
Eviction Prevention Program	-	$ -	$ 2,037,427	$ 2,037,427	$ -
Environmental Services					
Lifeline Rate Assistance Program	-	$ -	$ 3,000,000	$ 3,000,000	$ -
Additional Staffing	1.22	$ 265,406	$ -	$ 265,406	$ -
Fire-Rescue					
Overtime Adjustments	-	$ 5,665,220	$ -	$ 5,665,220	$ -
Wellness Services	-	$ -	$ 941,610	$ 941,610	$ -
Advanced Lifeguard Academy (one-time)	3.00	$ 395,437	$ 13,651	$ 409,088	$ -
Homelesseness Strategies and Solutions Department					
Reversal: FY 2025 One-time Affordable Housing Fund Support	-	$ -	$ 8,000,000	$ 8,000,000	$ -
Housing Instability Prevention Program	-	$ -	$ 5,800,000	$ 5,800,000	$ -
Parks and Recreation					
New Park Facilities	11.50	$ 1,102,370	$ 240,149	$ 1,342,519	$ 67,137
Cost-of-Service Study for User Fee Increase	-	$ -	$ 216,000	$ 216,000	$ -
Multiple Departments					
Reversal: FY 2025 One-time Reduction of Eligible Expenses Supported by the Infrastructure Fund (not incl. debt service)	-	$ -	$ 14,651,126	$ 14,651,126	$ -
Capital Lease/Financing (largely related to helicopter leases)	-	$ -	$ 3,198,314	$ 3,198,314	$ -
Net Non-Discretionary IT Adjustments	-	$ -	$ 1,312,993	$ 1,312,993	$ -

GENERAL FUND PROGRAMMATIC ADDITIONS					
Department	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
Other Departments					
Reinstatement of FY 2025 Operational Efficiency Reductions[a]	-	$ 2,426,643	$ 272,942	$ 2,699,585	$ -
Consultant for Labor Negotiation Services Support	-	$ -	$ 347,118	$ 347,118	$ -
Purchasing and Contracting: Additional Staffing	1.00	$ 298,146	$ -	$ 298,146	$ -
City Treasurer's Office: Additional Staffing	2.00	$ 253,218	$ -	$ 253,218	$ -
Library: Security Service Contractual Cost Increase	-	$ -	$ 753,164	$ 753,164	$ -
Department of Finance: Additional Staffing	1.00	$ 166,664	$ -	$ 166,664	$ 166,597
Independent Performance Audit of SDG&E	-	$ -	$ 114,000	$ 114,000	$ -
Mayor's Office: Additional Staffing	1.00	$ 98,172	$ -	$ 98,172	$ -
Commission on Police Practices IT Software Support	-	$ -	$ 70,000	$ 70,000	$ -
CritiCall: Online Tool for Dispatcher Applicant Testing	-	$ -	$ 54,442	$ 54,442	$ -
Total	***24.72***	***$ 11,565,760***	***$ 57,029,004***	***$ 68,594,764***	***$ 1,142,045***

[a] Reinstatement of the FY 2025 operational efficiency reductions for the budgets of City Council, the City Clerk, the City Attorney, Personnel, Government Affairs, the Office of the IBA, Compliance, and the Mayor's Office.

General Fund: Major Additions and Mitigations

The *General Fund Major Budget Mitigation* tables include $346.0 million in budget mitigation measures that helped balance the FY 2026 Proposed Budget. These include expenditure reductions, revenue increases, and transfers of General Fund expenditures into non-general funds.

Potential impacts associated with each mitigation are discussed in the corresponding *Department Review* sections of this report.

While many of the mitigations listed here have already been implemented or will be relatively straightforward to implement, it is important to note that several of the larger items will require additional Council or external action, and dollar amounts associated with them are dependent on various assumptions and implementation timing. Additional discussion on major mitigations that will require additional action is provided after the table.

GENERAL FUND MAJOR BUDGET MITIGATIONS					
Department	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
City Attorney					
City Attorney Reductions	(0.50)	$ (4,434,480)	$ -	$ (4,434,480)	$ -
Revenue and Grants	-	$ -	$ -	$ -	$ 2,406,959
City Council					
Reduction of Personnel Expenditures	-	$ (1,093,650)	$ -	$ (1,093,650)	$ -
Removal of Community Projects, Programs, and Svcs Funding	-	$ -	$ (900,000)	$ (900,000)	$ -
City Planning					
Reduction of Personnel Expenditures	(5.00)	$ (1,031,877)	$ (421,427)	$ (1,453,304)	$ -
Reimbursement from General Plan Maintenance Fund	-	$ -	$ -	$ -	$ 2,291,807
City Treasurer					
Reduction of Personnel Expenditures	(8.00)	$ (855,438)	$ -	$ (855,438)	$ -
Cannabis Business Tax - 2% Rate Increase	-	$ -	$ -	$ -	$ 3,970,000
Citywide Programs					
Waiver of the Climate Equity Fund	-	$ -	$ (6,628,747)	$ (6,628,747)	$ -
Rent Savings - Fire Rescue Office Consolidation	-	$ -	$ (1,231,687)	$ (1,231,687)	$ -
Public Liability Insurance Premium	-	$ -	$ (120,959)	$ (120,959)	$ -
Transfer of Energy Independence Fund Balance	-	$ -	$ -	$ -	$ 1,787,940
Sycamore Facility Franchise Fee	-	$ -	$ -	$ -	$ 4,300,000
Compliance Department					
Reduction of Personnel Expenditures	(4.00)	$ (516,605)	$ -	$ (516,605)	$ -
Minimum Wage Enforcement Fee Revenue	-	$ -	$ -	$ -	$ 764,731
Economic Development Department					
Reduction of the Small Business Enhancement Program	-	$ -	$ (765,436)	$ (765,436)	$ -
Environmental Services					
Transfer Trash Collection Svcs to Solid Waste Fund	(195.74)	$ (30,670,965)	$ (43,151,352)	$ (73,822,317)	$ (280,000)
Department of Information Technology					
Mobile Hotspot Lending Program	-	$ -	(312,260)	$ (312,260)	$ -
SD Access4All Support (program includes $557k in ongoing funding)	-	$ -	$ (227,000)	$ (227,000)	$ -
Fire-Rescue					
Bomb Squad Operational Change (Cross Staffing)	(6.00)	$ (943,627)	$ -	$ (943,627)	$ -
Reduction of San Pasqual Fast Response Squad	(6.00)	$ (925,125)	$ -	$ (925,125)	$ -
Additional Reduction of Fire Personnel	(3.00)	$ (922,515)	$ -	$ (922,515)	$ -
Reduction of Engine 80	(4.00)	$ (616,750)	$ -	$ (616,750)	$ -
Additional Transfers from EMS Fund	-	$ -	$ -	$ -	$ 5,108,459
Homelesseness Strategies and Solutions Department					
Reduction of Rosecrans Shelter Operations	-	$ -	$ (4,754,519)	$ (4,754,519)	$ -
Shelter Operations: Non-Essential NPE Savings and Use of Grant Funds	-	$ -	$ (3,616,631)	$ (3,616,631)	$ -
Reduction of Public Restrooms	-	$ -	$ (2,960,000)	$ (2,960,000)	$ -
Additional Revenue from Measure C	-	$ -	$ -	$ -	$ 33,782,505
Library					
Elimination of Monday Hours	(47.00)	$ (5,434,802)	$ (552,725)	$ (5,987,527)	$ -
Elimination of Sunday Hours	(24.00)	$ (2,367,365)	$ (224,281)	$ (2,591,646)	$ -
Reduction of Non-Personnel Expenditures	-	$ -	$ (740,226)	$ (740,226)	$ -
Reduction to DYH@L Program	(6.10)	$ (566,603)	$ -	$ (566,603)	$ -
Reduction of Library Donation Matching Funds	-	$ -	$ (117,624)	$ (117,624)	$ -

General Fund: Major Additions and Mitigations

GENERAL FUND MAJOR BUDGET MITIGATIONS					
Department	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
Parks and Recreation					
Reduction of Park Maintenance	(49.50)	$ (4,916,739)	$ (1,496,175)	$ (6,412,914)	$ -
Reduction of Recreation Center Hours	(53.70)	$ (4,731,694)	$ (102,507)	$ (4,834,201)	$ (151,081)
Reduction of Animal Services Contract	-	$ -	$ (3,500,000)	$ (3,500,000)	$ -
Reduction of Public Restrooms	(13.00)	$ (1,003,975)	$ (677,698)	$ (1,681,673)	$ -
Reduction of Security Services	-	$ -	$ (1,001,039)	$ (1,001,039)	$ -
Reduction of Park Staffing	(4.00)	$ (601,585)	$ (1,224)	$ (602,809)	$ -
Reduction of Non-Personnel Expenditures	-	$ -	$ (316,006)	$ (316,006)	$ -
Reduction of Beach Fire Ring Program	(1.00)	$ (107,659)	$ (27,780)	$ (135,439)	$ -
Reduction to Teen Center Program	(1.03)	$ (42,017)	$ -	$ (42,017)	$ -
Balboa Park Parking Program Revenue	-	$ -	$ 1,425,000	$ 1,425,000	$ 11,000,000
Police					
Sworn Staffing Reductions	(7.00)	$ (2,594,295)	$ -	$ (2,594,295)	$ -
Consolidation of the Northwestern Division	(6.00)	$ (1,890,692)	$ 199,800	$ (1,690,892)	$ -
Net Reduction Overtime Expenditures	-	$ (1,109,140)	$ -	$ (1,109,140)	$ -
Human Resources					
Reduction of Other Personnel Expenditures	(11.00)	$ (2,007,273)	$ -	$ (2,007,273)	$ -
Consolidation of Race and Equity to Human Resources	(2.00)	$ (467,995)	$ (195,900)	$ (663,895)	$ -
Mayor's Office					
Reduction of the Chief Operating Officer	(1.00)	$ (544,143)	$ -	$ (544,143)	$ -
Consolidation of Government Affairs to the Mayor's Office	(2.00)	$ (408,018)	$ -	$ (408,018)	$ -
Reduction of Personnel Expenditures	(2.00)	$ (370,855)	$ -	$ (370,855)	$ -
Performance and Analytics					
Reduction of Modernization Team	-	$ -	(247,108)	$ (247,108)	$ -
Performance & Analytics: Reduction of Personnel Expenditure	(1.00)	$ (169,849)	$ -	$ (169,849)	$ -
Stormwater					
Reduction of Medium Priority Operations	-	$ -	$ (3,045,934)	$ (3,045,934)	$ -
Reduction of Low Priority Operations	-	$ -	$ (2,299,689)	$ (2,299,689)	$ -
Reduction of CIP Planning and Assessment	-	$ -	$ (850,000)	$ (850,000)	$ -
Reduction of Rebates Program	-	$ -	$ (541,222)	$ (541,222)	$ -
Transportation					
Tree Planting Reduction	-	$ -	$ (362,149)	$ (362,149)	$ -
Traffic Cabinet Replacement Reduction	-	$ -	$ (350,000)	$ (350,000)	$ -
CIP Support for Mill & Pave Teams	-	$ -	$ -	$ -	$ 9,083,280
Multiple Departments					
Decreased Refuse Disposal Fees	-	$ -	$ (800,000)	$ (800,000)	$ -
Increased Parking Meter Revenue	-	$ -	$ -	$ -	$ 18,440,000
Increased Parking Citation Fee Revenue	-	$ -	$ -	$ -	$ 11,056,800
User Fee Revenue Increases	-	$ -	$ -	$ -	$ 6,138,349
Other Departments					
Development Services Reductions	(12.00)	$ (1,789,109)	$ (10,750)	$ (1,799,859)	$ -
Reduction of Sustainability and Mobility Programs	(5.50)	$ (924,554)	$ (746,188)	$ (1,670,742)	$ -
Personnel Department Reductions	(6.00)	$ (929,789)	$ (43,086)	$ (972,875)	$ -
Reservoir Program Reduction	-	$ -	$ (889,080)	$ (889,080)	$ (266,895)
City Clerk Reductions	(7.00)	$ (796,947)	$ -	$ (796,947)	$ (66,325)
Communications Reductions	(3.00)	$ (440,838)	$ -	$ (440,838)	$ -
Department of Finance Reductions	(3.00)	$ (376,023)	$ -	$ (376,023)	$ -
Purchasing & Contracing Reductions	(2.00)	$ (339,698)	$ -	$ (339,698)	$ -
Emergency Services Reductions	(2.00)	$ (258,089)	$ -	$ (258,089)	$ (258,089)
Facilities Reduction	(1.00)	$ (169,849)	$ -	$ (169,849)	$ -
Office Space Consolidation Revenue	-	$ -	$ -	$ -	$ 282,000
Other Mitigation Measures	-	$ (470,848)	$ (1,981,276)	$ (2,452,124)	$ 362,359
Total	***(505.07)***	***$ (77,841,475)***	***$ (84,584,885)***	***$ (162,426,360)***	***$ 109,752,799***

GENERAL FUND MAJOR BUDGET MITIGATIONS	
Mitigation	**Amount**
Departmental Adjustments (from previous table; including both revenue and expenditure mitigations)	$ 272,179,159
Waive the General Fund Reserve Contribution	55,620,000
Bond Issuance Timing Savings	7,800,000
Waive the Workers' Compensation Reserve Contribution	3,980,199
Waive the Public Liability Reserve Contribution	2,682,946
Waive the Long-Term Disability Reserve Contribution	1,676,644
Use of Various Fund Balances	2,080,371
Total	**$ 346,019,319**

Major Mitigations Requiring Additional Action

- *Transfer of Trash Collection Services to Solid Waste Fund - $73.8 million*
  This mitigation assumes that a refuse collection fee will be adopted by Council and implemented through tax-roll billing. Earlier in April, Council initiated the Proposition 218 rate-setting process by setting a June 9th hearing date to consider adoption of a trash fee; Council also established a June 24th hearing on tax-roll billing.

  Adoption of a fee is within Council's authority, and our Office strongly urges Council to adopt a fee that will allow for this transfer to occur. Additional discussion is included in this report's *Department Review: Environmental Services Department* section.

- *Additional Revenue from Measure C - $33.8 million*
  This mitigation assumes a full year's collection of additional Transient Occupancy Tax (TOT) revenue for homelessness services, pursuant to 2020's Measure C. While 65.2% of voters in the 2020 March election voted for Measure C, implementation has been delayed due to litigation. The City recently announced that it would nevertheless begin collecting additional Measure C TOT revenue on May 1, 2025. While litigation results have trended strongly in the City's favor and final resolution of legal disputes is anticipated in calendar year 2025, that ultimate resolution is still pending.

  Given that there is a reasonable expectation of legal issues being resolved during FY 2026, and the fact that, while the City is facing a budget shortfall, it is not short on actual cash, it is reasonable for the Proposed Budget to include this revenue.

- *Balboa Park Parking Program Revenue - $11.0 million*
  This mitigation assumes that the City will implement paid parking at Balboa Park by January 1, 2026. This was discussed by the Active Transportation and Infrastructure Committee on March 20, 2025 as part of a larger parking reform package. Notably, this package has not yet been heard or approved by the City Council. Additional discussion of this item is included in this report's *Department Review: Parks & Recreation* section.

- *Increased Parking Meter Revenue - $18.4 million*
  This mitigation revenue has multiple components:

  1) $9.6 million associated with Council's action to raise parking meter rates from $1.25/hour to $2.50/hour earlier this year. No additional action by Council is necessary for this component.

  2) $6.3 million associated with event-based surge parking, which will

require Council action as part of the package of parking reforms noted earlier.

3) $2.6 million associated with expanding parking meter enforcement hours from 8 a.m. to 6 p.m. Monday through Saturday to 7 a.m. to 11 p.m. seven-days-per-week. Council action would also be required for this component.

Additionally, further analysis on the amount of the City's current expenditures that could be eligible to be funded through these sources is merited, though it is likely that these revenues could be used to support other pedestrian and mobility safety priorities if current General Fund expenses are below projected revenues.

Further discussion on this item is included in this report's *Department Review: City Treasurer* and *Department Review: Transportation* sections.

- *Reduction of Animal Services Contract - $3.5 million*
  This mitigation assumes that the City will be able to negotiate a 20% reduction in costs of the Animal Services Contract with the San Diego Humane Society (SDHS). SDHS has indicated that it would be unable to sustain a reduction of this size. Additional information on this item is included in this report's *Department Review: Parks & Recreation* section.

General Fund Reserve

This section provides background information on the City's General Fund Reserve policy and Reserve target amounts based on that policy. Following the policy discussion, we review the Reserve's funding status.

Background: General Fund Reserve Policy and Reserve Policy Targets

The City's Reserve Policy[1] was amended and approved by the City Council in December 2022. The target General Fund Reserve level is 16.7% of the most recent three-year average of annual audited General Fund operating revenues, which is consistent with Government Finance Officers Association (GFOA) best practices. The revised Reserve Policy extended the timeline to reach that target by five years, to FY 2030. For FY 2026, which ends June 30, 2026, the Reserve Policy's target percentage increases from 13.58% to 14.1% of operating revenues, as shown in the preceding table.

City Reserve Policy: General Fund Reserve Funding Schedule			
Target Date	Emergency Reserve Target Percent	Stability Reserve Target Percent	Total Reserve Target Percent
June 30, 2022	7.70%	7.20%	14.90%
June 30, 2023	7.43%	6.87%	14.30%
June 30, 2024	7.21%	6.37%	13.58%
June 30, 2025	7.21%	6.37%	13.58%
June 30, 2026	7.50%	6.60%	14.10%
June 30, 2027	7.90%	6.80%	14.70%
June 30, 2028	8.00%	7.35%	15.35%
June 30, 2029	8.00%	8.00%	16.00%
June 30, 2030	8.00%	8.70%	16.70%

The General Fund Reserve has two components: the Emergency Reserve and the Stability Reserve, for which the ultimate Policy goal is to reach 8.0% and 8.7%, respectively.[2] The preceding table shows the Reserve components and policy's scheduled timeframe for reaching the 16.7% total Reserve goal.

Similar to the overall target, the amount of each year's Reserve target during the phase-in period is based on audited General Fund operating revenues for the prior three fiscal years.

In the following table, the bottom three rows show the applicable three-year average revenues, as well as Reserve target percentages and target amounts, for FY 2025 and FY 2026.

City Reserve Policy: General Fund Reserve Target Calculation *($ in millions)*		
	FY 2025	FY 2026
Revenues [a]		
FY 2025		$ 1,944.2
FY 2024	$ 1,874.2	$ 1,874.2
FY 2023	$ 1,771.5	$ 1,771.5
FY 2022	$ 1,619.5	
3-Year Average of Revenues	*$ 1,755.1*	*$ 1,863.3*
Reserve Target %	13.58%	14.10%
Reserve Target	**$ 238.3**	**$ 262.7**

Note: Table may not total due to rounding.

[a] FY 2022 to FY 2024 revenues are based on actual operating revenues, and FY 2025 revenues are based on the mid-year projection for FY 2025.

[1] The City's Reserve Policy is delineated in Council Policy 100-20.

[2] Per the City's Reserve Policy, the "Emergency Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event," and the "Stability Reserve will be maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures."

The FY 2025 Reserve target percentage is 13.58% of General Fund operating revenues, which equates to $238.3 million. For FY 2026, the Reserve target increases to 14.1% and, based on the FY 2025 Mid-Year Budget Monitoring Report, is estimated to be $262.7 million.

Reserve Funding Status

The following table shows the FY 2023 through FY 2026 General Fund Reserve Policy targets as compared to the Reserve balances, which are based on actuals for FY 2023 and FY 2024 and projections for FY 2025 and FY 2026. Although the Reserve target amounts for FY 2024 and FY 2025 increased, the City elected to waive the Reserve contributions needed to achieve those targets in order to fund other critical expenditures – resulting in an $8.4 million shortfall in FY 2024 and projected shortfall of $31.2 million for FY 2025 (as shown in the table). It is projected that the Reserve's funding percentage will be 11.8% at FY 2025 year-end, compared to the 13.58% target level; and the FY 2025 Reserve balance is projected to remain at $207.1 million, which was the FY 2023 target amount.

For FY 2026 the Reserve target increases from 13.58% to 14.1%, and the target Reserve balance increases to $262.7 million. Given that the fiscal year is anticipated to start with only $207.1 million in the General Fund Reserve, the City would be required to contribute $55.6 million in FY 2026 to meet its Reserve Policy target. However, similar to previous years, the Mayor has proposed waiving this contribution, leaving the FY 2026 Reserve balance at $207.1 million.

Because the City has delayed contributions for several years given shortfalls between revenues and critical expenditures, the City should consider revising the Reserve Policy for the General Fund. An alternative approach, such as contributing a set percentage of year-over-year revenue growth until the 16.7% target is reached, or an approach that takes into account fluctuations in revenues, should be examined in the coming months.

Excess Equity

Excess Equity, is described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from increases to General Fund revenues and/or General Fund expenditures that come in underbudget during any given fiscal year.

In the FY 2025 Mid-Year Budget Monitoring Report, year-end Excess Equity was projected to be *negative* $3.9 million. This means that if mid-year projections were met, $3.9 million from the General Fund Reserve would need to be tapped. The City has since implemented several budget mitigation actions that increased revenues, including increased parking

General Fund Reserve Policy vs Reserve Balance (*$ in millions*)				
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**
Reserve Policy Target Percent	***14.30%***	***13.58%***	***13.58%***	***14.10%***
Reserve Policy Target [a]	$ 207.1	$ 215.4	$ 238.3	$ 262.7
Reserve Balance [b]	207.1	207.1	207.1	207.1
Difference: Amount Projected Reserve Is Below Policy Target	**$ (0.0)**	**$ (8.4)**	**$ (31.2)**	**$ (55.6)**
Reserve Balance as Percent of Operating Revenues	***14.30%***	***13.05%***	***11.80%***	***11.11%***

Note: Table may not total due to rounding.

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

[b] The Reserve Balances are based on actuals for FY 2023 & FY 2024 and projections for FY 2025 & FY 2026.

meter rates and use of Parking Meter Fund balance; higher parking citation fines; user fee increases; and a 2% increase in Cannabis Business Tax for retail outlets. These revenue increases are expected to help mitigate the FY 2025 mid-year projected deficit; they will also carry forward into FY 2026 and are discussed throughout this report.

Despite the positive impact the FY 2025 revenue actions will have on Excess Equity, it is unknown at this time whether other revenue and expenditure projections will improve the outlook for year-end Excess Equity. The FY 2025 Third Quarter Budget Monitoring Report, anticipated to be released on May 14, will contain updated projections for revenue, expenditures, and the resulting Excess Equity.

Public Liability Funds

The Public Liability (PL) Funds support costs to the City related to claims against the General Fund. The PL Funds are therefore supported entirely by General Fund contributions, specifically from the Citywide Program Expenditures budget. PL Funds will be discussed in the PL Operating Fund and PL Reserve Fund sections below.

PL Operating Fund

FY 2025 Estimates

FY 2025 available resources for the PL Operating Fund are currently estimated to be $62.9 million:

- $62.7 million in transfers from the General Fund for claims and insurance premiums
- $256,000 in insurance and other revenues

These resources are not sufficient to cover the PL Operating Fund's $78.6 million in estimated expenses, claims payouts, and insurance costs for FY 2025, resulting in an estimated $15.7 million shortfall. If the estimates hold, and monies are needed to support the PL Operating Fund, the Risk Management Department plans to transfer needed funds from the PL Reserve, which would bring the Reserve below its target level (see *PL Reserve Fund* below).

It is important to note that the PL Operating fund expenditures can be very volatile and needs to be continually monitored throughout the year. There is uncertainty as to the ultimate costs and timing for resolution of various claims cases, and the Risk Management Department monitors PL Operating Fund projections throughout the year.

FY 2026 Proposed Budget

The FY 2026 Proposed Budget includes transfers to the PL Operating Fund of $31.6 million for insurance costs and $31.2 million for claims payouts and operating costs. These Proposed Budget transfers total $62.8 million – up $862,000 from the $61.9 million in the FY 2025 Adopted Budget. This increase includes $983,000 for increased claims estimates for FY 2026, and a reduction of $121,000 for insurance premiums, which is based on premium estimates that incorporate loss development trends in the insurance market. The budgeted premium cost incorporates an estimated savings of $3.1 million due to the increase of the City's self-insured retention (SIR) from $5.0 million to $7.5 million. The SIR is the amount the City needs to pay before insurance begins paying for a particular claim.

The timing and ultimate costs of various claims cases are uncertain, making budgeting for PL claims difficult. The estimates included in the FY 2026 Proposed Budget are based on the best information available at this time.

PL Reserve Fund

Per the City's Reserve Policy (Council Policy 100-20), the PL Reserve goal is to maintain a balance equal to 50% of the value of outstanding claims, based on the most recent three-year average of actuarial liabilities (FY 2022 through FY 2024).

This 50% Reserve Policy *target* equates to $39.7 million for FY 2025. However, the latest estimate for the FY 2025 year-end Reserve *balance* is $31.2 million, resulting in a $8.5 million Reserve deficit.

Of this deficit, $7.2 million, or 84.7%, is due to the PL Reserve's provision of an interfund loan to the City's sewer fund. The loan provides non-rate payer funds to cover a short-term (FY 2023-2025), temporary subsidy of Industrial Wastewater Control Program (IWCP) fees. IWCP fee increases have been approved and are currently being phased-in; they will reach full cost recovery in FY 2026. The PL Reserve deficit is anticipated to grow by an estimated $3.0 million in FY 2026 for the final year's loan amount. Subsequently, the sewer fund is expected to pay the PL Reserve back, with interest, over five years beginning in FY 2027. If PL Fund is unable to meet its financial obligations in the future, the City's sewer fund will be required to immediately repay the full amount owed. Additional details on the PL Reserve loan to the sewer fund is included in the FY 2024 Year-End Financial Performance Report and our review of that report (IBA Report 24-31).

The remaining $1.3 million in Reserve deficit is for the increase in the Reserve target after the FY 2025 Budget was adopted; The Risk Management Department also estimates there will be an additional $1.4 million increase in the Reserve target for FY 2026.[1] Combining this $1.4 million with the $1.3 million for the FY 2025 increased target yields $2.7 million in needed General Fund contributions to support the PL Reserve target.

However, the FY 2026 Proposed Budget does not include a contribution to the PL Reserve. There are two reasons. First, the contribution for the $2.7 million increase in estimated Reserve target is being delayed as a budget mitigation to fund other critical General Fund expenditures in FY 2026. Second, the $7.2 million interfund loan to the City's sewer fund is anticipated to be repaid to the PL Reserve in the coming years.

[1] Note that the actual FY 2026 Reserve target will not be known until the FY 2025 PL valuation is completed in the fall of 2025.

Workers' Compensation Fund

Estimated annual funding for Workers' Compensation (WC) is based on the application of a growth rate to current projected expenses[1] to determine the upcoming year's operating expenses. The operating expense estimate is then combined with any anticipated Reserve contribution. To support the WC funding need, WC rates are applied to employees' salaries and reflect a blend of operating cost estimates (which are allocated by job classification) and the allocated Reserve contribution if applicable. The resulting amounts are distributed accordingly in the budget system as fringe benefit expenditures, and subsequently transferred to the WC Fund during the year.

Citywide Budget

The FY 2026 Proposed Budget for citywide fringe payments to the WC Fund is $48.4 million, an increase of $7.2 million, or 17.4%, from the $41.2 million included in the FY 2025 Adopted Budget. The $7.2 million increase is due to several factors including: salary increases; higher medical costs; and the application of an 8.8% growth rate to FY 2025 cost estimates.

Although it is estimated that the WC Reserve target will not be met for FY 2025, and further that the Reserve target will increase by $2.0 million for FY 2026, there is no estimated FY 2026 contribution to the WC Reserve in the Proposed Budget. The WC Reserve contribution is being delayed as a budget mitigation to fund other critical General Fund expenditures. Additional discussion on the WC Reserve is provided below.

General Fund Budget

The General Fund portion of the WC fringe expenditures budget is based on how WC rates and costs are allocated to employees among all City funds. The General Fund portion is increasing by $4.7 million, from $33.0 million to $37.6 million; it is 77.7% of the citywide WC fringe budget for FY 2026 – down from 80.0% in FY 2025.

WC Reserve

Per the City's Reserve Policy (Council Policy 100-20), the WC Reserve goal is to maintain a balance equal to 12% of the value of outstanding claims, based on the most recent three-year average of actuarial liabilities (FY 2022 through FY 2024).

This 12% Reserve Policy *target* equates to $37.4 million for FY 2025. However, the latest estimate for the year-end Reserve *balance* is $34.4 million,[2] resulting in a $2.9 million Reserve deficit for FY 2025.

Adding to this estimated deficit, the *FY 2026 Reserve target* is projected to increase by $2.0 million, to $39.4 million.[3] Combining this $2.0 million increase with the $2.9 million projected Reserve deficit for FY 2025 yields $5.0 million in needed contributions to support the WC Reserve target, with a General

[1] The growth rate for WC operating cost estimates is determined using the average percentage change in costs for the most recent three-year period.

[2] Note that updated FY 2025 projections for the WC Reserve balance will be available with the release of the FY 2025 Third Quarter Budget Monitoring Report on May 14.

[3] Note that the actual FY 2026 Reserve target will not be known until the FY 2025 WC valuation is completed in the fall of 2025.

Fund portion of $4.0 million.

The Proposed Budget forgoes contributing to the WC Reserve to cover this estimated funding need, as a mitigation measure for balancing the overall General Fund Budget.

Long-Term Disability Fund

Estimated annual funding for Long-Term Disability (LTD) is based on the application of a growth rate to current projected expenses[1] to determine the upcoming year's operating expenses. The operating expense estimate is then combined with any anticipated Reserve contribution. To support the LTD funding need, a single LTD rate is determined and applied to employees' salaries, with the resulting amounts distributed accordingly in the budget system as fringe benefit expenditures. Fringe benefit payments are subsequently transferred to the LTD Fund during the year.

Citywide Budget

The FY 2026 Proposed Budget for citywide fringe payments to the LTD Fund is $6.4 million, an increase of $2.1 million, or 50.6%, from the $4.2 million included in the FY 2025 Adopted Budget. The $2.1 million increase is due to several factors including: salary increases; higher claims experience; the application of an 11.0% growth rate to FY 2025 cost estimates; and the elimination of the 30-day waiting period for eligible participants with a disability related to pregnancy, childbirth, or a related medical condition.

Although it is estimated that the LTD Reserve target will not be met for FY 2025, and further that the Reserve target will increase by $730,000 for FY 2026, there is no estimated FY 2026 contribution to the LTD Reserve in the Proposed Budget. The LTD Reserve contribution is being delayed as a budget mitigation to fund other critical General Fund expenditures. Additional discussion on the LTD Reserve is provided below.

General Fund Budget

The General Fund portion of the LTD fringe expenditures budget is based on where employees' wages are distributed among all City funds. The General Fund portion is increasing by $1.2 million, from $2.8 million to $4.0 million; it is 63.1% of the citywide LTD fringe budget for FY 2026 – down from 65.5% in FY 2025.

LTD Reserve

Per the City's Reserve Policy (Council Policy 100-20), the LTD Reserve goal is to maintain a balance equal to 100% of the value of outstanding claims, based on the most recent three-year average of actuarial liabilities (FY 2022 through FY 2024).

This 100% Reserve Policy *target* equates to $5.6 million for FY 2025. However, the latest estimate for the year-end Reserve *balance* is $3.7 million,[2] resulting in a $1.8 million Reserve deficit for FY 2025.

Adding to this estimated deficit, the *FY 2026 Reserve target* is projected to increase by $730,000, to $6.3 million.[3] Combining this $730,000 with the $1.8 million projected Reserve deficit for the FY 2025 yields $2.6 million in needed contributions to support the

[1] The growth rate for LTD operating cost estimates is determined using the average percentage change in costs for the most recent three-year period.

[2] Note that updated FY 2025 projections for the LTD Reserve balance will be available with the release of the FY 2025 Third Quarter Budget Monitoring Report on May 14.

[3] Note that the actual FY 2026 Reserve target will not be known until the FY 2025 LTD valuation is completed in the fall of 2025.

LTD Reserve target, with a General Fund portion of $1.7 million.

The Proposed Budget forgoes contributing to the LTD Reserve to cover this estimated funding need, as a mitigation measure for balancing the overall General Fund Budget.

Classified and Unclassified Positions

During the initial presentation of the FY 2026 Proposed Budget to the City Council on April 21, 2025, Council President Pro Tem Lee and Councilmember Foster requested our Office prepare an analysis of classified and unclassified positions in Mayoral departments.

The table below provides an overview of General Fund FTEs in the FY 2026 Proposed Budget, broken down into classified positions, unclassified positions represented by a Recognized Employee Organization (REO), and positions that are both unclassified and

FY 2026 Proposed Budget General Fund Standard Hour FTEs					
Department/Office	**DCAA (Unclassified)**	**Classified**	**Unclassified & Unrepresented**	**Total**	**Percent Classified**
City Council[1]	-	-	135.00	135.00	-
Council Administration	-	-	14.00	14.00	-
Office of the IBA	-	-	11.00	11.00	-
Ethics Commission	-	-	6.00	6.00	-
City Auditor	-	-	24.00	24.00	-
Performance & Analytics	-	-	17.00	17.00	-
Office of the Mayor	-	4.00	37.00	41.00	9.8%
Human Resources	-	5.00	39.00	44.00	11.4%
Commission on Police Practices	-	3.00	9.00	12.00	25.0%
Homelessness Strategies & Solutions	-	6.00	10.00	16.00	37.5%
City Attorney	176.00	211.00	27.00	414.00	51.0%
Office of Emergency Services	-	9.00	7.00	16.00	56.3%
Communications	-	20.00	14.00	34.00	58.8%
Compliance	-	25.00	12.00	37.00	67.6%
Department of Finance	-	99.00	38.00	137.00	72.3%
Department of Information Technology[2]	-	3.00	1.00	4.00	75.0%
Economic Development/Real Estate	-	75.00	21.75	96.75	77.5%
City Planning	-	82.75	18.00	100.75	82.1%
Personnel	-	64.00	13.00	77.00	83.1%
City Treasurer	-	100.00	17.25	117.25	85.3%
City Clerk	-	38.00	6.00	44.00	86.4%
Purchasing & Contracting	-	57.00	8.00	65.00	87.7%
Development Services	-	68.00	5.00	73.00	93.2%
Transportation	-	488.50	17.00	505.50	96.6%
Stormwater	-	290.00	9.00	299.00	97.0%
Environmental Services	-	126.81	3.92	130.73	97.0%
Library	-	386.00	10.00	396.00	97.5%
Facilities Services	-	180.50	4.00	184.50	97.8%
Parks & Recreation	-	842.75	18.50	861.25	97.9%
Fire-Rescue	-	1,310.00	19.00	1,329.00	98.6%
Police	-	2,601.00	23.00	2,624.00	99.1%
Total General Fund Standard Hour FTEs	**176.00**	**7,095.31**	**594.42**	**7,865.73**	**90.2%**

[1] While each City Council Office has 15.00 FTE positions in the Proposed Budget, 5.00 of those FTEs are unfunded to allow each Council Office additional discretion in staffing and compensation levels. Council Offices currently have between 9.00 and 12.00 filled positions.

[2] Budgeted Department of Information Technology FTEs in the FY 2026 Proposed Budget total 133.42, however the vast majority are budgeted in internal service funds.

unrepresented.[1]

Across the entire General Fund, 90.2% of budgeted standard hour FTE positions (7,095.31 of 7,865.73 FTE positions) are classified. 176.00 FTEs (2.2%) are unclassified but represented (these are positions represented by the Deputy City Attorneys Association of San Diego, or DCAA), and 594.42 FTEs (7.6%) are both unclassified and unrepresented.

When non-Mayoral departments[2] are excluded, 6,779.31 of 7,128.73 total FTE positions (95.1%) are classified, and 349.42 FTEs are unclassified. This is equal to a rate of just under 20 classified positions to every unclassified position in the General Fund budget.

While this overall proportion of classified to unclassified positions does not seem unreasonable, it is noteworthy that the proportion varies significantly by department. Public safety departments (Police and Fire-Rescue) have particularly low proportions of unclassified positions; conversely other departments such as Human Resources, Homelessness Strategies and Solutions, Office of Emergency Services, and Communications have higher proportions. While higher proportions for some departments should be expected (Human Resources, for instance, leads negotiations with the City's REOs), **Council may want to request additional details on the structure of departments with lower ratios of classified to unclassified staff during its Budget Review hearings.**[3]

Proposed General Fund Position Reductions

The table on the following page includes additional information, focusing on the General Fund's standard hour position *reductions* that are included in the Proposed Budget. In general, the proportion of classified and unclassified positions proposed to be eliminated are similar to those of all General Fund positions. Of 298.00 standard hour FTEs, 267.50 (or 89.8%) are classified positions, 1.50 FTEs are unclassified but represented (0.5%), and 29.00 FTEs are unclassified and unrepresented (9.7%). Among Mayoral departments, 257.50 of the 283.50 total standard hour General Fund FTEs (90.8%) proposed to be eliminated are classified.

Additional detail on the positions proposed for elimination is included in the corresponding *Department Review* sections of this report.

[1] Note – tables in this section reflect standard hour positions, and ***therefore they exclude hourly positions***. Consequently, total FTEs reflected in these tables may differ from FTEs amounts discussed in other sections of this report, as those sections generally look at total budgeted FTE amounts, as opposed to only standard-hour positions.

[2] Non-Mayoral Departments include the City Council and Council Administration, Office of the IBA, Ethics Commission, City Auditor, Commission on Police Practices, City Attorney, Personnel Department, and City Clerk.

[3] Given the timeline for development of this report, this section focuses on positions supported directly by the General Fund. Moving forward, our Office will work to further analyze corresponding proportions of classified and unclassified positions in non-General Fund departments.

Key Citywide Issues: Classified and Unclassified Positions

FY 2026 Proposed Budget General Fund Standard Hourly Position Reductions					
Department/Office	**DCAA (Unclassified)**	**Classified**	**Unclassified & Unrepresented**	**Total**	**Percent Classified**
City Attorney	(1.50)	-	-	(1.50)	0.0%
Facilities Services	-	-	(1.00)	(1.00)	0.0%
Office of the Mayor	-	-	(6.00)	(6.00)	0.0%
Performance & Analytics	-	-	(1.00)	(1.00)	0.0%
Purchasing & Contracting	-	-	(2.00)	(2.00)	0.0%
Human Resources	-	(1.00)	(12.00)	(13.00)	7.7%
Sustainability & Mobility*	-	(3.50)	(2.00)	(5.50)	63.6%
Personnel	-	(4.00)	(2.00)	(6.00)	66.7%
City Planning	-	(4.00)	(1.00)	(5.00)	80.0%
City Clerk		(6.00)	(1.00)	(7.00)	85.7%
Parks & Recreation	-	(114.00)	(1.00)	(115.00)	99.1%
City Treasurer	-	(8.00)	-	(8.00)	100.0%
Communications	-	(3.00)	-	(3.00)	100.0%
Compliance	-	(4.00)	-	(4.00)	100.0%
Department of Finance	-	(3.00)	-	(3.00)	100.0%
Development Services	-	(12.00)	-	(12.00)	100.0%
Fire-Rescue		(19.00)	-	(19.00)	100.0%
Library	-	(71.00)	-	(71.00)	100.0%
Office of Emergency Services	-	(2.00)	-	(2.00)	100.0%
Police	-	(13.00)	-	(13.00)	100.0%
Total Reduction in General Fund FTEs	**(1.50)**	**(267.50)**	**(29.00)**	**(298.00)**	**89.8%**

*In the FY 2026 Proposed Budget, SuMo was consolidated into multiple other departments. Reductions shown here represent net reductions from the FY 2025 Adopted Budget prior to that consolidation.

Climate Action Plan

In August 2022, the City adopted a new Climate Action Plan (CAP) known as CAP 2.0. CAP 2.0 was the result of a large City effort to review and update the City's prior CAP, and to establish new and more aggressive CAP targets while also considering the experiences of the Sustainability and Mobility Department (SuMo) in implementing the first CAP.[1]

One of the largest changes in CAP 2.0 was a new goal for greenhouse gases (GHG) reduction. Whereas the original CAP proposed to reduce GHG by 50% in 2035, the new CAP's goal is for net zero GHG emissions by 2035, in effect doubling the original CAP GHG goal.

CAP 2.0 also contains the following six strategies:

Strategy 1: Decarbonization of the Built Environment
This strategy addresses natural gas consumption in all buildings, including both new and existing development, and proposes aggressive phase out targets for natural gas.

Strategy 2: Access to Clean & Renewable Energy
This strategy maintains the existing goal of obtaining 100% renewable energy through San Diego Community Power by 2035, while also proposing targets for zero emission vehicles for both the City fleet and the general public.

Strategy 3: Mobility & Land Use
This strategy focuses on emissions from transportation and establishes actions that support mode shift through mobility and land use action policies.

Strategy 4: Circular Economy & Clean Communities
This strategy will expand on the City's current zero waste goals and maintain gas capture measures, while also focusing on the City landfill and implementation of mandatory organics recycling under SB 1383.

Strategy 5: Resilient Infrastructure & Healthy Ecosystems
This strategy will help the City thrive in the face of the impacts of climate change through a greater focus on greening the City, including a particular focus on Communities of Concern.

Strategy 6: Emerging Climate Actions
This new strategy acknowledges that even if the previous strategies are fully implemented, the City may still not reach its net zero goal by 2035. As such, this strategy focuses on emerging technologies and new opportunities that may arise to help the City meet its overarching goal.

This section reviews significant efforts undertaken over the past year on continued implementation of the CAP, including development of the Street Design Manual, the Mobility Master Plan, Public Facing EV Chargers, and the CAP Dashboard. This section also provides an overview on the budget allocations related to the CAP in the FY 2026 Proposed Budget and will provide analysis on changes in the Climate Equity and Energy Independence funds.

Street Design Manual

A major CAP milestone was the adoption of

[1] More information on the changes between the two plans, as well as recommendations for implementation and further refinement of the CAP, can be found in IBA Report 22-19 *Climate Action Plan 2.0: Analysis of Changes Proposed and Recommendations for Improved Implementation Planning*.

Council Policy 900-23: *Complete Streets Policy* on December 11, 2023. The new policy requires all modes of transportation be considered when the City is completing projects within the right-of-way. In line with the policy, the City also established an interdepartmental mobility governance group to provide strategic guidance and oversight of project coordination.

With the adoption of the policy, SuMo staff have been developing an updated Streets Design Manual that will account for considerations laid out in the Council Policy, as well as updated street design standards. This document, which is a technical document intended for use by engineers and which incorporates other regulatory design standards, was released in a draft form in December 2024. As this update is part of the land development code, it requires Council approval for formal adoption. This process is expected to take place either at the end of 2025 or early 2026.

Mobility Master Plan

One of the largest efforts over the past several years was development of the Mobility Master Plan. A draft of the plan was first released in October 2023, with subsequent drafts released in October 2024 and January 2025. Each draft incorporated a substantial amount of public input, with rolling comment periods between each draft.

The plan contains numerous initiatives, goals, and objectives the City seeks to achieve, including: increasing opportunities for access to safe modes of transportation for all users; creating safe, connected, and convenient networks for pedestrians, cyclists, and micro-mobility users; increasing public transit use; and other goals. The plan also contains criteria that can be used to develop specific focus areas in the City, within which the plan identified numerous projects.

The plan was adopted by Council on April 22, 2025.

Public Facing EV Chargers

In May 2024, Council approved the Public Facing Electric Vehicle (PFEV) charging contract. This contract gave a selected group of vendors exclusive rights to build and install EV charging stations at all City facilities and on City property for a term of 10 years. For background on the contract and financials involved, please refer to IBA Report 24-13 *IBA Review of the Public Facing Electric Vehicle Charging Contract*.

Since adoption, staff worked with the vendor to identify initial sites for deployment, and they are working through the permitting processes to install charging infrastructure at those sites. The first installations of chargers under this contract are anticipated to begin on May 5th. Financial models used at the time of contract adoption assumed that Year 1 would mostly be taken up by planning activities, and therefore did not anticipate revenue in the first year. Our Office will continue to track actual revenue received as chargers are installed and used moving forward.

Climate Action Plan Dashboard

Staff that oversee the implementation of the CAP also recently published a new CAP Dashboard. This dashboard contains all performance measures, strategies, and actions that are part of the CAP and the CAP Implementation Plan, which allows the public to see updated and detailed information on the City's progress.

CAP and the FY 2026 Proposed Budget

The Citywide Budget Overview section in Volume One of the Proposed Budget contains information on budget adjustments that either directly or indirectly address the CAP strategies. As in previous years, Volume One's table only includes those budget adjustments that were included in the Proposed Budget (both in the operating budget and CIP).

In total, a net $299.6 million in new funding was included in the Proposed Budget for CAP related activities, with most of this funding consisting of direct CAP support. This is a dramatic decrease from FY 2025, although the majority of this difference is due to the slowdown in CIP expenditures related to the City's Pure Water project.

Table 1: FY 2026 Proposed Budget Direct or Indirect CAP Support	
Direct	$ 185.9
Indirect	$ 113.8
Total	**$ 299.6**

Regarding CAP 2.0 strategies, Strategy 5 – Resilient Infrastructure & Health Ecosystems has the highest level of funding in the Proposed Budget, including $89.9 million in direct support and $115.6 million in indirect support. The next highest level of funding is for Strategy 4 – Circular Economy & Clean Communities, including $65.6 million in direct support and $1.6 million in indirect support.

Table 2: FY 2026 Proposed Budget CAP Funding Strategy		
	Amount (millions)	
Strategy	**Direct**	**Indirect**
Strategy 1 - Decarbonization of the Built	$ (0.5)	$ 0.9
Strategy 2 - Access to Clean & Renewable Energy	$ 0.5	$ 0.2
Strategy 3 - Mobility & Land Use	$ 30.4	$ (3.6)
Strategy 4 - Circular Economy & Clean Communities	$ 65.6	$ 1.6
Strategy 5 - Resilient Infrastructure & Healthy Ecosystems	$ 89.9	$ 115.6
Overarching Implementation	$ -	$ (0.9)
Total	**$ 185.9**	**$ 113.8**

Most funding provided in the Proposed Budget is in the CIP, with only $90.5 million provided in the operating budget as compared to $209.1 million within the CIP. For the CIP, Most funding ($118.0 million) is for Public Utilities, which is supported by the water and sewer enterprise funds and relates to improvements at various treatment plants and the Metropolitan Biosolids Center. Other large contributions in the CIP are for assets managed by Stormwater ($48.8 million) and Transportation (30.4 million). These allocations are mostly backed by General Fund debt.

Table 3: FY 2026 Proposed Budget CAP Expense: Operating v CIP	
Project	**Amount (millions)**
Departments' Operating Budgets	$ 90.5
Capital Improvement Projects	$ 209.1
Total	**$ 299.6**

Table 4: FY 2026 Proposed Budget CIP CAP Funding by Department	
Department	**Amount (millions)**
Public Utilities	$ 118.0
Stormwater	$ 48.8
Transportation	$ 30.4
Parks & Recreation	$ 5.8
Citywide	$ 2.8
Environmental Services	$ 2.6
Library	$ 0.6
General Services	$ 0.1
Total	**$ 209.1**

Within the Operating Budget, the majority of the increase in funding is for Environmental Services, Public Utilities, and Transportation. However, almost all of these increases are due to the use of enterprise funds or the Utilities Undergrounding Fund, as shown in Table 6.

Notably, there are large operating *decreases* related to CAP in Stormwater, Parks & Recreation, and the former Sustainability & Mobility departments. This is due to budget mitigation actions that were implemented to help resolve the General Fund's structural deficit. Overall, General Fund support for the CAP is reduced within the Proposed Budget by $9.7

million.

Table 5: FY 2026 Proposed Budget Operating CAP Funding per Department	
Department	**Amount (millions)**
Environmental Services	$ 61.7
Public Utilities	$ 33.3
Transportation	$ 7.5
Parks & Recreation	$ (2.5)
Sustainability and Mobility	$ (3.2)
Stormwater	$ (6.2)
Various Departments*	$ (0.1)
Total	**$ 90.5**

*Includes Citywide Expenditures, Department of Information Technology, Development Services, & General Services

Table 6: FY 2026 Proposed Budget Operating CAP Funding by Fund	
Department	**Amount (millions)**
Solid Waste Management Fund	$ 48.3
Water Utility Fund	$ 26.6
Underground Surcharge Fund	$ 7.8
Sewer Utility Funds	$ 6.7
Refuse Disposal Fund	$ 6.2
Recycling Fund	$ 3.8
Automated Refuse Container Fund	$ 2.1
Energy Conservation Program Fund	$ (1.4)
General Fund	$ (9.7)
Other Funds	$ 0.1
Total	**$ 90.5**

Potential Funding Gap

A repeated concern of Council and the public continues to be the potential funding gap for the CAP. Our Office reviewed this concern in IBA Report 23-26 *FY 2024 Climate Action Plan Expenditures, Funding Gaps, and Other Policy Considerations*. However, much of that report's analysis, which used unfunded requests and CIP Outlook gaps, is not easily applied to the FY 2026 Proposed Budget.

Given the known General Fund structural deficit, funding requests from CAP related departments were particularly limited during development of the Proposed Budget. Additionally, while the Proposed CIP does contain a large amount of funding, other significant actions outside of the Budget process could lead to the CAP deficit being overstated. *Regardless, the most critical action associated with full CAP funding and implementation is resolving the City's ongoing structural budget deficit and infrastructure financing gap.*

Table 7 compares direct funding by CAP measure with what was called for in the Climate Action Implementation Plan (CAIP). This table has been updated to include all spending departments identified as "Unfunded" in the CAIP, whether or not that funding is specifically driven by the CAP.

When compared to the CAIP, there appears to be a $115.4 million gap in CAP funding for FY 2026. However, this gap may be understated, as it may not fully reflect CAP underfunding from prior years. The largest components of the gap are for Measure 5.3 – Local Water Supply which relates to the City's stormwater infrastructure deficit, and measures under Strategy 3 which mostly relate to projects to improve pedestrian and cycling routes and to reduce traffic congestion. Needs for FY 2026 have most likely changed since the development of the CAIP, but without a CAIP that is updated yearly in time for the Proposed Budget, it is difficult to complete a more detailed analysis.

Table 7: Funding by CAP Measure - Direct General Fund Expenditures in Adopted Budget & CAIP ($ in millions)			
CAP Measure	Adopted Budget	CAIP	Difference
1.1 - Decarbonize Existing Buildings	$ (0.5)	$ 0.2	$ (0.7)
1.2 - Decarbonize Municipal Buildings	-	0.0	(0.0)
1.3 - Decarbonize City Facilities	1.2	1.9	(0.7)
Combined 1.1 & 1.2	(0.4)	-	(0.4)
2.1 - Citywide Renewable Energy Generation	0.0	-	0.0
2.2 - Increase Municipal Zero Emission Vehicles	0.7	-	0.7
2.3 - Increase Electric Vehicle Adoption	-	0.4	(0.4)
3.1 - Safe and Enjoyable Routes for Pedestrians and Cyclists	8.9	39.9	(31.0)
3.2 - Increase Safe, Convenient, and Enjoyable Transit Use	-	-	-
3.3 - Work From Anywhere	0.2	3.0	(2.8)
3.4 - Reduce Traffic Congestion to Improve Air Quality	9.1	35.0	(25.9)
3.5 - Climate-Focused Land Use	1.2	-	1.2
3.6 - Vehicle Management	(0.2)	-	(0.2)
Combined 3.1 & 3.4	7.5	-	7.5
Combined 3.1, 3.5, & 3.6	(0.6)	-	(0.6)
Combined 3.1 & 5.2	(0.6)	-	(0.6)
Combined 3.1, 5.1, & 5.3	(2.3)	-	(2.3)
4.1 - Changes to the Waste Stream	52.5	-	52.5
4.2 - Municipal Waste Reduction	2.8	-	2.8
4.3 - Food Streatms	-	0.7	(0.7)
4.4 - Zero Waste to Landfill	2.7	0.1	2.6
4.5 - Capture Methane from Wastewater Treatment Facilities	0.8	-	0.8
Combined 4.1 & 4.3	7.9	-	7.9
Combined 4.2 & 5.3	2.0	-	2.0
5.1 - Sequestration	1.7	5.7	(4.0)
5.2 - Tree Canopy	(0.7)	9.7	(10.4)
5.3 - Local Water Supply	206.9	202.7	4.2
Combined 5.1, 5.2 & 5.3	(0.9)	-	(0.9)
Overarching Implementation	(0.4)	1.8	(2.2)
Total	**$ 299.6**	**$ 301.2**	**$ (1.7)**

Additional CAP Related Funds

Climate Equity Fund

The City Council established the Climate Equity Fund (CEF) in March 2021 to provide targeted infrastructure and other CAP related improvements to communities of concern, including those identified in the Climate Equity Index. The resolution adopting the CEF requires that the Mayor and Council, at a minimum, provide CEF funding equal to 10% of the General Fund distribution of franchise fees from gas and electric franchise agreements, and 1% of the total annual revenue received through each of the TransNet and Gas Tax distributions. FY 2022 was the first year of funding for the Climate Equity Fund.

Previous budgets (FY 2022-2024) only provided the CEF revenue appropriation based on the 10% of franchise fees allocation. However, as in the FY 2025 Adopted Budget, *the Proposed Budget for FY 2026 does not follow the resolution and does not provide this funding*. The only funding provided for the CEF is $1.5 million from SDG&E, which is provided as part of the franchise agreement above and beyond base franchise fees. While the $1.5 million in revenue has been provided for the CEF, there are no expenditures associated with that funding. A proposed allocation for the $1.5 million will be part of the May Revision. Had the budget included the 10% franchise fee allocation, the CEF would have received an additional $6.6 million. No previous appropriations from prior years are proposed to be changed as part of the Proposed Budget.

Energy Independence Fund

The Energy Independence Fund (EIF) was established by resolution in April 2022. The resolution requires the Mayor and Council to consider putting into the fund 20% of any minimum bid proceeds received by the City above and beyond the 3% gas and electric franchise fees. This fund may be used for three purposes:

1. To pay for any refunds of franchise fee bid payments in the event that the electric franchise with SDG&E is terminated before the end of the full 20 years of the agreement.
2. To retain professional services to study possible municipalization of gas and electric transmission systems.
3. To pay for development costs of municipal renewable energy projects, including microgrids, distributed generation, or energy storage projects.

Distributions of $2.2 million in FY 2023 and

$2.2 million and FY 2024 were made to the EIF in accordance with the policy, while only $618,000 was spent from the fund in FY 2024 on the Public Power Feasibility Study (PPFS). This left a FY 2024 year-end fund balance of $4.0 million.

The FY 2025 Adopted Budget did not provide for the 20% allocation, and instead transferred $3.2 million of the fund balance back to the General Fund, leaving $500,000 for continued spending on the PPFS and dropping the remaining fund balance to approximately $255,000.

The Proposed FY 2026 Budget includes $2.4 million in revenue for the EIF and $300,000 in expenditures for the PPFS. However, the General Fund is currently budgeted to receive $1.8 million in revenue back from this fund, which would only provide the fund with $600,000. Our understanding is that not having the transfer out budgeted in the EIF is an error that will be changed in the May Revision.

This is an important year for the EIF, as minimum bid proceeds from the franchise agreements are scheduled to decrease significantly in FY 2027 based on the payment schedule for the $70 million due from the electric franchise agreement. With only gas franchise bid payments slated for FY 2027 through FY 2030, the EIF policy would only call for the transfer of around $100,000 each year until FY 2031 when electric franchise bid payments resume.

City Council Budget Priorities

Per the City Charter, the first step for the City Council in the City's annual budget process is the development of its annual Budget Priorities Resolution. Council approved its initial Budget Priorities Resolution on October 28, 2024 and subsequently had the opportunity to update its priorities, which it did on February 10, 2025. Council's Updated FY 2025 Budget Priorities Resolution is reflected in IBA Report 25-05.

The following tables compare the City Council's Updated FY 2026 Budget Priorities to the FY 2026 Proposed Budget. The status of each budget priority is categorized as added to the Proposed Budget (A), partially added to the Proposed Budget (P), maintained at FY 2025 levels (M), reduced from FY 2025 levels (R), or not included in the Proposed Budget (N). Resources and budget mitigations priorities are presented first, followed by a table on operating budget and infrastructure priorities.

COMPARISON OF COUNCIL FY 2026 BUDGET PRIORITIES TO MAYOR'S FY 2026 PROPOSED BUDGET
(A=*Added*, P=*Partial Add*, M=*Maintained*, R=*Reduced*, N=*Not Included*)

City Council Resources and Mitigations Priorities	Status	Notes
Resources and Budget Mitigations		
Parking Meter Fee Revenue	A	Previously approved in FY 2025. City Treasurer's Office estimates an additional $9.6 million in parking meter revenue for FY 2026 due to the $1.25 per hour increase to parking meter rates.
November 2022 Measure B - Refuse Collection Fee	A	As proposed, the budget fully relieves the General Fund from refuse collections costs and proposes it within an enterprise fund resourced through a fee.
March 2020 Measure C - TOT Increase	A	Includes initial estimates of Measure C revenue totaling $82.4 million, with $48.6 million (59%) dedicated to Convention Center and $33.8 million (41%) to homelessness.
Grants (including IIJA and IRA)	N	No new grant funding is added to the proposed CIP budget, but it includes $11.0 million in Other Grants from prior fiscal years. Grant funding is generally included as anticipated funding in the CIP.
Cannabis Business Tax (CBT) Increase for Outlets	A	Previously approved in FY 2025. City Treasurer's Office estimates an additional $4.0 million in CBT revenue for FY 2026 due to the 2% CBT Increase on retail outlets.
Revenue Identified in IBA Report 22-31	P	Several revenue options identified in IBA Report 22-31 are included in the Proposed Budget, including revenue from paid parking in Balboa Park, revenue from increased parking meter fees, increased Mission Bay mooring fees, and increased parking citation fines.
Adjusting User Fess for Full Cost-Recovery	P	Several user fee increases have been approved by Council in FY 2025, many of which are at, or near, full cost-recovery. Revenue from these increases are incorporated in the FY 2026 Proposed Budget.
Charging Admission Fees to Major City-Run Events	N	Not incorporated in the FY 2026 Proposed Budget.
Fees on Vacant/Abandoned Commercial Property	N	Not incorporated in the FY 2026 Proposed Budget.
Revenue Related to City-Owned Property	N	Not incorporated in the FY 2026 Proposed Budget.
Operational Efficiencies and Reprioritizations	P	To reduce costs, the Administration has restructured several departments in FY 2025. Savings are incorporated within the Proposed Budget. Additionally, an effort is underway to reduce rent for office space.
Excess Equity	N	Excess Equity was not used to balance the FY 2026 Proposed Budget. Per the FY 2025 Mid-Year Budget Monitoring Report, year-end Excess Equity was projected be *negative* $3.9 million.
Cost Sharing with Other Entities & Regional Collaboration	N	No new formalized agreements to increase cost sharing for homelessness are reflected in Proposed Budget

COMPARISON OF COUNCIL FY 2026 BUDGET PRIORITIES TO MAYOR'S FY 2026 PROPOSED BUDGET (A=*Added*, P=*Partial Add*, M=*Maintained*, R=*Reduced*, N=*Not Included*)		
City Council Operating Budget Priorities	**Status**	**Notes**
Homelessness and Housing		
Housing Instability Prevention Program	A	Funded at $5.8 million, as requested by SDHC
Eviction Prevention Program	M	Funded at $3.0 million, as requested by SDHC
Homelessness Outreach	R	Caltrans Outreach is eliminated due to poor outcomes
Expand Shelter Capacity	N	Not included, Proposed Budget reduced existing capacity
Affordable Housing Preservation and Creation	N	Not included
LGBTQ+ Youth Housing and Related Services	M	Funded at $2.0 million, as requested by SDHC
Environment and Climate Action		
Climate Action Plan Implementation	R	Various positions and funding reduced related to mobility planning, building decarbonization, and other activities
Urban Forestry Program	R	Tree planting budget for non-Communities of Concern eliminated.
Public Safety		
No Shots Fired Program	M	No reductions or increases proposed.
Lifeguard Staffing	M	No reductions or increases proposed.
Neighborhood Services		
Library Support (including library materials and library maintenance)	P	Funding for library maintenance has increased by $221,000; funding for library materials have decreased by $230,000; both of these adjustments are due to the removal of one-time adjustments included the FY 2025 Adopted Budget.
Weed Abatement	M	No reductions or increases proposed.
Brush Management	M	No reductions or increases proposed.
Arts and Culture		
Penny for the Arts	R	Proposed Budget funds arts and culture at 0.4 cents of TOT; additional $17.7 million required for full 1 cent
City Council Infrastructure Budget Priorities	**Status**	**Notes**
Transportation and Mobility Safety		
Pedestrian and Bicycle Safety (including continued implementation of Vision Zero)	R	FY 2026 Proposed CIP includes $1.2 million, reflecting a $12.2 million reduction from FY 2025.
Traffic Calming	M	FY 2026 Proposed CIP includes $1.2 million, reflecting no change from FY 2025.
Streetlights (repairs, upgrades, new installations)	R	FY 2026 Proposed CIP includes $1.0 million, reflecting a $1.1 million reduction from FY 2025.
Traffic Signals (new, modified, optimized signals)	R	FY 2026 Proposed CIP includes $7.9 million, reflecting a $2.3 million reduction from FY 2025.
Streets, Sidewalks, Stormwater		
Streets (including maintenance, repairs, resurfacing)	R	FY 2026 Proposed CIP includes $66.7 million, reflecting a $44.2 million reduction from FY 2025.
Sidewalks (including repairs and installations)	A	FY 2026 Proposed CIP includes $13.5 million, reflecting a $7.3 million increase from FY 2025.
Stormwater (including maintenance and capital projects)	R	FY 2026 Proposed CIP includes $48.8 million, reflecting a $39.6 million reduction from FY 2025.
Facilities		
Parks & Recreation (including maintenance and repair of existing facilities; new facilities)	R	FY 2026 Proposed CIP includes $18.3 million, reflecting a $24.6 million reduction from FY 2025.
Lifeguard Towers and Facilities	A	FY 2026 Proposed CIP includes $2.0 million, reflecting a $1.1 million increase from FY 2025.
Library (including maintenance, improvement, expansion of existing facilities)	A	FY 2026 Proposed CIP includes $5.9 million, reflecting a $2.1 million increase from FY 2025.

Departmental Vacancies

Over the last several years, the City made significant progress in addressing continual department vacancy issues. Recent labor contracts resulted in several years of general wage increases and special salary adjustments for a large number of positions. In addition, the City implemented various special wage adjustments and other compensation programs, reclassified certain positions that had persistent recruiting and retention issues, improved the hiring processes, and held several career fairs. This resulted in salaries and benefits being more competitive with surrounding jurisdictions and enabled many departments to conduct successful recruitments to fill long-standing vacancies. Departments have also seen increased retention – employee satisfaction surveys also indicates employees increased satisfaction.

That noted, some departments continue to face challenges with filling certain vacant job classifications with qualified candidates and with retaining staff. For example, General Services continues to face issues recruiting and retaining qualified staff in skilled trade job classifications, especially those that are in high demand from other City departments like Public Utilities, and the public and private sectors more generally. Both Fleet Technicians and HVAC Technicians continue to be particularly difficult to recruit despite special salary adjustments made in FY 2022. In addition, Purchasing and Contracting continues to have challenges filling vacant Contract Specialist positions for Public Works Contracting group.

Additionally, the strategic hiring freeze implemented in December 2024 has resulted in recent increases in departmental vacancies. During this hiring freeze, departments are only able to fill mission critical or essential positions through a Request to Fill process. As of the end of March, only 88 of the 574 positions submitted to be filled via the Request to Fill process have been approved.

This process was implemented to slow down hiring and reduce personnel expenditures given the City's projected budget shortfalls. The FY 2026 Proposed Budget includes personnel expenditure reductions across various departments that reflect anticipated savings from this process.

While reductions to the General Fund's personnel expenses are unavoidable given that they represent 72.3% of total General Fund expenditures, increased vacancies do have a an impact on existing staff through increased workloads that can lead to delayed services and challenges in meeting service levels.[1] While some departments can absorb their current workloads with fewer positions, at least in the short term, many cannot. Ultimately, reductions in personnel – either through increased vacancies or the elimination of positions, will require corresponding reductions in the programs and services they provide.

On April 21, 2025, the Administration provided a memorandum indicating vacancies created by the strategic hiring freeze will enhance opportunities for employees who will be impacted by the Reduction In Force (RIF) process to remain in the organization. The RIF will begin for filled positions reduced in the FY 2026 Adopted Budget soon after the budget's adoption, and the hiring freeze is anticipated to extend into early FY 2026.

[1] Increased workload also impacts staff morale; downstream impacts could include increased labor and employee stress/burnout leading to more workers' compensation claims, and higher staff turnover.

Equity

The City is continuing to promote the consideration of equity at all levels of the City's operations and decision-making. The FY 2024 Adopted Budget represented the first time the City used a process to incorporate equity as a consideration in budget development by requiring departments to use an "equity lens" when requesting and assessing augmentations or reductions to their budgets. This practice was continued during development of the FY 2026 Proposed Budget.

This can be seen in the Proposed Budget. Departmental Budget Equity Impact Statements in Volume II reflect how equity was incorporated into the budget process. New this year is the launch of a Tactical Equity Plan dashboard, which includes details about departments' mission and goals, as well as opportunities to address disparities. Additionally, Race & Equity staff facilitated 48 full-day training sessions for over 1,000 City employees, with some dedicated to supporting development of departmental Budget Equity Statements and Tactical Equity Plans.

The City has also recently adopted many policies that have equity as a consideration or priority, including:

- Addressing recreation programming offerings disparities through the Opportunity Fund;
- Parks for All of Us, in which 80% of Citywide park development impact fees go towards park-deficient communities, with 50% specifically for underserved areas;
- Increased priority for infrastructure projects in communities of concern through the Infrastructure Prioritization Policy 800-14;
- Prioritizing Underground Utility Districts in communities of concern; and
- Increased priority for street repairs within communities of concern.

In general, budget equity can be advanced through either increased budgetary investments in targeted areas, and/or mitigating budget reductions and associated impacts to underserved areas during tough budget environments. FY 2026, even more than FY 2025, is a difficult budget year, and significant cuts are needed to balance the budget. Instead of funding new equity initiatives as the City did in recent years, the focus for FY 2026 should be on mitigating the impact of reductions on underserved communities.

This section outlines significant potential equity impacts associated with the Proposed Budget, as well as discussion on potential approaches to reducing disparities. More details can be found in the applicable department section within *Department Reviews*.

High Priority Programs Maintained

Programmatic Expenditures. The FY 2026 Proposed Budget *maintains* many equity-focused programs that are high priorities for Council including:

- No Shots Fired
- SD Access for All and free public Wifi in parks
- Eviction Prevention Program
- Housing Instability Prevention Program

Given the budget environment, these are notable investments. Both the Eviction Prevention

Program and the Housing Instability Prevention Program were previously funded on a one-time basis, and now are proposed to receive ongoing funding with annual investments of $3.0 million and $5.8 million respectively.

Employ & Empower Internship Program (intended to be budget-neutral). The Employ & Empower Internship Program continues to be funded in the FY 2026 Proposed Budget, though at reduced levels given the funding limitations of the supporting grant.

The Program, launched in 2022, supports paid internships for approximately 400 youth (ages 16-30) annually, to build a pipeline of future public employees. The internships are spread among various City departments. The Program focuses on providing opportunities to individuals from underserved communities and backgrounds. Employ & Empower is managed by the Human Resources Department, including six staff members dedicated to the Program.

Human Resources shared that as of April 15, 2025, over 1,300 youth have interned across 40 City departments and nine Council districts, with 79% of those living or going to school in a community of concern. Of the 1,300 interns, 942 have completed the internship program; and of those, 130, or 13.8%, have transitioned to permanent City employment.

The City's Employ & Empower Internship Program is reimbursable from a #CaliforniansForAll Youth Service Corps grant. For the most recent allotment of funding to the City, Human Resources applied for and received $7.6 million, to be utilized between July 1, 2024 and December 31, 2025. Since the prior allotment[1] was available through September 30, 2024, the City began requesting reimbursements from the most recent (second) allotment beginning October 1, 2024. The City's reimbursement requests and pending requests to the State for the October 1, 2024 through March 31, 2025 timeframe total $3.4 million and the City anticipates utilizing the remaining $4.2 million by December 31, 2025. A third round of funding, totaling $8.0 million, is anticipated to be available through December 31, 2026, but it has not yet been accepted. The Department of Human Resources anticipates bringing the award to Council for approval May 19, 2025.

The Employ and Empower Program is dependent on available grant funding. During FY 2025, funding was expended faster than originally anticipated, leading to reduced funding availability in FY 2026. Thus, the FY 2026 Proposed Budget includes an Employ & Empower Program *reduction* of $2.8 million and 88.29 hourly Management and Student Intern FTEs – including $2.6 million and 79.83 FTEs in the General Fund. Citywide, the FY 2026 Proposed Budget includes $4.1 million and 79.19 FTEs for the remaining Intern FTEs, of which $3.6 million and 69.52 FTEs are for the General Fund.[2] Budgets for the Employ & Empower Program are spread over various departments, as shown in the table at the end of this section.

Infrastructure. The FY 2026 Proposed Budget includes $1.2 million in

[1] The City received its initial grant for the Employ & Empower Internship Program with a total award of $18.6 million to be utilized between July 1, 2022 and September 30, 2024, including a three-month extension. The City's reimbursement requests to the State for the July 1, 2022 through September 30, 2024 timeframe total $14.5 million.

[2] The FY 2026 Proposed Budget also funds 3.00 Apprentice I - Electrician FTEs (a five-year apprenticeship) for an approximate annual cost of $300,000.

Neighborhood Enhancement Fund – CoC funds to be used for traffic calming projects in communities of concern. Another, $111,000 is proposed from the Active Transportation In Lieu Fee – Communities of Concern fund for traffic signal modification. Finally, through the Citywide Library DIF $1.0 million was allocated to the Oak Park Library project. We note that no allocations are included in the Proposed Budget from the Citywide Parks DIF but they will be added in the May Revision.

Impacts of Key Reductions

To close the over $250 million structural budget deficit, both revenues increases and expenditures reductions have been proposed. Here we highlight the most significant equity impacts associated with the proposed reductions.

Reduction to parks maintenance. The Proposed Budget includes a $6.4 million and 49.50 FTE reduction in park maintenance which is anticipated to result in fewer restroom cleanings and weed removals; longer timelines to repair equipment, irrigation leaks, and playground parts; and a reduction in equipment purchases. Deferring maintenance and rehabilitation ultimately increases future required reinvestment and will compound existing repair backlogs. Those backlogs are predominately in older parks and facilities most typically located in communities of concern.

We do note the Proposed Budget reflects an effort to minimize impacts to communities of concern given that there are fewer position reductions for maintaining parks within Community Park II (5.00 FTEs) which includes parks in Council Districts 3, 4, 8, and 9 than in Community Park I (18.50 FTEs) which include parks in Districts 1, 2, 5, 6, and 7.

Council should request additional detail on how the City will work to mitigate these impacts, especially in those communities of concern.

Reduction of Recreation Center hours. The Proposed Budget includes a reduction of $4.8 million and 53.70 FTEs, which will reduce the hours of operations at all of the City's 60 Recreation Centers. 84% of the proposed positions reduction are Assistant Recreation Center Directors (ARCDs), which serve recreation centers Citywide but play an especially important role in Community II Parks since they provide and/or support staff-led programming in Districts 3, 4, 8, and 9. Programs such as Come Play Outside, Parks After Dark, and Age Well Services, which are heavily dependent on ARCDs in Community Parks II and geared towards underserved populations, will be significantly impacted, and could be eliminated altogether. Participants in communities of concern may not have the means to pay more fees to support continued programming and therefore could have fewer recreational opportunities. **Please refer to *Department Review: Parks & Recreation* for more details on equity concerns as well as potential alternatives that could reduce impacts to communities of concern**.

Elimination of Sunday and Monday library hours. The Proposed Budget includes the reduction of 71.00 FTEs and $8.6 million which would eliminate Sunday and Monday library hours at all locations.[3] Usage data suggests that libraries in northern parts of the City have higher materials and circulation usage rates, while libraries in southern parts of the City have higher in-person and program usage rates. Library users in southern San Diego are therefore likely to feel a greater impact from

[3] At present, 14 of the 37 library locations (including the Central Library) have Sunday hours.

this reduction because those patrons more typically use libraries to access the space to read, collaborate and use Wifi.

Additional discussion of library hours and potential impacts is included in this report's *Department Review: Library* section.

Reduction to Library Donation Matching Funds

The Proposed Budget includes a $118,000 ongoing reduction to the Department's annual budget for the City's match for library donations. When including the removal of $200,000 in one-time funding for this program in the FY 2025 Adopted Budget, total funding will be reduced from $1.2 million to $882,000.

City matching funds are used to incentivize philanthropic donations and to more equitably provide resources to branch locations that typically do not receive significant donations. While half of all Library donation matching funds get directed to the branch/purpose for which a donation was provided under Council Policy 100-12, the other 50% is used to support branch locations with the greatest needs, or for systemwide purposes, using an equity focused distribution model.

Please refer to *Department Review: Library* for more details.

Waiver of Climate Equity Funds. The Proposed Budget includes a waiver of a $6.6 million contribution to the Climate Equity Fund (CEF). The CEF provides funding for infrastructure projects in underserved communities to help them respond to the impacts of climate change. Historically, this funding was used to supplement other funding sources to develop parks, right-of-way improvements, and other neighborhood enhancements. With the waiver, the fund is budgeted to receive $1.5 million in FY 2026 from revenues specifically set aside as part of the SDG&E franchise agreements. This funding has not been allocated into any projects in the Proposed Budget. More information on the CEF can be found in the *Key Citywide Issues: Climate Action Plan* section.

Eliminate Rosecrans Shelter. The Proposed Budget eliminates $4.8 million for the Rosecrans Shelter. Opened in September 2022, the 150-bed emergency homeless shelter operates through a City-County partnership, whereby the City agrees to fund shelter operations, and the County provides behavioral health services, including mental health and substance use disorder treatment. The Rosecrans Shelter is one of four programs operated through a City-County partnership to provide behavioral health services to individuals experiencing homelessness. The shelter closure is due to upcoming redevelopment of the site and results in lower citywide shelter capacity, as the Proposed Budget does not include funds to identify replacement beds.

Equity Staffing Changes

Race and Equity Department Consolidation

In the Proposed Budget, the Department of Race and Equity is consolidated into the Human Resources Department. Along with that change is the reduction of a vacant director position and a vacant Program Coordinator, which leaves 5.00 budgeted FTE positions. The Community Equity Fund was also transferred to Human Resources, with the $89,000 remaining fund balance being transferred to the General Fund. According to the Mayor's memo released in February 2025, the remaining Race and Equity staff will continue to focus on training programs related to diversity and inclusion, leading implementation of an equity lens during budget development, and making sure that the City's process for allocating resources reflect these values. Remaining positions are also expected to continue to work on policy issues as they arise, such as overseeing the Small and Local Business Enterprise program in alignment with a recommendation from the *Performance Audit of the Purchasing and Contracting's Small Local Business Enterprise Program*. Outcomes of the program may be limited by the reduction of a position supporting the program described immediately below.

Reduction of an Equal Opportunity Contracting Position

The Proposed Budget includes the reduction of 1.00 vacant Program Coordinator position supporting Equal Opportunity Contracting (EOC). This position was intended to increase EOC's capacity for monitoring, support services, and program performance, aimed at improving outcomes for small-, minority-, and woman-owned businesses. The Program Coordinator was also tasked with developing a comprehensive plan and manual to communicate SLBE Program objectives across departments, and establishing a process to track the program's long-term impact on minority- and woman-owned business growth.

Issues for Council Consideration

The City has made notable investments in equity efforts in recent years, and many high priority programs continue to be funded in the FY 2026 Proposed Budget. However, some of the most significant measures proposed to mitigate the projected budget deficit come in the Parks & Recreation and Library departments, and are likely to have pronounced impacts on communities of concern. Our Office is ready to assist Council in identifying possible areas of the budget to restore so as to mitigate the impact on these communities. *However, restoration of positions or programming will require the identification of new resources or the reallocation of resources from other areas (i.e. alternative expenditure cuts).*

Employ and Empower Interns			
Department/Fund	**FY 2025 FTEs**	**FY 2026 FTEs**	**Difference**
General Fund Departments			
Office of the Chief Operating Officer	*4.50*	*-*	***(4.50)***
City Council	*7.31*	*11.08*	***3.77***
Council Administration	*0.46*	*0.58*	***0.12***
City Clerk	*1.50*	*1.00*	***(0.50)***
City Attorney	*7.55*	*4.00*	***(3.55)***
Personnel	*0.50*	*0.50*	***-***
Commission on Police Practices	*1.75*	*0.58*	***(1.17)***
Performance & Analytics	*1.31*	*1.00*	***(0.31)***
Human Resources	*19.56*	*5.00*	***(14.56)***
Economic Development	*3.50*	*-*	***(3.50)***
Office of the Mayor	*7.27*	*3.00*	***(4.27)***
Communications	*1.16*	*1.00*	***(0.16)***
Race & Equity	*1.50*	*-*	***(1.50)***
Purchasing & Contracting	*-*	*1.00*	***1.00***
City Treasurer	*-*	*0.58*	***0.58***
Department of Finance	*1.49*	*1.00*	***(0.49)***
Real Estate	*2.50*	*-*	***(2.50)***
City Planning	*8.00*	*3.50*	***(4.50)***
Sustainability & Mobility	*1.23*	*-*	***(1.23)***
Library	*14.02*	*9.00*	***(5.02)***
Parks & Recreation	*42.26*	*9.00*	***(33.26)***
Homelessness Strategies & Solutions	*0.38*	*-*	***(0.38)***
Fire-Rescue	*10.38*	*9.50*	***(0.88)***
Police	*4.50*	*4.20*	***(0.30)***
Office of Emergency Services	*0.32*	*-*	***(0.32)***
Stormwater	*6.00*	*2.50*	***(3.50)***
Transportation	*0.40*	*1.50*	***1.10***
Total GF Employ and Empower Interns	**149.35**	**69.52**	**(79.83)**
Non-General Funds/Departments			
Special Events & Filming - TOT Fund	*0.75*	*0.75*	***-***
General Services - Energy Conservation Fund	*-*	*0.50*	***0.50***
Sustainability & Mobility - Energy Conservation Fund	*1.86*	*-*	***(1.86)***
Department of IT - Information Technology Fund	*3.78*	*2.00*	***(1.78)***
Department of IT - GIS Fund	*0.49*	*0.27*	***(0.22)***
Department of Information Technology - OneSD Support	*0.25*	*0.15*	***(0.10)***
Public Utilities - Municipal Sewer Fund	*-*	*0.34*	***0.34***
Public Utilities - Metro Sewer Fund	*-*	*0.33*	***0.33***
Public Utilities - Water Utility Fund	*-*	*0.33*	***0.33***
Economic Development - Airport Funds	*1.00*	*-*	***(1.00)***
Environmental Services - Solid Waste Management Fund	*-*	*1.00*	***1.00***
Engineering & Capital Projects - E&CP Fund	*10.00*	*4.00*	***(6.00)***
Total Non-GF Employ and Empower Interns	**18.13**	**9.67**	**(8.46)**
TOTAL ALL FUNDS	**167.48**	**79.19**	**(88.29)**

Homelessness and Housing

Homelessness

As of San Diego's Point-in-Time Count in January 2024, a total of 6,783 sheltered and unsheltered homeless individuals were living in the City. This represents an overall increase of 4.4% from the count in 2023 (with unsheltered homelessness growing by 5.9%), though this increase is significantly lower than the 35.4% growth reported in 2023 relative to the prior year.

In October 2019, the City Council approved the Community Action Plan on Homelessness (Community Action Plan), aiming to systemically address homelessness. The Community Action Plan includes three goals that were to be achieved in three years, recommended actions, and key strategies. Goals included decreasing unsheltered homelessness by 50% and ending veteran and youth homelessness. In November 2023, Council heard the Community Action Plan Update (Update), reflecting progress since the initial plan's release and changes that resulted from the pandemic. The San Diego Housing Commission plans to release another update to the Community Action Plan in May 2025.

In the FY 2025 Adopted Budget, Council took action to preserve existing funding levels for the City's homeless shelters, prioritize funding for prevention, and fund the replacement of relocated shelters, as well as the potential expansion of shelter at Kettner and Vine, which ultimately did not advance.

In FY 2026, addressing homelessness will remain a top priority of both the Mayor and City Council, even in the face of a challenging budget environment. It will be important to balance homelessness priorities with potential service level reductions in other City departments. Even within homelessness operations, it will be crucial to determine how to best balance addressing the need for more emergency short-term interventions and other key components of the homelessness services continuum, particularly prevention, diversion, and permanent housing. The upcoming Update, and the strategic goals identified therein, should help to inform future funding decisions.

Revenue for homelessness from 2020's Measure C (pending a final court decision) represents the City's first long-term dedicated funding stream for homelessness, and this will be discussed further later in this report. Although this revenue will provide more fiscal stability for the City's homelessness budget, other uncertainties related to the future availability of County, State, and federal funding for homelessness remain. Further discussion is merited on how the City can best navigate these challenging budget circumstances, and to ensure the City's investment of scarce resources can be most impactful.

This report's department review of the Homelessness Strategies and Solutions Department includes significant additional detail on FY 2026 efforts to address homelessness. Briefly, the Proposed Budget includes $53.2 million from the General Fund to support the City's homelessness efforts, of which $33.8 million is expected from the portion of Measure C revenue restricted to homelessness and not otherwise available for non-homelessness General Fund expenses. The Proposed Budget includes several programmatic reductions, including eliminating funding for the 150-bed Rosecrans Shelter, which provides behavioral health services offered by the County; a homelessness outreach program operated with Caltrans; and a reduction in public restroom services. The Proposed Budget also provides full, ongoing funding to the Housing Instability Prevention Program (HIPP) and the

Eviction Prevention Program (EPP), as well as reductions in non-essential spending across contracts administered by the San Diego Housing Commission, in collaboration with the Department – see the *Department Review: Homelessness Strategies and Solutions Department* section for more details.

Housing

In 2020, the City of San Diego's Regional Housing Needs Allocation goals were updated to add 108,000 new units by 2029. Of this total, 25,692 units, or 23.8% of the total needed, were built since 2021 according to the City's 2024 Annual Report on Homes. In recent years, the City made significant efforts to address the housing affordability crisis through a number of proposals and investments in affordable housing. For instance, since 2021, the City's Bridge to Home program has awarded over $100 million to affordable housing projects that will eventually produce an estimated 2,100 affordable housing units. In February 2025, Council also approved the Affordable Housing Preservation Ordinance aimed at maintaining the affordability of deed-restricted properties through new noticing requirements when a property owner intends to sell, and allowing an opportunity to purchase and right of first refusal to entities that intend to extend affordability restrictions long-term.

That noted, housing *affordability* remains an issue. As outlined in Volume 1 of the Proposed Budget, the City of San Diego's 12-month median home price increased by 7.4%, from $874,813 in 2023 to $939,521 in 2024. In calendar year 2024, the number of homes sold increased by 6.8%, from 10,266 in 2023 to 10,959 in 2024. Despite recent interest rate cuts enacted by the U.S. Federal Reserve starting in September 2024, average mortgage interest rates remain elevated, which, along with economic uncertainties such as trade tariffs, inflation, and low consumer confidence, have result in restrained growth in home sales.[1] Higher interest rates and high median home prices have led to potential homebuyers being unable to afford to purchase new homes (i.e. being priced out of the housing market), and have deterred potential sellers who might need to lower the asking price on their current home, and then face higher interest rates when looking to buy a new home – overall slowing down the City's housing market and negatively impacting access to housing that is affordable.

[1] Federal Reserve Economic Data (FRED), 30-Year Fixed Rate Mortgage Average in the United States, Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/graph/?g=NUh, Accessed April 19, 2025.

Infrastructure Funding Needs

Significant and Growing Capital Funding Gap

The FY 2026-30 Capital Infrastructure Planning Outlook (CIP Outlook) projects a $6.51 billion funding gap over the next five years, with an additional $8.90 billion in capital needs identified for "FY 2031 and Beyond." Since the first CIP Outlook that covered FY 2016-20 CIP Outlook, the funding gap has nearly quadrupled, increasing from $1.7 billion to $6.51 billion. This highlights the City's growing capital needs and the widening gap between available funding and infrastructure requirements.

The funding gap stems from the City's lack of ongoing revenue for General Fund infrastructure, resulting in deferred critical projects, accelerated asset deterioration, and higher emergency repair costs.

For example, stormwater emergency project funding has averaged $34.4 million annually since FY 2020. The FY 2026 Proposed CIP Budget includes $39.0 million for emergency or high-risk storm-related projects. Between FY 2020 and FY 2026, the City will have allocated $245.6 million for stormwater emergencies. Had adequate resources existed for regular and proactive maintenance, many of those costly emergency projects could have been avoided.

Impacts on the CIP from Operating Budget Balancing Measures

The FY 2026 Proposed CIP Budget includes $845.9 million, which is a decrease of $104.0 million from the FY 2025 Adopted Budget. The Department of Finance (DOF) and Engineering & Capital Projects (E&CP) noted concerns with current funding limitations and uncertainty surrounding funding in future years. These concerns led the Proposed Budget to strongly prioritize *existing* projects for funding, as opposed to new projects (in some cases, existing projects were provided funding even if new projects had a higher priority score).

Infrastructure Fund

The FY 2025 Adopted Budget included a $21.1 million contribution to the Infrastructure Fund, of which $20.3 million was used to support the maintenance of existing infrastructure instead of new capital projects. This included $11.1 million for Transportation maintenance, $4.8 million for Stormwater, $3.0 million for Facilities Services, and $1.3 million for Debt Service. $785,000 was allocated towards Transportation capital projects. While this approach addresses immediate maintenance needs, it does come at the cost of longer-term infrastructure investment.

The CIP Outlook projected an $8.8 million contribution to the Infrastructure Fund in FY 2026. However, given declines in sales tax revenue, no FY 2026 contribution is required.

When available, the Infrastructure Fund provides flexible funding for General Fund capital projects such as parks, libraries, and fire stations. However, given the lack of funding for asset maintenance, future Infrastructure Fund dollars should prioritize maintaining existing infrastructure to avoid costly emergency repairs. Capital projects that would have been funded by the Infrastructure Fund can still be considered for bond financing.

Climate Equity Fund (CEF)

In addition to the Infrastructure Fund, the CEF has served as a flexible funding source for General Fund capital projects since its creation in 2021. The FY 2025 Adopted Budget waived the minimum annual CEF contribution of $8.5 million to help balance the operating budget, but the fund still received $1.5 million from the SDG&E Electric Franchise Agreement and $1.1 million from higher-than-expected franchise fee revenue and interest earnings in FY 2024.[1] The $2.6 million in CEF funding supported capital improvements focused on stormwater green infrastructure, traffic calming measures, and traffic signal projects, aligning with the fund's goal to advance equity in climate resilience and infrastructure investment.

The Proposed FY 2026 Budget for the CEF is again reduced to $1.5 million, funded through the SDG&E Electric Franchise Agreement. The minimum $6.6 million allocation, which would have supported additional equity-focused capital projects, is proposed to be suspended and redirected to the General Fund as a budget-balancing measure. Project allocation details for the $1.5 million will be finalized in the May Revision.

Given tight financial constraints in the City, bond financing is heavily relied upon to fund General Fund infrastructure projects, as it provides a flexible, unrestricted funding source to support capital projects. However, absent new revenue, the City's capacity to continue issuing General Fund-backed bonds will be limited, as will be discussed.

General Fund Debt Financing

The largest source of funding for the Proposed CIP Budget, besides Water and Sewer Funds, is an increased use of General Fund-supported debt financing, totaling approximately $95.8 million, or 11.3% of total Citywide funding. The proposed appropriations which will require future debt funding primarily include flood resilience infrastructure ($48.8 million) and street resurfacing and reconstruction ($26.9 million), among other projects/categories detailed in the table below.

New Appropriations Requiring Future Debt	
Project/Category	**Amount**
Flood Resilience	$ 48,834,929
Street Resurfacing	26,873,918
Sidewalks	7,226,588
City Facilities	6,100,000
Oak Park Library	4,947,892
Streetlights / Traffic Calming	1,816,788
Total	**$ 95,800,115**

The overall amount of proposed appropriations that will require future debt is reasonable. Based on Engineering & Capital Project's projected spending rate, the FY 2026 – 2030 Five-Year Financial Outlook (Outlook) projected that the City has the capacity to issue up to $1.02 billion in new General Fund debt over the next five years to support CIP appropriations. The amount of previously approved appropriations requiring future debt totals $394.7 million; when including other anticipated appropriations that are pending Council action (i.e., remaining Stormwater WIFIA match and SAP Modernization), the amount is anticipated to increase to $544.6 million, leaving approximately $479.5 million in net debt capacity available for future appropriations. The $95.8 million in new appropriations represents approximately 20% of the City projected net debt capacity.

[1] $5.9M of General Fund debt was added to the budget in FY2025 to further Climate Equity Goals

Debt Policy Identified Debt Ratios *Projected Over the Most Recent Five-Year Financial Outlook Period - FY 2026 - 2030*						
Metric	***Debt Policy Goal***	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Debt Ratio (1)	*< 10%*	4.7%	5.8%	5.9%	6.6%	6.8%
Debt Ratio + Pension/OPEB(2)	*< 25%*	23.8%	24.6%	24.9%	22.7%	22.5%

(1) Reflects total annual General Fund supported debt obligations as a percentage of available revenues.

(2) Pension costs include changes made to the City's unfunded pension liability amortization methodology which were approved by the SDCERS Board in March 2024.

Source: Department of Finance, Debt Management Division

The City's Debt Policy identified Debt Ratios are intended to evaluate the General Fund's ability to support additional debt. As shown in the table above, the City's projected Debt Ratio, based on the debt issuance assumptions in the Outlook and updated following the release of the Proposed Budget, remains below the 10% threshold, which suggests additional borrowing is reasonable and within the Debt Policy's 10% goal. However, when the City's annual pension and OPEB obligations (which have significantly increased in recent years) are included, the City is projected to approach the Debt Policy's 25% limit.[2] Given that the amount of debt anticipated to be issued is already maximized under the Outlook, the addition of $98.5 million in new General Fund CIP appropriations that are intended to be financed will not necessarily impact the City's Debt Ratios over this period of time. Projecting impacts beyond five-years is difficult given the outsized impact of the City's pension payment on Debt Ratios.

Need for New Revenue Financing Strategy

The City faces significant resource and budget challenges, including a $6.51 billion funding gap in the CIP Outlook and significant projected operating deficits. The Proposed Budget includes reductions and efficiencies to address the operating deficit, though limiting funds available for capital projects.

For FY 2026, the most recent CIP Outlook identified $1.14 billion in needs for General Fund-supported infrastructure, including transportation, library, and parks. The Proposed Budget allocates $170.8 million for these projects, falling short by $969.2 million. This highlights the lack of existing revenue sources to meet the City's infrastructure needs.

Without new funding sources, many needs identified in the CIP Outlook will not move forward. As we concluded in our Review of the FY 2026-30 CIP Outlook, an accurate, executable capital plan is essential for beginning to address the City's infrastructure needs, but without the resources and revenues needed to implement it, the City's infrastructure deficit will continue. A comprehensive financial strategy, including new revenue sources, is critical to closing the funding gap and meeting the City's long-term infrastructure needs.

[2] It is important to note that exceeding the Debt Policy's 25% goal does not preclude the City from borrowing additional funds, but it is an important consideration as the City's annual long-term fixed costs are growing as a percentage of the City budget thereby limiting the City's ability to address other public service needs going forward.

Pension

This section includes discussion on the City's defined benefit (DB) pension payment and its impact on the City's budget. All City employees working half time or greater, with the exception of Proposition B[1] employees who elected to remain in the Defined Contribution Plan after Proposition B was unwound, are eligible for membership and required to join SDCERS[2].

Proposed Budget

The FY 2026 Proposed Budget includes $533.2 million for the Actuarially Determined Contribution (ADC), which is the City's DB pension contribution requirement. This is an increase of $46.9 million from the FY 2025 Adopted Budget amount of $486.3 million.

The General Fund portion of the FY 2026 payment is $377.5 million – an increase of $20.4 million from the FY 2025 Adopted Budget amount of $357.2 million. The General Fund portion represents 70.8% of the FY 2025 citywide budgeted payment.

The ADC is 8.8% of total FY 2026 budgeted expenditures for the City, and 17.6% of budgeted expenditures for the General Fund.

Additional Valuation Information

The FY 2026 ADC is based on the FY 2024 actuarial valuation. The valuation shows that the pension system's Unfunded Actuarial Liability (UAL) totals $3.49 billion as of June 30, 2024 – up from $3.36 billion the prior year. The City's pension system liability as of June 30, 2024 is funded at a rate of 74.7% – an increase from 74.3% at June 30, 2023. The funded ratio increased because the actuarial value of system assets grew by 6.2% which was more than the liability growth of 5.6%. The liability growth was largely associated with higher salary increases than expected, as will be discussed below.

Increase to the ADC

As mentioned, the FY 2026 ADC budget of $533.2 million is $46.9 million higher than FY 2025. Changes to the ADC are generally related to the following factors:

- Changes to actuarial assumptions and methods, including investment returns, wage inflation, retirement and mortality rates, and the UAL amortization method
- Experience gains and losses (differences between FY 2024 actual results and what was assumed in the FY 2023 valuation)

The ***net $46.9 million increase to the ADC*** includes several offsetting components, including:

- ***$37.2 million increase*** related to a net liability experience loss, largely due to salary increases that were higher than anticipated in the FY 2023 valuation
- ***$11.4 million increase*** related to expected wage growth and the phasing-in of prior years' investment experience that was not fully included in prior ADCs (The City's valuation utilizes a smoothing method, where asset gains and losses are not recognized immediately, but rather are phased-

[1] A brief background on Proposition B is included in the FY 2025 Adopted Budget: the discussion (titled "Proposition B Status") begins on page 67 (pdf page 37) of the Citywide Budget Overview section.

[2] SDCERS is the San Diego City Employees' Retirement System.

in to mitigate ADC volatility.)

- ***$0.6 million increase*** related to the missed normal cost[3] and amortized shortfall payment for Proposition B, Phase III[4] members who were reinstated into the system
- ***An offsetting $2.3 million decrease*** related to investment returns that were greater than expected (The actual FY 2024 investment return was determined to be 7.2%, 0.7% higher than the 6.5% return that was assumed in the FY 2023 valuation.)

Future ADC Considerations

Two areas of potential future impacts that could affect future ADCs include:

- Experience gains or losses – for instance, if the FY 2025 actual investment return ends up being either higher or lower than the 6.5% return assumed in the FY 2024 valuation, there will be an investment experience gain or loss – which would be a factor that decreases or increases the FY 2027 ADC accordingly.

  More specifically, although SDCERS maintains that its diversified portfolio may mitigate a market correction's impact, a significant stock market decline as of June 30, 2025 could have an increasing effect on the FY 2027 ADC. The impact of actual investment returns for FY 2025 will likely be known by December 2025 or January 2026.
- Assumption changes – economic and demographic assumptions are anticipated to be reviewed by the actuary and SDCERS Board every three years through an "experience study".[5]

  Assumption changes resulting from the most recently completed experience study (that included several years of data through FY 2022) were implemented in the FY 2023 valuation. The next experience study is expected to include data through FY 2025. SDCERS anticipates that any resulting recommendations from the study would be included in the FY 2025 valuation and impact the FY 2027 ADC payment.

Because of the complexity of pension system variables, the total of *all* impacts to the FY 2027 ADC will not be known until the FY 2025 valuation has been completed.

[3]Normal cost is defined as the actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method. In other words, it is the contribution amount associated with the pension benefits earned in the current year.

[4] Phase III members were separated, non-police employees under Proposition B who were reinstated into the pension system. A brief description of the overall transition of Proposition B employees into the pension system is included on page 1 (pdf page 4) of the FY 2024 actuarial valuation.

[5] An experience study involves historical analysis of pension plan assumptions and a consideration of future expectations and trends, including the rate of investment returns, wage inflation, and retirement and mortality rates. The plan experience study is the basis for the actuary's recommended changes to the plan's actuarial assumptions.

Sustainability and Mobility Reorganization

During FY 2025, as part of the Mayor's mitigation actions, the Sustainability and Mobility Department (SuMo) was dissolved, and components were transferred to City Planning, Engineering & Capital Projects, Transportation, and General Services.

SuMo was created in the FY 2023 Adopted Budget, following the decision to combine the formerly separate Sustainability Department with the Mobility Department. Prior to its dissolution, the combined department led implementation of the City's Climate Action Plan (CAP) and facilitated efforts across multiple City departments to enhance economic, social, and environmental sustainability. The Department also oversaw the City's energy use and discreet programs such as Americans with Disabilities Act (ADA) Compliance, Parking Meter Districts, and Shared Mobility Device regulations.

Impact of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget effectuates the transfer of the various components of SuMo to other departments. The table below shows both reductions to programs previously housed in SuMo, as well as those components that were transferred to other departments. The impacts of programmatic reductions can

SUMMARY OF SUSTAINABILITY AND MOBILITY (GENERAL FUND) BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	34.59	$ 6,488,355	$ 1,339,169	$ 7,827,524	$ 1,847,137
Programmatic Changes					
Overhead Reduction	-	-	(21,645)	(21,645)	-
Payroll Specialist	(0.50)	(46,913)	-	(46,913)	-
ZEV Planning	-	-	(50,000)	(50,000)	-
Building Decarbonization Planning	-	-	(112,125)	(112,125)	-
ZEV Projects Position	(1.00)	(140,086)	-	(140,086)	-
Parking District Position	(1.00)	(169,849)	-	(169,849)	-
ADA Position	(1.00)	(205,139)	-	(205,139)	-
CAP Positions	(2.00)	(362,567)	-	(362,567)	-
Mobility Programs	-	-	(562,418)	(562,418)	-
Shared Mobility Devices Revenue Reduction	-	-	-	-	(560,000)
Other Changes					
Other Salaries and Wages	-	428,412	-	428,412	-
Fringe Benefits (Including Retirement ADC)	-	112,577	-	112,577	-
One-Time Changes from FY 2025	-	-	-	-	(55,000)
Hourly Personnel Changes	(3.09)	(135,771)	-	(135,771)	(54,047)
Non-Discretionary Adjustments	-	-	(249,896)	(249,896)	-
FY 2026 Proposed Budget Prior to Transfer	***26.00***	***$ 5,969,019***	***$ 343,085***	***$ 6,312,104***	***$ 1,178,090***
Transfers to Various Departments					
City Planning	(19.00)	(4,219,857)	(277,922)	(4,497,779)	(826,555)
Transportation	(5.00)	(1,215,013)	(50,163)	(1,265,176)	(293,445)
Engineering & Capital Projects	(2.00)	(534,149)	-	(534,149)	
General Services	-	-	(15,000)	(15,000)	(58,090)
FY 2026 Proposed Budget	**-**	**$ -**	**$ -**	**$ -**	**$ -**
Difference from 2025 to 2026	***(34.59)***	***$ (6,488,355)***	***$ (1,339,169)***	***$ (7,827,524)***	***$ (1,847,137)***

be found in the corresponding department sections of this report where functions were transferred.

A discussion of the changes to the Climate Equity Fund and the Energy Independence Fund can be found in our discussion of *Key Citywide Issues: Climate Action Plan*.

General Fund

If transfers had not been made, the General Fund Proposed Budget for the Sustainability and Mobility Department would have been $6.3 million, which is a decrease of $1.5 million (19.4%) from the FY 2025 Adopted Budget. 8.59 FTEs were eliminated, and the remaining 26.00 FTEs are transferred to various departments, as summarized in the table on the previous page.

Significant Budget Reductions

Discussion of the various budget reductions can be found in the appropriate *Department Review* section. Reductions include:

City Planning:

- ($562,000) – Mobility Programs
- ($362,567, 2.00 FTEs) – CAP Positions
- ($112,000) – Building Decarbonization Planning

Engineering & Capital Projects:

- ($205,000, 1.00 FTE) – ADA Position

Transportation:

- ($170,000, 1.00 FTE) – Parking District Position

General Services:

- ($140,000, 1.00 FTE) – ZEV Projects Position
- ($50,000) – ZEV Planning

Unfunded Requests

The only funded request within SuMo was $65,000 for CAP reporting to begin procuring consultants for the FY 2027 CAP update. Further discussion of this item can be found in the *City Planning* section.

Significant Revenue Adjustments

The largest revenue adjustment is related to the elimination of Shared Mobility Devices revenue since there are no longer any associated contractors working within the City. Further discussion of this item can be found in the *Department Review: City Planning* section.

Energy Conservation Program Fund

The FY 2026 Proposed Budget also moved the majority of the Energy Conservation Program Fund (ECPF) to the Department of General Services. The table below provides a reconciliation between the FY 2025 Adopted Budget to the FY 2026 Proposed Budget for SuMo expenditures within the ECPF.

A full discussion of all of the changes can be found in the *Department Review: General Services* section.

SUMMARY OF ENERGY CONSERVATION PROGRAM FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	30.21	$ 5,234,720	$ 2,890,811	$ 8,125,531	$ 6,557,190
Programmatic Changes					
ZEV Program Manager from Fleet	1.00	222,768	-	222,768	-
Overhead Reduction	-	-	(87,000)	(87,000)	-
ZEV Program Manager Reduction	(1.00)	(222,768)	-	(222,768)	-
Procure America Savings	-	-	(236,000)	(236,000)	-
Municipal Energy Team	(1.00)	(250,971)	-	(250,971)	-
Administrative Positions	(3.50)	(689,821)	-	(689,821)	-
Other Changes					
Other Salaries and Wages	-	442,152	-	442,152	-
Fringe Benefits (Including Retirement ADC)	-	233,849	-	233,849	-
Hourly Position Changes	(3.71)	(163,013)	-	(163,013)	(81,391)
Non-Discretionary Adjustments	-	-	(342,548)	(342,548)	-
Transfers to Various Departments					
General Services	(20.00)	(4,468,151)	(2,225,263)	(6,693,414)	(6,475,799)
City Planning	(2.00)	(338,765)	-	(338,765)	-
FY 2026 Proposed Budget	**-**	**$ -**	**$ -**	**$ -**	**$ -**
Difference from 2025 to 2026	***(30.21)***	***$ (5,234,720)***	***$ (2,890,811)***	***$ (8,125,531)***	***$ (6,557,190)***

Capital Improvements Program

Multi-Year CIP			
Prior Years	**FY 2026 Draft**	**Future Years**	**Total**
$7,853,353,927	$845,949,106	$14,231,106,010	$22,930,409,043

The Capital Improvements Program (CIP) Budget (included as Volume III in the annual Budget release) allocates available revenue to capital projects to rehabilitate, enhance, or expand *existing* infrastructure such as replacement of aging storm drain pipes, as well as building *new* public assets such as libraries and fire stations.

The CIP budget is separate from the City's operating budget due to the large scale, cost, and multi-year nature of capital projects. These projects are often funded through non-General Fund sources, though the General Fund makes debt-service payments on lease revenue bonds that are used to fund General Fund CIP projects. As a rolling budget, the CIP includes prior year funding, current year appropriations, and projected future-year needs.

The City's capital needs far outweigh available resources, as evidenced by the $6.51 billion funding gap in the FY 2026-30 Capital Infrastructure Planning Outlook (CIP Outlook). Resources available for capital infrastructure projects are limited, and the CIP budget reflects those capital projects that City officials have determined have the highest priority, will meet the greatest needs, or produce the greatest positive impact for the City.

Performance Measures to evaluate CIP execution are included in the State of the CIP Report, which is issued by the Engineering & Capital Projects Department (E&CP) and presented to the Active Transportation and Infrastructure Committee semiannually.[1]

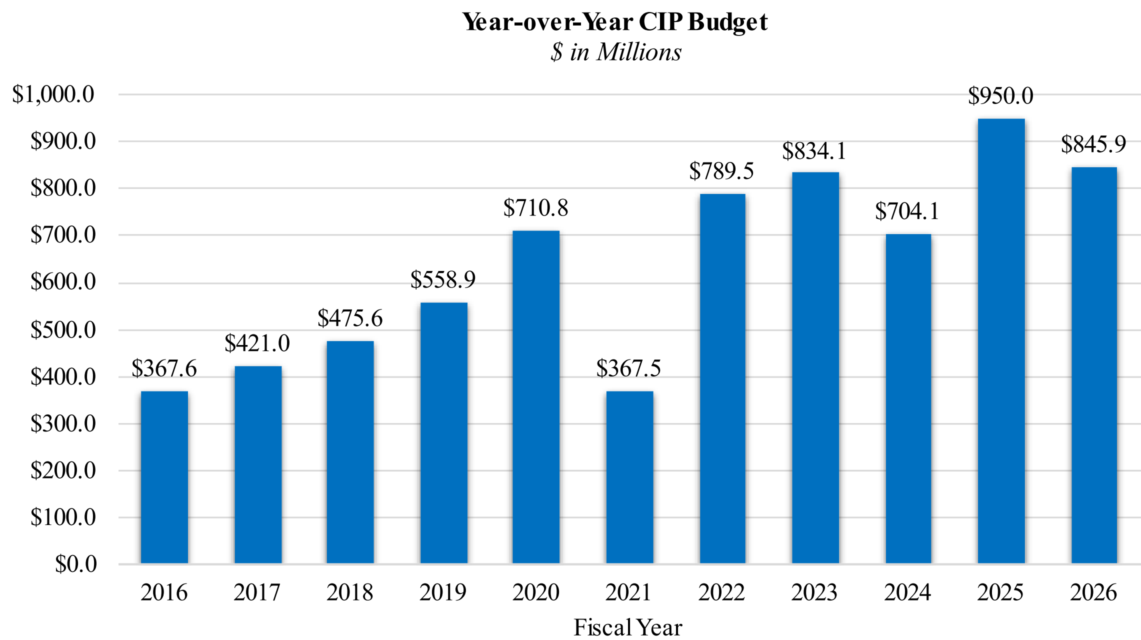
Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed CIP Budget allocates $845.9 million of existing funds and anticipated revenues to both new and continuing projects in the City's $22.93 billion multi-year CIP, as shown in the table above. City Council previously approved $7.85 billion towards capital projects that carry forward from prior fiscal years. An estimated $14.23 billion of additional funding will be needed in future years to complete projects currently in the CIP and fund annual ongoing capital expenditures such as major road resurfacing and water pipe replacements.

The CIP budget includes 1,332 active projects, some of which are standalone projects and others that are grouped together into annual allocations/sublets.[2] The Proposed Budget provides project summaries for 290 projects and adds funding for 70 projects (including 14 new projects and 56 continuing projects).

An additional $251.4 million in funding, not included in the Proposed Budget, is expected to be budgeted during Fiscal Year 2026 and will require future City Council approval. Anticipated funding includes a variety of

[1] Performance measures are listed in the Proposed CIP Budget in the Profile of the City of San Diego's CIP section.
[2] Projects grouped into "annual allocations" are generally composed of smaller projects that provide ongoing repair and replacement of certain asset types, such as streets and traffic signals.



Note: This table compares Adopted CIP Budgets, except for the Proposed Budget in FY 2026. It does not reflect budget added throughout the fiscal year.

sources, such as donations, grants, debt financing, developer funding, Development Impact Fees (DIF), and Facilities Benefit Assessments (FBA).

Proposed Budget Prioritizes Funding for Existing Projects

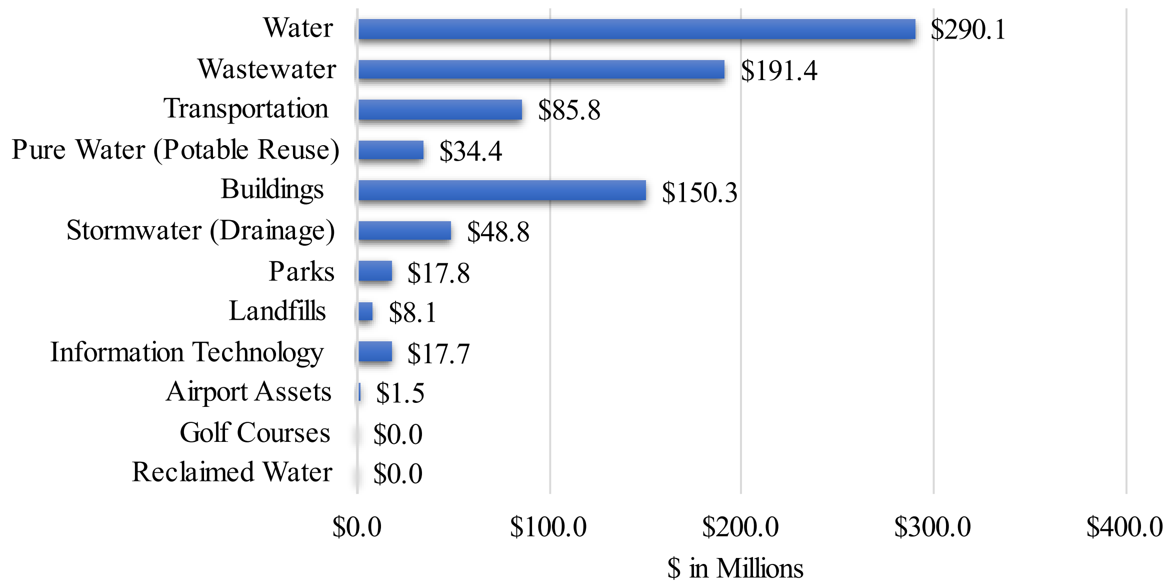
The FY 2026 Proposed Budget represents the third year that the revised [Council Prioritization Policy: 800-14] has been used to prioritize projects, which increased weighted factors related to Climate Action Plan (CAP) and Equity goals. E&CP and Department of Finance (DOF) officials observed that projects aligned with CAP goals or situated within communities of concern generally received higher scores. *However, they also noted that their primary goal was to fund* ***existing*** *projects so that those projects can be completed/delivered. This primary goal means that existing projects may receive funding over a higher scoring new project.* Officials emphasized concerns about initiating new projects due to current budget constraints and uncertainty regarding future funding availability.

Comparison with Prior-Year Budgets

The City's CIP portfolio expanded over the past decade, driven by changes in funding availability and evolving capital priorities. In FY 2016, the CIP budget totaled $367.7 million; since then, it steadily increased, reaching $710.8 million in FY 2020. In FY 2021, the budget decreased to $367.5 million, primarily due to the temporary suspension of the Pure Water project due to litigation filed by Associated General Contractors of America (AGC). Budgeted amounts have rebounded significantly since, increasing to $789.5 million in FY 2022 and $834.1 million in FY 2023. While the budget dipped slightly to $704.1 million in FY 2024, it reached a peak of $950.0 million in FY 2025.

The Proposed FY 2026 CIP budget is $845.9 million, sustaining a high level of capital investment, but reflecting a small contraction in the overall capital program. This reduction is

FY 2026 Proposed CIP Budget by Asset Type



attributed to decreased funding for General Fund-supported assets and scaled-down pipeline and Potable Reuse projects in the Public Utilities Department (PUD).

Proposed CIP Budget by Asset Type

We discuss several key asset types proposed to be funded in FY 2026 in the following sections. These are summarized in the figure above.

Water, Wastewater, and Pure Water

PUD Water and Sewer Enterprise Funds (which receive revenues from rates charged to customers, debt financing, and grants) provide 61.0% of funding for capital projects in the Proposed Budget. Water assets have the largest funding allocation in the FY 2026 Proposed CIP Budget, equal to 34.3% of total funding. Wastewater projects account for another $191.4 million or 22.6% of the CIP budget. $34.4 million is included for Pure Water. Funding for Pure Water has decreased in recent years as construction of Phase 1 of the project is nearing completion and facilities are expected to be operational in FY 2027.

Excluding Pure Water, PUD capital projects focus on replacing or rehabilitating aging water and sewer infrastructure to ensure compliance with the Safe Drinking Water Act for water systems and the Clean Water Act for wastewater systems.

Significant Public Utilities projects proposed to receive funding include:

- Water ($152.6 million) and Sewer ($127.5 million) Main Replacements
- Alvarado 2nd Extension Pipeline ($51.0 million)
- Morena Pipeline ($27.2 million)
- Tecolote Canyon Trunk Sewer ($18.0 million)

Transportation

The FY 2026 Proposed CIP Budget allocates $85.8 million, 10.1% of all CIP allocations, for Transportation projects, which represents a $65.6 million decrease from the prior year. This reduction will impact street repaving and modifications, traffic calming, signals, sidewalks, streetlights, and bicycle facilities.

Notably, a $1.7 billion backlog for Transportation assets was identified in the FY 2026-30 CIP Outlook.

The Transportation Department released its first annual update to the Pavement Management Plan in April 2025, outlining goals achieved and presenting a revised cost estimate to implement its street repaving strategy.

Proposed funding sources for transportation projects include bond financing ($35.9 million), TransNet Funds ($25.2 million), the Regional Transportation Congestion Improvement Program ($5.4 million), and the Trench Cut/Excavation Fee Fund ($2.5 million).

Street repaving spans both the CIP and operating budgets—overlay projects are funded through the CIP, while slurry seal is part of the operating budget—and draws from multiple funding sources. Our Office has compiled a summary of the street repaving budget and changes between the FY 2025 Adopted and FY 2026 Proposed Budgets, included in the *Transportation Department Review section* of this report.

Buildings

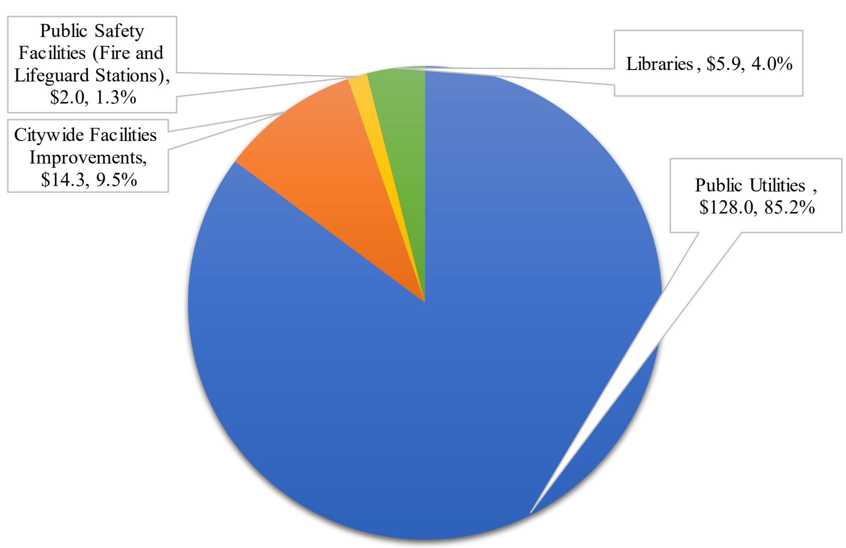
The FY 2026 Proposed CIP Budget includes $150.3 million for buildings. This is about 17.8% of the total proposed CIP budget. The chart below provides a summary of Proposed Budget funding by building type. Of the total amount, $128.0 million, or 85.2%, is for improvements to Public Utilities' buildings, which are funded by the Water and Sewer enterprise funds.

The remaining $22.3 million is allocated for General Fund department buildings. This amount is significantly lower than needs identified in the FY 2026-2030 CIP Outlook. Our Office's Review of the FY 2026-30 CIP Outlook concluded that chronic underfunding of Facilities Services has resulted in the continued deterioration of existing facilities This and related issues are discussed in the *Department Review: General Services* section later in this report.

Stormwater (Drainage)

The Proposed CIP Budget includes $48.8 million for Stormwater drainage projects, which are proposed to be funded with bond financing.

FY 2024 Proposed CIP Budget - Buildings ($ in millions)



Stormwater capital needs for FY 2026 identified in the FY 2025-30 CIP Outlook equal $391.3 million. Total capital needs for Stormwater over the next five years have grown to $4.13 billion, and the City faces a funding gap for Stormwater infrastructure of $3.73 billion. This extremely high level of need is driven by much of the City's stormwater infrastructure being beyond its useful life, and the systemic underfunding of maintenance and capital projects for storm drains and various stormwater water quality projects mandated by various state and federal regulations.

In FY 2025, $79.0 million was allocated for stormwater emergency projects. The FY 2026 Proposed Budget includes an additional $39.0 million for stormwater emergency or high-risk projects. While it is appropriate to budget this amount given the anticipated need, emergency projects are generally more costly than regular projects, and more consistent funding of stormwater capital and maintenance needs in prior years would have reduced this need. Moving forward, absent additional funding for regular maintenance and capital renewal, the need for costly emergency projects will continue.

Parks

The FY 2026 Proposed CIP Budget includes $18.3 million for Parks projects. This is a decrease of $12.9 million from the FY 2025 Adopted CIP Budget. City Park projects include community parks, mini parks, open space, neighborhood parks, and shorelines. Parks and Recreation has a funding gap of $244.2 million in FY 2026-30 CIP Outlook over the period.

Key Parks projects funded in the Proposed Budget include:

- $11.2 million for Mission Bay Improvements
- $5.2 million for San Diego Regional Park Improvements

CIP Funding for General Fund Departments Has Decreased

The CIP budget is shaped by available funding. As shown in the table on the next page, the FY 2026 Proposed CIP Budget allocates $170.8 million for General Fund-supported capital projects, including transportation, safety and mobility, parks, and public facilities. This represents a significant decrease from the FY 2025 Adopted Budget of $294.7 million. The reduction is primarily due to decreases in several major funding sources, including:

Bond Financing – Limited debt capacity is the primary factor reducing available General Fund-supported funding. Both the Five-Year Financial Outlook and the Five-Year CIP Outlook projected $479 million in new debt appropriations over the Outlook period, based on current spending trends and maintaining the City's debt ratio limits. This equates to $95.8 million available for the FY 2026 Proposed Budget, a decrease of $81.3 million from the FY 2025 Adopted Budget. Additional information on Capital Infrastructure is discussed in the *Key Citywide Issues: Infrastructure Funding Needs* section of this report.

Development Impact Fees (DIF) – The Proposed Budget allocates $3.5 million in Development Impact Fees (DIF). Citywide DIF provides funding for parks, stormwater, sidewalks, and traffic calming projects across various communities, and supplements community-based DIF where needed. The $36 million reduction from the FY 2025 Adopted Budget is due to several factors. A significant portion of community-based DIF was allocated in the FY 2025 CIP Mid-Year report, reducing funds available for the Proposed

CIP CHANGES BY FUNDING SOURCES			
Funding Source	**FY 2025 Adopted Budget**	**FY 2026 Proposed Budget**	**Change**
Supporting Enterprise-Fund Departments			
Airport Funds	$ -	$ 1,500,000	$ 1,500,000
Fleet Services Internal Service Fund	2,191,678	-	$ (2,191,678)
Golf Course Enterprise Fund	2,000,000	-	$ (2,000,000)
Recycling Fund	-	-	$ -
Refuse Disposal Fund	9,874,362	2,600,000	$ (7,274,362)
Sewer Funds	266,811,590	286,387,476	$ 19,575,886
Water Fund	374,719,415	384,632,138	$ 9,912,723
Subtotal Enterprise-Fund Departments	**$ 655,597,045**	**$ 675,119,614**	**$ 19,522,569**
Supporting Non-Enterpise Fund Departments			
Bond Financing	177,084,217	95,800,000	(81,284,217)
Bus Stop Capital Improvement Fund	382,490	-	(382,490)
Capital Outlay - Other	-	250,000	250,000
Climate Equity Fund	2,600,000	-	(2,600,000)
Development Impact Fees	39,516,513	3,510,488	(36,006,025)
Enhanced Infrastructure Financing District Fund	7,718,165	6,509,000	(1,209,165)
Facilities Benefit Assessments	5,442,024	2,518	(5,439,506)
Gas Tax Fund	-	-	-
General Fund	4,850,000	-	(4,850,000)
Infrastructure Fund	785,000	-	(785,000)
Library System Improvement Fund	745,450	-	(745,450)
Loans	-	-	-
Mission Bay Park Improvement Fund	13,708,605	13,177,782	(530,823)
OneSD/ERP Funding	3,960,000	3,100,000	(860,000)
Other Funding	57,857	1,178,174	1,120,317
Redevelopment Funding	-	-	-
Regional Transportation Congestion Improvement Progra	3,077,735	5,438,779	2,361,044
San Diego Regional Parks Improvement Fund	6,726,682	7,095,729	369,047
TransNet Funds	25,243,490	25,163,724	(79,766)
Trench Cut/Excavation Fee Fund	2,470,000	2,470,000	-
Utilities Undergrounding Program Fund	-	7,133,298	7,133,298
Subtotal	**$ 294,368,228**	**$ 170,829,492**	**$(123,538,736)**
Total	**$ 949,965,273**	**$ 845,949,106**	**$(104,016,167)**

Budget. Additionally, Citywide DIF revenue has grown slower than projected, likely due to changes in the timing of revenue collection. The May Revision/Year-End CIP Monitoring Report will reflect any additional revenue available for allocation.

Infrastructure Fund – Due to declining sales tax revenue, no Infrastructure Fund contributions are included in the FY 2026 Proposed Budget. Previously, Infrastructure Fund contributions supported CIP projects, including $785,000 in the FY 2025 Adopted CIP Budget.

In past years, the Infrastructure Fund

supported General Fund capital projects such as parks, libraries, and fire stations. More recently, it has also been used for operating expenses associated to maintaining existing City infrastructure. Given the City's insufficient revenues for regular maintenance, it may be appropriate to prioritize future Infrastructure Fund allocations toward maintaining existing infrastructure rather than constructing new assets.

Climate Equity Fund – The Fiscal Year 2026 Proposed Budget suspends the minimum annual allocation to the Climate Equity Fund (CEF), previously projected at $10.3 million, but includes $1.5 million from the SDG&E Electric Franchise Agreement for CEF-eligible CIP projects. Final project allocations will be determined in the May Revision.

Council Infrastructure Budget Priorities

As discussed in [IBA Report 25-05 – Updated City Council Budget Priorities], Councilmembers expressed strong support for a wide range of infrastructure needs. These priorities, related to FY 2026 needs identified in the CIP Outlook, and Proposed Budget are summarized in the table to the top right.

A majority of Council members prioritized transportation and mobility safety, streets, sidewalks, and stormwater capital projects. Additionally, a majority of Councilmembers prioritized improvements or expansion of existing facilities managed by Fire-Rescue, Library, and Parks & Recreation.

If the Proposed Budget does not sufficiently address these priorities, Council could consider reallocating funds to better align with its infrastructure goals. However, any changes must account for available funding sources and their respective restrictions, and the City should recognize the importance of providing operations and maintenance funding for new infrastructure assets, which will be particularly difficult in the near-future given the City's financial constraints.

Asset Type *($ in Millions)*	**CIP Outlook FY 2026 Needs**	**FY 2026 Proposed Budget**
Transportation and Mobility Safety		
Pedestrian and Bicycle Safety	$ 19.3	$ 1.2
Traffic Calming	3.8	1.2
Traffic Signals	44.2	7.9
Streetlights	33.3	1.0
Streets - Modifications		
Modifications (minus traffic calming	$ 124.2	$ 0.3
Pavement	195.8	66.7
Sidewalks	71.9	13.5
Stormwater	391.3	48.8
Facilities		
Library	4.7	5.9
Lifeguard	2.5	2.0
Park & Recreation	76.0	18.3
Total	**$ 967.0**	**$ 166.8**

Issues for Council Consideration

- We discuss the City's $6.51 billion capital funding gap and the need for new revenue in the *Key Citywide Issues: Infrastructure Funding Needs* section of this report.
- In the absence of new dedicated revenue streams for capital projects, Council may wish to review existing projects, particularly those with significant unfunded future needs. Many existing projects are only partially funded, and lack a clear path to completion. Reassessing these projects could help determine if they align with current priorities and whether continued investment is warranted. The opportunity to reallocate funds from lower-priority or financially constrained projects to other critical capital projects exists, though any evaluation of this should include a thorough review of the City's overall needs and the potential for any negative impacts, particularly if those impacts could fall on historically disadvantaged communities.

City Attorney

The City Attorney's Office serves as chief legal counsel to the City, and provides legal service to the Mayor, City Council, and all City departments. The City Attorney is also tasked with prosecuting cases and defending the City, as well as prosecuting violations of State and local laws.

The City Attorney's Office has six divisions including:

- Administrative Division
- Civil Advisory Division (one section for Mayoral Departments and one for Council and independent departments)
- Civil Litigation Division
- Criminal Division
- Community Justice Division
- Your Safe Place, a Family Justice Center provides free, confidential, and comprehensive services to anyone who has experienced domestic violence, family violence, elder abuse, sexual assault, or sex trafficking.

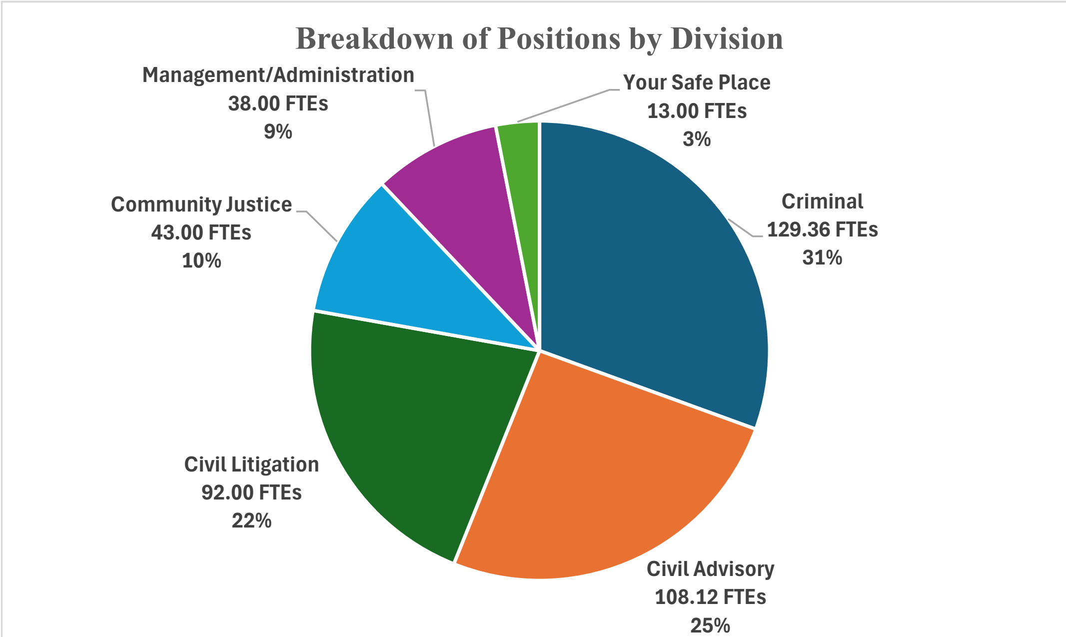
A breakdown of positions by division is shown on the following page.

Impacts of the Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the City Attorney totals approximately $95.3 million, which is a $9.8 million, or 11.5%, increase from the FY 2025 Adopted Budget. FTEs in the Proposed Budget total 423.48, which is a decrease of 0.05 FTE from FY 2025. Revenue is projected to be $9.4 million, an increase of $3.4 million, or 56.3%. The Office receives revenue largely from charges for services provided to other City departments, litigation settlements, code enforcement penalty assessments, forfeitures, grants, and restitution payments. The City Attorney also has secured grants which support various positions and initiatives.

There are several key drivers for changes in the City Attorney's budget. First is the Office's salary and benefits adjustment of $11.5 million, which includes compensation increases as well as the City's pension payment. Second, is a $4.4 million budget reduction ($2.7 million above the reduction included in FY 2025), offset by a net $3.4 million in

SUMMARY OF CITY ATTORNEY BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	423.53	$ 79,178,306	$ 6,346,765	$ 85,525,071	$ 5,981,103
Programmatic Changes					
Restore FY 25 Reduction	-	1,676,185	-	1,676,185	-
Add 4 Positions - Gun Violence Response Unit	4.00	894,484	14,000	908,484	908,311
New Assistant City Attorney (ACA)	1.00	392,158	2,500	394,658	50,583
Reduction of Deputy City Attorneys to offset new ACA	(1.50)	(472,000)	-	(472,000)	-
Digital Evidence Management IT System	-	-	101,686	101,686	-
Mitigation: Personnel Expenditures Reduction (Ongoing)	-	(4,354,638)	-	(4,354,638)	-
Mitigation: Consumer Protection Revenue (Ongoing)	-	-	-	-	1,748,946
Mitigation: Workers Rights Grant (One-time)	-	-	-	-	417,452
Mitigation: Gun Violence Task Force Grant (Ongoing)	-	-	-	-	262,359
Mitigation: Your Safe Place Grant (One-time)	-	-	-	-	189,978
Mitigation: Add STEPP User Fee Revenue (Ongoing)	-	-	-	-	48,000
Other Changes					
Salary and Benefits Adjustment	-	11,481,467	-	11,481,467	-
Non-Discretionary Adjustments	-	-	253,192	253,192	-
Reduce Employ and Empower Interns to Approved Level	(3.55)	(83,755)	-	(83,755)	(83,755)
Other Adjustments	-		(108,500)	(108,500)	(172,012)
FY 2026 Proposed Budget	**423.48**	**$ 88,712,207**	**$ 6,609,643**	**$ 95,321,850**	**$ 9,350,965**
Difference from 2025 to 2026	***(0.05)***	***$ 9,533,901***	***$ 262,878***	***$ 9,796,779***	***$ 3,369,862***



additional estimated revenue to support existing positions.

Significant Budget Additions

Significant budget increases to the City Attorney's budget include the restoration of a FY 2025 budget reduction, addition of a net of 3.50 FTE positions either supported by ongoing revenue or offsetting costs, and non-personnel costs for an IT system as detailed below.

<u>$1.7 million – Restoration of FY 2025 Budget Reduction</u>

The Proposed Budget includes a restoration of the $1.7 million operational efficiency reduction included in the FY 2025 Adopted Budget.

<u>$908,000, 4.00 FTEs – Four Supplemental Positions, Gun Violence Response Unit</u>

Four unbudgeted, supplemental positions are proposed to be included into the budget to support the Gun Violence Response Unit within the Civil Advisory Division. Costs are anticipated to be offset by revenue from two State grants. As referenced under the revenues section, an additional budgeted Deputy City Attorney is also anticipated to be supported by these State grant funds. With these adjustments, the entire eight-position unit is expected to be supported by the same State grant funds at least through FY 2026 and perhaps longer as additional grant funds are pursued. The four additional positions include:

- $682,000 2.00 FTEs – Deputy City Attorneys

  These positions appear in court representing the San Diego Police Department during gun violence restraining order petition processes and provide education about firearm relinquishment orders and processes.

- $146,000, 1.00 FTE – Senior City Attorney Investigator

  This limited-time position investigates the facts related to applying to obtain gun violence restraining orders and supports the regional Firearm Relinquishment Task Force.

- $80,000, 1.00 FTE – Office Support Specialist

  This limited-time position provides administrative support for the unit.

<u>($77,000), (0.50 FTE) – Addition of 1.00 Assistant City Attorney, Offset by a Reduction of 1.50 Deputy City Attorneys</u>

A supplemental, unbudgeted Assistant City Attorney in the Civil Advisory Division supporting Mayoral departments is proposed to be added to the budget to reflect current organizational changes implemented by the newly elected City Attorney. This new position is proposed to be offset by the reduction of 1.50 vacant FTE Deputy City Attorney positions in the Criminal and Civil Advisory divisions.

This new position backfills the promotion and conversion of a previous Assistant City Attorney to Executive Assistant City Attorney. The Executive Assistant City Attorney position oversees all Civil Divisions (Civil Litigation, Civil Advisory for Mayoral departments, Civil Advisory for Council and Independent Departments, and the Labor and Employment unit), which according to the previous chart, makes up about 47% of total positions.

The Assistant City Attorney is anticipated to generate $51,000 in revenue from billing related duties to the Firearm Relinquishment Task Force Grant.

<u>$102,000 – Digital Evidence Management System</u>

This is an ongoing increase to fund an IT system that helps the Criminal Division process evidence with outside agencies and to comply with state-mandated race-blind charging and reporting requirements that became effective January 1, 2025. Unlike other additions, this adjustment does not come with revenue.

Significant Budget Reduction

<u>($4,354,000) – Personnel Expenditures Reduction</u>

The Proposed Budget includes an ongoing reduction of $4.4 million to address the structural budget deficit, which is $2.7 million above the FY 2025 reduction, and equates to 5.1% of the Office's FY 2025 Adopted Budget. When accounting for the restored FY 2025 reduction of $1.7 million, it becomes a 3.1% reduction.

Significant Revenue Adjustments

As part of the City Attorney's Office's efforts to mitigate the budget deficit, an additional net $3.4 million in revenue is proposed to be included in the budget to support existing positions. Without this revenue, the General Fund would need to support these positions.

<u>$1,749,000 – Consumer Protection, Business and Professions Code 17200 Funds</u>

Business and Professions Code 17200 funds (B&P funds) are being added to offset 3.00 budgeted FTE Deputy City Attorneys in the Civil Division and 4.50 budgeted FTEs in the Community Justice Division. B&P funds must be used to strengthen enforcement of consumer protection laws. When the City is awarded judgments in consumer protection cases, deposits are made into the fund, which can vary year to year. As of this writing, this fund has $4.2 million available. Revenue for the last three years has ranged from a high of $6 million in FY 2023 (largely attributed to the Instacart case) to a low of $13,500 in FY 2024. Although revenue fluctuates, staff anticipate a relatively steady stream of revenue that can support all staff that does this work based on the number of ongoing cases there are.

<u>$417,000 – Workers' Rights Enforcement Grant funds</u>

A new State grant revenue is proposed to be added to offset existing positions including 1.00 FTE Deputy City Attorney and 1.00 FTE Legal Secretary 2 to support efforts to protect workers from wage theft and other exploitative practices in the workplace. This funding source is set to expire July 1 but staff notes it is working to get an extension. If this grant is not a viable funding source, then staff plan to bill B&P funds instead, as B&P is also an eligible funding source for this work.

<u>$262,000 – State Grant Funds to Support Deputy City Attorney, Gun Violence Response Task Force</u>

Revenue is proposed to be added to support an existing Deputy City Attorney with Gun Violence Response Task Force efforts. Like other Deputy City Attorneys in the Gun Violence Response Unit, this position bills 83% of its time to the Gun Violence Response Task Force grant which the City Attorney was awarded, and 17% of its time to the Firearm Relinquishment Task Force project. This latter funding source is a grant to the San Diego County Superior Court that funds a county-wide, multijurisdictional task force managed by the City Attorney's Office personnel.

<u>$190,000 – Grant Funds to Support Victim Support Coordinators at Your Safe Place</u>

State grant funding from the Board of State and Community Corrections is proposed to be added to support 2.00 existing Victim Support Coordinators for your Safe Place, a Family Justice Center. We note that this is not an ongoing funding source, so additional resources will need to be identified to support these positions in the future.

<u>$48,000 – User Fee Revenue from Sex Trafficking Education and Prevention Program (STEPP)</u>

Formerly known as the Prostitution Impact Panel, the STEPP program is a diversion program run by the CAO in which a $600 penalty fee is charged to defendants ordered to complete sex trafficking education. In FY 2026, 80 fees are projected to be paid, totaling $48,000 in revenue.

Issues for Council Consideration

Implementing the $4.3 Million Budget Reduction

The Proposed Budget includes a budget reduction of $4.3 million, an increase of $2.7 million from the current year. As of the FY 2025 Mid-Year Budget Monitoring Report, the City Attorney's Office is not projected to meet the $1.7 million reduction in FY 2025, and is anticipated to go over budget by approximately $2.7 million (after correcting for a technical error). However, according to staff, after efforts to control costs as well as to bill eligible activities to appropriate and available funds, third quarter projections are likely to reduce the budget overage projection to approximately $700,000. Although this represents good progress, implementing the $1.7 million budget reduction in FY 2025 remains a challenge. According to the CAO, retention has improved, which results in lower vacancy savings being realized than in years past.

In FY 2026, the budget reduction total increases to $4.3 million. The primary way the CAO plans to meet this target is through a net of $3.4 million in additional revenue being added to the budget to support existing supplemental positions that would otherwise be covered by the General Fund, as discussed earlier in this section. The CAO also plans to keep vacancies open to help close the rest of the gap, but given increased retention, it is likely this will continue to be a challenge in FY 2026.

Further, the budget already assumes savings from projected vacancies through a Budgeted Personnel Expenditure Savings adjustment applied to each department, including the CAO. This estimate is based on recent activity and historical trends of a variety of factors including vacancies and normal attrition. For FY 2026, the CAO's Budgeted Personnel Expenditure Savings is $1.8 million, an increase of about $193,000 over FY 2025. If these vacancies do not materialize, this adjustment could function as a budget cut.

Further contributing to budget constraints are 14.50 FTE standard hour supplemental positions currently in the CAO. After including the 5.00 supplemental FTEs proposed in the budget, 9.50 supplemental FTEs will remain (of which 0.50 is vacant). Supplemental positions are not budgeted and are funded with savings from other vacant positions. In order to avoid going over budget, the CAO would need to have enough vacancies to result in savings in excess of the Budgeted Personnel Expenditure Savings ($1.8 million) to cover these filled supplemental positions.

City Auditor

The Office of the City Auditor is an independent office that reports to the City Council's Audit Committee, which must approve and recommend the Office's budget to the City Council each year. The Auditor conducts performance audits of City departments and offices in accordance with Government Auditing Standards and manages the City's Fraud Hotline. The Office also conducts financial audits and special investigations to advance its mission of improving the efficiency, effectiveness, and equity of City government.

Impacts of Mayor's FY 2026 Budget Proposal

As shown in the table below, the FY 2026 Proposed Budget for the Office of the City Auditor is approximately $5.8 million, an increase of $194,000 or 3.5% from the FY 2025 Adopted Budget. The number of positions remains 24.00 FTEs, unchanged from the prior year.

Significant Budget Additions

The FY 2026 Proposed Budget includes a one-time salary and benefit adjustment of $271,000 which reflects compensation increases that correspond to negotiated salary increases, as well as reduced vacancy savings. The Proposed Budget also includes Additions and Annualizations of $68,000 in personnel expenditures associated with budgeted vacancy savings in FY 2025. This also includes the addition of $90,000 in non-personnel expenditures related to contractual expenses for independent legal counsel that were reduced in FY 2025. These additions are partially offset by budget reductions discussed below, resulting in a total increase in personnel expenses of $107,000.

Significant Budget Reductions

The City Auditors budget reduction goal was 5.0%; however, the Proposed Budget includes 6.4% total reduction because the 2.0% reduction in personnel expenditures ($70,000) from FY 2025 was not restored.

The Proposed Budget includes the following $125,000 in expenditure reductions relating to budget mitigation measures which were proposed by the City Auditor and anticipated to be the highest reductions that could be absorbed without impacting service levels.

<u>$55,000 – Budget Mitigation: Operational Efficiency</u>

The FY 2026 Proposed Budget has an ongoing reduction of $55,000 in non-personnel expenditures, which would mean continued cuts to supplies, office equipment, the external auditor service contract, and tuition reimbursement.

SUMMARY OF CITY AUDITOR BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	24.00	$ 4,842,426	$ 748,428	$ 5,590,854	$ -
Programmatic Changes					
Budget Mitigation: Operational Efficiency NPE	-	-	(54,910)	(54,910)	-
Budget Mitigation: Operational Efficiency PE	-	(69,889)	-	(69,889)	-
Budget Mitigation: PE Reduction	-	(162,658)	-	(162,658)	-
Other Changes					
Salary and Benefit Adjustments	-	271,306	-	271,306	-
One-Time Additions and Annualizations	-	68,287	90,000	158,287	-
Information Technology Adjustments	-	-	43,005	43,005	-
Non-Discretionary Adjustments	-	-	8,558	8,558	-
FY 2026 Proposed Budget	**24.00**	**$ 4,949,472**	**$ 835,081**	**$ 5,784,553**	**$ -**
Difference from 2024 to 2025	***-***	***$ 107,046***	***$ 86,653***	***$ 193,699***	***$ -***

<u>$70,000 – Budget Mitigation: Operational Efficiency</u>
The FY 2026 Proposed Budget has an ongoing reduction of $70,000 in personnel expenditures for operational efficiencies, which is a continuation of the one-time 2.0% reduction to the Office's FY 2025 salaries budget.

<u>$163,000 – Budget Mitigation: Personnel Expenditure Reduction</u>
The Proposed Budget also has an ongoing reduction of $163,000 in personnel expenditures that were not proposed by the City Auditor to assist in closing the City's projected budgetary shortfall. Including the $70,000 personnel reduction for operational efficiency discussed above, this totals $233,000 or 4.7% of the Office's total proposed personnel expenditures. The City Auditor's approach to affect the proposed budget reductions and related challenges are discussed below.

Issues for Council Consideration

City Auditor's Budget Process and Approach to Budget Reductions

City Charter section 39.1 requires that the Audit Committee recommend the City Auditor's budget to the City Council each year. The City Auditor initially brought his proposed budget to the Audit Committee on February 7, 2025. The Audit Committee recommended that any reductions to the Office's budget be limited to the one-time budget cuts outlined in the City Auditor's proposal which included the following.

- ($282,000) – Potential reduction of leased office space
- ($70,000) – Extension of a one-time salary reduction incurred in FY 2025
- ($55,000) – Specific, itemized reductions to non-personnel expenditures

The FY 2026 Proposed Budget includes an additional, ongoing reduction of $163,000 beyond what the Audit Committee recommended, and the $282,072 potential reduction for leased office space was not included.

As an independent office, the City Auditor has discretion over how budget mitigation reductions will be achieved. However, City Auditor officials noted that the additional reductions will be challenging to meet given the Office has no vacant positions and about 85.6% of its total proposed budget is comprised of personnel expenditures. Such reductions could only be achieved through staff layoffs, salary reductions, or furloughs, which would reduce the Office's ability to conduct audits and investigations. For example, if furloughs were approved, the Office calculated that furloughing all 24 staff and management for 80 hours would result in savings of approximately $140,000 but would reduce staff productive time by about 1,920 hours.[1] This equates to roughly conducting one performance audit, and would impact the Office's ability to complete audits and investigations that often identify opportunities for cost savings, additional revenues, efficiencies, and equity improvements.

In addition, the Office's non-personnel budget has constraints that limit budget mitigation options, including Charter-mandated financial audit reports, staff training required to comply with Government Auditing Standards, and maintenance of existing online platforms and the City's Fraud, Waste, and Abuse Hotline.

The City Auditor presented an updated budget to the Audit Committee on April 23, 2025, and recommended two options for achieving budget reductions to address the additional $163,000 in personnel expenses included in the Proposed Budget. Both options included a one-time reduction of $60,000 of non-personnel expenditures of the total $180,000 budgeted for Independent Legal Counsel.

[1] The City Attorney's Office is currently researching whether mandatory furloughs can be conducted for unclassified staff.

Note, the full budgeted amount will not be required given the anticipated timeline for completing procurement of these services likely will be fall 2025.[2] In addition to the $60,000 in non-personnel expenditures, Option 1 would not require any addition reductions. Option 2 would require an additional one-time reduction of $140,000 from mandatory furloughs of 80 hours for all 24 staff and the remaining $33,000 would be covered through natural attrition.

The Committee approved Option 1 by a 4 to 1 vote, not requiring additional reductions beyond the $60,000 in non-personnel expenditures from the independent legal counsel budget. Committee members expressed concerns during the discussion that the furlough would reduce the number of performance auditors that the staff could conduct, especially given the audits often recommend efficiencies, savings and new revenue.

Setting a Minimum Funding Level for Independent Audit Offices

Notably, some municipal Audit Offices have minimum set funding levels, which perform similar functions to an independent auditor. For example, the San Francisco City Charter requires that a minimum of 0.20% of the City's budget be allocated to the Office of the Inspector General's City Services Auditor to implement the duties and requirements in the Charter. Another example is the City of Chicago Inspector General, which also performs independent audit functions. The City's Municipal Code requires funding for this office to be at least 0.14% of the City's budget. San Diego's City Auditor's budget has no minimum set funding level and currently accounts for about 0.10% of the City's budget. While the City has had challenges achieving minimum set funding for certain goals, such as the 6.0% Library Ordinance, independent offices (like the City Auditor, Office of the IBA, and Ethics Commission) often are charged with mandated requirements in municipal code or city charters that should be reasonably funded to implement the duties and requirements set therein. The Audit Committee may wish to consider whether establishing a minimum funding level would be beneficial for the City.

[2] The City Auditor and Audit Committee's use of independent legal counsel (on an as-needed basis) was on the March 5, 2024, ballot, as Measure A, and passed with 67.2% voter approval. Proposed amendments to the Municipal Code that will provide guidance for implementing Measure A were approved by the City Council on April 22, 2025. The Office plans to present a Request for Proposals (RFP) to the Audit Committee in May or June 2025 and issuing the RFP in August 2025.

City Clerk

The City Clerk supports the City Council, coordinates City elections, and manages the City's records management program, while also functioning as an access point to local government for the public. The Clerk's Office additionally facilitates hybrid City Council meetings, operates a passport program that allows US citizens to apply for passports, and preserves historical City records and materials.

Impacts of the Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the City Clerk totals $8.2 million, which is a $161,000, or 2.0%, increase from the FY 2025 Adopted Budget. Although the Proposed Budget includes a significant budget reduction, it is offset by increases in salaries and benefits.

Revenues are projected to be $331,000, a decrease of $37,000, or 10.1%. The Proposed Budget also reduces FTEs by 7.62 to a total of 45.11 FTEs.

Significant Budget Reduction

<u>($808,000), (7.12 FTEs) – Budget Mitigation: End Archives Access and Preservation Program and Reduce Passport Services</u>

The Proposed Budget includes an ongoing reduction of 7.12 FTEs and $808,000 in expenditures to assist in reducing the structural budget deficit. Of these positions, 4.00 FTEs (3.00 filled and 1.00 vacant) support the Archives Access and Preservation Program, which would end, representing $501,000 of the reduction. This program provides a higher level of service than the Department's archiving services that are mandated in Municipal Code section 22.2603 which include operating archives for access, determining which records to include in the archives, and preserving the City's historical records. Activities that would cease include:

- Archival tours;
- Exhibits in the City Administrative Building;
- Outreach to organizations to amplify the voices of historically marginalized individuals in the City's history (e.g. "The Chicano Movement in San Diego," which was a partnership with the Chicano Park Museum and Cultural Center that included an exhibit, online lecture, and a tour of the archives with a focus on Barrio Logan); and
- Digitization of the City's historical materials that are scanned and uploaded to the Digital Archives.

This reduction would also eliminate $296,000 supporting 3.00 FTE positions (2.00 filled and 1.00 vacant) providing Passport Services, leaving two to implement the program.

SUMMARY OF THE CITY CLERK BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	52.73	$ 6,678,901	$ 1,363,419	$ 8,042,320	$ 368,501
Programmatic Changes					
Mitigation: Reduce Positions (Ongoing)	(7.12)	(807,816)	-	(807,816)	(66,325)
Restore FY 25 Budget Reduction	-	151,784	-	151,784	-
Other Changes					
Other Salary and Benefit Adjustments	-	687,934	-	687,934	-
Non-Discretionary Adjustments	-	-	140,109	140,109	-
Reduce Employ and Empower Interns	(0.50)	(10,984)	-	(10,984)	(10,982)
User Fee Increase	-	-	-	-	42,290
Other Revenue Adjustements	-	-	-	-	(2,372)
FY 2026 Proposed Budget	**45.11**	**$ 6,699,819**	**$ 1,503,528**	**$ 8,203,347**	**$ 331,112**
Difference from 2025 to 2026	***(7.62)***	***$ 20,918***	***$ 140,109***	***$ 161,027***	***$ (37,389)***

Service level impacts include ending walk-in services, community Passport Pop-Up events, and a reduction of appointments offered. The reduction of these positions brings the program to cost-recovery levels. The budget also reduces revenue by $66,000 associated with the lower service levels.

Finally, 0.12 vacant FTE Legislative Recorder and $11,000 is proposed to be reduced, which is not anticipated to have a significant impact due to operational efficiencies the Clerk's Office has implemented. This hourly position supports the Legislative Services section, which supports City Council meetings and maintains City records, including preparing and disseminating agendas and minutes, and ensuring proper record keeping of City proceedings.

Five of the filled positions are anticipated to move into other vacancies within the City Clerk's Office. The remaining classified position would be part of the Reduction in Force plan to be transferred elsewhere. One filled unclassified position proposed for elimination would also seek placement elsewhere.

Although this reduction reflects 10% of the Clerk's FY 2025 Adopted Budget, it is offset by a restoration of the FY 2025 operation efficient cut of $152,000, effectively reducing the FY 2026 reduction to 8.2%.

Significant Revenue Increase

<u>$42,000 – User Fee Revenue Update</u>
On March 3, 2025, the City Council approved various user fee adjustments. The City Clerk increased five fees, decreased one, eliminated three, and held 10 constant. The $42,000 increase largely reflects an increase to the Lobbyist Registration Fee, and to a lesser extent one-time revenue from the nomination fee to run for City Council in upcoming elections. The Lobbyist Registration user fee was recently updated to incorporate the Ethics Commission's involvement in reviewing registrations, which contributes to the overall estimated fee revenue increase of $33,000.

The negative net reduction of $37,000 in the Clerk's Office's revenue budget, as shown on the table on the previous page, is driven by the reduction in passport services as discussed earlier. Other revenue adjustments reflect updated estimates.

Issues for Council Consideration

The proposed reductions in the Office of the City Clerk, totaling a net of 8.2% of its FY 2025 Adopted Budget, reflect an effort to realign services to core functions and those required by law. Since the reductions in positions are ongoing, they help move the City towards achieving a structurally balanced budget. As the City moves towards better financial footing in the future, it will be important to consider prioritizing the addition or restoration of services that expand access to City records through continued digitization of its historical materials, and efforts to highlight communities, within those records.

City Council

Pursuant to the San Diego City Charter, the Council shall be composed of nine council members elected by district, and shall be the legislative body of the City.

Within the Council budget, there are unique budgets for each of the nine Council offices. Each office is responsible for managing its respective budget. Council Administration is also included in the City Council Budget, but for the purposes of this review it is discussed separately at the end of this section. The Council President is responsible for the Council Administration budget and provides it administrative and policy direction.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for City Council Offices is approximately $20.3 million, an increase of $571,000 or 2.9% from the FY 2025 Adopted Budget.[1]

Each Council Office has the ability to hire up to 15.00 FTE positions, excluding hourly employees. The total operating budget for each Council Office is comprised of salaries/personnel expenses (PE), associated fringe benefit expenses (Fringe) and non-personnel expenses (NPE).

For additional context, during adoption of the FY 2023 Budget, the Council made a number of adjustments to each Council Office budget, including the addition of 5.00 'unfunded' FTE positions to each office, allowing each office to hire up to 15.00 FTEs. Because each Council Office's PE budget was set to an equal amount, this addition of FTEs was intended to give Council Offices additional discretion over the composition of their offices, as long as personnel costs remained at or under expenditure amounts in the Adopted Budget (equivalent to FY 2023 levels, as adjusted for salary increases). As of this writing, each Council Office has between 9 and 12 of the 15.00 FTE positions filled (excluding hourly interns).

This approach is carried forward to FY 2026, as shown by equal salaries budgeted for each office in the table on the next page. Each Council Office is expected to use its own discretion on how to use its budgeted PE allocation for office wages and salaries.

Significant Budget Additions

<u>$343,000 – Restoration of FY 2025 Budget Reductions</u>

The Proposed Budget restores FY 2025 reductions of $38,000 to each Council Office, together totaling $343,000. The majority of offices took this reduction in non-personnel expenditures but some elected to have a portion,

AGGREGATE SUMMARY OF CITY COUNCIL OFFICE BUDGET CHANGES						
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**	**CPPS**
FY 2025 Adopted Budget	142.31	$ 18,109,855	$ 1,637,746	$ 19,747,601	346,789	$ 900,000
Programmatic Changes						
Restore FY 2025 Budget Reduction	-	69,823	272,942	342,765	-	-
Employ and Empower Program Interns	3.77	213,239	-	213,239	229,662	-
Budget Mitigation (Ongoing)	-	(984,285)	-	(984,285)	-	-
Other Changes						
Salary and Benefit Adjustments	-	918,293	-	918,293	-	-
Other NPE Changes	-	-	-	-	-	-
Non-Discretionary & IT Adjustments	-	-	81,305	81,305	-	-
Removal of One-Time FY 2025 CPPS Funding	-	-	-	-	-	(900,000)
FY 2026 Proposed Budget	**146.08**	**$ 18,326,925**	**$ 1,991,993**	**$ 20,318,918**	**$ 576,451**	**$ -**
Difference from 2025 to 2026	***3.77***	***$ 217,070***	***$ 354,247***	***$ 571,317***	***$ 229,662***	***$ (900,000)***

[1] Note – summary tables in Volume 2 of the Proposed Budget include expenses for all Council Offices, Council Administration, and CPPS together, with additional detail provided per Council Office. For clarity, this review presents those budgets separately.

PROPOSED FY 2026 BUDGET FOR EACH COUNCIL OFFICE									
	D1	D2	D3	D4	D5	D6	D7	D8	D9
Personnel									
Salaries	**1,293,039**	**1,293,039**	**1,293,039**	**1,293,039**	**1,293,039**	**1,293,039**	**1,293,039**	**1,293,039**	**1,293,039**
Employ & Empower	47,966	28,818	49,042	55,488	47,250	119,059	49,686	67,079	71,879
Budget Mitigation	**(109,365)**	**(109,365)**	**(109,365)**	**(109,365)**	**(109,365)**	**(109,365)**	**(109,365)**	**(109,365)**	**(109,365)**
Fringe	727,447	986,963	837,127	742,017	987,802	643,508	832,607	781,530	598,591
NPE									
Non-Discretionary	84,706	86,548	87,916	87,805	113,397	104,289	83,274	101,986	117,072
Discretionary	**125,000**	**125,000**	**125,000**	**125,000**	**125,000**	**125,000**	**125,000**	**125,000**	**125,000**
Expenditure Total	$ 2,168,793	$ 2,411,003	$ 2,282,759	$ 2,193,984	$ 2,457,123	$ 2,175,530	$ 2,274,241	$ 2,259,269	$ 2,096,216
FTE	**15.00**	**15.00**	**15.00**	**15.00**	**15.00**	**15.00**	**15.00**	**15.00**	**15.00**
Employ & Empower	1.00	0.58	1.00	1.00	1.00	2.50	1.00	1.50	1.50
FTE Total	16.00	15.58	16.00	16.00	16.00	17.50	16.00	16.50	16.50

** Bold figures and green-shaded rows denote equal allocations among Council Offices*

or all of the reduction apply to personnel expenditures.

<u>$213,000, 3.77 FTE positions – Employ and Empower Interns</u>

The Proposed Budget adds a total of 11.08 FTE Employ and Empower interns, as well as associated grant-revenue, across all Council Offices, ranging from 0.58 to 2.50 for each office. This is an increase of 3.77 FTEs and $213,000 from FY 2025. Employ and Empower is discussed from a Citywide perspective in the *Key Citywide Issues: Equity* section of this report. These expenditures are considered grant reimbursable; as such, corresponding revenue is also budgeted.

Significant Budget Reductions

<u>($984,000) – Budget Mitigation: Personnel Expenditures</u>

As part of the FY 2026 Proposed Budget process, departments were requested to submit budget reductions according to a target established by the Department of Finance, which was set at 5% for the combined nine Council Offices and applied evenly to the offices and Council Administration. The Council Offices' portion equates to a $109,000 reduction per Council Office which is applied to personnel expenditures. When including the offsetting restoration of the FY 2025 budget reductions ($343,000), the FY 2026 reduction decreases to 3.2%.

Unfunded Community Grant Funding

Each Council Office has historically received annual allocations of two types for community grant funding - Community Projects, Programs and Services (CPPS) and Transient Occupancy Tax-supported Arts, Culture, and Community Festivals (ACCF). The Proposed Budget provides neither CPPS nor ACCF funding for Council Offices. Last year, the FY 2025 Proposed Budget also lacked these allocations, but as part of its final budget adoption Council allocated $100,000 for CPPS and $50,000 for ACCF to each district on a one-time basis.

<u>CPPS</u>: Council Policy 100-06 governs the allocation of CPPS funding and allows Councilmembers to award CPPS funding to City departments, public agencies, and non-profit organizations that serve a lawful public purpose to benefit the City's communities. Additionally, funds can support a variety of community serving purposes including capital improvements; materials, equipment, goods, or supplies; community, social, environmental, cultural, or recreational needs; as well as one-time or ongoing operational expenses of a non-profit organization.

Historically CPPS allocations varied among each Council Office, because they were determined based on the amount of budget savings realized by each Council Office in the *prior fiscal year*. This changed when Council approved amendments to Council Policy 100-06 in 2023, which instead requires the Mayor to propose an allocation for CPPS in which each Council Office would receive equal amounts. Council Offices could supplement their *current year* CPPS allocations with estimated non-personnel savings within their own budgets for the same year, upon a request to the Department of Finance. CPPS appropriations do not carry forward to the following fiscal year and must be returned to the General Fund. As a budget mitigation, the Proposed Budget does not include any CPPS allocations, thus the removal of the $900,000 that was previously budgeted in FY 2025. Although no CPPS funding is being proposed, Council Offices will still be able to use any FY 2026 savings for a FY 2026 CPPS allocation, but it will likely be too late to establish an agreement with a nonprofit by the time savings are identified, and as a consequence any FY 2026 CPPS allocations would likely be limited to being made to other City departments.

ACCF: The aggregated proposed funding level for ACCF from the Transient Occupancy Tax Fund for the City Council and the Mayor is included each year in the Special Promotional Programs section of the Proposed Budget. Annual funding and guidelines for use of ACCF funding are provided in City Council Policy 100-23. Typically, each Council Office and the Mayor receives $50,000 of ACCF funding to discretionally award to private nonprofit organizations in support of their ongoing operational expenses and/or sponsorship of special events. ACCF funding was not included in the FY 2025 Proposed Budget, but Council added $50,000 for each Council Office as part of the final adoption of the FY 2025 budget. The FY 2026 Proposed Budget does not include ACCF funding.

Issues for Council Consideration

Budget Mitigation Reduction

The Proposed Budget includes a reduction of $109,000 in PE to each Council Office. We note that, as is the case with only a few departments, Council Offices' FY 2025 budget reduction of $38,000 was restored, partially offsetting the FY 2026 reduction. Council Offices have budgetary discretion over 1) how many people are hired and 2) use of a discretionary NPE budget of $125,000. However, this reduction is applied to PE only. Based on the FY 2025 Mid-Year Budget Monitoring Report, each Council office is projecting to be under budget by between $150,000 to $467,000 across both PE and NPE, suggesting that the budget reduction for FY 2026 may be absorbable without significant additional impacts. **If a Council Office would like to have part, or all of its reduction applied to NPE, it should do so as part of a May Revision request or through final budget actions.**

Equalized Council Office Budgets are Generally Maintained

Historically each Council Office received the same number of budgeted FTE positions, but expenditure allocations for each office varied significantly based on several factors, including employee compensation, staffing levels, staff experience, and differing NPE needs.

The FY 2023 Adopted Budget normalized Council Office budgets so that salaries and NPE across each Council Office were largely equalized. This approach ensures that each Council Office is budgeted the same discretionary operating resources as other Council Offices.

The FY 2026 Proposed Budget maintains this approach at the baseline budget level. As shown in the previous table in rows shaded green, baseline PE expenditures, discretionary NPE, and FTEs are equal among all Council Offices. However, the addition of varying levels of interns across Council Offices, fringe benefits for positions, and varying levels of non-discretionary NPE, causes some variation among Council Office budgets. Non-discretionary NPE allocations are outside the control of each office. Fringe costs – those costs associated with employee benefits, which are also out of each office's control – have the most variance among Offices due to considerations such as whether an employee's benefits cover just that employee, or that employee and that employee's spouse and/or children.

Our Office will continue to track the extent to which Council Office budgets are equalized and highlight major drivers in differences as each Offices responds to its unique needs.

Council Administration

Council Administration provides general office management and critical support services for the City Council. The FY 2026 Proposed Budget for Council Administration totals $3.0 million, which is a decrease of $1.1 million, or 26.5%, from the FY 2025 Adopted Budget. FTEs in the Department are 14.58, an increase of 0.12 FTE.

The reason for the significant decrease in the Council Administration budget is the removal of $1.0 million in one-time funding allocated by Council in FY 2025 for Youth drop-in centers. As of this writing, District 4 is leading implementation of this program and a contract with an outside organization has been finalized.

Significant Budget Reduction

($109,000) – Budget Mitigation: Personnel Expenditures

This reflects the Council Administration's budget reduction, which is a 3.6% reduction from the FY 2025 Adopted Budget after removing one-time funding. As of the Mid-Year Budget Monitoring Report, Council Administration is projected to end the year under budget by $423,000 suggesting that the FY 2026 budget reduction can be absorbed without significant impacts. **As with Council Offices, if Council Administration would like this reduction to be applied to NPE, it should be done as part of a May Revision request or through the Council's final budget actions.**

SUMMARY OF COUNCIL ADMINISTRATION BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	14.46	$ 2,525,306	$ 1,488,971	$ 4,014,277	$ 22,691
Programmatic Changes					
Budget Mitigation (Ongoing)	-	(109,365)	-	(109,365)	-
Other Changes					
Employ and Empower Program Interns	0.12	7,693	-	7,693	8,303
Salaries Adjustment	-	114,538	-	114,538	-
Other Salary & Fringe Benefits (incl. pension payment)	-	11,805	-	11,805	-
Non-Discretionary Adjustment & IT Support	-	-	11,412	11,412	-
Reduction of One-Time Funding for Youth Drop-In	-	-	(1,002,000)	(1,002,000)	-
Budgeted Personnel Expenditure Savings	-	(96,107)	-	(96,107)	-
FY 2026 Proposed Budget	**14.58**	**2,453,870.00**	**498,383.00**	**2,952,253.00**	**30,994.00**
Difference from 2025 to 2026	***0.12***	***$ (71,436)***	***$ (990,588)***	***$ (1,062,024)***	***$ 8,303***

City Planning

The City Planning Department (City Planning) is responsible for the City's land use planning and policies. The Department develops plans, policies, and regulations that accelerate the creation of more homes and jobs, further the City's climate goals, protect the environment, improve public spaces, and advance social equity. The Department's initiatives are generally considered the first step in planning for safe, enjoyable, healthy, and thriving communities. As of February 2025, responsibilities related to climate and mobility from the now restructured Sustainability and Mobility Department (SuMo) have been transferred to City Planning as part of several citywide consolidations.

Impacts of the Mayor's FY 2026 Budget Proposal

City Planning is organized into four divisions:

- Community Planning & Housing
- Environmental Policy & Public Spaces
- Climate Policy
- Work Culture & Operations

The total FY 2026 Proposed Budget for City Planning is approximately $28.9 million, an increase of approximately $4.6 million (18.8%) from the FY 2025 Adopted Budget. FTEs are budgeted at 104.25, which is an increase of 11.50 FTE positions.

Due to varied work functions and multiple funding sources in the Department, the following analysis is organized by fund.

General Fund

The General Fund budget for City Planning is approximately $22.1 million, which is a $4.7 million (27.2%) increase over the FY 2025 Adopted Budget. FTEs budgeted in the General Fund are 104.25, which is an increase of 11.50 FTEs, or 12.4%. Increases in General Fund expenditures and FTEs are primarily driven by the transfer of positions from SuMo. City Planning General Fund revenues in the Proposed Budget are projected to total approximately $11.5 million, an increase of approximately $3.5 million (44.4%) from the FY 2025 Adopted Budget. The revenue increase is mainly due to increased reimbursement of eligible staff activities from the General Plan Maintenance Fund, following recent Council approval of fee increases effective April 1, 2025.

Significant Budget Additions

<u>$4.9 million, 21.00 FTEs – Budget Mitigation: Transfer from SuMo</u>

The FY 2026 Proposed Budget includes the transfer of 21.00 FTE positions and an associated $4.9 million in expenditures ($4.6 million related to personnel expenses and $343,000 related to non-personnel expenses) associated with climate and mobility activities as part of restructuring SuMo. Although the Proposed Budget reflects the transfer of 21.00 FTE positions to City Planning, 1.00 FTE of these positions was ultimately transferred to the Transportation Department, resulting in 20.00 FTE positions transferring to City Planning.

SUMMARY OF CITY PLANNING DEPARTMENT BUDGET CHANGES

Fund	FY 2025 FTEs	FY 2026 FTEs	Change	FY 2025 Expense	FY 2026 Expense	Change
General Fund	92.75	104.25	11.50	$ 17,370,598	$ 22,101,509	$ 4,730,911
General Plan Maintenance Fund	-	-	-	5,329,600	6,822,300	1,492,700
Facilities Financing Fund	-	-	-	1,649,600	-	(1,649,600)
Department Total	***92.75***	***104.25***	***11.50***	***$ 24,349,798***	***$ 28,923,809***	***$ 4,574,011***

The 20 positions transferred from SuMo to City Planning includes 1.00 Deputy Director, along with

- *Climate Policy (8.00 FTEs total):* 1.00 Program Manager, 2.00 Program Coordinator, 1.00 Senior Planner, 1.00 Associate Management Analyst, 1.00 Senior Management Analyst, 1.00 Assistance Planner, and 1.00 Administrative Aide 2
- *Mobility Activities (11.00 FTEs total):* 3.00 Senior Traffic Engineers, 1.00 Program Manager, 3.00 Associated Traffic Engineers, 1.00 Senior Planner, 2.00 Assistant Traffic Engineers, and 1.00 Geographic Information Systems Analyst 3

More information about the programmatic changes related to SuMo activities can be found in the next section entitled "Adjustments to Sustainability and Mobility Operations Transferred to City Planning" starting on the next page. The associated budget changes can be seen in summary tables in the *Key Citywide Issues: Sustainability and Mobility Reorganization* section of this report.

<u>$189,000, 3.50 FTEs – Employ and Empower Interns</u>

The Proposed Budget includes 3.50 FTE Employ and Empower Intern positions to supplement City Planning's capacity to carry out planning initiatives and public engagement. This addition provides for 7 Management Intern positions (0.50 FTE each) to be reimbursed through the Employ and Empower Grant Program. We note the proposed 3.50 FTEs is a net reduction of 4.50 FTE Management Interns relative to FY 2025 levels (8.00 FTEs), due to limited grant funding.

Significant Budget Reductions

As part of the FY 2026 Proposed Budget process, departments were requested to submit operational efficiency reductions. To meet the Department's reduction target, the FY 2026 Proposed Budget includes:

<u>($1.5 million, 5.00 FTEs) – Budget Mitigation: Reduction of City Planning Work Program</u>

The Proposed Budget includes ongoing reductions of 5.00 FTEs and associated expenditures from the City Planning Work Program (Work Program). The Work Program focuses on amending and updating planning initiatives, such as the City's General Plan, 52 community plans, housing policies (especially to incentivize housing production), the Land Development Code, historic preservation policies, and other long-range plans focused on achieving City priorities, such as affordable housing and climate resilience. These reductions include 1.00 Program Manager, 1.00 Development Project Manager 3, 1.00 Senior Planner, 1.00 Senior Management Analyst, and 1.00 Associate Management Analyst.

According to City Planning, reductions were

SUMMARY OF CITY PLANNING DEPARTMENT BUDGET CHANGES - GENERAL FUND					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	92.75	$ 15,911,531	$ 1,459,067	$ 17,370,598	$ 7,935,138
Programmatic Changes					
Budget Mitigation: Transfer from SuMo	21.00	4,558,622	343,085	4,901,707	826,555
Employ and Empower Program Interns	3.50	188,844	-	188,844	188,844
Budget Mitigation: Reduction of City Planning Work Prg	(5.00)	(1,031,877)	(421,427)	(1,453,304)	-
Reimbursements from General Plan Maintenance Fund	-	-	-	-	2,291,807
Long-Range Planning Grant Revenue	-	-	-	-	600,000
Updated User Fee Study Implementation	-	-	-	-	10,346
Other Changes					
Salary and Benefits Adjustments	-	1,001,262	-	1,001,262	-
Non-Discretionary - Information Technology	-	-	336,221	336,221	-
Other Non-Discretionary Adjustments	-	-	152,148	152,148	-
Employ and Empower Interns One-Time Adjustments	(8.00)	(395,967)	-	(395,967)	(395,971)
FY 2026 Proposed Budget	**104.25**	**$ 20,232,415**	**$ 1,869,094**	**$ 22,101,509**	**$ 11,456,719**
Difference from 2025 to 2026	***11.50***	***$ 4,320,884***	***$ 410,027***	***$ 4,730,911***	***$ 3,521,581***

SuMo = Sustainability and Mobility Department based on current position vacancies and aimed to minimize negative impacts on the Work Program. Proposed reductions could delay the completion of planning initiatives, reduce the number of new planning initiatives City Planning undertakes, and limit capacity to apply for new grant funds and manage existing grant funds, among other potential impacts. City Planning intends to leverage existing staff to maintain major Work Program priorities, including grant activities and housing-related initiatives. This could mean internally shifting staff from other teams, which would have subsequent impacts. For instance, redirecting public engagement staff to focus on housing initiatives would then reduce City Planning's capacity for public engagement.

In addition to savings associated with the position reductions, savings from non-personnel expenses also include minor discretionary budget reductions to IT services, office supplies, printing services, food and beverages for advisory boards staffed by City Planning. Additionally, the FY 2025 consolidation of the Facilities Financing Fund, which previously supported the administration of the Development Impact Fee Program, into the General Fund also resulted in savings of $200,000.

Significant Revenue Adjustments

<u>$2.3 million – Reimbursements from General Plan Maintenance Fund</u>

The Proposed Budget increases reimbursement revenue by $2.3 million for staff time on eligible Work Program activities funded by the General Plan Maintenance Fund (GPMF), thereby increasing the General Fund expenditures that are offset by the GPMF. The revenue increase results in 50% cost recovery for the Work Program, consistent with the updated user fees approved by Council on March 3, 2025. The GPMF receives revenue from a flat fee charged to eligible permit applications to cover Work Program activities that benefit fee payers.

Adjustments to Sustainability and Mobility Operations Transferred to City Planning

The Proposed Budget includes the following adjustments affecting SuMo operations transferred to City Planning, as reflected in the *Key Citywide Issues: Sustainability and Mobility Reorganization* section of this report:

Significant Budget Reductions

<u>($562,000) – Mobility Programs</u>

This reduction removes consultant funding for mobility planning efforts and programs. In particular, this reduction will slow implementation of the Mobility Master Plan unless additional funding can be procured.

<u>($363,000, 2.00 FTEs) – Climate Action Plan (CAP) Positions</u>

This reduction includes a reduction of a Community Development Specialist 4 (CDS 4) and the Program Manager for Decarbonization. The CDS 4 work will be distributed to existing staff as this position primarily oversaw implementation of the Climate Equity Fund and establishment of the Climate Advisory Board. The Program Manager would have overseen the Decarbonization program as a whole, but this work will also be absorbed by existing staff.

<u>($112,000) – Building Decarbonization</u>

This reduction removes consulting support for the City's ongoing building decarbonization programs, including support for the development of Building Performance Standards and other policies. Funding for this program moving forward will require successful grant applications and revenue. Of note, decarbonization of existing buildings had the largest Greenhouse Gas Reduction impact in the latest Climate Action Plan, and work on this effort scored highly through Council Policy 900-22.

Unfunded Requests

$65,000 – CAP Reporting

This request is for additional consultant support to update the greenhouse gas emissions inventory and other reporting in preparation for the next update of the Climate Action Plan in 2027.

Significant Revenue Adjustments

($560,000) – Shared Mobility Devices

This reduction in revenue from the General Fund reflects the reality that no scooter programs are currently operating within City limits. Given liability claims and the termination of prior permits for lack of performance, it is unanticipated that this program will generate revenue in the future.

Issues for Council Consideration

Community Plan Updates

City Planning's current Work Program initiatives can be found on the Department's website. The table below shows the target completion dates of community plan updates the Department is currently working on.

COMMUNITY PLAN UPDATES SCHEDULE	
Community Area	**Target Completion**
College Area	December 2025
Mid-City	December 2026
Rancho Bernardo	July 2027*
Otay Mesa-Nestor	July 2028*

** Contingent on availability of funding from pending grant application submittals.*

Additionally, City Planning is working to finalize the Clairemont Community Plan Update and anticipates bringing that Update to Council for approval in December 2025.

Vacancies and Grant Implications

In recent years, City Planning made considerable progress in retaining staff and filling vacant positions. However, given the City's budget and uncertainty over hiring, the Department currently has 9 vacancies, including one vacancy associated with the positions transferred from SuMo. This is equal to a vacancy rate of 8.9%, which is higher than the vacancy rate at this time last year (4.7%).

Between vacancies and position reductions, the Department has indicated staffing constraints may impact grant funding. Certain planning grants awarded to City Planning require a local match, which can be satisfied through in-kind contributions or staff time. For instance, a $250,000 National Coastal Resilience Fund grant awarded to the City for the Coastal Resilience Master Plan currently in development requires the City to provide a $250,000 local match, initially expected to be met by in-kind staff time. With fewer staff available for eligible grant activities, local match requirements may need to be met through other options moving forward, such as billed time through external consultant services.

Other Department Updates

City Planning provided the following updates on upcoming studies that received Council support in the past:

- GPMF User Fee Study: During Council discussion of the FY 2026 Comprehensive User Fee Analysis in March 2025, the administration agreed to bring forward an updated user fee study to potentially restructure the GPMF fee to increase cost recovery and equitability. City Planning initiated work on the study and intends to bring the study to Council in March 2026 for implementation on July 1, 2026.
- Environmental Justice Study: The proposed study would evaluate the economic and environmental impacts associated with incompatible industrial uses close to homes and sensitive locations such as schools, parks, and hospitals. A preliminary estimate suggested the study could cost up to $350,000, and the need to identify funding is a barrier to proceeding with the study. City Planning indicated it has applied for philanthropic grants and approached the San Diego Unifed Port District to request

funding, but has been unable to secure funds. City Planning intends to continue exploring funding options, including opportunities to use awarded SANDAG funding. (Additional background can be found in IBA Report 24-26.)

General Plan Maintenance Fund

The FY 2026 Proposed Budget for the General Plan Maintenance Fund (GPMF) includes $6.8 million in expenditures, which is an increase of $1.5 million, or 28.0%, from the FY 2025 Adopted Budget. The increase in expenditures is associated with City Planning Work Program initiatives scheduled for FY 2026. FY 2026 revenues for the GPMF are budgeted at $5.8 million, an increase of approximately $1.5 million as a result of the previously mentioned GPMF fee increase that went into effect April 1, 2025.

Consistent with recent years, the Proposed Budget includes a one-time $1.0 million expenditure increase funded from the GPMF fund balance to support contractual services on an as-needed basis throughout FY 2026. According to City Planning, the Department's efforts to more heavily rely on in-house City staff to implement the Work Program has resulted in lower utilization of contractual services, using those contracts only when highly specialized expertise is needed such as for economic feasibility, in-depth historical surveys, or biological surveys. Any unused funds will fall to GPMF fund balance at the end of the fiscal year.

City Treasurer

The Office of the City Treasurer (CTO) is responsible for the receipt, custody, and reconciliation of all City revenue; banking and cash management; tax administration; parking administration and parking meter operations; and collection of Citywide delinquent accounts. The CTO is also responsible for the investment of all operating and capital improvement funds and the issuance of Short-Term Residential Occupancy (STRO) licenses and Sidewalk Vending permits.

The CTO's Divisions include: Business Operations; Financial Operations; Investments; Revenue Collections; and Treasury Systems.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the City Treasurer includes the General Fund and Parking Meter Operations Fund. Budgeted expenditures across all funds are approximately $50.6 million, which is an increase of $19.3 million (or 61.8%) from the FY 2025 Adopted Budget. The Proposed Budget includes 127.58 FTE positions, which is a decrease of 5.42 FTEs from FY 2025. Revenues are approximately $74.5 million, which represents an increase of $18.4 million (or 32.8%) from the FY 2025 Adopted Budget.

General Fund

The General Fund component of the Proposed Budget for the City Treasurer includes $22.6 million in expenditures, which is an increase of $854,000 (or 3.9%) from the FY 2025 Adopted Budget. It includes 117.83 FTE positions, which reflects a decrease of 5.42 FTE positions from FY 2025. FY 2026 revenue totals $46.4 million, which reflects a decrease of $42,000 (or 0.1%).

Significant Budget Additions

$253,000, 2.00 FTEs – Addition of 2.00 Accountant II Positions

The Proposed Budget adds 2.00 Accountant II positions to support the increase in revenue associated with Measure C and to support City-owned leases through audits, ensuring

SUMMARY OF CITY TREASURER GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	123.25	$ 16,574,242	$ 5,153,199	$ 21,727,441	$ 46,453,962
Programmatic Changes					
Addition of 2.00 Accountant II Positions	2.00	253,218	-	253,218	-
Employ and Empower Intern	0.58	31,294	-	31,294	31,294
Mitigation: Reduction of Misc Services (ongoing)	-	-	(53,076)	(53,076)	-
Mitigation: Reduction of Mailing Costs (ongoing)	-	-	(108,770)	(108,770)	-
Mitigation: Reduction of Lobby Hours (ongoing)	(2.00)	(157,486)	(33,205)	(190,691)	
Mitigation: Reduction of Filled FTE Positions (ongoing)	(2.00)	(217,151)	-	(217,151)	-
Mitigation: Reduction of Vacant FTE Positions (ongoing)	(4.00)	(480,801)	-	(480,801)	-
Mitigation: Cannabis Tax Revenue Increase (ongoing)	-	-	-	-	2,770,000
Mitigation: Revenue from User Fee Increase (ongoing)	-	-	-	-	999,297
Increase in Business Tax Revenue	-	-	-	-	841,806
TOT Reimbursemet Adjustment	-	-	-	-	378,483
Short-Term Residential Occupancy Revenue Decrease	-	-	-	-	(5,062,450)
Other Changes					
Salary Adjustments	-	1,024,913	-	1,024,913	-
Fringe Benefits Adjustments	-	720,442	-	720,442	-
Other One-Time Non-Personnel Expenditures	-	-	28,815	28,815	-
Other Non-Discretionary Adjustments	-	-	(19,637)	(19,637)	-
Non-Discretionary - Information Technology	-	-	(135,049)	(135,049)	-
FY 2026 Proposed Budget	**117.83**	**$ 17,748,671**	**$ 4,832,277**	**$ 22,580,948**	**$ 46,412,392**
Difference from 2025 to 2026	***(5.42)***	***$ 1,174,429***	***$ (320,922)***	***$ 853,507***	***$ (41,570)***

revenue has been properly remitted by lodging businesses and tenants of City-owned property. Staff notes that each position could potentially generate $400,000 in revenue annually. Personnel expenditures associated with these positions are eligible to be reimbursed by TOT revenue, per SDMC 35.0128. The CTO's Proposed Budget, however, does not include reimbursement revenue for these positions.

Department of Finance (DOF) staff notes that the Administration may be unable to make a budget adjustment that would include TOT revenue for these positions during the May Revise since the remaining TOT revenue identified in the Proposed Budget has been allocated for other programs and DOF does not currently anticipate TOT revenue to increase.[1]

DOF staff does note that if these positions are ultimately included in the FY 2026 Budget, reimbursements for these positions would be reflected during the FY 2026 budget monitoring process instead.

$31,000, 0.58 FTE – Employ and Empower Intern

The Proposed Budget adds a 0.58 hourly FTE intern position for the Employ and Empower Program. Expenditures related to this position are grant reimbursable and the position includes corresponding revenue of $31,000.

Significant Budget Reductions

As part of the FY 2026 Proposed Budget development process, the CTO was requested to propose expenditure reductions totaling 20% of the Department's FY 2025 Budget, which equates to approximately $4.4 million. The FY 2026 Proposed Budget ultimately includes the following expenditure reductions, which total $1.0 million (or 4.7%) of the Department's FY 2025 General Fund budget, as well as a reduction of 8.00 FTE positions:

($481,000, 4.00 FTEs) – Budget Mitigation: Reduction of 4.00 Vacant Positions (ongoing)

The following four vacant positions are eliminated in the Proposed Budget:

1. 1.00 Supervising Management Analyst – Oversees the collection of business and rental unit taxes. This position has been vacant since May 2024. Elimination reduces the amount of oversight in business tax collection efforts, potentially impacting the amount of business tax revenue collected.
2. 1.00 Collection Investigator Supervisor – Oversees a section of delinquent accounts within the Revenue Collections Division and ensures the timely collection of outstanding debt. This position has been vacant since February 2023. Elimination could lead to inconsistencies in debt collection of customer accounts.
3. 1.00 Information Systems Analyst III – Provides IT support for the CTO. This position has been vacant since February 2024. Elimination could cause delays in the resolution of IT issues.
4. 1.00 Administrative Aide II – Assists in TOT compliance research and following-up on audit findings and invoicing costs for audits. Elimination could potentially cause delays in these processes. This position has been vacant since March 2024.

Note that these positions have been vacant since before FY 2025 and the noted impacts may have already been experienced by the CTO, meaning that the reduction of these positions may not have any significant impact on current services.

($217,000, 2.00 FTEs) – Budget Mitigation: Reduction of 2.00 Filled Positions

The Proposed Budget includes the reduction of 1.00 Account Clerk position, which

[1] The maximum allowable reimbursement allocation for the CTO for the FY 2026 Proposed Budget was based on the Office's budgeted positions for FY 2025.

provides administrative support to the Revenue Collections Division, and 1.00 Administrative Aide II position, which assists the Business Operations Division with STRO Compliance and TOT administration.

Staff notes these reductions would not actually reduce any filled positions, since the employee filling the Account Clerk position retired in April 2025 and the employee filling the Admin Aide II position is anticipated to be transferred to the Financial Operations Division to fill a similar vacant position.

Staff also notes that there are no anticipated impacts to services related to these position reductions due to operational efficiencies and improved STRO compliance rates.

<u>($191,000, 2.00 FTEs) – Budget Mitigation: Reduction of City Treasurer's Lobby Hours</u>
The Proposed Budget includes the reduction of 2.00 vacant Public Information Clerk (PIC) positions. Both positions help administer the CTO's front lobby, which is open to customers making walk-in payments from Monday through Thursday, 9 a.m. to 4 p.m. The reduction of these positions would reduce lobby hours by 16 hours; the lobby would remain open on Tuesdays and Thursdays, from 9 a.m. to 3 p.m. Consequently, this would reduce the CTO's need for front lobby security services and potentially increase customer call times.

<u>($109,000) – Budget Mitigation: Reduction of Mailing Costs for Parking Citations</u>
The Proposed Budget reduces printing and postage expenditures of $109,000 from the Parking Administration Program.

Currently, the CTO sends out a notice to parking citation customers regarding unpaid fees within seven days after a parking citation has been processed. If fees remain unpaid, a second notice is sent 50 days later. This reduction changes this process to have the CTO only send out one notice within 21 days after the citation has been processed.[2]

It is difficult to estimate how much this reduction would affect revenues collected from parking citation customers. For context, staff notes that for the current system, approximately 64% of parking customers who receive their first notice pay amounts due prior to getting a second notice, and 12% of customers pay their amounts due after getting their second notice but before being referred to Delinquent Accounts.

<u>($53,000) – Budget Mitigation: Reduction of Miscellaneous and Technical Services</u>
This budget mitigation reduces the Office's budgets for miscellaneous contractual services and computer maintenance. No impacts on the delivery of City services are expected due to this reduction.

Significant Revenue Adjustments

<u>$2.8 million – Budget Mitigation: Cannabis Business Tax (CBT) Revenue Increase</u>
With the continued decline in reported taxable gross receipts due to increased competition from the illegal market, unregulated hemp market, neighboring municipalities, and outside-City delivery services, as well as decreased wholesale prices resulting an oversupply of cannabis products, the Proposed Budget includes a reduction in projected CBT sales volume equivalent to $1.2 million in revenue. However, this reduction is offset by a projected revenue increase of $4.0 million due to a 2% CBT rate increase to retail outlets.[3]

[2] For both processes, a late fee will be applied to unpaid fees 14 days after the first citation has been issued and second late fee will be applied on the 57th day. Any fees unpaid 72 days after processing will be referred to Delinquent Accounts.

[3] On May 1, 2025, CBT rates for cannabis retail outlets will increase from 8% to 10%, while CBT rates for cannabis production facilities will remain at 2%.

$999,000 – Budget Mitigation: Revenue from User Fee Increase

The Proposed Budget included $999,000 in additional revenue due to the following user fee increases:

- Collection referral fee – fees that cover the costs of collecting overdue payments that have been referred to the CTO's Delinquent Accounts Program;
- Parking citation related fees – administrative fees to process a payment plan application for low-income individuals and cancellations for individuals who received a citation that can provide proof of a valid Disabled Person placard; and
- Parking permit related fees – administrative fees associated with processing applications for residential parking permits and permits for oversized, non-motorized and recreational vehicles to park on public streets.

$842,000 – Increase in Business Tax Revenue

The Proposed Budget projects an $866,000 increase in Business Tax revenue, as more non-compliant businesses are anticipated to remit business taxes and penalties due to increased compliance efforts. This increase is offset by a $24,000 reduction in revenue due to a decrease in the number of Sidewalk Vending Permit renewals and new applications.

$378,000 – TOT Reimbursement Adjustment

The CTO is reimbursed for the administration and collection of the Transient Occupancy Tax (TOT) in accordance with SDMC 35.0128. This increase in revenue is mainly to cover CTO salary increases.

($5.1 million) – Short-Term Residential Occupancy (STRO) Revenue Decrease

The STRO Ordinance requires a license to rent a dwelling unit, or part thereof, for less than one month within the City of San Diego. STRO licenses are valid for two years, with the majority of the licenses being renewed every other year. FY 2026 reflects a non-renewal year for a majority of license holders, resulting in a $5.1 million decrease in revenue. For context, the FY 2025 Adopted Budget included $6.3 million in STRO license revenue. Since license revenue either significantly rises or falls each consecutive year, the adjustment for FY 2026 is considered one-time in nature.

There are four license types with varying requirements. For two types of STRO licenses, Tier 3 and Tier 4, there is a cap on the number of available licenses. As of mid-April 2025, the license cap has not been met for Tier 3, with 405 licenses still available, which is approximately 500 less than in mid-April 2024. If the remaining license were to be issued, the City would receive an additional $474,000 in STRO license revenue.

We note that STRO license revenue offsets personnel and non-personnel expenditures that support the STRO Program. Although Council adopted new license and renewal fees for the STRO Program in February 2025, these adjustments are intended to cover the estimated cost of approximately $8.9 million from May 2025 to April 2027.

Issues for Council Consideration

Vacancies

As of writing, there are 9.00 vacant Collection Investigator I (CI1) positions within the CTO that are not being proposed for reduction, six of which have been vacant since before FY 2025. These positions are under the Delinquent Accounts Program of the Revenue Collections Division. The CTO anticipates filling only 4.00 CI1 positions in FY 2026, noting that each position could potentially generate $100,000 in General Fund revenue annually.

Staff notes that leaving the remaining 5.00 CI1 positions vacant will not impact services until the Public Utilities Department (PUD) begins referring delinquent accounts to the CTO. CTO staff does not currently have a timeline for when PUD will begin referring accounts, but notes that they are in frequent communication with PUD management regarding this matter.[4]

Should PUD begin referring accounts, the CTO is likely to need additional staff members to manage the increased workload. With this in mind, the CTO has requested that these positions not be eliminated to avoid hiring delays.

Additionally, there are 2.00 vacant Accountant II positions under the Financial Operations Division. The CTO also plans to fill these positions for FY 2026, anticipating that they will generate General Fund revenue through TOT audits. We note that the Proposed Budget includes an addition of 2.00 Accountant II positions under the same division.

Cannabis Business Operations

To generate additional CBT revenue, the Administration is proposing to amend the Land Development Code to allow cannabis retail outlets within the City to operate at the maximum allowable hours imposed by the State, from 6:00 a.m. to 10:00 p.m. For context, SDMC 141.0504 currently permits outlets to only operate between 7:00 a.m. to 9:00 p.m.

This proposal is anticipated to be heard on the June 11, 2025 Economic Development and Intergovernmental Relations Committee Meeting and the June 23/24 City Council Meeting. We note that these meetings will provide Council an opportunity to deliberate on the fiscal impacts of implementing the proposal, such as related costs and potential additional revenue.

Beyond this proposal, Council may also wish to inquire about any additional measures that could potentially increase CBT revenue, along with any timelines, the Administration is considering.

Parking Meter Operations Fund

The Parking Meter Operations (PMO) Fund component of the FY 2026 Proposed Budget includes $28.0 million in expenditures, which is $18.5 million (or 193.3%) more than the FY 2025 Adopted Budget. The FY 2026 Proposed Budget anticipates $28.0 million in parking meter revenue, which is $18.4 million (or 192.1%) more than the FY 2025 Adopted Budget. Budgeted personnel for the City Treasurer's Office total 9.75 FTEs, which represents no change from FY 2025.

Significant Revenue Adjustment

The revenue increase of $18.4 million is associated with already approved parking meter rate increases as well as rate changes that have been proposed by the Mayor and are pending City Council approval. The following page provides a description of each parking meter adjustment.

SUMMARY OF CITY TREASURER PARKING METER FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	9.75	$ 1,227,589	$ 8,320,476	$ 9,548,065	$ 9,600,000
Programmatic Changes					
Mitigation: Parking Meter Rate Increase (ongoing)	-	-	9,600,000	9,600,000	9,600,000
Mitigation: Event-Based Parking Meter Rates (ongoing)	-	-	6,290,000	6,290,000	6,290,000
Mitigation: Expanded Parking Meter Hours (ongoing)	-	-	2,550,000	2,550,000	2,550,000
Other Changes					
Salary and Benefits Adjustments	-	64,852	-	64,852	-
Non-Discretionary Adjustments	-	-	(45,348)	(45,348)	-
FY 2026 Proposed Budget	**9.75**	**$ 1,292,441**	**$ 26,715,128**	**$ 28,007,569**	**$ 28,040,000**
Difference from 2025 to 2026	**-**	***$ 64,852***	***$ 18,394,652***	***$ 18,459,504***	***$ 18,440,000***

[4] PUD has not been referring delinquent accounts since March 2018.

<u>$9.6 million – Budget Mitigation: Parking Meter Rate Increase</u>
This projected revenue increase is the result of Council's action to raise the City's parking meter rates from $1.25 per hour to the maximum allowable rate of $2.50 per hour in FY 2025. Since this action has already taken place, no further Council action is required.

<u>$6.3 million – Budget Mitigation: Event-Based Parking Meter Rates</u>
As part of a parking reform package, the Mayor is proposing to allow for surge pricing at select parking meters at rates of up to $20 per hour during special events, such as events at Petco Park in downtown.

The event-based parking meter rate is anticipated to be implemented in early 2026 (calendar year) and is projected to generate an additional $6.3 million in revenue for FY 2026. We note that this measure is in the preliminary stages and would require approval from City Council before it is implemented or it begins generating revenue.

<u>$2.6 million – Budget Mitigation: Expanded Parking Meter Hours</u>
The Administration will also propose expanding parking meter enforcement hours from Monday to Saturday, 8 a.m. to 6 p.m. to Monday to Sunday, and potentially from 7:00 a.m. to 11:00 pm.

The expanded parking meter enforcement hours are anticipated to be implemented in January 2026 and are projected to generate $2.6 million in revenue for FY 2026. Similar to event-based parking meter rates, this measure is in its preliminary stages and would require approval from City Council before any revenue could be generated.

Significant Expenditure Adjustments
All the additional revenue mentioned above is included in the Proposed Budget as transfers to various General Fund departments to offset eligible expenses within parking meter zones. The following table provides an overview of which departments are receiving those transfers. Each of these transfers is also further discussed in the corresponding *Department Review* section, including potential concerns about the ability of these departments to absorb this new revenue under current regulations surrounding the use of parking meter revenue.

Parking Meter Expenditures	
Department	**Amount Transferred**
Police	$ 8,600,000
Transportation	6,853,280
Stormwater	2,986,720
Total	**$ 18,440,000**

These transfers assume that all increased revenue accrues to the City for use at its discretion, and will not be divided with the various Community Parking Districts. As part of the parking reforms being proposed, the Administration is proposing to amend Council Policy 100-18's allocation requirement for the additional revenue generated by the increased parking meter rates from a 45% split to a 15% split. [5] The intention is that increased revenue will be retained by the City, while the parking districts are held harmless. Council waived this policy for the revenue generated in FY 2025 when it increased parking meter rates; maintaining this funding split in FY 2026 would either require Council to agree to amend the Council Policy or once again waive the policy.

[5] Council Policy 100-18 requires the City to allocate at least 45% of the remaining parking meter revenue to Community Parking Districts, after deducting the costs of administering the Community Parking District Program.

Issues for Council Consideration

Vacancies

As of writing, there is 1.00 Parking Meter Technician position that has been vacant since December 2024 and 1.00 Parking Meter Supervisor position that has been vacant since December 2023.

The CTO plans to fill the Parking Meter Tech position in FY 2026, which would help increase the CTO's ability to install and remove parking meters, collect coins from meters, and stay up to date on parking meter maintenance and inspections. Staff notes that filling this position would suffice to cover activities for the upcoming fiscal year.

There are no current plans to fill the Parking Meter Supervisor position due to difficulties in recruiting qualified candidates. However, as current PMO staff obtains the necessary experience, the CTO may potentially fill this position in the future.

Citywide Program Expenditures

The budget for the Citywide Program Expenditures Department (Citywide) is comprised of various programs and activities that provide benefits and services citywide. Programs or activities that are generally not attributable to any single City department are allocated in this budget. The Citywide budget includes only those expenditures funded by the General Fund.

Impacts of Mayor's FY 2026 Budget Proposal

The Citywide FY 2026 Proposed Budget totals approximately $182.8 million, a decrease of $16.3 million, or 8.2%, from the FY 2025 Adopted Budget. Significant areas of Citywide expenditures are discussed in this section.

Payments for Contracts and Services

Corporate Master Lease Rent

The City leases various facilities, such as office space and warehouses, from private parties to house some City employees and to support the daily operations of the City. Additionally, several General Fund-supported departments occupy space at the Montgomery-Gibbs Executive Airport and pay the Airport Fund for space costs. The budgeted amount for these costs totals $15.5 million, a decrease of $753,000 from FY 2025. The decrease is primarily due to the planned relocation of the San Diego Fire-Rescue Department from 525 B Street to Civic Center Plaza. The current lease at 525 B Street expires on September 30, 2025.

SUMMARY OF "CITYWIDE PROGRAM EXPENDITURES" BUDGET CHANGES			
Budget Changes *($ in millions)*	**FY 2025 Adopted**	**FY 2026 Proposed**	**Proposed Change**
Payments for Contracts and Services			
Corporate Master Lease Rent/Lease-to-Own	$ 16,297,979	$ 15,544,669	$ (753,310)
Right-of-Way Permits	5,260,489	7,672,377	2,411,888
Insurance	5,901,974	6,482,307	580,333
Citywide Elections	8,929,418	1,760,000	(7,169,418)
Transfers to Public Liability Funds			
Transfer to Public Liability Operating Fund for Insurance	31,699,628	31,578,669	(120,959)
Transfer to Public Liability Operating Fund for Claims	30,211,162	31,193,782	982,620
Other Significant Expenditures			
Capital Infrastructure Debt Financing	42,984,441	55,051,999	12,067,558
Transfer to Parks Improvement Funds	21,090,162	21,273,512	183,350
Transfer to Infrastructure Fund	21,057,697	-	(21,057,697)
Transfer to Capital Improvements Programs	2,350,000	-	(2,350,000)
Debris Assistance Program (FY 2025 support for flood damage victims) [a]	1,200,000	-	(1,200,000)
Climate Equity Fund Contribution	-	-	-
Other Expenditures [b]	12,116,991	12,264,689	147,698
TOTAL	**$ 199,099,941**	**$ 182,822,004**	**$ (16,277,937)**

[a] This program provided no-cost debris management services for eligible flooded properties as an emergency response to the January 2024 storm event.

[b] The largest FY 2026 Proposed Budget amounts in the "Other Expenditures" line include:
- $5.0 million for property tax administration expense to San Diego County
- $1.4 million for assessments to public property (including Vector Control and MAD and PBID assessments for City-owned property)
- $1.3 million for Public Use Leases
- $1.3 million for memberships (including those with SANDAG, SD County Local Agency Formation Commission, League of CA Cities)
- $1.0 million for the Supplemental COLA pension benefit payments
- $925,000 for Preservation of Benefits (POB) pension payments

Right-of-Way (ROW) Permits
The FY 2026 Proposed Budget includes $7.7 million for ROW permit reimbursements, an increase of $2.4 million over the FY 2025 Adopted Budget of $5.3 million. The increase reflects the net difference between:

- A $3.0 million increase in Development Services Department's (DSD) reimbursement for inspections conducted in FY 2024; and
- A $555,000 reduction in Engineering & Capital Projects Department's (E&CP) reimbursement for inspections conducted in FY 2024

ROW permit reimbursements cover costs for SDG&E utility permit inspections within the ROW. Effective September 1, 2023, inspection responsibilities shifted from E&CP to DSD. The transition also expanded the scope of services to include noise permits, traffic control permits, and engineering construction changes directly related to SDG&E's ROW work. The additional permits represent the full cost of the DSD enterprise fund performing services to SDG&E per the franchise fee agreement.

Insurance
The Risk Management Department manages the City's various insurance programs, including property, general liability, and excess liability. The Citywide Program Expenditures budget includes the General Fund portion of the City's costs for property insurance ($6.4 million) and master crime[1] insurance ($86,000), for a total of $6.5 million. These budgeted costs are increasing by $580,000, or 9.8% – $573,000 of which is for the property insurance component. The City is a member of Public Risk Innovation, Solutions, and Management (PRISM); and PRISM's membership benefits include favorable insurance rates due to the combined purchasing power of over 2,200 California public agencies, including 95% of California counties and 70% of California cities.

Citywide Elections
The FY 2026 Proposed Budget for Citywide Elections is $1.8 million, a decrease of $7.2 million from FY 2025. This amount covers estimated costs for the June 2026 Primary Election, including $1.3 million for one potential ballot measure, $450,000 for four Council District races (Districts 2, 4, 6, and 8), and $10,000 for administrative and voter outreach activities.

The budget assumes no special election will occur and reflects a low-end estimate for ballot measure costs. If actual costs exceed estimates or additional measures are added, a funding shortfall may occur. Conversely, if no measures appear on the ballot or costs remain at the low-end estimate, expenditure savings are possible.

Several proposed State bills may also affect election procedures and costs by increasing administrative requirements.

Actual election costs vary based on factors such as the number of participating jurisdictions, candidates, registered voters, voter turnout, availability of conditional voter registration, and vote-by-mail volume.

Transfers to Public Liability Funds

The FY 2026 Proposed Budget includes $31.6 million and $31.2 million to support the Public Liability (PL) Operating Fund's insurance and claims payments, respectively.

- The $31.6 million insurance payment

[1] This program provides coverage for illegal acts committed by employees while on the job.

budget for FY 2026 has decreased by about $121,000, based on premium estimates that incorporate loss development trends in the insurance market. The budgeted premium cost incorporates an estimated savings of $3.1 million due to the increase of the City's self-insured retention (SIR) from $5.0 million to $7.5 million. The SIR is the amount the City needs to pay before insurance begins paying for a particular claim.

- The $31.2 million claims funding transfer has increased by $983,000 compared to the FY 2025 Adopted Budget due to increased claims estimates.

See the *Reserves: Public Liability Funds* section of this report for more information.

Other Significant Expenditures

Capital Infrastructure Debt Financing

The FY 2026 Proposed Budget for capital infrastructure debt service includes $53.6 million for debt service on bonds; $1.4 million for WIFIA loan interest (related to the City's Water Infrastructure Finance and Innovation Act Loan to fund Stormwater improvements); and $8,000 for debt issuance fees. Thus, the total budget for capital infrastructure debt financing costs is $55.1 million, an increase of $12.1 million from the $43.0 million included in the FY 2025 Adopted Budget. See the table below for a summary of budgeted General Fund debt service for outstanding LRBs. Note that the proceeds from the 2024A LRBs and prior issuances have been fully spent.

There are two primary drivers of the Proposed Budget debt service increase: $7.9 million for an anticipated 2025 bond issuance and a $5.1 million increase in the 2024A bond debt service schedule.

The 2025 Lease Revenue Bond (LRB) issuance is anticipated to generate $465.0 million in new money for existing and/or future capital expenditure appropriations through FY 2027. Note that the General Fund Commercial Paper (CP) program is proposed to be terminated at FY 2025 year-end; there is currently no outstanding CP.

On April 16, 2025, the Budget & Government Efficiency (B&GE) Committee reviewed the proposal for the 2025 LRBs and forwarded the

Issuance	Net Proceeds from Issuance *($ in millions)*	FY 2026 Debt Service *($ in millions)*
2015A&B LRBs (New Money)	$120.0	$6.9
2018A LRBs (2010A Refunding)	$128.7	$6.7
2020A LRBs (2012A Partial Refunding)	$60.2	$4.2
2021A LRBs (New Money & CP Takeout)	$145.0	$7.2
2023A LRBs (New Money & CP Takeout)	$126.2	$7.2
2024A LRBs (New Money, CP Takeout & 2012B/2013A Refunding)	$236.4	$13.5
2025 LRBs (Estimated New Money Component Only)	$465.0	$7.9
Total	**$1,281.5**	**$53.6**

item to Council for approval. The staff report attached to the B&GE meeting agenda, Item 5 includes reference to the City's Debt Ratios, indicating that after issuance of the 2025 LRBs, the Debt Ratios should remain under 10% of general revenues for traditional debt service, and under 25% when combining debt service with pension and retiree healthcare costs – although it is closing in on the 25% policy guideline. Note that this assumes any potential General Fund revenue reductions or pension/retiree healthcare payment increases do not adversely impact the Debt Ratios. Also, additional capital financing in the future above what was included in the FY 2026-2030 Five-Year Financial Outlook could cause the Debt Ratios to exceed the City's Debt Policy guidelines; in contemplating future issuances, consideration will be given to those guidelines.

Request for Council approval of the 2025 LRB issuance is expected to take place in May or June 2025 and the bond sale and closing are subsequently anticipated for September and October 2025, respectively.

Transfer to the Parks Improvement Funds

The City Charter sets a $20.0 million threshold of Mission Bay rents and concession revenues that can be placed into the General Fund for any municipal purpose. Any rent and concession revenue greater than that amount is to be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund each year.

The amount above the $20.0 million threshold to be transferred to the Parks Improvement Funds is budgeted in Citywide at $21.3 million, an increase of $183,000 from FY 2025. Revenue from Mission Bay Park rents and concessions is budgeted in the Economic Development Department.

Transfer to Infrastructure Fund

The Infrastructure Fund was established in accordance with Charter Section 77.1, which was approved by the voters in June 2016 as the Proposition H ballot measure. Allowable uses of these funds include acquisition of real property, construction, reconstruction, rehabilitation, and repair and maintenance of General Fund infrastructure.

Based on the current calculation, no Infrastructure Fund contribution is required for FY 2026. This is due to a decline in sales tax revenue and the General Fund Pension Cost Reduction calculation remaining above the FY 2016 base year. At the end of each fiscal year, the Department of Finance reconciles actual sales tax revenue against the base year calculation. If this reconciliation indicates that a contribution is warranted due to improved sales tax performance, a true-up contribution will be proposed in the FY 2027 budget cycle. See the *Capital Improvements Program (CIP)* section of this report for more information.

Transfer to Capital Improvements Program

General Fund transfers to the Capital Improvements Program, when budgeted, are included in Citywide Program Expenditures. The FY 2026 Proposed Budget does not include any transfers to the Capital Improvements Program, which represents a $2.4 million decrease from the FY 2025 Adopted Budget. See the *Capital Improvements Program (CIP)* section of this report for more information.

Debris Assistance Program

The FY 2025 Budget included $1.2 million for a Debris Assistance Program which provided no-cost debris management services for eligible flooded properties as an emergency response to the January 2024 storm event. This one-time funding is not continued in FY 2026.

Climate Equity Fund Contribution

The Climate Equity Fund (CEF) provides funding for infrastructure projects in underserved communities to help them respond to the impacts of climate change. The Mayor is proposing to suspend contributions to the CEF for FY 2026 as a budget mitigation measure.

However, outside the Citywide Program Expenditures budget, $1.5 million in franchise fee revenue *is* being allocated to the CEF. More discussion on the CEF can be found in the Franchise Fees section of our review of Major General Fund Revenues.

The CEF contribution was also waived in FY 2025 as a budget mitigation measure; full funding for FY 2025 would have been $8.5 million. Although the FY 2025 CEF contribution was waived, some CEF-eligible projects were allocated additional funding toward the end of the Budget process. In our final budget recommendations for FY 2025, we identified $5.9 million in alternative funding (debt financing) for CEF-eligible projects. The Council approved this funding as part of its final Budget action.

For FY 2026, had the Proposed Budget included the CEF contribution, the CEF would have received $6.6 million in addition to the $1.5 million allocation outside of the Citywide Program Expenditures budget. The reduction in the amount of waived CEF contribution from FY 2025 ($8.5 million) to FY 2026 ($6.6 million) is due to a reduction in projected General Fund franchise fees from SDG&E. See the *Key Citywide Issues: Climate Action Plan* section of this report for more information.

Other Expenditures

The following are additional expenditure items which are included in the Citywide Program Expenditures budget. Since budget amounts or changes for these expenditure items are smaller than previous areas discussed, these additional expenditures are listed in the footnote to the table on the first page of this section.

- *Assessments to Public Properties*
  The FY 2026 Proposed Budget includes $1.4 million for Assessments to Public Properties, reflecting a $169,000 increase from FY 2025. This rise is attributed to a 3% CPI adjustment for Maintenance Assessment Districts (MADs) and the implementation of a new 10-year term for the Downtown Property and Business Improvement District (PBID).
- *Public Use Leases*
  The FY 2026 Proposed Budget for the public use leases is unchanged from FY 2025, at $1.3 million, for the use of parking lots in Las Americas.
- *Preservation of Benefits (POB) Pension Payments*
  The City makes additional payments to SDCERS[2] to fund any pension payments in excess of IRS limits. The FY 2026 amount for POB is $925,000, a decrease of $275,000 from FY 2025.
- *Supplemental COLA Pension Benefit Payments*
  In 1999, the Supplemental Cost of Living Adjustment (COLA) benefit was created for certain retirees who retired before July 1, 1982. Those retirees' benefits had dropped below 75% of their original purchasing power. When the benefit was created, $35.0 million was set aside in a special pension reserve that would fund the

[2] SDCERS is the San Diego City Employees' Retirement System.

benefit.

The reserve was depleted in FY 2014, and since then the City has been making additional payments to SDCERS to fund the benefit. FY 2026 Citywide Program Expenditures includes $995,000 for this benefit, an increase of $35,000 from FY 2025.

General Fund Reserve

Contributions to the General Fund Reserve, if budgeted, are included in the Citywide Program Expenditures Department. However, in order to balance the FY 2026 Budget, the Mayor is proposing to waive the Reserve contribution for FY 2026.

Reserve contributions were also suspended in both FY 2024 and FY 2025, keeping the Reserve at its FY 2023 target balance of $207.1 million. Delaying the FY 2026 Reserve contribution leaves the Reserve $55.6 million short of its FY 2026 estimated target of $262.7 million. For more about this Reserve, see the *General Fund Reserve* section of this report.

Pension Payment Stabilization Reserve

Contributions to the Pension Payment Stabilization Reserve (PPSR), if budgeted, are also included in Citywide Program Expenditures. Based on the Reserve Policy, the City will fund and maintain the PPSR after the 16.7% General Fund Reserve target is met. Given the City will not meet the General Fund Reserve target for several years, there is no contribution included in the FY 2026 Proposed Budget to PPSR.

Communications

In coordination with City departments and the Mayor's Office, the Communications Department, through Public Information Officers (PIOs), provides information to educate and engage the public and City employees on City initiatives, programs, events, and services. Additionally, the Communications Department oversees the City's responses to news media and Public Records Act requests; is responsible for internal communications to City employees; manages content for the City's website and social media accounts; and produces videos, graphics, printed materials, and CityTV programming, which includes coverage of news conferences, City Council and Committee meetings, and other public and community meetings.

The Department is divided into three sections:

- Creative Services – responsible for CityTV programming, graphic design, and printed materials
- Public Information – provides translation and interpretation services, conducts outreach, oversees the City's social media accounts, and manages media relations
- Public Records Administration – provides access to public City records pursuant to the California Public Records Act

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the Communications Department includes the General Fund and Publishing Services Fund. Budgeted expenditures across all funds are approximately $9.8 million, an increase of about $179,000 (or 1.9%) over the FY 2025 Adopted Budget. Revenues are approximately $2.6 million, which is $277,000 (or 9.7%) less than the FY 2025 Budget. The Department has a total of 42.50 FTE positions, which is a decrease of 5.16 FTEs from the FY 2025 Adopted Budget.

General Fund

General Fund expenditures in the Proposed Budget for the Communications Department total $7.6 million, which is an increase of $266,000 (or 3.6%) from the FY 2025 Adopted Budget. This increase is largely due to a $756,000 increase in salaries and benefits. The Proposed Budget also includes 35.00 FTE positions, a decrease of 3.16 FTE positions from FY 2025 budget. General Fund revenues total $626,000, an increase of $8,000 (or 1.3%) from FY 2025.

SUMMARY OF COMMUNICATIONS GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	38.16	$ 6,758,406	$ 596,727	$ 7,355,133	$ 618,135
Programmatic Changes					
Mitigation: Reduction of Training Budget (ongoing)	-	-	(7,501)	(7,501)	-
Mitigation: Misc. and Technical Srvcs (ongoing)	-	-	(16,942)	(16,942)	-
Mitigation: 3.00 Public Info Officers (ongoing)	(3.00)	(440,838)	-	(440,838)	-
Other Changes					
Salaries and Benefit Adjustments	-	756,286	-	756,286	-
Employ and Empower Intern [a]	(0.16)	7,929	-	7,929	7,927
Non-Discretionary Adjustments	-	-	(33,174)	(33,174)	-
FY 2026 Proposed Budget	**35.00**	**$ 7,081,783**	**$ 539,110**	**$ 7,620,893**	**$ 626,062**
Difference from 2025 to 2026	***(3.16)***	***$ 323,377***	***$ (57,617)***	***$ 265,760***	***$ 7,927***

[a] Despite a 0.16 hourly FTE intern position reduction, personnel expenditures related to the remaining 1.00 FTE intern increased by $8,000. These expenditures are considered to be grant reimbursable, thus include a corresponding revenue of $8,000.

Significant Budget Reductions

As part of the FY 2026 Proposed Budget development process, the Communications Department was requested to reduce expenditures totaling 20% of the Department's FY 2025 Budget, which equates to approximately $1.5 million. The Proposed Budget ultimately includes the following expenditure reductions, which total $465,000 (or 6.3%) of the Department's FY 2025 General Fund budget:

<u>($441,000, 3.00 FTEs) – Budget Mitigation: Reduction of 3.00 Public Information Officers</u>
The Proposed Budget includes a reduction of 2.00 filled Supervising PIO positions and 1.00 vacant PIO position. These position reductions could increase the workload of remaining Public Information staff, potentially causing work delays, particularly on lower priority projects and communication and outreach efforts. Currently, there are 15.00 PIO positions in the Department and this reduction would leave 12.00 PIOs to cover communications for all City departments.

Staff noted that one of the Supervising PIO positions is anticipated to be vacant by April 2025, as the individual filling that position is set to retire. To avoid the reduction of the other filled Supervising PIO, staff is requesting the May Revision instead to reduce a vacant Senior Management Analyst position. This swap should not significantly impact the Department's current expenditure reductions.

<u>($17,000) – Budget Mitigation: Reduction of Miscellaneous Professional and Technical Services</u>
This budget mitigation reduces the Department's budget for miscellaneous contractual services, which can include advertising, radio promotions, and conducting surveys.

<u>($8,000) – Budget Mitigation: Reduction of Training Budget</u>
This budget mitigation reduces the Department's funds allocated for traveling to local training events and professional development sessions.

Issues for Council Consideration

Translation and Interpretation Funding Opportunities

Title VI of the Civil Rights Act of 1964 requires that "*[n]o person in the United States shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance.*" Individuals with a limited ability to read, speak, write, or understand English are entitled to language assistance under Title VI.

Currently, the City uses the two outside firms to provide translation and interpretation services, and these contracts are administered by the Communications Department.[1] One-time or small projects are primarily funded by public, educational or governmental (PEG) fees, which are a type of special revenue paid by video service providers. Large or on-going projects are charged to departments through purchase orders.

While the FY 2026 Proposed Budget does not reduce the Communication Department's funding for translation and interpretation services, staff acknowledged the increasing demand for these services. They noted that additional funding, potentially from the General Fund if no other source is identified, may be required in future fiscal years to comply with Title VI. **Council may wish to inquire about potential funding opportunities that can be pursued to meet the growing demand for translation and interpretation services in the future.**

[1] Contract terms for both firms are set to expire in October 2027.

Publishing Services Fund

The Publishing Services component of the Proposed Budget for the Communications Department includes $2.1 million in expenditures, which is a decrease of $87,000 (or 3.9%) from the FY 2025 Adopted Budget, largely due to the reduction of vacant positions. Staffing levels in the Proposed Budget for the Publishing Services Fund include 7.50 FTE positions, a reduction of 2.00 FTEs from FY 2025. Revenue is projected at $1.9 million, a reduction of $285,000 as compared to the FY 2025 Adopted Budget.

Significant Budget Reductions

($175,000, 2.00 FTEs) – Budget Mitigation: Reduction of 2.00 Senior Offset Press Operator Positions

The Proposed Budget includes the reduction of 2.00 Senior Offset Press Operators. These positions have been vacant since FY 2021. As the City does not have an active press machine, staff does not anticipate any service impacts from this reduction.

($60,000) – Budget Mitigation: Reduction of Non-Personnel Expenditures

The Proposed Budget reduces $35,000 from Publishing Services' print shop budget for paper, and $10,000 from its operating supplies budget. Staff notes that these reductions could potentially extend turnaround times for workorders, delaying the submission of invoices that generate revenue.

Additionally, the Proposed Budget reduces $12,000 from the Publishing Services' training budget and $3,000 from its office supplies budget.

Significant Revenue Adjustments

($285,000) – Reduction of One-Time Revenue for Press Operations

To fully recover costs, Publishing Services updated its price schedule for City departments ordering print jobs and designs in FY 2025. However, due to the suspension of non-essential spending for FY 2026, revenues for printing and press operations are projected to be $285,000 lower for the fiscal year.

SUMMARY OF COMMUNICATIONS PUBLISHING SERVICES FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	9.50	$ 860,633	$ 1,358,817	$ 2,219,450	$ 2,232,283
Programmatic Changes					
Mitigation: Reduction of NPEs (ongoing)	-	-	(59,606)	(59,606)	-
Mitigation: 2.00 Sr Offset Press Operators (ongoing)	(2.00)	(175,022)	-	(175,022)	-
Reversal of FY 2025 One-Time Press Ops Revenue	-	-	-	-	(285,234)
Other Changes					
Salary and Benefits Adjustments	-	209,236	-	209,236	-
Non-Discretionary Adjustments	-	-	(61,211)	(61,211)	-
FY 2026 Proposed Budget	**7.50**	**$ 894,847**	**$ 1,238,000**	**$ 2,132,847**	**$ 1,947,049**
Difference from 2025 to 2026	***(2.00)***	***$ 34,214***	***$ (120,817)***	***$ (86,603)***	***$ (285,234)***

Compliance

The Compliance Department provides enforcement and compliance support for several areas. The Department's Office of Labor Standards and Enforcement (OLSE) provides enforcement of the City's Living Wage, Prevailing Wage, and Minimum Wage and Earned Sick Leave Ordinances. The Department also coordinates City responses to internal and external audits and Grand Jury reports; compliance with external agency regulations; and administrative appeals hearings regarding fines or other civil penalties imposed by City departments. The Department also manages the City's Occupational Safety and Health (OSH) program.

Impacts of Mayor's FY 2026 Budget Proposal

As shown in the table below, the FY 2026 Proposed Budget for the Compliance Department is approximately $7.2 million, a decrease of $99,000 or 1.4% from the FY 2025 Adopted Budget. FTE positions are decreasing by 4.00, from 41.00 in FY 2025 to 37.00 in FY 2026. Revenue is increasing by $663,000, or 39.5%, to $2.3 million, as discussed later in this section.

Significant Budget Additions

The FY 2026 Proposed Budget includes a salary and benefits adjustment of $662,000 which reflects compensation increases that correspond to negotiated salary increases, as well as reduced vacancy savings. This and other minor additions shown in the table below are offset by budget reductions.

Significant Budget Reductions

<u>($517,000, 4.00 FTEs) – Budget Mitigation: Reduction of Occupational Safety and Health (OSH) Positions</u>

As a budget mitigation measure, the FY 2026 Proposed Budget reduces 4.00 positions (3.00 Safety Officers and 1.00 Safety Representative 2) and $517,000 in related personnel expenses from the Department's OSH program. All 4.00 FTE positions are currently vacant. The OSH team is a central resource for City departments on safety standards and regulations, departmental safety plans, workplace ergonomics, and guidance on the implementation of safety protocols.

This reduction could have an impact on the remaining staff's ability to maintain the same workload. For example, OSH services will continue to communicate new State and federal policies to departments but will no longer be able to conduct follow-up and serve as a safety team for City departments that do not have their own safety personnel. (Note that about 20 departments/offices do not have their own safety teams).

SUMMARY OF COMPLIANCE DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	41.00	$ 6,482,460	$ 798,876	$ 7,281,336	$ 1,676,666
Programmatic Changes					
Budget Mitigation: Reduction of Occupation Safety and Health Positions	(4.00)	(516,605)	-	(516,605)	-
Addition of Minimum Wage Enforcement Fee Revenue	-	-	-	-	764,731
Partial Restoration of FY 2025 Budget Mitigation	-	113,722	-	113,722	-
Other Changes					
Salary and Benefits Adjustments	-	661,509	-	661,509	-
One-Time Additions and Annualizations	-	-	(410,640)	(410,640)	(102,000)
Information Technology Adjustment	-	-	39,203	39,203	-
Non-Discretionary Adjustment	-	-	13,356	13,356	-
FY 2026 Proposed Budget	**37.00**	**$ 6,741,086**	**$ 440,795**	**$ 7,181,881**	**$ 2,339,397**
Difference from 2025 to 2026	***(4.00)***	***$ 258,626***	***$ (358,081)***	***$ (99,455)***	***$ 662,731***

<u>($411,000) Expenditures and ($102,000) Revenue – One-time Additions and Annualizations</u>
Other significant reductions include $411,000 in personnel expenditures and $102,000 in revenue associated with contractual costs for setting up the Project Labor Agreement office in FY 2025.

These reductions are partially offset by the partial restoration of $113,722 associated with the 2.0% budget mitigation reduction in FY 2025.

Significant Revenue Adjustments

$765,000 in additional departmental revenue is anticipated to be generated from the Department charging a new Minimum Wage Enforcement Fee, which is the first fee the Department has implemented. The fee would be charged to City of San Diego businesses based on their number of employees, and is intended to support the ongoing enforcement activities conducted by Department staff.

Separate from this fee, Minimum Wage staff also can impose penalties against businesses that do not comply with the City's Minimum Wage Ordinance, particularly when businesses have indicated that they are not willing to comply. No revenue from penalties is generally budgeted, including for this fiscal year.

Issues for Council Consideration

Unfunded Requests

The Compliance Department requested an additional position which was not included in the Proposed Budget: 1.00 Program Coordinator and $189,000 in related personnel expenditures to conduct wage compliance investigations in support of the OLSE. In addition to enforcement, OLSE also conducts education and outreach activities related to Living Wage, Prevailing Wage, and Minimum Wage requirements. This position was intended to further ensure businesses are paying workers appropriately for work in the right-of-way, as well as ensure the health and safety of workers who set up for entertainers in San Diego.

The Compliance Department has a goal of supporting regional prosperity through wage and labor standards enforcement. Without this position, existing staff will need to balance their proactive investigative and outreach work with other ongoing work, such as any contractor suspension or debarment proceedings.

Vacancies

The Department currently has 9.00 total vacancies for a vacancy rate of 22.0%. This rate is higher than the prior year (8.2%) primarily due to attrition and the hiring freeze which was initiated in December 2024. Note, 4.00 Vacant positions are being eliminated in the Proposed Budget from the Occupational Safety and Health team.

While Compliance previously had challenges filling vacant positions, the reclassification from Management Analysts to Compliance Officers for the OLSE team, along with salary and benefits increases, has led to successful recruitments and a pool of qualified candidates.

Compliance officials indicated the current vacant positions are needed to meet service levels, and Compliance plans to move forward with filling them when the hiring freeze ends. The Department also noted that heightened vacancy levels impact the ability of remaining staff to achieve service level goals.

Department of Finance

The Department of Finance (DoF) provides centralized financial services to the City. It is made up of three divisions: Financial Planning, External Financial Reporting, and Debt Management & Capital Improvements Program (CIP). The Department has four main areas of responsibilities: 1) oversight of the City's operating and capital budgets, 2) accounting and financial reporting for all City funds, 3) payroll and vendor payments, and 4) financing and management of City debt obligations.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the Department of Finance is approximately $30.6 million in General Funds, an increase of $1.8 million, or 6.2%, over the FY 2025 Adopted Budget. The main driver of the budget increase is salary and benefit adjustments. The budget includes 138.00 FTE positions, reflecting a decrease of 2.49 FTE positions from FY 2025. There is $1.7 million in budgeted revenue, which is an increase of $403,000, or 29.9%, from the FY 2025 Adopted Budget.

Significant Budget Addition

$167,000, 1.00 FTE – Support for Successor Agency

The Proposed Budget adds one Finance Analyst 4 to provide additional support to the Successor Agency. This position is billable to the Successor Agency Administration Fund, hence corresponding revenue reflected in the table below. Currently 1.00 FTE supports the Successor Agency. Duties include overseeing the accounting and financial transactions of the agency and its funds.

Significant Budget Reductions

As part of the FY 2026 Proposed Budget process, departments were requested to submit budget reductions. As with most departments, an initial 20% reduction target was set for the Department of Finance.

The FY 2026 Proposed Budget includes a total of $614,000 in reductions, or 2.1% of FY 2025 Adopted Budget funding levels. This includes a reduction of 3.00 Finance Analysts, as well as a reduction in overtime and non-personnel expenses as detailed below.

($376,000, 3.00 FTE) – Budget Mitigation: Position Reductions

The following positions are currently filled but anticipated to become vacant by fiscal

SUMMARY OF DEPARTMENT OF FINANCE BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	140.49	$ 27,029,083	$ 1,787,820	$ 28,816,903	$ 1,345,466
Programmatic Changes					
Position to Support Successor Agency	1.00	166,664	-	166,664	166,597
Mitigation: Reduce Positions (Ongoing)	(3.00)	(376,023)	-	(376,023)	-
Mitigation: OT & NPE Reduction (Ongoing)*	-	(25,769)	(98,193)	(123,962)	-
Mitigation: Office Space Consolidation (Ongoing)	-	-	(113,600)	(113,600)	-
Other Changes					
Salaries and Benefits Adjustments	-	2,125,251	-	2,125,251	-
Other Adjustments	-	-	146,886	146,886	-
Non-Discretionary Adjustments	-	-	(29,386)	(29,386)	-
Employ and Empower Program Interns	(0.49)	(5,164)	-	(5,164)	(5,164)
Revised Revenue Projections	-	-	-	-	241,521
FY 2026 Proposed Budget	**138.00**	**$ 28,914,042**	**$ 1,693,527**	**$ 30,607,569**	**$ 1,748,420**
Difference from 2025 to 2026	***(2.49)***	***$ 1,884,959***	***$ (94,293)***	***$ 1,790,666***	***$ 402,954***

** $37,000 is one-time savings*

year end due to employee movement.

- ($120,000, 1.00 FTE) – Debt Management

  This reduction is tied to the elimination of the Commercial Paper Program due to unfavorable interest rates. The program has been used as a short-term financing tool to support General Fund capital improvement projects, but more regular issuance of lease-revenue bonds and changes in interest rates have led to the proposed elimination of the General Fund's Commercial Paper program.

- ($129,000, 1.00 FTE) – Grants

  This position currently supports grant accounting and provides oversight of financial reporting prepared by other departments. While this work is expected to be absorbed by other staff, the position's elimination could lead to increased errors and delays in grant reimbursements.

- ($127,000, 1.00 FTE) – Budget Liaison

  This position is a budget liaison to other City departments and provides oversight for budget development and monitoring. If reduced, staff indicates this position's duties would be redistributed which may result in slower response times and increase risk of errors.

<u>($124,000) – Budget Mitigation: Overtime Reduction and other NPE savings</u>

The Proposed Budget includes a reduction of $98,000 (of which $37,000 is one-time) in various NPE accounts. The largest reductions are for training and miscellaneous professional and technical services. Additionally, there is a reduction of $26,000 for the overtime budget, leaving $25,000 in the budget remaining.

<u>($114,000) – Budget Mitigation: Office Space Consolidation</u>

DoF estimates savings of approximately $114,000 if staff vacated the 6th floor of the City Administration Building (CAB) and consolidated office space on the 7th floor. Most of the department's staff currently works remotely; moving forward, staff would use space on the 7th floor when working from the office. Savings are attributed to various non-personnel reductions, such as fewer computers needed, reducing associated IT nondiscretionary costs, and fewer costs allocated to the department for photocopy services, electricity, and costs to maintain CAB. However, *savings would only be realized if a non-General Fund department moves into the 6th floor.* Such plans have not yet been determined or presented. Therefore, it may be premature to budget for these savings and the corresponding $282,000 increase in Major General Fund revenues for rent paid by a non-General Fund department (noted further below).

Significant Revenue Adjustment

Revenue for the Department is generated largely by charging other departments or entities for services. The Proposed Budget includes the following revenue adjustments from FY 2025:

- $142,000 increase in reimbursements related to DoF's work administering the Transient Occupancy Tax Fund, (new for this year and anticipated to be ongoing); and
- $100,000 increase in reimbursements from billing the Capital Improvements Program project related to DoF's efforts to support the implementation of new budgeting software which is anticipated to go online in October 2025.

Additional Revenue and Operational Efficiencies

The Department proposed additional revenue and operational efficiency items outside of its operating budget to mitigate the budget deficit. The Proposed Budget includes the elimination of the Commercial Paper Program, which is reflected in the Citywide Program

Expenditures budget and totals $1.1 million in ongoing savings from reduced fixed costs to run the program and reduced interest costs.

Also included in Major General Fund Revenues is the assumption of $282,000 in ongoing rental income from a non-General Fund department moving into the 6th floor of CAB. Since plans for this are to-be-determined, as noted above it may be premature to budget this revenue.

Finally, the Department is projecting $2.9 million in additional ongoing revenue from pooled-investment earnings, which is also reflected in Major General Fund Revenues. This revenue is anticipated to come from working with Engineering and Capital Projects to accelerate reimbursement to the General Fund when the General Fund fronts cash for capital improvement projects that are ultimately debt financed. More rapid General Fund reimbursement may allow those reimbursements to earn additional interest-income, which could then be used for any General Fund purpose. Absent such accelerated reimbursements, interest would continue to accrue to the corresponding CIP Fund account, which would then stay within the Capital Improvements Program.

Department of Information Technology

The Department of Information Technology (IT) provides citywide technology strategy; operational support of applications, infrastructure, and wireless technologies; enterprise application services; management of IT services, contracts, and assets as well as a digital equity program. This includes providing technology services to 34 City departments with more than 13,000 employees at over 300 locations.

Department of IT Funds

Funding for the Department of IT is provided through five different funds, each of which serves a distinct purpose within the department:

- General Fund
- Geographical Information Systems (GIS) Fund
- Information Technology (IT) Fund
- OneSD Support Fund
- Wireless Communications Technology

Impacts of Mayor's FY 2026 Budget Proposal

As summarized in the table below, the FY 2026 Proposed Budget for the Department of IT across all funds is $139.5 million, a $1.2 million, or 0.8%, decrease from the FY 2025 Adopted Budget. Total FTE positions have decreased by 2.10 from 135.52 to 133.42. Total revenue is $133.8 million, about $6.7 million or 5.3% above the prior year.

The Department's budget reduction target for FY 2026 was set at 20.0%, allowing flexibility on how to address needed reductions while trying to reduce impacts on service levels. These reductions are spread across the funds and discussed in the following subsections.

General Fund

The Department of IT's General Fund budget supports the Digital Equity – SD Access 4 All Program and personal computer (PC) Replacement Program. The FY 2026 Proposed Budget for the Department's General Fund is $3.6 million, as shown in the table at the top of the next page. This represents an increase of approximately $274,000, or 8.3%, from the FY 2025 Adopted Budget. Budgeted positions remain unchanged from the prior year at 4.00 FTEs. Consistent with the prior year, the General Fund has no budgeted revenue.

Significant Budget Additions

<u>$557,000 – SD Access 4 All</u>

The FY 2026 Proposed Budget adds ongoing non-personnel expenditures of $557,000 for the SD Access 4 All program. This includes the following additions:

- $500,000 to continue Public Wi-Fi services at 59 Parks and Recreation sites. Wi-Fi for these sites was originally funded by the Parks Foundation ($1.4 million for infrastructure and services). One-time funding of $500,000 that was included in

SUMMARY OF DEPARTMENT OF INFORMATION TECHNOLOGY BUDGET CHANGES						
Fund	**FY 2025 FTE**	**FY 2026 FTE**	**Change**	**FY 2025 Expense**	**FY 2026 Expense**	**Change**
General Fund	4.00	4.00	-	3,282,699	3,556,350	273,651
GIS Fund	11.49	11.27	(0.22)	6,189,690	6,632,748	443,058
Information Technology Fund	50.78	49.00	(1.78)	87,339,741	85,855,207	(1,484,534)
OneSD Support Fund (ERP Fund)	29.25	29.15	(0.10)	32,660,788	30,870,462	(1,790,326)
Wireless Communications Technlogy Fund	40.00	40.00	-	11,185,457	12,550,011	1,364,554
Total Combined	**135.52**	**133.42**	**(2.10)**	**$ 140,658,375**	**$ 139,464,778**	**$ (1,193,597)**

SUMMARY OF GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	4.00	$ 458,575	$ 2,824,124	$ 3,282,699	$ -
Programmatic Changes					
SD Access 4 All - Public WiFi	-	-	500,000	500,000	-
SD Access 4 All - Digital Literacy	-	-	57,000	57,000	-
Budget Mitigation: Reduction of General Fund PC Replacement Program	-	-	(237,480)	(237,480)	-
Budget Mitigation: Reduction of SD Access 4 All Mobile Hotspot Program	-	-	(312,260)	(312,260)	-
Other Changes					
Salary and Benefit Adjustments	-	70,740	-	70,740	-
One-time Additions and Annualizations	-	-	(534,000)	(534,000)	-
Non-discretionary Adjustment	-	-	712,072	712,072	-
Information Technology Adjustment	-	-	17,579	17,579	-
FY 2026 Proposed Budget	**4.00**	**$ 529,315**	**$ 3,027,035**	**$ 3,556,350**	**$ -**
Difference from 2025 to 2026	***-***	***$ 70,740***	***$ 202,911***	***$ 273,651***	***$ -***

the prior year budget is being removed, and the Proposed Budget adds the $500,000 as an ongoing non-personnel expense.

- $57,000 to continue SD Access 4 All digital literacy training. This training is provided by the San Diego Futures Foundation, a local non-profit service provider. This was funded at the same level as a one-time expense in the FY 2025 Adopted Budget (which is being removed) and added as an ongoing expense in the Proposed Budget.

<u>$712,000 – Non-discretionary Adjustment</u>

The FY 2026 Proposed Budget includes an addition of $712,000 in non-discretionary adjustments associated with the debt purchase of General Fund PC replacements.

Significant Budget Reductions

The FY 2026 Proposed Budget includes several budget reductions to help mitigate the budget deficit:

<u>($237,000) Reduction of Non-personnel Expenses for the PC Replacement Program</u>

The PC Replacement program replaces General Fund computers/laptops every 5 years (or 20% of computers annually) to align with their expected useful lives.[1] The $237,000 proposed reduction in ongoing expenses could be offset by the City implementing a One Device policy. The Department of IT will work with each department that has staff associated with two computers to move to a single computer. This approach is intended to streamline device management, lower replacement costs, and reduce the operational burden associated with managing multiple devices per user. This new policy should reduce the number of computers replaced and related budget needs for FY 2026. However, if fewer employees move to one device, the Department will need to extend the replacement cycle to align with its FY 2026 budget. A longer replacement cycle can lead to diminished performance, security vulnerabilities, and operational inefficiencies.

<u>($312,000) Reduction of SD Access 4 All Mobile Hotspot Lending Program</u>

$312,000 in ongoing non-personnel expenditures associated with the Mobile Hotspot Lending Program is proposed to be reduced. It is anticipated the City will receive federal E-Rate grant funding (which the FCC has made available for WiFi hotspot services at

[1] The replacements are financed through a five-year laddering lease strategy (currently, there are four concurrent leases). The Proposed Budget for the Department includes $1.1 million in debt financing to initiate a fifth lease for PC replacements.

SUMMARY OF GIS FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	11.49	$ 1,949,922	$ 4,239,768	$ 6,189,690	$ 5,358,128
Programmatic Changes					
San Diego GIS Systems Contract Support	-	-	66,000	66,000	-
Employ and Empower Program Intern	0.27	14,567	-	14,567	14,567
Budget Mitigation: Reduction of Non-personnel Expenditures	-	-	(20,100)	(20,100)	-
Other Changes					
Salary and Benefits Adjustments	-	(314,808)	-	(314,808)	-
Other Revenue Adjustments	-	-	-	-	22,611
Information Technology Adjustments	-	-	399,454	399,454	-
Non-Discretionary Adjustments	-	-	317,387	317,387	-
Non-Standard Hour Personnel Funding	(0.49)	(19,442)	-	(19,442)	-
FY 2026 Proposed Budget	**11.27**	**$ 1,630,239**	**$ 5,002,509**	**$ 6,632,748**	**$ 5,395,306**
Difference from 2025 to 2026	***(0.22)***	***$ (319,683)***	***$ 762,741***	***$ 443,058***	***$ 37,178***

libraries) to replace this funding.[2] The City's grant submission has been accepted and is pending the award amount. However, Department of IT officials indicated that the award depends on the resolution of challenges to grant funding raised by the Trump Administration.

<u>($534,000) – One-time Addition and Annualization</u>
The $534,000 reduction in one-time non-personnel expenses reflects the annualization of expenditures implemented in the prior fiscal year, including the removal of one-time on-personnel expenditures associated with the SD Access 4 All program for providing Public Wi-Fi services at 59 Parks and Recreation sites ($500,000), Digital Literacy services ($57,000), and the Mobile Hotspot Lending Program ($227,000). These reductions are offset by a $250,000 financed purchase for the PC Replacement Program.

GIS Fund

The Geographical Information Systems (GIS) Fund supports spatial data analytics, workflows and provisioning GIS tools and technologies for departments across the City. The costs of these applications along with Department of IT's staff support, are allocated to City departments that use GIS, with approximately 36.0% of the costs allocated to General Fund departments in FY 2026.

As shown in the table above, the FY 2026 Proposed Budget for the GIS Fund is approximately $6.6 million, an increase of about $443,000 or 7.2% from the prior year. Budgeted positions are 11.27, 0.22 fewer than FY 2025. Revenue is budgeted at $5.4 million, an increase of about $37,000 from the prior year. This includes $5.2 million in reimbursable revenue and $239,000 in revenue from other agencies.

Significant Budget Additions
The FY 2026 Proposed Budget includes an information technology adjustment of $399,000 for the IT Fixed non-discretionary allocation (based on an annual review of information technology funding requirements). An addition of $317,000 is also included as a non-discretionary adjustment for an IT Services transfer (based on prior year expenditure trends). The Proposed Budget also adds $66,000 for contractual expenditures to support the City's GIS System.

Significant Budget Reductions
The FY 2026 Proposed Budget includes the following budget reductions:

- ($315,000) Reduction of one-time expenses for salary and benefits adjustments,

[2] The City's Mobile Hotspot Lending Program was temporarily paused from April 1, 2025, through June 30, 2025 to collect and reconfigure or replace all hotspots to ensure they meet E-Rate program requirements.

SUMMARY OF INFORMATION TECHNOLOGY FUND BUDGET CHANGES					
Description	***FTE***	***PE***	***NPE***	***Total Expense***	***Revenue***
FY 2025 Adopted Budget	*50.78*	*$ 10,370,945*	*$ 76,968,796*	*$ 87,339,741*	*$ 85,195,328*
Programmatic Changes					
Support for System Backup Data Encryption	*-*	*-*	*789,000*	*789,000*	*-*
Support for Application Development and Maintenance	*-*	*-*	*600,000*	*600,000*	*-*
Support for Production and SAP Hardware Lease Extension	*-*	*-*	*581,640*	*581,640*	*-*
Addition of Non-personnel Expenditures to Support Contracts, Licenses, Tools, and Training	*-*	*-*	*1,833,645*	*1,833,645*	*-*
Budget Mitigation: Reduction of SAP Application Maintenance and Development Contract	*-*	*-*	*(3,921,576)*	*(3,921,576)*	*-*
Budget Mitigation: Reductions to Non-Personnel Expenditures (Contracts, Licenses, and Tools)	*-*	*-*	*(2,193,213)*	*(2,193,213)*	*-*
Other Changes					
Salary and Benefits Adjustments	*-*	*1,007,857*	*-*	*1,007,857*	*-*
One-Time Additions and Annualizations	*-*	*-*	*(360,000)*	*(360,000)*	*349,980*
Information Technology Adjustments	*-*	*-*	*129,859*	*129,859*	*-*
Fiber Optic Cable Manager Labor Revenue Adjustments	*-*	*-*	*-*	*-*	*(143,149)*
Non-Discretionary Adjustment	*-*	*-*	*93,563*	*93,563*	*-*
Employ and Empower Program Adjustments	*(1.78)*	*(45,309)*	*-*	*(45,309)*	*17,793*
FY 2026 Proposed Budget	***49.00***	***$ 11,333,493***	***$ 74,521,714***	***$ 85,855,207***	***$ 85,419,952***
Difference from 2025 to 2026	***(1.78)***	***$ 962,548***	***$ (2,447,082)***	***$ (1,484,534)***	***$ 224,624***

which reflect budgeted personnel expenditure savings resulting from vacant positions for any period of the fiscal year.

- ($20,000) Reduction in ongoing non-personnel expenditures for office supplies, travel and training to help achieve budget reduction goals.

IT Fund

The IT Fund supports a variety of information technology related activities for the City, including:

- Citywide IT Fixed Expenses
- Enterprise IT Sourcing Operations
- Enterprise Resource Planning
- Financial & Support Services
- Information Technology
- IT Contract Management
- Project Management Office

Also included in the IT Fund are Citywide information technology support contracts, technology, and licensing. All costs incurred in this fund are allocated to City departments. The proportion allocated to the General Fund varies by service, ranging from 29%-66% in FY 2026.[3]

The FY 2026 Proposed Budget for the IT Fund is approximately $85.9 million, as shown in the table above. This is a decrease of about $1.5 million or 1.7% from the FY 2025 Adopted Budget. The IT Fund has 49.00 FTE positions, or 1.78 less than the prior year. The IT Fund has offsetting reimbursable revenue of $85.4 million in the Proposed Budget, an increase of $225,000 or 0.3% above the prior year.

Significant Budget Additions

The FY 2026 Proposed Budget includes a one-time salary and benefit adjustment of $1.0 million, which reflects compensation increases that correspond to negotiated salary increases, as well as reduced vacancy savings.

All significant programmatic budget additions are contractual obligations, which were included in the FY 2026-2030 Five-Year Financial Outlook. Department officials indicated the most important increases relate to data storage and backup: $789,000 for system backup data encryption and $582,000 for the

[3] The amounts charged to departments are based on a blended rate of six IT fund non-discretionary (ND) accounts that provide funding for both IT operations and citywide IT Fixed expenditures. Each ND uses a specific allocation methodology to allocate budget/expenses.

lease of production SAP hardware. These ongoing non-personnel programmatic additions for the IT Fund are discussed below.

<u>$789,000 – Support for System Backup Data Encryption</u>
Addition of expenditures to support the renewal of the Software as a Service (SaaS) data encryption solution, which was initially contracted in FY 2023 and will expire in FY 2026. This solution is utilized for system backups, data recovery, and disaster recovery.

<u>$582,000 – Support for Production and SAP Hardware Lease Extension</u>
Addition of expenses to support the extension of the Production SAP Hardware lease. The Department's long-term plan was to purchase new equipment in FY 2026, due to the equipment reaching the end of useful life, but extending the lease remains the more cost-effective option for maintaining existing services.

<u>$600,000 – Support for Application Development & Maintenance Contract</u>
Addition of expenses to meet the ongoing contractual obligations for non-SAP Application Development & Maintenance Services.

<u>$1.8 million – Addition of Non-personnel Expenditures to Support Contracts, Licenses, Tools, and Training</u>
Significant additions under this category include the following ongoing non-personnel expenses:

- $420,000 Support for Internet Protocol Address Management Licensing to renew the Domain Name System licensing tool for a 14-month term period.
- $326,000 Support for Digital Productivity Tools, including 1,000 licenses for the centralization of Microsoft Copilot, an Artificial Intelligence (AI) automation tool intended to increase productivity and enhance communication and collaboration.
- $238,000 Support for Privileged Access Management as a SaaS renewal to enable the secure storage and use of user account credentials on sensitive information technology systems. The current solution was initially procured in FY 2023 and expires in FY 2026.
- $195,000 Support for Medallia customer and employee engagement platform. Medallia was funded in Performance & Analytics' budget in FY 2025 but will be included in the citywide IT Fixed non-discretionary allocation going forward as it benefits all City staff.
- $172,000 Support for Data Loss Prevention - Renewal of the cybersecurity Data Loss Prevention tool initially procured in FY 2023, which is used to protect the City from unintentional and malicious data breaches involving sensitive information.
- $483,000 including smaller additions, such as support for contracts: LinkedIn Learning, Cybersecurity Suite, Power BI Capacity, and the Get It Done maintenance and support contract.

<u>$105,000, 2.00 FTEs – Addition of Employ and Empower Intern Positions</u>
One-time addition of 1.60 Management Interns - Hourly and 0.40 Student Interns - Hourly and $105,000 in associated personnel expenses to support the Employ and Empower Program. The positions are grant funded and include corresponding revenue of $105,000. These positions are offset by adjustments to the program resulting in a net decrease of 1.78 FTEs.

Significant Budget Reductions

The FY 2026 Proposed Budget for the IT Fund includes several operational efficiencies and targeted reductions intended to minimize impacts on Citywide services. The Department indicated that these reductions were initially part of a long-term plan for modernization and enhancement, therefore, reducing them now may limit the Department's ability to achieve further efficiencies in the future.

Additionally, the IT sector is experiencing substantial inflationary pressures.

Significant reductions are discussed below.

<u>($3.9 million) – Reduction of SAP Application Maintenance and Development Contract</u>
A reduction of approximately $3.9 million in non-personnel expenses associated with moving contract management for the SAP Application and Maintenance contract to the OneSD Fund, which includes a corresponding addition. This SAP-specific contract was originally bundled with the Non-SAP Maintenance & Development Contract and expended in the IT Fund, with the costs being recovered via non-discretionary allotment. Since these contracts are now separated, it makes sense that the SAP-specific contract be expended directly from the OneSD Fund.

<u>($2.2 million) – Budget Mitigating Reductions to Non-Personnel Expenditures for Contracts, Licenses and Tools</u>
Significant reductions under this category include the following ongoing non-personnel expenses:

- ($544,000) Reduction of Enterprise Compute Contract to align Departmental budgets with contractual costs with the Managed Services Provider, Zensar (as part of the existing contract). This reduction could delay projects such as migration/modernization efforts of applications from legacy servers to cloud computing.
- ($460,000) Reduction of AI Support for contracted project management expenses associated with the deployment of AI solutions. This reduction will impact the Department's ability to implement tools that improve operational efficiencies.
- ($284,000) Reduction of Microsoft Unified Support, as the Department is pursuing third-party specialized support for Microsoft environments. The reduction will have minimal impact on current services.
- ($185,000) Reduction of Voice Service Telecommunications, reducing the CalNet telecommunications contract annual expenditures from $2.4 million to $2.2 million, but will not impact current services.
- ($175,000) Reduction of Licensing for Digital Productivity Tools.
- ($545,000) Smaller reductions to contracts, such as: Network Call Center Management, Alternative Analog Phone Line Support, IT Service management Licensing, and Workplace Service.

The Proposed Budget also includes a reduction of $360,000 under Additions and Annualization to remove one-time funding in FY 2025 for purchasing Microsoft Co-pilot licenses that began as a pilot program. Note, the Proposed Budget adds $326,000 in ongoing expenses to continue the program.

OneSD Support Fund

The OneSD Support Fund is used for ongoing technical support, maintenance, and management of the City's Enterprise Resource Planning (ERP) system, SAP. The costs associated with SAP are allocated to City departments, with each department's allocation varying by the types of SAP programs used, the number of FTE positions in each department, and each department's budget. For FY 2026, roughly 39.0% of these costs are allocated to General Fund departments.

As summarized in the table at the top of the next page, the FY 2026 Proposed Budget for the OneSD Support Fund is $30.9 million, a decrease of about $1.8 million, or 5.5%, from the FY 2025 Adopted Budget. The OneSD Support Fund has 29.15 FTE positions in the Proposed Budget, a decrease of 0.10 FTEs from the prior year. The OneSD Support Fund has reimbursable revenue of $31.1 million, an increase from the prior year of $5.1 million or 19.7%.

SUMMARY OF ONESD SUPPORT FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	29.25	$ 7,585,106	$ 25,075,682	$ 32,660,788	$ 25,954,866
Programmatic Changes					
Reallocation of SAP Maintenance and Development Contract from the IT Fund to the ONESD Fund	-	-	3,921,576	3,921,576	-
Employ and Empower Program Intern	0.15	8,094	-	8,094	8,094
Budget Mitigation: Reduction of Non-personnel Expenditures	-	-	(240,000)	(240,000)	-
Other Changes					
Salary and Benefits Adjustments	-	257,849	-	257,849	-
Information Technology Adjustments	-	-	(4,099,484)	(4,099,484)	-
One-time Additions and Annualizations	-	-	(1,000,000)	(1,000,000)	5,600,082
Non-Discretionary Adjustments	-	-	(628,443)	(628,443)	(505,513)
Non-Standard HourPersonnel Funding	(0.25)	(9,918)	-	(9,918)	-
FY 2026 Proposed Budget	**29.15**	**$ 7,841,131**	**$ 23,029,331**	**$ 30,870,462**	**$ 31,057,529**
Difference from 2025 to 2026	***(0.10)***	***$ 256,025***	***$ (2,046,351)***	***$ (1,790,326)***	***$ 5,102,663***

Significant Budget Additions

The FY 2026 Proposed Budget includes approximately $3.9 million in non-personnel expenditures associated with relocation of the SAP Maintenance and Development contract from the IT Fund to the OneSD Fund. There is a corresponding reduction of $3.9 in the IT Fund.

The Proposed Budget also adds a one-time Salary and Benefit Adjustment of $258,000, which reflects compensation increases that correspond to negotiated salary increases, as well as reduced vacancy savings.

Significant Budget Reductions

Significant one-time reductions in non-personnel expenditures include the following.

- ($4.1 million) Information Technology Support, which removes the $3.9 million associated with the SAP Maintenance and Development contract from the non-discretionary IT budget (since it was added to the discretionary IT budget). The remaining $200,000 is related to other IT non-discretionary allocations.
- ($1.0 million) Additions and Annualization associated with the removal of one-time contractual expenses in FY 2025 to replace the Public Budget Formulation (PBF) system.
- ($628,000) Non-discretionary Adjustment related to the IT Services transfer.

As part of budget reduction goals, the OneSD Proposed Budget includes a $240,000 reduction of non-personnel expenditures for supplies, travel, training, and contracts that are not anticipated to impact service levels, Key Performance Indicators, or equity goals.

Significant Revenue Adjustments

The FY 2026 OneSD Budget includes a one-time revenue increase from Additions and Annualization of $5.6 million associated with a one-time reduction in FY 2025 for fund balance utilization. There is also a reduction of $506,000 in non-discretionary adjustments associated with an IT Services transfer.

Wireless Communications Technology Fund

The Wireless Communications Technology Fund supports service delivery of public safety wireless radio communications technologies. Costs are allocated to City departments that use the public safety radio system, with about 78% allocated to General Fund Departments in FY 2026. The General Fund portion of the allocation decreased from the prior year due to the addition of the Solid Waste Enterprise Fund in the non-General Fund allocation.

The FY 2026 Proposed Budget for this fund is approximately $12.6 million, an increase of $1.4 million, or 12.2% from the FY 2025 Adopted Budget. FTEs for the Wireless Fund remain unchanged at 40.00 FTE positions.

SUMMARY OF WIRELESS COMMUNICATIONS TECHNOLOGY FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	40.00	$ 6,721,713	$ 4,463,744	$ 11,185,457	$ 10,517,070
Programmatic Changes					
Budget Mitigation: Reduction of Non-personnel Expenditures	-	-	(153,391)	(153,391)	-
Other Changes					
Salary and Benefits Adjustments	-	778,627	-	778,627	-
One-Time Additions and Annualizations	-	-	-	-	79,655
Information Technology Adjustments	-	-	69,172	69,172	-
Non-Discretionary Adjustment	-	-	670,146	670,146	1,291,294
FY 2026 Proposed Budget	**40.00**	**$ 7,500,340**	**$ 5,049,671**	**$ 12,550,011**	**$ 11,888,019**
Difference from 2025 to 2026	**-**	***$ 778,627***	***$ 585,927***	***$ 1,364,554***	***$ 1,370,949***

The Proposed Budget includes offsetting reimbursable revenue of $11.9 million, an increase of about $1.4 million. These changes are summarized in the table above.

Significant Budget Additions

The FY 2026 Proposed Budget includes a one-time salary and benefit adjustment of $779,000, which reflects compensation increases that correspond to negotiated salary increases, as well as reduced vacancy savings. The Proposed Budget also includes a one-time non-discretionary adjustment of $670,000 in non-personnel expenditures associated with an IT Services transfer.

Significant Budget Reductions

The Proposed Wireless Communications Technology Fund Budget includes a reduction of $153,000 in non-personnel expenditures for supplies, security services, IT hardware, travel, and training to help achieve budget reduction goals. While cost savings may be achieved in the short term, the long-term effects can disrupt operations, create work process delays, reduce productivity, and negatively affect employee morale.

Significant Revenue Adjustments

The FY 2026 OneSD Budget includes a one-time Non-Discretionary Revenue Adjustment of $1.3 million due to right-sizing revenue based on non-discretionary allocations.

Issues for Council Consideration

ERP Modernization Project

The City continues to move forward with the ERP Modernization Project (CIP T25000) to develop an SAP cloud-based solution to replace the current ERP system (SAP), which will reach its end of life on December 31, 2027. Project implementation costs are estimated to be $137.0 million over a five-year period (FY 2025-29). Project costs, which will be debt financed, are being allocated to the General Fund (47%) and non-General Fund (53%).

The FY 2026 Proposed Capital Improvements Program (CIP) Budget for ERP Modernization totals $3.1 million, including $1.6 million for cloud licensing, $1.0 million for Department of IT staff time, and $500,000 for license cost optimization. The impact and costs related to staff from City departments in the ERP Modernization project are currently being evaluated by the Department. FY 2026 funding for the project is allocated to all departments via non-discretionary allotments.

The project includes a continuing appropriation of about $3.0 million from the prior year budget. About $751,000 has been expended to date for consultant support in developing project requirements ($731,000) and Department of IT staff time ($20,000).

The ERP Modernization will take significant effort and resources from the Department of IT and City departments that rely on SAP for their daily operations. Given the importance of the current ERP system in conducting business and its approaching end-of-life date, it is critical to continue moving forward with modernization. Further, it will be important to consider how budget reductions will impact departments' ability to engage in the project, which will be critical for its success.

Cybersecurity

Cyber threats to the City have followed global trends, continuing to increase year over year. These threats include phishing, malware, business email compromise, attempted credential compromise, social engineering, nation-state attacks, ransomware, supply chain vulnerabilities, and critical infrastructure targeted threats. Phishing attacks have become significantly more sophisticated. With the rise of generative AI, these attacks are now highly targeted and personalized, making them more convincing and harder to detect.

Department of IT officials noted that defending against increasing cyberattacks continues to be one of their key priorities, and the Proposed Budget includes sufficient funds to support cybersecurity. The City continues to work with regional and federal partners to adopt best practices, share threat intelligence, and exchange information. The Department of IT maintains a robust portfolio of security tools and services and uses a Security Operations Center (SOC) to monitor the City's environment.

Due to policy shifts by the federal government, Department of IT officials noted that some fiscal responsibilities may be shifting to the state and local level.

Uncertainty on the Federal Stage and Inflationary Impacts

Department officials indicated that uncertainty on the federal stage with tariffs and inflation has continued to impact vendor contracts, procurement, and project schedules. For example, technology vendors have been communicating short timeframes for price quotes in reaction to tariff uncertainties. The IT sector overall is experiencing significant inflationary pressure, and the Department has seen pricing for hardware, software, and services increase. Department officials also indicated that uncertainty on the federal stage with grant funding is another issue to consider. The Department has been awarded several federal grants, for example, to support the Broadband Master Plan. The City is also pending an E-Rate grant for the City's Hotspot Lending Program, but the award depends on the resolution of challenges to grants and other funding raised by the current Administration.

Departmental Vacancies

As of mid-April, the Department has 19.00 total vacancies for a vacancy rate of 14.2%, including:

- 7.00 vacant FTEs in the GIS Fund (60.9%)
- 5.00 vacant FTEs in the IT Fund (9.8%)
- 3.00 vacant FTEs in the OneSD Support Fund (10.3%)
- 4.00 vacant FTEs in the Wireless Communication Fund (10.0%)

Department of IT officials noted that all the vacant positions are key positions and currently pending approval through the Request to Fill process, after which they intend to proceed with recruitment.

Development Services

The Development Services Department (DSD) performs review, permit, inspection, and code enforcement services for private and public development projects throughout the City.

The General Fund supports the Building & Land Use Enforcement Division, responsible for investigating and enforcing code violations. Code enforcement penalties go into the Civil Penalty Fund, which can support some of their activities.

The Development Services Fund supports development plan review, permit, and inspection services for private and public development projects. The fund is supported by revenue from user fees.

The Local Enforcement Agency Fund is supported by State grants and funds inspection and enforcement of waste disposal.

Impacts of the Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the DSD includes approximately $163.7 million in expenditures, an increase of $10.8 million, or 7.0%, from FY 2025, and 745.00 FTEs, a decrease of 35.00 FTEs from FY 2025, as shown in the table below. Revenues are projected to total approximately $147.6 million, an increase of $693,000 from FY 2025.

To accommodate the Department's multiple areas of responsibilities and funding sources, the Department is arranged into nine primary divisions across three individual funds. The analysis of the FY 2026 Proposed Budget in this section is organized by major fund.

General Fund

The FY 2026 Proposed Budget for DSD's General Fund expenditures totals $12.5 million, an increase of $451,000 from the FY 2025 Adopted Budget, as shown in the table on the next page. Revenues are projected at $1.4 million, a decrease of $4.9 million, largely due to a $5.3 million decrease in the transfer of revenues from the Civil Penalty Fund relative to FY 2025. DSD's General Fund-supported FTEs are budgeted at 73.00, a decrease of 12.00 FTEs, or 14.1%, relative to FY 2025. The Proposed Budget does not include any significant programmatic additions to DSD's General Fund operations.

Significant Budget Reductions

As part of the FY 2026 Proposed Budget process, departments were requested to submit operational efficiency reductions, which for DSD targeted 20.0% of the department's FY 2025 Adopted General Fund Budget, or $2.4 million. To meet the reduction target, the FY 2026 Proposed Budget includes:

<u>($1.8 million, 12.00 FTE) – Budget Mitigation: Reduction of Zoning Enforcement</u>
As a budget mitigation measure, the FY 2026 Proposed Budget includes the elimination of 12.00 FTEs and $1.8 million in expenditures from the Zoning Enforcement Section. Of the total reductions, 10.00 positions include 2.00 Senior Zoning Investigators and 8.00 Zoning Investigator 2s – resulting in the elimination of two zoning enforcement teams (out of seven teams total). These teams enforce zoning and land use codes by investigating related

SUMMARY OF DEVELOPMENT SERVICES DEPARTMENT BUDGET CHANGES						
Fund	FY 2025 FTEs	FY 2026 FTEs	Change	FY 2025 Expense	FY 2026 Expense	Change
General Fund	85.00	73.00	(12.00)	$ 12,095,158	$ 12,546,259	$ 451,101
Development Services Fund	690.00	667.00	(23.00)	139,753,670	150,013,644	10,259,974
Local Enforcement Agency Fund	5.00	5.00	-	1,134,028	1,188,307	54,279
Department Total	***780.00***	***745.00***	***(35.00)***	***$ 152,982,856***	***$ 163,748,210***	***$ 10,765,354***

public complaints. The Department indicated these reductions were identified because enforcing zoning and land use is less critical to public safety than Combination Inspector positions. Combination Inspectors focus on higher priority State Building Code and Sub-Standard Housing issues, and those positions are maintained in the Proposed Budget.

However, the zoning enforcement reductions would decrease service levels, with fewer investigators to address complaints and potential code violations. Although DSD plans to prioritize zoning complaints based on risk, proposed reductions are likely to result in weaker or no enforcement of lowest priority cases (Priority 3), which are considered to have an adverse impact on quality of life but do not pose imminent life safety risks. Since DSD limited staff overtime as a budget mitigation measure, the capacity for remaining staff to absorb this workload would also be limited and will likely create a backlog of unresolved complaints. In addition to weaker enforcement of the zoning code and associated regulations, DSD permit revenues could also see a minor impact as roughly 7% of permits are the result of building and land use code enforcement. The City also risks potential impacts from unaddressed violations. All 10.00 positions to be reduced are currently filled.

Proposed reductions also include two positions that are currently vacant: 1.00 Code Enforcement Coordinator (Senior Planner) and 1.00 Zoning Investigator 2. In contrast to the zoning enforcement team eliminations, the Department anticipates the elimination of these two vacant positions will have no impact on service levels as existing staff can continue to absorb the workload of these positions.

After these reductions, 73.00 FTEs would remain budgeted in the Building & Land Use Enforcement Division, which includes five zoning enforcement teams consisting of 5.00 Senior Zoning Investigators, 22.00 Zoning Investigator 2s, and 3.00 Zoning Investigator 1s.

Significant Revenue Additions

$567,000 – Revenue from Civil Penalty Fund

The Proposed Budget includes the transfer of $567,000 from the Civil Penalty Fund to support code enforcement activities in DSD. Of this amount, $452,000 is proposed on a one-time basis and $115,000 is ongoing. This revenue will allow DSD to avoid additional cuts to code enforcement service levels. Factoring in the one-time use of $5.8 million from fund balance in the FY 2025 Adopted Budget and Proposed Budget, the Civil Penalty Fund would have a remaining fund balance of approximately $223,000. Our Office will continue to monitor the Fund as a potential funding option to support code enforcement and free up resources for other General Fund critical expenditures. If proposed reductions to code enforcement operations are adopted, there would likely be corresponding reductions in civil penalties collected from zoning violations, which consisted of 20.2% of overall Fund revenue in FY 2024.

SUMMARY OF DEVELOPMENT SERVICES DEPARTMENT BUDGET CHANGES - GENERAL FUND					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	85.00	$ 11,161,183	$ 933,975	$ 12,095,158	$ 6,281,015
Programmatic Changes					
Budget Mitigation: Reduction of Zoning Enforcement	(12.00)	(1,789,109)	(10,750)	(1,799,859)	-
Revenue from Civil Penalty Fund	-	-	-	-	566,963
Updated User Fee Study Implementation	-	-	-	-	356,128
Other Changes					
Salary and Benefit Adjustments	-	2,206,900	-	2,206,900	-
Non-Discretionary - Information Technology	-	-	46,900	46,900	-
Other Non-Discretionary Adjustments	-	-	(2,840)	(2,840)	-
Remove One-Time FY 2025 Civil Penalty Fund Revenue	-	-	-	-	(5,824,000)
FY 2026 Proposed Budget	**73.00**	**$ 11,578,974**	**$ 967,285**	**$ 12,546,259**	**$ 1,380,106**
Difference from 2025 to 2026	***(12.00)***	***$ 417,791***	***$ 33,310***	***$ 451,101***	***$ (4,900,909)***

Issues for Council Consideration

Budget Mitigations Not Included in Proposed Budget

DSD submitted an alternative budget mitigation to meet the reduction target, which would have eliminated enforcement of the Short-Term Residential Ordinance (STRO). This proposal would reduce 8.00 FTEs and $1.5 million in associated expenditures. No longer enforcing STRO regulations could reduce STRO licensing revenue and increase demand on police services to address nuisance-related complaints.

Development Services Fund

The FY 2026 Proposed Budget for the Development Services Fund includes $150.0 million in expenditures and 667.00 FTEs. Compared to the FY 2025 Adopted Budget, this is an *increase* of $10.3 million in expenditures and a *decrease* of 23.00 FTEs, as shown in the table below. The net increase is driven by increases in salary and benefits, along with non-discretionary expenses. Revenues are projected to total $145.2 million, an increase of $5.5 million over FY 2025. The Proposed Budget does not include any significant programmatic additions to the Development Services Fund Budget.

Significant Budget Reductions

As discussed in our review of the FY 2025 Mid-Year Budget Monitoring Report, the Development Service Fund has a significant structural budget deficit, which will be detailed later in this section. The Proposed Budget includes the following reductions as initial steps towards balancing the Fund:

($7.1 million, 23.00 FTEs) – Budget Mitigation: Eliminate Vacancies and Non-personnel Expenditures (NPE) Savings

The Proposed Budget includes the elimination of 23.00 FTE positions and $7.1 million in associated expenditures, which also includes discretionary budget reductions. According to staff, these reductions are expected to have little to no impact on service levels. Of the total 23 positions proposed to be eliminated, 20 are currently vacant and two additional positions are expected to be vacant by the start of FY 2026. Existing staff are expected to be able to absorb any associated workload.

The reductions include 10 positions from the Business Operations & Support Services Division: 3.00 Administrative Aide 1s, 3.00 Office Support Specialists, 2.00 Public Information Clerks, 1.00 Senior Management Analyst, and 1.00 Accountant 3. Seven engineering positions are also proposed for elimination: 3.00 Associate Civil Engineers, 1.00 Associate Mechanical Engineer, 1.00 Assistant Civil Engineer, 1.00 Traffic Engineer, and

SUMMARY OF DSD BUDGET CHANGES - DEVELOPMENT SERVICES FUND					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	690.00	$ 113,698,576	$ 26,055,094	$ 139,753,670	$ 139,614,113
Programmatic Changes					
Budget Mitigation: Eliminate Vacancies & NPE Savings	(23.00)	(4,583,710)	(2,500,004)	(7,083,714)	-
Budget Mitigation: Delay Records Digitalization	-	-	(2,000,000)	(2,000,000)	-
Right-of-Way Permit & Inspections	-	-	-	-	6,746,852
DSD User Fee Increases	-	-	-	-	1,301,610
Other Changes					
Salary and Benefit Adjustments	-	17,708,497	-	17,708,497	-
Other Non-Discretionary Adjustments	-	-	2,218,929	2,218,929	-
Non-Discretionary - Information Technology	-	-	264,762	264,762	-
Supplemental COLA Pension Benefit Payments	-	-	2,000	2,000	-
Non-Discretionary - New Lease Rent Credit	-	-	(419,000)	(419,000)	-
Removal of FY 2025 One-Time Expenses & Revenues	-	-	(431,500)	(431,500)	(2,499,623)
FY 2026 Proposed Budget	**667.00**	**$ 126,823,363**	**$ 23,190,281**	**$ 150,013,644**	**$ 145,162,952**
Difference from 2025 to 2026	***(23.00)***	***$ 13,124,787***	***$ (2,864,813)***	***$ 10,259,974***	***$ 5,548,839***

** SDG&E = San Diego Gas and Electric; COLA = Cost of Living Adjustment*

1.00 Structural Engineering Associate. The remaining six position reductions consist of 2.00 Development Project Manager 2s, 2.00 Plan Review Specialists, 1.00 Program Manager, and 1.00 Associated Planner.

The Proposed Budget also includes ongoing NPE reductions based on actual historical spending associated with billed services, contracted services, cell phone lines, micrographic supplies, office supplies, and other miscellaneous expenses, as well as discretionary reductions in overtime, travel, and training. The NPE budget mitigations were implemented starting in the First Quarter of FY 2025 and are not expected to result in operational impacts.

<u>($2.0 million) – Budget Mitigation: Delay of Records Digitalization</u>
As a budget mitigation, DSD intends to delay recent efforts to digitalize Land Use and Land Development Records, which leads to $2.0 million in associated NPE reductions. These one-time funds were initially approved in the FY 2024 Adopted Budget. DSD maintains extensive current and historical building records, plans, land use, and mapping information that project applicants and DSD reviewers may need to review. Some records are available digitally, but most historical records are only available in physical form. The Department's digitalization efforts would have allowed DSD staff to more efficiently retrieve records of interest through searchable digital copies, as opposed to relying on a heavily manual cataloging and index process for older records. Records that have been archived can be particularly time consuming to locate and retrieve. DSD had taken some initial steps towards digitization by releasing a Request for Information to assist in developing the project scope in Spring 2024 before delaying these efforts.

<u>($419,000) – Non-Discretionary – New Lease Rent Credit</u>
The Proposed Budget includes a reduction in non-discretionary rent expenses at the leased office space at 550 West C Street. Approved by Council in September 2024, the short-term lease includes seven months of rent credit up to $85,000 per month, which commences when tenant improvements are complete. The Proposed Budget applies the rent credit from May 2025 to November 2025. DSD anticipates a May Revision adjustment to push back the start of rent credits to June or July, depending on the timing of tenant improvement completion.

Significant Revenue Additions

<u>$6.7 million – Right-of-Way Permits and Inspections</u>
The Proposed Budget includes a $6.7 million revenue increase associated with Right-of-Way permits and inspections. Of this amount, $6.0 million is attributable to reimbursement of Right-of-Way permit activities and labor costs completed in FY 2024 that were related to SDG&E, while the remaining $700,000 is due to increased revenue from additional inspections.

DSD began assuming responsibility for Right-of-Way permits, previously handled by E&CP, in FY 2024, including permit application submittal, review, inspection, and issuance. The Department indicated that staff time on construction noise permits and traffic control permits, which are part of trenching permits, were not previously tracked and billed to SDG&E. The Proposed Budget includes additional reimbursement revenue to recover costs for these eligible activities from the SDG&E franchise fee agreement. Moving forward, permit work related to SDG&E is expected to continue on a reimbursement basis. We note that the May Revision is anticipated to include a decrease of $580,000 from expected SDG&E reimbursement revenue.

<u>$1.3 million – DSD User Fee Increases</u>
The Proposed Budget reflects a $575,000 revenue increase from implemenation of updated user fees, approved by Council in

March 2025, as well as a $726,000 increase associated with annual CPI adjustments – together these total $1.3 million in additional user fee revenue.

On April 15, 2025, the Department announced that effective May 5th, DSD user fees will increase by 12.3% to reflect increases in labor and fringe costs, which accounts for 11.5% of the increase, and a switch in the inflation index used from CPI to Producer Price Index (PPI), which tracks price changes on producers and accounts for the remaining 0.8% of the increase. The user fee increase also captures previous increases in fixed fringe benefit expenses, which were not previously included.

The user fee increases are anticipated to generate additional licensing and permit revenue beyond assumptions in the Proposed Budget, which will be reflected in the May Revision. However, we note DSD has also seen decreases in underlying permitting activity, with a 8% decrease in year-over-year permit demand in the month of February. These downward adjustments in underlying permit demand will also be reflected in the May Revision.

Issues for Council Consideration

Development Services Fund Reserve

Based on the latest projections, year-end expenditures from the Development Services Fund will exceed revenues by $15.2 million, an improvement of $1.6 million relative to FY 2025 Mid-Year. With a beginning FY 2025 Reserve balance of $3.4 million, the Fund is projected to have a shortfall of $11.9 million and end FY 2025 with no Reserve balance. The slight improvement is driven by anticipated revenue increases associated with the upcoming 12.3% DSD user fee increase, in effect on May 5th, which will help address the shortfall anticipated at the end of FY 2025.

The Department also plans to implement dynamic pricing for user fees, rather than locking in fees at application submittal as is current practice. Dynamic pricing would charge based on the fee schedule in effect at the time associated costs are incurred. For some projects, the permitting process can span several years, during which time user fees may be updated based on the true cost of service. This change would add some uncertainty to projects as total fee charges would not be known upfront and may have a larger impact on projects with longer review periods or requiring review services with hourly fees. However, dynamic pricing would also more accurately reflect the current cost of services, especially as developers are currently allowed to request multi-year building permit extensions. DSD is targeting implementation for July 2025, which will require reconfiguring the existing permitting system, DSD staff training, and stakeholder outreach.

The Proposed Budget for the Development Services Fund continues to show a structural budget deficit, with proposed expenditures exceeding revenues by $4.9 million, despite the budget mitigation measures identified by DSD. According to the Department, May Revision revenue adjustments will improve the outlook, but there will continue to be a shortfall of more than $4.0 million by the end of FY 2026. DSD intends to identify additional budget mitigations to structurally balance the Development Services Fund in FY 2026, most likely by proposing additional position reductions during the May Revision. The Department indicated that in contrast to the Development Services Fund position reductions included in Proposed Budget, the May Revision reductions will likely impact service levels. **Council may wish to ask about the additional budget mitigations DSD is considering to structurally balance the Development Services Fund in FY 2026.**

Although permit demand is generally challenging to predict, there are additional factors that might make permit trends more uncertain. For instance, the State will update Building Codes in FY 2026, as it does every three years. Code updates typically lead to an uptick in permitting activity as applicants hurry to complete projects before code updates go into effect. Counteracting this, Department staff noted that general economic uncertainty, particularly escalating construction costs driven by trade tariffs and decreasing consumer confidence, could have a dampening effect on permit demand. Because the purpose of the Reserve is to provide financial stability and consistent service levels during times of economic downturn or emergencies, building and maintaining a reasonable Reserve is critical in light of potential economic instability. **With the Development Services Reserve expected to be fully exhausted in FY 2025, Council should ask about the Department's long-term goals to rebuild the Reserve.**

Update on New DSD Leases

By the end of April, DSD will begin moving staff into the leased office space at 7650 Mission Valley and anticipates completing the move on a phase-in basis in the coming months. This location will house DSD staff previously located at the Montgomery-Gibbs Executive Airport and 9601 Ridgehaven Court field offices – both of which will be vacated by June 30th. ESD is expected to take over the Ridgehaven field office, which was recently appraised at a value of $1.6 million. A fund transfer of $1.6 million into the Development Services Fund from the ESD Refuse Disposal Fund would follow.

Vacancy Update

Over the past few years, DSD's vacancy rates remained high due to the addition of significant numbers of new budgeted positions, as well as difficulty in attracting qualified candidates, employee transfers to other departments, and employee separations. The Department has made considerable progress in filling vacant positions, however, by centralizing all logistical tasks to allow hiring managers to focus on ideal candidate selection; keeping in constant communication with the Personnel Department regarding positions on certification lists; and simultaneously conducting recruitment tasks wherever possible.

The table below shows DSD's vacancy levels across all three funds as of April 2025. After factoring in proposed reductions, 16.00 budgeted positions remain unfilled. The Department has an overall vacancy rate of 2.1%.

DSD VACANCY STATUS			
Fund	**Budgeted FTEs**	**Total Vacancies**	**Vacancy Rate**
Enterprise Fund	667.00	16.00	2.4%
General Fund	73.00	-	0.0%
LEA Fund	5.00	-	0.0%
Total	**745.00**	**16.00**	**2.1%**

** LEA = Local Enforcement Agency*

Slightly under 90% of DSD positions are budgeted in the Enterprise Fund, which has historical vacancy rates of 20% to 30%. Since the beginning of FY 2023, vacancy rates have continuously trended down. Relative to April 2024, the overall vacancy rate for the enterprise fund decreased by 8 percentage points from 10.4% to 2.4%.

Local Enforcement Agency Fund

The FY 2026 Proposed Budget for the Local Enforcement Agency Fund includes approximately $1.2 million in expenditures, an increase of $54,000 over FY 2025. Revenues are projected to be $1.0 million, an increase of $45,000 from FY 2025 due to an increase in facility fees following the user fee updates. Positions budgeted in the Local Enforcement Agency Fund remain unchanged at 5.00 FTEs.

Economic Development

The Economic Development Department (EDD) leads the City's efforts in promoting economic opportunities and encouraging community revitalization. EDD oversees the City's community and business engagement programs and strategic partnerships. In FY 2025, the Department of Real Estate & Airport Management was merged into EDD, and the Department's responsibilities expanded to include managing the City's real estate portfolio, the City's Airports, operations of the City Concourse and Parking Garages, and the Joint Use Management Agreement for PETCO Park. On February 18, 2025, the Mayor announced the consolidation of Cultural Affairs into EDD.

EDD is organized into the following divisions:

- Real Estate:
    - Lease Administration
    - Municipal Assets Services
    - Strategic Partnerships and Research, including Successor Agency, Valuations and Dispositions
    - Acquisitions
- Airports
- Community and Business Engagement:
    - Business Expansion, Attraction, and Retention (BEAR)
    - Community Development Division (CDD)
- Business Operations and Support Services (BOSS)
- Cultural Affairs

Impacts of the Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for EDD is approximately $72.6 million, which is an increase of $12.9 million, or 21.5%, from the FY 2025 Adopted Budget. The increase is driven by the transfer of arts and culture funding into the new Cultural Affairs Division, as discussed further below. The General Fund supports $23.3 million, or 32.0%, of the Department's $72.6 million budget, with the remaining $49.4 million coming from the Transient Occupancy Tax Fund, Airports Enterprise Fund, Concourse & Parking Garages Fund, PETCO Park Fund, and Successor Agency Administration & Project - CivicSD Fund. EDD's FY 2026 Proposed Budget includes 135.00 FTEs, which is a decrease of 7.00 FTEs from FY 2025 due to the removal of Employ and Empower interns. Budgeted Revenue increased by $3.1 million, from $110.8 million in FY 2025 to $113.9 million in FY 2026.

Summary of Budget Mitigations

As part of the FY 2026 Proposed Budget process, most departments were requested to submit reductions of 20%. EDD's budget reductions total $798,000 in the Proposed Budget

SUMMARY OF ECONOMIC DEVELOPMENT DEPARTMENT BUDGET CHANGES						
Fund	**FY 2025 FTEs**	**FY 2026 FTEs**	**Change**	**FY 2025 Expense**	**FY 2026 Expense**	**Change**
General Fund (Economic Development)	60.50	58.75	(1.75)	$ 14,996,568	$ 14,461,402	$ (535,166)
General Fund (Real Estate)	42.25	38.00	(4.25)	7,333,744	8,796,113	1,462,369
Subtotal General Fund	102.75	96.75	(6.00)	$ 22,330,312	$ 23,257,515	$ 927,203
Airports	30.25	29.25	(1.00)	8,336,007	10,236,459	1,900,452
Cultural Affairs	7.00	7.00	-	2,961,948	13,846,342	10,884,394
Concourse & Parking Garages	2.00	2.00	-	4,740,124	3,868,537	(871,587)
PETCO Park	-	-	-	19,453,916	19,482,269	28,353
Successor Agency - CivicSD Fund	-	-	-	1,934,326	1,934,326	-
Total Combined	**142.00**	**135.00**	**(7.00)**	**$ 59,756,633**	**$ 72,625,448**	**$ 12,868,815**

which is about 3.6% of its FY 2025 General Fund Adopted Budget. Although not funded through the General Fund, Cultural Affairs is supported by the Transient Occupancy Tax Fund which has indirect General Fund impacts. That Division does not have any proposed reductions for its operating budget, but arts and culture funding is proposed to be reduced by 14.1%. For more discussion on arts and culture funding, please refer to the *Department Review: Special Promotional Programs* section of this report.

General Fund – Economic Development

The Proposed Budget for General Fund – Economic Development (i.e. Community and Business Engagement, financial operations, management) is $14.5 million, a $535,000, or 3.6%, decrease from FY 2025. FTEs are reduced by 1.75 to 58.75 FTEs in FY 2026. Total revenues are proposed to be $7.9 million, $589,000 more than FY 2025.

Significant Budget Addition

$3.0 million– Eviction Prevention Program

Among the major General Fund additions to the Proposed Budget is $3.0 million in *ongoing* General Funds to continue the Eviction Prevention Program and maintain current funding levels. The Eviction Prevention Program provides assistance to low-income renters in the City who are facing eviction. This program originated during the COVID-19 pandemic in response to the expiration of the statewide COVID-19 eviction moratorium in 2021. This funding is transferred to the San Diego Housing Commission, which contracts with Legal Aid Society of San Diego. Initially funded by federal pandemic relief sources, the General Fund provided this program with $3.0 million on a one-time basis in FY 2024. Another $3.0 million in one-time funding was provided in FY 2025, of which $2.0 million was from COVID-related Emergency Rental Assistance 2 funds, and $962,000 was provided from the General Fund. The proposed $3.0 million General Fund allocation in FY 2026 is ongoing, meaning it is expected to continue in future fiscal years. This is an increased General Fund contribution of $2.0 million compared to FY 2025.

Significant Budget Reductions

($765,000) – Budget Mitigation: Eliminate Small Business Enhancement Program (SBEP)

The Proposed Budget eliminates the $765,000 base budget for SBEP. SBEP is guided by Council Policy 900-15, which requires that the program receive an appropriation equivalent to $20 per small business (businesses with 12 or fewer employees) registered with the City, and that funding for SBEP must not fall below $1.6 million. As of March 2024, there

SUMMARY OF ECONOMIC DEVELOPMENT DEPARTMENT (GENERAL FUND) BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	60.50	$ 9,970,386	$ 5,026,182	$ 14,996,568	$ 7,308,400
Programmatic Changes					
Add Eviction Prevention Program	-	-	3,000,000	3,000,000	-
Mitigation: Small Business Enhancement (Ongoing)	-	-	(765,436)	(765,436)	-
Mitigation: Non-personnel Expenditures (Ongoing)	-	-	(32,523)	(32,523)	-
Other Changes					
Transfer in Financial Management Positions	7.75	1,274,711	-	1,274,711	50,000
Transfer out Successor Agency & Corp. Partnerships	(6.00)	(1,137,842)	(23,298)	(1,161,140)	(599,262)
Other Salary and Benefit Adjustments	-	144,193	-	144,193	-
Non-Discretionary & IT Adjustment	-	-	17,010	17,010	-
One-Time Additions and Annualizations	-	-	(2,858,195)	(2,858,195)	(138,891)
Remove Employ and Empower Interns	(3.50)	(153,786)	-	(153,786)	(153,787)
Revised Charges for Services Revenue	-	-	-	-	1,430,672
FY 2026 Proposed Budget	**58.75**	**$ 10,097,662**	**$ 4,363,740**	**$ 14,461,402**	**$ 7,897,132**
Difference from 2025 to 2026	***(1.75)***	***$ 127,276***	***$ (662,442)***	***$ (535,166)***	***$ 588,732***

were over 91,000 small businesses registered with the City, which would necessitate an appropriation of approximately $1.8 million. The lack of funding for SBEP in the FY 2026 Proposed Budget does not align with the funding requirement stated in the Council Policy.

As part of its final adoption of the FY 2025 budget, Council added $1.1 million in funding for SBEP, which was anticipated to support at least 28 nonprofits that work with small businesses.

To mitigate the impact of this reduction, EDD is proposing to use excess program income and/or reprogrammed Community Development Block Grant (CDBG) funds in FY 2026 for community and economic development eligible activities that would support the City's small business community. These activities are separate from SBEP, and the amount of funding to be made available for this purpose will be dependent on projects closing or income generated from previous projects. Council approved part of the actions associated with the FY 2026 Department of Housing and Urban Development (HUD) Annual Action Plan on April 21 and is anticipated to take action on the remainder in June.

<u>($33,000) – Budget Mitigation: Non-personnel Expenditures Savings</u>
The Proposed Budget includes the reduction of $33,000 in various non-personnel expenditures including discretionary IT costs and office supplies.

Significant Revenue Adjustment

<u>$1.4 million – Reimbursement for Services</u>
This revenue increase is for reimbursable staffing costs for various programs, including HUD program administration, Successor Agency activities, and Foreign Trade Zone. Increased staff salaries are a significant driver of the increased reimbursements, but actual revenue received will depend on the ability to hire and fill vacancies. A memo from a Deputy Chief Operating Officer to Councilmembers dated April 21, 2025, stated that a strategic hiring freeze will continue into early FY 2026.

Internal Restructure

The Proposed Budget also reflects an internal restructuring of EDD in which 6.00 FTEs and $1.2 million associated with Successor Agency and Corporate Partnership staff are moving from the Economic Development Business Area to the Real Estate Business Area, and 7.75 Financial Management FTEs and $1.3 million are moving from Real Estate to Economic Development. This allows financial positions to be consolidated under one Business Area for budgeting purposes. (We note that the EDD section of Volume II inadvertently cited these adjustments in reverse.)

General Fund – Real Estate Services

The Proposed Budget for Real Estate is $8.8 million, a $1.5 million increase from FY 2025. FTEs are reduced by 4.25 to 38.00 FTEs in FY 2026. Total revenues are proposed to be $73.5 million, about $759,000 less than FY 2025. Budget adjustments for Real Estate are shown in the table on the following page.

Real Estate Division does not have any significant expenditure additions or reductions.

Changes in the department reflect the internal restructure in the City's budgeting system noted above: transfer out of Financial Management staff to the Economic Development Business Area and a transfer in of staff supporting the Successor Agency & Corporate Partnerships.

Significant Revenue Adjustment

<u>$512,000 – Wayfinding Kiosk Revenue</u>
The Proposed Budget includes a $512,000 increase in revenue from Wayfinding Kiosks to be installed in Downtown San Diego. On June 6, 2023, the Council approved a Corporate Partnership Agreement with the Downtown

San Diego Partnership and IKE Smart City for the installation of interactive kiosks. Based on the agreement, the City is to receive a Minimum Annual Guarantee, currently $18,000 per operational kiosk, or 29.3% of net revenues generated from advertising sales, whichever is greater. Revenues coming to the City are expected to grow as more kiosks are constructed and as revenues from advertising sales outpace the Minimum Guarantee.

Currently there are 2 kiosks installed and according to the Department, 15 more are estimated to be installed from July 2025 to December 2025. Additional kiosks beyond this may come online in the second half of the fiscal year dependent upon the Development Services Department for issuing permits and SDG&E for providing power. It will be important to monitor the progress of installing kiosks and update revenue projections to align with actual trends.

Lease and Concession Revenue

The City receives revenues from numerous lease agreements with other entities for the use of City properties. The FY 2026 Proposed Budget includes $70.1 million in General Fund lease and concession revenue from Mission Bay, Pueblo Lands, Midway/Frontier property, and other parks or open spaces. This is a decrease of $1.5 million from the FY 2025 Adopted Budget. This decrease is driven by a $3.7 million reduction in revenue from Pueblo Lands due to the Hilton sale transaction which generated $3.3 million in FY 2025. This decrease is offset by a net increase in updated lessee revenue forecasts and historical revenue trends.

Per Charter Section 55.2, Mission Bay lease revenue more than $20.0 million is to be transferred to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund. The FY 2026 revenue projection for Mission Bay is $41.3 million. Based on the Charter formula for this allocation, $7.5 million and $13.8 million will be transferred to the Regional Park Improvement Fund and the Mission Bay Park Improvement Fund, respectively.

Issues for Council Consideration

Office Space Planning

During our review, several departments mentioned possible savings attributed to potential office moves in the future, however many of those plans appear to be in flux. However, the City *is* vacating most of the leased space at 525 B Street, and renegotiated a lower rent for the remaining square footage. Engineering & Capital Projects staff currently at 525 B Street is expected to move to Montgomery Gibbs Airport. The Fire-Rescue Department is also expected to move out of 525 B Street and into the Civic Center Plaza which is associated

SUMMARY OF EDD - REAL ESTATE SERVICES BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	42.25	$ 5,265,455	$ 2,068,289	$ 7,333,744	$ 74,239,925
Programmatic Changes					
Wayfinding Kiosk Revenue	-	-	-	-	512,010
Other Changes					
Transfer in Successor Agency & Corp. Partnerships	6.00	1,137,842	23,298	1,161,140	599,262
Transfer out Financial Management Staff	(7.75)	(1,274,711)	-	(1,274,711)	(50,000)
Remove Employ and Empower Interns	(2.50)	(99,193)	-	(99,193)	(99,193)
Other Salary and Benefit Adjustments	-	1,752,318	-	1,752,318	-
Non-Discretionary & IT Adjustment	-	-	(55,686)	(55,686)	-
Other Changes	-	-	(21,499)	(21,499)	-
Revised Lease Administration Revenue	-	-	-	-	1,613,250
One-Time Additions and Annualizations	-	-	-	-	(3,300,000)
Updated User Fee Revenue	-	-	-	-	(34,053)
FY 2026 Proposed Budget	**38.00**	**$ 6,781,711**	**$ 2,014,402**	**$ 8,796,113**	**$ 73,481,201**
Difference from 2025 to 2026	***(4.25)***	***$ 1,516,256***	***$ (53,887)***	***$ 1,462,369***	***$ (758,724)***

with $1.2 million in rent savings within the Citywide Program Expenditures budget.

101 Ash Street Building

EDD continues to provide property management functions for the 101 Ash Street building through a third-party contract. The property management contract costs $2.5 million in FY 2026. We note that the City is still in negotiations regarding potentially redeveloping the building into a 100% affordable housing project.

Cultural Affairs

The Cultural Affairs Division (Cultural Affairs) supports the Commission for Arts and Culture (Commission) and aims to foster equitable and inclusive artistic, creative, and cultural expression and engagement throughout the City. The role of the Commission, which consists of 15 volunteers, is to advise the Mayor and City Council on promoting arts and culture in civic life, including recommending local artists and arts and cultural nonprofit organizations to receive funding, as well as advising on the City's collections and public art project management activities.

The Proposed Budget for Cultural Affairs totals approximately $13.8 million, an increase of $10.9 million from the FY 2025 Adopted Budget, as shown in the table below. This increase is largely attributable to the transfer of arts and culture program funding from the Special Promotional Programs budget to Cultural Affairs. As a result, the Proposed Budget for Creative Communities San Diego, Organizational Support Programs, and Impact will now be reflected in the Cultural Affairs budget. This transfer was intended to capture fully the City's arts and culture funding awarded by Cultural Affairs. Ultimately, this is not anticipated to result in programmatic impacts. The Proposed Budget includes 7.00 FTE positions, which is unchanged from the FY 2025 Adopted Budget. The Division currently has no vacancies.

Division operations are primarily funded by the Transient Occupancy Tax (TOT) Fund, with TOT Fund expenditures totaling $13.8 million in the Proposed Budget.

Significant Budget Reductions

Reductions are proposed for arts and culture funding in both the Cultural Affairs budget and the Special Promotional Programs budget, which moves the City further away from meeting its Penny for the Arts goal. In total, arts and culture funding is proposed to be reduced by $2.3 million in the Proposed Budget (from $16.1 million to $13.8 million), or 14.1%. This includes the items below, plus a $838,000 decrease for Cultural Affairs, largely driven by the removal of one-time funding for World Design Capital and the elimination of City Council allocations for Arts, Culture, and Community Festivals (ACCF) that totaled $450,000 in FY 2025. More information about Penny for the Arts spending included in the Proposed Budget can

SUMMARY OF CULTURAL AFFAIRS BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	7.00	$ 1,184,474	$ 1,777,474	$ 2,961,948	$ 85,000
Programmatic Changes					
Budget Mitigation: Reduce Arts and Culture Funding	-	-	(897,650)	(897,650)	-
Budget Mitigation: Reduce Lyceum Theatre Operations	-	-	(100,000)	(100,000)	-
Budget Migration: Eliminate Public Art Fund Allocation	-	-	(85,000)	(85,000)	(85,000)
Other Changes					
Transfer From Special Promotional Programs	-	-	12,704,560	12,704,560	-
Salary and Benefit Adjustments	-	93,038	-	93,038	-
Non-Discretionary - Information Technology	-	-	(42,824)	(42,824)	-
Other Non-Discretionary Adjustments	-	-	2,270	2,270	-
Removal of FY 2025 One-Time for World Design Capital	-	-	(790,000)	(790,000)	-
FY 2026 Proposed Budget	**7.00**	**1,277,512**	**12,568,830**	**13,846,342**	**-**
Difference from 2025 to 2026	***-***	***$ 93,038***	***$ 10,791,356***	***$ 10,884,394***	***$ (85,000)***

be found in the *Department Review: Special Promotional Programs* section of this report.

($898,000) – Budget Mitigation: Reduce Arts and Culture Program Funding

The Proposed Budget reduces funding for Creative Communities by $324,000 and Organizational Support Programs by $574,000. Both programs competitively award funding to local arts and culture nonprofits and artists on an annual basis. Creative Communities focuses on project-based funding, while Organizational Support offers general operating funds. The FY 2026 funding cycle for both programs began in Fall 2024, and the Commission completed a review of the ranked submittals on April 25, 2025. According to the Division, the proposed reduction for both programs has no impact on the number of applicants receiving funding, but will reduce the funding amounts awarded to local non-profits and artists.

After those reductions, the Proposed Budget still includes $1.7 million for Creative Communities and $9.6 million for Organizational Support, as well as $500,000 (unchanged from FY 2025) for Impact, which targets funding to artists and nonprofits located in San Diego communities of concern and the Promise Zone.

($100,000) – Budget Mitigation: Reduce Funding for Lyceum Theatre Operations

The Proposed Budget reduces operational funding for the Lyceum Theater by $100,000 on a one-time basis, from $420,000 in FY 2025 to $320,000 in Proposed Budget. This adjustment is based on revised projected expenditures in FY 2026 driven by the updated redevelopment timeline of Horton Plaza, where the theater is located. The Lyceum Theater is leased by the Successor Agency under a long-term agreement.

($85,000) – Budget Mitigation: Eliminate Public Art Fund Allocation

The Proposed Budget eliminates the transfer of $85,000 in ongoing TOT revenue to the Public Art Fund along with associated expenditures. The Public Art Fund supports artwork repair, conservation, installation, and other professional art collections management activities. Of the total reduction, $75,000 would be reduced from collections management. According to the Division, this would delay maintenance and conservation of art displayed in public spaces. Art pieces that have public safety issues or extensive damage would be prioritized; currently no pieces have public safety concerns. The remaining $10,000 would be reduced from funding for the poet laureateship, which may affect the second year of the current poet laureate's tenure and implementation of a citywide poetry initiative. The poet laureateship currently has a budget of $20,000 for a two-year term.

Issues for Council Consideration

Update on World Design Capital (WDC)

In November 2021, San Diego and Tijuana were jointly selected as the WDC 2024 to host a regional year-long showcase of design and innovation in the community and features a series of public events, conferences, exhibitions, summits, and celebrations. WDC activities closed out in FY 2025, with completion of an economic impact study targeted for September 2025. Of note, the FY 2024 Adopted Budget provided $3.0 million in one-time funding to support WDC activities, including $1.0 million for an arts, culture, and design organization. From this allocation, a $300,000 grant for the design and fabrication of a temporary WDC pavilion was awarded, and the temporary pavilion was installed at Balboa Park from August to November 2024 to host WDC programs. As the pavilion is no longer in use, the Division has since indicated that the WDC nonprofit intends to sell the pavilion to be housed in the City of Tijuana with the proceeds going to the nonprofit.

Airports

The Airports Division is responsible for the operations and maintenance of two City-owned airports: Montgomery-Gibbs Executive Airport and Brown Field Airport. The Airports budget is summarized in the table below. Expenditures in the FY 2026 Proposed Budget for airports total approximately $10.2 million, an increase of $1.9 million from the FY 2025 Adopted Budget. Revenues in the Proposed Budget show a small decrease of $89,000, for total revenues of $8.9 million. FTE positions are budgeted at 29.25 which is a decrease of 1.00 FTE Employ and Empower Intern. The Airports Division spends out of the Airports Fund and does not have any significant budget reductions.

Significant Budget Additions

$1.0 million – Repair and Maintenance

The Proposed Budget includes the addition of $1.0 million in ongoing funding for maintenance and repair projects. This includes $500,000 for the Commercial and Retail Center comprised of three commercial buildings and one retail center at the Montgomery-Gibbs Executive Airport. Also included is $250,000 for each airport (Montgomery Gibbs and Brown Field) for repairs and maintenance needed to keep facilities up to code and ready to be leased to non-City and City tenants. Repairs may include building exterior work, plumbing, slurry seal and surface work on parking lots, carpeting, painting, HVAC, electrical work, and other unforeseen repairs.

Revenue for prospective tenants is not yet budgeted, as move-in dates are not determined, but the Division will make revenue adjustments in the quarterly budget monitoring process.

$200,000 – Purchase of Tractor/Mower Equipment

The Proposed Budget includes the addition of $200,000 in one-time funding for tractor/mower equipment to clear foliage surrounding the airfield, taxiways, and runways to improve visibility. This investment is expected to reduce annual mowing services.

Concourse & Parking Garages

The FY 2026 Proposed Budget for the Concourse & Parking Garages Operating Fund includes $3.9 million in expenditures and $3.0 million in revenues, representing decreases of $872,000 and $232,000 respectively, from the FY 2025 Adopted Budget.

The decrease in expenditures is largely driven by removing $1.4 million in one-time expenditures from transferring fund balance to the General Fund in FY 2025. The Proposed Budget includes a smaller transfer of $523,000 to the General Fund to help balance the budget.

The decrease in revenues is largely associated with Father Joe's Villages no longer needing

SUMMARY OF EDD - AIRPORT FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	30.25	$ 3,206,111	$ 5,129,896	$ 8,336,007	$ 8,981,280
Programmatic Changes					
Repair and Maintenance	-	-	1,000,000	1,000,000	-
Purchase Tractor/Mower Equipment	-	-	200,000	200,000	-
Other Changes					
Salary and Benefit Adjustments	-	643,469	-	643,469	-
Non-Discretionary & IT Adjustment	-	-	183,797	183,797	-
One-Time Additions and Annualizations	-	-	(90,000)	(90,000)	-
Remove Employ and Empower Interns	(1.00)	(36,814)	-	(36,814)	(39,678)
Revised User Fee Revenue	-	-	-	-	(48,862)
FY 2026 Proposed Budget	**29.25**	**$ 3,812,766**	**$ 6,423,693**	**$ 10,236,459**	**$ 8,892,740**
Difference from 2025 to 2026	***(1.00)***	***$ 606,655***	***$ 1,293,797***	***$ 1,900,452***	***$ (88,540)***

parking passes for staff due to the closure of the Golden Hall homeless shelter. This decrease in revenue is offset by an increase of $144,000 in projected revenue from the Municipal Parking Garage. The table below summarizes the budget for this fund.

PETCO Park

The FY 2026 Proposed Budget for the PETCO Park Fund includes $19.5 million in expenditures, an increase of approximately $28,000, or 0.1%, from the FY 2025 Adopted Budget. This fund has no FTEs. Revenues are budgeted at $18.7 million, an increase of $3.7 million, or 24.4% from the FY 2025 Adopted Budget. Budget adjustments are detailed in the table on the following page.

The increase in revenue is largely driven by an increased transfer from the Transient Occupancy Tax (TOT) Special Promotional Programs budget, totaling $10.6 million (an increase of $2.8 million). The increase includes an increased debt service payment of $9.3 million and operating expenses totaling $1.3 million. Revenue is projected to increase by $655,000 due to revised projections for reimbursements associated with police services provided at baseball games.

Low and Moderate Income Housing Asset Fund

Though not reflected in EDD's budget, the Department also administers the Low and Moderate Income Housing Asset Fund (LMIHAF) which has its own section in Volume II of the Proposed Budget. All housing assets transferred from the former redevelopment agency to the City, acting as the housing successor agency, and revenues generated from those housing assets, are required to be kept in LMIHAF for affordable housing purposes. LMIHAF is one of the three main sources of funding that support the City's Bridge to Home Program, which provides financing for the development of affordable housing. EDD's next Notice of Funding Availability will be released this summer.

The FY 2026 Proposed Budget includes $35.5 million in expenditures, a decrease of $551,000, or 1.6%, as compared to the FY 2025 Adopted Budget. The decrease is a result of removing one-time expenditures.

The LMIHAF is largely supported by:

1. Unencumbered affordable housing bond proceeds issued by the former redevelopment agency prior to its dissolution;
2. Loan repayments and lease payments; and
3. Land disposition proceeds.

SUMMARY OF EDD - CONCOURSE AND PARKING GARAGES OPERATING FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	2.00	$ 253,004	$ 4,487,120	$ 4,740,124	$ 3,218,267
Programmatic Changes					
Transfer of Fund Balance to General Fund	-	-	522,866	522,866	-
Revenue Adjustment: Municipal Parking Garage	-	-	-	-	144,292
Revenue Adjustment: Concourse & Parking Garage	-	-	-	-	(65,520)
Revenue Adjustment: Horton Plaza Parking Garage	-	-	-	-	(10,307)
Other Changes					
Reimbursements for Operating Expenditures	-	-	-	-	(300,000)
One-Time Additions and Annualizations	-	-	(1,395,631)	(1,395,631)	-
Salary and Benefit Adjustment	-	1,071	-	1,071	-
Other Adjustments	-	-	107	107	-
FY 2026 Proposed Budget	**2.00**	**$ 254,075**	**$ 3,614,462**	**$ 3,868,537**	**$ 2,986,732**
Difference from 2025 to 2026	***-***	***$ 1,071***	***$ (872,658)***	***$ (871,587)***	***$ (231,535)***

Ongoing revenue sources for the LMIHAF are loan repayments, lease payments, and interest which are projected to be $1.2 million in FY 2026, unchanged from FY 2025.

SUMMARY OF EDD - PETCO PARK FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	-	-	19,453,916	$ 19,453,916	15,041,387
Changes					
Non-Discretionary & IT Adjustment	-	-	28,353	28,353	-
Transient Occupancy Tax Transfer	-	-	-	-	2,844,778
Revised Reimbursements for Police Services	-	-	-	-	654,759
Revised Special Events Revenue	-	-	-	-	153,836
Revised Rent Revenue	-	-	-	-	10,276
FY 2026 Proposed Budget	**-**	**$ -**	**$ 19,482,269**	**$ 19,482,269**	**$ 18,705,036**
Difference from 2025 to 2026	***-***	***$ -***	***$ 28,353***	***$ 28,353***	***$ 3,663,649***

Engineering & Capital Projects

The Engineering & Capital Projects Department (E&CP) provides engineering, program and construction management, and inspection services for the Capital Improvements Program (CIP) and oversight of the development of public infrastructure and facilities. The CIP is made up of 1,332 capital improvement projects that rehabilitate, restore, improve, and create new capital infrastructure like libraries, parks, and water and sewer pipelines.

E&CP is responsible for planning, designing, and managing the construction of public improvement projects; providing quality assurance and inspection of public and private work within the public rights-of-way; and delivering surveying and materials testing services.

Goals for the Department include:

- Providing quality, safe, reliable, and equitable infrastructure and related services.
- Providing timely and efficient delivery of projects.
- Cultivating a departmental culture that prioritizes diversity and inclusion to foster innovation.

E&CP Special Revenue Fund

Expenses in the Department are billed against CIP projects, and revenue comes in through the E&CP Fund, a special revenue fund. In the case of the E&CP Fund, engineers and other staff that work directly on CIP projects charge the time they work on those respective projects. Staff not working directly on projects are covered by the Department's overhead rate included in charges for projects.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for E&CP totals $179.1 million, an increase of $12.7 million, or 7.6%, compared to the FY 2025 Adopted Budget. The budget includes 767.00 FTE positions, a net decrease of 72.40 FTEs from the prior year. The Proposed Budget also includes $167.0 million in offsetting revenue from charges to projects, which represents a decrease of $5.7 million. A summary of budget changes by division is included in the table below.

Budget Mitigations

Although E&CP operates as a Special Revenue Fund and is not directly supported by the

SUMMARY OF ENGINEERING & CAPITAL PROJECTS DEPARTMENT BUDGET CHANGES						
Division	**FY 2025 FTE**	**FY 2026 FTE**	**Change**	**FY 2025 Expense**	**FY 2026 Expense**	**Change**
Business Operations & Employee Services	63.00	53.50	(9.50)	33,746,514	34,509,832	763,318
Capital Asset Management	26.00	-	(26.00)	5,764,480	-	(5,764,480)
Construction Engineering Support	142.00	135.00	(7.00)	22,499,189	26,404,829	3,905,640
Construction Management & Field Engineering	158.00	150.00	(8.00)	29,088,606	31,108,908	2,020,302
Engineering & Capital Projects	17.00	14.50	(2.50)	3,516,777	2,123,324	(1,393,453)
Facilities & Parks Project Delivery	57.00	51.00	(6.00)	10,287,134	11,038,211	751,077
Infrastructure Construction Management	38.00	31.00	(7.00)	7,804,744	7,054,426	(750,318)
Program & Project Development	67.00	88.00	21.00	8,856,206	17,735,323	8,879,117
Project Development & Management	2.00	2.00	-	467,869	414,525	(53,344)
Project Management Office	73.00	70.00	(3.00)	11,573,808	13,327,660	1,753,852
SW & T Project Delivery	77.00	70.00	(7.00)	14,091,715	15,215,932	1,124,217
Utilities Project Delivery	119.40	102.00	(17.40)	18,660,720	20,130,057	1,469,337
Total Combined	**839.40**	**767.00**	**(72.40)**	**$166,357,762**	**$179,063,027**	**$12,705,265**

General Fund, it has an indirect impact on the City's overall financial position. As such, E&CP was asked to submit budget reductions to help reduce the FY 2026 projected deficit.

The Department's FY 2026 Proposed Budget includes $11.6 million in total reductions, or approximately 7.0% of the FY 2025 Adopted Budget. These adjustments are summarized in the table on the following page and discussed in more detail below.

Operational Efficiency (61.00 FTE)

The FY 2026 Proposed budget includes a reduction of 61.00 full-time positions and $9.2 million in associated personnel expenses. Our office notes that 60.00 of the positions are currently vacant or are expected to be vacant by the end of FY 2025. The reduction of 1.00 Assistant Deputy Director position, which is currently filled, was included in error in the Proposed Budget and will be requested for reinstatement in the May Revise.

E&CP's operational needs are closely aligned with the size and scope of the Capital Improvement Program (CIP). As the CIP expanded over the last several years, additional resources were required to support project delivery. Conversely, in FY 2026, the Department is beginning to experience a contraction in the CIP, driven in part by limited General Fund resources and debt capacity. This slowdown will require E&CP to reduce its operating costs accordingly. Additionally, the Public Utilities Department has significantly scaled back its Pipeline Program, resulting in fewer projected projects and reduced workload for E&CP staff.

Given this decline in overall CIP activity, the reduction of positions is not expected to have an impact on current operations. A list of classifications proposed to be reduced are provided in the above right table.

SUMMARY OF POSITION REDUCTIONS	
Job Classification	**FTE**
Administrative Aide 1	-6.00
Administrative Aide 2	-2.00
Assistant Deputy Director	-1.00
Assistant Engineer-Civil	-13.00
Assistant Engineer-Electrical	-2.00
Associate Engineer-Civil	-6.00
Clerical Assistant 2	-1.00
Contracts Processing Clerk	-1.00
Deputy Director	-1.00
Information Systems Technician	-1.00
Land Surveying Assistant	-3.00
Landscape Designer	-1.00
Principal Drafting Aide	-2.00
Principal Engineering Aide	-7.00
Principal Survey Aide	-2.00
Project Assistant	-3.00
Project Officer 2	-1.00
Senior Civil Engineer	-3.00
Senior Drafting Aide	-1.00
Senior Electrical Engineer	-1.00
Senior Engineering Aide	-1.00
Senior Planner	-1.00
Senior Public Information Officer	-1.00
Total	**-61.00**

Non-Standard Hourly Personnel (17.40 FTE)

The FY 2026 Proposed budget includes the reduction of 17.40 hourly positions and $702,000 in associated expenses. Hourly positions include Management Interns, Student Engineers, Planning Interns, and provisional employees. The Department does not plan to extend existing provisional appointments or hire additional provisional staff. The proposed reductions are not expected to impact service levels, as E&CP will rely on interns from the Employ and Empower Program to support ongoing needs. The Department intends to fully use its allotted 4.00 hourly FTEs under this program.

SUMMARY OF ENGINEERING & CAPITAL PROJECTS BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	839.40	$ 143,496,958	$ 22,860,804	$ 166,357,762	$ 172,656,515
Programmatic Changes					
Employ and Empower Program Support (hourly)	4.00	213,009	-	213,009	213,009
Mitigation: Reduction of Non-Personnel Expenditures	-	-	(1,704,257)	(1,704,257)	-
Mitigation: Operational Efficiency	(61.00)	(9,211,408)	-	(9,211,408)	(6,249,489)
Computer Aided Design and Drafting (CADD) Support	-	-	395,273	395,273	-
Restructure of ADA Compliance & Accessibility	2.00	534,149	-	534,149	-
Other Changes					
Salary and Benefits Adjustments	-	21,484,610	-	21,484,610	-
Right-of-Way Permit Reimbursements Adjustments	-	-	-	-	1,109,218
Right-of-Way Inspection Fee Revenue	-	-	-	-	1,320,289
Non-Discretionary Adjustments	-	-	1,821,502	1,821,502	-
Non-standard Hour Personnel Funding	(17.40)	(701,538)	-	(701,538)	-
One-Time Additions and Annualizations	-	-	(126,075)	(126,075)	(2,061,430)
FY 2026 Proposed Budget	**767.00**	**$155,815,780**	**$23,247,247**	**$179,063,027**	**$ 166,988,112**
Difference from 2024 to 2025	***(72.40)***	***$ 12,318,822***	***$ 386,443***	***$ 12,705,265***	***$ (5,668,403)***

Non-Personnel Expenditures (NPE) ($1.7 million)

The FY 2026 Proposed Budget includes a $1.7 million reduction in NPE that includes:

- ($500,000) – Low Value Assets

  The Department will defer the purchase of certain lab and survey equipment to future fiscal years. By delaying these purchases, the Department can reduce NPE without disrupting core services or compromising its ability to deliver on current project commitments.

- ($700,000) – Training - In House

  The Department will limit external paid training to only those courses required by federal or state regulations, such as training necessary for engineers to perform fieldwork or maintain professional licenses. Over the years, E&CP has developed a robust in-house training team that delivers a wide range of technical and professional development courses internally. This internal capacity allows the Department to continue supporting staff development while minimizing costs, contracting out only those training courses that require instruction by a certified external expert.

- ($500,000) – Computer Maintenance /Contracts

  The Department will defer scheduled computer replacements to the following fiscal year and adopt a "break-fix" service model in the interim. Under this approach, devices will only be repaired or replaced when they fail or become non-functional, rather than as part of a routine replacement cycle. This strategy allows E&CP to reduce non-personnel expenditures in FY 2026 while continuing to support essential technology needs.

Significant Budget Additions

- The FY 2026 Proposed Budget includes an increase of 4.00 FTE Employ and Empower - Management Interns positions, with $213,000 in personnel expenditures. These positions are offset by corresponding revenue from the grant-funded Employ and Empower program and thus are revenue-neutral.

- The FY 2026 Proposed Budget includes the transfer in of 2.00 FTE positions—1.00 Program Manager and 1.00 Project Assistant— and $530,000 of expenditures from the Sustainability and Mobility Department. These positions support the ADA Compliance and Accessibility Program. Associated revenue for these positions is expected to be requested as part of the May Revise.

This transfer does not include 1.00 FTE and $206,000 for a position that was reduced from the FY 2025 Adopted Budget for the ADA function. This position is expected to be vacant by the end of this fiscal year, and the duties will be absorbed by the existing staff. This reduces the number of staff dedicated to ADA compliance from three to two positions.

The FY 2026 Proposed Budget includes an increase of $395,000 NPE to support the transition to a new Computer Aided Design and Drafting (CADD) application. This amount includes a one-time cost of $130,000 for the initial transition, as well as $265,000 in ongoing expenditures for licensing and technical support from the new provider.

Issues for Council Consideration

Operational Efficiency Reduction

As noted earlier, the Operational Efficiency reduction is linked to the projected downsizing of the capital program. If additional dedicated funding is identified or programs expand, E&CP would need to re-evaluate and adjust staffing levels accordingly.

Environmental Services

The Environmental Services Department (ESD) provides waste management and abatement services throughout the City of San Diego. This includes collection and disposal of residential refuse, including trash, recycling, and organics, as well as the management and operation of the Miramar Landfill and Greenery. Additional services provided by the Department include sidewalk sanitation, homelessness encampment abatement, removal of illegal dumping, and enforcement of City codes and regulations regarding solid waste and recycling.

Impacts of the Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for ESD is approximately $255.1 million, an increase of $60.8 million and 54.99 FTEs from the FY 2025 Adopted Budget, as shown in the table below. Revenues are projected to total approximately $246.0 million, an increase of $157.2 million from the FY 2025 Adopted Budget, mainly due to new Solid Waste Management fees included in the Proposed Budget.

To accommodate the Department's multiple areas of responsibility and funding sources, the Department is divided into five primary divisions across five individual funds. The analysis of the FY 2026 Proposed Budget in this section is organized by the Department's five funds.

General Fund

The FY 2026 Proposed Budget for ESD's General Fund operations totals approximately $33.1 million, a $70.4 million (68.0%) decrease from the FY 2025 Adopted Budget. The FY 2026 Proposed Budget for ESD's General Fund operations includes 130.73 FTEs which represents a decrease of 197.52 FTEs from the FY 2025 Adopted Budget.

The Department's General Fund revenue, totaling $4.1 million for FY 2026, is an increase of $2.7 million from FY 2025. Significant changes are summarized on the table at the bottom of the next page.

Significant Budget Additions

$3.0 million – Solid Waste Ratepayer Assistance

The first significant addition is $3.0 million for the solid waste fee ratepayer assistance program. This program will offer subsidies for solid waste fees for selected properties once the solid waste fee is finalized by the City Council. This includes funding a nonprofit contract to administer the fee as well as direct assistance. General Fund dollars are proposed to be used for this expense, as ratepayer funds cannot be used to subsidize other ratepayers under Proposition 218. Unlike the actual collection fees, Council can change the amount

ENVIRONMENTAL SERVICES DEPARTMENT FY 2026 PROPOSED BUDGET EXPENDITURES							
Divisions	FTE	General Fund	Solid Waste Management Fund	Automated Refuse Container Fund Replacement	Refuse Disposal Fund	Recycling Fund	TOTAL
Collection Services	*291.00*	$ 740,799	$ 122,634,336	$ 2,009,969	$ -	$ 73,877	$ 125,458,981
Disposal & Environmental Protection	*164.00*	3,291,624	1,407,989	-	49,217,509	3,543,822	57,460,944
Clean SD	*86.00*	20,851,799	499,598	-	-	1,738,426	23,089,823
Environmental Services	*71.00*	5,768,607	7,827,749	-	6,621,435	11,742,758	31,960,549
Waste Reduction	*51.50*	2,468,883	7,482,713	-	-	7,160,016	17,111,612
TOTAL	**663.50**	**$ 33,121,712**	**$ 139,852,385**	**$ 2,009,969**	**$ 55,838,944**	**$ 24,258,899**	**$ 255,081,909**

for this assistance program every year depending on the perceived need and eligibility criteria selected for the program.

$238,000, 1.00 FTE – CleanSD Program Manager
Another significant addition is an administrative position for the CleanSD program. This position was added supplementally in FY 2020 but was never added to the budget. It is currently filled.

$28,000, 0.22 FTE – Training Supervisor
One Training Supervisor position is being added across the four major ESD funds. This position will provide safety training across the entire operation, and funding for the position is split among the funds based on an administrative funding split determined by the size of each fund.

Significant Budget Reductions

($300,000) – Urban Corps Contract for Compost Distribution
The largest reduction is $300,000 for an Urban Corps contract for compost distribution. This contract is being moved to the Recycling Fund, where it is also being increased to $500,000 as part of the effort to improve the distribution of compost.

($219,000) – Budget Mitigation: Refuse Disposal Fee Discount
The Proposed Budget includes a one-time discount for refuse deposited at the Miramar Landfill. In total, this reduction will save the General Fund $800,000 across multiple departments. Further detail on the impact of this reduction can be found below under the Refuse Disposal Fund.

($70,000) – Mission Beach Second Pickup
There is also a $70,000 reduction for overtime expenditures associated with the twice a week residential pickup in Mission Beach during summer months. With the proposal to charge for waste collection, and in line with Proposition 218 requirements, residents in Mission Beach will now be required to have multiple cans if their refuse cannot be collected in a single bin on a weekly collection schedule. If they are still unable to manage their refuse on their property with multiple bins, they will be deemed ineligible for City service and be referred to a private hauler for refuse collection. The additional Code Compliance Officers added within the Solid Waste Management

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT - GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	328.25	$ 43,305,421	$ 60,237,959	$ 103,543,380	$ 1,497,220
Programmatic Changes					
Solid Waste Ratepayer Assistance	-	-	3,000,000	3,000,000	-
CleanSD Program Manager	1.00	237,634	-	237,634	-
Training Supervisor	0.22	27,772	-	27,772	-
Mission Beach Second Pickup	-	(70,000)	-	(70,000)	-
Refuse Disposal Fee Discount for General Fund	-	-	(218,968)	(218,968)	-
Urban Corp Contract for Compost Distribution	-	-	(300,000)	(300,000)	-
TOT Fund Reimbursement	-	-	-	-	1,500,000
Payments for Assets in Solid Waste Management Fund	-	-	-	-	1,456,504
Removal of Reimbursement from Container Fund	-	-	-	-	(28,639)
Transfers to Other Funds					
Transfer to Recycling Fund	(3.00)	(459,071)	(655,174)	(1,114,245)	
Rebalancing of Administrative Position Funding	(14.74)	(2,362,284)	-	(2,362,284)	-
Transfer to Solid Waste Management Fund	(181.00)	(28,308,681)	(43,151,352)	(71,460,033)	(280,000)
Other Changes					
Other Salaries and Wages	-	2,703,096	-	2,703,096	-
Fringe Benefits (Including Retirement ADC)	-	1,205,543	-	1,205,543	-
Revenue from Development Services Fee Increase	-	-	-	-	3,132
Non-Discretionary Adjustments	-	-	(2,070,183)	(2,070,183)	-
FY 2026 Proposed Budget	**130.73**	**$ 16,279,430**	**$ 16,842,282**	**$ 33,121,712**	**$ 4,148,217**
Difference from 2025 to 2026	***(197.52)***	***$ (27,025,991)***	***$ (43,395,677)***	***$ (70,421,668)***	***$ 2,650,997***

Fund will also ensure that refuse is being properly contained in bins in between pickups both in Mission Beach and throughout the City.

Transfers to Other Funds

Given the large amount of restructuring happening within ESD during FY 2026 due to the implementation of Measure B, each fund will also have a brief section describing transfers either out of or into each fund from other ESD funds.

<u>($71.5 million, 181.00 FTEs) – Restructure to the Solid Waste Fund</u>
The largest transfer is $71.5 million and 181.00 FTEs from the General Fund to the Solid Waste Management Fund. This transfer includes the vast majority of ESD's Collection Services Division and represents the vast majority of General Fund savings associated with establishing a solid waste collection fee in line with Measure B. This transfer includes all of the costs associated with the 181.00 FTEs, as well as both discretionary and nondiscretionary non-personnel expenditure adjustments.

<u>($2.4 million, 14.74 FTEs) – Rebalancing of Administrative Position Funding</u>
With the full development of the Solid Waste Management Fund in FY 2026, ESD is rebalancing how administrative positions that oversee and support the entire Department are funded. Rebalancing ensures that no individual fund, including the enterprise funds, pays for a greater proportion of administrative costs than the benefit that each fund receives. For the General Fund, this results in a reduction of $2.4 million and 14.74 FTEs.

<u>($1.1 million, 3.00 FTEs) – Transfer to the Recycling Fund</u>
These three positions and their associated funding are moving to the Recycling Fund. All three positions are Recycling Specialists that support organic waste recycling efforts, which are more appropriately funded from the Recycling Fund than from the General Fund.

Significant Revenue Adjustments

There are also two significant revenue increases in the General Fund for ESD. The first is an increase of $1.5 million in reimbursements from the Transient Occupancy Tax (TOT) Special Promotional Programs Fund. This revenue will help cover the costs for sidewalk sanitation services that take place downtown and in high tourism areas.

The second increase of $1.5 million is associated with payments to the General Fund for assets that are moving from the General Fund to the Solid Waste Management Fund. Since these assets were purchased with General Fund dollars, it is appropriate for the Solid Waste Management Fund to pay back the General Fund for these assets. The assets are primarily vehicles.

Unfunded Budget Requests

<u>Transitional Support for the Solid Waste Management Fund</u>
The largest unfunded request for the General Fund is $10.0 million to provide one-time transitional support for the Solid Waste Management Fund on a one-time basis in FY 2026. We provide more information on this item in the *Issues for Council Consideration* section under the Solid Waste Management Fund.

<u>Asbestos Mitigation and Abatement</u>
The other unfunded request is $4.0 million for asbestos mitigation and abatement funding for City buildings. Of this amount, $3.0 million would be for a consultant to perform comprehensive building surveys and reports in line with the Municipal Energy Strategy to inform planning on the continued use of City facilities. The additional $1.0 million would have been to actually implement cleaning, maintenance, and other abatement as necessary to ensure compliance with state and federal regulations.

Solid Waste Management Fund

The Solid Waste Management Fund (SWMF) is the enterprise fund that will fund the collection and disposal of waste, recycling, and organics for residential properties in line with the Municipal Code's eligibility criteria as amended by Measure B in 2022. This fund is budgeted to be primarily funded through proposed refuse collection fees.

As shown in the table below, the FY 2026 Proposed Budget for the SWMF is $139.9 million, which is an increase of $133.2 million from the FY 2025 Adopted Budget. FTEs total 322.55, which is an increase of 306.55 FTEs.

Revenues in FY 2026 are projected to be $151.5 million, all of which is an increase from the prior year (when the SWMF was established in FY 2025, no revenue was provided for it).

For FY 2026, there are numerous changes as the fund enters its first full year of operations. All of these increases are further described in the Cost-of-Service (COS) Study ESD is relying on for fee setting.

Transfer from Other Funds

The vast majority of the SWMF's expenditure

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT - SOLID WASTE MANAGMENT FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	16.00	$ 1,592,636	$ 5,033,240	$ 6,625,876	$ -
Transfers from Other Funds					
Transfer from General Fund	181.00	28,308,681	43,151,352	71,460,033	-
Transfer from Recycling Fund	50.00	7,466,716	3,562,355	11,029,071	-
Transfer of Recycling Processing Contract	-	-	6,400,000	6,400,000	-
Administrative Positions Rebalancing	29.08	4,739,652	-	4,739,652	-
Transfer from Container Fund	-	-	1,937,573	1,937,573	2,000,000
Transfer from Refuse Disposal Fund	1.00	136,624	174,082	310,706	-
Programmatic Changes					
Packer Purchases	-	-	9,842,103	9,842,103	-
Fleet Charges Changes	-	-	7,735,030	7,735,030	-
SB 1383 Debt Repayments	-	-	6,458,372	6,458,372	-
Payments for Transfers of Assets to Other Funds	-	-	3,974,087	3,974,087	-
Customer Portal Development	-	-	3,115,516	3,115,516	-
Operational Efficiency Positions and Funding	10.00	1,660,907	704,000	2,364,907	-
EV Pilot for Packers	-	-	2,283,245	2,283,245	-
Increased Container Operations	10.00	843,020	1,000,000	1,843,020	-
Missed Collections Crew	9.00	1,059,840	18,000	1,077,840	-
Administrative Positions	8.00	840,757	-	840,757	-
Code Compliance Positions	7.00	724,309	-	724,309	-
Data Tracking Software	-	-	500,000	500,000	-
Roadside Assistance Vehicle for Packers	-	-	354,000	354,000	-
City Services Billing	-	-	150,000	150,000	-
Training Supervisor	0.47	59,331	-	59,331	-
Software Licenses	-	-	47,000	47,000	-
Tax Roll Billing Payment	-	-	23,000	23,000	-
Fee Consultant Contract Changes	-	-	(2,500,000)	(2,500,000)	-
Solid Waste Management Fees	-	-	-	-	138,859,107
Recycling Fund Assistance	-	-	-	-	8,600,000
Low Income Assistance from General Fund	-	-	-	-	2,000,000
Other Changes					
Non-Discretionary Adjustments	-	-	944,752	944,752	-
Hourly Position Changes	1.00	53,955	-	53,955	53,955
Fringe Benefits (Including Retirement ADC)	-	(313,786)	-	(313,786)	-
One-time Adjustments from FY 2025	-	-	(380,880)	(380,880)	-
Other Salaries and Wages	-	(1,849,084)	2,000	(1,847,084)	-
FY 2026 Proposed Budget	**322.55**	**$ 45,323,558**	**$ 94,528,827**	**$ 139,852,385**	**$ 151,513,062**
Difference from 2025 to 2026	***306.55***	***$ 43,730,922***	***$ 89,495,587***	***$ 133,226,509***	***$ 151,513,062***

increases is due to the transfer of various personnel and non-personnel costs from other ESD funds into the SWMF. Transfers total $95.9 million and include 261.08 FTEs. This represents 72.0% of the expenditure increase and 85.2% of the FTE increase in FY 2026 in the SWMF.

These transfers are also described under the funds from which they are coming, but to summarize they include:

- $71.5 million and 181.00 FTEs for Collections Services and other staff from the General Fund;
- $11.0 million and 50.00 FTEs for Collections Services and other staff from the Recycling Fund;
- $6.4 million for the Recycling Processing Contract from the Recycling Fund;
- $4.7 million and 29.08 FTEs for the rebalancing of administrative positions that support the entire department;
- $1.9 million in expenditures and $2.0 million in revenue from the Automated Container Replacement Fund; and
- $311,000 and 1.00 FTE from the Refuse Disposal Fund.

Significant Budget Additions

The following additions are *new* additions to the Department and represent either new expenditures needed due to the transition of Collection Services to an enterprise fund supported operation, or are additional needs based on the Operational Efficiency Analysis and support the operation by improving the performance of ESD's fleet or promoting a culture of safety. Altogether, these additions total $41.4 million and 44.47 FTEs.

<u>$9.8 million – Packer Purchases</u>
The largest increase is associated with one of the most impactful changes recommended by the Operational Efficiency Analysis, which is the replacement the packer fleet over a rolling seven-year timeframe to align purchases with the expected useful life of the vehicles. Currently 31% of ESD's packer fleet is beyond its useful life, which requires the Department to incur additional maintenance expenses (see more below) and overtime for missed collections due to packers not being operational. This amount represents the initial request of the Department to start replacement in FY 2026. However, this amount was revised down to $8.3 million in the final COS study in order to ramp up to the Operational Efficiency Analysis recommendation over the next five years, and as such this amount may be revisited during the May Revise.

<u>$7.7 million – Fleet Services Charges</u>
As part of the preparation to move Collection Services to an enterprise fund, the Department of General Services conducted an analysis on how much time is specifically spent maintaining the ESD fleet. This analysis revealed that ESD's budget for fleet maintenance has historically been $3-4 million below its actuals. This increase, along with additional assignment fees being collected due to a transition from debt financing vehicles to cash financing, require this increase be budgeted in FY 2026. IBA Report 25-10 provides more detail on this change.

<u>$6.5 million – SB 1383 Debt Repayments</u>
As part of the rollout of weekly organics collection, the City used General Fund backed Lease Revenue Bonds to support the purchase of new packers and green containers. The repayment of these bonds was previously funded in the Citywide Program Expenditures department within the General Fund. However, with the move to an enterprise fund, these costs are now proposed to be borne by the new enterprise fund, which increases expenditures in the SWMF.

<u>$4.0 million – Payments for Transfers of Assets from Other Funds</u>
As part of the reorganization, various assets (primarily vehicles) need to be purchased

from the funds that originally purchased them. This line item combines all of these purchases, which are further detailed in the other funds within this department review.

$3.1 million – Customer Portal Development
This addition is a one-time expense associated with development of a customer portal that will be used by residents to select the number, type, and size of bins they would like to receive. This portal will also keep track of billing for these bins depending on when they are requested and received and will also be where customers can request a bulky item pickup if that service is approved as part of the COS study. While this amount is a one-time expense, it is anticipated that $400,000 will be required for ongoing support of the portal in the following fiscal years.

$2.4 million, 10.00 FTEs – Operational Efficiency Positions and Funding
This increase represents all of the positions and funding that were recommended as part of the Operational Efficiency Analysis, with the exception of the packer purchases previously discussed.

The 10.00 FTEs and $1.7 million in associated expenditures break down as follows:

- 3.00 GIS Analysts ($392,000) that will be responsible for making and updating route collection maps to improve the daily collection of waste and recycling;
- 2.00 Area Refuse Collections Supervisors ($265,000) which will drop the supervisor-driver ratio from 1:18 to 1:15;
- 1.00 Program Manager and 1.00 Program Coordinator ($407,000) to oversee process improvement projects and the revision and/or development of standard operating procedures;
- 1.00 Human Resources Coordinator ($238,000) to provide and assist employees at the ESD operations station with various human resources related activities;
- 1.00 Program Manager ($238,000) to provide on-site communications and media coordination for the Department, specifically related to stakeholder engagement and written communications to customers through bill inserts; and
- 1.00 Safety Officer ($125,000) to support safety and training specifically within the Collections Services Division.

Additionally, $700,000 is proposed specifically for improvements that will be done by the Department of General Services in line with the Operational Efficiency Analysis. These changes are further described in the *Department Review: Department of General Services* section of this report.

$2.3 million – EV Pilot for Packers
As part of the COS study, and in line with emerging state regulations and the City's Climate Action Plan, ESD is proposing to include $2.3 million to purchase fully electric packers on a pilot basis to see how they could be integrated into ESD's existing operation. While current packers run on compressed natural gas, much of which is generated from the landfill and is thus considered a renewable resource, they are not considered a zero-emission vehicle.

IBA Report 25-10 identified removal of this item as a potential mitigation option to lower fees, with the noted risk that delaying this item could put ESD at odds with both the Climate Action Plan and state regulations. Adjustments to this amount may be appropriate depending on what action Council ultimately takes on refuse collection fees.

$1.8 million, 10.00 FTEs – Increased Container Operations
With the proposal for container replacements to come at no additional cost once a new solid waste fee is adopted, ESD is increasing its container replacement operation going forward. These positions would support both the initial rollout of new grey (replacing black)

and blue containers to all customers, as well as ensure that future requests for container replacement are handled promptly and efficiently as the City will now be delivering both new and replacement containers. This item also includes $1.0 million for a new rental facility due to increased space needs for containers.

$1.1 million, 9.00 FTEs – Missed Collections Crew

This addition is for a dedicated Missed Collections Crew to handle all of the missed collections request that the Department receives on a daily basis. Currently, missed collections are addressed with overtime, and sometimes it takes days for staff to be able to get back to a missed collection. This crew would be able to pick up the missed collection either that day or the next day, thereby increasing the reliability of the service.

IBA Report 25-10 identified removal of this item as a potential mitigation option to lower fees. Adjustments to this amount may be appropriate depending on what action Council ultimately takes on refuse collection fees.

$841,000, 8.00 FTEs – Administrative Positions

The next addition consists of a number of position increases that related to successfully managing an enterprise funded operation. The position increases are as follows:

- 4.00 Customer Support positions ($337,000) which will be dedicated to handling questions and aiding customers that the City serves with this enterprise fund;
- 1.00 District Refuse Collection Supervisor ($170,000) which is a conversion of a supplemental position from FY 2022 related to SB 1383 into a permanent position to maintain supervisory functions for the larger collections operation;
- 1.00 Associate Engineer ($155,000) to serve as a dedicated liaison with the Fleet Services Division in the Department of General Services;
- 1.00 Dispatcher ($91,000) to support communication and deployment of drivers and staff; and
- 1.00 Payroll Specialist 2 ($87,000) to support increased staffing that is being added as part of the conversion to an enterprise funded operation.

$724,000, 7.00 FTEs – Code Compliance Positions

With ESD's transition to a fee-supported service, additional code compliance positions are proposed to ensure that all customers are eligible to receive service per the municipal code and that all customers receive the services that they pay for. These positions will support both the onboarding and offloading of various properties from City service in line with the new provisions of Measure B, as well as perform other duties such as flipping lids on organics containers and responding to and investigating complaints and other potential violations of the City's solid waste collections code.

Significant Budget Reductions

There is one significant budget reduction for the SWMF, which is the removal of $2.5 million related to consultant fees for the COS study. The majority of this decrease is $3.0 million associated with the COS study itself, the Operational Efficiency Analysis, and the public engagement and outreach conducted by ESD during the development of the fee. This is offset by a continuing appropriation of $500,000 which will only be tapped if follow-up support is required after fee adoption.

Significant Revenue Adjustments

$138.9 million – Solid Waste Management Fees

This revenue increase represents the anticipated fee revenue that will be collected once a fee has been approved by Council. This amount was developed prior to final completion of the COS study, and should be revised down based on the lower fees presented in that study.

$8.6 million – Recycling Fund Assistance
Per the COS study, the Recycling Fund is proposed to continue to assist in covering costs for recycling services over the next five years. The COS study proposed $15.0 million, but the Proposed Budget only includes $8.6 million. Our Office has been informed that this is an error that will be corrected in the May Revision.

$2.0 million – Low Income Assistance from the General Fund
This revenue represents the funds that will be used to cover eligible residents' bills for trash collection. Funding for overhead is retained within the General Fund, although any funding not provided to the nonprofit through the contract would be added to the assistance amount that would be transferred to this fund.

Issues for Council Consideration

Measure B and a Solid Waste Collection Fee

At the November 2022 election, a majority of City residents approved Measure B, a proposition placed on the ballot by the City Council to amend sections of the Municipal Code commonly referred to as the People's Ordinance. The measure recodified the City's responsibilities for waste management services and provided an option for the City to recover costs for solid waste management services.

Upon passage of Measure B, the City began taking the initial steps consistent with Proposition 218 to develop a fee that could be charged to City residents. This culminated in the COS study that was presented to Council on April 14th, when Council set a hearing date for final fee consideration on June 9th. As a companion to the item, our Office also released IBA Report 25-10 *IBA Review and Analysis of the Solid Waste Collection Cost of Service Study and Proposed Fees*.

That report provided an explanation of how fee estimates increased from the estimate derived in August 2022 to today, which is mainly driven by the cost increases incurred by the operation in the past three years. The fee estimate prepared for Measure B's Fiscal Impact Statement detailed what the fee would have been if it had been implemented in 2022 along with the ballot measure, and that estimate noted that any actual fee adopted multiple years down the road could be higher due to various factors including inflation and/or expanded service levels.

IBA Report 25-10 also provides potential options to lower the fee should Council wish to exercise them. Based on the action taken by Council, our Office will further examine the presented options, and return to Council with various rate tables and potential impacts to ESD operations for Council's consideration. However, the Proposed Budget reflects one condition that was not anticipated, discussed immediately below.

Lack of Transition Support for the Solid Waste Management Fund
Due to the fact that the Solid Waste Management Fund is projected to start FY 2026 with a negative fund balance since expenditures were incurred in FY 2025, and since the City cannot charge for second containers for a large portion of the year due to not knowing what properties currently have or will request those containers, even with the fees proposed in the COS study the SWMF is projected to end FY 2026 with a negative fund balance of nearly $13.0 million. While another fund can provide a one-day loan to the SWMF to cover this deficit, there was a concern that no fund, including the General Fund, would be able to make this loan at the end of FY 2026 without violating various reserve policies.

Our Office understands that the Department of Finance, based on the uncertainty involved in the first full year of operations for the fund, and the tight fiscal environment of the General Fund, has decided to take a "wait and see" approach on how much assistance the SWMF will need at the end of FY 2026.

While this may be prudent, all things considered, running the fund at a deficit for another year could limit Council's options when it sets final fees in June. IBA Report 25-10 provided numerous options for Council to consider that would result in lower fees. Many of these options included spreading out FY 2026 costs over multiple years, thereby using the fund's reserve to pay for these items. However, these options were provided with the assumption that a $10.0 million appropriation from the General Fund would be available in FY 2026 for the SWMF. Without this funding being guaranteed, the risk that the SWMF's fund balance could end FY 2026 so far in the negative that it would impacts another fund's operations is increased. The amount of FY 2026 General Fund support provided to the SWMF should be carefully considered when Council takes up the final rate actions in June.

Council should ask the Department of Finance how it plans to mitigate the projected negative fund balance for the Solid Waste Management Fund in FY 2026 without an additional $10.0 million General Fund appropriation.

Recycling Fund

As shown in the table below, the FY 2026 Proposed Budget for the Recycling Fund is approximately $24.3 million, a decrease of $7.1 million from the FY 2025 Adopted Budget. FTEs are reduced by 52.56 to a total of 49.53. Revenues are projected to total $25.4 million, which is an increase of $1.4 million from FY 2025.

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT - RECYCLING FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	102.09	$ 13,684,171	$ 17,661,569	$ 31,345,740	$ 23,990,760
Programmatic Changes					
Solid Waste Management Fund Assistance	-	-	8,600,000	8,600,000	-
Household Hazardous Waste Facility Improvements	-	-	1,319,500	1,319,500	-
Compost Distribution Team	2.00	249,014	1,052,500	1,301,514	-
Waste Reduction Business Support	-	-	500,000	500,000	-
Compliance Specialists	2.00	252,524	-	252,524	-
Various Supplies and Services	-	-	150,000	150,000	-
Supervising Recycling Specialist	1.00	135,616	-	135,616	-
Construction & Demolition Support	1.00	119,042	-	119,042	-
Recycling Specialist Position True up	0.25	29,197	-	29,197	-
Training Supervisor	0.06	7,573	-	7,573	-
Interest Earnings	-	-	-	-	900,000
Payments for Assets in Solid Waste Management Fund	-	-	-	-	688,153
Removal of Reimbursement from Container Fund	-	-	-	-	(52,794)
Transfers to/from Other Funds					
Transfer from General Fund	3.00	459,071	655,174	1,114,245	-
Rebalancing of Administrative Position Funding	(10.61)	(1,748,678)	-	(1,748,678)	-
Recycling Processing Costs to Solid Waste Fund	-	-	(6,400,000)	(6,400,000)	-
Transfer to Solid Waste Management Fund	(50.00)	(7,466,716)	(3,562,355)	(11,029,071)	(111,263)
Other Changes					
Other Salaries and Wages	-	837,695	-	837,695	-
Fringe Benefits (Including Retirement ADC)	-	376,484	-	376,484	-
Hourly Position Changes	(1.26)	(49,993)	-	(49,993)	
One Time Adjustments from FY 2025	-	-	(2,800,000)	(2,800,000)	-
Non-Discretionary Adjustments	-	-	197,511	197,511	-
FY 2026 Proposed Budget	**49.53**	**$ 6,885,000**	**$ 17,373,899**	**$ 24,258,899**	**$ 25,414,856**
Difference from 2025 to 2026	***(52.56)***	***$ (6,799,171)***	***$ (287,670)***	***$ (7,086,841)***	***$ 1,424,096***

Significant Budget Additions

$8.6 million – Solid Waste Fund Assistance

The largest expenditure increase within the Recycling Fund is $8.6 million to support recycling collection services that will now be budgeted in the Solid Waste Management Fund. This was proposed as part of the COS process to limit the initial fee impact to ratepayers. It should be noted that almost $17.4 million in operating costs are being transferred to the Solid Waste Management Fund in FY 2026.

This amount is below the $15.0 million that was proposed in the COS study. However, our Office has been informed that this is an error that will be corrected in the May Revision.

$1.3 million – Household Hazardous Waste Facility Improvements

The next significant increase is for various improvements to the City's Household Hazardous Waste Facility. These costs include:

- $967,000 in contractual costs to expand operating hours up to three additional days;
- $300,000 in one-time costs for new chemical storage lockers to replace lockers that were installed in the late 1990s;
- $50,000 for various maintenance needs at the facility; and
- $2,500 for new radios.

$1.3 million, 2.00 FTEs – Compost Distribution Team

This addition includes two new positions, an increased contract for Urban Corps, and new roll off rail trucks and roll off bins to improve the distribution of compost to residents and other City departments. Under SB 1383, CalRecycle is requiring jurisdictions to improve the procurement and distribution of recovered organic waste products, such as compost, in order to maintain the ability to continue recycling organic waste.

To meet these requirements, the City must increase its distribution of compost more than fivefold. To accomplish this, the Proposed Budget adds two positions and new equipment to begin delivering compost to other City departments such as the Parks & Recreation Department. The City will also use these resources, including Urban Corps whose contract is increasing from $300,000 to $500,000, to provide more community events where residents can pick up free compost without having to travel to the Miramar Greenery.

$500,000 – Waste Reduction Business Support

This addition will expand consultant support to enhance community outreach and provide technical assistance with compliance for residents and businesses under both SB 1383 and the City's Recycling Ordinance. This includes efforts to expand the edible food recovery program to better distribute edible food to food-insecure individuals.

$252,000, 2.00 FTEs – Compliance Specialists

These positions will provide technical assistance and education for franchise haulers and their customers associated with the new requirements for recycling and organics under SB 1383. While the City implemented these changes for the residents it directly serves, these positions will work with private franchisees to improve compliance, smooth potential transitions as a result of the implementation of Measure B, and provide multilingual outreach materials.

Other Additions

Other Additions of note include $150,000 for various supplies including trucks, a generator, and illegally dumped tire removal services, as well as a Supervising Recycling Specialist position to support supervision and oversight of the Recycling Team and an Associate Management Analyst to support the timely processing of construction and demolition recycling deposit refund requests.

Significant Revenue Adjustments

There are two significant revenue adjustments for the Recycling Fund.

The first is $900,000 in anticipated interest earnings due to revised projections and increased interest rates. The other increase is $688,000 for payments for assets that were transferred to the Solid Waste Management Fund. Since these assets were purchased with Recycling Fund dollars, it is appropriate for the Solid Waste Management fund to pay back the Recycling Fund for these assets. These assets are primarily vehicles.

While not included in the budget change table, it is worth noting that the one-time transfer of Sycamore Facility Franchise Fees from the Recycling Fund to the General Fund is maintained for FY 2026. Portions of this franchise fee have been split between these two funds in the past, and removing this funding on a one-time basis is not anticipated to impact the operations funded within the Recycling Fund in FY 2026.

Transfers to/from Other Funds

($11.0 million, 50.00 FTEs) – Transfer to Solid Waste Management Fund

This transfer represents the staff and associated spending for the Collection Services Division that is being moved from the Recycling Fund to the Solid Waste Management Fund. This represents a direct savings to the Recycling Fund as these positions are more appropriately funded through fees charged to customers. This transfer includes the costs associated with all 50.00 FTEs, as well as both discretionary and nondiscretionary non-personnel expenditures.

($6.4 million) – Recycling Processing Costs to Solid Waste Management Fund

In addition to personnel, the costs the City pays to process recyclable materials (from the blue bin) that are collected by City forces is also proposed to move to the Solid Waste Management Fund.

($1.7 million, 10.61 FTEs) – Rebalancing of Administrative Position Funding

With the full development of the Solid Waste Management Fund in FY 2026, ESD is rebalancing how administrative positions that oversee and support the entire Department are budgeted. Rebalancing ensures that no individual fund pays for more of these administrative costs than the benefit they receive from them. For the Recycling Fund, this includes a reduction of $1.7 million and 10.61 FTEs.

$1.1 million, 3.00 FTEs – Transfer from the General Fund

These three positions and their associated funding are moving to the Recycling Fund from the General Fund. All three positions are Recycling Specialists that support organic waste recycling efforts, which are more appropriately funded from the Recycling Fund than the General Fund.

Refuse Disposal Fund

The FY 2026 Proposed Budget for the Refuse Disposal Fund is approximately $55.8 million, as increase of approximately $5.0 million from the FY 2025 Adopted Budget. Revenues are projected to total $65.0 million, an increase of $3.2 million from FY 2025. Significant changes are summarized in the table at the bottom of the next page.

Significant Budget Additions

$2.5 million – Equipment Rental Contracts

The largest increase in the Refuse Disposal Fund is $2.5 million associated with the contracts that ESD uses for heavy equipment at the Miramar Landfill. Of this amount, $1.2 million is associated with cost increases from recently rebid contracts, while $1.3 million is for additional equipment needed to maintain the Greenery.

$2.1 million, 3.00 FTEs – Closed Sites Staff and Support

The next major addition is two positions and related funding to increase maintenance and repair support as various closed solid waste sites for public health and regulatory compliance. This includes three positions to manage and perform this work, as well as consultant support ($600,000), construction contracts ($600,000), and contract services for trucking materials ($600,000).

$1.0 million – Ticketing System
This increase is a one-time expense to replace the existing ticketing system at the Miramar Landfill. The software supporting this system is outdated and no longer supported, and the Department needs to procure a new software solution for this system.

$381,000 – EV Charging Infrastructure
This is one-time funding to install 10 charging stations for electric vehicles at the Ridgehaven facility. This is a critical expenditure, as the Department of General Services has been procuring electric versions of various vehicles for several departments to meet state standards as well as the City's Climate Action Plan goals. Without these installations, departments such as ESD will be unable to use these new vehicles.

Other Additions
Two smaller additions of note include $170,000 for fuel charges based on recent pricing trends for diesel fuel and $75,000 in one-time funds to replace the security cameras at the landfill. Security cameras were initially installed in 2016 and have recently been experiencing complications that require them to be replaced.

Significant Revenue Adjustments

Tipping Fee Discount
There are two adjustments related to tipping fee discounts at the Miramar Landfill for General Fund operations. The first is an increase of $2.1 million in revenue due to the end of the discount from FY 2025, which mostly benefited the Collection Services Division. This is offset by a one-time reduction in tipping fees for those operations remaining in the General Fund, which includes ESD's CleanSD operations as well as operations for Transportation and Stormwater. Overall, this discount will reduce revenue to the Refuse Disposal Fund by $800,000 in FY 2026.

While General Fund savings are needed to balance the FY 2026 Budget, providing these

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT - REFUSE DISPOSAL FUND BUDGET					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	162.17	$ 18,690,918	$ 32,129,672	$ 50,820,590	$ 61,758,567
Programmatic Changes					
Equipment Rental Contracts	-	-	2,527,000	2,527,000	-
Closed Sites Staff and Support	3.00	263,591	1,800,000	2,063,591	-
Ticketing System	-	-	1,000,000	1,000,000	-
EV Charging Infrastructure	-	-	381,000	381,000	-
Fuel	-	-	170,000	170,000	-
Landfill Security	-	-	75,000	75,000	-
Training Supervisor	0.25	31,560	-	31,560	-
One-Time Discount on Tipping Fee for FY 2025	-	-	-	-	2,100,000
Payments for Assets in Solid Waste Management Fund	-	-	-	-	1,407,989
Interest Earnings	-	-	-	-	485,000
FY 2026 Tipping Fee Discount for General Fund	-	-	-	-	(800,000)
Transfers to Other Funds					
Transfer to Solid Waste Management Fund	(1.00)	(136,624)	(174,082)	(310,706)	-
Rebalancing of Administrative Position Funding	(3.73)	(628,690)	-	(628,690)	-
Other Changes					
Other Salaries and Wages	-	(283,965)	3,000	(280,965)	-
Fringe Benefits (Including Retirement ADC)	-	(829,183)	-	(829,183)	-
Non-Discretionary Adjustments	-	-	819,747	819,747	-
FY 2026 Proposed Budget	**160.69**	**$ 17,107,607**	**$ 38,731,337**	**$ 55,838,944**	**$ 64,951,556**
Difference from 2025 to 2026	***(1.48)***	***$ (1,583,311)***	***$ 6,601,665***	***$ 5,018,354***	***$ 3,192,989***

discounts on an ongoing basis will have a fiscal impact on the Refuse Disposal Fund, which provides for the ongoing operations of the Miramar Landfill. All entities that use the landfill, including private haulers and City forces, pay for the operations of that facility through tipping fees. While the impact to the Refuse Disposal Fund of a tipping fee discount is lower in FY 2026 than in FY 2025, continuing to provide this discount may disproportionately benefit the General Fund at the expense of those other landfill users.

<u>Other Changes</u>
The remaining revenue changes are similar to those discussed in the Recycling Fund. The first is an increase of $1.4 million associated with payments for assets that were transferred to the Solid Waste Management Fund. Since these assets were purchased with Refuse Disposal Fund dollars, it is appropriate for the Solid Waste Management fund to pay back the Refuse Disposal Fund for these assets. These assets are primarily vehicles.

The second addition is $485,000 in anticipated interest earnings due to revised projections and increased interest rates.

Transfers to Other Funds

<u>($311,000, 1.00 FTE) – Transfer to Solid Waste Management Fund</u>
This transfer represents the transfer of one position for the Collection Services Division that is being moved from the Refuse Disposal Fund to the Solid Waste Management Fund, as this position is more appropriately funded through proposed fees. This transfer includes all of the costs associated with the 1.00 FTE, as well as both discretionary and nondiscretionary non-personnel expenditure adjustments.

<u>($629,000, 3.73 FTEs) – Rebalancing of Administrative Position Funding</u>
With the full development of the Solid Waste Management Fund in FY 2026, ESD is rebalancing how administrative positions that oversee and support the entire Department are funded from each of the funds. Rebalancing ensures that no individual fund pays for more of these administrative costs than the benefit that they receive from them. For the Refuse Disposal Fund, this includes a reduction of $629,000 and 3.73 FTEs.

Automated Refuse Container Fund

The FY 2026 Proposed Budget for the Automated Refuse Container Fund is approximately $2.0 million, which is a slight increase of $59,000 from FY 2025. There are no longer any revenues associated with this fund as the fee for containers is proposed to be eliminated with the adoption of a solid waste collection fee.

For FY 2026, all ongoing expenditures have been transferred to the Solid Waste Management Fund. Remaining appropriations contain cleanup costs for non-discretionary items as well as a transfer of $2.0 million as a revenue enhancement to the Solid Waste Management Fund. This transfer is proposed to bring the fund balance to zero at the end of FY 2026, at which point this fund can be closed and discontinued.

Ethics Commission

The Ethics Commission is responsible for monitoring, administering, and enforcing the City's governmental ethics laws. It is an independent department which does not report to the Mayor or Council. The Commission is made up of seven appointed members. A staff of six supports the Commission in its work in the following five areas:

- Legislative: monitors and proposes new governmental ethics laws and educates City officials on changing laws;
- Investigative: investigates and enforces violations of the City's governmental ethics laws;
- Audit: audits all city campaign committees and disclosure statements;
- Training and administrative: ensures those regulated meet training and compliance requirements, and handles administrative duties; and
- Education: conducts training and provides a technical legal advice help line to ensure those regulated comply with the City's ethics, campaign finance, and lobbying laws.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the Ethics Commission is approximately $2.1 million, an increase of $222,000 (or 12.2%) from the FY 2025 Adopted Budget. The budget increase is primarily associated with salary and benefit adjustments. The Proposed Budget also includes 6.00 FTE positions, which is 0.25 FTEs lower than the FY 2025 Adopted Budget. This reflects a net adjustment comprised of a partial year FTE for the new Executive Director to onboard, offset by the outgoing Executive Director retiring during the current year.

There are no other notable changes to the Ethics Commission's budget.

No Budget Reduction

For the FY 2026 Proposed Budget, General Fund departments were requested to submit budget reductions. As with most departments, an initial 20% target of the Ethics Commission's FY 2025 Adopted Budget was requested. For the Ethics Commission, 20% equates to $366,000. During budget development, the Ethics Commission's then Executive Director stated that the budget reduction cannot be implemented without violating legal mandates.

The Proposed Budget does not include a budget reduction for the Ethics Commission. The Commission also did not take a reduction in the FY 2025 Adopted Budget.

Although no budget reduction is proposed, the Commission's base budget is lower than it was in FY 2025. The FY 2026 Proposed Budget removes the one-time Executive Director transition plan that was added in FY 2025, which represents about $39,000, or 2% of the Commission's FY 2025 Adopted

SUMMARY OF ETHICS COMMISSION BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	6.25	$ 1,589,669	$ 239,669	$ 1,829,338	$ -
Programmatic Changes					
Remove onboarding with new Executive Director	(0.25)	(38,753)	-	(38,753)	-
Other Changes					
Salary and Benefit Adjustments	-	258,746	-	258,746	-
Non-Discretionary NPE Adjustments	-	-	2,418	2,418	-
FY 2026 Proposed Budget	**6.00**	**$ 1,809,662**	**$ 242,087**	**$ 2,051,749**	**$ -**
Difference from 2025 to 2026	***(0.25)***	***$ 219,993***	***$ 2,418***	***$ 222,411***	***$ -***

Budget. Additionally, the Lobbyist Registration Fee was recently updated to, among other things, account for Ethics Commission's work associated with reviewing registrations. This contributes to an overall estimated fee revenue increase of $33,000 which is accounted for in the City Clerk's budget.

Absent furloughs or salary reductions for Ethics Commission staff, the Ethics Commission department budget has limited opportunities for budget reductions, with each of its six filled positions covering activities that are required by the City Charter and Municipal Code. For non-personnel expenditures, although the Department's spending on contracts has consistently come in underbudget, maintaining existing budget levels allows for fluctuations in case load from year to year, reducing the need for staff to request an appropriation from the Mayor and Council who are among the City officials that are regulated by the Commission.

Fire-Rescue

The Fire-Rescue Department is responsible for providing fire, emergency medical, lifeguard and emergency management services Citywide. The Department also provides 9-1-1 services, conducts fire inspections, issues alarm system permits, and provides community education.

The Fire-Rescue Department is operated under three funds, including the General Fund, the Fire/Emergency Medical Services Transport Program Fund (EMS Fund), and the Junior Lifeguard Program Fund. Funding for the majority of the Department's operations, including Fire Suppression and Lifeguard Services, is budgeted within the General Fund; operations of the City's EMS program are budgeted within the EMS Fund.

When the Department's funds are combined, the Department's FY 2026 Proposed Budgeted totals $515.2 million, an increase of approximately $36.1 million or 7.5% from the FY 2025 Adopted Budget. This report reviews the Fire-Rescue Department's operations under each funding source separately.

Impacts of Mayor's FY 2026 Budget Proposal

General Fund

The FY 2026 Proposed Budget for the Fire-Rescue Department is approximately $377.4 million for the General Fund, an increase of $24.0 million, or 6.8% from the FY 2025 Adopted Budget. The Proposed Budget includes 1,391.50 FTEs, which is a reduction of 16.88 FTEs. Budgeted revenue totaling $76.7 million represents an $8.9 million, or 13.1%, increase from FY 2025.

Significant Budget Additions

Overtime Adjustments

The Proposed Budget adds $6.2 million in overtime expenditures for a total overtime budget of $50.9 million. This net increase is attributable to the following adjustments:

- $3.8 million ongoing increase to account for general wage and special pay increases in accordance with the City's MOUs with Local 145 and Local 911;

SUMMARY OF FIRE-RESCUE DEPARTMENT- GNERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	1,408.38	$ 307,434,698	$ 45,933,517	$ 353,368,215	$ 67,789,467
Programmatic Changes					
*Overtime Adjustments**	-	5,665,220	-	5,665,220	-
Wellness Services	-	-	941,610	941,610	-
Advanced Lifeguard Academy	3.00	395,437	13,651	409,088	-
Budget Mitigation: Bomb Squad Operational Change	(6.00)	(943,627)	-	(943,627)	-
Budget Mitigation: San Pasqual Fast Response Squad	(6.00)	(925,125)	-	(925,125)	-
Budget Mitigation: Reduction of Fire Personnel	(3.00)	(922,515)	-	(922,515)	-
Budget Mitigation: Engine 80 (Downtown Flex Engine)	(4.00)	(616,750)	-	(616,750)	-
Budget Mitigation: Delay Mobile Device Upgrades	-	-	(300,000)	(300,000)	-
Budget Mitigation: Additional Revenue from EMS Fund	-	-	-	-	5,108,459
Revised Revenue	-	-	-	-	3,872,775
Other Changes					
Other Salaries & Wages	-	23,660,666	-	23,660,666	-
Budgeted PE Savings (vacancy savings adjustment)	-	(4,256,522)	-	(4,256,522)	-
Employ and Empower Program Interns	(0.88)	24,110	-	24,110	24,106
Non-Discretionary Adjustments	-	-	1,049,545	1,049,545	-
One-time Removals and Annualizations	-	-	259,250	259,250	(144,280)
FY 2026 Proposed Budget	**1,391.50**	**$ 329,515,592**	**$ 47,897,573**	**$ 377,413,165**	**$ 76,650,527**
Difference from 2025 to 2026	***(16.88)***	***$ 22,080,894***	***$ 1,964,056***	***$ 24,044,950***	***$ 8,861,060***

** Excludes overtime costs that are included under "Advanced Lifeguard Academy" and "Bomb Squad Operational Change"*

- $3.0 million ongoing increase intended to better align the overtime budget with prior years, including previously unbudgeted backfill overtime for paternal and other discretionary leave provided for within the City's MOUs with Local 145 and Local 911;
- $492,000 related to other budget adjustments including the Advanced Lifeguard Academy ($111,000 one-time) and the Bomb Squad Operational Change ($381,000 ongoing); these adjustments are discussed in more detail later in this Department Review; and
- removal of $1.1 million in one-time overtime expenditures that were added in FY 2025.

The Proposed Budget for Fire-Rescue overtime is $4.7 million less than the Department is projected to spend in the current fiscal year based on the FY 2025 Mid-Year Budget Monitoring Report ($55.7 million). Fire suppression staffing shortfalls are the predominant cause of the Department's increased overtime over the last several years. For this reason, a significant reduction in overtime spending likely will not be realized until full staffing is reached; the Department currently estimates that this could occur during the fourth quarter of FY 2027, which is approximately two years away. This extended timeframe is largely due to ongoing difficulties promoting existing fire fighters into the Fire Engineer rank, which the Department hopes will be resolved given that a greater number of Fire Fighter 2s will become eligible to seek promotion in the near future. However, these internal promotions create Fire Fighter 2 vacancies which are ultimately filled through the Department's Fire Academies.

The FY 2025 Adopted Budget reduced the number of Fire Academies from three to two. Restoring a third academy could allow the Department to reach full staffing sooner, which would ultimately reduce overtime expenditures; $432,000 in non-personnel expenditures was requested by the Department for this restoration but is not funded in the Proposed Budget.

Wellness Services

The FY 2026 Proposed Budget includes a $942,000 increase in non-personnel expenditures for Wellness Services. Approximately $720,000 of this increase represents a restoration of a budget mitigation reduction in FY 2025 which assumed that the frequency of comprehensive wellness exams could be reduced from an annual process to biannual; this action, which was subject to meet and confer requirements, was ultimately not implemented in FY 2025. The remaining difference accounts for increased costs associated with the City's contract for psychological services.

Advanced Lifeguard Academy

The FY 2026 Proposed Budget includes 3.00 hourly FTEs and $409,000 in one-time expenditures for the Lifeguard Division's bi-annual Advanced Lifeguard Academy. This ten-week academy provides advanced training in disciplines that include law enforcement, cliff rescue, and water rescue to 15 participants (hourly Lifeguard Is). Approximately $111,000 of this amount consists of one-time overtime expenditures for academy instructors.

Significant Budget Reductions

Budget Mitigations

The largest FY 2026 budget reductions for Fire-Rescue are budget mitigations used to help balance the General Fund budget. The Department's expenditure mitigations total $3.7 million and are discussed below.

($944,000, 6.00 FTEs) – Budget Mitigation: Bomb Squad Operational Change (Cross Staffing)

The FY 2026 Proposed Budget includes a proposed operational change to the Fire-Rescue Department's Bomb Squad Unit that would reduce $1.3 million in personnel expenditures associated with the elimination of 6.00 FTEs

(3.00 Fire Captains and 3.00 Fire Engineers) that are currently dedicated to staffing the Bomb Squad. Moving forward, the individuals who currently staff the Bomb Squad Unit will move to Engine 201 which is co-located together with the bomb squad vehicle (X-Ray 1) at Fire Station 1 (Downtown). If a bomb call is requested, Engine 201 will be placed out-of-service and its personnel will move to the bomb squad for the duration of the call. This will remove Engine 201 from responding to 911 calls during the cross staffing. According to the Department, the Bomb Squad responded to 136 calls in FY 2024; the duration of these calls varies in timeframes based on the complexity of the required response.

Bomb Squad personnel will continue to require necessary training that was previously received while on duty; this will now occur on an overtime basis, which is projected to offset personnel expenditures savings associated with this budget mitigation measure by $381,000.

($925,000, 6.00 FTEs) – Budget Mitigation: San Pasqual Fast Response Squad

The San Pasqual Valley Fast Response Squad (FRS) was expanded in the FY 2025 Adopted Budget, doubling staffing from 2.00 to 4.00 FTEs per shift (from 6.00 to 12.00 FTEs total for three shifts); however, due to issues associated with the Cal Fire facility where this FRS is staffed, this expansion has not yet been implemented.

The Proposed Budget reverses this expansion, returning budgeted amounts to FY 2024 service levels through the reduction of 3.00 FTE Fire Captains and 3.00 FTE Fire Fighter 2s and $925,000 in personnel expenditures. Coverage for this service area will remain at 2.00 FTEs per shift, rather than the standard practice of 4.00 FTEs consistent will all other service areas. When this two-person FRS is dispatched, an additional fully-staffed engine must also respond from another location (Escondido, Ramona, or Rancho Bernardo). Fully staffing this FRS with 4.00 FTEs per shift, would remove the need to dispatch the additional engine.

($923,000, 3.00 FTEs) – Budget Mitigation: Reduction of Fire Personnel

The positions proposed for reduction include 2.00 Fire Captains and 1.00 Fire Fighter 3. These positions are currently filled and will be transferred to other vacant positions within the department.

One of the Fire Captain positions is responsible for providing community education through the Community Resources Program, which will be eliminated due to this staffing reduction.

The other two positions are within the department's Operations Staffing Unit which is responsible for scheduling shifts for Fire Operation staff.

($617,000, 4.00 FTEs) – Budget Mitigation: Engine 80 (Downtown Flex Engine)

Engine 80, a flexibly-deployed engine servicing the Downtown/East Village area, is proposed to be eliminated by reducing 2.00 Fire Captains and 2.00 Fire Fighter 2s and $617,000 in personnel expenditures. Engine 80, which was first implemented as pilot program that began in in FY 2023, operates 12-hours per day (8am to 8pm) to help address call volumes in this service area. While the pilot period is now complete and this reduction is proposed to help balance the FY 2026 Proposed Budget, the Department indicated that it would have chosen to maintain this "flex" engine on a permanent basis if funding was available. The addition of Engine 80 has reduced on average 6.8 calls daily that would otherwise have been covered by neighboring fire stations. This has allowed for quicker response times and reduced call volume for neighboring fire stations. Engine 80 is housed at Fire Station 4 which is statistically one of the Department's busiest stations averaging 700 calls a month.

<u>($300,000) – Budget Mitigation: Delay Mobile Device Upgrades</u>
This reduction of $300,000 in non-personnel expenditures will impact the Department's planned mobile device (phones and tablets) upgrades. According to the Department, upgrades were planned to mitigate cybersecurity risk and improve network security.

Significant Revenue Adjustments

<u>$5.1 million – Budget Mitigation: Additional Revenue from EMS Fund</u>
The FY 2026 Proposed Budget includes a net increase of $5.1 million transferred from the EMS Fund as a General Fund budget mitigation. In total, $11.2 million in ongoing revenue is proposed from the EMS Fund in FY 2026, compared to $6.1 million in FY 2025.

<u>Other Revenue Adjustments</u>
Aside from revenue associated with the transfer from the EMS Fund, the Proposed Budget includes various other revenue adjustments which, when taken together, result in a $3.9 million net revenue increase. These adjustments include:

- $2.1 million one-time increase in Strike Team deployment reimbursement revenue;
- $1.2 million ongoing increase in revenue from User Fee increases approved earlier this year during the City's comprehensive user fee update;
- $664,000 ongoing increase in revenue from contractual dispatch services based on revised projections;
- $413,000 reduction in Safety Sales Tax revenue; and
- $324,000 increase in reimbursement revenue from the TOT Fund for tourism related safety services.

Issues for Council Consideration

Council Budget Priority Item

There are two items pertaining to the Fire-Rescue Department that received majority support in Councilmember updated budget priority memoranda. The first is additional staffing for the Fire-Rescue Department's Lifeguard Division, including 1.00 Marine Safety Captain and 3.00 Marine Safety Lieutenants. No new Lifeguard positions are included in the Proposed Budget. Given the need for overall budget reductions to balance the FY 2026 budget, Council could consider prioritizing these positions in future fiscal years.

Additionally, a majority of Councilmembers requested additional resources to address the Office of the City Auditor's recommendations in their Performance Audit of Brush Management on City-Owned Land. The Fire-Rescue Department requested 5.00 FTEs and $1.1 million to address the recommendations directed to the Department; however, this request is not funded in the Proposed Budget.

EMS Fund

The FY 2026 Proposed Budget for the EMS Fund is approximately $136.8 million, an increase of $12.0 million, or 8.8% from the FY 2025 Adopted Budget. The Proposed Budget includes 38.00 FTEs, which is an increase of 1.00 FTE. Budgeted revenue totaling $131.8 million represents an increase of $6.1 million from FY 2025.

Given the difference between budgeted expenditures and projected revenue, the use of approximately $5.0 million in fund balance is necessary. This projected deficit is primarily due to the increased transfer to the General Fund, which is discussed below.

Significant Budget Additions

Transfer to General Fund

The Proposed Budget includes the net transfer of $5.1 million to the General Fund. This includes an ongoing increase of $11.2 million and the removal of $6.1 million that was budgeted as a one-time transfer in the FY 2025 Adopted Budget.

EMS Contractual Cost Increases

The FY 2026 Proposed Budget includes $4.7 million in additional expenditures for various contracts necessary to operate the EMS Alliance Model. This includes contracted ambulance unit hour costs payable to the City's service providers (Falck and AMR), billing contractor costs, costs for stand-by ambulance coverage at the San Diego Airport, and costs associated with the City's participation in the State's Public Provider Ground Emergency Transportation Inter-Governmental Transfer (PP-GEMT IGT) Program.

Addition of 1.00 Assistant Fire Chief

The Proposed Budget includes the addition of 1.00 Assistant Fire Chief and $341,000 in associated personnel expenditures. This position will be responsible for the department's new Strategic Operations Branch which will include Emergency Medical Services and the Emergency Command & Data Center.

Paramedic Equipment

The Proposed Budget includes the addition of $249,000 in one-time non-personnel expenditures to equip first responder units with UEscope video laryngoscopy devices.

Significant Revenue Adjustment

The FY 2026 Proposed Budget includes $6.1 million in additional revenue including, approximately $6.0 million in EMS ambulance transport revenue and $100,000 in reimbursement revenue for stand-by ambulance service provided to the San Diego Airport.

Since the implementation of the Alliance Model, EMS revenue has exceeded projections. For FY 2025, the Department is projecting that the EMS Fund will end the fiscal year with a fund balance of approximately $9.0 million after including the $6.1 million transfer to General Fund that is budgeted in FY 2025. As discussed previously, use of $5.0 million in fund balance is assumed in the Proposed Budget, primarily due to the $5.1 million increase in funding transferred to the General Fund, which is projected to leave a $4.0 million balance at the end of FY 2026. This indicates that the EMS Fund should be able to support the $11.2 million proposed to be transferred to the General Fund in FY 2026, though it may not be able to do so on an ongoing basis. Additionally, transferred funds will limit the extent to which the Fire Rescue Department is able to reinvest these resources back into the EMS system. Additionally, it should be noted that the long-term operational and financial structure of the EMS system is unknown. The Fire Rescue Department anticipates conducting a new RFP process, potentially in FY 2026, that may change the City's EMS delivery method.

SUMMARY OF EMS FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	37.00	$ 6,641,562	$ 118,167,919	$ 124,809,481	$ 125,740,250
Programmatic Changes					
EMS Ongoing Transfer to General Fund	-	-	11,173,266	11,173,266	-
Removal of one-time FY25 Transfer to General Fund	-	-	(6,064,807)	(6,064,807)	-
Contractural Cost Increases	-	-	4,705,071	4,705,071	-
Addition of 1.00 Assistant Fire Chief	1.00	341,028	-	341,028	-
Paramedic Equipment	-	-	249,250	249,250	-
Revised Revenue	-	-	-	-	6,069,761
Other Changes					
Other Salaries & Wages	-	$953,254	-	953,254	-
Non-Discretionary Adjustments	-	-	$634,117	634,117	-
FY 2026 Proposed Budget	**38.00**	**$ 7,935,844**	**$ 128,864,816**	**$ 136,800,660**	**$ 131,810,011**
Difference from 2025 to 2026	***1.00***	***$ 1,294,282***	***$ 10,696,897***	***$ 11,991,179***	***$ 6,069,761***

General Services

The Department of General Services includes three divisions – Facilities Services, Fleet Operations, and Energy– that provide City departments with comprehensive facilities maintenance, fleet management, and energy utility services. The three divisions have five funds which support internal services to other City departments.

- The Facilities Services Division provides maintenance, repair, modernization, and improvements to approximately 1,600 facilities for all asset managing departments, and is funded through the General Fund.
- The Fleet Operations Division provides fleet management for over 4,500 motive vehicles and equipment, including repairs, maintenance, fuel, and rental vehicles through the Fleet Operating Fund, and replacement and acquisitions of vehicles through the Fleet Replacement Fund.
- The Energy Division has been transferred to General Services as part of the dissolution of the Sustainability and Mobility Department. This division oversees the City's energy use and conservation programs, and is funded through the Energy Conservation Programs Fund. This Division also manages the Energy Independence Fund.

Impacts of Mayor's FY 2026 Budget Proposal

The Department of General Services' total proposed budget for FY 2026 across all funds is approximately $229.2 million and 437.00 FTE positions. This reflects an increase of 26.25 FTEs and $51.7 million, or 29.1%, in expenditures over the FY 2025 Adopted Budget. Total revenues are $172.6 million, an increase of $20.6 million or 13.6% over FY 2025. Increases are largely related to the transfer of the Energy Conservation Fund and Energy Independence Fund to General Services from the former Sustainability and Mobility Department.

A summary of General Services' FY 2026 Proposed Budget by fund is provided in the table below, and further discussion of specific budget adjustments is provided under write-ups for each division.

General Fund - Facilities

The FY 2026 Proposed Budget for the Facilities Services Division is approximately $28.8 million in General Fund expenditures, which is an increase of $4.1 million, or 16.4%, from the FY 2025 Adopted Budget, as shown in the table on the following page. The proposed budget includes 184.50 FTE positions, which is a decrease of 1.00 FTE. The Proposed Budget includes $4.3 million in revenue, a decrease of $300,000 or 6.6% from the prior year.

Key Performance Indicators

A key historical performance measure for Facilities has been preventive maintenance as a percentage of overall maintenance activities. Facilities Maintenance has been chronically

SUMMARY OF GENERAL SERVICES DEPARTMENT BUDGET CHANGES						
Fund	FY 2025 FTE	FY 2026 FTE	Change	FY 2025 Expense	FY 2026 Expense	Change
General Fund - Facilities	185.50	184.50	(1.00)	$ 24,714,876	$ 28,778,121	$ 4,063,245
Fleet Operations - Operating Fund	225.25	232.00	6.75	71,208,826	70,519,438	(689,388)
Fleet Operations - Replacement Fund	-	-	-	81,580,860	122,716,585	41,135,725
Energy Conservation Program Fund	-	20.50	20.50	-	6,884,337	6,884,337
Energy Independence Fund	-	-	-	-	300,000	300,000
Total Combined	**410.75**	**437.00**	**26.25**	**$ 177,504,562**	**$ 229,198,481**	**$ 51,693,919**

underfunded for many years, and preventive maintenance has generally represented only 12.5%-14.0% of total maintenance activities. Notably, General Services has established a goal that 70.0% of its work would consist of preventive maintenance, which is in line with industry standards. This is a four-year goal (FY 2024-28), with interim annual goals which have not been met for the first two years. For this Key Performance Indicator, Facilities Services reports preventive maintenance consisting of 13.9% of its work for FY 2024 and 17.5% for FY 2025.

This goal will only be achieved if Facilities Services receives the resources needed to establish an updated maintenance schedule in the Enterprise Asset Management System (EAM), and develop a Facilities Asset Management Plan, including a strategy to support a preventative maintenance program. Developing such a plan will require updated condition assessments for facilities, as has been recommended by the City Auditor and our Office. Requisite funding will also be needed to carry out the plan.

At present, a large proportion of Facilities' maintenance efforts are associated with emergency repairs that stem from long-deferred maintenance of City facilities; a more detailed discussion of these items is included under Issues for Council Consideration later in this section.

Significant Budget Additions

The Proposed Budget includes a one-time programmatic addition of $114,000 in non-personnel expenses for the SDG&E Biannual Independent Performance Audit. This will fund the next audit of the gas and electric franchise agreements as per the terms of the agreements with SDG&E. This will be the second audit of the franchises.

The FY 2026 Proposed Budget includes a one-time salary and benefit adjustment of $271,000, which reflects compensation increases that correspond to negotiated salary increases, as well as reduced vacancy savings. The Proposed Budget also includes a one-time Additions and Annualization increase of $3.0 million in non-personnel expenditures for repair and maintenance of electrical and HVAC equipment, as well as plumbing, carpentry, roofing, painting, and plastering. In FY 2025, this $3.0 million was supported by the Infrastructure Fund. These additions are partially offset by budget reductions discussed below.

Significant Budget Reductions

The FY 2026 Proposed Budget includes several ongoing budget reductions to help mitigate the budget deficit.

<u>($170,000, 1.00 FTE) – Operational Efficiency</u>

The Mayor's operational efficiencies strategy included the reduction of vacant unclassified positions in various departments to address the upcoming Fiscal Year 2026 budget deficit. This includes the elimination of 1.00 Program Coordinator and $170,000 in related personnel expenditures in Facilities Services.

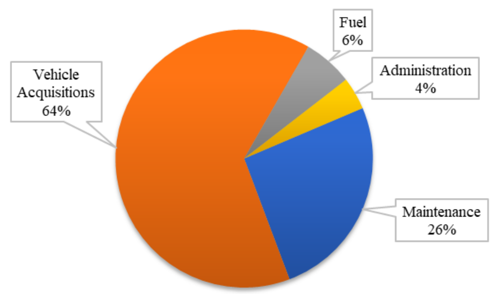
SUMMARY OF GENERAL FUND - FACILITIES BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	185.50	$ 20,058,484	$ 4,656,392	$ 24,714,876	$ 4,571,718
Programmatic Changes					
SDGE Biannual Independent Performance Audit	-	-	114,000	114,000	-
Budget Mitigation: Operational Efficiency	(1.00)	(169,849)	-	(169,849)	-
Budget Mitigation: Vehicle Usage Reduction	-	-	(175,000)	(175,000)	-
Budget Mitigation: Reduction of Refuse Disposal Fees			(1,527)	(1,527)	-
Budget Mitigation: Harbor Drive Pedestrian Bridge Elevator Maintenance	-	-	(300,000)	(300,000)	(300,000)
Other Changes					
Salary and Benefits Adjustments	-	1,737,608	-	1,737,608	-
Information Technology Adjustments	-	-	(20,679)	(20,679)	-
One-Time Additions and Annualizations	-		3,046,145	3,046,145	
Non-Discretionary Adjustment	-	250	(167,703)	(167,453)	-
FY 2026 Proposed Budget	**184.50**	**$ 21,626,493**	**$ 7,151,628**	**$ 28,778,121**	**$ 4,271,718**
Difference from 2025 to 2026	***(1.00)***	***$ 1,568,009***	***$ 2,495,236***	***$ 4,063,245***	***$ (300,000)***

<u>($175,000) – Vehicle Usage Reduction</u>
The Proposed Budget includes an ongoing $175,000 reduction in non-personnel expenditures for vehicle usage and fuel expense. These reductions are intended to be accomplished by reducing the Division's fleet and fuel consumption, delaying the replacement of vehicles, and increasing the number of employees per vehicle when traveling to City facilities for repair and maintenance activities. This could potentially result in increased timelines for repair and maintenance activities of all City facilities, including those located in Communities of Concern.

<u>($300,000) – Reduction of Harbor Drive Pedestrian Bridge Elevator Maintenance</u>
The Proposed Budget also includes the reduction of $300,000 in contractual expenses and a corresponding reduction in revenue associated with repair, maintenance, cleaning, and security services for the Harbor Drive Pedestrian Bridge elevator. This is anticipated to reduce repair and maintenance support for the elevators and may result in shutting down the elevators when they need repair. Currently one elevator is inoperable, pending $17,000 in repairs and one is operable but requires $5,000 in repairs. When these elevators are closed, public access to cross Harbor Drive is impacted.

Fleet Operations

FLEET OPERATIONS BUDGET BY FUNCTION



The Fleet Operations Division has two internal service funds: the Fleet Operating Fund which supports vehicle maintenance, repairs, fuel, a vehicle rental pool, and administrative costs; and the Fleet Replacement Fund which is used to purchase replacement vehicles for the City's fleet. Vehicle acquisitions represent

SUMMARY OF FLEET OPERATIONS (OPERATING & REPLACEMENT FUNDS) BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	225.25	$ 28,934,856	$ 123,854,830	$ 152,789,686	$ 147,383,446
Programmatic Changes					
Vehicle Additions for PUD, TD, & SWD	-	-	21,767,239	21,767,239	-
ESD Vehicles for Measure B	-	-	17,343,255	17,343,255	11,742,818
Measure B Positions and Adjustments	5.00	656,891	-	656,891	4,060,627
Vehicle Acquisition Support	3.00	435,886	-	435,886	-
Program Manager Transferred to Sustainability and Mobility	(1.00)	(222,771)	-	(222,771)	-
Fuel Usage Adjustments	-	-	(5,331,350)	(5,331,350)	(5,289,686)
Fleet Assignment Fees	-	-	-	-	2,540,221
Fleet Usage Fees	-	-	-	-	1,775,860
Replacment Vehicle Debt Financing	-	-	-	-	-
Other Changes					
Other Salaries and Wage Changes	-	2,368,156	-	2,368,156	-
Fringe Benefits (Including Retirement ADC)	-	967,196	-	967,196	-
Vehicle Acquisitions Budget Alignment	-	-	1,041,341	1,041,341	-
Debt Payments for General Fund Vehicles	-	-	983,890	983,890	-
Non-Discretionary Adjustments	-	-	766,790	766,790	-
Rightsizing FTE Count	(0.25)	(43,549)	-	(43,549)	-
Removal of One-time Expenditures from FY 2025	-	-	(286,637)	(286,637)	(2,656,905)
FY 2026 Proposed Budget	**232.00**	**$ 33,096,665**	**$ 160,139,358**	**$ 193,236,023**	**$ 159,556,381**
Difference from 2025 to 2026	***6.75***	***$ 4,161,809***	***$ 36,284,528***	***$ 40,446,337***	***$ 12,172,935***

PUD: Public Utilities Department; TD: Transportation Department; SWD: Stormwater Department; ESD: Environmental Serivces Department

64.1% of the total FY 2026 Proposed Budget for Fleet Operations, as reflected in the figure on the previous page. Maintenance represents 25.7% of the Division's budget, and 6.2% is for Fuel.

The FY 2026 Proposed Budget for Fleet Operations across all funds is approximately $193.2 million, an increase of $40.4 million or 26.5%. The FY 2026 Proposed Budget includes 232.00 FTE positions, which represents an increase of 6.75 FTEs from the prior year. Budgeted revenue totals $159.6 million, an increase of $12.2 million. As an Internal Service Fund, the majority of the Division's revenue is derived from the operating budgets of other City departments. In FY 2026, about 50% of its revenue is projected to come from the General Fund.

Significant Budget Additions

<u>$21.8 million – Vehicle Additions for Public Utilities, Transportation, and Stormwater</u>
The largest increase for Fleet Operations is $21.8 million for additional vehicle purchases for the Public Utilities, Transportation, and Stormwater departments. All of these departments have been using rental vehicles to maintain their operations, which has led to budget overages both in the General Fund and in PUD's enterprise funds.

This addition includes $10.3 million for PUD, $6.5 million for Transportation, and $2.1 million for Stormwater. There is also a $2.8 million contingency built into the addition. The General Fund department vehicles will be purchased with debt financing, which will increase assignment fees to these departments in later years. PUD's expenses will be paid from its enterprise fund balances.

<u>$17.3 million – ESD Vehicles for Measure B</u>
This increase includes $17.3 million in expenditures is for the various vehicle purchases that are included in the Environmental Services Department's (ESD) cost-of-service study for trash collection. This includes funding to begin ordering new packers and additional vehicles for new positions included in ESD's Proposed Budget, such as Code Compliance Officers.

This item also includes $11.7 million in revenue from ESD's Solid Waste Management Fund to cover these purchases. The difference between revenues and expenditures is due to Fleet Operations' need to have additional budget authority to place orders for the packers before their delivery. Upon delivery, additional revenue would then be provided from the Solid Waste Management Fund in subsequent years.

More information on these additions is provided in the *Departmental Review: Environmental Services* section.

<u>$657,000, 5.00 FTEs – Measure B Positions and Revenue Adjustments</u>
This addition is also related to Measure B. These positions were recommended to be added to Fleet Operations as part of ESD's Operational Efficiency Analysis. They include fleet technicians, a dedicated parts buyer, and a welder.

This adjustment also includes $4.1 million in revenue for both assignment and usage fees from the Solid Waste Management Fund, which represents funding for these positions as well as for other expenditures that the Division incurs to maintain the ESD fleet but for which the budget has been too low in assessing charges to ESD. More information on these additions can be found in the *Departmental Review: Environmental Services* section.

<u>$436,000, 3.00 FTEs – Vehicle Acquisition Support</u>
These new positions are proposed to assist the City with more timely procurement of vehicles. Currently, the ordering process for vehicles is a complicated and time intensive process, which includes coordination with client departments, getting orders ready in time for limited ordering windows, and then filling out

the proper paperwork and logging vehicles as assets before they can be placed into service. Because of this process, small delays by City staff can lead to long delays in the ability to place vehicles into service. For instance, missing an ordering window by one day can lead to a six month to one year delay to acquire a specific vehicle.

These positions are anticipated to increase the Division's capacity to manage all procurement tasks associated with vehicle ordering by relieving the workload on current City staff and by taking up increased work due to the expanding size of the fleet. In the past decade, the overall size of the City fleet has grown from around 4,200 vehicles to around 4,800 without an increase in the size of the acquisitions staff. In addition to adding new positions, Fleet Operations is also working with Performance and Analytics to examine the vehicle procurement process to address additional administrative burdens specific to the City's processes.

Significant Budget Reductions

($5.3 million) – Fuel Usage Adjustments

The largest reduction for the Fleet Division aligns the overall budget for fuel with recent actuals and forecasted pricing from the US Energy Information Administration. Due to improving fuel economy, more electric vehicles, and fuel prices below forecasts, fuel budgets the past two years have been higher than actual expenses. This decrease flows through to all departments that are charged for nondiscretionary fuel expenditures.

($223,000, 1.00 FTE) – Program Manager Transferred to Sustainability and Mobility

The other reduction in Fleet is a Program Manager position that was transferred from the Fleet Operating Fund to the Energy Conservation Program Fund in Sustainability and Mobility. Following that transfer, the position became vacant and was then reduced from the budget. There is no operational impact anticipated from these changes.

Significant Revenue Adjustments

Beyond already discussed revenue adjustments related to implementation of Measure B, the remaining revenue adjustments include $2.5 million in assignment fees and $1.8 million in usage fee revenue. These fees are adjusted each year to align the revenue for this fund to the expenditures included in the Proposed Budget for Fleet Operations. The level of revenue required is then utilized to determine the charges for fleet services that are budgeted within other departments.

Energy Division

The Energy Division is funded by the Energy Conservation Program Fund (ECPF), which is an internal service fund that derives revenue from charges to other City departments based on their respective energy use. This Fund was previously managed by the Sustainability and Mobility Department, and has been transferred to General Services as part of the Mayor's budget mitigation restructures announced and implemented earlier this year.

The Proposed FY 2026 Budget for the ECPF is $6.8 million. While this is shown entirely as an increase in the table below due to the transfer from SuMo, when compared to the FY 2025 Adopted Budget for the ECPF of $8.1 million, total ECPF expenditures are proposed to decrease by $1.2 million, or 18.0%. FTEs are down by 9.71 in FY 2026 while revenues are approximately the same.

Significant Budget Additions

The only budget addition for the ECPF is $58,000 for additions related to the Zero Emissions Vehicle (ZEV) program. This includes $50,000 for consultant support on the Fleet ZEV Master Plan, and $8,000 for energy billing software to integrate Fleet EV charging costs and payments. Of note, there was a $50,000 reduction for the ZEV Master Plan consultant within the General Fund; this addition will mitigate that reduction.

This adjustment also includes $174,000 in revenue from the Energy Future Grant, which will support these costs and other ZEV planning efforts within the Division.

Significant Budget Reductions

The majority of the Budget Reductions associated with the ECPF were implemented prior to its transfer to General Services. A list of these reductions can be found in the *Departmental Review: Sustainability and Mobility* section. They are further discussed below.

<u>($690,000, 3.5 FTEs) – Administrative Positions</u>
This reduction includes the Sustainability and Mobility Department Director position, as well as two Associate Management Analysts, and a Payroll Specialist (split with the General Fund). With the dissolution of SuMo, these positions are no longer required.

<u>($251,000, 1.00 FTE) – Municipal Energy Team</u>
This reduction includes one Information Systems Analyst 3 position that supported the Municipal Energy team with development of energy building management systems and integration. This reduction is anticipated to result in increased reliance on contractors and the Department of Information Technology for further work on these projects.

<u>($236,000) – Procure America Savings</u>
This reduction aligns the Proposed Budget with the anticipated contract payments for this program. The program started last year with the onboarding of a contractor to seek energy savings throughout the City. The contractor receives a portion of identified savings as payment.

<u>Other Reductions with General Fund Impacts</u>
Two Energy Conservation Fund changes directly impact the General Fund. The first is the transfer of 2.00 FTEs and $339,000 to the City Planning Department, which was part of the overall dissolution of SuMo.

Additionally, a zero emissions vehicle (ZEV) position was reduced from SuMo's General Fund expenditures. This was a newly created position tasked with overseeing the launch of the Public Electric Vehicle Charging Program (PEVCP). Due to various other reductions within the Energy Division and ECPF, these duties will be absorbed by remaining staff.

Significant Revenue Adjustments

The largest Energy Conservation Program Fund revenue change is a one-time decrease of $416,000 in revenues received from other departments. As part of the budget mitigations proposed for the General Fund, a portion of the ECPF's fund balance is proposed to fund FY 2026 operations. This creates savings in the nondiscretionary budgets for various departments. The other ECPF adjustment is an increase of $27,000 to continue work on that project.

SUMMARY OF ENERGY CONSERVATION PROGRAM FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	-	$ -	$ -	$ -	$ -
Programmatic Changes					
Transfer from Sustainability and Mobility	20.00	4,468,151	2,240,263	6,708,414	6,533,889
ZEV Fleet Adjustment	-	-	58,000	58,000	174,000
Public Charging Revenue	-	-	-	-	27,000
Use of Fund Balance to Provide Departmental Rate Relief	-	-	-	-	(415,808)
Other Changes					
Budgeted Personnel Savings and Adjustments	-	(245,441)	-	(245,441)	-
Hourly Position Changes	0.50	26,978	-	26,978	26,978
Non-Discretionary Adjustments	-	-	336,386	336,386	-
FY 2026 Proposed Budget	**20.50**	**$ 4,249,688**	**$ 2,634,649**	**$ 6,884,337**	**$ 6,346,059**
Difference from 2025 to 2026	***20.50***	***$ 4,249,688***	***$ 2,634,649***	***$ 6,884,337***	***$ 6,346,059***

Energy Independence Fund

The Energy Division is also responsible for the oversight of the Energy Independence Fund (EIF). The only expenditure for the EIF in the Proposed Budget is $300,000 to finish Phase 2 of the Public Power Feasibility Study. While the budget currently includes $2.4 million, this will be reduced in the May Revision due to an error that did not remove this funding for General Fund relief. More information on the EIF can be found in the *Citywide Issues: Climate Action Plan* section.

Issues for Council Consideration

Departmental Vacancies

Although vacancy rates have improved over the last several years, General Services continues to face problems recruiting and retaining qualified staff, particularly in skilled trade job classifications that are in high demand from other City departments like PUD, and the public and private sectors more generally. The Department currently has 61.50 total vacancies for a vacancy rate of 14.3%, including 36.50 vacant FTEs in Facilities (19.7%); 21.00 vacant FTEs in Fleet (9.3%); and 4.00 vacant FTEs in Energy Conservation (19.5%).

Both Fleet Technicians and HVAC Technicians continue to be particularly difficult to recruit despite special salary adjustments made in FY 2022. There is a larger labor shortage in the market for these position types, which affects not only the City but the entire industry.

Departmental vacancies and retention issues have been exacerbated by the strategic hiring freeze that was implemented in December 2024. Heightened vacancy levels impact the ability of the remining staff to achieve service level goals.

Filling vacancies is a challenge for several departments. For more information, see the *Departmental Vacancies* section in *Key Citywide Issues* earlier in this report.

Prioritizing Facilities Condition Assessments

Our Office's Review of the FY 2026-30 Capital Infrastructure Planning Outlook (CIP Outlook) concluded that chronic underfunding of Facilities Services has led to continued aging and deterioration of City facilities, often resulting in the need for costly emergency repairs. The $191.0 million in facility capital needs identified in the CIP Outlook is likely significantly lower than actual needs. A recent City Auditor performance audit estimated deferred maintenance needs for facilities likely exceed $1.00 billion. Having accurate information on the condition of assets is critical for making decisions about needed repairs, maintenance, and capital improvements, and for estimating related costs.

The City Auditor recommended that Facilities Services update condition assessments and develop a facilities management plan. Implementing the recommendation for condition assessments is estimated to require about $3.5 million, including $2.2 million to update the FY 2014-16 Facilities Condition Assessment; $1.0 million to assess the City's three major services yards (Chollas, 20th and B, and Rose Canyon); and $330,000 to assess 60 General Fund facilities not previously assessed.

Facilities Services recently conducted a request for proposals (RFP) for an as-needed contract to conduct condition assessments over the next several years, and is in the final stages of awarding the contract. This should help spread costs over several years as funding becomes available. While updating condition assessments is a high priority, due to the projected budget deficit for FY 2026 and the request to propose budget reductions, Facilities Services did not request funding for condition assessments in FY 2026.

Not funding new condition assessments will also impact the Division's ability to achieve equity goals, since many of the City's oldest buildings are in Communities of Concern.

Homelessness Strategies and Solutions Department

The Homelessness Strategies and Solutions Department (HSSD) oversees homelessness programs that provide emergency shelter, Safe Parking, Safe Sleeping, outreach, case management, and other services. The Department works to ensure that the City's homelessness policies are reflected in and coordinated across the work of other departments citywide.

Typically a portion of the City's funding for homelessness is transferred to the San Diego Housing Commission to administer. The City and Housing Commission first entered into a Memorandum of Understanding in 2010 for the administration of service provider contracts for the City's homelessness programs.

A significant portion of program funding for homelessness comes from the City's General Fund, and is included in the HSSD Proposed Budget and approved as part of the budget process. However, the City's homelessness efforts are funded through a variety of other sources as well, including federal, State, and County grants. As part of the FY 2026 budget process, Council is only being asked to approve General Fund allocations to homelessness programs. Requests to approve additional funding streams come separately.

Our Office will additionally review the Housing Commission's FY 2026 Proposed Budget in a separate report that will be released in early May.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget includes $53.2 million in General Fund expenditures, a decrease of $689,000, or 1.3%, from the FY 2025 Adopted Budget. The Proposed Budget also includes 16.00 FTE positions, a decrease of 0.38 FTEs compared to FY 2025 due to the reduction of an Employ and Empower

SUMMARY OF HOMELESSNESS STRATEGIES AND SOLUTIONS DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	16.38	$ 2,689,193	$ 51,227,378	$ 53,916,571	$ 40,837,415
Programmatic Changes					
Ongoing Housing Instability Prevention Program Funding	-	-	3,500,000	3,500,000	-
Public Restrooms (One-Time)	-	-	750,000	750,000	-
Day Center Operations (One-Time)	-	-	527,774	527,774	-
Budget Mitigation: Eliminate Rosecrans Shelter Program	-	-	(4,754,519)	(4,754,519)	-
Budget Mitigation: Grant Funding for Shelter Operations	-	-	(1,919,599)	(1,919,599)	-
Budget Mitigation: Shelter Non-Essential NPE Savings			(1,697,032)	(1,697,032)	
Budget Mitigation: Eliminate Caltrans Outreach Program	-	-	(620,917)	(620,917)	-
Budget Mitigation: HRC Transition NPE Savings	-	-	(481,232)	(481,232)	-
Other Changes					
Removal of One-Time Expenditures, Reductions & Revenues	-	-	2,832,399	2,832,399	(1,261,409)
Salary and Benefit Adjustments	-	716,215	-	716,215	-
Non-Discretionary Adjustments	-	-	472,747	472,747	-
Employ and Empower Interns One-Time Adjustments	(0.38)	(15,077)	-	(15,077)	(15,077)
Measure C TOT Homelessness Funding	-	-	-	-	33,782,505
HHAP Admin (One-Time)	-	-	-	-	450,000
TOT Reimbursement Adjustment	-	-	-	-	(20,566,104)
FY 2026 Proposed Budget	**16.00**	**$ 3,390,331**	**$ 49,836,999**	**$ 53,227,330**	**$ 53,227,330**
Difference from 2025 to 2026	***(0.38)***	***$ 701,138***	***$ (1,390,379)***	***$ (689,241)***	***$ 12,389,915***

** HRC = Homelessness Response Center, TOT = Transient Occupancy Tax, HHAP = Homeless Housing, Assistance and Prevention (HHAP)*

Program Management Intern position. There are currently no vacancies in the Department.

The Proposed Budget allocates $50.1 million in Transient Occupancy Tax (TOT) funds, of which $33.8 million is anticipated from TOT revenue collected through Measure C approved by voters in 2020 (pending final court affirmation) and $16.3 million is as a Special Promotional Programs reimbursement. Under Measure C, homelessness programs receive 41% of increased TOT revenue for five years, after which 10% of the TOT revenue increase would go to street repair and the remaining 31% would continue to fund homelessness. The Proposed Budget includes an overall increase of $13.2 million, or 35.8%, from TOT revenue relative to FY 2025 levels. Special Promotional Programs funds typically support the promotion of tourism and attracting economic activity to the City. The City started funding homelessness programs through reimbursements from TOT's Special Promotional Programs revenue in FY 2024, but Measure C would be the first ongoing revenue stream in the City dedicated to homelessness.

Budgeted revenues are $53.2 million, an increase of $12.4 million from the FY 2025 Adopted Budget. Revenue increases are primarily attributed to the increased TOT revenue from Measure C.

Significant Budget Additions

The Proposed Budget includes budget additions that either maintain existing service levels, or as is the case with public restrooms, reduce services.

<u>$3.5 million – Ongoing Housing Instability Prevention Program Funding</u>

The Proposed Budget provides a total of $5.8 million to fund the Housing Instability Prevention Program (HIPP) on an ongoing basis, which represents a $600,000, or 11.5%, increase relative to budgeted funding levels in FY 2025. The overall increase helps to account for newly enrolled participants with higher rent arrears, maintain current subsidy levels, and cover the 4% cost-of-living salary increases for program staff, based on the SDHC Memorandum of Understanding currently in effect. Of the total program funding, the Proposed Budget includes a $3.5 million increase from the General Fund to largely replace one-time funds allocated to support HIPP in FY 2025. This increase is in addition to $2.3 million available for HIPP as part of General Fund baseline expenditures.

HIPP provides financial assistance to low-income households. The program currently provides tiered monthly subsidies for up to two years to households with low incomes and unstable housing conditions. Payments can be used to assist with rent and other housing-related expenses. The proposed funding would maintain existing subsidy levels (at $250, $500, $750, or $1,000 per month) and financial assistance for up to 300 households throughout FY 2026.

<u>$750,000 – Public Restrooms (One-Time)</u>

The Proposed Budget includes $750,000 for public restrooms, which is a $3.0 million, or 79.8%, reduction from FY 2025 funding levels. The number of public restrooms operated by HSSD would be reduced by half, from 16 restrooms in FY 2025 to around 8 restrooms in FY 2026. In addition to fewer locations, security services associated with the restrooms would also be eliminated. In FY 2025, the Department took over administration of portable restroom contracts from the Parks and Recreation Department. Additionally, due to public health concerns related to hepatitis A at the beginning of 2023, the County requested the

City deploy additional hand-washing stations and portable restrooms to serve the unsheltered.

$528,000 – Day Center Operations (One-Time)

The Proposed Budget includes a total of $948,000 for Day Center operations, which maintains FY 2025 funding levels after adjusting for inflation. Of this amount, $528,000 is budgeted on a one-time basis, consistent with past years.

$2.8 million – Removal of One-Time Expenditures and Reductions

The Proposed Budget includes a $2.8 million increase due to the removal of one-time adjustments. These adjustments are primarily driven by the removal of one-time expenditure reductions included in the FY 2025 Adopted Budget, including the use of the Affordable Housing Funds, Permanent Local Housing Allocation, and federal HOME-ARP funds for homelessness operations. These adjustments are partially offset by the removal of one-time FY 2025 expenditures, such as start-up costs associated with H-Barracks Safe Parking and the Kettner and Vine permanent shelter proposal, but result in net increased expenditures in FY 2026. The net increase of $2.8 million would affect the funding sources for programs funded using one-time resources in FY 2025, that are now proposed to receive General Fund or grant funding in the Proposed Budget. These changes in funding sources have no impact on service levels.

Significant Budget Reductions

The Proposed Budget includes several budget mitigations that eliminate existing program funding, identify savings from reducing non-essential expenditures, or transfer program expenditures to grant funds.

Program Eliminations

($4.8 million) – Budget Mitigation: Eliminate Rosecrans Shelter Program

The Proposed Budget eliminates funding for the Rosecrans Shelter, which amounts to a $4.8 million reduction. Opened in September 2022, the 150-bed emergency shelter operates under a City-County partnership, whereby the City agrees to fund shelter operations, and the County of San Diego provides behavioral health services, including mental health and substance use disorder treatment. In FY 2025, Rosecrans Shelter operations are primarily funded by State Homeless Housing, Assistance and Prevention (HHAP) grant funds, with approximately $4.1 million from HHAP funds and $306,000 from the General Fund. The current operating agreement expires June 30, 2025.

According to the Mayor's Office, the County informed the City of plans to demolish the neighboring facility on the site starting in March 2026. As that facility also supplies utilities to the Rosecrans Shelter, the City was asked to fund alternate arrangements for utilities to keep the shelter in operation.

Given these unanticipated expenses and the likely day-to-day disruption from co-locating at an active demolition site, the Proposed Budget assumes the closure of the Rosecrans Shelter. Typically, for shelter relocations, program budget is preserved for ongoing operations at an alternate site. For Rosecrans, no program funds are preserved in the Proposed Budget, meaning this program would not be relocated to another site. We estimate that the closure would result in a net loss of 40 beds, when comparing shelter capacity between December 2024 (following implementation of the Short-Term Action Plan to replace beds lost in fall 2025) and July 2025 (start of FY

2026, following added capacity from the 210-bed Rachel's Promise Center for Women and Children at full operation).

SDHC administers the Rosecrans Shelter and indicated that intakes have been temporarily suspended due to this funding uncertainty. Further, if other funds are not secured and shelter operations cease, an additional six months of funding into FY 2026 could be needed to find temporary or permanent housing arrangements for current shelter residents.

Since City-County behavioral health partnerships have been a priority in the past, Council may wish to discuss how or whether funding for the Rosecrans Shelter should be prioritized relative to the City's other existing homelessness services. We note that continuing all existing homelessness services will not be fiscally feasible without offsetting budget reductions to other City services. Additionally, the provision of behavioral health services is a responsibility that falls to the County; as such, it may be more appropriate for housing expenses incurred while an individual is seeking and receiving behavioral or mental health treatment to fall to the County. There are no other shelter relocations or closures currently planned for FY 2026.

<u>($621,000) – Budget Mitigation: Eliminate Caltrans Outreach Program</u>

The Proposed Budget eliminates the Caltrans Outreach Program through the reduction of $621,000 in associated expenditures. This program assigned contracted outreach workers to conduct outreach based on planned Caltrans homeless encampment removals. According to HSSD, the program showed poor outcomes, as 98.3% of individuals receiving outreach through the program remained homeless. Poor program outcomes were likely due to a program model which did not allow outreach staff to continuously build relationships and trust with individuals; instead, outreach engagement was likely short-lived and sporadic as outreach workers followed Caltrans staff to the next encampment clearing.

Non-Essential Expenditure Savings

<u>($1.7 million) – Budget Mitigation: Shelter Non-Essential NPE Savings</u>

The Proposed Budget includes $1.7 million in ongoing savings from reducing non-essential expenditures in shelter contracts administered by SDHC. Along with HSSD, SDHC worked in close collaboration with shelter providers to identify and reduce non-critical expenditures and ancillary costs informed by actual expenditure data collected over a 3-year period to right size shelter operational budgets. According to SDHC, almost $3.5 million in non-essential savings were identified, which were partially offset by program cost increases, resulting in net savings of $1.7 million.

<u>($481,000) – Budget Mitigation: HRC Transition NPE Savings</u>

The Proposed Budget reflects $481,000 in savings associated with reconfiguring the Homelessness Response Center (HRC), as the site is planned for redevelopment. Opened December 2019, the HRC provided a centralized location for individuals to connect to a broad range of service providers, including housing navigation, case management, legal services, employment support, and benefits enrollment. In May 2024, the City announced the site would be redeveloped into 100% affordable housing.

Since no alternate HRC site has been identified, services currently offered at the HRC will be relocated to other sites throughout the City's homelessness response system, such as the Day Center and emergency shelter locations, or be made available virtually. Until a permanent site can be identified for the HRC, services will operate under a decentralized model that is not site-based, resulting in savings from site operations and maintenance. SDHC intends to begin implementing the HRC reconfiguration before the start of FY 2026.

Other Reductions

($1.9 million) – Budget Mitigation: Grant Funding for Shelter Operations

The Proposed Budget includes a reduction of $1.9 million associated with corresponding shelter expenditures to be funded by grant funds in FY 2026 on a one-time basis. Since the Proposed Budget eliminates funding for the Rosecrans Shelter, which was primarily funded by the State HHAP grant, there are available grant resources to support eligible expenditures at other shelters that remain in operation and offset General Fund costs. This reduction is in addition to the previously discussed adjustment associated with the Rosecrans closure.

Unfunded Request

$308,000 - Interim Family/Women's Shelter

The Proposed Budget includes $464,000 from General Fund resources for the Interim Family/Women's Shelter. In addition to this funding, SDHC requested a $308,000 increase to support continued operations of the 93-bed semi-congregate/non-congregate Interim Family/Women's Shelter. In FY 2025, the shelter received $429,000 from the City's General Fund and $293,000 from SDHC's federal Moving to Work (MTW) funds. SDHC receives flexible federal MTW dollars to operate the City's rental housing voucher programs and aligned initiatives due to its MTW status. According to SDHC, future federal MTW allocations will likely be insufficient to cover the full cost of operating the SDHC housing voucher programs, especially as the value of vouchers increased in FY 2025 to account for higher rent costs in the region. As a result, SDHC plans to rededicate flexible MTW funds currently used for other initiatives, such as funding Interim Family/Women's Shelter operations, towards supporting the SDHC housing voucher program, which is the primary objective of MTW funds. Additionally, there is uncertainty over the eligibility of households served at the shelter to receive services funded by federal dollars. Hence, SDHC requested increased City funding to maintain current shelter operations. If these funds cannot be secured, 32 shelter beds serving single parent households will be taken offline.

Many Other Homelessness Programs are Funded in FY 2026 Outside the Budget Process

With the approval of HSSD's $53.2 million budget, partial or full funding will be provided to a subset of the City's homelessness programs. Before the end of FY 2026, Council will also be asked to approve funding allocations from the sixth round of State HHAP (HHAP 6.0) funds totaling $25.8 million. Consistent with the fifth round of HHAP funding, only half of the HHAP 6.0 allocation will be available in FY 2026, with the remaining half expected to be available in FY 2027. Staff project to use $11.6 million from HHAP 6.0 in FY 2026, which, along with carryforward funding from previous rounds, means a total of $25.3 million in HHAP funds are budgeted for FY 2026. This represents an increase of $1.7 million, or 7.1%, relative to FY 2025.

HSSD staff indicate that HHAP 6.0 appears to have more stringent requirements than previous rounds, including reporting related to the long-term sustainability of the City's interim housing and permanent affordable housing, as well as a system performance and improvement plan to identify actions to improve key performance metrics.

Other funding sources that will support homelessness programs in FY 2026 include the State Encampment Resolution Grant, State and County grants for the Domestic Violence shelter, federal Community Development Block Grant, federal Emergency Solutions Grant, and Housing Commission funds such as local discretionary funding.

Issues for Council Consideration

Community Action Plan Update

In October 2019, the City Council approved the Community Action Plan on Homelessness (Community Action Plan), which intends to systematically address homelessness. The Community Action Plan includes three goals to achieve in three years, recommended actions, and key strategies. Goals include decreasing unsheltered homelessness by 50% and ending veteran and youth homelessness.

In November 2023, Council heard the Community Action Plan Update (Update), reflecting progress since the initial plan's release and changes due to the pandemic. According to the Update, the City has made progress but would need to spend an additional $280.0 million annually above current spending levels to address the remaining needs for: 465 to 920 new shelter beds, as well as 2,700 diversion, 1,485 prevention, 3,080 rapid rehousing, 3,520 supportive housing, and 340 low-income housing resources.

To better inform the City on potential allocations of resources, SDHC plans to release another update to the Community Action Plan on May 20, 2025. Additionally, the upcoming release of San Diego's Point-in-Time Count for 2025, expected late May, will assist in identifying the subpopulations most in need of homelessness services. **During Council discussion of the May Update to the Community Action Plan, Council may wish to ask how the Proposed Budget aligns with the latest Update and whether there are any recommended changes based on the goals of the Update. Additionally, Council may wish to discuss how the City can most strategically use and prioritize limited City resources to most effectively address homelessness.**

Program Outcomes

As seen in the table below, HSSD identified four key performance indicators focused on tracking the number of individuals served through coordinated street outreach, Safe Parking, Safe Sleeping, and shelter program.

HSSD Performance Measures	Baseline	FY 2025 Performance	Goal
Persons Served Through Coordinated Street Outreach	5,911	5,500	5,911
Persons Served Through the Safe Parking Program	1,145	1,244	1,145
Persons Served Through the Safe Sleeping Program	1,376	2,095	1,700
Persons Served Through Shelters	4,929	5,200	4,929

Although these indicators are within the scope of the Department's services and work, they are most directly a measure of program capacity, and only indirectly a measure of program outcomes and the ability of HSSD's services to resolve and address homelessness.

Although means to address homelessness, such as permanent housing resources, largely fall beyond the purview of HSSD, program outcomes should inform how City funds are budgeted. Based on discussions with HSSD and SDHC, an evaluation of program outcomes influenced funding decisions in the Proposed Budget, most notably the proposal to eliminate the Caltrans outreach program. However, these program outcomes have not been made available to the Council or the public. **Council may wish to discuss whether additional performance indicators would be helpful to meaningfully evaluate the City's overall efforts to address homelessness, including the possible inclusion of citywide performance indicators that measure performance beyond that of one single department.**

Additionally, SDHC maintains a robust data dashboard tracking both SDHC and City homelessness programs, as well as progress towards achieving goals in the Community Action Plan. Data is presented at the system level as well as intervention level (e.g. shelters). The table below provides some key data points from SDHC's website for FY 2022 through FY 2024. Based on this data, a higher percentage of households exited to permanent housing in FY 2024 relative to the past two fiscal years, but the average length of stay for exits to permanent housing increased over that period, as did the average length of stay for all exits.

Other Notable Updates

Improved SDHC-HSSD Coordination

In our discussions with SDHC and HSSD, both noted strong coordination and collaboration during development of the Proposed Budget. SDHC and HSSD worked closely to identify non-essential spending and propose program reductions in response to the City's limited budgetary resources. These efforts resulted in reduced General Fund expenditures, as well as programmatic changes aimed at preserving the City's overall shelter capacity and major homelessness services.

Multidisciplinary Outreach Team

As one of the possible program reductions identified, SDHC anticipates the Multidisciplinary Outreach Team will operate with reduced funding in FY 2026 due to the City's budgetary constraints. The program received $1.1 million from the General Fund in FY 2025 and is likely to be budgeted an estimated $600,000 from State grant funds awarded in the 2023-2024 State Budget. SDHC staff indicated they plan to identify other funds to continue this program, but if additional funds are not secured, the program will likely begin ramping down.

HHAP Homeless Management Information System Reduction

Another funding change that resulted from increased scrutiny of existing funding by HSSD

SDHC Dashboard Shelter Outcomes	FY 2022	FY 2023	Change b/t FY 2022 to FY 2023	FY 2024	Change b/t FY 2023 to FY 2024
Total Households Exiting Shelter	3,431	3,471	40	3,123	(348)
% Exit to Permanent Housing	15%	14%	-1%	18%	4%
% Exit to Homeless Situations	23%	19%	-4%	20%	1%
% Exit to Temporary Situations	6%	7%	1%	8%	1%
% Exit to Institutional Situations	3%	3%	0%	3%	0%
% Deceased	0%	0%	0%	0%	0%
% Not Reported	52%	57%	5%	50%	-7%
Average Length of Stay for All Exits	56 days	70 days	+ 14 days	99 days	+ 29 days
Average Length of Stay for Exits to Permanent Housing	117 days	143 days	+29 days	184 days	+ 41 days

resulted in the reallocation of $150,000 of HHAP funds previously set aside for the local Homeless Management Information System (HMIS) to instead support direct services. HMIS collects client-level data from homeless service providers throughout the County and assists in tracking housing and homeless services that are provided. The State allows grantees the option to set aside up to 1% of its HHAP allocation to support HMIS functioning, maintenance, and operations. However, stakeholders, such as service providers and participating agencies, are required to pay a regular licensing fee that also supports the operations and maintenance of HMIS. To more effectively use these funds, the Proposed Budget assumes the remaining HMIS set-aside will support continued operations of the City's homelessness programs.

FY 2026 Anticipated Funding for Homelessness *(Subject to Change)*					
System Component	**Programs**	**Maximum Program Capacity**	**FY 2026 Proposed Budget General Fund**	**Other**	**FY 2026 Total**
Housing & Services $7.0 million	Housing Instability Prevention Program (HIPP)	300 households	$ 5,800,000	$ -	$ 5,800,000
	Diversion - Family Reunification		-	834,000	834,000
	Rapid Rehousing - City Programs		-	328,796	328,796
Crisis Response & Stabilization $57.3 million	Shelters				
	Bridge Shelter - 16th and Newton	326 beds	-	7,147,653	7,147,653
	Women's and Family Shelter	210 beds	4,611,268	950,000	5,561,268
	Single Adult & Senior Interim Shelter (VVSD)	130 beds	-	3,611,671	3,611,671
	Bridge Shelter - 17th and Imperial	140 beds	-	3,523,195	3,523,195
	Domestive Violence Shelter	160 beds	-	3,000,000	3,000,000
	Youth Case Management & Shelter	67 beds	-	2,367,204	2,367,204
	Family Non-Congregate Shelter	168 beds/42 units	1,872,819	446,675	2,319,494
	Connections Interim Housing	80 beds	1,378,390	575,099	1,953,489
	LGBTQ+ Youth Services and Shelter	45 beds	1,291,451	720,047	2,011,498
	Shelterwide Ancillary		1,057,496	500,000	1,557,496
	Veterans Interim Shelter (VVSD)	40 beds	1,083,962	-	1,083,962
	Lighthouse Interim Shelter	37 beds	980,402	-	980,402
	Bishops Shelter	28 beds	644,022	-	644,022
	Interim Family/Women's Shelter	93 beds/25 units	463,964	-	463,964
	Safe Sleeping Programs				
	"O" Lot	581 tents	10,328,953	-	10,328,953
	20th and B Lot	186 tents	3,130,029	-	3,130,029
	Substance Use Disorder Shelters & Services				
	Harm Reduction Interim Shelter	44 beds	2,131,592	-	2,131,592
	Alcohol Use Disorder Interim Shelter	56 beds	748,240	-	748,240
	Safe Haven	22 beds	438,715	-	438,715
	Rosecrans Sprung Shelter	150 beds	-	-	-
	Safe Parking Programs				
	Safe Parking Programs	206 spots/19 RVs	761,316	1,900,000	2,661,316
	H-Barracks New Safe Parking Program	190 spots, incl. RVs	1,105,944	494,056	1,600,000
Engagement Services $13.2 million	Outreach				
	Coordinated Outreach		1,000,000	2,606,547	3,606,547
	Downtown Street Outreach		1,000,000	500,254	1,500,254
	Community Outreach Events		25,000	-	25,000
	Storage				
	Storage Connect Center I	500 bins	1,584,967	-	1,584,967
	Think Dignity Storage Facility	400 bins	243,252	-	243,252
	Other				
	Encampment Resolution Grant Programs		-	3,281,465	3,281,465
	Homelessness Response Center		1,267,167	-	1,267,167
	Neil Good Day Center for Homeless Adults		948,324	-	948,324
	Public Restrooms		750,000	-	750,000
	HMIS Set-Aside		-	-	-
Administration[1] $9.3 million	HSSD Administration		8,580,057	-	8,580,057
	SDHC Administration		-	746,123	746,123
		Total Expenses	**$ 53,227,330**	**$33,532,785**	**$ 86,760,115**

Notes: Table only includes programs in the Homelessness Strategies and Solutions Department (HSSD) Budget.

[1] Excludes grant administrative costs reimbursable from State HHAP grants, which are calculated at 5% and totals $450,000 in FY 2026. Full SDHC admin costs are reflected in the "FY 2026 Proposed San Diego Housing Commission Homeless Services" table.

FY 2026 Proposed San Diego Housing Commission Homeless Services *(Subject to Change)*			
Housing and Services	**Permanent Housing**	Federal Voucher Support	$ 115,149,000
		Permanent Supportive Housing CoC Program	7,730,000
		Landlord Engagement	2,260,000
		Capacity Building	25,000
	Rapid Rehousing	Rapid Rehousing	1,721,000
		Rapid Rehousing CoC	4,001,000
	Prevention & Diversion	Prevention and Diversion	2,891,000
		Eviction Prevention Program	3,000,000
		Flexible Spending	195,000
		HIPP - Seniors Safe at Home	117,000
	Supportive Services	Various Supportive Services	1,102,000
Crisis Response	**Shelter**	Transitional Housing	357,000
	Outreach	Multidisciplinary Outreach Team[1]	600,000
Other	**Other**	PEER Program	188,000
Administration	**Administration**	SDHC Admin	2,832,000
		Total	**$ 142,169,000**

[1] Of these State grant funds, an estimated $225,000 is carryforward funding from FY 2025 due to savings from slow initial ramp up and staffing of the program.

Human Resources

The Human Resources Department is responsible for labor relations and bargaining with the City's recognized employee organizations (unions); employee learning and development; disability management and reasonable accommodations; talent acquisition and proactive recruitment for unrepresented employees; retention efforts; and citywide internship and volunteer programs.

The Department also supports City departments in using an equity lens with policies, procedures, programs, and budget decisions. In FY 2025, the Department of Race and Equity and Community Equity Fund were restructured into the Human Resources Department.

Impacts of Mayor's FY 2026 Budget Proposal

As shown in the table below, the FY 2026 Proposed Budget for Human Resources is approximately $12.4 million, an increase of $637,000 or 5.4% from the FY 2025 Adopted Budget. Despite the transfer of positions associated with the restructuring of the Department of Race and Equity, the total number of positions in Human Resources has decreased by 20.56 FTEs from FY 2025 to a total of 49.00 FTEs. Revenue is decreasing by $523,000, or 38.0%, as discussed later in this section.

Significant Budget Additions

The largest expenditure increase in the table below is $1.8 million for salary and benefits adjustments. This reflects negotiated pay increases for City personnel, as well as decreased vacancy savings resulting from a decrease in the projected vacancy rate. The next largest increase is for the Department's restructuring and FTE additions, which are discussed below.

$1.0 million, 5.00 FTEs – Restructure of the Department of Race and Equity

The Proposed Budget adds $1.0 million and 5.00 FTEs to the Department, associated with the consolidation of the Department of Race and Equity into the Human Resources Department. Human Resources noted that they have been working with Race and Equity staff to understand the program and integrate into the Department.

Several departments and offices were restructured as operational efficiency measures. The Department of Race and Equity had 8.50 FTEs in the FY 2025 Adopted Budget. Of the remaining 3.50 FTEs, 2.00 currently vacant

SUMMARY OF HUMAN RESOURCES BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	69.56	$ 10,117,901	$ 1,637,573	$ 11,755,474	$ 1,375,308
Programmatic Changes					
Restructure of the Department of Race and Equity	5.00	974,591	29,533	1,004,124	-
Addition of Labor Negotiations Support	-	-	347,118	347,118	-
Budget Mitigation: Citywide Talent Acquisition and Compensation Reduction	-	-	(197,132)	(197,132)	-
Budget Mitigation: Positions and Personnel Expenditure Reduction	(11.00)	(2,007,273)	-	(2,007,273)	-
Other Changes					
Salary and Benefit Adjustments	-	1,793,564	-	1,793,564	-
Information Technology Adjustments	-	-	88,849	88,849	-
Employ and Empower Program Adjustments	(14.56)	(523,028)	-	(523,028)	(523,047)
Non-Discretionary Adjustments	-	-	40,838	40,838	-
Other Adjustments	-	-	89,857	89,857	-
FY 2026 Proposed Budget	**49.00**	**$ 10,355,755**	**$ 2,036,636**	**$ 12,392,391**	**$ 852,261**
Difference from 2025 to 2026	***(20.56)***	***$ 237,854***	***$ 399,063***	***$ 636,917***	***$ (523,047)***

positions (1.00 Department Director and 1.00 Program Coordinator) are proposed to be eliminated, and 1.50 FTEs are being reduced as budgeted vacancy savings.

$253,000, 5.00 FTEs – Addition of Employ & Empower Program Interns
The Proposed Budget adds $253,000 and 5.00 FTEs for hourly Management Interns for the Employ & Empower Internship Program, which is discussed from a citywide perspective in the *Key Citywide Issues: Equity* section of this report. The 5.00 positions include 2.96 Management Interns - Hourly and 2.04 Student Interns - Hourly to support the Employ and Empower Program. These expenditures are considered grant reimbursable; as such, the Department's revenue includes a corresponding $253,000 increase. These additions are offset by reductions of 19.56 FTEs for the program discussed later in this section.

Note that the Employ & Empower program is managed by the Human Resources Department, including four staff members dedicated to the Program.

$347,000 – Addition of Labor Negotiations Support
The Proposed Budget adds $347,000 in non-personnel expenditures to support labor negotiation and support services for contract negotiations with recognized employee organizations (REOs). MOU contract negotiations with all of the REOs are anticipated to be held in FY 2026. This increase would bring the Department's budget for labor negotiations to $750,000, which is needed to meet the ongoing expenses as well as to more closely align the budget with the average annual contract cost of $1.0 million.

Significant Budget Reductions

Human Resources has a 20.0% reduction goal and is primarily achieving that through the elimination of 11.00 FTE positions and $2.0 million in personnel expenditures as the Department's non-personnel budget is relatively small. Human Resources indicated the reductions will have a significant impact on the ability of staff to meet service levels.

Specific reductions are discussed below.

($2.0 million, 11.00 FTEs) – Position and Personnel Expenditure Reductions
The Proposed Budget reduces 11.0 total positions and $2.0 million in related personnel expenditures. This includes the reductions of 2.00 Program Managers, 8.00 Program Coordinators, and 1.00 Associate Human Resources Analyst; the positions are from various programs across the Department.

Of the 11.00 FTE positions being reduced, 9.00 FTEs are currently vacant. The remaining 2.00 positions are unclassified, and the intent is to provide opportunities for staff in positions which are being eliminated to move into vacant positions that are not being reduced.

($776,000, 19.56 FTEs) – Non-Standard Personnel Funding Reduction
The Proposed Budget also reduces 19.56 FTEs and $776,000 related to the Employ & Empower program, which are partially offset by the addition of 5.00 FTE positions and $253,000 added for the program.

($197,000) – Citywide Talent Acquisition and Compensation Reduction
The Proposed Budget also includes a budget mitigation reduction of $197,000 in non-personnel expenditures associated with the Citywide Talent Acquisition program. These reductions are anticipated to reduce the City's recruitment and outreach efforts as well as total compensation surveys.

Significant Revenue Adjustments

The Proposed Budget includes a one-time revenue reduction associated with the Employ and Empower Program in FY 2025 to bring revenues to approved levels.

Issues for Council Consideration

Unfunded Budget Requests

Human Resources requested the following additions which were not funded in the Proposed Budget. While these are relatively small amounts, the Department has a small non-personnel expenditure budget and, therefore, these additions would be difficult to absorb.

- $19,000 addition in non-personnel expenditures for mandated Reporter and Sexual Harassment Prevention trainings.
- $40,000 addition of non-personnel expenditures to provide Welcome Bags for new City employees, which is part of the Department's Citywide Building Your Future branding campaign.
- $5,000 addition of non-personnel expenditures associated with City employees to who are referred to American Substance Abuse Professionals (ASAP) for a drug and/or alcohol violation.

Also not funded in the Proposed Budget is a reduction of $281,000 in non-personnel expenses related to the Employee Assistance Program (EAP), which provides contractual counseling services to City employees and their family members. The EAP program is being transferred to the Risk Management Department in FY 2026 and is included in Risk Management's proposed budget as an addition of $139,000 in ongoing non-personnel expenses. However, Human Resources budget does not include a corresponding reduction for the program and instead retains $281,000 for EAP. Note, the difference in the two amounts represents a $142,000 proposed reduction to the program for FY 2026.

Vacancies

As of mid-April 2025, Human Resources had 12.00 vacant positions with a vacancy rate of 17.3%. This is higher than the prior year vacancy rate (12.0%) due to the hiring freeze which was initiated in December 2024 and plan for elimination of positions. 11.00 of the vacant positions are proposed to be cut.

Human Resources indicated the current vacant position is needed to meet service levels, and the Department plans to move forward with filling any vacant positions when the hiring freeze ends.

While the Department generally has been able to fill most vacant positions when they ae able to hire, Human Resources noted that the larger issue is that the Department has been under resourced, that is, having staffing levels below what is needed to deliver the programs and services the Department is mandated to provide. This makes it more challenging to absorb the cuts while still delivering required services.

Library

The Library Department provides public access to information and resources, including book, journals, magazines, digital resources, and other multimedia materials. It also supports technology access, offers various forms of programing and provides a physical space to read, work, and collaborate at 37 library locations throughout the City.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the Library Department totals approximately $72.6 million, a $4.4 million, or 5.7% reduction from the FY 2025 Adopted Budget. The FY 2026 Proposed Budget includes 405.00 FTE positions, which is a decrease of 79.12 FTEs from the FY 2025 Adopted Budget.

Budgeted revenue totaling $3.7 million represents an increase of approximately $797,000 compared to FY 2025.

Significant Budget Additions

Transfer of Office of Child and Youth Success

The FY 2026 Proposed Budget transfers 3.00 FTEs and $682,000 in expenditures to the Library Department given the operational consolidation announced by the Mayor in February 2025. Under this restructure, staff from the former Office of Child and Youth Success (OCYS), including 1.00 Program Coordinator, 1.00 Senior Management Analyst, and 1.00 Community Development Specialist 2, will merge into the Library Department's Youth and Family Services Division and largely continue the role performed by OCYS, including the implementation of the Child and Youth Plan and the City's subsidized childcare program.

Significant Budget Reductions

Budget Mitigations

The largest FY 2026 budget reductions are budget mitigations used to help balance the General Fund budget. The Department's expenditure budget mitigations total $10.0 million and are discussed below.

SUMMARY OF LIBRARY DEPARTMENT - BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	484.12	$ 55,377,420	$ 21,691,942	$ 77,069,362	$ 2,766,847
Programmatic Changes					
Transfer of Office of Child and Youth Services	3.00	416,062	265,783	681,845	-
Budget Mitigation: Elimination of Monday Hours	(47.00)	(5,434,802)	(552,725)	(5,987,527)	-
Budget Mitigation: Elimination of Sunday Hours	(24.00)	(2,367,365)	(224,281)	(2,591,646)	-
Budget Mitigation: Reduction to DYH@L Program	(6.10)	(566,603)	-	(566,603)	-
Budget Mitigation: Various NPE	-	-	(740,226)	(740,226)	-
Budget Mitigation: Library Donation Matching Funds	-	-	(117,624)	(117,624)	-
Employ and Empower Program Interns	(5.02)	(88,059)	-	(88,059)	(88,064)
Special Event Catering Revenue	-	-	-	-	32,667
User Fee Revenue	-	-	-	-	145,585
E-3 Civic High School Reimbursement Revenue	-	-	-	-	190,000
TOT Reimbursement Revenue	-	-	-	-	302,142
Other Changes					
Salaries and Benefit Adjustments	-	4,262,082	-	4,262,082	-
Non-Discretionary Adjustments	-	-	(174,560)	(174,560)	-
Security Services Contractual Cost Increases	-	-	753,164	753,164	-
Parking Services	-	-	79,067	79,067	214,558
One-time Reductions and Annualizations	-		67,750	67,750	-
FY 2026 Proposed Budget	**405.00**	**$ 51,598,735**	**$ 21,048,290**	**$ 72,647,025**	**$ 3,563,735**
Difference from 2025 to 2026	***(79.12)***	***$ (3,778,685)***	***$ (643,652)***	***$ (4,422,337)***	***$ 796,888***

<u>($8.6 million, 71.00 FTEs) – Elimination of Sunday and Monday Library Hours</u>
The FY 2026 Proposed Budget includes the reduction of 71.00 FTEs and approximately $8.6 million in expenditures associated with the elimination of Sunday and Monday library hours systemwide. Of these amounts, $2.6 million and 24.00 FTEs are associated with the elimination of Sunday hours, and $6.0 million and 47.00 FTEs with the elimination of Monday hours.

The elimination of Sunday hours will impact 14 locations that are currently open four hours (1pm - 5pm) on Sundays, including the Central Library. Savings from the elimination of Sunday hours are largely generated from the reduction of 48 half-time positions (24.00 FTEs). All of these positions are currently vacant primarily due to attrition that has occurred since the City's hiring freeze was instituted in December 2024. The Library Department has noted that it has struggled to maintain staffing on Sunday's due to these vacancies.

The elimination of Monday hours will reduce operating hours at all library locations (including Central) to 42.5 hours per week; scheduled open and closing times Tuesday through Saturday may be adjusted from current operating hours, though they are expected to be uniform for all library locations moving forward. Of the 84 positions (47.00 FTEs) proposed for reduction as a result of closures on Mondays, 75 (39.50 FTEs) were filled as of April 7, 2025.

Additional discussion on these reductions and their impacts is included under the Issues for Council Consideration at the end of this section.

<u>($566,603, 6.10 FTEs) – Do Your Homework @ the Library Program</u>
The Proposed Budget includes the reduction of 6.10 hourly FTEs and $567,000 in personnel expenditures related to the Do Your Homework @ the Library (DYH@L) program which offers tutoring and homework assistance. The Department is currently budgeted to conduct this program at 18 library locations; however, as of February 2025, the Department has only been able to provide these services at 10 locations due to staffing vacancies. DYH@L will continue at this service level (10 locations) after the proposed reduction. The specific library locations that offer this service are prioritized based on math and language proficiency testing scores for the communities that they serve.

<u>($740,000) – Various NPE Reductions</u>
The proposed NPE reductions, totaling approximately $740,000, include the following:

- $345,000 ongoing reduction in various contractual expenditures; the most significant reduction is to janitorial services ($256,000);
- $325,000 ongoing reduction as a result of forgoing the annual replacement of outdated public use computers;
- $52,000 ongoing reduction in funding to maintain Radio Frequency Identification (RFID) equipment, including self-check out kiosks, automated book returns and RFID security gates. As a result, the number of self-checkout kiosks will be reduced to one per branch; and
- $18,000 ongoing reduction in various operating supplies.

<u>($118,000) – Reduction to Donation Match</u>
The Proposed Budget includes a $118,000 ongoing reduction to the Department's annual budget for the City's match for library donations. When including the removal of $200,000 in one-time funding for this program in the FY 2025 Adopted Budget, total funding will be reduced from $1.2 million to $882,000.

City matching funds are used to incentivize philanthropic donations and to more equitably provide resources to branch locations that typically do not receive significant donations.

While half of all Library donation matching funds get directed to the branch/purpose for which a donation was provided under Council Policy 100-12, the other 50% is used to support branch locations with the greatest needs, or for systemwide purposes, using an equity focused distribution model.

We note that the Department received a total of $1.1 million in donations in FY 2024 and it is expecting to exceed that amount in FY 2025.

Other Adjustments

Employ and Empower Program Interns

The Library Department was previously provided with 14.02 hourly FTEs (interns) through the Employ and Empower Program which fully supported these positions through grant revenue in the FY 2025 Adopted Budget. For FY 2026, the Proposed Budget includes a net reduction of 5.02 hourly FTEs and approximately $88,000 in personnel expenditures and associated revenues.

Security Services Contractual Cost Increase

The FY 2026 Proposed Budget includes the addition of $753,000 in non-personnel expenditures to right-size the budget for increased contractual security services costs. As discussed in our Office's review of the FY 2025 Mid-Year Budget Monitoring Report, hourly costs have increased by approximately 30% compared to the City's previous security services contract that expired in July 2024.

Parking Services

The FY 2026 Proposed Budget includes $79,000 in non-personnel expenditures and $215,000 in revenue associated with the implementation of after-hours parking fees at the Central library, as well as the Mission Hills, North Park, La Jolla and San Carlos branch libraries.

Significant Revenue Adjustments

The FY 2026 Proposed Budget includes a net increase totaling approximately $796,000, including the following adjustments:

- $302,000 ongoing increase in reimbursement revenue from the TOT Fund for tourism related services;
- $215,000 ongoing increase in parking revenue (discussed above);
- $190,000 ongoing increase in reimbursement revenue from the San Diego Unified School District for shared costs associated with e3 Civic High School, which is located in the Central Library;
- $146,000 ongoing increase in revenue from User Fee increases approved earlier this year during the City's comprehensive user fee update; and
- $33,000 ongoing increase in projected catering revenue for special events held at the Central Library.

Issues for Council Consideration

Council Budget Priority Items

Support for Library Department operations, including library materials and maintenance, was included in seven Councilmember budget priority memoranda.

As discussed earlier in this Department Review, significant reductions to Library operations have been proposed; overall funding for the Department is $4.4 million, 5.7% lower than the FY 2025 Adopted Budget.

Funding for library materials totals $2.8 million in the Proposed Budget, a $230,000 reduction due to the removal of one-time funding that was allocated by the City Council in FY 2025.

Funding for library maintenance, increased due to the return of $221,000 for window cleaning at the Central Library that was reduced on a one-time basis in FY 2025; the Department expects to use this funding for necessary tree trimming, pest control, and other facility maintenance that is not provided through the General Services.

Sunday and Monday Library Hours

As noted, the Proposed Budget includes the closure of all library branches on Sundays and Mondays as a budget mitigation. At present, the Library Department anticipates that all branches throughout the City will have the same hours (11:30 AM – 8:00 PM on Tuesday and 9:30 A.M. – 6:00 P.M., Wednesday through Saturday), though these operating hours may be adjusted.

According to the Department, several other options involving the reduced hours were considered; however, they presented operating/staff scheduling difficulties and/or fewer budgetary savings. Additionally, the Department determined that uniformity in operating hours among all locations would provide the most consistency and least confusion for library patrons.

It should be noted that surveys conducted as a part of the Library Master Plan found that there is regional and demographic variation in how libraries are used. Library users in the northern areas of the City generally prioritized materials access and circulation, while users in the southeast and far south of San Diego used their libraries more as a place to read, work, collaborate, and access available Wi-Fi/technology. Given the reduced access to physical library spaces, library users in southern San Diego are likely to feel a greater impact from this reduction.

Given Council's expressed interest in avoiding across-the-board budget cuts, Council should request the Department to present potential alternatives that would avoid disproportionate impacts on lower-resourced neighborhoods or communities of concern. Such alternatives should include consideration of the potential pros and cons of different operating hours for different library branches based on usage data, or even the partial restoration of hours at particularly critical branches.

One alternative that our Office discussed with the Department and MEA could potentially restore some Monday hours at 3-4 library locations within communities of concern. This may require some library staff to split their time between multiple locations. The Department is reviewing staffing schedules to determine how this may be achieved and plans to discuss this opportunity with MEA in the coming weeks. Budgetary savings would largely be maintained, however, some non-personnel expenditures for janitorial and security services would need to be restored. More information will be known after the Department has held discussions with MEA.

Council should be mindful, however, that restoration of hours will require offsetting expenditure reductions elsewhere – either to other library branches, or to other City services and programs.

Office of the Commission on Police Practices

The Commission on Police Practices (Commission) provides independent oversight of the San Diego Police Department (SDPD) with the authority to investigate police officer misconduct, review complaints against officers, and make recommendations on police officer discipline, police policies, and Police Department legal compliance. The Office of the Commission on Police Practices (OCPP) is an independent department that is responsible for managing and coordinating the day-to-day operations of the Commission.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the OCPP is approximately $2.2 million, an increase of $72,000 or 3.4% from the FY 2025 Adopted Budget. The FY 2025 Proposed Budgeted includes 12.58 FTEs which represents a reduction of 1.96 FTEs from FY 2025.

Significant Budget Additions

Discretionary IT

The FY 2026 Proposed Budget includes the addition of $70,000 in ongoing non-personnel expenditures to support two discretionary IT needs for the OCPP:

- $50,000 for an annual software subscription to manage complaints and associated investigations, and allow a more efficient transfer of data between SDPD and OCCP's internal investigators; and
- $20,000 for various subscriptions to services which will allow the OCPP to conduct legal research and public records data base searches.

Significant Budget Reductions

$155,000 – Budget Mitigation: Reduction of Professional Services

To help balance the General Fund budget, the Proposed Budget includes the reduction of approximately $155,000 to various non-personnel expenditures, including $90,000 for contracted legal services; $50,0000 for Miscellaneous Professional/Technical Services; and $15,000 for Professional IT services.

This reduction is not anticipated to impact OCPP operations in FY 2026; however, it should be noted that the reduction to contracted legal services was proposed by OCPP prior to its General Counsel being appointed as the Interim Executive Director. The new Interim Executive Director has indicated that he will continue to provide the Commission with

SUMMARY OF OFFICE OF THE COMMISSION ON POLICE PRACTICES BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	14.54	$ 1,772,218	$ 373,614	$ 2,145,832	$ 116,741
Programmatic Changes					
Complaint Management System	-	-	50,000	50,000	-
Legal Research and Public Records Database Access	-	-	20,000	20,000	-
Budget Mitigation: Reduction of Various NPE	-	-	(155,000)	(155,000)	-
Employ and Empower Interns	(1.96)	(90,095)	-	(90,095)	(90,095)
Other Changes					
Other Salaries and Wages	-	$93,620	-	93,620	-
Budgeted PE Savings (vacancy savings adjustment)	-	51,210	-	51,210	-
Non-Discretionary Adjustments	-	-	102,456	102,456	-
FY 2026 Proposed Budget	**12.58**	**$ 1,826,953**	**$ 391,070**	**$ 2,218,023**	**$ 26,646**
Difference from 2025 to 2026	***(1.96)***	***$ 54,735***	***$ 17,456***	***$ 72,191***	***$ (90,095)***

necessary legal guidance, but his capacity to perform specialized/intensive legal analysis may be limited; as such, the OCPP's remaining budget for contracted legal services at $30,000 may be inadequate should a need for more in-depth legal analysis arise.

Moreover, once OCPP staff can begin conducting independent investigations, additional funding for contracted legal services will be required to defend its findings, should they be legally challenged. OCPP anticipates that it will begin to conduct investigations starting in early-FY 2027 after the Commission's Standard Operating Procedures have been approved by the City Council and the City has completed the meet and confer process.

<u>Employ and Empower Program Interns</u>
The OCPP was previously funded with 2.54 hourly FTEs (interns) through the Employ and Empower Program which fully supported these positions through grant revenue in the FY 2025 Adopted Budget. For FY 2026, the Proposed Budget includes a net reduction of 1.96 hourly FTEs and approximately $90,000 in personnel expenditures.

Issues for Council Consideration

Staffing Update

Of the 12.00 non-hourly FTEs budgeted in FY 2026, 3.00 FTEs are currently vacant, including the Deputy Executive Director, Performance Auditor, and General Counsel. The Deputy Executive Director and Performance Auditor positions are expected to be held vacant through FY 2026 as a budget mitigation measure. OCPP does not expect significant operational impacts associated with these vacancies until such time that the Commission's Standard Operating Procedures are formally approved and implemented.

The General Counsel vacancy is due to the incumbent being appointed to serve as the Interim Executive Director. Recruitment for a new permanent Executive Director is anticipated to be completed before the end of CY 2025.

Office of the IBA

The Office of the Independent Budget Analyst (IBA) provides budgetary and policy analysis for the City Council and strives to implement good government principles by ensuring the public has access to information and the ability to participate in the decision-making process.

Work of the IBA includes review and analysis of the annual budget, review of all items docketed for consideration by the City Council and the Housing Authority, ongoing monitoring of monthly and quarterly financial updates, and support for each of the City Council's committees.

The Office of the IBA also provides supplemental information, findings, and recommendations to further educate decision-makers and the public, and participates in a number of public town-halls and crash-courses to help explain the City's budget, procedures, and policies.

Impacts of Mayor's FY 2026 Budget Proposal

The IBA's FY 2026 Proposed Budget is funded entirely by the General Fund, with budgeted expenditures totaling approximately $3.2 million. This represents a $365,000 (or 12.9%) increase from the FY 2025 Adopted Budget. The bulk of this increase is associated with adjustments to fringe benefits costs which are outside of the Office's control, and salaries which include adjustments consistent with proposed increases for all unclassified positions in the City that correspond to equivalent increases in the most recent contract negotiated with MEA. Proposed FTEs for the Office total 11.00, which represents no change from FY 2025.

Significant Budget Reduction

As part of the FY 2026 Proposed Budget development process, the Office of the IBA was requested to propose expenditure reductions totaling 20% of the Office's FY 2025 Budget, which equates to approximately $570,000. The FY 2026 Proposed Budget includes an expenditure reduction of about $143,000 (or 5.0%) of the Office's FY 2025 General Fund budget. We note that the Proposed Budget also includes a partial restoration of $13,000 related to the Office's FY 2025 operational efficiency reduction, thereby reducing the FY 2026 reduction to about 4.6%.

<u>($143,000) – Budget Mitigation: Personnel Expenditures</u>
This is an ongoing reduction to the Office's personnel expenditures, to be discussed further in the next section.

Issues for Council Consideration

Impacts of Budget Reduction

The IBA's options to reduce its budget are limited. As the *discretionary* portion of the IBA's non-personnel expenditures (NPE)

SUMMARY OF OFFICE OF THE INDEPENDENT BUDGET ANALYST BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	11.00	$ 2,672,450	$ 164,811	$ 2,837,261	$ -
Programmatic Changes					
Budget Mitigation: Personnel Expenditures	-	(142,532)	-	(142,532)	-
Partial Restoration of FY 2025 Budget Mitigation	-	13,373	-	13,373	-
Other Changes					
Salaries Adjustments	-	212,242	-	212,242	-
Fringe Benefits Adjustments	-	280,291	-	280,291	-
Non-Discretionary Items Adjustments	-	-	1,433	1,433	-
FY 2026 Proposed Budget	**11.00**	**$ 3,035,824**	**$ 166,244**	**$ 3,202,068**	**$ -**
Difference from 2025 to 2026	***-***	***$ 363,374***	***$ 1,433***	***$ 364,807***	***$ -***

budget totals $71,000 (primarily associated with an on-call real-estate consultant contract), and budget reductions in previous years have eliminated nearly all other non-discretionary NPE in the IBA's budget,[1] an ongoing 5% budget reduction ($143,000) would have to come out of the Office's personnel expenditures.

To implement a FY 2026 budget reduction and mitigate service level impacts to the Council and public, the IBA would likely institute a two-week mandatory unpaid furlough for all IBA staff; however, this would only yield roughly $78,000 in expenditure savings, and would reduce the overall availability of each IBA staff member throughout the year, resulting in slower response times to requests from Council, other City departments, and the public. The IBA would also hold open positions and redistribute work to other analysts in the event that any position became vacant during the upcoming fiscal year, though at present all positions in the IBA's office are filled. To meet the *full* budget reduction target absent unforeseen future vacancies, the Office would have to double the mandatory unpaid furlough to four weeks for each staff member, which would significantly curtail services provided to Council and the public throughout FY 2026. We note that the IBA may be one of only two departments contemplating furloughs to meet the proposed budget reduction.

Notably, demands on the IBA's office have increased in recent years, with the addition of new Council committees, additional requests from Council offices, and expanded City operations and budgets. Aside from an initial ramp-up period during the inception of the Office in 2006, the staffing levels have remained essentially flat at 10.00 FTEs until 1.00 FTE was added in FY 2023. This compares to significantly higher growth rates in staffing for nearly every other City department over the same period.

As the IBA has consistently constrained additions to its budget and consistently contributes to the identification of new resources, operational efficiencies, and savings, Council may wish to consider reducing the proposed budget reduction to $78,000 and making it a one-time reduction.

[1] For example, in FY 2025, a $55,000 reduction was implemented to meet the Administration's requested operational efficiencies target, effectively eliminating the IBA's training expenses and significantly reducing its supplies budget. Other reductions include a $88,000 reduction to NPE in FY 2021 that was only partially restored in later years.

Office of the Mayor

The Office of the Mayor consists of three teams: Communications, Community Engagement, and Policy. The Communications team is focused on open and transparent communication between the City and its residents on behalf of the Mayor; the Community Engagement team attends functions on the Mayor's behalf and provides information to community groups; and the Policy team works with City staff and the Council to develop and implement policies.

Departmental Consolidation

On February 18, 2025 the Mayor issued a memo to Councilmembers and the City Attorney outlining immediate operational consolidations and departmental changes. Among them, the Mayor announced:

- The elimination of the Chief Operating Officer role and his assumption of those responsibilities,
- The consolidation of the Mayor's Office, the Office of the Chief Operating Officer (COO), Government Affairs, and the Office of Boards and Commissions,
- Within the COO, the reduction of the Executive Director of the Office of Child and Youth Success and transfer of the remaining three positions in that office to the Library Department.

Impacts of the Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the Office of the Mayor is approximately $11.5 million, which is an increase of $7.1 million or 158.5% from the FY 2025 Adopted Budget. This large increase is due to the department consolidations, as detailed in the table below.

Department consolidations can make it challenging to identify year-over-year changes to each individual department budget had the consolidation not occurred. Across the four departments, total allocations for Employ and Empower interns have been reduced from 11.77 FTEs to 3.00 FTEs, a reduction of 4.27 FTEs.

The COO restructure reflected in the table below excludes the Office of Child and Youth Success positions as they have been transferred to the Library Department (except for the director which has been eliminated). There are no notable adjustments to the Office of Boards and Commissions and the Office of the Mayor other than the significant budget adjustments discussed below. Adjustments to

SUMMARY OF OFFICE OF THE MAYOR BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	27.27	$ 4,110,482	$ 349,087	$ 4,459,569	$ 318,731
Programmatic Changes					
Restructure: Chief Operating Officer	13.00	4,813,802	188,820	5,002,622	-
Restructure: Government Affairs	5.00	1,097,166	50,186	1,147,352	-
Restructure: Boards and Commissions	4.00	816,095	8,570	824,665	-
Restore Executive Assistant for Boards and Commissions	1.00	98,172	-	98,172	-
Restore FY 25 Mayor's Office Budget Reduction	-	82,227	-	82,227	-
Mitigation: Eliminate Mayor Representatives (Ongoing)	(2.00)	(362,642)	-	(362,642)	-
Mitigation: Reduce Vacation Pay-in-Lieu (Ongoing)	-	(8,213)	-	(8,213)	-
Other Changes					
Employ and Empower Program Interns	(4.27)	(158,413)	-	(158,413)	(158,415)
Non-Discretionary & Information Technology	-	-	317,713	317,713	-
Salary and Benefit Adjustments	-	125,860	-	125,860	-
FY 2026 Proposed Budget	**44.00**	**$ 10,614,536**	**$ 914,376**	**$ 11,528,912**	**$ 160,316**
Difference from 2025 to 2026	***16.73***	***$ 6,504,054***	***$ 565,289***	***$ 7,069,343***	***$ (158,415)***

the Government Affairs budget are discussed under the Restructure and Additional Baseline Reductions section below.

Significant Budget Addition

$98,000, 1.00 FTE – Restore Executive Assistant for Boards and Commissions

One Executive Assistant is proposed to be added to the budget to support the Gang Commission, Human Relations Commission, and the Office of Boards and Commissions. This restores the position that was cut in the FY 2025 Adopted Budget. Within the combined department, there are two other Executive Assistants supporting the Mayor and the Chief Financial Officer. We note that this position is currently filled despite the reduction in the FY 2025 Adopted Budget. However, according to staff, the need for this position, and the potential use of existing, currently budgeted Executive Assistants as part of the consolidation, is under review for the May Revision.

Significant Budget Reductions

In total, the Proposed Budget includes $371,000 in reductions to the combined Mayor's Office, COO, Government Affairs, and the Office of Boards and Commissions budgets, which is 2.8% of those budgets for FY 2025.

($363,000, 2.00 FTEs) – Budget Mitigation: Reduction of 2.00 Mayor Representative 2s

The Proposed Budget includes a reduction of two Mayor Representative 2 positions. One position is vacant and supports the Communications team. The other position is part of the Policy and Innovation team and its incumbent is set to retire so the position will be vacant by the end of FY 2025.

($8,000) – Budget Mitigation: Reduction of Vacation Pay-in-Lieu

The Proposed Budget also includes an ongoing reduction of $8,000 to the Mayor's Office assoicated with vacation pay in lieu (i.e. cashing out annual leave time for pay). As mentioned below, Government Affairs has a similar reduction.

Restructure and Additional Baseline Reductions

In addition to the reductions in the Proposed Budget, there were also reductions made to the baseline budgets of the consolidated departments and are not broken out separately in the Proposed Budget.

For instance, Government Affairs had the following baseline budget adjustments prior to the department consolidation:

- Restoration of the FY 2025 operational efficiency reduction of $28,000;
- Reduction of a Deputy Director and Program Coordinator for $408,000;
- Reduction of vacation pay-in-lieu for $15,000.

The table below provides a summary of all the budget mitigations for each of the four departments now consolidated into the Mayor's Office, including reductions in the base budget and Proposed Budget. All positions reflected in the table are vacant except for the Mayor Representative 2 mentioned above that is set to retire. We note the Office of Boards and Commissions, which consists of four FTE positions, does not have a proposed budget reduction.

Across all departments, a total of $1.6 million is proposed to be reduced. We note that, offsetting these reductions, is the restoration of the FY 2025 operating efficiency reductions to the Mayor's Office of $82,000 and Government Affairs of $28,000 (as noted above), as well as the restored Boards and Commissions position of $98,000 (as noted previously). After incorporating these restorations, these reductions equate to $1.4 million, or 10.7% of the combined FY 2025 department budgets.

Unfunded Community Grant Funding

Arts, Culture, and Community Festivals (ACCF) grant funding for the City Council and the Mayor is typically supported by the Transient Occupancy Tax Fund's Special Promotional Programs. This discretionary funding is awarded to private nonprofit organizations in support of their ongoing operational expenses and/or sponsorship of special events. To mitigate the projected budget deficit, the Proposed Budget does not include ACCF funding for either Council Offices or the Mayor.

Budget Mitigations for Mayor's Office, COO, Government Affairs, and Boards and Commissions		
FY 2026 Reduction	**FTE**	**Amount**
Chief Operating Officer [1]	(1.00)	$ (544,143)
Government Affairs Positions [2]	(2.00)	(408,018)
Mayor Representative 2	(2.00)	(362,642)
Office of Child and Youth Success Director	(1.00)	(269,753)
Reduce Vacation Pay-in-Lieu for Government Affairs	-	(14,676)
Reduce Vacation Pay-in-Lieu for Mayor's Office	-	(8,213)
Subtotal	(6.00)	$ (1,607,445)
Less FY 2025 Budget Restorations [3]	**(5.00)**	**$ (1,398,712)**
Total FY 2025 Adopted Budgets		$ 13,076,565
Percentage of Budget Mitigations to FY 2025 Budgets		**-10.7%**

[1] In addition to the elimination of the COO position, a supplemental Program Coordination position within the COO was eliminated in FY 2025. However, the position was not budgeted and are no associated budgetary savings; hence, the reduction is not reflected in this table.

[2] Reduction of a Deputy Director and Program Coordinator

[3] Comprised of restoring Mayor's Office ($82,000), Government Affairs ($28,000), and Boards and Commissions ($98,000) FY 2025 budget reductions

Parks & Recreation

The Parks and Recreation Department operates and maintains the City's recreational facilities, including more than 400 parks, 60 recreation centers, 15 pools, 13 skate parks, and three golf courses. The Department also manages various recreational programs, including aquatics, sports leagues, and specialized programs for seniors and individuals with disabilities; handles event planning and permits for various events, including those at Balboa Park and Mission Bay/Shoreline; and protects natural resources within parks and open spaces, including brush management programs and habitat preservation.

The Parks and Recreation Department is organized under several funds, including the General Fund, the Golf Course Fund, the Los Penasquitos Reserve Fund, and the Environmental Growth Funds. When these funds are combined, the Department's FY 2026 Proposed Budget totals $234.8 million, a reduction of approximately $22.8 million from the FY 2025 Adopted Budget. Operations associated with each fund are discussed below.

Impacts of Mayor's FY 2026 Budget Proposal

General Fund

The FY 2026 Proposed Budget for the Parks and Recreation Department totals approximately $178.7 million in the General Fund, a $5.5 million, or 3.0%, reduction from the FY 2025 Adopted Budget. The FY 2026 Proposed Budget includes 975.57 FTEs which represents a reduction of 144.99 FTEs from the FY 2025 Adopted Budget. The Department's General Fund revenue totals $66.1 million, an increase of $5.6 million from FY 2025.

SUMMARY OF PARK AND RECREATION DEPARTMENT EXPENDITURE BUDGET CHANGES

	FY 2025 FTE	FY 2026 FTE	CHANGE	FY 2025 BUDGET	FY 2026 PROPOSED	CHANGE
General Fund						
Administrative Services Division	39.81	36.77	(3.04)	$ 8,778,033	$ 8,824,298	$ 46,265
Balboa Park Division	111.92	90.22	(21.70)	$ 13,630,096	$ 14,008,193	$ 378,097
Citywide Maintenance Services Division	128.00	106.21	(21.79)	$ 20,919,073	$ 19,511,082	$ (1,407,991)
Citywide Recreation Services Division	58.64	44.85	(13.79)	$ 5,395,785	$ 5,468,059	$ 72,274
Community Parks I Division	212.02	175.17	(36.85)	$ 36,742,352	$ 34,346,031	$ (2,396,321)
Community Parks II Division	308.38	273.92	(34.46)	$ 55,573,224	$ 51,698,285	$ (3,874,939)
Mission Bay & Shoreline Parks Division	112.60	105.10	(7.50)	$ 17,479,908	$ 17,962,840	$ 482,932
Open Space Division	98.84	96.24	(2.60)	$ 19,240,839	$ 19,505,081	$ 264,242
Park Ranger Division	50.35	47.09	(3.26)	$ 6,475,872	$ 6,953,922	$ 478,050
Parks and Recreation	-	-	-	$ -	$ 410,991	$ 410,991
Subtotal General Fund	**1,120.56**	**975.57**	**(144.99)**	**$ 184,235,182**	**$ 178,688,782**	**$ (5,546,400)**
Non-General Fund						
Environmental Growth Fund 1/3	-	-	-	$ 13,996,449	$ 10,045,634	$ (3,950,815)
Environmental Growth Fund 2/3	-	-	-	$ 30,915,910	$ 15,151,775	$ (15,764,135)
Golf Course Fund	122.92	123.17	0.25	$ 28,375,471	$ 30,873,562	$ 2,498,091
Los Penasquitos Canyon Preserve Fund	-	-	-	$ 20,149	$ 15,125	$ (5,024)
Subtotal Non-General Fund	**122.92**	**123.17**	**0.25**	**$ 73,307,979**	**$ 56,086,096**	**$ (17,221,883)**
TOTAL PARK AND RECREATION	**1,243.48**	**1,098.74**	**(144.73)**	**$ 257,543,161**	**$ 234,774,878**	**$ (22,768,283)**

The Department's General Fund operations are organized into nine divisions:

- *Administrative Services* provides overall direction, leadership, management, and planning for the Department, including fiscal operations, asset management and CIP, human resources and IT;
- *Balboa Park Division* operates and maintains Balboa Park and Presidio Park*;*
- *Citywide Maintenance Services* centralizes park maintenance and repair activities, including Get It Done implementation;
- *Citywide Recreation Services* manages recreation services citywide, including therapeutic recreation, AgeWell Services; and Civic Dance;
- *Community Parks I* operates and maintains parks located in Council Districts 1, 2, 5, 6, and 7, as well as Downtown Parks;
- *Community Parks II* operates and maintains parks located in Council Districts 3, 4, 8, and 9, pools and aquatics citywide, and animal services;
- *Mission Bay Park and Shoreline Beaches Division* operates and maintains Mission Bay Park and Shoreline Beaches;
- *Open Space Division* provides land and resource management for open space parkland citywide, including brush management, Maintenance Assessment Districts, conservation programs, and the Gas Tax Median Program; and
- *Park Ranger Division* manages Park Ranger activity citywide, including emergency responses, sidewalk vending activity, and contracted security services.

SUMMARY OF PARK AND RECREATION DEPARTMENT - GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	1,120.56	$ 108,074,294	$ 76,160,888	$ 184,235,182	$ 60,439,536
Programmatic Changes					
New Park Facilities	11.50	1,102,370	240,149	1,342,519	67,137
Employ and Empower Program	(33.26)	(1,225,308)	-	(1,225,308)	(1,225,323)
Cost-of-Service Study	-	-	216,000	216,000	-
Budget Mitigation: Park Maintenance	(49.50)	(4,916,739)	(1,496,175)	(6,412,914)	-
Budget Mitigation: Reduction of Operating Hours	(53.70)	(4,731,694)	(102,507)	(4,834,201)	(151,081)
Budget Mitigation: SD Humane Society Contract	-	-	(3,500,000)	(3,500,000)	-
Budget Mitigation: Public Restrooms	(13.00)	(1,003,975)	(677,698)	(1,681,673)	-
Budget Mitigation: Security Services	-	-	(1,001,039)	(1,001,039)	-
Budget Mitigation: Various Staffing Reductions	(4.00)	(601,585)	(1,224)	(602,809)	-
Budget Mitigation: Various NPE Reductions	-	-	(316,006)	(316,006)	-
Budget Reduction: Beach Fire Ring Program	(1.00)	(107,659)	(27,780)	(135,439)	-
Budget Reduction: Teen Center Program	(1.03)	(42,017)	-	(42,017)	-
Proposed RV and Boat Dumping Fees	-	-	-	-	300,000
Revised Revenue	-	-	-	-	2,358,051
Proposed Balboa Park Parking Program	-	-	1,425,000	1,425,000	11,000,000
TOT Reimbursable Revenue	-	-	-	-	12,343,221
EGF Reimbursement Revenue	-	-	-	-	(19,731,427)
Other Changes					
Salary and Benefit Adjustments	-	10,113,030	-	10,113,030	-
Budgeted PE Savings (Vacancy Savings Adjustment)	-	1,374,351	-	1,374,351	-
Non-Discretionary Adjustments	-	-	(75,505)	(75,505)	-
Reallocation of 1.00 FTE to other Park Funds	(1.00)	(83,030)	-	(83,030)	-
One-Time Additions and Annualizations	-	-	(219,802)	(219,802)	440,493
Other Adjustments	-	-	112,443	112,443	212,351
FY 2026 Proposed Budget	**975.57**	**$ 107,952,038**	**$ 70,736,744**	**$ 178,688,782**	**$ 66,052,958**
Difference from 2025 to 2026	***(144.99)***	***$ (122,256)***	***$ (5,424,144)***	***$ (5,546,400)***	***$ 5,613,422***

Significant Budget Additions

$1.3 million, 11.50 FTEs – New Facilities

The FY 2026 Proposed Budget includes 11.50 FTEs and $1.3 million in expenses to operate and provide maintenance to five new park facilities, including two new Joint Use (JU) Facilities. The majority of these additions relate to the opening of East Village Green which includes 9.00 FTEs and approximately $970,000 in expenditures. According to the Department this facility is anticipated to open in January 2026; the Council should consider prorating the funding for this facility based on the anticipated opening date, which would allow approximately $407,000 to be reallocated for other Council priorities.

The new parks are as follows:

- East Village Green
- Eastbourne Neighborhood Park
- Federal Boulevard Pocket Park
- Pacific Beach Elementary JU
- Rowan Elementary JU

$216,000 – Cost of Service Study

The FY 2026 Proposed Budget includes the one-time addition of $216,000 in non-personnel expenses to have a financial consultant conduct a cost-of-service study for the Department's user fees. Based on the results of this study, the Department plans to bring forward a comprehensive user fee update for all recreation and other miscellaneous fees during FY 2026 with the goal of achieving higher cost recovery for its programs.

Significant Budget Reductions

Budget Mitigations

The most significant FY 2026 budget reductions are budget mitigations used to help balance the General Fund budget. The Department's expenditure mitigations total $18.5 million and are discussed below.

($6.4 million, 49.50 FTEs) – Reduction of Park Maintenance

The Proposed Budget includes significant reductions totaling $6.4 million related to park maintenance activities. Included are staffing reductions which span several Divisions and amount to 49.50 FTEs and $4.9 million in personnel expenses; most positions are currently vacant, with the exception of 5.00 FTEs. These reductions include:

- 23.50 FTEs and $2.4 million in maintenance staffing reductions within the *Community Parks I* (18.50 FTEs and $1.9 million) and Community Parks II (5.00 FTEs and $493,000) Divisions. These reductions are expected to result in fewer restroom cleanings, weed removals, trash pick-ups and safety inspections, down to once per day for most of these services;
- 21.00 FTEs and $2.1 million in various staffing reductions are proposed within the Citywide Maintenance Services Division. This Division includes various position classifications specialized in performing specific maintenance and repair services system-wide. As such, the proposed staffing reductions will not impact a specific park or area, but are expected to result in less frequent mowing, extend downtime for equipment under repair, lengthen time to repair irrigation leaks and replace playground parts, and reduce the number of trees planted and trimmed; and
- 5.00 FTEs and $433,000 in maintenance staffing reductions within the Balboa Parks Division. These reductions are anticipated to result in reduced service levels in the Central Mesa, including gardens, building frontages, and historic areas; reduced support for the Botanical Building and Kate O. Sessions Nursery, which supplies plants for Balboa Park; and reduced support for Balboa Park lessees.

In addition to these personnel reductions, the Proposed Budget includes $1.5 million in reduced maintenance-related contractual expenditures:

- $906,000 for various specialized

maintenance needs provided by contractors for hazardous trees, irrigation part replacements, trail repairs and Mission Bay pest control;

- $290,000 in contractual landscaping conducted at parks within Community Parks I ($183,000) and Community Parks II ($106,000);
- $170,000 in various equipment purchases including larger tools used by Citywide Maintenance Services and for pool filtration systems; and
- $102,000 for maintenance truck rentals; according to the Department, this will necessitate that Ground Maintenance Workers share vehicles, which is a change in working conditions and will require Meet and Confer with impacted REOs.

The proposed reductions to park maintenance are broad and significant. As our Office has noted previously, deferring maintenance and rehabilitation accelerates asset deterioration, ultimately increasing the amount of reinvestment that will be necessary to improve asset conditions. Moreover, these reductions will compound existing maintenance and repair backlogs which are predominately in older parks and facilities most typically located in communities of concern.

Additionally, the overall function, quality, and safety of the recreational experience for park users will likely be impacted due to deteriorated turf conditions, longer equipment downtimes, overflowing trash cans and vegetation overgrowth, among other potential issues.

($4.8 million, 53.70 FTEs) – Reduction of Operating Hours

The Proposed Budget includes the reduction of 53.70 FTEs and $4.8 million in expenditures which will reduce the hours of operations at all City's Recreation Centers (60 facilities) to 40 hours per week. Of these sites, 45 are larger facilities that currently operate approximately 60 hours per week; the remaining 15 sites are smaller recreation centers which operate approximately 45 hours per week.[1]

According to the Department, weekly operating hours are expected to include 34 "core hours" that are generally consistent for most sites, with the remaining hours to be determined on a site-to-site basis after receiving feedback from their respective communities. Core hours would include 30 hours on weekdays (2:00 p.m. to 8:00 p.m., Monday through Friday), and four hours on Saturday (10:00 a.m. to 2:00 p.m.). Certain sites, such as Senior Centers that cater to older adults, may open/close earlier, but would largely maintain the same number of operating hours overall (40 hours per week).

Of the 53.70 FTEs proposed for reduction, 45.00 are full-time Assistant Recreation Center Directors (ARCDs; 40.00 positions were filled as of April 7, 2025) assigned to larger recreation centers. These positions provide coverage for facility and staff oversight beyond what is provided by the Recreation Center Director, thereby allowing the facility to operate more than 40 hours per week. ARCDs are also heavily responsible for recreation programming. For recreation centers in Community Parks I, which typically have more contracted programming, their role involves a greater degree of contract management, program scheduling, and other related program administration. For recreation centers in Community Parks II, which include more lower cost/subsidized programs, ARCDs directly provide and/or support staff-led programming. While programmatic impacts associated with this reduction are expected throughout the park system, recreation inequities are likely to worsen given this dynamic.

[1] Current weekly operating hours by recreation center size represent Department guidelines; actual operation hours for each center may differ due to seasonality, demand, vacancies, or other site-specific issues.

Recreation Center Directors may be able to assume some of the administration functions involved with managing contracted programming, but they will not be able to replace the programs that were previously conducted by the ARCDs. Programs such as Come Play Outside, Parks After Dark, and AgeWell Services, which are heavily dependent on ARCDs in Community Parks II and are geared towards underserved populations, will be significantly impacted, if not eliminated altogether, due to the proposed staffing reductions. Additionally, more affluent communities may be able to pay for more hours of operation/programs by charging more fees to participants, while participants in communities of concern may not have the means to pay more fees and therefore will have fewer recreational opportunities.

The Department indicates that it is exploring options for mitigating these impacts, including the potential use of Recreation Center Funds and the Opportunity Fund; however, even with the availability of these or other one-time funding sources, the ability to continue programs will be limited given the reduction in staffing.

Several Councilmembers expressed interest in avoiding across-the-board budget cuts to avoid disproportionate impacts on lower-resourced neighborhoods or communities of concern. This will likely require the targeted restoration of operating hours at select park facilities on a site-by-site basis.

The Department indicated that many recreation centers may be able to maintain their current hours by restoring a half-time ARCD only (rather than the full-time ARCD proposed for reduction), depending on the size and overall activity of the facility; however, recruiting half-time ARCDs is expected to be prohibitively difficult. **One alternative to this is to allocate full-time ARCDs between multiple sites. Our Office has discussed this opportunity with the Department and MEA and believes it may provide a cost-effective solution to implementing targeted restorations.** The Department indicated it will need time to review staff schedules and conduct other analysis to identify suitable recreation centers within close proximity which would serve as "sister centers" under this staffing model.

If restorations occur, they will need to be supported by an ongoing resource to maintain a balanced budget (either a new funding source or an offsetting ongoing reduction).

One potential resource within the Parks and Recreation Department budget may include the closure of one or more of the City's smaller, less utilized recreation centers to support the restoration of operating hours at other facilities. That said, all the City's recreation centers are valued by the communities that they are located in, and the closure of any particular facility would disproportionally impact that community.

After the Mayor releases the May Revision to the FY 2026 Proposed Budget, our Office will seek to identify potential resources for this restoration if it is prioritized by a majority of Councilmembers in their final budget modification memoranda.

The Council may wish to request additional details on these or any other potential alternatives that would reduce the impacts associated with this system-wide reduction.

($3.5 million) – SD Humane Society Contract

The FY 2026 Proposed Budget includes a $3.5 million reduction to the City's annual contractual expense for animal services through the San Diego Humane Society (SDHS); this amounts to approximately 20% of the City FY 2025 cost ($17.9 million). SDHS has indicated that it would be unable to sustain a reduction of this size, though it could reduce approximately $500,000 in expenses by suspending park patrol for off-leash dogs, among other service level adjustments. **The Council**

should request additional information from the Parks and Recreation Department and SDHS to better understand the impacts associated with any service level reductions.

<u>($1.7 million, 13.00 FTEs) – Public Restrooms</u>

The FY 2026 Proposed Budget includes the year-round closure of certain permanent restrooms and portable toilets in a variety of locations, including Mission Bay Park, Shoreline Beaches, Balboa Park and downtown:

- Closure of 13 of the 28 restrooms located within Mission Bay Park due to the reduction of 5.68 FTEs and $517,000;
- Removal of 7 of 14 portable restrooms on Fiesta Island due to the reduction of $18,000 in non-personnel expenditures;
- Closure of all five restrooms located along Shoreline Beach (with the exception of the Children's Pool restroom where four of eight restroom stalls would close) due to the reduction of 1.82 FTEs and $148,000;
- Closure of 7 of 14 permanent comfort stations in Balboa Park due to the reduction of 5.50 FTEs and $466,000; this includes three of six comfort stations located in Balboa Park's East Mesa, three of five comfort stations located in the Central Mesa, and one of three comfort stations located in the West Mesa;
- Reduction of $15,000 in non-personnel expenditures for portable toilets/wash stations that were previously placed throughout Balboa Park, Presidio Park, Mission Hills Park, and Golden Hills Park, but removed in late-2024 as a cost saving measure; and
- Closure of the Gaslamp Square restroom and reduction of operating hours for the Civic Center restroom from 24 hours to 16 hours per day.

<u>$1.0 million – Security Services</u>

The FY 2026 Proposed Budget includes a $1.0 million reduction in expenditures for contracted security services. This is generally anticipated to result in reduced services, including fewer roving patrols and stationary guards assigned to various parks, and no evening gate closures at Joint Use parks; however, the Department is still in the process of determining site/park specific impacts associated with this reduction, and has noted that some services, such evening gate closures, have already been assumed by Park Rangers.

<u>($603,000, 4.00 FTEs) – Various Staffing Reductions</u>

4.00 FTEs and $603,000 in personnel expenditures is proposed for reduction as budget mitigations. These include 2.00 vacant Area Managers in the Community Parks I Division and two positions responsible for asset management, including 1.00 Project Officer 2 (filled) and 1.00 vacant Program Coordinator.

<u>($316,000) – Various NPE Reductions</u>

Proposed NPE reductions, totaling approximately $316,000, including $225,000 in funding budgeted for engineering services provided by E&CP staff to support park projects; and $91,000 for cell phone service which allows Recreation Center Directors to communicate with staff when they are offsite.

<u>($135,000, 1.00 FTE) – Beach Fire Ring Program</u>

The FY 2026 Proposed Budget includes the elimination of the Beach Fire Ring Program which would remove 184 total beach fire rings provided along San Diego beaches and Mission Bay (156 permanent and 28 summer only fire rings). Budgetary savings from this reduction are largely achieved through the reduction of 1.00 FTE Equipment Operator 2 position which has recently become vacant.

<u>($42,000, 1.03 FTE) – Teen Center Program</u>

The FY 2026 Proposed Budget includes the reduction of two vacant hourly positions (1.03 FTEs) and $42,000 which would eliminate the Teen Center Programs at the Allied Garden and Linda Vista Recreation Centers (both located in Community Parks I). Neither program has operated since the pandemic due to staffing shortfalls.

Other Budget Adjustments

($1.2 million, 33.26 FTEs) - Employ and Empower Program Interns

The Parks and Recreation Department was previously budgeted with 42.26 hourly FTEs (interns) through the Employ and Empower Program which fully supported these positions through grant revenue in the FY 2025 Adopted Budget. For FY 2026, the Proposed Budget includes a net reduction of 33.26 hourly FTEs and approximately $1.2 million in corresponding personnel expenditures and revenues.

Significant Revenue Adjustments

$11.0 million – Proposed Balboa Park Parking Program

The FY 2026 Proposed Budget includes $11.0 million in parking revenue assumed to be generated through a newly proposed Balboa Park Parking Program which was previously discussed in the context of the Mayor's Comprehensive Parking Reform Package presented to the City Council's Active Transportation and Infrastructure Committee on March 20, 2025. If this Parking Reform Package is ultimately approved by the City Council, staff will have the authority to implement this Proposed Balboa Park Parking Program and is assuming that this could occur by January 1, 2026.

The Proposed Budget includes $1.4 million in non-personnel expenditures (of which $1.1 million is ongoing) to implement and operate the new program.

According to staff, the revenue and expense estimates included in the Proposed Budget are preliminary and subject to change. If implementation of this program is delayed, or if revenue projections are otherwise not achieved, the FY 2026 budget is likely to be impacted give the magnitude of this proposed revenue source.

$300,000 – Proposed RV and Boat Dumping Fees

The FY 2026 Proposed Budget includes $300,000 in ongoing revenue estimated to be generated from a newly proposed fee to charge users to dump grey/black water from recreational vehicles (RVs) and boats at existing Mission Bay dump sites, including De Anza Boat Ramp, South Shores Boat Ramp, and the Sun Runner Lot. The fee amount will be based on the cost to the City for providing this service, as determined by the new cost-of-service study that is funded in the Proposed Budget and discussed earlier in this Department Review. The Proposed Budget assumes that this new fee will be implemented as of January 1, 2025; however, this timeframe could be impacted depending on the completion of the Cost-of-Service Study.

Other Revenue Adjustments

In addition to the revenue additions described above, the FY 2026 Proposed Budget includes the following revenue adjustments:

- $12.3 million increase in reimbursable revenue from the TOT Fund;
- $1.7 million increase in revenue from User Fee increases approved earlier this year during the City's comprehensive user fee update;
- $500,000 in reimbursement revenue for staff time associated with capital improvement projects and plan check reviews;
- $115,000 in reimbursement revenue from the Golf Course Fund associated with 25% of the personnel costs for the Assistant Department Director that currently oversees the Golf Division; and
- $19.7 million in reduced reimbursements from the Environmental Growth Funds.

Issues for Council Consideration

Recreation Center Hours

As discussed in detail above, the proposed reduction of recreation center operating hours is likely to have significant impacts throughout the City's park system. Those impacts, potential approaches to partially mitigate them, and additional context are discussed above, and Council may wish to request the Department follow up with additional detail and alternatives.

Council Budget Priority Items

Support for brush management services provided by the Parks and Recreation Department, was included in five Councilmember budget priority memoranda. Funding for brush management is maintained at current service levels in the Proposed Budget. No new funding is included in the Proposed Budget to address recommendations directed to the Parks and Recreation Department in Office of the City Auditor's Performance Audit of Brush Management on City-Owned Land.

Environmental Growth Funds

The Environmental Growth Funds (EGFs) are projected to receive approximately $26.2 million in franchise fees from San Diego Gas & Electric (SDG&E), which represents one-quarter of the total SDG&E franchise fees (including minimum bid payments) received by the City in accordance with Charter Section 103.1a. This revenue projection is a reduction of approximately $5.5 million from the FY 2025 Adopted Budget consistent with the decrease in projected franchise fees from SDG&E.

The EGFs are allocated into a one-third and two-thirds portion, to reflect Charter provisions that allow up to two-thirds of revenues to be pledged for bonds for acquisition, improvement and maintenance of park or recreational open space. There are no EGF-supported bonds currently outstanding; therefore, the Charter provides that this funding may be used for other purposes so long as those purposes preserve and enhance the environment and are approved by the City Council.

For FY 2026, $7.0 million from the EGF is proposed for additional wetland mitigation for prior stormwater channel maintenance, an increase of $823,000 from FY 2025, and $15.8 million is being transferred to the Parks and Recreation General Fund budget, which is a reduction of $19.7 million. Additional funds are budgeted for reimbursement to Maintenance Assessment Districts.

Golf Course Fund

The FY 2026 Proposed Budget for the Golf Course Fund totals $30.9 million, representing an increase of approximately $2.5 million from the FY 2025 Adopted Budget.

Golf Fund revenues total $30.7 million, which is an increase of $2.0 million from FY 2025. This adjustment includes an increase to resident (3%) and non-resident (5%) greens fees at all three golf courses and updates revenue projections to align the budget to more closely reflect prior year actuals.

Significant Budget Additions

The FY 2026 Proposed Budget for the Golf Course Fund includes the following significant expenditure additions:

- $709,000 increase in Non-Discretionary Expenses primarily associated with increase rent expense ($502,000) which is a land use fee paid to the General Fund;
- $390,000 increase in credit card processing fees based the projected increase in revenue;
- $283,000 increase in overtime

expenditures which is primarily used during the annual Farmers Insurance Open Tournament;

- $262,000 and 1.00 FTE Building Maintenance Supervisor to support existing facilities and future capital projects at all three golf courses; and
- $150,000 for lighting repairs for Mission Bay Golf Course.

Performance and Analytics

Through data collection and analysis, strategic planning, customer engagement, and research, the Performance and Analytics Department (PandA) aims to make City services more efficient and open to the public.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for PandA is funded entirely by the General Fund, with expenditures totaling approximately $4.9 million. This represents a $740,000, or 13.1%, decrease from the FY 2025 Adopted Budget. PandA's proposed staffing levels decrease by 1.31 FTEs, from 19.31 FTE positions in FY 2025 to 18.00 FTE positions in FY 2026. Additionally, projected revenue for FY 2026 is $229,000, which reflects about a $2,000 (or 0.9%) increase from FY 2025.

Significant Budget Reductions

As part of the FY 2026 Proposed Budget development process, PandA was requested to propose expenditure reductions totaling 20% of the Department's FY 2025 Budget. The Proposed Budget includes several expenditure reductions that total $1.1 million, or 18.6% of the FY 2025 Adopted Budget. These reductions include:

<u>($247,000) – Budget Mitigation: Reduction of the Get It Done Modernization Team</u>

This proposed expenditure adjustment would reduce funding by half for external contracted software developers who are largely responsible for ensuring the Salesforce software is up-to-date. Salesforce is the platform that supports the Get It Done (GID) application, as well as other applications that support customer services such as public utilities and proposed refuse collection billing.

Reduced funding for the Modernization Team may delay implementation of updates to Salesforce, which could in turn cause functionality issues with the GID application. While the reduction may impact PandA's capabilities to implement any new projects to GID, staff do not anticipate any significant impacts on the PUD and refuse collection billing projects due to this reduction.

<u>($230,000) – Budget Mitigation: Reduction of Software and Tech Solutions</u>

The FY 2026 Proposed Budget includes a reduction of $230,000 in expenses for procuring software licenses requested by other City

SUMMARY OF PERFORMANCE AND ANALYTICS BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	19.31	$ 3,716,543	$ 1,943,926	$ 5,660,469	$ 227,145
Programmatic Changes					
Mitigation: Reduction of NPEs (ongoing)	-	-	(38,540)	(38,540)	-
Mitigation: Efficiency Efforts and Open Data (ongoing)	-	-	(100,000)	(100,000)	-
Mitigation: 3-1-1 Dial Code Support (ongoing)	-	-	(115,000)	(115,000)	-
Mitigation: Medallia Cost Redistribution (ongoing)	-	-	(150,000)	(150,000)	-
Mitigation: Reduction of 1.00 FTE (ongoing)	(1.00)	(169,849)	-	(169,849)	-
Mitigation: Software and Tech Solutions (ongoing)	-	-	(230,357)	(230,357)	-
Mitigation: Get It Done Modernization Team (ongoing)	-	-	(247,108)	(247,108)	-
Other Changes					
Other Salary and Benefit Adjustments	-	436,377	-	436,377	-
Increase in Get It Done Mobile App Subscription Costs	-	-	5,250	5,250	-
Employ and Empower Program Intern [a]	(0.31)	1,976	-	1,976	1,976
Non-Discretionary Adjustments	-	-	(133,206)	(133,206)	-
FY 2026 Proposed Budget	**18.00**	**$ 3,985,047**	**$ 934,965**	**$ 4,920,012**	**$ 229,121**
Difference from 2025 to 2026	***(1.31)***	***$ 268,504***	***$ (1,008,961)***	***$ (740,457)***	***$ 1,976***

[a] Despite a 0.31 hourly FTE intern position reduction, personnel expenditures related to the remaining 1.00 FTE intern increased by $2,000. These expenditures are considered to be grant reimbursable, thus include a corresponding revenue of $2,000.

departments. PandA notes this funding often serves as seed funding for other departments' tech solutions, including applications for data visualization and data management.

This reduction is not expected to result in any significant impacts to existing mission-critical software.

<u>($170,000, 1.00 FTE) – Budget Mitigation: Reduction of an Unclassified Program Coordinator Position</u>

In February 2025, the Mayor made several operational consolidations and departmental changes to generate cost savings. This reorganization eliminated several vacant unclassified positions, including 1.00 Program Coordinator position from PandA.

This position was intended to develop a program to enhance the efficiency of refuse collection operations. Costs associated with this position were anticipated to be reimbursed by Enterprise Funds.

<u>($150,000) – Budget Mitigation: Medallia Cost Redistribution</u>

Medallia provides a survey platform for understanding customer and employee experiences. In previous years, the cost of this platform was included in PandA's budget. However, the FY 2026 Proposed Budget distributes the costs citywide at a lower rate.[1] This budget adjustment is not anticipated to reduce any City services.

<u>($115,000) – Budget Mitigation: Elimination of 3-1-1 Dial Code Support</u>

In other major cities, 3-1-1 is a non-emergency phone number that members of the public can call to find information about municipal services.

The Proposed Budget eliminates funding that supports the implementation of the 3-1-1 dial code, which is currently inactive. This includes $100,000 in seed funding and $15,000 to reserve the dial code.

According to staff, without funds to reserve the dial code, another local government entity, such as the County of San Diego, could use it. However, the City could use a standard 10-digit number if the 3-1-1 dial code becomes unavailable for use in the future.

<u>($100,000) – Budget Mitigation: Reduction of Efficiency Efforts and Open Data</u>

This reduction is associated with the Open Data Program, which publishes public City data to an online portal, and the Data Governance Program, which aims to standardize data management practices citywide.

Regarding Open Data, this reduction would not affect any current features provided by the online portal, such as the City's ability to update and upload data sets. However, it would delay the redesigning of the portal that might make data exploration more intuitive and user-friendly.

For Data Governance, this adjustment would reduce PandA's ability to procure a system for cataloguing, inventorying, and updating the classification of City data, to be detailed later. Staff does not anticipate any major security risks, such as data breaches, as a result of this reduction.

<u>($39,000) – Budget Mitigation: Reduction of Other Non-Personnel Expenditures</u>

The Proposed Budget includes the elimination of PandA's training budget and a reduction of its supplies budget for FY 2026.

Staff notes that eliminating PandA's training budget could result in the City increasing its reliance on outside contractors for information technology support, and that a reduction in PandA's supplies budget would reduce marketing materials for the GID application and parking stamps for user experience research participants.

[1] The reduction is due to reduced rates of software subscription costs from $285,000 to $195,000.

Issues for Council Consideration

3-1-1 Dial Code

As noted above, the Proposed Budget eliminates the 3-1-1 Dial Code that the City has been reserving since FY 2016. The City Auditor's Performance Audit of the City's Get It Done Application and Service Requests Management, completed in 2022, found that a centralized 3-1-1 system could improve the City's customer service experience and increase equity and access for reporting service requests. One of the audit's recommendations was the establishment of a centralized 3-1-1 contact option for residents, and this has been a priority for some Councilmembers.

PandA formally disagreed with the Auditor's recommendation, noting that a 3-1-1 would require significant investments, including the need to fund a designated 3-1-1 team. That noted, PandA did provide the Audit Committee, during its June 12, 2024 meeting with three different approaches on how the City could implement a 3-1-1 dial code, with each approach having pros and cons. Consideration could be given to purchasing a dial code if the City determines a desired approach and timeline, though given the City's fiscal condition, any additional expenditures in FY 2026 will require offsetting reductions elsewhere.

Data Governance

The City Auditor also conducted an IT Performance audit of Citywide data classification and data encryption which made various recommendations regarding how City data should be inventoried and classified.

In response to the IT performance audit, PandA, the Department of IT, and the Office of the City Clerk have completed a Citywide Data Management Strategy, which is planned for release in early FY 2026. Staff notes that a recommendation within this Strategy is for the City to adopt a standard citywide system for inventorying and classifying data. Currently, different departments have different procedures, potentially leading to process redundancies and insufficiencies. The budget reduction related to data governance could potentially delay the procurement of a platform that would allow for a standard citywide data management system, which may delay the full implementation of the Citywide Data Management Strategy.

Council may wish to ask staff for an update on the City's progress in implementing a Centralized Data Management Strategy and any associated impacts of the proposed reductions.

Open Data

The Proposed Budget includes a reduction to the Open Data portal. The Open Data portal allows the public to access a number of datasets, from street repair work to street sweeping schedules to park locations. This portal also includes a budget visualization tool that makes budget information more widely accessible, transparent, and understandable. This tool, however, is not currently up-to-date due to a FY 2025 funding reduction. The Proposed Budget further reduces resources for the Open Data Portal.

Personnel Department

In accordance with the City Charter, the Personnel Department reports to the Civil Service Commission (CSC) and is charged with overseeing the selection, promotion, and removal of all classified employees, as well as maintaining a competitive merit system that provides equal opportunity for all applicants. Personnel performs a number of functions, some of which include: onsite assistance to hiring departments; assistance to all employees on matters related to Personnel regulations; review of position duties for appropriate job classifications; recruiting and exam management; certification of eligible lists of qualified candidates; maintenance of employee and organization structure master data; coordination of CSC meetings and disciplinary appeal hearings; and investigation of complaints involving discrimination based on legally protected classes.

Impacts of Mayor's FY 2026 Budget Proposal

The following table presents a summary of the Personnel Department's budget changes from the FY 2025 Adopted Budget to the FY 2026 Proposed Budget. FTE positions are decreasing by 6.00, from 86.49 in FY 2025 to 80.49 in FY 2026. Expenditures are increasing by $723,000 – from $15.8 million to $16.5 million, or 4.6%. The Department has relatively minimal revenue.

Significant Budget Additions

The largest expenditure increase in the table is $736,000 in the "Other Salaries & Wages" line, largely due to FY 2026 general salary increases, merit increases, and promotions. Following that is the $588,000 increase for "Other Fringe Benefits", which is largely related to the City's ADC pension payment increase.

SUMMARY OF PERSONNEL BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	86.49	$ 13,957,699	$ 1,796,614	$ 15,754,313	$ 25,228
Programmatic Changes					
Reversal of FY 2025 2% Budget Reduction	-	291,205	-	291,205	-
Online Dispatcher Applicant Testing Software (ongoing)	-	-	54,442	54,442	-
Budget Mitigation: Recruiting Section Reduction	(2.00)	(377,223)	-	(377,223)	-
Budget Mitigation: Medical & Backgrounds Reduction	(1.00)	(239,164)		(239,164)	
Budget Mitigation: Outstation Section Reduction	(1.00)	(155,568)	-	(155,568)	-
Budget Mitigation: Payroll Audit Specialist	(1.00)	(79,872)	-	(79,872)	-
Budget Mitigation: Office Support Specialist	(1.00)	(77,962)	-	(77,962)	-
Budget Mitigation: Fingerprinting Reduction (one-time)	-	-	(23,356)	(23,356)	-
Budget Mitigation: Reduction of Advertising & Promotion of City Employment (one-time)	-	-	(19,730)	(19,730)	-
Other Changes					
Other Salaries and Wages	-	736,224	-	736,224	-
Other Fringe Benefits (includes ADC pension payment)	-	587,634	-	587,634	-
Non-Discretionary - Information Technology	-	-	21,353	21,353	-
Other Non-Discretionary Adjustments	-	-	4,772	4,772	-
Other Adjustments				-	6,650
FY 2026 Proposed Budget	**80.49**	**$ 14,642,973**	**$ 1,834,095**	**$ 16,477,068**	**$ 31,878**
Difference from 2025 to 2026	***(6.00)***	***$ 685,274***	***$ 37,481***	***$ 722,755***	***$ 6,650***

The next two largest increases are in the "Programmatic Changes" section of the table.

The first item listed is removal of the $291,000 2% budget reduction for FY 2025, which was anticipated to be achieved by holding several positions vacant during the current year.

Next is a $54,000 increase for the online CritiCall software for dispatcher applicant testing, which was added on an ongoing basis; it is needed to avoid any disruption in Personnel's ability to administer dispatcher examinations. The online version will replace the currently used desktop version of CritiCall, which is no longer supported and must be downloaded to a computer, limiting locations where testing can occur.

Significant Budget Reductions

The next several paragraphs discuss budget mitigations for the Department, which total $973,000, or 6.2%, of the Department's FY 2025 budget. Note that offsetting these reductions with the add-back of the previously mentioned $291,000 2% budget reduction for FY 2025 brings the percentage reduction for the Department to 4.3%.

Expenditure decreases include several mitigations that are expected to result in decreased applicant outreach; a decreased ability to achieve a workforce that reflects the City's diverse population; and a decreased ability to implement and maintain existing efficiencies and process improvements. These negative impacts are anticipated to result in increased hiring timeframes and vacancies.

Additionally, the anticipated implementation of a Reduction in Force (RIF) process by the Department will further strain its capacity. Department staff support is crucial during a layoff process to implement all necessary RIF activities timely and accurately, including meeting with impacted employees to inform them of their rights.

<u>($377,000, 2.00 FTEs) – Recruiting Section</u>
The Proposed Budget removes 1.00 Program Coordinator and 1.00 Associate Personnel Analyst from the Recruiting Section, eliminating all FTEs and Personnel's entire recruiting program for *classified* positions. Both of these positions are currently filled.

Elimination of the recruiting program in the Personnel Department will substantially reduce the City's applicant outreach efforts and limit collaboration opportunities within the City and with external partners. The Department's attendance at recruiting events will significantly decline, including at career fairs and information sessions on City employment. Additionally, Personnel will have reduced capacity to assist hiring departments in developing recruiting plans and strategies.

<u>($239,000, 1.00 FTE) – Medical and Background Program Coordinator</u>
This position, currently filled, oversees the City's medical and background pre-employment process, including serving as the primary contact for the DOJ, FBI, and the City's medical provider. Responsibilities include oversight and management of the medical contract, such as pre-employment medical exams and random drug and alcohol testing to ensure compliance with applicable MOUs and administrative regulations. Working with the City Attorney's Office, the position is also charged with ensuring the City complies with State and federal laws with respect to the pre-employment background check process.

Over the past year, the Department, and this position in particular, worked on ways to increase efficiency and reduce costs for the pre-employment medical exam and alcohol and drug screening processes, collaborating with the City Attorney's Office to examine potential policy changes. This endeavor was in response to a City Auditor recommendation.[1] The conclusion of the analysis was that reducing pre-employment screenings for certain positions would expose the City to increased liability.

The Department also moved forward with respect to another City Auditor recommendation: allowing fingerprinting at locations outside of the County. The Department has taken steps to implement this option Statewide and developed a new Administrative Regulation (AR) that is currently being reviewed by the Department of Finance's Internal Controls team. The goal is to finalize the AR by the end of the fiscal year.

($156,000, 1.00 FTE) – Supervising Personnel Analyst – Outstation Section
The Outstation Section provides on-site assistance to hiring departments for a myriad of personnel issues including the development or review of Appointing Authority interview packets and candidate recruiting letters; coordinating and scheduling of interviews; and monitoring candidates receiving conditional job offers during the pre-employment process. The Outstation Program is currently implemented in six departments: General Services, Stormwater, Transportation, Development Services, Environmental Services, and Parks & Recreation. The Personnel Department indicates that since inception of the Program, Outstation departments have seen a 44.6% decline in vacancy rates, compared to a 21.0% drop for non-Outstation departments with a similar number of positions.

By reducing this position, which is currently vacant, Outstation Section positions will decline from 8.00 to 7.00 FTEs. This action will impact the Department's ability to expand the Outstation program to additional departments, affecting citywide hiring timeframes and, by extension, vacancies. Additionally, Personnel will not be able to work on Recommendation 1.6 of the City Auditor's hiring process audit with respect to the creation of a centralized bank of job analyses,[2] job/interview factors, and interview questions.

($80,000, 1.00 FTE) – Payroll Audit Specialist 2
This position, which is currently filled, assists in processing candidates receiving conditional offers of employment; reducing it will lead to delays in processing pre-employment clearances. Reducing it will also affect the Department's ability to test SAP programming changes and configurations, including those related to negotiated benefits and employee pay.

($78,000, 1.00 FTE) – Office Support Specialist
Loss of this currently vacant position will reduce clerical support for the Department, including assistance in preparation for Civil Service Commission meetings and disciplinary appeal hearings, and notification to departments of employees who have passed their bilingual examinations.

($23,000) – Funding for Fingerprinting
The Personnel Department is responsible for providing fingerprinting and screening

[1] The Department has worked with the City Auditor's Office to provide follow-up information on the status of this and other process efficiencies in response to recommendation 2.4 of the Performance Audit of the City's Classified Employee Hiring Process, released by the City Auditor July 2023.

[2] Job analyses worksheets are created by hiring departments to evaluate what competencies are needed for the position for which interviews will be conducted.

services[3] to several groups of people, including prospective employees and volunteers.

This one-time non-personnel expenditure (NPE) reduction is based on anticipation of a continued hiring freeze, which may be lifted in FY 2026. The Personnel Department stated there has been a 70% increase in the number of annual employees hired by the City between FY 2017 and FY 2024. If the City continues to hire at an increased rate, the Department may go over budget for this expense.

($20,000) – Reduction of Advertising and Promotions of City Employment

This one-time removal of the Department's NPE budget for advertising and promotions affects support for job fair attendance, marketing materials, and advertising of the City's employment website. Eliminating it in FY 2026 will hinder the City's ability to reach potential applicants and decrease the visibility of employment opportunities, including to underserved communities.

Issues for Council to Consider

Key Performance Indicators

The following table shows three performance measures and includes the measures' goals and actual results for several years. The first row shows the average timeframe for issuing certified lists of eligible candidates to hiring departments when recruitment is required. For this KPI, the goal is an average timeframe of 57 days. Applications for City jobs have increased over the years shown, as have the number of citywide FTEs and recruitments.

During the pandemic, the actual FY 2021 average increased to 74 days from the FY 2020 54-day average. There was improvement in FY 2022, with a drop to a 66-day average timeframe. In FY 2023, 3.00 FTEs directly impacting the Personnel Departments' certification list KPIs were added to the Department's budget.[4] For FY 2023, despite the addition of 833.44 FTEs to the citywide Adopted Budget, the average days for issuing a certified list to departments when recruitment was needed dropped to 53 days; and the latest completed fiscal year (FY 2024) showed a further decline to 49 days.

Vacancies

As of mid-April 2025, the Personnel Department had 80.00 filled FTEs as compared to its 83.00 budgeted standard hour FTEs. The 3.00

Performance Measure	Goal	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual
Number of days to issue certification list to hiring departments: when recruitment is required	57	54	74	66	53	49
Number of days to issue certification list to hiring departments: without recruitment	12	11	16	17	12	10
Number of days to complete job classification studies	22	23	16	29	25	15

[3] After the Personnel Department obtains an individual's fingerprints, they are sent to the Department of Justice (DOJ) and the Federal Bureau of Investigation (FBI) for background checks. The fees for conducting DOJ and FBI background checks for prospective employees total $49 per individual. The background check fee for volunteers is $15.

[4] In FY 2023 to support the Personnel Department's operations, the Mayor added twelve positions to the budget as part of the May Revision, including 3.00 FTEs directly impacting the Personnel Departments' certification list KPIs: 2.00 FTEs for the Exam Management Section and 1.00 FTE for the Certification Section. The other positions included those for the Outstation Section (6.00 FTEs), the Recruiting Section (2.00 FTEs), and Equal Employment Investigations Office (1.00 FTEs).

FTE difference translates to a 3.6% vacancy rate for the Department. Note that the Department planned to hold three positions vacant during FY 2025 to achieve the $291,000 2% budget reduction for FY 2025.

Budget Equity

The Budget Equity Impact Statement for the Personnel Department includes a number of equity considerations. The Department laid out potential impacts anticipated from the Proposed Budget's reductions to its operations; select highlights are included below:

- Increased barriers to employment for marginalized groups, leading to decreased representation;
- Narrowed candidate pool and reduced opportunities for individuals relying on outreach efforts;
- Compromised ability to train hiring authorities and supervisors on equitable and inclusive practices; and
- Reduced equitable access to bilingual pay, affecting service to multilingual communities.

Police

The San Diego Police Department (SDPD) is broadly responsible for maintaining public safety, enforcing laws, and preventing crime. The Department provides neighborhood patrols, traffic enforcement, and investigations; issues police permits and licenses; and conducts community engagement programs, among other services. SDPD is the single largest portion of the General Fund's Proposed Budget, representing 32.7% of total General Fund expenditures.

Impacts of Mayor's FY 2026 Budget Proposal

The FY 2026 Proposed Budget for the Police Department is approximately $702.3 million for the General Fund, an increase of $29.3 million or 4.4% from the FY 2025 Adopted Budget. The Proposed Budget includes 2,678.34 FTEs, which is a reduction of 13.30 FTEs. Budgeted revenue totaling $71.4 million represents a $18.4 increase from FY 2025.

Personnel expenses constitute the most significant portion of SDPD's Proposed Budget at $614.1 million, or 87.4%, which is an increase of $28.0 million compared to personnel expenses in FY 2025. This increase, which represents the vast majority of the overall proposed expenditure increase for the Department, is primarily due to general salary increases under existing MOUs (4% for POA represented employees and 5% for MEA represented employees), a reduction in Budgeted Personnel Expenditure Savings, and other Salary and Benefit Adjustments. Non-personnel expenditures total $88.2 million, of which $52.6 million, or 59.7%, are non-discretionary expenditures.

While total SDPD expenditures are projected to increase, several programmatic reductions are proposed to help mitigate the projected FY 2026 budget shortfall.

Significant Budget Reductions

Budget Mitigations

The largest FY 2026 reductions are budget mitigations used to help balance the General Fund budget. The Department's expenditure budget mitigations total $5.4 million and are discussed below.

($2.6 million, 7.00 FTEs) – Reduction in Sworn Staffing

The Proposed Budget includes the reduction of various sworn personnel, including:

- 4.00 Police Detectives and $1.2 million in

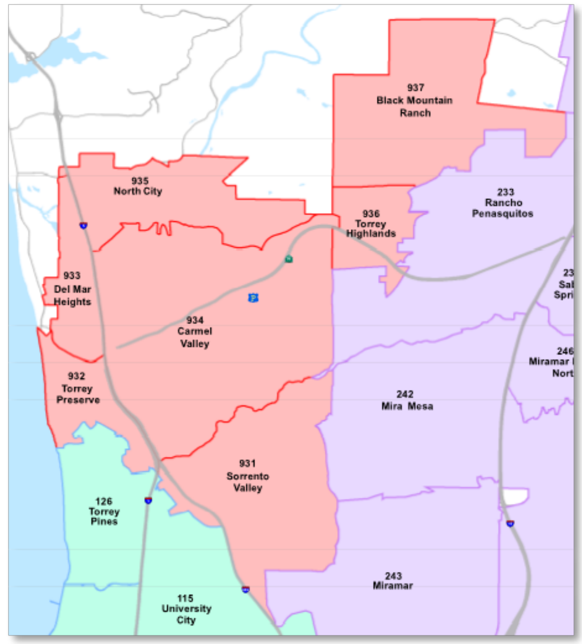
SUMMARY OF POLICE DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	2,691.64	$ 586,125,303	$ 86,876,843	$ 673,002,146	$ 52,971,377
Programmatic Changes					
Budget Mitigation: Sworn Staffing Reductions	(7.00)	(2,594,295)	-	(2,594,295)	-
Budget Mitigation: Northwestern Div. Consolidation	(6.00)	(1,890,692)	199,800	(1,690,892)	-
Budget Mitigation: Net Reduction in Overtime	-	(1,109,140)	-	(1,109,140)	244,735
Parking Citation Fee Revenue	-	-	-	-	8,291,949
Parking Meter Fee Revenue	-	-	-	-	8,600,000
Other Revised Revenue	-	-	-	-	741,695
Other Changes					
Salary and Benefit Adjustments	-	$28,513,422	-	28,513,422	-
Budgeted PE Savings (vacancy savings adjustment)	-	4,985,873	-	4,985,873	-
Employ and Empower Program Interns	(0.30)	48,064	-	48,064	48,061
PLEADS Program (Opioid Settlement Funds)	-	-	456,872	456,872	456,872
Non-Discretionary Adjustments	-	-	685,041	685,041	-
FY 2026 Proposed Budget	**2,678.34**	**$ 614,078,535**	**$ 88,218,556**	**$ 702,297,091**	**$ 71,354,689**
Difference from 2025 to 2026	***(13.30)***	***$ 27,953,232***	***$ 1,341,713***	***$ 29,294,945***	***$ 18,383,312***

personnel expenditures. Three of the detective positions are responsible for addressing prostitution-related crime within the Vice Operations Unit; the fourth is assigned to the Graffiti Strike Force and is responsible for investigating and identifying prolific taggers citywide; all four positions are currently vacant, or anticipated to become vacant before the start of FY 2026;

- 2.00 Police Lieutenants and $732,000 in personnel expenditures within the Patrol Operations Division. Both positions are currently filled; however, one is anticipated to become vacant before the start of FY 2026; the other will be transferred to fill another vacancy; and
- 1.00 Police Captain and $707,000 in personnel expenditures. The responsibilities for this position, which oversees the Fleet, Facilities, Property Room and Records Section, will be absorbed by the Captain assigned to Logistics. This position is currently filled and the incumbent is expected to transfer into the Research, Analysis, and Planning Captain position, which is currently vacant, at the end of the fiscal year.

<u>($1.7 million, 6.00 FTEs) – Budget Mitigation: Northwestern Division Consolidation</u>

The Proposed Budget includes a reduction 6.00 FTEs and $1.9 million in personnel expenditures associated with the proposed consolidation of SDPD's Northwestern Division into two neighboring divisions: Northern and Northeastern. The Northwestern Division is one of nine current patrol divisions and is responsible for patrolling Black Mountain Ranch, Carmel Valley, Del Mar Heights, North City, Sorrento Valley, Torrey Highlands and the Torrey Preserve area.



This consolidation will allow the Department to eliminate six leadership positions, including the Northwestern Division Captain, Lieutenant, one Detective and three Sergeants, given that those duties will be absorbed by existing leadership at the neighboring divisions.

The Northwestern Division substation, located at 12592 El Camino Real San Diego, CA 92130, will be vacated, although the Department is considering maintaining Northwestern Division's front counter staffing at this location. All other remaining staff would be relocated to one of the other adjacent patrol divisions. The Proposed Budget includes $200,000 in one-time non-personnel expenditure increases associated with the relocation of workstations and IT equipment, which reduces the net budgetary savings in FY 2026 to $1.7 million. The Department indicated that it is considering alternative uses for this facility.

<u>($1.1 million) - Net Reduction in Overtime</u>

The FY 2026 Proposed Budget reduces the Department's budgeted overtime expenditures by $1.1 million, leaving a total overtime budget of $45.3 million. This net decrease is attributable to a $3.0 million ongoing reduction in Extension of Shift and Patrol Staffing Backfill overtime, offset by a $1.9 million ongoing increase to account for POA and MEA salary increases.

The FY 2025 Mid-Year Budget Monitoring report projects that the Police Department will exceed its FY 2025 overtime budget by $9.8 million, for total projected expenditures of $56.2 million in FY 2025. This is approximately $10.9 million higher than the gross expenditure level in the Proposed Budget and $12.8 million higher net of FY 2026 salary increases (the latter is a more appropriate comparison that better reflects the actual use of overtime). This difference is significant and the overall reduction will be difficult to achieve, especially considering the Department's sworn staffing shortages are the primary cause for the projected overage in FY 2025, and as is discussed in the "Sworn Officer Retention and Recruitment" section on the following page, the number of sworn vacancies are projected to increase overall in FY 2026.

That noted, the Chief of Police has committed to maintaining FY 2026 spending within the Police Department's proposed overtime budget, barring a significant public safety emergency. This is expected to be achieved through full implementation of SDPD's new Staffing Unit, which centralizes overtime planning to better prioritize and more efficiently reallocate its overtime budget. Additionally, the Police Chief is requiring enhanced oversight from Commanding Officers to ensure that "Extension of Shift" overtime is only approved when absolutely necessary, up to a preauthorized limit per Police Unit. The new Staffing Unit will be responsible for monitoring Extension of Shift Overtime department-wide.

More information regarding the reallocation of the Department's overtime budget and the progress towards controlling overtime spending will be known during the budget monitoring process.

Other Adjustments

<u>$5.0 million – Budgeted Personnel Expenditure Savings (vacancy savings adjustment)</u>
The FY 2026 Proposed Budget includes a reduction of $5.0 million in Budgeted Personnel Expenditures Savings, which is effectively an increase in personnel expenditures. This adjustment is necessary to account for the $5.4 million overage projected for the Department's in the FY 2025 Mid-Year Budget Monitoring Report.

<u>$48,000, (0.30 FTEs) – Employ and Empower Program Interns</u>
The Police Department was previously funded with 4.50 hourly FTEs (interns) through the Employ and Empower Program which fully supported these positions through grant revenue in the FY 2025 Adopted Budget. For FY 2026, the Proposed Budget includes a net reduction of 0.30 hourly FTEs and a net increase of approximately $48,000 in personnel expenditures and associated revenue.

<u>$457,000 – PLEADS Program (Opioid Settlement Funds)</u>
The FY 2026 Proposed Budget includes the transfer of $457,000 in non-personnel expenditures and an equal amount of revenue from the Opioid Settlement Fund to support the Prosecution and Law Enforcement Assisted Diversion Services (PLEADS) program. PLEADS offers a voluntary diversion pathway for individuals to avoid prosecution and jail time by agreeing to accept addiction treatment and other support services. The City splits the costs associated with the PLEADS program with the County of San Diego and previously paid its share of costs directly out of the Opioid Settlement Fund beginning in FY 2024.

Significant Revenue Adjustments

The FY 2026 Proposed Budget includes a net revenue increase totaling $17.6 million including the following adjustments:

- $8.6 million in new Parking Meter Fee

revenue to offset costs associated with parking meter enforcement, which is an eligible use of these funds (see *Department Review: City Treasurer* for more information regarding parking meter fees);

- $8.3 million increase in Parking Citation Fee revenue primarily due to fee increases approved by the City Council earlier this year;
- $1.0 million increase in user fees revenue as a result of fee increases approved as a part of the FY 2026 comprehensive user fee update;
- $127,000 ongoing increase in reimbursement revenue from the TOT Fund for tourism related safety services; and
- $413,000 ongoing reduction in Safety Sales Tax revenue.

Issues for Council Consideration

Council Budget Priority Item

Continued funding for the No Shorts Fired Program received majority support in Councilmember budget priority memoranda. The Proposed Budget maintains $250,000 in funding for this program.

Sworn Officer Retention and Recruitment

As of April 14, 2025, the Department has 165 sworn vacancies (1,873 of 2,038 positions are filled), with an average of 12-13 officers leaving the Department per month in FY 2025. In total, 121 sworn officers have separated from SDPD since the start of FY 2025, including 16 that were lost to other law enforcement agencies and 39 due to retirement. According to SDPD, 36 officers remain in DROP and are due to retire before the end of FY 2025 with an additional 62 expected in FY 2026. For this reason, the Department anticipates that sworn officer attrition rates will increase to 14-15 officers per month in FY 2026 (168-180 total annual departures).

With respect to recruitment, Police Academy sizes were reduced in the FY 2025 Adopted Budget, from 43 to 30 recruits in each of the Department's four Police Academies; this level is maintained in the Proposed Budget. Actual academy starting sizes in FY 2025 have exceeded budgeted levels, averaging 38 recruits per academy. This is expected to continue in FY 2026 producing 152 new officers, which would result in a potential net loss of approximately 16 to 28 officers over the course of FY 2026. No new funding is included in the Proposed Budget to enhance SDPD's recruiting efforts.

Public Utilities

The Public Utilities Department is responsible for providing water and sewer services throughout the City of San Diego. Three major enterprise funds support the Public Utilities Department's operations: the Metropolitan Sewer Utility Fund, Municipal Sewer Revenue Fund, and the Water Utility Operating Fund. Additionally, the Department manages recreational use of the City's reservoirs via the General Fund.

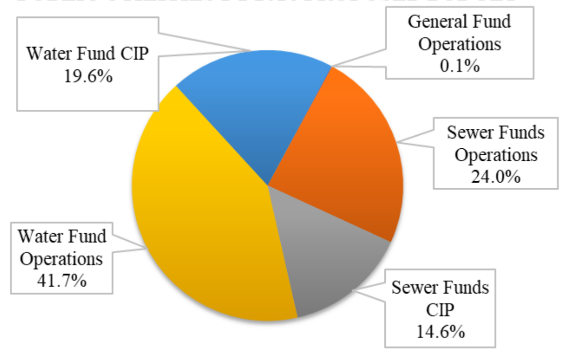
Impacts of Mayor's FY 2026 Budget Proposal

A summary of operating budget expenditure and position changes for the Public Utilities Department (PUD) is shown in the table below, broken out by fund. For FY 2026, the Proposed Operating Budget for all funds combined is approximately $1.29 billion, which is an increase of $72.5 million, or 5.9%, from the FY 2025 Adopted Budget. Positions are increased by 48.00 FTEs to a total of 2,021.75 FTEs.

The table below only includes the *operating budget* for PUD, which will be discussed in this section. However, the pie chart to the right displays the allocation of the Department's full $1.96 billion FY 2026 Proposed Budget, which includes allocations to the Capital Improvements Program (CIP). For more information on the CIP, see the *Capital Improvements Program* section earlier in this report.

The CIP represents approximately 34.2% of the Department's proposed FY 2026 expenditures. When combined, the operating and CIP components of the Water Fund represent 61.3% of the Department's total proposed budget, with Sewer operations and CIP components 38.6%. The General Fund, at $2.2 million, represents 0.1% of the Department's total proposed budget for FY 2026.

PUBLIC UTILITIES FY 2026 PROPOSED BUDGET



The following discussion of budget adjustments will start with the General Fund, followed by Department-wide activities that span both the Sewer and Water Funds, followed by adjustments that are unique to each funding source.

General Fund

The City offers recreational use of the Department's water reservoirs. Recreational activities are fully supported by the General Fund to avoid any impacts on PUD's enterprise funds or rate payers. Expenditures are partially offset by recreation fees.

The FY 2026 Proposed Budget for reservoir recreation program expenditures is $2.2 million, which is a decrease of $891,000 from the FY 2025 Adopted Budget.

Revenue to support the program is budgeted

SUMMARY OF PUBLIC UTILITIES DEPARTMENT OPERATING BUDGET						
Fund	**FY 2025 FTE**	**FY 2026 FTE**	**Change**	**FY 2025 Expense**	**FY 2026 Expense**	**Change**
General Fund	-	-	-	$ 3,110,927	$ 2,220,059	$ (890,868)
Sewer Funds	969.54	972.85	3.31	473,779,557	471,088,625	(2,690,932)
Water Fund	1,004.21	1,048.90	44.69	744,116,432	820,151,105	76,034,673
Combined Public Utilities Funds	**1,973.75**	**2,021.75**	**48.00**	**$ 1,221,006,916**	**$ 1,293,459,789**	**$ 72,452,873**

SUMMARY OF PUBLIC UTILITIES GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	-	$ -	$ 3,110,927	$ 3,110,927	$ 1,786,075
Programmatic Changes					
Budget Mitigation - Lake Closures	-	-	(889,080)	(889,080)	(266,895)
User Fee Increase	-	-	-	-	59,111
Other Changes					
Non-Discretionary Adjustments	-	-	(1,788)	(1,788)	-
FY 2026 Proposed Budget	**-**	**$ -**	**$ 2,220,059**	**$ 2,220,059**	**$ 1,578,291**
Difference from 2025 to 2026	***-***	***$ -***	***$ (890,868)***	***$ (890,868)***	***$ (207,784)***

at approximately $1.6 million for FY 2026, which is also a decrease from the FY 2025 Adopted Budget. There are no staff budgeted in this program as the General Fund reimburses Water Fund staff for running the program.

Significant Budget Reduction

The majority of the decrease for the General Fund is due to proposed budget mitigations to reduce the days various lakes are open for recreational use. The total reduction includes $889,000 in expenditures, with an additional $267,000 in revenue decrease due to lower permit fee revenue associated with the lake closures.

The table below breaks down the reduction by lake and includes a summary of impacts. The majority of the net impact comes from the closure of Lake Miramar and Lake Murray, which incur the greatest Tier 1 costs that are not refundable by any of the fees that can be charged for other activities.[1]

Department-Wide Enterprise Fund Activities

The table on the next page summarizes the total impact of various budget adjustments that span both the Sewer and Water Funds. For specific amounts in each fund, including the breakdown of personnel and non-personnel expenses for these activities, refer to each detailed fund summary tables shown later in this section.

For the purposes of this review, department-wide activities are discussed wholistically across the Department, rather than by fund.

Lake Closure Impacts				
Lake	**Closure**	**Expenditure**	**Revenue***	**Net Impact**
Murray, Miramar	From open 7 days down to 2 days	$ 477,342	$ 63,166	$ 414,176
Hodges	From open 3 days down to 2 days	75,164	9,842	65,322
Otay	From open 3 days down to 2 days	50,562	26,301	24,261
Barrett	From open 3 days down to 2 days	24,930	10,580	14,350
El Capitan, San Vicente	From open 5 days down to 4 days	169,207	132,308	36,898
Sutherland	From open 3 days down to 2 days	36,452	24,699	11,753
San Dieguito JPA	13% reduction	55,425	-	55,425
Totals		**$ 889,081**	**$ 266,896**	**$ 622,185**

Note: Lakes are open all year except for Hodges (9 months), Barrett (5 months), and Sutherland (7 months)

*Based on Revenue percentages from 2024

[1] Tier 1 costs are defined as all costs associated with basic levels of public access, community usage, and related grounds and facilities maintenance for recreational use of the City's reservoirs. More details can be found in Council Policy 400-03.

DEPARTMENT-WIDE ACTIVITIES		
Description	FTE	Expense
Pure Water Phase 1 Operations	5.00	$ 8,350,944
Pure Water & Laboratory Scientists	3.00	1,008,570
Regulatory Compliance - Air Quality	5.00	666,787
Street Preservation Ordinance Changes	10.00	116,113
Blueworx Upgrades	-	500,000
Shop & Programming Updates	-	333,000
EV Charging Installation	-	330,000
Project Intake Engineer	1.00	168,338

Significant Budget Additions

<u>$8.4 million, 5.00 FTEs – Pure Water Phase 1 Operations</u>

The largest department-wide increase includes 5.00 FTEs and $8.4 million in funding for Pure Water Phase 1. Construction of Phase 1 is currently over 70% complete, and the Department has added personnel each year in order to be ready to run the new facilities upon completion. Adding these positions now, as well as associated equipment and supply expenditures, allows individuals filling those positions to complete training prior to the Pure Water facilities coming online, and to gain additional insight into the facilities as they are constructed.

Pure Water Phase 1 is expected to begin water deliveries toward the beginning of FY 2027, with full capacity being reached in FY 2028.

<u>$1.0 million, 3.00 FTEs – Pure Water & Laboratory Scientists</u>

The next largest increase is for three new scientist positions due to an increased need for additional laboratory testing to meet regulatory requirements for both the Pure Water system and for National Pollutant Discharge Elimination System (NPDES) permits. This addition includes 3.00 FTEs and related staffing costs, as well as $600,000 in one-time expenditures for additional laboratory equipment.

<u>$667,000, 5.00 FTEs – Regulatory Compliance</u>

This addition includes 5.00 FTEs, including four scientists and one lab technician, to support the expansion of air quality testing and regulatory compliance activities, including staff training, guidance, compliance auditing, and reporting.

<u>$116.000, 10.00 FTEs – Street Preservation Ordinance Changes</u>

In FY 2025, following the Transportation Department's update to the City's Street Preservation Ordinance (SPO) and the new requirements contained in that update, City management directed PUD to begin hiring and managing its own trench restoration teams. This allows current Transportation staff to focus on other street repair tasks and maintenance.

PUD's FY 2025 Adopted Budget included 11.00 FTEs and $1.1 million in personnel and other operating costs, offset by a reduction in billing costs to the Transportation department of $1.2 million. There was a resulting General Fund revenue reduction within the Transportation Department.

For FY 2026, another 10.00 FTEs are proposed to be added along, with associated costs totaling $1.3 million. This once again is offset by a reduction in billing costs to Transportation of $1.2 million. However, a corresponding reduction was not included in the FY 2026 Proposed Budget for Transportation. It is anticipated an alternative proposal on this transition will be included in the May Revision that should limit any General Fund impacts.

<u>$500,000 – Blueworx Upgrades</u>

This funding will support an automated process for service investigations and customer support functions that should reduce errors derived from manual entries.

<u>$333,000 – Shop & Programming Updates</u>

This amount consists of one-time funding for maintenance and improvement activities at various PUD facilities, including the Central Support Facility and the Metropolitan Biosolids Center. Upgrades include lighting, ventilation, machinery improvements, and security gate updates.

<u>$330,000 – EV Charging Installation</u>
These expenditures consist of one-time funding to install 12 Dual Port Charging stations for electric vehicles at various PUD facilities. This is a critical expenditure, as the Department of General Services has been procuring electric vehicles for numerous departments, including PUD, to meet state standards and the City's Climate Action Plan goals. Without these installations, PUD would be unable to use these new vehicles.

<u>$168,000, 1.00 FTE – Project Intake Engineer</u>
The last systemwide change is the addition of an Associate Engineer to serve as an intake for developer plans and to provide plan review when required.

Sewer Funds

The Proposed FY 2026 Budget for operating expenditures in the combined Metropolitan and Municipal Sewer Utility Funds totals $471.1 million, which is a decrease of $2.7 million, or 0.6%, from FY 2025. Revenues in the Sewer Funds are budgeted at $639.2 million, a decrease of $310.0 million from FY 2025. This decrease is almost entirely due to the removal of a one-time increase associated with system revenue bonds issued in FY 2025. Positions are proposed to increase by 3.31 FTEs to 972.85.

Significant Budget Additions

Department-wide activities that were discussed previously under the *Department-Wide Activities* header are noted by an asterisk in the table below, and additional support for those activities is provided by the Water Fund. This section discusses adjustments that are unique to the wastewater system.

<u>$4.2 million, 2.00 FTEs – North City Water Reclamation Plant Expansion Readiness</u>
The largest adjustment within the Sewer Funds is the addition of $4.2 million and 2.00

SUMMARY OF SEWER FUNDS BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	969.54	$ 129,757,215	$ 344,022,342	$ 473,779,557	$ 949,174,505
Programmatic Changes					
North City Water Reclamation Plant	2.00	223,266	3,942,657	4,165,923	-
*Pure Water & Laboratory Scientists**	1.88	256,038	600,000	856,038	-
Strategic Assessments	-	-	840,000	840,000	-
*Pure Water Phase 1 Operations**	5.00	615,944	-	615,944	-
*Regulatory Compliance - Air Quality**	3.25	424,506	-	424,506	-
Wastewater Pump Stations Supervisors	2.00	356,058	-	356,058	-
*Shop and Programming Updates**	-	-	333,000	333,000	-
*Street Preservation Ordinance Changes**	5.30	521,119	(236,200)	284,919	-
*Blueworx Upgrades**	-	-	250,000	250,000	-
Odor Control	-	-	200,000	200,000	-
*Electric Vehicle Charging Installation**	-	-	171,600	171,600	-
*Project Intake Engineer**	0.54	90,903	-	90,903	-
Pure Water Phase 2	-	-	(1,000,000)	(1,000,000)	-
Revenue Bond Decrease	-	-	-	-	(310,000,000)
Other Changes					
Other Salaries & Wages	(17.33)	5,747,801	6,000	5,753,801	-
Fringe Benefits (Includes Retirement ADC)	-	4,073,263	-	4,073,263	-
Hourly Intern Adjustments	0.67	36,149	-	36,149	36,149
Removal of Prior Year One-Time Adjustments	-	-	(1,820,000)	(1,820,000)	-
Non-Discretionary Adjustments	-	-	(18,323,036)	(18,323,036)	-
FY 2026 Proposed Budget	**972.85**	**$ 142,102,262**	**$ 328,986,363**	**$471,088,625**	**$ 639,210,654**
Difference from 2025 to 2026	***3.31***	***$ 12,345,047***	***$ (15,035,979)***	***$ (2,690,932)***	***$ (309,963,851)***

** Department-wide activity*

FTEs for expansions and upgrades to facilities at the North City Water Reclamation Plant and the Metropolitan Biosolids Center. The majority of this funding ($2.6 million) is for one-time costs to fix hydraulic systems, gate valves, bar screens, and other infrastructure at these facilities. The remaining funding is for chemicals costs ($1.3 million) and personnel ($223,000).

$840,000 – Strategic Assessments

The next significant increase is for strategic assessments and planning related specifically to the Municipal Sewer System. This funding will support master planning, condition assessments, wastewater modeling, and other plans.

Other Additions

There are two other smaller additions to the sewer funds in FY 2026. The first is 2.00 FTEs and $356,000 for supervisory positions to oversee wastewater pump station operations. These costs are split between the Municipal Sewer Fund and the Metropolitan Sewer Fund.

The second addition is $200,000 on a one-time basis to replace fans and other systems at both the North City and the South Bay Water Reclamation Plant to improve the odor control at those facilities. This improves the working environment for staff as well as the environment in surrounding neighborhoods.

Significant Reductions

There is one significant reduction within the sewer funds, which is $1.0 million in planning funds for Pure Water Phase 2 planning. This allocation has been moved to the Water Fund to better align with the overall cost split for the program.

Water Fund

Expenditures in the FY 2026 Proposed Budget for the Water Utility Operating Fund total $820.2 million, which is an increase of $76.0 million, or 10.2%, from FY 2025. Positions are proposed to increase by 44.69 FTEs to 1,048.90 FTEs for FY 2026.

Revenues in the Water Fund are proposed at $958.5 million, which is almost unchanged from the FY 2025 Adopted Budget. Due to

SUMMARY OF WATER FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	1,004.21	$ 130,225,609	$ 613,890,823	$ 744,116,432	$ 958,461,488
Programmatic Changes					
Dam Repairs, Maintenance, & Assessments	-	-	18,500,000	18,500,000	-
Water Purchases	-	-	9,000,000	9,000,000	-
*Pure Water Phase 1 Operations**	-	-	7,735,000	7,735,000	-
Maintain Distribution System	17.00	1,985,349	1,000,000	2,985,349	-
Pure Water Phase 2	-	-	1,000,000	1,000,000	-
*Blueworx Upgrades**	-	-	250,000	250,000	-
*Regulatory Compliance - Air Quality**	1.75	242,281	-	242,281	-
Backflow and Cross Connections Team	2.00	241,919	-	241,919	-
*Electric Vehicle Charging Installation**	-	-	158,400	158,400	-
*Pure Water & Laboratory Scientists**	1.12	152,532	-	152,532	-
*Project Intake Engineer**	0.46	77,435	-	77,435	-
*Street Preservation Ordinance Changes**	4.70	462,118	(630,924)	(168,806)	-
Other Changes					
Non-Discretionary Adjustments	-	-	26,798,629	26,798,629	-
Other Salaries & Wages	17.33	9,406,337	5,000	9,411,337	-
Fringe Benefits (Includes Retirement ADC)	-	6,461,928	-	6,461,928	-
Hourly Intern Adjustment	0.33	46,391	-	46,391	17,805
Removal of Prior Year One-Time Adjustments	-	-	(6,857,722)	(6,857,722)	-
FY 2026 Proposed Budget	**1,048.90**	**$ 149,301,899**	**$ 670,849,206**	**$820,151,105**	**$ 958,479,293**
Difference from 2025 to 2026	***44.69***	***$ 19,076,290***	***$ 56,958,383***	***$ 76,034,673***	***$ 17,805***

** Department-wide activity*

timing, the Proposed Budget does not reflect revenue changes associated with the recent water rate increase associated with increases in costs from the San Diego County Water Authority (SDCWA), but it is anticipated the May Revision will include updated revenue projections.

Significant Budget Additions

Department-wide activities were discussed previously under the *Department-Wide Activities* section and are noted by an asterisk in the table on the previous page, and additional support for those activities is provided by the Sewer Funds. Notable FY 2026 budget adjustments unique to the water system are discussed below.

<u>$18.5 million – Dam Repairs, Maintenance, & Assessments</u>
The largest increases for the Water Fund are all related to the need to repair, maintain, and beginning the process of replacing numerous dams within the City's raw water system. Specifically, this increase includes $10.0 million in one-time funds for engineering projects that will be led by Engineering & Capital Projects, $7.0 million in ongoing funding to support comprehensive assessments on all of the City's dams, and $1.5 million in one-time funding to support expenditures needed for crews to maintain compliance with state mandates.

These additions supplement additions made over the last two years that covered a wide range of functions, including overseeing the maintenance of dams and the planning and implementation of vital or mandated dam repair and rehabilitation projects not otherwise covered under the CIP.

The Department is currently conducting condition assessments on dams owned and operated by the City, and some dams will require extensive repairs or replacement, with eventual costs expected to range from the hundreds-of-millions to over a billion dollars. The first dam likely to require significant investment, if not complete replacement, is Lake Hodges, and efforts are underway to begin designing that project, with the Division of Dam Safety requiring construction to begin on that dam within 2029. Other dams that could require replacement in the future, and are pending condition assessments, include El Capitan, Lake Murray, and Lake Morena. It will be important to monitor cost estimates for these projects as condition assessments are completed.

<u>$9.0 million – Water Purchases</u>
The next largest increase is $9.0 million in increased expenditures associated with anticipated water purchases in FY 2026. This would bring the total budget for water purchases up to $265.8 million.

This estimate was based on budgetary information provided by SDCWA prior to the release of their draft budget and water rates for calendar year 2026. PUD is reviewing assumptions on local water usage over the next year, and based on these updates may provide an updated projection on total water purchase costs in the May Revision. More context on rates charged by SDCWA and associated impacts are discussed below.

<u>$3.0 million, 17.00 FTEs – Maintain Water Distribution System</u>
This addition of 17 positions and associated expenditures is for the expansion of a team that ensures water quality standards are maintained throughout the water distribution system. Given conservation rates, the way that water flows through the system has also changed, with water often now sitting in the distribution system longer than it previously did.

This team will perform numerous associated assessments and address the backlog of valve replacement projects across the City. This funding includes $2.0 million in personnel expenditures and $1.0 million in non-personnel expenditures, the majority of which ($850,000) is one-time in nature.

$1.0 million – Pure Water Phase 2

This adjustment, as previously discussed, rebalances the budget for Phase 2 planning to better align with the cost split for the Pure Water project as a whole.

$242,000, 2.00 FTEs – Backflow and Cross Connections Team

The final adjustment to the water system is the addition of two positions focused on backflows and cross connections. These positions will conduct hazard assessments, and manage new installations and annual testing requirements. New positions are needed due to an increasing number of accounts that require inspection and testing.

Issues for Council Consideration

Enterprise Funds - Combined CIP and Operating Budgets for FY 2026

The table at the bottom of the page shows the combined budgets for the Capital Improvements Program (CIP) and operating budgets of the water and sewer funds, totaling just under $2.0 billion in FY 2026. Revenue amounts reflected in previous tables for the Sewer and Water Funds support both operations and the Public Utilities Department's substantial CIP. The combined revenue for operations and CIP is proposed at $1.6 billion for FY 2026.

As noted in the Revenue and Expense Statements within Volume 2 of the Proposed Budget, the revenues reflect known information at the time the department submitted budget requests in the winter of 2025. The gap between revenues and expenditures should be lower following the May Revision, when revenues are updated based on the most recent rate increases as well as recent decisions on bond issuances. However, some of this gap will need to be made up from the pending rate increases in the most recent cost-of-service (COS) study.

Future Rate Increases

In order to meet the financial needs of the wastewater and water systems, PUD goes through a COS process to determine reasonable costs for each system, distribute those costs among appropriate customer classes, and then generate rates that ensure the appropriate customer classes pay their proportionate share of costs. For the wastewater system, the last COS study was completed in 2021 and approved in September of 2021; it included rate increases ranging from 3.0% to 5.0% from January 1, 2022, through January 1, 2025. A water COS study was completed in 2023 and approved in September 2023; it included a 5.2% increase on December 1, 2023, a 5.0% increase on July 1, 2024, and an 8.7% increase on January 1, 2025. Additionally, due to increases passed on by SDCWA, PUD sought, and Council approved, an additional 5.5% rate increase in March 2025, which will be effective May 1, 2025.

Even with these rate increases, the most recent Public Utilities Department Five-year Financial Outlook projected a need for additional rate increases in FY 2026 and beyond.[2] These future rate needs included annual increases from 11.0% to 14.5 % for the water system and 6.0% and 8.0% for the wastewater system. The compounded rate increases in the Outlook from FY 2026 through FY 2030 were projected at 78.8% for water and 42.9% for wastewater.

SUMMARY OF PUBLIC UTILITIES ENTERPRISE FUNDS BUDGETS					
Fund	**FTE**	**Operating Expense**	**CIP Expense**	**Total Expense**	**Revenue***
Sewer Funds	972.85	$ 471,088,625	$ 286,387,476	$ 757,476,101	$ 639,210,654
Water Funds	1,048.90	820,151,105	384,632,138	1,204,783,243	958,479,293
Total FY 2026 Proposed Budget	**2,021.75**	**$ 1,291,239,730**	**$ 671,019,614**	**$ 1,962,259,344**	**$ 1,597,689,947**

**Revenues include AB 1600 revenues of $22.5 million for the Sewer Funds and $16.0 million for the Water Fund.*

[2] The Outlook was also accompanied by draft cost-of-service studies for the water and wastewater systems covering FY 2026-2029.

The need for rate increases is driven both by increased cost pressures on the utility systems, as well as by declining sales forecasts. For the wastewater system, increasing costs include internal cost pressures such as personnel, supplies (treatment chemicals), energy costs, and construction inflation for the CIP. The water system is experiencing similar cost pressures, with the additional burden of water purchase cost increases from SDCWA, despite declining water purchase needs with Pure Water coming online (further discussed below). Declining and flatlining water sales and wastewater flows will require either the reduction of existing expenditures, many of which are fixed, and/or rate increases to cover costs.

PUD released draft COS studies for both the water and wastewater systems late last year and is currently reviewing the assumptions in both of those studies. Our Office has retained an independent consultant to assist in our review of these studies, and we will issue reports that provide any relevant recommendations on the COS studies and rate designs. Following the issuance of our report, PUD expects to release revised versions of those COS studies in June that will include updated assumptions on water sales, wastewater flows, system costs, recommendations from the IBA Report, and potential reductions for both systems that may be included in the May Revision.

At present, PUD intends to seek Council approval in July to set a hearing date to set rates for the next four years in September.

If Council is concerned about the need for future rate increases, it should begin asking PUD for recommendations on how budget reductions this year that could reduce the need for large rate increases in the future.

Water Purchases and the San Diego County Water Authority

The single largest non-personnel expense for the entire City is the purchase of water from SDCWA. Even with declining sales and additional rainfall captured in the City reservoirs, the City will need to purchase between 80-90% of its water supply from SDCWA until Pure Water Phase 1 is fully operational in 2027.

SDCWA is also facing cost pressures. Similar to the City, SDCWA's revenues are directly tied to the amount of water it sells in a given year. With two recent years of wetter-than-average weather, retail water agencies across the region have been buying less from SDCWA as their own supplies are up and overall retail water sales are down. However, while a local water agency like the City can change how much water it purchases as demands shift, SDCWA lacks that flexibility.

As detailed in IBA Report 25-02 *IBA Review of the Public Utilities Department FY 2026-2030 Five-Year Financial Outlook*, SDCWA must pay for a minimum supply of 325,700 acre feet (AF) of water every year. This is a combination of the water purchases required under the Quantification Settlement Agreement (QSA) and the agreement to purchase water from the Carlsbad Desalination Plant.

However, SDCWA's actual water sales have fallen well below that minimum. According to the Annual Comprehensive Financial Report for FY 2024, SDCWA's actual sales in FY 2024 were only 295,069 AF. SDCWA's most recent forecast, presented to its Board of Directors, indicates that CY 2025 sales will also be below the 325,700 AF level.[3] While SDCWA water demands in CY 2026 are currently projected to go slightly above the take-or-pay level, projections for sales fall below this level in CY 2027 and stay below it for the foreseeable future. Numerous water recycling projects being implemented throughout the County, including the City's Pure Water program, will result in lower demand for

[3] https://www.sdcwa.org/wp-content/uploads/2024/10/2025_04_24FormalBoardPacket-1.pdf

SDCWA water. Unlike supplies provided by SDCWA, water recycling projects generally provide both drinking water supplies and reductions in wastewater discharges, and thus provide multiple benefits.

Based on recent water sales forecasts as well as the preliminary budget for SDCWA, SDCWA informed member agencies that it expects its own rate increases over the next three years will range from 12-14 percent on the high end, and 7-9 percent on the low end. Currently, PUD is anticipating a 16.4% increase for CY 2026, with 7% increases thereafter. These numbers will have to be updated in the next release of the water COS study.

Since the City is the largest purchaser of water from SDCWA, it also has the largest contingent on the Board of Directors, and thus can have a large impact on decisions made by that board. The City currently retains 10 seats on the board, and these members are collectively known as the "City-10". Notably, members of the City-10 currently serve as the Chair of both the Administration & Finance Committee and the entire Board of Directors. In IBA Report 25-02, our Office made two recommendations to the City of San Diego board members that we again reiterate.

First, *the City's representatives should ensure SDCWA expenditures are directly tied to the delivery of water to the region and should request SDCWA to prepare an updated business plan in the next year that address its long-term financial issues*. To date, it appears that City-10 members are following through on this recommendation.

And second, *the City's representatives should focus on right-sizing SDCWA's water supply and purchasing costs, particularly through selling excess supplies*.

To date, SDCWA has negotiated some agreements that swap more expensive supplies of water for less expensive ones, but these agreements have been implemented on a one-year basis and have not resulted in a net decrease in the actual amount of water that needs to be purchased.

While our Office is encouraged that SDCWA has been seeking to sell off excess supplies, it is unlikely that a subsequent agreement will be in place before CY 2026 rates need to be adopted in June. Absent an agreement on selling or swapping supplies, budget cuts at SDCWA should be considered, with a focus on operations and staff that are not *directly* tied to the provision of safe and clean water to the region. **Council should consider providing direction to PUD staff and the City-10 Board members at a public hearing prior to SDCWA's final vote on its budget and CY 2026 rates, currently scheduled at the end of June.**

Purchasing and Contracting

The Purchasing & Contracting Department (P&C) oversees transactions for procuring and contracting for goods and services, the procurement of Capital Improvement Program (CIP) construction contracts, minor repairs, and associated professional consulting services, as well as contract management functions across all City's contracts. It also manages the centralized advertising and award of all contracts for goods, services, and public works in conformance with the City's Charter and Municipal Code.

In addition, the Department manages the Equal Opportunity Contracting (EOC) and Central Stores programs and provides important services to City departments and residents.

Key departmental goals include:

- Promoting transparency regarding requirements within the procurement process.
- Increasing efficiency of the procurement process.
- Promoting small and local, disadvantaged, minority, and woman-owned business participation in City procurement.
- Ensuring excellent customer service.

Impacts of Mayor's FY 2026 Budget Proposal

P&C's budget is supported by both the General Fund and the Central Stores Fund; combined P&C's proposed budget for FY 2026 totals $24.1 million. As shown in the table below, this reflects an increase of approximately $1.4 million in expenditures, or 6.1% from the FY 2025 Adopted Budget. The increase is primarily due to higher personnel expenditures in the General Fund, as discussed later in this section.

Total FTEs in the Proposed Budget remain unchanged at 90.00. The addition of 1.00 Assistant Department Director and 1.00 Management Intern is offset by the reduction of 2.00 Program Coordinator positions, though we note that the Management Intern position is not anticipated to be a permanent position, as it is supported by the grant-funded Employ & Empower program. The Proposed Budget includes $13.8 million in revenues across both the General Fund and the Central Stores Fund, an increase of $0.5 million over the prior year.

This report reviews the Proposed Budget for P&C by fund.

SUMMARY OF PURCHASING & CONTRACTING DEPARTMENT BUDGET CHANGES						
Fund	**FY 2025 FTE**	**FY 2026 FTE**	**Change**	**FY 2025 Expense**	**FY 2026 Expense**	**Change**
General Fund						
Purchasing & Contracting	56.00	57.00	1.00	9,863,093	10,770,658	907,565
Equal Opportunity Contracting	13.00	12.00	(1.00)	1,336,717	1,877,840	541,123
General Fund Total	69.00	69.00	-	$ 11,199,810	$ 12,648,498	$ 1,448,688
Central Stores Fund						
Central Stores	20.00	21.00	1.00	7,807,171	7,940,372	133,201
Purchasing & Contracting	1.00	-	(1.00)	3,662,147	3,469,154	(192,993)
Central Stores Fund Total	21.00	21.00	-	$ 11,469,318	$ 11,409,526	(59,792.00)
Total Combined	**90.00**	**90.00**	**-**	**$ 22,669,128**	**$ 24,058,024**	**$ 1,388,896**

SUMMARY OF PURCHASING & CONTRACTING GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	69.00	$ 9,917,762	$ 1,282,048	$ 11,199,810	$ 2,422,363
Programmatic Changes					
Addition of Assistant Department Director Position	1.00	298,146	-	298,146	-
Mitigation: Reduce Positions (Ongoing)	(2.00)	(339,698)	-	(339,698)	-
Other Changes					
Salary and Benefit Adjustments	-	1,497,257	-	1,497,257	-
Employ and Empower Program Interns	1.00	53,955	-	53,955	53,955
Other Adjustments	-	24,111	-	24,111	-
Non-Discretionary Adjustments	-	-	(85,083)	(85,083)	-
FY 2026 Proposed Budget	**69.00**	**$11,451,533**	**$ 1,196,965**	**$ 12,648,498**	**$ 2,476,318**
Difference from 2025 to 2026	***-***	***$ 1,533,771***	***$ (85,083)***	***$ 1,448,688***	***$ 53,955***

General Fund

The FY 2026 Proposed Budget for the Department's General Fund activities is $12.6 million and includes funds for Purchasing & Contracting and the EOC Program. This is an increase of $1.4 million, or 12.9%, from the prior year. General Fund FTEs remain the same at 69.00. General Fund revenue has increased by $54,000, or 2.2%. These adjustments are summarized in the table above.

Significant Budget Additions

The Department's proposed General Fund budget includes the addition of 2.00 FTEs and $352,000 in personnel expenses. This includes 1.00 Assistant Department Director and $298,000 to enhance administration and support policy development and implementation. The position was added supplementally in FY 2025 and is currently filled as an unbudgeted position.

The General Fund also includes the addition of 1.00 Management Intern and $54,000 in associated personnel costs and revenue to support the Employ and Empower Program.

The most significant budget adjustment is a $1.5 million increase in salaries and benefits, reflecting changes in the City's contributions to employee retirement and retiree health benefits, along with the cost of negotiated salary increases.

Significant Budget Reductions

The FY 2026 Proposed Budget includes the reduction of 2.00 vacant Program Coordinator positions. These reductions align with the Mayor's February 18, 2025 memorandum, which announced operational consolidations, departmental changes, and the elimination of 16.00 unclassified positions citywide. These reductions include:

($170,000, 1.00 FTE) Program Coordinator – Equal Opportunity Contracting

This position was created in FY 2024 in response to the City's 2020 Disparity Study and was intended to strengthen EOC's capacity for monitoring, support services, and program performance, aimed at improving outcomes for small-, minority-, and woman-owned businesses. The Program Coordinator was also tasked with developing a comprehensive plan and manual to communicate Small Local Business Enterprise (SLBE) Program objectives across departments and establishing a process to track the program's long-term impact on minority- and woman-owned business growth. This position has remained vacant since its creation, and no significant progress has been made on the associated tasks. P&C leadership will need to re-evaluate how to reassign these responsibilities to existing staff.

($170,000, 1.00 FTE) Program Coordinator – Goods and Services

A recent audit by the Office of the City Auditor recommended strengthening the Department's capacity to provide effective contract administration and oversight of citywide contracts[1]. The Program Coordinator position was intended to provide dedicated oversight of citywide contract spending and to analyze spending trends to identify areas where additional contracts are needed. The elimination of this position is expected to exacerbate existing challenges caused by the lack of effective citywide contract administration and oversight. Tasks such as monitoring contract spending and analyzing spending trends would be difficult to reassign to existing staff without increasing workloads and risking burnout.

Issues for Council Consideration

Staffing Levels

P&C continues to face a high volume of departmental requests, making it difficult to meet key performance goals. For example, the performance target for awarding low-bid contracts on time was reduced from 85% to 55%, reflecting current staffing limitations and workload capacity.

Filling current vacancies would help alleviate operational strain. The Department has 23.00 vacancies out of 90.00 budgeted positions, representing a 26.0% vacancy rate. The Department noted that the executive approval process slowed hiring in FY 2025. If approvals are granted, the Department plans to move forward with interviews for Associate Analysts, Auto Messengers, and Contract Specialists, and anticipates that it can fill several positions quickly. However, P&C staff noted that the most significant hiring challenges remain with Contract Specialist positions for the Public Works Contracting Division.

As previously noted, the reduction of 2.00 Program Coordinator positions is expected to impact the Department's ability to implement programmatic changes and improve operational efficiencies in the Equal Opportunity Contracting and Goods & Services Divisions. These positions were intended to support critical functions, including monitoring compliance efforts, advancing equity initiatives, and streamlining procurement processes.

Without this staffing support, P&C may experience delays in responding to departmental needs, implementing new procedures, and managing workload related to Citywide contracting activities. This could further strain already limited resources and impact the Department's ability to meet service delivery expectations.

Central Stores

The FY 2026 Proposed Budget for the Central Stores Fund is $11.4 million, a decrease of $60,000 (0.52%) from the FY 2025 Adopted Budget. Staff remains unchanged at 21.00 FTEs. Projected revenue is $11.2 million, an increase of $411,000 (3.8%) over the prior year. No significant programmatic changes are proposed. A summary of budget changes is provided on the table on the next page.

Issues for Council Consideration

Central Stores Inventory and Supplies

The FY 2025 Adopted Budget included a $3.5 million ongoing increase in non-personnel

[1] Performance Audit of the City's Contract Management Process.

SUMMARY OF CENTRAL STORES FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	21.00	$ 1,596,341	$ 9,872,977	$ 11,469,318	$ 10,825,641
Programmatic Changes					
None	-	-	-	-	-
Other Changes					
Salaries and Benefits Adjustments	-	$ 70,969	$ -	$ 70,969	$ -
Other Adjustments	-	-	(80,775)	(80,775)	-
Non-Discretionary Adjustments	-	-	(49,986)	(49,986)	-
Revised Revenue Projections	-	-	-	-	410,810
FY 2026 Proposed Budget	**21.00**	**$ 1,667,310**	**$ 9,742,216**	**$ 11,409,526**	**$ 11,236,451**
Difference from 2025 to 2026	***-***	***$ 70,969***	***$ (130,761)***	***$ (59,792)***	***$ 410,810***

expenditures to support warehouse inventory and supplies in response to growing citywide demand. However, the Department did not request additional funding in the FY 2026 Proposed Budget, anticipating that departmental spending would decline due to current budgetary constraints.

Economic uncertainty—particularly around tariffs and inflation—continues to pose a risk. Rising costs for goods and materials could reduce purchasing power, limit inventory availability, or result in departments exceeding their budgets. A reduction in overall City spending could help mitigate these risks, but significant price increases may still challenge operational planning and fiscal stability.

Risk Management

The Risk Management Department manages the City's self-insured Workers' Compensation Program; coordinates public liability and loss control measures; and oversees the City's insurance program, flexible benefits, employee savings plans, and the Long-Term Disability Plan.

The Risk Management Administration (RMA) Fund is an internal service fund from which Risk Management administration costs are paid. An internal service fund needs sufficient revenues to cover expenditures in order to operate. City departments contribute to RMA Fund revenues, on a per employee basis, as part of fringe benefit expenditures.[1]

The FY 2026 Proposed Budget for these fringe benefit contributions is $19.5 million, including $12.3 million from the General Fund (62.9%) and $7.2 million from non-general fund departments (37.1%). There is also about $704,000 in reimbursement revenue, yielding total revenue of $20.2 million to support an equal amount of expenditures.

Impacts of Mayor's FY 2026 Budget Proposal

The following table provides a summary of Risk Management's budget changes from the FY 2025 Adopted Budget to the FY 2026 Proposed Budget. The Proposed Budget is approximately $20.2 million, an increase of $2.8 million or 16.4% from the prior year. The number of FTE positions are increasing by a net of 12.00, from 94.23 FTEs in FY 2025 to 106.23 in the Proposed Budget, due the addition of 14.00 FTEs for Public Liability Support, as discussed later in this section. Revenue is increasing by about $3.1 million, or 18.0%.

Significant Budget Additions

The largest expenditure increase is $1.8 million for salary and benefits adjustments, which reflect compensation increases that correspond to negotiated salary increases, as well

SUMMARY OF RISK MANAGEMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	94.23	$ 14,390,612	$ 2,952,982	$ 17,343,594	$ 17,098,385
Programmatic Changes					
Addition of Public Liability Support	14.00	895,109	25,200	920,309	-
Addition of Claims Management System Support	-	-	215,000	215,000	-
Addition of Employee Assistance Program Services Support	-	-	138,745	138,745	-
Addition of Medicare Compliance Support	-	-	30,000	30,000	-
Budget Mitigation: Reductions of Postitions and Personnel Expenditures	(2.00)	(408,018)	-	(408,018)	-
Budget Mitigation: Reduction of Overtime		(35,824)	-	(35,824)	-
Other Changes					
Salary and Benefit Adjustments	-	1,750,218	-	1,750,218	-
Information Technology Adjustments	-	-	86,928	86,928	-
Laptops Replacement	-	-	81,900	81,900	-
Non-standard Hour Personnel Funding	-	(373)	-	(373)	-
Non-Discretionary Adjustments	-	-	60,707	60,707	3,073,817
Other Adjustments	-	-	-	-	10,984
FY 2026 Proposed Budget	**106.23**	**$ 16,591,724**	**$ 3,591,462**	**$ 20,183,186**	**$ 20,183,186**
Difference from 2025 to 2026	***12.00***	***$ 2,201,112***	***$ 638,480***	***$ 2,839,592***	***$ 3,084,801***

[1] Fringe benefits are non-wage costs related to personnel, such as Workers' Compensation, Long-Term Disability, the Actuarially Determined Contribution (ADC) pension payment, Flexible Benefits, and Medicare.

as reduced vacancy savings. Other significant additions are discussed below.

<u>$920,000, 14.00 FTEs – Addition of Public Liability Support</u>
The Proposed Budget includes the addition of 14.00 FTEs and related expenditures of $920,000 for Public Liability Support. This includes $895,000 in personnel expenditures and $25,000 in non-personnel expenditures. The 14.00 FTEs includes the following positions:

- 5.00 Liability Claims Aides
- 3.00 Liability Claims Representative 1s
- 2.00 Liability Claims Representative 2s
- 2.00 Senior Claims Representatives
- 2.00 Supervising Liability Claims Representatives

The added positions are required to support the Department's Public Liability & Loss Recovery Division due to the increase in the City's Self-Insured Retention (SIR), which was intended as a budget reduction measure.

The added positions are intended to reduce the number of cases assigned to each claims adjuster and help to meet California Government Code mandated deadlines. The Public Risk Innovation Solutions and Management (PRISM) audit of the City's Public Liability program noted that current caseloads for existing staff are above industry standards. The added positions are also intended to enable Claim Representatives to proactively conduct field work investigations; attend mediations, small claim courts, and evaluation hearings; and meet regularly with Deputy City Attorneys. Risk Management noted positions are anticipated to begin being filled in the fall of 2025.

<u>Other Significant Additions</u>
The FY 2026 Proposed Budget also includes the addition of non-personnel expenditures for contractual expenses for the following:

- $215,000 – Claims Management System Support. This includes $140,000 in one-time costs for the acquisition and implementation of new claims management software to streamline the processing of public liability and workers' compensation claims. The new system will replace an existing system that is reaching end of life, and is intended to enhance efficiency, reduce administrative costs, and improve data accuracy and reporting capabilities. For example, when the system is implemented (in June 2026), functions currently performed by staff manually will be automated, enabling them to spend time working on other aspects of the job. The total cost also includes $75,000 for ongoing maintenance.
- $139,000 – Employee Assistance Program (EAP) Program Services Support. EAP provides support services for City employees and their families, including counseling, support after traumatic events, and financial and legal assistance. This contract was previously administered by the Human Resource Department and is being moved to Risk Management in FY 2026. Both departments noted the program is best suited for Risk Management. Note that Human Resources does not have a corresponding reduction, but retains $281,000 for EAP. Note, the difference in the two amounts represents a $142,000 proposed reduction to the program for FY 2026.

Significant Budget Reductions

<u>($408,000, 2.00 FTEs) – Reduction of Positions and Personnel Expenditures</u>
The FY 2026 Proposed includes the reduction of 2.00 FTEs and related personnel expenditures as part of budget mitigation measures. The 2.00 FTEs include the following:

- ($238,000, 1.00 Deputy Director). This position was intended to support

Department management, but is currently vacant. Eliminating the position is anticipated to reduce support for programs like Public Liability, Workers' Compensation, and Insurance; increase the Department Director's workload; and slow decision-making. This could compromise compliance with City policies and State mandates.

- ($170,000, 1.00 Program Coordinator) This position from the Loss Control Division is vacant. Not funding the Loss Control Program Coordinator is anticipated to impact the City's ability to manage liability risks and improve safety outcomes. This position is responsible for identifying and mitigating risks, providing specialized training, and leveraging data analytics to enhance risk management strategies. Risk Management noted that other positions cannot absorb this work because it requires specialized data analytics skills and experience.

Significant Revenue Adjustments

Also significant is the addition of $3.1 million in departmental revenue as part of a true up to reflect revised non-discretionary revenue projections.

Issues for Council Consideration

Vacancies

As of mid-April 2025, Risk Management had 90.23 filled FTEs as compared to its 94.23 budgeted positions. The 4.00 unfilled FTEs translate to a 4.2% vacancy rate for the Department. This rate is lower than the prior year (10.6%) because the Department has had successful recruitments with qualified pools of candidates and made progress in filling vacancies, largely attributable to salary increases resulting in competitive pay.

The 4.00 unfilled positions include:

- 1.00 Deputy Director
- 1.00 Program Coordinator
- 1.00 Senior Liability Claims Representative
- 1.00 Cleark Typist (which is planned to be reclassified to an Administrative Aide).

Of the 4.00 vacant position, 2.00 are proposed to be eliminated – 1.00 Deputy Director and 1.00 Program Coordinator, both of which are vacant.

Risk Management indicated the current vacant positions are needed to meet service levels, and the Department plans to move forward with filling them when the hiring freeze, which began in December 2024, ends.

While filling vacancies is not an issue, Risk Management noted that the larger issue is that the Department has been historically under resourced, that is, having staffing levels below what is needed to deliver the programs and services the Department is mandated to provide. This makes it more challenging to absorb the cuts while still delivering required services.

Other Risk Management Funds

Risk Management oversees the Public Liability, Workers' Compensation, and Long-Term Disability Funds. The Reserve balances for these three Funds are projected to be lower than the target balances called for in the City's Reserve Policy. However, the FY 2026 Proposed Budget does not include a contribution to the Reserves to reduce the anticipated deficits. The contributions are being delayed as budget mitigations to fund other critical General Fund expenditures in FY 2026. Information on these three funds is included in this report's *Reserves* section.

Special Promotional Programs

Special Promotional Programs are funded through a portion of the City's Transient Occupancy Tax (TOT) revenue, discussed below, and include a collection of programs focused on increasing tourism, promoting artistic and cultural amenities, attracting businesses and economic activity, and supporting visitor-related facilities. These programs are intended to spur additional TOT and other revenue in the City and receive allocations from the TOT Fund.

Impacts of the Mayor's FY 2026 Budget Proposal

The Proposed Budget for Special Promotional Programs is approximately $142.8 million, which is a decrease of $13.8 million, or 8.8%, from the FY 2025 Adopted Budget. The decrease is primarily due to transferring arts and culture program funding to the Cultural Affairs Division of the Economic Development Department, following the consolidation of Cultural Affairs under the Economic Development Department that was announced earlier this year. As a result, the Proposed Budget for Creative Communities San Diego, Organizational Support Programs, and Impact is reflected in the Economic Development Department budget.

In addition to Cultural Affairs, there is a $1.5 million transfer to Special Events & Filming to support department operations. Including both transfers brings total Special Promotional Programs expenditures to $158.2 million, a decrease of $2.8 million, or 1.7%, from the FY 2025 Adopted Budget.

Funding for Special Promotional Programs comes from 5.0 of the 10.5 cents of TOT revenue received by the City. Per the San Diego Municipal Code, 5.5 cents of the City's 10.5 cent TOT are deposited directly into the General Fund to support general government services, while the remaining 5.0 cents is deposited into the TOT Fund. Of this 5.0 cents, the Municipal Code requires that 4.0 cents be used solely for the purpose of promoting the City, while the remaining 1.0 cent can be used for any purpose as directed by the City Council (this is considered Council Discretionary TOT revenue, and is further discussed below). The total amount of TOT revenue budgeted in FY 2026 is $333.0 million, with the General Fund portions totaling $175.2 million and the non-General Fund portion being $157.8 million.

The expenditure budget displayed in the table on the following page incorporates allocations that support the FY 2026 proposed operating budget for the Cultural Affairs Division (included under Arts, Culture, and Community Festivals), the Special Events and Filming Department (included under Safety and Maintenance of Visitor-Related Facilities), as well as reimbursements to the City Treasurer and Department of Finance for the administration of the Fund.

Discretionary TOT to the General Fund

The Proposed Budget transfers all revenue from the 1.0 cent of City Council discretionary TOT portion to the General Fund. This transfer totals $31.6 million, a $403,000 increase over the FY 2025 Adopted Budget. In recent years, Mayoral and Council allocations for Arts, Culture, and Community Festivals of $450,000 were funded with the 1.0 cent City Council Discretionary TOT. However, these allocations are not included in the FY 2026 Proposed Budget. Additional discussion of this allocation in comparison to Council's priorities set according to the updated Council Policy 100-03 is also included in this section.

Department Review: Special Promotional Programs

SUMMARY OF SPECIAL PROMOTIONAL PROGRAM				
	FY 2025 ADOPTED	FY 2026 PROPOSED	CHANGE ($)	(%)
REVENUE				
TOT - Special Promotional Programs (4.0 cents)	$ 124,623,438	$ 126,236,997	$ 1,613,558	1.3%
TOT - Council Disrectionary (1.0 cents)	31,155,860	31,559,249	$ 403,390	1.3%
Use of Fund Balance	5,136,143	691,432	(4,444,712)	-86.5%
Special Events Department	149,757	164,003	14,246	9.5%
TOTAL REVENUE	**$ 161,065,199**	**$ 158,651,681**	**$ (2,413,518)**	**-1.5%**

ALLOCATIONS				
Arts, Culture, and Community Festivals	**$ 16,116,508**	**$ 13,846,342**	**$ (2,270,166)**	**-14.1%**
Cultural Affairs	15,581,508	13,846,342	(1,735,166)	-11.1%
Creative Communities (CCSD)	*2,040,912*	*1,717,304*	*(323,608)*	*-15.9%*
Organizational Support (OSP)	*10,163,648*	*9,589,606*	*(574,042)*	*-5.6%*
Impact	*500,000*	*500,000*	*-*	*0.0%*
Administration	*2,876,948*	*2,039,432*	*(837,516)*	*-29.1%*
Community Festivals	535,000	-	(535,000)	-100.0%
Mayor/City Council Allocations	*450,000*	*-*	*(450,000)*	*-100.0%*
Public Art Fund Allocation	*85,000*	*-*	*(85,000)*	*-100.0%*
Capital Improvements	**$ 19,888,136**	**$ 21,388,566**	**$ 1,500,430**	**7.5%**
Convention Center Debt Service	12,099,511	12,097,441	(2,070)	0.0%
PETCO Park Debt Service	7,788,625	9,291,125	1,502,500	19.3%
Economic Development Programs	**$ 1,027,200**	**$ 1,027,200**	**$ -**	**0.0%**
Business Expansion, Attraction, and Retention	847,200	847,200	-	0.0%
Economic Development Program Admin.	180,000	180,000	-	0.0%
Safety & Maintenance of Visitor-related Facilities	**$ 37,673,752**	**$ 39,565,410**	**$ 1,891,659**	**5.0%**
Discretionary TOT Support for General Fund Activities	31,155,860	31,559,249	403,390	1.3%
Convention Center	4,066,085	4,150,586	84,501	2.1%
Special Events & Filming Department	1,495,871	1,505,275	9,404	0.6%
Mission Bay Park/Balboa Park Imps. Operations	862,936	904,333	41,397	4.8%
Risk Management Fund	93,000	103,689	10,689	11.5%
PETCO Park Operations	-	1,342,278	1,342,278	-
TOTAL ALLOCATIONS	**$ 74,705,596**	**$ 75,827,518**	**$ 1,121,922**	**1.5%**

GENERAL FUND REIMBURSEMENTS				
Reimbursements for Fire-Rescue (Lifeguards)	29,376,423	29,700,000	323,577	*1.1%*
Reimbursements for Parks & Recreation (Tourism Sup.)	15,000,000	27,341,155	12,341,155	*82.3%*
Reimbursements for Homelessness Services	36,900,000	16,333,896	(20,566,104)	*-55.7%*
Reimbursement for Storm Water (Street Sweeping)	1,572,790	2,994,020	1,421,230	*90.4%*
Reimbursement for Treasurer Administration	2,300,000	2,678,483	378,483	*16.5%*
Reimbursement for Environmental Sidewalk Sanitation	-	1,500,000	1,500,000	-
Reimbursement for Special Events (Public Safety)	712,512	840,000	127,488	*17.9%*
Reimbursements for Library (Tourism Sup.)	-	717,744	717,744	-
Reimbursement for DoF Administration	-	141,521	141,521	-
Reimbursement for Mission Bay Park Security Services	78,000	78,000	-	*0.0%*
Reimbursement for Facilities (Tourism Sup.)	300,000	-	(300,000)	*-100.0%*
TOTAL ALLOCATIONS	**$ 86,239,725**	**$ 82,324,819**	**$ (3,914,906)**	**-4.5%**

TOTAL	**$ 160,945,321**	**$ 158,152,337**	**$ (2,792,983)**	***-1.7%***
Ending TOT Fund Balance	*$ 119,878*	*$ 499,344*	*$ 379,466*	*316.5%*

Reimbursements from TOT Fund to the General Fund

The Proposed Budget includes an $82.3 million transfer from the TOT Fund to the General Fund for eligible expenditures, reflecting a decrease of $3.9 million, or 4.5%, from the FY 2025 Adopted Budget.

The three departments receiving the largest TOT reimbursement are Fire-Rescue ($29.7 million), Parks & Recreation ($27.3 million), and Homelessness Strategies and Solutions ($16.3 million).

Program and Department Budgets

Several promotional programs, agencies, and City departments are supported wholly or in part by the TOT Fund. The following subsections discuss FY 2026 arts and culture funding, Council's recommendation for the Penny for the Arts goal, funding for visitor-related capital improvements, and economic development program funding.

Arts and Culture Funding

The proposed FY 2026 arts and culture funding is approximately $13.8 million, a decrease of $2.3 million, or 14.1%, from the FY 2025 Adopted Budget.

As noted previously, administration of all $13.8 million in arts and culture funding will be transferred to the Cultural Affairs Division consolidated into the Economic Development Department.

The funding is broken into:

- $9.6 million – Organizational Support Program (OSP);
- $2.0 million – Administrative funding for the Cultural Affairs Division;
- $1.7 million – Creative Communities (CCSD); and
- $500,000 – Impact, which targets funding for Communities of Concern and San Diego's Promise Zone.

Additional details on the funds transferred can be found in the *Department Review: Economic Development Department* section of this report.

Penny for the Arts Goal

On December 5, 2023, Council approved amendments to Council Policy 100-03, *"Transient Occupancy Tax."* In the accompanying resolution (Resolution 315257), Council established a legislative process whereby the IBA is directed to include "an analysis of whether the Council's recommendation on the allocation of the 1 cent TOT in the budget priorities resolution has been met." The 1.0 cent Council Discretionary TOT portion is equal to 9.52% of total TOT revenue.

On February 10, 2025, as part of the Council's FY 2026 budget priorities process, Council approved a recommendation from the Budget & Government Efficiency Committee to *partially* fund the Penny for the Arts goal, to help

PENNY FOR THE ARTS GOAL *(in millions)*				
FY 2026 Proposed Budget				
Total Citywide TOT Projection[1]	$331.4			
Arts and Culture (A&C) Funding	$13.8			
A&C Funding Level % of TOT[2]	4.2%			
Funding Target Scenarios (%)	**4.9%** [3]	**5.5%**	**7.5%**	**9.5%**
Funding Target Scenarios ($)	$ 16.3	$ 18.2	$ 24.9	$ 31.5
Funding Gap	**$ (2.5)**	**$ (4.4)**	**$ (11.0)**	**$ (17.7)**

1. Excludes revenue from RV parks as that goes directly into the General Fund.
2. To meet the Penny for the Arts blueprint goal of 1¢ of the City's 10.5¢ TOT rate, the target percentage is 9.52%.
3. FY 2025 Penny for the Arts funding level

balance the General Fund budget. Additional information on Council's FY 2026 Penny for the Arts budget priority can be found in IBA Report 25-05, entitled *FY 2026 Updated City Council Budget Priorities.*

The Proposed Budget partially funds the Penny for the Arts goal, which is consistent with Council's recommendation, as shown on the table on the previous page. It proposes allocating $13.8 million or 4.2% of total TOT revenue (equal to 0.4 cents of TOT) to arts and culture. Council may wish to discuss whether the Proposed Budget is consistent with Council's intended recommendation for Penny for the Arts, but we note any additional increases in art and culture funding would require offsetting reductions in the Special Promotional Programs budget, which could have General Fund implications.

The table on the previous page also shows the additional funding needed to fund the Penny for the Arts goal at varying levels. To maintain FY 2025 funding levels of 4.9% (equal to 0.5 cents), an additional $2.5 million TOT allocation for arts and culture would be required. To reach a partial funding level of 5.5%, an additional $4.4 million would be needed. To reach the full 1.0 cent Penny for the Arts goal, or 9.52% funding level, an additional $17.7 million would be required.

Debt Service for Capital Improvements

The Capital Improvements component of the TOT Fund includes debt service payments related to PETCO Park and the Convention Center. The Proposed Budget includes $21.4 million for capital improvement debt service, a $1.5 million, or 7.5%, increase from FY 2025. The increase is attributable to a $1.5 million increase in the annual debt service for PETCO Park; in FY 2025 the PETCO Park Fund had a fund balance that was used to cover a portion of that year's debt service. That fund balance is not available in FY 2026.

Economic Development Funding

The Proposed Budget for Economic Development Programs is approximately $1.0 million, the same level as FY 2025. The allocation includes $847,000 for Business Expansion, Attraction & Retention (BEAR) and $180,000 for economic development programs administration.

Stormwater

The Stormwater Department is responsible for the maintenance and upkeep of storm drains and associated pump stations that provide flood risk management, and leads the City's efforts to protect and improve water quality in the City's waterways and the ocean, including activities that ensure compliance with various water quality regulations, such as Total Daily Maximum Loads (TMDL), sediment regulations, and requirements set by the Regional Water Quality Control Board (RWQCB) and other regulators.

Impact of the Mayor's FY 2026 Proposed Budget

Expenditures in the Proposed Budget for the Stormwater Department total $65.5 million, which is an increase of $2.1 million (3.4%). Department revenues increased by $7.3 million to a total of $21.1 million.

The total number of positions budgeted is 301.50 FTEs, which is a decrease of 3.50 FTEs from FY 2025. This is due to a decrease in the number of hourly interns working under the Employ & Empower program in the Department.

Significant Budget Additions

<u>$4.8 million – Expenses Returned from the Infrastructure Fund</u>

As part of the FY 2025 budget mitigations, various operating costs for Stormwater totaling $4.8 million were transferred on a one-time basis to the Infrastructure Fund, which has no direct impact on the operations of the Department. Since this was done on a one-time basis, these expenditures have been returned to the General Fund in the Proposed Budget. As there is no required contribution to the Infrastructure Fund in FY 2026, the net impact to the General Fund should be minimal.

Significant Budget Reductions

Six General Fund reductions totaling $7.1 million are included in the Proposed Budget to help mitigate the General Fund's projected deficit. Most reductions will have significant

SUMMARY OF STORMWATER BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	305.00	$ 39,581,176	$ 23,825,306	$ 63,406,482	$ 13,773,750
Programmatic Changes					
Expenses Returned from Infrastructure Fund	-	-	4,799,562	4,799,562	-
Budget Mitigation - Refuse Disposal Fee Discount	-	-	(348,654)	(348,654)	-
Budget Mitigation - Rain Barrell Rebates	-	-	(541,222)	(541,222)	-
Budget Mitigation - Medium Priority Operations	-	-	(757,156)	(757,156)	-
Budget Mitigation - CIP Planning	-	-	(850,000)	(850,000)	-
Budget Mitigation - Medium Priority Compliance	-	-	(2,288,778)	(2,288,778)	-
Budget Mitigation - Low Priority Items	-	-	(2,299,689)	(2,299,689)	-
Parking Citation Revenue	-	-	-	-	3,040,413
Parking Reform Revenue	-	-	-	-	2,986,720
TOT Reimbursement	-	-	-	-	1,421,230
Other Changes					
Other Salaries & Wages	-	3,144,715	-	3,144,715	-
Fringe Benefits (Includes Retirement ADC)	-	1,521,194	-	1,521,194	-
Non-Discretionary Adjustments	-	-	786,844	786,844	-
Redistribution of Budget	-	(120)	120	-	-
Hourly Position Changes	(3.50)	(145,403)	-	(145,403)	(145,415)
Removal of One-Time Expenses from FY 2025	-	-	(895,532)	(895,532)	-
FY 2026 Proposed Budget	**301.50**	**$ 44,101,562**	**$ 21,430,801**	**$ 65,532,363**	**$ 21,076,698**
Difference from 2025 to 2026	***(3.50)***	***$ 4,520,386***	***$ (2,394,505)***	***$ 2,125,881***	***$ 7,302,948***

impacts to Stormwater's operations. The table below provides more detail on the impacts of these reductions.

<u>($2.3 million) – Budget Mitigation: Low Priority Items</u>
The largest budget mitigation action is the removal of $2.3 million for various low priority activities funded by the Department. These reductions include travel and training, Think Blue sponsorships of the San Diego Wave and December Nights, various supplies and materials, and funding for improvements to asset management databases and the Drainage Design Manual.

<u>($2.3 million) – Budget Mitigation: Medium Priority Compliance</u>
The next largest reduction is $2.3 million for medium priority items related to stormwater compliance activities. This includes:

- wetland mitigation and future channel clearing, which will prevent planning and preparation for the environmental mitigation necessary to continue clearing overgrown storm channels beyond FY 2027;
- water quality monitoring related to emerging regulations;
- watershed planning activities including trash cleanups with nonprofits, and consulting services that analyze and proposed comments on new regulations;
- consulting services for policy work related to investigative orders and analysis, technical support, and comments on new regulations;
- investigative work on pollution sources; and
- supplies and materials for both street sweeping (including parking enforcement) and code compliance teams.

Of these reductions, those related to wetland mitigation planning and channel clearing have the most downside. Without appropriate environmental planning, significant channel clearing activities may have to be slowed after FY 2027, which is likely to enhance flood risks in various areas of the City.

Stormwater Reductions Included in the Proposed Budget		
Reduction Category	**Activity**	**Expenditures**
Lower Priority Operations	*Travel and traing; Think Blue sponsorships, supplies and materials, asset management and design manual improvements*	*$ 2,299,689*
Medium Priority Compliance	*Subtotal*	*$ 2,288,778*
Medium Priority Compliance	Wetland Mitigation and Future Channel Clearing	633,000
Medium Priority Compliance	Water Quality Monitoring	600,000
Medium Priority Compliance	Watershed Planning Activities	400,000
Medium Priority Compliance	Policy Work for Investigative Orders and Regulations	500,000
Medium Priority Compliance	Pollution Investigations	100,000
Medium Priority Compliance	Supplies and Materials for Street Sweeping	39,678
Medium Priority Compliance	Code Enforcement	16,100
CIP Planning	*Drainage Master Plans and Pipe Assessments*	*$ 850,000*
Medium Priority Operations	*Subtotal*	*$ 757,156*
Medium Priority Operations	Maintain Channel Maintenance	556,906
Medium Priority Operations	Asset Management Digitization	100,000
Medium Priority Operations	Pipe Repair Supplies	65,250
Medium Priority Operations	Dig Alert Program	35,000
Rain Barrell Rebates	*Reductions for staff time and rebates*	*$ 541,222*
Refuse Disposal Fee Discount	*Citywide reduction for General Fund*	*$ 348,645*
Total Reductions		**$ 7,085,490**

($850,000) – Budget Mitigation: CIP Planning

This mitigation stops work on conceptual planning for new CIPs and master plans unless that work can be completed in-house. In-house teams are already focused on WIFIA projects[1], and may lack capacity and expertise for additional CIP planning efforts. Without sufficient planning for future projects, the ability to secure additional financing, such as additional rounds of WIFIA financing, may be impacted.

($757,000) – Budget Mitigation: Medium Priority Operations

This reduction is focused on various operational activities. In large part, this reduction will decrease channel maintenance levels, which will require additional resources for future clearing activities and environmental mitigations in subsequent fiscal years. Other impacts include reductions in supplies for Stormwater operations teams and software that supports asset management.

($541,000) – Budget Mitigation: Rain Barrel Rebates

This reduction will end the City's Rainwater Harvesting and Turf Conversion rebate programs. Half of this funding is required to reimburse the Public Utilities Department for staff time to administer the program, while the remainder is for the rebates themselves. Staff are currently seeking a grant to cover these costs.

($349,000) – Budget Mitigation: Refuse Disposal Fee Discount

The Proposed Budget includes a one-time discount for refuse deposited at the Miramar Landfill. In total, this reduction will save the General Fund $800,000 across multiple departments. Further detail on the impact of this reduction can be found in the *Environmental Services* section.

Significant Revenue Adjustments

Total revenue for the Department in the Proposed Budget increased by $7.3 million, which is derived from three separate revenue adjustments.

$3.0 million – Parking Citation Revenue Increase

The largest increase is for parking citation revenue, specifically related to street sweeping violations. This increase is associated with citation increases approved by Council as part of the FY 2026 Comprehensive User Fee Study.

$3.0 million – Parking Meter Reforms

This increase is based on pending parking meter reforms which have not yet been approved by Council. Proposed changes such as extended hours, Sunday hours, and special event pricing, are anticipated to generate more revenue for activities that take place within existing parking zones. This reimbursement, specific to street sweeping activities, is a large increase from the prior $0.9 million in revenue.

Our Office notes that this new and higher amount of revenue may not be able to be absorbed through street-sweeping alone, as currently proposed. We will work with the Department of Finance to ensure that parking meter revenue is maximized for General Fund reimbursement.

$1.4 million – TOT Reimbursement

The final revenue adjustment is an increase of $1.4 million from the Transient Occupancy Tax (TOT) Special Promotional Programs fund for street sweeping, resulting in a total transfer of $3.0 million in FY 2026.

Additional Reduction Proposals

Due to the City's fiscal condition, the Stormwater Department did not request many

[1] WIFIA: Water Infrastructure Finance and Innovation Act. This is a federal loan program where the EPA will provide up to a 49% match for infrastructure financing. The total program for Stormwater is $733 million, with $349 million in loans being provided by the federal government.

needed resources.

Stormwater also offered various other reductions to meet a 20% reduction target based on the FY 2025 Adopted Budget. Reductions *not* taken total $6.7 million, as shown in the table on the next page.

Stormwater Reduction Proposals *Not* Included in Proposed Budget	
Reduction Category	**Expenditures**
High Priority Compliance	$ 1,994,898
PUD Funded Activities	1,554,140
High Priority Channels	1,190,219
Regional MOU Compliance	1,070,000
High Priority Pump Stations	327,000
Basic Think Blue	320,000
High Priority Strom Drains	269,000
Total	**$ 6,725,257**

Despite this, the Stormwater Department remains significantly underfunded compared to its total infrastructure and water quality compliance needs. Outstanding major needs include levee maintenance, green infrastructure maintenance, channel clearing and maintenance, structure repairs, trash capture devices, and a third pipe repair team. More context on what drives these needs is provided in the next section.

Issues for Council Consideration

Storm Water Permit Compliance

In May 2012, the Municipal Storm Water Permit (permit) was adopted by the RWQCB. This permit mandates stringent regulations which require a significant increase in expenditures over the next several decades to ensure compliance.

In FY 2014, the Department prepared a Watershed Asset Management Plan (WAMP) that incorporated both the costs of permit compliance and the costs of flood risk management activities. The WAMP is used as a planning tool to project how much funding is necessary for permit compliance, including costs associated with TMDLs, Areas of Special Biological Significance, upcoming compliance deadlines, the deferred capital backlog, and the Department's operational activities. As part of the lead up to release of the Funding Strategy report in January 2021, the WAMP underwent an extensive update.

<u>Financing Difficulties</u>

Total WAMP compliance cost estimates through FY 2042 total almost $10.9 billion. This includes $2.0 billion for flood risk management and other existing stormwater infrastructure needs, and $8.9 billion for water quality compliance needs. The City lacks a dedicated revenue source to cover these costs.

While Stormwater received significant additional operating resources in FY 2023, funding is still not at levels envisioned by the WAMP. The Proposed Budget for stormwater activities totals $72.5 million, which includes $65.5 million from the General Fund, plus another $7.0 million from the Environmental Growth Fund for wetland mitigation. This is $141.4 million below the $213.9 million in operating funding called for in the WAMP.

There is also a projected $3.7 billion stormwater infrastructure deficit projected in the last Five-Year CIP Outlook, despite additional funding associated with Stormwater's WIFIA program. The FY 2026 Proposed Budget also contains $48.8 million for the Stormwater CIP beyond the WIFIA program, all of which is General Fund Debt Financing. However, the vast majority of this funding ($39.0 million) is for emergency projects and very high-risk projects, which are costs that are not captured by the WAMP or included within the CIP Outlook.

<u>Emergency Repairs</u>

Emergency repairs have been a growing concern for a number of years, requiring $206.6 million over the last seven years. These projects rely heavily on debt financing, which is also needed for the both the WIFIA program and other General Fund assets. Emergencies are particularly disruptive, because emergency contracts can only address immediate problems, and cannot provide for larger, systemic fixes. Reducing emergencies is a major goal, but limited resources make this difficult. Stormwater emergencies are further discussed in the *Key Citywide Issues: Infrastructure Funding Needs* and *Capital Improvement Program* sections earlier in this report.

Compliance Deadlines

The Department faces numerous upcoming compliance deadlines as well, including a potential sediment abatement order in the San Diego Bay, a deadline to install about 1,500 trash capture devices by 2030, and the Wet Weather Bacteria TMDL compliance deadline in 2031.

The City fell out of compliance with the Dry Bacteria TMDL in April 2021, but an ongoing time schedule order (TSO) brought the City temporarily back into compliance. While the TSO is helping the City comply with regulatory deadlines, it also required the City to spend additional money during the last two years. Future noncompliance with these orders and deadlines may lead to penalties of up to $10,000 per day per violation.

As future deadlines approach, the Department should comment on its ability – or lack thereof – to continue to meet compliance requirements, rectify noncompliant orders, and avoid fines or additional investigative order tasks like the TSO, given existing funding constraints.

Potential Storm Water Funding Measure

The City continues to lack a dedicated funding source sufficient to address the full costs of compliance detailed in the WAMP.

In response to an audit recommendation and previous IBA reports, the Stormwater Department released an initial Funding Strategy in 2021, which included a comprehensive assessment of stormwater needs and an initial analysis on various funding mechanisms the City could pursue. An important conclusion of this Funding Strategy is that the City will likely need to seek a ballot measure to increase fees related to the stormwater system.

Following Council approval of the document, the Department began working on a proposed ballot measure that would have created a dedicated stormwater funding mechanism. That work included designing a measure, determining how much revenue it would generate, and seeking public feedback to see if it was viable. In February 2022, the Department presented a potential ballot measure which focused on the creation of a tax on properties in the City at a rate between 4 to 5 cents per square foot of impermeable surface. Such a measure would have cost the typical single-family residence between $10 and $14 per month and generated between $74 million to $93 million per year for stormwater activities. Currently, the City's storm drain fee costs single family residences less than $1 per month and generates approximately $5.7 million annually.

Following the January 22, 2024 storms, a stormwater funding measure was brought forward to the Rules Committee, and our Office furnished background information, provided preliminary fiscal and operational analyses of the proposal. As drafted, the ordinance being considered would have required approval by two-thirds of the voters. Ultimately, no stormwater measure was placed in the November 2024 ballot.

Ensuring appropriate funding is available for Stormwater will become more important in future years, as the debt service payments on capital financing such as the WIFIA program come due. Based on the estimate provided when the WIFIA program was approved, total annual repayments for the program could be as high as $35 million (repayment for both WIFIA loans and matching lease revenue bond repayments) starting in FY 2029.

Significantly more revenue will be required to decrease Stormwater's compliance and capital funding gap. The City has many needs that cannot be fully supported by existing revenue, and the need to establish a funding source that can provide for those needs – including clear regulatory demands like those for Stormwater – is critical.

Transportation

The Transportation Department operates and maintains assets within the City's right-of-way, including streets, sidewalks, streetlights, traffic signals, and street trees; plans and coordinates the activities of other entities within the City's rights-of-way, including public and private utilities; and performs traffic and transportation engineering. The Department has four main divisions: Administration, Right-of-Way (ROW) Management, Street, and Transportation Engineering Operations (TEO).

In addition to the General Fund, the Department receives operating and Capital Improvement Program (CIP) funds from various sources, including the Underground Surcharge Fund, the Gas Tax, the Road Maintenance and Rehabilitation Act (RMRA) Fund, and TransNet. This Department Review will also provide an overview of those funds and significant programmatic changes.

General Fund

Impact of the Mayor's FY 2026 Proposed Budget

The FY 2026 Proposed General Fund Budget for Transportation is $120.1 million, an increase of $16.4 million (15.8%) over the FY 2025 Adopted Budget. The total number of positions for the Department is 515.44, which is an increase of 6.10 FTEs.

Significant Budget Additions

$6.8 million – Expenses Returned from the Infrastructure Fund

As part of the FY 2025 budget mitigations, $6.8 million in Transportation Department operating expenditures were transferred to the Infrastructure Fund on a one-time basis. Additionally, $4.3 million in one-time revenue was transferred into the Department to support personnel expenditures. Neither adjustment

SUMMARY OF TRANSPORTATION GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	509.34	$ 63,092,531	$ 40,648,783	$ 103,741,314	$ 71,643,449
Programmatic Changes					
Expenses Returned from the Infrastructure Fund	-	-	6,805,419	6,805,419	(4,293,109)
Transfer of Parking and Curb Management from Sustainability & Mobility	5.00	1,215,013	50,163	1,265,176	293,445
Air Pollution Control District Settlement	-	-	209,018	209,018	-
Budget Mitigation - Refuse Disposal Fee Discount	-	-	(164,736)	(164,736)	-
Budget Mitigation - Traffic Cabinet Replacements	-	-	(350,000)	(350,000)	-
Budget Mitigation - Tree Planting	-	-	(362,149)	(362,149)	-
CIP Support for Mill and Pave Teams	-	-	-	-	9,083,280
Parking Meter Reform Revenue	-	-	-	-	6,853,280
Gas Tax Revenue Changes	-	-	-	-	622,132
Parking District Administration	-	-	-	-	125,000
User Fee Adjustments	-	-	-	-	17,724
QECB Revenue	-	-	-	-	(35,584)
Urban Forestry Grant	-	-	-	-	(294,380)
TransNet Revenue Changes	-	-	-	-	(632,888)
Other Changes					
Other Salaries & Wages	-	5,792,979	-	5,792,979	-
Fringe Benefits (Includes Retirement ADC)	-	2,956,842	-	2,956,842	-
Hourly Personnel Adjustments	1.10	93,654	-	93,654	65,067
Non-Discretionary Adjustments	-	-	399,700	399,700	-
Removal of One-Time FY 2025 Items	-	-	(266,563)	(266,563)	-
FY 2026 Proposed Budget	**515.44**	**$ 73,151,019**	**$ 46,969,635**	**$120,120,654**	**$ 83,447,416**
Difference from 2025 to 2026	***6.10***	***$ 10,058,488***	***$ 6,320,852***	***$ 16,379,340***	***$ 11,803,967***

had a direct impact on Department operations. Since these adjustments were done on a one-time basis, expenditures have returned to the General Fund, and one-time revenues were removed from the Department's FY 2026 budget. As there is no required contribution to the Infrastructure Fund in FY 2026, the net impact to the General Fund is minimal.

$1.3 million, 5.00 FTEs – Transfer of Positions from Sustainability and Mobility

This increase is associated with the transfer of the Parking and Curb Management team from the former Sustainability and Mobility Department to Transportation. This is one of the many transfers occurring due to the dissolution of the Sustainability and Mobility Department.

Notably, this transfer also reflects the reduction of 1.00 FTE and $170,000 for a program coordinator for the parking districts. This position was deemed no longer necessary due to decreased demands on staff time, with the remaining responsibilities distributed among the remaining staff.

$209,000 – Air Pollution Control District Settlement Funding

This is a one-time increase of $209,000 related to a settlement agreement with the Air Pollution Control District (APCD). This settlement was agreed to in FY 2023 and requires the City to spend $4.7 million over five years on tree planting, watering, and outreach. FY 2026 should be the last year with significant tree planting with only ongoing costs for watering into the future.

Significant Budget Reductions

($362,000) – Budget Mitigation: Tree Planting

The largest reduction is $362,000 for tree planting activities. Currently, the Department has funding available for tree planting through both the APCD settlement and a federal grant. Both of those programs are limited to specific communities. With this reduction, there will be no tree planting outside of those communities in FY 2026.

This funding would have been used to plant approximately 1,000 trees. This is an ongoing reduction, as opposed to the one-time reduction budgeted FY 2025. Notably, the FY 2025 reduction was almost $200,000 higher than the proposed FY 2026 reduction.

($350,000) – Budget Mitigation: Traffic Cabinet Replacements[1]

The other significant proposed reduction is $350,000 for traffic cabinet replacements. Starting in FY 2023, Transportation received funding that allows for the replacement of 160 traffic cabinets per year, with the goal of replacing every traffic cabinet in ten years. FY 2025 included a one-time reduction of $700,000, which reduced the number of traffic cabinet replaced in FY 2025 from 160 to 80. This reduction is proposed as ongoing, though it would leave $350,000 more in funding for traffic signal supplies than what was available in FY 2025.

($165,000) – Budget Mitigation: Refuse Disposal Fee Discount

The Proposed Budget includes a one-time discount for refuse deposited at the Miramar Landfill. In total, this reduction will save the General Fund $800,000 across multiple departments. Further detail on the impact of this reduction can be found in the *Environmental Services* section.

Significant Revenue Adjustments

In place of expenditure reductions, Transportation proposed a number of revenue adjustments to help mitigate the overall deficit. Major revenue adjustments proposed by Transportation are described below.

$9.1 million – CIP Support for Mill and Pave Teams

The largest revenue increase is $9.1 million to

[1] A traffic signal cabinet houses the control equipment at an individual intersection.

support the Department's Mill and Pave Teams. This amount would come from the CIP budget for road repaving. Currently, Mill and Pave teams are budgeted to do 10 miles worth of work, billable to the CIP. This proposal would increase that to 30 miles per year, while keeping the expenditure levels the same.

Having in-house teams completing repaving work could be beneficial, as in-house teams are currently completing work at lower per mile costs than contractors. In-house teams can also focus on the worst conditioned roads and be deployed flexibly depending on need and pavement conditions.

However, it is worth noting that this is projected to be a threefold increase in the output of the teams. Prior to FY 2025, there was only one mill & pave team within Transportation. The FY 2025 budget added two additional teams with most positions hired prior to the imposition of the Request to Fill process. This has tripled Transportation's ability to repave streets utilizing in-house staff.

With this budget arrangement, however, there are two potential issues. The first is that with this level of assumed reimbursement, these teams will have to focus almost exclusively on completing reimbursable repaving work. Some of the benefit of having in-house capabilities is that they can be maneuvered around to specific hotspots or provide specific work on poor and failed streets that would otherwise be more expensive to fix through the use of contractors.

The other potential issue is that with limited repaving funding provided in FY 2026 (see more detail later in this section), more funding needs to be dedicated to the mill & pave teams as opposed to contracts to provide for either specific overlay groups or as gap financing for resurfacing that is part of other bundled CIP projects.

Council should ask Transportation how it plans to manage the Mill and Pave Teams in FY 2026 given the need to maximize CIP reimbursement, and how this level of CIP reimbursement will impact what streets are repaved as part of the annual allocation within the CIP.

<u>$6.9 million – Parking Meter Reform</u>
The next largest increase is for increased revenue associated with approved and proposed parking meter rate increases. The majority of this revenue is derived from the recent increase in parking meter rates from $1.25 to $2.50 an hour. More information is provided in the *Department Review: City Treasurer* section of this report.

Historically Transportation has had more expenditures eligible for reimbursement from parking meter revenue than there has been available revenue, but moving forward our Office is concerned that projected revenue may exceed existing eligible Transportation Department expenditures. We will continue to work with the Department of Finance to ensure that parking meter revenue is maximized for General Fund reimbursement. If the General Fund is not able to absorb all of this revenue, there is the potential to use this revenue for other Transportation projects within the right-of-way within the parking meter zones, including pedestrian and other safety related improvements.

<u>$622,000 – Gas Tax Revenue Adjustments</u>
Overall reimbursements to the General Fund from Gas Tax disbursements are increasing by $622,000 in FY 2026. This is made up of an ongoing increase of $1.1 million, offset by a decrease of $494,000 in one-time FY 2025 revenue adjustments. Further discussion of Gas Tax Revenue is provided below under *Issues for Council Consideration*.

<u>($633,000) – TransNet Revenue Adjustments</u>
Overall, TransNet revenue is decreasing by $633,000 in FY 2026. This is due to an increase in ongoing revenue by $1.2 million, offset by a $1.8 million decrease in FY 2025

Transportation Proposed Reductions *Not* Inlcuded in the Proposed Budget					
Programmatic Addition	**FTE**	**PE**	**NPE**	**Total**	**Revenue**
Traffic Operations	17.00	$ 3,730,079	$ -	$ 3,730,079	$ 3,787,231
Mulimodal Team	12.00	2,294,549	-	2,294,549	708,003
Transportation Systems Oversight	4.00	775,277	-	775,277	671,558
Code Compliance	2.00	291,738	-	291,738	-
Tree Maintenance	-	-	1,334,932	1,334,932	-
Weed and Brush Abatement	-	-	814,000	814,000	-
Graffiti Abatement	-	-	600,000	600,000	-
Traffic Signals Cabinets	-	-	350,000	350,000	-
Totals	**35.00**	**$ 7,091,643**	**$ 3,098,932**	**$ 10,190,575**	**$ 5,166,792**

one-time revenues. Further discussion of TransNet Revenue is provided under *Issues for Council Consideration*.

Issues for Council Consideration

Reductions Not Included in the Proposed Budget

For the FY 2026 Proposed Budget, the Transportation Department was requested to submit budget reduction proposals totaling 10% of its FY 2025 Adopted Budget. Transportation submitted numerous potential reductions that were *not* included in the Proposed Budget. The table on this page presents those proposed reductions.

The largest net reduction proposed was the reduction of the multimodal engineering team. This team supports CIP projects, with a specific focus on bikeways and striping. This reduction, if implemented, would have led to no new miles of new or improved bikeways in FY 2026.

Two smaller reductions also contained positions. The first was for the Transportation Systems Oversight team, which applies for grants and oversees the bridge inspection and maintenance program. Removing this team would result in the loss of both of those functions. The elimination of two Code Compliance positions was also proposed, which would have reduced the number of officers from five to three and resulted in fewer illegal trenching, graffiti, and vegetation encroachment investigations.

Other proposed reductions included various non-personnel expenditures such as:

- $1.3 million reduction for tree trimming which would have eliminated proactive tree trimming for both palms and shade trees.
- $814,000 for weed abatement, which would have reduced the amount of abatement in public spaces by half.
- $600,000 for graffiti abatement, which would have removed funding for abatement on residential properties.
- $350,00 for traffic signal cabinets, which would have doubled the reduction already taken.

Potential Underfunding for Transportation Operations and Service Level Impacts

In recent years, Transportation has been underfunded, hindering its ability meet its performance goals, in particular with respect to sidewalks, streetlights, potholes, and road repaving. This is evident in Department's Key Performance Indicators, shown in the table below, where sidewalk repairs and functioning streetlights fall short of targets.

To address service demands and prevent further KPI declines, Transportation has increasingly relied on overtime. In FY 2024, the

Performance Measure	Baseline	FY 2024 Performance	FY 2025 Performance	Goal
Citywide Pavement Condition	63	63	65	70
Total Sidewalk Locations Repaired Compared to Total Need	4%	5%	10%	100%
Average Number of Days to Abate Graffiti in the Right-of-Way	7	3	2	3
Percentage of Streetlights Functioning Correctly	88%	90%	88%	100%

Department's overtime was budgeted at $1.3 million, and Transportation incurred $5.4 million in actual overtime expenses. The FY 2025 budget for Transportation overtime was not increased; as of the Mid-Year Budget Monitoring Report, Transportation is projected to spend $4.6 million even after a freeze for the remainder of the year. The FY 2026 Proposed Budget again provides no additional overtime funding.

Beyond overtime, the Department has also incurred additional costs for vehicle rentals, supplies, security services, and other costs to maintain service levels. While the FY 2026 Proposed Budget attempts to improve the ability to procure additional vehicles through the Department of General Services, other budgetary overages remain unaddressed.

Given lower citywide vacancy savings and excess equity projections, when Transportation overspends on overtime and other costs it must reduce spending on other services. This normally comes at the cost of services funded through contracts - including tree trimming, weed abatement, and graffiti abatement for private properties - which in turn degrades the service levels for those activities. The FY 2025 Mid-Year Budget Monitoring Report indicated such service reductions will need to take place to balance for the current fiscal year.

Council should ask Transportation how funding in the Proposed Budget will impact service levels for the maintenance of various assets, including sidewalks, streetlights, and potholes, as well as service levels that are funded by contracts such as trees, weeds, and graffiti. Additionally, Council should ask how the Department prioritizes its operations when increased needs in one area require reduced spending in others.

Street Repaving Program

Street repaving continues to be a high priority for the Council and public. Since street repaving is an activity that spans many funds across both the CIP and operating budget (overlay is in the CIP, and slurry seal is in the operating budget), our Office compiled a summary of the street repaving budget and changes between the FY 2025 Adopted Budget and the FY 2026 Proposed Budget, displayed on the table below.

ROAD REPAVING ALLOCATIONS		
Slurry Seal		
Funding Source	**FY 2025**	**FY 2026**
GF/Infrastructure/Other	$ 10,366	$ -
RMRA Fund	36,113,918	36,347,892
Total New Appropriations	**$ 36,124,284**	**$ 36,347,892**
Overlay/Reconstruction		
Funding Source	**FY 2025**	**FY 2026**
Financing	$ 85,997,149	$ 26,873,918
TransNet Fund	16,117,852	17,499,642
Trench Cut Fund	2,470,000	2,470,000
Total New Appropriations	**$ 104,585,001**	**$ 46,843,560**

For slurry seal, there is a small net increase in total new appropriations in FY 2026, although funding sources remain mostly unchanged. Funding from the Road Maintenance and Rehabilitation Act (RMRA) continues to be the primary source of funding. Notably, the continuing appropriation for slurry seal continues to be low as Transportation has focused on completing repaving miles during the year in which funding is appropriated.

For overlay projects, the FY 2026 Proposed Budget includes dramatically reduced funding levels. While TransNet spending has increased, the amount of available financing for road repaving drops over $59.1 million. Additionally, since TransNet funding overall is projected to decrease in FY 2026, the funding for other Transportation CIP projects has also declined.

Both these amounts are well below the funding levels called for in the Pavement Management Plan. The underfunding is approximately $60 million for slurry seal and other maintenance projects, and $116 million for overlay. This will result in either the continued deterioration of the roadway network or the need for even greater additional resources in the future, as described in the most recent update to the Pavement Management Plan.

Transportation Fund Allocations

The table below provides a summary of various transportation related funds, as well as a comparison of the programmatic activities that they support.

TRANSPORTATION FUNDS		
Gas Tax	**FY 2025**	**FY2026**
Fund Admin	$ 66,250	$ 66,250
Street Median Maintenance	1,278,509	1,672,628
Traffic Engineering Support	6,813,920	6,813,920
Streets Maintenance	26,510,970	27,133,102
MADs	1,749,194	1,838,168
Streets Crack Seal/Traffic Loop Replacement	1,800,000	1,800,000
Total	**$ 38,218,843**	**$ 39,324,068**
RMRA	**FY 2025**	**FY2026**
Streets Slurry Seal	$ 36,113,918	$ 36,347,892
TransNet	**FY 2025**	**FY2026**
RAMS	$ 67,600	$ -
Fund Administration	471,300	462,680
Traffic Engineering Support	5,500,000	5,500,000
Bikes and Signals	750,000	300,000
Streets Maintenance	14,364,610	13,741,596
Bike STAT Team	1,100,000	1,100,000
CIP Projects	25,243,490	25,163,724
Total	**$ 47,497,000**	**$ 46,268,000**

RAMS: Regional Arterial Management System

Notable changes in the programmatic funding associated with these funds include:

- Overall Gas Tax funding increasing by $1.1 million, with a majority of this funding going to support Streets Maintenance (General Fund reimbursement). Other increases include additions for Street Median Maintenance and a small increase for Maintenance Assessment Districts.
- Overall TransNet revenues are projected to decrease by $1.2 million, with notable decreases for Streets Maintenance and Bikes and Signals support.
- RMRA funds are anticipated to increase, with the entirety of appropriations proposed for slurry seal, consistent with prior years for the funding source.

Many of these funds can be utilized for a variety of activities within the right-of-way, including General Fund reimbursement for maintenance activities, funding for paving and other capital projects, or specific projects. While funding from these sources alone is not sufficient to *fully* support most needs, tracking funding amounts is important to allow Council input on which needs should be supported from those funds.

Underground Surcharge Fund

Impact of the Mayor's FY 2026 Proposed Budget

The Underground Surcharge Fund collects fees from electricity rates for the purpose of undergrounding electric utility lines. The FY 2026 Proposed Budget for the Underground Surcharge Fund includes $80.1 million in expenditures and 24.74 FTEs. This is an increase of $4.4 million from the FY 2025 Adopted Budget.

Revenues total $90.0 million, which is a decrease of $23.5 million from FY 2025. This decrease in franchise fee revenue is due to the same factors that are contributing to decreased Franchise Fee revenue in the General Fund. For more information, refer to the *General Fund Revenues Overview* section.

The only significant expenditure increase is $7.8 million to increase the proposed appropriation to what the Department expects to expend within the next year.

SUMMARY OF UNDERGROUND SURCHARGE FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2025 Adopted Budget	24.74	$ 3,979,841	$ 71,753,510	$ 75,733,351	$ 113,511,838
Programmatic Changes					
Align Expenses with Expected Actuals	-	-	7,825,452	7,825,452	-
Revenue Adjustment Based on Franchise Fee	-	-	-	-	(23,510,271)
Other Changes					
Other Salaries & Wages	-	656,794	-	656,794	-
Hourly Wages	-	38,179	-	38,179	-
Removal of One-Time Expenditures from FY 2025	-	-	(4,704,600)	(4,704,600)	-
Non-Discretionary Adjustments	-	-	549,206	549,206	-
FY 2026 Proposed Budget	**24.74**	**$ 4,674,814**	**$ 75,423,568**	**$ 80,098,382**	**$ 90,001,567**
Difference from 2025 to 2026	***-***	***$ 694,973***	***$ 3,670,058***	***$ 4,365,031***	***$ (23,510,271)***

Other Departments

Office of Emergency Services

The FY 2026 Proposed Budget for the Office of Emergency Services (OES) is approximately $4.3 million, an increase of $493,000, or 12.7% from the FY 2025 Adopted Budget. Budgeted revenue totaling $1.4 million is a reduction of $250,000 from FY 2025.

The proposed expenditure increase is primarily due to a $764,000 increase in salary and benefit adjustments offset by a $258,000 reduction in personnel costs associated with the reduction of 2.00 vacant FTEs.

These positions, which include 1.00 Emergency Services Coordinator and 1.00 Senior Management Analyst, were previously grant funded through the Urban Area Security Initiative (UASI); however, given the regional decline in UASI funding, they will no longer be grant-supported. Rather than seeking General Fund support for these positions in FY 2026, the positions will be reduced to meet OES' budget reduction goal.

The Emergency Services Coordinator supports the Operations and Planning section of OES by assisting with updates and maintenance of emergency plans and policies and staffing the Emergency Operations Center (EOC); the Senior Management Analyst supports the Disaster Cost Recovery and Grants Management Section by assisting with post-disaster reimbursement of City expenditures and repair of damaged infrastructure.

Special Events and Filming

The FY 2026 Proposed Budget for Special Events and Filming is approximately $1.5 million, an increase of $9,500, or 0.6%, from the FY 2025 Adopted Budget. The increase is due to increases in fringe benefits, personnel, and non-discretionary costs. Those increases are almost entirely offset by the elimination of 1.00 filled Administrative Aide 2 position and reductions to the Department's contracts and IT budget.

In FY 2025, the Special Events and Filming Department had 6.00 FTE "non-hourly," standard hour positions. The reduction of 1.00 FTE represents a 16.7% reduction in staff and a $110,000 reduction in salary and fringe benefits.

Currently, the filled Administrative Aide 2 position provides clerical support for special event permitting, film permitting, the annual December Nights event, and timely processing of permit fees.

The Department states it will spread those responsibilities across the remaining 5.00 FTEs, which may result in permit processing delays for special events and filming, service reduction for December Nights, and payment processing delays.

Additionally, the FY 2026 Proposed Budget eliminates the Start Up Fund program, leading to reduced expenditures of $123,000, to help mitigate the projected FY 2026 deficit. This program was created in FY 2024, with the intention of promoting the creation of new events in communities of concern. However, the program was never initiated due to a lack of ongoing revenue and adequate staffing.

The Special Events and Filming Department is funded with TOT funds and is budgeted in Special Promotional Programs. Additional information on Special Promotional Programs funding is included in the *Department Review: Special Promotional Programs* section of this report.