



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2025 Year-End Financial Performance Report

OVERVIEW

The [FY 2025 Year-End Financial Performance Report](#) (Year-End Report) was issued on October 8, 2025. The Year-End Report compares revenue and expenditure projections reported in the [FY 2025 Third Quarter Budget Monitoring Report](#) (Third Quarter Report) to unaudited actual revenue and expenditure activity for July 1, 2024 through June 30, 2025.

Our Office's review of the Year-End Report highlights changes in General Fund revenues and expenditures and reviews the status of the General Fund Reserve and Excess Equity,¹ as well as the Development Services Fund and Reserve, providing additional context and updates on those items. Additionally, we provide a review of certain homelessness expenditures.

We note that changes in overall revenues and expenditures from the Third Quarter Report are moderate, with General Fund revenues coming in \$6.2 million higher (0.3%), and expenditures \$3.9 million lower (-0.2%) than third quarter projections. While this result is still projected to exhaust Excess Equity, it is now anticipated that drawing from the General Fund Reserve is no longer required largely due to several new budget mitigation measures. We discuss this further in the Excess Equity section of this report.

We also discuss changes as compared to the Adopted Budget, where revenues were \$5.0 million (-0.2%) less than budgeted, and expenditures were \$15.6 million (0.7%) higher. The largest expenditure overage was in overtime, especially in Fire-Rescue and Police as discussed further in the report.

¹ Excess Equity is described in the City's [Reserve Policy](#) as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from increases to General Fund revenues and/or General Fund expenditures that come in under-budget during any given fiscal year.

FISCAL & POLICY DISCUSSION

GENERAL FUND REVENUES

Changes in overall General Fund revenue projections throughout FY 2025 were moderate. In FY 2025, the General Fund ended the year at \$2.07 billion in revenue. This was \$6.2 million, or 0.3%, more than projected in the third quarter, but \$5.0 million, or -0.2%, less than what was originally anticipated in the Adopted Budget. However, compared to the previous year, unaudited revenue for FY 2025 was \$40.7 million, or 2.0%, greater than the audited actual revenue for FY 2024.

More significant variances were seen within the Major General Fund Revenues and Departmental Revenues categories. Major General Fund revenue sources (property tax, sales tax, Transient Occupancy Tax, franchise fees, and others) ended FY 2025 at \$1.55 billion, a \$47.4 million, or -3.0%, decrease from the Adopted Budget projection. The variance is almost entirely attributable to sales tax and franchise fee revenue coming in significantly lower than budgeted. However, the unrealized revenue from sales tax and franchise fees was offset by a \$42.4 million, or 8.9%, increase in departmental revenue above the Adopted Budget primarily due to lease revenue of City-owned property and transfers to the General Fund from the Fire/EMS Transport Program Fund, Police Department, and Transportation Department.

Comparing year over year, property tax revenue maintained steady growth, while sales tax and Franchise Fee revenue declined and Transient Occupancy Tax revenue was relatively flat. Additional details are provided in the sections below.

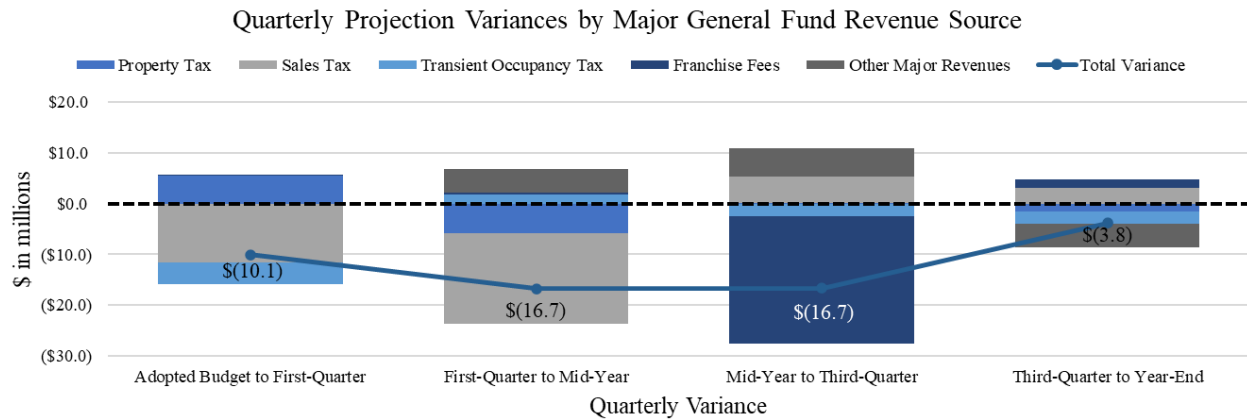
General Fund Revenue Projections by Quarter (\$ in millions)							
FY 2025	Adopted Budget	First Quarter Projection	Mid-Year Projection	Third-Quarter Projection	Year-End Performance	Variance: Adopted to Year-End	Variance: Third Quarter to Year-End
Property Tax	\$ 808.9	\$ 814.4	\$ 808.5	\$ 808.7	\$ 807.1	\$ (1.8)	\$ (1.6)
Sales Tax	393.5	381.8	364.1	369.2	372.3	(21.2)	3.1
Transient Occupancy Tax	172.8	168.7	170.4	168.0	165.6	(7.2)	(2.3)
Franchise Fees	121.9	122.1	122.5	97.4	99.0	(22.9)	1.6
Other Major Revenues	100.6	100.6	105.3	110.9	106.3	5.7	(4.6)
Major Revenues	\$ 1,597.7	\$ 1,587.5	\$ 1,570.8	\$ 1,554.1	\$ 1,550.3	\$ (47.4)	\$ (3.8)
Departmental Revenues	478.8	478.8	486.1	511.2	521.2	42.4	10.0
Total	\$ 2,076.5	\$ 2,066.4	\$ 2,056.9	\$ 2,065.3	\$ 2,071.5	\$ (5.0)	\$ 6.2

Note: Table may not total due to rounding.

As shown in the table above and illustrated in the chart below, Major General Fund Revenue projections decreased each quarter due to actual revenue coming in less than expected.

- From the Adopted Budget to the First-Quarter projection, revenue decreased by \$10.1 million due to sales tax;
- From the First-Quarter projection to the Mid-Year projection, revenue decreased by \$16.7 million due to sales tax;

- From the Mid-Year projection to the Third-Quarter projection, revenue decreased by \$16.7 million due to franchise fees; and
- From the Third-Quarter projection to the Year-End actuals, revenue decreased by \$3.8 million due to other major revenue.



Property Taxes

Property tax revenue ended FY 2025 at \$807.1 million, a decrease of \$1.6 million, or -0.2%, from the Third-Quarter Report.² The decrease is a result of lower-than-expected revenue from the 1.0% of assessed property value under Proposition 13 and increases in property tax appeal refunds for commercial properties under Proposition 8. Our Office will closely monitor decreases in commercial property tax revenue recently resulting from valuation appeal refunds which refunds property tax paid when a property's market value falls below its assessed value. These decreases were partially offset by higher-than-expected revenue from the Redevelopment Property Tax Trust Fund (RPTTF) that came to the City at the beginning of June 2025, after the Third-Quarter Report was released.

The unaudited FY 2025 actuals ended the year \$36.3 million, or 4.7%, above the FY 2024 audited actuals. The largest increases came from the 1.0% of real and secured property, Motor Vehicle License Fees, and RPTTF residual tax sharing.

Sales Taxes

As illustrated in the above chart, sales tax revenue projections trended below the Adopted Budget in the First-Quarter and Mid-Year projections. FY 2025 sales tax revenue ended the year at \$372.3 million which was \$3.1 million, or 0.8%, above the Third-Quarter report. Growth in the last quarter of FY 2025 was driven by increases in casual dining and online purchases. However, sales tax revenue was \$21.2 million, or -5.4%, below the Adopted Budget which had assumed growth in revenue from FY 2024 when it declined instead.

Sales tax actuals for FY 2025 were \$4.7 million, or -1.2%, lower than the previous fiscal year, marking the second consecutive fiscal year of decline. The largest industries driving the decrease

² FY 2025 property tax revenue reflects real estate activity though calendar year 2023.

in sales tax revenue this year were business and industry, food and drugs, and fuel and service stations. These industry specific declines are likely the result of health and medical institutions not making as many larger one-time equipment purchases and consumers spending less at the grocery store and gas station.

Transient Occupancy Taxes

The General Fund portion of the Transient Occupancy Tax (TOT) ended the year at \$165.6 million, which was \$2.3 million, or -1.3%, below the projection in the Third-Quarter report. Additionally, General Fund TOT actuals were \$7.2 million, or -4.2%, below the assumption in the Adopted Budget. FY 2025 unaudited actuals were \$1.9 million, or 1.1%, above the FY 2024 audited actuals as compared to the 5.9% growth rate assumed in the Adopted Budget.

As shown in the table below, the portion of TOT directed to the TOT Fund to support promotional activities in the City ended the year at \$149.9 million which was \$1.4 million below the Third Quarter projection and \$5.9 million below the Adopted Budget.

Transient Occupancy Tax Revenue (\$ in millions)							
FY 2025	Adopted Budget	First Quarter Projection	Mid-Year Projection	Third-Quarter Projection	Year-End Performance	Variance: Adopted to Year-End	Variance: Third Quarter to Year-End
General Fund Allocation (5.5%)	\$ 172.8	\$ 168.7	\$ 170.4	\$ 168.0	\$ 165.6	\$ (7.2)	\$ (2.3)
Transient Occupancy Tax Fund (5.0%)	155.8	151.9	153.5	151.3	149.9	(5.9)	(1.4)
<i>Special Promotional Programs (4.0%)</i>	<i>124.6</i>	<i>121.5</i>	<i>122.8</i>	<i>121.1</i>	<i>119.9</i>	<i>(4.7)</i>	<i>(1.2)</i>
<i>Council Discretionary (1.0%)</i>	<i>31.2</i>	<i>30.4</i>	<i>30.7</i>	<i>30.3</i>	<i>30.0</i>	<i>(1.2)</i>	<i>(0.3)</i>
Total	\$ 328.6	\$ 320.5	\$ 324.0	\$ 319.3	\$ 315.5	\$ (13.1)	\$ (3.8)

Note: Figures may not sum due to rounding.

The relatively flat growth of TOT revenue can be attributed to softer revenue in the summer months, less business travel hotel stays, less and shorter leisure travel hotel stays (particularly among middle-income households), and declines in revenue per available room (RevPAR). These indications may be a result of consumers being more cost conscious with limited disposable income during a period of economic uncertainty and persistent inflation.

Franchise Fees

Franchise Fee revenue ended the year at \$99.0 million which was \$1.6 million, or 1.3%, above the third quarter projection, primarily because of increases in the facility franchise fee payments from the Sycamore Canyon Landfill.

The FY 2025 year-end actuals were \$22.9 million, or -18.8% below the Adopted Budget. As discussed in our Office's [review of the FY 2026 Proposed Budget](#), the decrease was from the SDG&E franchise fee which is a 3% surcharge on their total gross sales.

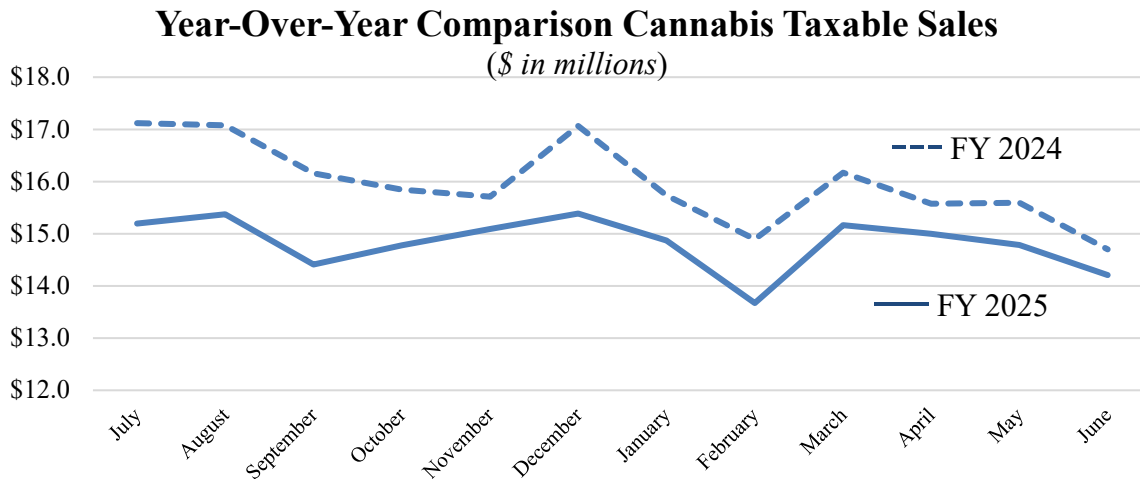
Other General Fund Revenues

Cannabis Business Tax

Unaudited year-end actuals for Cannabis Business Tax (CBT) revenue came in at \$16.7 million, which is \$2.7 million below the Adopted Budget but \$200,000 above third quarter projections.

This budgetary shortfall is primarily attributed to a continued decline in reported taxable gross receipts driven by increased competition from the illegal market and decreased wholesale prices due to an oversupply of cannabis products.

In May 2025, the CBT rate for cannabis retail outlets increased from 8% to 10%. According to the City Treasurer’s Office (CTO), it is currently unknown whether this tax increase will significantly impact actual sales. As shown in the figure below, taxable sales for cannabis in May and June, which were subject to the higher CBT rate, were comparable to the rest of the FY 2025 – although taxable sales were 3.4% to 5.2% lower than the same two months in the prior fiscal year. That said, the CTO indicated that the higher CBT rate, with all else being equal, resulted in approximately \$580,000 in additional CBT revenue – resulting in year-end revenues slightly above third quarter projections.



Looking at the past three fiscal years, CBT revenue has continued to decline. Despite efforts to improve budget forecasts, actual year-end revenues continued to fall below budgeted amounts. However, the variance between budgeted and actual year-end revenues narrowed each fiscal year.

FY 2023 – FY 2025 Cannabis Business Tax Revenue (\$ in millions)			
	FY 2023	FY 2024	FY 2025
Budget	\$ 25.7	\$ 21.4	\$ 19.4
Year-End Actuals	18.9	17.2	16.7
Variance	\$ (6.8)	\$ (4.2)	\$ (2.7)

Notably, the FY 2026 Adopted Budget included \$21.3 million for CBT revenue, which is about \$1.9 million above FY 2025 budgeted amounts and \$4.6 million above FY 2025 unaudited

actuals.³ Given the historical gap between budgeted and actual revenues, it is important to monitor CBT revenue throughout the fiscal year to ensure future budgets are aligned with actual trends.

Emergency Medical Services Fund Transfer

As a mitigation action to address the General Fund shortfall at year end, the transfer out from the Emergency Medical Services (EMS) Fund to reimburse the General Fund for eligible expenditures in FY 2025 totals \$15.2 million, which is an increase of \$6.0 million from the FY 2025 Third Quarter Report. With this transfer, the EMS Fund will end FY 2025 with \$8.4 million in fund balance. Based on projected revenues (\$131.8 million) and expenditures (\$137.7 million) budgeted in the FY 2026 Adopted Budget, including \$11.5 million to be transferred out to the General Fund, the EMS Fund is projected to end FY 2026 with \$2.9 million in remaining fund balance. This indicates that, while the EMS Fund should be able to support this level of transfer activity in FY 2025 and FY 2026, 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.

GENERAL FUND EXPENDITURES

The Year-End Report shows unaudited actual General Fund expenditures of \$2.18 billion, which is \$15.6 million higher than the FY 2025 Adopted Budget (a negative expenditure variance). This variance is 0.7% of the Adopted Budget, as shown in the following table. Note that our expenditure variance review uses the Adopted Budget as a base for comparison, whereas the Department of Finance uses third quarter projections as a base in its Year-End Report. Therefore, the figures in our tables are different than the variances reflected in the Department of Finance’s report.

FY 2025 General Fund Expenditures (\$ in millions)						
	Adopted Budget	Third Quarter Projection	Year-End Unaudited Actuals	Variance: 3rd Quarter to Year-End	Variance: Adopted to Year-End	Variance %: Adopted to Year-End
Salaries and Wages	\$ 925.7	\$ 961.9	\$ 961.1	\$ 0.8	\$ (35.4)	(3.8%)
Fringe Benefits	577.5	576.0	575.5	0.4	2.0	0.3%
Non-Personnel Expenditures (NPE)	657.7	642.5	639.9	2.6	17.8	2.7%
Total	\$ 2,160.9	\$ 2,180.4	\$ 2,176.5	\$ 3.9	\$ (15.6)	(0.7%)

Note: Figures may not sum due to rounding.

Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

Some of the most significant variances from the FY 2025 Adopted Budget are highlighted in the following sections, including expenditure increases that are partially offset by decreases.

Some of the largest expenditure increases from the Adopted Budget include:

- \$35.1 million in additional overtime, largely related to the Fire-Rescue and Police Departments – see the *Public Safety Overtime* starting on page 9

³ The FY 2026 Adopted Budget accounts for the increased Cannabis Business Tax rates for retail outlets, the extension of retail outlets’ operating hours by two hours, as well as the continued competition from the illegal market and oversupply of cannabis products.

- \$7.7 million in additional transfers to the Parks Improvement Funds resulting from increased Mission Bay lease revenues
- \$7.0 million in contractual expenses for the Parks and Recreation Department, primarily for enhanced security services at Children’s Park, Balboa Park, and Mission Bay Park and inflation adjustments to the San Diego Humane Society contract
- \$6.3 million in additional special pay⁴, largely related to the Fire Rescue and Police Departments
- \$4.8 million in contractual expenses for the Transportation Department, largely related to vehicle and equipment rentals due to delayed vehicle procurements.

The increased expenditures listed above are partially offset with other areas of decreased spending, including:

- \$10.0 million in contractual expenditures for the Homelessness Strategies and Solutions Department, primarily due to reduced security service costs, decreased expenditures from the San Diego Housing Commission driven by staff vacancies following multiple shelter closures and openings, and suspension of the Kettner & Vine shelter expansion
- \$6.7 million debt service savings largely due to the Capital Outlay and Infrastructure Funds covering a portion of the General Fund budgeted debt service; actual FY 2025 debt service for the 2024A issuance being lower than budgeted; and a delay in Stormwater WIFIA⁵ loan drawdowns until FY 2026
- \$5.5 million cost savings for the November 2024 election
- \$4.9 million in salary savings, primarily due to higher-than-expected vacancies and delays in filling positions including those resulting from mitigation measures during the fiscal year
- \$4.7 million in energy and utilities, including \$2.2 million for Environmental Services, which had \$1.2 million savings in natural gas costs

Salaries and Wages

Variances by Category

Being the largest variance component, the following table compares the FY 2025 unaudited actuals to the Adopted Budget for various salary and wage categories. The second column from the right shows that total salary and wage expenditures net to \$35.4 million greater than what was included in the FY 2025 Adopted Budget (shown as a negative spending variance). As outlined above, this overage is partially offset with savings in non-personnel and fringe expenditures.

⁴ Special Pay expenditures cover additional wages provided to certain employees who meet specific requirements or who provide certain specialized services (such as paramedic pay, river rescue team pay, and bilingual pay).

⁵ Water Infrastructure Finance and Innovation Act

FY 2025 Salaries and Wages Expenditures - General Fund (\$ in millions)						
	Adopted Budget	3rd Quarter Projection	Year-End Unaudited Actuals	Variance: 3rd Quarter to Year-End	Variance: Adopted to Year-End	Variance %: Adopted to Year-End
Salaries	\$ 736.2	\$ 734.2	\$ 731.2	\$ 3.0	\$ 4.9	0.7%
Overtime	96.0	130.4	131.1	(0.7)	(35.1)	(36.6%)
Special Pay	60.7	65.8	67.0	(1.2)	(6.3)	(10.4%)
Hourly	19.6	17.2	17.3	(0.1)	2.4	12.1%
Vacation Pay in Lieu	8.8	9.2	9.5	(0.3)	(0.8)	(9.0%)
Termination Pay	4.3	5.1	4.9	0.2	(0.5)	(12.2%)
Total	\$ 925.7	\$ 961.9	\$ 961.1	\$ 0.8	\$ (35.4)	(3.8%)

Note: Figures may not sum due to rounding.

Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

When comparing the Adopted Budget to year-end expenditures, there are overages in the overtime, special pay, vacation pay-in-lieu, and termination pay categories, which are partially offset by savings in salaries and hourly wages. The largest General Fund overages and savings in salary and wage categories as compared to the FY 2025 Adopted Budget are highlighted below:

- Salaries – net \$4.9 million savings (shown as a positive variance)
 - \$10.0 million – Fire-Rescue
 - \$1.8 million – Parks & Recreation
 - \$1.1 million – Library
 - \$852,000 – Facilities Services
 - \$591,000 – City Planning
 - \$3.9 million – other departments with salary savings
 - Salary savings are partially offset with overages, including City Attorney (\$4.6 million), Police (\$4.2 million), Transportation (\$1.3 million), Human Resources (\$702,000), Development Services (\$592,000), and Real Estate (\$560,000).
- Hourly – net \$2.4 million savings (shown as a positive variance)
 - \$1.3 million – Police
 - \$817,000 – Library
 - \$718,000 – Human Resources
 - \$2.7 million – other departments with hourly savings
 - Hourly savings are partially offset with overages, including Parks & Recreation (\$2.0 million), and Fire-Rescue (\$903,000)
- Overtime – net \$35.1 million overage (shown as a negative variance)
 - (\$17.7 million) – Fire-Rescue
 - (\$8.8 million) – Police
 - (\$4.9 million) – Transportation
 - (\$1.6 million) – Environmental Services
 - (\$1.0 million) – Parks and Recreation
 - (\$926,000) – Stormwater

- Special Pay – net \$6.3 million overages (shown as a negative variance)
 - (\$2.6 million) – Fire-Rescue
 - (\$1.9 million) – Police
 - (\$587,000) – Stormwater

Departmental Variances

As noted, total salaries and wage expenditures net to \$35.4 million above what was included in the FY 2025 Adopted Budget. The section above notes variances by the salaries and wages expenditure category. If we instead focus on total salaries and wages expenditure variances for each department, the departments with the largest salaries and wage overages include:

- Police – \$14.1 million above budget (largely overtime, salary, and special pay overages, partially offset by hourly savings)
- Fire-Rescue – \$11.3 million above budget (largely overtime, special pay, and hourly overages, partially offset by salary savings)
- Transportation – \$6.3 million above budget (largely overtime and salary overages)
- City Attorney’s Office – \$4.6 million above budget (largely salary overages)
- Parks & Recreation – \$1.7 million above budget (largely hourly and overtime overages, partially offset by salary savings)
- Environmental Services – \$1.4 million above budget (largely overtime overage)
- Stormwater – \$1.2 million above budget (largely overtime and special pay overages)

Departments with the largest salaries and wage savings include:

- Library – \$1.7 million below budget (largely salary and hourly savings)
- City Planning – \$908,000 below budget (largely salary and hourly savings)
- Facilities Services – \$638,000 below budget (largely salary savings, partially offset by overtime and special pay overages)

Public Safety Overtime

Fire-Rescue Overtime

At FY 2025 year-end, actual Fire-Rescue overtime expenditures totaled \$62.5 million, which exceeded budgeted amounts in the Adopted Budget by \$17.7 million. This overage is \$867,000 more than the year-end projection at the time of the Third Quarter Report. Overtime to meet fire suppression constant staffing requirements accounts for approximately \$9.5 million, or 54%, of the projected overage, including \$4.3 million due to staffing shortfalls and \$4.1 million to backfill leave time taken by fire fighters. The other significant cause is due to an abnormally high number of strike-team deployments compared to prior years, which accounts for \$7.4 million, or 42% of the projected overage. These activities are reimbursable and largely budget neutral.

The overtime overage is offset by \$7.5 million in salary and special pay savings and approximately \$4.3 million in revenue above what was budgeted for reimbursable strike team deployments in FY

2025, which results in a net General Fund impact of \$5.2 million. As discussed in the Year-End Report, \$2.1 million remains outstanding for deployments related to the Los Angeles fires and Hurricane Helene and is currently expected to be received in FY 2026.

Police Overtime

The Police Department ended FY 2025 with \$55.2 million in total overtime expenditures, which exceeded its \$46.4 million budget by \$8.8 million. This overage is offset by approximately \$1.1 million in revenue above what was budgeted for reimbursable overtime activities in FY 2025, which reduces the net impact of Police Department overtime to \$7.7 million.

The budgetary overage represents a \$727,000 improvement compared to the Third Quarter Report, which the Department attributes to the implementation of centralized overtime planning conducted by SDPD's new Staffing Unit. Additionally, the Police Chief is requiring enhanced oversight from Commanding Officers to ensure that overtime is only approved when absolutely necessary, up to as preauthorized limit per police unit. For FY 2026, SDPD's overtime budget was reduced to \$45.3 million which equates to \$9.9 million reduction compared to FY 2025 actual overtime spending. While the Police Chief has previously committed to maintaining FY 2026 overtime spending within budget, this level of reduction may be difficult to achieve. More information regarding the Department's progress towards controlling overtime spending will be known when the FY 2026 First Quarter Budget Monitoring Report is released on November 7, 2025.

HOMELESSNESS PROGRAM UPDATES

Consistent with past practice, the Year-End Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending. The HSSD memorandum reflects \$45.1 million in General Fund expenditures, which is \$8.8 million below Adopted Budget and \$2.1 million below third quarter projections. State Homeless Housing, Assistance and Prevention (HHAP) grant funds are another major funding source in the HSSD budget, and year-end HHAP expenditures totaled \$20.3 million, which is \$2.6 million below third quarter projections. Given the importance of addressing the City's homelessness crisis, this section provides additional context for changes that are not already discussed in the memorandum.

Shelter Staff Vacancies

The HSSD memorandum cites \$903,000 in General Fund savings from third quarter projections attributed to shelter staff vacancies at the various City funded shelters. In addition to General Fund savings, staff vacancies at the 16th & Newton and 17th & Imperial Shelters largely contributed to \$1.8 million in HHAP savings. According to staff, persistent challenges associated with staff compensation and the demographic served have resulted in high rates of staff turnover and recruiting challenges. In FY 2022, the first year the San Diego Housing Commission (SDHC) began tracking data, staffing vacancies averaged 21% across SDHC-administered shelter and outreach programs. Although average staff vacancy rates across SDHC-administered programs fell to 10% in FY 2025 – likely due to subsequent efforts to address staffing shortages through the Homelessness Services Compensation Study and the City approving shelter staff compensation

increases beginning in FY 2024 – the staff vacancy rates at the 16th & Newton, 17th & Imperial, and the Harm Reduction Shelters ranged between 14% to 19%. The higher vacancy rates at these shelters were due to holding vacant positions open for staff impacted by the Rosecrans Shelter closure. Shelter closures, openings, and relocations directly impact staffing vacancies. Typically, staff vacancies will increase during the 90 to 180-day period (1) leading up to shelter closures as staff secure other job opportunities and (2) during the ramp up period as programs begin to hire new staff. In total, the City closed, opened, or relocated nine shelter programs in FY 2025 as part of the Short-Term Action Plan, the Women’s Shelter relocation, and expansion of the LGBTQ+ Youth SafeSTAY shelter. According to SDHC, staff continuously monitor staffing levels and work closely with service providers to mitigate any potential service impacts.

Other Program Updates

Below we note other program updates based on HSSD’s budget at year-end:

- Ancillary expenditures at the two Safe Sleeping sites and Domestic Violence Shelter exceeded third quarter projections by \$618,000, due to unanticipated supplies charges, including a large order for Safe Sleeping tents which were impacted by tariffs.
- Savings of \$350,000 attributed to delayed shelter ramp up at the Single Adult and Senior Shelter operating at Veterans Village of San Diego (VVSD) were due to new administrative requirements following restrictive covenants at the VVSD related to income verification and participant occupancy agreements. The same shelter provider previously operated at Golden Hall prior to its closure.
- Savings of \$187,000 from the Public Restrooms contract were generated through reductions to security services for the Old Central Library that began prior to the end of FY 2025. These savings supported start-up expenses for the Women’s Shelter relocation, which occurred in March 2025. Throughout FY 2025 budget monitoring, the Public Restrooms contract saw savings due to reconfiguration of security services.

GENERAL FUND RESERVE AND EXCESS EQUITY

General Fund Reserve

Per the City’s [Reserve Policy](#), the FY 2025 Reserve target percentage is 13.58%, and the target Reserve balance is \$238.3 million, as shown in the following table. Going into the fiscal year with a beginning balance of only \$207.1 million, the City anticipated it would end the year \$31.2 million below its FY 2025 Reserve Policy target, due to the City’s decision to forgo a Reserve contribution in FY 2025. The Year-End Reserve balance is anticipated to remain at \$207.1 million, or 11.80% of average operating revenues from the past three years.

FY 2025 General Fund Reserve Policy vs Reserve Balance (\$ in millions)	
<i>Reserve Policy Target Percent</i>	<i>13.58%</i>
Reserve Policy Target ^a	\$ 238.3
Year-End Reserve Balance ^b	207.1
Difference: Amount Reserve Is Below Policy Target ^b	\$ (31.2)
<i>Reserve Balance as Percent of Operating Revenues</i>	<i>11.80%</i>

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 Based on unaudited actuals, which are not considered final until completion of the Annual Comprehensive Financial Report.

With the City's recent fiscal challenges, for both FY 2024 and FY 2025, the City has waived the General Fund Reserve contributions needed to bring the Reserve balance to the Reserve Policy's target level. Considering how the City's fiscal challenges have impacted recent budgeting processes, the Department of Finance is working with the Mayor's Office on proposed revisions to the Reserve Policy, which are anticipated to be presented before the end of the calendar year.

Excess Equity

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

At the beginning of FY 2025, Excess Equity was estimated at \$105.0 million, as shown in the top line of the following table. The FY 2025 Adopted Budget anticipated using \$84.4 million of this amount to help balance the budget. By the third quarter, however, the anticipated need had increased by \$30.7 million, bringing the total anticipated use of funds to \$115.2 million. This means that, based on the third quarter projected activity, not only would the City need to fully exhaust its \$105.0 million of Excess Equity, it would also need to draw \$10.1 million from the General Fund Reserve.

Projected FY 2025 Year-End Excess Equity (\$ in millions)	
Beginning-of-Year Projection: FY 2025 Excess Equity	\$ 105.0
Projected Use of Excess Equity in the FY 2025 Adopted Budget	(84.4)
Projected Additional Use of Excess Equity in Third Quarter Report	(30.7)
Negative Impacts to Excess Equity Since Third Quarter Report	(14.5)
<i>Net Decrease in Major General Fund Revenues</i>	<i>(6.9)</i>
<i>Delay in Measure C Revenue</i>	<i>(5.4)</i>
<i>Delay of Strike Team Deployment Reimbursement</i>	<i>(2.1)</i>
<i>Net Increase in Departmental Expenditures</i>	<i>(0.1)</i>
Mitigations and Positive Developments Since Third Quarter Report	24.6
<i>Net Increase in Departmental Revenues</i>	<i>9.8</i>
<i>Additional Reimbursement from Emergency Medical Services Fund</i>	<i>6.0</i>
<i>Reduced Pulic Liability Claims Transfer</i>	<i>3.3</i>
<i>Closure of Obsolete/Inactive Funds</i>	<i>2.3</i>
<i>Additional Reimbursement of Prior Year Police Enforcement in CPDs^a</i>	<i>1.8</i>
<i>Refund of Current and Prior Years' Unemployment Insurance Contributions</i>	<i>1.5</i>
Projected FY 2025 Year-End Excess Equity	\$ 0.0

Note: Table may not total due to rounding.

^a CPDs - Community Parking Districts.

Since the Third Quarter Report, the City has experienced several additional negative impacts to Excess Equity, which total \$14.5 million, as shown in the table above. However, since the third quarter, the City has seen some offsetting positive impacts to Excess Equity, including several increases in revenues and lower expenditures, largely due to mitigating actions. These positive developments, totaling \$24.6 million, more than offset not only the negative impacts to Excess Equity since the third quarter, but also the anticipated \$10.1 million use of Reserve balance as of the third quarter projections. As a result, Excess Equity is still anticipated to be fully exhausted in FY 2025, but no funds are anticipated to be required to be drawn from the General Fund Reserve.⁶

For additional information on the negative and positive impacts to Excess Equity since the Third Quarter Report, please refer to the Year-End Report starting on page 16.

DEVELOPMENT SERVICES FUND AND RESERVE

Based on the Year-End Report, Development Services Fund expenditures ended the year \$21.2 million higher than revenues. With a beginning Reserve balance of \$3.4 million, the Fund had an estimated shortfall of \$17.8 million and no Reserve balance by year-end; this represents a further decline of \$6.1 million from third quarter projections.

⁶ The year-end amounts discussed are based on unaudited actuals, which are not considered final until completion of the Annual Comprehensive Financial Report.

Year-end revenues for the Fund total \$122.7 million, which is \$16.9 million lower than the Adopted Budget and \$3.0 million below third quarter projections. Revenue declines are attributed to reduced licensing and permitting activity beyond the lower assumptions already included in the third quarter. In FY 2025, permit intake volume decreased by 6.0% to around 63,000 applications compared to 67,000 in FY 2024. Permit approvals also dropped approximately 9.6% to around 54,000 from 59,000 permits issued in FY 2024. Reductions in permit applications and issuance subsequently reduces associated fee revenue – for instance, plan check and inspection fees. Underlying reasons for lower licensing and permitting revenue are consistent with third quarter: (1) an extension on building permit applications starting June 2024 that allows developers more time to secure financing and obtain permits, which results in delayed permit-related revenues and (2) a general decline in construction activity due to challenging market conditions.

Year-end expenditures total \$143.9 million, which is \$4.1 million higher than the Adopted Budget and \$3.1 million higher than third quarter projections. Expenditure overages in the last quarter are attributed to \$1.8 million in additional relocation costs associated with leased office spaces at 550 C Street and 7650 Mission Valley – the timing of which was unknown at third quarter but ultimately began prior to the end of FY 2025. The remaining \$1.2 million increase mainly consists of personnel expenses, such as overtime pay and fringe benefits.

According to staff, DSD continues to implement and refine its mitigation plan in FY 2026 to replenish the Development Services Reserve over a two-to-three-year timeframe, along with efforts currently underway to revisit the Reserve target under Council Policy 100-20. In addition to the mitigation measures mentioned in the Year-End Report, the Department also plans to explore interval invoicing, whereby applicants would receive and pay periodic invoices after certain services are rendered throughout the permit application process, as opposed to paying all associated fees at the time of permit issuance as is the case currently. This change is aimed at addressing the delay or loss of permit-related revenue associated with permit extensions or canceled projects, respectively.

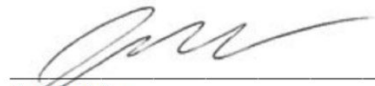
CONCLUSION

The Office of the IBA's review of the FY 2025 Year-End Report documents changes to General Fund revenues, expenditures, and Excess Equity since the Third Quarter Report projections, and provides a high-level summary of year-end variances as compared to the FY 2025 Adopted Budget. It also provides highlights on the status of the General Fund Reserve and Excess Equity, an update on the Development Services Fund and Reserve, and updates on homelessness programs.

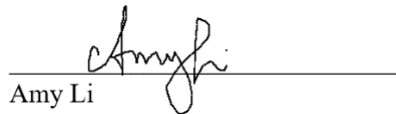
We present this information to provide another tool for evaluating City expenditures for FY 2025 and to help guide Council's discussions around future budget decisions. Additional information on the City's finances is anticipated to be provided in the FY 2026 First Quarter Budget Monitoring Report and the Mayor's FY 2027-2031 Five-Year Financial Outlook, which are both scheduled for release November 7, 2025.



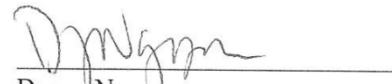
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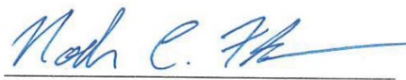
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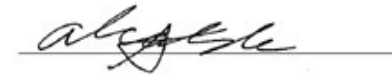
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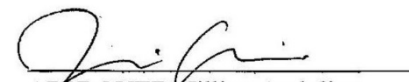
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