



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2026 First Quarter Budget Monitoring Report

OVERVIEW

In accordance with [Council Policy 000-02: Budget Policies](#), the Department of Finance monitors the City's annual operating budget and presents quarterly reports, including forecasted year-end results, to the Budget & Government Efficiency (B&GE) Committee and City Council. The FY 2026 First Quarter Budget Monitoring Report (First Quarter Report) is the first of those quarterly reports for FY 2026. The report serves as an initial high-level look, based on three months of actual data and focuses on a few select areas. The Mid-Year and Third Quarter Budget Monitoring Reports will be more robust, projecting full revenues and expenses for the General Fund as well as non-general funds departments, and often include requests for budget adjustments. Our Office reviews these quarterly reports and provides additional information and recommendations for Council's consideration.

The FY 2026 First Quarter Report was issued on November 7, 2025. The limited projections in the report yield an overall negative variance for the General Fund as compared to the FY 2026 Adopted Budget. However, there are several notable positive variances, the largest of which are outlined below and total \$9.3 million.

- \$5.9 million in one-time Measure C Transient Occupancy Tax (TOT) revenue, related to amounts collected in FY 2025 but available in FY 2026 (This amount may not be fully available to support the General Fund in FY 2026 – see the *Homelessness Programs* section for additional information.)
- \$1.3 million in lower information technology costs, primarily due to the use of information technology fund balances to support costs
- \$1.1 million in lower debt service payments related to a helicopter purchase by the Fire-Rescue Department

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- \$1.0 million in potential lower energy costs

The largest negative variances as compared to the FY 2026 Adopted Budget are outlined below and total \$33.4 million. Further details regarding some of these variances are included later in this report, as noted.

- \$8.8 million decrease in Balboa Park parking fees – see the *Departmental Revenues* section
- \$8.1 million decrease for 2024 winter storm reimbursements from the California Office of Emergency Services, due to a delay in the State review and approval process
- \$1.8 million decrease for overall major General Fund revenue, largely due to a decline in the TOT projection, which is partially offset with an increase in the Property Tax projection – see *Major General Fund Revenues*
- \$1.5 million decrease in Cannabis Business Tax revenue – see *Departmental Revenues*
- \$1.1 million decrease in projected TOT Special Promotional Program reimbursements for eligible General Fund expenditures, which is related to the overall projected TOT decline
- \$4.9 million for the net impact of public safety overtime overages, which is \$7.6 million in overtime overages reduced by \$2.7 million in reimbursements beyond what was included in the Adopted Budget – see *General Fund Expenditures* (This does not include projections for any salary savings that could potentially offset overtime. Any such projections will be included in the Mid-Year Report.)
- \$4.1 million for increased water fees, primarily due to recent rate increases, as well as increases to estimated irrigation usage for community and regional parks
- \$3.1 million for increased fleet fees, primarily related to the Adopted Budget not accounting for costs associated with certain vehicle deliveries in FY 2026, as well as rising acquisition costs

Additionally, General Fund parking meter-related revenues included in the FY 2026 Budget are currently projected to be \$2.1 million lower than assumed. These projections were not finalized when the First Quarter Report was released; our report compares Adopted Budget amounts with the latest parking meter-related revenue projections in the *Departmental Revenues* section.

Our report also includes reviews of several other areas, including the General Fund, Risk Management, and Development Services Fund Reserves and homelessness programs. Additionally, in Attachment 1 we provide a table on the status of items City Council added in FY 2026 Budget.

As mentioned, the projections in the First Quarter Report are based on only three months of actual data and focus on a few select areas; full revenue and expenditure projections will be provided in the FY 2026 Mid-Year Report, revealing the anticipated impact of projected variances for all budgeted revenues and expenditures. Given the negative variances in the First Quarter Report, on November 14th the administration began implementing various budget mitigation measures, including the suspension of discretionary spending and non-essential overtime and reinstating a

request-to-fill process for vacant positions. Should additional mid-year modifications be necessary, it is anticipated they would be reflected as recommendations in the Mid-Year Report.

FISCAL & POLICY DISCUSSION

MAJOR GENERAL FUND REVENUES

General Fund revenues in the First Quarter Report are \$1.8 million below amounts included in the Adopted Budget. The decrease is largely driven by lower-than-expected Transient Occupancy Tax receipts. Each of the four major General Fund revenues is discussed below.

MAJOR GENERAL REVENUES (\$ in millions)							
Major Revenue Source	FY 2026 Budget vs. FY 2026 Projections				FY 2025 Actuals vs. FY 2026 Projections		
	Adopted Budget	Projection	Variance	Variance (%)	Unaudited Actuals ^a	Variance	Variance (%)
Property Tax	\$ 844.6	\$ 846.1	\$ 1.5	0.2%	\$ 807.1	\$ 39.0	4.8%
Sales Tax	374.5	374.1	(0.4)	(0.1%)	372.3	1.9	0.5%
Transient Occupancy Tax	170.3	167.4	(2.9)	(1.7%)	165.6	1.7	1.1%
Franchise Fees	103.6	103.6	0.0	0.0%	99.0	4.5	4.6%
Total	\$ 1,493.0	\$ 1,491.2	\$ (1.8)	(0.1%)	\$ 1,444.0	\$ 47.2	3.3%

Note: Table may not total due to rounding.

^a FY 2025 Unaudited Actuals are from the FY 2025 Year-End Financial Performance Report.

While not indicated in the table above, since the release of the First Quarter Report, an additional period of TOT and sales tax actuals have been remitted to the City. The General Fund portion of TOT is now forecasted to end the fiscal year \$4.1 million below the Adopted Budget and Special Promotion Program Fund portion (which is used to partially offset certain eligible General Fund expenses) is forecasted to end the year \$3.7 million below budget. Sales tax is forecasted to end the year \$2.1 million above the Adopted Budget.

Property Taxes

Property taxes represent the single largest source of General Fund revenue, accounting for about 39% of the FY 2026 Adopted Budget General Fund revenue. City property taxes are derived from three major sources:

- Proposition 13's 1% levy on the assessed value of property throughout the City, of which the City receives approximately 17%;
- Motor Vehicle License Fee (MVLFF) backfill payments; and
- Distributions from the Redevelopment Property Tax Trust Fund (RPTTF), which represent payments to the City as a result of the dissolution of former Redevelopment Agencies.

The updated first-quarter projection for property tax revenue is \$846.1 million, which is a \$1.5 million, or 0.2% increase above the Adopted Budget of \$844.6 million. Of the \$1.5 million increase, \$1.0 million is attributed to higher MVLFF backfill payments and \$0.5 million is attributed to expected growth in the 1% property tax allocation. The 1% property tax apportionment for FY 2026 reflects the real estate market during the 2024 calendar year. This is due to an up to 1.5-year

delay between when properties are assessed (i.e. January 2025), when property taxes are paid (i.e. December 2025 and April 2026), and when payments are received by the City (through June 2026).

Sales Taxes

The sales tax rate in the City is 7.75%, of which 1.0% goes to the City, with the remaining portions going to other entities. The First Quarter Report projects sales tax will total \$374.1 million in FY 2026, representing a \$0.4 million, or -0.1%, decrease from the Adopted Budget which assumed total sales tax revenue of \$374.5 million.

The City received the first quarter clean-up payment from the California Department of Tax and Fee Administration (CDTFA) on November 18, 2025 after the First Quarter Report was published. First quarter sales ended at \$96.2 million, \$3.5 million, or 3.7%, above the Adopted Budget. The additional sales tax data puts the updated projection for FY 2026 at \$376.6 million, \$2.1 million, or 0.6%, above the FY 2026 Adopted Budget.

Transient Occupancy Taxes

Transient Occupancy Tax (TOT), or hotel taxes, is the third largest major General Fund revenue source. After the implementation of Measure C, San Diego's TOT rate is 11.75%, 12.75%, or 13.75% depending on which of three zones the lodging property is located within the City. Revenue from TOT is broken down into five parts:¹

- 5.5% – allocated to the General Fund (to support general City services);
- 4.0% – allocated to the TOT Fund for Special Promotional Programs (to support programs and services that encourage tourism to the San Diego area);
- 1.0% – allocated to the TOT Fund as discretionary/Council directed funding;
- 41% of Measure C – allocated to the TOT Homelessness Fund for homelessness services; and
- 59% of Measure C – allocated to the TOT Convention Center Fund for the San Diego Convention Centers expansion and modernization.

While the First Quarter Report references the 5.5% General Fund allocation of TOT, it is important to note that changes in TOT receipts impact all allocations, as shown in the following table.

¹ Under Measure C, after five years a sixth part of TOT revenue will be used for street repairs. Starting in FY 2031, 10.0% of revenue directed towards the TOT Homelessness Fund will be directed to a new TOT Street Repair Fund.

Transient Occupancy Tax (TOT) Revenue (\$ in millions)				
TOT Allocation	Adopted Budget	Projections	Variance	Variance (%)
General Fund Allocation (5.5%)	\$ 170.3	\$ 167.4	\$ (2.9)	(1.7%)
Special Promotional Programs (4.0%)	122.7	120.6	(2.1)	(1.7%)
Council Discretionary (1.0%)	30.7	30.2	(0.5)	(1.7%)
Subtotal - General Fund and TOT Fund	\$ 323.6	\$ 318.1	\$ (5.5)	(1.7%)
TOT Homelessness Fund	32.6	31.5	(1.1)	(3.3%)
TOT Convention Center Fund	47.7	45.4	(2.3)	(4.8%)
Subtotal - Measure C	\$ 80.3	\$ 76.9	\$ (3.4)	(4.2%)
Total	\$ 403.9	\$ 395.0	\$ (8.9)	(2.2%)

Note: Table may not total due to rounding.

The First Quarter Report projects the General Fund allocation of TOT to come in under the FY 2026 Adopted Budget by \$2.9 million, which is a 1.7% decrease from the Adopted Budget. As noted in [IBA Report 25-18 - Recommended City Council Modifications to the Mayors Proposed FY 2026 Budget and Review of the May Revision](#) – TOT revenue is particularly sensitive to broader economic trends, and as a meaningful proportion of San Diego’s tourism economy is supported by international travel, increased international tension between the United States and other countries that makes US destinations less attractive for international tourism may have negative impacts on TOT receipts.

Additionally, TOT revenue allocated to Special Promotional Programs and the TOT Homelessness Fund are used to reimburse eligible General Fund expenses. Revenue decreases in those TOT allocations will also have a direct effect on General Fund revenue.

Franchise Fees

Franchise fees represent payments made by private companies to the City for the right to operate within the City’s right-of-way. The main sources of franchise fee revenue are:

- San Diego Gas & Electric (SDG&E) for the right to provide City residents and businesses with gas and electricity services;
- Cox Communications, AT&T, and Spectrum for the right to provide cable services to City residents; and
- Private refuse haulers that conduct business within City limits.

Franchise fees from SDG&E and cable companies are based on a percentage of revenue generated, while franchise fees from refuse haulers are based on tonnage.

Franchise Fee projections will be updated in the Mid-Year Report and additional information will follow when SDG&E provides their annual clean-up payment in February 2026. Publicly available third quarter calendar year 2025 (first quarter FY 2026) [financial filings](#) from Sempra for SDG&E seem to indicate a stronger year than FY 2025 when there was a large, negative clean-up payment in February 2025.

GENERAL FUND DEPARTMENTAL REVENUES

Parks and Recreation - Balboa Park Paid Parking Program Revenue

The First Quarter Report includes an estimate of \$3.7 million in revenue to be generated from the implementation of paid parking within Balboa Park, which would represent an \$8.8 million shortfall relative to the \$12.5 million that was assumed in the Adopted Budget. According to staff, this was a preliminary estimate prepared prior to finalizing the actual parking pass fee structure that was presented to the City Council on November 18, 2025. Based on the Council-approved fee structure, staff's current estimate totals \$2.9 million which is slightly lower than our Office's projection of \$4.0 million. Regardless, given the adoption of lower fees than initially proposed and a January implementation date rather than an October date, a significant negative variance in Balboa Park parking revenue from amounts assumed in the Adopted Budget is anticipated. Actual revenue will ultimately vary depending on the behavioral changes of park visitors after the paid parking program is implemented beginning January 5, 2026.

Parking Meter-Related Revenue

The First Quarter Report includes background information on parking meter revenue and the projections included in the Adopted Budget; however updated projections for FY 2026 are not provided in the Report. The following paragraphs compare Adopted Budget amounts with the latest parking meter-related revenue projections.

The FY 2026 Adopted Budget assumes the General Fund will receive \$21.4 million from the Parking Meter Operations (PMO) Fund to support parking-related activities, such as maintenance of parking meters and enforcement of parking meter spaces. With total parking meter revenue projected to fall below budgeted amounts (see Attachment 2 of this report), transfers to the General Fund are estimated to fall to approximately \$17.2 million, which is about \$4.2 million lower than what was budgeted. This estimate also accounts for Council's action on October 2025 to waive contributions to [Community Parking Districts](#) through FY 2027.² This estimate does not include revenue generated from parking meters within Balboa Park.

Additionally, there are unbudgeted revenues from initiatives that are not directly tied to parking meter usage, but which may still be used in the same manner as PMO Fund revenues. This includes a \$700,000 in "loss-of-revenue" fees related to metered spaces being used as valet zones by businesses and \$1.4 million in loss-of-revenue fees from construction projects encroaching into metered spaces. Including these resources, total estimated General Fund revenue associated with on-street parking meters would amount to \$19.3 million, or \$2.1 million lower than assumed in the Adopted Budget.

² Per [Council Policy 100-18](#), 15% of total parking meter revenue, after deducting administrative and operational costs, collected within each Community Parking District (CPD) shall be allocated annually to that same CPD.

Cannabis Business Tax Revenue

The First Quarter Report projects \$19.7 million in Cannabis Business Tax (CBT) revenue, which is \$1.5 million below the \$21.3 million included in the Adopted Budget. This projected shortfall is largely due to a continued decline in reported taxable gross receipts driven by increased competition from the illegal market and decreased wholesale prices caused by an oversupply of cannabis products. These factors have also reduced anticipated revenue from the recent 2% CBT rate increase for retail outlets.³

Additionally, assumed revenue associated with extended operating hours for cannabis businesses in the Adopted Budget have also not materialized. The Adopted Budget assumed a full-year implementation of extended operating hours (by two additional hours) for all cannabis retail outlets. However, the implementation of this initiative was delayed until mid-August 2025, and not all outlets are opting to extend their hours; both factors have contributed to the shortfall.

Local cannabis sales activity may also be impacted by other recent updates at the State and federal level. In our report on FY 2026 final Council budget modifications ([IBA Report 25-18](#)), we referenced a potential increase in the State's cannabis excise tax from 15% to 19% beginning in July 1, 2025. With the passage of recent State legislation ([Assembly Bill 564](#), 2025), however, the 19% tax rate, which took effect on July 1, was subsequently reduced back to 15% effective September 30, 2025, where it is to remain until June 2028. Additionally, the State has enacted [legislation](#) that limits the sale of intoxicating cannabinoids, which currently compete with the legal cannabis market, exclusively to licensed cannabis dispensaries beginning in January 2026, while the federal government is set to ban most intoxicating and synthesized hemp products for consumption beginning in November 2026.

Given the volatility of the market, we will continue to closely monitor CBT revenue. Updated projections will be included in the Mid-Year Report, scheduled for release on January 30, 2026.

GENERAL FUND EXPENDITURES

Public Safety Overtime

Fire-Rescue Overtime

The Fire-Rescue Department is projected to exceed its overtime budget by \$4.6 million at fiscal year-end for total projected overtime expenditures of \$54.7 million. Approximately \$908,000 in revenue is projected to be received by the City above what is budgeted for reimbursable strike team deployments in FY 2026, which would result in a projected net General Fund impact of \$3.7 million. While the overall expenditure projection is slightly lower than the Department's actual overtime expenditures in FY 2025 after adjusting for reimbursable expenditures on strike-team deployments (\$55.1 million), overtime spending remains significantly elevated due to ongoing fire suppression staffing shortfalls. For this reason, as we noted in [IBA Report 25-18](#), a significant reduction in overtime spending will not be realized until full staffing is reached. While the First

³ In May 2025, the CBT rate for retail outlets increased from 8% to 10%. The City Treasurer's Office indicated that it is currently unclear whether the increase in CBT tax for retail outlets has impacted cannabis product sales.

Quarter Report states that full staffing is anticipated by the beginning of FY 2027, the Department has indicated to our Office that their current projection has been pushed back to mid-to-late FY 2027.

Police Overtime

The Police Department is projected to exceed its FY 2026 overtime budget by \$3.0 million at fiscal year-end, for total projected overtime expenditures of \$48.3 million. The projected overage is predominately due to reimbursable overtime activities, including \$2.1 million associated with special events and grant/task force participation, and \$843,000 for enhanced parking meter enforcement. The Department is anticipating that the City will receive approximately \$1.8 million in revenue above what is budgeted for reimbursable overtime activities in FY 2026, which would result in a projected net General Fund impact of \$1.2 million.

At \$48.3 million, projected overtime expenditures in FY 2026 are notably lower than actual expenditures in FY 2024 (\$57.3 million) and FY 2025 (\$55.2 million). This is primarily a result of efforts to better manage overtime, which the Department began phasing-in during the first quarter of FY 2025. When the FY 2025 Year-End Financial Performance Report was presented to Council on October 27, 2025, Councilmember von Wilpert inquired how reduced overtime may be impacting SDPD response times.

The adjacent table compares response times from the first quarter of FY 2025 to the same period of FY 2026. Priority 0, 1, and 3 calls changed minimally by about one percent in either direction, and Priority 2 calls improved by ten percent; conversely, Priority 4 call response times, however, increased by 23 percent. While this could appear to signal that limited

SDPD Average Response Times (in minutes)			
Priority	FY 2025 Q1	FY 2026 Q1	% Change
P0 (Highest)	6.9	7.0	1%
P1	37.1	36.6	-1%
P2	129.8	117.2	-10%
P3	169.9	172.2	1%
P4 (Lowest)	109.0	134.5	23%

Source: SDPD Crime Analysis Unit (11/10/2025)

resources are being shifted to protect response times for the most serious emergencies, which can lead to slower responses to lower priority calls, it is important to note that other factors, such call volumes, also impact these statistics. The Department has cautioned that additional time and data will be needed to understand how reduced overtime funding affects not only reactive policing (e.g. increased response times), but also proactive policing, which helps prevent emergencies before they occur. The Council may wish to receive more information from the Department regarding its ongoing efforts to reduce overtime expenditures and how it is monitoring associated impacts on response times and overall public safety.

RESERVES

The First Quarter Report indicates that the General Fund, Risk Management, and Development Services Reserves are not expected to meet the City's Reserve Policy targets. Brief discussions on each of these Reserves are included in the subsections below.

Considering how the City’s fiscal challenges 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 early next calendar year. These revisions may impact some or all of the Reserves discussed below.

General Fund Reserve

Per the City’s [Reserve Policy](#), the FY 2026 Reserve target is 14.1% of the most recent three-year average of operating revenues, or \$262.9 million, as shown in the table on the following page. Entering the fiscal year with a beginning balance of \$207.1 million and no planned contributions, the City currently projects ending FY 2026 \$55.8 million below its Reserve Policy target, which equates to 11.1% of operating revenues.⁴

FY 2026 General Fund Reserve Policy vs Reserve Balance (\$ in millions)	
<i>Reserve Policy Target Percent</i>	<i>14.1%</i>
Reserve Balance	\$ 207.1
Reserve Policy Target ^a	(262.9)
Difference: Amount Projected Reserve Is Below Policy Target ^b	\$ (55.8)
<i>Projected Reserve Balance as Percent of Operating Revenues</i>	<i>11.1%</i>

Note: Table may not total due to rounding.

^a FY 2026 Reserve Balance is a projection and subject to change.

^b Amounts in this table are based on unaudited actuals and pending completion of the City’s FY 2025 financial statements.

This anticipated shortfall is due to the City’s decision to forgo Reserve contributions in FYs 2024-2026 after experiencing several years of structural budget deficits. Forgoing Reserve contributions and not hitting Reserve Policy targets is essentially the equivalent of using the Reserve to support City operations.⁵

Given 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 early next calendar year.

⁴ The current Reserve balance and FY 2026 Reserve target amounts are based in part on FY 2025 unaudited actuals; as such they are pending completion of the audit of the City’s FY 2025 financial statements – anticipated in December.

⁵ Please see the [IBA’s review of the FY 2027-2031 Five Year Financial Outlook](#) for additional information related to the City’s limited ability to rely on the General Fund Reserve to support ongoing expenditures.

We note the City is anticipated to begin FY 2026 with no Excess Equity.⁶ As a result, absent sufficient or mitigating actions⁷, the City may need to draw from its General Fund Reserve to address any shortfall in FY 2026.

Risk Management Reserves

The Public Liability (PL), Workers' Compensation (WC), and Long-Term Disability (LTD) Funds provide funding sources for certain claims made against the City. The table on the following page shows the FY 2026 projected balances for the Risk Management Reserves as compared to their FY 2026 targets. All three Reserve balances are projected to be below FY 2026 targets; and similar to the General Fund Reserve, no contributions to the Risk Management Reserves are anticipated in FY 2026.

FY 2026 Projected Deficits in Risk Management Reserves (\$ in millions)			
	Public Liability	Workers' Compensation	Long-Term Disability
Reserve Projection	\$ 28.2	\$ 27.1	\$ 4.2
Reserve Target	46.7	39.7	5.8
Projected Surplus/(Deficit)	\$ (18.5)	\$ (12.7)	\$ (1.6)

Note: Table may not total due to rounding.

The following sections provide a brief overview of these deficits. Additional information can be found in the First Quarter Report.

Public Liability Reserve

The PL Reserve has the most significant projected deficit, at \$18.5 million, when compared to its target balance (which is based on the prior three-year-average of actuarial liabilities). There are two factors contributing to the PL Reserve deficit. The first is an \$8.3 million increase in the Reserve target amount since FY 2024. This increase was initially estimated to be \$2.7 million at the time of the FY 2026 Budget adoption. Since then, however, the actuarial valuation results for FY 2025 further increased the FY 2026 target by \$5.6 million, due to increases in projected outstanding liability claims.

The second component of the PL Reserve's projected deficit is the provision of an interfund loan to the City's Sewer Fund, which is currently estimated to reach \$10.2 million in FY 2026. The loan is intended to use non-rate payer funds to cover a short-term subsidy of FY 2023-2025 Industrial Wastewater Control Program fees that are currently being phased-in, and will reach full cost recovery in FY 2026.

⁶ General Fund Excess Equity is described as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation" – which generally results from unexpected increases to General Fund revenues or decreases in expenditures during any given fiscal year.

⁷ On November 14th, the Mayor directed the implementation of various current-year budget mitigation measures, including reinstating a request-to-fill process for vacant positions, and the suspension of discretionary spending and non-essential overtime.

Subsequently, the Sewer Fund is expected to repay the PL Reserve, with interest, over five years beginning in FY 2027. Note that if in the future the PL Fund is unable to meet its financial obligations, the City's Sewer Fund will be required to immediately repay the full amount owed. Details on the PL Reserve loan to the Sewer Fund are included in Attachment 1 to our review of the FY 2024 Year-End Financial Performance Report ([IBA Report 24-31](#)) – estimates on the loan amount have been updated since then and will be further refined in FY 2026.

Workers' Compensation Reserve

The WC Reserve's current projected deficit for FY 2026 is \$12.7 million, with two contributing factors. First, there were \$8.5 million more operating expenditures than resources in FY 2025, as the FY 2025 Budget did not anticipate the almost 28.0% increase in expenses that occurred in FY 2025. The Risk Management Department is currently analyzing the underlying cost drivers of this increase to better understand the variance. Additionally, the Reserve target amount rose by \$4.2 million since FY 2024.

Expenses could be higher than revenues again in FY 2026, which would increase the FY 2026 deficit beyond \$12.7 million. Updated projections will be provided in the Mid-Year Report.

Long-Term Disability Reserve

The LTD Reserve's current projected deficit for FY 2026 is \$1.6 million, also with two contributing factors. First, there were \$858,000 more operating expenditures than resources in FY 2025; and second, the Reserve target amount increased by \$787,000 since FY 2024. Updated projections for FY 2026 will be provided in the Mid-Year Report.

Development Services Fund Operating Reserve

In FY 2025, the Development Services Fund ended the year with a shortfall of \$17.8 million and no Reserve balance. For FY 2026, this Fund is projected to have sufficient revenue to cover anticipated expenditures per the Adopted Budget projections, which will be updated with the Mid-Year Report. However, it is currently anticipated that the Development Services Fund will continue with a zero Reserve balance for FY 2026, thus not meeting its Reserve policy target of \$19.3 million.

According to staff, the Development Services Department continues to implement and refine its mitigation plan in FY 2026 to begin replenishing the Development Services Reserve over a two-to-three-year timeframe, along with efforts currently underway to revisit the Fund's Reserve Policy.

HOMELESSNESS PROGRAMS

Consistent with past practice, the First Quarter Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending. The following sections provide additional context on items discussed in the memorandum, as well as select funding updates.

County of San Diego Emergency Shelter for Survivors Grant – \$800,000 Reduction

The HSSD memorandum notes a \$800,000 reduction in County grant funding for the City’s Domestic Violence (DV) Shelter. For context, the County awarded a \$6.2 million grant to the City in FY 2024 to support DV shelter operations, which began in April 2024. Prior to the reduction, \$3.1 million was remaining from the County grant to fund \$3.0 million budgeted for shelter operations in FY 2026. Following the reduction, the Department now anticipates \$2.4 million to be available, which is \$600,000 less than Adopted Budget. HSSD expects to spend the full \$3.0 million budgeted – this is an increase compared the \$2.3 million spent in FY 2025 for shelter operations, due to increases in shelter staff compensation, full staffing needed to secure the site, and expanded programming to support families at the shelter. HSSD plans to explore other revenue sources, such as ongoing philanthropic opportunities, or identify savings within the HSSD budget to fund DV Shelter operations through FY 2026.

Safe Parking Consolidation – \$170,000 Additional Savings

Following an HSSD announcement issued November 3, 2025, Safe Parking operations at the Aero Drive site were temporarily consolidated with the H Barracks site starting November 17, 2025. The Aero site accommodated approximately 60 spaces and experienced low utilization in recent months (averaging 38% occupancy in October 2025). Assuming the site remains closed for the rest of FY 2026, the consolidation is estimated to generate \$170,000 in savings that should be reflected in the Mid-Year Report.

Use of \$5.9 Million From Measure C to Offset State Grants

The First Quarter Report references \$5.9 million in Measure C revenue collected in the last two months of FY 2025 that is available for eligible expenditures in FY 2026. Although not explicitly stated, the Five-Year Outlook assumes much of these funds would offset anticipated reductions to State Homeless Housing, Assistance and Prevention (HHAP) grant funds. As a result, HSSD expects to use \$20.2 million from HHAP funds in FY 2026, a \$4.2 million reduction compared to assumptions in the Adopted Budget. The Department of Finance indicated that the use of the \$5.9 million from Measure C is subject to change based on revenue performance in FY 2026. A more detailed discussion of this issue can be found in our review of the Five-Year Outlook ([IBA Report 25-36](#)).

Update on Rosecrans Shelter Wind-down

The Adopted Budget included \$488,000 from the Opioid Settlement Fund to free up General Fund resources at the Safe Haven and Emergency Harm Reduction Shelters that could then fund a two-month wind-down of the Rosecrans Shelter, following construction at the shelter site. According to the San Diego Housing Commission, wind-down expenditures totaled approximately \$264,000 as the shelter ceased operations earlier than expected on July 25, 2025. The site was fully decommissioned on September 28, 2025.

Although the Opioid Settlement Fund was initially contemplated as a funding source for this wind-down, expenditures ultimately drew from carryforward State HHAP funds that were available at the end of FY 2025, as the amount of eligible expenditures reimbursable through the Opioid

Settlement Funds at the Safe Haven and Emergency Harm Reduction Shelters were lower than anticipated. An adjustment to the Opioid Settlement Fund will be reflected in the upcoming Mid-Year Report.

STATUS OF ITEMS CITY COUNCIL ADDED IN FY 2026 BUDGET


In its final budget action to approve the FY 2026 Budget on June 23, 2025, the City Council identified resources and took action to add programs and services in the final Adopted Budget. These items represented some of the Council's top budget priorities for FY 2026. The table in Attachment 1 shows the implementation status for each of these additions.

CONCLUSION

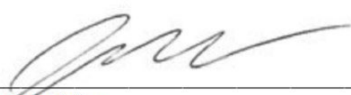
Our review of the First Quarter Report provides additional information on public safety overtime, as well as major General Fund revenues and a few departmental revenues; certain reserves that are not meeting their target balances; and several homelessness programs. Additionally, Attachment 1 of this report includes a table that provides the status of items City Council added in FY 2026 budget.

The First Quarter Report includes a number of negative variances as compared to the Adopted Budget, which in total outweigh the positive variances. Some of the largest negative variances are related to Balboa Park parking fees, parking meter-related fees, and public safety overtime; notably, our Office indicated potential risks associated with projections for these items during adoption of the FY 2026 Budget.

As discussed earlier, the First Quarter Report provides an initial, high-level look at the status of *select* revenues and expenditures for the General Fund and more information, including updated projections for all budgeted revenues and expenditures, will be included in the Mid-Year Report. Our Office will continue to monitor the items we have discussed in this report as part of our review of the Mid-Year Report, expected to be released on January 30, 2026.



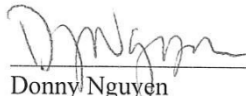
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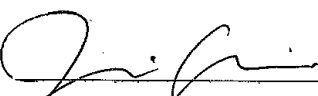
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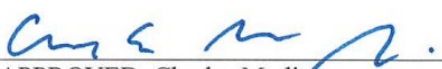
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Attachment 1: Status of City Council's Modifications in FY 2026 Adopted Budget
Attachment 2: Parking Meter Operations Fund Revenue Updates

Status of City Council's Modifications in FY 2026 Adopted Budget			
Description	Item	Amount	Status
General Fund (GF) Expenditures			
<i>GF Operating Budget - One-Time</i>			
Rosecrans Shelter - Two-month Wind-down	1	\$ 488,000	Shelter operations ceased on July 25th, reflecting a less than one-month wind-down, with expenditures totaling \$264,000. As discussed in our review of the First Quarter Report, the wind-down was ultimately funded using carryforward State grant funds.
Central Elementary Safe Parking Support	2	250,000	On November 7, 2025, the SDHC Board approved a contract with Jewish Family Services to operate the site. The contract term runs from November 17, 2025 through November 16, 2026 and allocates a total of \$593,000 (including admin), of which \$343,000 is from the Regional Taskforce on Homelessness and the remaining \$250,000 from City's General Fund. The contract includes a one-year optional renewal, which will depend on the development timeline for planned affordable housing at the site.
Short-Term Rental Occupancy Nexus Study	3	45,000	SDHC is currently reviewing a project proposal, which contemplates study completion within five months of starting.
Partial Reduction of Independent Legal Counsel for the City Auditor's Office	4	(60,000)	Implemented as a one-time reduction in NPE due to delayed procurement for Independent Legal Services, which will remain the full amount of \$180,000 in future year budgets.
<i>GF Operating Budget - Ongoing</i>			
Full Restoration of Recreation Center Hours	5	4,834,000	Implemented.
Restoration of Full Monday Hours at 16 Library Locations	6	3,334,000	Implemented.
Animal Services Contract Funding	7	2,097,000	Implemented, however FY 2026 funding remains \$1.5 million less than the City's contractual obligation to the San Diego Humane Society (SDHC). SDHC has acknowledged and accepted this shortfall; certain services, primarily including park patrols/off-leash dog enforcement have been eliminated
Fleet Fee Adjustments for Clean SD	8	1,410,000	Implemented.

Description	Item	Amount	Status
General Fund (GF) Expenditures			
<i>GF Operating Budget - Ongoing</i>			
Restoration of Parks & Recreation Public Restrooms	9	1,164,000	Implemented.
Restoration of Community Projects, Programs, and Services (CPPS)	10	900,000	Implemented.
Restoration of Recreational Access at Reservoirs	11	889,000	Access has continued at prior year levels.
Restoration of the Office of the City Attorney's Budget	12	500,000	Implemented.
Fire Rescue Brush Management Support Positions (2.00 FTEs)	13	335,000	1.00 Assistant Fire Marshall position has been filled; recruitment is underway to fill 1.00 Information Systems Analyst 2
Restoration of 1.00 Director for the Office of Race & Equity	14	250,000	Implemented. The current budget includes a Deputy Director position under the Office of the IBA's Race and Equity Division, which was filled in July 2025.
Restoration of Stormwater Expenditures Related to Medium Priority Operations	15	175,000	Funded activities continue at previous year levels for the medium priority operations.
Restoration of the Office of the City Auditor's Budget	16	163,000	Implemented.
Restoration of the Office of the IBA's Budget	17	143,000	Implemented.
Parks & Recreation Correction to Electrician Position	18	136,000	This position was moved back to the General Fund from the Maintenance Assessment District Management Fund and Golf Course Fund, where it had been erroneously placed in the May Revise.
Beach Fire Rings Restoration	19	135,000	Implemented.
Library Matching Funds Restoration	20	118,000	Implemented.
Restoration of Department of Finance Office Space Consolidation Expenses	21	114,000	Implemented, however there may be savings associated with Engineering & Capital Projects moving into CAB and being charged rent while tenant improvements at Montgomery Gibbs are being completed.

Description	Item	Amount	Status
General Fund (GF) Expenditures			
<i>GF Operating Budget - Ongoing</i>			
Transfer of the Office of Race & Equity from the Human Resources Department to the Office of the IBA	22	-	Implemented. Race & Equity now operates as a new division in the Office of the IBA. The IBA's Office is working with the City Attorney's Office to amend the Municipal Code to align the division's responsibilities accordingly.
Smart Streetlights and Automated License Plate Readers Contract Cost Contingency	23	-	These costs are contingent on Council review of the 2024 Annual Surveillance Report and subsequent approval of expenditures
Reduction of 1.00 Confidential Secretary to the Mayor	24	(133,000)	Implemented. This position was vacant when it was reduced.
Reduction of 1.00 Council Representative 1 from Council Administration	25	(136,000)	Implemented. This position was vacant when it was reduced.
Reduction of 1.00 Deputy Director from Purchasing & Contracting	26	(184,000)	This position was a proposed FY 2026 add in the May Revise. Position was not created in FY 2026 due to Council Modification.
Reduction of 1.00 Program Coordinator from the Police Department	27	(196,000)	This position serves a critical IT role according to SDPD. The position is currently filled and is being carried by the department as an unbudgeted/supplemental position in FY 2026
Reduction of 1.00 Program Coordinator from Homelessness Strategies & Solutions Department	28	(209,000)	Implemented. This position was vacant when it was reduced.
Reduction of 1.00 Program Coordinator from Performance and Analytics	29	(229,000)	Implemented. This position was vacant when it was reduced.
Reduction of 1.00 Deputy Director from the Compliance Department	30	(239,000)	Despite the budget reduction, the position was filled in July 2025 as a supplemental position to maintain a necessary separation in reporting structure for the Office of Labor Standards Enforcement and the Administrative Hearings Program. As part of a restructure of Compliance, OLSE will be under the City Treasurer's Office.

Description	Item	Amount	Status
General Fund (GF) Expenditures			
<i>GF Operating Budget - Ongoing</i>			
Reduction of 1.00 Principal Accountant from the Department of Finance	31	(258,000)	Implemented. Position was not filled after incumbent retired.
Reduction of 1.00 Deputy Director (CPH) from Parks & Recreation	32	(313,000)	Implemented. This position was vacant when it was reduced.
Reduction of 1.00 Media Services Coordinator and 1.00 Media Services Manager from the Communications Department	33	(327,000)	Although these positions have been eliminated from the budget, the incumbents continue to serve in these roles as supplemental positions.
Reduction of 2.00 Deputy Chief Operating Officers from the Mayor's Office	34	(800,000)	The Mayor has indicated that no DCOOs will be reduced despite the budget reduction.
Total GF Expenditures		\$ 14,396,000	
GF Resources			
<i>GF Operating Budget - One-Time</i>			
Transfer from Opioid Fund to General Fund for Shelter Support	35	\$ 488,000	Included in the final budget as reimbursement of eligible General Fund shelter expenses, thereby freeing-up General Fund monies for the Rosecrans Shelter. Funds ultimately not needed for shelter wind-down, which were funded using carryforward State grant funds. Mid-Year Report will reflect adjustment. Additional details can be found in our review of the First Quarter Report.
County Community Enhancement Grant for Beach Fire Rings	36	135,000	Revenue is anticipated before year-end.
Transfer of Civil Penalty Fund Balance to the General Fund	37	91,000	Transfer will occur before the end of FY 2026, likely last quarter.
Revised TOT Fund Balance Transfer to the General Fund	38	(930,000)	This amount was the anticipated reduction in transfer of TOT fund balance to the General Fund, based on TOT declines in FY 2025.

Description	Item	Amount	Status
GF Resources			
<i>GF Operating Budget - Ongoing</i>			
Transfer from the Solid Waste Fund to the General Fund for Debt Payments	39	6,458,000	Included in the final budget for reimbursement of debt payments that support waste packer and green container purchases. Transfers will take place as debt service payments are made.
Revised Sales Tax Revenue	40	3,728,000	Overall sales tax anticipated in the First Quarter Report to be slightly decreased, by \$393,000, at year-end.
Execution of a parking revenue share agreement with the San Diego Zoo	41	3,000,000	Negotiations between the City and San Diego Zoo are ongoing.
Accelerated Implementation of Parking Fees for Non-Residents at Balboa Park	42	1,500,000	Balboa Park Paid Parking Program has been approved by the City Council and is scheduled to be implemented beginning January 5, 2026; parking revenue is projected to be significantly less than budgeted revenue. Additional details can be found in our review of the First Quarter Report.
Revenue from Parking Meter Credit Card Transaction Fees - from Parking Meter Operations Fund (PMO)	43	1,000,000	The Adopted Budget assumed a full-year implementation. However, actual implementation began on November 2025. As a result, the General Fund is currently anticipated to only receive \$665,000 from the PMO Fund.
Revenue from Adjusted Fines for Expired Parking Meters	44	1,000,000	Revenue from this item was included in the Police Department's Adopted Budget. According to PD, current projections were developed for overall parking citation revenue and are not broken down by specific violation types. PD anticipates meeting its budgeted parking citation revenue of \$28.3 million.
Daylighting Citation Revenue	45	850,000	Same update as item 44 above.
Increased Residual RPTTF Revenue	46	830,000	Residual RPTTF revenue will be received in January 2026 and June 2026.
Revenue from Reservoirs	47	267,000	This revenue is associated with the restoration of recreational access at the City's reservoirs - see item 11 above.

Description	Item	Amount	Status
GF Resources			
<i>GF Operating Budget - Ongoing</i>			
Reduced Revenue from Measure C TOT Homelessness Fund	48	(526,000)	Overall TOT projections are down an additional 1.7% as of the First Quarter Report. However, reduced FY 2026 revenue could be offset by an unbudgeted \$5.9 million in one-time Measure C TOT revenue collected in FY 2025 but not available until after resolution of ongoing litigation in FY 2026. Alternatively, this one-time revenue could mitigate a homelessness funding gap due to HHAP funding reductions in FY 2027. The FY 2027-2031 Five-Year Outlook assumes the latter option.
Cannabis Business Tax Revenue Adjustment	49	(900,000)	CBT revenue is projected to be an additional \$1.5 million lower than the Adopted Budget.
Revised TOT Revenue Projections (non-Measure C revenue)	50	(2,516,000)	TOT projections are down an additional 1.7% as of the First Quarter Report, including by \$2.9 million for the 5.5¢ TOT, \$2.1 million for the 4¢ special promotional programs, and \$527,000 for the 1¢ TOT.
Total GF Resources		\$ 14,475,000	
Non-GF Expenditures			
<i>Non-GF Operating Expenses - One-Time</i>			
Affordable Housing Preservation Fund Support	51	\$ 5,000,000	On January 13, 2026, the Housing Authority is expected to consider an amendment the SDHC FY 2026 Budget to transfer \$5.9M now available in the City's Neighborhood Enhancement Fee Fund to SDHC's Affordable Housing Preservation Fund to acquire and preserve affordable housing.
Expansion of the UCSD Health Transition Partnership (from Opioid Settlement Funds)	52	1,104,000	Contract with UCSD is pending final approvals and should be executed shortly.
Small Business Enhancement Program Funding (from Economic Workforce Development Funds)	53	750,000	The historical low one-time funding for the SBEP has been oversubscribed by BIDs, capacity building grants, and storefront improvement grants. All awards will be finalized by the end of 2025 and expenditures and reimbursements will occur before the end of FY 2026.

Description	Item	Amount	Status
Non-GF Expenditures			
<i>Non-GF Operating Expenses - One-Time</i>			
Support for San Diego LGBT Community Center's Substance Use Disorder Treatment Services (from Opioid Settlement Funds)	54	300,000	Program eligibility has been provided, and contract with San Diego LGBT Community Center is being drafted.
<i>Non-GF Capital Improvements</i>			
Jeremy Henwood Park Improvements	55	2,500,000	Budgeted in project S25004. It is anticipated that the Design-Build contract will be awarded near the end of FY 2026. Staff expenditures in FY 2026 will be approximately \$300,000 and the PO encumbrance for the Design-Build contract will be approximately \$2.5 million.
Marie Widman Comfort Station	56	1,700,000	Budgeted in project L26000. Initiating efforts for the demolition of the existing comfort station. After completing the two existing projects, the Jamacha Drainage Channel Study (B14078) and the Marie Widman Memorial Park General Development Plan (GDP) (P23005), the next steps for the overall site will be determined.
Funding for Feasibility Study for Park Blvd, Normal St, and El Cajon Blvd Intersection (from Community-based Development Impact Fees)	57	600,000	Budgeted in project P26001 The as-needed consultant received a Notice-to-Proceed on November 4, 2025. An Intersection Diagnostic Assessment, Traffic Analysis, and Concept Plans will be completed by the end of February 2026. It is anticipated that the project will expend \$450,000 in FY 2026, which includes costs for both the consultant and City staff.
University City Streetlights	58	300,000	Budgeted in projects B25062/AIH00001. The project is in the 100% citywide plan check phase. Current funding should get through the end of design and construction. Depending on construction start, it is anticipated that \$150,000 will expend in FY 2026.
Total Non-GF Expenditures		\$ 12,254,000	

Description	Item	Amount	Status
Non-GF Resources - One-Time			
Neighborhood Enhancement Fee Revenue to Support the Affordable Housing Preservation Fund	59	\$ 5,000,000	Implementation pending. See item 51 above.
De-appropriate General Fund Notes/Bonds No Longer Needed for Capital Equipment	60	4,500,000	Funding included in CIP budget.
Opioid Settlement Fund Balance to Support the UCSD Health Transition Partnership and LGBT Substance Use Disorder Treatment	61	1,404,000	Monies for these initiatives will be paid directly from the Opioid Fund. Additional information is included on items 52 and 54 above.
Economic Workforce Development Funds to Support the Small Business Enhancement Program	62	750,000	As noted in item 53 above, \$750,000 in grants from the Economic & Workforce Development Fund will be paid out by the end of FY 2026.
Community Based Developer Impact Fees to Support the Feasibility Study for Dangerous Intersections	63	600,000	Funding included in CIP budget.
Total Non-GF Resources		\$ 12,254,000	

Parking Meter Operations Fund Revenue Updates

Revenue generated from City-owned on-street parking meters are used to 1) support parking-related activities, including administration of the program such as staff to collect meter coins and the maintenance of parking meters and enforcement of parking metered spaces, as well as 2) certain transportation-related infrastructure improvements, such as streetlight repair. Parking meter revenue flows into the Parking Meter Operations (PMO) Fund and is first used to cover costs to administer parking meters. The remaining revenue is then allocated to eligible General Fund departments for eligible infrastructure improvements and a portion would normally be allocated to Community Parking Districts, but recent Council action has suspended this transfer for two years.

The FY 2026 Adopted Budget projected \$28.0 million in parking meter revenue to flow in the PMO Fund. This projection accounts for increased parking meter rates beginning in FY 2025, special event pricing for Downtown meters, and expanded parking meter enforcement hours. Based on Transportation Department's current year-end projections, however, parking meter revenue is estimated to be \$7.2 million below the budgeted amount. The table below outlines the variance by each initiative.

Parking Meter Initiative	FY 2026 Adopted Budget	Projected Year- End Revenue	Variance
Existing Parking Meters (Prior to FY 2026)	\$19.2 million	\$15.9 million	(\$3.3 million)
Event-Based Parking Meter Pricing	\$6.3 million	\$1.6 million	(\$4.7 million)
Expanded Hours and Sunday Hours	\$2.6 million	\$1.7 million	(\$900,000)
New Parking Meters ^a	N/A	\$1.6 million	\$1.6 million
Total	\$28.0 million	\$20.8 million	(\$7.2 million)

Note: Totals may not sum due to rounding

^a Does not include parking lots and meter revenue within Balboa Park.

The following sections provide further details on these variances.

Existing Parking Meters Prior to FY 2026

In early 2025, Council voted to double the City's parking meter rates. The FY 2026 Adopted Budget assumed that this action would result in a proportional increase in revenue from existing parking meters, from \$9.6 million to \$19.2 million. However, based on six months⁸ of actual revenue at the higher rates, the Transportation Department now projects year-end revenue to fall short of the budget by \$3.3 million. According to the Department, this reduction is due to

⁸ From March 2025 to August 2025.

behavioral changes – such as carpooling and utilizing other modes of transportation in order to save on costs – associated with the increased parking meter rates.

Event-Based Parking Meter

The FY 2026 Adopted Budget assumed \$6.3 million in revenue from event-based parking meter pricing. Beginning in September 2025, parking meters a half mile from Petco Park during Padres home games and stadium events with over 10,000 attendees are priced at \$10 per hour.

Current projections, however, anticipate revenue from this initiative to only generate \$1.7 million based on the average revenue generated from 16 events in September, anticipated gains from additional enforcement, and approximately 40 remaining events in FY 2026. The Transportation Department attributes this \$4.7 million shortfall primarily to two factors: (1) the budget assuming a larger one-mile special event zone; and (2) a July 1 start date.

Expanded Hours and Sunday Hours

The FY 2026 Adopted Budget assumed that, beginning January 2026, existing parking meter hours would be extended by two hours and be implemented on Sundays. The Adopted Budget projected this initiative to generate \$2.6 million in revenue.

Current projections, however, anticipate revenue from this initiative to be \$900,000 less than budgeted. This decrease is largely attributed to projected revenue from expanded meter hours coming in half of the \$1.8 million budgeted.

New Parking Meters

The City also installed or will install new parking meters within existing parking meter zones, such as those on 5th Avenue (the former Gaslamp Promenade) and on 6th Avenue and Park Boulevard (adjacent to Balboa Park), as well as meter expansions in East Village, Uptown, and Mid-City. Revenue from these initiatives are unbudgeted and are projected to come in at \$1.6 million. We note that this amount does not include revenue generated from parking lots and meters within Balboa Park.