



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2026 Mid-Year Budget Monitoring Report

OVERVIEW

The [FY 2026 Mid-Year Budget Monitoring Report](#) (Mid-Year Report) was issued on January 30, 2026 and was presented to the Budget and Government Efficiency (B&GE) Committee on February 4, 2026. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections using actual (unaudited) data from the first five months of the fiscal year (July through November 2025).

The Mid-Year Report projects a \$16.8 million General Fund revenue shortfall – although subsequent to the release of the Mid-Year Report, the Department of Finance was informed of the anticipated receipt of \$8.0 million in insurance proceeds related to flooding damage at the Old Central Library, which will be available to help partially offset the General Fund revenue shortfall. The \$16.8 million revenue shortfall included in the Mid-Year Report is comprised of \$13.6 million in projected under budget revenues – largely related to reductions in Balboa Park parking fee revenue, Transient Occupancy Tax, and interest earnings – and \$3.2 million in over budget expenditures.

In November, the Mayor instructed departments to implement mitigating actions to alleviate the anticipated FY 2026 revenue shortfall then identified in the First Quarter Report, including a Request to Fill process for vacant positions, suspension of discretionary spending and non-essential overtime, and a zero-based review of external contracts. Although the Mid-Year Report anticipates savings associated with these mitigating actions, departments may be able to identify additional savings as the year progresses, including through potential early implementation of FY 2027 proposed expenditure reductions. Updated projections will be provided in the FY 2026 Third Quarter Budget Monitoring Report, anticipated to be released May 13.

The IBA's review of the Mid-Year Report provides additional information and clarifications for Council and the public. In this report, we review several categories of revenue including major General Fund revenues; Balboa Park parking revenue; parking meter-related revenue; cannabis business tax revenue; and homelessness revenue. We further discuss General Fund expenditures, focusing on salaries and wages (including public safety and Transportation Department overtime), and the impact of the projected revenue shortfall on the General Fund Reserve. We also provide additional context on homelessness expenditures and variances; discuss the Development Services Fund Reserve and operating projections; and review the Mid-Year Report's requested appropriation adjustments.

Additionally, this report includes three status-update attachments: Attachment 1 includes an update on all additions and removals City Council made to the FY 2026 Adopted Budget as part of its final budget resolution, Attachment 2 provides a listing of positions eliminated in the FY 2026 Budget that have not yet been reduced, and Attachment 3 provides updates on Parking Meter Operations Fund revenue-generating initiatives, as well as select expenditure items.

FISCAL/POLICY DISCUSSION

REVENUE OVERVIEW

General Fund revenue is currently projected to end the fiscal year at \$2,157.5 million, which is \$9.9 million, or 0.5%, below the Adopted Budget. Note that the \$2.7 million departmental variance in the table below is different than the \$6.4 million variance in the Mid-Year Report because we are using the *Adopted Budget* as a base for comparison, whereas the Department of Finance is using an updated *Current Budget*. The difference is related to \$3.7 million in increased budgeted revenue for the Transportation Department, which is addressed in the [Transportation – Overtime and Salaries](#) section of this report. For major revenues, the Adopted Budget and Current Budget amounts are the same.

General Fund Revenues (\$ in millions)						
Revenue	Projections			Mid-Year Projection Variances		
	Adopted Budget	First-Quarter Projection	Mid-Year Projection	Variance from Budget	Variance from First-Quarter	Variance from FY 2025
Property Tax	\$ 844.6	\$ 846.1	846.6	\$ 2.0	\$ 0.5	\$ 39.6
Sales Tax	374.5	374.1	376.6	2.1	2.5	4.3
Transient Occupancy Tax ¹	170.3	167.4	162.8	(7.4)	(4.6)	(2.8)
Franchise Fees	103.6	103.6	106.4	2.8	2.8	5.3
Other Major Revenues ²	119.6	119.6	112.8	(6.7)	(6.7)	8.7
Major Revenue Subtotal	\$ 1,612.5	\$ 1,610.8	\$ 1,605.3	\$ (7.2)	\$ (5.4)	\$ 55.0
Departmental Revenue ²	554.9	554.9	552.2	(2.7)	(2.7)	31.0
Total	\$ 2,167.4	\$ 2,165.7	\$ 2,157.5	\$ (9.9)	\$ (8.1)	\$ 86.0

1. Includes only the General Fund portion of Transient Occupancy Tax.

2. Other Major Revenue and all Departmental Revenue amounts in the First-Quarter projection are not updated from the Adopted Budget.

Major General Fund revenue, which accounts for about three-quarters of budgeted revenue, is projected to end the year \$7.2 million, or 0.4%, below budget. The mid-year revenue shortfall

projection is an additional \$1.8 million below projections included in the first quarter budget monitoring report. The continued reduction in major revenue is primarily driven by year-over-year declines in Transient Occupancy Tax (TOT) every month of the fiscal year so far. Other major revenue reductions include \$5.5 million in budgeted but unrealized interest on pooled investments resulting from a lack of positive, investable cash balances¹ and \$2.0 million in budgeted but unrealized transfers to the General Fund from other City funds, such as the 1¢ “Council Discretionary” transfer from the TOT fund. These revenue reductions are partially offset by a combined \$6.9 million in increased revenue projections from Property Tax, Sales Tax, and Franchise Fees.

General Fund revenue from City operating departments is projected to end the year \$2.7 million, or 0.5%, below the Adopted Budget. The departmental revenue reduction is primarily driven by the following *decreases*:

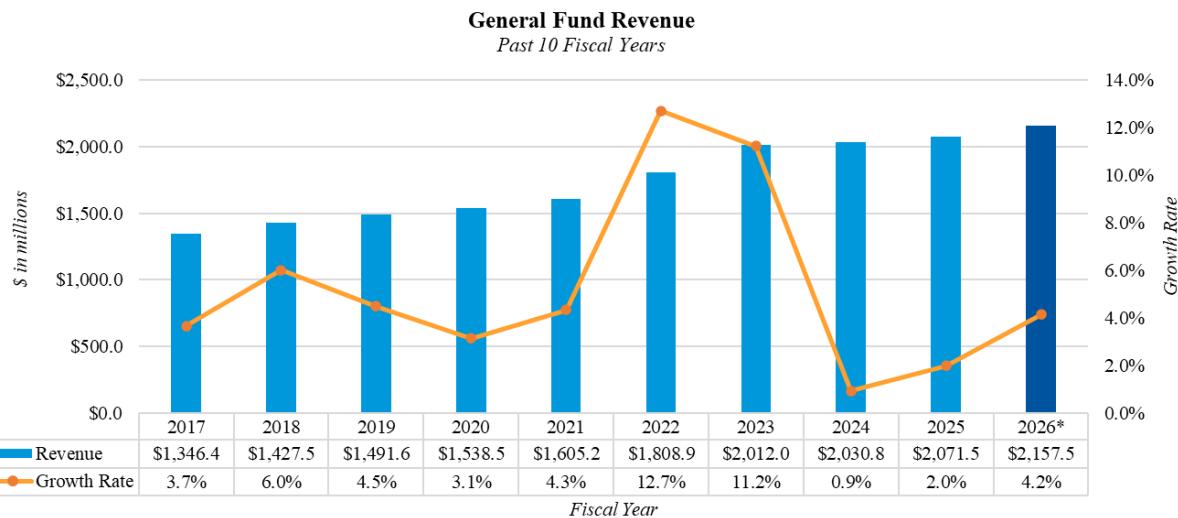
- \$8.8 million in parking revenue for Parks & Recreation from Balboa Park;
- \$4.1 million in TOT Special Promotional Programs revenue for General Fund reimbursable expenses, including \$4.0 million in reduced revenue to HSSD;
- \$2.4 million in lease and corporate sponsorship revenue for the Economic Development Department from telecom leases and IKE wayfinding kiosks, respectively;
- \$2.1 million in cannabis business tax for the City Treasurer; and
- \$1.8 million in parking citation revenue for the Stormwater department from street sweeping.

These reductions are partially offset by higher-than-expected departmental revenue *increases*, the largest of which include:

- \$5.0 million in additional services charged to non-General Fund departments for Transportation;
- \$4.3 million in additional reimbursements to Fire-Rescue for strike team deployments and the Junior Lifeguard Program and Paramedic School;
- \$2.3 million in increased reimbursements, largely related to special event security, for Police; and
- \$5.0 million in other net combined General Fund revenue from multiple departments, each totaling less than \$1.0 million.

FY 2026 General Fund revenue is projected to end the fiscal year at an estimated \$86.0 million, or 4.2%, above the FY 2025 unaudited year-end actuals, though \$9.9 million below FY 2026 Budgeted amounts. The projected General Fund revenue growth is greater than the previous two fiscal years but remains below the 10-year historical average of 5.5% growth.

¹ The lack of cash balance is largely due to the reduction of \$105.0 million in Excess Equity in FY 2025 and delayed CIP reimbursements from bond proceeds after the General Fund advances funds for projects.



* FY 2017 to FY 2025 are actual revenue amounts, but FY 2026 is a projection of revenue as the fiscal year has not finished.

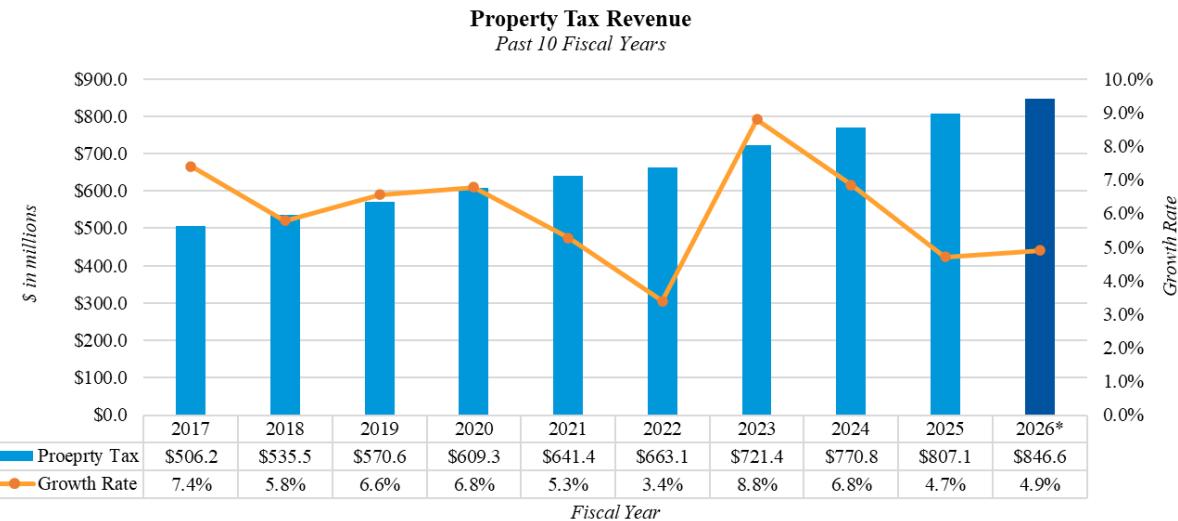
MAJOR GENERAL FUND REVENUES

Property Tax

Property Tax revenue is projected to end the year at \$846.6 million, which is \$2.0 million, or 0.2%, more than the Adopted Budget and \$0.5 million, or 0.1%, more than the First Quarter projection. Property Tax revenue continues to show consistent growth, with FY 2026 year-end projections expected to be \$39.9 million, or 4.9%, above FY 2025 actuals.

The largest changes to projected property tax revenue are a \$1.0 million increase in the Motor Vehicle License Fee (MVLF) and a \$1.0 million increase in Redevelopment Property Tax Trust Fund (RPTTF) Residual Property Tax distribution to the City.

Property Tax revenue to the City from the sale of Tailgate Park was not included in the FY 2026 Adopted Budget, so the recent termination of that transaction does not impact General Fund revenue.

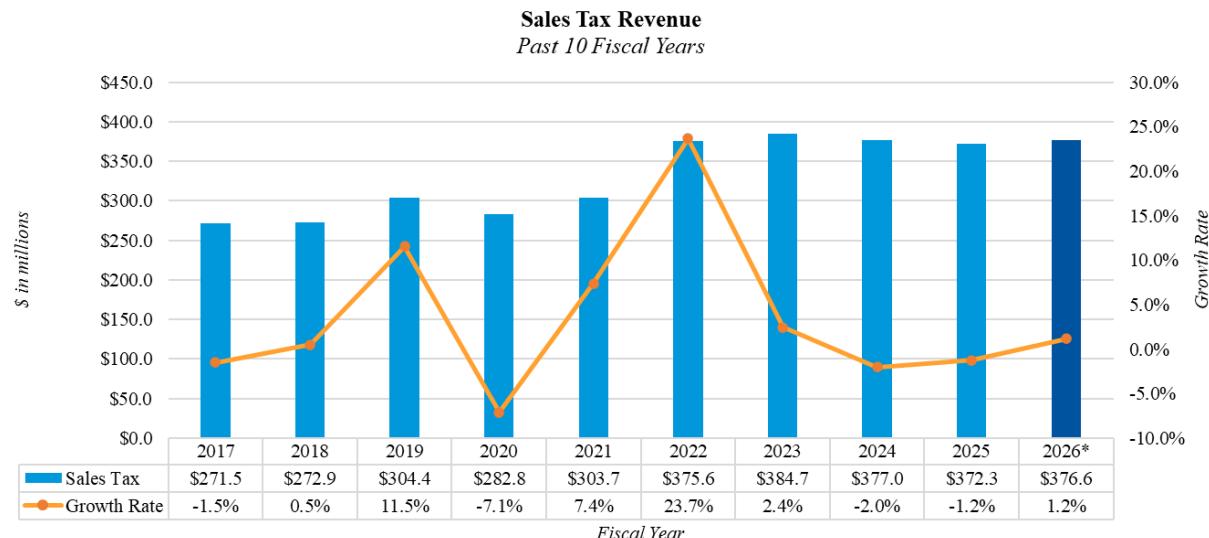


* FY 2017 to FY 2025 are actual revenue amounts, but FY 2026 is a projection of revenue as the fiscal year has not finished.

Sales Tax

Sales Tax revenue is projected to end the year at \$376.6 million, which is \$2.1 million, or 0.6%, above the Adopted Budget, and \$2.5 million, or 0.7%, above the First Quarter projection.

The FY 2026 year-end projection is \$4.3 million, or 1.2%, more than the FY 2025 year-end actual. If the current FY 2026 projection holds true, this would be the fourth fiscal year of sales tax growth below the 10-year historical average of about 4.0%.



* FY 2017 to FY 2025 are actual revenue amounts, but FY 2026 is a projection of revenue as the fiscal year has not finished.

The Department of Finance projected FY 2026 Sales Tax revenue of \$376.6 million is 0.6% lower than the projection from the City's Sales Tax consultant, HdL. Our Office concurs with the Department's projection and will continue to update Council as more data becomes available.

The California Department of Tax and Fee Administration (CDTFA) will release its fiscal second-quarter clean-up payment for sales between October 2025 and December 2026 on February 19, 2026. Since this quarter includes seasonal holiday spending, the industry-specific sales data the City receives will be important for accurately updating projections. This is particularly significant because the City's sales growth has been buoyed by online merchandise sales from the County pool.

Additionally, we note that while our Office concurs with the current Sales Tax projection, there are complicating factors Council and public should be aware of. Most notably, economists have increasingly used the term "K-Shaped" to describe the post-pandemic, bifurcated economic recovery, where consumer spending from higher-income households, the upper arm of the K, grows, while consumer spending from lower-income households, the lower arm of the K, contracts or declines. This dependence on consumer spending from high-income households may be a result of high returns from stocks, like those in the S&P 500 index, supercharged by rapid growth in artificial intelligence (AI) companies. The City's Sales Tax growth this year may mask increased risks associated with a potentially overheated stock market that could lead to larger impacts on the City's sales tax revenues if the market cools or faces a downturn. In the immediate future, however,

continued or heightened levels of spending from some households may continue after consumers receive increased tax refunds from provisions in the One Big Beautiful Bill Act (OBBBA) that may act like a one-time stimulus payment.

Transient Occupancy Tax

The General Fund portion of Transient Occupancy Tax is projected to end the year at \$162.85 million, which is \$7.4 million, or 4.4%, below the Adopted Budget, and \$4.6 million, or 2.7%, below the First Quarter projection.

While the Mid-Year Report references the 5.5% General Fund allocation of TOT, it is important to note that changes in TOT receipts impact all allocations, shown in the table below.

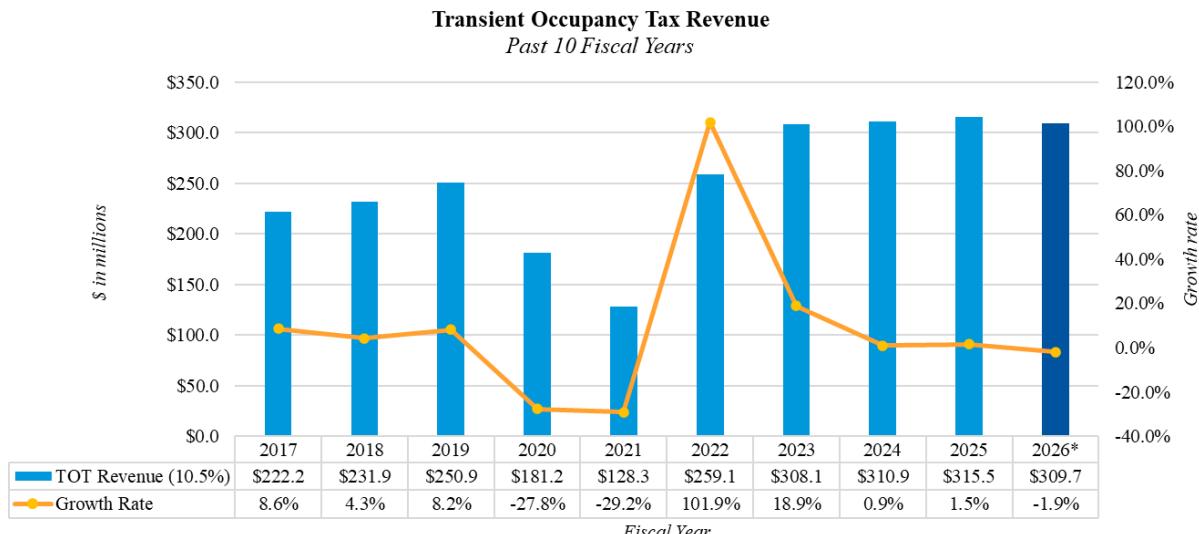
Transient Occupancy Tax (TOT) Revenue (\$ in millions)						
TOT Allocation	Projections			Mid-Year Projection Variances		
	Adopted Budget	First-Quarter Projection	Mid-Year Projection	Variance from Budget	Variance from First-Quarter	Variance from FY 2025
General Fund Allocation (5.5%)	\$ 170.3	\$ 167.4	\$ 162.8	\$ (7.4)	\$ (4.6)	\$ (2.8)
Special Promotional Programs (4.0%)	122.7	120.6	117.5	(5.2)	(3.1)	(2.4)
Council Discretionary (1.0%)	30.7	30.2	29.4	(1.3)	(0.8)	(0.6)
Subtotal	\$ 323.6	\$ 318.1	\$ 309.7	\$ (14.0)	\$ (8.5)	\$ (5.8)
TOT Homelessness Fund	32.6	31.5	30.7	(1.9)	(0.8)	N/A
TOT Convention Center Fund	47.7	45.4	44.2	(3.5)	(1.2)	N/A
Subtotal (Measure C)	\$ 80.3	\$ 76.9	\$ 74.9	\$ (5.4)	\$ (2.0)	N/A
Total	\$ 403.9	\$ 395.0	\$ 384.5	\$ (19.4)	\$ (10.5)	\$ (5.8)

Note: The variance between the FY 2025 Actuals and FY 2026 Mid-Year Projection for Measure C revenue is "N/A" because Measure C was not implemented for the entire 2025 fiscal year.

All Transient Occupancy Tax (TOT) revenue is projected to end the year at \$384.5 million, which is \$19.4 million, or 4.8%, below the Adopted Budget. Notably, the 10.5% portion of TOT that goes to the General Fund, Special Promotional Programs, and Council Discretionary budgets is down a combined \$14.0 million, or 4.3%, below the Adopted Budget. Those revenue sources, including the TOT Homelessness Fund, are used to reimburse eligible General Fund expenses. This means the actual General Fund impact of TOT revenue coming in below budgeted is greater than just the \$7.4 million variance in the 5.5% General Fund portion noted above.

The declines in TOT revenue can be at least partially attributed to reduced international travel to the U.S., particularly among Canadian travelers, which has resulted in negative or flat hotel room demand, particularly in the business and group travel segments. Flat demand and increasing hotel room supply, particularly outside of the City, have pushed down occupancy levels and nightly stay rates, which has in turn decreased the revenue per available room, which has a close correlation with TOT revenue.

Additionally, since the publication of the Mid-Year Report, TOT actuals for January 2026 came in \$1.3 million, or 6.6%, lower than the same period a year ago and less than budgeted projections. This equates to a \$0.4 million reduction to the 5.5% General Fund portion and 1.0% Council Discretionary portion of TOT revenue beyond the reductions noted in the Mid-Year Report.



* FY 2017 to FY 2025 are actual revenue amounts, but FY 2026 is a projection of revenue as the fiscal year has not finished.

Franchise Fees

As of the Mid-Year Report, Franchise Fee revenue is projected to end the year at \$106.4 million, which is \$2.8 million, or 2.7%, above the Adopted Budget, and \$5.3 million, or 5.2%, more than the FY 2025 year-end actuals. The growth is primarily because of increases in the facility franchise fee payments from the Sycamore Canyon Landfill.

The Adopted Budget estimated a \$66.3 million franchise fee payment from SDG&E, which makes up 64.0% of the franchise fee revenue group. The City will receive the annual clean-up payments from SDG&E at the end of February, which will largely determine what the year-end actuals for franchise fee payments actually are. Our Office will work with the Department of Finance and SDG&E to ensure the Council receives a timely update after the payment is made, and we will provide more detailed information in our review of the Third Quarter Report.

GENERAL FUND DEPARTMENTAL REVENUES

This section discusses select departmental revenues, including Balboa Park parking revenue, parking meter-related revenue, Cannabis Business Tax revenue, and homelessness revenue.

Balboa Park Paid Parking Program Revenue

The Mid-Year Report assumes that paid parking within Balboa Park will generate approximately \$3.7 million in revenue, which represents an \$8.8 million shortfall compared to the \$12.5 million that was included in the Adopted Budget.

Given the timing of the Parks & Recreation Department's submission for the Mid-Year Report, this estimate was based on limited transactional data following the implementation of the paid parking program on January 5, 2026. For context, in January – the first month of implementation of the parking program – the City collected \$615,000 in revenue: \$380,000 from meters and

\$235,000 from parking permit applications. Staff's updated revenue projection based on this additional data amounts to \$3.1 million.

Following the release of the Mid-Year Report, the Mayor announced certain modifications to the paid parking program on February 6. These modifications, effective March 2, 2026, include expanding free parking for verified City residents at Level 2 and Level 3 lots, ending paid parking enforcement two hours earlier at 6:00 pm, reclassifying of two Level 1 lots as Level 2 lots,² and allowing free parking in all stalls within the park for vehicles displaying a disabled license plate or placard. With these modifications, staff now projects that year-end revenue from the paid parking program will generate \$2.5 million, which is \$10.0 million below the Adopted Budget.³

Balboa Park Parking Program Projections					
	Adopted Budget	Mid-Year Report Projection	Updated Projection based on January Transactional Data	Updated Projection w/ Program Modifications	FY 2026 Projected Budget Variance
Revenue	\$ 12,500,000	\$ 3,744,829	\$ 3,066,586	\$ 2,542,936	\$ (9,957,064)
(less) Expenditures	\$ (1,425,000)	\$ (1,093,750)	\$ (1,093,750)	\$ (920,500)	\$ 504,500
Net	\$ 11,075,000	\$ 2,651,079	\$ 1,972,836	\$ 1,622,436	\$ (9,452,564)

Expenditures to implement and operate the program are currently projected to be approximately \$505,000 under budget, resulting in a projected overall \$9.5 million net impact to the General Fund.

Parking Meter-Related Revenue

The FY 2026 Adopted Budget assumes the General Fund will receive \$21.4 million from the Parking Meter Operations (PMO) Fund for eligible expenses, including streetlight repair and pothole repairs, as well as parking enforcement. However, because PMO Fund revenues are projected to fall short of the Adopted Budget and parking meter expansion costs are projected to increase, anticipated year-end transfers to the General Fund have been reduced to \$17.8 million, which is approximately \$3.6 million lower than what was budgeted. Note that this amount accounts for Council's action on October 2025 to waive contributions to the Community Parking Districts through FY 2027, as well as revenue collected from "loss-of-revenue" fees related to both metered spaces being used as valet zones and from construction projects encroaching on metered spaces. For additional details on the PMO Fund, see Attachment 3 of this report.

Cannabis Business Tax Revenue

The City imposes a Cannabis Business Tax (CBT) on non-medical cannabis businesses that operate or provide services within its jurisdiction. As of writing, there are 28 cannabis retail outlets

² Palisades and Bea Evenson lots are reclassified as Level 1 lots.

³ This amount may be a conservative projection given a relatively low 15% adjustment for seasonality, and the potential for January to represent an outlier given the temporary enforcement grace period following implementation and initial behavior changes responding to fees that may moderate over time.

and 13 cannabis production facilities (CPFs) operating within the City, along with 35 additional CPFs located outside the City that also remit CBT.

The Mid-Year Report projects \$19.1 million in CBT revenue, which is \$2.1 million below the \$21.3 million included in the Adopted Budget. This projected shortfall is primarily due to a continued decline in reported taxable gross receipts driven by increased competition from the illegal market and decreased wholesale prices from an oversupply of cannabis products.

We note that although \$3.5 million of the projected \$19.1 million in CBT revenue is attributed to the 2% rate increase for retail outlets,⁴ it remains unclear whether this adjustment contributed to the overall projected shortfall by driving customers to other jurisdictions or the illicit market. For context, the average decline in year-over-year taxable sales per outlet in the three months prior to the rate increase (February through April 2025) was comparable to the three-month period following the increase (May through July 2025).⁵ This suggests that the 2% CBT rate increase for outlets did not have a significant, immediate impact on taxable sales, as the downward trend was already being driven by pre-existing factors.⁶

We also note that the mid-year projection does not account for the implementation of [California Assembly Bill 8](#) (2025), which, effective January 2026, limits the sale of intoxicating hemp products exclusively to licensed cannabis dispensaries. The City Treasurer's Office indicated that this legislation is unlikely to impact the City's FY 2026 CBT revenue, as enforcement will require additional resources at both the local and State levels, and it is currently unknown when or if those resources will be allocated. For context, the City Treasurer's Office referenced the State's [emergency regulation](#) in 2024 banning intoxicating hemp products, which did not have an impact on local CBT revenues.

Given the volatility of the market, we will continue to closely monitor CBT revenue. Updated projections will be included in the Third Quarter Report, scheduled for release on May 13, 2026.

Homelessness Departmental Revenue

The City's homelessness services are funded through a mix of revenues, including TOT reimbursements, Measure C revenue for homelessness, and various grant funds, including State Homeless Housing, Assistance and Prevention Program (HHAP) grants. As discussed in our review of the Five-Year Outlook ([IBA Report 25-36](#)), the Outlook contemplated the use of \$5.9 million from one-time Measure C revenue for homelessness collected in FY 2025 (but only available for FY 2026 due to now resolved litigation) to offset the use of limited HHAP funds by \$4.2 million, thereby extending the use of HHAP into the out years. Given mid-year projections reduce TOT revenue, General Fund revenues for homelessness are impacted, including a \$4.0 million reduction in TOT reimbursements and \$1.9 million reduction in Measure C revenue. As a

⁴ In May 2025, the CBT rate for retail outlets increased from 8% to 10%.

⁵ The average decline in year-over-year taxable sales per outlet from February to April 2025 is -22.8%, while the average decline from May to July 2025 is -21.4%.

⁶ Data from the State's [Monthly Sales Summary Report](#) also experienced a year-over-year decline in the same periods.

result, \$5.6 million⁷ of the \$5.9 million one-time Measure C funds are included in the General Fund mid-year projections to offset decreases in TOT reimbursements and Measure C revenue *rather than* being used to offset State HHAP funds, which will remain as originally budgeted in FY 2026 at \$24.4 million.

GENERAL FUND EXPENDITURES

The Mid-Year Report projects FY 2026 General Fund expenditures to total \$2.17 billion, \$6.9 million higher than the FY 2026 Adopted Budget (this is a negative expenditure variance). This variance is 0.3% of the Adopted Budget, as shown in the following table. Note that the \$6.9 million expenditure overage in the table below is different than the \$3.2 million overage in the Mid-Year Report because we are using the Adopted Budget as a base for comparison, whereas the Department of Finance is using an updated “current budget”. The difference is related to \$3.7 million in increased budgeted expenditures for the Transportation Department, including \$3.4 million in increased budgeted overtime, which is addressed in the [Transportation – Overtime and Salaries](#) section of this report.

FY 2026 General Fund Expenditures (\$ in millions)					
	Adopted Budget	Mid-Year Projection	Variance: Budget to Mid-Year	Variance %: Budget to Mid-Year	
Salaries and Wages	\$ 961.5	\$ 979.7	\$ (18.2)	(1.9%)	
Fringe Benefits	602.3	602.6	(0.3)	(0.1%)	
Non-Personnel Expenditures (NPE)	603.6	592.0	11.6	1.9%	
Total General Fund Expenditures	\$ 2,167.4	\$ 2,174.3	\$ (6.9)	(0.3%)	

Notes: Table may not add due to rounding.

Positive variances are spending below budget levels. Negative variances are overages or spending above budget levels.

Overall, salaries and wages are projected to end FY 2026 \$18.2 million above amounts in the Adopted Budget (shown above as a negative expenditure variance), driven by a number of overages in salaries and wage components, the largest of which is overtime. Savings in non-personnel expenditures (NPE) partially offset the salaries and wages overage for a net General Fund expenditure overage of \$6.9 million.

The main focus of our General Fund expenditures analysis is salaries and wages, which is addressed in the following sections. Our report does not discuss fringe benefits and NPE variances, as these are already well covered in the Mid-Year Report. Note that mid-year projections include savings adjustments based on historical trends: these adjustments are discussed in the [General Fund Reserve Considerations](#) section of this report.

⁷ The Mid-Year Report includes \$5.6 million out of \$5.9 million one-time Measure C revenue despite a combined \$5.9 million reduction in TOT reimbursement and Measure C revenue, as projected savings in homelessness expenditures are expected to make up the difference, to be discussed later.

Salaries and Wages – Variances by Category

The following table compares the FY 2026 mid-year projections to the Adopted Budget for the various salaries and wage categories. The bottom row in the variance column shows that salaries and wages in total are \$18.2 million, or 1.9%, higher than what was included in the FY 2026 Adopted Budget (shown as a negative variance).

FY 2026 Salaries and Wages Expenditures - General Fund (\$ in millions)				
	Adopted Budget	Mid-Year Projection	Variance: Budget to Mid-Year	Variance %: Budget to Mid-Year
Salaries	\$ 764.8	\$ 765.4	\$ (0.6)	(0.1%)
Overtime	99.8	116.1	(16.2)	(16.3%)
Special Pay	65.7	68.4	(2.7)	(4.2%)
Hourly	17.2	15.3	1.9	11.2%
Vacation Pay in Lieu	9.7	9.5	0.2	1.9%
Termination Pay	4.4	5.0	(0.6)	(14.7%)
Total Salaries and Wages	\$ 961.5	\$ 979.7	\$ (18.2)	(1.9%)

Notes: Table may not add due to rounding.

Positive variances are spending below budget levels. Negative variances are overages or spending above budget levels.

As the table shows, there are projected overages in the salaries, overtime, special pay, and termination pay categories; these overages are partially offset by savings in hourly pay and vacation pay-in-lieu. The largest General Fund overages and savings in salaries and wage categories are highlighted below:

- Salaries – net \$648,000 overage (shown as a negative variance)
 - (\$3.0 million) – City Attorney
 - (\$3.0 million) – Fire-Rescue
 - (\$2.1 million) – Transportation
 - (\$581,000) – Human Resources
 - Salary overages are partially offset with \$3.9 million in savings from Parks & Recreation; a \$2.3 million citywide adjustment based on historical trends; and \$541,000 from Stormwater.
- Overtime – net \$16.2 million overage (shown as a negative variance)
 - (\$6.8 million) – Fire-Rescue
 - (\$4.6 million) – Transportation
 - (\$3.4 million) – Police
 - (\$883,000) – Parks & Recreation
- Special Pay⁸ – net \$2.7 million overage (shown as a negative variance)
 - (\$897,000) – Fire-Rescue

⁸ 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).

- (\$679,000) – Police
- (\$540,000) – Stormwater
- Hourly – net \$1.9 million savings (shown as a positive variance)
 - \$1.2 million – Police
 - \$514,000 – City Council
 - Multiple other departments have a combined \$2.6 million in additional hourly savings. Hourly savings are partially offset with overages of \$1.8 million from Parks & Recreation and \$574,000 from Fire-Rescue.

Salaries and Wages – Departmental Variances

As noted, total salaries and wage expenditures net to \$18.2 million more than what was included in the FY 2026 Adopted Budget. In the section above, variances are discussed by 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:

- Fire-Rescue – \$11.5 million above budget (largely overtime, salary, special pay, and hourly overages)
- Transportation – \$6.4 million above budget (largely overtime and salary overages)
- Police – \$2.8 million above budget (largely overtime and special pay overages, partially offset with hourly savings)
- City Attorney – \$2.6 million above budget (largely salary overage)

Departments with the highest salaries and wage *savings* include:

- Citywide Program Expenditures – \$2.3 million below budget (for the citywide savings adjustment based on historical trends)
- Parks & Recreation – \$1.1 million below budget (largely salary savings, partially offset with hourly and overtime overages)

The next three sections discuss specific departmental variances: overtime overages for the Fire-Rescue and Police Departments, and overtime and salary overages for the Transportation Department.

Fire-Rescue – Overtime

The Fire-Rescue Department is projected to exceed its overtime budget by \$6.8 million at fiscal year-end, for total projected overtime expenditures of \$56.9 million. The projected overtime overage is offset by \$1.4 million in revenue above what is budgeted for reimbursable strike team deployments in FY 2026, which results in a projected net General Fund impact of \$5.4 million. Total projected overtime expenditures represent a \$2.2 million increase compared to the First Quarter Report.

Overtime to meet fire-suppression constant staffing needs accounts for the majority of the projected overage at \$4.9 million. The other significant driver is associated with increased fire dispatch overtime representing approximately \$1.1 million of the projected overage. According to

the Department, this use of overtime is necessary to backfill dispatcher positions while recent new hires complete dispatcher training.

Police – Overtime

The Police Department is projected to exceed its FY 2026 overtime budget by \$3.4 million at fiscal year-end, for total projected overtime expenditures of \$48.6 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 \$2.3 million in revenue above what is budgeted for reimbursable overtime activities in FY 2026, which would result in a net General Fund impact of \$1.1 million at fiscal year-end. This projection is a slight improvement from the First Quarter Report which projected a net impact of \$1.2 million.

At \$48.6 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) which indicates the Department's efforts to better manage overtime are proving effective.

Transportation – Overtime and Salaries

The Transportation Department is projected to exceed its FY 2026 overtime budget by \$4.6 million, for a total projected overtime expenditure of \$6.6 million. The Mid-Year Report shows this overage as \$1.2 million, but that is due to two previous actions that increased the Transportation Department's overtime budget while also increasing corresponding revenues to the General Fund, as shown in the table below. This overage in overtime is in addition to the Transportation Department also projected to exceed its FY 2026 salary budget by \$2.1 million, mostly due to hiring at a faster pace than projected following the lifting of the Request to Fill process at the beginning of FY 2026 and prior to its reimposition after release of the First Quarter report.

Transportation Overtime Adjustments (\$ in millions)	
Adopted Budget	\$ 2.1
Parking District Adjustment	1.8
Increased Spending for a Sidewalk CIP	1.6
<i>Current Overtime Budget</i>	\$ 5.4
Additional Projected Overtime Spending	1.2
Total Projected Overtime	\$ 6.6

Overtime overages have become common in the Transportation Department over the last several years, as shown in the following table. Looking back to FY 2019, Transportation was able to stay relatively close to its overtime budget until around FY 2023. Since then, however, overtime overages have grown substantially. These overages have largely been driven by increasing work from increases in Priority 1 emergency responses and additional regulatory requirements related

to DigAlert duties.⁹ Additionally, overtime overages have allowed Transportation to reduce the pothole backlog and increase the number of sidewalk repairs and streetlight fixes, however, and these increases in service levels were not budgeted for. As overtime expenditures exceeded budget for these services, other services have been reduced to keep the Department within its overall budgeted allotment. For example, tree trimming services were noted as being reduced in the FY 2025 Mid-year Report to keep Transportation within budget, and finished FY 2025 with actuals under budget for contracts by approximately \$1.6 million.

Transportation Overtime Budget v Actuals (\$ in millions)			
	Budget	Actual	Difference
FY 2019	\$ 1.2	\$ 1.3	\$ (0.1)
FY 2020	\$ 1.5	\$ 1.6	\$ (0.1)
FY 2021	\$ 1.3	\$ 1.2	\$ 0.1
FY 2022	\$ 1.3	\$ 1.9	\$ (0.6)
FY 2023	\$ 1.3	\$ 3.4	\$ (2.1)
FY 2024	\$ 1.3	\$ 5.4	\$ (4.1)
FY 2025	\$ 1.3	\$ 6.2	\$ (4.9)
FY 2026	\$ 5.4	\$ 6.6	\$ (1.2)

Notably, a majority of Transportation's overtime projections for FY 2026 has yet to actually be expended. As of the Mid-Year, which includes spending through the first five months of the fiscal year, only \$1.8 million out of the projected \$6.6 million has been spent. Historically, the Department spends approximately 37.4% of its total overtime expenditures during the first five months of a fiscal year. If this trend continues, the total projected spend for overtime would be \$4.7 million.

Our Office asked Transportation to outline the impacts of slowing overtime for the remainder of the year, specifically to avoid the \$1.2 million overage identified in the Mid-Year Report. Transportation indicated that of the \$6.6 million in projected overtime spending, only \$2.3 million is non-reimbursable and is primarily associated with Priority 1 emergency response and storm events. The Department further noted that most remaining anticipated overtime supports mill-and-pave activities and slurry seal projects, and that without this additional overtime spending, it would be unable to generate the revenue levels assumed in the Current Budget.

This suggests a misalignment between budgeted revenues and the level of expenditures required to generate those revenues within Transportation's General Fund budget. When revenues are overstated or expenditures understated, deficits result. Accordingly, we recommend that the Department of Finance, in coordination with Transportation, ensure the FY 2027 Proposed Budget better aligns expenditure assumptions with revenue projections. In the near term, given the

⁹ DigAlert refers to a state mandate on the City to provide markings of underground city infrastructure prior to another entity beginning to dig. These mandates have strict timelines that must be adhered to. For Transportation, this work mainly involves electricians conducting mark outs for electrical wiring required for streetlights and traffic signals.

projected FY 2026 General Fund deficit, Transportation should limit overtime to Priority 1 emergencies and storm response, and/or ensure that any additional overtime is directly tied to generating revenues consistent with the FY 2026 budget.

GENERAL FUND RESERVE CONSIDERATIONS

The City began the fiscal year anticipating a year-end General Fund Reserve balance of \$207.1 million, shown in the following table. Based on the projected revenue shortfall in the Mid-Year Report, this balance is anticipated to decrease by \$16.8 million, as the Reserve would be used to balance the shortfall. However, subsequent to the release of the Mid-Year Report, the Department of Finance was informed of an offsetting \$8.0 million in anticipated insurance proceeds related to flooding damage at the Old Central Library.¹⁰ Consequently, if year-end activity were to equal the mid-year revenue and expenditure projections, adjusted for the additional insurance proceeds, the General Fund Reserve would need to be tapped by \$8.8 million. The resulting impact to the General Fund Reserve is shown in the table.

FY 2026 General Fund Reserve Policy vs Reserve Balance (\$ in millions)	
Year-End Reserve Balance Projected at Budget Adoption	\$ 207.1
Projected Revenue Shortfall per the Mid-Year Report	(16.8)
Additional Insurance Proceeds	8.0
Projected Year-End Reserve Balance	\$ 198.3
Reserve Policy Target ^a	262.9
Difference: Amount Projected Reserve Is Below Policy Target	\$ (64.6)

Note: Table may not total due to rounding.

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

Pulling \$8.8 million from the Reserve to help balance the General Fund would lower the projected year-end Reserve balance to \$198.3 million, or 10.6% of operating revenues. This amount is \$64.6 million below the [City Reserve Policy's](#) FY 2026 target of \$262.9 million, or 14.1% of operating revenues. Given how the City's fiscal challenges have impacted recent budgeting processes, the Department of Finance is currently working with the Mayor's Office on proposed revisions to the Reserve Policy, which are anticipated to be presented later this fiscal year.

It is important to note there is always some uncertainty in mid-year projections. Some more significant areas of uncertainty in FY 2026 include impacts of departmental mitigation directives, such as the Request to Fill process for vacant positions, suspension of discretionary spending and non-essential overtime, and a zero-based review of external contracts. Departments may also be able to identify additional savings as the year progresses, including through potential early implementation of FY 2027 proposed expenditure reductions. However, the Department of

¹⁰ In our earlier TOT section we noted that the January 2026 TOT actuals remitted after the release of the Mid-Year Report (the 5.5% General Fund portion and 1.0% Council Discretionary portion) reduced the TOT revenue projections by \$0.4 million. This change is not included in our overall General Fund Reserve discussion here; there are further uncertainties for overall mid-year projections that will impact the ultimate FY 2026 revenue shortfall, as discussed later in this section.

Finance incorporated overall General Fund expenditure savings adjustments associated with historical trends and mitigation directives into the mid-year projections, which total \$13.0 million, including \$2.3 million for salaries and wages, \$709,000 for fringe benefits, and \$10.0 million for non-personnel expenditures, and consequently some of the potential additional savings noted above may already be reflected in the mid-year projections. The Department of Finance notes that it is unable to predict the departments or categories where these savings will occur. If these savings do not materialize by year-end, the resulting negative impact could further reduce the General Fund Reserve.

HOMELESSNESS EXPENDITURES

Consistent with recent years, the Mid-Year Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on programs and spending. The HSSD memorandum projects \$52.6 million in year-end expenditures, which is \$1.3 million below Adopted Budget. This section provides additional context for changes not already discussed in that memorandum.

January Storm Shelter Relocation Costs Unknown

Following a storm on January 1, 2026, the 16th and Newton sprung shelter flooded, requiring a temporary relocation of households to the San Diego Municipal Gym. Unanticipated relocation expenses included sanitization after potentially hazardous materials were released from overturned portable restrooms, tent repair and resealing, renting ancillary services at the Municipal Gym (e.g., portable restrooms, showers, laundry trailers, and dumpsters), and clean-up costs to restore the Municipal Gym back to prior conditions. HSSD anticipates absorbing relocation costs using projected budgetary savings once costs are known in March. Shelter operations moved back to the 16th and Newton site on February 4, 2026. For reference, relocation costs at the same shelter after the January 2024 storms totaled \$788,000, but tent damage from the recent storm was not as severe.

Other Program Updates

Below we note other program updates based on HSSD's budget at mid-year:

- *Staffing Vacancies at Safe Sleeping.* Combined \$669,000 in savings are projected due to staffing vacancies at the 20th and B and "O" Lot Safe Sleeping sites.
- *Public Restrooms Security Services Savings.* The Mid-Year Report includes \$148,000 in estimated savings relative to Adopted Budget from eliminating security services for public restrooms.

DEVELOPMENT SERVICES FUND

The Mid-Year Report projects year-end revenues for the Development Services Fund to exceed expenditures by \$11.7 million. In FY 2025, the Fund ended the year with a shortfall of \$17.8 million and no Reserve balance. Based on the Mid-Year Report, the Fund is projected to end FY 2026 with an improved though continuing negative fund balance, estimated at \$6.0 million. As the Fund's shortfall persists, the Fund will continue with no Reserve balance for FY 2026 and hence

not meet its Reserve policy goal of \$19.3 million, as seen in the table below. The Department expects to mitigate the shortfall by the end of FY 2027.

Development Services Fund Reserve Policy Target vs Reserve/Fund Balance (\$ in millions)		
	FY 2025	FY 2026^a
Reserve Policy Target Percent	15.0%	15.0%
Reserve Policy Target ^b	\$ 15.9	\$ 19.3
Projected Reserve Balance	-	-
Difference: Amount Reserve Balance Is Below Policy	\$ (15.9)	\$ (19.3)
Reserve Balance as Percent of Operating Expenditures	0.0%	0.0%
Beginning Reserve/Development Services Fund Balance	\$ 3.4	\$ (17.8)
Year-End Revenues	122.7	161.2
Year-End Expenditures	143.9	149.4
Ending Development Services Fund Balance	\$ (17.8)	\$ (6.0)

Note: Table may not total due to rounding.

^a FY 2026 balances, revenues, and expenditures are projected.

^b The Reserve targets are based on the average of the prior three years' operating expenditures.

As noted in the Mid-Year Report, year-end revenue for the Fund is projected at \$161.2 million, a \$17.1 million or 11.9% increase from Adopted Budget. This increase was primarily driven by a 12.3% increase in DSD fees that took effect on May 5, 2025; implementation of a dynamic pricing model that charges fees based on time of invoicing rather than upon completed application submittal, in effect on July 1, 2025; and increased billable work. The Development Services Department (DSD) also noted positive revenue impacts due to new State Building Code updates, which occur on a three-year cycle with the most recent update going into effect on January 1, 2026. According to DSD, historically, the month preceding Code updates typically sees a 20% to 40% increase in permitting activity, as applicants seek to submit permit applications before new State Building Codes go into effect and thereby be subject to the prior State Building Codes. In December 2025, the month before this latest update, Department revenues exceeded mid-year projections by \$3.0 million, which will be reflected in the Third Quarter Report.

PROPOSED APPROPRIATION ADJUSTMENTS

The Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year General Fund deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The “Council may approve the Mayor’s recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor.”

The Mid-Year Report projects a budgetary deficit of \$16.8 million – which based on newly available information is anticipated to be reduced to \$8.8 million, as previously discussed. The Report also conveys that in response to this deficit, the City plans to implement various mitigation efforts; in the absence of sufficient resources from mitigation efforts, the City will utilize the General Fund Reserve as needed to support operating expenditures. Discussions regarding

mitigation actions and uncertainties with respect to the mid-year projections are included in the [General Fund Reserve Considerations](#) section of this report.

Council is being asked to approve several General Fund appropriation reallocations among departments involving non-personnel expenditures. These reallocations do not increase overall expenditure appropriations for the General Fund, but rather better align appropriations with mid-year projected spending by using \$8.8 million in savings in Citywide Program Expenditures to cover increased expenditures in Economic Development, Parks & Recreation, Police, Stormwater, and Transportation, as described in the Mid-Year Report. Notably, these reallocations will not cover the *full* over-budget expenditure projections for all these departments: specifically, appropriations to Parks & Recreation, Police, and Transportation will cover a *portion* over their overages, but those departments are still expected to identify savings or other mitigations within their departments' operations to cover the remaining overages. Council is also asked to approve two non-general fund appropriation increases, including to the Airports Fund and Engineering & Capital Projects Fund. *Our Office supports the proposed appropriation adjustments necessary for continued operations, though Council may wish to request more details on the appropriateness of the General Fund appropriation given the overall projected current-year deficit.*

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, as well as the several reductions the Council made to the Budget.

CONCLUSION

This report provides clarifying and additional information related to the Mid-Year Report for Council and the public. We review several categories of General Fund revenue; discuss General Fund expenditures, focusing on salaries and wages (including public safety and Transportation Department overtime); and consider the impact of the projected revenue shortfall on the General Fund Reserve. We also provide additional context on homelessness expenditures and variances; discuss the Development Services Fund Reserve and operating projections; and review the Mid-Year Report's requested appropriation adjustments. Additionally, we provide three status-update attachments: Attachment 1 includes an update on all items the Council modified in the FY 2026 Adopted Budget as part of its final budget resolution, Attachment 2 provides a listing of positions eliminated in the FY 2026 Budget that have not yet been reduced, and Attachment 3 provides updates on Parking Meter Operations Fund revenue-generating initiatives, as well as select expenditure items.

The Mid-Year Report is projecting a \$16.8 million General Fund revenue shortfall – although subsequent to the release of the Mid-Year Report, the Department of Finance was informed of the

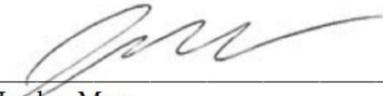
anticipated receipt of \$8.0 million in insurance proceeds related to flooding damage at the Old Central Library, which will be available to help offset the General Fund revenue shortfall. The \$16.8 million revenue shortfall included in the Mid-Year Report is comprised of \$13.6 million in projected under budget revenues – largely related to reductions in Balboa Park parking fees, Transient Occupancy Tax, and interest earnings – and \$3.2 million in over budget expenditures.

The mid-year projections are somewhat uncertain as discussed in the [General Fund Reserve Considerations](#) section of this report, including with respect to future impacts of recent mitigation directives (such as the Request to Fill process, suspension of discretionary spending and non-essential overtime, and a zero-based review of external contracts). Departments may also be able to identify additional savings as the year progresses, including through potential early implementation of FY 2027 proposed expenditure reductions, though given that the Mid-Year Report already includes \$13.0 million in reduced expenditure projections to account for mitigations and historical spending patterns, much of the potential additional savings may already be accounted for. Assuming there will be a revenue shortfall for FY 2026, there will be a corresponding reduction to the already underfunded General Fund Reserve. Updated projections will be provided in the FY 2026 Third Quarter Budget Monitoring Report, anticipated to be released May 13.

The Council is being asked to approve several General Fund appropriation reallocations among departments, involving non-personnel expenditures. These reallocations do not increase overall expenditure appropriations for the General Fund, but rather better align appropriations with mid-year projected spending. Council is also asked to approve two non-general fund appropriation increases, including to the Airports Fund and Engineering & Capital Projects Fund. Our Office supports the proposed appropriation adjustments necessary for continued operations, though Council may wish to request more details on the appropriateness of the General Fund appropriation given the overall projected current-year deficit.



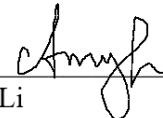
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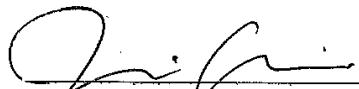
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APPROVED: Charles Modica
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Attachment 1: Status of City Council's Modifications in FY 2026 Adopted Budget
Attachment 2: Positions Removed from the FY 2026 Budget That Have Not Been Reduced
Attachment 3: Parking Meter Operations Fund Updates

Status of City Council's Modifications in FY 2026 Adopted Budget						
Description	Item	Amount	Status *			
General Fund (GF) Expenditures						
GF Operating Budget - One-Time						
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	Implemented. This site is currently in operation. 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	A study is currently underway and expected to be complete in Summer 2026.			
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.			
GF Operating Budget - Ongoing						
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.			

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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 before the end of FY 2026.
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	Implemented. 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.

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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	-	Budgeted funding is authorized to be expended following Council review and approval of the Police Department's 2024 Annual Surveillance Report on December 9, 2025.
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)	As part of a restructuring of Compliance in November, several positions were transferred to the City Treasurer's Office, which is requesting the Deputy Director position be restored with a corresponding reduction of the Compliance Director position as part of the FY 2027 Budget process. Attachment 2 provides additional information.

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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 (CPII) 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. 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.

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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 Mid-Year Report to be increased, by \$2.1 million, 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 was 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 Mid-Year 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. Mid-Year projections anticipate parking meter revenue to be at \$27.9 million, which is \$400,000 less than the Adopted Budget. Total expired meter citations issued from July 1, 2025 to date is 59,560.
Daylighting Citation Revenue	45	850,000	Similar update as item 44 above. Total daylighting citations issued from July 1, 2025 to date is 12,449.
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.

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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 4.4% as of the Mid-Year Report. However, an unbudgeted \$5.6 million in one-time Measure C TOT revenue collected in FY 2025 but not available until after resolution of ongoing litigation in FY 2026 is expected to offset reduced FY 2026 revenue.
Cannabis Business Tax Revenue Adjustment	49	(900,000)	CBT revenue is projected to be an additional \$2.1 million lower than the Adopted Budget.
Revised TOT Revenue Projections (non-Measure C revenue)	50	(2,516,000)	TOT projections are down an additional 4.4% as of the Mid-Year Report, including by \$7.4 million for the 5.5¢ TOT, \$5.2 million for the 4¢ special promotional programs, and \$1.3 million 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 March 17, 2026, the Housing Authority is expected to consider an amendment to 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	Implemented. Funds in the amount of \$1.5 million have been disbursed to UCSD for the Health Transition Partnership.
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.

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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	The contract with San Diego LGBT Community Center is currently being finalized.
<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 have been about \$166,000 thus far and will total about \$300,000 for the year. The PO encumbrance for the Design-Build contract will be approximately \$2.5 million.
Marie Widman Comfort Station	56	1,700,000	There are 3 existing projects underway at the park. The Comfort Station is budgeted in project L26000. Initiating efforts for the demolition of the existing comfort station. After completing the two other 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 contract (totaling \$292,000) initiated work in November 2025. An Intersection Diagnostic Assessment, Traffic Analysis, and Concept Plans will be completed by the end of February 2026 and planning efforts will be completed in FY 2027. The project is expected to spend \$450,000 in FY 2026, including costs for the consultant and City staff, of which \$65,000 has been expended thus far.
University City Streetlights	58	300,000	Budgeted in projects B25062/AIH00001. The project is in the 100% citywide plan check phase. Currently fully funded through the end of design and construction. Depending on construction start, it is anticipated that \$100,000 will be spent in FY 2026 and the remaining will support construction in FY 2027.
Total Non-GF Expenditures		\$ 12,254,000	

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

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	

* Status items in green include updates to the information provided in Attachment 1 to the First Quarter Report.

Positions Removed from the FY 2026 Budget That Have Not Been Reduced				
Job	Fund	Department/ Office	Cost Center	Status Updates
Deputy City Clerk 2	General Fund	City Clerk	Elections & Information Services	This position was one of seven positions in the Clerk's Office that were reduced in the FY 2026 budget. The Office was able to place all impacted employees into other available vacant positions, except for this one, and would have been subject to the Reduction in Force process. During meet and confer negotiations, it was agreed that this position would be left unbudgeted and funded with salary savings from keeping another position vacant.
Program Coordinator	General Fund	Communications	Department Management	City Council budget modification item. The Program Coordinator position was eliminated in the FY 2026 Budget, however, the incumbent continues to serve in this role. This position provides communications support to operational and public safety departments, as well as support to the social media program. Additionally, this position manages the Department's media inquiry intake process. The Communications Department considers this position critical to its operations and has requested the restoration of this position for FY 2027.
Program Manager	General Fund	Communications	Department Management	City Council budget modification item. The Program Manager position was eliminated in the FY 2026 Budget, however, the incumbent continues to serve in this role. This position manages the City's social media and marketing program, including the management of digital and social media advertising contracts, the City's presence on hiring platforms, and other promotional content. The Communications Department considers this position critical to its operations and has requested the restoration of this position for FY 2027.

Positions Removed from the FY 2026 Budget That Have Not Been Reduced				
Job	Fund	Department/ Office	Cost Center	Status Updates
Deputy Director	General Fund	Compliance	Minimum Wage Compliance	<p>City Council budget modification item. Prior to being reduced by Council in July 2025, this position was vacant since August 2024. It was subsequently filled in July 2025 as an unbudgeted position to maintain a necessary separation in reporting structure between the Office of Labor Standards and Enforcement (OLSE) and the Administrative Hearings Program within the Compliance Department. As part of the restructuring of Compliance in November 2025, the Director (which was vacant) and Deputy Director positions, OLSE, and the Project Labor Agreement program were transferred to the City Treasurer's Office (CTO). The CTO is requesting the restoration of the Deputy Director position (which will oversee the transferred programs) along with a corresponding reduction of the Director position as part of the FY 2027 budget process.</p>
Safety Officer	General Fund	Compliance	Safety & Environmental	<p>This position has been moved to the Risk Management Department as part of the organizational realignment announced in November, which included consolidating Compliance Department functions into related operational areas. During negotiations with MEA regarding FY 2026 position reductions, it was agreed that this position would be maintained as an unbudgeted position to mitigate transfer of bargaining unit work to unclassified staff. The position is currently vacant, and Risk Management has initiated the Request to Fill process. Risk Management has requested the restoration of this position for FY 2027.</p>
Program Coordinator	General Fund	Human Resources	Employee Experience	<p>While this position continues to be included among Human Resources' positions, since September 2025, the incumbent has been charging time worked to the Environmental Services Department (ESD). ESD had a critical need for support in their contact center due to increased call volume resulting from implementation of the Measure B trash collection fee. The transfer of this supplemental position from Human Resources to ESD is in process, and ESD has also requested the position be added to their FY 2027 Budget.</p>

Positions Removed from the FY 2026 Budget That Have Not Been Reduced				
Job	Fund	Department/ Office	Cost Center	Status Updates
Deputy Chief Operating Officer	General Fund	Office of the Mayor	Office of the Mayor	City Council budget modification item. The Mayor has indicated that no DCOOs will be reduced despite the budget reduction.
Deputy Chief Operating Officer	General Fund	Office of the Mayor	Executive Team	City Council budget modification item. The Mayor has indicated that no DCOOs will be reduced despite the budget reduction.
Program Coordinator	General Fund	Police	Information Technology Section Management	City Council budget modification item. This position was initially reduced within Mayor's Veto; it's currently filled and is being carried by the Department as an unbudgeted/supplemental position in FY 2026 citing the position's critical IT role. The Police Department has requested the restoration of this position for FY 2027.
Administrative Aide 2	Transient Occupancy Tax Fund	Special Events & Filming	Special Events	This filled position was removed in the FY 2026 Budget, however, the incumbent continues to serve in the position on an unbudgeted basis. After the position was removed, City management met and conferred with MEA and determined the elimination of the position would require transferring bargaining group work from a classified employee to unclassified employees. The Special Events & Filming Department has requested the restoration of this position for FY 2027.
Associate Civil Engineer	Development Services Fund	Development Services	Engineering Permit Review	This position was one of 58 DSD positions eliminated in the Adopted Budget. According to DSD, this position is now vacant following the RIF process, and system updates to reflect the vacancy are pending.

Note: Of the 432.75 citywide non-hourly FTEs removed from the FY 2026 Budget, we identified 11.00 FTEs that have not been reduced for various reasons - shown in the table. This listing was obtained with the assistance of the Department of Finance; the IBA's Office worked with the operating departments on the status updates in this table.

Parking Meter Operations Fund Updates

Revenue generated from City-owned on-street parking meters is 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; and 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 General Fund departments for eligible infrastructure improvements, with a portion allocated to [Community Parking Districts](#) (CPDs), per [Council Policy 100-18](#) (Community Parking District). Note that allocations to the CPDs have been suspended for the next two years.

Parking Meter Operations Fund Revenue

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 the Mid-Year Report's projections, parking meter revenue is estimated to be \$5.0 million below the budgeted amount. The table below outlines the variance by each initiative.

Parking Meter Initiative	FY 2026 Adopted Budget	Mid-Year Projection 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	\$1.7 million	(\$4.6 million)
Expanded Hours and Sunday Hours	\$2.6 million	\$1.6 million	(\$1.0 million)
New Parking Meters ^a	\$0	\$1.6 million	\$1.6 million
Loss-of-Revenue Fees Related to Parking Meters	\$0	\$2.1 million	\$2.1 million
Interest in Pooled Investments	\$0	\$129,000	\$129,000
Total	\$28.0 million	\$23.0 million	(\$5.0 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, the Mid-Year Report projects year-

end revenue at \$15.9 million, which is \$3.3 million below the Adopted Budget. According to the Transportation Department, this reduction is due to 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 Pricing

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

Mid-year projections, however, anticipate revenue from this initiative will only generate \$1.7 million, which is \$4.6 million less than what was included in the Adopted Budget. The Mid-Year Report attributes the \$4.6 million shortfall primarily to two factors: (1) the budget assuming a larger one-mile special event zone; and (2) a July 1st start date.

According to the Transportation Department, the projected \$1.7 million in revenue related to event-based parking meter rates assumes 57 events in FY 2026. The Department also noted that if more events exceeds this assumption, additional revenue could be generated. For context, there have been 23 events from September 2025 through January 2026.

Expanded Hours and Sunday Hours

The FY 2026 Adopted Budget projected that extending parking meter hours by two hours and adding Sunday hours would generate \$2.6 million in revenue. Mid-year projections anticipate revenue from these initiatives to only be \$1.6 million. This decrease is largely attributed to the delay in the implementation of Sunday hours for certain residential corridors, with the Mid-Year report anticipating implementation of those Sunday hours would shift from January to April 2026; as discussed below, given recent Council decisions this decrease is likely to grow. Beyond that, actual daily revenue from expanded meter hours has averaged only half of the anticipated \$10,000 per day.

Per [San Diego Municipal Code Section 86.0128\(d\)](#), a Residential Parking Permit Area must be created prior to enforcing parking meters in Sundays at residential or mixed-use areas within parking meter zones. With Council's decision on January 27th to not implement a residential permit program for Sundays in the Mid-City, Uptown, and Downtown parking meter zones, Sunday hours are no longer anticipated to be applied to residential corridors in those areas. Staff noted that this adjustment could further reduce mid-year projected revenue by approximately \$700,000.

Some meters within the City have implemented Sunday hours. These meters are located in 5th Avenue in the Gaslamp Quarter, Pacific Beach, India Street in Downtown, 6th Avenue and Park Boulevard (meters adjacent to Balboa Park), and San Diego Avenue in Uptown.¹

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 and Mid-City. The Transportation Department indicates that meter expansions in Uptown is no longer anticipated in FY 2026, as expansion efforts will instead focus on the San Ysidro parking meter zone.

Revenue from meter expansions was unbudgeted, and projected in the Mid-Year Report to come in at \$1.6 million. However, with the shift in expansion efforts from Uptown to San Ysidro, an adjustment not reflected in the Mid-Year Report, mid-year projected revenue is anticipated to decrease by \$200,000, resulting in an updated FY 2026 revenue estimate of \$1.4 million.

Loss-of-Revenue Fees

“Loss-of-Revenue” fees are charges imposed to entities to compensate for revenue lost as a result of actions to use metered spaces for other approved purposes, as discussed below. Revenue from these types of fees was not included in the FY 2026 Adopted Budget for the PMO Fund, however \$2.1 million in revenue is projected at mid-year. Of this projected amount, \$1.4 million is attributable to loss-of-revenue fees from construction projects encroaching into metered spaces. For context, the City has collected \$569,000 from this category during the first half of the fiscal year.

The remaining \$700,000 of projected revenue is attributable to loss-of-revenue fees related to metered spaces being used as valet zones by private businesses. Note that this projected amount assumed that all operators with existing valet zone permits prior to the implementation of updated loss-of-revenue fees would renew their permits.² However, not all operators have done so. To date, actual revenue collected from the loss-of-revenue fee related to valet zones is \$585,000. The Transportation Department indicated that spaces used as valet zones by businesses that did not renew their permits will be converted back to metered parking spots.

Staff indicate that revenue from the loss-of-revenue fees was not budgeted in the PMO Fund due to: (1) in the case of fees related to construction projects, the Department of Finance and the City Attorney’s Office are still determining the appropriate fund allocation of revenue; and (2) for of

¹ As of writing, FY 2026 actual revenue collected from meters charging on Sundays is \$157,000.

² Council updated the loss of revenue fee for valet zones on November 27, 2025.

fees related to valet zones, fee amounts were adjusted several months after the FY 2026 Adopted Budget was approved.

Parking Meter Operations Expenditures

The Mid-Year Report projects PMO Fund year-end expenditures to be \$23.7 million, which is \$5.0 million less than the \$28.7 million included in the Adopted Budget. This \$5.0 million net projected savings includes two offsetting components. First, a \$2.2 million increase in capital expenses associated with the acquisition of new multi-space meters to support the expansion of parking meter operations. Second, a reduction of \$7.1 million in available funds that can be transferred to the General Fund to cover eligible parking meter-related expenditures. The following sections provide additional details on select expenditure items.

Personnel Expenditures

The City Treasurer's Office (CTO) recently filled 2.00 unbudgeted Parking Meter Technician positions and is currently in the process of filling another 1.00 unbudgeted Senior Parking Meter Technician position. These positions install, remove, and maintain parking meters throughout the City, as well as collect coins. According to the CTO, the estimated FY 2026 cost of these positions, funded by the PMO Fund, is \$123,000 and is accounted for in the mid-year projections.

Note that these positions are also able to issue citations for parking meter violations, generating revenue for the General Fund. The CTO anticipates FY 2026 General Fund revenue of \$126,000 from citations issued by these three positions. This amount is also reflected in the Mid-Year Report.

Waiver of Council Policy 100-18

On October 27, 2025, the Council approved waiving [Council Policy 100-18](#) (Community Parking District) for Fiscal Years 2026 and 2027 on October 27, 2025. Subsequently, Council appropriated \$1.8 million originally assumed to be allocated for CPDs in FY 2026 to the Transportation Department's General Fund budget to cover reimbursable parking expenditures. According to the Transportation Department, progress on the use of these funds as of mid-winter is as follows:

Area	Streetlight Repairs	Pothole Patching
Downtown	490	381
Mid-City	407	1,326
Pacific Beach	117	158
Uptown	216	423
Total	1,230	2,288

Staff noted that funding will continue to be used for streetlight and pothole repairs through June 2026. The Transportation Department also anticipates using this funding to initiate select sidewalk and traffic safety improvements, such as sidewalk repairs, restriping parking meter markings, and the evaluation of crosswalks.

Transfer to the General Fund

The FY 2026 Adopted Budget assumes that the PMO Fund will reimburse the General Fund a total of \$21.4 million for eligible expenses, including streetlight repair and pothole repairs, as well as parking enforcement. However, because PMO Fund revenues are projected to fall short of the Adopted Budget, anticipated year-end transfers to the General Fund have been reduced to \$17.8 million. We note that this projected amount includes \$1.8 million originally intended to reimburse Community Parking Districts, as well as the use of approximately \$700,000 in fund balance.