

San Diego City Budget Overview

Presentation to La Jolla Town Council

February 2026



Office of the Independent Budget Analyst

Providing the City Council and the public with clear, objective, and unbiased information and analysis.



Presentation Overview

Items Covered

- Background
 - Roles of Mayor, Council , IBA
 - Background on Budget Process & Timeline
- Overview of Current Year Budget
 - Revenue source; expenditures by Department
- Fiscal Outlook for FY 2027
 - Deficit projected, needs to be closed
 - Options to generate additional revenue limited; focus needs to be on cuts
- Public Utilities Department (Water/Sewer service) Outlook
 - Continued need for rate increases for both systems
- Questions & Answers

The background is a dark, semi-transparent image of a person in a white lab coat sitting at a desk. The desk is covered with papers, a laptop, and a pen. Overlaid on this image are various data visualization elements: line graphs, bar charts, pie charts, and numerical values like '308.52' and '187.23'. The overall aesthetic is professional and data-driven.

Background Roles & Authorities

Roles and Authorities

MAYOR



- Chief Executive; manages City services and programs on a day-to-day basis
- Proposes an Annual Budget to Council

COUNCIL



- Reviews, amends, and approves the Mayor's Proposed Budget and changes throughout year
- Creates, reviews, and adopts City Policies

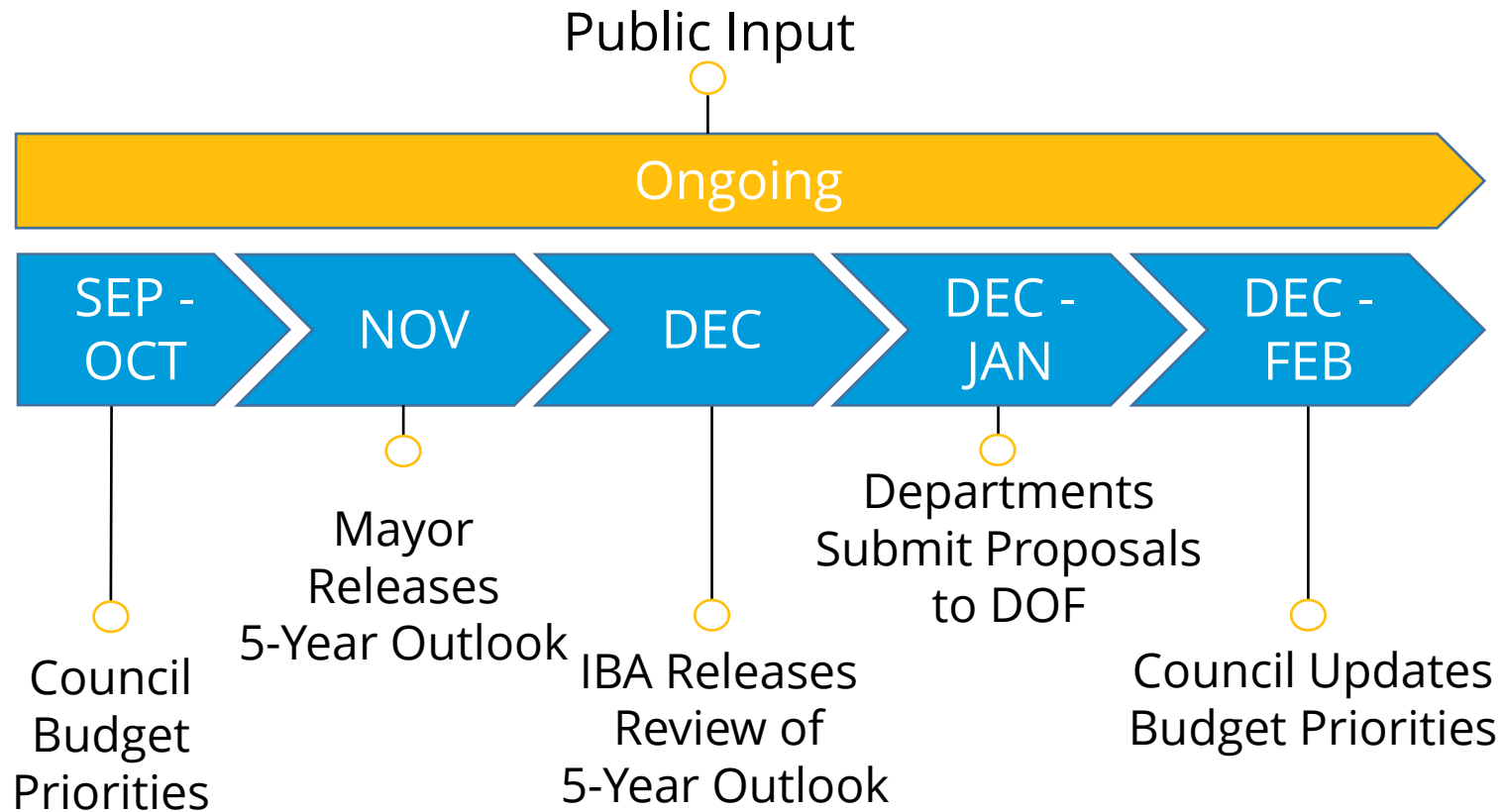
IBA



- Provides analysis of budgets & policies to Council and Public
- Provides *information & advice* to Council; Council is ultimate decision-maker

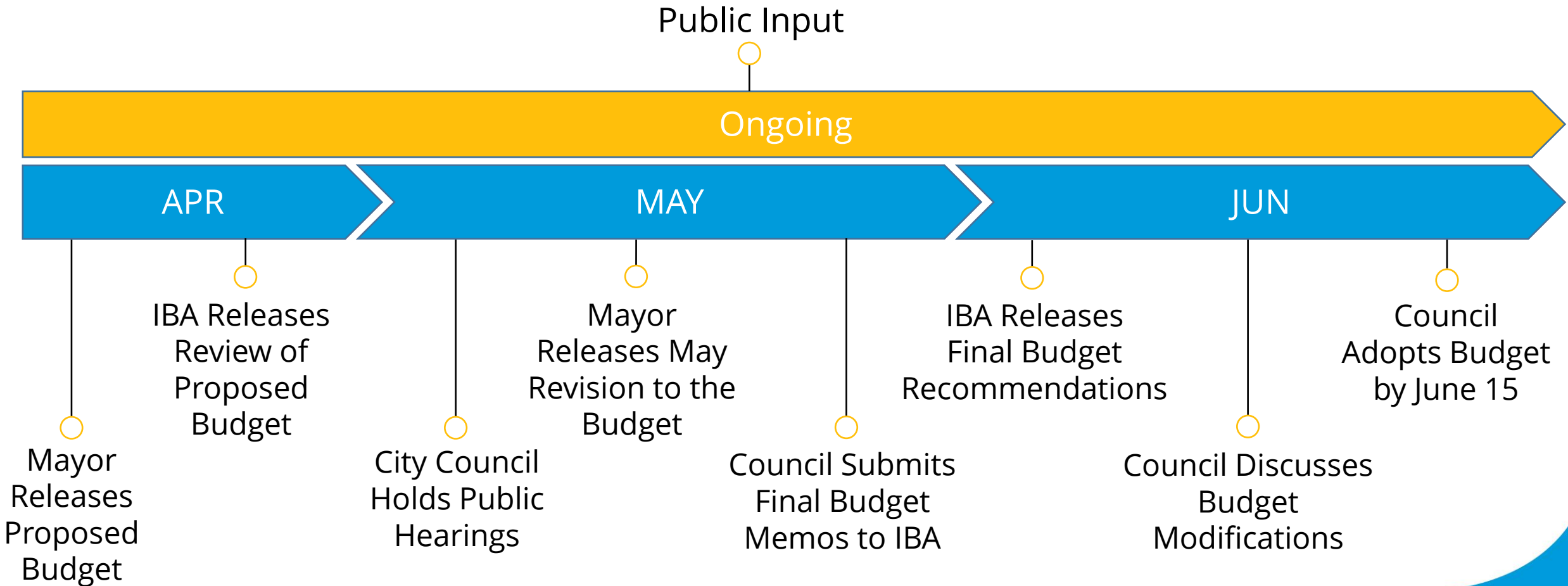
How is the Budget created?

Budget Development Process



How is the Budget created?

Budget Adoption Process



Current Year (FY 2026) Budget Overview

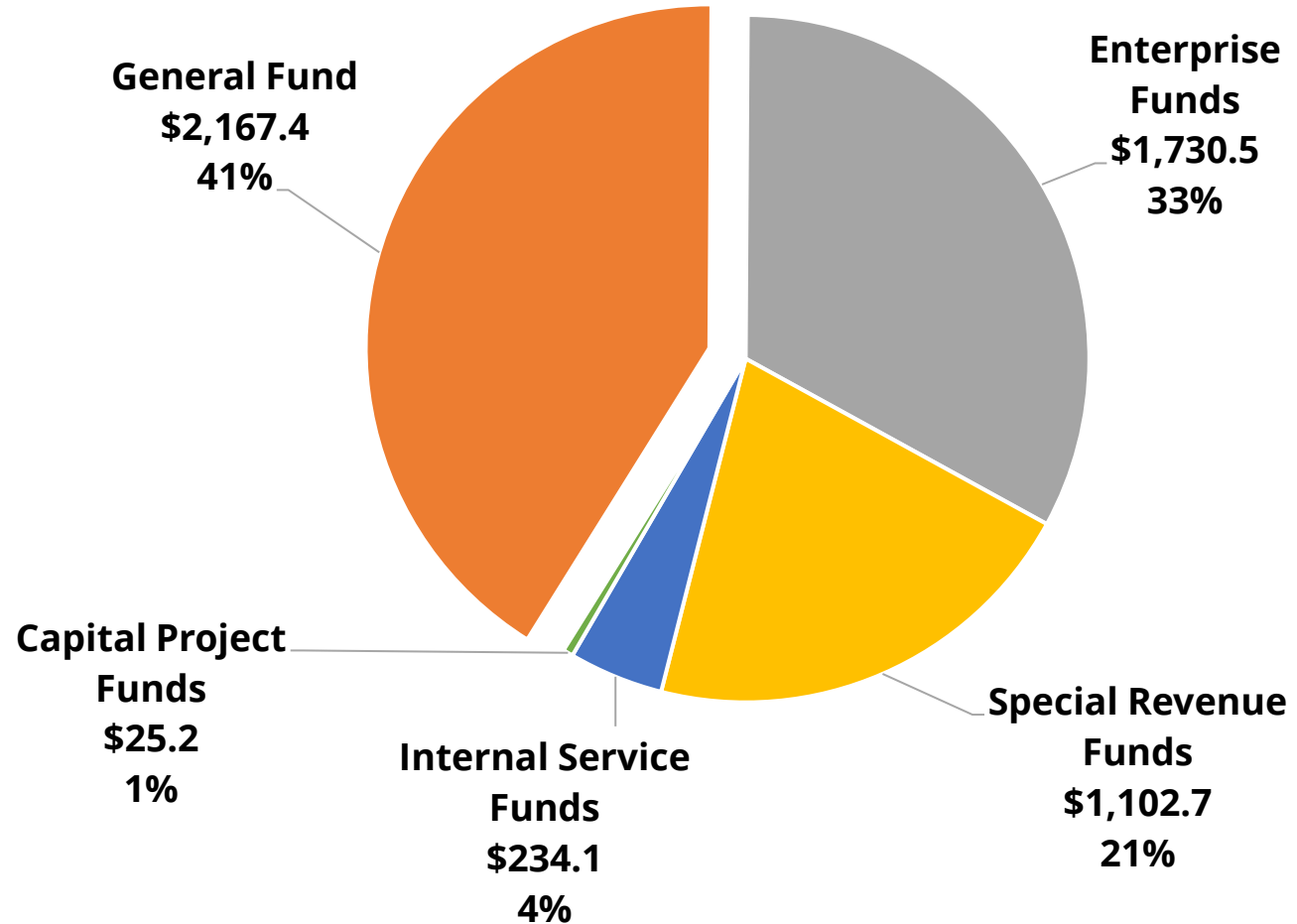
FY 2026 Budget Overview

While the City's total FY 2026 Budget is \$5.26 billion, the **General Fund** supports general City services with unrestricted dollars

Expenditure cuts will be targeted towards General Fund

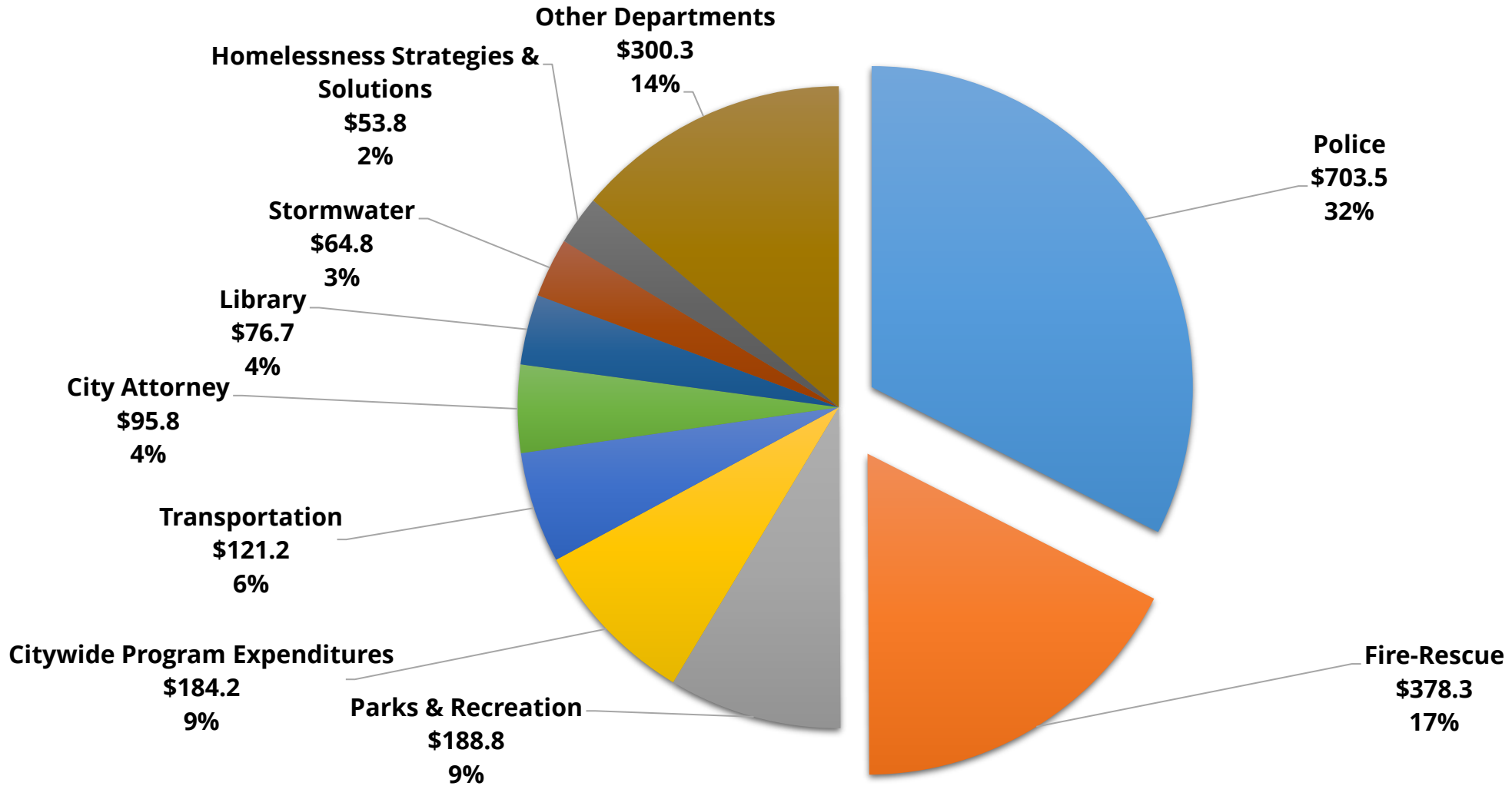
FY 2026 City Expenditures by Fund Type/Programs

(Total: \$5.26 Billion; \$ in million)

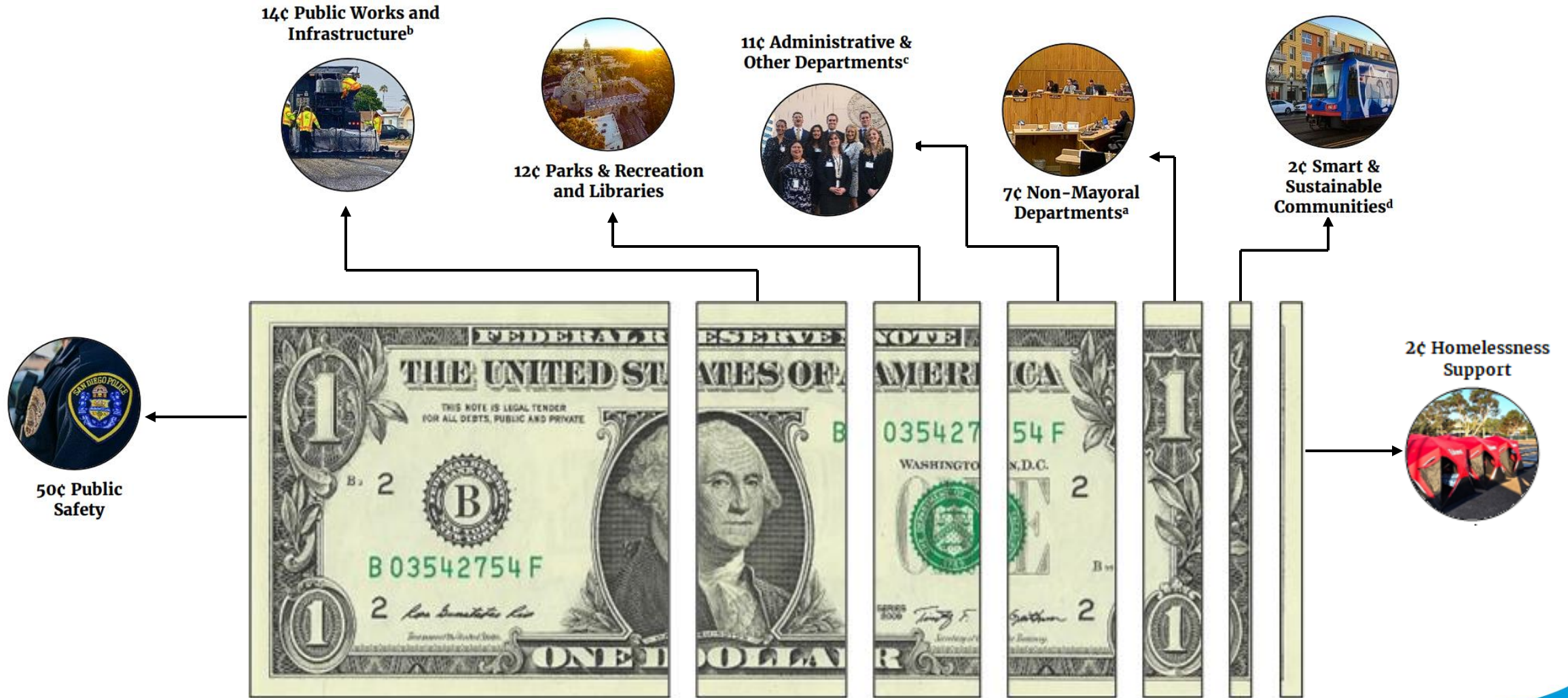


FY 2026 General Fund Expenditures by Department

(Total: \$2.17 Billion; \$ in millions)

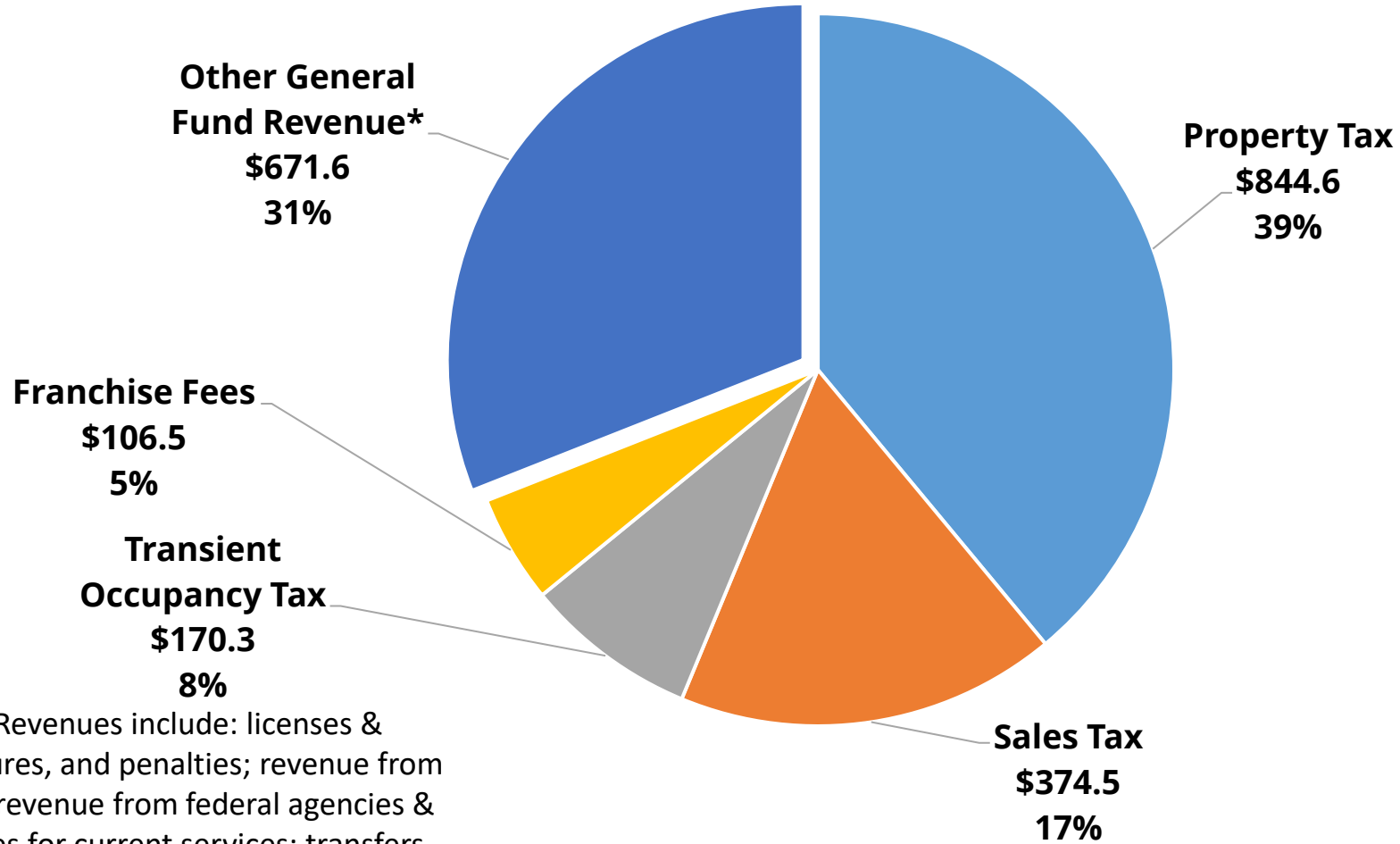


FY 2026 General Fund Expenditures



FY 2026 General Fund Revenue by Source

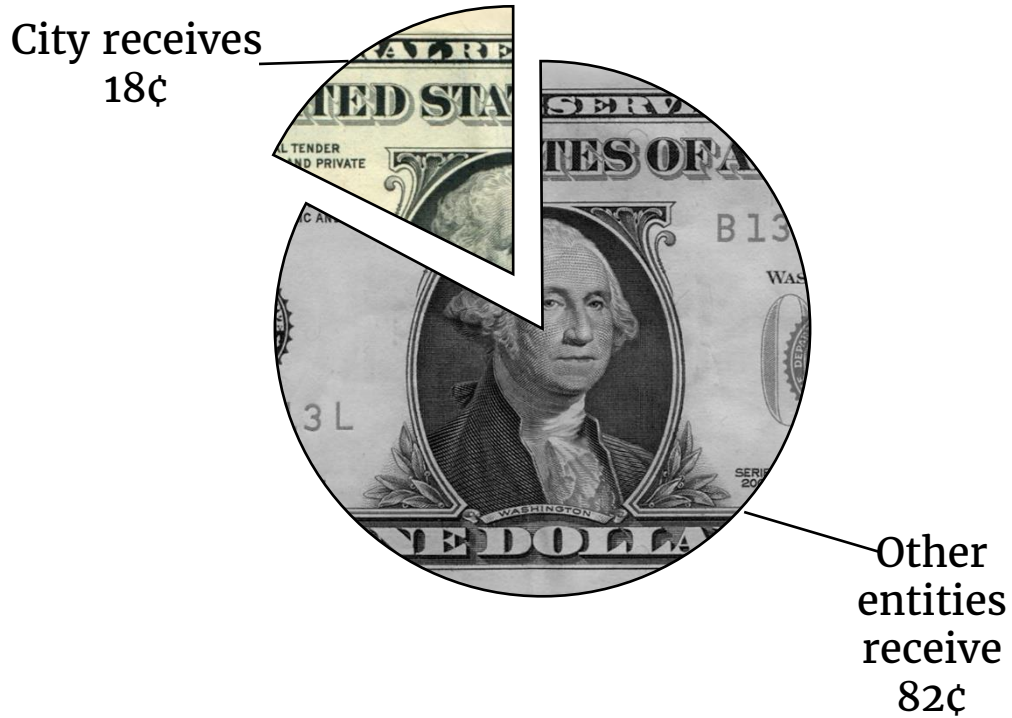
(Total: \$2.17 Billion; \$ in millions)



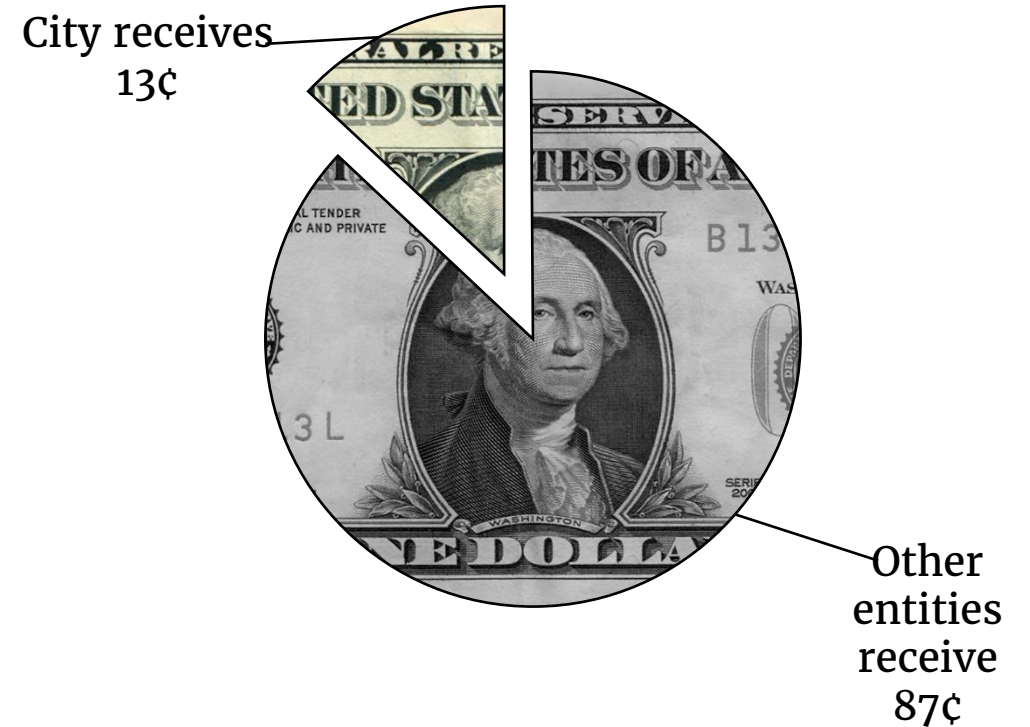
*Other General Fund Revenues include: licenses & permits; fines, forfeitures, and penalties; revenue from money and property; revenue from federal agencies & other agencies; charges for current services; transfers in; and property transfer taxes.

How much the City Receives from Major Taxes

**Property Tax Rate:
1% of Assessed Value**



**Sales Tax Rate:
7.75% on Taxable Sales**



Current Fiscal Outlook

Fiscal Outlook - Background

Limited Resources

- City has lacked sufficient resources to fund desired programs and infrastructure needs for decades
 - Sales Tax and TOT rates are lower than comparable cities
 - City lacks dedicated resources for most infrastructure needs
- Deferred Expenditures have masked underfunding
 - Infrastructure and Capital maintenance has been deferred for decades
 - Minimal increases to employee compensation from 2010 through 2018 made City uncompetitive in attracting a skilled workforce

Fiscal Outlook - Background

Persistent Structural Deficit

- Inflation & growth in operating costs has outpaced revenues
- Budgets for past six years were *structurally imbalanced*
 - *Ongoing* costs exceeded ongoing revenues; a portion of ongoing costs were funded with *one-time* revenues
 - Over last several years structural imbalances have grown, reaching over \$200 million in FY 2025; federal Covid recovery funding (CARES Act, ARPA) and other one-time resources augmented City revenues
- Balancing current year budget (FY 2026) relied on both new revenues and expenditure cuts to be balanced, but still was not *structurally* balanced



Fiscal Outlook – Five-Year Projections

Mayor’s Five-Year Outlook

General Fund Outlook Shortfall (<i>\$ in millions</i>)						
	FY 2026^a	FY 2027 Outlook	FY 2028 Outlook	FY 2029 Outlook	FY 2030 Outlook	FY 2031 Outlook
Baseline Revenues	\$ 2,137.9	\$ 2,195.5	\$ 2,255.7	\$ 2,337.7	\$ 2,406.3	\$ 2,493.4
Baseline Expenditures	2,175.2	2,284.3	2,362.6	2,390.1	2,461.6	2,550.3
Baseline Revenue Shortfall	\$ (37.3)	\$ (88.8)	\$ (106.9)	\$ (52.4)	\$ (55.3)	\$ (57.0)
Adopted Budget: One-time Expenditure Priorities	(11.6)	-	-	-	-	-
Adopted Budget: Use of One-Time Resources	48.8	-	-	-	-	-
Outlook: Additional Priorities Beyond Baseline ^b	-	(21.8)	(32.1)	(39.1)	(39.7)	(47.4)
Revised Outlook Shortfall	\$ (0.0)	\$ (110.6)	\$ (139.0)	\$ (91.5)	\$ (95.0)	\$ (104.4)

Note: Table may not total due to rounding.

^a FY 2026 includes the FY 2026 Adopted Budget as modified to remove one-time revenue and expenditure adjustments.

^b Includes additional funding for homelessness programs and support for new and expanded facilities.

Resource and Mitigation Considerations

Considerations for FY 2027

General Fund Reserve and Excess Equity

- Reserve contributions already discounted from Outlook and balance lower than policy target.
- Currently, no Excess Equity available.

Near-Term Revenue Options are Limited

- Grants – State or federal funding (one-time resource).

Balancing FY 2027 Budget Requires Cuts

Resource and Mitigation Considerations *(cont'd)*

Considerations for FY 2027 *(cont'd)*

Focus on Expenditure Cuts

- Budget Reductions
- Continued Need for Structural Realignment
 - *Critical* programs and services should be identified.
 - **City may be better served by providing fewer services well than more services poorly.**
 - City should carefully consider new ongoing expenses and areas where services can be aligned with anticipated resources.
 - **City needs to be open and transparent about the insufficiency of its existing resources.**

Resource and Mitigation Considerations *(cont'd)*

Potential Resource Options After FY 2027

- Sales Tax Measure (ongoing)
- General Obligation Bonds (one-time)
- Stormwater Fee Increase (ongoing)
- Property Transfer Tax Increase (ongoing)
- Vacation Home Tax (ongoing)

These resources should not be relied on in FY 2027.

The background of the slide is a photograph of a public utility facility. In the foreground, there are several large, blue-painted metal pipes with flanges and valves, arranged in a row on a concrete surface. In the background, there is a modern, single-story building with large windows and a flat roof. The sky is overcast. The title text is overlaid in the center of the image.

Public Utilities Department Outlook

Overview

- PUD Outlook provides an initial basis for expenditures and revenues in future Cost-of-Service studies, and anticipated rate increases that will require Council approval
 - Outlook serves as a draft “Financial Plan” for potential future study.
- Our report provides analysis of the various factors that are driving increased costs, and subsequently increased rates.
 - Includes options for mitigation strategies if identified.
- **The rate increases included in this Outlook are anticipated to be the rates that the Council will be asked to approve in the next Cost-of-Service study if expenditure and revenue assumptions do not change significantly.**

Rate Increases

Summary of PUD Outlook Water and Wastewater Rate Increases FY 2026-2030						
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Water ^a	14.7%	14.5%	11.5%	11.0%	11.0%	5.0%
Wastewater ^b	6.0%	6.0%	8.0%	8.0%	8.0%	7.0%

^a FY 2026 and FY 2027 rates represent up-to rate increase approved by Council in October 2025.

^b FY 2026 - FY 2029 rates represent up-to rate increase approved by Council in October 2025.

- Water – Same rates as most recent Cost-of-Service, with a decline in FY 2031
- Wastewater – Same rates as most recent Cost-of-Service

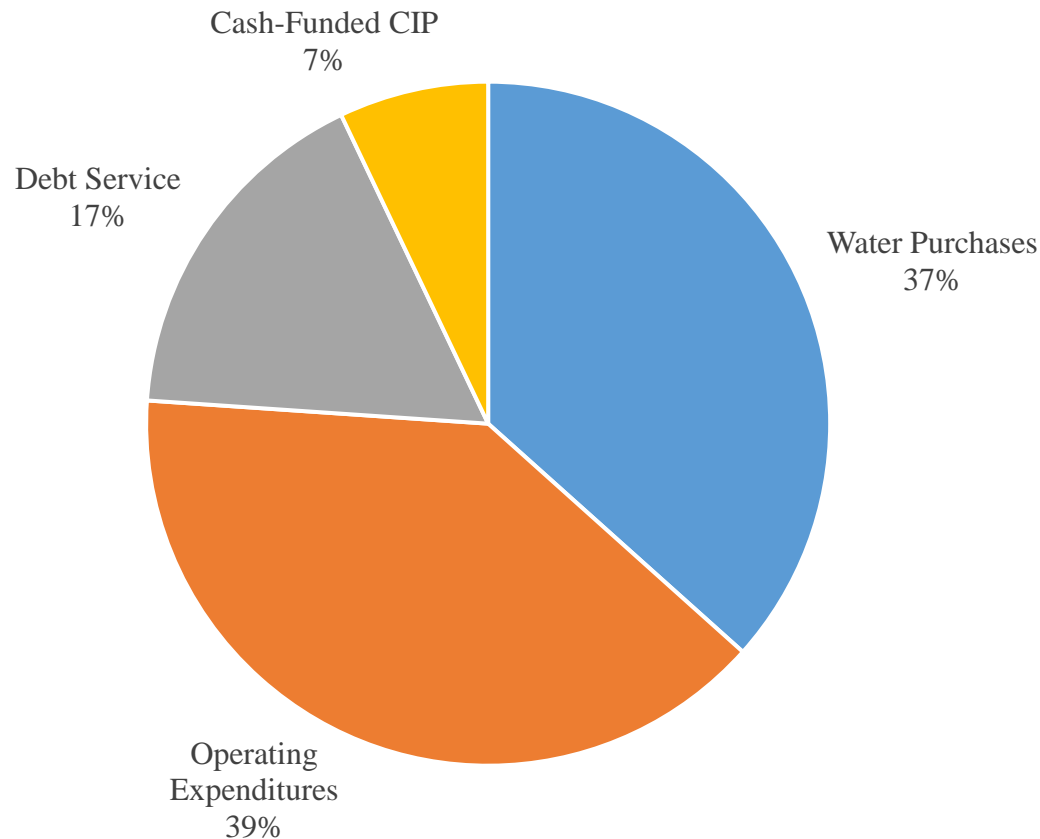
Financial Metrics

Financial Metrics in Current Outlook						
Water System	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Debt Service Coverage Ratio	1.27 x	1.18 x	1.29 x	1.48 x	1.89 x	2.18 x
Above/(Below) Rate Stabilization Target	\$ (14.2)	\$ (41.3)	\$ (40.4)	\$ (1.8)	\$ 29.1	\$ 22.6
Days of Cash on Hand	59	50	66	61	83	122
Wastewater System	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Debt Service Coverage Ratio	1.47 x	1.41 x	1.52 x	1.25 x	1.37 x	1.47 x
Above/(Below) Rate Stabilization Target	\$ 83.0	\$ 11.7	\$ 40.9	\$ 12.8	\$ 33.7	\$ 30.9
Days of Cash on Hand	365	353	67	272	74	161

- Debt Service Coverage Ratio – Target 1.50x
- Days of Cash on Hand – Target 160
- Metrics assume rate increases

Water Fund Expenditures

Total Estimated Spend FY 2027-2031



- Water Purchases make up 37% of the projected spend over the next five years, *inclusive* of Pure Water.
- Compared to the most recent Outlook, water purchases are growing the fastest, while debt service and CIP cash have declined.

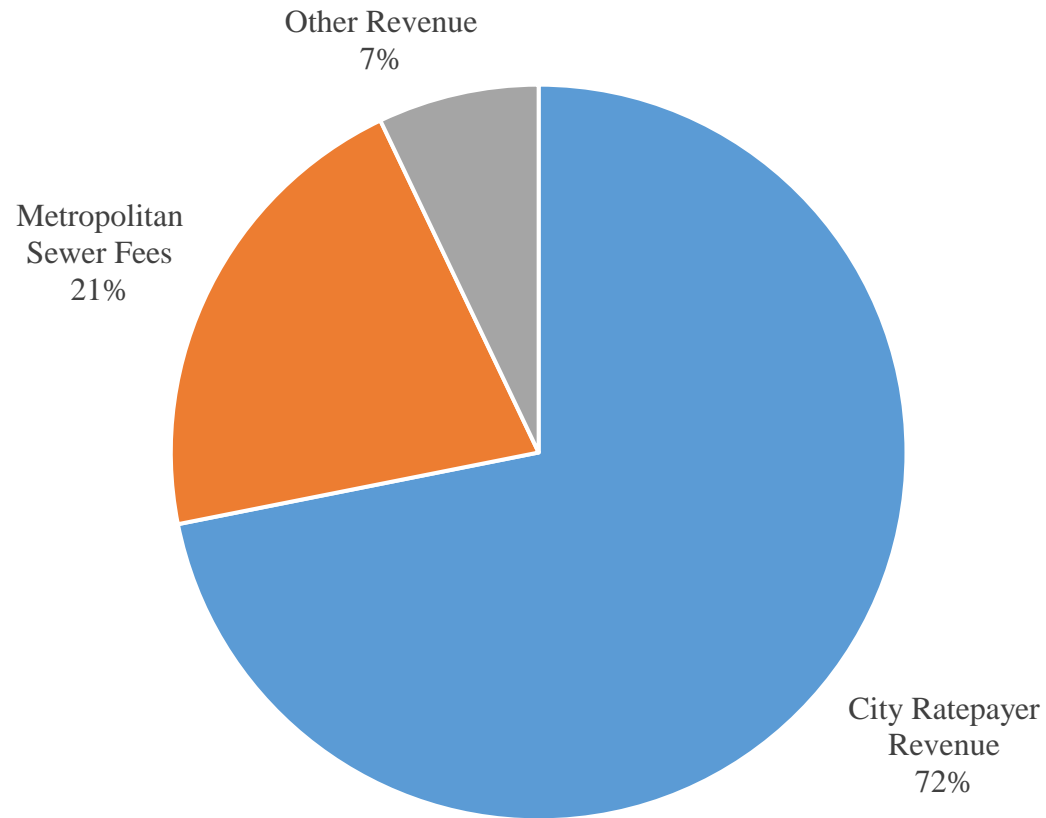
Water Purchases Expenditures

Water Purchases Estimated in PUD Outlook						
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Water Requirement (AF)	177,786	175,133	175,542	175,951	176,362	176,774
Local Water Supply (AF)	46,000	21,900	40,800	43,600	48,600	48,600
<i>Reservoirs/Storage</i>	<i>46,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>15,000</i>	<i>15,000</i>
<i>Pure Water Production</i>	<i>-</i>	<i>11,900</i>	<i>30,800</i>	<i>33,600</i>	<i>33,600</i>	<i>33,600</i>
Purchased Supply (AF)	131,786	153,233	134,742	132,351	127,762	128,174
Estimated Cost (<i>in Millions</i>)	\$ 337.7	\$ 398.0	\$ 401.6	\$ 430.7	\$ 450.4	\$ 485.1
<i>Cost Per AF</i>	<i>\$ 2,562</i>	<i>\$ 2,598</i>	<i>\$ 2,981</i>	<i>\$ 3,254</i>	<i>\$ 3,526</i>	<i>\$ 3,785</i>

- Use of local water has declined from previous forecast due to system constraints and new reservoir use assumptions based on experience
- Includes Pure Water Phase 1 beginning in FY 2027, fully operational within FY 2028
- Despite increased use of local supply, purchase costs continue to escalate due to increases anticipated from the San Diego County Water Authority
- Cost per AF to increase 47.7% over five years.

Wastewater Fund Revenue Sources

Total Estimated Revenues FY 2027-2031



- Wastewater costs are divided into two systems: Municipal System and Metropolitan System.
- Other jurisdictions pay for their proportional share of the Metropolitan System, totaling 21% of total wastewater revenues.

Conclusion

- Increasing costs, combined with flat sales projections, are leading to higher rates
- Potential mitigation actions are limited without service level reductions
 - Most service levels are driven by regulatory requirements
- Largest potential mitigation is to decrease water purchase costs
- The City's CWA representatives should focus on updating the CWA business plan, and selling excess supplies

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Additional Resources

Important Resources

Office of the IBA

Website <https://www.sandiego.gov/iba>

- [IBA Reports](#)
- [Key Budget Dates](#)
- [Public's Guide to the Budget](#)
- [Public's Guide to Infrastructure](#)

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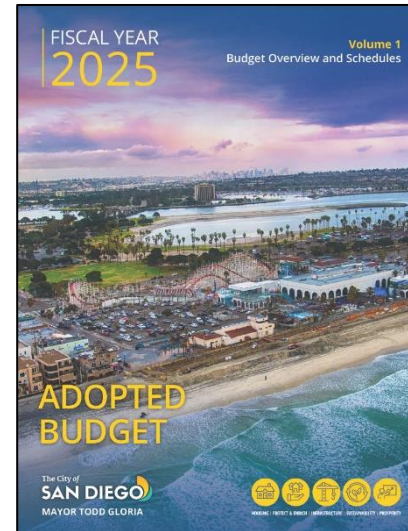
Office of the Independent Budget Analyst
@SanDiegoIBA

Phone number **619-236-6555**

Department of Finance

Website <https://www.sandiego.gov/finance>

Adopted Budget



Other Financial Reports

Financial Reports	
Five-Year Financial Outlook	▼
Budget Monitoring Reports	▼
Annual Comprehensive Financial Report	▼
Single Audit Reports	▼
State and Local Recovery Funds Performance Report	▼
Metropolitan Wastewater Utility Allocation of Billing Report	▼
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	▼
Annual Internal Controls Reports	▼
Charter 39 Financial Performance Reports	▼
City Employee Compensation Reports	▼
Discontinued Reports	▼
CFD (Mello Roos) Reports	▼

A photograph of an audience in a meeting or conference room. Many people have their hands raised, indicating they want to ask a question or make a point. The scene is viewed from behind the audience, looking towards a speaker at the front of the room.

Questions