FISCAL YEAR **2027**

VOLUME 1
Fiscal Policies

The City of SAN DIEGO

ADOPTED BUDGET

MAYOR
TODD GLORIA

HOUSING | PROTECT & ENRICH | INFRASTRUCTURE | SUSTAINABILITY | PROSPERITY

Fiscal Policies

The City of San Diego has established fiscal policies through the City Charter and Council Policies to guide responsible long-range fiscal planning, develop the adopted budget, and establish reserves. The City continues to review existing policies and may adopt new policies as needed to foster responsible fiscal management. The Government Finance Officers Association (GFOA) recommends that local governments follow a financial planning process based upon established financial policies and strategies. Additionally, rating agencies such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings consider fiscal policies that clearly delineate sound financial planning practices when evaluating credit ratings. The policies listed below describe the framework that the City has in place to guide fiscal decision-making. The City's fiscal policies are reviewed regularly to improve fiscal transparency and improve the fiscal strength of the City.

The City's fiscal policies described below are, in most cases, summaries of the City Charter or Council Policy language. This list is not exhaustive and as policies are modified or adopted, they will be incorporated into future budget publications.

Legal Authority (Appropriation Ordinance)

(Charter Section 69)

The City Council will enact an annual Appropriation Ordinance which establishes the legal spending authority for each budgeted fund and/or department based upon the adopted budget.

Five-Year Financial Outlook

(Council Policy 000-02)

The practice of developing the Five-Year Financial Outlook (Outlook) on an annual basis for the City of San Diego began in Fiscal Year 2007, with the first release in November 2006. The most recent Outlook, released in November 2025, continues to examine the City's baseline fiscal condition over the next five years. The Outlook focuses on the General Fund and is an important planning tool for the City. Since its inception, the Outlook has guided the City in developing the budget and served as the basis for the City’s long-term, strategic fiscal decision-making. The Outlook continues to communicate and outline the City’s fiscal priorities, strengths, and challenges in achieving a balanced General Fund budget.

Interim Financial Reporting

(Charter Sections 39 and 89, Council Policy 000-02)

The Chief Financial Officer provides monthly reports to the City Council detailing the fiscal status of the City by comparing year-to-date actual revenues and expenditures to budgeted amounts.

Additionally, the Department of Finance (DoF) provides the City Council with quarterly budget monitoring reports forecasting the end-of-year financial status and position of the City in relation to the current budget, the annual spending plan established at the onset of each fiscal year, and the status of reserves. Recommendations for appropriation adjustments necessary to maintain balanced revenue and expenditures may be included.

Mid-Year Budget Adjustments

(Municipal Code section 22.0229)

During the fiscal year, after the City has five months of actual budgetary data and the Mid-Year Budget Monitoring Report is projecting a surplus or a deficit relative to the adopted General Fund budget, the Mayor shall report such deficit or surplus to the City Council and provide a recommendation to the City Council, and accompanying budget amendment resolution, to address the reported deficit or surplus. The Mayor may recommend budgeting all, none, or any portion of any projected surplus. The City 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, in accordance with Charter section 290(b).

Budget Policy

(Council Policy 000-02)

The City adopted a Budget Policy in March 1962, which was last amended by the City Council on July 11, 2022, to assist the City in achieving its current and future goals in a fiscally responsible and sustainable manner. The Policy guides the creation of the City's budget and outlines standards for revenue generation and the execution of operating and capital budget expenditures as recommended by the GFOA and the National Advisory Council on State and Local Budgeting (NACSLB).

Balanced Budget

(Charter Section 69)

The budget, as proposed by the Mayor and as adopted by the City Council, shall be balanced such that proposed expenditures shall not exceed projected revenues and any other sources to balance the budget. A summary outlining the figures of the budget, that describes the balance between the ensuing year's total expenditures and total revenues, contrasted with corresponding figures for the current year, is presented by the Mayor no later than April 15 of each year, and adopted by the City Council no later than June 15 of each year. The classification of the estimate shall be as nearly uniform as possible for the main divisions of all departments and shall furnish necessary detailed fiscal information.

Basis of Budgeting

The City's budgets for Governmental Funds, such as the General Fund, Debt Service Funds, Special Revenue Funds, and Capital Project Funds, shall be prepared based on the modified accrual basis of accounting (revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the accounting period in which the liability is incurred), except that the increase or decrease in reserve for advances and deposits to other funds and agencies shall be considered as additions or deductions of expenditures.

The City's Enterprise Funds and Internal Service Funds shall be prepared on the full accrual basis of accounting for all operating revenues and most operating expenses (revenues are recognized when they are earned, and expenses are recognized when the liability is incurred). Certain expenses for long-term liabilities, such as net pension liability, are budgeted on the modified accrual basis of accounting. The City's operating budget shall exclude unrealized gains or losses resulting from the change in fair value of investments.

Community Projects, Programs, and Services (CPPS)

(Council Policy 100-06)

The City adopted a policy on July 7, 2011, which was last amended by the City Council on July 1, 2023, to establish guidelines and uniform eligibility requirements for the annual appropriation and expenditure of funding for each City Council Office for community projects, programs, and services to be expended at the discretion of each Council member during the fiscal year. Per the CPPS Policy:

- Each year, the Mayor shall include in the Mayor’s budget any aggregated, proposed appropriation for City Council Office CPPS fund allocations as a department expenditure.
- The actual appropriation shall be included in the City’s annual budget as approved by the City Council.
- The total amount of funding budgeted for annual City Council Office CPPS fund allocations shall be distributed evenly amongst the City Council Offices.

- Upon a Councilmember's request to the Department of Finance, a City Council Office may supplement its annual CPPS fund allocation with estimated non-personnel savings related to the administration of the City Council Office within the current fiscal year.
- Unexpended CPPS appropriations shall be returned to the General Fund at the end of the fiscal year and shall not be carried forward to the following fiscal year.

Capital Improvements Program (CIP) Prioritization

(Council Policy 800-14)

The City's Prioritizing Capital Improvement Program Projects Policy was adopted on January 16, 2007, and last amended by the City Council on December 16, 2022. This policy's goal is to establish a capital planning prioritization process to optimize the use of available resources for projects and to guide an objective methodology that produces equal and equitable outcomes. As noted in the policy, the prioritization of CIP projects should consider legal mandates, as well as social, economic, and geographic factors, to prioritize structurally excluded communities and eliminate disparities.

CIP Transparency

(Council Policy 000-31)

The Capital Improvements Program (CIP) Transparency Policy was adopted on April 5, 2012, and last amended by the City Council on September 22, 2022. This Policy establishes standard requirements to enhance CIP transparency and improve access to publicly available information related to the CIP. It also establishes the framework for making information readily available to stakeholders by using a combination of presentations to the City Council, stakeholder meetings, reports, and updates to the City's website.

Proceeds of Sale of City-Owned Real Property

(Charter Section 77)

Charter Section 77, Proceeds of Sale of City-Owned Real Property, was adopted in April 1941 and last amended by voters in June 2016. This Charter section establishes that all proceeds received from the sale of City-owned real property shall be used exclusively for the acquisition and construction of permanent public improvements, including public buildings and such initial furnishings, equipment, supplies, inventory, and stock as will establish the public improvement as a going concern. Proceeds may also be used to reimburse the General Fund for prior capital expenditures and for the financing costs, if any, associated with the acquisition and construction of such permanent public improvements. The funds may also be used to replace permanent public improvements, but not for their repair or maintenance.

Debt Policy

(City Debt Policy)

The City adopted a Debt Policy in November 2007, which was last amended by the City Council in July 2025. The Policy documents the procedures and goals for the use of various debt instruments to finance City needs and the sound management of the existing debt obligations.

The Debt Policy establishes guidelines to address the following: purpose and needs for financing; credit ratings; types of financing instruments; debt affordability; structure and term of City indebtedness; method of issuance and sale; financing team roles and selection process; refunding of City indebtedness; and post-issuance compliance and administration. The Debt Policy addresses various debt instruments issued by the City typically using joint Powers Authorities, including Lease Revenue Bonds, Revenue Bonds for Water and Sewer Systems, and Commercial Paper Notes. The Debt Policy also addresses debt issued by the City's various Related Entities, including the former Redevelopment Agency (and Successor Agency), Community Facilities Districts (CFDs), Assessment Districts (ADs), and the Tobacco Settlement Revenue Corporation.

Appendices to the Policy include specific policies for Special Districts, which provide uniform guidelines for CFD and AD formation and financing. The Debt Policy appendix also includes Council Policy 800-14 "Prioritizing CIP Projects"; a list of Related Entities; a description of basic legal documents; a glossary of common terms; and the City's Disclosure Practices Controls and Procedures.

Infrastructure Fund

(Charter Section 77.1)

Charter Section 77.1, which established the Infrastructure Fund, was approved by voters in June 2016. This Charter section requires the City to dedicate specific sources of revenue to fund new General Fund infrastructure, such as streets, sidewalks, bridges, and buildings, and their maintenance and repair. Per Charter section 77.1(g), the Mayor may request to suspend this requirement for one fiscal year or for the remainder of a fiscal year, provided that the City Council approves the one-year suspension by a vote of two-thirds.

The calculations to fund the Infrastructure Fund are based upon the following:

> Major Revenues Increment – amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees for Fiscal Year 2018 through Fiscal Year 2022.
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> Sales Tax Increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline of Fiscal Year 2016 actual receipts, adjusted by the California Consumer Price Index (CCPI) for Fiscal Year 2018 through Fiscal Year 2042.
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> General Fund Pension Cost Reduction – the amount by which the pension cost in the budget for each fiscal year is lower than the pension cost in the base year of Fiscal Year 2016 for Fiscal Year 2018 through Fiscal Year 2042.

Investment Policy

(City Treasurer’s Investment Policy)

The City Treasurer’s Pooled Investment Fund is comprised of core and liquidity portfolios. The liquidity portfolio is designed to ensure that the projected expenditures and related demands for cash can be met over a six-month period per California Government Code 53646, and the core portfolio is invested to allow for additional liquidity and longer-term growth of principal. The investment process is governed by the City Treasurer's Investment Policy, which is based on the California Government Code and annually presented to the City Treasurer's Investment Advisory Committee for review. The City Treasurer's Investment Policy is finally reviewed and accepted annually by the City Council. The current Investment Policy was effective on January 1, 2026.

Reserve Policy

(Council Policy 100-20)

The City adopted a Reserve Policy in October 2002, which was last amended by the City Council on December 16, 2022. The Policy documents the City’s approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, risk management, and enterprise operations. The Reserve Policy also includes a Pension Payment Stabilization Reserve. The City’s Reserve Policy serves as a framework to deploy City resources to meet the City’s financial commitments and address unexpected future events in a fiscally prudent manner.

General Fund Reserves

The City's Reserve Policy (Council Policy 100-20) includes a funding schedule to achieve the 16.7 percent General Fund Reserve policy goal by Fiscal Year 2030. The Mayor and/or City Council may reevaluate the funding schedule for achieving the General Fund Reserve goal in budget surplus years to accelerate reserve contributions to achieve the reserve goal in a shorter time. Total General Fund Reserves consist of the Emergency Reserve and the Stability Reserve. The Emergency Reserve shall be set at a target level of 8.0 percent by June 30, 2028, and the Stability Reserve shall be set at a target level of 8.7 percent, by June 30, 2030. The reserve amounts shall be based on the percent target level multiplied by the average of the three most recent fiscal years of operating General Fund revenues as reported in the City's Annual Comprehensive Financial Report.

Total General Fund Reserves will be based on, and reconciled to, the fund balance of the General Fund. The sum of the Emergency Reserve, Stability Reserve, and any amounts determined to be Excess Equity, shall equal the sum of unassigned fund balance and amounts restricted for the purpose of maintaining the Emergency Reserve.

Emergency Reserve

An Emergency Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City’s residents and their property. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Emergency Reserve balance to the policy level.

Stability Reserve

A Stability Reserve will be maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not to serve as an alternative funding source for new programs. The Stability Reserve may be used as a source of one-time funding for critical capital or operating needs. Recommendations to appropriate from the Stability Reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this Policy, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the Stability Reserve balance to the policy level.

Excess Equity

Excess Equity is an unassigned fund balance that is not otherwise designated as General Fund Reserves and is available for appropriation. Excess Equity most commonly results from a non-recurring source of revenue. Consistent with the City Council Budget Policy (Council Policy 000-02) and the use of one-time and ongoing revenues, Excess Equity will be appropriated primarily for unanticipated circumstances, such as a General Fund revenue shortfall, impacting programs included in the current year budget or for one-time priority expenditures. Recommendations for the use of Excess Equity may be brought forward by the Mayor and will require approval by a majority of the City Council.

Pension Payment Stabilization Reserve (Pension Reserve)

A Pension Reserve will be maintained to mitigate service delivery risk due to increases in the annual pension payment, the Actuarially Determined Contribution (ADC).

The Pension Reserve shall only be used to supplement increases in the ADC payment as calculated in the most recent Actuarial Valuation Report (Report) produced by the San Diego City Employees' Retirement System (SDCERS) actuary. The purpose of the Pension Reserve is to provide a source of funding for the ADC when these conditions occur, and the ADC has increased year over year.

Recommendations to appropriate from the Pension Reserve may be brought forward by the Mayor in the annual budget process and will require approval by a majority of the City Council. The budgeting of an amount from the Pension Reserve as described by this policy may occur when the City is faced with an increase in the ADC payment, and as warranted based on the current fiscal conditions of the City. During the adoption of the annual budget, the City Council has the authority to propose the use of the Pension Reserve consistent with the Reserve Policy and the City Charter. In the event the Pension Reserve is reduced below the amount established by this Policy, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the Pension Reserve balance to the Policy level. Until such time that the City has reached the 16.7 percent reserve target for the General Fund Reserves, the Pension Reserve will not be funded or maintained.

Workers' Compensation Fund Reserve

The City will maintain reserves equal to 12 percent of the value of the outstanding claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level.

Public Liability Fund Reserve

The City will maintain reserves equal to 50 percent of the value of outstanding public liability claims. This reserve level recognizes that not all claims will be due and payable at one point in time and that not all claims will be awarded, yet there may be more than one large claim that could require an immediate payment. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding public liability claims for purposes of calculating the reserve level.

Long-Term Disability Fund Reserve

The City will maintain reserves equal to 100 percent of the value of outstanding long-term disability claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level. The target reserve balance will be maintained to support the feasibility of purchasing an insurance policy to cover this benefit as an alternative to the current practice of self-insurance.

User Fees

(Council Policy 100-05)

The City charges a range of fees for services provided to residents and businesses, such as fees for recreational services, inspections and permits, use of City property, and other services. The User Fee Policy establishes the method for setting up these types of fees, and the extent to which they cover the cost of the services provided, as recommended by the Government Finance Officers Association (GFOA), National Advisory Council on State and Local Budgeting (NACSLB), and Federal Government Office of Management and Budget (Circular A-87).

The User Fee Policy (Council Policy 100-05), which was last amended by the City Council on December 20, 2022, requires that all fees be categorized according to the level of cost recovery (full or partial recovery or be considered as penalties, which would not require a specific cost recovery level). Cost recovery rates shall be determined based upon direct and indirect costs.

According to the current Policy, a comprehensive user fee study and review of the Policy shall be conducted every three to five years. The City completed a comprehensive study of General Fund user fees during Fiscal Year 2025. Category 2 and 3 fee updates were implemented effective April 1, 2025, and Category 1 fee updates were implemented effective July 1, 2025.