THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2026 Year-End Financial Performance Report

OVERVIEW

The FY 2026 Year-End Financial Performance Report (Year-End Report) was issued on October 7, 2026, and compares revenue and expenditure projections reported in the FY 2026 Third Quarter Budget Monitoring Report (Third Quarter Report) to unaudited actual revenue and expenditure activity for July 1, 2025 through June 30, 2026.

Our Office's review of the Year-End Report reviews General Fund revenues and expenditures performance compared to both Third Quarter Report projections and the FY 2026 Adopted Budget. We also review the status of Excess Equity,[1] General Fund and Risk reserves, homelessness expenditures, and the Development Services, Publishing Services, and Emergency Medical Services (EMS) Funds.

At the beginning of FY 2026, projected available Excess Equity was estimated to be zero, with ending fund balance comprised of the General Fund's Emergency and Stability Reserves. By the third quarter, the FY 2026 projected ending fund balance increased slightly to $1.7 million above reserves. However, the Year End Report reflects a $4.7 million shortfall, necessitating a draw on the General Fund Stability Reserve for the first time in recent history.

The change from the third quarter projection reflects a $10.5 million increase in expenditures, partially offset by a $4.1 million increase in revenues. However, both increases are largely attributable to a Solid Waste Management Fund asset transfer. Excluding these adjustments, revenues are projected to finish $15.4 million below third quarter projections, partially offset by expenditures finishing $9.1 million below projections. Overall, net activity declined by $6.4 million from the Third Quarter Report, eliminating the previously projected $1.7 million in Excess

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

Equity and resulting in the need for a $4.7 million draw on the Stability Reserve. The largest contributing factor was the delayed receipt of $7.4 million in CalOES reimbursements for emergency services.

Compared to the Adopted Budget, and excluding the above-mentioned accounting adjustments, revenues ended the year $22.3 million below budgeted amounts, while expenditures were $17.6 million below budget.

Beyond the $4.7 million draw on the General Fund Stability Reserve, the Year-End Report reflects further reductions in other City reserves. Risk reserves are also ending the year $20.8 million below Adopted Budget projections. The Development Services and Publishing Services Funds also ended the year with negative fund balances,[2] while the EMS fund is projected to end the year with $5.3 million in less available fund balance than was anticipated.[3]

Altogether, the FY 2026 Year End Report reflects continued pressure on the City's finances, and the increasingly limited budget flexibility available to address any future-year revenue shortfalls or expenditure increases. Given this, the importance of fiscal restraint in the development of future budgets will be critical, and replenishment of reserves with one-time resources as available (including the delayed-but-still-anticipated CalOES reimbursement) should be prioritized.

FISCAL/POLICY DISCUSSION

GENERAL FUND REVENUES

Major General Fund Revenues

FY 2026 General Fund revenues closed the year $15.4 million below Third Quarter projections and $22.4 million below the Adopted Budget.[4] The largest contributors to the $15.4 million variance from the Third Quarter were:

- $9.3 million in lower-than-expected departmental revenues, including reduced reimbursements from the Parking Meter Operations Fund (discussed further below) and the Transient Occupancy Tax Fund;
- $7.4 million in lower-than-anticipated California Governor's Office of Emergency Services (CalOES) reimbursements reflected in the Other Major Revenues category; and
- $6.0 million in lower-than-projected property tax revenue, discussed further below.

Compared with the Adopted Budget, the largest driver of the $22.4 million shortfall is $17.5 million in reduced interest earnings, reflected in the Other Major Revenues category. As noted in

[2] While the Development Services Fund is ending the year with a negative fund balance of $6.2 million, this is actually a significant improvement from its starting shortfall of $17.8 million.

[3] Notably, EMS Fund Balance was also used to support the General Fund in the FY 2027 Adopted Budget.

[4] Note that these amounts exclude revenue adjustments associated with the Solid Waste Management Fund (SWMF) asset transfer, to better provide a clear view of revenue performance. The SWMF asset transfer required a series of revenue and expenditure adjustments at year end that were not accounted for in the Third Quarter report. The accounting adjustments resulted in a $19.6 million increase in 'Other General Fund Revenue,' which is offset by expenditure adjustments. Additional discussion on the SWMF transfer is included in the Expenditures section of this report.

the Third Quarter Report, this primarily resulted from significantly less General Fund cash on hand due to the use of Excess Equity in recent years and delayed reimbursements to the General Fund for Capital Improvements Program expenditures from bond proceeds. This issue is expected to be mitigated in FY 2027 with the issuances of Tax and Revenue Anticipation Notes.

Despite revenues finishing below both Third Quarter and Adopted Budget projections, sales tax and franchise fee revenue outperformed projections. On balance, the FY 2026 General Fund revenue ended the year at $2.16 billion (including the Solid Waste Management Fund asset transfer), which is $93.2 million, or 4.5%, higher than the audited actual revenue for FY 2025. Additional details on key revenue sources are provided in the sections below.

General Fund Revenue Projections by Quarter *($ in millions)*

FY 2026	Adopted Budget	First Quarter Projection	Mid-Year Projection	Third Quarter Projection	Year-End Performance	Variance Adopted to Year-End	Variance: Third Quarter to Year-End
Property Tax	$ 844.6	$ 846.1	$ 846.6	$ 847.4	$ 841.4	$ (3.2)	$ (6.0)
Sales Tax	374.5	374.1	376.6	379.2	384.9	10.3	5.7
Transient Occupancy Tax	170.3	167.4	162.8	166.3	166.5	(3.8)	0.1
Franchise Fees	103.6	103.6	106.4	111.4	112.1	8.5	0.7
Other Major Revenues	119.6	119.6	112.8	101.4	114.2	(5.3)	12.8
Solid Waste Fund Transfer	-	-	-	-	19.6	19.6	19.6
Other Major Revenues	119.6	119.6	112.8	101.4	94.7	(24.9)	(6.7)
Major Revenues	**$ 1,612.5**	**$ 1,610.8**	**$ 1,605.3**	**$ 1,605.7**	**$ 1,619.1**	**$ 6.5**	**$ 13.4**
Departmental Revenues	554.9	554.9	552.2	554.9	545.6	(9.3)	(9.3)
Total	**$ 2,167.4**	**$ 2,165.7**	**$ 2,157.5**	**$ 2,160.6**	**$ 2,164.7**	**$ (2.7)**	**$ 4.1**
Revised Total w/o SWMF[1]	**$ 2,167.4**	**$ 2,165.7**	**$ 2,157.5**	**$ 2,160.6**	**$ 2,145.2**	**$ (22.3)**	**$ (15.4)**

Note: Figures may not sum due to rounding.

[1] Revised revenue total excludes revenue adjustments associated with the Solid Wast Management Fund (SWMF) asset transfer to better provide a clear view of revenue performance across projections.

Property Tax

Property tax revenue ended FY 2026 at $841.4 million, a decrease of $6.0 million, or -0.7%, from the Third-Quarter Report. The decrease is a result of lower-than-expected revenue from the 1.0% tax on assessed property value under Proposition 13, which decreased by $5.5 million from the Third Quarter projection. This was due primarily to a slightly lower collection rate on almost all forms of property taxes, as receivables for FY 2026 at Year End were actually $0.7 million higher than the Third Quarter projection. However, lower collection rates, such as decline of 0.4% on current secured taxes, resulted in an overall $2.8 million decline in revenue. Additionally, refunds increased by $2.8 million from the Third Quarter projection to the Year End, due to lower commercial property values and a higher number of appeals.

Unaudited FY 2026 actuals ended the year $34.3 million, or 4.3%, above the FY 2025 audited actuals. This increase was driven by both the 1.0% tax on assessed values as well as Motor Vehicle License Fee backfill payments.

Sales Tax

Sales tax revenue performance was a bright spot in FY 2026. Revenue increased by $5.7 million from the Third Quarter Report projection, and $10.3 million from the Adopted Budget. The areas that saw the largest growth in the final quarter of FY 2026 were in Fuel and Service Stations (gas stations) driven by high fuel prices as well as the county pool.

At the time of the Adopted Budget, only a very slight year-over-year growth rate of 0.3% was assumed given recent year reductions. Instead, FY 2026 sales tax revenue increased by $12.6 million, or 3.4% over FY 2025, exceeding the year's original projection. This reverses a two-year trend of sales tax revenue reductions, bringing the City back in line with FY 2023 sales tax revenue levels in nominal terms. Although consumer spending has remained resilient despite elevated inflation, sales tax revenue growth could soften if fuel prices decline or if interest rates continue to remain elevated or further rise.

Transient Occupancy Tax

Transient Occupancy Tax (TOT) revenue, or hotel tax, consists of several components with different spending restrictions. Only the portion allocated directly to the General Fund (i.e. General Fund allocation) appears distinctly in the table at the beginning of this section, while the remaining components flow into the General Fund indirectly and are embedded in other revenue categories such as Other Major Revenues and Departmental Revenues. The table below presents projections for all components of TOT throughout FY 2026, including variances between year-end unaudited actuals and both the Adopted Budget and Third Quarter projections.

Transient Occupancy Tax Revenue *($ in millions)*							
FY 2026	**Adopted Budget**	**First Quarter Projection**	**Mid-Year Projection**	**Third Quarter Projection**	**Year-End Performance**	**Variance Adopted to Year-End**	**Variance: Third Quarter to Year-End**
General Fund Allocation (5.5%)	$ 170.3	$ 167.4	$ 162.8	$ 166.3	$ 166.5	$ (3.8)	$ 0.1
Special Promotional Programs (4.0%)	122.7	120.6	117.5	119.8	119.6	(3.1)	(0.2)
Council Discretionary (1.0%)	30.7	30.2	29.4	30.0	29.9	(0.8)	(0.1)
Subtotal (Pre-Measure C Rates)	**$ 323.6**	**$ 318.1**	**$ 309.7**	**$ 316.1**	**$ 316.0**	**$ (7.6)**	**$ (0.1)**
TOT Homelessness Fund	32.6	31.5	30.7	31.5	31.4	(1.2)	(0.1)
TOT Convention Center Fund	47.7	45.4	44.2	45.4	45.4	(2.3)	0.0
Subtotal (Measure C)	**$ 80.3**	**$ 76.9**	**$ 74.9**	**$ 76.9**	**$ 76.8**	**$ (3.5)**	**$ (0.1)**
Total	**$ 403.9**	**$ 395.0**	**$ 384.5**	**$ 393.0**	**$ 392.8**	**$ (11.1)**	**$ (0.2)**

Note: Figures may not sum due to rounding.

As shown, overall TOT trends are reflected across all TOT components. The General Fund portion of TOT ended the year in line with Third Quarter Report projections, increasing by $136,000, but remained $3.8 million below the Adopted Budget projection.

Focusing on the non-Measure C portions of TOT, the FY 2026 Adopted Budget assumed year-over-year revenue growth of 2.6%. Actual FY 2026 revenues, however, remained essentially flat, increasing by just under $500,000, or 0.2%, compared to FY 2025. This follows a 1.4% *decline* in FY 2024 and a 2.4% *increase* in FY 2025, indicating that TOT revenue has yet to establish a consistent post-pandemic growth trend amid broader economic uncertainty and ongoing inflationary pressures.

Franchise Fees

Franchise fee revenues ended the year at $112.1 million, which was $0.7 million, or 0.7%, above the Third Quarter projection. This was due to additional increases from the Sycamore Canyon landfill from increased tonnage deposited at the landfill.

The FY 2026 year-end actuals were $13.0 million, or 13.2%, above the FY 2025 actuals. This is primarily due to higher payments from the SDG&E franchise agreements.

General Fund Departmental Revenues

The four previously discussed major sources of General Fund revenue make up about 69.5% of FY 2026 total unaudited year-end revenue. The remaining 30.5% comes from smaller, individual sources of revenue. Cannabis Business Tax and parking meter related revenue are discussed more below.

Cannabis Business Tax

The City imposes a Cannabis Business Tax (CBT) on non-medical cannabis businesses that operate or provide services within its jurisdiction. As of this writing, 30 cannabis retail outlets and 12 cannabis production facilities (CPFs) located within the City remit CBT. Additionally, 27 CPFs and two retail outlets/delivery service operators located outside the City also remit CBT to the City.

Unaudited year-end CBT revenue actuals came in at $19.1 million, which is $2.1 million below the Adopted Budget but $325,000 above third quarter projections. The City Treasurer's Office attributes this budgetary shortfall to: (1) cannabis outlets facing competition from neighboring municipalities, delivery services located outside the City, and the illicit market; (2) declining wholesale cannabis prices due to an oversupply of products, which in turn lower cannabis retail prices and taxable gross receipts; and (3) the delayed implementation of the extended retail operating hours, with some outlets choosing not to expand their hours.[5] The City Treasurer's Office notes that the decline in taxable gross receipts has stabilized in the later part of the fiscal year.

FY 2026 Cannabis Business Tax Revenue *($ in millions)*									
	FY 2026 Adopted Budget	Third Quarter Projections	FY 2026 Unaudited Actuals					FY 2026 Year-End Actuals - FY 2026 Adopted Budget	FY 2026 Year-End Actuals - Third Quarter Projections
			Quarter 1	*Quarter 2*	*Quarter 3*	*Quarter 4*	Total Year-End		
CBT Revenue	**$ 21.3**	**$ 18.8**	*$ 3.0*	*$ 4.6*	*$ 4.6*	*$ 7.0*	**$ 19.1**	**$ (2.1)**	**$ 0.3**

Note: Figures may not sum due to rounding.

Our Office will continue to monitor CBT revenue, especially as new policies affect the cannabis market in FY 2027, including a new Delivery Service Permit Fee and provisions allowing legitimate cannabis retailers and associated parties to pursue legal action against unregulated delivery services.

Parking Meter Related Revenue

Revenue generated from parking meters first flows into the Parking Meter Operations (PMO) Fund to support parking meter administration and enforcement. Any remaining revenue is then allocated to eligible right-of-way improvements within the areas where it was collected.[6] This includes

[5] In August 2025, permitted operating hours for retail outlets were extended by two hours, allowing operations between 6 a.m. and 10 p.m.

[6] Per Council Policy 100-18, a portion of the remaining parking meter revenue is to be allocated to Community Parking Districts. However, Council waived this allocation for FY 2026 and FY 2027.

transfers to General Fund departments, such as Transportation and Stormwater, to carry out these improvements.

PMO Fund year-end actual revenues came in below budget, primarily due to: (1) lower-than-anticipated parking meter usage due to behavioral changes; (2) delays in implementing special event rates and a smaller-than-expected special event zone; and (3) the non-enforcement of parking meters along residential and mixed-use corridors on Sundays. These shortfalls were partially offset by unbudgeted revenues from meter expansions and loss-of-revenue fees related to meters. In addition, the PMO Fund incurred unbudgeted expenditures for replacing aging parking meters and parking meter expansion initiatives.

The General Fund was budgeted to receive $21.2 million in reimbursements from the PMO Fund in FY 2026 to support parking enforcement and eligible right-of-way improvements. However, due to lower-than-budgeted revenues and unbudgeted expenditures, year-end reimbursements to General Fund departments totaled $11.9 million, or $9.3 million below the adopted budget.

FY 2026 PMO Fund Reimbursements to General Fund Departments *($ in millions)*			
Department	**FY 2026 Adopted Budget**	**Year-End Unaudited Actuals**	**Variance**
Police	$ 8.6	$ 8.6	$ -
Stormwater	4.1	0.5	(3.6)
Transportation	8.5	2.8	(5.7)
Total	**$ 21.2**	**$ 11.9**	**$ (9.3)**

Note: Figures may not sum due to rounding.

GENERAL FUND EXPENDITURES

The Year-End Report includes unaudited General Fund expenditures of $2.17 billion, which is $2.0 million or 0.1% higher than the FY 2026 Adopted Budget. This is shown as a negative variance in the table below.

FY 2026 General Fund Expenditures *($ in millions)*						
	Adopted Budget	**Third Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3rd Quarter to Year-End**	**Variance: Adopted to Year-End**	**Variance %: Adopted to Year-End**
Salaries and Wages	$ 961.5	$ 981.4	$ 976.4	$ 5.0	$ (14.9)	(1.6%)
Fringe Benefits	602.3	602.7	599.4	3.3	2.8	0.5%
Non-Personnel Expenditures (NPE)	603.6	574.8	593.5	(18.7)	10.1	1.7%
Solid Waste Fund (SWF) Asset Transfer	-	-	*19.6*	*(19.6)*	*(19.6)*	
NPE (excl. SWF transfer)	*603.6*	*574.8*	*574.0*	*0.8*	*29.7*	*4.9%*
Total (excl. SWF Transfer)	***$ 2,167.4***	***$ 2,158.9***	***$ 2,149.8***	***$ 9.1***	***$ 17.6***	***0.8%***
Total	**$ 2,167.4**	**$ 2,158.9**	**$ 2,169.4**	**$ (10.5)**	**$ (2.0)**	**(0.1%)**

Note: Figures may not sum due to rounding.
Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

Overall, salaries and wages exceeded the Adopted Budget by a net $14.9 million, primarily due to overtime. This overage was partially offset by savings of $10.1 million in non-personnel

expenditures (NPE) and $2.8 million in fringe, resulting in a net General Fund overage in expenditures of $2.0 million, compared to the Adopted Budget.

Although net General Fund expenditures ended the year largely at budget, there were notable overages in several departments from what was contemplated in the Adopted Budget, which were offset by intentional mitigations. Notably, for the first time in recent memory, the City will use the Stability Reserve to close the year in balance. More information is included in the *General Fund Reserve* section of this report.

In addition to use of the Stability Reserve, mitigations included: the use of funds blocks for non-discretionary expenditures to ensure funds remain for their intended purpose; halting of non-essential expenditures; use of a request-to-fill process to limit the filling of positions to only those deemed critical; a review of special revenue funds to identify resources that could be used to offset General Fund expenditures; early implementation of proposed budget reductions; use of Infrastructure Fund balance for eligible debt service payments and reimbursements from other funds; and reduction in workers' compensation contributions and transfers to the Public Liability Operating Fund for claims and non-claims payments, which further depleted the Risk Reserves (discussed more in the *Risk Reserves* section of this report). The Mid-Year, Third Quarter, and Year-End reports discuss these mitigation measures more thoroughly.

Salaries and Wages – Variances by Category

The following table compares FY 2026 unaudited actuals to the Adopted Budget and Third Quarter projections for salary and wage categories. Total salaries and wages ended the year $14.9 million or 1.6% above the FY 2026 Adopted Budget (shown as a negative variance). This overage is partially offset by savings in non-personnel and fringe expenditures. Actuals for salaries and wages were also $5.0 million or 0.5% under the Third Quarter Projections (shown as a positive variance), as discussed in the Year-End Report.

FY 2026 Salaries and Wages Expenditures - General Fund *($ in millions)*							
	Adopted Budget	**3rd Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3rd Quarter to Year-End**	**Variance %: 3rd Quarter to Year-End**	**Variance: Adopted to Year-End**	**Variance %: Adopted to Year-End**
Salaries	$ 764.8	$ 761.7	$ 752.9	$ 8.8	1.2%	$ 11.8	1.5%
Overtime	99.8	118.8	117.7	1.1	0.9%	(17.9)	(17.9%)
Special Pay	65.7	69.3	70.4	(1.1)	-1.5%	(4.7)	(7.1%)
Hourly	17.2	16.1	17.8	(1.8)	-10.9%	(0.6)	(3.6%)
Vacation Pay in Lieu	9.7	9.6	10.3	(0.7)	-7.3%	(0.6)	(6.4%)
Termination Pay	4.4	6.8	7.3	(0.5)	-7.5%	(2.9)	(67.0%)
Historical Savings Adjustment	-	(0.9)	-	(0.9)	100.0%	-	
Total	**$ 961.5**	**$ 981.4**	**$ 976.4**	**$ 5.0**	**0.5%**	**$ (14.9)**	**(1.6%)**

Note: Table may not sum to total due to rounding.
Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

The $14.9 million variance is primarily due to a $17.9 million overage in overtime, with smaller overages in special pay, termination pay, hourly wages, and vacation pay in lieu. These were partially offset by savings of $11.8 million in salaries. DoF applied an $851,000 historical savings adjustment to third quarter projections which brought those projections closer to year-end actuals.

Overtime represented the largest overage, with expenditures ending the year $17.9 million over budget. This is $1.1 million less than third quarter projections. Departments with the largest overtime overages relative to the Adopted Budget were Fire-Rescue ($8.0 million), Transportation ($4.7 million), Police ($3.1 million), and Parks and Recreation ($1.3 million). To better understand the net $14.9 million overage, we reviewed total salary and wage variances by department since savings in some categories can be correlated with overages in others (e.g., when departments have savings in salary due to hiring delays or turnover, they may use hourly employees or overtime to ensure services continue).

Salaries and Wages – Departmental Variances

The departments with the largest overages from the Adopted Budget in salaries and wages were Fire-Rescue ($9.0 million), Parks and Recreation ($5.8 million), and Transportation ($5.4 million). Of note, the Police Department came in under budget by $2.5 million. When combined with the net savings of $2.7 million from the remaining General Fund departments, this lowered the bottom line overage in salaries and wages. Given the need to use the General Fund Stability Reserve in FY 2026, this section focuses on the departments with the largest variances in salaries and wages.

FY 2026 Salaries and Wages Expenditures - General Fund Departments *($ in millions)*							
	Adopted Budget	**3rd Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3rd Quarter to Year-End**	**Variance %: 3rd Quarter to Year-End**	**Variance: Adopted to Year-End**	**Variance %: Adopted to Year-End**
Fire-Rescue	$ 201.7	$ 214.3	$ 210.7	$ 3.6	1.7%	$ (9.0)	(4.4%)
Parks and Recreation	70.0	73.5	75.8	(2.3)	-3.1%	(5.8)	(8.3%)
Transportation	49.0	54.8	54.4	0.4	0.8%	(5.4)	(11.0%)
Police	363.6	363.6	361.1	2.5	0.7%	2.5	0.7%
Other Departments	277.2	275.2	274.5	0.6	0.2%	2.7	1.0%
Total	**$ 961.5**	**$ 981.4**	**$ 976.4**	**$ 5.0**	**0.5%**	**$ (14.9)**	**(1.6%)**

Note: Table may not sum to total due to rounding.
Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter levels.

Fire-Rescue

At FY 2026 year-end, actual Fire-Rescue overtime expenditures totaled $58.1 million, which exceeded the Adopted Budget by $8.0 million. This overage is $960,000 less than the year-end projection at the time of the Third Quarter Report. Overtime to meet fire suppression constant staffing requirements accounts for approximately $6.3 million, or 78%, of the projected overage. The Department uses a constant staffing model to fill all required operational fire suppression posts throughout the City, meaning covering staffing shortfalls and backfilling leave time taken by fire fighters results in increased overtime. The Year-End Report also reflected salary savings of $1.9 million due to higher than anticipated attrition from retirements and resignations, including extended leaves and fire academy attrition, but these savings are offset by $2.8 million in overages in other types of pay, including $1.9 million in special pay and $661,000 in hourly pay for seasonal lifeguard and dispatcher expenditures.

Parks & Recreation

The Parks and Recreation Department's Salaries and Wages expenditures exceeded the Adopted Budget by $5.8 million, including a $2.3 million negative variance (overage) compared to Third

Quarter Report projections. The overages were largely concentrated in the areas of Hourly wages ($4.4 million) and Overtime ($1.3 million). As is noted in the Third Quarter Report, the elevated use of hourly employees has continued to be necessary to staff recreation centers and swimming pools due to difficulties filling certain benefited positions. The Department has found that interest in these roles is typically from youth that value the flexibility provided by hourly work and, to address this, the FY 2027 Adopted Budget converted 14.00 FTE vacant-benefited positions to an equivalent amount of hourly FTEs. Typically, salary savings from these vacancies would largely offset the Department's overages in hourly wages; however, overall salary savings in FY 2026 amounted to only $501,000. This is due in part to the Department experiencing less staffing attrition than in previous years, which was not anticipated in the Adopted Budget (i.e., fewer vacancies occurred compared to what was assumed via Budgeted Personnel Expenditure Savings).

The overage in overtime expenditures totaling $1.3 million is attributed to holiday hours, special events, callouts, and safety-related needs. This is a $356,000 increase compared to projections in the Third Quarter Report which was primarily due to the use of overtime to maintain maintenance and cleaning service levels at Mission Bay and Shoreline Parks.

Transportation

Transportation's Adopted Budget included $2.1 million budgeted for overtime. During the year, Council actions increased the Department's overtime budget by $3.4 million, for a total of $5.5 million. Transportation's year-end overtime expenditures totaled $6.8 million, $4.7 million over the Adopted Budget and $1.4 million over the adjusted budget including these additional appropriations. Compared to the Third Quarter Report, the Department's overtime expenditures came in about $200,000 under projections.

Overtime was concentrated in work units other than those that received the additional appropriations, which were Roadways and Sidewalks. These work units received nearly all of the $3.4 million increase, bringing their adjusted overtime budget to $3.6 million, but spent only $2.1 million. According to the Department, weather delays shifted crews from reimbursable paving to non-reimbursable Priority 1 calls, pothole repair, and storm patrols. Overtime in Traffic, Traffic Signals, and Street Lights totaled $2.9 million against its adjusted budget of $720,000. Trench Restoration overtime expenditures ended the year at $340,000, which was approximately 60% below its adjusted budget of $828,000, resulting from the Department's service agreement with the Public Utilities Department ending in November 2025. Overall, the Department indicates that approximately $3.8 million of overtime supported reimbursable work. The remaining $3.0 million supported non-reimbursable Priority 1 and emergency work. The non-reimbursable $3.0 million amount alone exceeded the Department's entire Adopted overtime budget of $2.1 million by more than 40%.

Salaries were also $746,000 above the Adopted Budget. The Adopted Budget assumed approximately $2.5 million in savings from vacant positions, but because the Department filled positions faster than anticipated, it only realized approximately $1.7 million of those savings. In Roadways and Sidewalks combined, salaries exceeded budget by $2.6 million. **Salary and overtime trends should be closely evaluated in the Transportation Department to determine whether an emerging staffing model, more heavily reliant on overtime to complete priority projects, is developing.**

Police

The Police Department ended FY 2026 with $48.3 million in total overtime expenditures, which exceeded its $45.3 million budget by $3.1 million. The expenditure overage, which improved by approximately $224,000 compared to the Third Quarter Report, was predominately due to reimbursable overtime activities, including $2.5 million associated with special events and grant/task force participation, and $695,000 for enhanced parking meter enforcement. At $48.3 million, actual overtime expenditures in FY 2026 were notably lower than actual expenditures in FY 2024 ($57.3 million) and FY 2025 ($55.2 million) which indicates the Department's efforts to reverse previous years' trends to go overbudget on overtime, and to better manage overtime as a whole, are proving effective.

Fringe and Non-Personnel Expenditures – Variances by Category

FY 2026 General Fund Fringe and Non-Personnel Expenditures *($ in millions)*						
	Adopted Budget	**Third Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3rd Quarter to Year-End**	**Variance: Adopted to Year-End**	**Variance %: Adopted to Year-End**
Fringe Benefits	**602.3**	**602.7**	**599.4**	**3.3**	**2.8**	**0.5%**
Fringe Benefits (Dept Projections)	602.3	603.0	599.4	3.5	2.8	0.5%
Historical Savings	-	*(0.3)*	-	(0.3)	-	
Non-Personnel Expenditures	**603.6**	**574.8**	**593.5**	**(18.7)**	**10.1**	**1.7%**
Contracts & Services	344.7	332.8	324.9	7.9	19.8	5.7%
Transfers Out	80.3	74.9	75.7	(0.8)	4.6	5.7%
Energy and Utilities	65.5	65.3	67.1	(1.8)	(1.6)	(2.4%)
Information Technology	58.2	54.3	51.8	2.5	6.3	10.9%
Supplies	37.3	39.1	36.1	3.1	1.2	3.1%
Debt Expenses	10.9	9.4	9.0	0.4	1.9	17.6%
Other Expenses	6.0	4.3	4.2	0.1	1.7	29.0%
Capital Expenses	0.9	1.7	5.1	(3.4)	(4.2)	(494.9%)
Historical Savings	-	*(7.1)*	-	*(7.1)*	-	
Solid Waste Fund (SWF) Asset Transfer	-	-	*19.6*	*(19.6)*	*(19.6)*	
Total (excl. SWF Asset Transfer)	***$ 1,205.9***	***$ 1,177.5***	***$ 1,173.4***	***$ 4.1***	***$ 32.5***	***2.7%***
Total	**$ 1,205.9**	**$ 1,177.5**	**$ 1,193.0**	**$ (15.4)**	**$ 13.0**	**1.1%**

Note: Figures may not sum due to rounding.
Positive variances are spending below budget or third-quarter levels. Negative variances are overages, or spending above budget or third-quarter

As noted in the Year End Report, on an accounting basis the Solid Waste Management Fund (SWMF) asset transfer was handled differently than was anticipated in the Third Quarter Report. While these changes were net neutral,[7] they obscure the true expenditure (and revenue) performance, particularly in the *Other Expenses* category and the bottom-line General Fund expenditure total. To provide a clearer view of underlying performance, the table above isolates the impact of this expenditure.

When the SWMF transaction is *included*, Fringe and NPE ended the year $13.0 million or 1.1% under the FY 2026 Adopted Budget (shown as a positive variance). Actuals for Fringe and NPE

[7] As discussed in the Year End Report, changes were made in how the Solid Waste Management Fund (SWMF) asset transfer was accounted for, now being recorded through both revenue and expenditure entries. This accounting change results in a $19.6 million increase in *Other Expenses* above what was reflected in the Third Quarter Report.

were $15.4 million or 0.5% over the Third Quarter Projections due primarily to the SWMF transaction.

When the SWMF transaction is *excluded*, the Year-End Actuals for Fringe and Non-Personnel Expenditures came in $4.1 million under Third Quarter Report projections, and $32.5 million under the Adopted Budget. Of note, there was a $4.1 million reduction from the Third Quarter Report projections for Workers' Compensation contributions to help mitigate the General Fund deficit ($5.2M reduction across funds). **As is outlined in more detail in the *Reserve Considerations* section of this report, the Risk Reserves ended the year $20.8 million lower than amounts included in the Adopted Budget, which were already under reserve targets.**[8] The Year-End Report further outlines the categorical variances between the Third Quarter and year-end.

Compared with the Adopted Budget, the largest driver of the $32.5 million in savings were:

- **$19.5 million in one-time Public Liability proceeds.** The Public Liability Fund received significant one-time insurance proceeds that were expected to cover claims and non-claims payments within the Public Liability Operating Fund, which reduced the amount transferred from the General Fund (Citywide Program Expenditures) by $19.5 million, on a one-time basis. However, as discussed in the *Reserve Considerations* section of this report, these one-time proceeds were not enough to cover the Public Liability Operating Fund's expenses for the year. As a result, the Public Liability Operating Fund required $7.7 million from its reserves to end the year in balance.
- **$6.3 million savings in Information Technology**. This projected savings includes $3.7 million in non-discretionary IT services, primarily due to $2.6 million in IT services for FY 2026 that were supported by Departments in FY 2025, as well as a concerted effort to reduce expenditures in IT nondiscretionary accounts (in particular delayed datacenter modernization and voice/data network services) due to the projected deficit. An additional $2.5 million is related to savings in discretionary IT applications and services in various departments.
- **$3.7 million savings in debt-related non-discretionary accounts**. This savings includes $1.3 million related to delays in construction for the Stormwater WIFIA loan which is resulting in lower disbursements for the project than originally expected; $1.1 million related to delays in the delivery and outfitting of Fire-Rescue Helicopters; and $1.1 million in Citywide Program Expenditures associated with savings from a refinancing of lease revenue bonds, and a reallocation of debt service to the Infrastructure Fund[9].

[8] In the Adopted Budget, the reserve balance for the Risk Reserves (Public Liability, Workers' Compensation, and Long-Term Disability) was projected to be $73.6 million at year end when excluding an interest-bearing interfund loan to the Sewer Utility's Municipal Fund. In the Year-End Report, unaudited actuals total $52.7 million when excluding the interfund loan, which is $39.6 million under the target of $92.2 million.

[9] This adjustment was one of six general fund mitigations that were proposed as part of the CIP Year-End Budget Monitoring Report.

EXCESS EQUITY AND RESERVE CONSIDERATIONS

Excess Equity

Excess Equity is described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from General Fund revenue growth above projections and/or General Fund expenditures that come in under-budget during any given fiscal year.

At the beginning of FY 2026, projected available Excess Equity was estimated to be zero, meaning the entire ending fund balance comprised the General Fund's Emergency and Stability Reserves. By the third quarter, the FY 2026 projected ending fund balance increased slightly to $1.7 million, above reserves. However, the Year End Report reflects a projected ending fund balance of *negative* $4.7 million, necessitating a draw on the General Fund Stability Reserve.

The change from the third quarter projection reflects a $10.5 million increase in expenditures, partially offset by a $4.1 million increase in revenues. However, much of both variances are attributable to accounting adjustments related to the Solid Waste Management Fund asset transfer. Excluding those accounting adjustments, revenues are projected to finish $15.4 million below third quarter projections, partially offset by expenditures finishing $9.1 million below projections. In either case, projected net activity declined by $6.4 million from the Third Quarter Report, eliminating the previously projected $1.7 million in Excess Equity and resulting in the need for a $4.7 million draw on the Stability Reserve.

The largest negative development since the Third Quarter Report is the delay in receipt of $7.4 million in CalOES reimbursements, a notable risk highlighted in our Office's review of the Third Quarter Report.

Although the City Council in its final FY 2027 budget adoption budgeted the previously projected $1.7 million in Excess Equity as a contribution to the General Fund Reserve, as there is no year-end excess equity, this is no longer expected to occur.[10] Plans to replenish the $4.7 million draw on the Stability Reserve are discussed further in the next section.

General Fund Reserve Considerations

The Year-End report notes the City will use $4.7 million of the Stability Reserve to close the year in balance; this is the first time in recent history that the City has drawn from its General Fund reserves. The Administration made a commitment in the Year End Report to replenish this amount with any CalOES reimbursements received in FY 2027. Until this is replenished, the reserve balance will be reduced from $207.1 million to $202.4 million, representing 10.9% of General Fund operating revenues, down from 11.1%, and below the 14.1% target established by the current reserve policy. Assuming this $4.7 million is restored in FY 2027, the City's General Fund Reserves as a proportion of operating revenues will ultimately be projected to be 10.6% due to changes in revenues. The Department of Finance is expected to propose updates to the Reserve Policy by the end of calendar year 2026.

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

Other reserves are also helping offset the General Fund shortfall and use of the Stability Reserve, as is discussed below. Given the structural budget deficit and repeated efforts to close recent fiscal years in balance, many mitigating measures have already been implemented. As noted in the Year End Report, opportunities for significant additional mitigations are increasingly limited.

At the same time, the City's expenditure projections have become more accurate through the incorporation of the historical budget adjustment in recent years' budget monitoring reports. While improved forecasting reduces the likelihood of unexpected mid-year service reductions, it also leaves less flexibility to absorb unanticipated revenue shortfalls or expenditure increases. As a result, the City's budget margins have narrowed considerably.

Risk Reserve Considerations

The Public Liability (PL), Workers' Compensation (WC), and Long-Term Disability (LTD) Funds provide funding sources for certain claims made against the City. Under the City's Reserve Policy, reserve targets for these funds are based on the most recent three-year average of actuarial liabilities (FY 2023-FY 2025), resulting in FY 2026 targets of:

- PL: 50% of outstanding claims, or $46.7 million.
- WC: 12% of outstanding claims, or $39.7 million.
- LTD: 100% of outstanding claims, or $5.8 million.

FY 2026 Risk Management Reserves *($ in millions)*						
Reserve Fund	**Adopted Budget Projected Reserve Balance[1]**	**FY 2026 Reserve Target**	**Variance: Adopted Budget to Target**	**Year-End Unaudited Actuals**	**Variance: Adopted to Year-End**	**Variance: Year-End to Target**
Public Liability	$ 28.2	$ 46.7	$ (18.5)	$ 20.8	$ (7.4)	$ (25.9)
PL (excluding loan)	*38.4*	*46.7*	*(8.3)*	*30.7*	*$ (7.7)*	*$ (16.0)*
Workers' Compensation	31.1	39.7	(8.6)	17.7	(13.4)	(22.1)
Long-Term Disability	4.1	5.8	(1.7)	4.2	0.1	(1.7)
Total (excluding loan from PL)	***$ 73.6***	***$ 92.2***	***$ (18.6)***	***$ 52.5***	***$ (21.1)***	***$ (39.7)***
Total	**$ 63.4**	**$ 92.2**	**$ (28.8)**	**$ 42.6**	**$ (20.8)**	**$ (49.6)**

Note: Figures may not sum due to rounding.

[1] Reserve Balance projected at FY 2026 year end.

The General Fund is the sole contributor to the PL reserve and the primary contributor to the WC and LTD reserves. Due to General Fund budget constraints the last several years, contributions to risk reserves have been waived. Additionally, an interest-bearing interfund loan from the PL reserve to the Sewer Utility's Municipal Fund is reducing the reserve by $9.8 million, though this amount is expected to be repaid over five years starting in FY 2027.

Due to waived reserve contributions and the aforementioned loan, the PL, WC, and LTD reserves were projected to end the year under target by $18.5 million,[11] $8.6 million, and $1.7 million respectively, based on the Adopted Budget. Based on year-end actuals, the combined shortfall has grown from $28.8 million to $49.6 million.

[11] When the loan to the Sewer Fund is excluded, the reserve was projected to end the year $8.3 million under its target based on the Adopted Budget.

Notable changes between the Adopted Budget and Year-End Report include:

- **A net $7.4 million reduction in the PL Reserve.** Significant one-time insurance proceeds were expected to cover claims and non-claims payments within the Public Liability Operating Fund, which reduced the General Fund transfer by $19.5 million on a one-time basis. However, these one-time proceeds were not sufficient to cover the Public Liability Operating Fund's expenses for the year, and the PL Operating Fund required $7.7 million from its reserves to end the year in balance. According to the Year-End Report, the PL reserve was used to avoid a larger draw from the General Fund Stability Reserve. As of the issuance of this report, Risk Management does not expect substantial insurance proceeds that would guarantee the replenishment of the reserve. A smaller-than-assumed Sewer Fund loan of $313,000 partially offset this change.
- **A net $13.4 million reduction in ending balance for the WC Reserve.** The WC Reserve started the fiscal year with a lower reserve balance than was assumed in the Adopted Budget ($27.1 million instead of $31.1 million). Also impacting the reserve were reduced contributions from the contributing funds, which was implemented to help mitigate the General Fund deficit, and higher expenditures.

Overall, the significant decline in the Risk Reserves this fiscal year reflects rising claims costs and insufficient revenues, which was exacerbated by reduced contributions from the contributing funds (primarily the General Fund). While withholding contributions may be reasonable given the reliance on the General Fund Stability Reserve this year, the erosion of the Risk Reserves highlights the ongoing impacts of the City's General Fund structural budget deficit. DoF is expected to propose updates to the Reserve Policy by the end of calendar year 2026, which should include an approach to addressing the Risk Reserves as well.

HOMELESSNESS EXPENDITURES

Consistent with past practice, the Year-End Report includes an attached memorandum from the Homelessness Strategies and Solutions Department (HSSD) that provides updates on homelessness programs and spending. The HSSD memorandum reflects $48.8 million in year-end General Fund expenditures, which is $5.0 million below the Adopted Budget and $2.4 million below third quarter projections. This section provides additional context for changes not already discussed in that memorandum, relative to the Third Quarter Report.

- ***($7.4 Million) Delayed State Grant Funds for FY 2026 Expenditures.*** State Homeless Housing, Assistance and Prevention (HHAP) grant funds are a major funding source in the HSSD budget, and year-end HHAP expenditures totaled approximately $13.0 million, which is $11.3 million below the Adopted Budget and third quarter projections. Such significant savings are attributable to a delay in when the City received its initial HHAP 6 allocation from the State.[12] For context, the FY 2026 Adopted Budget assumed the use of $24.4 million across all HHAP funds, of which $10.3 million was expected from HHAP 6, which was the latest funding round at the time of budget development. However, the State

[12] The City's HHAP 6 allocation is $25.8 million to be released in two disbursements of $12.9 million, with the release of the second disbursement after specified requirements are met.

did not ultimately disburse these funds to the City until after the end of FY 2026. As this timeline did not align with the close-out of FY 2026, payment of $7.4 million in FY 2026 expenditures from HHAP 6 will be delayed into FY 2027. Of these funds, $410,000 were temporarily charged to the General Fund and reflected as part of FY 2026 year-end expenditures – these charges along with the remaining $7.1 million in outstanding invoices for FY 2026 expenditures will be covered by HHAP 6 in FY 2027 and reflected in the FY 2027 Mid-Year Budget Monitoring Report. After accounting for the FY 2026 expenditures to be covered by HHAP 6, year-end savings across HHAP funds would be closer to $3.9 million, rather than $11.3 million, as stated in the HSSD memorandum.

- ***($132,000) Safe Parking General Fund Savings.*** The Year-End Report reflects additional savings of $132,000 from Safe Parking operations, relative to third quarter projections. Savings are mainly due to lower program participation than expected after H-Barracks Safe Parking opened in May 2025, adding additional capacity with 190 new spaces. Participation at the H-Barracks site remains relatively low, with average monthly occupancy ranging from 42% to 45% in the second half of FY 2026, despite closure of the Aero Drive Safe Parking site (60 spaces) in November 2025. According to HSSD, lower participation at H-Barracks may be due to new safe parking programs elsewhere in the region meeting existing demand for services and seasonal fluctuations.
- ***$1.0 Million Unanticipated "O" Lot Ancillary Costs.*** Ancillary costs at the "O" Lot Safe Sleeping site ended $1.0 million above third quarter projections. This increase was driven by both unanticipated costs and higher than projected cost increases in the last quarter. These included unanticipated costs associated with reinforcing the existing metal fence with mesh to prevent individuals from cutting into the fencing, as well as higher gas costs for generators, bee removal, and pest control. This overage was offset by savings identified elsewhere in the HSSD budget.
- ***Safe Storage Connect Center Security Services Update.*** As part of mid-year budget mitigations, security services at the Safe Storage Connect Center were reduced from operating 24/7 to only during business hours, effective December 2025. Following Council action on the FY 2027 Adopted Budget, 24/7 security services at the site were restored on July 6, 2026. The year-end savings from this temporary security reduction totaled $158,000.

DEVELOPMENT SERVICES FUND

Based on the Year-End Report, Development Services Fund revenues ended the year $11.6 million higher than expenditures, an $800,000 decrease from the Third Quarter Report. With the Fund beginning FY 2026 with a shortfall of $17.8 million and no Reserve balance, the Fund ends the year with a relatively improved though continued shortfall of $6.2 million – resulting in a one-day inter-fund loan transfer at the close of FY 2026. As the Fund's shortfall persists and there is no Reserve balance, the Department will not meet its Reserve policy goal of $19.3 million, as seen in the table below.

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 Target	$ (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	162.1
Year-End Expenditures	143.9	150.5
Ending Development Services Fund Balance	**$ (17.8)**	**$ (6.2)**

Note: Table may not total due to rounding.

[a] FY 2026 balances, revenues, and expenditures are based on unaudited actuals.

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

EMS FUND

Based on the Year-End Report, actual EMS Fund expenditures ended the year $5.9 million higher than revenues representing a significant variance compared to the Third Quarter Report, which had projected a deficit of $569,000. According to the Department, this change since the Third Quarter Report is primarily attributable to higher-than-projected contracted ambulance unit deployment hours associated with the EMS program. As a result, FY 2027 beginning EMS fund balance now totals $2.5 million, which is $5.3 million less than the $7.8 million that was previously projected to be available in the FY 2027 Adopted Budget. This is notable since the FY 2027 Adopted Budget assumed the full utilization of then-projected fund balance ($7.8 million) to increase the total amount of General Fund support to $16.1 million. EMS fund activity will need to be closely monitored over the course of FY 2027 to determine if the budgeted level of General Fund support will need to be reduced, thus impacting the General Fund.

PUBLISHING SERVICES FUND

The Publishing Services Fund (PSF) provides internal City support through reprographics functions, including graphic design, electronic publishing, lithography, quick prints, and bindery services. This fund is managed by the Communications Department.

FY 2026 year-end unaudited expenditures totaled $1.7 million, while revenues totaled $885,000, resulting in a revenue shortfall of approximately $856,000. Combined with the PSF's beginning fund balance of *negative* $810,000, the shortfall contributed to an estimated fund balance of *negative* $1.7 million at year-end.

According to the Communications Department, the General Fund previously provided cash transfers to the PSF to eliminate its negative fund balance. However, due to the City's structural budget deficit, the General Fund has been unable to provide this assistance since FY 2024. The Department anticipates implementing a print management system in January 2027 to streamline

its current manual work order and invoicing process and help the PSF cover its costs over the next five years.

CONCLUSION

Our Office's review of the FY 2026 Year-End Report highlights the City's General Fund revenue and expenditure performance compared to the Adopted Budget and Third Quarter projections, as well as the year-end status of City reserves and several other funds. While General Fund revenues and expenditures ended the year relatively close to the Adopted Budget, revenues fell below projections, and expenditure reductions and other mitigation measures were necessary to offset cost pressures. Despite these efforts, the City required a $4.7 million draw on the General Fund Stability Reserve to close the fiscal year in balance.

The Year-End Report also reflects reductions in other City reserves. Risk reserves declined by $20.8 million from Adopted Budget projections, leaving them further below policy targets. While reduced contributions and other one-time measures helped mitigate the General Fund deficit in FY 2026, they also limit the City's budgetary flexibility for future years. Additionally, the Development Services and Publishing Services Funds ended the year with negative fund balances, while the EMS Fund ended with less available fund balance than anticipated in the FY 2027 Adopted Budget.

Looking ahead, the City will need to continue balancing ongoing revenues and expenditures while considering opportunities to rebuild reserves. As noted in the Year-End Report, many of the mitigation measures used in recent years have already been implemented, limiting the options available to address future budget shortfalls. Given the City's structural deficit, reduced reserve levels, and limited budget flexibility, conservative revenue and expenditure projections will be particularly important in future budget development.

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