

IBA Review of the FY 2026-2030 Five Year Financial Outlook

Asian Business Association Policy Committee
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Office of the Independent Budget Analyst



Role of the Outlook in the Budget Process

Overview & Importance of the City's Outlook

- 2016 City Charter amendment requires Mayor to annually prepare a multi-year financial outlook for the General Fund.
- Planning tool that informs the annual budget process
 - Allows Council to have a sense of Mayor's budget priorities, and to consider its own priorities & strategies for a balanced budget.
- *IBA's role*: To analyze the Outlook objectively and identify issues and options to assist the Council in decision-making



General Fund Fiscal Condition

Critical to Address the Structural Imbalance

General Fund Outlook Shortfall (<i>\$ in millions</i>)						
	FY 2025 Base ^a	FY 2026 Outlook	FY 2027 Outlook	FY 2028 Outlook	FY 2029 Outlook	FY 2030 Outlook
Baseline Revenues	\$ 2,012.0	\$ 2,074.7	\$ 2,146.1	\$ 2,218.4	\$ 2,303.8	\$ 2,384.4
Baseline Expenditures	2,215.8	2,332.9	2,363.7	2,435.3	2,475.9	2,553.8
Baseline Revenue Surplus/(Shortfall)	\$ (203.7)	\$ (258.2)	\$ (217.6)	\$ (216.9)	\$ (172.1)	\$ (169.4)
One-time Expenditure Priorities	(22.4)	-	-	-	-	-
Use of Available Excess Equity	84.4	-	-	-	-	-
Use of Other One-Time Resources	141.7	-	-	-	-	-
Additional Priorities Beyond Baseline ^b	-	(71.1)	(84.9)	(90.5)	(101.8)	(107.0)
Revised Outlook Surplus/(Shortfall)	\$ (0.0)	\$ (329.3)	\$ (302.6)	\$ (307.4)	\$ (273.9)	\$ (276.3)

Note: Table may not total due to rounding.

^a The FY 2025 Base includes the FY 2025 Adopted Budget adjusted for one-time revenue and expenditure adjustments, including expenditure amounts for delayed reserve contributions and certain uses of non-general fund balances.

^b Includes planned commitments and support for new facilities.

Baseline General Fund Revenue

GF Revenue Overview

- FY 2026 Outlook revenue, totaling \$2.07b, anticipated to be \$7.4m higher than 1st Quarter projected revenue for FY 2025.
- Remaining years' growth averages to 3.4% increase per year.
- Revenue projections generally reasonable; potential risks for Sales Tax and Transient Occupancy Tax (TOT) projections.
- Results of November 2024 election make it difficult to accurately forecast revenue, particularly for outer years.



General Fund Baseline Expenditures

Support existing service levels; no new initiatives

Increases/(Decreases): FY 2025 Adopted Budget to FY 2026 Baseline Projection (<i>\$ in millions</i>)	
FY 2025 Adopted Budget	\$ 2,160.9
Personnel Expenditure (PE) and Fringe Benefit Changes	70.5
<i>Compensation Increases (largely based on labor agreements)</i>	<i>53.0</i>
Non-Personnel Expenditure (NPE) Changes	86.8
<i>General Fund Reserve Contribution</i>	<i>56.6</i>
<i>Increased Lease Revenue Bond Debt Service for CIP</i>	<i>20.3</i>
Removal of FY 2025 One-Time Expenditure Adjustments	14.6
<i>Use of Infrastructure Fund for GF Eligible Expenditures</i>	<i>14.7</i>
<i>One-Time Expenditures for Homelessness Support</i>	<i>(9.5)</i>
FY 2026 Outlook Baseline Projection	\$ 2,332.9
Overall Increase: FY 2025 Adopted Budget to FY 2026 Outlook Baseline (8.0% Increase)	\$ 172.0

Note: Table may not total due to rounding.

General Fund Baseline Expenditures *(cont'd)*

Non-Personnel Expenditures *(cont'd)*

Debt Financing

- GF debt service costs anticipated to total \$48.2m in FY 2025

Assumed New Debt Proceeds (FY 2026-2030)	\$ 1,024.1m
Existing Appropriations Requiring Future Debt	\$ (394.7m)
Appropriations Pending Future Council Action	\$ (149.9m)
Net Debt Capacity	\$ 479.5m

Debt Ratios						
	FY 2025 Budget	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030
10% Benchmark	4.5%	5.5%	6.0%	6.2%	6.8%	6.8%
Incl. Pension/OPEB - 25% Benchmark	23.0%	24.3%	24.4%	24.5%	22.3%	21.9%

Priorities Beyond the Baseline

New Facilities

- Certain facilities projected to open during the Outlook period lack full funding.
 - It may be premature to project the opening dates.
- New facilities can be delayed for budgetary reasons if necessary.

Summary of Facilities Projected to Open During Outlook Period	
Library	<ul style="list-style-type: none"> • Ocean Beach Library Expansion • Oak Park Replacement Library
Parks and Recreation	15 new or expanded parks 13 new Joint Use Agreements
Fire-Rescue	New Fire Stations: <ul style="list-style-type: none"> • Black Mountain Ranch • Otay Mesa

Priorities Beyond the Baseline *(cont'd)*

Planned Commitments – Homelessness Programs

FY 2026 Projected Homelessness Funding Gap <i>(\$ in millions)</i>	
Projected Grant and Ongoing General Fund Revenue Available	\$ 90.4
Existing Service Levels Total Expenses	(100.3)
Funding Gap for Existing Service Levels	(9.8)
Expanded Service Levels Total Expenses	(46.0)
Overall Funding Gap With All Planned Commitments	\$ (55.8)

Note: Figures subject to change and may not total due to rounding.

- \$33.7m of expanded service level expenses are associated with Kettner/Vine shelter.
- Uncertainties over future one-time State grant funds and timing of 2020 Measure C (TOT)
- Council may wish to consider:
 - Delay any planned service expansions to avoid larger budget shortfall
 - Re-evaluate and prioritize homelessness programs
 - Identify additional opportunities for regional collaboration



Potential Needs Not Included in the Outlook

<u>Operating Needs</u>
<p>Arts and Culture Funding \$5.5m - \$15.5m in FY 2026 for increased funding targets of 6.5% and 9.5%</p>
<p>Tenant Eviction Notice Registry Start-up costs of \$215k for NPE & \$285k for two positions; annual \$400k administrative costs</p>
<p>SD Access 4 All \$785k for Digital Equity Program existing services</p>
<p>Climate Action Plan (CAP) Implementation \$188.1m potential funding gap between CAP spending and Climate Action Implementation Plan</p> <p><u><i>Fleet Electrification</i></u> Potential \$94.2m in savings over 10 years; partially offset by \$23.7m - \$34.9m upfront costs for installation of charging infrastructure</p>

<u>Infrastructure Needs</u>
<p>Transportation – Road Repair Program Pavement Management Plan – 10-year, \$1.9b strategy to improve City’s PCI to 70; does not include 62 miles of unimproved streets</p>
<p>Stormwater Infrastructure \$1.6b deficit for Stormwater capital infrastructure needs for the next five years</p>
<p>New and Existing City Facilities Over \$1.0b for deferred maintenance needs</p>
<p>Zero Emissions Municipal Building Operations Policy (ZEMBOP) Projected cost \$80.0m - \$90.0m; actual net costs currently unknown, including efficiency savings from equipment, building retrofits, or energy controls responding to time-of-use rate triggers</p>



Potential Resource Options

Mitigations with More Certain Estimates

Baseline General Fund Outlook Projections with Mitigations (<i>\$ in millions</i>)					
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Baseline Surplus/(Shortfall)	\$ (258.2)	\$ (217.6)	\$ (216.9)	\$ (172.1)	\$ (169.4)
Measure B Implementation (Refuse Collection Fee)	\$ 78.6	\$ 81.0	\$ 83.2	\$ 83.7	\$ 85.5
Suspend Reserve Contributions	63.2	(63.2)	-	-	-
Measure C Implementation (TOT Increase)	33.9	35.6	37.4	39.2	41.2
Parking Meter Rate Increase ^a	9.6	9.9	10.2	10.5	10.8
Strategic Use of Infrastructure Fund Contributions	8.8	11.1	16.7	22.6	28.8
Cannabis Business Tax Increase for Outlets (2%) ^a	4.3	4.4	4.6	4.7	4.9
Mitigations Subtotal	\$ 198.3	\$ 78.8	\$ 152.0	\$ 160.7	\$ 171.1
Baseline Surplus/(Shortfall) after Mitigations	\$ (59.9)	\$ (138.8)	\$ (64.9)	\$ (11.4)	\$ 1.8

Note: Table may not total due to rounding.

^a FYs 2027 - 2030 assume annual growth of 3%.

Potential Resource Options *(cont'd)*

Other Potential Mitigations

<i>Those beginning FY 2026 & with less certain estimates</i>
Identified in the Outlook
GF Excess Equity (one-time)
Budget Reductions (ongoing)
Additional Resources
Grants (one-time)

<i>After FY 2026</i>
Sales Tax Increase (ongoing)
General Obligation Bonds (one-time)
Stormwater Fee Increase (ongoing)
Property Transfer Tax Increase (ongoing)

Conclusion

- Baseline revenue and expenditure projections reasonable, though risks related to sales tax and increased pension payments exist.
- The City has options to *partially* address projected *baseline* shortfalls; any *additional* priorities or expenditures beyond baseline will require further cuts.
- **Cuts in FY 2026 will be required;** critical for the City to immediately implement those mitigations that it can ***in the current fiscal year***. Any additional revenue or savings in FY 2025 can be used to help balance FY 2026 budget.
- ***Failure to take immediate action will lead to the need for even deeper cuts in FY 2026.***