

FY 2026 Updated City Council Budget Priorities

Budget & Government Efficiency Committee

February 5, 2025

Item 5



Office of the Independent Budget Analyst



Background

Budget Priorities Resolution is Council's first step in the budget process

- Budget Priorities Resolutions are *initially* approved in October
 - Include Council's 1¢ TOT recommended allocation
- Priorities *updates* are determined in February
- Budget Priorities Resolutions are submitted to Mayor after approval by City Council.

Background

Budget Priorities Resolution is Council's first step in the budget process *(con't)*

- Councilmembers' updates to initial FY 2026 priorities memoranda – submitted to our Office on Jan 10, 2025.
- IBA Report 25-05 summarizes updates, including:
 - A focus on various resources & mitigation ideas
 - Changes in collective support for expenditure priorities
 - The potential for updating Council's recommendation for use of the Council-discretionary 1¢ of TOT revenue

Overall Remarks

- Initial FY 2026 Budget Priorities Resolution was adopted prior to narrow defeat of Measure E.
- Updated memos largely reflect projected \$258.2m revenue shortfall in FY 2026–2030 Five-Year Outlook.
 - Including additional potential resources and more constrained expenditure priorities
- Majority of Councilmembers concerned with potential “across-the-board” cuts that could disproportionately impact vulnerable communities.
- Councilmembers also expressed concerns regarding potential cuts to major public services and personnel expenditures.



FY 2026 Expenditure Priorities

Operating Priorities with <u>Reduced</u> Support	Updated	Initial
Affordable Housing Preservation Fund	4 Districts	8 Districts
Fostering Futures Program	4	5
Tenant Termination Notice Registry	3	5
Old Central Library	3	4
Mobility Master Plan	4	5
Climate Equity Fund	4	5

Operating Priorities with <u>Reduced</u> Support	Updated	Initial
Police Recruitment and Retention	3 Districts	5 Districts
Resource Access Program	3	5
Police Department Vehicles	2	4
Library Materials	4	6
City Recruitment and Retention	4	5
Office of the City Clerk	3	5
Global Sports Event Fund	3	4

FY 2026 Expenditure Priorities *(cont'd)*

Infrastructure Priorities with <u>Reduced</u> Support	Updated	Initial
Police Facilities	4 Districts	8 Districts
North Pacific Beach Lifeguard Tower	4	7
Ocean Beach Lifeguard Tower	3	6
Americans with Disabilities Act	3	7
Separated Bike Lanes	3	6
Fire-Rescue Facilities	3	5
Unimproved Streets and Alleys	3	4

FY 2026 Expenditure Priorities *(cont'd)*

**Operating Budget
Priorities**
Retaining Majority Support

- Homelessness and Housing
- Environment and Climate Action
- Public Safety
- Neighborhood Services
- Arts and Culture

**Infrastructure Budget
Priorities**
Retaining Majority Support

- Transportation and Mobility Safety
- Streets
- Sidewalks
- Stormwater
- Facilities

***Retaining Support:
Initial Budget Priorities
Resolution Items
Supported by Four CMs***

- Parks Programming
- Youth Enrichment Program
- Office of Labor Standards and Enforcement
- SD Access4All

1¢ TOT Expenditure Recommendation

- Several updated memos expressed support in using 1¢ TOT revenue for core City Services.
- All nine CMs noted some level of support for arts and culture funding.

Level of Support	# of CMs Supporting	Notes
Partially Fund Penny for the Arts	6	<ul style="list-style-type: none"> • 3 CMs support funding levels that would be determined later. • 2 CMs support maintaining arts and culture funding at FY 2025 levels. • 1 CM supports increasing the amount above FY 2025 levels.
Fully Fund Penny for the Arts	3	<ul style="list-style-type: none"> • 3 CMs support fully funding the Penny for the Arts goal of \$31.8m – which is \$15.6m beyond the \$16.1m included in the FY 2025 Budget.

FY 2026 Budget Resources and Mitigations

Majority-Supported Resources

Increase Parking Meter Fee Revenue

November 2022 Measure B – Refuse Collection Fee

March 2020 Measure C – TOT Increase

Grants (including IRA and IJJA)

Other Potential Resources

Increased Revenue

- Cannabis Business Tax
- Revenue Identified in IBA Report 22-31
- Adjusting User Fees for Full Cost Recovery
- Charging Admission Fees to Major City-run Events
- Implementing a Fee on Vacant Commercial Property
- Revenue Related to City-Owned Property

Reduced Expenditures

- Operational Efficiencies and Reprioritizations

Other Resources

- Excess Equity
- Cost Sharing w/Other Entities & Regional Collaboration

Recommended B&GE Committee Actions

- Recommend the FY 2026 Updated Budget Priorities Resolution to the City Council for adoption including:
 - Updated expenditure priorities – based on IBA Report 25-05, with any desired modifications
 - Any desired update to the Council recommendation for use of the Council-discretionary 1¢ of TOT revenue
- The resulting B&GE decisions will be presented to the full Council for consideration on February 10.
 - Council's approved Resolution will be submitted to the Mayor for consideration in the FY 2026 Proposed Budget.