



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: November 14, 2025

TO: Department Directors

FROM: Mayor Todd Gloria *Todd Gloria*

SUBJECT: Fiscal Year 2026 Budget Mitigation Actions and Fiscal Year 2027 Budget Development Guidelines

The Fiscal Year (FY) 2026 Adopted Budget was balanced through targeted reductions and anticipated new revenue sources, with no available Excess Equity to address shortfalls should these actions not materialize. Preliminary estimates included in the FY 2026 First Quarter Budget Monitoring Report (First Quarter Report) and the forecasts included in the FY 2027 – 2031 General Fund Five-Year Financial Outlook (Outlook) indicate that the City faces continued fiscal challenges. The Outlook projects deficits over the next five fiscal years due to an ongoing structural budget deficit, beginning with a projected \$88.8 million deficit in FY 2027. With operational needs for new and expanded facilities along with additional General Fund support required in the absence of new grant funding for homelessness programs and services, the deficit grows to \$110.6 million in FY 2027.

In light of these fiscal challenges, it is crucial that the City implement strategic and prudent measures to reduce spending and maintain its fiscal stability. This memorandum outlines the actions being taken to immediately address spending in the current fiscal year and position the City to more effectively navigate the challenges in FY 2027 and beyond.

FY 2026 Budget Mitigation Actions

Request to Fill Vacant Positions

The City of San Diego must prioritize its resources to maintain essential services, which in turn benefit the public. As personnel costs represent the single largest expenditure category, a careful evaluation must be conducted to strategically assess and prioritize the filling of vacant positions. All departments are to carefully scrutinize current vacancies to determine which positions are deemed critical to the operation and efficiency of the department and the City. Critical positions are those that are essential for maintaining core functions and include roles that:

- Directly impact public safety and health
- Are necessary for compliance with legal or regulatory requirements
- Support essential operations that cannot be deferred or eliminated without significant negative consequences

For positions identified as critical, the department is required to submit a Request to Fill (RTF) form electronically in SAP. The RTF process will be led by the Human Resources Department, ensuring that each request is reviewed independently to evaluate the criticality of the position before approval to fill is granted. This process will apply only to positions that do not have a conditional offer letter by December 15, 2025. Additional details regarding this process will be made available on the Human Resources Department CityNet site.

Suspension of Discretionary Spending

To help generate savings to offset the projected current year revenue shortfall or create Excess Equity for use in FY 2027, all departments are required to suspend all discretionary spending. Departments are expected to conduct a thorough review of their budgets and identify areas where spending can be reduced or halted. This suspension includes, but is not limited to, training, non-essential supplies, and contractual expenditures, and other similar expenses. All spending should be directly related to mission-critical objectives that cannot be deferred or delayed.

Suspension of Non-Essential Overtime

All Departments are required to suspend non-essential overtime, defined as overtime that does not directly impact core City services or create public safety or health issues. Departments must critically evaluate the necessity of any overtime requests and seek alternative solutions to manage workloads within standard working hours.

Zero-Based Review of External Contracts

All departments are instructed to review existing contracts with vendors and service providers to identify opportunities for renegotiation or termination of non-critical services. Departments should minimize reliance on external services and prioritize internal capacity over outside contracts. This measure will reduce current year expenditures, generate savings, and ensure that City resources are used more efficiently. Similar to last year, Departments will complete a zero-based review of all external contractual expenditures and provide a list to the Department of Finance by **December 12, 2025**. Your DoF Liaison will provide guidance on this process.

I recognize that implementing these actions may introduce additional operational challenges for each department. However, your cooperation and strict adherence to these measures are vital for our collective success in navigating these financial challenges and ensuring the City closes the fiscal year with a positive fund balance. This will provide a financial safeguard that can be utilized in future fiscal years, promoting long-term fiscal health and stability.

Please ensure the effects of these actions are reflected in your department's FY 2026 Mid-Year Budget Monitoring projections, to be submitted to the Department of Finance from **December 9-18, 2025**. Submissions must clearly outline the impacts of these measures on department operations, including anticipated savings by directive, so they can be included in the FY 2026 Mid-Year Budget Monitoring Report.

FY 2027 Budget Development Guidelines

Budget Reduction and Efficiency Proposals

All General Fund departments, as well as certain non-general funds¹, are required to review the programs they oversee and the services they provide. They must develop a budget proposal that includes only the most essential services necessary to achieve their department's mission. As each department reviews the programs and functions under their oversight, only the most critical programs and functions should remain in their budget. Any program or function deemed non-critical, in the context of the City's limited resources, must be entered into the City's budget system as a budget reduction proposal.

To achieve the total adjustments needed to close the projected budgetary shortfall, all General Fund departments and certain non-general funds must submit budget reduction proposals for FY 2027. The specific reduction target amounts will be provided to each department head. All targets are expected to be met excluding fixed fringe benefit costs. The Department of Finance provides Business Objects reports which calculate the cost of each budget reduction proposal less fixed fringe benefits. Specifically, budget reduction proposals must:

- First focus on eliminating or reducing non-core services or programs that are not required per city, State, or county mandates; city charter; or municipal code
- Consider span of control of managers and supervisors, as well as administrative support as services or programs are eliminated or scaled down
- Identify savings from the implementation of programmatic efficiencies
- Eliminate non-critical external contractual services
- Assess service level impacts and report expected outputs/outcomes associated with budget reduction proposals, as well as any impacts to Key Performance Indicators
- Be developed through an equity lens and include a description of impacts to existing or potential disparities
- Analyze and be mindful of expenditure reductions that result in revenue reductions (i.e., reimbursable expenditures, revenue-generating positions)
- Propose ongoing expenditure reductions which will directly address the structural budget deficit

Budget reduction proposals must be reviewed and approved by your respective Deputy Chief Operating Officer and submitted in the City's budget system from **December 8, 2025 through January 3, 2026**. Please remember that any budget reduction proposals submitted for consideration are only **proposals** at this time. All proposed budget reductions will be discussed and reviewed by the Executive Team and me during the Executive Budget Review (EBR) meetings in February 2026.

Department Directors are also strongly encouraged to identify opportunities to increase City resources or reduce costs. These include:

- Proposals that increase revenue through improved reimbursement for existing services or new revenue opportunities, including user fees

¹ Non-general funds required to submit budget reduction proposals are: Central Stores Fund, Energy Conservation Program Fund, Engineering and Capital Projects Fund, Fleet Operations Operating Fund, GIS Fund, Information Technology Fund, OneSD Support Fund, Publishing Services Fund, Risk Management Administration Fund, Transient Occupancy Tax Fund – Cultural Affairs & Special Events and Filming, and Wireless Communication Technology Fund.

- Elimination or modification of legal or other restrictions imposed on existing City revenue sources
- Reevaluation of City operations to better provide services through centralization, streamlining of procedures or enhanced cooperation with other organizations (i.e., County of San Diego)
- Identify services currently being provided by the City that should be provided by other agencies

To the extent that any of the above items result in a budget adjustment (i.e., increased departmental revenue), please include them as part of the budget adjustment submissions. For all other proposals, please submit them via memorandum to your DCOO, with electronic copies sent to the Chief Financial Officer and the Director of Finance for evaluation.

Multi-Year Cost or Revenue Mitigation Strategies

The City's annual budget development timeline provides a limited window for departments to prepare and submit cost reduction or revenue enhancement proposals. This short timeframe constrains the ability to design and validate more complex, structural solutions that could achieve long-term savings or enhanced revenues. Recognizing these limitations, I ask that department directors identify and document strategies that could reduce costs or increase revenues even if the benefits would not be realized in FY 2027. Some of these more complex strategies may provide sustainable, long-term solutions to address the City's structural budget deficit during the Outlook period. Department heads should **submit any identified strategies via their DCOO or CFO in a memorandum to the Chief Financial Officer by January 31, 2026**. These strategies will also be discussed during each department's EBR meeting in February 2026.

Budget Additions

For General Fund departments, as well as select non-General Funds, requests for additional resources in the FY 2027 Budget will be limited to only those that address regulatory or mandated requirements. All requests for budget additions must be approved by your DCOO.

Requests for Increases to the City's Fleet

The Department of General Services (DGS) will be carefully reviewing all FY 2027 requests for increases to the City's fleet. This effort is to ensure that DGS is prepared to be responsive to the operational needs of departments that provide critical services citywide and that future debt obligations are fully accounted for.

All vehicle and motive equipment addition requests must be entered into the budget system using Commitment Item 512099. Additionally, if a vehicle is being added to support the addition of staff, both the position(s) and vehicle(s) must be included on the same budget adjustment form. A detailed explanation about the program or project must also be included. Requests for vehicle adds that are not included during the budget process, which includes the May Revision, will be denied. Exceptions may be granted for emergencies, and only with approval by the requesting Department's DCOO, Chief Financial Officer, and Department of General Services DCOO. If you have any questions about this process, please contact Deputy Director, Gina Dulay, at (619) 527-7594 or GDulay@sandiego.gov.

If you have any questions regarding the FY 2026 Budget Mitigation Actions or FY 2027 Budget Development Guidelines, please contact your [DoF Liaison](#) or refer to the [Budget Development Process Instructions](#) on CityNet.

Thank you for your support.



Mayor Todd Gloria

MTG/cp

cc: Honorable Council President and Members of the City Council
Honorable Heather Ferbert, City Attorney
Paola Avila, Chief of Staff, Office of the Mayor
Charles Modica, Independent Budget Analyst
Rolando Charvel, Chief Financial Officer
Scott Wahl, Chief of Police, Police Department
Robert Logan II, Fire Chief, Fire-Rescue Department
Casey Smith, Deputy Chief Operating Officer, Office of the Mayor
Kris McFadden, Deputy Chief Operating Officer, Office of the Mayor
Rania Amen, Acting Deputy Chief Operating Officer, Office of the Mayor
Bethany Bezak, Acting Deputy Chief Operating Officer, Office of the Mayor
Matt Yagyagan, Director of Policy, Office of the Mayor
Assistant Directors
Deputy Directors / Assistant Deputy Directors
Department of Finance Analysts
Department Analysts