THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the Mayor's FY 2018-2022 Five-Year Financial Outlook

OVERVIEW

On November 9, 2016, Mayor Faulconer released the Fiscal Year 2018-2022 Five-Year Financial Outlook (Outlook). The Outlook is a planning tool not a budget. As a planning tool, the Outlook is an important and integral part of the budget development process, and is described in the City Council's Budget Policy as "the basis for determining the coming year's operating budget allocations."[1] This year's Outlook projects that Baseline expenditures will outpace annual growth in revenues in the first two fiscal years of the five-year period, with a $36.9 million deficit projected for FY 2018, and a $20.7 million deficit projected for FY 2019. These deficits are due to a number of factors including an increase in the City's pension payment, increasing costs associated with employee organization agreements, slowing revenue growth, and the implementation of voter-approved Charter Section 77.1 (Infrastructure Fund) that earmarks specific increases in revenue for qualifying infrastructure expenditures. The outer years of the Outlook project steadily increasing revenues in excess of expenditures, with annual surpluses ranging from $543,000 in FY 2020 to $80.1 million in FY 2022. Our Office notes, however, that the Mayor's deficit and surplus projections do not include costs associated with a number of significant critical expenditure needs that we discuss later in this report. Finally, the Outlook also includes a discussion of potential strategies for mitigating the deficit projected in FY 2018.

This year the Outlook's projections are based *solely* on the City's General Fund Baseline revenues and expenditures over the next five fiscal years—a departure from previous years' Outlooks. The Baseline is composed of current ongoing General Fund revenues and expenditures that support City programs and services, and is based on the FY 2017 Adopted Budget after the removal of one-time resources and expenditures. In prior years the Outlook projections had included a summary of the Baseline as well as five years of projected revenues and expenditures for the Mayor's priority initiatives (both one-time and ongoing expenditures) that were likely to be

[1] Council Policy 000-02 *Budget Policies* page 2, updated June 22, 2016.

included in the Proposed Budget. For instance, in addition to baseline expenditures, the FY 2017-2021 Outlook included approximately $430.6 million in priority initiative expenditures over the five-year period, partially offset by a total of $8.8 million in associated revenues. In comparison, the FY 2018-2022 Outlook includes a brief *discussion* of critical strategic expenditures that are likely to be necessary in the next five years, but does not include the costs of these expenditures in the Outlook's deficit/surplus calculations.

The City's Budget Policy states that the Outlook "shall… include projections for committed expenditures which are defined as the operational costs for new facilities, contractual obligations, federal and State legal mandates, and adopted City Council policies."[2] While the Outlook includes projections for a number of critical expenditures as per the Budget Policy, these projections are not included in the bottom line calculation. Therefore, the Outlook's projected deficits may be understated and projected surpluses overstated. In this report our Office addresses our understanding of the intent of the Budget Policy by including the Mayor's critical strategic expenditures, as well as other expenditures not in the Outlook but identified by our Office as potential funding priorities, in our bottom-line projected deficit/surplus calculations for each of the five fiscal years.

In this report we review the information presented in the Outlook as well as additional items identified by our Office, including:

- An overview of Baseline revenues and expenditures reported in the Outlook
- An analysis of the critical strategic expenditures identified in the Outlook, but not included in the projections
- Other critical expenditures identified by our Office and not funded in the Outlook
- A review of the Mayor's potential mitigation actions for balancing the FY 2018 budget
- Other mitigation actions identified by our Office
- An Outlook scenario that reflects the Baseline plus priority critical expenditures identified by the Mayor and our Office

Through our Office's review and the Outlook itself, the City Council can consider funding various alternative priorities for the FY 2018 budget, as well as deficit mitigation strategies, as part of the review of the Outlook. Council may also wish to consider including these items in the City Council Budget Priorities memoranda that will be due to our Office in January.

REVIEW OF GENERAL FUND BASELINE

The Outlook projects Baseline expenditures in excess of revenues (deficits) in FY 2018 and FY 2019, and revenues in excess of Baseline expenditures (surpluses) in the remaining three fiscal years of the Outlook period. The projected deficits are due to a number of factors including an increase in the City's pension payment, increasing costs associated with employee organization agreements, slowing revenue growth, and the voter-approved earmarking of specific revenue increases to the newly created Infrastructure Fund. Projected surpluses in the outer years of the Outlook are due to continued moderate growth of major General Fund revenues.

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[2] Council Policy 000-02 *Budget Policies* page 5, updated June 22, 2016.

Total Baseline revenues in the Outlook are projected to grow from $1.37 billion in FY 2018 to $1.57 billion in FY 2022, a $208.8 million or 15.3% increase in revenues over the five-year period. This growth in revenues is higher than last year's Outlook that projected $192.8 million or 14.5% growth over the five-year period. General Fund Baseline expenditures in this year's Outlook have also increased over last year's by $176.7 million or 13.4%.

General Fund Revenues

The Outlook projects major General Fund revenue growth in each of the next five fiscal years, although the revenue growth slows over time. The Outlook notes that the current period of economic expansion has not been marked by dramatic increases in revenue growth after the last recession, and that it has exceeded the average number of years (five) between recessions. The Outlook stops short of predicting the occurrence of a recession within the next five years, although alternative scenarios of either greatly reduced or zero growth are offered for each revenue source.

Generally, our Office agrees with the slowing growth projections included for each revenue source in the Outlook, and we discuss these in the sections below. We note that these projections are reasonable for the purposes of forecasting, and that the Financial Management Department will report on, and adjust, budgeted growth rates throughout the year if warranted as part of the budget monitoring process. We also note that the "high" and "low" growth scenarios for the major General Fund revenues reflect reasonable alternative assumptions about the factors underlying the forecasts, although the Baseline revenue growth rates projected in the Outlook are more appropriate at this time.

The following table displays the continued increase in total major General Fund revenues from FY 2016 actuals projected through FY 2022; details on the changes in growth rates for each revenue source are provided in the "Baseline General Fund Revenues" section of the Outlook.

General Fund Revenues

Revenue Source *($ in millions)*	**FY 2016 Actuals[1]**	**FY 2017 Projected**	**FY 2018 Forecast**	**FY 2019 Forecast**	**FY 2020 Forecast**	**FY 2021 Forecast**	**FY 2022 Forecast**
Property Tax	$471.3	$505.0	$532.0	$554.9	$576.3	$594.0	$612.0
Sales Tax	275.7	268.7	270.8	275.9	281.2	286.9	292.6
Transient Occupancy Tax	107.7	113.6	120.1	126.6	133.1	139.7	146.2
Franchise Fees	81.9	82.2	82.8	83.6	84.4	85.8	87.3
Other Revenues	362.2	357.1	359.4	376.0	393.2	416.5	435.7
Total General Fund	**$1,298.8**	**$1,326.6**	**$1,365.1**	**$1,416.9**	**$1,468.2**	**$1,522.9**	**$1,573.8**
% Growth over Prior Year		2.1%	2.9%	3.8%	3.6%	3.7%	3.3%

Note: Table may not total due to rounding.

[1]Based upon the recently released Comprehensive Annual Financial Report, that has not yet been received and filed by the City Council

Property Tax

The Outlook includes the property tax year-end projection of approximately $505.0 million included in the FY 2017 First Quarter Budget Monitoring Report (First Quarter Report) as the basis for its projection. A number of assumptions are included in the Baseline calculation, including:

- An approximate 1.93% increase in the California Consumer Price Index (CCPI) in August, from the previous year
- Continued positive growth of the City's assessed valuation

Since the release of the Outlook, an updated CCPI has become available that raises the year-to-date percent change to 2.62%, meaning that the assessed valuation of properties not improved or sold will increase by the Proposition 13 cap of 2%, which is a small and not significant increase from the 1.93% increase reported in the Outlook. While the Outlook assumes increased growth in property tax over the next five-years based on increasing valuation, the amount of growth in each year is reduced from a high of 5% in FY 2018 to a low of 3% in fiscal years 2021 and 2022 reflecting a decrease in the number of properties sold as property values climb. Our Office agrees with the growth rate included in the Outlook's Baseline projection.

Sales Tax

The Outlook projects that sales tax revenue will grow by 1.5% in FY 2018, 1.8% in FY 2019, 1.9% in FY 2020, and 2% in both FY 2021 and 2022. These growth rates are considerably lower than those that were included in last year's FY 2017-2021 Outlook, and reflect the decrease in sales tax growth that the City experienced in FY 2017.[3]

Growth in sales tax revenue is based on overall consumer spending, and is highly sensitive to consumer confidence and unemployment rates. San Diego's current unemployment rate is 4.5%, which represents a slight increase over 2015. Consumer confidence as measured by the Consumer Confidence Index peaked in September, but has declined slightly in recent months. Additionally, potential increases in federal interest rates could negatively impact auto sales, which provide a portion of overall total sales tax receipts.

The growth rates for sales tax revenue in the Outlook are slightly conservative–Muniservices, the City's sales tax consultant, projects growth rates of roughly half a percent above those included in the Outlook–but we believe the Outlook's projections are appropriate given the recent general softening in sales tax growth. As we noted earlier, the economy has experienced an unusually long period of expansion. If a recession were to occur in the future, it is likely that the sales tax projections included in the Outlook would need to be adjusted downwards.

Transient Occupancy Tax (TOT)

The Baseline TOT projection included in the Outlook assumes a 6% growth rate in FY 2017 that gradually declines to 4.7% growth in FY 2022. This decline is based upon an assumption of a

[3] The First Quarter Report reduced the expected growth in sales tax receipts in FY 2017 from 3.5% to 2%.

softening of growth in annual overnight visitors that tempers the projected increase in hotel rooms through calendar year 2019, and the increase in the average daily room rate through calendar year 2020.

Our Office notes that these assumptions are reasonable within the framework of the Outlook, but that they do not include any speculation on outcomes associated with the recent November election or other scenarios that may affect TOT either positively or negatively, for instance:

- The failure of ballot measures C and D that would have increased the percentage of TOT charged and (to varying degrees) approved the construction of a downtown hybrid stadium-convention center
- How a recession would affect tourism, should one occur within the Outlook period

While the TOT Baseline projections are reasonable based upon the considerations that were included in the Outlook, there is some uncertainty surrounding large-scale projects and economic trends that were not considered for the Outlook and that may affect TOT receipts in the outer years.

Franchise Fees

Franchise fees in the Five-Year Outlook consist mainly of payments from San Diego Gas and Electric (SDG&E), cable providers, and refuse haulers. Overall, all combined franchise fees are expected to increase slightly each year of the Outlook. Individual rates are discussed in detail below.

Cable Franchise Fees
Cable franchise fees currently constitute 23% of all franchise fees received by the City. The Outlook assumes 1% growth in cable franchise fees in each of its five years.

Cable franchise fee revenue has held relatively flat over the last several years. Annual cable franchise fee revenue declined slightly from FY 2011 through FY 2014. Cable revenue did grow slightly in FY 2015 and 2016, though current FY 2017 projections show a decline of 2.7%, or $507,000 below the adopted budget.

SDG&E Franchise Fees
Franchise fees paid by SDG&E currently represent 60% of the total franchise fees received by the City. Projected revenue increases for SDG&E franchise fees are 2% for each year of the Outlook. This is based on energy cost forecasts provided by the US Energy Information Administration.

SDG&E franchise fee revenue is ultimately determined by erratic commodity rates and sales in the City. It is difficult to accurately predict any given year's revenue variance–in the past, these revenues have seen large single year increases (21.3% in FY 2016) and decreases (12.3% in FY 2010). While the projected growth in San Diego's population size and the consumer price index suggest increasing demand and energy purchases, the volatility of this revenue source suggests that a conservative projected growth rate should be used, as is reflected in the Outlook.

Refuse Hauler Franchise Fees

Franchise fees paid by refuse haulers and tip fees at the Sycamore Landfill total 15% of all franchise revenues collected by the City. The Five-Year Outlook projects revenues from refuse hauler franchise fees to remain flat. Historically, growth and reductions in refuse disposal have broadly tracked overall economic conditions; forecasts by Beacon Economics and Muniservices for the San Diego region suggest a local economy that is expected to slowly grow. These indicators largely support the projections included in the Outlook.

General Fund Expenditures

This section reviews major changes and expenditure issues for FY 2018 and through the remainder of the Five-Year Outlook. The following table presents the changes from the FY 2017 Adopted Budget to the FY 2022 General Fund Baseline projection.

Increases/(Decreases) from the FY 2017 Adopted Budget to the FY 2022 Outlook Baseline Projection *($ in millions)*		
FY 2017 Adopted Budget		**$1,338.0**
Personnel-Related Expenditure Changes		**110.2**
Actuarially Determined Contribution (ADC) - Retirement Payment	$49.4	
Compensation Increases - Agreements with Employee Organizations	45.0	
Other Post-Employment Benefits (2.5% Annual Increases Over Five-Year Outlook)	5.2	
Workers' Compensation	3.8	
Other Fringe Benefits Increases	2.9	
Step Increases for Salaries and Wages	2.1	
Termination Pay (for Annual Leave)	1.8	
Removal of FY 2017 One-Time Expenditures (see Five-Year Outlook, Attachment 2)		**(41.4)**
Capital Expenditures - Vehicles (Park & Recreation and Police)	(1.0)	
Citywide Elections	(1.8)	
Office Relocation/Tenant Improvements	(2.6)	
Public Liability Reserve Contribution	(2.8)	
Police Officer Recruitment and Retention	(4.0)	
Fleet Services Additional Vehicle Purchases	(4.5)	
FY 2017 General Fund Reserve Contribution	(7.6)	
Transfers to CIP	(11.3)	
Other One-Time Expenditures	(5.8)	
Non-Personnel Expenditure Changes		**87.0**
Contracts (3.5% Annual Growth Rate Over the Five-Year Outlook)	34.8	
Charter Section 77.1 - Infrastructure Fund Transfers	13.0	
Reserve Contributions	7.9	
Net Amount for Addition of 101 Ash and Removal of Executive Complex Rent	7.5	
Energy & Utilities - Various Growth Rates (Electric, Fuel, Water, Other)	7.1	
Supplies (3.5% Annual Growth Rate Over the Five-Year Outlook)	5.7	
Increases in Transfers to Park Improvements Funds	5.4	
IT Sourcing Strategy (Help Desk, Data Center, Networks, Application Svcs. Contracts)	5.1	
FY 2017 Use of Fleet and IT Fund Balances	4.5	
2% Annual Growth Rate for Other IT Costs	1.2	
CIP Debt Service Increase (DC1, DC2, DC2A, DC3)	0.5	
Adjustments to Elections & Redistricting Costs	(0.5)	
Removal of Library Match in FY 2019	(1.0)	
Qualified Energy Conservation Bonds/Equipment & Vehicle Financing Program	(1.0)	
Decrease to Public Liability Claims Funding	($3.0)	
FY 2022 Outlook Baseline Projection		**$ 1,493.7**
Change: FY 2017 Adopted Budget to FY 2022 Outlook Baseline		**$ 155.7**

Note: Table may not total due to rounding.

As shown at the bottom of the previous table, the Outlook's FY 2022 General Fund Baseline expenditure projection is increasing by $155.7 million (or 11.6%) from the FY 2017 Adopted Budget. Note that this $155.7 million increase includes the removal of $41.4 million in FY 2017 one-time expenditures. Disregarding the FY 2017 one-time amounts, the increase in the remaining expenditures over the five-year Outlook period is $197.2 million.

The largest increases over the five years include:

- $49.4 million for the Actuarially Determined Contribution (ADC) pension payment;
- $45.0 million for compensation increases included in the recently negotiated agreements with the City's recognized employee organizations;
- $34.8 million for the 3.5% annual increases in costs for contracts; and
- $13.0 million for the Charter Section 77.1 Infrastructure Fund that was approved by San Diego voters in June 2016.

There are no programmatic increases included in the General Fund Baseline expenditures projection. The Outlook includes a discussion of a number of critical strategic expenditures, but related costs are not included in the calculation of the deficit or surplus for each Outlook year, unlike in prior Outlooks.

A detailed discussion of General Fund Baseline expenditures is included as Attachment 1 of this report. Attachment 1 provides context for areas of concern that the City Council has discussed during prior budget development and monitoring processes. For instance, there are a number of components of the Baseline expenditures that we anticipate will be over-budget (overtime) and under-budget (salaries). However, when looking at the Baseline expenditures on the whole, there is a potential for the over-budget and under-budget areas to balance out. A more precise projection for Baseline expenditures will be available when the FY 2017 Mid-Year Budget Monitoring Report is released on January 30, 2017.

CRITICAL EXPENDITURES NOT FUNDED IN OUTLOOK PROJECTIONS[4]

As previously discussed, the forecasted revenues and expenditures for each year in the Outlook *only* include Baseline revenues and expenditures; no expenditures associated with the Mayor's priority initiatives were included in the projections, as they were in past years' Outlooks. The Outlook does identify a number of "critical strategic expenditures", although these expenditures are not reflected in the deficit/surplus calculation for each of the five years in the Outlook period.

The City Council's Budget Policy states that the Outlook shall "include projections for committed expenditures which are defined as the operational costs for new facilities, contractual obligations, federal and State legal mandates, and adopted City Council policies."[5] In the following sections our Office reviews the Mayor's critical expenditures and their associated net costs if available, as well as other critical expenditures identified by our Office, and forecasts the costs over the five-year Outlook period.

[4] For the purposes of this report the terms "unfunded" or "not funded" are used to identify known critical expenditures that are not included in the Outlook deficit or surplus projections. Hence, funding any of these items in FY 2018 would increase the deficit, or reduce the surplus, of the projections.

[5] Council Policy 000-02 *Budget Policies* page 5, updated June 22, 2016.

Review of the Mayor's Critical Strategic Expenditures

The critical strategic expenditures listed in the Outlook net to $191.7 million over the five-year period, and are displayed in the following table. If all of these critical expenditures were funded, the Outlook's annual projections would change and there would be a deficit in the first four years of the five-year period. In FY 2018 the deficit would increase from the Outlook's projection of $36.9 million to $54.8 million, and in FY 2021 the Outlook's $40.1 million surplus would be a $10.6 million deficit. Brief descriptions of each critical expenditure are discussed in the sections that follow; additional details related to each item can be found in the Outlook.

Mayor's Critical Strategic Expenditures Not Funded in the Outlook or Included in Projections

Department/Program	Request	FTE[1]	FY 2018 Net Expense	FY 2019 Net Expense	FY 2020 Net Expense	FY 2021 Net Expense	FY 2022 Net Expense
City Treasurer	Earned Sick Leave & Minimum Wage Enforcement	3.00	$ 68,735	$ 80,182	$ 91,630	$ 91,630	$ 91,630
City Treasurer	Revenue Audit Positions for Tax Compliance[2]	5.00	-	-	-	-	-
Citywide Program Expenditures	Debt Service	0.00	2,000,000	5,400,000	10,800,000	12,800,000	16,200,000
Economic Development	Reinvestment Initiative	7.00	46,992	48,376	49,761	49,761	49,761
Environmental Services	CNG Fueling Station Operations	0.00	1,523,000	11,000	(278,000)	(637,000)	(835,000)
Environmental Services	Fee Adjustments	0.00	295,000	590,000	1,210,000	1,210,000	1,210,000
Fire-Rescue	SCBA	0.00	835,000	1,669,000	1,669,000	1,669,000	1,669,000
Fire-Rescue	APX Portable Radios	0.00	-	-	381,977	381,977	-
Fire-Rescue	Fire Stations	48.00	2,457,471	3,340,446	7,216,995	8,066,995	8,557,024
Fleet Operations	Vehicle Replacement Fees	0.00	2,507,768	3,146,948	2,760,444	7,225,538	7,342,358
Information Technology	Maintenance/Improvement of Existing Software	0.00	1,734,197	1,445,806	1,753,370	1,195,147	1,029,381
Infrastructure Asset Management	I AM San Diego Project	0.00	1,461,467	1,618,101	1,618,101	1,618,101	1,618,101
Library	Public Use PCs	0.00	-	-	200,000	200,000	200,000
Library	New Libraries	10.55	-	1,519,159	1,538,549	1,538,549	1,417,572
Park & Recreation	New Facilities	50.22	1,445,247	3,056,929	4,452,511	4,898,869	5,071,587
Park & Recreation	MADs Proposition 218 Compliance	0.00	136,058	192,861	252,504	315,129	380,885
Police	Sworn Positions and Equipment	50.00	-	2,233,486	3,831,843	5,624,265	5,922,406
Police	Civilian Positions and Equipment	26.00	-	673,862	1,202,575	1,715,181	1,934,869
Police	Replacement of CAD	0.00	782,848	1,122,848	1,132,848	1,137,848	1,162,848
Police	Property Room Storage	0.00	(60,000)	(120,000)	(120,000)	(120,000)	(120,000)
Police	NetRMS	0.00	-	-	81,507	81,507	81,508
Real Estate Assets	CCP Reconfigurations	0.00	2,688,573	1,688,573	1,688,573	1,688,573	788,573
Transportation & Storm Water - Streets	Slurry Seal Work[3, 4]	0.00	-	-	-	-	-
Transportation & Storm Water - Storm Water	Storm Water Permit Requirements[4]	0.00	-	-	-	-	-
Total Critical Expenditures		**199.77**	**$ 17,922,356**	**$ 27,717,577**	**$ 41,534,188**	**$ 50,751,070**	**$ 53,772,503**

[1] Projected FTE as of FY 2022.

[2] Net zero estimated expense for this item, as projected revenues are expected to off-set projected expenditures.

[3] Funding for slurry seal work in FY 2018 is included in the City's CIP budget.

[4] Projected costs for these items were not included in the Outlook outside of a potential annual cost range for slurry seal work, but are included in this report in the "IBA-Identified Priority Expenditures not Funded in Outlook" table in the following section.

City Treasurer – Earned Sick Leave and Minimum Wage Enforcement

On June 7, 2016, voters approved an ordinance requiring employers located in the City of San Diego to provide 40 hours of earned sick leave a year, and a minimum wage of $10.50 an hour to their employees (which will increase to $11.50 on January 1, 2017, and include annual cost of living increases starting on January 1, 2019). After the election in June, the City Council also adopted the FY 2017 Budget, which included $400,000 in the Office of the City Treasurer for enforcement and administration of the Earned Sick Leave and Minimum Wage Ordinance. The Outlook includes $400,000 each year ($2.0 million over the Outlook period) in the City Treasurer's baseline budget for these purposes. The Outlook notes, but does not fund, an additional $424,000 the Department expects it will need over the Outlook period to support 3.00 full-time equivalent (FTE) positions, appeal hearings, and translation services for the enforcement of the Ordinance. Our Office notes that the Outlook also does not include potential revenue that could be generated by these positions through the assessment of penalties. Potential revenues related to Earned Sick Leave and Minimum Wage enforcement efforts are expected to be budgeted in FY 2019, based on actual revenues collected in FY 2018.

Projected Minimum Wage Enforcement Expenses Over the Five-Year Outlook Period

Description	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Total
3.00 Enforcement Positions (PE and NPE)	$ 416,235	$ 427,682	$ 439,130	$ 439,130	$ 439,130	$ 2,161,307
Appeal Hearings	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 250,000
Translation Services	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 12,500
Total Projected Expense for Min. Wage Program	**$ 468,735**	**$ 480,182**	**$ 491,630**	**$ 491,630**	**$ 491,630**	**$ 2,423,807**
Baseline Expenditures for Enforcement	**$ 400,000**	**$ 400,000**	**$ 400,000**	**$ 400,000**	**$ 400,000**	**$ 2,000,000**
Critical Expenditures ID by Mayor (Over Baseline)	**$ 68,735**	**$ 80,182**	**$ 91,630**	**$ 91,630**	**$ 91,630**	**$ 423,807**

City Treasurer – Transient Occupancy Tax Audit and Compliance

The Outlook identifies, but does not include funding for, an additional 5.00 FTE positions in the Office of the City Treasurer to perform TOT compliance audits. The Office of the City Treasurer indicates that 3.00 FTE positions would work on short-term rental compliance, while the other 2.00 FTE positions would conduct TOT lease and franchise audits to help the program achieve a three year audit cycle. If funded, the expenses related to these positions are projected to total approximately $2.3 million over the Outlook period. However, the potential revenue for these positions is projected to more than offset the costs, and is discussed in more detail in the "Potential Resources and Mitigation Actions" section of this report.

Citywide Program Expenditures – Debt Service for Planned Deferred Capital Bonds and Commercial Paper Borrowing

Prior to the release of the Outlook, the City had planned to issue three $90 million deferred capital bonds (DC 4, DC 5, and DC 6) in FY 2017, FY 2018, and FY 2019. The FY 2017-2021 Outlook included approximately $56.8 million of debt service for these infrastructure bonds in its forecast as a Priority Initiative. This year's Outlook does not include any debt service costs for future DC bonds. The Critical Strategic Expenditures section of the Outlook discusses a plan to push back the timeframe for issuing the same three $90 million bonds to FY 2018, FY 2020, and FY 2021. If the bond issuance dates are pushed back, the estimated amount of debt service required over the Outlook period is $47.2 million. Funding for the $47.2 million of debt service has not been included in the Outlook, although the debt service is discussed as a critical strategic expenditure.

The accuracy of the $47.2 million debt service estimate is dependent on future interest rates and whether $90 million in long-term bonds will be issued in FY 2018, FY 2020, and FY 2021 as discussed in the Outlook. When asked about the plan to push back the issuance of deferred capital bonds, staff noted yet-to-be-deployed DC 3 bond proceeds, an unspecified amount of idle/available CIP funds that could be reallocated, and a plan to initially obtain funds for capital projects using a short-term commercial paper borrowing program (to be presented to the City Council for consideration in 2017). Actual debt service over the Outlook period could be lower or higher than the $47.2 million estimate depending on the actual borrowing amounts, schedule, and how a General Fund commercial paper borrowing program (if approved) will be utilized for capital project needs.

Economic Development – CDBG Reinvestment Initiative

The City will receive repayments of approximately $215 million in Community Development Block Grant (CDBG) program income over the next 10 fiscal years. More than half of the $215 million will be received annually over the Outlook period. The Economic Development Department has worked with various community stakeholders and the City's Consolidated Plan Advisory Board to develop recommendations (entitled the CDBG Reinvestment Initiative) for reinvesting these CDBG repayments in accordance with the Department of Housing and Urban Development's (HUD) three national objectives. On December 5, 2016, the City Council approved $17 million of CDBG Reinvestment Initiative expenditure category recommendations for FY 2018. These expenditure recommendations are intended to help low and moderate income (LMI) persons and target the following four focus areas: job growth, sustainability, utilization, and housing solutions.

In order to properly administer the annual Reinvestment Initiative allocation of CDBG funds, the Economic Development Department plans to add 7.00 grant reimbursable FTE positions at an annual cost of approximately $819,000 over the Outlook period. The positions are needed to support the annual CDBG allocations by increasing financial management, project management, and federal and State compliance. This planned additional expense is discussed but not funded in the Outlook.

Environmental Services – Compressed Natural Gas (CNG) Fueling Station

For the CNG Fueling Station, the Outlook identifies a critical need for $1.2 million in General Fund support for capital costs and $293,000 in operating expenses in FY 2018, although these amounts are not included in the Outlook's projection. This project is jointly funded by the General Fund (60%) and the Department's Recycling Fund (40%) over several years. The overall $5.5 million project is a key component of converting the Department's entire fleet of low-sulphur diesel refuse and recycling packers to operating on natural gas. The Recycling Fund fulfilled their total contribution to the project funding in FY 2016 and FY 2017. The project is anticipated to become partially operational in FY 2018 and fully operational by FY 2021. The General Fund will begin to realize operating and fuel savings as the facility becomes operational. The conversion of the Department's vehicles to natural gas is highlighted as a significant contributor to achieving the reduced greenhouse gas emissions goal of the City Council approved Climate Action Plan. Funding for this facility was included in last year's FY 2017-2021 Outlook.

Environmental Services – Impact of Anticipated Fee Increases on General Fund

In November 2012, ESD staff presented the Department's Five-Year Financial Outlook for consideration to the City Council. As part of the Department's approved Outlook, the City Council authorized automatic, annual rate adjustments to the AB 939 Recycling Fee[6] and the Standard Disposal Fee for all Weighted Loads delivered at the Miramar Landfill (Tipping Fees)[7]. These adjustments are based on the annual change in the Consumer Price Index rounded up to the nearest $1.00, and the formula presented by ESD staff. Based upon this authorization, the Department projects a $1.00/ton increase to the Disposal Fees in FY 2018 and FY 2020, and a $1.00/ton increase to the AB 939 Fees in FY 2020. The projected rate adjustments will result in increased expenses for the General Fund (illustrated in the following table).

Additionally, in July 2015, during the presentation of the Department's updated Five-Year Financial Outlook, the City Council approved a three-year phased elimination of a discount provided on disposal fees for City Forces beginning in FY 2016[8]. The final reduction of the discount was to occur in FY 2018, resulting in additional expenses to the City's General Fund. However, the final reduction to this discount is being deferred for one year until FY 2019.

The following table illustrates the projected budgetary impact of the specific City Council approved actions. While the impact from these actions was included in the FY 2017–2021 Outlook, the FY 2018–2022 Outlook identifies this as a critical expenditure, but does not include funding to address the General Fund impacts.

General Fund Impact

Council Approved Actions	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
CPI Increase to Disposal Fees	$295,000	$295,000	$ 590,000	$ 590,000	$ 590,000
CPI Increase to AB 939 Fees	-	-	325,000	325,000	325,000
Elimination of City Forces Discount	-	295,000	295,000	295,000	295,000
Total	**$295,000**	**$590,000**	**$1,210,000**	**$1,210,000**	**$1,210,000**

Fire-Rescue – Equipment Costs

The Outlook identifies, but does not include funding for, expenditures totaling $8.3 million over five years to replace critical safety and communications equipment for the Fire-Rescue Department. This equipment includes the replacement of all self-contained breathing apparatus (SCBA) and the purchase of new APX portable radios to convert all the Department's radios to be P25 network-compatible. The Department has indicated that these purchases are critical to its operations. With regard to the SCBA inventory replacement, financing for this purchase through the City's Master Lease Program was approved by the City Council in December 2016. The critical expenditures discussed in the Outlook reflect estimated debt service for the SCBA purchase.

[6] Resolution 307834
[7] Resolution 307833
[8] Resolution 309835

Fire-Rescue – Operating Costs for New Fire Stations

The FY 2018-2022 Five-Year Outlook discusses, but does not include funding for, operational expenses for four new fire stations projected to open within the Outlook period. These expenses total approximately $21.4 million over five years, including the addition of 48.00 FTE positions, as reflected in the table "Mayor's Critical Strategic Expenditures Not Funded in the Outlook or Included in Projections," which appears earlier in this report. Capital expenses for these fire stations are fully funded. Therefore, once construction of these new fire stations is complete, providing operational funding for the facilities will be a significant mandate for the City. Operational expenses include personnel expenditures and non-personnel expenditures such as equipment and supplies.

The four new fire stations discussed in the Outlook as likely requiring operational funding over the next five years are:

- Bayside Fire Station (FY 2018)
- Black Mountain Ranch Fire Station (FY 2020)
- North University City Fire Station (FY 2020)
- UC San Diego Fire Station (FY 2022)

Should the construction timeline for these facilities be slowed or delayed, anticipated operational costs could be reduced. For example, the Outlook discusses but does not include funding for $1.6 million in expenditures to fully staff and operate the new Bayside Fire Station for a full year in FY 2018. While the Outlook assumes a need for a full year of staffing at this fire station, the Fire-Rescue Department estimates that the facility will open in November 2017. Therefore, if funded, the Bayside Fire Station would likely only incur operating expenses for two-thirds of FY 2018 at a revised cost of approximately $1.1 million.

Compared to last year's FY 2017-2021 Five-Year Outlook, the current Outlook removes operational expenditures for the following three fire stations that do *not* currently have capital funding and were previously projected to become operational in FY 2021:

- College Avenue Fire Station
- Home Avenue Fire Station
- Paradise Hills Fire Station (double-house)

Operating costs for these additional fire stations are reflected in the table "IBA-Identified Priority Expenditures Not Discussed or Funded in Outlook," which appears later in this report. Remaining *capital* needs for these stations total approximately $32.8 million, which could potentially be funded by future deferred capital debt issuances or new alternative sources of capital funding in future fiscal years. Should these or other fire stations be completed in the event that sufficient capital funding is identified within the Outlook period, additional operations funding would be required. Based on information provided by the Fire-Rescue Department, we estimate that approximately $6.5 million to fund 48.00 FTE positions and associated non-personnel costs would be required annually to operate these three additional stations.

Fleet Operations

The City maintains a fleet of over 4,200 vehicles. Vehicles are periodically replaced as they meet the end of their useful lives. The Outlook discusses the need for $23.0 million to support the replacement of roughly 2,000 vehicles, however, this funding is not reflected in the projections. Vehicles being replaced include fire engines, street sweepers, police vehicles, and trash trucks. If these expenditures are not funded the overall age of the City's fleet would increase, and the overall condition of vehicles, as well as the number of vehicles in service at any one time, could be negatively impacted.

Information Technology

The Outlook discusses but does not fund, critical expenditures related to the upgrade and maintenance of current IT programs, projects, and contracts. Examples of these IT funding needs include additional annual maintenance costs for the City's website, as well as OnBase, the City Council's docketing software that is scheduled to replace SIRE at the end of FY 2017 or in early FY 2018. These Information Technology Fund critical expenditures are projected to cost $1.9 million over the Outlook period, and the General Fund portion of that is expected to be $848,000.

Critical expenditures identified for the Department's OneSD Fund over the Outlook period include maintenance, support, and upgrades for SAP 'run the business' projects already underway or previously approved. In FY 2018 these expenditures are projected to be approximately $1.6 million for the General Fund, and will total $6.3 million over the Outlook period. Projects and cost estimates are similar to the OneSD projections funded as part of the Mayor's Technology Improvements Priority Initiative in last year's Outlook, with only slight modifications in timing and cost projections. If these expenditures are not funded in upcoming budgets the City may have to delay system upgrades, and current SAP functionality (speed, reliability) may diminish.

Infrastructure Asset Management (I AM)

I AM is the City's new infrastructure management tool that is projected to go live early next fiscal year. Last year's FY 2017-2021 Outlook included I AM as a funded priority initiative and identified Phase 1 implementation costs in FY 2017 (approximately $7.0 million) and FY 2018 ($3.5 million). This year's Outlook identifies, but does not fund, ongoing General Fund maintenance costs for Phase 1 after the July 30, 2017 go-live date ($1.5 million in FY 2018, and $1.6 million annually thereafter, for a total of $7.9 million over the Outlook period). These costs reflect projected debt service payments and contract maintenance and licensing services that have already been approved by the City Council.

Phase 2 funding for the expansion of I AM to five additional City departments is not identified as a critical expenditure in the Outlook, but is discussed in the "IBA-Identified Priority Expenditures Not Discussed in Outlook" section of this report.

Library – Public Use Computer Replacement Program

The Library System has approximately 1,100 computers available for use by the public. The replacement of these computers last occurred over two fiscal years, from FY 2013 to FY 2014.

Total replacement of the computers over a short timeframe supports the equipment being similar in functionality and operating requirements. This program supports continuing the current level of computer access within the Library System. The Department projects to phase-in the replacement of all public use computers starting in FY 2020. In their Outlook submission, the Department requested $200,000 annually from FY 2020 to FY 2022 for the initial phases of the program. The Outlook discusses this as a critical expenditure, but does not identify funding. This program was proposed to be funded in the FY 2017-2021 Outlook.

Library – New/Replacement Branch Libraries

The Department anticipates the opening of one new branch library (Pacific Highlands) and two replacement/upgraded branch libraries (Mission Hills and San Ysidro) in FY 2019 based on current construction schedules. The Outlook report identifies 8.50 FTE positions and approximately $932,000 in new operating costs for the Pacific Highlands branch, and 3.67 FTE positions and approximately $586,000 in additional operating costs for the expansion of the San Ysidro and Mission Hill branch libraries. While categorized as a critical strategic expenditure within the Outlook report, these new ongoing expenses are not funded during the Outlook period. The FY 2017-2021 Outlook did assume funding to address the new operational expenses for the new branch libraries. Opening dates and annual operating expenses for each facility will be re-evaluated and refined as work on the facilities moves forward. Attachment 3 of this report provides detailed expenses for each facility anticipated to open or become operational within the Outlook period.

For capital costs, the Pacific Highlands branch is anticipated to be fully funded from Facilities Benefit Assessment (FBA) fees from four communities: Pacific Highlands Ranch, Del Mar Mesa, Torrey Highlands, and Black Mountain Ranch. Full funding for the San Ysidro and Mission Hills branch libraries has been identified from multiple sources including private donations.

Park & Recreation – New Parks and Joint Use Agreements

The Department projects 20 new/expanded parks will open and 26 new Joint Use Agreements (Agreements) with local school districts will become effective during the Outlook period. The Outlook identifies the operating expenses for the new parks and the Agreements as critical expenditures, which are estimated at $1.4 million in FY 2018 and increasing thereafter, with an aggregate expense of approximately $5.1 million in FY 2022 once all the new parks and Agreements have come on-line. The projected operating costs include the addition of 50.22 FTE positions throughout the Outlook period to maintain the new parks and playgrounds. The positions include the addition of 2.00 FTE positions annually during the Outlook period to address the projected acquisition of additional open space acreage, and 7.00 FTE positions to provide citywide park maintenance. Attachment 3 of this report provides detailed expenses for each facility anticipated to open or become available to the public within the Outlook period. Funding for the new parks and Agreements was included in the FY 2017-2021 Outlook as a priority initiative, however these projected costs are not reflected in the current Outlook projections.

Park & Recreation – Maintenance Assessment Districts (MADs)

The Outlook identifies as a critical expense unfunded projected costs due to an anticipated increase in financial liability associated with re-engineering the City's MADs. The updated Assessment

Engineer's reports, required for each MAD to comply with California State Proposition 218, have re-apportioned the general and special benefit allotments (portion of expense that the City or the District is responsible for). As a result of the re-apportionments, Department staff anticipate an increase to the general benefits (City portion), resulting in increased General Fund expenses throughout the Outlook period. The General Fund expenses are projected to increase from approximately $136,000 in FY 2018 to $381,000 in FY 2021. The additional expenses related to the MADs were included in the FY 2017-2021 Outlook, but are not included in the current Outlook projections.

Police – Sworn and Civilian Position Additions

The Outlook identifies a critical need for, but does not include funding for, the addition of 50.00 sworn and 26.00 civilian FTE positions, to the Police Department over the next five years. This addition partially fulfills the needs identified by the Department in its Five-Year Plan, most recently updated in May 2016. While it is important to continue to focus on achieving the Department's staffing goals as outlined by the Five-Year Plan, adding budgeted positions does not necessarily increase the level of filled positions, particularly for sworn officers. Sworn attrition rates have been persistently high for several years. As a result, the number of vacant sworn positions in the Police Department is more than sufficient to absorb new recruits. As of December 12, 2016, the Department reported a sworn strength of 1,859 filled positions out of 2,039 budgeted positions.

Police – CAD System Replacement Costs

The Outlook discusses, but does not include funding for, expenditures totaling $5.3 million over five years to support the computer-aided dispatch (CAD) replacement project. The CAD-related costs include debt service, system maintenance, and training. The Department has indicated that these expenditures will be essential to the operation of the new CAD system, which is expected to be fully deployed in October 2017. A total of $3.9 million has been spent on the project to-date since FY 2013. Providing operational funding for this project will be a significant mandate for the City during the Outlook period.

Real Estate Assets – CCP Reconfigurations

The Outlook identifies $7.2 million to reconfigure office space at Civic Center Plaza (CCP) as an unfunded critical expenditure. The Real Estate Assets Department (READ) is currently in the process of reconfiguring floors of CCP to comply with Administrative Regulation 56, which provides office space and furniture standards for City staff. The reconfiguration is expected to increase the total number of staff housed at CCP from approximately 800 to 900.

As the City continues to fill the new positions that were included in the FY 2017 Adopted Budget, improved efficiency in office space use will become increasingly important to ensure adequate office space for all personnel.

Transportation & Storm Water – Streets and Storm Water Permit Requirements

The Outlook includes a brief discussion of streets and storm water permit requirement funding needs over the upcoming five fiscal years, but does not provide cost projections for these critical strategic expenditures outside of a potential range of unfunded needs for slurry seal work from FY 2019 through FY 2022. Our Office has identified projected costs for this work and includes this information in the following section.

IBA-Identified Priority Expenditures Not Discussed in Outlook

As discussed in the previous section, the Outlook identifies critical strategic expenditures, but the costs associated with these expenditures are not reflected in the deficits/surpluses calculated for the Outlook's five-year period. As part of our review of the Outlook our Office identified potential additional critical expenditures that continue to fund existing priority programs and projects, fund operations and maintenance for facilities or infrastructure projects under construction, and support Council-approved plans such as the Penny for the Arts Blueprint. The purpose of discussing these items is not to advocate for their funding, but to make the Council aware early in the budget process of existing programs that are not included in the Outlook, most of which have been funding priorities in recent years. These items are discussed in the following sections, and their associated costs are displayed in the table below.

IBA-Identified Priority Expenditures Not Discussed or Funded in Outlook

Department/Program	Request	FTE[1]	FY 2018 Net Expense	FY 2019 Net Expense	FY 2020 Net Expense	FY 2021 Net Expense	FY 2022 Net Expense
City Treasurer	Cannabis Business Tax[2]	TBD	$ -	$ -	$ -	$ -	$ -
Commission for Arts & Culture	Penny for the Arts Blueprint - 7% Funding Level	0.00	909,558	1,780,859	2,652,160	3,523,460	4,394,761
Environmental Services Department	Code Enforcement	5.00	411,000	411,000	411,000	411,000	411,000
Fire-Rescue	Operating Costs for Additional New Fire Stations[3]	48.00	-	-	-	6,500,000	6,500,000
Infrastructure Asset Management	IAM Project, Phase 2	0.00	261,000	1,214,563	1,654,629	1,184,629	84,629
Park & Recreation	Expanded Recreation Center Hours	17.50	211,272	374,922	374,922	374,922	374,922
	Pershing Turf Replacement	0.00	400,000	-	-	-	-
Performance & Analytics	Customer Experience and Service Delivery (311)	0.00	3,389,635	857,589	860,543	1,110,543	860,543
Planning	Climate Adaptation Plan	0.00	100,000	150,000	75,000	-	-
	Parks Master Plan	0.00	600,000	600,000	300,000	-	-
Police	Recruitment and Retention	0.00	4,000,000	-	-	-	-
Transportation & Storm Water - Streets	Slurry Seal Work[4, 5]	0.00	-	19,170,614	22,480,057	25,766,496	25,058,039
Transportation & Storm Water - Storm Water	Storm Water Permit Funding Gap[5]	0.00	59,557,784	70,105,497	49,891,063	69,629,963	91,207,638
Total Critical Expenditures		**70.50**	**$ 69,840,249**	**$ 94,665,044**	**$ 78,699,373**	**$108,501,013**	**$ 128,891,532**

[1]Projected FTE as of FY 2022.

[2]Net zero estimated expense for this item, as projected revenues are expected to off-set projected expenditures.

[3]Includes operating costs for three additional fire stations (College Avenue, Home Avenue, and Paradise Hills) that were previously funded as Priority Expenditures in the FY 2017-2021 Five-Year Financial Outlook.

[4]$15.8 million in funding for slurry seal work in FY 2018 is included in the City's CIP budget.

[5]These items were identified as critical priority expenditures in the Outlook, but without associated projected costs. These expenses are capital in nature, and the full balance of these expenses will therefore not impact the General Fund; while non-General Fund revenue sources to support slurry seal efforts exist, non-General Fund revenue sources to support Storm Water projects are limited, and significant General Fund support for Storm Water expenses is likely necessary.

Like the Mayor's critical expenditures identified in the Outlook, the expenditures identified by the IBA are not included in the Outlook projections, nor are they discussed as potential future funding needs. We note that should the Council wish to include these expenditures in future budgets, additional mitigating actions would likely be necessary.

City Treasurer – Cannabis Business Tax

On November 8, 2016, voters passed both State Proposition 64 (the Adult Use of Marijuana Act), and Measure N, which established a Cannabis Business Tax on non-medical cannabis businesses in the City of San Diego. The Outlook does not forecast election results; therefore, additional resources may be required for the implementation of a Cannabis Business Tax program in the Office of the City Treasurer. As our Office notes in more detail in the "Potential Resources and Mitigation Actions" section of this Report, increased revenues and expenditures depend on a number of factors, including the number of businesses permitted, consumer demand, and the price of non-medical cannabis, all of which are difficult to project. The fiscal impact statement for Measure N estimated that Cannabis Business Tax administration costs could necessitate increased contractual expenditures and the hiring of six new positions at a cost of approximately $650,000 annually, but these costs and the number of positions required could be lower depending on the regulatory system implemented. On December 15, the Planning Department will bring a proposed amendment to the City's Municipal Code and Local Coastal Program to the Planning Commission. According to the staff report, the amendment would mirror existing regulations for medical marijuana facilities, allowing a limited number of marijuana outlets (a maximum of four per Council District, and requiring a Conditional Use Permit), and would prohibit the "cultivation and processing, transportation, distribution and storage, and testing of marijuana and marijuana by-products." This proposal is expected to come before the City Council this winter.

Commission for Arts & Culture – Penny for the Arts Blueprint

On October 22, 2012, the City Council adopted the Penny for the Arts Five-Year Blueprint (Blueprint) with the goal of restoring arts, culture, and community festivals funding to FY 2002 funding levels, or approximately 9.52% of the City's annual projected TOT revenue, by FY 2017. The FY 2017 Proposed Budget included $13.9 million for Penny for the Arts, or 6.44% of TOT, and was $6.7 million short of the Blueprint goal of 9.52%. When the City Council adopted the FY 2017 budget they increased funding for the Blueprint to 7% of TOT, for a total allocation of $15.1 million[9].

The annual change in the Blueprint funding as a percent of TOT, as well as the difference between funding for the Blueprint goal and the projected budget included in the Outlook, are displayed in the table below. The Outlook maintains the $15.1 million Blueprint funding level throughout the five year time period but not the 7% of TOT funding level that was approved as an ongoing action by the City Council in June 2016 as part of the final FY 2017 Council budget decisions. This is a departure from last year's Outlook that maintained the Blueprint's funding level as a percent of TOT as authorized by the City Council. Because of this change in the Blueprint TOT funding

[9] The FY 2017 increase to the Blueprint was approved by City Council as an ongoing budget expenditure. For a complete list of ongoing and one-time changes included in the City Council's motion to approve the FY 2017 budget, refer to Attachment 4.

allocation, by FY 2019 the percent of funding for the Blueprint is projected to be less than the FY 2016 level of 6.44%, and the amount of Blueprint funding ($15.1 million) will be less than the funding levels projected in last year's Outlook for FY 2020 ($15.8 million) and FY 2021 ($16.5 million).

Penny for the Arts Blueprint - Funding at $15.1 Million

($ in millions)	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Transient Occupancy Tax Projection (10.5 cents)	$216.3	$229.3	$241.7	$254.2	$266.6	$279.1
Penny for the Arts Blueprint Funding: Goal of 9.52%	20.6	21.8	23.0	24.2	25.4	26.6
Penny for the Arts Forecasted Funding	15.1	15.1	15.1	15.1	15.1	15.1
Difference between Blueprint Goal and Forecast	**($5.5)**	**($6.7)**	**($7.9)**	**($9.1)**	**($10.2)**	**($11.4)**
Penny for the Arts Budgeted Funding, % of TOT	7.00%	6.60%	6.26%	5.96%	5.68%	5.43%

If Blueprint funding is increased to the 7% of TOT level approved by the City Council in FY 2017 an additional $13.3 million would need to be allocated between FY 2019 and FY 2022, as displayed in the following table.

Penny for the Arts Blueprint - Funding at 7%

($ in millions)	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Transient Occupancy Tax Projection (10.5 cents)	$216.3	$229.3	$241.7	$254.2	$266.6	$279.1
Penny for the Arts Forecasted Funding	15.1	15.1	15.1	15.1	15.1	15.1
Penny for the Arts, 7% Funding	15.1	16.0	16.9	17.8	18.7	19.5
Difference between Blueprint Goal and Forecast	**$0.0**	**$0.9**	**$1.8**	**$2.7**	**$3.5**	**$4.4**

Environmental Services – Code Enforcement to Support the City's Zero-Waste Plan and Climate Action Plan

The City Council has approved the Zero Waste Plan and the Climate Action Plan as a set of strategies to achieve the goals of diverting 75% of waste generated in the City from landfill disposal by 2020, achieving a diversion goal of 90% by 2035, and zero waste by 2040. One strategy identified in the City plans is the development of outreach/educational programs and increased frequency of inspections for residential and commercial recycling and trash bins. To implement this strategy, the Department proposed in their Outlook submission the addition of 5.00 FTE positions and approximately $411,000 in annual expenses beginning in FY 2018 and continuing throughout the Outlook period. These expenses are not reflected in the Outlook projections, nor are they discussed in the Outlook as a critical expenditure.

Fire-Rescue – Operating Costs for Additional New Fire Stations

As discussed earlier in this report, three additional fire stations (College Avenue, Home Avenue, and Paradise Hills) beyond those discussed as part of the Mayor's critical expenditures, have previously been projected to become operational beginning in FY 2021. Currently, these fire stations do not have capital funding. In the event that sufficient capital funding is identified and these fire stations are completed, additional operations funding would be required. Based on information provided by the Fire-Rescue Department, we estimate that approximately $6.5 million to fund 48.00 FTE positions and associated non-personnel costs would be required annually to operate these three additional stations.

Infrastructure Asset Management

As noted earlier, I AM is a citywide project to improve the City's management of infrastructure assets. The first phase of the project is projected to go live on July 30, 2017 with four participating departments: Information Technology, Public Utilities, Public Works, and Transportation & Storm Water. Ongoing funding support for I AM Phase 1 is identified as a critical expenditure in the Outlook, although funding for this purpose was not reflected in the forecasted annual deficit/surplus calculation as discussed in the preceding section: "Review of the Mayor's Critical Strategic Expenditures."

Phase 2 of I AM is planned to begin in FY 2018 and would bring five additional departments into the project: Library, Police, Fire-Rescue, Environmental Services, and Park & Recreation. Information about Phase 2 has been included in the I AM project roadmaps presented to the City Council, including the most recent presentation at the Infrastructure Committee meeting on December 7, 2016. Similar to last year, however, Phase 2 project funding has not been included in the Outlook, nor was it identified as one of the Mayor's critical strategic expenditures. Phase 2 implementation and support costs are projected to be approximately $4.4 million over the Outlook period, including $261,000 in FY 2018, and are displayed in the table of IBA-identified priority expenditures at the beginning of this section. Our Office notes that if these expenditures are not funded in the City's upcoming budgets, the planned roll out of I AM to Phase 2 departments may need to be delayed.

Park & Recreation – Expanded Recreation Center Hours

The FY 2016-2020 Outlook presented a phased implementation of increased staffing and hours at all of the 58 recreation centers within the City over a four-year period. The proposed increase in staffing would be phased in from FY 2016 to FY 2019 and raise the operational hours for all 58 recreation centers citywide from 45 hours per week to 60 hours per week. The FY 2016 Adopted Budget initiated the program at 36 recreation centers. The FY 2017 Adopted Budget continued the phased implementation at eight additional recreation centers, raising the total of recreation centers operating at 60 hours per week to 44 of the 58 recreation centers citywide. The FY 2017-2021 Outlook included funding to reach full implementation of the program at all 58 recreation centers by FY 2019. The FY 2018-2022 Outlook does not continue to fund or discuss expanded operational hours at the 14 remaining recreation centers as last year's Outlook did.

Park & Recreation – Pershing Turf Replacement

Per the Joint Use Agreement between the City and the San Diego Unified School District (District), the City has a legal requirement to replace the worn synthetic turf at Pershing Middle School. The preliminary cost estimate from the District's vendor to replace the turf was approximately $1.6 million. The City negotiated payment for the turf replacement over three years. The Department was allocated $700,000 in the FY 2016 Adopted Budget for the initial payment for the project, an additional $500,000 was allocated to the project in the FY 2017 Adopted Budget, with the balance of the total payment amount (approximately $400,000) to be allocated in FY 2018. Funding for the final payment for the project is not included in the FY 2018-2022 Outlook. The FY 2017-2021 Outlook included funding for the project over FY 2017 and FY 2018.

Performance & Analytics – Customer Experience and Service Delivery Program (311)

The FY 2017 Adopted Budget added 3.00 FTE positions and approximately $767,000 in non-personnel expenditures to the Performance & Analytics Department (P&A) for scoping and piloting costs in support of the City's implementation of a 311 program. P&A presented a roadmap and update on 311 at the October 26, 2016 meeting of the City's Rules Committee that included a five-year implementation plan along with associated one-time and ongoing program costs. The Department submitted updated costs for 311 for the Outlook, along with projections to expand the "Get it Done" pilot project[10] that was launched in FY 2016 in conjunction with the Transportation & Storm Water Department (TSW). No additional support for 311 or Get it Done, beyond what was already included in the FY 2017 Adopted Budget, has been included in the Outlook.

Costs associated with 311 over the five years of the Outlook—as they were reported to the Rules Committee with the addition of ongoing costs extended into FY 2022, updates to expenditure projections, and support costs for Get it Done—are displayed in the following table. Our Office notes that staff responsible for the implementation of 311 were added in the FY 2016 and FY 2017 Adopted Budgets, and that those positions have been filled. The Department has indicated that while next steps for 311 could be delayed for one fiscal year (meaning that FY 2018-2022 costs displayed in the following table would instead occur over FY 2019-2023), these allocations would be necessary in order to implement the program as it was presented to Rules Committee.

311

Program Description	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
311 Contact Center[1]: set-up (training, software licensing, etc.) and facility costs	$ 2,010,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000
311 Customer Relationship Management - software purchase and maintenance	900,000	-	-	250,000	-
311 Customer Relationship Manager - 1.00 Program Coordinator	109,635	112,589	115,543	115,543	115,543
311 Customer Relationship Management - licensing fees	-	250,000	250,000	250,000	250,000
311 Intelligent Virtual Agent	250,000	300,000	300,000	300,000	300,000
Get it Done Mobile Application	45,000	45,000	45,000	45,000	45,000
311 Implementation - as-needed consultant services	75,000	-	-	-	-
Total:	**$ 3,389,635**	**$ 857,589**	**$ 860,543**	**$ 1,110,543**	**$ 860,543**

[1]Costs associated with a contact center are dependent upon policy direction, and subject to meet and confer, and may not be realized.

[10] The Get it Done project streamlines how street-related problems get reported to the City, allowing problems to be reported via a new public website or a mobile application.

Planning – Climate Adaptation Plan

One of the strategies within the City Council approved Climate Action Plan (CAP) is Climate Resiliency. This strategy includes the development of a Climate Adaptation Plan which will assist the City in identifying vulnerabilities and risks associated with changes to the City's environmental and socioeconomic system, plan for early action, and engage in collaboration with other agencies. Per the CAP, the City will develop a stand-alone Climate Adaptation Plan that will integrate and build upon the strategies and measures in the CAP. The Department projects the Climate Adaption Plan will be prepared over multiple years. In their Outlook submission, the Department requested $100,000 in FY 2018, $150,000 in FY 2019, and $75,000 in FY 2020 for a total of $325,000 for the Outlook period. Funding for the Climate Adaptation Plan is not included in the Outlook though the requested total funding amount and projected timing is consistent with the funding allocation included in the FY 2017-2021 Outlook.

Planning – Parks Master Plan

The Parks Master Plan (PMP) will be a comprehensive review of the current park system, which has not been undertaken since 1956. The PMP will: identify the needs in the current system and emerging trends for the future; propose an equitable citywide distribution of park and recreation facilities; identify high priority sites for park land acquisition, design, and development; and include action strategies for implementing the plan. The Department projected a three-year work program encompassing an existing conditions report, public outreach, drafting the plan, preparing an implementation strategy, and conducting environmental review. The Department's preliminary cost estimate for completion and approval of the PMP was approximately $1.8 million. The Department anticipated funding for the PMP to come from General Fund support and supplementary funding such as grants. The FY 2017-2021 Outlook included $200,000 annually from FY 2017 to FY 2019, and the FY 2017 Adopted Budget included $200,000 for the initiation of the PMP. The Department anticipates the PMP to be initiated in late FY 2017.

The Department request for the FY 2018-2022 Outlook provided an update to the project cost and schedule. Due to certain grant funds (up to $1 million) no longer being available, the Department has revised their projected funding to include an increased amount of General Fund support. The Department requested $600,000 in FY 2018, $600,000 in FY 2019, and $300,000 in FY 2020 in their FY 2018-2022 Outlook submission. No funding for the PMP beyond the $200,000 allocation in the FY 2017 Adopted Budget is included or discussed in the FY 2018-2022 Outlook.

Police – Recruitment and Retention Costs

The Outlook baseline includes expenditures related to the City's agreements with its Recognized Employee Organizations, including the San Diego Police Officers Association (SDPOA), through FY 2020. However, this amount does not include continuing $4.0 million in one-time expenditures funded in the FY 2017 Adopted Budget to augment Police sworn recruitment and retention efforts. SDPOA members currently receive increased non-pensionable compensation in FY 2017 as a result of this expenditure. Absent any further action by the Mayor and City Council, this one-time increase will expire in FY 2018. Should the Police Department continue to experience difficulty retaining sworn officers in the near term, the Mayor and Council may want to consider continuing to fund a portion or all of the $4.0 million to the City's increased recruitment and retention efforts.

For illustrative purposes, we have identified $4.0 million as an estimated fiscal impact of hypothetical increased retention spending in FY 2018 as this was the amount provided in FY 2017.

Transportation & Storm Water – Streets

In 2015, the Mayor committed to a street repair program that would repave or repair 1,000 miles of City streets by 2020, and to improve the overall condition index (OCI) of City streets to 70 by 2025. The OCI is an 100 point scale that grades the overall condition of the City's network of streets; an OCI of 70-100 is considered good, an OCI of 40-69 is considered fair, and an OCI of 39 and below is considered poor. A condition assessment of all City streets completed in 2011 found that City streets had an OCI of 59.

In 2016 the City completed a new assessment of all City streets, which found that City streets now have an OCI of 72. This represents a significant improvement in the condition of City streets since the previous condition assessment. As street conditions improve, it is important to maintain them in order to avoid more costly repairs—such as asphalt overlay—necessary for streets not kept in good condition. Slurry seal is the primary way that streets in good condition are maintained.

The Outlook discusses the importance of maintaining City streets and funding slurry seal efforts, but does not include detailed costs for this service. The amounts shown below indicate the amount of funding for slurry seal that the Transportation & Storm Water Department requested for FY 2018-2022.

Slurry Seal Funding Needs ***($ in millions)***

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$15.8*	$19.2	$22.5	$25.8	$25.1

*Funding exists in City's CIP Budget

Financial Management indicates that the $15.8 million in funding necessary for slurry seal in FY 2018 exists in the City's Capital Improvement Program (CIP) budget. Funding for street repair and resurfacing is generally provided in the City's CIP budget, which includes additional revenue sources beyond the General Fund such as bond-proceeds and TransNet. As slurry seal work is generally considered maintenance and needs to be repeated periodically, it may not be appropriate to fund these expenses with bond proceeds; if sufficient non-General Fund revenue sources to support slurry seal efforts in FY 2019-2022 are not identified, transfers from the General Fund may become necessary, and could impact General Fund expenses over the Outlook's period.

Transportation & Storm Water – Storm Water Permit Requirements

In May 2013, the San Diego Regional Water Quality Control Board (Regional Board) adopted a new municipal storm water permit for San Diego. That permit mandates strict storm water quality requirements, and compliance with that permit will require significant increases in funding. The Transportation & Storm Water Department completed a Watershed Asset Management Plan (WAMP) in 2014 that notes activities and projects necessary to support flood risk management activities and compliance with the Regional Board's storm water permit. The WAMP is updated periodically, and project costs through FY 2040 are currently projected at $3.1 billion.

Penalties for not complying with storm water permits are up to $10,000 per day per violation. Compliance deadlines for storm water quality regulations begin in 2017: the Total Maximum Daily Load (TMDL) for metals in Chollas Creek has a compliance deadline of October 2017, and the Chollas Creek bacteria TMDL has a deadline in the winter of 2018.

The Five-Year Outlook notes that needs for storm water flood risk management and water quality improvement projects have been identified, but the Outlook itself neither details those needs nor includes any of the projected costs for those needs. The FY 2017 Adopted Budget included a total of $60.6 million for storm water efforts, of which $30.8 million was dedicated to water quality efforts and $29.8 million to flood risk management.

Storm water permit compliance efforts have significant operational and capital needs. While operational needs are included in Outlook expenditures, capital needs are not addressed. The table below shows the total operational and capital needs for each year of the Outlook, bond funding that is currently planned for capital projects in those years, and the gap between planned bond funding and total capital needs.

Storm Water Permit Compliance Needs ***($ in millions)***

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Operations/Maintenance	$51.4	$54.0	$53.8	$53.0	$53.0
Total Capital Need	$85.6	$85.0	$67.7	$89.5	$111.7
Bond Funding Planned	$26.0	$14.8	$17.9	$19.9	$20.5
Funding Gap	**$59.6**	**$70.1**	**$49.9**	**$69.6**	**$91.2**

Additional funding for capital needs could come from the City's Infrastructure Fund, which we discuss in our section on potential resources and mitigation actions, but we do note that needs for storm water capital projects exceed the combined sum of currently planned bond funding and total funds available in the Infrastructure Fund. Dedicated funding sources for storm water projects are limited, and General Fund support of storm water CIP projects will be necessary to ensure permit compliance absent any new dedicated revenue source.

POTENTIAL RESOURCES AND MITIGATION ACTIONS

The Outlook discusses the following four possible actions to help address the Baseline deficit identified in fiscal year 2018, but makes no recommendations for mitigation at this time.

1. **Potential City Reserve Policy changes** (presented on a conceptual level), such as modifying the Worker's Compensation Reserve target funding level or extending the time for the City to achieve its target of 16.7% for the General Fund Reserve. As discussed in the Outlook, Financial Management plans to bring a proposal for Reserve Policy changes to the Budget and Government Efficiency Committee in February 2017 as a potential mitigating action to address the FY 2018 projected deficit. We will review the specific proposal at that time.

2. **Use of fund balance (Excess Equity)** that is projected in the Outlook to be $20.3 million. We review the Outlook's fund balance projection and discuss how the updated information in the recently released Comprehensive Annual Financial Report (CAFR) changes the projection, in the "Excess Equity" section that follows.
3. **A review of CIP cash management activities** that the Financial Management Department has undertaken to identify the appropriate alignment of the timing and use of funding for CIP projects. The Outlook notes that the "specific or potential financial impact to the General Fund has not been identified as the process is in the early stages of review."[11]
4. **Budget reductions of 3.5% for all General Fund departments and funds with a General Fund impact**, for possible inclusion in the FY 2018 Proposed Budget. An across-the-board reduction of 3.5% for all affected departments could result in up to approximately $45 million in savings for the General Fund, although our Office notes that not all budget reduction submissions will necessarily be accepted, reducing the amount of savings garnered through this action. The Mayor's Office has indicated it may bring proposed service-related budget reductions to the Council in the Mid-Year Budget Monitoring process. The Mid-Year Report will be reviewed by the Budget and Government Efficiency Committee on February 2, 2017 and presented for approval to the City Council on February 13. These items, whether recommended for implementation in FY 2017 as part of the mid-year budget process or part of the Adopted Budget in July, will require careful scrutiny by Council and our Office in order to fully consider Council priorities and any impacts on community services and programs.

In the following sections our Office identifies additional mitigating actions that could be considered for addressing the projected FY 2018 deficit, as well as costs associated with high priority critical expenditures not yet included in the Mayor's projections. The following table displays projected resources associated with each action, including a potential total $54.5 million in one-time ($36.3 million) and ongoing ($18.2 million) resources in FY 2018. Our table includes resources that are projected to be available for use during the Outlook period although we note that there may be other, less concrete, possibilities. For instance, the Chargers have indicated that they may exercise an option to move to Los Angeles at the conclusion of the current NFL Season. While no decision has been made at this time, if the Chargers do elect to leave and vacate their lease at Qualcomm Stadium before the beginning of the next NFL season, their current lease would require the team to make a one-time payment to the City of $12.6 million.

[11] The City of San Diego *Fiscal Year 2018-2022 Five-Year Financial Outlook* p. 44

Potential Resources

Department/Program	Resource	FTE[1]	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
City Treasurer	Cannabis Tax Revenue[2]	TBD	TBD	TBD	TBD	TBD	TBD
	Audit Staff[3]	0.00	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000
Excess Equity	Year-end Estimate	0.00	15,100,000	-	-	-	-
Proposition H: Infrastructure Fund	Apply funds to Prop H-Eligible Critical Expenditures	0.00	17,000,000	15,100,000	14,400,000	12,800,000	13,000,000
Reserves:[4] Use of PPSR and Reserves in Excess of Target	Pension Payment Stabilization Reserve	0.00	16,000,000	-	-	-	-
	Excess Public Liability Reserve	0.00	2,700,000	-	-	-	-
	Excess Long-Term Disability Reserve	0.00	2,500,000	-	-	-	-

[1] Projected FTE as of FY 2022

[2] As discussed in our review of potential Cannabis Business Tax Revenue, this resource is difficult to project due to the wide range of regulatory frameworks that are possible and have yet to be established.

[3] The 5.00 FTE revenue audit positions that are part of this resource have already been identified in a previous table: "Mayor's Critical Strategic Expenditures Not Funded in the Outlook"

[4] The use of excess Public Liability and Long-Term Disability reserves included in this table reflects the potential use of reserves identified by our Office, and is distinct from the potential City Reserve Policy changes discussed in the Outlook.

City Treasurer – Cannabis Tax Revenue

On November 8, 2016, the voters of San Diego approved Measure N, which established a Cannabis Business Tax (CBT) on non-medical cannabis (marijuana) businesses in the City of San Diego to raise revenue for general governmental purposes of the City. This measure was contingent on the passage of Proposition 64, the Adult Use of Marijuana Act, which was also approved by voters on the November 2016 ballot.

The CBT established a gross receipts tax on non-medical cannabis businesses that operate or provide services within the City, including retail stores, delivery services, cultivators, and distributors. Currently, the CBT rate is 5% of gross receipts. On July 1, 2019, the tax rate will increase to 8%. The City Council has the authority to either decrease or increase the CBT by ordinance at any time, subject to a maximum rate of 15%.

Fiscal impacts associated with this ballot measure include increased General Fund revenue from CBT paid to the City, as well as increased General Fund expenditures on administrative costs related to tax collection. These increased revenues and costs depend on a number of unknown factors, making them difficult to project. These variables include:

- The number of non-medical cannabis businesses permitted in the City, which has yet to be determined, and the rate at which the industry develops.
- The consumer demand for non-medical cannabis within the San Diego region, including availability in neighboring jurisdictions.
- The price of non-medical cannabis, which may change over time.

As part of the fiscal impact statement our Office prepared for Measure N, we provided a rough estimate of potential future CBT revenue of $22 to $35 million annually in the outer years of implementation. Actual revenue could be significantly less or more depending on the unknown factors described above.

While administrative costs are uncertain and would vary based on the number of regulated cannabis businesses, the City Treasurer estimates CBT administration costs could necessitate increased contractual expenditures at a cost to be determined. For illustrative purposes, the fiscal impact statement for this ballot measure stated that future CBT administration needs could include the hiring of up to six new positions at a cost of approximately $650,000 annually.

City Treasurer – Audit Staff

As we noted earlier in our report, the Five-Year Outlook discusses a need for an additional 5.00 FTE positions in the Office of the City Treasurer for TOT tax compliance. The Office of the City Treasurer projects that if these positions were included in the budget, they would be cost recoverable, and could generate an additional $2.0 million each year, of which approximately $1.2 million ($6.0 million over the Outlook period) would be available for the General Fund and could be used to address the deficit.

Excess Equity

The General Fund Reserve requirement and Excess Equity are discussed in Attachment 5 to this report.

The First Quarter Report estimated that Excess Equity will be $20.3 million at fiscal year-end. Subsequently, the Comptroller's Office released the CAFR which has not yet been received and filed by the Council. Based on amounts included in the CAFR, the revised Excess Equity estimate is $15.1 million. Our Office will continue to monitor potential revenue and expenditure increases and decreases that may affect available FY 2017 year-end Excess Equity, and we note that the Excess Equity estimate will be updated for the FY 2017 Mid-Year Budget Monitoring Report (Mid-Year Report) scheduled for release on January 30, 2017.

Finally, as a reminder, when Excess Equity is updated as part of the Mid-Year Report, the Mayor may propose budgeting a portion of Excess Equity for additional one-time expenditures (up to the projected surplus amount for FY 2017); and the City Council may subsequently modify the proposal, if desired. Year-end projected Excess Equity will be subsequently monitored, and funds anticipated to be available may be budgeted for one-time FY 2018 expenditures.

Proposition H – Infrastructure Fund

Earlier this year, San Diego voters approved Proposition H, a ballot measure that requires the City to dedicate a proportion of General Fund revenue growth to an Infrastructure Fund to support the City's infrastructure. The Outlook projects the total amounts required for the Infrastructure Fund from FY 2018 through 2022 to be $72.3 million, as shown below.

Rebuild San Diego Infrastructure Fund *($ in millions)*

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$17.0	$15.1	$14.4	$12.8	$13.0

The Outlook recognizes these allocations to the Infrastructure Fund as a General Fund expense, but does not include projections for any expenditures paid for by the Infrastructure Fund. Allocations to the Infrastructure Fund could be used to support certain critical strategic expenditures, potentially including the City's Infrastructure Asset Management Program, street repair, and storm water permit compliance projects. Use of the fund could help reduce the projected deficits included in the Outlook.

Proposition H also included a provision that allows a one-year suspension of the requirement to allocate General Fund revenue growth to the Infrastructure Fund upon a two-thirds vote of the City Council. If funding for non-infrastructure critical expenditures is needed, Council could consider suspending the measure, which would allow the revenue to flow to the General Fund for other City uses.

Reserves in Excess of Policy Targets

The Mayor's Outlook discusses, on a conceptual level, potential City Reserve Policy[12] changes, such as modifying the Worker's Compensation Reserve target funding level. In the sections below, we have identified some alternatives related to reserve funds which may be available for budget deficit mitigation and do not change the City's Reserve Policy. Further background and expenditure information related to the General Fund and Risk Management Reserves (which include the Public Liability, Workers' Compensation, and Long-Term Disability Reserves), is included in Attachment 5 of this report.

Pension Payment Stabilization Reserve

The purpose of the Pension Payment Stabilization Reserve (PPSR) is to have a source of funds available "to mitigate service delivery risk due to the unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC)." The PPSR was incorporated into the City's Reserve Policy in April 2016.

The $16.0 million General Fund (GF) portion of the PPSR was funded in FY 2016, and per the City Reserve Policy it can be used to cover the GF portion of unanticipated ADC increases. For FY 2018, the GF portion of the ADC is anticipated to increase by an estimated $36.8 million. (For further discussion on the ADC and estimated increases to it, refer to Attachment 1, "FY 2018 Baseline Expenditures" under "Fringe Benefits.")

Of the $36.8 million GF increase to the FY 2018 ADC, $5.0 million is the change that had been previously expected in the FY 2015 valuation; the remaining $31.8 million is related to unanticipated increases. Those unanticipated increases include approximately $6.3 million related to lower than assumed investment return for FY 2016 and $25.5 million for changes in actuarial assumptions primarily related to mortality.

The $31.8 million in unanticipated increases could be partially mitigated for FY 2018 by the $16.0 million GF portion of the PPSR. The City would need to identify additional resources to mitigate the remaining $15.8 million in unanticipated FY 2018 ADC increases. Additionally, ADCs included for each of the remaining Outlook years are projected to remain at the heightened level, with increases as the FY 2016 investment experience loss is phased-in. The June 30, 2016 valuation report is in the process of being completed and there are indications that the ADC may be higher than the figures included here and in the Outlook. The valuation report is anticipated to be released in January 2017 and will determine the FY 2018 ADC.

[12] The City's Reserve Policy is Council Policy 100-20 (last updated April 28, 2016).

Excess Public Liability Reserve

Public Liability (PL) Reserve requirements and estimated excess PL Reserve are discussed in Attachment 5 under "Risk Management Reserves." The PL section in Attachment 5 describes how there is an estimated excess PL Reserve of $5.9 million for FY 2017 and discusses estimates for the Outlook years.

Because there is an increased Reserve requirement for FY 2018, the excess Reserve for FY 2018 is estimated to be only $2.7 million (based on current estimates). In FY 2019, the City would need to contribute another $2.3 million to the Reserve (again, based on current estimates), leaving $0.4 million of excess Reserve. However, to mitigate the FY 2018 deficit, it may be reasonable to consider use of the estimated FY 2018 excess PL Reserve of $2.7 million.

Excess Long-Term Disability Reserve

The Long-Term Disability (LTD) Reserve requirement and excess LTD Reserve are also discussed in Attachment 5, under "Risk Management Reserves." This LTD section describes how there is an estimated excess LTD Reserve of $6.7 million for FY 2017, $4.5 million of which is the General Fund portion.

The City could consider using excess LTD Reserve funds for one-time needs. However, the City is currently negotiating with its recognized employee organizations regarding a death and disability benefit for employees who were hired on or after July 20, 2012, and, per the parameters of Proposition B (passed by the voters in June 2012), are not eligible for the defined benefit pension. Excess LTD Reserve amounts have been anticipated to be used as a funding source for the new death and disability benefit.

Although negotiations for the new death and disability benefit have not concluded, and the City's cost to fund the benefit is uncertain, there may be interest in utilizing all or a portion of the LTD excess Reserve for one-time needs in FY 2018. One suggestion would be to use a portion of the excess Reserve, e.g. $3.7 million ($2.5 million General Fund).

Alternative Scenario Incorporating Priority Expenditures

While the Mayor identified a number of critical expenditures in the Outlook, in a departure from previous years these critical expenditures were not reflected in the bottom-line calculation for each fiscal year of the Outlook period. As a result, the deficits reported for fiscal years 2018 and 2019 are likely understated, and the surpluses identified in fiscal years 2020-2022 may not exist as projected.

In this report our Office has reviewed the Mayor's critical expenditures as well as other items not identified in the Outlook. Many of these items will likely need to be considered for funding in the upcoming years, and difficult decisions may need to be made regarding slowing down some existing plans or projects. In accordance with the Budget Policy, our Office has developed the following table that incorporates some high priority expenditures in the projection, similar to what was provided in past Outlooks, to arrive at a new projected deficit/surplus bottom line. In this section we also present separate tables displaying potential deficit mitigation actions suggested by our Office, and projected capital costs for slurry seal and storm water permit compliance.

FY 2018-2022 Five-Year Financial Outlook, Projected Deficit/Surplus

General Fund	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Baseline Revenues	$ 1,365,074,895	$ 1,416,948,081	$ 1,468,221,043	$ 1,522,851,997	$ 1,573,835,229
Baseline Expenditures	1,401,987,719	1,437,618,560	1,467,678,331	1,482,749,331	1,493,720,734
Surplus/Deficit (in Outlook)	**(36,912,824)**	**(20,670,479)**	**542,712**	**40,102,666**	**80,114,495**

Mayor's Critical Strategic Expenditures (Net Expense) - Discussed in Outlook, Not Included in Deficit Projections					
Administer Sick Leave & Minimum Wage	68,735	80,182	91,630	91,630	91,630
Revenue Audit Positions for Tax Compliance[1]	-	-	-	-	-
Debt Service	2,000,000	5,400,000	10,800,000	12,800,000	16,200,000
Reinvestment Initiative	46,992	48,376	49,761	49,761	49,761
CNG Fueling Station Operations	1,523,000	11,000	(278,000)	(637,000)	(835,000)
ESD Fee Adjustments	295,000	590,000	1,210,000	1,210,000	1,210,000
Fire-Rescue, SCBA	835,000	1,669,000	1,669,000	1,669,000	1,669,000
Fire-Rescue, APX Portable Radios	-	-	381,977	381,977	-
Fire Stations	2,457,471	3,340,446	7,216,995	8,066,995	8,557,024
Vehicle Replacement Fees	2,507,768	3,146,948	2,760,444	7,225,538	7,342,358
Maintenance/Improvement of Existing Software	1,734,197	1,445,806	1,753,370	1,195,147	1,029,381
I AM San Diego Project	1,461,467	1,618,101	1,618,101	1,618,101	1,618,101
Library Public Use PCs	-	-	200,000	200,000	200,000
New Libraries	-	1,519,159	1,538,549	1,538,549	1,417,572
Park & Recreation: New Facilities	1,445,247	3,056,929	4,452,511	4,898,869	5,071,587
MADs Proposition 218 Compliance	136,058	192,861	252,504	315,129	380,885
Police: Sworn Positions and Equipment	-	2,233,486	3,831,843	5,624,265	5,922,406
Police: Civilian Positions and Equipment	-	673,862	1,202,575	1,715,181	1,934,869
Police: Replacement of CAD	782,848	1,122,848	1,132,848	1,137,848	1,162,848
Police: Property Room Storage	(60,000)	(120,000)	(120,000)	(120,000)	(120,000)
Police: NetRMS	-	-	81,507	81,507	81,508
CCP Reconfigurations	2,688,573	1,688,573	1,688,573	1,688,573	788,573
Mayor's Critical Strategic Expenditures Total	**17,922,356**	**27,717,577**	**41,534,188**	**50,751,070**	**53,772,503**
Net Surplus/Deficit	**(54,835,180)**	**(48,388,056)**	**(40,991,476)**	**(10,648,404)**	**26,341,992**

Select IBA-Identified Priority Expenditures (Net Expense) - Not Included in Outlook					
Cannabis Business Tax[1]	-	-	-	-	-
Penny for the Arts Blueprint - 7% Funding Level	909,558	1,780,859	2,652,160	3,523,460	4,394,761
Code Enforcement	411,000	411,000	411,000	411,000	411,000
Operating Costs for Additional New Fire Stations[2]	-	-	-	6,500,000	6,500,000
I AM Project, Phase 2	261,000	1,214,563	1,654,629	1,184,629	84,629
Expanded Recreation Center Hours	211,272	374,922	374,922	374,922	374,922
Pershing Turf Replacement	400,000	-	-	-	-
Climate Adaptation Plan	100,000	150,000	75,000	-	-
Select IBA-Identified Priority Expenditures Total	**2,292,830**	**3,931,344**	**5,167,710**	**11,994,011**	**11,765,311**
Net Surplus/Deficit	**(57,128,010)**	**(52,319,400)**	**(46,159,186)**	**(22,642,414)**	**14,576,681**

[1] Net zero estimated expense for these items, as projected revenues are expected to off-set projected expenditures.

[2] Includes operating costs for three additional fire stations (College Avenue, Home Avenue, and Paradise Hills) that were previously funded as Priority Expenditures in the FY 2017-2021 Five-Year Financial Outlook.

As shown in the table above, funding all of the Mayor's priority expenditures as projected over the next five years, as well as selected IBA-identified priorities, will change the Outlook's annual projections to include a deficit in the first four fiscal years of the Outlook period.

The Outlook includes discussions of a number of potential mitigation strategies for the projected baseline deficit in FY 2018, although details and resource estimates are not provided. Our Office also identified a number of potential resources for Council to consider—including up to $36.3 million in one-time, and $18.2 million in ongoing, revenues in FY 2018.

Potential Resources

Department/Program	Resource	FTE[1]	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
City Treasurer	Cannabis Tax Revenue[2]	TBD	TBD	TBD	TBD	TBD	TBD
	Audit Staff[3]	0.00	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000
Excess Equity	Year-end Estimate	0.00	15,100,000	-	-	-	-
Proposition H: Infrastructure Fund	Apply funds to Prop H-Eligible Critical Expenditures	0.00	17,000,000	15,100,000	14,400,000	12,800,000	13,000,000
Reserves:[4] Use of PPSR and Reserves in Excess of Target	Pension Payment Stabilization Reserve	0.00	16,000,000	-	-	-	-
	Excess Public Liability Reserve	0.00	2,700,000	-	-	-	-
	Excess Long-Term Disability Reserve	0.00	2,500,000	-	-	-	-

[1]Projected FTE as of FY 2022

[2]As discussed in our review of potential Cannabis Business Tax Revenue, this resource is difficult to project due to the wide range of regulatory frameworks that are possible and have yet to be established.

[3]The 5.00 FTE revenue audit positions that are part of this resource have already been identified in a previous table: "Mayor's Critical Strategic Expenditures Not Funded in the Outlook"

[4]The use of excess Public Liability and Long-Term Disability reserves included in this table reflects the potential use of reserves identified by our Office, and is distinct from the potential City Reserve Policy changes discussed in the Outlook.

Finally, we note that the deficits and surpluses in the Potential Funding Deficit/Surplus table on the preceding page, ranging from a deficit of approximately $57.1 million in FY 2018 to a surplus of approximately $14.6 million in FY 2022, do not include General Fund support for slurry seal work or storm water permit compliance efforts. While those needs are capital in nature, some General Fund support for slurry seal may be necessary over the Outlook's period, and significant General Fund support for storm water compliance efforts is expected to be necessary as well.

The table below shows projected funding needs for slurry seal, and the capital funding gap that exists for storm water permit compliance.

Capital Expenditures that May Impact General Fund

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Slurry Seal Work	$ -	$ 19,170,614	$ 22,480,057	$ 25,766,496	$ 25,058,039
Storm Water Permit Compliance Funding Gap	$ 59,557,784	$ 70,105,497	$ 49,891,063	$ 69,629,963	$ 91,207,638
Total	**$ 59,557,784**	**$ 89,276,111**	**$ 72,371,120**	**$ 95,396,459**	**$ 116,265,677**

CONCLUSION

The Outlook offers the City Council the opportunity to proactively initiate the FY 2018 budget process with its priorities in mind. While Outlooks in recent years have identified surpluses and proposed that they be used to fund specific Mayoral priority initiatives, this year's Outlook instead identifies structural shortfalls in the first two years of the Outlook period while including no funds for the Mayor's critical priority expenditures beyond the Baseline. Critical expenditures beyond the Baseline and mitigation actions are presented in the same way–information on potential resources and budget reductions is provided, but no specific budget balancing proposal is offered by the Mayor. Our review proposes other potential mitigations and budget priorities for Council consideration.

The information provided in the Outlook, and in our review of the Outlook, allows the Council to begin to craft a strategy for achieving a balanced budget in FY 2018 by incorporating elements discussed into upcoming City Council Budget Priority Memoranda. Through these memoranda, Councilmembers can provide early direction to the Mayor regarding the prioritization of various expenditures, as well as potential mitigation strategies discussed both in the Outlook and in the IBA's review.

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APPROVED: Andrea Tevlin
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Attachments:
1. FY 2018 Baseline Expenditures
2. FY 2017 Adopted Budget New Position Status
3. New Facilities and Joint Use Agreement Annual Costs
4. Approved Ongoing and One-Time Funding Revisions and Additions to the FY 2017 Budget
5. Reserve Contributions

FY 2018 Baseline Expenditures

The Total General Fund (GF) Expenditures table below presents a summary of the Outlook's FY 2018 Baseline expenditure projection, which is increasing by $64.0 million (or 4.6%) from the FY 2017 Adopted Budget. This $64.0 million increase includes the removal of $41.4 million in FY 2017 one-time expenditures. Taking these FY 2017 one-time amounts into account, the increase in overall expenditures is $105.4 million. More detailed components of expenditure types are discussed in the following sections.

Note that compensation increases from the recent multi-year agreements with the City's employee organizations are not included in Salaries and Wages or Fringe Benefits expenditure categories in the Outlook. These impacts are instead stated separately, as shown in the following table. FY 2018's $15.9 million impact for these agreements includes Flexible Benefits increases, Overtime increases for Firefighters, and increases to Special Pays for Police Dispatchers. Salaries are increased in FY 2019 and again in FY 2020. The multi-year agreements are further discussed on page 26 of the Outlook.

TOTAL GENERAL FUND (GF) EXPENDITURES

Expenditure Type *($ in millions)*	**FY 2017 Budget**	**FY 2018 Baseline**	**Change: FY 2017 to FY 2018**
Personnel Expenditures			
Salaries and Wages	$ 534.5	$ 537.3	$ 2.8
Fringe Benefits	376.9	416.7	39.8
Total Personnel Expenditures	***911.5***	***954.0***	***42.5***
Non-Personnel Expenditures	***426.5***	***415.0***	***(11.5)***
Other Outlook Expenditures			
Recognized Employee Organization Agreements	-	15.9	15.9
Charter Section 77.1 - Infrastructure Fund	-	17.0	17.0
Total Other Outlook Expenditures	***-***	***33.0***	***33.0***
TOTAL GF EXPENDITURES	**$ 1,338.0**	**$ 1,402.0**	**$ 64.0**

Note: Table may not total due to rounding.

Salaries and Wages

The following Salaries and Wages table includes not only changes from the FY 2017 Adopted Budget to the FY 2018 Baseline, but also the FY 2016 actual expenditures, in order to show areas that are more challenging to budget, such as Overtime. Other difficult-to-budget categories include Vacation Pay-in-Lieu and Special Pays. These budget areas will be discussed in the following paragraphs, along with highlights of other Salaries and Wages budget categories, beginning with "regular" Salaries. We would note that Financial Management has worked diligently over the last few years to enhance the financial system and financial projections in order to better address the

City's needs and our changing environment. We anticipate that it will continue to make refinements as warranted.

SALARIES AND WAGES

($ in millions)	FY 2016 Actuals	FY 2017 Budget	FY 2018 Baseline	Change: FY 2017 to FY 2018
Salaries	$ 400.8	$ 428.8	$ 430.8	$ 2.0
Special Pays	29.6	28.2	28.2	-
Overtime	62.1	53.4	53.4	(0.0)
Hourly Wages	14.3	14.0	14.0	(0.0)
Vacation Pay-in-Lieu	8.0	7.2	7.2	-
Termination Pay	3.6	2.8	3.7	0.8
Total Salaries and Wages	**$ 518.3**	**$ 534.5**	**$ 537.3**	**$ 2.8**

Note: Table may not total due to rounding.

Salaries

The Outlook's FY 2018 Baseline projection reflects a $2.0 million increase in Salaries, which is primarily the result of salary "step increases." There are no new full-time equivalent (FTE) positions added in the Five-Year Outlook.

Special Pays

For Special Pays, such as special assignment pay and bilingual pay, there is no increase from the FY 2017 Adopted Budget to the FY 2018 Baseline. The amount budgeted remains at $28.2 million for both years. However, the FY 2016 actual expenditures for Special Pays were $29.6 million, or $1.4 million higher than the FY 2017 Budget and FY 2018 Baseline.

The department with the largest potential overage in Special Pays is the Fire-Rescue Department. Fire-Rescue spent $11.7 million on Special Pays in FY 2016, but is only budgeted at $10.8 million for both FY 2017 and the FY 2018 Baseline – $0.8 million lower than FY 2016 spending. For reference, FY 2015 actual expenditures for Fire-Rescue were $11.4 million (with total General Fund Special Pays of $29.0 million).

Overtime

Overtime is an area that could significantly impact Outlook figures. In FY 2016, Overtime for the General Fund totaled $62.1 million. For FY 2017, Overtime was only budgeted at $53.4 million, with no increase to the FY 2018 Baseline Projection. This $53.4 million is $8.7 million less than actual FY 2016 costs. We noted this discrepancy between FY 2016 spending and the FY 2017 Budget during our review of the FY 2016 Year-End Budget Monitoring Report in June 2016.

When updated FY 2016 actual expenditures were presented in the FY 2016 Year-End Financial Performance Report, we noted that FY 2016 actuals for Police had increased further, and were $4.0 million higher than the FY 2017 Adopted Budget amount. With the recent release of the FY

2017 First Quarter Budget Monitoring Report (First Quarter Report), Financial Management has noted that Police overtime is anticipated to be $5.0 million over-budget for FY 2017.

Fire-Rescue is also anticipated to be over-budget in FY 2017 by $2.7 million; and with the Police estimate, public safety Overtime is anticipated to be $7.7 million over-budget in FY 2017. The scope of over-budget Overtime is unknown for the remaining General Fund departments; but there were other departments with FY 2016 spending that was higher than the amounts budgeted in FY 2017.

Vacation Pay-in-Lieu

Over the past five completed fiscal years (FY 2012 through FY 2016), Vacation Pay-in-Lieu expenditures have averaged approximately $7.3 million, and have been over-budget. For FY 2016, Vacation Pay-in-Lieu expenditures totaled $8.0 million, $2.8 million over-budget. Although there was an increase to the FY 2017 budget for Vacation Pay-in-Lieu with respect to the recent labor agreement with the Fire Fighter's employee organization (International Association of Fire Fighters, Local 145), there was no adjustment with respect to the historical overages.

Although Vacation Pay-in-Lieu is a difficult expenditure type to budget and forecast, we recommend that Financial Management examine potential forecasting methodologies, so that a more accurate budget for those expenditures can be established.

Impact of Vacancy Savings

To balance out any overages in Salary and Wage categories, there would need to be increased revenues or savings in other areas of the budget, including "excess vacancy savings." As discussed in the following paragraphs, excess vacancy savings have helped offset over-budget Salaries and Wages categories in recent years.

Background

Although the budget includes positions that are authorized to be filled, it does not provide funding for all authorized positions. The budget removes funding for some positions in order to account for savings that routinely occur due to turnover, leaves of absence, and when newly hired employees fill vacancies at lower salaries than budgeted. The amount of funding removed from the budget for these occurrences, known as vacancy savings, reduces overall budgeted Salaries and Wages.[1]

Vacancy savings is a budgeting tool used to reflect realistic hiring and turnover, and is not used to restrict hiring of authorized positions. Departments can fill unfunded positions during the year; however, departments must monitor hiring, Salaries and Wages, and all expenditures to stay within their bottom line budgets.

During times when there are more vacancies than anticipated, including when newly budgeted positions are not filled as planned, there are additional vacancy savings above what was budgeted

[1] Leaving the unfunded positions in the budget keeps the authorized positions transparent.

or "excess vacancy savings". For example, vacancy savings for FY 2016 totaled approximately $43.4 million, including $21.5 million in budgeted savings and $21.9 million in excess savings.[2] For comparison, FY 2015 excess vacancy savings was $19.1 million.

As mentioned above, excess vacancy savings can offset other Salaries and Wages categories that are over-budget (including Special Pays, Overtime, Hourly Wages, Vacation Pay-in-Lieu, and Termination Pay).[3] Using FY 2016 as an example, the over-budget amount for those other Salaries and Wages categories was $17.8 million (including $11.9 million in Overtime). The $17.8 million in overages were offset by the $21.9 million excess vacancy savings, with all Salaries and Wages categories netting to an under-budget amount of $4.2 million.

For FY 2016, a large part of the excess vacancy savings had to do with a slower rate of filling new positions than anticipated in the Adopted Budget. Additionally, a large number of the new FY 2016 positions were filled through promotions and transfers, effectively trading one vacancy for another. Further, there were 466 non-hourly position retirements, resignations, and other terminations from July 1, 2015 through June 30, 2016.

However, as discussed in IBA Report 16-13 ("FY 2016 Year-End Budget Adjustments and Year-End Budget Monitoring Report"), when considering the FY 2016 position additions, there was actually a downward trend in the number of vacant positions during FY 2016. This occurred as the Personnel Department, City management, and the hiring departments made a concerted effort to improve the hiring process. The onset of FY 2017 produced new vacancies with the addition of 209.48 non-hourly FTE positions to the budget.

Potential for Vacancy Savings

FY 2017 budgeted Salaries increased by $28.0 million from FY 2016 actual expenditures. The increase was in anticipation of the FY 2016 added positions being filled for a complete year in FY 2017, as well as filling new FY 2017 positions.

Budgeted vacancy savings for FY 2017 increased to $30.4 million, from the $21.5 million budgeted in FY 2016. Even with this $8.9 million in increased budgeted vacancy savings, if positions are not filled in a timely manner, vacancy savings could exceed the $30.4 million budgeted for FY 2017. Although the hiring pace increased in FY 2016, it is difficult to predict how timely these positions will be filled, and therefore, how much vacancy savings will accumulate in FY 2017.

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[2] For purposes of this analysis, FY 2016 projected salary savings of $43.4 million is assumed to be attributable to vacancy savings. There are other types of salary savings that are not related to vacancies, including voluntary furlough and the 3.2% salary reductions for Deferred Retirement Option Plan (DROP) participants in the Deputy City Attorneys Association (DCAA) and San Diego Police Officers Association (POA). These other types of salary savings were projected to be $1.5 million in the FY 2016 Adopted Budget, as compared to the vacancy savings of $21.5 million. Although these other types of salary savings can vary, given the relative size of the budget, the variance is assumed to be zero for the purposes of this analysis.

[3] The condition where excess vacancy savings covers over-budget amounts in other salaries and wages (or vice versa) can be a natural occurrence in a dynamic organization. For example, in a constant staffing model such as for fire suppression, overtime may be needed when the existing staffing levels are insufficient to meet required staffing levels. With increases in vacancies there may be times when more overtime is needed than was originally expected.

The First Quarter Report notes that 75.75 of the 209.48 new FY 2017 FTE positions, or 36%, had been filled as of October 17, 2016. Additionally, other vacancies have been at higher levels than anticipated in the 2017 budget. With these conditions, we anticipate that excess vacancy savings could significantly offset the over-budget Overtime anticipated for FY 2017, and perhaps even other Salaries and Wages overages. ***However, if such vacancies are filled at a higher level during the subsequent Outlook years, there may not be as much excess vacancy savings to offset the higher trends in Overtime and other Salaries and Wages categories.*** Although we note that Overtime may be reduced as positions are filled.

Attachment 2 of this report lists job classifications for FY 2017 new positions, and indicates whether each position is filled as of October 17, 2016 (Attachment 2 includes Non-General Funds as well as the General Fund). The list also includes the program/service area for new positions not yet filled. We will be reviewing these vacancies again in February in our review of the FY 2017 Mid-Year Budget Monitoring Report.

New positions budgeted in FY 2017 that were not yet filled as of October 17 include those that support City Council and community priorities, such as recreation center hours and youth Library programs; positions for the Successor Agency, Climate Action Plan, and City lease management; and skilled trade positions for Facilities and Transportation & Storm Water departments.

On November 9, 2016 the Chief Operating Officer released a memorandum entitled "Fiscal Year 2018 Budget Reduction Proposals." The memo directs departments to submit 3.5% budget reduction proposals as part of the FY 2018 budget process and notes that any reductions submitted should be available for immediate implementation in FY 2017. Guidelines in the memo indicate that departments must "[c]onsider delaying or phasing the implementation of services or programs added or expanded in Fiscal Year 2017 or previous fiscal years" and also focus on non-core services. We would note that any further delays in hiring of new positions could impact important service areas. The City Council will need to be apprised of, and need to approve, any mid-year reductions in City services that may arise during the mid-year budget monitoring process.

Fringe Benefits

Some of the items included in the following Fringe Benefits table are discussed in the paragraphs below, beginning with the pension's Actuarially Determined Contribution (ADC).

FRINGE BENEFITS

($ in millions)	FY 2016 Actuals	FY 2017 Budget	FY 2018 Baseline	Change: FY 2017 to FY 2018
Actuarially Determined Contribution (ADC)	$ 188.0	$ 191.2	$ 227.9	$ 36.8
Employee Flexible Benefits	66.2	79.9	79.9	(0.0)
Other Post-Employment Benefits (OPEB)	39.8	39.9	40.9	1.0
Workers' Compensation	28.3	24.7	26.4	1.6
Supplemental Pension Savings Plan (SPSP)	15.3	16.5	16.7	0.2
Other Fringe Benefits	25.5	24.6	24.9	0.2
Total Fringe Benefits	**$ 363.0**	**$ 376.9**	**$ 416.7**	**$ 39.8**

Note: Table may not total due to rounding.

Pension - Actuarially Determined Contribution

The ADC is the retirement payment made by the City for its defined benefit pension. The Outlook's citywide ADC estimate for FY 2018 is $311.3 million–of which $227.9 million is for the General Fund, an increase of $36.8 million. The annual citywide ADC projections for the remaining years increase on average by $4.3 million, with an estimated citywide ADC of $328.6 million for FY 2022 ($240.6 million General Fund).

The Outlook's ADC forecasts are based on the most recently provided projections from the San Diego City Employees' Retirement System's (SDCERS) actuary, Cheiron, from the June 30, 2015 actuarial valuation (FY 2015 valuation). These projections have been adjusted to include impacts of events which occurred subsequent to the completion of the FY 2015 valuation.

Those subsequent events include Board-approved changes in actuarial assumptions related to mortality, which are discussed further in the Outlook. The subsequent events also include a lower than assumed investment return for FY 2016. The FY 2016 assumed rate of return was 7.125%, whereas the actual FY 2016 return is estimated to be 1.1%, thereby producing an investment "experience loss."

Including the estimated impacts for the subsequent events described above, the FY 2018 estimated General Fund ADC amount is increasing from the $191.2 million included in the FY 2017 Adopted Budget to $227.9 million. This $36.8 million increase includes the following components:

- $25.5 million estimated for the changes in actuarial assumptions primarily related to mortality;
- $6.3 million estimated for the lower than assumed investment return for FY 2016; and
- $5.0 million for the expected change in the ADC (includes the continued phase-in of investment experience from prior years).

Because of the complexity of the pension system variables, the total of all effects on the ADC is unknown at this time. The complete June 30, 2016 valuation that incorporates not only the FY 2016 investment results but all FY 2016 experience gains and losses will be available in January

2017. This valuation will determine the FY 2018 ADC, and is anticipated to include updated ADC estimates for FY 2019-2022. We note at this time that there are indications the ADC may be higher than the figures included here and in the Outlook.

Employee Flexible Benefits

In the Flexible Benefits category, increases on the line entitled "Prior Years' Actuals and Current Benefit Level" in the table below are largely due to increased Flexible Benefits included in current and prior labor agreements. The impact of increases in budgeted positions is also a factor for those Flexible Benefit increases. Note that the impact of future Flexible Benefits increases after FY 2017 are shown in the "Increases Due to Recent Multi-Year Agreements" line in the table below.

Flexible Benefits (General Fund)

($ in millions)	FY 2015 Actuals	FY 2016 Actuals	FY 2017 Budget	FY 2018 Baseline	FY 2019 Baseline	FY 2020 Baseline *
Prior Years' Actuals and Current Benefit Level	$ 54.8	$ 66.2	$ 79.9	$ 79.9	$ 79.9	$ 79.9
Increases Due to Recent Multi-Year Agreements	-	-	-	13.7	12.1	10.1
TOTAL	**$ 54.8**	**$ 66.2**	**$ 79.9**	**$ 93.7**	**$ 92.0**	**$ 90.0**

Note: Table may not total due to rounding.

* The FY 2021 and FY 2022 Baseline projections are the same as the FY 2020 projection.

Supplemental Pension Savings Plan (SPSP)

The Supplemental Pension Savings Plan (SPSP) line of the Outlook includes a defined contribution (DC) plan for employees hired prior to July 1, 2009, as well as a DC plan for City employees hired on or after July 20, 2012. Those employees hired after July 20, 2012, with the exception of sworn police officers, are no longer eligible to participate in the defined benefit (DB) pension plan. Instead they participate in SPSP-H, which was previously for hourly employees but was modified to include these new participants. Both the City and employees contribute 9.2% and 11% of eligible compensation for general members and safety members, respectively.

The only increases for SPSP-H included in the Outlook are based on step increases and are minor, at approximately $500,000 over the five years. There are no SPSP-H increases in the Outlook for turnover that occurs during the five-year period. Such turnover will lead to an increasing number of SPSP-H members–specifically new-hires who are not eligible to participate in the defined benefit pension plan. With these new SPSP-H members and no budget increase, there could be a potential SPSP-H shortfall of upwards of $1 million for each year of the Outlook, depending on the extent of turnover and vacancies that occur. Also, if excess vacancies are filled and overtime continues to be earned at higher than expected levels for employees eligible for SPSP-H, SPSP-H costs will increase.

Non-Personnel Expenditures (NPE)

The following table outlines the NPE changes from the FY 2017 Adopted Budget to the FY 2018 Baseline projection. Various components included in these changes are discussed in the paragraphs below.

NON-PERSONNEL EXPENDITURES

($ in millions)	FY 2016 Actuals	FY 2017 Budget	FY 2018 Baseline	Change: FY 2017 to FY 2018
Supplies	$ 32.1	$ 35.9	$ 31.3	$ (4.6)
Contracts	229.3	240.2	238.9	(1.3)
Information Technology	24.2	28.8	32.5	3.7
Energy & Utilities	37.9	46.9	48.5	1.6
Other Expenditures	101.7	74.7	63.9	(10.9)
Total Non-Personnel Expenditures	**$ 425.3**	**$ 426.5**	**$ 415.0**	**$ (11.5)**

Note: Table may not total due to rounding.

Supplies

Supplies are decreasing from the FY 2017 Adopted Budget to the FY 2018 Baseline projection by $4.6 million, largely due to the removal of $5.6 million in FY 2017 one-time expenditures (including those for police officer recruitment and retention, as well as office relocation/tenant improvement costs). This decrease is partially offset by a 3.5% growth rate applied to the remaining Supplies expenditures budget. Note that there were also $1.8 million in one-time Supplies expenditures budgeted for FY 2016.

Contracts

Contracts are decreasing by $1.3 million due to a number of offsetting increases and decreases. The largest changes are listed below:

- $6.5 million increase for the 3.5% growth rate applied to Contracts;
- $7.2 million net increase for the addition of 101 Ash Street rent and the removal of Executive Complex rent;
- $11.4 million decrease for removal of FY 2017 one-time Contracts expenditures, including $4.5 million for additional Fleet Services vehicle purchases, $1.8 million for citywide elections, and $1.5 million for the Contracts portion of office relocation/tenant improvement costs; and
- $3.0 million decrease for Public Liability claims funding.

Fleet Motive Assignment expenditures are included in the Contracts category, and represent amounts contributed by departments for future replacement of their vehicles. There are no increases for the Motive Assignment contributions to Fleet Replacement. We note that in the future, the City plans to debt finance General Fund vehicle purchases over $100,000 for vehicles with a lifecycle of greater than five years.

Information Technology

Information Technology (IT) expenditures are increasing by $3.7 million, largely due to the $3.5 million net increase for IT Sourcing Strategy costs (contracts for Help Desk, Data Center, Voice and Data Network, and IT Application Services). This increase includes $1.5 million potential one-time IT network transition costs for FY 2018.

Energy & Utilities

Energy & Utilities expenditures (including electrical, water, and fuel) are increasing by $1.6 million, based on various growth rates for different components, as explained in the Outlook. For FY 2016, Energy & Utilities was budgeted at $47.1 million, but came in under-budget by $9.2 million, with total General Fund expenditures at $37.9 million. To increase to $48.5 million for FY 2018, overall Energy & Utilities would need to grow by about 13% in both FY 2017 and FY 2018. This expenditure category may provide some budgetary savings in FY 2018; it will be reevaluated as part of the FY 2017 Mid-Year Budget Monitoring Report, as well as the FY 2018 budget process.

Other Expenditures

Other Expenditures are decreasing by $10.9 million. The largest decreases are due to the removal of FY 2017 one-time expenditures. These one-time expenditures are listed in detail in Attachment 2 of the Five-Year Outlook. The largest FY 2017 one-time removals include:

- $11.3 million for transfers to CIP;
- $7.6 million for the FY 2017 General Fund Reserve Contribution;
- $2.8 million for the Public Liability Reserve contribution; and
- $1.7 million for various Capital Expenditures (equipment, vehicles, software).

The reductions in Other Expenditures from removals of FY 2017 one-time expenditures are partially offset with the following increases in Other Expenditures for FY 2018:

- $8.5 million in FY 2018 reserve funding, including $8.3 million for the General Fund Reserve and $0.2 million for the Pension Payment Stabilization Reserve;
- $4.5 million related to the FY 2017 use of Fleet and Information Technology Fund balances, which are no longer available for FY 2018; and
- $1.0 million of increased transfers to the Park Improvement Funds (Mission Bay and Regional Parks Funds).

FY 2022 Baseline Expenditures

Notable areas regarding the Outlook were discussed in the previous section. This section will summarize the changes over the remaining Outlook period, through FY 2022. The following table presents the changes from the Outlook's FY 2018 General Fund Baseline expenditure projection to the FY 2022 Baseline projection.

Increases/(Decreases) FY 2018 to FY 2022 Outlook Baseline Projections *($ in millions)*		
FY 2018 Baseline Projection		**$1,402.0**
Personnel-Related Expenditure Changes		**51.5**
Actuarially Determined Contribution (ADC) - Retirement Payment	$12.7	
Compensation Increases - Agreements with Employee Organizations	29.1	
Other Post-Employment Benefits (2.5% Annual Increases)	4.2	
Workers' Compensation	2.2	
Other Fringe Benefits Increases	2.5	
Step Increases for Salaries and Wages	0.0	
Termination Pay (for Annual Leave)	0.8	
Non-Personnel Expenditure Changes		**40.3**
Contracts (3.5% Annual Growth Rate)	28.2	
Charter Section 77.1 - Infrastructure Fund Transfers	(4.0)	
Reserve Contributions	(0.5)	
Net Amount for Addition of 101 Ash and Removal of Executive Complex Rent	0.3	
Energy & Utilities - Various Growth Rates (Electric, Fuel, Water, Other)	5.5	
Supplies (3.5% Annual Growth Rate)	4.6	
Increases in Transfers to Park Improvements Funds	4.4	
IT Sourcing Strategy (Help Desk, Data Center, Networks, Application Svcs. Contracts)	1.6	
2% Annual Growth Rate for Other IT Costs	1.0	
CIP Debt Service Increase (DC1, DC2, DC2A, DC3)	0.5	
Adjustments to Elections & Redistricting Costs	0.3	
Removal of Library Match in FY 2019	(1.0)	
Qualified Energy Conservation Bonds/Equipment & Vehicle Financing Program	(0.4)	
FY 2022 Outlook Baseline Projection		**$ 1,493.7**
Change: FY 2018 to FY 2022 Outlook Baseline		**$ 91.7**

Note: Table may not total due to rounding.

The largest Baseline increases from FY 2018 to FY 2022 include the following:

- $12.7 million for the pension ADC, from $227.9 million to $240.6 million;
- $29.1 million in compensation increases related to the recent labor agreements with the City's recognized employee organizations, from $15.9 million to $45.0 million; and
- $28.2 million in increases for Contracts' 3.5% annual growth rate.

The Contract category's 3.5% annual growth rate produces $34.8 million added to the Baseline over the five years in the Outlook ($6.5 million in FY 2018 and $28.2 million over the remaining years). Contracts spending level will be based on contracts in place and terms of those contracts, as well as the City's payment schedules. Service needs may vary from year to year, and the Contracts spending category can include significant one-time expenditures. Accordingly, spending for Contracts has varied over the past few years, as shown in the following table.

General Fund Contracts

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Actual Expenditures	$ 162.5	$ 167.4	$ 165.7	$ 196.7	$ 177.9	$ 229.3

Other expenditures with increases that are based on annual growth rates include Other Post-Employment Benefits, Worker's Compensation, Energy & Utilities, Supplies, Transfers to Park Improvement Funds (from Mission Bay Rents and Concessions); and IT (not including the Sourcing Strategy increases).

Decreases in expenditures include $4.0 million for transfers to the Charter 77.1 Infrastructure Fund (from $17.0 million to $13.0 million), which is largely due to declining property tax growth rates. The uses of the Infrastructure Fund are discussed in the "Potential Resources and Mitigation Actions" section of this report, under "Proposition H – Infrastructure Fund."

Compensation Increases - Agreements with Employee Organizations

The following table shows the break-down, by expenditure type, of compensation increases from recent labor agreements between the City and its recognized employee organizations. These agreements are further discussed on page 26 of the Five-Year Outlook.

Multi-Year Agreements with the City's Employee Organizations ($ in millions)

Compensation Increase/(Decrease)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Salaries	$ -	$ 16.0	$ 31.4	$ 31.4	$ 31.4
Special Pays	0.7	2.3	2.3	2.3	2.3
Overtime - Firefighters	1.6	1.6	1.6	1.6	1.6
Flexible Benefits	13.7	12.1	10.1	10.1	10.1
Uniform Allowance	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
TOTAL	**$ 15.9**	**$ 31.8**	**$ 45.0**	**$ 45.0**	**$ 45.0**

Note: Table may not total due to rounding.

There is one compensation increase included in the current agreement with the Police Officers' Association (POA) that is not included in the Outlook. Although it is not significant when compared to overall General Fund expenditures (which total over $1.4 billion during each year in the Outlook), as a negotiated benefit we believe it is worth mentioning.

In accordance with the POA agreement, a Police Officer is currently not compensated for a holiday which falls on his or her regularly scheduled day off. The elimination of this "holiday credit on a day off" was a negotiated contract term that went into effect for FY 2014. The reason for elimination of this holiday credit is that the City and POA agreed to convert certain holiday compensation to increased Flexible Benefits.

With the current POA contract, the elimination of the "holiday credit on a day off" stays in effect until June 30, 2020, at which time holiday credit for days off will again be compensated. Officers will receive straight-time pay or an equal amount of compensatory time (comp time) for such holidays. During negotiations on holiday benefits, the Financial Management Department estimated the cost of the "holiday credit on a day off" to be $2.3 million. This was based on employees receiving straight time pay for the holiday.

In actuality, variations could occur. For example, an Officer could chose to receive comp time. When that comp time is utilized as a day off, there is the potential for Overtime to be incurred by another Officer "backfilling" for the absent Officer. This is conceivable, considering the current difficulties in Police Officer hiring and retention, as well as increased Overtime. The Overtime cost for backfilling an Officer would be at a rate of time and a half, rather than straight-time pay. It is also possible that an absent Officer's shift will not need to be backfilled, resulting in no cost.

Given these considerations and the fact that the $2.3 million amount was used to negotiate compensation adjustments for Police Officers, this amount is a reasonable estimate for the reinstatement of the "holiday credit on a day off." Since reinstatement would be effective on June 30, 2020, the first full year for incurring costs would be FY 2021.

FY 2017 Adopted Budget New Position Status

As of October 17, 2016

General Fund Department or Fund for Non-General Funds	Job Name	FY 2017 New FTE Positions	New FTEs Filled	New FTEs Not Filled	Program/Service Area for Unfilled Positions	New FTEs Pending OM Setup
City Attorney	Deputy City Attorney	4.25	4.25	-	N/A - filled	-
	Paralegal	1.00	1.00	-	N/A - filled	-
City Attorney Total		5.25	5.25	-		-
City Clerk	Program Coordinator	1.00	-	1.00	Coordinate admin functions	-
City Clerk Total		1.00	-	1.00		-
City Comptroller	Accountant 4	1.25	1.25	-	N/A - filled	-
	Principal Accountant	0.25	0.25	-	N/A - filled	-
City Comptroller Total		1.50	1.50	-		-
City Treasurer	Accountant 2	2.00	-	2.00	TOT/TMD compliance audits	-
City Treasurer Total		2.00	-	2.00		-
Council Administration	Program Manager	2.00	2.00	-	N/A - filled (position reclassifications)	-
Council Administration Total		2.00	2.00	-		-
Debt Management	Associate Management Analyst	1.00	-	1.00	Infrastructure and utilities loan section	-
	Program Manager	1.00	-	1.00	Infrastructure and utilities loan section	-
	Senior Management Analyst	1.00	-	1.00	Infrastructure and utilities loan section	-
Debt Management Total		3.00	-	3.00		-
Economic Development	Associate Management Analyst	1.00	-	1.00	Manage Successor Agency activities	1.00
	Community Development Specialist 4	1.00	-	1.00	Manage Successor Agency activities	-
	Payroll Specialist 2	1.00	-	1.00	Support Payroll and HR activities	-
	Senior Planner	1.00	-	1.00	Support Climate Action Plan	-
Economic Development Total		4.00	-	4.00		1.00
Environmental Services	Community Development Specialist 3	1.00	-	1.00	Lead paint settlement planning	1.00
	Sanitation Driver 2	2.00	1.00	1.00	Support current services levels	-
Environmental Services Total		3.00	1.00	2.00		1.00
Fire-Rescue	Building Service Technician	1.00	-	1.00	Maintain and repair fire facilities	1.00
	Fire Captain	10.00	7.00	3.00	Staffing: new fire stations & Fast Response Squads	-
	Fire Dispatcher	4.00	-	4.00	Communications center	-
	Fire Engineer	6.00	-	6.00	Staffing: new fire stations & Fast Response Squads	-
	Fire Fighter 2	16.00	16.00	-	N/A - filled	-
	Lifeguard 3	3.00	-	3.00	Coastal cliff rescue, Mission Bay, Ocean Beach	-
	Lifeguard Sergeant	1.00	-	1.00	Coordinate training & special operations	-
Fire-Rescue Total		41.00	23.00	18.00		1.00
Human Resources	Program Coordinator	2.00	2.00	-	N/A - filled	-
Human Resources Total		2.00	2.00	-		-

FY 2017 Adopted Budget New Position Status

As of October 17, 2016

General Fund Department or Fund for Non-General Funds	Job Name	FY 2017 New FTE Positions	New FTEs Filled	New FTEs Not Filled	Program/Service Area for Unfilled Positions	New FTEs Pending OM Setup
Library	Administrative Aide 2	1.00	-	1.00	Do Your Homework @ the Library program	-
	Librarian 2	0.50	-	0.50	Maintain current service levels	-
	Librarian 3	2.00	2.00	-	N/A - filled	-
	Library Aide	0.50	-	0.50	Youth education center	-
	Library Assistant	1.50	-	1.50	Youth education center	-
	Library Clerk	2.50	-	2.50	Youth education center	-
	Senior Management Analyst	1.00	-	1.00	CIP project support	-
Library Total		9.00	2.00	7.00		-
Neighborhood Services	Administrative Aide 2	1.00	-	1.00	Admin/support for boards and commissions	-
Neighborhood Services Total		1.00	-	1.00		-
Office of the Assistant COO	Program Manager	1.00	-	1.00	Coordinate citywide parking services	-
Office of the Assistant COO Total		1.00	-	1.00		-
Office of Homeland Security	Administrative Aide 2	1.00	-	1.00	Support federal grant management	1.00
	Associate Management Analyst	1.00	-	1.00	Support federal grant management	1.00
	Supervising Management Analyst	1.00	1.00	-	N/A - filled	-
Office of Homeland Security Total		3.00	1.00	2.00		2.00
Park & Recreation	Area Manager 2	2.00	-	2.00	Increase weekly rec center hours	-
	Assistant Recreation Center Director	9.00	-	9.00	Increase weekly rec center hours	-
	Equipment Technician 1	1.00	-	1.00	Maintain new facilities	-
	Equipment Technician 2	2.00	-	2.00	Playground repair	-
	Grounds Maintenance Manager	1.00	-	1.00	Maintain additional open space	-
	Grounds Maintenance Supervisor	1.00	-	1.00	Supervision of maintenance crews at Balboa Park	-
	Grounds Maintenance Worker 2	10.73	2.00	8.73	Operate & maintain facilities/parks	-
	Light Equipment Operator	3.00	3.00	-	N/A - filled	-
	Park Ranger	2.00	-	2.00	Maintain additional open space	-
	Pesticide Applicator	2.00	-	2.00	Maintain additional open space/facilities	-
	Seven-Gang Mower Operator	2.00	1.00	1.00	Maintain new facilities	-
	Utility Worker 2	1.00	-	1.00	Playground repair	-
Park & Recreation Total		36.73	6.00	30.73		-
Performance & Analytics	Program Coordinator	3.00	3.00	-	N/A - filled	-
	Program Manager	1.00	1.00	-	N/A - filled	-
Performance & Analytics Total		4.00	4.00	-		-
Personnel	Associate Personnel Analyst	1.00	-	1.00	Hiring support	-
	Test Administration Specialist	1.00	1.00	-	N/A - filled	-

FY 2017 Adopted Budget New Position Status

As of October 17, 2016

General Fund Department or Fund for Non-General Funds	Job Name	FY 2017 New FTE Positions	New FTEs Filled	New FTEs Not Filled	Program/Service Area for Unfilled Positions	New FTEs Pending OM Setup
	Word Processing Operator	1.00	1.00	-	N/A - filled	-
Personnel Total		3.00	2.00	1.00		-
Planning	Senior Planner	1.00	-	1.00	CEQA review support	-
Planning Total		1.00	-	1.00		-
Police	Associate Management Analyst	1.00	1.00	-	N/A - filled	-
	Criminalist 2	3.00	3.00	-	N/A - filled	-
	Dispatcher 2	1.00	1.00	-	N/A - filled	-
	Laboratory Technician	1.00	1.00	-	N/A - filled	-
	Police Investigative Service Officer 2	4.00	-	4.00	Civilian positions for operations support	-
	Police Officer 2	3.00	-	3.00	Sworn positions for operations	-
Police Total		13.00	6.00	7.00		-
Public Works - Contracts	Assistant Engineer-Civil	1.00	-	1.00	Capital Improvements Program Support	-
Public Works - Contracts Total		1.00	-	1.00		-
Public Works - General Services	Apprentice 2-Electrician (5 Yr)	1.00	-	1.00	Apprenticeship Program	-
	Apprentice 2-HVACR Technician	1.00	-	1.00	Apprenticeship Program	-
	Assistant Trainer	1.00	-	1.00	Training Support	-
	Building Service Technician	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Buyer's Aide 1	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Carpenter	2.00	-	2.00	Facilities Maintenance and Repair Support	-
	Carpenter Supervisor	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Electrician	3.00	-	3.00	Facilities Maintenance and Repair Support	-
	Electrician Supervisor	1.00	1.00	-	N/A - filled	-
	HVACR Technician	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Locksmith	1.00	1.00	-	N/A - filled	-
	Painter	4.00	-	4.00	Facilities Maintenance and Repair Support	-
	Painter Supervisor	1.00	1.00	-	N/A - filled	-
	Plasterer	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Plumber	2.00	-	2.00	Facilities Maintenance and Repair Support	-
	Program Manager	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Roofer	1.00	-	1.00	Facilities Maintenance and Repair Support	-
	Safety and Training Manager	1.00	-	1.00	Training Support	-
Public Works - General Services Total		25.00	3.00	22.00		-
Real Estate Assets	Property Agent	1.00	-	1.00	Management of City leases	1.00
Real Estate Assets Total		1.00	-	1.00		1.00

FY 2017 Adopted Budget New Position Status

As of October 17, 2016

General Fund Department or Fund for Non-General Funds	Job Name	FY 2017 New FTE Positions	New FTEs Filled	New FTEs Not Filled	Program/Service Area for Unfilled Positions	New FTEs Pending OM Setup
Transportation & Storm Water	Assistant Engineer-Civil	2.00	-	2.00	Storm Water Permitting	-
	Associate Engineer-Civil	1.00	1.00	-	N/A - filled	-
	Associate Planner	6.00	-	6.00	Storm Water Permitting	-
	Clerical Assistant 2	1.00	-	1.00	Street Preservation Ordinance Assistance	-
	Code Compliance Officer	2.00	-	2.00	Street Preservation Ordinance and	-
	Electrician	1.00	-	1.00	Street Light Maintenance for MADs	-
	Equipment Operator 2	1.00	-	1.00	Storm Water Pipe Repair	-
	Equipment Technician 2	1.00	-	1.00	Storm Water Chanel Clearing	-
	Heavy Truck Driver 2	7.00	3.00	4.00	Truck Crew for Storm Drains and Street Paving	-
	Program Manager	2.00	2.00	-	N/A - filled	-
	Project Officer 1	1.00	-	1.00	Storm Water Channel Clearing	-
	Public Works Superintendent	1.00	-	1.00	Added Oversight for Streets Electrical Work	-
	Public Works Supervisor	1.00	1.00	-	N/A - filled	-
	Senior Planner	1.00	-	1.00	Storm Water Channel Clearing	-
	Utility Supervisor	1.00	1.00	-	N/A - filled	-
	Utility Worker 1	5.00	-	5.00	Graffiti Abatement &	-
	Utility Worker 2	10.00	8.00	2.00	Storm Water Channel Clearing & Pipe Repair	-
	Welder	1.00	-	1.00	Storm Water Pipe Repair	-
	Word Processing Operator	1.00	1.00	-	N/A - filled	-
Transportation & Storm Water Total		46.00	17.00	29.00		-
GENERAL FUND TOTAL		**209.48**	**75.75**	**133.73**		**6.00**
Airports Fund	Airport Operations Assistant	1.00	1.00	-	N/A - filled	-
	Biologist 3	1.00	-	1.00	Conduct Fed/State mandated environ. studies	-
	Property Agent	1.00	1.00	-	N/A - filled	-
Airports Fund Total		3.00	2.00	1.00		-
Development Services Fund	Assistant Engineer-Traffic	2.00	-	2.00	Perform technical reviews for Traffic Safety section	-
	Associate Engineer-Civil	3.00	-	3.00	Review geotechnical reports/support Drainage & Grades section	-
	Associate Engineer-Traffic	1.00	-	1.00	Training support, Traffic Safety section	-
	Associate Planner	6.00	-	6.00	Support Expedite Program, CIP projects, and Environmental Analysis section	-
	Plan Review Specialist 3	3.25	-	3.25	Plan intake/landscape reviews, and support Accela implementation	-
	Program Manager	1.00	-	1.00	Manage operations, Field Inspection section	-

FY 2017 Adopted Budget New Position Status

As of October 17, 2016

General Fund Department or Fund for Non-General Funds	Job Name	FY 2017 New FTE Positions	New FTEs Filled	New FTEs Not Filled	Program/Service Area for Unfilled Positions	New FTEs Pending OM Setup
	Public Information Clerk	2.00	2.00	-	N/A - filled	-
	Structural Engineering Associate	2.00	-	2.00	Project review and Accela implementation support	-
	Word Processing Operator	0.50	-	0.50	Support electrical and photovoltaic inspections	-
Development Services Fund Total		20.75	2.00	18.75		-
Emergency Medical Services Fund	Program Manager	1.00	-	1.00	Manage the Resource Access/Community Paramedic Program	-
Emergency Medical Services Fund Total		1.00	-	1.00		-
Energy Conservation Program Fund	Junior Engineer-Civil	1.00	-	1.00	Support energy efficiency projects	1.00
	Program Coordinator	1.00	1.00	-	N/A - filled	-
Energy Conservation Program Fund Total		2.00	1.00	1.00		1.00
Engineering & Capital Projects Fund	Assistant Deputy Director	2.00	1.00	1.00	Capital Improvements Program Support	-
	Assistant Engineer-Civil	14.00	-	14.00	Capital Improvements Program Support	-
	Associate Engineer-Civil	7.00	7.00	-	N/A - filled	-
	Associate Engineer-Electrical	1.00	-	1.00	Capital Improvements Program Support	-
	Associate Planner	3.00	-	3.00	Capital Improvements Program Support	-
	Auto Messenger 2	0.50	-	0.50	Capital Improvements Program Support	-
	Contracts Processing Clerk	2.00	2.00	-	N/A - filled	-
	Land Surveying Assistant	4.00	1.00	3.00	Capital Improvements Program Support	-
	Land Surveying Associate	1.00	1.00	-	N/A - filled	-
	Principal Engineering Aide	1.00	-	1.00	Capital Improvements Program Support	-
	Principal Survey Aide	4.00	-	4.00	Capital Improvements Program Support	-
	Project Assistant	4.00	-	4.00	Capital Improvements Program Support	-
	Senior Engineering Aide	2.00	-	2.00	Capital Improvements Program Support	-
	Senior Planner	1.00	-	1.00	Capital Improvements Program Support	-
	Word Processing Operator	3.00	3.00	-	N/A - filled	-
Engineering & Capital Projects Fund Total		49.50	15.00	34.50		-
Fleet Services Operating Fund	Associate Management Analyst	0.50	-	0.50	Support the Fleet Acquisition section	-
	Department Director	1.00	1.00	-	N/A - filled	-
	Fleet Parts Buyer	1.00	-	1.00	Maintain inventory/assist with clean-up duties	-
	Fleet Team Leader	1.00	-	1.00	M&R support at the Chollas maintenance shop	-
	Stock Clerk	2.00	1.00	1.00	Maintain inventory/assist with clean-up duties	-
Fleet Services Operating Fund Total		5.50	2.00	3.50		-
Golf Course Fund	Golf Starter	0.50	0.50	-	N/A - filled	-
	Grounds Maintenance Worker 1	1.67	1.67	-	N/A - filled	-

FY 2017 Adopted Budget New Position Status

As of October 17, 2016

General Fund Department or Fund for Non-General Funds	Job Name	FY 2017 New FTE Positions	New FTEs Filled	New FTEs Not Filled	Program/Service Area for Unfilled Positions	New FTEs Pending OM Setup
Golf Course Fund Total		2.17	2.17	-		-
Information Technology Fund	Program Coordinator	1.00	1.00	-	N/A - filled	-
Information Technology Fund Total		1.00	1.00	-		-
OneSD Support Fund	Program Coordinator	2.00	1.00	1.00	Support for citywide SAP training efforts	-
OneSD Support Fund Total		2.00	1.00	1.00		-
Recycling Fund	Recycling Specialist 3	1.00	-	1.00	Zero Waste Plan support	-
	Sanitation Driver 2	3.00	1.00	2.00	Waste collection/support current service levels	-
	Supervising Recycling Specialist	1.00	-	1.00	Zero Waste Plan support	-
Recycling Fund Total		5.00	1.00	4.00		-
Refuse Disposal Fund	Heavy Truck Driver 1	2.00	-	2.00	Support waste collection services	-
	Principal Planner	1.00	-	1.00	CEQA review/support the Zero Waste Plan	-
	Supervising Management Analyst	1.00	-	1.00	Support department fiscal operations	-
Refuse Disposal Fund Total		4.00	-	4.00		-
Risk Management Administration Fund	Claims Clerk	2.00	2.00	-	N/A - filled	-
	Claims Representative 2	1.00	1.00	-	N/A - filled	-
	Program Coordinator	2.00	1.00	1.00	IT support	-
	Workers' Compensation Claims Aide	1.00	1.00	-	N/A - filled	-
Risk Management Administration Fund Total		6.00	5.00	1.00		-
Transient Occupancy Tax Fund	Program Manager	1.00	-	1.00	Arts and Culture: oversight for various programs	-
Transient Occupancy Tax Fund Total		1.00	-	1.00		-
Underground Surcharge Fund	Assistant Engineer-Civil	1.00	1.00	-	N/A - filled	-
	Associate Engineer-Civil	1.00	1.00	-	N/A - filled	-
Underground Surcharge Fund Total		2.00	2.00	-		-
NON-GENERAL FUND TOTAL		**104.92**	**34.17**	**70.75**		**1.00**
CITYWIDE TOTAL		**314.40**	**109.92**	**204.48**		**7.00**

NEW FACILITIES AND JOINT USE AGREEMENT ANNUAL COSTS

Fiscal Year 2018 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense[1]
Park and Recreation	Carmel Valley Neighborhood Park[2]	1	0.40	61,083
Park and Recreation	Cesar Solis (formerly Pacific Breezes) Community Park[2]	8	3.00	383,797
Park and Recreation	Encanto Elementary Joint-Use Agreement[2]	4	0.16	51,651
Park and Recreation	Franklin Ridge Pocket Park	7	0.01	4,219
Park and Recreation	Linda Vista Elementary Joint Use Agreement[2]	7	0.15	22,376
Park and Recreation	Marvin Elementary Joint Use Agreement[2]	7	0.29	37,251
Park and Recreation	Park de la Cruz Skate Park	9	0.50	44,564
Park and Recreation	Southcrest Trails Mini Park[2]	9	0.60	101,873
Park and Recreation	Wightman Street Neighborhood Park	9	0.20	24,327
Park and Recreation	Citywide Park Maintenance[2]	Citywide	3.00	454,288
Park and Recreation	Staff for additional Open Space Acreage[2]	Citywide	2.00	227,123
Fire - Rescue	Bayside Fire Station	3	12.00	1,622,471
Total Fiscal Year 2018			**22.31**	**$3,035,023**

Fiscal Year 2019 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Park and Recreation	14th Street Promenade[2]	3	0.02	$3,654
Park and Recreation	Canon Street Mini Park[2]	2	0.02	3,151
Park and Recreation	Curie Elementary Joint Use Agreement[2]	1	0.49	57,798
Park and Recreation	East Village Green[2]	3	4.87	437,725
Park and Recreation	Horton Elementary Joint Use Agreement	4	0.25	41,300
Park and Recreation	Pacific Highlands Ranch Community Park - CIP S10079[2]	1	5.51	528,818
Park and Recreation	Pacific View (Lee) Elementary Joint Use Agreement	4	0.21	35,678
Park and Recreation	Rolando Park Elementary Joint Use Agreement[2]	4	0.34	86,072
Park and Recreation	Rowan Elementary Joint Use Agreement	9	0.18	31,574
Park and Recreation	Stanley Middle Joint Use Agreement	1	3.30	153,059
Park and Recreation	Treena Mesa Sports Field Joint Use[2]	5	0.49	78,187
Park and Recreation	Valencia Park	4	0.17	20,689
Park and Recreation	Citywide Park Maintenance	Citywide	2.00	138,074
Park and Recreation	Staff for additional Open Space Acreage[2]	Citywide	2.00	233,845
Library	Mission Hills Branch	3	1.62	298,994
Library	San Ysidro Branch	8	2.05	287,844
Library	Pacific Highlands Ranch Branch	1	8.50	932,320
Total Fiscal Year 2019			**32.02**	**$3,368,782**

Fiscal Year 2020 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Park and Recreation	Canyon Hills Resources Park Improvements[2]	6	1.14	181,646
Park and Recreation	Hidden Trails NP	8	0.40	51,879
Park and Recreation	Innovation (MacDowell) Middle Joint Use Agreement[2]	6	0.14	29,339
Park and Recreation	Jonas Salk Neighborhood Park & Elementary Joint Use Agreement[2]	6	1.03	158,779
Park and Recreation	Olive Street Mini Park	3	0.18	22,074
Park and Recreation	Organ Pavilion Park (Balboa Park)[2]	3	4.50	397,560
Park and Recreation	Riviera Del Sol NP[2]	8	0.60	99,205
Park and Recreation	Sandburg Elementary Joint Use Agreement[2]	6	0.14	29,339
Park and Recreation	Taft Middle Joint Use Agreement[2]	7	0.62	81,042
Park and Recreation	Wangenheim Joint Use Facility - CIP S15007[2]	6	0.28	51,678
Park and Recreation	Citywide Park Maintenance	Citywide	2.00	156,270
Park and Recreation	Staff for additional Open Space Acreage[2]	Citywide	2.00	240,566
Fire - Rescue	Black Mountain Fire Station	5	12.00	1,722,005
Fire - Rescue	North University City Fire Station	1	12.00	1,722,005
Total Fiscal Year 2020			**37.03**	**$4,943,387**

Fiscal Year 2021 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Park and Recreation	Audubon K-8 Joint Use Agreement	4	0.22	$37,195
Park and Recreation	Dennery Ranch NP[2]	8	1.30	181,266
Park and Recreation	Fairbrook Neighborhood Park - CIP S01083[2]	5	0.21	33,508
Park and Recreation	Florence Elementary Joint Use Agreement[2]	3	0.09	42,092
Park and Recreation	Holmes Elementary Joint Use Agreement[2]	6	0.14	29,339
Park and Recreation	Johnson Elementary Joint Use Agreement	4	0.20	34,386
Park and Recreation	Lafayette Elementary Joint Use Agreement[2]	6	0.14	29,339
Park and Recreation	Logan K-8 Joint Use Agreement	8	0.07	16,560
Park and Recreation	Paradise Hills Elementary Joint Use Agreement	4	0.12	23,139
Park and Recreation	Spreckels Elementary Joint Use Agreement[2]	1	0.13	27,908
Park and Recreation	Staff for additional Open Space Acreage[2]	Citywide	2.00	233,845
Fire-Rescue	College Avenue Fire Station[3]	9	12.00	1,722,005
Fire-Rescue	Home Avenue Fire Station[3]	4/9	12.00	1,722,005
Fire-Rescue	Paradise Hills Fire Station[3]	4	24.00	3,314,011
Total Fiscal Year 2021			**52.62**	**$7,446,598**

Fiscal Year 2022 Department	Facility	Location of Facility (District)	FTE	First Year Annual Expense
Park and Recreation	Grant K-8 Joint Use Agreement	3	0.07	16,560
Park and Recreation	Perkins K-8 Joint Use Agreement	8	0.07	16,560
Park and Recreation	Tubman (Harriet) Village K-8 Charter Joint Use Agreement	9	0.12	23,755
Park and Recreation	Webster Elementary Joint Use Agreement	4	0.15	2,523
Park and Recreation	Staff for additional Open Space Acreage[2]	Citywide	2.00	233,845
Fire-Rescue	UCSD Fire Station	1	12.00	1,722,005
Total Fiscal Year 2022			**14.41**	**$2,015,248**

[1]Expenses as presented in the respective departments' submissions for the Outlook. Figures may vary from those presented in the Outlook.
[2]Includes one-time expense for items such as vehicles in the first year of operation. One-time expenses are eliminated from subsequent years operating costs.
[3]Projected opening date provided in FY 2017-2021 Outlook.

Approved Ongoing and One-Time Funding Revisions and Additions to the FY 2017 Budget

At the November 16, 2016 meeting of the Budget and Government Efficiency Committee, Councilmember Cate requested a list of the funding revisions and additions approved by the Council and adopted as part of the FY 2017 budget, with the identification of the items as either one-time or ongoing. The FY 2017 budget motion that passed was to approve the IBA recommendations (IBA Report 16-11) to the Mayor's FY 2017 Proposed Budget, and the Mayor's May Revision to the FY 2017 Proposed Budget (May Revise) with five amendments.

The table on the following page displays the IBA recommendations that were presented to the City Council, information on whether the items are one-time or ongoing, and the amount that was adopted by the City Council. Three changes to the IBA recommendations, made by the City Council and included in the table are:

- An increase in support for the Penny for the Arts Blueprint from the IBA-recommended change of 6.72% of TOT to 7% of TOT, increasing the IBA's recommended additional allocation from $600,000 to $1.2 million
- Requesting an allocation of approximately $1.4 million from the Deferred Capital 4 Bond for the restoration of the Balboa Park Botanical Building
- The return of $350,000 to the Facilities Maintenance budget

Two additional amendments not reflected in the following table were also approved by the Council:

- A request that the Mayor consider the revised list of projects that have been identified as top priorities of the Council in their memoranda for the upcoming Deferred Capital 4 Bond, as listed in the Independent Budget Analyst Fiscal Year 2017 Budget Report (IBA Report 16-11)
- A request that that Mayor's Office return with a plan and cost estimate for a third-party contractor to conduct exit interviews in the Police Department, and include performance measures for the Police Department as outlined on page 3 of the May 27, 2016 joint budget memorandum by Councilmembers Cole and Alvarez, and Council President Pro Tem Emerald

Modifications to the Mayor's FY 2017 Budget

Description	Recommended Amount	One-Time/Ongoing	Adopted Amount
Proposed FY 2017 Budget Revisions for Council Consideration		***IBA Recommendation***	***Council Approval***
Funding to restore the Balboa Park Botanical Building: recommendation is 50% of project cost of $2.7 million	$ 1,350,000	One-time	$ 1,350,000
Increased support for the Penny for the Arts Blueprint goal from 6.44% to 6.72% of TOT **Council approved increase to 7% of TOT**	$ 600,000	Ongoing	**$ 1,200,000**
Library programming support which increases support for the Library Ordinance goal from 3.85% to 3.86% of General Fund	$ 500,000	Ongoing	$ 500,000
Addition of 1.00 Associate Personnel Analyst and 1.00 Word Processing Operator in the Personnel Department to support City hiring	$ 155,000	Ongoing	$ 155,000
Second trash collection in Mission Beach for summer months	$ 80,000	One-time[1]	$ 80,000
Department to the Office of the DCOO for the Neighborhood Services Branch for outside counsel for the Citizens' Review Board[2]	$ 25,000	Ongoing	$ 25,000
Corrective option to help restore equity in City Council operating budgets	$ 275,000	Ongoing	$ 275,000
Earned Sick Leave and Minimum Wage Ordinance Administration and Enforcement	$ -	-	$ 400,000
Total Suggested Budget Revisions	**$ 2,985,000**		**$ 3,985,000**
Proposed New Resources		***Availability***	
Excess Equity	$ 2,000,000	One-time	$ 2,000,000
Deferred Capital 4 Bond	$ -	-	**$ 1,350,000**
Excess funds in the Long-Term Disability Reserve	$ 610,000	One-time	$ 610,000
Proposed Reallocations		***Availability***	
maintenance funding in the May Revise, to partially support the one-time allocation recommended for the Balboa Park Botanical Building project **Council approved returning allocation of $350,000 to the Facilities Maintenance budget**	$ 350,000	One-time	**$ -**
Transfer of $25,000 from Citywide consulting funds for outside counsel for the Citizens' Review Board	$ 25,000	Ongoing	$ 25,000
Total Available Resources	**$ 2,985,000**		**$ 3,985,000**
Net Balance	**$ -**		**$ -**

[1] Our Office recommends that the need for this expenditure be evaluated annually as part of the budget process.

[2] Funds are available for this purpose in the Citywide Program Expenditures Department's special consulting services budget. Our Office is recommending a transfer of $25,000 to the Office of the DCOO for the Neighborhood Services Branch for outside counsel for the Citizens' Review Board.

The modifications to the Mayor's FY 2017 budget identified in the table above, include both one-time and ongoing expenditures off-set primarily by one-time resources. Per the City's Budget Policy, ongoing expenditures should be supported by ongoing, as opposed to one-time, revenues. However, as noted in IBA Report 16-11, the mix of one-time and ongoing expenditures and resources included in the FY 2017 Proposed Budget allowed Council some flexibility in funding their budget amendments. As Financial Management noted in the May Revise, "the May Revision on its own includes more in one-time resources than one-time uses; however, when combined with the Proposed Budget one-time uses still exceed one-time resources by approximately $10.7 million."

Reserve Contributions

The following sections discuss the General Fund Reserve and the Risk Management Reserves (including the Public Liability, Workers' Compensation, and Long-Term Disability Reserves).

General Fund Reserve

The City's Reserve requirement is based on the past three fiscal years' audited General Fund operating revenues[1]; it is the product of the three-year average revenues and the target percentage for the applicable year. The three-year average, target percentage, and required Reserve amount are shown in the following table for each fiscal year, with estimates for FY 2018 through FY 2022.[2]

General Fund Reserve

($ in millions)	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
3-Year Average Revenues	$1,136.1	$1,178.3	$1,200.6	$1,244.4	$1,278.8	$1,321.5	$1,367.5
Reserve Requirement Target %	14.5%	14.75%	15.25%	15.75%	16.25%	16.7%	16.7%
Reserve Requirement Amount	**$ 164.7**	**$ 173.8**	**$ 183.1**	**$ 196.0**	**$ 207.8**	**$ 220.7**	**$ 228.4**

Note: Table may not total due to rounding.

The First Quarter Report, after considering FY 2017 activity, projected FY 2017 year-end General Fund Excess Equity to be $20.3 million. However, subsequent to the First Quarter Report, the CAFR (which has not been received and filed by the Council) has been released, and the amounts have changed.

Based on the amounts included in the CAFR, after considering FY 2017 activity, the projected FY 2017 year-end General Fund Reserve estimate is $188.9 million. Of this amount, $173.8 million is projected as needed to meet the City's 14.75% reserve requirement. This leaves $15.1 million in estimated Excess Equity as shown in the following table.

FY 2017 Year-End Excess Equity Estimate *($ in millions)*	
Ending FY 2016 Reserve Balance	$ 192.4
FY 2017 Budgeted Use of Excess Equity	(8.0)
FY 2017 Budgeted General Fund Reserve Contribution*	7.6
Adjustment for FY 2015 Accrued Low Flow Diversion Capacity Charges	(3.0)
FY 2017 Year-End Reserve Estimate	***188.9***
FY 2017 14.75% Reserve Requirement (*includes FY 2017 contribution*)*	(173.8)
FY 2017 Year-End Excess Equity Estimate	**$ 15.1**

*The budgeted General Fund Reserve Contribution is added back, as it is part of the $173.8 million reduction for the FY 2017 14.75% Reserve Requirement.

[1] For further discussion of the General Fund reserve and reserve targets, see the City's Reserve Policy, which is Council Policy 100-20 (last updated April 28, 2016).

[2] Estimated reserve requirement amounts in the table above may vary somewhat from those included in the Outlook. The amounts in our report have been updated to be in alignment with figures included in Financial Management's FY 2017 First Quarter Budget Monitoring Report (First Quarter Report).

Because there are projected deficits in the beginning years of the Outlook, as well as critical needs that are not funded in the Outlook, the City could consider the use of any available Excess Equity, or the modification of reserve requirements, in order to accommodate unfunded one-time costs. These approaches are not recommendations, but are noted as potential resources that could be considered to mitigate future deficits. These approaches and other potential resources are discussed in the "Potential Resources and Mitigation Actions" section of this report.

***Risk Management Reserves*[3]**

Public Liability Reserve

The Public Liability (PL) Fund supports costs to the City related to claims against the General Fund. The goal for PL Reserve, per the City Reserve Policy, is that the overall reserve target of 50% of the outstanding actuarial liability be reached by FY 2019. The outstanding liability is based on the average value of annual actuarial liabilities for the three fiscal years ending in 2016, which is approximately $78.2 million. The overall 50% target amount (to be achieved by FY 2019) is $39.1 million. Note that the PL Reserve is paid entirely from General Fund contributions.

The FY 2017 target level is 43%, which equates to $33.6 million. With $39.5 million as the estimated FY 2017 PL Reserve, there is an estimated excess of $5.9 million. Since the Reserve estimate exceeds all future years' target amounts as well, the Outlook does not include any PL Reserve contributions over the five-year period. Additionally, there are no increases for insurance ($10.8 million in each year of the Outlook); and for each of the five Outlook years—after removing $3.0 million for a FY 2017 one-time expenditure—PL claims and other costs are anticipated to be $11.4 million. PL claims can be volatile; and in the past few years, the City has experienced some large claims payouts. Subsequently, the actuarial liability has decreased, and claims are anticipated to be stable in the Outlook. The following table shows PL costs, reserve specifications, and reserve estimates over the Outlook.

[3] For further discussion of the Risk Management reserve and reserve targets, see the City's Reserve Policy, which is Council Policy 100-20 (last updated April 28, 2016).

Public Liability (PL) Reserve and Operating Costs

($ in millions)	FY 2017 Budget	FY 2018 Outlook	FY 2019 Outlook	FY 2020 Outlook	FY 2021 Outlook	FY 2022 Outlook
Reserve Specifications						
Target %	43%	47%	50%	50%	50%	50%
Target Amount	$ 33.6	$ 36.8	$ 39.1	$ 39.1	$ 39.1	$ 39.1
Estimated Reserve	39.5	39.5	39.5	39.5	39.5	39.5
Estimated Excess Reserve	***$ 5.9***	***$ 2.7***	***$ 0.4***	***$ 0.4***	***$ 0.4***	***$ 0.4***
PL Costs						
Reserve Contribution	$ 2.8	$ -	$ -	$ -	$ -	$ -
Insurance	10.8	10.8	10.8	10.8	10.8	10.8
Claims and Other Costs	14.4	11.4	11.4	11.4	11.4	11.4
Total PL Costs	***$ 28.0***	***$ 22.2***	***$ 22.2***	***$ 22.2***	***$ 22.2***	***$ 22.2***

Note: Table may not total due to rounding.

The City could consider using excess PL Reserve funds for one-time needs. Although the estimated FY 2017 excess Reserve is $5.9 million, the Reserve target level for FY 2018 increases to 47%, or $36.8 million,[4] leaving only $2.7 million in estimated excess reserves as of FY 2018.

Alternatively, the City could consider using the $2.7 million for other one-time needs in FY 2018. But again, in FY 2019, the City would need to contribute another $2.3 million to the Reserve, leaving $0.4 million of excess Reserve. We note the estimated $2.7 million in FY 2018 excess PL Reserve as another potential resource that could be considered to mitigate future deficits–see the "Potential Resources and Mitigation Actions" section of this report.

Workers' Compensation Reserve

The City Reserve Policy requires a Workers' Compensation (WC) Reserve target of 25% of the outstanding actuarial liability. Like the PL Reserve, the outstanding liability is based on the average value of annual actuarial liabilities for the three fiscal years ending in 2016, which is approximately $234.8 million. The 25% target amount for FY 2017 is $58.7 million.

The $58.7 million target has increased from the $57.0 million that was originally estimated during preparation of the FY 2017 Adopted Budget, as the three-year average for WC outstanding liabilities increased upon receipt of the FY 2016 actuarial valuation in September. Because the target has increased, the FY 2017 budgeted $2.5 million Reserve contribution is $1.7 million less than the $4.2 million needed to reach the FY 2017 target. Note that the General Fund portion of WC contributions is approximately 81.6% in the FY 2017 Adopted Budget.

The City plans to maintain the WC Reserve target in FY 2017, as well as subsequent targets in the Outlook years. Accordingly, Reserve contributions are forecasted for each year of the Outlook–citywide amounts of $3.6 million for FY 2018 and FY 2019, $2.2 million for FY 2020 and FY

[4] The $36.8 million target amount assumes no change to the three-year average of outstanding liabilities when the FY 2017 liability amount becomes known.

2021, and $2.3 million for FY 2022. Amounts are also included each year in the Outlook for increases in ongoing WC expenditures, which are projected to increase by 3.3% annually. The table below shows WC costs, reserve specifications, and reserve estimates over the Outlook.

Workers' Compensation (WC) Reserve and Operating Costs (Citywide)

($ in millions)	FY 2017 Projection	FY 2018 Outlook	FY 2019 Outlook	FY 2020 Outlook	FY 2021 Outlook	FY 2022 Outlook
Reserve Specifications						
Target %	25%	25%	25%	25%	25%	25%
Target Amount	$ 58.7	$ 62.3	$ 65.9	$ 68.0	$ 70.3	$ 72.6
Estimated Reserve	58.7	62.3	65.9	68.0	70.3	72.6
Estimated Excess Reserve	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***
WC Costs						
Reserve Contribution	$ 4.2	$ 3.6	$ 3.6	$ 2.2	$ 2.2	$ 2.3
Operating Costs	27.8	28.7	29.7	30.6	31.7	32.7
Total WC Costs	***$ 32.0***	***$ 32.3***	***$ 33.3***	***$ 32.8***	***$ 33.9***	***$ 35.0***

Note: Table may not total due to rounding.

Long-Term Disability Reserve (LTD)

The Long-Term Disability Reserve (LTD) overall target level is 100% of the outstanding liability for LTD. As for the other Risk Management Reserves, the outstanding liability is based on the average of the annual actuarial liabilities for the most recent three fiscal years. For FY 2017, that liability is $11.0 million (based on the average of liabilities for FY 2014 through 2016).

With the projected FY 2017 Reserve balance at approximately $17.7 million, the target is projected to be exceeded by $6.7 million, and no contributions to the LTD fund are forecasted in the Outlook. Additionally, there are no increases for LTD operating costs, as they have remained stable over the past several years and are not anticipated to change significantly. Note that the General Fund portion of LTD contributions is approximately 67.8% in the FY 2017 Adopted Budget.

The City could consider using excess LTD Reserve funds for one-time needs. The General Fund portion of the $6.7 million excess is approximately $4.5 million. However, the City is currently negotiating with its recognized employee organizations regarding a death and disability benefit for employees who were hired on or after July 20, 2012, and, per the parameters of Proposition B (passed by the voters in June 2012), are not eligible for the defined benefit pension. Excess LTD Reserve amounts have been anticipated as a funding source for the new death and disability benefit.

Although negotiations for the new death and disability benefit have not concluded, and the City's cost to fund the benefit is uncertain, there may be interest in utilizing all, or a portion of, the LTD excess Reserve for one-time needs in FY 2018. One suggestion would be to use a portion of the excess Reserve, e.g. $3.7 million ($2.5 million General Fund), to mitigate future deficits.