CITY OF SAN DIEGO

2010-2014

FIVE-YEAR FINANCIAL OUTLOOK

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JERRY SANDERS
MAYOR

JAY M. GOLDSTONE
CHIEF OPERATING OFFICER

EXECUTIVE SUMMARY

In November 2006, the Mayor released the first Five-Year Financial Outlook for fiscal years 2008-2012. The Five-Year Financial Outlook is revised annually and provides a framework for budgetary decisions by communicating the City's fiscal priorities and outlining the City's strengths as well as any fiscal challenges.

Over the past year, the slowing economy and prolonged credit and banking crisis indicate that the country and the region are heading toward a likely recession. As a result, the City has reduced revenue forecasts in this revised Outlook and proposed a budget adjustment for fiscal year 2009 to reduce expenditures to maintain a legally required balanced budget. The budgetary actions proposed for the current fiscal year were developed to preserve core services while fulfilling the City's financial commitment related to the eight significant areas that have been the framework for the City's fiscal planning. These eight significant areas were presented in the first version of the City's Five-Year Outlook and are discussed below.

The Fiscal Year 2010-2014 Five-Year Financial Outlook includes revisions to revenue and expenditure projections as the result of the economic slowdown and the negative economic outlook. During the preparation of the Fiscal Year 2009 Annual Budget, economic forecasts projected that the housing market would bottom at the end of calendar year 2008. To date, however, the housing market has not reached the bottom, and it is uncertain when it will plateau. The longer the weakness in housing continues, the longer consumer spending will remain weak. Declining housing prices, declining retail sales, declining tourism growth, weakened consumer confidence, and higher unemployment rates in San Diego and the region are directly influencing the City's tax revenues. The economic recession that is expected to continue over the next two years will present significant financial challenges to the City, but it does not change the need to address the problem of structural deficits in the budget. These negative economic factors have resulted in revised projections for the Fiscal Year 2009 Annual Budget. The proposed fiscal year 2009 budget reductions for revenues and expenditures have been incorporated in the 2010-2014 Outlook.

The updated 2010-2014 Outlook identifies current and future revenue and expenditure trends. It also discusses risks and opportunities that affect fiscal decisions and the City's ability to accomplish its strategic goals over the next five-year period. Those goals include:

- Preserve City services to the fullest extent possible
- Meet contractual obligations and fund mandated programs
- Contribute the full payment of the Annual Required Contribution (ARC) for the City's pension system
- Maintain General Fund reserves according to the City's Reserve Policy
- Address significant financial obligations with a longer-term strategy

The 2010-2014 Outlook is divided into four sections: the General Fund Revenue Forecast, the General Fund Expenditure Forecast, Eight Significant Areas, and Corrective Actions. The General Fund Revenue Forecast section covers the development of the revenue projections and includes a discussion of San Diego's economy and its affect on the City's major revenues. The General Fund Expenditure Forecast section outlines the expenditure forecast including future mandated expenditure requirements and expected cost growth rates. The Eight Significant Areas section discusses the funding requirements for the critical areas that were outlined in the 2008-2012 and 2009-2013 Outlooks. Lastly, a series of possible Corrective Actions are identified to address a projected gap of $44.0 million for fiscal year 2010 between projected revenues and expenditures in the General Fund. This section also includes a discussion of the effect of the proposed fiscal year 2009 budget reductions on the projected fiscal year 2010 deficit and future years.

REVENUE FORECAST

The General Fund revenue categories and the related background information are discussed in the Revenue Forecast section along with methods and assumptions affecting growth projections for each major revenue source. There are four major General Fund revenue sources: property tax, sales tax, transient occupancy tax, and franchise fees, which make up nearly 66.5 percent of General Fund revenue and are affected by changes in local, State, and national economic conditions. Other General Fund revenue sources such as licenses and permits, fines, forfeitures, and penalties are also influenced by economic conditions to a certain degree. A change in existing fees or the implementation of a new City Council policy for existing programs can reduce or increase projected revenue derived from fees.

EXPENDITURE FORECAST

The General Fund expenditure categories and the related background information are discussed in the Expenditure Forecast section along with methods and assumptions affecting growth projections for each expenditure category. The General Fund expenditure forecast is based on the City's current Fiscal Year 2009 Budget and assumes inflationary rate changes for certain expense categories while incorporating added costs for City Council, State and federal mandates, and legal or contractual obligations. The expenditure categories discussed include Salaries and Wages, Pension and Other Post-Employee Benefits (Pension Retirement Liability, Retirement Offset, OPEB/Retiree Health), Other Fringe (Flexible Benefits and Fringe Benefits), Supplies and Services, Information Technology, Energy/Utilities, and Equipment Outlay. The Vacancy Factor is also discussed in the Expenditure Forecast section as it affects the projected personnel costs for the City.

With the implementation of corrective actions outlined in the 2010-2014 Outlook, projected General Fund expenditures for City operations exceed projected General Fund revenues in fiscal years 2010-2014 (Attachment I). Although the City's basic operational needs can be met, additional funding is required to address the City's fiscal priorities and Eight Significant Areas which have been under-funded in the past.

EIGHT SIGNIFICANT AREAS

This section describes the funding for Eight Significant Areas that must be addressed in order to restore or preserve the fiscal health of the City and/or meet its legal obligations. The recommended rationale for funding of each area is discussed below. The eight areas that require funding are listed in priority order below, followed by a discussion of the recommended rationale for funding each area.

1. Funding the Employee Pension Plan
2. Funding the General Fund reserves

3. Funding deferred maintenance and capital improvement needs
4. Funding retiree healthcare obligations/Other Post Employment Benefits (OPEB)
5. Funding new obligations under Storm Water Runoff Permits
6. Funding the Americans with Disabilities Act (ADA) obligations
7. Funding the Workers' Compensation Fund
8. Funding the Public Liability Fund

CORRECTIVE ACTIONS

The final section presents possible solutions to bridge budget gaps in fiscal years 2010-2014, the time period covered by the 2010-2014 Outlook. A number of the possible solutions require additional analysis as they will serve as the basis for developing the fiscal year 2010 budget. Most of the solutions contained in this forecast represent an ongoing realization of expenditure savings and additional revenue growth. The solutions for fiscal year 2010 will carry forward through the forecast period.

FIVE-YEAR FINANCIAL OUTLOOK FISCAL YEARS 2010-2014

The City of San Diego 2010-2014 Five-Year Financial Outlook continues to serve as a guide for long-range fiscal planning and provides the framework for the development of the annual budget. The 2010-2014 Outlook incorporates a variety of economic assumptions and new mandated expenditure requirements that will likely influence revenues and expenditures over the next five years.

The Government Finance Officers Association (GFOA) recommends that local governments follow a financial planning process that combines the forecasts of revenues and expenditures into a single financial model over a three-to-five-year period to be used as a tool to assess the long-term financial implications of current and proposed policies, programs, and assumptions in developing appropriate strategies to achieve established goals. The Financial Outlook is consistent with the GFOA best practices recommendations.

SCOPE OF THE FORECAST

The City's General Fund is the primary focus of the 2010-2014 Outlook. Approximately 66.5 percent of the City's major revenues consist of four revenue sources: property tax, sales tax, transient occupancy tax, and franchise fees. The remainder of General Fund revenues consists of licenses, permits, fines, rents and concessions, funding from other agencies, service charges, transfers from other funds, and miscellaneous revenues. The 2010-2014 Outlook forecasts General Fund revenues and expenditures for the next five years, beginning in fiscal year 2010.

REVENUE BASELINE FORECAST

The Revenue Forecast combines an analysis of the economic factors driving the City's revenue base and the specific revenue sources available to the City. While San Diego's economy is increasingly diverse, the City's revenue structure has a lower tax base compared to most other large cities in California. For example, the City does not levy a utility user tax or trash collection fee and has low business license taxes.

The City's revenues continue to be affected by decisions made by the State regarding the allocation of local revenue. Three of the City's largest historical General Fund revenues – property tax, sales tax, and motor vehicle license fees – are all subject to State legislative actions, and have been significantly impacted by past State budget decisions resulting in revenue loss to the City. In November 2004, California voters passed Proposition 1A in order to prevent the State government from leveraging local government resources to balance the State budget, this proposition has greatly improved protecting local government revenues from further State intervention.

ECONOMIC ASSUMPTIONS

The baseline Financial Outlook includes assumptions about the current and future economic trends and incorporates analysis of national, State, and local economies. San Diego's strong and diverse economy has not been immune from the economic crisis. Regional economic indicators point to a slowdown in the local economy. The University of San Diego's Index of Leading Economic Indicators for San Diego County has continued to decline over the last several months and fell again by 0.8 percent in September of 2008. The unemployment rate has increased, while consumer confidence, taxable sales, and number of visitors have declined, and these factors are expected to deteriorate further.

In conjunction with the economic indicators described above, the Five-Year Financial Outlook takes into consideration a number of general economic factors that currently affect the City's major revenues, as outlined below.

POPULATION

Between 2000 and 2007, the San Diego Association of Governments (SANDAG) estimated that the County's population grew at an average annual rate of 1.06 percent. SANDAG anticipates that the growth rate for the next several years will remain fairly stagnant and increase by approximately 1.0 percent annually for the County of San Diego.

UNEMPLOYMENT

Unemployment rates for the City of San Diego had been historically below that of the State and national averages, but slightly above the San Diego County average. According to the California Employment Development Department, the City's unemployment rate was 5.0 percent at the end of calendar year 2007; by September of 2008 the rate climbed to 6.4 percent which matched San Diego County's unemployment rate and remained below the State's rate of 7.7 percent. However, the City's unemployment rate exceeded that of the United States, which was 6.1 percent through the first eight months of calendar year 2008. Between September 2007 and September 2008, the non-farm employment sector in San Diego lost 5,100 jobs, a 0.4 percent decline. The rise in unemployment is primarily a result of the job losses in the real estate and construction sectors, although the leisure and hospitality sector is still growing, however at a slower pace.

EMPLOYMENT

A number of economic forecasters, including UCLA Anderson Forecast, identify San Diego as one of the top ten cities in the United States projected for job growth in the next 20 years. Additionally, the growth of small business currently accounts for over half of all new jobs created in the City, characterized by the services industry which is the major contributing sector to job growth in the region. However, this sector also pays the lowest average wages for workers.

RETAIL SALES

Between 2001 and 2008, the City's taxable sales transactions grew at an average annual rate of 3.3 percent. However, it is expected that the downturn in 2008 will continue through 2009, and the rapid contraction of the economy is likely to curtail retail sales in both calendar years 2008 and 2009, negatively impacting the City's sales tax receipts.

INCOME GROWTH

According to the UCLA Anderson Forecast, the State of California personal income growth has decreased by 2.1 percent since 2007. Due to the loss of jobs in the real estate and construction sectors, personal income growth continues to slow considerably and is anticipated to be relatively flat and mirror the inflationary levels experienced in fiscal year 2009.

VISITOR INDUSTRY

Transient occupancy tax (TOT) is the most accurate indicator of the health of San Diego's visitor industry. San Diego is one of the most desirable places to visit in the country, but is not immune to the current national and world economic crisis. TOT has been a consistent growth area for the City. However, in fiscal year 2008, the City began to experience a slowdown in TOT receipts growth rate due to factors such as drastic increases in fuel price, the housing crisis, and falling consumer confidence. The latest tourism data indicates negative growth in overnight visitors in 2008, which has a direct affect on TOT revenues. Given current economic conditions, a recovery is not anticipated until the second half of fiscal year 2009 at the earliest indicating that in the near term, only flat to slight growth in TOT revenue should be expected.

REAL ESTATE

The current economic recession caused by the sub-prime mortgage crisis and the subsequent meltdown of the financial markets is causing considerable strain on the local real estate market. These events have resulted in more restrictive lending policies, an increase in the number of San Diego County foreclosures and an increase in the unsold inventory of homes. This has led to greatly reduced median home prices, and the reluctance of potential real estate sellers to sell their devalued homes. Homeowners are faced with reduced equity in their homes and a reduced ability to borrow against that equity. This translates into local economy as follows:

- Reductions in equity and the reduced ability to borrow against that equity reduces consumer discretionary spending, which will negatively affect the general retail sales, construction, and home remodeling sectors, and thereby impacting sales tax receipts for the City.
- Reductions in the number of sold properties coupled with the reduced median home price will adversely affect real estate property transfer tax.
- The length of recession, along with decreased median home values, could eventually outweigh the 2 percent tax increase cushion (from Proposition 13) and erode the property tax base for the City.

> Rising real estate values in the years preceding 2005 fueled a “wealth affect”, likewise falling real estate values in the years since 2005 have created a “lost wealth affect”, which leads to reduced consumer confidence that in turn leads to weaker retail sales.

The following sections incorporate these economic conditions and forecasts about the local economy into a discussion on how these indicators affect each of the City’s General Fund revenue sources.

GENERAL FUND REVENUES

In comparing year-to-year changes, it is important to note that General Fund revenues from many of these sources will reflect both economic activity and in some cases the change in allocating these revenues between the General Fund and various special funds. Table I demonstrates a summary of the major revenues growth rates for fiscal years 2009-2014.

Table I

Major General Fund Revenue Growth

Revenue Category	2009 Budget	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast
Property Taxes	5.75%	3.2%	1.0%	1.0%	1.0%	2.0%	2.0%
Sales Tax	0.75%	-4.0%	0.0%	2.0%	4.0%	4.0%	4.0%
Transient Occupancy Tax	6.0%	-1.8%	4.0%	5.0%	6.0%	6.0%	6.0%

PROPERTY TAX

(in millions $)	**Actual 2008**	**Budget 2009**	***Forecast 2009***	***Forecast 2010***	***Forecast 2011***	***Forecast 2012***	***Forecast 2013***	***Forecast 2014***
Property Tax	384.2	411.1	396.6	400.6	404.6	408.6	416.8	425.1

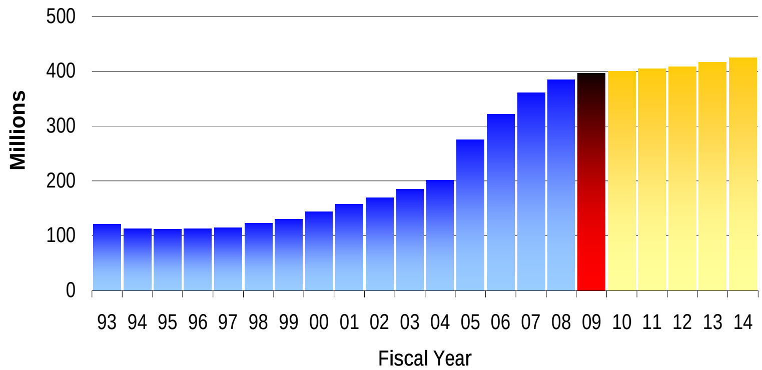
Property tax is the City’s largest revenue source, representing 34.4 percent of the total General Fund revenue in the Fiscal Year 2009 Budget. The City of San Diego receives property tax revenue based upon a 1.0 percent levy on the assessed value of all real property. Property tax revenue is collected by the County of San Diego, which then allocates the revenue to a number of agencies, including the County, school districts, and special districts.

HISTORICAL TRENDS AND OUTLOOK

Compared to other local tax revenues, property tax is one of the most stable, reliable, and growing sources of revenue that cities have. Graph I demonstrates a comparatively steady growth in City property tax revenues since 1993. In the early 1990s, the San Diego region experienced a deep recession which negatively affected the collection of property taxes for a few years. However since the late 1990s, property tax revenue continued to grow at a very steady rate up until 2005, as the real estate market nationwide (as well as locally) experienced tremendous growth. Since November 2005, the real estate market started showing signs of slowing down compared to the robust growth of preceding years which is reflected in City's property tax receipts beginning in fiscal year 2008. This decline has continued to worsen since 2005 as a result of the impact of the sub-prime finance problem and declining real estate values.

Graph I

Property Tax Historical Trends and Outlook



(in millions $)

FY	Dollars	Change	FY	Dollars	Change	FY	Dollars	Change
1993	$121.3	-	2000	$144.1	10.4%	2007	$361.1	12.1%
1994	$112.6	-7.2%	2001	$158.4	9.9%	2008 [2]	$384.2	6.4%
1995	$112.4	-0.2%	2002	$169.8	7.2%	2009 [3]	$396.6	3.2%
1996	$112.5	0.2%	2003	$184.6	8.7%	2010 [3]	$400.6	1.0%
1997	$114.6	1.8%	2004	$201.1	8.9%	2011 [3]	$404.6	1.0%
1998	$123.0	7.4%	2005 [1]	$275.7	37.1%	2012 [3]	$408.6	1.0%
1999	$130.5	6.1%	2006	$322.1	16.8%	2013 [3]	$416.8	2.0%
						2014 [3]	$425.1	2.0%

[1]Beginning in FY 2005, the City started receiving reimbursements in property tax in-lieu of Vehicle License Fees.

[2]Unaudited actual [3]Forecast

City property tax amounts are usually cushioned from small negative changes in the valuation of homes by Proposition 13 which caps the growth rate on assessed valuation at 2 percent annually. This means that home values typically increase faster than the assessed valuation for tax purposes which is 2 percent. However, the decrease in home values which we are currently experiencing is not a short term downturn. The median home price in San Diego County has been dropping consistently from its peak in November 2005. DataQuick Information Systems reports that the median home fell from $470,000 in September 2007 to $328,000 in September 2008, a decline of 30.2 percent. Further, delinquency rates are continuing to climb as the sub-prime mortgage crisis is leaving many homeowners with mortgages that are greater than their homes current value.

New residential construction is also a strong indicator of trends in both the construction industry and the overall economy. Once again, the effect of the sub-prime mortgage crisis is felt as new construction has declined. From fiscal year 2007 to fiscal year 2008 there has been a 17.8 percent decrease in residential permit valuation from $820.6 million to $674.3 million. Single-family dwelling units dropped by 21.4 percent from fiscal year 2007 and multifamily dwelling units decreased by 96.0 in fiscal year 2008 from a prior year.

The fiscal year 2009 property tax budget is $411.1 million, which consists of $304.1 million in base property tax and a reimbursement for in-lieu of vehicle license fee payment of $107.0 million; both categories assumed 5.75 percent growth over fiscal year 2008 year-end receipts. In October 2008, the City received the September tax roll data which indicated that the delinquency rates (unpaid property taxes) by the end of fiscal year 2008 were higher than expected. In addition, the report indicated that the housing market had deteriorated more than anticipated and that the collection of supplemental property taxes had significantly dropped. At the time of budget preparation this data was not available to the City and as a result, based on the fiscal year 2008 actual data analysis, the Fiscal Year 2009 Annual Budget has been revised to $396.6 million, a reduction of $14.5 million from what was originally budgeted.

The projection for property tax assumes a 3.2 percent growth in fiscal year 2009 compared to fiscal year 2008 actuals. The assumptions for growth in fiscal years 2010-2012 is 1.0 percent, and in fiscal years 2013-2014 is 2.0 percent. Due to the uncertainty in the real estate market and the general pessimism among regional economists, a conservative growth projection in property tax is warranted.

Sensitivity Analysis

By applying a sensitivity analysis to property tax revenue, we can see how the trends of growth rates in both pessimistic (low) and optimistic (high) scenarios affect projected revenue receipts. The pessimistic scenario (Table II) assumes that credit availability remains tight through calendar year 2009. This scenario also assumes that housing prices will continue to decline until the second quarter of calendar year 2010. By that time, the housing median price will drop by 10 percent more and assessed values will take longer to recover thus reducing the property tax receipts. Home sales will not recover until home prices fall far enough to stimulate demand.

The optimistic scenario (Table II) for property tax assumes that the credit crisis is resolved by second quarter of calendar year 2009. This scenario also assumes that housing prices will continue to decline until second quarter of calendar year 2009, but home sales are forecasted to rebound in mid-2009 as buyers start feeling more confident about the recovery of the real estate market.

A lag time of approximately two years exists between the time when real estate values change and the time when this change is realized in the City's property tax receipts. It should also be noted that a 1.0 percent change in property tax revenues based on the fiscal year 2008 unaudited actual receipts of $384.2 million is equivalent to approximately $3.8 million.

Table II

Property Tax Sensitivity Analysis						
2009 Forecast		**$396,620,386**			(in millions $)	
	LOW	**BASE**	**HIGH**	**LOW**	**BASE**	**HIGH**
YEAR	**%**	**%**	**%**	**$**	**$**	**$**
FY 2010	0.0%	1.0%	2.0%	$396.6	$400.6	$404.6
FY 2011	0.0%	1.0%	2.0%	$396.6	$404.6	$412.6
FY 2012	0.0%	1.0%	2.0%	$396.6	$408.6	$420.9
FY 2013	1.0%	2.0%	3.0%	$400.6	$416.8	$433.5
FY 2014	1.0%	2.0%	3.0%	$404.6	$425.1	$446.5

Looking forward, the effects of a declining real estate market, the crisis on the financial market, low consumer confidence and higher unemployment rates will all affect future property tax revenue receipts.

PROPERTY TRANSFER TAX

The property transfer tax is levied on the sale of residential and commercial real estate property. Property transfer taxes are highly reflective of the housing market and are generally more volatile than overall property-related taxes. Accordingly, appreciation or depreciation in property values and sales volume in the local real estate market specifically affect property transfer tax revenues.

The fiscal year 2009 property transfer tax budget is $8.9 million assuming no growth rate over fiscal year 2008 year-end projections. The budget for property transfer tax was built on the assumption that home sales activity would pick up in the beginning of fiscal year 2009, which has not materialized. Moreover, the financial crisis has slowed both the number of real estate sales transactions and the market price of homes, which in turn, has materially affected property transfer tax. The fiscal year 2009 property transfer tax forecast is $6.5 million, 8.0 percent less than the fiscal year 2008 actual receipts.

The property transfer tax is forecasted to have no growth in fiscal year 2010; a 2.0 percent growth in fiscal years 2011-2012; and 3.0 percent growth in fiscal years 2013-14.

SALES TAX

(in millions $)	**Actual 2008**	**Budget 2009**	***Forecast 2009***	***Forecast 2010***	***Forecast 2011***	***Forecast 2012***	***Forecast 2013***	***Forecast 2014***
Sales Tax	228.0	222.1	216.2	215.8	222.3	232.1	242.5	252.2

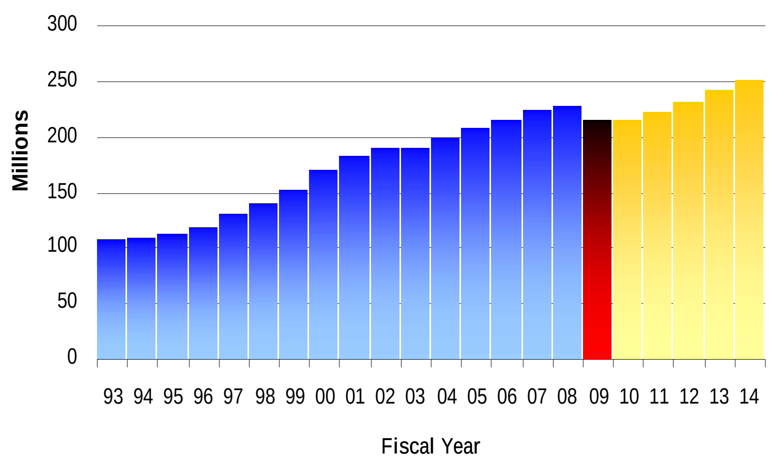
Sales tax is the City's second largest revenue source, representing 18.6 percent of the total General Fund revenue in the fiscal year 2009 budget. The fiscal year 2009 sales tax budget is $222.1 million. The budget includes the property tax reimbursement that the City receives as a result of the triple-flip. The triple-flip is the shift enacted by the State in fiscal year 2005 whereby local governments shifted one-quarter of a cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax.

HISTORICAL TRENDS AND OUTLOOK

The state of the economy has a more immediate and direct effect on sales tax revenue than on property tax revenue. A strong economy benefits local governments' sales tax collections. When the real estate market was strong, people were spending more; however, with the slowdown in the real estate market that started in late 2005, the "wealth effect" has been fading away, resulting in lower sales tax receipts starting in fiscal year 2007 (Graph II).

Graph II

Sales Tax Historical Trends and Outlook



(in millions $)

FY	Dollars	Change	FY	Dollars	Change	FY		Dollars	Change
1993	$108.4	-	2000	$169.9	11.4%	2007	1	$225.4	4.4%
1994	$109.4	1.0%	2001	$183.6	8.1%	2008	2	$228.0	1.1%
1995	$113.7	3.9%	2002	$190.2	3.6%	2009	3	$216.2	-5.2%
1996	$118.7	4.4%	2003	$189.7	-0.2%	2010	3	$215.8	-0.2%
1997	$131.2	10.6%	2004	$199.3	5.1%	2011	3	$222.3	3.0%
1998	$140.4	7.0%	2005	$208.1	4.4%	2012	3	$232.1	4.4%
1999	$152.6	8.6%	2006	$216.0	3.8%	2013	3	$242.5	4.5%
						2014	3	$252.2	4.0%

[1] Beginning in FY 2007, the City's 1.0% sales tax revenue was fully budgeted in the General Fund.

[2] Unaudited actual [3] Forecast

Annual revenue growth may not be equivalent to the growth rate due to the triple-flip adjustments.

Declining employment rates and concerns about the economy play key roles in the overall performance of retail sales. The pressures on consumers from the increased cost of home mortgages, declining home prices, and decreased value of investments, coupled with the economic uncertainty due to the banking crisis results in reduced sales revenue as consumers reduce discretionary spending.

In anticipation of an economic slowdown, the sales tax budget for fiscal year 2009 assumed a 0.75 percent growth rate. In fiscal year 2008, due to declining growth in sales tax receipts and pessimistic economic forecasts, projected sales tax revenue was adjusted downward by $12.9

million. This reduced base was factored into the fiscal year 2009 sales tax budget which was further reduced by $4.6 million. Although declines in sales tax revenue were factored in, due to continued worsening of the economy, fiscal year 2009 sales tax budget has been adjusted downward by $5.8 million in the proposed budget adjustments for fiscal year 2009 under consideration by City Council. For fiscal year 2010, sales tax revenue is assumed to be flat reflecting the continuation of current economic conditions. For fiscal year 2011, the growth rate is 2.0 percent, and in fiscal years 2012-2014, a growth rate of 4.0 percent is assumed.

Sensitivity Analysis

By applying a sensitivity analysis to sales tax revenue, we can see how the trends of growth rates in both pessimistic (low) and optimistic (high) scenarios affect projected revenue receipts. The pessimistic scenario (Table III) for sales tax assumes that the likely recession will last at least through fiscal year 2010, and then the economy will start to rebound slowly thereafter. Declining employment rates and concerns about the health of the economy play key roles in the overall performance of retail sales.

Table III

Sales Tax Sensitivity Analysis						
2009 Forecast	**$216,223,910**				(in millions $)	
	LOW	**BASE**	**HIGH**	**LOW***	**BASE***	**HIGH***
YEAR	**%**	**%**	**%**	**$**	**$**	**$**
FY 2010	-1.0%	0.0%	3.0%	$214.1	$215.8	$222.7
FY 2011	1.0%	2.0%	3.0%	$216.2	$222.3	$229.4
FY 2012	2.0%	4.0%	4.5%	$220.5	$232.1	$239.7
FY 2013	2.0%	4.0%	5.0%	$224.9	$242.5	$251.7
FY 2014	3.0%	4.0%	5.0%	$231.7	$252.2	$264.3

**Annual revenue growth may not be equivalent to the growth rate due to triple-flip adjustments.*

The optimistic scenario (Table III) for sales tax assumes that the likely recession will end at the beginning of fiscal year 2010, and then the economy will start recovering. It is assumed that the recovery of the housing market, improved credit availability and consumer confidence, and a healthy job market will stimulate consumer spending thus increasing City's sales tax receipts.

The change in the number of retail sales transactions affects the City's sales tax receipts with a lag time of one quarter. It should also be noted that a 1.0 percent change in sales tax revenue is equivalent to approximately $2.0 million based on unaudited sales tax receipts for fiscal year 2008.

SAFETY SALES TAX

Safety sales tax revenue is also sensitive to economic conditions, particularly factors that influence taxable sales, such as employment levels and per-capita income. Safety sales tax is allocated first to counties in proportion to their share of taxable sales within the State and then to cities within the county. As result, the City of San Diego's share of total countywide safety sales tax revenue does not directly depend on taxable sales within the City, but rather on San Diego County's share of total statewide taxable sales. Although the economic factors that influence safety sales tax are very similar to the factors influencing sales tax, a comparison of annual historical growth rates shows that they can fluctuate.

The fiscal year 2009 safety sales tax revenue budget is $8.1 million, assuming a 1.25 percent increase over fiscal year 2008 year-end projections. The same factors discussed in the section on sales tax affect safety sales tax receipts on a statewide basis. The fiscal year 2009 projection is $7.5 million, a decrease of 2.6 percent from fiscal year 2008 unaudited receipts.

The projection for fiscal year 2010 assumes a flat growth rate; fiscal year 2011 assumes a 2.0 percent growth, and a 4.0 percent growth is assumed for fiscal years 2012-2014.

TRANSIENT OCCUPANCY TAX

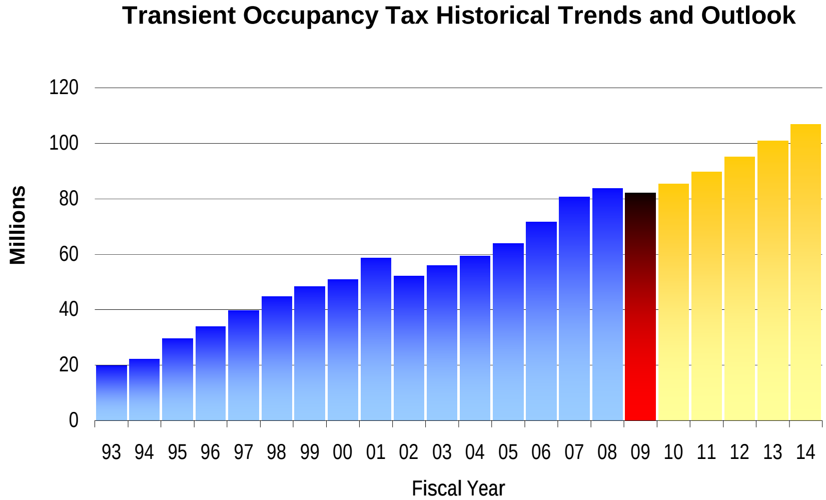
(in millions $)	**Actual 2008**	**Budget 2009**	***Forecast 2009***	***Forecast 2010***	***Forecast 2011***	***Forecast 2012***	***Forecast 2013***	***Forecast 2014***
TOT (Total City)	159.3	173.0	156.9	163.3	171.3	181.6	192.5	204.1
TOT (General Fund)	83.7	90.6	82.2	85.5	89.8	95.1	100.8	106.9

San Diego's Transient Occupancy Tax (TOT) is levied at 10.5 cents per dollar of the daily room price in hotels and motels used by visitors staying in San Diego for less than one month. Council Policy 100-3 stipulates that of the 10.5 cents, 4.0 cents be applied toward promotional activities of the City as a tourist destination, and 5.5 cents towards general government purposes. The remaining 1.0 cent is allocated toward any purpose City Council may direct.

San Diego remains a top tourist destination due to the region's natural attractions; however, the region did not escape the impact of the deteriorating economy. High fuel costs, the housing crisis, and the likely recession are all influencing consumer spending, forcing cutbacks on vacation plans and other discretionary expenses. This is evident when looking at recent trends in the local tourism industry. According to San Diego Convention and Visitors Bureau, the year-to-year percent growth forecast for total visitors is negative 1.0 percent. The average hotel occupancy rate is projected to decline by 2.3 percent although the average daily room rate is projected to increase to $141.3 in calendar 2008 compared to $137.7 for calendar year 2007. Industry experts project that the hotel room supply will not continue the robust expansion of recent years, even though the opening of the new Hilton San Diego Bay hotel (planned in early 2009) will add 2,220 rooms to the local room inventory. In summary, the number of overnight visitors and overall average occupancy are expected to decline in late 2008 and 2009; and a recovery is not anticipated until the second half of 2009 at the earliest indicating that in the near term, flat to slight growth in TOT revenue should be expected.

The Fiscal Year 2009 General Fund TOT budget is $90.6 million. The 2009 budget assumed a 6.0 percent increase over fiscal year 2008 year-end projections. Total TOT revenue received by the City in fiscal year 2008 was $159.3 million with 5.5 cents of every 10.5 cents collected in TOT deposited into the General Fund. Fiscal Year 2009 TOT revenue is not projected to come in at budget and the revised forecast for fiscal year 2009 reflects negative growth in revenues of 1.8 percent compared to fiscal year 2008 unaudited revenue receipts. Growth of 4.0 percent in fiscal year 2010, 5.0 percent in fiscal year 2011, and 6.0 percent for fiscal years 2012-2014 is reflected in the forecast (Graph III).

Graph III



(in millions $)

FY	Dollars	Change	FY	Dollars	Change	FY	Dollars	Change
1993	$19.8	-	2000	$50.9	5.1%	2007	$80.7	12.5%
1994[1]	$22.4	12.9%	2001	$58.7	15.3%	2008[2]	$83.7	3.8%
1995	$29.6	32.3%	2002	$52.1	-11.2%	2009[3]	$82.2	-1.8%
1996	$33.9	14.6%	2003	$56.0	7.4%	2010[3]	$85.5	4.0%
1997	$39.7	17.1%	2004	$59.5	6.3%	2011[3]	$89.8	5.0%
1998	$44.8	12.9%	2005	$63.9	7.4%	2012[3]	$95.1	6.0%
1999	$48.4	8.2%	2006	$71.7	12.2%	2013[3]	$100.8	6.0%
						2014[3]	$106.9	6.0%

[1] Beginning in fiscal year 1994, the City's TOT rate was 10.5 percent.

[2] Unaudited actual [3]Forecast

Sensitivity Analysis

By applying a sensitivity analysis to transient occupancy tax revenue, we can see how the trends of growth rates in both pessimistic (low) and optimistic (high) scenarios affect projected revenue receipts. The pessimistic scenario (Table IV) for transient occupancy tax assumes that the likely recession will last at least through fiscal year 2010, and then the economy will start to recover slowly. A pessimistic view includes assumptions that the convention center experiences significant event cancellations (although no cancellations have happened to date), that air travel declines, and the travelers further reduce discretionary spending for overnight visits to San Diego.

Table IV

TOT Revenue Sensitivity Analysis						
2009 Forecast	**$156,907,032**			(in millions $)		
	LOW	**BASE**	**HIGH**	**LOW**	**BASE**	**HIGH**
YEAR	**%**	**%**	**%**	**$**	**$**	**$**
FY 2010	0.0%	4.0%	6.0%	$156.9	$163.2	$166.3
FY 2011	1.0%	5.0%	6.5%	$158.5	$171.3	$177.1
FY 2012	3.0%	6.0%	7.0%	$163.2	$181.6	$189.5
FY 2013	3.5%	6.0%	7.5%	$168.9	$192.5	$203.7
FY 2014	4.0%	6.0%	7.5%	$175.7	$204.1	$219.0

The optimistic scenario for TOT assumes that the likely recession will end at the beginning of fiscal year 2010, and that the economy will recover sooner resulting in greater consumer confidence and increased discretionary spending.

LICENSES AND PERMITS

The licenses and permits category includes revenue generated from business license taxes, rental unit taxes, parking meter collections, and the refuse collection business license tax.

The fiscal year 2009 licenses and permits budget is $32.6 million. For fiscal year 2010, this category includes a reduction in revenue of $2.8 million from the Franchise Tax Board (FTB) pilot program related to non-compliant business tax filers. The FTB program will generate a smaller portion of the revenue compared to the pilot year. A 2.0 percent growth is projected for parking meter revenues, and a 1.0 percent growth is projected for miscellaneous licenses and permits.

FINES, FORFEITURES, AND PENALTIES

Fines, forfeitures, and penalties include revenue generated from monetary sanctions associated with the violation of a law or regulation such as California Vehicle Code violations, City parking and ordinance violations, and litigation awards. Parking violations represent approximately half of this revenue category.

The fiscal year 2009 budget for this revenue category is $34.5 million. The forecast for fiscal years 2010-2014 is based on the historical performance of this revenue category and assumes a 2.0 percent growth for vehicle code violations, a 1.0 percent growth for City parking violations, and 5.0 percent growth for other fines, forfeitures, and penalties.

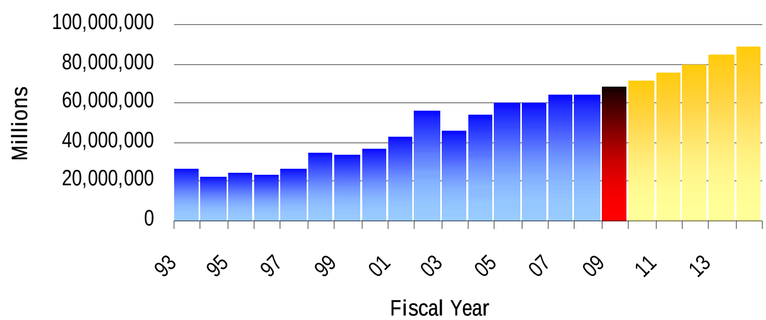
REVENUE FROM MONEY AND PROPERTY

The major components in the revenue from money and property category include revenue from franchise fees collected for the use of the City's rights-of-way from San Diego Gas and Electric (SDG&E), cable television providers, and rents and concessions from tenants of City-owned property in Mission Bay. Included in this category is refuse haulers revenue which is based on the total amount of refuse hauled annually. Also included in this revenue category are interest earnings and rents and concessions from miscellaneous City-owned properties.

The fiscal year 2009 budget for revenue from the money and property revenue category is $126.4 million. The forecast for fiscal years 2010-2014 is based on the historical performance of this revenue category with the exception of SDG&E and rents and concessions. The Mission Bay rents and concessions revenue is projected to grow at 1.42 percent annually in fiscal years 2010-2014 compared to 1.48 percent in fiscal year 2008 and 1.34 percent in fiscal year 2007. SDG&E revenues are projected to grow at 5.0 percent per year and cable television franchise fees are projected to grow at 7.5 percent per year between fiscal years 2010-2014. No growth is projected for other rents.

Also included in this category are interest earnings which are projected by estimating the investment pool size and applying an estimated interest earnings rate. The fiscal year 2009 budget is $9.6 million for interest earnings; however, the revised fiscal year 2009 projection is $7.9 million, and the City is making this adjustment in the fiscal year 2009 budget. The reduction is due to a lower anticipated allocation to General Fund from the City's total interest earnings. The forecast assumes expected earnings of the investment pool between 2.0 and 5.0 percent for fiscal years 2010-2014.

Franchise Fees Historical Trends and Outlook



(in millions $)

FY	Dollars	Change	FY	Dollars	Change	FY	Dollars	Change
1993	$26.6	-	2000	$36.6	9.9%	2007	$64.8	7.2%
1994	$22.7	-14.7%	2001	$42.7	16.7%	2008 [1]	$64.5	-0.3%
1995	$24.3	7.0%	2002	$56.2	31.7%	2009 [2]	$68.2	5.8%
1996	$23.2	-4.2%	2003	$45.5	-19.1%	2010 [2]	$71.9	5.4%
1997	$26.7	14.7%	2004	$54.4	19.6%	2011 [2]	$75.8	5.4%
1998	$34.3	28.5%	2005	$60.7	13.6%	2012 [2]	$79.9	5.4%
1999	$33.3	-2.8%	2006	$60.3	-2.5%	2013 [2]	$84.2	5.4%
						2014 [2]	$88.8	5.5%

[1]Unaudited actual [2]Forecast

REVENUE FROM OTHER AGENCIES

The major revenue in the Revenue from Other Agencies category is Motor Vehicle License Fees (VLF) allocated by the State. Prior to fiscal year 2005, the VLF was one of the City's major revenue sources; however, as a result of the triple-flip, VLF revenues have largely been replaced by property taxes (in addition to the 1.0 percent of base property tax received by the City).

The fiscal year 2009 budget for VLF is $6.9 million. The forecast for fiscal year 2009 projects a reduction in revenue of 12.2 percent under budget due to the continued slowdown in vehicle sales. In addition, enormous growth in State administrative charges could further negatively affect City's VLF receipts in fiscal year 2009. At this time, it is unknown how this revenue will be affected for the remainder of fiscal year 2009 due to the State actions. Based on this, fiscal year 2010 forecast could be also negatively impacted. Currently, the projected growth rate for fiscal year 2010 is 0.0 percent; for fiscal year 2011 is 1.0 percent; for fiscal years 2012-2013, the growth rate is 2.0 percent; and for fiscal year 2014, the growth rate is 3.0 percent.

Other revenue sources in this category include State grants, securitized tobacco revenue that is above $10.1 million, and employee "pick-up" savings. This category is decreased in fiscal year 2010 due to a one-time revenue reduction in fiscal year 2009 that is related to Proposition 1B and Federal Emergency Management Agency reimbursement for the 2007 wildfires.

CHARGES FOR CURRENT SERVICES

Charges for the current services category includes revenue generated by General Fund departments resulting from services provided to the public and other city funds. In addition, a number of departmental charges for public services are included in this category; the most significant of which are from the Fire-Rescue and Police Departments.

The fiscal year 2009 charges for current services budget is $134.1 million. The forecast for fiscal years 2010-2014 is based on the historical performance of this revenue category and assumes a 2.0 percent annual growth.

TRANSFERS FROM OTHER FUNDS

Revenue in this category reflects transfers to the General Fund from various funds such as Special Promotional Programs, Capital Improvements Program, Storm Drain, the Environmental Growth Fund, TransNet funds, Gas Tax funds, and other funds. The risk to the City related to the loss of State funding in these categories is discussed in the Risk Assessment section.

The fiscal year 2009 budget for transfers from other funds category is $95.9 million. The forecast for fiscal years 2010-2014 is based on the historical performance of transfers from other funds category and assumes a flat growth.

GENERAL FUND EXPENDITURES

Expenditure forecasting is an integral part of the City's fiscal planning process. The 2010-2014 Outlook is primarily based on the City's budgeted Fiscal Year 2009 General Fund expenditures. Future expenditure growth reflects inflationary cost increases, new expenditures mandated by the City Council or by the State and federal government programs, and legal or contractual obligations.

SALARIES AND WAGES

The Fiscal Year 2009 General Fund salaries and wages budget is $541.7 million, which represents 45.4 percent of total General Fund expenditures. The Fiscal Year 2009 Annual Budget incorporates full funding for the salary increases for members of the Police Office Association and Firefighters Local 145. The 2010-2014 Outlook does not assume any new salary increases for City employees. Any salary or wage increase approved as a result of labor negotiations with the labor unions would require the expenditures in the 2010-2014 Outlook to be adjusted.

RETIREMENT

Ensuring adequate funding for the City's Retirement System is critical for the long-term fiscal health and stability of the City. In November 2006, voters approved the passage of Proposition B, the Mayor's initiative calling for voter approval of any future increases in pension benefits for City employees. In June 2007, the San Diego City Employees' Retirement System (SDCERS) released its 2007 actuarial valuation report for the City and determined that the City's Annual Required Contribution (ARC) for fiscal year 2009 was $161.7 million. This valuation applied the Entry Age Normal (EAN) method (calculating future actuarial liabilities beginning with the Fiscal Year 2007 valuation), and eliminated negative amortization by assuming a 20-year Unfunded Actuarial Accrued Liability (UAAL) amortization period. The ARC payment for fiscal year 2009 was transferred to the Retirement System in July 2008.

Two possible scenarios for the City's ARC payment are included in this report and are shown in Table V. In Scenario One, the City's ARC for fiscal year 2010 is estimated to be $166 million, increasing by $33 million to $199 million in 2011. This scenario assumes that the market value of pension system assets will experience a significant loss this fiscal year and not recover substantially by June 30, 2009. A growth of 4.0 percent is assumed thereafter for pension ARC payments in fiscal years 2012-2014. These projections are generally based upon SDCERS' actuarial assumptions. This scenario assumes that the negative impact of investment losses could be offset in later years in part by other factors that have not been quantified, including: (1) any changes in the DROP interest crediting rate or the annualization of DROP accounts; (2) payroll increases being lower than expected; (3) lowering interest crediting for member contribution accounts; and (4) the impact of the City's new pension plan for employees hired after July 1, 2009, or other changes.

The City's new pension reform plan, effective July 1, 2009, will achieve savings in the future and those savings will be reflected in the actuarial valuation to determine future ARC payments. Scenario Two for ARC payments presents a more negative forecast that shows an increase to the ARC of $70 million in fiscal year 2011 with increases of an additional $20 to $15 million a year. Under this Scenario, the ARC payment is projected to be $291 million in 2014. These estimated ARC payments are also generally based on SDCERS actuarial assumptions but do not include any offsetting effects to mitigate current investment losses and only assume a future return equal to 7.75 percent assumed rate of return by SDCERS in fiscal years 2011-2014, and do not include, for example, any actuarial gains from lower than expected salary increases and a reduction in the number of City employees.

At the conclusion of this report, two forecasts for the General Fund are presented that incorporate these two scenarios.

Table V

Scenario 1 (in millions $)	FY 2009 Budget	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast
Citywide Pension Payment	$ 161.7	$ 166.0	$ 199.0	$ 207.0	$ 215.2	$ 223.8
General Fund Pension Payment	$ 126.9	$ 130.3	$ 156.2	$ 162.5	$ 169.0	$ 175.7

Scenario 2 (in millions $)	FY 2009 Budget	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast
Citywide Pension Payment	$ 161.7	$ 166.0	$ 236.0	$ 256.0	$ 276.0	$ 291.0
General Fund Pension Payment	$ 126.9	$ 130.3	$ 185.3	$ 201.0	$ 216.7	$ 228.4

Preservation of Benefits

The Preservation of Benefits (POB) Plan is a qualified governmental excess benefit arrangement under Internal Revenue Code (IRC) section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from the assets of a qualified retirement plan). The fiscal year 2009 budget includes $1.1 million in the Citywide Department for SDCERS to pay for benefits in excess of Internal Revenue Service limits. The fiscal year 2010-2014 forecast includes a $100,000 annual increase totaling $1.2 million in fiscal year 2010, $1.3 million in fiscal year 2011, $1.4 million in fiscal year 2012, $1.5 million in fiscal year 2013, and $1.6 million in fiscal year 2014.

FLEXIBLE BENEFITS

The City of San Diego provides a Flexible Benefits Plan (FBP) ("cafeteria-style") in order to allow employees to select the health benefits which best serve their needs on an annual basis. The highest cost of FBP is the insurance component which accounts for $40.1 million in the fiscal year 2009 flexible benefits budget. The Outlook assumes that the flexible benefit amount allocated to employees in this category will not increase in fiscal years 2010-2014.

FRINGE BENEFITS

The fringe benefits category includes employee related costs such as workers' compensation, unemployment insurance, and unused sick leave. The fiscal year 2009 budget for fringe is $53.4 million. The estimated cost of these expenditures is based proportionately on budgeted fiscal year 2009 salaries and wages. The expenses are adjusted by an inflation rate of 3.0 percent for fiscal years 2010-2014.

RETIREMENT OFFSET / "PICK-UP"

The Retirement Offset Contribution (ROC) or "pick-up" represents the City's contribution towards the employees' retirement benefits under current labor union agreements and is calculated as a percentage of pensionable salaries and wages. In labor agreements negotiated between the City and its labor groups, employees agreed to contribute a larger portion of the employees' share of their pension contribution, reducing the City's contribution by a like amount. Instead of using these savings to balance other parts of the City's budget, the City agreed to leverage these savings in order to make a larger contribution to SDCERS. Per Article 22 of the MEA Memorandum of Understanding (effective July 1, 2005 – June 30, 2008), the employee pension contribution to the UAAL Fund for MEA represented employees was increased from 1.4 percent to 4.4 percent for the first two years and then to 5.4 percent for the third year. Because the City was unable to leverage these funds, the City and MEA entered into a Settlement Agreement which addresses the use of the ROC dollars retained by the City. Per the MEA Settlement Agreement that went into effect in October 2008, the employee contribution rate was reduced from 5.4 percent to 3.4 percent. Of the remaining 2.0 percent the employees still pay, the City is obligated to either leverage the dollars associated with 1.0 percent of the increase pick-up or transfer these dollars to SDCERS in addition to the Annual Required Contribution. In addition, the City will be able to use the other 1.0 percent contributed by MEA employees for any general City purpose. Savings from this 1.0 percent has been included in the five-year model beginning in fiscal year 2009. In addition, because the City was unable to infuse $600 million into the Retirement System as called for under the Local 127 MOU, changes to the City's budget as a result of the ensuing 1.9 percent salary adjustment to Local 127 employees has also been factored in the five-year model.

RETIREE HEALTH / OTHER POST-EMPLOYEMENT BENEFITS

The Other Post-Employment Benefits (OPEB) costs are budgeted at $50.0 million Citywide in fiscal year 2009. The $50 million contribution is comprised of $26.1 million for the annual health coverage (pay-as-you-go portion) for City's retirees and $23.9 million for pre-funding retiree healthcare benefits ($23.9 million was transferred to CalPERS Employer Retiree Benefit Trust on July 1, 2008).

It is anticipated that the fiscal year 2010 OPEB cost in the General Fund will be $35.2 million (as shown in Table VI). The Citywide funding projections for fiscal years 2010-2014 assume the growth rates of the pay-as-you-go portion included in the Buck Consultants report (these growth rates are shown in Table VI).

Table VI

(in millions $)	FY 2009 Budget	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast
Growth	NA	14.2%	13.0%	12.2%	11.5%	11.5%
Citywide OPEB Payment	$ 50.0	$ 57.1	$ 64.5	$ 72.4	$ 80.7	$ 90.0
General Fund OPEB Payment	$ 35.2	$ 40.1	$ 45.3	$ 50.8	$ 56.7	$ 63.2

SUPPLIES AND SERVICES, INFORMATION TECHNOLOGY, ENERGY/UTILITIES, AND EQUIPMENT OUTLAY

The total fiscal year 2009 budget for these categories is $363.2 million and represents the City's General Fund non-personnel expenses. In addition to committed department expenditures, the 2010-2014 Outlook assumes these categories will grow at an inflation rate of 2.0 percent for supplies and services, 1.0 percent for information technology, 5.0 percent for energy/utilities, and 3.0 percent for equipment outlay in fiscal years 2010-2014.

(in millions $)	FY 2009 Budget	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast
Supplies and Services (2%)*	$ 287.7	$ 298.4	$ 302.6	$ 308.9	$ 315.0	$ 321.5
Information Technology (1%)	$ 38.1	$ 41.0	$ 41.9	$ 42.6	$ 42.9	$ 43.3
Energy/Utilities (5%)	$ 27.6	$ 29.0	$ 30.5	$ 32.0	$ 33.6	$ 35.3
Equipment Outlay (3%)	$ 9.9	$ 10.2	$ 10.5	$ 10.8	$ 11.1	$ 11.4

**Includes required departmental expenditures in addition to growth rate increases*

VACANCY FACTOR

The vacancy factor (VF) reflects the estimated savings in personnel expenses attributable to vacancies, attrition, leave of absences, under-filled positions, and newly hired employees who may start at a salary lower than the average budgeted salary. The largest component of the General Fund VF is the Police Department. The VF for the Police Department assumes fewer recruits in the academies. The fiscal year 2009 budgeted vacancy savings was approximately $13 million and the fiscal year 2010 projected vacancy savings is approximately $15 million, resulting in an overall increase to the General Fund VF for fiscal year 2010. Fiscal year 2011-2014 forecast assumes that vacancy savings will be lower starting in fiscal year 2011 due to position reductions in fiscal years 2009 and 2010. In fiscal years 2010-2014, the VF is 3.3 percent, 3.1 percent, 3.0 percent, 2.9 percent, and 2.9 percent , respectively.

FUNDING OF DEFERRED RETIREMENT OPTION PLAN (DROP) PARTICPANT LEAVE BALANCES

The DROP program is a voluntarily program allowing retirement eligible employees an alternative method that defers retirement status up to five years. While a portion of terminal leave expense has been absorbed in departmental budgets, is it expected that a number of DROP enrolled employees retiring from the City will increase within the next few years. The fiscal year 2009 DROP terminal leave budget includes $3.5 million. The 2010-2014 Outlook estimates this expense to be $5.0 million for fiscal year 2010 growing to $5.3 million in fiscal year 2011, $6.1 million in fiscal year 2012, and then decreasing to $7.6 million for fiscal years 2013-2014.

FUTURE COMMITTED EXPENDITURES

The 2010-2014 Outlook incorporates only the new expenditures shown in Table VII. The City has other committed expenditures that are part of the Outlook and included in the fiscal year 2009 budget such as debt service obligations, contributions to Public Liability Fund, Workers' Compensation Fund and others. The following table only includes new commitments for fiscal year 2010. This forecast does not include any staffing or operational support for new facilities opening in fiscal years 2009-2014.

Table VII

FY 2010 Committed Expenditures

(in millions $)

General Fund		
Citywide Department (Citywide Election Costs)	$	(0.8)
Citywide Department (Preservation of Benefits)	$	0.1
Citywide Department (Property Tax Administration Fee Increase)	$	1.2
Citywide Department (New Mission Bay Ordinance Impact)	$	2.3
Police Department Annualization of FY09 Salary Increases	$	3.8
Fire Department Annualization of FY09 Salary Increases	$	0.4
Booking Fees (not in FY09 Base)	$	2.1
City Treasurer's Department (Reimbursable FTEs)	$	1.5
Subtotal	**$**	**10.6**
Impact to General Fund from Non-General Fund Departments		
Office of the CIO (Transer to IT Fund)	$	1.9
Transfer to Risk Management Department	$	1.7
Transfer to General Services (Fleet Operations/Replacement)	$	1.3
Transfer to ERP Fund (Maintenance)	$	4.0
Subtotal	**$**	**9.0**
TOTAL	**$**	**19.6**

The transfer to the Risk Management and Office of the CIO is the additional General Fund allocation needed to fully support their operating expenditures since the Fiscal Year 2009 Annual Budget included the use of fund balances from these two departments. The transfer to the Fleet Services Fund incorporates increases for fuel costs. For fiscal years 2011-2014, there are no new committed expenditures included for General Fund departments.

SUMMARY OF REVENUES AND EXPENDITURES

The table in **Attachment I** illustrates the projected revenues and expenditures in the 2010-2014 Outlook along with a projected deficit for fiscal years 2010-2014. Without the funding of the eight significant areas, the projected revenues are less than the projected expenditures. However, the City's strategy to fund not only these eight areas but other commitments results in a projected deficit of nearly $44.0 million in fiscal year 2010, $68.3 million in fiscal year 2011, $58.1 million in fiscal year 2012, $33.8 million in fiscal year 2013, and $20.6 million in fiscal year 2014.

FUNDING OF EIGHT SIGNIFICANT AREAS

The City of San Diego remains committed to restoring fiscal stability, adequately addressing its financial obligations and meeting its responsibility to provide essential core services to San Diego residents. The 2010-2014 Outlook includes funding for the City's eight significant areas: the pension system, reserves, deferred maintenance, other post-employment benefits, storm water compliance, ADA compliance, workers' compensation, and public liability.

PENSION

For a full discussion of pension funding, please refer to the Retirement section under General Fund Expenditures in this document.

RESERVES

Building healthy reserves helps insulate City services against periodic swings in the economy and the demands placed on the City to pay the costs from emergencies (such as natural disasters). In addition, since the City's reserve level is one of several factors considered by rating agencies, a strong reserve balance may help lower the City's cost to borrow money.

The City Reserve Policy outlines the reserve targets for General Fund and enterprise funds such as Water, Metropolitan Wastewater, and Development Services. Per the Reserve Policy, the City has established a General Fund Emergency Reserve, an Appropriated Reserve, and an Unallocated Reserve which are considered by policy as part of the total General Fund reserves.

The Emergency Reserve is only used for qualifying emergencies as declared by the City Council and funds are only accessible by a two-thirds vote of the City Council, as outlined in Charter Section 91. The Appropriated Reserve funds operational needs not anticipated during the development of the annual budget. The Reserve Policy requires that 8.0 percent of the General Fund budget be placed in reserves by fiscal year 2012. From time to time, there may be an accumulated fund balance in the General Fund (the Unallocated Reserve), which exceeds the percentage required under the City's Reserve Policy.

The fiscal year 2009 budgeted contribution to the General Fund Reserve is $3.7 million. In fiscal year 2010, the contribution to this reserve is estimated to be $5.2 million in order to reach the policy target of 7.0 percent. For fiscal years 2011-2014, the contributions to the General Fund Reserve are growing as indicated in Table VIII. The fiscal year 2009 proposed budget adjustments recommend that this budget contribution to the reserves be used to balance the budget. The City expects to be at the 6.5 percent reserve target at the end of fiscal year 2009.

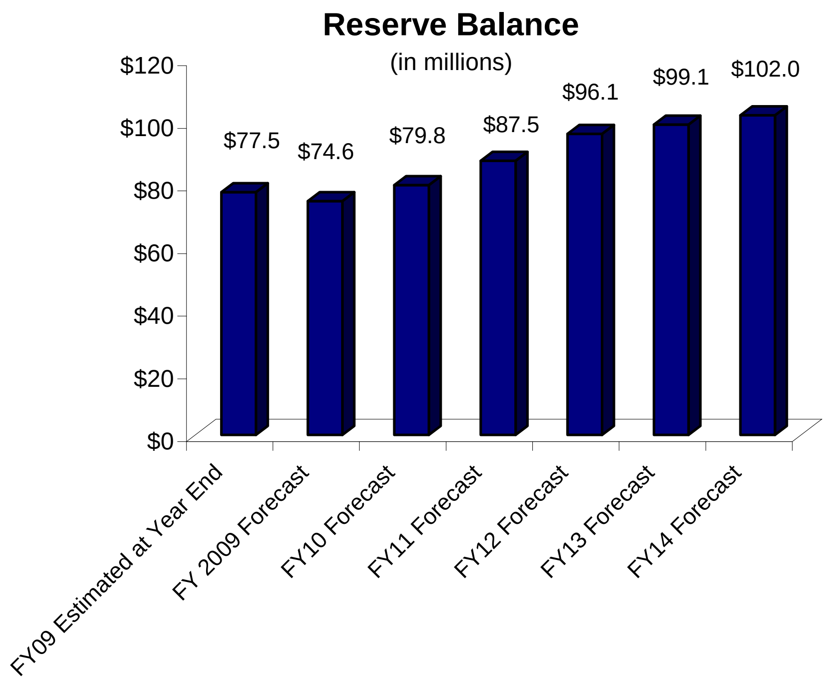


Table VIII

	FY 2009 Budget	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast
Operating Revenue (in billions $)	$1.192	$1.139	$1.140	$1.167	$1.201	$1.238	$1.275
Reserve Target	6.5%	6.5%	7.0%	7.5%	8.0%	8.0%	8.0%
Reserve Balance (in millions $)	$77.5	$74.6	$79.8	$87.5	$96.1	$99.1	$102.0

DEFERRED MAINTENANCE/CAPITAL IMPROVEMENTS

Deferred maintenance/capital improvements includes needed repairs to City facilities, including roof replacement, heating and cooling system upgrades, painting, structural repairs, as well as repairs and improvements to storm drains and streets. It is estimated that the City's deferred maintenance/capital needs, excluding those related to Water and Wastewater, may be at least $800 to $900 million.

Proposition 1B funding for streets and roads was approved by California voters in November 2006. These funds are allocated to local governments for projects targeted to improve local roads and highways. The City budgeted $21.2 million in Proposition 1B funding in fiscal year 2009. Of that amount, the City will use $5.8 million in the General Fund and the balance of $15.4 million will be used in the Capital Improvement Program for storm drain and street maintenance. In fiscal year 2010, the City is projected to receive nearly $20.0 million in Proposition 1B funding assuming the same allocation as in fiscal year 2009. In addition, $21.8 million is projected to be received in fiscal year 2010 from the sale of City-owned real estate, of which $11.8 million will be used for deferred maintenance projects, and the remaining $10.0 million will fund ADA compliance related projects.

The City plans to issue $108.0 million in bonds in fiscal year 2009 for deferred maintenance projects for streets, sidewalks, and storm drains. New bond financing is expected for deferred maintenance projects in fiscal year 2011 and fiscal year 2013. Related debt service is factored in for the forecast period as follows: in fiscal year 2010 - $3.6 million (related to fiscal year 2009 bond financing); in fiscal year 2011 - $3.6 million; in fiscal year 2012 - $7.2 million; in fiscal year 2013 - $7.2 million; and in fiscal year 2014 - $10.8 million. There is no provision in the Outlook for cash expenditures for deferred maintenance projects in the General Fund. As the economy improves and City revenues increase, it is expected that additional deferred maintenance financings as well as cash supported projects will be planned.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Please refer to the Retiree Health section under General Fund Expenditures above.

STORM WATER RUNOFF COMPLIANCE

Compliance with new storm water runoff regulations associated with new permits has imposed a large expenditure obligation on the City's budget. The Fiscal Year 2009 Annual Budget included a $9.5 million increase to the Storm Water Departments budget to comply with the community outreach and monitoring requirements for a total budget of $27.5 million. The fiscal year 2011-2014 forecast assumes flat funding for the Storm Water Department. The Department meets the City's obligations to comply with the storm water runoff regulations of the Regional Water Quality Control Board.

AMERICANS WITH DISABILITIES ACT COMPLIANCE (ADA)

The fiscal year 2009 ADA budget for capital improvements is $10.0 million that is funded from sale proceeds of City-owned real estate assets. The target for the sale of the City-owned properties (per the original 2008-2012 Outlook) was approximately $21.8 million per year. In fiscal year 2008, the City sold excess properties for a total of $24.1 million, and in fiscal year 2009 year-to-date totaling $5.8 million. For fiscal year 2010, it is projected that the City will generate approximately $21.8 million, of which $10.0 million will fund ADA related projects, and the remaining $11.8 million will be used for deferred maintenance projects.

WORKERS' COMPENSATION RESERVE FUND

The City has approximately $160.7 million in outstanding workers' compensation claims as of November 10, 2008, and the City is obligated to establish sufficient reserves to cover increases in these liabilities. By establishing a reasonable reserve level, the City will provide better insulation for its programs and services. The City's Reserve Policy recommends a funding strategy to achieve a reserve that is 50 percent of the value of outstanding claims by fiscal year 2014. The fiscal year 2009 budget includes $22.0 million to cover the regular projected annual costs as well as a $4.0 million contribution to the Workers' Compensation Reserve to achieve the 15 percent goal of outstanding claims value. The current workers' compensation fund balance is approximately $35.0 million. The 2010-2014 Outlook does not include contributions to the Workers' Compensation Reserve Fund for fiscal year 2010 since the fund has accrued enough fund balance due to fewer than expected claims payments and the release of encumbrances. For fiscal years 2011-2014, the Outlook includes an incremental $4.1 million every year in General Fund to build up the Workers' Compensation Fund Reserve.

PUBLIC LIABILITY RESERVE FUND

The City has approximately $114.0 million in outstanding public liability claims as of November 10, 2008. Similar to the Workers' Compensation Fund Reserve, the City's new Reserve Policy recommends a funding strategy to achieve a 50 percent funding of the value of outstanding claims by fiscal year 2014. The Fiscal Year 2009 Budget includes $10.0 million in new funding toward building the Public Liability Fund Reserve, an amount that is in addition to the pay-as-you-go allocation of $18.0 million for a total budgeted amount of $28.0 million. The $10.0 million reserve consists of a $5.0 million contribution applied toward fiscal year 2009 as well as an additional $5.0 million to replace reserves spent in fiscal year 2008. This additional $5.0 million contribution that brought the reserve level up to the 2009 target has been taken out of the expenditures for fiscal year 2010. The Outlook includes a $5.0 million contribution to the Public Liability Reserve Fund for fiscal years 2011-2014.

FINANCIAL OUTLOOK SUMMARY

The Table IX demonstrates the impact of funding the eight significant areas to the total City budget and the General Fund budget.

Table IX

Funding for Eight Significant Areas
Total City Cumulative Budget Impact
Scenario 1
(in millions)

	FY2009 Budget	FY2010 Projected	FY2011 Projected	FY2012 Projected	FY2013 Projected	FY2014 Projected
ARC	$ 161.7	$ 166.0	$ 199.0	$ 207.0	$ 215.2	$ 223.8
Reserves	$ 3.7	$ 5.2	$ 7.7	$ 8.6	$ 3.0	$ 2.9
Deferred Maintenance	$ 31.6	$ 3.6 [1]	$ 3.6	$ 7.2	$ 7.2	$ 10.8
OPEB	$ 50.0	$ 57.1	$ 64.5	$ 72.4	$ 80.7	$ 90.0
Storm Water Runoff Compliance	$ 27.5	$ 27.5	$ 27.5	$ 27.5	$ 27.5	$ 27.5
ADA Compliance	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0
Workers' Compensation Fund	$ 4.0	$ -	$ 5.0	$ 5.0	$ 5.0	$ 5.0
Public Liabilities Fund	$ 10.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0
SUBTOTAL	$ 298.5	$ 274.4	$ 322.3	$ 342.7	$ 353.6	$ 375.0
Financed Capital Projects [2]	$ 77.5	$ -	$ 108.0	$ -	$ 108.0	$ -
TOTAL	$ 376.0	$ 274.4	$ 430.3	$ 342.7	$ 461.6	$ 375.0

[1] Debt service for FY 2009 bond issuance

[2] The deferred maintenance is projected to be 100% financed in the amount of $108.0 million for fiscal years FY 2011 and FY 2013

GENERAL FUND CORRECTIVE ACTIONS

Of the fiscal year 2009 proposed budget reductions, $34.5 million continues to the fiscal year 2010 projected budget deficit of approximately $78.5 million. The budget adjustments of $34.5 million include a reduction of 218.04 total positions, of which 211.04 are in the General Fund for a total of General Fund personnel expenditure reductions of $16.7 million, non-personnel expenditure reductions of $16.8 million, and revenue enhancements of nearly $1.0 million. These proposed budget reductions have been incorporated into the Outlook resulting in a projected deficit of $44.0 million for fiscal year 2010 as depicted in Table X.

Two scenarios (Tables X, XI)) for ARC payments have been included in this report. Significant increases in the City's ARC payment for fiscal years 2011-2014 are forecasted due to projected investment losses to pension system assets that would be incorporated into the actuarial valuation on June 30, 2009. The General Fund supports approximately 78 percent of the City's ARC payment and the projected ARC payments would significantly impact the General Fund.

In Scenario One, the City's ARC for fiscal year 2010 is estimated to be $166 million, increasing by $33 million to $199 million in 2011. This scenario assumes that the market value of pension system assets will experience a significant loss this fiscal year and not recover substantially by June 30, 2009. A growth of 4.0 percent is assumed thereafter for pension ARC payments in fiscal years 2012-2014. These projections are generally based upon SDCERS' actuarial assumptions.

Table X

GENERAL FUND BUDGET DEFICIT
Fiscal Year 2010-14 (in millions)
Scenario 1

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Surplus/(Deficit)	$ (44.0)	$ (68.3)	$ (58.1)	$ (33.8)	$ (20.6)

In Scenario Two, the negative impact of investment losses could be offset in later years in part by other factors that have not been quantified, including: (1) any changes in the DROP interest crediting rate or the annualization of DROP accounts; (2) payroll increases being lower than expected; (3) lowering interest crediting for member contribution accounts; and (4) the impact of the City's new pension plan for employees hired after July 1, 2009, or other changes.

Table XI

GENERAL FUND BUDGET DEFICIT
Fiscal Year 2010-14 (in millions)
Scenario 2

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Surplus/(Deficit)	$ (44.0)	$ (96.5)	$ (95.5)	$ (80.1)	$ (71.8)

The fiscal year 2010 General Fund projected expenditures (including funding for significant areas) total $1.18 billion whereas projected revenues total $1.14 billion. The 2010-2014 Outlook is built on the assumption that the changes proposed in fiscal year 2009 will be approved by City Council and implemented by January 1, 2009. The following section outlines possible solutions to address the remaining $44.0 million deficit for fiscal year 2010.

REVENUES ($6.3 - $13.0 MILLION)

REFUSE HAULERS FRANCHISE FEE INCREASE ($1.5 MILLION)

Revenue from the franchise fee is deposited into the General Fund and is paid by commercial franchised haulers for the privilege of operating their businesses within the City. Franchise fee rates are currently $11 per ton for Class I Franchise Haulers (collecting up to 75,000 tons within the City of San Diego annually) and $12 per ton for Class II Franchise Haulers (collecting 75,000 or more tons annually within the City). A $2.00 increase in franchise fees will generate an estimated $1.5 million per year in revenue for the General Fund.

PARKING ENFORCEMENT PLAN IMPROVEMENT ($1.8 - $5.5 MILLION)

In November 2004, the joint recommendations of a citywide Parking Task Force were presented to City Council which included parking policy updates, proposed internal parking management restructuring, and general policy guidelines for parking management, specifically identifying pricing as a method to manage the parking supply. Although City Council accepted the joint recommendations, not all have been fully implemented. Based on existing parking studies, Council Policy, best practices from experts in the field of parking and the work of community members and city staff that have been at the forefront of addressing parking issues, this joint parking plan proposes implementing (1) performance-based parking pricing; (2) extended hours of operation; and (3) modification of Council Policy 100-18.

This citywide parking plan incorporates proven parking strategies to control parking demand and generate revenue of approximately $1.8 - $5.5 million annually. The approach is similar to cities such as Seattle, San Francisco, and Redwood City where free-market pricing at meters is implemented based on the straightforward economic theory of supply and demand: where the parking supply is tight, higher parking prices are set to encourage turnover and get more people on public transit thereby freeing up more spaces. Moreover, pricing strategies generate revenue that would recover costs and fund improvements within the communities that experience significant traffic and high parking demand.

CONSUMER PRICE INDEX/COST RECOVERY INCREASE TO CURRENT CITY FEES ($2.0 - $5.0 MILLION)

A User Fee Policy will be forthcoming to the City Council in January. Once the Policy is adopted, current user fees will be updated annually based on a Consumer Price Index as well as cost recovery of certain fees.

SPECIAL PROMOTIONAL PROGRAMS ($1.0 MILLION)

Approximately $1.0 million is projected above 1.0 cent of discretionary TOT revenue in fiscal year 2010 that will reimburse the General Fund for tourism promotional activities. For fiscal years 2011-2014, the projected amount above 1.0 cent is $6.6 million, $10.8 million, $16.8

million, and $20.4 million, respectively. This money will be used to reimburse the General Fund for City promotional activities.

EXPENDITURES ($3.6 MILLION)

OFFICE OF THE CITY ATTORNEY ($3.6 MILLION)

The Office of the City Attorney did not provide reductions to mitigate the fiscal year 2009 budget gap. The Department projected to be over budget by $1.8 million. As part of the solution, the Department will stay on budget in fiscal year 2009. In fiscal year 2010, the Department will be requested to provide 10 percent budget reductions totaling $3.6 million.

MANDATORY FURLOUGH

The City is currently exploring other options to mitigate a projected deficit. A mandatory furlough program could be an option considered as part of the fiscal year 2010 budget balancing whereby all City employees would be required to participate in a mandatory furlough program.

MANAGED COMPETITION AND BUSINESS PROCESS REENGINEERING

The City continues to move forward in establishing its Managed Competition program. In addition, the City continues to find efficiencies and improve effectiveness through Business Process Reengineering and other efficiency measures.

EMPLOYEES' INPUT

As part of the annual budgetary process, the City continues to seek employee input on ways to reduce operational costs and improve the various City services and operations. With respect to the fiscal year 2010 budgetary issue, approximately 250 employee suggestions have been received. These suggestions ranged from the City structure reorganization to service specific staffing and operation suggestions. Input continues to be received and will be considered in the upcoming budgetary process.

In summary, there are no recommendations being offered to accept or reject any of the possible corrective measures described above. These and more will be evaluated as staff prepares the fiscal year 2010 budget. If, however, the above corrective actions were to be implemented in fiscal year 2010, the remaining deficit of $44.0 million would be reduced by a projected range of $27.4 – $34.1 million.

RISK ASSESSMENT

The City continues to face fiscal challenges and worsening external economic factors are likely to increase the City's budget deficit and slow progress to achieve fiscal goals.

<u>Revenue Risk</u>

The primary downside risks to City revenues are the State budget crisis, the continued decline of the housing market, and the continuation of the credit crisis.

State Budget Deficit Impact

The most significant risk to the revenue forecast is the magnitude of the State budget deficit. The State of California is projected to have a deficit ranging from $10 to $12 billion in fiscal year 2008-2009. The resolution of the State budget may result in the State withholding as much as $35.0 million in revenues from the City, an action that would add to the City's projected deficit for fiscal years 2009-2010. A potential impact of $35.0 million from the State to the City's budget would come from the suspension of Proposition 1A which is currently being discussed by the State's legislative body. The impact of the suspension might be a reduction of up to 8.0 percent in property taxes which is equivalent to approximately $35.0 million in fiscal year 2009. The suspension of the property tax revenue protection provisions of Proposition 1A would be possible if the Governor issues a proclamation of "severe fiscal hardship"; if the Legislature enacts an urgency statute suspending Proposition 1A property tax protection with two-thirds vote of each house; and if the Legislature enacts a law providing for full repayment of the "borrowed funds" plus interest within three years. The Legislature may not enact such a suspension more than twice in any 10-year period and may only do so if any previous borrowing under this provision has been repaid. Under provisions of Proposition 1A, the State is prohibited to reduce the local sales tax rate or alter its method of allocation and decrease Vehicle License Fee revenue from the 0.65 percent rate without providing replacement funding to cities and counties.

In addition, City's VLF revenue remains vulnerable to State actions. Enormous growth in State administrative charges could negatively affect City's VLF receipts in fiscal year 2009. At this time, it is unknown how this revenue will be affected for the remainder of fiscal year 2009 due to the State actions. Based on this, fiscal year 2010 forecast could be also negatively impacted. It is unknown at this time how this revenue will be affected for the remainder of fiscal year 2009 due to the State actions.

The projections for major revenues in the 2010-2014 Outlook include flat to very slow growth through fiscal years 2010-2011. Starting in fiscal years 2012-2014, all revenue sources are anticipated to resume historical growth patterns. As a result of worsening economic conditions, sales tax, property tax, and TOT revenues could continue to decline at rates in excess of those assumed in the 2010-2014 Outlook. If the economy worsens more than anticipated and a recession continues for a longer period of time, the City could lose additional General Fund revenues as discussed in the sensitivity analysis in the revenue section of this report. For example, if the growth rate of all four of the City's major revenues (property, sales, TOT, and franchise fee revenues) drops by an additional 1.0 percent, the impact to the General Fund would be approximately $8.0 million.

Interest rate risk is another potential risk that will adversely affect the cost of the city's planned bond financing for deferred maintenance in fiscal year 2009 and could result in a higher than expected debt service obligation in the General Fund for deferred maintenance bonds. In addition, the yield on the City's pooled investments could decline as interest rates decline for treasury and agency investments due to the demand for relatively safe investments. If interest rates remain low for a longer period of time, or drop further, interest earnings would need to be adjusted downward. General Fund interest earnings, however, only comprise 0.8 percent of the total General Fund revenue.

Expenditure Risk

Labor costs increases are a significant risk for projected expenditures. An increase of 1.0 percent is approximately $2.4 million for POA members, $2.1 million for MEA, $1.0 million for Local 145, $0.5 million for Local 127, and $165,000 for members of DCAA. Other potential risks that would increase the City's expenditures include changes in ARC payments as a result of continued market volatility and a drop in assets values through June 30, 2009.

The ARC payment for fiscal year 2011 and 2012 will be determined by means of an actuarial valuation on June 30, 2009 and June 30, 2010, respectively. The market asset values on those dates are factored into the valuation along with other factors and actuarial assumptions. Two scenarios for ARC payments have been included in this report in Table V of this report. Significant increases in the City's ARC payment for fiscal years 2011-2014 are forecasted due to projected investment losses to pension system assets that would be incorporated into the actuarial valuation on June 30, 2009. The General Fund supports approximately 78 percent of the City's ARC payment and the projected ARC payments would significantly impact the General Fund.

The OPEB liability and the City's pay-go contributions are negatively affected by increasing healthcare costs. The city is currently pre-funding a portion of the retiree health liability through CALPERS in addition to fully funding the annual costs of retiree's health care benefits. Inflationary cost increases will affect both the pay-go and the potential ARC payments.

In addition, OPEC countries have begun to cut oil supply to ease the rapid price decline of oil. If this trend continues, gasoline prices may increase again as well as other petroleum based supplies that the City uses for street repair, for example. A rise in oil prices may negatively affect local economy and potentially the City's TOT and VLF revenues. In addition, the increase in oil prices will increase the City's energy costs and the cost to maintain the City's fleet.

CONCLUSION

This Five-Year Financial Outlook is a comprehensive, long-range analysis of the City's General Fund revenues and expenditures and it serves as a basis for the preparation of the City's annual budget.

This long-term forecast identifies structural challenges facing the City. Given the magnitude of the obligations needed to be addressed to close the projected deficit, service levels will be affected in fiscal year 2010. While the Outlook presents the scope of the problem and some possible expenditure reductions in order to achieve a balanced budget, the specific course of action for the Fiscal Year 2010 Proposed Budget will require a dialogue with elected officials, staff, labor representatives, as well as the public. As more solutions are identified to address the City's fiscal challenges, they will be incorporated into subsequent versions of the Financial Outlook to forecast their long-term impact. The Financial Outlook continues to be a critical planning tool and will be updated on an annual basis.

ATTACHMENT I

City of San Diego - General Fund Revenues & Expenditures

$ in Millions

		<--- Forecast Period --->			
Revenues	***2010***	***2011***	***2012***	***2013***	***2014***
Property Taxes (Incl. Transfer)	$ 407.2	$ 411.3	$ 415.5	$ 423.9	$ 432.4
Sales Tax (Incl. Safety)	223.2	229.9	239.9	250.6	260.7
Transient Occupancy Tax	85.5	89.8	95.1	100.8	106.9
Franchise Fees	71.9	75.8	79.9	84.2	88.8
Motor Vehicle License Fees	6.0	6.1	6.2	6.3	6.5
Licenses and Permits	30.4	30.9	31.4	32.0	32.6
Fines, Forfeitures & Penalties	35.3	36.0	36.8	37.6	38.4
Rents and Concessions	47.6	48.1	48.5	48.9	49.3
Revenue from Other Agencies	5.7	5.7	5.7	5.7	5.7
Charges for Current Services	136.8	139.5	142.3	145.2	148.1
Transfers from Other Funds	84.6	85.8	87.9	90.2	92.6
Interest Earnings	4.5	7.1	10.7	11.8	12.2
Other Revenue	0.8	0.8	0.8	0.8	0.8
Subtotal - GF Revenues	1,139.6	1,166.8	1,200.8	1,238.1	1,275.0
Revenue Options:					
Revenue Adjustments	-	-	-	-	-
TOTAL - GF Revenues	**$ 1,139.6**	**$ 1,166.8**	**$ 1,200.8**	**$ 1,238.1**	**$ 1,275.0**
Expenditures					
Salaries & Wages	$ 571.8	$ 571.9	$ 571.8	$ 571.8	$ 571.8
Salary Vacancy Savings Factor	(29.5)	(28.4)	(27.7)	(27.0)	(27.3)
Retirement	130.3	156.2	162.5	169.0	175.7
Retirement Offset	28.9	28.9	28.9	28.9	28.9
OPEB/Retiree Health	40.1	45.3	50.8	56.7	63.2
Fringe (w/o Ret or Flex)	55.3	57.0	58.7	60.5	62.3
Flexible Benefits	40.4	40.4	40.4	40.4	40.4
Fringe Vacancy Factor	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Supplies & Services	298.4	302.6	308.9	315.0	321.5
Information Technology	41.0	41.9	42.6	42.9	43.3
Energy / Utilities	29.0	30.5	32.0	33.6	35.3
Equipment Outlay	10.2	10.5	10.8	11.1	11.4
Subtotal - GF Expenditures	1,213.1	1,254.0	1,276.9	1,299.9	1,323.7
Funding of Major Projects					
GF Remedial Recommendation	0.8	0.0	0.1	0.0	0.0
Deferred Maintenance	-	-	3.6	3.6	7.2
Drop (Terminal Leave) Liability	5.0	5.3	6.1	7.6	7.6
Unappropriated and Appropriated Reserve	5.2	7.7	8.6	3.0	2.9
Building of Worker's Compensation Fund	-	4.1	4.1	4.1	4.1
Building of Public Liability Fund (1)	(5.0)	5.0	5.0	5.0	5.0
TOT Discretionary Above 1 Cent (2)	(1.0)	(6.6)	(10.8)	(16.8)	(20.4)
FY09 Corrective Actions Yearly Impact to Future Years	(34.5)	(34.5)	(34.5)	(34.5)	(34.5)
TOTAL - GF Expenditures	**$ 1,183.5**	**$ 1,235.1**	**$ 1,258.9**	**$ 1,271.9**	**$ 1,295.6**
General Fund Net Surplus/(Deficit)	**$ (44.0)**	**$ (68.3)**	**$ (58.1)**	**$ (33.8)**	**$ (20.6)**

(1) In FY 2010, Public Liability Fund assumes a carryover of $5 million from FY 2009 budget.

(2) Potential source of funding for General Fund tourism promotion activities.