The City of

SAN DIEGO

FISCAL YEAR 2020-2024

FIVE-YEAR FINANCIAL OUTLOOK

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NOVEMBER 2018

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EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2020-2024 Five-Year Financial Outlook (Outlook) is a long-range fiscal planning guide and serves as the framework for the development of the Fiscal Year (FY) 2020 Adopted Budget for the General Fund. The purpose of the report is to encourage discussion to address and prioritize the City's long-range needs as forecasted.

The Outlook focuses on baseline revenues and expenditures, including quantifying new costs that are critical to accomplishing the City's strategic goals over the next five-year period. These goals include:

- Provide high quality public service
- Work in partnership with all communities to achieve safe and livable neighborhoods
- Create and sustain a resilient and economically prosperous City with opportunity in every community

The Outlook is not a budget. The Outlook is a planning tool to assist in budget decisions related to the allocation of General Fund resources required to meet the City's strategic goals that are critical to core services. The Outlook does this by estimating baseline revenues and expenditures and then integrating critical strategic expenditures that are well thought out, non-routine funding requests, that reflect the shared priorities of the City Council and the Mayor. The Outlook provides the City Council, key stakeholders, and the public with information in advance of the budget meetings to facilitate an informed discussion before departments submit discretionary requests for the FY 2020 Budget. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will address these shortfalls through mitigating actions as described in the Potential Mitigation Actions section of the report. As required by the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2019.

Summary of Key Financial Data

Overall, the Outlook forecasts revenue growth to soften, increasing moderately over the upcoming five years. Major General Fund revenues are anticipated to increase in each year of the Outlook; however, the rate of growth decreases in the outer years of the Outlook. The Outlook also projects increases in nearly all expenditure categories.

Based upon baseline projections, growth in ongoing revenues is anticipated to outpace growth in ongoing expenditures during the outlook period; however, a short-term structural shortfall is forecasted once the following key factors are accounted for:

- Moderate growth in revenue
- Projected growth in expenditures
- Critical Strategic Expenditures
- Reserve Contributions

The Outlook does **not** forecast the impacts from any ballot initiatives, referendums, recalls, legal challenges, or any changes to current labor agreements.

As depicted in Table 1.1, and detailed in Attachment 1, projected baseline expenditures exceed revenues in FY 2020 and FY 2021. Beginning in FY 2022, revenue growth is projected to exceed anticipated expenditure growth. Throughout the report, tables may not foot due to rounding differences.

Table 1.1 - Fiscal Year 2020-2024 Financial Outlook
Summary of Key Financial Data ($ in Millions)

	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Property Tax	$597.9	$629.6	$660.8	$691.2	$721.2
Sales Tax	$290.0	$297.8	$305.9	$313.8	$321.7
Transient Occupancy Tax	$134.8	$140.4	$145.7	$150.9	$156.1
Franchise Fees	$80.8	$82.5	$84.4	$86.7	$88.2
All Other Revenue Categories	$398.2	$405.5	$416.9	$426.7	$437.6
BASELINE GENERAL FUND REVENUES	**$1,501.8**	**$1,555.9**	**$1,613.7**	**$1,669.3**	**$1,724.8**
Salaries & Wages	$592.4	$593.8	$594.4	$593.4	$593.7
Recognized Employee Organization Agreements	$32.7	$38.9	$38.9	$38.9	$38.9
Retirement Actuarially Determined Contributions (ADC)	$257.1	$262.3	$261.9	$261.5	$261.8
All other Personnel Expenditures	$203.6	$211.0	$212.6	$214.2	$215.9
Non-Personnel Expenditures	$422.7	$435.3	$446.6	$459.0	$470.3
Charter Section 77.1 - Infrastructure Fund Contribution	$18.2	$19.6	$19.2	$0.0	$0.0
Reserve Contributions	$14.0	$16.0	$17.1	$18.4	$13.4
BASELINE GENERAL FUND EXPENDITURES	**$1,540.6**	**$1,576.8**	**$1,590.6**	**$1,585.3**	**$1,593.9**
BASELINE (SHORTFALL)/SURPLUS	**($38.8)**	**($20.9)**	**$23.0**	**$84.1**	**$130.9**
CRITICAL STRATEGIC EXPENDITURES NET OF REVENUES	**$34.8**	**$45.0**	**$58.4**	**$75.2**	**$84.5**
(AMOUNT TO BE MITIGATED) / AVAILABLE RESOURCES	**($73.6)**	**($65.9)**	**($35.3)**	**$8.9**	**$46.4**

Report Outline

The Outlook includes a discussion on baseline projections for revenues and expenditures, summarizes critical strategic expenditures, and identifies potential options that could be used to mitigate projected revenue shortfalls.

The baseline projections section of the Outlook consists of the City's projections for the next five years for the General Fund's ongoing revenues and expenditures, as displayed in Table 1.1 – Fiscal Year 2020-2024 Financial Outlook. The Baseline Projections section includes revenue and expenditure adjustments necessary to support current service levels provided by the City. Critical Strategic Expenditures identified in prior Outlooks and other budget requests incorporated in the FY 2019 Adopted Budget are the starting point for the Outlook. This includes funding for major programs such as Clean SD, funding for homeless programs, salaries and benefit increases required by the agreements with the City's Recognized Employee Organizations (REOs), annual pension contributions, and new positions for Public Safety, the City Attorney's Office and the Transportation and Storm Water Department. One-time revenues and expenditures are removed from the Adopted Budget, unless otherwise noted, to create the baseline. One-time revenues and expenditures that have been removed from the baseline projections are detailed in Attachment 2: One-Time Resources and Expenditures.

Following the baseline projection discussion, the Critical Strategic Expenditures section quantifies department submissions that have been preliminarily identified as necessary in meeting core service levels and the City's Strategic Plan. Requests that are not strategic in nature, fully developed, or previously approved by the Mayor or City Council were not considered for this report. Examples include inflationary increases or minor operational needs such as increases to supplies, which are accounted for in baseline expenditure projections. These types of budgetary requests are expected to be submitted and vetted through the annual budget process. Department submissions considered in the development of the Outlook are provided to the Office of the Independent Budget Analyst for evaluation in their report.

Potential mitigation actions are discussed to address the anticipated revenue shortfalls identified in the report. Although no specific solution is identified, general concepts are presented that could mitigate the anticipated revenue shortfalls.

Finally, there are risks and other unforeseen issues that would cause the revenues and expenditures projected to materially deviate from the projections used in the preparation of this report. The Other Assumptions and Considerations section of the report details the most significant items that could impact the projections reflected in the Outlook at the time of the preparation of this report.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2019.

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BASELINE PROJECTIONS

The Baseline Projections section describes forecasted changes based on known and anticipated events at the time of the preparation of this report. This section provides forecasted growth rates for revenues, including an overview of the revenue category, key economic trends, and a discussion of varying scenarios that could impact the forecast for the major revenue categories. General Fund expenditures are reviewed thereafter, including major changes and growth assumptions within each category.

Unless otherwise noted, baseline projections assume growth based on the FY 2019 Adopted Budget with one-time resources and expenditures removed. The Outlook discusses only the General Fund.

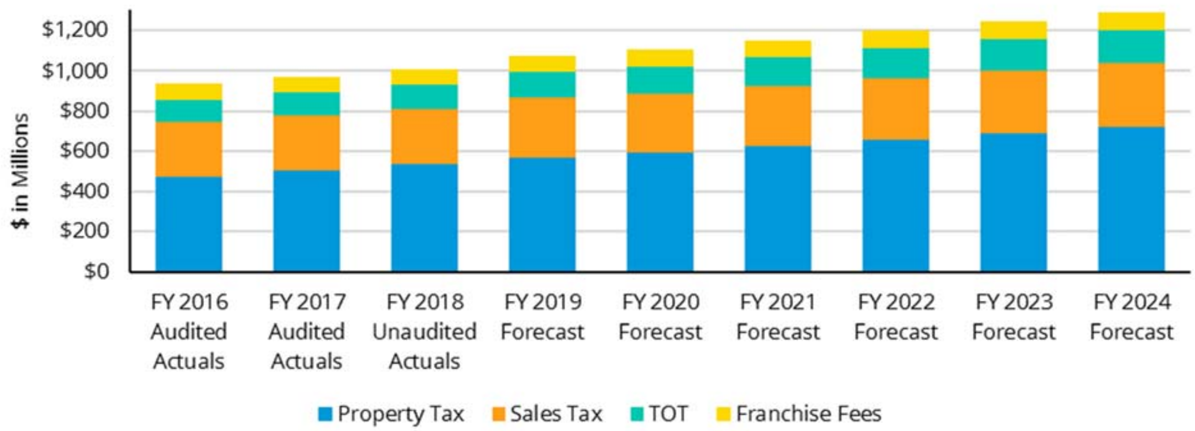
Baseline General Fund Revenues

The U.S. economy never boomed or robustly bounced back from the Great Recession; rather the economy has improved slowly and steadily since 2009. This recovery period has exceeded the average duration and is the second longest in history. An economic recession, based on historical averages (approximately every five years), could occur during this outlook period. However, such a prediction of when or to what extent is not within the scope of the Outlook, but it is an important risk factor among others discussed in the Other Assumptions And Considerations section of this Report.

It should be noted that in addition to growth rate percentages applied in each of the revenue categories, other adjustments have been included based on known and anticipated events that are detailed within each category. To assist in evaluating the potential variability to revenue projections, a “High” and “Low” projection has been included for property tax, sales tax, and transient occupancy tax (TOT). It is important to note that the “High” and “Low” projections provide a range of possibilities within the current economic parameters, and do not account for a recession scenario.

The City’s four major revenues sources, property tax, sales tax, TOT, and franchise fees, represent 73.0 percent of the City’s General Fund FY 2019 Adopted Budget. As depicted in Figure 2.1, all four major revenue sources are projected to increase through the Outlook period; however, the annual rate of growth is expected to decrease in the outer years. This overall expectation and projection for the City’s revenues is based on actual trends and is consistent with information received from the City’s sales tax consultant (Avenu Insights & Analytics), the San Diego Tourism Authority, Beacon Economics, the UCLA Anderson Forecast, and the State of California’s Legislative Analyst’s Office Economic Outlook. In addition to the major revenue projections, the baseline projections for the General Fund’s other departmental revenue sources are based on various economic assumptions, known and anticipated events, and historical trend analysis. Figure 2.1 below details the forecasted Outlook revenues as well as recent actual revenues.

Figure 2.1 - Major General Fund Revenues



Property Tax

Property tax is the City's largest revenue source representing 39.0 percent of the General Fund FY 2019 Adopted Budget. The primary component of the property tax category is the 1.0 percent levy on the assessed value of all real property within the City limits. The property tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is a result of MVLF being reduced from 2.0 percent to 0.65 percent in 2005. Additionally, the category includes pass-through and residual property tax payments due to the dissolution of Redevelopment Agencies (RDA) statewide.

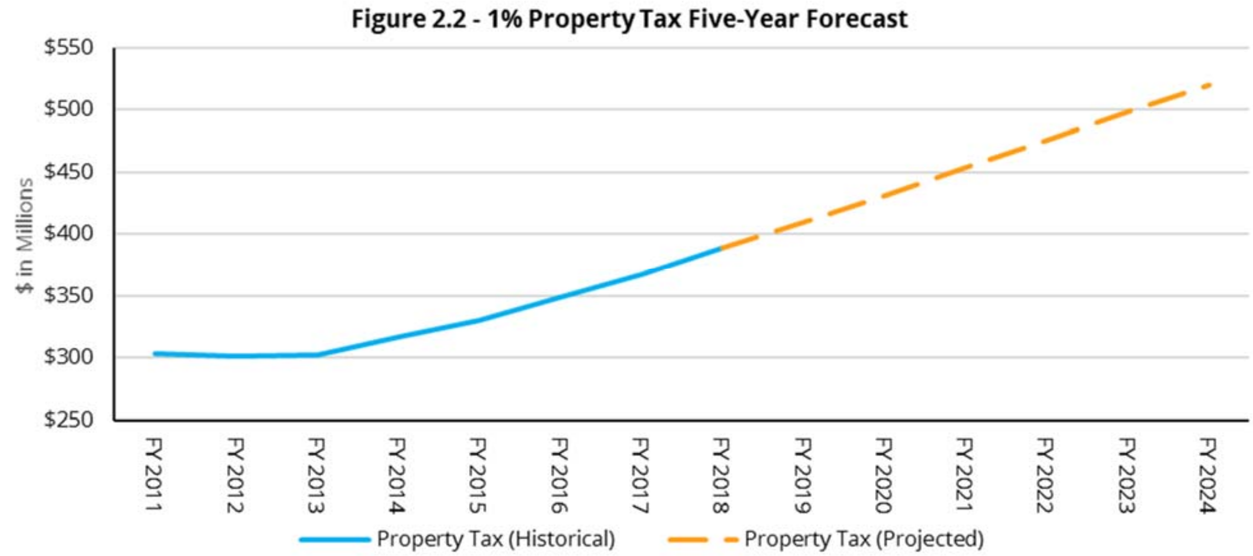
Forecast

The following table shows the budget and year-end projection for FY 2019 and the forecast for FY 2020 through FY 2024 for revenue from property tax. The FY 2019 projection for the property tax category of $568.7 million is an $8.7 million increase over the FY 2019 Adopted Budget and serves as the base for the Outlook projections. Consistent with the FY 2019 First Quarter Budget Monitoring Report, the FY 2019 Adopted Budget growth rate of 5.5 percent remains unchanged.

Table 2.1 - Property Tax Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2019 Projection	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate	5.50%	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%
Projection	$ 560.0	$ 568.7	$ 597.9	$ 629.6	$ 660.8	$ 691.2	$ 721.2

The forecast for property tax was determined using an analysis of the relationship of property tax to assessed values over the past 20 years and assessed valuation growth over the same period. These results were then adjusted based on the assumptions and economic factors discussed below. Figure 2.2 represents the historical and projected 1.0 percent property tax amounts.



Economic Trends

The major economic drivers of property tax revenue are the California Consumer Price Index (CCPI), home sales, home price, and foreclosures. The CCPI limits assessed valuation growth under Proposition 13 which specifies that a property's value may increase at the rate of the CCPI but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value.

In compliance with Revenue and Taxation Code section 51, the San Diego County Assessor's Office uses the October CCPI to assess property values under Proposition 13. However, at the time of preparing this report, the October CCPI had not yet been released. The latest CCPI released by the California Department of Finance (DOF) was 273.844 as of August 2018, a 3.9 percent increase from the August 2017 CCPI of 263.473. Assuming the CCPI holds constant, the assessed valuation of properties not improved or sold will increase by 2.0 percent for FY 2020, the maximum allowable increase.

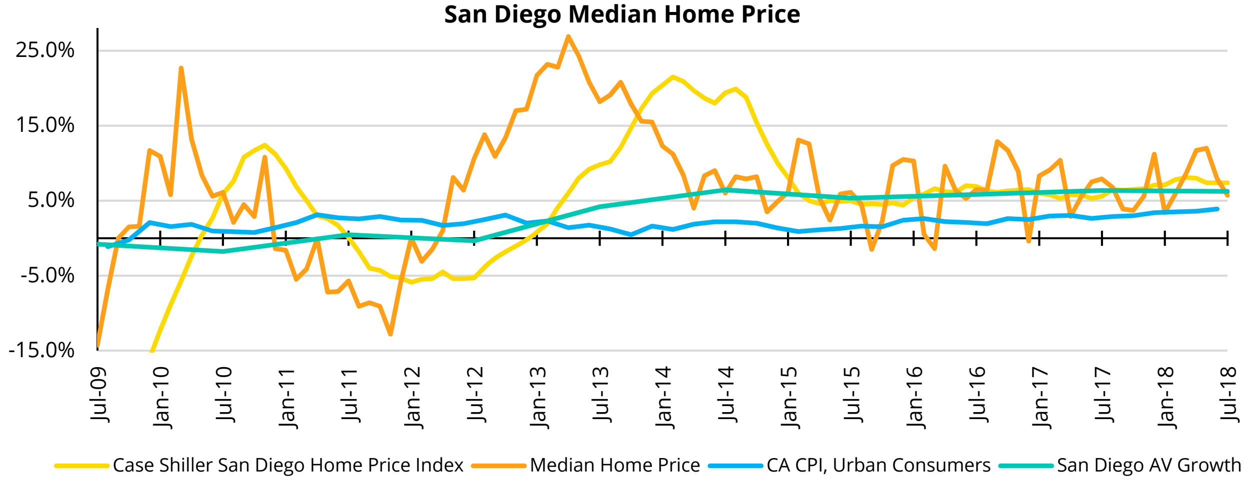
The City has experienced positive growth in home prices, with an increase of 9.3 percent in the median home price from September 2017 to September 2018. Despite the rise in home prices, the growth in the number of home sales has slowed. Year-to-date home sales, as of September 2018, have decreased by 7.6 percent compared to September 2017.

Based on property sales as of September 2018 and an approximate 2.0 percent increase in the CCPI, the City's estimated assessed valuation will see a positive increase for FY 2020.

- In addition to positive home price growth in the City, there are year-to-date declines in notices of default and foreclosures of 11.2 and 25.2 percent, respectively, in the County of San Diego as of September 2018.
- The Case-Shiller home price index as of August 2018 is 257.2, a 4.8 percent increase over the August 2017 index of 245.5.

The Case-Shiller graph depicted in Figure 2.3 displays the correlation of several economic factors described above since 2009 and the resulting impact on the City's assessed valuation. The graph shows that while the Case-Shiller Home Price Index and the median home price have fluctuated significantly over the years, the CCPI has remained relatively stable. As CCPI is the main driver of the change in the City's assessed valuation, the stability in this indicator has allowed the annual change in assessed valuation to remain steadier than the Case-Shiller Home Price Index and the local median home price. Finally, the graph displays the lag of approximately 12-18 months between activity in the local real estate market and the resulting impact on the City's assessed valuation.

Figure 2.3 - Case-Shiller Home Price Index, California CPI, San Diego Median Home Price



Other factors to consider in developing a revenue projection for property tax include mortgage rates, changes to federal tax policy, and property tax refunds. Over the past year, federal interest rates have increased. These increases along with the continued strength in the economy support the case for a rise in mortgage rates which combined with federal tax policy limiting mortgage interest deductions would likely contribute to a restrained housing market. While property tax revenue growth is expected to remain positive throughout the Outlook period, property tax growth is anticipated to slowly return to lower levels of growth in outer years.

Due to the dissolution of the RDA, pass–through and residual property tax payments to the City from the Redevelopment Property Tax Trust Fund (RPTTF) are included in the property tax forecast. Pass-through payments are agreements between former redevelopment areas and the local entities to provide payments from the RPTTF deposits to local entities. The residual property tax payment is the City's proportionate share of funds remaining in the RPTTF after the Recognized Obligation Payment Schedule (ROPS) requirements have been met. As ROPS obligations are paid off, residual RPTTF revenues will grow.

The following table and graph provides details on the components of the FY 2019 Adopted Budget for property tax and the forecasted property tax revenue for FY 2020 through FY 2024.

Table 2.2 - Property Tax Components ($ in Millions)							
	FY 2019 Adopted	FY 2019 Projection	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate	5.50%	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%
1% Property Tax	$ 393.5	$ 394.4	$ 415.3	$ 436.3	$ 457.2	$ 477.9	$ 498.3
MVLF Backfill	$ 144.5	$ 145.8	$ 153.7	$ 161.4	$ 169.0	$ 176.6	$ 184.1
RPTTF Pass-Through Tax Sharing Payment	$ 7.2	$ 7.5	$ 7.8	$ 8.2	$ 8.6	$ 9.0	$ 9.4
RPTTF Residual Property Tax Payment	$ 14.8	$ 20.9	$ 21.0	$ 23.7	$ 25.9	$ 27.7	$ 29.4
Total Property Tax Projection	$ 560.0	$ 568.7	$ 597.9	$ 629.6	$ 660.8	$ 691.2	$ 721.2

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2020 - 2024

Projections including Redevelopment Property Tax Trust Fund (RPTTF)

Scenario Analysis

The factors described were used in the development of the projection; however, should one or several of these factors not perform as projected, property tax revenues will vary from the current projection. To account for variances in these factors, "High" and "Low" projections were also prepared utilizing analysis of historical property tax receipts. Figure 2.5 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.3 details the assumed growth rates for each scenario for FY 2019 through FY 2024.

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Figure 2.5 - Property Tax Revenue Five-Year Forecast: Fiscal Years 2020 - 2024

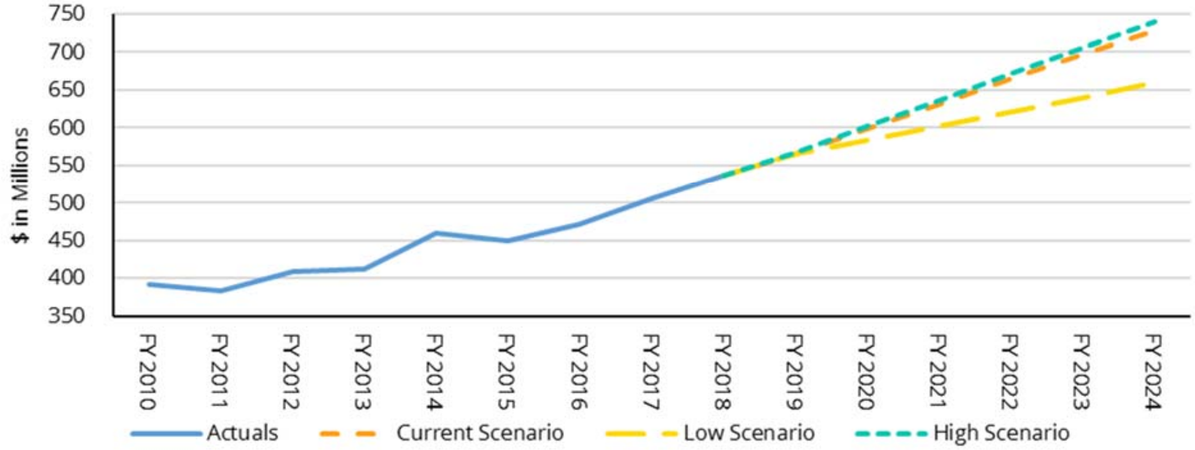

Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios						
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Current Growth Rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%
High Growth Rate	6.00%	5.75%	5.50%	5.25%	5.00%	4.75%
Low Growth Rate	5.50%	3.00%	3.00%	3.00%	3.00%	3.00%

The “Low” scenario assumes that mortgage interest rates will increase rapidly over the next five years. Increased mortgage rates raise the cost of home ownership, thereby slowing the number of home sales and median home price growth. Further, contributing to the “Low” scenario is existing higher prices changing home ownership behavior reducing turnover, and therefore reduced growth in assessed valuation. Higher interest rates and lower turnover will result in lower annual assessed valuation growth rates for FY 2020 through FY 2024 of 3.0 percent across all years. A “Low” scenario would reduce property tax projections by $14.1 million in FY 2020 and $61.1 million by FY 2024.

A “High” scenario is projected to exist should homes sales and valuations continue at the current levels for the next two years, with slightly restrained growth for FY 2022 through FY 2024. In this scenario, interest rates would rise slowly over the next several years, continuing high demand for housing and tightening inventory, further fueled by continued growth in higher income labor markets. The projections in this scenario reflect higher levels of growth similar to those seen in recent years, while slowing in later years. A “High” scenario would increase property tax projections by $4.0 million in FY 2020 and $18.3 million by FY 2024.

Another factor that may influence the property tax forecast relates to the California Department of Finance’s (DOF) review and denial or approval of enforceable obligations on the ROPS. If enforceable obligations are denied, the ROPS payment will decrease and lead to an increase in the RPTTF residual balance available for distribution to local entities. A decrease in enforceable obligations due to a denial will increase the City’s RPTTF residual payment throughout all fiscal years of the Outlook. A significant variable in the ROPS enforceable obligations is the dollar amount and terms of the repayment of various outstanding loan agreements.

Lastly, there are two outstanding legal challenges that may influence the property tax forecast for the City. First, a dispute between the County of San Diego and various local entities regarding how the RPTTF residual payments are calculated and distributed every six months. The trial court's decision in favor of the City and other local entities is currently on appeal, and an appellate decision is expected in late 2018 or early 2019. If the trial court's decision is upheld, the City would be compensated for any past underpayment of RPTTF residual amounts and would receive an increase in RPTTF residual payments going forward throughout the Outlook period. Currently, the estimated aggregate value of underpayments is at least $40.0 million.

The second dispute involves the San Diego County Office of Education and other school districts against numerous city successor agencies including the City of San Diego Successor Agency regarding the distribution of funds from the RPTTF to taxing entities. Should the school districts receive a favorable decision, the City's liability is estimated to be between $2.0 and $13.0 million.

Sales Tax

The City's second largest revenue source is sales tax and represents 19.6 percent of the General Fund FY 2019 Adopted Budget. Sales tax is collected at the point of sale and remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly payments. The total citywide sales tax rate in San Diego is 7.75 percent, of which the City receives 1.0 percent of all point of sale transactions within the City.

Forecast

The following table displays the budget and year-end projection for FY 2019 as well as the forecast for FY 2020 through FY 2024 for revenue from sales tax. As discussed in the FY 2019 First Quarter Budget Monitoring Report, the FY 2019 projection for sales tax of $297.7 million includes a $15.7 million increase over the FY 2019 Adopted Budget of $282.1 million. This projection includes $14.7 million in one-time revenues for FY 2018 taxable sales whose distribution was delayed until FY 2019 and are excluded from the FY 2019 Baseline. Further, as discussed in the FY 2019 First Quarter Budget Monitoring Report, the growth rate has been reduced from 3.0 percent to 2.3 percent.

Table 2.4 - Sales Tax Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2019 Projection	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate	3.0%	2.3%	2.4%	2.7%	2.7%	2.6%	2.5%
Projection	$ 282.1	$ 297.7	$ 290.0	$ 297.8	$ 305.9	$ 313.8	$ 321.7

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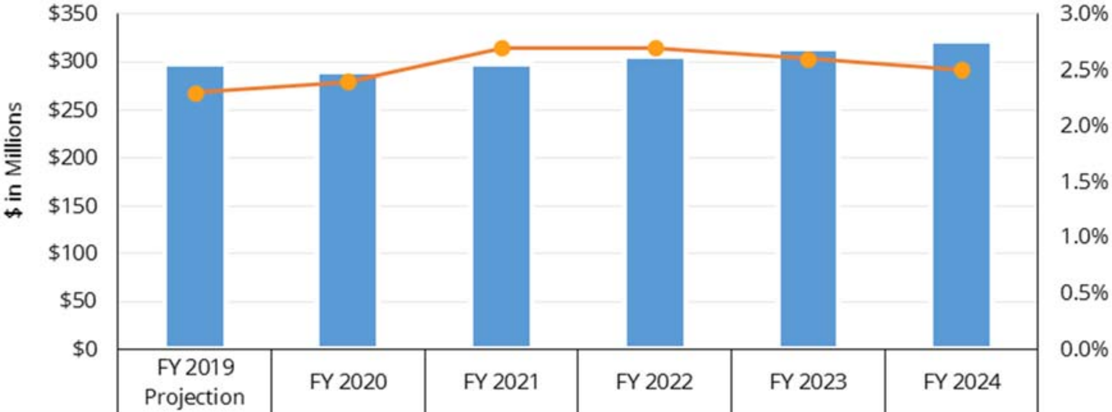
Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2020 - 2024

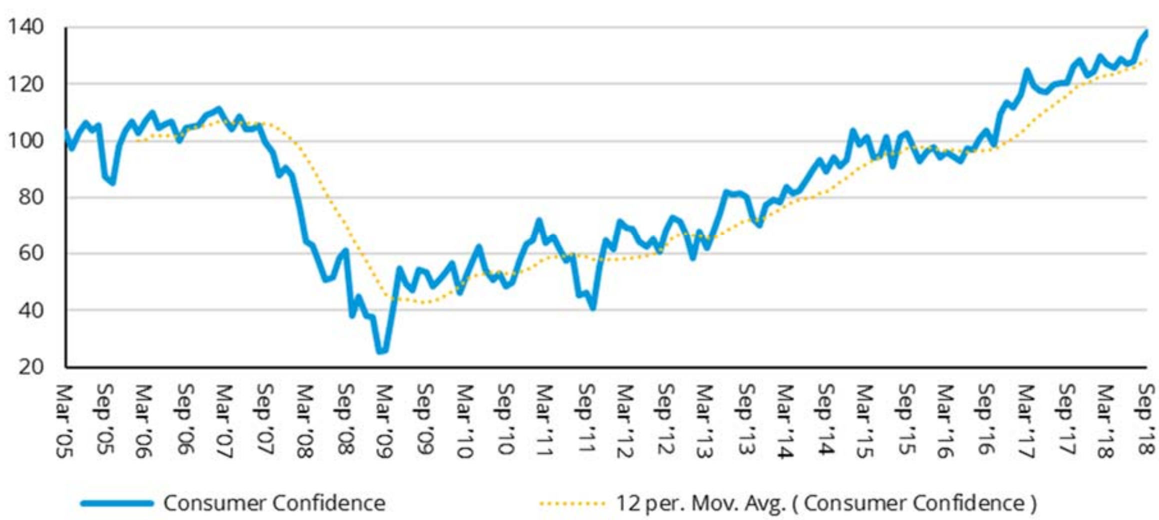


	FY 2019 Projection	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 297.7	$ 290.0	$ 297.8	$ 305.9	$ 313.8	$ 321.7
Growth Rate	2.3%	2.4%	2.7%	2.7%	2.6%	2.5%

Economic Trends

The major local economic drivers of the City's sales tax include the unemployment rate, consumer confidence, and consumer spending. As of August 2018, the City unemployment rate was 3.3 percent, compared to a rate of 4.2 percent in August 2017, as reported by the California Employment Development Department. Consumer confidence, a measurement of the consumer's willingness to spend, has experienced significant growth since 2009 reaching an all-time high in September 2018 at 138.4. Consumer spending, a major driver of sales tax is dependent on the level of employment and consumer confidence.

Figure 2.7 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

While consumer confidence has steadily increased in the last seven years, it is unclear how long this sustained trend will continue. Furthermore, as consumers continue to shift from in-store to online sales, the City receives a smaller portion of those sales tax revenues. Sales tax revenues from online sales Countywide are distributed to the City through the county pool of funds at a current rate of 0.48 percent compared to 1.0 percent for point of sales transactions within the City.

The forecast for sales tax reflects the stability in employment and consistent growth in consumer confidence, and therefore, continues with moderate strength in the near term while tapering off in the outer years due to the uncertainty of sustained growth and stability. Retail sales in brick and mortar stores are expected to remain relatively flat during the Outlook period. This is expected to be offset partially by growth in the county pool, reflecting the shift from brick and mortar to online sales. The food products category (including restaurants), and the transportation category (including fuel and automobile sales) are also expected to lead the growth in the sales tax during the Outlook period.

This forecast is consistent with recent reports from the City's sales tax consultant, Avenu Insights & Analytics. Beacon Economics and UCLA Anderson have also reported that California is operating at full employment with stable economic fundamentals for the next year, while housing and labor shortages will continue to constrain growth in California.

A recent Supreme Court ruling in South Dakota vs. Wayfair, Inc. opines that states may require online retailers to collect and remit sales tax, overruling a long-standing physical presence requirement. Although this decision will increase local sales tax revenues, the estimated impact and date of implementation by the California Department of Tax and Fee Administration is unknown and therefore not projected in the Outlook.

Scenario Analysis

The factors described above combine to make up the sales tax projection; however, should one or several of these factors not perform as projected, sales tax revenues will vary from the current projection. To account for variances in these factors, "High" and "Low" projections were prepared for the Outlook period. Figure 2.8 and Table 2.5 depict historical data as well as the current, "High", and "Low" forecast scenarios for sales tax projections for FY 2020 through 2024.

Figure 2.8 - Sales Tax Projections: Fiscal Years 2020 - 2024

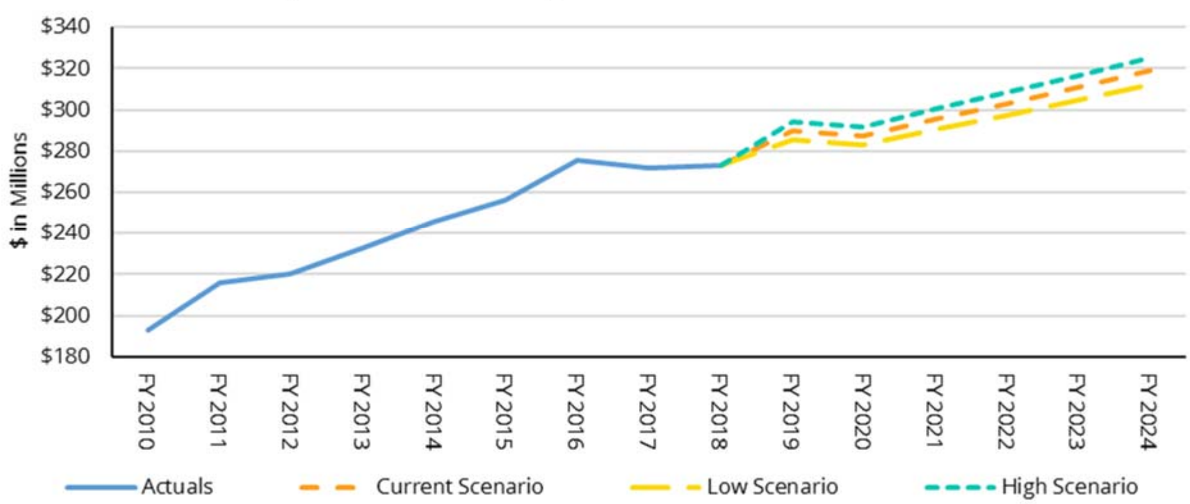


Table 2.5 - Sales Tax Five-Year Forecast: Growth Rate Scenarios						
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Current Growth Rates	2.3%	2.4%	2.7%	2.7%	2.6%	2.5%
High Growth Rates	3.8%	2.5%	2.8%	2.8%	2.7%	2.6%
Low Growth Rates	0.7%	2.3%	2.6%	2.5%	2.5%	2.4%

The “Low” scenario reflects higher unemployment and lower consumer confidence in the local and State economies. This scenario also reflects an increased transition to online sales reducing point of sales transactions for brick and mortar stores within the City limits. The “Low” scenario also assumes a rise in the lending rates, which would increase the cost to purchase vehicles. Correspondingly this scenario anticipates a reduction in City receipts from the auto sales industry. A “Low” scenario would reduce sales tax projections by $7.3 million in FY 2020 and $9.4 million by FY 2024.

The “High” scenario includes sustained growth in consumer confidence, continuing low unemployment, which continues to be constrained by available labor due to housing availability and full employment already having been achieved. A “High” scenario would increase sales tax projections by $1.9 million in FY 2020 and $3.3 million by FY 2024.

Transient Occupancy Tax (TOT)

TOT represents 8.9 percent of the City’s General Fund FY 2019 Adopted Budget. TOT is levied at 10.5 cents per dollar of taxable rent for a transient’s stay of less than one month. TOT is levied on properties such as hotels, Short Term Residential Occupancy (STRO) locations, and Recreational Vehicle (RV) parks. The use of TOT is guided by the City’s Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT from RV parks are levied at 10.5 cents which is directed entirely towards general governmental purposes.

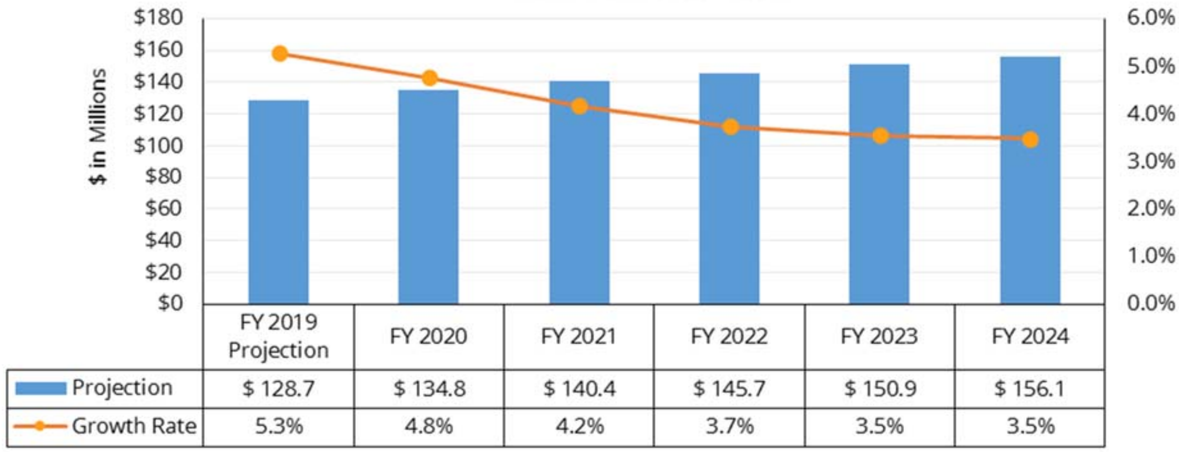
Forecast

The following table displays the budget and year-end projection for FY 2019 and the forecast for FY 2020 through FY 2024 for revenue from TOT. The FY 2019 projection for total citywide TOT receipts is $244.1 million. The General Fund’s 5.5 cent portion of total TOT projected receipts is $128.7 million and serves as the base for the Outlook projections. Consistent with the FY 2019 First Quarter Budget Monitoring Report, the FY 2019 Adopted Budget growth rate of 5.3 percent remains unchanged.

Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast ($ in Millions)							
	FY 2019 Adopted	FY 2019 Projection	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate	5.3%	5.3%	4.8%	4.2%	3.7%	3.5%	3.5%
Projection	$ 128.4	$ 128.7	$ 134.8	$ 140.4	$ 145.7	$ 150.9	$ 156.1

The five-year forecast for TOT was calculated using historical actuals and relevant economic indicators. Figure 2.9 below represents the growth rates generated by the analysis which were then applied to actual TOT receipts from FY 2018.

Figure 2.9 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2020 - 2024



As depicted in the Figure 2.9, TOT revenue is projected to have continued but tempered growth for the five-year period. The growth rates for TOT are projected to reduce from 5.3 percent in FY 2019 to 3.5 percent in FY 2024.

Economic Trends

The primary economic drivers for TOT revenues are room rates, occupancy, and overnight visitor growth. According to the San Diego County Travel Forecast, prepared for the San Diego Tourism Authority by Tourism Economics, overnight visits, room supply, and room demand are projected to reflect steady but restrained growth in calendar year 2018 before experiencing a long-term easing of growth. This is depicted in the table below.

Table 2.7 - San Diego Tourism Summary Outlook (Annual % Growth)

	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
Visits	2.1%	2.1%	2.1%	2.0%	1.8%
Overnight Visits	2.1%	2.0%	2.1%	2.0%	2.2%
Room Supply	2.4%	2.3%	2.2%	2.1%	1.9%
Room Demand	1.9%	1.9%	1.9%	2.1%	2.2%
Occupancy	77.2%	76.9%	76.6%	76.6%	76.8%
Avg. Daily Room Rate	$ 171.64	$ 177.38	$ 180.84	$ 183.08	$ 185.25

Source: San Diego County Tourism Authority and Tourism Economics

The City is projected to see continued growth in TOT revenue due to projected long-term increases in the supply of rooms and room rates, but at a slower rate of growth.

Scenario Analysis

The factors described above combine to make up the TOT projection, however, any changes to major economic drivers or indicators could have a corresponding change in TOT revenues. To account for variances in these factors, "High" and "Low" projections were prepared for the Outlook period. Figure

2.10 and Table 2.8 depict historical data as well as the current, "High", and "Low" forecast scenarios for FY 2020 through 2024.

Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2020 - 2024

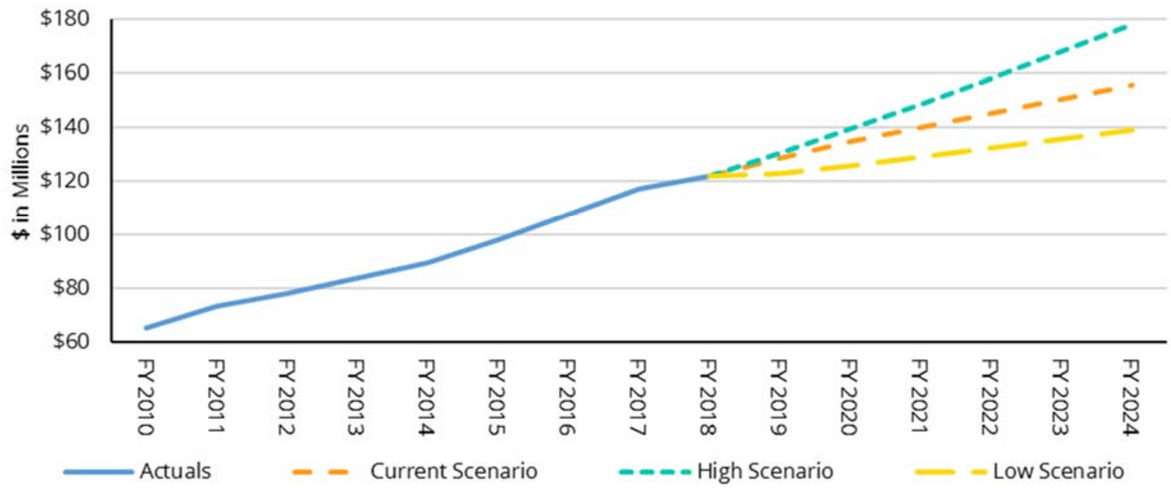


Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Rate Scenarios

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Current Growth Rates	5.3%	4.8%	4.2%	3.7%	3.5%	3.5%
High Growth Rates	7.1%	6.8%	6.6%	6.4%	6.2%	6.1%
Low Growth Rates	3.4%	3.3%	3.3%	3.2%	3.2%	3.1%

An analysis comparing historical TOT activity to hotel and visitor data (TOT Indicators) was used to develop a model to be used in conjunction with the San Diego Tourism Authority's forecast to develop the current TOT forecast as well as a "High" and "Low" scenario.

The "Low" forecast looked at long-term TOT indicators which included periods of low or negative growth and applied the averages over the long-term of each TOT indicator to the model to forecast TOT growth rates. A "Low" scenario would reduce TOT projections by $4.5 million in FY 2020 and $8.3 million by FY 2024.

The "High" forecast assumed the continuation of activity similar to past five years which had sustained strong growth in TOT revenues. The averages of each TOT indicator during this period were applied to the model to generate the "High" Growth rates. A "High" scenario would increase TOT projections by $4.6 million in FY 2020 and $22.0 million by FY 2024.

It should be noted that all three forecasts have positive growth in the five-year period and do not project any potential impact from a possible economic recession or any other unforeseen events that may negatively impact the tourism industry.

Franchise Fees

Revenue from franchise fees makes up 5.5 percent of the City's General Fund FY 2019 Adopted Budget. Theses revenues are based on agreements with private utility companies in exchange for the use of the City's right-of-ways. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum (formerly Time Warner Cable), and AT&T pay a franchise fee to the City. The City also collects franchise fees from private refuse haulers that conduct business within the City limits. The fee received from the agreements with utility companies is based on a percentage of gross revenue while the fee received from refuse haulers is based on tonnage.

Forecast

The following table displays the budget and year-end projection for FY 2019 and the forecast for FY 2020 through FY 2024 for revenue from franchise fees. The FY 2019 projection for franchise fees of $79.2 million serves as the base for the Outlook projections. For the FY 2019 First Quarter Budget Monitoring Report, there is a slight increase in the franchise fee for refuse haulers based on FY 2018 actual revenues.

Table 2.9 - Franchise Fees Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2019 Projection	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SDG&E Growth Rate	2.0%	2.0%	3.2%	3.5%	3.5%	2.6%	2.6%
Cable Growth Rate	-2.0%	-2.0%	-2.2%	-1.9%	-1.3%	-1.3%	-1.3%
Projection	$ 78.8	$ 79.2	$ 80.8	$ 82.5	$ 84.4	$ 86.7	$ 88.2

Franchise fee growth rates were projected utilizing historical year-end actuals. These growth rates were then applied to FY 2019 first quarter projection and each subsequent year to develop the five-year projections.

Economic trends

SDG&E and cable companies are the largest contributors to Franchise Fees, generating approximately 80.4 percent of Franchise Fee revenue. The growth rate for SDG&E is expected to be higher than previous outlooks with the most notable increases occurring in FY 2021 and 2022 (3.5 percent) due anticipated changes in their rate structure. Franchise fees from cable companies are expected to decrease due to the increasing loss of market share to digital competitors like Netflix, Hulu, and Amazon. Cable franchise fees are expected to decrease between 2.2 percent and 1.3 percent across the Outlook. Later years are projected at a lower decline of 1.3 percent which assumes traditional cable companies will adjust their business in response to the market shift to digital services.

Additionally, the Outlook considers the redistribution of revenue from the General Fund to the Recycling Fund per the Sycamore Canyon Landfill Franchise Agreement. In FY 2019, the franchise fee revenue received at the Sycamore Canyon Landfill is distributed 20 percent the General Fund and 80 percent to the Recycling Fund. The General Fund's allocation will be eliminated for FY 2020 and beyond and the Recycling Fund will receive 100 percent of those revenues. Lastly, adjustments to the refuse franchise fee rates of $1.00 / ton in FY 2020 and an additional $1.00 / ton in FY 2023 are incorporated into the revenue forecasts.

Scenario analysis

Given the significance of franchise fee revenue from SDG&E and cable, changes to any of the economic factors for these revenue sources could alter future projections. In the case of SDG&E, changes in rates and consumption of electricity can cause fluctuations in revenue growth. SDG&E is currently implementing a phased-in electric rate restructure to be completed in calendar year 2020. Additionally, a new franchise agreement with SDG&E is anticipated to begin in FY 2021, which may change the terms of the franchise fee from that point going forward. The General Fund impact for these events is currently unknown. For cable revenue, variances in media advertising, subscription levels, and pricing may impact franchise fee growth.

Property Transfer Tax

Property transfer tax is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold, of which the City receives half, or $0.55 per $1,000. Property Transfer Tax revenue is remitted to the City monthly and represents 0.8 percent of the City's General Fund FY 2019 Adopted Budget.

Forecast

The following table displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for property transfer tax. The FY 2019 projection for property transfer tax is as budgeted for FY 2019 Adopted Budget and serves as the base for the Outlook projections.

Table 2.10 - Property Transfer Tax Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Current Forecast	4.0%	4.0%	3.5%	3.0%	3.0%	3.0%
Projection	$ 11.0	$ 11.5	$ 11.9	$ 12.2	$ 12.6	$ 12.9

Property transfer tax growth rates were developed using historical receipts and growth rates.

Economic Trends

The major economic drivers for property transfer tax are volume of property sales and home prices. Unlike the 1.0 percent property tax revenue, Property Transfer Tax receipts reflect current economic conditions without lag time. While the median home price has continued to grow over the past several years, the growth in the number of home sales has decreased when comparing current year-to-date data with the same time period last year. Figure 2.11 below illustrates the median home prices and number of homes sold. Property Transfer Tax revenue is anticipated to continue increasing annually, but at a modest rate before leveling off.

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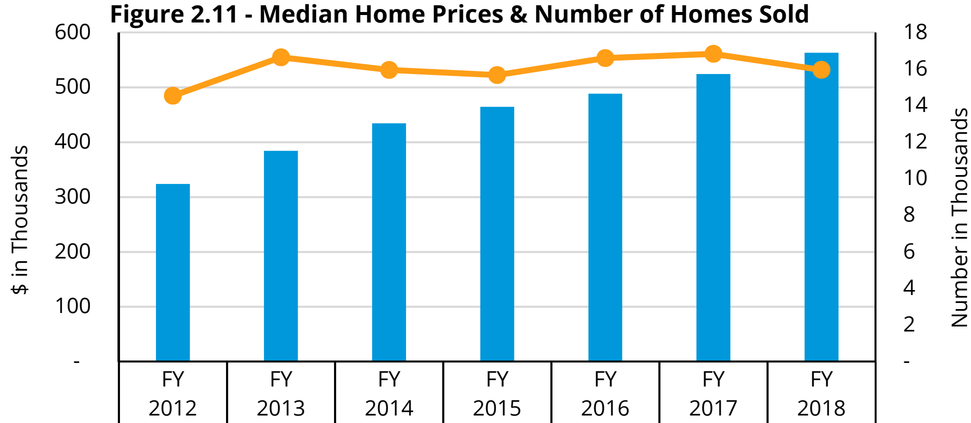
Figure 2.11 - Median Home Prices & Number of Homes Sold



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Median Home Price	323,896	384,167	434,218	464,375	488,188	524,208	562,917
Number of Homes Sold	14,539	16,639	15,950	15,669	16,597	16,829	15,952

Source: DQNews/CoreLogic

Licenses and Permits

The Licenses and Permits category includes revenue associated with regulating certain activities within the City and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Licenses and Permits represent 1.8 percent of the City's General Fund FY 2019 Adopted Budget.

The following table displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for revenue from licenses and permits.

Table 2.11 - Licenses and Permits Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		2.5%	2.5%	2.5%	2.5%	2.5%
Projection	$ 25.8	$ 31.9	$ 34.2	$ 36.6	$ 39.1	$ 41.7

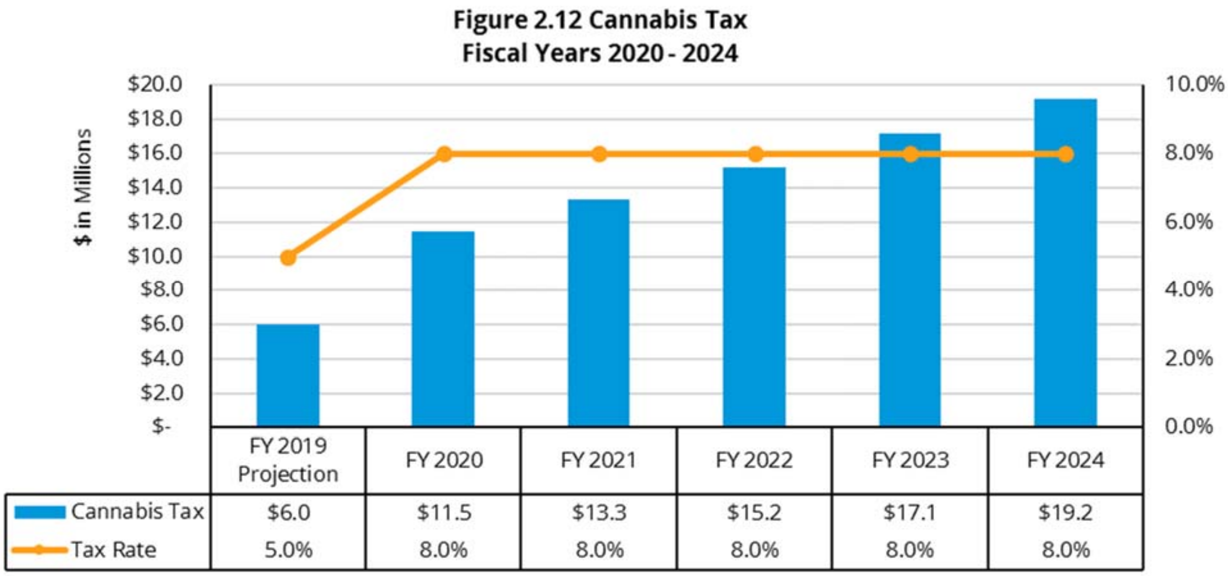
A constant growth rate of 2.5 percent is applied from FY 2020 to FY 2024. The Outlook reflects revenue adjustments based on nine years of historical data.

Cannabis Tax

Included within the Licenses and Permits category is business tax received from the sale, distribution, and cultivation of non-medical cannabis products. The City Council has authorized and regulated the sale of non-medical cannabis within the City limits. The City levies gross receipts tax of 5.0 percent on for-profit cannabis sales, production, and distribution. This tax rate will increase to 8.0 percent in FY 2020.

To develop the projection, sales data from existing cannabis outlets from January through July 2018 were used to develop an average of monthly taxable sales per outlet. This figure was then scaled to the number of dispensaries projected in each fiscal year and considers the tax rate change and a growth rate on sales based on the Consumer Price Index (CPI) forecast. There are currently no data points to build a projection for cultivation, production, and distribution of non-medical cannabis.

Additionally, this projection does not contemplate potential changes to State, Federal, and local regulations including compliance with respect to non-medical cannabis outlets and the payment of related taxes. As the industry matures, the City will continue to monitor and update projections from all cannabis businesses.



Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards. This revenue source represents approximately 2.2 percent of the City's General Fund FY 2019 Adopted Budget.

The following table displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for revenue from fines, forfeitures, and penalties.

Table 2.12 - Fines, Forfeitures and Penalties Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth rate		0.7%	0.7%	0.7%	0.7%	0.7%
Projection	$ 31.4	$ 31.6	$ 31.8	$ 32.0	$ 32.3	$ 32.5

Revenue from fines, forfeitures, and penalties is projected to increase at a constant rate of 0.7 percent for FY 2020 through FY 2024 based on historical averages.

Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from city investments and rental revenue generated from City-owned properties including Mission Bay, Pueblo Lands, and the Midway properties. This revenue source represents 4.1 percent of the City's General Fund FY 2019 Adopted Budget.

The following table displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for the Revenue from Money and Property category.

Table 2.13 - Revenue from Money and Property Five-Year Forecast ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		2.6%	2.6%	2.6%	2.6%	2.6%
Projection	$ 60.0	$ 65.8	$ 68.5	$ 69.7	$ 71.2	$ 73.1

A growth rate of 2.6 percent is applied from FY 2020 to FY 2024 based on the annual growth rate from historical revenues. Within this category, interest on pooled investments, office space rent, and Mission Bay Park Concessions are projected separately from the 2.6 percent growth rate and then aggregated with the other revenue from money and property.

Interest on pooled investments was projected on the current General Fund participation level in the treasury pool and then anticipated interest earning rates are applied to those amounts. Due to recent market conditions and increases in Federal Funds rates, significant increases are anticipated during the outlook.

Office space rent revenue is received from non-general fund departments occupying General Fund owned buildings. Revenues received in this category are based on the rental agreements and occupancy levels for those departments.

Revenue from Money and Property includes revenue from Mission Bay rents and concessions which the Real Estate Assets Department projects will increase during the Outlook period. Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund. The San Diego Regional Parks Improvement Fund is to receive 35.0 percent of revenues in excess of the threshold amount or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

Revenue from Federal and Other Agencies

The Revenue from Federal and Other Agencies category includes Federal and State grants, and reimbursements to the City from other agencies, such as court crime lab revenue, urban search and rescue grants, and service level agreements. This revenue source represents 0.4 percent of the City's General Fund FY 2019 Adopted Budget.

Table 2.14 displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for revenue from federal and other agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 5.5

No adjustments or growth is projected within the Revenue from Federal and Other Agencies category for the FY 2020 through FY 2024 Outlook period.

Charges for Services

The revenue forecasted in the Charges for Services category is comprised of cost reimbursements for services rendered by the City to non-general funds. This category includes the 4.0 cent TOT reimbursements to the General Fund, General Government Services Billings (GGSB), and other user fee revenues. This revenue source represents 11.2 percent of the City's General Fund FY 2019 Adopted Budget.

The following table displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for revenue from charges for services.

Table 2.15 - Charges for Services Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		5.5%	1.4%	0.2%	0.0%	0.2%
Projection	$ 160.3	$ 165.9	$ 166.2	$ 175.5	$ 179.6	$ 184.2

The projected growth of Charges for Services is primarily attributable to increases in Salaries and Wages as well as the projected increase of TOT reimbursements to the General Fund for the safety and maintenance of visitor related facilities.

One-time adjustments were also made for a reimbursement for National Incident Based Reporting System in the amount of $0.81 million, Regional Water Quality Control Board in the amount of $0.49 million, Enhanced Infrastructure Financing District and financing services in the amount of $0.47 million, and adult library fines in the amount of $0.10 million, reducing the base for the Charges for Services by $1.9 million.

Other Revenue

The Other Revenue category includes library donations, ambulance fuel reimbursements, corporate sponsorships, and other miscellaneous revenues. This revenue source represents 0.2 percent of the City's General Fund FY 2019 Adopted Budget.

The following table displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for revenue from other sources.

Table 2.16 - Other Revenue Five-Year Forecast ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 3.1	$ 3.1	$ 2.6	$ 2.6	$ 2.6	$ 2.6

The growth rate for Other Revenue is projected to remain flat for all five fiscal years. However, beginning in FY 2021, Other Revenue will decrease by $0.5 million in FY 2021 due to the end of a $10.0

million donation from the Friends of the Library to support the operations of the New Central Library. This donation was allocated $2.0 million annually for Fiscal Years 2014 through 2017, $1.0 in Fiscal Year 2018, and $0.5 million in FY 2019 and $0.5 million in FY 2020.

Transfers In

The Transfers In category primarily represents transfers to the General Fund from non-general funds. The major components in this category are transfers from the Public Safety Services Fund, storm drain fees, gas taxes and TransNet funds, the one-cent TOT revenue transfer from the TOT Fund, backfill of the tobacco securitized revenue, and reimbursement of the services performed by Public Works–Facilities employees for the maintenance of the stadium. This revenue source represents 6.3 percent of the City's General Fund FY 2019 Adopted Budget.

Table 2.17 displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for revenue from Transfers In.

Table 2.17 - Transfers In Five-Year Forecast
($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 90.2	$ 83.0	$ 84.8	$ 82.7	$ 83.9	$ 85.1

A generic growth rate is not applied to the Transfers In category as each transfer is unique and individually programmed. For example, growth in Transfers In from sources such as 1-cent TOT transfer and Safety Sales Tax are based on their respective growth rate, while Storm Drain Fees do not increase, and therefore, no growth rate is applied.

The projections are developed from the baseline that includes removal of $8.2 million in one-time revenues from the FY 2019 Adopted Budget. The one-time revenues were $3.4 million from the Fleet Replacement Fund and $4.8 million from the Compensated Absences Fund.

Safety sales tax reimbursements to the Police and Fire-Rescue Departments are projected to increase consistent with sales tax revenue, as this revenue is a component of the citywide sales tax rate. Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Annually, a certain amount of safety sales tax revenue is allocated to the Fire and Lifeguard Facilities Fund for the payment of debt obligations associated with Fire and Lifeguard facility improvements. The remaining revenue is distributed to the General Fund equally between the Police and Fire-Rescue Departments' budgets to support public safety needs.

The 1-cent TOT Transfer In is linked to the TOT revenue growth as discussed in the TOT revenue section of the report. The Transfer In for stadium maintenance is projected through the planned wind down of the stadium in Fiscal Year 2021.

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Baseline Expenditures

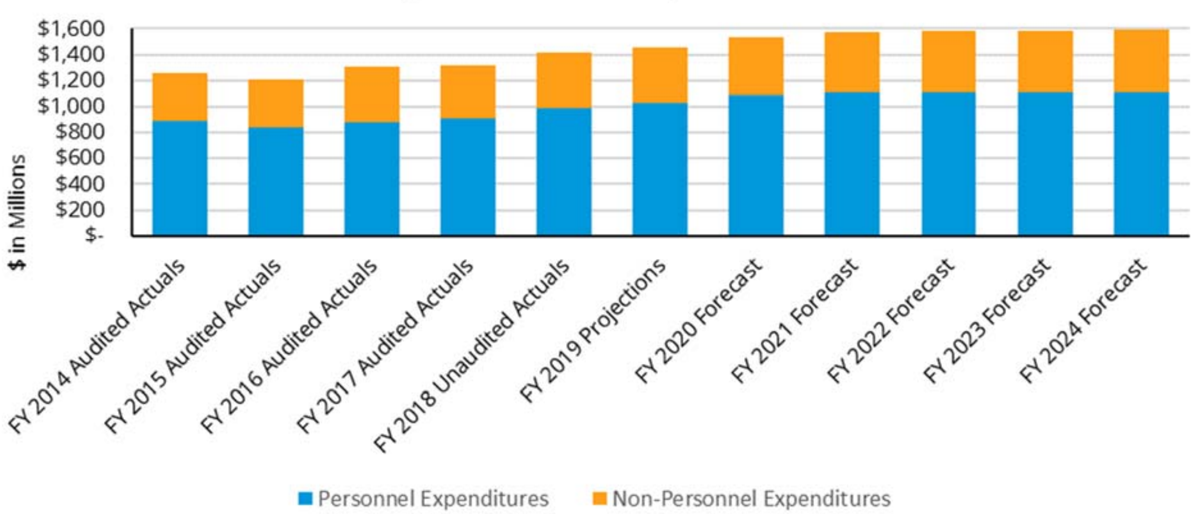
General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. Unless otherwise noted, baseline projections assume growth based upon the FY 2019 Adopted Budget with the removal of one-time resources and expenditures.

Personnel expenditures represent 70.4 percent of the City's General Fund FY 2019 Adopted Budget. This section discusses the following key components of personnel expenses: Salaries and Wages; the City's annual pension payment or Actuarially Determined Contribution (ADC); flexible benefits, retiree health or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits. Baseline personnel expenses are projected to increase during the Outlook period, primarily due to the inclusion of pensionable and non-pensionable compensation increases, including overtime, special salary adjustments, annual leave, fringe benefits and changes resulting from agreements in previous fiscal years between the City and its REOs.

Projections for ongoing non-personnel expenses are also included in the baseline projections and are based on anticipated events and historical trend analysis. Beyond inflationary increases in supplies, contracts, and energy and utilities, the most significant non-personnel expenses are for reserve contributions consistent with the City's Reserve Policy, Information Technology (IT) fixed costs, and transfer to the Infrastructure Fund in accordance with Charter Section 77.1.

Figure 2.13 depicts the growth in Baseline Personnel and Non-Personnel Expenditures.

Figure 2.13 - Baseline Expenditures



Salaries and Wages

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, special pays, overtime, step increases, and vacation pay-in-lieu. This category also includes adjustments related to Memoranda of Understanding (MOU) with each of the City's REOs. The FY 2019 Adopted Budget for General Fund salaries and wages was $589.1 million and included 7,614.12 full-time equivalents (FTE). Table 2.18 displays the FY 2019 Adopted Budget and the forecast for FY 2020 through FY 2024 for salaries and wages.

Table 2.18 - Salaries and Wages ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 589.1	$ 636.1	$ 643.8	$ 644.3	$ 643.4	$ 643.7

Adjustments within the Salaries and Wages category incorporate only those expenditures associated with positions included in the FY 2019 Adopted Budget. Most of the increases in Salaries and Wages are attributed to the REO MOU's as discussed later in this section. Position additions identified in the Outlook are to support critical strategic expenditures, which are discussed later in this report.

Step increases included in the Outlook are equal to the average of the amount budgeted for step increases over the past three fiscal years. The amount projected for step increases is anticipated to remain constant, at $1.9 million annually, throughout the Outlook period.

The Salaries and Wages category also includes an adjustment for annual leave payouts for Deferred Retirement Option Plan (DROP) members, which are projected based on DROP participants' exit dates and projected annual leave balances. While a portion of future leave liability expense will be absorbed in departmental budgets, there remains a significant number of employees with high leave balances expected to retire over the next several years. The number of DROP participants anticipated to retire and the projected terminal leave payouts for FY 2020 through FY 2024 are displayed in Table 2.19 below.

Table 2.19 - Salaries and Wages (Annual Leave -DROP) ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projected Number of Retirees	68	127	144	148	129	137
Projection	$ 2.4	$ 3.5	$ 4.3	$ 4.8	$ 3.9	$ 4.1

The number of DROP participants anticipated to retire in FY 2024 is not yet available as DROP is a five-year program. Therefore, the FY 2024 projected number of retirees and the Terminal Leave (DROP) projection are based on the averages of the FY 2020 through FY 2023.

In FY 2015 and FY 2016, the City and its REOs entered separate MOUs. The San Diego Police Officers Association (POA) MOU included a provision to re-open salary negotiations and a new agreement was ratified on December 5, 2017. These multi-year agreements expire in FY 2020, except for the agreement with the Deputy City Attorneys Association of San Diego (DCAA), which expires in FY 2019. Table 2.20 details the incremental compensation, including: regular wages, special pay and negotiated overtime above the Fiscal Year 2019 Adopted Budget amounts for the REOs and the City's unrepresented employees. This Outlook does not project for any impact of future MOUs with REOs, and therefore salary and wages forecasts are fixed to the last negotiated amounts.

Table 2.20 - Salaries and Wages (Recognized Employee Organization & Unclassified Employee Contracts) ($ in Millions)					
Recognized Organization Agreements & Unclassified Employee Contracts	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
DCAA	$ -	$ -	$ -	$ -	$ -
Local 127	1.8	1.9	1.9	1.9	1.9
Local 145	6.5	6.5	6.5	6.5	6.5
Teamsters 911	0.3	0.3	0.3	0.3	0.3
POA	24.3	29.2	29.2	29.2	29.3
MEA	8.2	9.3	9.3	9.3	9.3
Unrepresented	2.5	2.7	2.7	2.7	2.7
Total	$ 43.8	$ 50.0	$ 49.9	$ 50.0	$ 50.0

Starting in FY 2020 based on, the terms of the MOU with POA, $11.1 million used for flexible benefits in the FY 2019 Adopted budget would transition to salary and wages increases. The table above only accounts for the increase in salary and wages; the corresponding decrease to flexible benefits is incorporated in Employee Flexible Benefits section.

One-time adjustments to hourly wages and overtime totaling $3.7 million in the FY 2019 Adopted Budget have been removed to establish the baseline for the Salaries and Wages expenditure category. Adjustments to budgeted overtime over the Outlook period were included in the baseline to account for increases in existing overtime related to salary adjustments provided for in the MOU discussed above.

Table 2.21 - Salaries & Wages (Budgeted Overtime) ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 66.6	$ 66.9	$ 67.6	$ 67.6	$ 67.6	$ 67.6

Retirement Actuarially Determined Contribution (ADC)

The pension payment or Actuarially Determined Contribution (ADC) paid by the City on July 1, 2018 for FY 2019 was based on the San Diego City Employee's Retirement System (SDCERS) Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2017 which was released in January 2018.

The City's FY 2019 ADC payment was $322.9 million, of which $238.9 million was allocated to the General Fund. Based on current estimates from Cheiron, the ADC for FY 2020 is projected to be $347.4 million, an increase of $24.5 million or 7.6 percent. The General Fund allocation is expected to be $257.1 million or 74.0 percent of the City's total ADC, representing an increase of $18.1 million to the General Fund. The final amount of the City's FY 2020 ADC payment will not be known until the June 30, 2018 actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2019. It is important to note that no adjustments are projected in this report in advance of any SDCERS action, and the ADC projections in this report are based on the SDCERS Actuarial Valuation Report as of June 30, 2017.

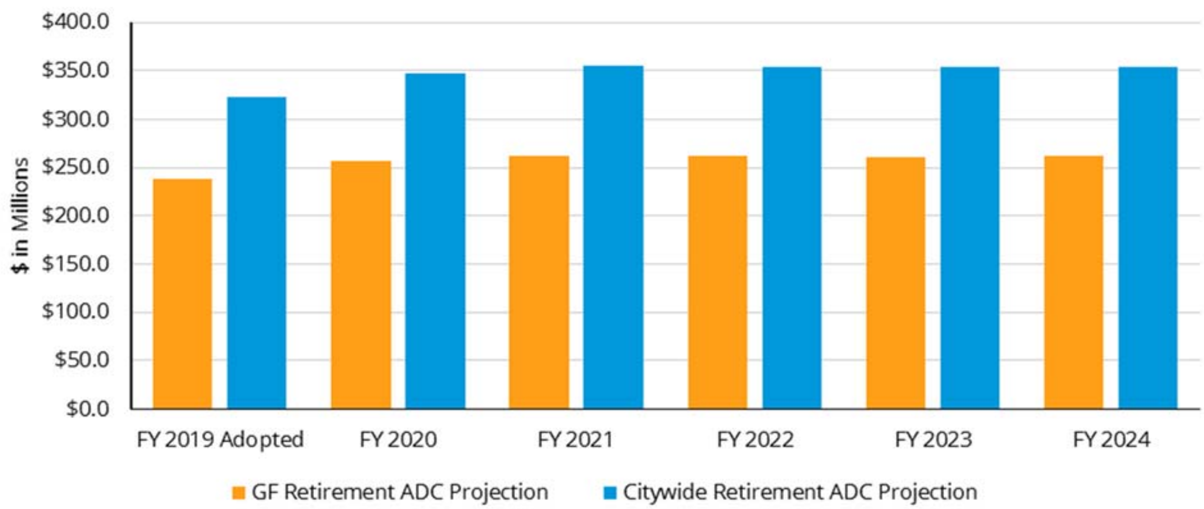
The FY 2020 Adopted Budget will include the full ADC amount determined by the actuary in the 2018 valuation report.

Table 2.22 displays both the citywide ADC and the General Fund's proportionate share for FY 2019 through FY 2024 and is based on the SDCERS Actuary Valuation Report as of June 30, 2017.

Table 2.22 - ADC Pension Payment
($ in Millions)

	FY 2019 Adopted	FY 19 GF % of Citywide	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF ADC Estimate	$ 238.9	74.0%	$ 257.1	$ 262.3	$ 261.9	$ 261.5	$ 261.8
Citywide ADC Estimate	$ 322.9		$ 347.4	$ 354.5	$ 353.9	$ 353.4	$ 353.8

Figure 2.14 - Retirement ADC



Actuarially Determined Contribution Assumptions

On September 8, 2017, the SDCERS Board of Administration (SDCERS Board) approved major changes to actuarial assumptions resulting in significant impacts to the City's current and future pension payments. These changes include a lowering of actuarially assumed investment earnings on an incremental basis over the next two valuation reports and a smoothing of future pension payments. The following assumptions, imitated in the FY 2017 Actuarial Valuation, have had major impacts on the City's pension payment:

- An actuarially assumed rate of return was lowered from 7.0 to 6.75 percent for the FY 2017 valuation, followed thereafter by a further reduction to 6.5 percent for the June 30, 2018 Actuarial Valuation. This produced a notable spike in future payments.
- Due to the change in actuarial assumptions, a smoothing of future payments requires notably higher City contributions in FY 2029 to FY 2033. The smoothing or revised amortization of unfunded liabilities was designed to achieve a more consistent and level cash flow into the pension system.

On September 14, 2018 and November 5, 2018, the SDCERS Board evaluated making additional changes to the actuarial methods that could further increase the City's annual pension payment, but no action was taken by the board.

Employee Flexible Benefits

The City offers flexible benefits to all eligible employees under an Internal Revenue Service (IRS) qualified benefits program (Flexible Benefits Plan). The Flexible Benefits Plan allows employees in one-half, three-quarter, or full-time status to choose benefit plans tailored to the employee's individual needs. The City provides each eligible employee a credit amount on a biweekly basis for use in various options offered within the Flexible Benefits Plan. The credit each employee receives varies by employee association, standard working hours, years of service and other factors.

Flexible benefits include optional and required benefits, such as medical, dental, vision, and basic life insurance plans. For the FY 2019 Adopted Budget, $94.1 million was budgeted in flexible benefits. Table 2.23 displays the projection for flexible benefits for FY 2020 through FY 2024.

Table 2.23 - Flexible Benefits ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 94.1	$ 83.1	$ 83.1	$ 83.1	$ 83.1	$ 83.1

Individual flexible benefit costs vary by each employee's benefits selection and the total flexible benefit cost varies by the total number of employees. As a result, the Flexible Benefits projection is held constant throughout the Outlook period since position additions are not included as part of the baseline projections. Rather, they are reflected within the Critical Strategic Expenditures section of this report. Per the updated POA MOU, flexible benefits for Fiscal Year 2020 and beyond have been reduced by $11.1 million when compared to the FY 2019 Adopted Budget.

Other Post-Employment Benefits (OPEB)

Other Post-Employment Benefits (OPEB) represent the cost of retiree healthcare. The OPEB Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2018 was approximately $550.4 million and the annual required contribution was determined to be $48.5 million.

In FY 2012, the City entered a 15-year memorandum of understanding with each of the Recognized Employee Organizations regarding reforms to the retiree healthcare benefit for health-eligible employees (Healthcare MOU). The Healthcare MOU sets the City's OPEB contribution at $57.8 million for FY 2013 through FY 2015, with annual increases of up to 2.5 percent based on actuarial valuations. The City also has a trust with the California Employers' Retiree Benefit Trust (CERBT) from which it draws annually to cover the full cost of other post-employment benefits. Beginning in FY 2015, the terms of the Healthcare MOU may be renegotiated. The following table displays both the citywide OPEB projection and the General Fund's proportionate share for FY 2020 through FY 2024.

Table 2.24 - Other Post Employment Benefits (OPEB) ($ in Millions)							
	FY 2019 Adopted	FY 19 GF % of Citywide	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		65.3%	2.5%	2.5%	2.5%	2.5%	2.5%
GF OPEB Projection	$ 41.7		$ 42.7	$ 43.8	$ 44.9	$ 46.0	$ 47.1
Citywide OPEB Projection	$ 63.8		$ 65.4	$ 67.0	$ 68.7	$ 70.4	$ 72.2

The FY 2019 Adopted Budget included $41.7 million for the General Fund portion of OPEB. The General Fund portion is determined by the percentage of FTE positions budgeted within the General Fund versus non-general funds. The General Fund's proportionate share of the OPEB payment is projected to increase by 2.5 percent.

Workers' Compensation

State workers' compensation laws ensure that employees who are injured or disabled on the job are provided with monetary compensation. These laws are intended to reduce litigation and to provide benefits for workers (and dependents) who suffer work-related injuries or illnesses. State workers' compensation statutes establish the framework of laws for the City.

The City's workers' compensation expenses are comprised of two components. Operating expenses are the first component, which covers the costs of current medical expenses and claims. The second component covers contributions to the Workers' Compensation Reserve. Table 2.25 displays the General Fund's projected share of Workers' Compensation expenses.

Table 2.25 - Workers' Compensation ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Operating	$ 19.7	$ 22.1	$ 26.0	$ 26.5	$ 27.0	$ 27.5
Reserves	$ -	$ -	$ 0.3	$ 0.5	$ 0.5	$ 0.6
Total	$ 19.7	$ 22.1	$ 26.3	$ 27.0	$ 27.5	$ 28.1

The projections for operating expenses are based on actual prior year experience and forecasted to increase by 1.95 percent annually based on the Consumer Price Index for Medical Care. Additional information on the Workers' Compensation Reserve can be found in the Reserve Contributions section of this report.

Supplemental Pension Savings Plan (SPSP)

In January 1982, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution plan. This benefit provides a way for eligible employees to supplement retirement income, with employee contributions matched by the City. Employee eligibility for SPSP is determined by hire date and labor organization. Employees hired between July 1, 2009 and July 20, 2012 are not eligible for entry into SPSP but rather were placed in 401(a) and retiree medical trust plans. Employees other than sworn police officers hired after July 20, 2012, the effective date of Proposition B, are placed in the SPSP-H Plan, which is being used as an interim defined contribution retirement plan for benefited employees. Eligible new hires who are non-safety employees are required to contribute 9.2 percent of compensation to the plan, which is matched by a 9.2 percent employer contribution. For safety employees, the mandatory employee and matching employer contribution is 11.0 percent of compensation. The following table displays the projection for SPSP for FY 2020 through FY 2024.

Table 2.26 - Supplemental Pension Savings Plan (SPSP) ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 19.6	$ 20.1	$ 20.3	$ 20.3	$ 20.3	$ 20.3

SPSP is a fringe benefit that is projected based on a percentage of employees' salaries. In the FY 2019 Adopted Budget, SPSP was approximately 3.3 percent of General Fund salaries. For the Outlook period, SPSP as a percentage of salaries is projected to remain consistent at 3.3 percent since the baseline for salaries does not project additional new employees. New employee costs including fringe are included in Critical Strategic Expenditures. A minor increase from the FY 2019 Adopted Budget to the FY 2020 through FY 2024 projections is a result of anticipated salary step increases, which are included within the Salaries and Wages category. Additionally, this projection is based on the number of employees that were enrolled in the SPSP-H Plan during the development of the FY 2019 Adopted Budget. All position additions included in the Critical Strategic Expenditures section of this report assume that new employees are hired with post Proposition B plans.

Other Fringe Benefits

The Other Fringe Benefits category is comprised of Long-Term Disability, Medicare, Retiree Medical Trust, 401(a) contributions, Retirement DROP contributions, Employee Offset Savings, Risk Management Administration, and Unemployment Insurance expenditures. Table 2.27 displays the projection for Other Fringe Benefits.

Table 2.27 - Other Fringe Benefits ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 24.0	$ 24.6	$ 26.8	$ 26.8	$ 26.8	$ 26.8

Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2019 Adopted Budget, Other Fringe Benefits were approximately 4.1 percent of General Fund salaries. For the Outlook period, that percentage is projected to remain consistent at 4.1 percent. Minor increases during the Outlook period are a result of anticipated salary step increases and salary annual leave payouts included within the Salaries and Wages category.

The City is negotiating a Long-term Death and Disability benefit plan for employees hired on or after July 20, 2012 with the REOs. This plan is anticipated to provide disability benefits for employees not eligible for membership in SDCERS due to Proposition B.

Additionally, the Long-term Disability Reserve and Public Liability Reserve are discussed in detail in the Reserves Contribution section of this report.

Supplies

The Supplies category includes costs for office supplies, books, tools, uniforms, safety supplies, and building and electrical materials. Table 2.28 displays projections for the Supplies category.

Table 2.28 - Supplies ($ in millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		4.6%	4.6%	4.6%	4.6%	4.6%
Projection	$ 30.2	$ 31.3	$ 32.8	$ 34.3	$ 35.8	$ 37.5

The FY 2019 Adopted Budget includes one-time expenditures for personal fire suppression safety equipment of $242,000. Also included as one-time expenditures are office supplies and other low-value assets for new Parks and Recreation and Library facilities of $24,000. These one-time expenditures totaling $266,000 have been removed from the FY 2020 through FY 2024 baseline projections. Additionally, a 4.6 percent increase has been applied based on historical average increases in the Supplies category over the past several years.

Contracts

Contracts are a non-personnel expense category that includes the cost of professional consultant fees, insurance, refuse disposal fees, fleet vehicle usage and assignment fees, rental expenses, and other contractual expenses. Table 2.29 displays the projections for the Contracts category.

Table 2.29 - Contracts ($ in Millions)						
	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		3.9%	3.9%	3.9%	3.9%	3.9%
Projection	$ 240.7	$ 249.4	$ 256.0	$ 262.8	$ 270.9	$ 279.7

The annual growth rate of 3.9 percent is based on historical analysis. Adjustments are made to the baseline for known and anticipated events including cyclical election and census redistricting costs, elimination of refuse fees subsidies, changes in franchise fee rates and methodologies, known public liability insurance costs, pre-programed Parks Master Plan wind down, and the end of rate relief from the Fleet Operations usage fees. The FY 2019 Adopted Budget included $6.1 million in one-time expenditures within the Contracts category. The following summarizes the one-time expenditures that have been removed from the baseline projections:

- $2.1 million for relocation and additional rent costs during construction to move staff into the 101 Ash Street building, which was anticipated to be a one-time event which will now occur in Fiscal Year 2020 as discussed in the August 2018 staff report on the project
- $1.0 million for community projects, programs, and services (CPPS) which are calculated based on saving from the prior year budget
- $0.6 million for brush trimming and management services that was funded for one year

- $0.5 million for Supplemental Environmental Projects that will take place in Fiscal Year 2019 as a result of the Regional Water Quality Control Board penalty
- $0.5 million for Executive Complex relocation costs which was expected to occur in Fiscal Year 2019
- $0.3 million for the littering and graffiti abatement program that was funded for one year
- $0.3 million for security services for various library facilities that was funded for one year
- Funding for miscellaneous contractual services that are not projected to be needed past fiscal Year 2019

Information Technology

The Information Technology category includes both discretionary expenses and non-discretionary allocations to General Fund departments. The Information Technology category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. Table 2.30 displays the projections for the Information Technology category.

Table 2.30 - Information Technology ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		11.5%	8.0%	1.1%	-0.7%	2.2%
Projection	$ 32.0	$ 35.6	$ 38.5	$ 38.9	$ 38.6	$ 39.5

Base IT costs are inflated by the California Consumer Price Index. An adjustment to the FY 2019 Adopted Budget for one-time fixed costs for transition of IT network and desktop services as well as discretionary expenditures totaling $0.6 million serves as the baseline for this category.

Non-discretionary IT costs which include desktop support, networks, data-centers, cyber security and applications are independently forecasted from base IT costs, since these costs include planned transition and end-of-life equipment replacement which changes from year to year. These estimates are developed assuming that City will maintain the current level of IT security and services. New projects and initiatives are evaluated as critical strategic expenditures.

Energy and Utilities

The Energy and Utilities category includes the General Fund's costs for electricity, fuel, and other utility and energy expenses. The following table displays the projections for the Energy and Utilities category.

Table 2.31 - Energy and Utilities ($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		-0.5%	3.9%	3.8%	3.9%	3.7%
Projection	$ 49.3	$ 48.9	$ 50.8	$ 52.7	$ 54.7	$ 56.7

The Energy and Utilities category includes various costs. Each cost component has a different applicable rate. Growth rates for each category, excluding water and wastewater rates, are based on the Annual Energy Outlook 2018 report prepared by the U.S. Energy Information Administration. Fuel growth rates range from 2.8 percent to 10.0 percent depending on the year and the type of fuel. Electrical growth rates range from 3.7 percent to 6.2 percent. The City's Public Utilities Department determines water and wastewater rates. In FY 2016, City Council approved adjustments to increase the water rate by 7.0 percent in FY 2020. Water rates are estimated to grow 5.00 percent for Fiscal Years 2021-2024. Sewer rates are held at their current rates.

In Fiscal Year 2018, the City began purchasing and installing energy efficient street lights, which are funded through a lease purchase program with GE Capital. The lease payments are expected to be funded through the savings in energy costs due to energy efficiencies gained from the new streetlights. Therefore, the energy expenses throughout the Outlook period has been reduced by the amount of the lease payment. The corresponding debt service is included below in the Other Expenses section of this report.

The growth rates for the Energy and Utilities category represent a weighted growth rate that was calculated after applying the corresponding growth rate for each component before applying the savings from the energy efficient streetlight program.

Reserve Contributions

The City's Reserve Fund Policy requires that reserve funds are maintained at certain levels. The City's Reserves include the General Fund Reserve (Emergency Reserve and Stability Reserve), Pension Payment Stabilization Reserve, Public Liability Fund Reserve, Long-Term Disability Fund Reserve, and Workers' Compensation Fund Reserve. The City also maintains other reserves for various enterprise funds which are not included in this report.

Table 2.32 details the FY 2019 projected reserve balance in the funds, the percentage targets, and contribution forecasted to maintain the City's reserve funds.

Table 2.32 - Reserve Target Levels						
	FY 2019 Proj.	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
General Fund Target (%)	15.25%	15.50%	15.75%	16.00%	16.25%	16.50%
General Fund Reserve Level ($)	$ 192.8	$ 202.5	$ 213.9	$ 225.9	$ 239.5	$ 252.3
General Fund Contribution Amount [1]	$ 1.1	$ 9.8	$ 11.4	$ 12.0	$ 13.5	$ 12.9
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Pension Stability Reserve Target ($)	$ 24.2	$ 26.5	$ 27.3	$ 28.2	$ 28.3	$ 28.3
Pension Stability Reserve Level Projection ($)	$ 4.8	$ 10.6	$ 16.4	$ 22.5	$ 28.3	$ 28.3
Pension Stability Contribution Amount	$ 4.8	$ 5.8	$ 5.8	$ 6.1	$ 5.8	$ (0.0)
Pension Stability Contribution Amount (GF)	$ 3.6	$ 4.2	$ 4.3	$ 4.5	$ 4.3	$ (0.0)
Public Liability Target (%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level Goal ($)	$ 32.1	$ 32.1	$ 32.1	$ 32.1	$ 32.1	$ 32.1
Public Liability Reserve Level Projection ($)	$ 34.7	$ 34.7	$ 34.7	$ 34.7	$ 34.7	$ 34.7
Public Liability Contribution Amount		-	-	-	-	-
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9
Long-Term Disability Fund Reserve Level Projection ($)	$ 12.9	$ 10.2	$ 10.2	$ 10.2	$ 10.2	$ 10.2
Long-Term Disability Contribution Amount	-	-	-	-	-	-
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 31.3	$ 31.8	$ 32.2	$ 32.8	$ 33.4	$ 34.1
Workers' Compensation Reserve Level Projection ($)	$ 35.8	$ 31.8	$ 32.2	$ 32.8	$ 33.4	$ 34.1
Workers' Compensation Contribution Amount	$ -	$ -	$ 0.4	$ 0.6	$ 0.6	$ 0.7
Workers' Compensation Contribution Amount (GF)	$ -	$ -	$ 0.3	$ 0.5	$ 0.5	$ 0.6

[1]The FY 2018 Adopted Budget included $10.3 million to prefund the FY 2019 General Fund Reserve contribution. The Fiscal Year 2019 Adopted Budget included a $0.6 million contribution and the First Quarter Budget Monitoring Report identified an incremental contribution of $0.6 million based on revised FY18 actual revenues.

The Outlook includes annual contributions that fully fund the General Fund Reserves to their targeted levels.

Per the City's Reserve Policy, a plan was implemented to replenish the pension stabilization reserve on an incremental basis to achieve the target levels by FY 2023, and the Outlook is consistent with this plan.

Public Liability Reserve exceeds its target level of 50.0 percent of outstanding claims and no additional contributions are anticipated in the Outlook period. Excess reserves are discussed in the Potential Mitigation Actions section of this report.

The Long-Term Disability Fund exceeds its target level of 100.0 percent of outstanding claims. As discussed in the Other Fringe Benefits section of this report, the City is developing a long-term death and disability benefit plan for employees hired on or after July 20, 2012. The use of excess reserves in the Long-Term Disability Fund is a potential source to fund the death and disability plan and is further discussed in the Potential Mitigation Actions section of this Report. No additional contributions to the Long-Term Disability Fund are anticipated in the Outlook period.

The Workers' Compensation Reserve exceeds its target levels through FY 2020 and assumes continued rate relief in FY 2019 and 2020. This is due to City Council amending the Workers' Compensation Reserve target from 25.0 percent to 12.0 percent of the three-year average of outstanding actuarial liabilities in February 2016. The Outlook projects minor General Fund contributions due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

Other Expenditures

Expenses included in this category are debt service payments, transfers out to other funds, capital expenses, and other miscellaneous expenditures. Adjustments are made only to account for anticipated transfers, and projected debt service amounts. No growth rate is assumed for all other expenditures in this category. The following table displays the FY 2020 through FY 2024 projections for the Other Expenditures Category.

Table 2.33 - Other Expenditures

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 62.9	$ 71.8	$ 73.2	$ 75.2	$ 77.2	$ 70.3

The one-time expenditures totaling $10.0 million included in the FY 2019 Adopted Budget and removed from the Outlook baseline are detailed below:

- $3.9 million transfer related to the Commission for Arts and Culture allocation
- $4.2 million transfer to the Pension Stability and General Fund Reserve
- $1.2 million of General Fund CIP contributions
- $0.8 for companion unit fee waivers, vessel replacement, and various general fund vehicles

It is important to note that FY 2019 transfer to Commission for Arts and Culture allocation was funded by one-time General Fund Revenue to support one-time arts & culture Special Promotional Programs for FY 2019 over the Fiscal Year 2018 Base Budget. Per the methodology used in the Outlook, the one-time restoration of the arts & culture funding is not assumed in this Outlook and will be reviewed annually through the budget development process.

Charter Section 77.1 – Infrastructure Fund

In accordance with City Charter section 77.1, the City is required to place certain unrestricted General Fund revenues into an Infrastructure Fund to be used for new infrastructure costs, including financing costs, related to General Fund capital improvements such as streets, sidewalks and buildings, and the maintenance and repair of such improvements.

The deposits to the Infrastructure Fund are calculated based upon the following:

- Major revenue increment – an amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees (FY 2018 through FY 2022 only)
- Sales tax increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline (FY 2016) as inflated by the lessor of California Consumer Price Index (CCPI) or 2.0 percent

- General Fund Pension Cost Reduction – any amount if pension costs for any fiscal year that are less than the base year (FY 2016)

Table 2.34 shows the forecasted Infrastructure Fund deposits for the Outlook period.

Table 2.34 - Infrastructure Deposits
($ in Millions)

	FY 2019 Adopted	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Projection	$ 17.1	$ 18.2	$ 19.6	$ 19.2	$ -	$ -

The Infrastructure Fund is programmed on a year-by-year basis for one-time expenditures and therefore the transfer to the fund is considered one-time in nature. As a result, $17.1 million in one-time expenditures was removed from the FY 2019 Adopted Budget in developing the baseline. The Outlook then projects infrastructure deposits throughout the Outlook pursuant to the City Charter.

The portion of the deposit calculation from major revenue increment is only in effect for five years (FY 2018 through FY 2022). Commencing in FY 2023, no new deposits are forecasted since there are no sales tax increment or General Fund pension cost savings projected.

Eligible infrastructure expenses are defined to include costs incurred in the acquisition of real property; the construction, reconstruction, rehabilitation, and repair and maintenance of infrastructure; including all costs associated with financing such expenses. The Outlook does not designate the specific uses of these funds. The FY 2020 Proposed Budget presented by the Mayor will include the programs, projects, and services to be budgeted with infrastructure funds to comply with Charter Section 77.1.

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CRITICAL STRATEGIC EXPENDITURES

The Outlook identifies future potential critical needs for the City that are supported by the General Fund. Such critical needs encompass several issues such as critical operational funding, State and Federal mandates, legal obligations, and new facilities. These needs have been preliminarily identified as necessary for meeting core service levels and are consistent with the City's Strategic Plan. Critical strategic expenditures are well thought out, non-routine funding requests, that reflect the shared priorities of the City Council and the Mayor. Departments were asked to only submit requests that meet these stringent criteria for inclusion in the Outlook.

As noted previously, the Outlook is not a budget. The Outlook is a planning tool to assist in budget decisions and the allocation of General Fund resources required to meet the City's strategic goals that are critical to core services. The purpose of this section is the identification of future known needs, that are consistent with strategic initiatives supported by the Mayor and the City Council and to provide estimated fiscal impacts of those initiatives.

Total Critical Strategic Expenditures

	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total Critical Strategic Expenditures	**Dept. Total FTE**	**111.2**	**214.6**	**293.9**	**354.2**	**402.7**
	Dept. Total Expense	**35,809,830**	**47,629,980**	**61,178,452**	**78,038,339**	**87,297,828**
	Dept. Total Revenue	**1,051,000**	**2,666,000**	**2,816,000**	**2,816,000**	**2,816,000**

The table above summarizes the total critical strategic expenditures including costs associated with citywide initiatives and departmental specific critical strategic expenditures. It should be noted that department expenditures that were identified as budgetary requests or capital improvement projects are not included in the Outlook. Budgetary requests are items that are not strategic or programmatic in nature such as: inflationary increases for contracts and supplies, or an incremental staffing request due to increased volume of work. Capital improvement projects will be addressed in the FY 2020-2024 Five-Year Capital Infrastructure Planning Outlook to be released in January 2019.

Homeless Programs and Services

The City's homeless programs and services can be funded through a variety of General Fund and non-General Fund sources, including Federal funds, recent State Homeless Emergency Aid Program (HEAP) funding, and local funding through San Diego Housing Commission. The City and the San Diego Housing Commission are spending over $101 million in Fiscal Year 2019 on homelessness programs and initiatives, when accounting for Federal Housing and Urban Development funding. The Outlook's baseline General Fund budget includes $7.7 million in ongoing General Fund support for homeless programs and services. While the Outlook does not identify any new General Fund resources, the Mayor will continue to work with the City Council and regional partners to move forward on new initiatives and long-term financing to address the homelessness crisis through the budget process as well as other independent actions brought forward to the City Council.

Enterprise Asset Management (EAM)

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Phase I	FTE	-	-	-	-	-
EAM Laptops & IT Equipment for	Expense	125,000	125,000	-	-	-
Public Works Field Staff	Revenue	-	-	-	-	-
Phase I	FTE	8.00	10.00	10.00	10.00	10.00
EAM Support for Transportation	Expense	757,061	1,284,608	1,284,608	908,143	908,143
Storm Water Department	Revenue	-	-	-	-	-
Phase II	FTE	-	-	-	-	-
Department of IT	Expense	-	545,528	1,435,600	1,004,920	1,185,600
One-SD Support for EAM	Revenue	-	-	-	-	-
	Dept. Total FTE	**8.0**	**10.0**	**10.0**	**10.0**	**10.0**
	Dept. Total Expense	**882,061**	**1,955,136**	**2,720,208**	**1,913,063**	**2,093,743**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Enterprise Asset Management (EAM) project is a citywide strategic initiative to develop and implement an integrated SAP-based software solution that will improve the City's management of infrastructure assets for the repair and/or construction of municipal infrastructure. The project began implementation in FY 2016 and Phase 1 includes five departments/divisions: Information Technology/Wireless Services, Public Utilities, Public Works — General Services, Public Works—Engineering and Capital Projects, and Transportation and Storm Water. The system went live in three releases during FY 2018.

The Outlook contains two requests related to this Project; additional hardware resources and staff needs resulting from Phase 1 in the Public Works and Transportation and Storm Water Departments and funding for the rollout to the Phase 2 Departments consisting of Department of Information Technology, Fire-Rescue, Library, Police, Environmental Services, and Parks and Recreation. The One-SD Fund supports the implementation of the project and bills the Phase 2 Departments through the budget process.

Short Term Residential Occupancy (STRO)

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Short Term Residential	FTE	8.00	8.00	8.00	8.00	8.00
Occupancy License & Tax	Expense	1,673,228	1,672,444	1,286,881	1,286,881	1,286,881
Auditing Program	Revenue	800,000	2,400,000	2,800,000	2,800,000	2,800,000
	Dept. Total FTE	**8.0**	**8.0**	**8.0**	**8.0**	**8.0**
	Dept. Total Expense	**1,673,228**	**1,672,444**	**1,286,881**	**1,286,881**	**1,286,881**
	Dept. Total Revenue	**800,000**	**2,400,000**	**2,800,000**	**2,800,000**	**2,800,000**

On August 1, 2018, the City Council approved an ordinance regulating short-term residential occupancy and authorizing an annual licensing fee of $949 to pay for the administration and enforcement of the regulations and program. On August 30, 2018, a referendum petition to repeal the approved STRO regulations was submitted to the City Clerk and on October 22, 2018 the City Council voted to repeal the ordinance. Because the City Council has repealed the ordinance, there will not be funding available for enforcement until a new ordinance is put in place. In the meantime, the City is moving forward with hiring for positions to collect back tax revenue and get out-of-compliant operators registered for a TOT Certificate and paying taxes. As such, all critical strategic expenditures submitted by departments related to enforcing regulations were not included in the Outlook. The table above includes critical expenditures and estimated revenues submitted by the City Treasurer that are needed to enforce compliance with existing regulations including tax auditing.

City Clerk

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Replacement of the Electronic Voting System	FTE	-	-	-	-	-
	Expense	250,000	256,000	6,000	6,000	6,000
	Revenue	250,000	250,000	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**250,000**	**256,000**	**6,000**	**6,000**	**6,000**
	Dept. Total Revenue	**250,000**	**250,000**	**-**	**-**	**-**

The Outlook for the City Clerk's Department supports the City's Strategic Plan to ensure equipment and technology are in place that allows employees to achieve high quality public service. Funding needs have been identified for one-time costs to replace the twelve-year-old voting system and audio-visual equipment in the City Council chambers. City Staff have included the use of Public, Educational, and Government access (PEG) funds to offset this impact to the General Fund in Fiscal Year 2020 and 2021.

City Treasurer

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Centralized Payment Processing Solution (CPPS)	FTE	-	-	-	-	-
	Expense	180,000	210,000	240,000	165,000	185,000
	Revenue	-	-	-	-	-
Replace Legacy Delinquent Accounts System & Services	FTE	-	-	-	-	-
	Expense	1,300,000	345,000	360,000	378,000	400,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**1,480,000**	**555,000**	**600,000**	**543,000**	**585,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City Treasurer Department supports the City's Strategic Plan to ensure equipment and technology are in place that allows employees to achieve high quality public service. Critical needs have been identified for a citywide payment processing platform that will allow for a consolidated online payment solution and a comprehensive debt collection solution for delinquent accounts. These efforts are expected to result in efficiencies in collecting funds owed for city services and are a mission critical investment to provide and bill for city services.

Citywide Program Expenditures

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Franchise Agreement Consultant	FTE	-	-	-	-	-
	Expense	1,000,000	2,000,000	-	-	-
	Revenue	-	-	-	-	-
Commercial Paper Expense & Long Term Borrowing Costs	FTE	-	-	-	-	-
	Expense	-	3,370,000	6,840,000	8,950,000	12,490,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**1,000,000**	**5,370,000**	**6,840,000**	**8,950,000**	**12,490,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for Citywide Program identifies critical funding for General Fund financing for capital projects and consultant support for upcoming franchise agreement negotiations.

The table above includes debt service costs for $270.0 million in new financing for ongoing General Fund capital improvements program in FY 2020 through FY 2024. The borrowing amounts and debt service cost projections above assumes a long-term bond issuance in FY 2021 of $88.5 million to pay down/refund the commercial paper notes approved in Fiscal Year 2018 which are expected to be issued in Fiscal Year 2019. A subsequent new long-term bond issuance and corresponding $90.75 million increases in commercial paper is projected in FY 2023. Not included in the table above are the debt service costs beyond Fiscal Year 2024, including the anticipated issuance of $90.75 million of long-term bonds in Fiscal Year 2025 to refund the FY 2023 commercial paper notes. The timing of each of these bond issuances and a cost-effective financing mechanism (commercial paper or long-term bonds) will be further evaluated based on cash needs and market conditions.

San Diego Gas and Electric currently operates under a 50-year City franchise that was granted in 1970. The agreement is set to expire in 2020 and the city anticipates the need to retain outside consultants to prepare for and advise the City during these negotiations and evaluate the City's energy distributor. Those estimated costs have been included in the Outlook.

Communications

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Fund support of PEG funded obligations	FTE	-	-	-	-	-
	Expense	-	-	-	447,000	447,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**-**	**-**	**-**	**447,000**	**447,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the Communications Department supports the City's Strategic Plan to ensure equipment and technology are in place that allows employees to achieve high quality public service. The Outlook includes general funds to support obligations that are currently funded with PEG funds. These funds are tied to cable franchise funding, which is expected to decline through the Outlook period and requires general fund resources to supplant the declining PEG funds.

Environmental Services

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Compressed Natural Gas (CNG) Fueling Station Maintenance	FTE	-	-	-	-	-
	Expense	210,000	210,000	210,000	210,000	210,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**210,000**	**210,000**	**210,000**	**210,000**	**210,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The table above identifies the addition of non-personnel expenditures for the operation and maintenance of compressed natural gas (CNG) fueling stations that are expected to open in FY 2020.

Fire-Rescue

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Fire-Rescue Staffing Model and Relief Pool To Reduce Overtime Costs	FTE	37.00	74.00	111.00	111.00	111.00
	Expense	1,126,695	238,021	(471,619)	(1,479,303)	(1,479,303)
	Revenue	-	-	-	-	-
Fire Stations (Black Mountain Ranch, Fairmount, North University City, Paradise Hills)	FTE	-	12.00	24.00	36.00	60.00
	Expense	146,040	2,118,937	4,091,834	6,416,016	10,256,013
	Revenue	-	-	-	-	-
Helicopter Maintenance and Fuel for Recently Acquired Helicopter	FTE	-	-	-	-	-
	Expense	820,000	820,000	820,000	820,000	820,000
	Revenue	-	-	-	-	-
Peak Hour Engines	FTE	24.00	48.00	48.00	48.00	48.00
	Expense	3,267,578	6,535,157	6,535,157	6,535,157	6,535,157
	Revenue	-	-	-	-	-
Replace One Fire-Rescue Helicopter	FTE	-	-	-	-	-
	Expense	-	-	-	-	1,437,946
	Revenue	-	-	-	-	-
	Dept. Total FTE	**61.0**	**134.0**	**183.0**	**195.0**	**219.0**
	Dept. Total Expense	**5,360,313**	**9,712,115**	**10,975,371**	**12,291,869**	**17,569,813**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Fire-Rescue Department supports the City's Strategic Plan to foster safe and livable neighborhoods through timely and effective response in all communities. The table above shows additional fire academies to support the constant staffing model and establish a relief pool for firefighter personnel, maintenance costs for the helicopter purchased in FY 2018, replacement of one additional helicopter in FY 2024, establishment of peak hour engines, and the addition of four new fire stations. The operational expenses for the new fire stations are listed below:

- FY 2021 – North University City
- FY 2022 – Black Mountain Ranch
- FY 2023 – UCSD, Fairmont Avenue
- FY 2024 – Paradise Hills

The addition of 111.0 additional firefighters, provided by one ongoing and three one-time academies, will produce the staffing level needed for the Fire-Rescue Department's constant staffing model to reduce overtime costs. The costs of additional personnel and academies are offset by overtime reduction once the 111.0 FTE are fully operational.

The Fire-Rescue Department has identified gaps in service and intends to fill these gaps by phasing-in six peak hour engine (PHE) companies over two years (three PHE per fiscal year) as recommended in the February 2017 Citygate Report. Coverage gaps may be long term gaps as identified in the Citygate report or short term such as a significant incident drawing many resources, or planned event leaving certain areas with service gaps. These companies may also be used to send help to an incident instead of pulling other resources out of their home areas. This will significantly improve response time performance citywide, reducing the need to build new fire stations that are not already in some form of design or construction. The PHE would be in operation 12 hours per day, seven days per week.

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Fleet Operations

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Fleet Facility Repairs and Safety Upgrades	FTE	-	-	-	-	-
	Expense	2,803,339	1,010,272	1,181,577	1,096,880	939,483
	Revenue	-	-	-	-	-
Vehicle Replacements	FTE	-	-	-	-	-
	Expense	4,609,202	9,218,403	16,218,403	23,218,403	23,218,403
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**7,412,541**	**10,228,675**	**17,399,980**	**24,315,283**	**24,157,886**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Fleet Operations Department supports the City's Strategic Plan and meets greenhouse gas emissions reduction goals identified in the Climate Action Plan. The table above identifies the fees for the replacement of General Fund vehicles and the General Fund's share of costs for critical repairs and safety improvements at fleet facilities.

Information Technology

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OSHA Reporting Implementation and Licensing	FTE	-	-	-	-	-
	Expense	389,963	139,263	42,363	42,363	42,363
	Revenue	-	-	-	-	-
Public Safety Radio Site Updates, Maintenance, Licensing, and Support Contract	FTE	-	-	-	-	-
	Expense	352,600	528,900	2,027,450	2,468,200	2,468,200
	Revenue	-	-	-	-	-
City Website Security and Webhosting Support	FTE	-	-	-	-	-
	Expense	341,446	60,900	60,900	60,900	60,900
	Revenue	-	-	-	-	-
SAP Migration	FTE	-	-	-	-	-
	Expense	-	290,700	-	-	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**1,084,009**	**1,019,763**	**2,130,713**	**2,571,463**	**2,571,463**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Department of Information Technology supports the City's Strategic Plan through equipment and technology that allow employees to provide high-quality public service. The table above identifies the General Fund costs associated with critical software, hardware, and maintenance managed by the Department of IT.

Library

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New Library (Pacific Highlands Ranch)	FTE	-	8.50	8.50	8.50	8.50
	Expense	-	783,740	783,740	783,740	783,740
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**8.5**	**8.5**	**8.5**	**8.5**
	Dept. Total Expense	**-**	**783,740**	**783,740**	**783,740**	**783,740**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Library Department supports the City's Strategic Plan to foster services that improve the quality of life in all neighborhoods. The table identifies staffing and operating costs for the new Pacific Highlands branch library, which is the only fully funded library scheduled to go online in the Outlook period. The outlook assumes that some of the costs associated with one-time operating expenses will come from non-general fund sources such as library system improvement funding or grants.

Parks and Recreation

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New Facilities	FTE	26.16	39.11	46.36	51.73	55.15
	Expense	3,775,408	4,115,685	4,912,953	5,613,534	6,069,895
	Revenue	1,000	16,000	16,000	16,000	16,000
	Dept. Total FTE	**26.2**	**39.1**	**46.4**	**51.7**	**55.2**
	Dept. Total Expense	**3,775,408**	**4,115,685**	**4,912,953**	**5,613,534**	**6,069,895**
	Dept. Total Revenue	**1,000**	**16,000**	**16,000**	**16,000**	**16,000**

The Outlook for the City's Parks and Recreation Department supports the City's Strategic Plan to improve the quality of life in all neighborhoods. The table above identifies the addition of personnel and non-personnel expenditures for the operation and maintenance of 16 new facilities and 28 new "Play All Day" joint use facilities. Attachment 3 identifies these facilities.

Performance and Analytics

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
311 Phone System Enhancement	FTE	-	-	-	-	-
	Expense	-	250,000	-	-	-
	Revenue	-	-	-	-	-
Get It Done - Phase 2 Expansion	FTE	-	-	-	-	-
	Expense	-	-	-	400,000	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**-**	**250,000**	**-**	**400,000**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for Performance and Analytics supports the City's Strategic Plan to provide high quality public service by promoting a customer-focused culture that prizes consistent, predictable delivery of services. The funding needs identified in the Outlook represents the integration of Parks and Recreation services into the Get It Done application (Phase 2) and enhancements to the City's information phone system to make it more user-friendly and responsive.

Planning

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Climate Adaptation & Resiliency Plan	FTE	-	-	-	-	-
	Expense	310,000	190,000	-	-	-
	Revenue	-	-	-	-	-
Housing Affordability Program	FTE	-	-	-	-	-
	Expense	250,000	250,000	250,000	-	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**560,000**	**440,000**	**250,000**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Planning Department supports the City's Strategic Plan for fostering safe and livable neighborhoods. Funding needs were identified to support the HousingSD program, which would focus on affordable housing incentive program, permanent supportive housing streamlining ordinance, additional updates to the Land Development Code to support housing, and General Fund resources to augment grant funding already secured for climate adaptation & resiliency planning.

Police

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Addition of Sworn Positions and Equipment	FTE		-	21.00	42.00	63.00
	Expense	-	-	3,387,486	6,364,173	9,346,259
	Revenue	-	-	-	-	-
Police Overime	FTE	-	-	-	-	-
	Expense	6,490,000	7,750,000	7,150,000	6,550,000	5,950,000
	Revenue	-	-	-	-	-
Police Helicopter Maintenance Savings	FTE	-	-	-	-	-
	Expense	(329,588)	(1,150,237)	(1,513,698)	(1,305,822)	(1,792,006)
	Revenue	-	-	-	-	-
Promotional Examination Process	FTE	-	-	-	-	-
	Expense	249,000	-	249,000	-	249,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**21.0**	**42.0**	**63.0**
	Dept. Total Expense	**6,409,412**	**6,599,763**	**9,272,788**	**11,608,351**	**13,753,253**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Police Department supports the City's Strategic Plan for fostering safe and livable neighborhoods through the protection of lives, property and the environment through timely and effective response in all communities. The table above identifies the addition of 63.0 of the 85.0 sworn officers needed to return police staffing to the 2009 levels of 2,128 sworn officers by FY 2024, with the remaining 22.0 Officers expected in Fiscal Year 2025. Also identified is funding for promotional examinations to determine candidates eligible for promotion to sergeant and lieutenant ranks.

As reported in the Fiscal Year 2019 First Quarter Budget Monitoring Report, the Police Department is projecting additional overtime due to vacancies and support for Neighborhood Policing Division. Appropriations for these expenditures will be requested of City Council later in Fiscal Year 2019. Subject to Council approval, these expenditures will continue during the outlook period, however at a diminishing amount as staffing levels are increased through the department's programmed academies and recruiting efforts discussed above.

The City's Police Department, through cooperation with the Federal Government's Seized Assets Program has received significant funding in Fiscal Year 2019. The Outlook assumes that a portion of these funds are used to replace three existing helicopters, resulting in General Fund savings of maintenance costs for the City's police helicopter fleet. The remaining use of fund balance will be considered in conjunction with the budget development process to ensure the best use of these one-time resources.

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Public Works

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Asbestos Remediation	FTE	-	-	-	-	-
	Expense	150,000	150,000	150,000	150,000	150,000
	Revenue	-	-	-	-	-
Facilities Condition Assessments	FTE	-	-	-	-	-
	Expense		250,000	250,000	250,000	-
	Revenue	-	-	-	-	-
Rehabilitation Projects	FTE	-	-	-	-	-
	Expense	350,000	700,000	700,000	700,000	700,000
	Revenue	-	-	-	-	-
Support for Emergency Generators	FTE	1.00	1.00	1.00	1.00	1.00
	Expense	193,369	98,369	98,369	98,369	98,369
	Revenue	-	-	-	-	-
	Dept. Total FTE	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
	Dept. Total Expense	**693,369**	**1,198,369**	**1,198,369**	**1,198,369**	**948,369**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Public Works Department supports the City's Strategic Plan in achieving safe and livable neighborhoods. The strategic expenditures included in the Outlook focus on quantifying the conditions of existing facilities, dedicate funding to remediate asbestos in existing city projects, a dedicated crew to maintain emergency backup generators, and funding for critical construction projects which are too small for the Capital Improvements Program (CIP).

Real Estate Assets

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Removal of Mobilehomes from DeAnza Cove	FTE	-	-	-	-	-
	Expense	1,831,767	-	-	-	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**1,831,767**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Real Estate Assets Department supports the City's Strategic Plan by providing high quality public service. The table above identifies the addition of non-personnel expenditures to remove mobile homes from the former De Anza Cove mobile home park.

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Transportation and Storm Water

Request	FTE/Rev/Exp	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Additional Positions to Support	FTE	2.00	4.00	4.00	4.00	4.00
Programs (Get It Done, Climate	Expense	200,555	409,682	409,682	409,682	409,682
Action Plan, Vision Zero)	Revenue	-	-	-	-	-
Consulting Services	FTE	-	-	-	-	-
(Transportation Optimization	Expense	250,000	250,000	-	-	-
Program - STOP)	Revenue	-	-	-	-	-
Litigation and PRA Support	FTE	1.00	2.00	2.00	2.00	2.00
	Expense	142,323	208,217	208,217	208,217	208,217
	Revenue	-	-	-	-	-
Pavement Assessment	FTE	-	-	-	-	-
	Expense	450,000	300,000	-	-	-
	Revenue	-	-	-	-	-
Pipe Maintenance & Repair	FTE	-	-	-	22.00	22.00
	Expense	-	-	-	3,551,297	1,976,297
	Revenue	-	-	-	-	-
Sidewalk Repair	FTE	4.00	8.00	10.00	10.00	10.00
	Expense	2,144,843	2,095,393	1,973,551	1,730,590	1,730,590
	Revenue	-	-	-	-	-
	Dept. Total FTE	**7.0**	**14.0**	**16.0**	**38.0**	**38.0**
	Dept. Total Expense	**3,187,721**	**3,263,292**	**2,591,450**	**5,899,785**	**4,324,785**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Transportation and Storm Water Department supports the City' Strategic Plan in achieving safe and livable neighborhoods by performing the services summarized in the table above. These expenditures allow for faster mitigation of sidewalk trip hazards via an additional ramping crew, engineering staff to support CAP and Vision Zero projects, and an update to the City's street Overall Condition Index (OCI) ratings.

Furthermore, the City must comply with the Regional Water Quality Control Board (RWQCB) storm water permit requirements creating significant operational and capital needs. In the outer years of the outlook a dedicated preventative maintenance storm drain crew has been included to extend the life of existing storm water infrastructure. The CIP needs for storm water flood risk management and water quality improvement projects have been identified and will be discussed in the Five-Year Capital Infrastructure Planning Outlook scheduled to be released in January 2019.

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POTENTIAL MITIGATION ACTIONS

The Outlook has identified the potential need to identify additional sources of funds as a result of the growth in ongoing expenditures outpacing the growth in ongoing revenues. The Mayor will present a balanced FY 2020 budget in April 2019 to the City Council. If the projected revenues and sources of funds do not improve, several mitigation actions, including budget reductions, will need to be considered. The following section presents potential measures to address the potential need for additional resources in FY 2020.

One-Time Resources

Resources are available from excess equity and in reserve accounts; however, these resources are one-time in nature and therefore are only available for one-time purposes.

- The Public Liability Reserve exceeds FY 2019 policy goal of 50 percent of outstanding claims. Funds available at the end of FY 2019 could be available in FY 2020.
- The current Long-Term Disability Fund Reserve is funded beyond the policy goal of 100 percent of a three-year average of outstanding claims' liability. Some amount of the excess funding will be needed to establish a new death and disability benefit for employees hired after Proposition B became effective in 2012, subject to negotiations with the employee organizations.
- The Workers' Compensation Reserve is currently overfunded in comparison to its target level of 12 percent of the three-year average of outstanding actuarial liabilities. The FY 2019 Adopted Budget incorporated a plan to utilize the funds for workers compensation operating expenses in FY 2020. There are no additional funds available, at this time, above what is currently planned to be utilized.
- In the FY 2019 First Quarter Budget Monitoring Report, the FY 2019 ending fund balance (excess equity) is projected to be $12.5 million. This will be updated during the FY 2019 Mid-Year Budget Monitoring Report once the audit of the FY 2018 financial statements is complete and will include updated Fiscal Year 2019 projections. These funds could be used in either FY 2019 or in future fiscal years to fund one-time expenditures.

Budget Reductions

To address the projected revenue shortfall, General Fund departments will be requested to submit budget reduction proposals. Any budget reduction proposals submitted for consideration are only proposals subject to careful evaluation. All potential solutions to mitigate the projected revenue shortfall will be carefully considered to ensure the overall impact to the services provided is minimized and that the City continues to provide the high level of service that is expected.

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OTHER ASSUMPTIONS AND CONSIDERATIONS

The Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using reasonable assumptions, however, risks to the projections include events that may be expected to occur during the Outlook period whose outcomes are unpredictable. Previous sections of the report have discussed risks related to economic recession, changes in other economic growth rates, and changes to the actuarial valuation of the City's Pension. This section details several other known assumptions.

Referendum and Ballot Measures

The City Council approved regulations governing STRO on July 16, 2018 and on August 30, 2018, a petition to repeal approved STRO regulations was submitted to the City Clerk. The City Council voted to repeal the STRO measure on October 22, 2018. The Outlook includes Treasurer Department's STRO requests because they are related to ongoing licensing and tax collection and not dependent on the STRO ordinance. Further actions by City Council on STRO regulations are expected during the Outlook period and are not accounted for in this Outlook.

Local ballot Measure G, regarding the sale of the stadium site to San Diego State University (SDSU), appears to have been approved by the electorate on November 6, 2018, subject to certification by the San Diego County Registrar of Voters. The fiscal impact of this item on the General Fund has not been reflected in the Outlook due to the timing of the preparation of this report. Baseline assumptions were developed based on the closure and wind down of the stadium following the SDSU football season ending in December 2020.

On July 9, 2018, an initiative titled "For A Better San Diego" was filed with the City Clerk to increase the TOT rate. On September 20, 2018, it was determined by the Registrar of Voters that the petition contained the requisite number of valid signatures. The matter will be placed on the ballot for the next citywide Municipal General Election ballot in November 2020, unless the City Council decides to place the matter on a Special Election ballot.

MOUs

As previously discussed in the Salaries and Wages section of this report, in FY 2015 and FY 2016, the City and its REOs entered into separate MOUs. These multi-year agreements expire in FY 2020, except for the agreement with the DCAAs, which expires in FY 2019. Since over 70 percent of expenditures in the FY 2019 Adopted Budget are related to wages and fringe benefits, small changes in MOU provisions can have large impacts on City expenditures. A 1.0 percent change in salaries across all MOU's could increase this category by approximately $6.0 million. The Outlook report does not contain any projections related to potential changes to the MOUs.

Recession

The impact of a future economic recession has not been incorporated into this Outlook. In each fiscal year of the Outlook, growth is projected from its prior year. Based on historical examples of a recession, the City's Major Revenues, (Property Tax, Sales Tax, TOT, and Franchise Fees) could be significantly impacted. Prior recessions have impacted the City's aggregated Major Revenues by -1.0% to -4.9%. A recession affects each revenue source differently. Changes to Property Taxes are likely to lag since current revenue is based on prior calendar year valuations. Property Taxes are also less variable due to the amount of base assessed valuations that are below market value. However, small percentage changes to property tax growth can equate to large swings in taxes. Sales tax and TOT are based on consumer's discretionary funds; therefore, they are more quickly and erratically impacted by a recession.

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CONCLUSION

The Outlook guides long-range fiscal planning by focusing on baseline revenues and expenditures, including quantifying new costs that are critical to accomplishing the City's strategic goals and reflect the Mayor and Council's shared priorities over the next five-year period.

Based upon baseline projections, growth in ongoing expenditures is anticipated to outpace growth in ongoing revenues in FY 2020 and FY 2021. A structural shortfall is forecasted based on the following key factors:

- Moderate growth in revenue
- Employee Organization Agreements and amendments entered into between FY 2015 and FY 2018
- Increases in the Actuarially Defined Contribution to the City's Pension
- The City's commitments to funding reserves and investing in infrastructure projects

The Outlook is not a budget. The Outlook provides the City Council, City staff, key stakeholders, and the public with information in advance of the budget meetings to facilitate an informed discussion during the development of the FY 2020 Adopted Budget.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2019.

ATTACHMENT 1
FY 2020 – 2024 FIVE-YEAR FINANCIAL OUTLOOK
($ in millions)

GENERAL FUND REVENUES	Fiscal Year 2019 Adopted Budget	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Property Tax	$ 560.0	$ 597.9	$ 629.6	$ 660.8	$ 691.2	$ 721.2
Sales Tax	282.1	290.0	297.8	305.9	313.8	321.7
Transient Occupancy Tax	128.4	134.8	140.4	145.7	150.9	156.1
Franchise Fees	78.8	80.8	82.5	84.4	86.7	88.2
Property Transfer Tax	11.0	11.5	11.9	12.2	12.6	12.9
Licenses and Permits	19.8	20.4	20.9	21.5	22.0	22.5
Cannabis Business Tax	6.0	11.5	13.3	15.2	17.1	19.2
Fines, Forfeitures and Penalties	31.4	31.6	31.8	32.0	32.3	32.5
Revenue from Money and Property	60.0	65.8	68.5	69.7	71.2	73.1
Revenue from Federal and Other Agencies	5.5	5.5	5.5	5.5	5.5	5.5
Charges for Services	160.3	165.9	166.2	175.5	179.6	184.2
Other Revenue	3.1	3.1	2.6	2.6	2.6	2.6
Transfers In	90.2	83.0	84.8	82.7	83.9	85.1
BASELINE GENERAL FUND REVENUES	**$ 1,436.5**	**$ 1,501.8**	**$ 1,555.9**	**$ 1,613.7**	**$ 1,669.3**	**$ 1,724.8**

GENERAL FUND EXPENDITURES	Fiscal Year 2019 Adopted Budget	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Salaries & Wages	$ 589.1	$ 636.1	$ 643.8	$ 644.3	$ 643.4	$ 643.7
Retirement Actuarially Determined Contribution (ADC)[1]	238.9	257.1	262.3	261.9	261.5	261.8
Employee Flexible Benefits	94.1	83.1	83.1	83.1	83.1	83.1
Other Post Employment Benefits (OPEB)	41.7	42.7	43.8	44.9	46.0	47.1
Workers' Compensation	19.7	22.1	26.0	26.5	27.0	27.5
Supplemental Pension Savings Plan (SPSP)	19.6	20.1	20.3	20.3	20.3	20.3
Other Fringe Benefits	24.0	24.6	26.8	26.8	26.8	26.8
Personnel Expenditures	**$ 1,027.1**	**$ 1,085.7**	**$ 1,106.0**	**$ 1,107.7**	**$ 1,107.9**	**$ 1,110.2**
Supplies	$ 30.2	$ 31.3	$ 32.8	$ 34.3	$ 35.8	$ 37.5
Contracts	240.7	249.4	256.0	262.8	270.9	279.7
Information Technology	32.0	35.6	38.5	38.9	38.6	39.5
Energy and Utilities	49.3	48.9	50.8	52.7	54.7	56.7
Reserve Contributions	4.2	14.0	16.0	17.1	18.4	13.4
Charter Section 77.1 - Infrastructure Fund Contribution	17.1	18.2	19.6	19.2	0.0	0.0
Other Expenditures	58.7	57.5	57.2	58.0	58.8	56.9
Non-Personnel Expenditures	**$ 432.1**	**$ 454.9**	**$ 470.8**	**$ 482.9**	**$ 477.3**	**$ 483.7**
BASELINE GENERAL FUND EXPENDITURES	**$ 1,459.2**	**$ 1,540.6**	**$ 1,576.8**	**$ 1,590.6**	**$ 1,585.3**	**$ 1,593.9**
BASELINE SURPLUS / (SHORTFALL)		**$ (38.8)**	**$ (20.9)**	**$ 23.0**	**$ 84.1**	**$ 130.9**
CRITICAL STRATEGIC EXPENDITURES NET OF REVENUES		**$ 34.8**	**$ 45.0**	**$ 58.4**	**$ 75.2**	**$ 84.5**
(AMOUNT TO BE MITIGATED) /AVAILABLE RESOURCES[2]		**$ (73.6)**	**$ (65.9)**	**$ (35.3)**	**$ 8.9**	**$ 46.4**

Numbers may not add to exact figures due to rounding.

[1] The final amount of the City's FY 2020 ADC payment will not be known until the June 30, 2018 actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2019.

[2] Per City Charter Section 69, the Mayor will propose a balanced budget by the 15th of April preceding each fiscal year.

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ATTACHMENT 2
ONE-TIME RESOURCES AND USES OF FUNDS

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2019 Adopted Budget that were adjusted to develop FY 2020-2024 Five-Year Financial Outlook baseline budget.

One-Time Resources	
Compensated Absences Leave Fund Balance	4,752,491
Fleet Operations Replacement Fund Transfer	3,400,000
Redevelopment Property Trust Fund (RPTTF) Distributions	855,090
Reimbursement for National Incident Based Reporting System	814,000
Supplemental Environmental Projects - Regional Water Quality Control Board	491,143
Otay Mesa Enhanced Infrastructure Financing District (EIFD) Election	289,811
Reimbursement for Debt Management services from Public Utilities Department	175,626
Library Fines Revenue	99,607
Total	**$10,877,768**

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One-Time Uses	
Transfer to the Infrastructure Fund (Charter Section 77.1)	$17,090,909
Commission for Arts & Culture Funding	3,949,600
Transfer to Replenish the Pension Payment Stabilization Reserve	3,612,662
Fire-Rescue Overtime	3,416,937
101 Ash Relocation Costs	2,100,000
Contributions to the Capital Improvements Program for IT Projects	1,168,000
Community Projects, Programs, and Services (CPPS) Funds	981,163
Brush Management	555,000
Contributions to Maintain General Fund Reserves - FY 2019 Reserve Target of 15.25%	554,424
Regional Water Quality Control Board - Supplemental Environmental Projects	501,166
Executive Complex Relocation Costs	450,000
Parks and Recreation New Park and Facilities	404,920
Companion Unit Fee Waiver Pilot	300,000
Private Property Graffiti Abatement	300,000
Equipment and Vehicle Purchases - Clean SD	290,000
Library Security Services	288,000
Lifeguard Vessel Replacements	256,000
Mixed Income Housing Density Program Funding	250,000
Personal Protective Equipment (PPE)	241,500
Lifeguard Academy	238,356
Vehicle Purchases - Parks and Recreation	97,500
Civic Theatre Maintenance	75,000
Mission Beach Trash Collection	70,000
Mission Hills Library	68,088
Parks and Recreation User Fee Study	50,000
Pipe Repair Team Vehicle Purchases - Transportation & Storm Water	43,145
SMART Program Funding	40,000
Consultant for Select Committee on Homelessness	38,000
San Ysidro Library	20,611
Otay Mesa Enhanced Infrastructure Financing District (EIFD) General Election Ballot	20,250
Use of Fund Balance to Reduce Expenditures	-4,601,855
Total	**$32,869,376**

ATTACHMENT 3
PARK AND RECREATION NEW FACILITIES

Park and Recreation New Facilities	
Audubon Elementary JU (PAD)	2020
Bay Terrace Recreation and Senior Center	2020
Dennery Ranch Neighborhood Park - CIP S00636	2020
East Village Green NP - CIP S16012	2020
Innovation (MacDowell) Middle School JU (PAD)	2020
Longfellow Elementary JU (PAD)	2020
Noth Park Mini Park	2020
Pacific View Leadership Academy JU (PAD)	2020
Rolando Park Elementary JU (PAD)	2020
Rowan Elementary JU (PAD)	2020
Salk Neighborhood Park and JU Development (PAD)	2020
Sandburg Elementary JU (PAD)	2020
Spreckels Elementary JU (PAD)	2020
14th Street Promenade	2021
Canon Street Pocket Park - CIP S16047	2021
Children's Park Enhancement	2021
Fairbrook Neighborhood Park - CIP S01083	2021
Franklin Ridge Pocket Park	2021
Johnson Elementary JU (PAD)	2021
Lindbergh-Schweitzer Elementary School JU (PAD)	2021
Olive Street Mini Park - CIP S10051	2021
Tubman Charter Elementary JU (PAD)	2021
Standley Middle School JU (PAD)	2021
Standley Middle School JU Pool (PAD)	2021
Taft Middle JU (PAD)	2021
Valencia Mini Park - CIP S11103	2021
Wangenheim Middle School JU (PAD)	2021
Florence Elementary School JU (PAD)	2022
Hawthorne Elementary JU (PAD)	2022
Hickman Elementary JU (PAD)	2022
Hidden Trails Neighborhood Park - CIP S00995	2022
Jones Elementary JU (PAD)	2022
Lafayette Elementary JU (PAD)	2022
Logan/Memorial K-8/Middle School JU (PAD)	2022
Mira Mesa Community Park (Phase II) - CIP L16002	2022

Park and Recreation New Facilities (continued)	
Pacific Beach Elementary School JU Expansion (PAD)	2022
Benchley / Weinberger Elementary JU (PAD)	2023
Dewey Elementary JU (PAD)	2023
Marie Curie Elementary JU (PAD)	2023
NTC Building 619	2023
Toler Elementary JU (PAD)	2023
Riviera Del Sol Neighborhood Park - CIP S00999	2023
Webster Elementary JU(PAD)	2023
Canyon Hills Resource NP Improvements - CIP S15006	2024
Carmel Valley Neighborhood Park - CIP S00642	2024