THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: TBD

IBA Review of the Mayor's FY 2025-2029 Five-Year Financial Outlook

OVERVIEW

Importance of the City's Outlook

On November 9, 2023, Mayor Gloria released his *Fiscal Year 2025-2029 Five-Year Financial Outlook* (Outlook), one of the City's annual financial planning tools. The Outlook is an integral part of the budget development process and is described in *Council Policy 000-02: Budget Policies* as *"the basis for determining the coming year's operating budget allocations."* Former Mayor Sanders initiated the Five-Year Financial Outlook process in 2006 which was continued by subsequent Mayors. In 2015, the City Council initiated a Charter Review process with a focus on greater clarity of the budget process including the requirement for the Mayor to issue a multi-year financial outlook annually. In June 2016, with a vote of the people, Section 69 of the City's Charter was amended to require the Mayor to annually prepare a multi-year financial outlook for the General Fund.

"The Mayor shall annually prepare a multi-year financial outlook for the general fund projecting anticipated revenues and expenditures in future years as a fiscal planning document and basis for the proposed budget."

The City's Budget Policy was also amended to state: the Outlook *"shall…include projections for committed expenditures which are defined as the operational costs for new facilities, contractual obligations, federal and State legal mandates, and adopted Council policies."* While the Outlook should not be interpreted as a budget, it provides the Council and the public with a longer-term financial perspective and a preliminary indication of the Mayor's budget priorities. Each year many Council priorities will overlap with the Mayor's, but Council has final authority in the budget process to determine the City's budget priorities for the next fiscal year.

OFFICE OF THE INDEPENDENT BUDGET ANALYST
202 C STREET MS 3A SAN DIEGO, CA 92101
TEL (619) 236-6555 FAX (619)-236-6556

While the Council cannot change the Mayor's Outlook, the Council remains the ultimate budget authority and can make changes to the budget following Mayor Gloria's release of the FY 2025 Proposed Budget. In doing so, the budget must stay balanced through identifying alternate budget reductions or new resources, delaying new facilities, consolidating or eliminating other programs, or other mitigation tools.

IBA Review and Analysis of Significant Annual Budget Reports & Council Budget Priorities

The release of the Outlook is the first look at the next fiscal year's overall budget issues and whether there is an anticipated surplus or shortfall in the General Fund. While the Executive Branch develops the Outlook, the Office of the Independent Budget Analyst (IBA) is charged with providing the City Council with a comprehensive review and analysis of the annual Outlook as well as all major budget reports – such as Quarterly Budget Monitoring Reports (including the First Quarter, Mid-Year and Third Quarter Reports); the Mayor's Proposed Budget; the Mayor's May Revision to the Proposed Budget; the Five-Year Capital Infrastructure Planning Outlook; and the CIP Budget Monitoring Reports.

"Councilmembers shall . . . communicate their budget priorities to the IBA, who will analyze and consolidate the priorities into a proposed Council budget priorities resolution"

Each fiscal year the Office of the IBA also develops the Council's Budget Priorities Resolution based on individual Councilmember's priorities memoranda, which is provided to the Mayor to help inform Mayoral budget priorities. The Council's initial Budget Priorities Resolution was approved on October 30, 2023.[1]

Review of the Mayor's Outlook

The Outlook notably projects significant, nine-figure deficits throughout each of the next five years. As the City is required by law to adopt balanced budgets on an annual basis, these deficits will have to be closed, either through the identification of additional revenues and resources, the reduction of existing or new expenditures, or both. While the City's annual budgets over the past three years were balanced, they were not *structurally* balanced, and relied heavily on one-time federal American Rescue Plan Act (ARPA) dollars. While use of ARPA was necessary to maintain City services during the COVID-19 pandemic and its aftermath, our Office has continually noted that those resources were projected to be exhausted in FY 2024, and that the City would face significant budget deficits beginning in FY 2025 if the budget's structural imbalance was not addressed.

Given the size of projected deficits in each of the next five years – along with the many needs and priorities that are not reflected in those deficits, as will be discussed in this report – it should be

[1] This is the second Budget Priorities Resolution that has been prepared during September and October, which reflects action taken by the City Council on June 27, 2022 to accelerate development of Council's budget priorities in order to amplify their impact on the development of the Mayor's Proposed Budget. *Council will also have the opportunity to update its initial FY 2025 Budget Priorities Resolution in February 2024; to start that process, a call memorandum will be issued mid-December 2023 for Councilmembers' updates to their budget priorities memoranda.*

clear that ***the City will have to seek a major source of new revenue in the immediate future***, or plan for significant cuts and restructures that will result in lower service-levels and fewer City run programs, beginning as early as FY 2025.

This report consists of several sections, which are highlighted in the Report Summary on the next page. Additional details and discussions are included in the body of our report. Our Office would like to thank staff from the Department of Finance and other City departments for responding to our many questions in preparing this report. The IBA's role is to analyze the Outlook objectively and identify issues and options to assist the Council in decision-making. The information provided in this report may also assist the public in understanding the budget process and the numerous challenges facing the City.

REPORT SUMMARY

Overall fiscal considerations

- Projected structural budget deficits persist throughout the Outlook period that must be addressed. Structural budget deficits occur when ongoing and sustainable revenue sources are not enough to support ongoing expenses.

Review and analysis of General Fund baseline revenues and assumptions in the Outlook

- Most revenue projections in the Outlook are reasonable; however, our Office describes potential decreased projections for sales tax and transient occupancy tax (TOT) revenues in the Outlook, that could equate to decreases of $3.4 million in sales tax revenue and $8.7 million in TOT revenue in FY 2025.
- Revenue projections are otherwise generally positive with steady growth for all major General Fund revenues. Underlying economic conditions suggest a 'soft-landing' to the economy is more likely in the short term than a recession, but considerable risks remain due to recent consumer response to prolonged inflation and increased interest rates.

Review and analysis of baseline General Fund expenditures

- We identify the changes from the FY 2024 Adopted Budget to the FY 2025 Outlook baseline expenditures, which maintain service levels with no new initiatives.
- The largest personnel-related expenditure increases are compensation increases and the defined benefit pension payment, and the largest decrease relates to a new approach to calculating retiree healthcare benefits (OPEB). Given the projected budget shortfalls, the new approach may be appropriate.
- We also discuss select Non-Personnel Expenditures. Notably, costs for energy and utilities are projected to increase, but are likely over-estimated slightly based on the pace of Fleet Electrification, and we caution suspension of the Infrastructure Fund given other suspensions in recent years, and because the City's infrastructure needs are so great.

Review and analysis of additional Outlook priorities beyond baseline expenditures

- We discuss operating needs for the anticipated opening of new or expanded parks, libraries, and fire stations. We note that three fire stations and one library assumed to come online have large funding gaps so it may be premature to project their opening.
- Planned commitments for continuing *existing* homelessness programs and modernizing the City's Enterprise Resource Planning (ERP) system are also reviewed. For homelessness, we discuss the need to prioritize programs due to funding constraints and note that regional collaboration and a mix of funding streams will be needed to provide a range of homelessness services.

Review and analysis of potential funding needs not included in the Outlook

- We identify select high priority needs that are not included in the Outlook such as infrastructure needs, homelessness programs, Climate Action Plan implementation, and arts and culture. Funding these additional expenditures would nearly triple the projected Outlook shortfall for FY 2025 absent additional revenue, with stormwater being the largest driver of these costs to meet regulatory requirements of the existing system.

IBA discussion of potential resource options

- We cover various potential measures to mitigate the projected budget deficits, with ongoing resources identified after FY 2025. Without a new major ongoing revenue source, significant budget cuts to programs and services will be needed to address the City's structural budget deficit.

OVERALL FISCAL CONSIDERATIONS

Over the Outlook years, baseline revenue and expenditure projections both show steady increases, as shown in the first two rows of the following table. However, the Outlook projections show that the City's General Fund will continue to have a structural budget deficit beyond FY 2024, which had a structural deficit of $106.8 million (shown in the third row). Structural budget deficits occur when ongoing revenue sources are not enough to support ongoing expenses. The Baseline Shortfall row shows that ongoing revenues for FY 2024 and all five years of the Outlook will not be enough to cover ongoing expenditures.

General Fund Revenue and Expenditures *($ in millions)*						
	FY 2024 Adopted Budget [a]	**FY 2025 Outlook**	**FY 2026 Outlook**	**FY 2027 Outlook**	**FY 2028 Outlook**	**FY 2029 Outlook**
Baseline Revenues	$ 1,944.7	$ 2,019.4	$ 2,083.0	$ 2,153.9	$ 2,226.0	$ 2,313.4
Baseline Expenditures	2,051.5	2,156.2	2,239.5	2,303.8	2,386.3	2,454.7
Baseline Shortfall	**(106.8)**	**(136.8)**	**(156.5)**	**(149.9)**	**(160.3)**	**(141.3)**
Additional Priorities Beyond Baseline	(38.5)	(35.1)	(77.0)	(93.7)	(98.0)	(85.9)
FY 2024 Use of One-Time Revenues	73.0	-	-	-	-	-
Use of Available Excess Equity	72.2	56.5	-	-	-	-
Overall Outlook Shortfall	**$ -**	**$ (115.4)**	**$ (233.4)**	**$ (243.5)**	**$ (258.3)**	**$ (227.3)**

Note: Table may not total due to rounding.

[a] FY 2024 "Baseline Expenditures" and "Use of Available Excess Equity" include an $8.1 million set-aside to fund the General Fund Reserve.

As shown in the table above, the FY 2024 General Fund budget was balanced with $73.0 million in one-time revenues, including $52.1 million in one-time federal American Rescue Plan Act (ARPA) funds, as well as $72.2 million of General Fund Excess Equity.[2] Thus, the budget was balanced in accordance with City Charter requirements. However, the reliance on one-time resources for ongoing expenditures creates challenges in future fiscal years. ARPA funds and other one-time revenues are not recurring, and only $56.5 million in Excess Equity is anticipated to be available to cover deficits during the five years of the Outlook – all of it anticipated to be used in FY 2025. ***The remaining operational deficits will need to be covered with newly identified revenues or through reductions to programs and services provided by the City. This structural imbalance must be addressed.***

Further, the discussion above focuses on *baseline* expenditures associated with maintaining – not expanding – current City service levels. Service expansions expected by the public or needed for compliance with various laws or for health and safety reasons cannot occur without adequate funding. When planned commitments and other priorities are added to baseline expenditures, projected shortfalls that will have to be mitigated grow larger, as shown in the bottom line of the preceding table. Expenditures beyond the baseline that are included in the Outlook augment projected shortfalls, which are forecasted to be well over $200 million per year in FY 2026 through FY 2029. As discussed later in our report, there are also other budget priorities that are not included in these shortfalls, for which significant resources will need to be identified.

[2] Excess Equity, is described in the City's Reserve Policy as "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation." Excess Equity generally results from increases to General Fund revenues and/or General Fund expenditures that come in under-budget during any given fiscal year.

To provide additional context on the City's fiscal condition, the following table provides a summary of the City's conformance with select financial policies and how they are handled in the Outlook.

<table>
<tr><th colspan="3">Conformance with Financial Policies</th></tr>
<tr><th colspan="2">City Financial Policies</th><th>Mayor's Outlook</th></tr>
<tr><td rowspan="8">Select Principles included in the Structural Budget Deficit Principles adopted in February 2010, which are incorporated into the annual Statement of Budgetary Principles</td><td>Elimination of the General Fund structural budget deficit</td><td>Does Not Conform: The structural budget deficit projection for FY 2025 Outlook is $136.8 million (at FY 2024 service levels).</td></tr>
<tr><td>Active pursuit of alternative service delivery methods for efficiency</td><td>In Process: The Outlook indicates that departments will conduct a strategic review of their programs to identify potential savings by implementing operational efficiencies, while maintaining core service levels.</td></tr>
<tr><td>Achievement of 100% cost recovery for programs that intend full cost recovery through fees</td><td>Conforms: The City regularly reviews and adjusts user fees in accordance with its User Fee Policy; cost recovery levels are set upon approval of fees; estimated fee revenues are included in baseline revenues.</td></tr>
<tr><td>Identification of funding for ongoing expenses when considering new facilities or programs</td><td>Conforms: The Outlook identifies ongoing expenses for new facilities included in the Outlook.</td></tr>
<tr><td>Prioritization for City services based on Charter requirements, public input, benchmarking, and departmental goals and performance data</td><td>In Process: Funding is included to support City Charter requirements, applicable laws, best practices, departmental goals, and public input that has been considered during budget development and adoption. In the Outlook the Mayor has identified additional services above baseline that he considers to be critical priorities. Priorities will be further considered during the upcoming budget development process.</td></tr>
<tr><td>Fully fund the annual required defined benefit pension contribution</td><td>Conforms: The City has fully funded the annual required defined benefit pension contribution since FY 2006; estimated full funding is included in baseline expenditures.</td></tr>
<tr><td>Develop a plan to fully fund the retiree healthcare annual required contribution (This retirement benefit is also known as an Other Post-Employment Benefit, or OPEB.)</td><td>Adjusted Approach: OPEB has been restructured since 2010 and includes both defined benefit and defined contribution components. The City has funded retiree healthcare benefits on a pay-as-you-go basis, with a prefunding component. The Outlook discusses a long-term strategy to reduce retiree healthcare funding that would diminish the prefunding component beginning in FY 2024, while still providing funds needed to support the benefit. See page 18 of this report for additional information.</td></tr>
<tr><td>Develop a plan to fund deferred capital infrastructure and related maintenance</td><td>Does Not Conform: The City's most recent Capital Improvements Program Outlook shows a $5.2 billion funding gap for infrastructure projects for which resources have not been identified. One future resource the City could consider is the use of General Obligation bonds – see page 46 of this report for additional information.</td></tr>
</table>

Conformance with Financial Policies		
City Financial Policies		**Mayor's Outlook**
General Fund Reserve	Goal is to incrementally increase the General Fund Reserve to 16.7% of General Fund operating revenues by FY 2030. The FY 2025 Reserve target is 13.6%, which is estimated to be $237.8 million.	Conforms, if not suspended: The Outlook includes funding in accordance with the City's Reserve Policy, which translates to an average contribution of $22.6 million for each of the five Outlook years. However, the Outlook discusses suspension of the General Fund Reserve contribution as a potential mitigation action to address projected budget shortfalls.
Risk Management Reserves	These Reserves include Workers' Compensation, Public Liability, and Long-term Disability Reserves, for which the goal is to maintain a balance equal to 12%, 50%, and 100% of outstanding claims, respectively, based on the most recent three-year average of actuarial liabilities.	Conforms: The Outlook projects adherence to the City's Reserve Policy. Contributions are only projected to be needed for the Worker's Compensation Fund, which translates to an average contribution of approximately $900,000 for each of the five Outlook years.
Infrastructure Fund	City Charter section 77.1 requires a transfer of designated revenues from the General Fund to the Infrastructure Fund. Allowable uses of these funds include acquisition of real property, construction, reconstruction, rehabilitation, and repair and maintenance of General Fund infrastructure. See page 21 of this report for additional information.	Conforms, if not suspended: Contributions to the Infrastructure Fund are included for each of the five Outlook years in line with the requirements of Charter section 77.1. Projected contributions included in the Outlook range from $24.0 million in FY 2025 to $46.7 million in FY 2029. However, the Outlook discusses suspension of the Infrastructure Fund contribution as a potential mitigation action to address projected budget shortfalls.
Penny for the Arts	On October 22, 2012, the City Council approved a "Penny for the Arts" funding blueprint. The goal is to increase arts and culture funding from the City's Transient Occupancy Tax (TOT) to equate to 1-cent of the 10.5-cent TOT, or 9.52% of total TOT revenues.	Does Not Conform: The Outlook includes $14.0 million in Penny for the Arts funding for FY 2025, or 4.1% of total TOT revenues. The $14.0 million allocation is projected to remain flat for the remaining four Outlook years, while overall TOT revenues are projected to increase by 5.9% per year. Thus, for FY 2029 Penny for the Arts funding is only projected to be 3.2% of total TOT revenues. See page 37 of this report for additional information.
Library Ordinance	The Library Appropriation Ordinance (Library Ordinance, San Diego Municipal Code section 22.0228), requires that the Library Department budget be equal to 6% of the General Fund budget each fiscal year.	Does Not Conform: For FY 2024 the Library Department budget is equal to 3.5% of the adopted General Fund budget; and the Library Ordinance provisions were waived. Funding in accordance with the Library Ordinance is not included in the Outlook.
Debt Policy	The City's Debt Policy provides that the City shall strive to maintain certain General Fund debt ratios including: under 10% debt ratio (debt service/lease payments as a percent of total available revenues); below 25% debt ratio when combining debt service with pension and OPEB contributions.	Conforms: The City's debt ratios are projected to remain within Debt Policy parameters after accounting for projected debt service costs that are assumed to be incurred by the General Fund during the Outlook period. See page 23 of this report for additional information.

REVIEW OF BASELINE GENERAL FUND REVENUES

Review of Baseline Revenues
• Property Tax
• Sales Tax
• Transient Occupancy Tax
• Franchise Fees
• Cannabis Business Tax

The table below reflects baseline General Fund revenues for the Outlook period. For context, it also includes FY 2024 Adopted Budget revenues, at $2.02 billion, which is comprised of $1.94 billion in ongoing baseline revenues and $73.0 million in one-time revenues, as highlighted on page 5 of this report. Updated FY 2024 revenue projections included in the First Quarter Budget Monitoring Report (First Quarter Report) are also shown. Focusing on overall baseline revenues there is a $74.7 million, or 3.8%, increase from the $1.94 billion in FY 2024 to the $2.02 billion in the FY 2025 Outlook forecast. Overall baseline revenues increase steadily for the remaining four years of the Outlook, averaging about 3.5% per year.

Baseline General Fund Revenues *($ in millions)*							
	FY 2024 Adopted	**FY 2024 Projection**	**FY 2025 Outlook**	**FY 2026 Outlook**	**FY 2027 Outlook**	**FY 2028 Outlook**	**FY 2029 Outlook**
Property Tax	$ 758.6	$ 771.9	$ 801.3	$ 830.7	$ 862.8	$ 895.8	$ 932.9
Sales Tax	401.7	385.2	398.3	411.8	430.2	449.4	469.4
Transient Occupancy Tax	172.6	171.2	181.3	191.9	203.2	215.1	227.8
Franchise Fees	110.3	110.5	116.3	120.4	116.0	118.4	122.7
Cannabis Business Tax	21.4	20.3	20.0	21.1	22.1	23.2	24.3
All Other Revenue Categories[1]	501.0	502.2	502.2	507.2	519.6	524.1	536.3
ARPA Funding	52.1	52.1	-	-	-	-	-
Total	**$ 2,017.8**	**$ 2,013.4**	**$ 2,019.4**	**$ 2,083.0**	**$ 2,153.9**	**$ 2,226.0**	**$ 2,313.4**

Note: Figures may not total due to rounding.

[1] Includes Transfers In, Charges for Services, Special Promotional Programs reimbursements, etc.

Generally, the Outlook for baseline General Fund revenues is positive over the next five fiscal years, with moderate growth rates assumed for all major General Fund revenue sources – Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees. This continues growth experienced in FY 2023, although slower than growth projected in the First Quarter Report. Economic conditions in the City also remain generally positive, though the City is experiencing declines relative to recent revenue projections, which result in slightly decreased growth rates for some sources of revenue.

However, prolonged inflation along with impacts from rising interest rates to combat inflation, present a risk to revenue projections assumed in the Outlook, and could lead to further declines in both sales tax and Transient Occupancy Tax (TOT) revenue. In the last quarter of FY 2023, the City began seeing declines in revenue likely resulting from consumers responding to the months-long pressure of high inflation. Though consumption is not expected to decline rapidly, and inflation is expected to moderate during the Outlook period, our Office notes that decreasing the FY 2024 sales tax and TOT projections would hedge this short-term risk and better reflect current trends of revenue declines.

On a positive note, declines in revenue growth are not currently expected to continue into the outyears of the Outlook. The October UCLA Anderson Forecast for consumer spending in California shows a slower rate of growth throughout 2023 before picking back up in 2024 and extending into the rest of the Outlook period. Additionally, the Anderson Forecast no longer projects a recession in the immediate future but anticipates slower growth in most sectors of the economy, suggesting that a "soft-landing" scenario is more likely than a recession.

In summary, future economic conditions driving revenue projections are positive, but still have considerable short-term risks based on recent consumer response to prolonged inflation and interest rates. Given the information available to date, our Office believes that revenue projections in the Outlook are generally reasonable as they reflect slower growth compared to previous years rebounding after the pandemic, and are consistent with current economic indicators. However, as we discuss further below, we believe Outlook's projections in early years for both sales tax and TOT revenue do not reflect recent revenue trends. Each of the major General Fund revenue sources, as well as Cannabis Business Tax, is discussed in more detail below.

Property Tax

Property taxes, the City's single largest source of General Fund revenue, are projected to continue to grow throughout the projection period, though the growth rate is anticipated to moderate and hover around 3.5% before increasing again in FY 2029. For FY 2025, the Outlook projects property tax growth at 4.6%, which is slightly lower than the FY 2024 Adopted Budget projection of 5.6%. As mentioned in our review of the First Quarter Report, actuals for FY 2024, which correlate with calendar year 2022, are outpacing the 5.6% growth rate.

The housing market trends discussed in the Outlook reveal a dramatically changed landscape for the housing market in response to higher mortgage interest rates, with the impact to San Diego differing from the State as a whole. While California experienced a state-wide 8% decline in the median price of single-family homes (on a seasonally adjusted basis), San Diego saw increases in house prices between December 2022 and August 2023. As inventory remains low, home prices are not expected to decline. In response to the increase in interest rates beginning in the second half of 2022, the overall volume of home sales decreased by about 25% in 2023 (September 2023 compared to September 2022), but sale-prices remain high in San Diego. It should be noted that the volume of home sales in a given year can have an outsized influence on property tax growth, as absent any property-sale, Proposition 13 caps assessed value growth for property-tax purposes at 2% per year. Since there is a 12-18 month lag in when housing market performance is reflected in property tax revenues, it is reasonable to project growth rates will decline but remain above 3% in the Outlook. We do note that the impact of increased interest rates on the volume of home sales should continue to be carefully monitored going forward.

Following FY 2025, growth rates in the outyears of the Outlook vary between 3.5% and 4.1%. These forecasts indicate a market that is expected to moderate but remain positive, deviating from the price and sales surges observed in preceding years that were fueled by low interest rates. Projections also include an assumption that properties not otherwise sold, transferred, or improved continue to grow in assessed values at the 2% per year maximum allowed under Proposition 13, given that inflation projections for all five years are above 2%. Our Office agrees with these projections.

Sales Tax

Sales tax is the second largest single source of General Fund revenue and is derived from a tax on sales made in or delivered to San Diego. While the sales tax rate in the City of San Diego is 7.75%, only 1.0% goes directly to the City's General Fund.

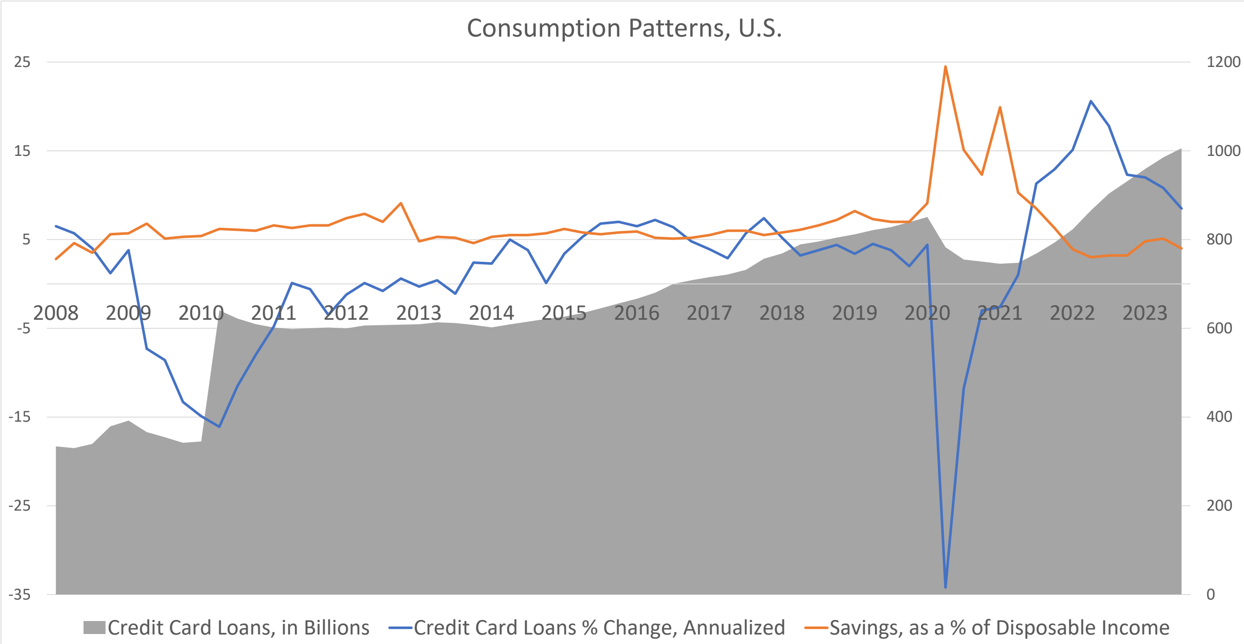
The sales tax projection in the FY 2024 Adopted Budget is $401.7 million. However, due to decreased first quarter performance in FY 2024, FY 2024 sales tax revenues are now projected to total $385.2 million in the First Quarter Report, and the latest sales tax actual receipts show further declines. The Outlook projects the City's sales tax revenues to increase throughout the Outlook period and assumes year-over-year growth as outlined in the table below. These projections are all above the City's sales tax consultant's "most-likely" scenario projection released in September 2023.

Sales Tax Projected Growth Rate					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Outlook	3.4%	3.4%	4.5%	4.5%	4.5%
City's Sales Tax Consultant	3.4%	3.3%	3.0%	2.8%	2.5%

As discussed in our review of the First Quarter Report, our Office believes it is reasonable to assume further reduced FY 2024 sales tax projections of $382.1 million to better align with recent declines in actual receipts. This projection is the City's sales tax consultant forecast, which has so far closely tracked with actuals in FY 2024, and is consistent with the UCLA Anderson forecast assumptions of early declines in FY 2024 and growth later on. Since the FY 2024 sales tax projection serves as the base for which future year projections are built upon, this would impact projections in the Outlook.

Beyond updating the base year forecast in the Outlook, our Office projects slower growth in sales tax revenues in the later years in the Outlook compared to the Outlook projection. As shown in the table above, for FY 2027 through FY 2029, the Outlook applies a 4.5% growth rate which represents a five-year average of sales tax year-over-year growth before the pandemic. Although this is not unreasonable, it may be optimistic. The average year-over-year growth since FY 2008 is 3.0%, which takes into account impacts from the 2008 recession. The pandemic created a shock in most key economic indicators, such as employment, consumer savings, and inflation. It may be helpful to incorporate a wider range of years to better account for the wider variety of economic conditions facing the City.

While FY 2023 sales tax receipts represented an all-time high, conditions that led to that growth changed. The recovery of sales tax revenues after pandemic-related declines in FY 2020 occurred after consumers had built savings, shown in the graph below in orange; at the same time, consumer credit card debt, shown in gray, decreased sharply. The recovery in sales tax revenue was likely aided by these savings and debt trends. Further, the multiple years of high inflation had not yet impacted consumer behavior.



In contrast to the period immediately following the pandemic, the current savings rate is the lowest rate since 2008, and credit card debt is at an all-time high. It is unclear whether the Federal Reserve will keep increasing its interest rate target, or how long interest rates will remain elevated, which will further impact consumers' ability to spend. The impact of the Federal Reserve's tightening monetary policy began to be reflected in the decline of revenues seen at the end of FY 2023. It is possible that growth in sales tax may continue at slower rates in the outyears rather than the above-average growth projected in the Outlook.

Given all this, our Office believes it is reasonable to assume lower projections than those in the Outlook's outyears. Updating the sales tax projections in the Outlook to match the City's sales tax consultant forecast for FY 2025 through FY 2029 would be consistent with the UCLA Anderson economic forecast, and would reduce projected revenue by $61.2 million throughout the period of the Outlook, as shown in the table below[3]

Potential Reduction in Sales Tax Revenue Each Fiscal Year (in millions)				
FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
$3.4	$3.9	$9.9	$17.5	$26.6

Transient Occupancy Tax

Transient Occupancy Taxes (TOT) – or hotel taxes – are the third largest major General Fund revenue source. San Diego's TOT rate is 10.5%, with 5.5% of that amount allocated to the General

[3] Decreasing sales tax growth projections will also result in lower projected Infrastructure Fund contributions, as the Infrastructure Fund receives a portion of growth from sales tax revenues. This is discussed further on page 21 of this report.

Fund (to support general City services), 4.0% to Special Promotional Programs (to support programs and services that encourage tourism to San Diego), and 1.0% allocated as discretionary/Council directed funding. The Outlook focuses on the 5.5% General Fund allocation of TOT.

TOT receipts were severely impacted by the COVID-19 pandemic but made a strong recovery in FY 2023, ending the year at a 19% increase over FY 2022 actuals. However, TOT actuals from July to October in FY 2024 decreased by 3.7% compared to the same period in the previous year. When comparing the July to October actuals to the Adopted Budget, the actuals have decreased by 9.1%, as compared to an adopted growth rate of 5.9%. As such, our Office projects year-end FY 2024 TOT revenues to be $317.2 million which includes $166.9 million in the General Fund portion of TOT. This is a decrease to the General Fund allocation of TOT by $5.8 million as compared to the FY 2024 Adopted Budget, and $4.3 million as compared to the FY 2024 First Quarter Report. Our projection is further discussed in our review of the First Quarter Report. While our Office agrees with the 5.9% projection for each year of the Outlook, we note that more accurate projections would use the updated TOT projection for FY 2024 as the base from which projections are then built.

The Outlook projects continued growth in TOT revenues as the next five fiscal years are projected to grow by 5.9% per year, which is the same growth rate as the FY 2024 Adopted Budget. This contrasts with the 19% growth in FY 2023 and over 100% in FY 2022. TOT is a historically volatile source of revenue that is highly susceptible to declines during economic downturns and increases during upturns. The post-pandemic boom of travel created an outsized performance for FY 2022 and FY 2023, with pent-up demand for travel leading to significant increases in post-pandemic TOT revenue.

We note that economic indicators for San Diego tourism recently forecasted by Tourism Economics for the Tourism Authority project 1.45% growth in FY 2024 and 5.4% growth for the first half of FY 2025. However, we also note that the Tourism Economics forecast incorporates the assumption of a mild recession, which is in contrast with other analytical tools used to build the forecast, such as the October UCLA Anderson Forecast. Our Office agrees with a more normalized growth rate at this stage, though we recommend using the lower first quarter TOT projection to reflect declines in actual revenues, bringing the FY 2024 projection to $317.2 million for overall TOT revenue. As noted above, this reduction would feed into the Outlook forecast for TOT. Incorporating this change, while keeping the 5.9% growth rate each year in the Outlook period would result in an overall decrease in TOT revenue of $49.1 million throughout the Outlook period, as shown in the table below.

Potential Reduction in Overall TOT Revenue Each Fiscal Year (in millions)				
FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
$8.7	$9.3	$9.8	$10.4	$11.0

Consideration of all TOT Revenues and Operational Impacts

As noted, the TOT revenue projection in the Outlook focuses on the 5.5% General Fund allocation of TOT. However, it is important to note that changes in TOT receipts impact all three allocations (General Fund, Special Promotional Programs, and Council Discretionary funding) that make up the full 10.5% TOT rate. While the 5.5% General Fund TOT allocation has the most direct impact on the City's General Fund finances, projections in the other allocations will impact City services as well, and we believe it is important that they be presented for consideration and review. Accordingly, the Department of Finance's projections for each allocation are shown on the following table.

Transient Occupancy Tax Revenue *($ in millions)*							
	FY 2024 Adopted	**FY 2024 Projection**	**FY 2025 Outlook**	**FY 2026 Outlook**	**FY 2027 Outlook**	**FY 2028 Outlook**	**FY 2029 Outlook**
General Fund Allocation (5.5%)	$ 172.6	$ 171.2	$ 181.3	$ 191.9	$ 203.2	$ 215.1	$ 227.8
Special Promotional Programs (4.0%)	124.4	123.4	130.7	138.5	146.7	155.4	164.6
Council Discretionary (1.0%)	31.1	30.8	32.7	34.6	36.7	38.8	41.1
Total	**$ 328.2**	**$ 325.5**	**$ 344.7**	**$ 365.0**	**$ 386.5**	**$ 409.3**	**$ 433.5**

Note: Figures may not total due to rounding.

Franchise Fees

Franchise fees represent payments made by private companies to the City for the right to operate within the City's right-of-way. The main sources of franchise fee revenue are: from San Diego Gas & Electric (SDG&E) for the right to provide City residents and businesses with gas and electric services; from Cox Communications, AT&T, and Spectrum for the right to provide cable services to City residents; and from private refuse haulers that conduct business within City limits. Franchise fees from SDG&E and cable companies are based upon a percentage of revenue generated, while franchise fees from refuse haulers are based on tonnage.

Overall, franchise fees are projected to grow faster during the early years of the Outlook period based on anticipated gas and electricity rate increases, while growing more slowly in FY 2027 and FY 2028 before growing faster again in FY 2029. FY 2024 and FY 2025 both project close to an 8% increase in revenue from SDG&E. The FY 2024 growth rate includes an increase in gas and electricity rates and FY 2025 assumes implementation of rate increases SDG&E submitted to the California Public Utilities Commission (CPUC) that are currently awaiting approval and could become effective in November 2024. The FY 2025 projection also includes an assumption that overall electricity and gas demand remains stable. Outyear projections are based on historical trends in the growth of these fees, which are based on revenue receipts from SDG&E that can change dramatically during any given year based on numerous factors, including future rate cases as well as weather patterns that may change gross electric or gas demand. For example, last year a higher-than-anticipated clean-up payment from SDG&E resulted in additional revenue of $15.3 million.

Additionally, cable franchise fees are projected to continue declining by 4.6% in FY 2024 and the declines continue to accelerate to an anticipated 6.8% in FY 2029, which is based on historical trends. Refuse hauler franchise fees are expected to increase by 0.5% in each year of the Outlook period, which is based on historical trends. Our Office agrees with the overall franchise fee projections.

Cannabis Business Tax

The Outlook includes projected revenue from the City's non-medical cannabis business tax (CBT). The tax applies to cannabis related business activities which include but are not limited to transporting, manufacturing, packaging, and retail sales, with retail sales taxed at a rate of 8.0% while other activities are taxed at 2.0%. The Outlook's revenue projection starts with the average annual revenue from FY 2022, and then assumes modest annual revenue growth per operating business of 1.0% per year. Additionally, the projection also assumes that the number of retail outlets grows from 25 in FY 2025 to 29 in FY 2029, while the number of cannabis production facilities (CPFs) grows from 38 in FY 2025 to 46 in FY 2029. These assumptions are similar to those of previous Outlooks, though ultimately slightly slower growth is assumed compared to the 1.5% used in last year's Outlook, as well last year's projection for 60 production facilities in FY 2029.

REVIEW OF BASELINE GENERAL FUND EXPENDITURES

General Fund baseline expenditures support existing service levels; therefore, there are no increases related to new programs in the Outlook's baseline. However, we note that decision-makers may ultimately determine that continuation of certain baseline services is not an optimal approach: some service levels could be reduced or eliminated in order to fund other needs and priorities determined to be more important. The City Council is the ultimate budget authority and can fund services that are different than those proposed by the Mayor.

Our review of General Fund baseline expenditures addresses changes from the FY 2024 Adopted Budget to the FY 2025 Outlook baseline. As shown in the following table, the Outlook's FY 2025 General Fund baseline expenditure projection is a ***net increase*** of $66.3 million (or 3.2%) from the FY 2024 Adopted Budget – including a number of increases and partially offsetting decreases. The decreases are largely driven by the removal of one-time expenditures. Disregarding the FY 2024 one-time amounts, net increases in remaining expenditures are $101.8 million.

The largest expenditure ***increases*** shown in the table include:

- $28.4 million for compensation increases based on previously negotiated agreements with non-public safety employee organizations
- $17.2 million for the Actuarially Determined Contribution (ADC) pension payment increase
- $14.2 million for the General Fund Reserve contribution
- $11.4 million in debt service, including a new Lease Revenue Bond issuance
- $10.9 million for compensation increases based on an assumed 3.05% general wage increase for represented public safety employees
- $5.6 million for contract cost increases based on a 2.95% annual growth rate
- $5.5 million for general wage increases for unrepresented employees
- $5.3 million for refuse disposal fees associated with new fee rates

Expenditure increases are partially offset by a number of expenditure ***decreases***, including:

- $10.8 million for Other Post-Employment Benefits (OPEB) costs
- $8.0 million for various one-time City Council CIP additions
- $7.0 million for the Infrastructure Fund transfer
- $5.8 million for the one-time funding for the Bridge to Home Program

More detailed components of baseline expenditures are discussed in the sections following the table.

Increases/(Decreases) from the FY 2024 Adopted Budget to the FY 2025 Outlook Baseline Projection *($ in millions)*		
FY 2024 Adopted Budget[1]		**$ 2,089.9**
Personnel Expenditure (PE) and Fringe Benefit Changes		**55.8**
Compensation Increases (based on current non-public safety labor agreements)	$ 28.4	
Actuarially Determined Contribution (ADC) - Defined Benefit Pension Payment Increase	17.2	
Assumed 3.05% General Wage Increase for Represented Public Safety Employees	10.9	
General Wage Increases for Unrepresented Employees	5.5	
Step Increases	3.3	
Workers' Compensation Expense Increase	0.8	
Other Post-Employment Benefits (OPEB) Decrease	(10.8)	
Net Other PE Changes	0.6	
Non-Personnel Expenditure (NPE) Changes		**46.0**
General Fund Reserve Contribution Increase	14.2	
Increase in Debt Service - Incl. New Lease Revenue Bond Issuance ($10.7m)	11.4	
Contracts - 2.95% Annual Growth Rate	5.6	
Refuse Disposal Fees (increases associated with new fee rates)	5.3	
Elections Cost Increase	4.7	
Energy & Utilities - Incl. Electric ($2.4m) & Water ($1.5m) Increases; Fuel Decrease (-$1.5m)	3.5	
Public Liability Increase: Operating Costs ($3.8m) offset by Insurance Premiums (-$1.6m)	2.2	
Increase in Transfers to Parks Improvement Funds	1.9	
Supplies - 2.95% Annual Growth Rate	1.2	
Fleet Fees Increases: Vehicle Replacement ($2.5m) Offset by Vehicle Usage (-$1.5m)	1.0	
Workers' Compensation Reserve Contributions	0.8	
Information Technology (IT) - 2.95% Annual Growth Rate [2]	0.7	
Decrease in Infrastructure Fund Transfer	(7.0)	
Net Other NPE Changes	0.4	
Removal of FY 2024 One-Time Expenditures (includes PE and NPE) [3]		**(35.6)**
City Council CIP Additions	(8.0)	
Bridge to Home Program	(5.8)	
Vehicle Purchases: Various Departments	(4.1)	
Eviction Prevention Program	(3.0)	
Transfer of Refuse Packers from Refuse Disposal Fund	(2.6)	
Animal Services Contract	(2.2)	
Smart Streetlights Deployment	(1.5)	
Youth Care and Development Program	(1.0)	
Net Other One-Time Expenditures	(7.3)	
FY 2025 Outlook Baseline Projection		**$ 2,156.2**
Overall Increase: FY 2024 Adopted Budget to FY 2025 Outlook Baseline (3.2% Increase)		**$ 66.3**

Note: Table may not total due to rounding.

[1] Including $8.1m General Fund Reserve Contribution.

[2] IT - 2.95% Annual Growth Rate includes increases in Computer Maintenance/Contracts, Hardware/Software, Hardware/Software Enhancements, Professional IT Services, and Network Access. Additionally, an increase of $258,000 is associated with application maintenance and Get-It-Done related expenditures.

[3] Attachment 1 to the Five-Year Outlook, One-Time Uses section, includes one-time expenditures of $38.5m - only $35.6m of which is shown in the "Removal of FY 2024 One-Time Expenditures" section of this table. The remainder includes $1.9m for election costs which is addressed in the "Non-Personnel Expenditure (NPE) Changes" section of this table as well as $1.0m for the rental of Police firearms training facility which is now included in the baseline expenditures.

Personnel-Related Expenditures in the Outlook Baseline

Review of Baseline Personnel Expenditures
• Compensation Increases Based on Labor Agreements • Defined Benefit Pension Payment/ADC • Retiree Healthcare Benefit/OPEB

This section includes information on Personnel Expenditures (PE) in the Outlook's baseline, including compensation increases related to labor agreements, the defined benefit pension payment, and retiree healthcare benefits, or Other Post-Employment Benefits (OPEB).

Compensation Increases Based on Labor Agreements

Compensation increases in the Outlook are largely based on agreements, or Memoranda of Understanding (MOUs), with the City's six Recognized Employee Organizations (REOs). Three estimates in the FY 2025 Outlook forecast are highlighted below and shown in the table on the preceding page.

- First, the FY 2025 forecast includes $28.4 million for estimated compensation increases related to current MOUs. This $28.4 million is related to the *non-public safety* MOUs,[4] which run through FY 2026 and are largely for general wage increases and special wage adjustments for certain positions.
- Because the *public safety* REOs'[5] current MOUs expire at the end of FY 2024 (June 30, 2024), the FY 2025 Outlook forecast includes $10.9 million for an assumed 3.05% general wage increase for represented public safety employees. *This $10.9 million compensation increase is subject to change based on negotiations for FY 2025, which have recently begun and are currently ongoing.*
- Last, $5.5 million is included in the FY 2025 Outlook forecast for general wage increases for unrepresented employees based on the FY 2025 general wage increases for the Municipal Employees Association (MEA). MEA employees have two salary increases scheduled for FY 2025: 4% on July 1, 2024 and 2% on January 1, 2025. Unrepresented employees' recent general wage increases have been essentially consistent with those approved for MEA.

The Outlook also includes an assumed 3.05% general wage increase for the public safety REOs during the remaining four years of the Outlook, as well as for the non-public safety REOs and unrepresented employees for FY 2027 through FY 2029.[6] These assumed increases are subject to change based on completed negotiations with all REOs over their respective successor MOUs. The annual 3.05% general wage increase is consistent with the salary inflation assumption in the latest SDCERS[7] actuarial valuation, which we believe is a reasonable approach.

[4] Non-public safety REOs include: Municipal Employees Association (MEA); American Federation of State, County & Municipal Employees, Local 127 (AFSCME Local 127); and Deputy City Attorneys Association (DCAA).

[5] Public safety REOs include: San Diego Police Officers Association (SD POA); International Association of Fire Fighters, Local 145 (IAFF Local 145); and Teamsters Local 911, which represents the Lifeguards.

[6] FY 2026 compensation increases for non-public safety REOs are based on their MOUs and are largely related to a 5% general wage increase on July 1, 2025 and special wage adjustments for certain positions. The unrepresented employees' compensation increase for FY 2026 is consistent with the general wage increase in MEA's MOU.

[7] SDCERS is the San Diego City Employees' Retirement System.

Annualization of FY 2024 Compensation Increases
The Outlook does not include the estimated impact of the annualization of certain compensation increases that begin January 1, 2024 and will be implemented for less than a full year in FY 2024. The total for these increases, which affect unrepresented employees as well as represented firefighters and lifeguards, is estimated to be $6.1 million in FY 2025, as well as in the remaining four years of the Outlook. This $6.1 million in additional costs will increase the shortfalls presented in the Outlook. Additional resources for FY 2025 will need to be identified during the upcoming budget process to mitigate these costs.

Defined Benefit Pension Payment – Actuarially Determined Contribution (ADC)
The ADC is the retirement payment made by the City for its defined benefit pension. The Outlook's citywide ADC estimate for FY 2025 is $471.8 million, which is an increase of $23.7 million from FY 2024. Of the citywide amount, $342.1 million is for the General Fund, an increase of $17.2 million from FY 2024. The Outlook shows the citywide ADC averaging about $472.2 million from FY 2026 through FY 2028, then decreasing to $453.4 million in FY 2029 (about $328.8 million for the General Fund).

The Outlook's FY 2025 ADC *estimate* and outyear ADC projections are based on the most recent estimates from SDCERS' actuary, Cheiron, which were included in the FY 2022 actuarial valuation. The Department of Finance added several other estimates to those projections to arrive at the ADC figures included in the Outlook. The first addition is for the estimated impact resulting from SDCERS Board-approved assumption changes that will be incorporated into the calculation of the ADCs. The second addition is associated with Proposition B unwinding, specifically for the amortization of the unfunded pension liability for active employees who were reinstated into SDCERS. The last addition to Cheiron's initial ADC projections is an estimate for the impact resulting from the pension system's investment experience loss that occurred in FY 2023. This experience loss is due to FY 2023's net investment return, at 5.0%, being lower than the 6.5% return that was assumed in the FY 2022 valuation. Additional information on the projected ADCs is included on pages 37-39 of the Outlook.

Other factors may increase the *actual* FY 2025 ADC in addition to the items discussed above. For example, any pensionable pay increases in FY 2023 that were higher than assumed in the FY 2022 valuation could increase the ADC. As these impacts are uncertain, they are not addressed in the Outlook. Because of the complexity of pension system variables, the total of all impacts to the FY 2025 ADC (as well as outyear projections) will not be known until the FY 2023 valuation has been completed.[8] The FY 2023 valuation is anticipated to be available in January 2024 and will incorporate all impacts of FY 2023 experience as compared to what was previously assumed for FY 2023 in the FY 2022 valuation.

[8] In general, changes between initial ADC estimates and the actual ADC relate to two types of factors:

- Changes in actuarial valuation assumptions used to calculate the ADC – for example, those related to mortality, salary increases, and investment returns.
- "Experience gains and losses" – the differences between actual results and what was assumed in the prior valuation (For example, if future investment earnings are lower than assumed in the actuarial valuations, future ADCs could be increased.)

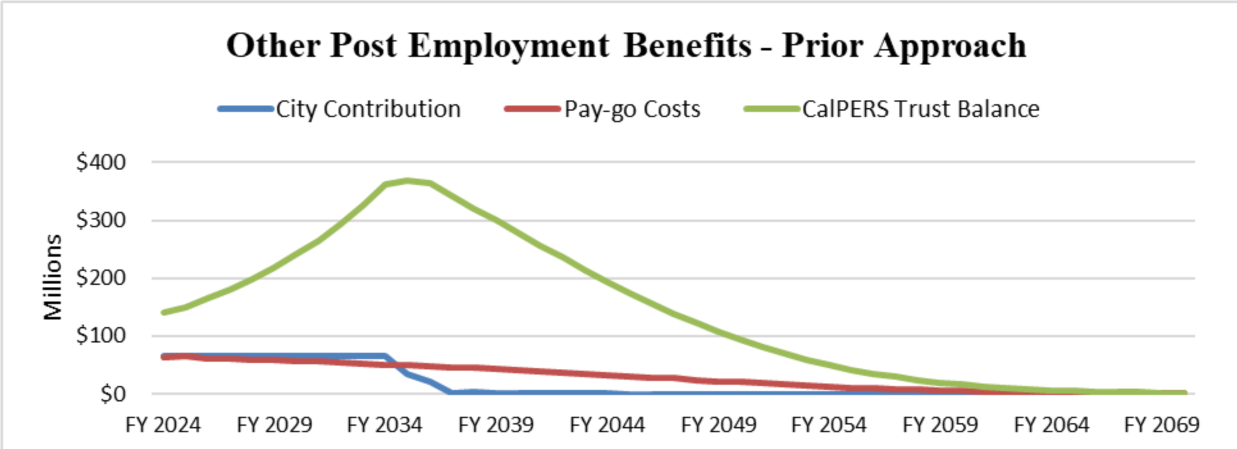
Retiree Healthcare Benefit/OPEB

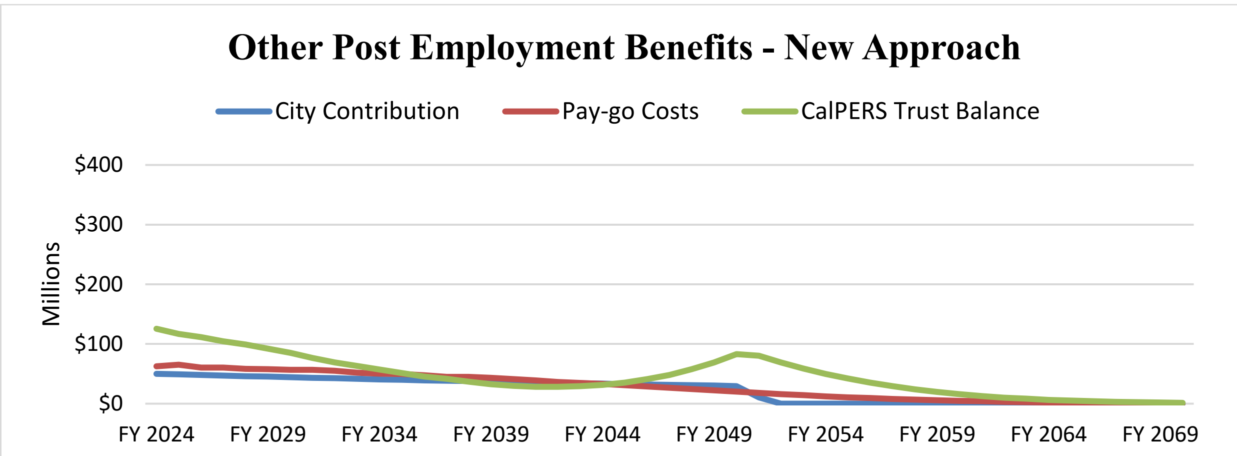
The City maintains a retiree healthcare benefit (also referred to as an Other Post-Employment Benefit, or OPEB) that has been closed to new members since July 1, 2005 and includes both defined benefit and defined contribution elements. Because this benefit is closed to new members, annual retiree healthcare costs are projected to decrease over time. The OPEB benefit is funded on a pay-as-you-go basis, along with a prefunding component. The CalPERS Employer Retiree Benefit Trust (CERBT) is the prefunding vehicle the City has employed to accumulate investment earnings that partially fund the benefit.

The Outlook discusses, and incorporates into its projections, a long-term strategy that would change the City's approach to OPEB funding, diminishing the prefunding component beginning in FY 2024, while still providing the needed resources to support the benefit (referred to as the "new approach"). The new strategy reduces City contributions for OPEB in earlier years and increases them in later years compared to the prior approach. The anticipated contributions under the new strategy are reduced incrementally over a longer period of time, smoothing them until FY 2050, rather than sharply reducing them beginning FY 2035.

Prior to this change in strategy, the City planned to make larger contributions in earlier years, which would enhance the prefunding component. The new approach studied by the City's actuary reduces the City's contributions in earlier years, as well as reduces the prefunding in the CERBT and related investment earnings that partially fund the OPEB benefit. Because less investment earnings would be available to pay the OPEB benefit under the new approach, City contributions would be higher in later years, and higher overall. Additional descriptions of OPEB and the funding strategy change can be found on pages 40-41 of the Outlook.

To better illustrate this change and associated impacts, the following charts show the City's contributions to fund/prefund OPEB; pay-as-you-go costs (for benefits provided to retirees); and the CERBT OPEB fund balance under the prior approach and the new approach.





Based on the actuary's analysis, it is preliminarily estimated that the new strategy would result in about $277.0 million of higher total contributions over time, or about $95.0 million in today's dollars, which exceeds the prior approach by 35% and 14%, respectively. Note that actual payment differentials could change over time based on investment earnings and benefit payouts that are different than assumed in the actuarial analysis.

Given the significant deficits projected over the Outlook, the changed methodology for funding OPEB may be appropriate. Planned City contributions for this benefit under the new approach will be more aligned timing wise with the projected benefit payments to retirees than under the prior approach. The FY 2024 budgetary savings from the new approach is estimated to be $15.4 million, of which $10.2 million is associated with the General Fund.

The new approach is applied for all five years of the Outlook; compared to the prior approach, Outlook savings incrementally increase to an estimated $20.2 million in FY 2029 ($13.3 million for the General Fund).

Non-Personnel Expenditures (NPE) in the Outlook Baseline

Review of Baseline Non-Personnel Expenditures
• Energy and Utilities
• Information Technology
• Infrastructure Fund
• Debt Financing/Debt Ratio Impacts

The Outlook discusses baseline NPE for the following categories: supplies, contracts and services, information technology, energy and utilities, debt service, reserve contributions, and City Charter section 77.1 Infrastructure Fund. As part of our analysis, the table on page 15 of this report includes major NPE changes from the FY 2024 Adopted Budget to the FY 2025 Outlook baseline projection. Select NPE areas are also discussed in more detail, including energy and utilities, information technology, the Infrastructure Fund, and debt financing.

A general observation regarding Outlook's NPE is that there are overall growth rates assumed for supplies, contracts, and information technology discretionary accounts (3.0% for FY 2025, and 2.8% thereafter). With recent inflation concerns, both locally and nationally, it is difficult to forecast these expenditures. Additionally, for contracts growth rates may be already included in contract terms. During the budgeting process, these areas should be further analyzed to ensure that needed service levels are achieved.

Energy and Utilities

For the Energy and Utilities expenditures category, the Department of Finance used a slightly different approach than in previous Outlooks. As opposed to using national inflation factors from the US Energy Administration for the forecast of electricity and gas rates, the Department of Finance requested a forecast from the Sustainability and Mobility Department (SuMo) since SuMo is the department that oversees these expenditures for the whole City. The SuMo forecast for these rates included numerous factors specific to the energy markets and usage within the San Diego region as well as specific to the City, and incorporated such factors as projected rate increases from San Diego Gas & Electric (SDG&E), and department specific changes due to either new facilities or changes in the appliances that various facilities utilize for their energy needs. This approach is in line with a recommendation our Office made last year.

We note the SuMo forecast also includes some swapping of gas utility expenses for electrical expenses based on Climate Action Plan targets that call for the phasing out of natural gas in municipal facilities. While the projects to achieve these energy swaps have not been funded yet (see more on the Zero Emissions in Municipal Buildings and Operations Policy, or ZEMBOP, below), the billing swap is estimated to have a minimal impact overall within the General Fund, as the expenses for electrification are projected to be 4% higher than the gas expenses. The total operational impact of this swap is less than $30,000 total over fiscal years 2027-2029.

Finally, SuMo also included in their baseline forecast additional electricity costs for the electrification of the City fleet, as new vehicles will be swapping their energy usage from gasoline to electricity. This increased the electrical forecast by $1.1-$1.9 million per year within the Outlook. However, fuel costs were maintained in the Outlook, as additional savings from some electric vehicle conversions will be offset by additional vehicles that are not electric are purchased. Additionally, the electrical forecast utilized by SuMo assumed a higher number of fully electric vehicles would be purchased than what the Fleet Operations Division utilized for their Assignment Fees for the General Fund. As such, while General Fund expenditures for additional energy costs for EV charging were correctly added to the Outlook, the costs used in the forecast are likely over-estimated.

Information Technology

The Information Technology (IT) category reflects both discretionary expenditures and non-discretionary allocations to General Fund departments, including hardware and software maintenance, help desk support, and other IT costs for services. CPI growth rate increases of 3.0% in FY 2025 and 2.8% for subsequent years of the Outlook were included for IT discretionary spending because most discretionary costs were quoted at market rate for given products/services. Growth rate projections essentially reflect anticipated inflation impacts on discretionary spending.

The IT non-discretionary allocation projections are based on various methodologies including the previous fiscal year actual consumption of services, the quantities of licenses for IT products assigned to departments, and the quantities of personal computers currently assigned to departments. These are used to calculate a rate for each category of services, which is projected over the Outlook period. For example, IT contracts and services are reflected in the various IT related funds and then allocated to departments through IT non-discretionary allocations. Minimal CPI growth is applied to the baseline non-discretionary accounts because these costs are primarily captured in multi-year fixed-rate contracts which do not typically require annual CPI increases. The minimal (versus zero) growth rate is attributed to application maintenance and Get-It-Done associated expenditures which are anticipated to increase throughout the Outlook period.

The Outlook removes $1.1 million in one-time expenditures, including $500,000 for IT project management for a waste management billing system and software integration; $375,000 for lease management software; and $155,000 for network infrastructure for the Family Justice Center. Department of IT (DoIT) officials noted they will continue working with impacted departments to ensure they have the resources needed to complete related IT projects.

Infrastructure Fund

Charter Section 77.1 requires the City to dedicate a portion of revenue increases to the Infrastructure Fund, which is calculated based on sales tax increases over FY 2016 and whether there are any General Fund pension cost reductions for each Outlook year.[9] Our Office believes the City's sales tax consultant's projection, which would reduce projected revenue by $61.2 million throughout the period of the Outlook, would be appropriate, as discussed in our review of General Fund revenues. Adopting this approach would likely result in lower contributions to the Infrastructure Fund.

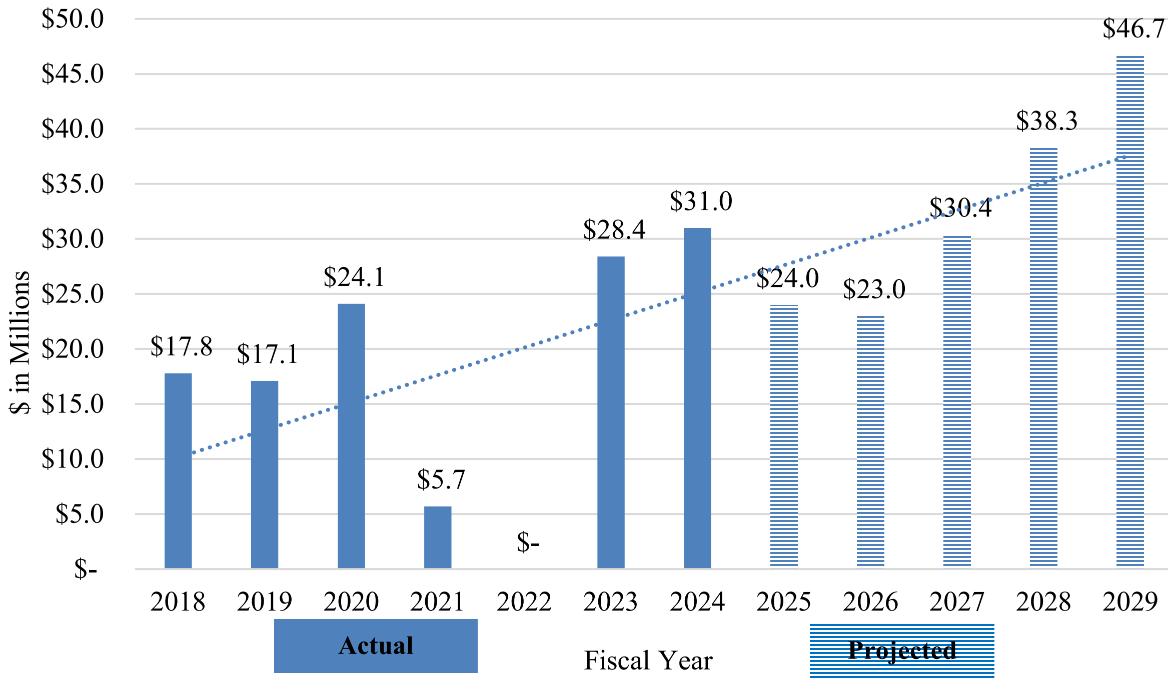
The Infrastructure Fund has few restrictions on how it can be used for new infrastructure investments, and it can also support financing costs related to General Fund capital improvements, as well as the repair and maintenance of infrastructure. As such, it is a particularly important funding source for General Fund assets and related capital projects that lack a dedicated funding source, many of which are Council Budget Priorities. Notably, the City's significant capital funding gap was projected to be $5.17 billion in the most recent Capital Infrastructure Planning Outlook (CIP

[9] The Infrastructure Fund was established by Section 77.1 of Article VII of the City Charter, which dedicated a portion of growth in major General Fund revenues to fund General Fund infrastructure efforts. This amendment to the Charter (Proposition H) was passed by San Diego voters in June 2016.

Outlook), and is likely to continue to grow. The funding gap, which is largely due to limited resources and a lack of new or dedicated funding sources, has led to ongoing deferral of needed projects, resulting in aging and deterioration of existing assets and an increase in emergency projects, which further increases costs.

The following chart shows budgeted amounts for the Infrastructure Fund since it was created in FY 2018, as well as funding projected in the Outlook, including $24.0 million for FY 2025.

Infrastructure Fund Actuals and Outlook Projections



Note: Contributions to the Fund were waived in both FY 2021 and FY 2022. The $5.7 million shown in FY 2021 represents the FY 2019 Fund reconciliation amount.

As reflected in the chart, contributions to the Fund were waived in FY 2021 in FY 2022 due to revenue decreases related to the COVID-19 pandemic and to help balance the City's operating budget. This was in addition to defunding CIP projects as a way to mitigate the deficit in the FY 2020 budget which led to delays to capital projects that lacked alternative funding sources. In FY 2024, the Infrastructure Fund provides $31.0 million to support maintenance and capital projects for City facilities, bicycle facilities, parks, storm drains, sidewalk repairs, streetlight circuit upgrades, road repairs, and traffic calming. While initial amounts contributed to the Infrastructure Fund were relatively small in comparison to the overall capital funding gap, projected increases to the gap suggest that the Infrastructure Fund is likely to grow in importance as a mechanism to address the City's ongoing and increasing infrastructure and capital needs, particularly if no new revenue sources are secured.

As a potential measure for mitigating the projected budget gap, the Outlook includes the suspension or strategic use of the Infrastructure Fund in FY 2025 and/or future years. A suspension of Infrastructure Fund contributions would require a two-thirds vote by the City Council. We note that suspending the Fund for one or more years could result in delays to current projects that lack alternative sources of funding, such as fire stations, libraries, and some transportation or parks projects. In making the decision to waive the Infrastructure Fund again, consideration should be given to the cumulative impact to the CIP in which it was used to mitigate the operating budget deficits in recent years. Our Office believes the Infrastructure Fund is an important source of funds for much needed maintenance and capital projects, especially for General Fund assets; therefore, we suggest that contributions should only be suspended in extreme circumstances, especially as the Fund can also be used to support the maintenance of existing assets, which may not address the capital backlog directly but could mitigate additional growth in that backlog caused by the deterioration of unmaintained facilities.

In the event that the Fund is suspended, as part of developing the FY 2025-2029 CIP Outlook (to be issued on January 12, 2023) and FY 2025 CIP Budget, the Department of Finance is working with the Engineering & Capital Projects Department (E&CP) and City Planning Department to seek alternative sources of funding. This includes a thorough assessment and allocation of existing funding sources, especially community based and Citywide Development Impact Fees (DIFs). The Department of Finance will also evaluate any other cash funding sources that have not been allocated, evaluate debt capacity for additional debt appropriations, and continue to pursue grant funding opportunities as available. Without alternative funding sources, existing projects with prior investments will be prioritized in accordance with Council Policy 800-14 to try to avoid project delivery delays. New projects will likely be delayed until funding can be identified for project initiation as well as a reasonable funding plan to see those projects through completion.

Debt Financing/Debt Ratio Impacts

The Outlook's baseline includes projected debt service costs associated with $822.0 million in new General Fund Lease Revenue Bond (LRB) issuances assumed to occur over the course of the Outlook. Included is a $180.0 million LRB issuance anticipated in late-FY 2024, and four subsequent $88.5 million LRB issuances assumed to occur annually in FY 2026 through FY 2029 to fund General Fund capital needs. These debt issuances together total $534.0 million and would fund all remaining prior City Council appropriations, along with $182.1 million projected to be available for new appropriations. This additional capacity that is projected for new appropriations is primarily due to an increase in E&CP's monthly rate of spending which has doubled in recent months compared to last year. E&CP has attributed this increased rate of CIP spending to streamlining and efficiency measures that have resulted in improved performance. In addition, many projects funded with debt funding sources have reached or are reaching their construction phase, which also increases the rate of expenditures. While this is a positive development that potentially allows more capital projects to be completed sooner, the budgetary impact associated with the increased amount of General Fund supported debt will be accelerated as well.

Assumed Use for New Projected Debt *($ in Millions)*	
Funding for Prior Appropriations	$ 351.9
Matching Funds for Stormwater WIFIA Loan	288.0
Unappropriated Funds for New Projects	182.1
Total New Lease Revenue Bond Proceeds	**$ 822.0**

Additionally, the Outlook includes debt service costs anticipated for the City's $359.2 million Water Infrastructure Finance and Innovation Act (WIFIA) loan to fund Stormwater improvements and projected Stormwater LRB issuances in FY 2025 and FY 2027 of $144.0 million each ($288.0

million in total) to meet the EPA's matching funds requirement for the WIFIA loan.[10] Issues related to Stormwater CIP funding needs are discussed later in this report.

Short-term borrowings anticipated over the Outlook period are also included in the Outlook's projections. These primarily consist of Equipment and Vehicle Financing Program (EVFP) financing costs to fund typical General Fund annual fleet and PC replacement needs. Also included are financing costs for the replacement of three Police helicopters and one Fire-Rescue helicopter. We note that while the purchase and financing plan for the three Police helicopters was approved by the City Council earlier this year, the Fire-Rescue helicopter has not yet been approved; staff anticipate seeking Council approval in January 2024.

Our Office worked with the Department of Finance's Debt Management Division to prepare the following table which reflects the additional debt service costs that are assumed to be incurred by the General Fund during the Outlook period, as well as the associated impacts to the City's Debt Ratios.

General Fund Supported Debt Service *($ in millions)*						
	FY 2024 Adopted Budget	**Forecast FY 2025**	**Forecast FY 2026**	**Forecast FY 2027**	**Forecast FY 2028**	**Forecast FY 2029**
Existing Debt Service (Long-Term & Short-Term)	$ 85.1	$ 79.4	$ 76.8	$ 72.9	$ 67.5	$ 50.7
Stormwater WIFIA Loan ($359.2M)	0.7	1.4	3.6	6.7	10.5	18.2
2024 LRBs ($180M)		10.7	10.7	10.7	10.7	10.7
2025 Stormwater LRBs ($144M)			8.6	8.6	8.6	8.6
2026 Proj. LRB Issuance ($88.5M)	-	-	-	5.3	5.3	5.3
2027 Stormwater LRBs ($144M)					8.6	8.6
2027 Proj. LRB Issuance ($88.5M)	-	-	-	-	5.3	5.3
2028 Proj. LRB Issuance ($88.5M)	-	-	-	-	-	5.3
2029 Proj. LRB Issuance ($88.5M)[1]	-	-	-	-	-	-
New Short-term Debt Service[2]	2.7	4.2	13.7	22.6	28.9	33.4
Totals	**$ 88.5**	**$ 95.8**	**$ 113.5**	**$ 126.8**	**$ 145.4**	**$ 146.0**
Pension and OPEB Costs	$ 368.3	$ 374.5	$ 374.9	$ 371.4	$ 374.1	$ 358.6
General Fund Revenue[3]	$ 2,045.4	$ 2,046.5	$ 2,109.9	$ 2,180.7	$ 2,248.8	$ 2,322.0
Debt Ratios						
10% Benchmark	**4.3%**	**4.7%**	**5.4%**	**5.8%**	**6.4%**	**6.3%**
Inc. Pension/OPEB - 25% Benchmark	**22.3%**	**23.0%**	**23.1%**	**22.8%**	**23.1%**	**21.7%**

[1] Debt Service expense assumed to commence bringing in FY 2030.

[2] Short-term debt consists of General Fund Equipment and Vehicle Financing Program (EVFP) leases, IT computer hardware leases, and Commercial Paper interest costs.

[3] Includes other operating funds currently being used for existing debt service (e.g. non-General Fund TOT)

[10] Under the terms of the City's 2022 Stormwater WIFIA Loan, the City must contribute 51%, or $373.8 million, of the $733.0 million in total project costs.

OUTLOOK PRIORITIES BEYOND BASELINE EXPENDITURES

NEW FACILITIES

New Facilities
• Library • Fire Stations • Parks and Recreation

The Outlook includes forecasted funding for new Parks and Recreation, Library, and Fire-Rescue facilities assumed to open during the Outlook period. Opening dates for the new facilities in the Outlook are not certain as timelines can be impacted by project delays. As our Office has highlighted in previous years, some new facilities currently in development are projected to open during the Outlook period, but they lack full funding for construction. The Outlook assumes funding will be needed, but funding sources are unidentified. Without a clear funding plan, it may be premature to project the opening of these facilities and corresponding operating costs in the Outlook's projections.

It should be noted that although new facilities are contemplated in the Outlook, they can be delayed for budgetary reasons if necessary. A list of expenses for all new facilities anticipated to open or become operational within the Outlook period is included in Attachment 1 to this report.

Library: New and Expanded Branch Libraries

The Library Department anticipates the opening of two new branch library replacements and one library expansion during the Outlook period. The new libraries include the Oak Park Library, Ocean Beach Library expansion, and the San Carlos Library. Given that these new facilities will replace/expand existing library branches, no new staffing is assumed; new costs for these facilities in the Outlook instead include increases in NPE, including energy and other utilities, janitorial services, and landscaping based on expanded square footage. Total projected annual costs are $137,000 beginning in FY 2027 increasing to $320,000 in FY 2029.

- *FY 2027 – Oak Park Library (Replacement):* Received a $9.1 million State Library Grant in October 2023 which requires that the City contribute $4.5 million in matching funds by January 18, 2024. Once matching funds are identified, the project will be fully funded based on the current project estimate that totals $32.1 million. The current project schedule anticipates that completion of construction could occur in Spring 2027 (late FY 2027).

- *FY 2027 – Ocean Beach Library Expansion:* Fully funded pending the receipt of a $3.0 million philanthropic donation that has been committed to the project. Construction is anticipated to begin in FY 2026 and be completed in FY 2027.

- *FY 2029 San Carlos Library (Replacement):* Current project cost estimate totals $47.5 million, of which $9.8 million has been appropriated to date and an additional $1.5 million is anticipated from a State Grant; the resulting funding gap is $36.3 million. According to the Library Department, current funding is sufficient for bridging design documents which are anticipated to be completed by the end of CY 2024. Beyond that, a phased funding approach will be required to progress the project. Phase 1 requires $4.7 million to hire a design-builder, submit design for permits, do site preparation for initial construction, grading, and underground utilities, and account for any remaining testing for contamination. The Library Department applied for a $10.0 million State Library Grant (similar to what was received for the Oak Park Library replacement) but was unsuccessful; it is now exploring the potential opportunity for a $3.0 million Department of Energy loan which would carry a 1% interest rate over 20 years. Absent additional funding, this project will be unable to move forward and unlikely to open in FY 2029, as assumed in the Outlook.

Fire-Rescue: New Fire Stations

The Outlook assumes funding for operational expenses for five new fire stations assumed to open within the Outlook period. Total assumed annual costs are $2.5 million beginning in FY 2025, increasing to $17.8 million in FY 2029. Each new fire station includes staffing of 12.00 FTEs, with the exception of the Otay Mesa Fire Station (a double-house fire station) that requires 24.00 FTEs; in total 72.00 new FTEs are assumed to be necessary during the Outlook period. Operational expenses include personnel expenditures and non-personnel expenditures such as equipment and supplies, as well as debt service for electric fire engines and charging equipment. The five new fire stations identified in the Outlook as requiring operational funding over the next five years are listed below:

- *FY 2025 – Torrey Pines* (primarily funded by UCSD): Current construction schedule anticipates the opening of this facility to occur in July 2024. The project is fully funded, including costs associated with an electric fire engine and related charging infrastructure.

- *FY 2026 – Black Mountain Ranch* (primarily developer funded): Current project cost estimate totals $30.0 million which is fully funded; however, E&CP is currently working with a consultant to estimate additional costs to incorporate new CAP/Zero Emissions Municipal Building Operations Policy (ZEMBOP) requirements. Subject to identifying funding for these new costs, the facility is anticipated to open in late-FY 2027 or early-FY 2028, which is later than the Outlook's assumption of FY 2026.

- *FY 2028 – Otay Mesa Fire Station* (land purchased); Current project cost estimate totals $31.1 million of which $27.8 million is unfunded, which does not include additional costs that are anticipated to incorporate CAP/ZEMBOP requirements. Tax increment revenue from the Otay Mesa Enhanced Infrastructure Financing District (EIFD) are anticipated to be utilized to fund design and to finance construction costs.

- *FY 2029 – Fairmount Avenue* (land purchased, EIR/environmental permitting in progress): Current project cost estimate totals $28.0 million of which $24.3 million is unfunded, which does not include additional costs that are anticipated to incorporate CAP/ZEMBOP requirements. This facility is unlikely to open in FY 2029 given the current funding deficiency.

- *FY 2029 – Skyline Hills (site identified, design in progress):* Current project cost estimate totals $25.8 million of which $23.9 million is unfunded, which does not include additional costs that are anticipated to incorporate CAP/ZEMBOP requirements. This facility is unlikely to open in FY 2029 given the current funding deficiency. This station, once completed, will be staffed by existing Fire-Rescue employees who currently work out of a temporary station at this site. While the Outlook erroneously includes the addition of 12.00

FTEs and $2.6 million in personnel expenditures to staff this new facility beginning in FY 2029, no additional staff will be required once this station is completed.

Parks and Recreation: New Parks and Joint Use Facilities

The Parks and Recreation Department anticipates 20 new or expanded parks to open, 14 new Joint Use Agreements (Agreements) with local school districts allowing shared use of various recreation facilities, and the addition of nearly 2,000 acres of open space during the Outlook period. The Outlook projects new expenses for park facilities to total $9.8 million in FY 2025 and increase to an aggregate expense of $16.1 million in FY 2029; included in this aggregated expense is the addition of 95.00 FTE positions over the Outlook period.

We note that these totals include expenses beyond what is necessary to operate the anticipated new/expanded facilities; included are 6.00 FTEs and $3.4 million in expenses in FY 2025 (of which $2.8 million is ongoing in FY 2026 and beyond) for various Citywide park maintenance needs for existing facilities. According to the Department of Finance, including these costs, which would otherwise be budgetary requests for service level increases, was unintentional.

PLANNED COMMITMENTS

Homelessness

Planned Commitments
• Homelessness • Department of Information Technology

For homelessness programs and services, the Outlook denotes a period of transition as the Homelessness Strategies and Solutions Department continues implementation of the Comprehensive Shelter Strategy (the "Strategy"), released June 8, 2023. The Strategy calls for the relocation of five shelter sites by December 2024, development of two new Safe Sleeping sites, expansion of the Safe Parking program, and establishing new shelter sites to replace beds from planned shelter relocations and to expand shelter capacity. The Outlook period incorporates many components of the Strategy planned for this fiscal year. Specifically, the Outlook includes planned commitments that largely fall into three main categories:[11]

- ***Developing replacement shelter beds*** for an estimated 700 beds at H-Barracks due to the planned relocation of the Golden Hall and 16th and Newton shelters. As a result of the shelter relocations, ongoing expenditures for these two shelters will be folded into supporting H-Barracks operations starting in FY 2025, except for funding associated with 120 beds located on the second floor of Golden Hall, which will continue to operate through FY 2025.

- ***Funding anticipated operation costs beginning in FY 2025*** at the new "O" Lot Safe Sleeping site and domestic violence shelter. Both programs are ramping up in the current fiscal year, and full operation costs are reflected starting in FY 2025 under the Outlook.

- ***Augmenting funding for current programs*** including the Housing Instability Prevention Program and Multidisciplinary Outreach Team. Both programs are administered by the San

[11] Anticipated program expenditures in the Outlook for FY 2025 can be found in the table on page 30.

Diego Housing Commission. The Housing Commission requested additional funding for both programs, which is reflected in the Outlook starting in FY 2025.

Although the Outlook incorporates existing ongoing General Fund support and one-time State grant funds anticipated in FY 2025, the Outlook identifies the need for an additional $21.4 million General Fund commitment in FY 2025.[12] In addition to planned commitments, the Outlook anticipates less carryover funding from past one-time State grants to be available moving forward as the City begins to exhaust funding from State grants awarded in previous years to support existing program operations. Overall, this results in lower revenues to support homelessness programs, along with added expenses from the planned commitments. We note that the projected shortfall does not reflect City efforts to further expand shelter capacity in the Outlook period, but rather reflects the replacement of existing beds planned for relocation.

Barring additional State or federal grant funds beyond FY 2025, the Outlook shows a funding cliff for homelessness programs starting in FY 2026 which requires the projected General Fund commitment to grow by $42.9 million beyond existing ongoing General Fund support. If the State continues funding for homelessness that it has provided since FY 2019, the funding cliff would be partially mitigated. Without new or continued State or federal funding support, however, the anticipated General Fund commitment continues to increase throughout the Outlook period. Because it is unknown whether the State will continue to provide one-time funding beyond FY 2025 or establish an ongoing funding source for homelessness services, the City may need to reevaluate its budget priorities and consider tough decisions – to achieve more sustainable levels of funding and/or identify new ongoing revenue sources – in future years.

We note that Measure C on the March 3, 2020 ballot proposed an increase to San Diego's Transient Occupancy Tax to, among other things, provide additional funding for homelessness services. Measure C is discussed in further detail later in this report; the City is currently awaiting a final determination from the courts on whether Measure C is an approved citizens' initiative ballot measure and whether the City's issuance of certain bonds under Measure C would be valid. If the City obtains a favorable court judgment or outcome in the lawsuit (which could potentially take two or three more years), proceeds from future bonds issued could become a viable ongoing funding source for homelessness programs. If successful, based on recent projections, Measure C could generate between $36.5 million to $45.6 million annually for the first five years, which would be sufficient to cover all existing program costs, assuming continued State funding.

On November 14, 2023, Council heard the Community Action Plan on Homelessness Update (Update), which updates the Community Action Plan on Homelessness, initially approved by Council on October 14, 2019, to reflect impacts from the pandemic on system needs and progress made since 2019. The Update identifies additional need for 465 to 930 crisis response beds (e.g., increased shelter capacity), 4,185 prevention and diversion resources (e.g., financial assistance to

[12] Notably, not all homelessness programs provided by the City are included in the Department's budget. Additional programs and services are provided by other City departments as well as the San Diego Housing Commission. Those programs, such as federal housing voucher support for people experiencing homelessness, permanent supportive housing services, and SDHC-funded prevention, diversion, and landlord engagement programs, are not discussed in this section.

remain in or secure housing), and 9,416 permanent housing solutions (e.g., creating more affordable housing or providing long-term rental assistance) to support flow-through across the homelessness response system. Fully funding the Update would require approximately $3.4 billion dollars above current funding levels over six years.

As Council thinks about the upcoming budget process as it relates to addressing homelessness, it is important to keep in mind how the City's existing and planned programs advance the ambitious goals of the Update. This perspective is especially important given the limited budget resources and the anticipated shortfall for homelessness programs under the Outlook. Because there is a severe lack of funding to fully fund the Update, prioritization of strategies is needed to determine what goals are feasible with limited budget resources. For instance, the Update identified that for every one new shelter bed, there should be six new prevention and diversion resources and around nine new permanent housing resources – suggesting that resource allocations across available funding sources should prioritize prevention, diversion, and permanent housing resources. The Homelessness Strategies and Solutions Department has asserted that its role within the regional context is to focus on increasing shelter capacity. Consistent with the FY 2024 Adopted Budget, the Outlook prioritizes General Fund support for crisis response and stabilization, mainly through funding new and existing shelter operating costs. However, without a significant increase in ongoing resources to expand prevention, diversion, and permanent housing solutions alongside emergency shelter, the City could be limited in achieving goals outlined in the Update.

The Outlook indicates that current available resources are not sufficient to address the funding gap for the City's existing and planned homelessness programs. **In preparation for upcoming budget decisions for FY 2025, Council may wish to learn more about how collaboration with the San Diego Housing Commission, the Regional Task Force on Homelessness/Continuum of Care, and the County would be used to continue supporting a range of homelessness strategies, including prevention, diversion, and permanent housing solutions. This should include consideration of a funding strategy relying on a mix of different funding sources, beyond solely the City's General Fund, to support Council priorities for homelessness. Over the long term, in addition to evaluating alignment with the Update, we believe a systematic evaluation of the City and the Housing Commission's homelessness efforts with a focus on program outcomes and cost efficiency should help inform future budget decisions.**

The following table below provides a breakdown of homelessness programs anticipated to be supported in FY 2025 by the General Fund, as well as State and federal grant funds. The anticipated expenditures needed for existing programs and planned commitments totals $103.1 million. The City anticipates receiving additional one-time State grant funds, currently estimated at around $22.0 million, with the final allocation to be released by the State by the end of January 2024. The projected funding need for these programs may change depending on how much State grant funding awarded in previous years is carried forward into FY 2025.

Breakout of FY 2025 Homelessness Existing Programs and Planned Commitments *(Subject to Change)*			
System Component	**Programs**	**Unit Count**	**Anticipated Funding Needs**
Housing & Services $ 7.0 million	Prevention - Housing Instability Prevention Program	300 households	$ 4,118,000
	Rapid Rehousing - City Programs		2,052,000
	Diversion - Family Reunification		787,000
Crisis Response & Stabilization $ 74.7 million	Shelters		
	New Shelter Operations - H-Barracks*	700 beds	17,354,000
	Shelter Startup Costs - H-Barracks*		8,046,000
	Family Non-Congregate Shelter	110 beds	4,143,000
	Bridge Shelter - 17th and Imperial	140 beds	3,751,000
	Shelter for Survivors of Domestic Violence*	99 beds	3,315,000
	Bridge Shelter - Golden Hall (Upstairs)	120 beds	3,194,000
	Youth Case Management & Shelter	69 beds	2,838,000
	Interim Housing for Homeless Adults	350 beds	2,521,000
	Senior Non-Congregate Shelter	60 beds	2,407,000
	LGBTQ+ Youth Services and Shelter	23 beds	1,899,000
	Winter Weather Shelter	36 beds	1,271,000
	Connections Interim Housing	80 beds	1,232,000
	Women's Shelter	40 beds	1,100,000
	Bishops Shelter	28 beds	642,000
	Bridge Shelter - 16th and Newton	326 beds	-
	Bridge Shelter - Golden Hall (Downstairs)	324 beds	-
	Substance Use Disorder Shelters & Services		
	Sprung Shelter	150 beds	5,004,000
	Harm Reduction Interim Shelter	44 beds	2,353,000
	Safe Haven	22 beds	426,000
	Serial Inebriate Program		299,000
	Other		
	Safe Sleeping Programs*	536 spaces	9,100,000
	Safe Parking Programs	221 spots/12 RVs	3,767,000
Engagement Services Citywide $ 16.3 million	Outreach		
	State Encampment Resolution Grant Activities		4,698,000
	City-wide Street Outreach		3,142,000
	Other Outreach Activities[1]		1,962,000
	Multidisciplinary Outreach Team Pilot	50 individuals	1,100,000
	Storage		
	Storage Connect Center I	500 bins	1,697,000
	Storage Connect Center II[2]	257 bins	870,000
	Think Dignity Storage Facility	400 bins	251,000
	Other		
	Homelessness Response Center		1,709,000
	Day Center for Homeless Adults		572,000
	PEER College Course		258,000
Administration $ 5.2 million	HSSD Administration		3,418,000
	SDHC Administration		1,806,000
		Total Expenses	**$ 103,097,000**
		Projected Grant and Ongoing General Fund Revenue Available	**$ 81,683,000**
		Funding Gap - *Included in Planned Commitments*	**$ (21,414,000)**

Notes: Table only includes programs in the Homelessness Strategies and Solutions Department Budget. Values are rounded to the closest thousand.

[1] Other homelessness outreach activities include Downtown San Diego Partnerships, Bridge Shelters and Caltrans, CARE Events, and outreach hub/outreach ancillary costs.

[2] Due to the pending expiration of the 2019 *Arundel* settlement, Storage Connect Center II is planned to close by the end of FY 2025 under the Outlook.

* Program was newly funded in the FY 2024 Adopted Budget and is in development.

Department of Information Technology

The Outlook includes funding for the Department of Information Technology (DoIT) to implement a modernization of the City's current Enterprise Resource Planning (ERP) system, SAP. This system will reach the end of life and no longer be supported after December 2027.

To support this effort, DoIT procured a consultant (Gartner) to conduct an ERP Next Generation Assessment which included assessing the current SAP landscape, identifying viable options, and providing the estimated total cost of ownership for each option. The assessment resulted in three recommended options that DoIT and City leaders are currently considering for ERP System modernization – Option 1: SAP - Licensed, Option 2: SAP - Software as a Service (SaaS), and Option 3: Non-SAP - SaaS. The options are being assessed based on cost, timeline for implementation, and whether it is a licensing/hosting model. The goal is to choose an option as soon as possible and determine next steps, including the development of sourcing and financing strategies for the ERP modernization project.

The ERP Next Generation Assessment provides rough order of magnitude costs for a five-year implementation project (FY 2024-2028).[13] The Outlook reflects a middle-of-the-road estimation of expenses related to this effort, including City resources (IT and Business), all related system integrator costs, project management, contingency, and licensing/subscription. The table below shows General Fund project implementation expenses included in the Outlook; they total $62.0 million for the Outlook period. Non-General Fund expenses are also included to illustrate the total projected project implementation costs of $136.9 million. The basis for the General Fund portion included in the Outlook is the FY 2024 non-discretionary IT allocation for maintenance and support of 45.9% General Fund and 54.1% non-General Fund. Future operational costs/allocations have not been included at this time and will be evaluated by DoIT.

ERP Modernization Project *($ in Millions)*							
	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**Total Project Implementation**	**FY 2029**
General Fund (45.9%)	$ 0.8	$ 1.4	$ 14.8	$ 25.1	$ 20.7	$ 62.8	$ -
Non-General Fund (54.1%)	1.0	1.6	17.5	29.6	24.4	74.1	-
Total Implementation Cost	**$ 1.8**	**$ 3.0**	**$ 32.3**	**$ 54.8**	**$ 45.0**	**$ 136.9**	**$ -**

As part of the ERP Next Generation Assessment, options to delay the project or provide a technical upgrade also have been assessed. These are important to consider given the estimated costs of the ERP modernization project and projected budget deficits in the Outlook, and are discussed below. Our Office agrees that these options should not be recommended as they are associated with very high risks.

- **Delaying Project** – The City may have an option to have extended support past 2027 by paying an increased 2% maintenance upcharge, thereby allowing the City to delay implementation of the new system. However, the total fiscal impact of the upcharge is yet to be determined and could be as high as 15% depending upon how it is calculated. Risks related

[13] Estimates provided in the assessment are high-level and may range between -10% to +25% from actual expenses once realized. Key risks that could increase these costs include delaying the project, the international economy, and political climate.

to delaying implementation of the new project also include demand for a qualified system integrator (SI) to implement the project may exceed supply as many customers will be initiating similar projects right before and during the extended support period, which could result in increased related SI costs. Delaying this project also delays the ability for the City to take advantage of cloud innovations and business process efficiencies that will be gained through the business process transformation effort.

- **Technical Upgrade** – DoIT indicated that a technical upgrade would not meet user requirements or expectations, and could result in higher overall costs by requiring the City to purchase niche licensing and having to integrate separately into SAP. This approach would not allow the City to take advantage of new cloud innovations or deliver new business outcomes. Additionally, implementing a technical upgrade would not achieve a main goal of achieving cost savings by combining the City's existing dual SAP landscape (Public Sector and Utilities instances).

ADDITIONAL FUNDING NEEDS NOT INCLUDED IN OUTLOOK

There are additional unfunded services and priorities not included in the Outlook that will need to be weighed by the City. We review several unfunded services and priorities in this section, including certain areas that are discussed, but not funded, in the Outlook. Rather than include an exhaustive compilation of such unfunded needs, we discuss select high priority areas, which are listed in the table to the right, and include cost estimates for the most pressing elements.

Needs Not Included in Outlook
• ***Operational Needs*** o Stormwater Compliance o Street Repair Positions o Streetlights and Sidewalks o Asset Management and the Enterprise Asset Management (EAM) System o Homelessness and Housing – FY 2025 City Council Priorities o Climate Action Plan Implementation ▪ Fleet Electrification o Arts & Culture Funding o SD Access 4 All – Digital Equity Program o Emergency Medical Services (EMS) Alliance Model o Other Non-Quantified Operational Needs ▪ Civic Center Revitalization ▪ Office Space Optimization
• ***Capital Improvements Program (CIP) Needs*** o Stormwater Compliance o Street Repair Program o Streetlights and Sidewalks o Asset Management and the Enterprise Asset Management (EAM) System o Homelessness – H-Barracks o Zero Emissions Municipal Building Operations Policy (ZEMBOP)

<u>Operational Needs Not Included in the Outlook</u>

The Outlook's discussion on various operational needs in its Future Fiscal Considerations section includes background information, context, and some cost information but does not provide annual cost estimates. In this section of our report, we review select operational needs that are either included in the Outlook's discussion or identified separately by our Office. Where feasible we have also compiled preliminary annual cost estimates for general context, as shown in the following table. We note that funding these additional expenditures would nearly triple the projected Outlook shortfall for FY 2025 absent additional revenue. Additional discussion on these items follows the table.

Select Operational Needs Not Included in the Outlook *($ in millions)*					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Stormwater Needs	$129.9	$142.1	$145.2	$149.2	$156.4
Street Repair Positions	4.2	2.5	2.5	2.5	2.5
Streetlight Positions	12.2	3.5	3.5	3.5	3.5
Sidewalk Positions	7.4	4.4	4.4	4.4	4.4
Asset Management and EAM System	TBD	TBD	TBD	TBD	TBD
Homelessness and Housing Council Budget Priorities	22.4	9.9	10.2	10.5	10.8
Climate Action Plan Implementation	18.7	18.7	18.9	18.5	18.5
Arts & Culture Funding	8.3	20.6	22.6	24.8	27.1
SD Access 4 All - Digital Equity Program	1.3	1.3	1.3	1.3	1.3
Emergency Medical Services Alliance Model	5.3	5.3	5.3	5.3	5.3
Total Additional Known Programmatic Costs	**$209.7**	**$208.3**	**$213.9**	**$220.0**	**$229.8**

Stormwater Compliance

Stormwater compliance costs continue to be the largest unfunded operating need in the City. In order to estimate the costs for compliance with the Municipal Storm Water Permit issued by the Regional Water Quality Control Board (RWQCB), the Stormwater Department developed the Watershed Asset Management Plan (WAMP) which projects both ongoing operations and capital costs for compliance. These costs, last updated in January 2021 as part of the Funding Strategy, total almost $5.5 billion through FY 2040. As mentioned in the Outlook, the WAMP estimates ongoing operational funding needs beyond what is funded for the Department in the baseline total $722.7 million over the next five years, ranging from $129.9 million to $156.4 million per year. This includes $76.1 million in unfunded requests for the Department in FY 2024, as well as additional activities such as channel clearing and green infrastructure maintenance.

Not funding these activities could lead to fines or other penalties levied by the RWQCB, including penalties of up to $10,000 per day per violation. The RWQCB has already required the City to spend resources on specific activities due to missed compliance deadlines, such as the Time Schedule Order (TSO) funded in FY 2024 at $2.5 million. The TSO will require additional funding in the future, which will be at the direction of the RWQCB, and the City is already subject to a potential Mandatory Minimum Penalty of at least $3,000 per violation per day, which began accruing on April 4, 2021. Not funding compliance activities could result in the City not meeting other compliance deadlines, resulting in additional fines or additional spending requirements over which the City will have less control.

Street Repair Positions

In addition to funding required for major road repaving activities, the Outlook notes the Transportation Department requires additional 20.00 FTEs, including 16.00 FTEs for a new Asphalt Repair team to repair small street segments, as well as 4.00 FTEs to oversee the administration of the Street Repair Program. These positions would require an annual cost of approximately $2.5 million, with an additional $1.7 million in one-time startup costs.

Notably, these 20.00 FTEs would be in addition to another 56.00 FTEs that would be needed for the Street Repair Program if the Transportation Department were to resume the planning, management, and inspection of all elements of the Street Repair Program. However, there are no additional costs for these positions noted in the Outlook, as it is anticipated that they would be funded from the CIP for street repairs. Keeping these positions cost neutral, however, would then require funding for CIP and other road repaving projects, which as described below, currently have significant deficits.

Streetlights and Sidewalks

There are significant backlogs for maintenance, repair, and replacement for two other major assets under the Transportation Department: streetlights and sidewalks. As noted in the Outlook, the streetlight backlog is currently at approximately 5,900 cases. To address this, the Outlook notes that Transportation would need to add 29.00 FTEs for an ongoing expense of $3.5 million. This would include 2.00 Engineers to provide supplementary oversight for streetlights, traffic signals, and undergrounding, as well as being responsible for the planning and management of streetlight replacement projects. The other 27.00 FTEs would be positions responsible for supporting incoming requests related to existing streetlights and ensuring the continuing operation of these systems. These teams would require one-time funding of $4.7 million in startup costs for equipment and vehicles.

Additionally, one-time costs of $4.0 million in contractual funding would be needed to eliminate the roughly 4,000 streetlight backlog over twelve months. The Transportation Department informed our Office that it may further require more than $4.0 million to eliminate the backlog, depending on how many lights are addressed with the current FY 2024 appropriation for this activity ($2.3 million) and the incoming caseload over the next year.

For Sidewalks, additional personnel would include a 13-person Concrete Repair Crew for sidewalk maintenance, and a 7-person crew for an Asphalt Backfill Team which would be able to provide ramping services more quickly for reported and identified sidewalk defects. Additional support positions would also be needed for budgetary and administrative tasks; altogether this would total 23.00 FTEs and $4.4 million in ongoing expenses as noted in the Outlook report. There would also be $3.0 million in one-time costs for equipment and vehicles for the two teams.

Asset Management and the Enterprise Asset Management (EAM) System

The resources needed to fully support Asset Management and EAM efforts have thus far not been invested and are not included in the Outlook.[14] Departments require additional resources to take full advantage of EAM capabilities, and could benefit from dedicated Asset Management positions, but this will need to be prioritized against other critical needs.

Departments are working to identify expenditures needed to operationalize EAM more fully, and may request these needs as part of the FY 2025 or future year budget processes. Requests are likely

[14] For more information, see the IBA *Review of Citywide Asset Management Practices and the Use of the EAM System*.

to include both staff positions for ongoing EAM implementation and Asset Management in departments such as Transportation and General Services/Facilities, and non-personnel expenses for inventory updates and condition assessments.[15]

We also note that maintenance for existing City facilities has been chronically underfunded and deferred for many years, and has contributed to the significant backlog today. Industry standards recommend at least infrastructure expenditures consist of 70% for preventive maintenance and 30% for reactive repairs. However, preventive maintenance constitutes only 14% of Department of General Services/Facilities work, with 86% going towards reactive repairs. Current staffing and funding does not support increased levels of preventive maintenance.

It is clear the City faces significant constraints given the deficits projected in the Outlook. These budgetary constraints, however, underscore the importance of making strategic investments in resources with a relatively small price tag that could have a larger impact through enhancing and streamlining work processes, reducing long-term lifecycle costs (including reducing the need for emergency repairs) and more efficient spending of City resources. It is important that Asset Management and EAM-related budget requests be vetted and discussed during upcoming budget processes.

Homelessness and Housing – FY 2025 City Council Priorities

Although the previously mentioned Community Action Plan on Homelessness Update helps to inform additional funding needs for homelessness and housing, the approximately $280.0 million needed to fully fund the Update for FY 2025 far surpasses available budget resources. Likewise, the Comprehensive Shelter Strategy also includes potential future expenditures for emergency shelter and crisis response options, but efforts from the Strategy beyond FY 2024 are still under feasibility assessment and being developed with associated funding yet unknown. As an alternative approach, additional funding needs here focus on Council budget priorities for FY 2025. The Outlook includes funding for some homelessness programs that received majority support from Councilmembers in their September 2023 budget priorities memoranda – this includes continued funding for shelter beds specifically dedicated to LGBTQ+ youth and additional funding for the Safe Sleeping program and the Multidisciplinary Outreach Team. However, other programs that received majority support among Councilmembers were either only partially included or not included in the Outlook, including additional funding for the Housing Instability Prevention Program, Eviction Prevention Program, and Safe Parking program. The Outlook also does not include dedicated funding for other priorities that received majority support, including providing seed funding for the Affordable Housing Preservation Fund, developing an affordable housing universal application and navigation system, funding the middle-income first-time homebuyer programs, and redeveloping the Old Central Library. For FY 2025, an additional $22.4 million would be needed to fund Council budget priorities for homelessness and housing not included in the Outlook.

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[15] The Transportation Department preliminarily expects to request 4.00 FTEs for Asset Management and EAM implementation; General Services/Facilities anticipates requesting 1.00 FTE to support EAM as well. Beyond this, $3.9 million is anticipated to be requested for three condition assessments of City facilities assessed in 2014-2016 (which requires an update), facilities not included in that assessment, and three major service yards.

Climate Action Plan Implementation

Fully funding the Climate Action Plan (CAP) continues to be a major focus for the City Council, but developing a definitive cost for full CAP implementation continues to be a complex discussion. More information about spending on the CAP and potential funding gaps in the FY 2024 Adopted Budget can be found in IBA Report 23-26 *FY 2024 Climate Action Plan Expenditures, Funding Gaps, and Other Policy Considerations*.

For the purposes of identifying additional costs related to CAP Implementation, our Office utilized the Implementation Cost Analysis prepared for the Climate Action Implementation Plan, which included cost estimates for FY 2024 through FY 2028. We isolated those costs identified in estimates as being for either new or expanded services within the General Fund. We then backed out those activities that were funded in FY 2024 and rolled over any unfunded FY 2024 one-time costs into FY 2025. Finally, we carried forward the FY 2028 costs into a potential FY 2029. Based on this analysis, additional Climate Action Implementation spending is between $18.5 and $18.7 million per year across the Outlook. The majority of these costs are for either additional Tree Canopy or Sequestration activities.

However, this estimate does not include the full costs of implementing the CAP. While there were more than $92.9 million in unfunded requests related to the CAP across all City departments and funds in the budget, the majority of these requests were made for departments to fulfill core service levels that overlap with CAP goals, many of which have been under funded for some time. To this end, fully funding the Stormwater Compliance and Transportation activities discussed previously would be needed to fully fund CAP Implementation, but they are kept separate in the table above. There are also additional costs that would be incurred in the CIP which are noted in the next section.

Additionally, many costs have yet to be identified, although the City is getting closer to developing specific work plans for two of the largest unknows. The costs related to the Zero Emissions in Municipal Buildings and Operations Policy (ZEMBOP) are discussed later in this report, and we note the Department of General Services Fleet Services Division is getting closer to quantifying the costs for Fleet Electrification, which is further discussed immediately below.

Fleet Electrification

The Fleet Services Division of the Department of General Services is currently working on a Fleet Electrification Strategy. A consultant conducted an initial assessment of the financial needs to more fully electrify the City Fleet. Since these costs have not been finalized yet, they have not been included in the Outlook's baseline expenditures. Likewise, we do not include these costs in the table above as it is too early to determine the full impact to the General Fund, as additional analysis is required on the impact of debt financing, operations and maintenance cost differences, and other financial considerations. However, recent purchases of new electric vehicles, from smaller vehicles like pick-up trucks up to larger vehicles like street sweepers and fire engines, have required more than twice the cost of conventionally powered vehicles. The strategy document is expected to come to Council early next year.

Arts & Culture Funding

The Outlook assumes a decrease of $4.3 million in funding for Arts and Culture from the current FY 2024 funding level of $18.3 million.[16] In their September 2023 budget priority memoranda, a majority of Councilmembers expressed support for increasing overall funding for arts and cultural programs in the City. While proposed funding levels varied, six Councilmembers suggested a FY 2025 funding level equal to at least 6.5% of Citywide Transient Occupancy Tax (TOT). Additionally, several Councilmembers prioritized moving toward the goal of fully achieving the Penny for the Arts Blueprint goal of 9.52% of TOT (equal to 1 cent of the City's 10.5 cent TOT rate) by FY 2026. The table below reflects the projected funding gap over the Outlook period assuming phased funding target of 6.5% of Citywide TOT in FY 2025 and the full 9.52% goal in FY 2026 and beyond.

Arts and Culture Funding Levels *($ in millions)*					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Total Citywide TOT (Proj.)*	$ 343.1	$ 363.5	$ 385.0	$ 407.8	$ 432.0
Phased Funding Target (%)	**6.50%**	**9.52%**	**9.52%**	**9.52%**	**9.52%**
Phased Funding Target ($)	$ 22.3	$ 34.6	$ 36.7	$ 38.8	$ 41.1
Funding Level in Outlook	14.0	14.0	14.0	14.0	14.0
Funding Gap	**$ (8.3)**	**$ (20.6)**	**$ (22.6)**	**$ (24.8)**	**$ (27.1)**

*Excludes revenue from RV parks

SD Access 4 All - Digital Equity Program

The SD Access 4 All program has $1.3 million in needs above the baseline not included in the Outlook that are shown in the following table. DoIT officials indicated that these SD Access 4 All program costs are anticipated to be submitted in the upcoming FY 2025 budget process.

Component	Cost	Details
Existing Wi-Fi and Hotspots	$697,400	59 Parks & Rec sites previously paid for Wi-Fi and hotspots via the Parks Foundation, but that funding is no longer available and these program-related costs are intended to be centralized within DoIT.
Expand Wi-Fi	$130,000	Expand the availability of public WiFi to 10 additional locations in San Ysidro and the Promise Zone.
Digital Navigator	$499,000	4.00 FTEs for 1.00 Program Coordinator ($172,000) and 3.00 ISA 1s ($327,000) (the ISAs were previously and will continue to be funded by the Employ & Empower grant.). Note: Library Department may request the adjustment as these services are largely occurring within Library branches.
Total	$1,326,400	

Emergency Medical Services (EMS) Alliance Model

On July 31, 2023, the City Council approved the Second Amendment to the City's contract with Falck Mobile Health which transitioned the City's EMS delivery method to the Alliance Model. Under the Alliance Model, which was implemented as of October 1, 2023, the Fire-Rescue Department has full control and management of the ambulance system. This includes responsibility for billing and revenue collection, as well as payment to the City's ambulance providers (Falck

[16] $3.0 million of the $4.3 million is related to the removal of one-time funding provided for the World Design Capital. According to the Department of Finance, the remaining decrease is unintentional.

and AMR) for hours of ambulance service provided. Given these changes, revenues and expenditures for the EMS Fund are anticipated to increase significantly. At the time of Council approval, our Office estimated that FY 2024 budgetary impacts could amount to $77.8 million in increased revenue and $73.9 million in additional expenditures.[17] Additionally, a $5.3 million reduction in Transfers Out to the General Fund (from the EMS Fund) was proposed to allow this funding to be reinvested in the EMS restructuring. This adjustment is not assumed in Outlook. The impact of this revenue reduction to the General Fund is anticipated to be discussed in the FY 2024 Mid-Year Budget Monitoring Report, which is anticipated in February 2024. Assuming that this adjustment occurs in FY 2024, Excess Equity available for use in FY 2025 would be reduced by $5.3 million. If this adjustment were to be ongoing, there would be an additional revenue reduction of $5.3 million in FY 2025 ($10.6 million total impact) and beyond.

Other Non-Quantified Operational Needs

The Outlook includes discussion on several other items for future fiscal considerations. However, an implementation plan for these initiatives has not been developed and the cost impacts are not quantifiable at this time. These items are briefly addressed below.

Civic Center Revitalization

Following the release of a notice-of-availability (NOA) that includes five of the six blocks at the civic core, the City entered into a 90-day good-faith negotiation with one of the developers proposing to convert the office building at 101 Ash Street into a residential building. The price and terms of the development proposal are anticipated to become available in the upcoming weeks, and any development proposal would require City Council approval. Given the City did not receive any notice of interest for the remaining four blocks included in the NOA, the City may dispose of these lands outside of the Surplus Land Act process with approval from the State's Department of Housing and Community Development. We note that, under the Surplus Land Act requirements, at least 15% of the total number of housing units to be developed are required to be sold or rented as affordable housing, should 10 or more units be developed on the sites. On a separate path, the City is engaging a consultant to conduct planning and geotechnical studies to develop a new City Administration building. To date, $2.0 million has been appropriated in the Capital Improvements Program for this effort.

Office Space Optimization

The City engaged a real estate consultant to assess the City's real estate portfolio, the impact of the hybrid work environment, and the future space needs of City departments. The scope of the study includes the development and implementation of a pilot program which is currently underway. The pilot study will test different workplace models and desk-sharing ratios, assist with space purposing and utilization, and assess technology needs. Implementation of the pilot study is anticipated to start in January 2024 and is estimated to last three months. The final study is expected to inform the City's future office space decisions and could have fiscal implications for space configuration, IT equipment, and the City's office space portfolio.

Capital Improvements Program (CIP) Needs Not Included in the Outlook

Effectively managing the City's infrastructure assets impacts the quality of life for residents and visitors and is a critical undertaking. The City's most recent CIP Outlook (FY 2024-2028) shows

[17] IBA Report 23-19: *Proposed Transition to Alliance Model for EMS Delivery*

a $5.2 billion funding gap for capital infrastructure projects. Compared with the prior CIP Outlook (FY 2023-2027), this represents a 20% increase in the funding gap. Absent new resources, many needs identified in the CIP Outlook will remain unfunded.

Our Office has compiled preliminary cost estimates for a number of CIP priorities that are not included in the Outlook, most of which align generally with the City Council's priorities. The cost estimates included in the following table are for the most pressing CIP needs in each priority area; and additional discussion on these needs follows the table.

The table also includes offsetting resources, such as new Lease Revenue Bonds that are projected over the Outlook period (see the *Debt Financing/Debt Ratio Impacts* section on page 23 for additional information). Note that the "Unallocated Lease Revenue Bond Proceeds" line shown in the following table includes only the portions remaining after considering the estimated amounts already earmarked to fund specific projects. In other words, the table assumes that all *existing project* appropriations are funded with the new bond financing proceeds prior to any *new project* appropriations; however, funding availability for new projects could be accelerated based on CIP prioritization, project timing, and bond issuance timing.

CIP Needs Not in the Outlook and Potential Resources *($ in millions)*					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Select CIP Needs Not Included in Outlook					
Stormwater CIP Needs	$212.3	$529.5	$274.9	$244.7	$381.3
Street Repair Funding Gap	130.4	212.4	254.3	359.0	428.9
Streetlight Replacements	74.8	88.7	92.2	95.9	99.8
Sidewalk Repair	17.0	17.7	18.4	19.1	19.9
Asset Management and EAM System	TBD	TBD	TBD	TBD	TBD
Homelessness - H-Barracks	7.2	0.0	0.0	0.0	0.0
Zero Emissions Municipal Building Operations Policy (ZEMBOP)	TBD	TBD	TBD	TBD	TBD
Total CIP Costs	**$441.7**	**$848.3**	**$639.8**	**$718.7**	**$929.9**
Potential CIP Resources					
Infrastructure Fund	$24.0	$23.0	$30.4	$38.3	$46.7
Climate Equity Fund	9.8	10.2	10.5	10.7	11.2
Unallocated Lease Revenue Bond Proceeds [a]	0.0	0.0	5.1	88.5	88.5
Total Potential CIP Resources	**$33.8**	**$33.2**	**$46.0**	**$137.5**	**$146.4**
Potential CIP Shortfall	**($407.9)**	**($815.1)**	**($593.8)**	**($581.2)**	**($783.5)**

[a] The Unallocated Lease Revenue Bond Proceeds line assumes that all *existing project* appropriations are funded with the new bond financing proceeds prior to any *new project* appropriations; however, funding could be accelerated based on CIP prioritization, project timing and bond issuance timing.

Stormwater Compliance

In addition to the operational needs for the Stormwater Department to come into compliance with the requirements of the RWQCB for the Municipal Stormwater Permit, there are a tremendous amount of capital infrastructure needs. As noted in the Outlook report, this totals approximately $1.6 billion over the next five years, and represents needs beyond funding that has already been allocated within the CIP to Stormwater through the WIFIA program. Stormwater CIP needs total $2.2 billion for FY 2025 through FY 2029, which is approximately $100.0 million more than what was included in the most recent CIP Outlook covering FY 2024 through FY 2028.

Stormwater's CIP needs are fairly evenly split between Flood Resilience and Water Quality. Flood Resilience projects mainly involve replacing or improving existing infrastructure that avoids flooding during storms, such as corrugated metal pipes, pump stations, and storm drains. It also includes some new assets, including additional stream restoration projects and new storm drain inlets, outlets, and other structures. Water Quality projects focus on improving the water quality within the stormwater system and include "green infrastructure" projects such as swales, infiltration and detention basins, the restoration of lagoons and wetlands, and other stormwater capture projects.

Street Repair Program
The Street Repair Program funding gap presented in the Outlook totals $1.4 billion in unmet needs. This is a combination of $1.7 billion in expenditure requirements over the five-year period, offset by $296.2 million in revenues identified by the Transportation Department. These revenues include additional funds from Gas Tax, TransNet, the Road Maintenance and Rehabilitation Account, and the Trench Cut Fee. As noted in the Outlook, some of these resources can also be used to pay for other operations and maintenance costs within Transportation, but were not included as additional revenues within the Outlook.

Overall needs include both CIP paving projects, including overlay and road reconstruction, and road repaving activities that are funded through the operations budget, including slurry seal, cape seal, and scrub seal projects, as well as a new street condition assessment in FY 2027. The capital needs total $1.2 billion over the five-year period, while the other activities total $487.2 million. All of these figures assume that the City would reach an overall pavement condition index (PCI) of 70 over the next ten years. The Transportation Department currently anticipates docketing a Pavement Management Plan, which will include this as well as alternative scenarios to maintain a certain level of service, at the January meeting of the Active Transportation and Infrastructure Committee.

Streetlights and Sidewalks
Although referenced in the Outlook, the report itself did not contain a description of the capital needs required for City streetlights and sidewalks. For streetlights, the City would plan to replace approximately 54,000 streetlight poles and fixtures over a 20-year period, as well as replace all 43 remaining unfunded streetlight circuits over a 10-year period. This equates to a total funding need of $451.4 million over the five-year Outlook period for streetlights, as presented in the table above.

For sidewalks, the City has approximately 37,000 damaged sidewalk locations requiring replacement, equating to a total need of $238.1 million. The Department estimates that, in order to address these needs over a 14-year period, the funding need would be $92.1 million over five years, as shown in the table above.

Asset Management and the Enterprise Asset Management (EAM) System
Costs related to changes, upgrades, or expansion of the EAM System, considered to be capital in nature, have not been determined or included in the Outlook. As part of the ERP Next Generation Assessment (discussed in the *Planned Commitments* section of this report), current business capabilities for EAM were assessed to understand risks, challenges, and pain-points for existing EAM users. The assessment identified organizational challenges with EAM system adoption and end

user experience issues. DoIT anticipates that implementing an ERP modernization project will provide an opportunity to address these challenges and streamline business processes. As DoIT moves forward with project planning, it will have a better understanding of related costs.

Also, as the ERP modernization project moves forward, the City should consider EAM expansion as part of the project or establish a plan/timeline for a Phase 2 expansion to additional departments as this will support consistent and effective asset investment planning and enhance E&CP project planning and bundling.

Homelessness – H-Barracks

On November 16, 2023, the Land Use and Housing Committee approved the creation of the Citywide Homeless Shelters Project under the Capital Improvements Program. Although the item is pending Council review and approval, if approved, the Citywide Homeless Shelters Project would allow the Homelessness Strategies and Solutions Department a pathway for developing new CIP projects to convert identified City property into emergency shelter sites. The Department identified H-Barracks as the first site under the project. Estimated funding needs for H-Barracks site improvements and shelter set up total $8.2 million, with $8.0 million needed for FY 2025 under the Outlook. The Committee action included the transfer of $1.1 million to begin initial development activities at H-Barracks, with the remaining $7.2 million to be requested and identified at a later date.

Zero Emissions Municipal Building Operations Policy (ZEMBOP)

The ZEMBOP was adopted to guide the elimination of fossil fuels from all City facilities by 2035. The Outlook includes an overall cost of $80.0 to $90.0 million to electrify about 400 City facilities and associated fleet parking spaces based on the recently completed electrification studies.[18] This cost information is currently not available by department/fund, but the Sustainability and Mobility Department (SuMo) is working toward that goal as well as breaking out the cost for vehicle charging at each site for fleet designated parking spaces. Costs assume fleet chargers use the same electrical panel as the building, so panel upgrade costs are spread across both activities.

This estimate represents the projected cost of fuel switching and does *not* include efficiency savings from the equipment itself, building retrofits, or energy controls responding to time-of-use rate triggers. It also does not account for cost offsets from financing mechanisms like energy service companies (ESCOs), federal and State formula grants, etc. These could potentially apply cost-savings associated with solar and more efficient appliances to other needed projects, which could fully or partially offset potential budget impacts.

SuMo officials noted they have not yet cross-referenced electrification costs with deferred or planned maintenance costs already included in the budget for the replacement of these systems; this may result in double counting these costs. For example, if a department already has the replacement of a gas-fired HVAC system in its budget, and now it will be replaced with an electric HVAC system, the cost of that new system would be in both projections.

[18] About 400 facilities are included in the electrification assessments – essentially every city facility that has an SDG&E natural gas meter account.

POTENTIAL RESOURCE OPTIONS

POTENTIAL RESOURCE OPTIONS FOR FY 2025

The Outlook shows General Fund baseline expenditures exceed baseline revenues for all five Outlook years. When adding projected operating expenses for anticipated new facilities, as well as planned commitments for homelessness programs and information technology, the deficit expands to $171.9 million in FY 2025 and is projected to be well over $200.0 million in FY 2026 through FY 2029. In this section we highlight resources that could be considered to mitigate projected deficits over the course of the Outlook. We note that resources identified for FY 2025 are largely one-time in nature, while others discussed in the next section on potential resource options *after* FY 2025 are ongoing, which would help address the City's structural budget deficit.

Potential FY 2025 Resource Options

- Resources Identified in the Outlook
  - Estimated Funds Available
    - General Fund Excess Equity
    - TOT Fund Balance
  - Suspended Contributions for Certain Policy Targets
    - Infrastructure Fund
    - General Fund Reserve Contribution
- Additional Resources to Consider
  - Service Reductions
  - Grants – Federal or State Funding
    - Infrastructure Investment and Jobs Act
    - Inflation Reduction Act
    - State Funding for Homelessness Programs

<u>Resources Identified in the Outlook</u>

Estimated Funds Available

<u>General Fund Excess Equity</u>

The Outlook recommends the use of a projected $56.5 million in Excess Equity in FY 2025 to partially mitigate the projected shortfall. This is the estimated Excess Equity balance after accounting for amounts programmed in the FY 2024 Adopted Budget and it will be updated throughout the fiscal year as revenue and expenditure projections are updated. The need to use Excess Equity in FY 2025 was also anticipated in last year's Five-Year Outlook, although the figure has been updated since that time.

<u>TOT Fund Balance – Use for Eligible General Fund Expenditures</u>

The Outlook anticipates $8.9 million in TOT Fund balance (when revenues exceed expenditures) to be available at the end of FY 2025. The Department of Finance states this could be used in FY 2025 as an appropriation adjustment during the budget monitoring process or in future fiscal years to reimburse eligible General Fund expenses. Due to a technical error, the FY 2025 fund balance should be updated to an estimated $7.8 million. The anticipated fund balance is contingent upon: 1) FY 2025 revenues coming in as projected and 2) what will be budgeted in expenses for the FY 2025 Special Promotional budget which could change from what is assumed in the Outlook. Given these contingencies, we caution that changes in actual revenues received and planned FY 2025 expenses will cause the estimated fund balance to be either higher or lower than what is currently assumed.

Suspended Contributions for Certain Policy Targets

Infrastructure Fund

Waiving the FY 2025 contribution to the Infrastructure Fund, estimated at $24.0 million but subject to change depending on actual sales tax receipts, would allow funds to go to other General Fund purposes, thereby partially mitigating the FY 2025 shortfall. Alternatively, the Infrastructure Fund contribution could supplant General Funds that would otherwise go towards repair and maintenance of infrastructure (i.e., expenditures already assumed in the baseline), as opposed to funding the City's capital needs. This strategic use of the Infrastructure Fund contribution would also mitigate the FY 2025 shortfall. However, both mitigations come with trade-offs, as neither helps address the ever-growing capital infrastructure funding shortfall, last estimated at $5.17 billion over five years.

General Fund Reserve Contribution

When balancing the City's funding priorities for FY 2025, the City could consider forgoing the FY 2025 General Fund Reserve contribution, currently estimated at $22.3 million. This could produce one-time funding for critical priorities. That noted, our Office continues to advocate for maintaining strong reserve balances. Last year the City amended its Reserve Policy (Council Policy 100-20) to extend the timeline to reach the General Fund Reserve target of 16.7% of General Fund operating revenues to FY 2030. Waiving the General Fund Reserve contribution in FY 2025 would require catch up payments in future years pursuant to a plan prepared by the Mayor.

Additional Resources to Consider

Service Reductions

On December 4, 2023, the Chief Operating Officer released a memorandum directing General Fund departments (and certain funds that impact the General Fund) to submit operational efficiencies totaling 2% of their FY 2024 Adopted Budget, as part of the FY 2025 budget development process. The proposals are not to impact the City's ability to provide core services or programs. Additionally, the memo indicates that General Fund departments are expected to work within their existing ongoing FY 2024 budgets which will be carried over to FY 2025, after adjusting for the operational efficiencies. Therefore, departments will determine how to implement the reductions. If Council is weighing the relative importance of various programs and services for inclusion in the budget, additional departmental cuts may be warranted.

Grants – Federal or State Funding

The City has opportunities to apply for grant funding for projects from various State and federal programs. Grant funding has been important for funding City projects in the past, but is generally not included in the Outlook as it is typically one-time funding that varies from year to year, and should be used for one-time expenditures. Key infrastructure funding programs that our Office continues to monitor are discussed below. This list is not exhaustive.

Infrastructure Investment and Jobs Act (IIJA)

The federal IIJA will allocate about $1.2 trillion nationwide over ten years for transportation and infrastructure spending, with the State of California estimated to receive $46.6 billion. The City has opportunities to receive funding through competitive grants or formula-based funding (passed through the State). The City recently submitted applications to fund projects for safe streets ($27.0

million), electric vehicle charging stations ($946,000), and for planning and feasibility studies for Pure Water Phase 2 ($750,000). Several other grant applications are in progress.

Inflation Reduction Act (IRA)

The federal IRA provides opportunities to compete for grants for climate and energy related infrastructure projects from various federal programs that could provide potential funding opportunities for the City. Thus far, the City has been awarded $10.0 million (in September 2023) to plant 8,000 trees in disadvantaged communities.

State Funding for Homelessness Programs

As previously mentioned in the Planned Commitments for Homelessness section, if the State continues to provide grant funding for homelessness beyond FY 2025, the projected shortfall could be partially mitigated. This funding has averaged approximately $20.1 million since it was first awarded to the City in FY 2019. Additionally, recent efforts by the Department of Government Affairs and the San Diego Housing Commission to advocate for additional homelessness funding for City programs has resulted in some success. For instance, the 2023-24 State Budget included $750,000 for the Multidisciplinary Outreach Team administered by the Housing Commission and $2.0 million for the City's new domestic violence shelter administered by the Homelessness Strategies and Solutions Department. Although such funds were one-time, continued advocacy to the State Legislature could help maintain key Council priorities, given limited City budget resources.

POTENTIAL RESOURCE OPTIONS AFTER FY 2025

Potential Resource Options: After FY 2025

- November 2022 Measure B – People's Ordinance
- March 2020 Measure C – TOT Increases
- Potential Future Sales Tax Measure
- Potential Future General Obligation Bonds
- Potential Future Stormwater Fee Increase

November 2022 Measure B – People's Ordinance

At the November 2022 election, a majority of City residents approved Measure B, a proposition placed on the ballot by the City Council to amend sections of the Municipal Code commonly referred to as the People's Ordinance. The measure, along with recodifying the City's responsibilities for waste management services, provided an option for the City to recover costs for solid waste management services.

With the passage of Measure B, the City has begun taking the initial steps consistent with Proposition 218 to develop a fee that could be charged to City residents. An RFP was released to seek a consultant to help the City conduct a Cost of Service Process, which will include gathering of data about the current customer base, determining the needs and costs for services, a considerable amount of public engagement to gather input on current and additional services, a potential phasing-in period, and other considerations. The consultant contract is expected to come to Council for approval in the Spring of 2024, with any potential fee coming to Council for final approval a year beyond that. *As such, any revenue gained from the fee would not be available until FY 2026.*

While implementing this fee would help City finances, as General Fund costs that could be recovered with a fee total between $80-90 million per year over the Outlook period, additional considerations about a potential phase-in period, cost recovery levels, service level enhancements, and other issues need to be addressed before the full financial impacts of Measure B will be known.

March 2020 Measure C – TOT Increases

On the March 2020 ballot, San Diego voters considered Measure C, a citizens' initiative bond measure that would increase the City's hotel visitor tax (TOT). The increased TOT revenue would fund Convention Center expansion, modernization, and other convention center purposes, as well as homeless services and street repairs. Measure C received support from 65.2% of voters – a strong majority support but just under the two-thirds threshold possibly needed based on trial court decisions before the vote.

After unanimous appellate court decisions concluded a special tax proposed by a citizens' initiative requires only a simple majority vote threshold for approval, the City Council approved a resolution on April 6, 2021 declaring that Measure C was approved by the voters. In conjunction with that action, the City asked a trial court to confirm that Measure C was in fact approved by the voters. The trial court initially ruled against the City, but on August 11, 2023, the appellate court reversed the trial court's decision and held that Measure C required a majority vote, if found to be a citizens' initiative. However, the appellate court returned the case to the trial court to determine whether Measure C legally qualified as a citizens' initiative.

If the case resolves in the City's favor, the City could have a viable ongoing resource to fund homelessness programs and services and road repair expenses that are currently being incurred by the General Fund. Our Office estimates that Measure C could generate $197.4 million (an average of $39.5 million per year) over the first five years for homelessness programs and services. This is $7.6 million lower than the $205.0 million estimated by the Department of Finance in the Outlook, due to our estimate using a lower projected growth rate for FY 2024 that ultimately reduces the projected revenue generation in the outyears, if Measure C goes in effect. The lower projected growth rate incorporates actual TOT revenue collections from FY 2023 and the first quarter of FY 2024. Overall, despite some differences, the two revenue estimates are comparable in magnitude. Meanwhile, the City will not move forward with the tax increase until it receives a legal determination that the resolutions implementing Measure C are valid. A final judgment could take an additional two to three years.

Potential Future Sales Tax Measure

A sales tax increase could provide additional funding for the City's operational and infrastructure needs and mitigate future budget deficits. Any sales tax increase would require approval from San Diego voters. For illustrative purposes, a full cent increase to sales tax would generate roughly $400 million per year, with about a quarter of this amount potentially being available as soon as FY 2025 if approved in the November 2024 election. A full cent increase would double the amount of sales tax revenue the City receives.

A general sales tax increase in which revenues may be expended at the discretion of the City on any program or service requires approval by a simple majority of voters. A special sales tax that is restricted for use on a specific purpose requires approval from two-thirds of voters.

Notably, a full-cent increase in general sales tax revenue could both address projected operational deficits and providing additional capacity to issue capital bonds for deferred infrastructure projects. While such an amount may not be sufficient to provide support for *all* City priorities, it would bring the City's budget back into structural balance, and allow for some expansion of services and the opportunity to begin to meaningfully address the City's infrastructure backlog.

Potential Future General Obligation (GO) Bonds

A GO bond measure could provide significant funding for the City's overall capital infrastructure needs and begin to address the $5.2 billion deferred capital backlog. This could also free up other funding sources (like the Infrastructure Fund) for operations and maintenance, and offset some projected deficits in the Outlook. GO Bonds provide an alternative to lease revenue bonds; GO bonds are secured by the City's promise to levy additional property tax sufficient to pay annual principal and interest on the bonds.

Because GO bonds generally result in additional property taxes, California law requires that those tax increases must achieve two-thirds voter approval. In recent years, GO Bond programs have provided $500 million to $1.2 billion for transportation, drainage, housing, parks and recreation, libraries, and public safety capital projects in several large US cities, including San Francisco, CA, Phoenix, AZ, and San Antonio, TX.

Potential Future Stormwater Fee Increase

The City continues to lack a dedicated funding source sufficient to address the full costs of compliance detailed in the Watershed Asset Management Plan, as discussed earlier in this report. In response to an audit recommendation and numerous previous IBA reports, in January 2021 the Stormwater Department released an initial Funding Strategy document, which included an assessment of stormwater needs and an initial analysis of funding mechanisms the City could pursue to close the stormwater funding gap. An important conclusion of this Funding Strategy is that the City will likely need to seek a ballot measure to increase fees related to the stormwater system.

Following Council approval of the Funding Strategy, Stormwater worked on a proposed ballot measure for a dedicated stormwater funding source. This was presented in February 2022, and the measure was focused on the creation of a fee on the impermeable surface area of properties in the City at a rate between 4 to 5 cents per square foot of impermeable surface. Such a measure would cost the typical single-family residence between $10 and $14 per month, and would generate between $74 million to $93 million per year for stormwater activities. Currently, the City's storm drain fee costs single-family residences less than $1 per month and generates approximately $5.7 million.

Polling conducted by a consultant noted that a majority of voters would support such a measure, but that support was within the margin of error of the two-thirds threshold required for passage. The ballot measure was not pursued further, although the Stormwater Department indicated that it would continue educational efforts with one-time funding in FY 2023. Those educational efforts were not funded in FY 2024. Consideration could be given to placing this or a similar ballot measure before the voters in order to offset some stormwater compliance costs.

CONCLUSION

While our report identifies several potential variations to projected finances in this year's Outlook, in general our Office believes that baseline revenue and expenditure projections in the Outlook are reasonable. However, the projected deficits in the Outlook – well over $100 million in FY 2025 and over $200 million in FYs 2026-2029 – clearly show the immediate need to address the City's ongoing structural budget deficit. While the City was able to maintain and expand services over the last three years through the use of ARPA funding, that revenue has run out, and the City *must begin to support its operations through regular, ongoing revenue*. While the City will undoubtedly receive additional resources from State and federal grants for particular programs and projects that may help mitigate projected deficits, *that support will not be enough to close projected deficits*, and regardless the City should not rely on those resources to provide essential core City services as it has over the last three years.

Especially given additional priorities that are not reflected in the Outlook's deficit projections – including but not limited to additional homelessness and housing programs, climate action plan implementation, arts funding, stormwater compliance, repair of streets, sidewalks, and streetlights, and addressing the City's growing capital backlog – it is obvious that the City must either seek a major new revenue source in the immediate future, or begin implementing significant cuts to existing programs and service levels and severely constrain the addition of new or expanded programs and services.

The information provided in the Outlook and in our review allows the Council to begin developing a strategy for achieving a balanced budget in FY 2025. The next step in the annual budget process is for Councilmembers to update their priorities for the FY 2025 budget and submit them to our Office by January 12, 2024. Given projected deficits in the Outlook, balancing the urgency of the wide variety of budget priorities will be critical, and we further encourage the inclusion of any potential resources in updated Councilmember budget priorities. In February 2024, the Council will adopt an updated City Council Budget Priorities Resolution, which will be developed based on the memos submitted to our Office. This resolution will provide the Mayor with input for developing the FY 2025 Proposed Budget.

Lisa Byrne
Principal Fiscal and Policy Analyst

Jordan More
Principal Fiscal and Policy Analyst

Baku Patel
Senior Fiscal and Policy Analyst

Erin Noel
Senior Fiscal and Policy Analyst

Ruixin Chen
Fiscal & Policy Analyst

Amy Li
Fiscal & Policy Analyst

Nicky Bennett
Associate Fiscal and Policy Analyst

Sergio Alcalde
Associate Fiscal and Policy Analyst

Jillian Andolina
Deputy Director

Charles Modica
Independent Budget Analyst

Attachment 1: New Facilities and Joint Use Agreement Annual Costs

NEW FACILITIES AND JOINT USE AGREEMENT ANNUAL COSTS

Department	Facility	Council District	FTE	First Year Expense
	Fiscal Year 2025			
Parks & Recreation	Pacific View Elementary Joint Use	4	0.50	$ 129,471
Parks & Recreation	Boone Elementary School	4	0.50	131,988
Parks & Recreation	Whitman Elementary School	6	0.50	143,137
Parks & Recreation	Spreckels Elementary Joint Use	1	0.50	129,831
Parks & Recreation	NTC/Esplanade	2	0.50	106,093
Parks & Recreation	Cannon Street Pocket Park	2	0.50	95,064
Parks & Recreation	Hidden Trails Neighborhood Park	8	1.50	376,539
Parks & Recreation	Dennery Ranch Neighborhood Park	8	2.50	607,794
Parks & Recreation	Citywide Facility Maintenance (New Facilities)	Citywide	7.00	1,930,503
Parks & Recreation	Citywide Facility Maintenance (Unfunded Needs)	Citywide	6.00	3,442,751
Parks & Recreation	Operations for Expanded Facilities	1,2,3 & 8	8.00	834,620
Parks & Recreation	Operations for Additional Open Space Acreage	1,6,7, & 8	6.00	1,898,561
Fire-Rescue	Torrey Pines (UCSD) Fire Station	1	12.00	2,516,133
Total Fiscal Year 2025			**46.00**	**$ 12,342,485**
	Fiscal Year 2026			
Parks & Recreation	Rowan Elementary Joint Use	9	0.50	$ 127,728
Parks & Recreation	Bruce Brown Memorial Park	6	0.00	1,070,859
Parks & Recreation	East Village Green	3	12.00	1,632,931
Parks & Recreation	Pacific Beach Elementary Joint Use	1	0.50	109,146
Parks & Recreation	Eastbourne Neighborhood Park	5	0.50	152,724
Parks & Recreation	Federal Boulevard Pocket Park	9	0.50	110,589
Parks & Recreation	Junipers Park	5	1.00	245,998
Parks & Recreation	Mira Mesa Aquatic Center	6	7.75	924,029
Parks & Recreation	Mira Mesa Community Park	6	0.50	299,164
Parks & Recreation	NTC Building 619	2	4.00	479,303
Parks & Recreation	Solterra Vista Neighborhood Park	1	1.00	269,975
Parks & Recreation	Citywide Facility Maintenance (New Facilities)	Citywide	3.00	1,163,282
Fire-Rescue	Black Mountain Ranch Fire Station	5	12.00	2,573,795
Total Fiscal Year 2026			**89.25**	**$ 9,159,523**
	Fiscal Year 2027			
Parks & Recreation	Black Mountain Ranch Park Phase 2	5	3.00	$ 823,681
Parks & Recreation	Groove Neighborhood Park	8	2.50	658,490
Parks & Recreation	Jones Elementary Joint Use	7	0.50	176,491
Parks & Recreation	North Central Square	3	0.50	104,559
Parks & Recreation	Old Logan Heights Library (New Community Center)	8	2.25	219,178
Parks & Recreation	Perry Elementary School Joint Use	4	0.50	150,715
Parks & Recreation	Shoal Creek Neighborhood Park	5	0.50	164,202
Parks & Recreation	Citywide Facility Maintenance (New Facilities)	Citywide	5.00	845,539
Parks & Recreation	Operations for Additional Open Space Acreage	1,7, & 8	4.00	1,385,499
Library	Ocean Beach Library Expansion	2	0.00	49,822
Library	Oak Park Library Replacement	2	0.00	87,686
Total Fiscal Year 2027			**150.00**	**$ 4,665,862**
	Fiscal Year 2028			
Parks & Recreation	Foster Elementary Joint Use	7	0.50	$ 128,499
Parks & Recreation	Grant Elementary Joint Use	3	0.50	115,116
Parks & Recreation	Hickman Elementary Joint Use	6	0.50	145,283
Parks & Recreation	Lafayette Elementary Joint Use	6	0.50	172,856
Parks & Recreation	Toler Elementary Joint Use	2	0.50	124,902
Parks & Recreation	Walden Neighborhood Park	5	0.50	129,191
Parks & Recreation	Citywide Facility Maintenance (New Facilities)	Citywide	2.00	584,399
Parks & Recreation	Operations for Expanded Facilities	3	8.00	198,147
Fire-Rescue	Otay Mesa Fire Station	8	24.00	5,959,676
Total Fiscal Year 2028			**37.00**	**$ 7,558,069**
	Fiscal Year 2029			
Parks & Recreation	Florence Elementary Joint Use	3	0.50	$ 117,230
Parks & Recreation	Mission Valley Neighborhood Park (Hazard Center Dev.)	7	0.50	107,278
Library	San Carlos Library Replacement	7	0.00	176,785
Fire-Rescue	Fairmount Ave Fire Station	4	12.00	3,105,270
Fire-Rescue	Skyline Hills Fire Station	4	12.00	3,105,270
Total Fiscal Year 2029			**25.00**	**$ 6,611,833**

Note: Facilities include one-time expenses for items such as vehicles in the first year of operation. One-time expenses are eliminated from subsequent years operating costs.